



SERVICE SCHEDULE 2
TERMS AND CONDITIONS FOR ENERGY PURCHASES
FROM QUALIFIED COGENERATION
AND SMALL POWER PRODUCTION FACILITIES

General Description

The following Terms and Conditions and any changes authorized by law will apply to the purchase of electric energy under the established rate(s) applicable at time of purchase. These Terms and Conditions will be considered a part of all Arizona Public Service Company's (APS or Company) rate schedules for purchases except where specifically changed by written agreement.

1. Definitions

- 1.1 Point of Interconnection - The point where Company's service conductors are connected to Customer's service conductors.
- 1.2 Qualifying Facility (QF) - Any cogeneration or small power production facility that meets the criteria for size, fuel use, efficiency, and ownership as stated in 18 C.F.R., Chapter I, Part 292, Subpart B of the Federal Energy Regulatory Commission's Regulations.
- 1.3 Purchase Agreement - The agreement between Customer and Company detailing the provisions for the purchase of electric energy by Company from Customer's QF, and the sale, if any, of power by Company to Customer.
- 1.4 Cogeneration Facility - Any facility that sequentially produces electricity, steam or forms of useful energy (e.g., heat) from the same fuel source and which are used for industrial, commercial, heating, or cooling purposes.
- 1.5 Small Power Production Facility - A facility that uses primarily biomass, waste, or renewable resources; including, but not limited to, wind, solar, and water to produce electric power.

2. Customer Obligations

- 2.1 Customer agrees not to begin interconnected operation of its QF with Company's system until the installation has been inspected by an authorized Company representative and final written approval to begin interconnected operation is received from Company. Customer will give reasonable notice to Company when initial startup is to begin. Company has the right to have a representative present during initial energizing and testing of Customer's system.
- 2.2 Customer will own and be fully responsible for the costs of designing, installing, operating and maintaining the following:
 - (A) The QF in accordance with the requirements of all applicable electric codes, laws and governmental agencies having jurisdiction.
 - (B) Control and protective devices to protect its facilities from abnormal operating conditions such as, but not limited to, electrical overloading, abnormal voltages,



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TERMS AND CONDITIONS FOR ENERGY PURCHASES
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- and fault currents. Such protective devices will promptly disconnect the QF from Company's system in the event of a power outage on Company's system.
- (C) A gang operated load break disconnect switch, capable of being locked in a visibly open position that will completely isolate the QF from Company's system. Such disconnect switch will be installed in a place easily accessible to Company's personnel. Company will have the right to lock open the disconnect switch without notice to Customer when interconnected operation of the QF with Company's system could adversely affect Company's system or endanger life or property.
- (D) Interconnection facilities on Customer's premises as may be required to deliver power from Customer's QF to Company's system at the agreed Point of Interconnection.
- 2.3 Electric sales to Company must be single or three phase, 60 Hertz, at one standard voltage (12,500; 2400/4160; 480; 277/480; 120/240 or 120/208 volts as may be selected by Customer subject to availability at the premises). Customer's facilities will also maintain a minimum 90% leading to 90% lagging power factor as measured at the Point of Interconnection.
- 2.4 The electrical output of Customer's QF will not contain harmonic content which may cause disturbances on, or damage to, Company's electrical system, or other party's systems, such as, but not limited to communication systems.
- 2.5 Customer will operate and maintain the QF in accordance with those practices and methods, as they are changed from time-to-time, that are commonly used in prudent engineering and electric utility operations and will operate the QF lawfully and in a safe, dependable, and efficient manner.
- 2.6 Prior to actual installation, Customer will submit to Company for review and advance written approval, written equipment specifications and detailed plans for the installation and operations of its QF, interconnection facilities, control and protective devices and facilities to accommodate Company's meter(s). After Company's approval Customer will not change or modify equipment specifications, plans, control and protective devices, metering and in general the QF's system configuration. If Customer desires to make changes or modifications, Customer will resubmit to Company plans describing desired changes or modifications. No such change or modification may be made without the prior written approval of Company.
- 2.7 In the event it is necessary for Company to install interconnection facilities on its system (including, but not limited to control or protective devices, or any other facilities) in order to receive or continue to receive or to deliver electric power under the terms of the Purchase Agreement, Company will inform Customer of the cost in advance of incurring the costs of such facilities and Customer will reimburse



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TERMS AND CONDITIONS FOR ENERGY PURCHASES
FROM QUALIFIED COGENERATION
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Company for the costs incurred by Company in connection with such facilities to the extent that said costs exceed those normally incurred by Company with respect to those Customers which it serves who do not have self generation facilities.

- 2.8 If Customer utilizes the Company's system to facilitate start-up of its QF, the voltage flicker level will not exceed Company standards.

3. Metering Provisions

- 3.1 Customer will provide and install at no expense to Company, and in accordance with Company's service standards, meter sockets and metering cabinets in a suitable location to be determined by Company's representatives.
- 3.2 Company will furnish, own, install and maintain all meters that register the sales of power to, and the purchases of energy from Customer. The responsibility for the costs of providing and maintaining the required meters will be as outlined in the applicable Rate for Purchase, or as specified in the Purchase Agreement.
- 3.3 The readings of all said meters will be conclusive as to the amount of electric power and energy supplied to the QF and/or purchased by Company unless, upon test, the meters are found to be in error by more than 3%. The expense of any meter test requested by Customer will be borne by Customer unless such test shows the meter(s) to be in error by more than 3%.

4. Mutual Understandings

- 4.1 Company will be allowed to install on Customer's premises any instrumentation equipment for research purposes. Such equipment will be owned, furnished, installed and maintained by Company.
- 4.2 Company's approvals given pursuant to the Purchase Agreement will not be construed as any warranty or representation to Customer or any third party regarding the safety, durability, reliability, performance or fitness of Customer's generation and service facilities, its control or protective devices or the design, construction, installation or operation thereof.
- 4.3 Company (including its employees, agents, and representatives) will have the right to enter Customer's premises at all reasonable times to (a) inspect Customer's QF, protective devices and to read or test instrumentation equipment that Company may install, provided that as reasonably possible, notice is given to Customer prior to entering its premises; (b) maintain Company equipment relative to the purchase of electric energy from Customer; (c) read or test the meters; and (d) disconnect the QF without notice if, in Company's opinion, a hazardous condition exists and such immediate action is necessary to protect persons, or Company's facilities or other



SERVICE SCHEDULE 2
TERMS AND CONDITIONS FOR ENERGY PURCHASES
FROM QUALIFIED COGENERATION
AND SMALL POWER PRODUCTION FACILITIES

customers' or third parties' property and facilities from damage or interference caused by Customer's QF, or improperly operating protective devices.

- 4.4 All suitable easements or rights-of-way (required by Company in order to accommodate inter-connection of Company's system with the QF), which are either on premises owned, leased or otherwise controlled by Customer, or upon other property, will be furnished in Company's name by Customer without cost to or condemnation by Company and in reasonable time to meet the requirements of the Purchase Agreement. All easements or rights-of-way obtained on behalf of Company will contain such terms and conditions as are acceptable to Company.
- 4.5 Company is not obligated to pay for electric energy or capacity from Customer during any periods when such purchases would result in costs greater than those which Company would otherwise incur had Company generated said energy itself or purchased the energy from another source. Company will give reasonable notice to Customer when such periods exist, so that Customer can discontinue deliveries of energy to Company or elect to continue to sell to Company at a rate, lower than the standard purchase rate, estimated to be the avoided system cost for the period during which such situations exist.
- 4.6 Company will not install and maintain any lines or equipment on Customer's side of the Point of Interconnection except its meter (and possibly some research equipment). For the mutual protection of Customer and Company, only authorized employees of Company are permitted to make and energize the interconnection between Company's system and that of Customer's QF. Such employees carry credentials which they will show to Customer upon request.
- 4.7 The particular rate for purchases applicable to a QF may be dependent on the system configuration of its facilities. Because of the varied and diverse requirements and operating characteristics associated with such facilities, it will be the QF's responsibility to evaluate and determine which system configuration and attendant purchase rate is most appropriate. Company will cooperate with Customer by providing suitable information to enable the Customer to assess the options available; provided, however, that no such information or assistance will be deemed a representation or warranty by Company with respect to the contents of such information or any particular option available to Customer.
- 4.8 Service billing periods normally consist of approximately 30 days unless designated otherwise under rate schedules or at Company's option.
- 4.9 The interconnection of Company's system with that of Customer will normally be arranged to accept only one type of standard service at one Point of Interconnection. However, if Customer's QF requires a special type of service (e.g., supplemental,



SERVICE SCHEDULE 2
TERMS AND CONDITIONS FOR ENERGY PURCHASES
FROM QUALIFIED COGENERATION
AND SMALL POWER PRODUCTION FACILITIES

back-up, maintenance or interruptible power in addition to its normal service), or its sales to Company are at a different voltage level than that of its purchases from Company, such service(s) will be provided pursuant to the specific terms outlining such requirements in the Purchase Agreement, applicable rate schedules, and/or other supplemental or special terms and conditions governing such service.

4.10 Each premise owned or controlled by Customer which is served by Company under the Purchase Agreement will be metered and billed separately. As used herein, the term "premises" will be deemed to mean a single tract of land owned or controlled by Customer, or separate adjacent or contiguous tracts of land owned or controlled by Customer, operated by it as one tract under the same name or as part of the same business, and not separated by any private or public lands or rights-of-way owned or controlled by third parties.

4.11 All bills rendered for Company services provided to Customer under the provisions of the Purchase Agreement are due and payable upon presentation and are past due fifteen calendar days after mailing of bill. Company reserves the right to suspend or terminate Customer's service for non-payment of service bills past due, for non-payment of interconnection charges, and for non-payment of meter test charges. Past-due service bill amounts, past-due interconnection charges and past-due meter test charges, are subject to an additional charge at the rate of 1-1/2% per month during the period of delinquency.

5. Service offered under Special Agreement

Purchases will be made from Customer's QF in accordance with the Purchase Agreement, these terms and conditions and any changes required by law, regulation, rule, or order of applicable governmental authority, and such applicable rate or rates as may from time to time be authorized by law. However, in the case of QF's, whose requirements are of unusual size or characteristics, additional or special rate and contract arrangements may be required.

6. Regulatory Authority

The rates, terms and other contract provisions governing electric power sold to Customer and the rates or other contract provisions for purchases by Company from Customer are subject to the jurisdiction of the Arizona Corporation Commission (ACC) and nothing contained herein will be construed as affecting or limiting in any way the right of Company (a) to make unilateral filings of changed rates, terms and other contract provisions, which will be effective when filed, or within a specified number of days thereafter as specified therein, such rates or other contract provisions specified in such filing to be subject to modification if required by a final decision of the ACC, or (b) to unilaterally make application to the ACC for changes in such rates or other contract provisions, following a hearing and decision as permitted by law and the ACC's rules and regulations.



SERVICE SCHEDULE 2
TERMS AND CONDITIONS FOR ENERGY PURCHASES
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AND SMALL POWER PRODUCTION FACILITIES

7. Indemnity and Insurance

Each Party hereby agrees to indemnify the other Party, its officers, agents, and employees against all loss, damages, expenses and liability to third persons for injury to or death of person or injury to or loss of property, proximately caused by the indemnifying Party's construction, ownership, operation, or maintenance of, or by failure of, any of such Party's works or facilities used in connection with the Purchase Agreement. The indemnifying Party will, on the other Party's request, defend any suit asserting a claim covered by this indemnity. The indemnifying Party will also pay all costs and expenses that may be incurred by the other Party in enforcing this indemnity.

8. Uncontrollable Forces

No Party will be considered to be in default in the performance of any of its obligations under the Purchase Agreement (other than obligations of said Party to pay sums to be paid by it hereunder, and other costs and expenses) when a failure of performance will be due to an uncontrollable force. The term "uncontrollable force" will be any cause beyond the control of the Party affected, including but not restricted to failure of or threat of failure of facilities, flood, earthquake, tornado, storm, fire, lightning, epidemic, war, riot, civil disturbance or disobedience, strikes, labor or material shortage, sabotage, restraint by court order or public authority, and action or non-action by or inability to obtain the necessary authorizations or approvals from any governmental agency or authority, which by exercise of due diligence such Party could not reasonably have been expected to avoid and which by exercise of due diligence it will be unable to overcome. Nothing contained herein will be construed so as to require a Party to settle any strike or labor dispute in which it may be involved. Either Party rendered unable to fulfill any of its obligations under this Agreement by reason of an uncontrollable force will give prompt written notice of such fact to the other Party and will exercise due diligence to remove such inability with all reasonable dispatch.

9. Notices

Any notice, demand or request required or permitted to be given by either Party to the other and any instrument required or permitted to be tendered or delivered by either Party to the other may be so given by certified or registered mail, addressed to the Party or personally delivered to the Party at the place designated in the applicable section of the Purchase Agreement. Changes in such designation may be made by notice similarly given.

10. Conflicts

In case of an inconsistency or conflict between any provision of the Purchase Agreement, a rate schedule or these terms and conditions, the inconsistency will be resolved by giving priority to the Purchase Agreement, the rate and then the terms and conditions in said respective order.



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TERMS AND CONDITIONS FOR ENERGY PURCHASES
FROM QUALIFIED COGENERATION
AND SMALL POWER PRODUCTION FACILITIES**

11. Successors and Assigns

Purchase Agreement will be binding upon and for the benefit of the successors and assigns of Customer and Company, but no assignment by Customer will be binding until accepted in writing by Company (which acceptance will not be unreasonably withheld) and until the assignee in writing assumes the obligations of Customer under the Agreement.