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**ARIZONA CORPORATION COMMISSION POLICY STATEMENT REGARDING
AG-Y ALTERNATIVE GENERATION/BUY-THROUGH PROGRAM**

INTRODUCTION AND BACKGROUND

On May 24, 2012, Commission Decision No. 73183 approved an Experimental Alternative Generation Rate Schedule AG-1 (“AG-1”) for Arizona Public Service Company (“APS”) in its rate case. AG-1 was an experimental program with a buy-through rate for large commercial and industrial customers offered as an option to standard generation to give large customers greater control over their energy costs.

The program was developed in response to customer input and allowed Generation Service Providers (“GSPs”) to provide wholesale power to APS on behalf of specific customers. Under AG-1, customers with an aggregated load of at least 10 megawatts (“MW”) would select a GSP and negotiate a price. APS would purchase the power from the GSP in a wholesale transaction and deliver the power to the customer. The program was capped at 200 MW. A lottery was held to select participants.

Decision No. 76295 (August 18, 2017) approved Alternative Generation Rate Rider AG-X (“AG-X”) in APS’s most recent rate case. AG-X is a modified, non-experimental version of the AG-1 program. The modifications included: increasing the monthly management fee to prevent under-recovery, improvement of other aspects of the program, and expansion to allow more General Service customers to participate.

On November 7, 2018, the Commission directed Staff to develop a policy statement on electric utilities proposing programs similar to AG-X but for customers smaller than the large customers eligible for AG-X. This new program is being referred to as AG-Y.

BENEFITS OF AN AG-Y ALTERNATIVE GENERATION/BUY-THROUGH PROGRAM

Benefits of an AG-Y alternative generation/buy-through program for medium and large commercial customers include the following:

1. Provides medium and large commercial customers increased flexibility to manage their energy costs while insulating other customers from cost shifting;
2. Enables Arizona businesses to improve their economic health through energy cost savings at no risk to other customers;
3. Offers medium and large commercial customers the opportunity to explore other generation sources; and

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4. Meets the following rate design objectives:
 - a. Reflects the realities of a rapidly changing electric utility industry, and
 - b. Matches cost causation and rate recovery responsibility.

CHALLENGES OF AN AG-Y ALTERNATIVE GENERATION/BUY-THROUGH PROGRAM

Under the Arizona Constitution, the Commission must determine and consider fair value and the revenue effect of a new or modified tariff on the utility's rate of return. Because of these requirements, such tariffs are typically adopted in the context of a rate case.

POLICY STATEMENT

1. The Commission directs Arizona Public Service Company to either expand and modify its current AG-X to allow medium size commercial customers to participate or propose a new AG-Y alternative generation/buy-through program that would be for medium size commercial customers in its next rate case.
2. The Commission directs Tucson Electric Power Company to propose an AG-Y alternative generation/buy-through program for medium and large commercial and industrial customers in its next rate case.
3. The Commission directs UNS Electric, Inc. to propose an AG-Y alternative generation/buy-through program for medium and large commercial and industrial customers in its next rate case.
4. The Commission directs the Utilities when modifying or expanding AG-X or proposing an AG-Y alternative generation/buy-through program, at the minimum, to address the following:
 - a. eligibility requirements;
 - b. customer load aggregation;
 - c. rate structure;
 - d. administrative, credit, and other costs of the program;
 - e. rate impacts on non-participating customers;
 - f. utility cost recovery provisions;
 - g. customers returning to full requirements tariff;
 - h. whether there would be a cap on participation;
 - i. if there is a participation cap, how will the participants be selected;
 - j. whether there would be a minimum participation timeline;
 - k. whether the program would be experimental; and
 - l. resource adequacy and planning issues.
5. Utilities may offer participating customers an option to procure energy and capacity from the wholesale market as part of the Utility's competitive procurement process.
6. Utilities may offer different purchasing structures based on the size and load factor of eligible customers.
7. The Commission directs the Utilities to consult with customers who may be potential participants on program design prior to filing the program proposal.
8. The Commission directs that the proposed program shall not shift costs to non-participating customers.

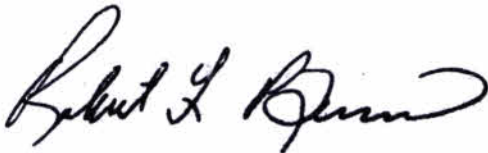
9. The Commission directs that the program shall address any implications for a utility's renewable and energy efficiency standard compliance.
10. The Commission directs that the program shall consider consumer protections for both participants and non-participants.
11. The Commission directs that any modification or expansion of AG-X or a new AG-Y alternative generation/buy-through program shall be addressed in a rate case proceeding.

ORDER

Arizona Public Service Company shall either expand and modify its current AG-X to allow medium size commercial customers to participate or propose a new AG-Y alternative generation/buy-through program that would be for medium size commercial customers in its next rate case. Tucson Electric Power Company and UNS Electric, Inc. shall propose an AG-Y alternative generation/buy-through program for medium and large commercial and industrial customers in their next rate cases. The utilities should address this policy statement in their filings and should use this policy statement as a guideline in development of their proposals.



Tom Forese
Chairman



Bob Burns
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Andy Tobin
Commissioner



Boyd Dunn
Commissioner



Justin Olson
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