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**Arizona Cogeneration Association
(dba Distributed Energy Association of Arizona)
P.O Box 10594, Phoenix, AZ 85064**

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March 18, 2005

Commissioner Gleason
Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

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Subject: Comments on Commissioner Gleason's letter of March 7, 2005
Docket No. E-01345A-03-0437 --

Dear Commissioner Gleason.:

The Distributed Energy Association of Arizona (DEAA) agrees that the definition of "reasonably estimated market price of conventional resource alternatives" needs to be clarified.

This definition will have significant impacts to eligibility of renewable resources.

As requested we will answer in the manner suggested in the original letter:

1. THE CONVENTIONAL RESOURCES TO BE CONSIDERED-

We believe that the resources should be the same as those presently arrayed by APS -- namely natural gas combined cycles (old and new), natural gas steam , and natural gas combustion turbines. These units will be used in the same dispatch order as now used by APS.

The attached graph displays the dispatch order to show which units will be running at each hour during 2005. .

2. THE BASIS ON WHICH THE MARKET PRICE OF THESE RESOURCES WILL BE CONSIDERED.

The information from #1 above can used to determine which units are needed at each hour of the year to satisfy the load. We believe the uppermost part of each curve should be used to determine the amount of fuel needed to generate a kWh of electricity (Heat Rate)

Once we have this Heat Rate information in BTU/kWh we can utilize the current market price for natural gas to determine the fuel cost. (We estimate this to range from a high of 9¢/kWh during a mid-summer day, to a low of 5¢/kWh during a winter night).

To estimate Market Cost will require the addition of O & M, electrical losses in transmission and distribution, and the cost of capital and profit, including the impact of

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capacity factor. We believe this total will range in cost from 1¢/kWh to 5¢/kWh.
Estimated average - 3¢/kWh.
Therefore, we have a total 12¢/kWh (9 + 3) during the summer day, to a low of 8¢/kWh (5 + 3) during a winter night.

We believe that using natural gas fired plant for this estimate is appropriate as there is little if any non-natural gas generation available in the Southwest. To have any real meaning the price must follow the availability of energy in the area.

There will be those that will advocate an averaged of the above numbers and end up with one price say -10¢/kWh. This will provide a windfall for winter generators (coal?), but penalize the suppliers of scarce summer generation (solar, wind, and peaking units).

The costs vary by the hour as the needs vary and therefore the price should also change as the availability of alternatives changes. That is, the prices clearly should be higher on-peak than off-peak. They should be higher during the week than the weekend – higher in the summer than in the winter. .

3. THE PARTIES RESPONSIBLE FROR MAKING THE ESTIMATE.

The ACC Staff should be responsible for making these estimates.

We believe these market price estimates are very important to have the 125% figure reflect a fair comparison .

Sincerely



William J. Murphy P.E.
Vice-President
Distributed Energy Association of Arizona
602-703-8163

Attachment

Original and 13 copies delivered to Docket Control

