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**Distributed Energy Association of Arizona**  
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SUBJECT: Post Hearing Brief of AzCA/DEAA under Docket # ~~E-01345A-05-0816~~  
Docket # E-01345A-05-0826  
Docket # E-01345A-05-0627

Dear Sir or Madam:

Attached is the Post Hearing Brief for the Arizona Cogeneration Association d/b/a Distributed Energy Association of Arizona.

If you have any questions,, you can email me at [billmurphy@cox.net](mailto:billmurphy@cox.net) or phone me on (602) 703-8163.

Sincerely:

William J. Murphy P.E.  
DEAA

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IN THE MATTER OF THE APPLICATION  
OF ARIZONA PUBLIC SERVICE COMPANY  
FOR A HEARING TO DETERMINE THE FAIR  
VALUE OF THE UTILITY PROPERTY OF THE  
COMPANY FOR RATEMAKING PURPOSES,  
TO FIX A JUST AND REASONABLE RATE OF  
RETURN THEREON, TO APPROVE RATE  
SCHEDULES DESIGNED TO DEVELOP SUCH  
RETURN, AND TO AMEND DECISION NO.  
67744.

DOCKET NO. E-01345A-05-0816

IN THE MATTER OF THE INQUIRY INTO THE FREQUENCY OF UNPLANNED OUTAGES DURING 2005 AT PALO VERDE NUCLEAR GENERATING STATION, THE CAUSES OF THE OUTAGES, THE PROCUREMENT OF REPLACEMENT POWER AND THE IMPACT OF THE OUTAGES ON ARIZONA PUBLIC SERVICE COMPANY'S CUSTOMERS.

DOCKET NO. E-01345A-05-0826

IN THE MATTER OF THE AUDIT OF THE FUEL AND PURCHASED POWER PRACTICES AND COSTS OF THE ARIZONA PUBLIC SERVICE COMPANY.

DOCKET NO. E-01345A-05-0827

The Distributed Emery Association of Arizona (the "DEAA") submits the following post hearing brief in connection with the above-referenced matter.

**I. Introduction.**

On June 27, 2003, Arizona Public Service Company ("APS") filed with the Arizona Corporation Commission ("Commission") an application for a rate increase and for approval of purchased power contract. In Decision No. 67744 (April 7, 2005) the

Commission approved, with modifications, the Settlement Agreement related to the Case.

On November 4, 2005, APS filed an application with the Commission for a rate increase and to amend Decision No. 67744. On November 9, 2005, The Commission opened a docket to investigate the unplanned outages during 2005 at the Palo Verde Nuclear Power Generating Station. The Commission also opened a docket to audit the fuel and purchased power practices and costs of APS.

The Commission granted Distributed Energy Association of Arizona ("DEAA") application to intervene on December 5<sup>th</sup>, 2005.

On January 31, 2006, APS filed an amended application.

Then by Procedural Order issued September 18, 2006, the Commission consolidated the above-referenced matters.

The DEAA participated in the consolidated proceeding and hearing before the Commission.

#### THE ISSUES

DEAA believes that the "Partial Requirements Rates" offered to APS customers have the effect of discouraging the implementation of Distributed Generation ("DG").

The issue affects General Service customers. Those are Small, Medium, and Large (from 20 kW up to 3,000 kW usage monthly).

The APS rates are difficult even for a person knowledgeable in the electric industry, to understand and apply, but most importantly they provide a large economic penalty for any customer who attempts to incorporate DG in his system.

That is true whether the generator is renewable or non-renewable.

The main reason that these rates discourage DG is by their higher Demand charges, coupled with the lower Energy charges.

#### THE FACTS

Over the last few years there has been a large number of rates for customers who wish to generate their own electricity.

“The Company agrees that Partial Requirement Rate Schedules E-52, and E-55, are somewhat complicated...”

APS is now proposing changes to its partial requirements rates:

- 1) eliminate existing rate schedules EPR-3, EQF-S, EQF-M, and E-52
- 2) Freeze existing rates E-32R, and E-55 (no new customers)
- 3) Eliminate E-51, in the next rate case.
- 4) Consolidate Schedule EPR-4 into the revised EPR-2
- 5) Introduce new rates E- 56, and E-57(solar)

## ARGUMENT

We believe that all of the General Service Class intervenors in this case have requested changes in rates to lower their cost and achieve “fairness” among the various rate payer groups.

We are very different in that we are not asking for lower prices! We are asking for rates that do not discourage Distributed Generation (DG).

We did not see the new E-56 & E-57 until after we filed our Rebuttal Brief, but these new rates incorporate E-32 with it high Demand charges. Therefore these new rates do not solve the basic fairness problem.

We have made the following points, which no one has disputed:

- 1) Over the last 10 years APS costs of Energy have increased, while the Demand related costs have decreased.

Over the last 10 years the rates have gone in the opposite direction of costs:

- ✓ The Companies costs have significantly changed with the capital (Demand) costs down 12% and fuel (Energy) costs increasing 85%.
- ✓ The costs of demand are up over 50% and energy charges down by 5%
- ✓ The increased negative impact the current and proposed rates would have on customers who desire to lower energy costs using DG.
- ✓ DG is discouraged by:
  1. The increased costs related to Standby Charges
  2. The increased costs related of Supplemental Energy.
  3. The decreased costs related to DG displaced energy.

2. For over 8% of residential customers and 96% of non-residential customers the pricing of electricity is based on two units of electric measure; DEMAND – which is measured in kilowatts (kW), and ENERGY – which is measured in kilowatt-hours (kWh). Most customers do not understand the differences between these two engineering units. I find that most customers believe these two units of measure are basically the same thing, in other words kW= kWh. This common misconception renders these measurements of little use in customers’ desire to lower monthly costs.

3) The existing & newly introduced "Partial Requirements" rates discourage DG, and are needlessly complicated.

(We understand that E-56, E-57, EPR-4, E-55 are the surviving rates)

4) The required availability percentage of Customer funded DG project is required to be much higher than the availability of APS' own utility plants. That is the Utility plants get much more forgiving treatment than Customer gets. This is illustrated for both Demand and Energy components:

a.) DEMAND Charges for customers with DG will be such that any plant capital recovery allowed for that particular month will be 0% (zero) if the Capacity Factor falls below 99.96% (a very high C.F) This 0% (zero) cost recovery will not be forgiven for customers no matter what is the reason for the failure.

But, rate-payers will contribute to the 100% of the cost of the replacement Capacity to the Utility for their outages.

b.) ENERGY Charges for customers with DG shall be expected to pay for 100% of all energy use that results from any plant outage. No matter what the cause,

But, rate-payers will contribute 90% of the cost of the replacement energy to the Utility for their outages.

If the customer funded DG continues to be uneconomic due to the "Partial Requirement" rates, APS will just build utility owned distributed Generators (DG) in substations and other locations to satisfy the R.E.S.T.

## RECOMMENDATIONS

DEAA recommends the following solutions for Partial Requirements rates:

A. First for Partial Requirements customers below 3,000 kW, SRP rate E-32 is fairer to DG than any of the APS proposed rates, and is also easier to understand and apply. Above 3,000 kW the similar SRP E-60 Type rates would be implemented. We suggest simplifying APS rates along those guidelines.

B. Next the Commission consider taking the following list of actions in order to solve the "Revenue Stability" vs. "Clear Price Signals" issue for Partial Requirements customers:

1. Provide a rate design that is at least neutral to customer use of DG.
2. Provide a rate that offers D.G. customers significant seasonal TOD energy (kWh) price signals.
3. This new proposed rate should be designed with clarity, simplicity, and along with the appropriate TOD (energy) pricing signals.

- C) For D.G. Customers APS' rates should begin to reflect the new market reality, i.e., higher fuel (Energy) prices, and lower capitol costs (Demand). This is the basis for our Direct Testimony recommendation that general service DG customers utilize a rate similar to the SRP E-32TOU. .

We also recommend that APS Partial Requirements rates begin to truly reflect the differences in system costs between summer and winter, day and night, the peak seasonal hours.

We recommend that the Commission review the trend that greater energy usage results in lower cents/kWh. These current rates appear to reflect the capital/fuel cost relationship that existed in the early 1990's, is no longer applicable today for Partial Requirements customers.

Respectfully submitted this 22 day of January 2007.

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The original and 17 copies  
of the foregoing have been filed  
as of January 22, 2007 with:

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Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ. 85007

Copies of the foregoing have  
been mailed, faxed, or trans-  
mitted electronically as of  
January 22, 2007 to:

All parties of record

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William J. Murphy