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February 21, 2007

Arizona Corporation Commission

DOCKETED

FEB 21 2007

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

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RE: DISTRIBUTED GENERATION WORKSHOP
DOCKET NO. E-00000-99-0431

Dear Sir or Madame:

Attached please find Arizona Public Service Company's ("APS") Joint Utilities' Comments submitted in the above matter.

In responding to Staff's Proposed Interconnection Document, the Joint Utilities' Comments were a composition of the following utility companies who are in support of this filing along with APS: Duncan Valley Electric Cooperative, Inc., Graham County Electric Cooperative, Inc., Mohave Electric Cooperative, Inc., Navopache Electric Cooperative, Inc., Trico Electric Cooperative, Inc., and Sulphur Springs Valley Electric Cooperative, Inc.

If you have any questions, please call Greg DeLizio at 602-250-2704.

Sincerely,

Barbara Klemstine
Director
Regulation & Pricing

BAK/rdp

Attachments

CC: Docket Control (Original, plus 13 copies)
Barbara Keene
Erinn Andreasen
Lori Miller

AZ CORP COMMISSION
DOCUMENT CONTROL

2007 FEB 21 P 4: 46

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**JOINT UTILITIES' COMMENTS ON STAFF'S PROPOSED
INTERCONNECTION DOCUMENT**

The following comments are the Utilities' joint comments to the Arizona Corporation Commission Staff's ("Staff") proposed Interconnection Document which was filed by the Staff on January 24, 2007 under Docket No. E-00000A-99-0431. The following Utilities are in support of these comments:

- Arizona Public Service Company
- Duncan Valley Electric Cooperative, Inc.
- Graham County Electric Cooperative, Inc.
- Mohave Electric Cooperative, Inc.
- Navopache Electric Cooperative, Inc.
- Trico Electric Cooperative, Inc.
- Sulphur Springs Valley Electric Cooperative, Inc.

Tucson Electric Power Company and UniSource Energy Services have indicated that they are in general agreement with these comments but will be submitting their own separate comments as well.

KEY ISSUE #1 (Islandable Systems at Section 1.2)

As drafted in the DG straw:

An Islandable System is a Generating Facility interconnected to a bus common with the Utility's system, where the Generating Facility is designed to serve part of the Utility grid that has become or is purposefully separated from the rest of the grid. *Currently there are no rules or standards governing this type of Generating Facility operation and protocols are established on a case-by-case basis. The ACC may revisit Islandable Systems after a successful balloting of IEEE 1547.4.*

Utilities' Proposed Modifications:

An Islandable System is a Generating Facility interconnected to a bus common with the Utility's system, where the Generating Facility is designed to serve part of the Utility grid that has become or is purposefully separated from the rest of the grid. *Currently there are no rules, standards or protocols governing this type of system operation. As such, an Islandable System as defined herein is not allowed.*

ACC Staff Recommendation

Staff agrees with the Joint Utilities on the topic of an Islandable System and included the Joint Utilities' recommended language in Staff's proposed Interconnection Document.

Joint Utilities Recommendation Regarding Interconnection Document:

The Joint Utilities strongly support Staff's proposed recommendation to disallow Islandable Systems as defined in the Interconnection Document for the following reasons: a) there are no industry-wide rules, standards, or protocols governing this type of system; b) Islandable Systems present a safety hazard to Utility personnel because it is a source of power that is not under the Utility's control; c) the Utility is unable to re-synchronize with an Islandable System; d) Islandable Systems present a potential for degradation of Utility power quality to affected Customers because the Generating Facility is not under the Utility's control; and e) Islandable Systems pose Utility reliability concerns, including extended outages.

KEY ISSUE #2 (Facility Upgrades at Section 2.2)

As drafted in the DG straw:

If facility upgrades are needed to accommodate the Generating Facility, a Utility is required to assess and recognize any benefits of adding the Generating Facility to the distribution system, in addition to the costs, and only charge the Customer for the costs net the benefits.

Utilities' Proposed Modification:

Delete the entire sentence for the reasons mentioned in the Joint Utilities DG Interconnection Issues document filed in this Docket on April 5, 2006.

ACC Staff Recommendation

Staff recommends that the wording of the statement be as follows: *If facility upgrades are needed to accommodate the Generating Facility, a Utility will reduce the charge by the amount of any benefits to the grid that are readily quantifiable.*

Joint Utilities Recommendation Regarding Interconnection Document:

The Joint Utilities support Staff's recommendation with the following modifications to Staff's proposed language (highlighted in bold):

*If facility upgrades are needed to accommodate the Generating Facility, a Utility will reduce the charge **of the upgrade** by the amount of ~~any~~ **benefits, if any**, to the grid that are readily quantifiable **by the Utility**.*

To the extent facility upgrades are required to accommodate the Generating Facility, the Utility should be required to reduce costs to the Customer by benefits, if any, to the grid that are readily quantifiable. Because the quantification of any grid specific benefits related to the Generating Facility depends on utility-specific information and circumstances, and is thus difficult to calculate in any single instance (for the reasons specified in the Joint Utilities DG Interconnection Issues document filed in this Docket on April 5, 2006), it is imperative that any such benefits be quantified by the Utility to prevent other customers from providing a subsidy to DG.

KEY ISSUES #3 (Utility rights and Responsibilities at Section 2.2)

As drafted in the DG straw:

This proposed language was not included in the previous DG straw.

Utilities' Proposed Modification:

This was not an issue that was previously identified for comments or discussed in the DG Workshops. It was added by DG Advocates in their DG Interconnection Issues position paper.

ACC Staff Recommendation

Staff recommends the following statement: *In addition, a Utility cannot reject an Application on the basis of distribution system conditions that are already deficient, or charge a Customer for facility upgrades that are overdue or soon to be required to ensure compliance with good Utility practices, except that applications can be rejected in instances where reliability or safety would be further compromised by a DG installation.*

Joint Utilities Recommendation Regarding Interconnection Document:

While the Joint Utilities generally support the basic premise for Staff's recommendation, for clarification purposes, the Joint Utilities propose the following language:

In addition, a Utility cannot reject an Application on the basis of distribution system conditions that are already deficient except that an Application can be rejected in instances where reliability or safety would be further compromised by a DG installation. A Utility shall not charge a Generating Facility Customer differently than any other Customer for facility upgrades needed to ensure compliance with good Utility practices in accordance with generally applicable Commission approved tariffs and service schedules.

The proposed language, as modified, allows the Utility to continue to charge Generating Facilities for facility upgrades consistent with the manner in which it charges any of its other Customers. The obligation to treat DG in a non-discriminatory fashion goes both ways. DG ought not to be exempted from obligations imposed by the ACC or other customers.

KEY ISSUE #4 (Insurance at Section 2.4)

As drafted in the DG straw:

The Customer shall maintain public liability and property damage insurance in amounts not less than ONE MILLION DOLLARS (\$1,000,000) per occurrence. Residential customers who operate a static inverter based Generating Facility rated less than 50 kW are exempt from this requirement. At no time shall the Utility require that the Customer negotiate any policy or renewal of any policy covering any liability through a particular insurance company, agent, solicitor, or broker.

Utilities' Proposed Modifications:

The Utilities would like the language to remain in the document as is for the reasons mentioned in the Joint Utilities DG Interconnection Issues document filed in this Docket on April 5, 2006.

ACC Staff Recommendation

Staff's proposed language is as follows:

The Customer is not required to provide general liability insurance coverage as a condition for Interconnection. Due to the risk of incurring damages, it is recommended that every Interconnection Customer protect itself with insurance or other suitable financial instrument sufficient to meet its construction, operating, and liability responsibilities. At no time shall the Utility require that the Customer negotiate any policy or renewal of any policy covering any liability through a particular insurance provider, agent, solicitor, or broker. The inability of the Utility to require the Customer to provide general liability insurance coverage for operations of the Generating Facility is not a waiver of any rights the Utility may have to pursue remedies at law against the Customer to recover damages.

Joint Utilities Recommendation Regarding Interconnection Document:

The Joint Utilities have concerns with Staff's proposal regarding insurance and strongly recommend that the insurance requirement remain as drafted in the original DG Straw. In addition to the positions previously presented in the Joint Utilities' Position Paper, the Joint Utilities believe that Staff's recommendation creates a potentially enormous risk to both the interconnection customer and the Utility (and by extension, the Utility's customers), specifically from third-party related personal injury claims. Requiring a DG Customer to obtain a general liability insurance policy and/or an umbrella policy would limit the risk to the Customer and the Utility from personal injury and wrongful death actions. Additionally, the insurance requirement is by no means redundant to an indemnification provision. An indemnification provision is merely an agreement to assume financial responsibility for liability whereas insurance addresses the Interconnection Customer's financial ability to honor the indemnification responsibility. Without an insurance requirement, there would be no financial assurance that an Interconnection Customer could fulfill its indemnification obligations.

KEY ISSUE #5 (Non-circumvention at Section 2.5)

As drafted in the DG straw:

A Utility and/or its affiliates shall not use information or knowledge of proposed distributed generation projects submitted to it for interconnection or study to initiate competing proposals to the customer that offer either discounted rates in return for not installing the distributed generation, or offer competing distributed generation projects, unless the rate offered is pursuant to an existing published tariff rate and the rate is given to all other customers in that rate class.

Customers are not precluded from sharing information in their possession regarding a potential distributed generation project with a Utility or its affiliates, or from using information regarding a potential distributed generation project to negotiate a discounted rate or other mutually beneficial arrangement with a Utility or its affiliates, so long as any negotiated discounted rates or arrangements are 1) pursuant to an existing published tariff rate, or 2) available to all other customers in that rate class.

Utilities' Proposed Modifications:

Delete the entire provision for the reasons mentioned in the Joint Utilities DG Interconnection Issues document filed in this Docket on April 5, 2006.

ACC Staff Recommendation

Staff agrees with the AECC and supports their proposed language as follows:

A Utility and its affiliates shall not use knowledge of proposed distributed generation projects submitted to it for interconnection or study to initiate competing proposals to the customer that offer either discounted rates in return for not installing the distributed generation, or offer competing distributed generation projects. Customers are not precluded from sharing information in their possession regarding a potential distributed generation project with a Utility or its affiliates, or from using information regarding a potential distributed generation project to negotiate a discounted rate or other mutually beneficial arrangement with a Utility or its affiliates.

Joint Utilities Recommendation Regarding Interconnection Document:

For clarity, the Joint Utilities propose the following modifications to the language proposed by Staff and AECC (highlighted in bold):

A Utility and its affiliates shall not use knowledge of proposed distributed generation projects submitted to it for interconnection or study to initiate competing proposals to the customer that offer either discounted rates in return for not installing the distributed generation, or offer competing distributed generation projects. Customers are not precluded from sharing information in their possession regarding a potential distributed generation project with a Utility or its affiliates, or from using information regarding a potential distributed

generation project to negotiate a discounted rate or other mutually beneficial arrangement with a Utility or its affiliates. The Utility shall be permitted to inform the Customer of existing or pending (awaiting approval by the ACC) rate schedules that may economically benefit or otherwise affect the Customer's project.

The Joint Utilities agree with the language proposed by AECC and Staff with the above modification to clarify that Staff's language does not preclude the Utility from keeping the Customer informed of all current and pending rate schedules that may be applicable to the Customer.

KEY ISSUE #6 (Incremental Demand Charges at Section 3.7)

As drafted in the DG straw:

Incremental Demand Charges. During the term of an Interconnection Agreement a Utility may require that a Customer disconnect its Generating Facility and/or take it off-line as a result of Utility system conditions described in subsection (c) and (d) above. Incremental demand charges arising from disconnecting the Generating Facility as directed by the Utility during such periods shall not be assessed by Utility to the Customer.

Utilities' Proposed Modifications:

Delete the entire provision for the reasons mentioned in the Joint Utilities DG Interconnection Issues document filed in this Docket on April 5, 2006.

ACC Staff Recommendation

Staff agrees with the Utilities to remove the entire provision.

Joint Utilities Recommendation Regarding Interconnection Document:

The Joint Utilities strongly agree with Staff on the issue of incremental demand charges since this issue has not been fully vetted with the current Workshop participants. In addition, we believe this is a rates issue which does not belong in a technical interconnection document.

KEY ISSUE #7 (Other Issues at Section 3.9)

As drafted in the DG straw:

***Distribution or transmission line charge.** No distribution or transmission line charge shall be assessed to a Customer for exporting energy to the Utility system. For purposes of this paragraph distribution and transmission charges means access and line charges, transformation charges, and line loss charges.*

***Interconnection operations and maintenance costs.** No charge for operation and maintenance of the Utility system's facilities shall be assessed against a customer for exporting energy to the Utility system.*

Utilities' Proposed Modifications:

Delete the entire provision for the reasons mentioned in the Joint Utilities DG Interconnection Issues document filed in this Docket on April 5, 2006.

ACC Staff Recommendation

Staff agrees with the Utilities to remove the entire provision.

Joint Utilities Recommendation Regarding Interconnection Document:

The Joint Utilities strongly agree with Staff on the issues of transmission line charges, operations costs and maintenance costs since the use of transmission facilities is FERC jurisdictional and subject to FERC transmission rates. Additionally, this a rate issue and there is no justification why Generating Facility Customers should receive different and more favorable rate treatment than any other Customer using the Utility's distribution or transmission system.

KEY ISSUE #8 (Application Fees at Sections 4.4 and 4.5)

As drafted in the DG Straw

Customer Submits Application. The Customer completes the standard Interconnection Application and submits it to the Utility along with all required supplemental information which shall be noted on the Application form. *No initial application fee or processing fee will be charged.*

Utilities' Proposed Modifications:

Not addressed.

Additional Cooperatives Proposed Modifications:

Propose adding the following language: *A graduated application fee schedule similar to that laid out in the Wisconsin rule be charged by Cooperatives.*

NOTE: Proposed language is applicable to both Level 2 and Level 3 applications.

ACC Staff Recommendation

Staff proposes to replace the last sentence in Sections 4.4 and 4.5 with the following language: *A Utility may charge an application fee if a tariff containing such fee is approved by the Commission.*

Joint Utilities Recommendation Regarding Interconnection Document:

The Joint Utilities support Staff's proposal on the issue of application fees and recommend that initial tariffs be approved during the compliance phase of the rulemaking portion of this proceeding.

KEY ISSUE #9 (Level 2 Interconnection Fees at Sections 4.4)

As drafted in the DG straw:

Fees for Level 2 interconnection. *Costs for the Additional Review shall not exceed \$100 per hour, adjusted for inflation, or otherwise hourly fees approved by the ACC. Costs for Utility facilities and/or equipment modifications necessary to accommodate the Customer's generator interconnection will be the responsibility of the Customer.*

Utilities' Proposed Modifications:

Replace with the following language:

The Customer shall be responsible for the Utility's actual costs for conducting the Additional Review. Upon receipt of the Utility's non-binding good faith estimate of the costs of such additional review, the Customer must agree in writing within 15 Business Days of the offer and submit a deposit for the estimated costs. The Customer must pay any review costs that exceed the deposit within 20 Business Days of receipt of the invoice. In addition, costs for Utility facilities and/or equipment modifications necessary to accommodate the Customer's generator interconnection will be the responsibility of the Customer.

ACC Staff Recommendation

Staff proposes to replace the first sentence with the following language:

***Fees for Level 2 Additional Review.** A Utility may charge a fee for an Additional Review, if a tariff containing the hourly rate for Additional Review is approved by the Commission. In addition, costs for Utility facilities and/or equipment modifications necessary to accommodate the Customer's generator interconnection will be the responsibility of the Customer.*

Joint Utilities Recommendation Regarding Interconnection Document:

The Joint Utilities propose the following modifications to the language proposed by Staff (Highlighted in bold):

***Fees for Level 2 Additional Review.** A Utility may charge a fee for an Additional Review, if a tariff containing the hourly rate for Additional Review is approved by the Commission. **Upon receipt of the Utility's non-binding good faith estimate of the costs of such additional review, the Customer must agree in writing within 15 Business Days of the offer and submit a deposit for the estimated costs. The Customer must pay any review costs that exceed the deposit within 20 Business Days of receipt of the invoice.** In addition, costs for Utility facilities and/or equipment modifications necessary to accommodate the Customer's generator interconnection will be the responsibility of the Customer.*

While the Joint Utilities support Staff's proposal regarding the ability to charge fees for additional reviews, we believe the Utility should be permitted to collect the estimated costs for any additional review from the customer prior to conducting such review. This ensures that the Customer is serious about the project and alleviates any issues associated with collecting dollars after the review is performed (this can be an issue if the project is canceled).

The Joint Utilities also recommend that initial tariffs be approved during the compliance phase of the rulemaking portion of this proceeding.

KEY ISSUE #10 (Inspection & Re-Inspection Fees at Sections 4.4 and 4.5)

As drafted in the DG straw:

Inspection and Testing. The Customer will contact the Utility to schedule the Utility site inspection and witness of the testing of protective devices. The Utility site inspection and witness of the testing of protective devices will normally occur within ten (10) Business Days of notice from the Customer. The Utility may schedule metering replacement, if necessary, and labeling of Utility equipment to occur at the same time. *There will be no charge for one initial site inspection by the Utility unless the inspection would cause the Utility substantial expense. In which case, the Utility shall provide the customer a written estimate before the site inspection is conducted.*

NOTE: The underlined language is proposed for both Level 2 and Level 3 inspections and re-inspections in Sections 4.4 and 4.5.

Utilities' Proposed Modifications:

Utilities did not address this issue.

Additional Cooperatives and TEP Proposed Modifications:

The Cooperatives would like the language to remain in the document as is (for both inspections and re-inspections in Sections 4.4 and 4.5).

ACC Staff Recommendation

Staff proposes the following language (for Sections 4.4 and 4.5):

For inspections: *A Utility may charge for the initial site inspection, if a tariff containing such a fee is approved by the Commission.*

For re-inspections: *A Utility may charge for a re-inspection, if a tariff containing such a fee is approved by the Commission.*

Joint Utilities Recommendation Regarding Interconnection Document:

The Joint Utilities support Staff's proposal permitting inspection and re-inspection fees for Level 2 and Level 3 services and recommend that initial tariffs be approved during the compliance phase of the rulemaking portion of this proceeding.

KEY ISSUE #11 (Fees for Level 3 Interconnection at Section 4.5)

As drafted in the DG Straw

Fees for Level 3 interconnection. No initial Application Fee or deposit for Level 3 Study Track interconnections shall be charged. *Costs for engineering review shall not exceed \$100 per hour per person, adjusted for inflation, or otherwise hourly fees as approved by the ACC.* Costs for Utility facilities and/or equipment modifications necessary to accommodate the Customer's generator interconnection will be the responsibility of the Customer. The Customer may not be charged for the review of a certified generator's protection equipment. There will be no charge for the initial site inspection by the Utility. If subsequent inspections are required, the costs shall normally not exceed \$100 per occurrence.

Utilities Proposed Modifications:

Fees for Level 3 interconnection. No initial Application Fee or deposit for Level 3 Study Track interconnections shall be charged. *The Customer shall be responsible for the Utility's actual costs for conducting the Additional Review. Upon receipt of the Utility's non-binding good faith estimate of the costs of such additional review, the Customer must agree in writing within 15 Business Days of the offer and submit a deposit for the estimated costs. The Customer must pay any review costs that exceed the deposit within 20 Business Days of receipt of the invoice.* In addition, costs for Utility facilities and/or equipment modifications necessary to accommodate the Customer's generator interconnection will be the responsibility of the Customer. The Customer may not be charged for the review of a certified generator's protection equipment. There will be no charge for the initial site inspection by the Utility. If subsequent inspections are required, the costs shall normally not exceed \$100 per occurrence.

ACC Staff Recommendation:

Staff recommends the following language:

A Utility may charge a fee for an engineering review, if a tariff containing the hourly rate for engineering review is approved by the Commission. In addition, costs for Utility facilities and/or equipment modifications necessary to accommodate the Customer's generator interconnection will be the responsibility of the Customer. The Customer may not be charged for the review of a certified generator's protection equipment.

Joint Utilities Recommendation Regarding Interconnection Document:

The Joint Utilities propose the following modifications to the language proposed by Staff (Highlighted in bold):

*A Utility may charge a fee for an engineering review, if a tariff containing the hourly rate for engineering review is approved by the Commission. **Upon receipt of the Utility's non-binding good faith estimate of the costs of such engineering review, the Customer must agree in writing within 15 Business Days of the offer***

and submit a deposit for the estimated costs. The Customer must pay any review costs that exceed the deposit within 20 Business Days of receipt of the invoice. In addition, costs for Utility facilities and/or equipment modifications necessary to accommodate the Customer's generator interconnection will be the responsibility of the Customer. The Customer may not be charged for the review of a certified generator's protection equipment.

While the Joint Utilities support Staff's proposal regarding the ability to charge fees for engineering reviews, we believe the Utility should be permitted to collect the estimated costs for any engineering review from the customer prior to conducting such review. This ensures that the Customer is serious about the project and alleviates any issues associated with collecting dollars after the review is performed (this can be an issue if the project is canceled).

The Joint Utilities also recommend that initial tariffs be approved during the compliance phase of the rulemaking portion of this proceeding.

KEY ISSUE #12 (Corrections at Section 4.5)

As drafted in the DG Straw

If updated documentation is required to reflect "as-built" conditions, the Customer must submit these to the Utility for review and approval within ten (10) Business Days following the site inspection. *A fee of not more than fifty dollars (\$50) may be assessed by the Utility.*

Utilities Proposed Modifications:

No proposed changes to the language written for the reasons mentioned in the Joint Utilities DG Interconnection Issues document filed in this Docket on April 5, 2006.

ACC Staff Recommendation:

Staff proposes the following language:

The Utility may charge a fee, if a tariff containing such a fee is approved by the Commission.

Joint Utilities Recommendation Regarding Interconnection Document:

The Joint Utilities support Staff's proposal on the issue of fees for Level 3 interconnections and recommend that initial tariffs be approved during the compliance phase of the rulemaking portion of this proceeding.

KEY ISSUE #13 (Reporting Requirements at Sections 5)

As drafted in the DG Straw

Annual interconnection report to the ACC. By March 30 of each year, every electric Utility shall file with the Commission a distributed generation interconnection report for the preceding calendar year that identifies each distributed generation facility interconnected with the Utility's distribution system. The report shall list the new Generating Facilities interconnected with the system since the previous year's report, any distributed generation facilities no longer interconnected with the Utility's system since the previous report, the capacity of each facility, and the feeder or other point on the Utility system where the facility is connected. The Utility shall also indicate the reason for application denial in this report. The ACC shall list every customer who received a special rate consideration in lieu of connecting a Generating Facility.

Utilities' Proposed Modifications:

Delete this provision for the reasons mentioned in the Joint Utilities DG Interconnection Issues document filed in this Docket on April 5, 2006.

ACC Staff Recommendation:

Staff proposes the following language:

By March 30 of each year, every Utility shall file with the Commission a distributed generation Interconnection report for the proceeding calendar year that lists the new Generating Facilities interconnected with the system since the previous year's report, any distributed generation facilities no longer interconnected with the Utility's system since the previous report, and the capacity of each facility. The annual report shall include, for the reporting period, a summary of the number of number of complete Applications received, the number of complete Applications approved, the number of complete Applications denied by level, and the reasons for denial.

Joint Utilities Recommendation Regarding Interconnection Document:

The Joint Utilities support Staff's proposed language on the issue and believe the reporting requirements, as proposed, will not place an undue burden on the Utility.