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November 26, 1996

Docket Control Division
Attn: Rhonda
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission
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RE: Docket No. U-0000-94-165

Dear Rhonda,

Enclosed for filing in the above referenced docket is the original and 10 copies of the Comments of the Environmental Group on the Commission's Proposed Rules Regarding the Introduction of Retail Electric Competition.

Thank you for your time and attention to this and other matters. I am sure I will be talking with you again. Please do not hesitate to contact me at 303-444-1188 ext. 221 if you have any questions. Have a happy holidays!

Sincerely,

Wendy R. Hansen
Legal Assistant
Energy Project

Brian R. Hanson
Executive Director

Idaho Office

Laird J. Lucas
Director

408 W. Idaho Street
P.O. Box 1612
Boise, ID 83701
(208) 342-7024
FAX: (208) 342-8286

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IN THE MATTER OF COMPETITION IN)
THE PROVISION OF ELECTRIC SERVICES)
THROUGHOUT THE STATE OF ARIZONA.)
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)

DOCKET NO. U-0000-94-165

REPLY COMMENTS OF THE ENVIRONMENTAL GROUP
ON THE COMMISSION'S PROPOSED RULES REGARDING
THE INTRODUCTION OF RETAIL ELECTRIC COMPETITION

November 27, 1996

The Environmental Group, comprised of the Land and Water Fund of the Rockies, the Grand Canyon Chapter of the Sierra Club, and the Grand Canyon Trust, hereby submits its reply comments in the above captioned proceeding. As noted in our initial comments, the Environmental Group broadly supports the move towards increased competition in the electric utility industry in Arizona, primarily due to our belief that retail electricity competition has the potential to lower the costs of energy and provide other benefits including environmental improvement. In the Environmental Group's view, retail competition should be introduced only under terms and conditions that will enhance the environment as well as the interests of all consumers. We support the Commission's proposed rule with five relatively minor changes as follows:

- Clarify the definition of "System Benefits"

- Modify the "buy-through" language to encourage development of solar resources, and clarify that it shall not result in cost-shifting
- Clarify that the System Benefits Charge (SBC) is intended to collect monies sufficient to fund present renewables MW commitments
- Establish the Solar Portfolio Standard (SPS) percentages as a floor that may be *increased*, but shall not be reduced.
- Require that each energy supplier provide full disclosure as to its energy resources and emission levels to facilitate informed customer choice.

The Environmental Group has limited comments in response to the initial comments of the "Center for Energy and Economic Development" (CEED), Arizona Public Service Company (APS), and the Residential Utility Consumer Office (RUCO) in this matter.

Reply Comments Regarding the Solar Portfolio Standard

In its comments, focused entirely on the SPS, CEED indicates that to its knowledge, no information has been produced concerning the cost to ratepayers and the Arizona economy. Despite this purported lack of information, CEED claims that "those costs would be very high" and could not possibly be justified on an economic or environmental basis.

On October 4, 1996, the Utilities Division of the Arizona Corporation Commission (ACC) issued a report entitled "Staff Discussion of the Proposed Rule on Electric utility Restructuring." In this report, the ACC Staff devotes nine of the 30 pages to a discussion of the SPS, including the benefits, the impact on energy consumers, and the manufacturing capacity of the solar industry. The Staff believes that the cost increase imposed on generation is justified by the value of solar resources as a hedge against fossil fuel price increases, as an inducement to encourage greater production of solar generating systems (with the attendant economies of scale), and by their environmental benefits.

These conclusions are based upon a very conservative present cost estimate of solar power of 30¢/kWh which is expected to decline over time. Moreover, Staff believes that the cost impact will be less than the savings which can occur through competition.

The costs of solar technologies are an important factor. A 1995 CEED study, "Energy Choices in a Competitive Era," noted that solar thermal production costs declined to about 12¢ - 20¢ per kWh from 60¢ between 1980 and 1990. These 1990 costs are about half of the estimate used by the ACC Staff to justify the SPS, and it's likely that costs have continued to decline since 1990. With respect to PV costs, the study indicated that laboratory tests of new technologies are pushing the 20% efficiency level, and that these efficiency levels might make them economically viable. The comments of CEED in this docket are inconsistent with its own study which, in 1995, found the costs of solar thermal well below the conservative cost estimate used by the ACC Staff in its discussion of the SPS, and PV costs approaching economic viability. CEED's arguments are without basis.

APS also discussed the SPS, referring back to its September 12 comments, noting the "tremendous costs" and the possibility that the SPS would not result in "a single kw of increased solar capacity." In response, we note that APS' September 12 comments addressed a SPS twice as large as the present proposal, and that solar costs, as discussed above and in our initial comments, appear to be well below the estimates utilized by the Staff to support the standard. Indeed, the only economic reason an energy supplier would not develop its share of solar resources would be that the 30¢/kWh penalty is less than the cost of building such resources. It has already been shown in these comments, and in the initial comments of the Environmental Group, that solar technology costs exceeding 30¢/kWh are a very unlikely scenario.

APS goes on to suggest that the SPS provision be replaced with its own plan to encourage solar technology development, also described in its September 12 comments. APS' proposal would create a statewide fee on all energy consumers and require an independent agency to administer and disburse the pool of revenue collections. There appear to be no resource cost advantages to such a proposal. The SPS concept in the proposed rule is a market-driven supply-side approach which encourages energy providers to capture the most economic and efficient solar technologies available. Thus, we see no reason to shift the debate to a statewide fee plan.

Solar energy technologies not only mitigate adverse environmental impacts, but provide long-term diversification benefits against fuel price fluctuations as pointed out in the Staff's October 4 report. In Arizona specifically, the economic development benefits of promoting the development of a solar industry are potentially enormous. We believe there is more than ample reason to retain the SPS.

Reply Comments Regarding Energy Supplier Certification

RUCO's comments with respect to certification of competitive energy suppliers (item 11) are confusing. Its recommendation to eliminate the certification requirement would place energy consumers, particularly those with low levels of knowledge regarding the competitive electricity market, at great risk to self-proclaimed energy service providers who only need to meet the barest of requirements. RUCO's suggestion seems to allow much latitude for abuse, particularly during the transition period. We recommend that the proposed rules regarding certification of competitive energy suppliers be retained and adopted as proposed.

Conclusion and Recommendation

The Environmental Group continues to believe that the proposed rule provides a strong framework to implement retail competition in Arizona. We recommend that the suggestions of CEED and APS with respect to the SPS be rejected for the reasons noted above. In addition, certification of energy providers should be retained as proposed, and RUCO's recommendations in this regard rejected. The proposed rule, with the changes proposed by the Environmental Group, can establish a competitive structure that will provide opportunities to enhance economic development, air quality, and the environment in Arizona and throughout the Western United States. We again thank the Commission for the opportunity to present these comments. Dated this 26th day of November, 1996:

Respectfully submitted,



RICK GILLIAM, Senior Technical Advisor
Energy Project
Land and Water Fund of the Rockies
2260 Baseline Road, Suite 200
Boulder, CO 80302
Tel. 303.444.1188x218
Fax. 303.786.8054

CERTIFICATE OF MAILING

I hereby certify that on this 26th day of November 1996 the original and 10 copies of the REPLY COMMENTS OF THE ENVIRONMENTAL GROUP ON THE COMMISSION'S PROPOSED RULES REGARDING THE INTRODUCTION OF RETAIL ELECTRIC COMPETITION was sent to the Docket Control Division, Arizona Corporation Commission, 1200 West Washington Street, Phoenix, Arizona 85007, via Federal Express, and a true and correct copy of the above was placed in the United States mail and properly addressed to the following:

Steven M. Wheeler
Thomas L. Mumaw
Snell & Wilmer
One Arizona Center
400 East Van Buren
Phoenix, AZ 85004-0001

Steven Glaser
David Lamoreaux
Tucson Electric Power Company
220 West Sixth Street
Tucson, AZ 85701

Craig A. Marks
Citizens Utilities Company
3 High Ridge Park
Stanford, CT 06905

Greg Patterson, Director
Residential Utility Consumer Office
2828 N. Central Ave., Suite 1200
Phoenix, AZ 85004

Thomas R. Sheets
Andrew W. Betty
Office of Regulatory Affairs
Southwest Gas Corporation
5241 West Spring Mountain Road
Las Vegas, NV 89102

Michael M. Grant
Johnston, Maynard, Grant & Parker
3200 N Central Avenue Ste 2300
Phoenix, AZ 85012

Bruce E. Meyerson
Meyer, Hendricks, et al.
2929 North Central Avenue
Phoenix, AZ 85012

Arizona Electric Power Cooperative, Inc.
P.O. Box 670
Benson, AZ 85602

Paul A. Bullis
Janice M. Alward
Bradford A. Borman
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Gary Yaquinto
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Charles R. Huggins
Arizona State AFL-CIO
110 North 5th Avenue
P.O. Box 13488
Phoenix, AZ 85002

Michael A. Curtis
Martinez & Curtis, P.C.
2712 N. Seventh Street
Phoenix, AZ 85006

Sam DeFrawi (Code 00RI)
Building 212, 4th Floor
901 M Street, SE
Washington, DC 20374-5018

Jerry Rudibaugh, Chief Hearing Officer
Hearing Division
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

Barbara Klemstine
Arizona Public Service Co.
Law Department, Station 9909
PO Box 53999
Phoenix, AZ 85072-3999

C. Webb Crockett, Esq.
Fennemore Craig
Two North Central Ave., Suite 2200
Phoenix, AZ 85004-2390

Walter W. Meek, President
Arizona Utility Investors Assoc.
3030 North Central Ave Suite 506
Phoenix, AZ 85012

David C. Kennedy
Law Offices of David C. Kennedy
100 W. Clarendon Ave, Ste. 200
Phoenix, AZ 85012-3525

Norman J. Furuta
Department of the Navy
900 Commodore Dr., Bldg. 107
PO Box 272 (Attn: Code 90C)
San Bruno, CA 94066-0720

Thomas C. Horne
Michael S. Dulberg
Horne, Kaplan & Bistrow, P.C.
20 N. Central Ave., Ste 2800
Phoenix, AZ 85252

Barbara S. Bush
Coalition for Responsible Energy Education
315 W. Riviera Drive
Tempe, AZ 85252

Sam Defraw (Attn: Code 16R)
Rate Intervention Division
Naval Facilities Engineering Command
200 Stovall St, Room 10S12
Alexandria, VA 22332-2300

Rick Lavis
Arizona Cotton Growers Assoc.
4139 E. Broadway Rd.
Phoenix, AZ 85040

Steve Brittle
Don't Waste Arizona, Inc.
6205 S. 12th Street
Phoenix, AZ 85040

Ms. Karen Glennon
19037 North 44th Ave.
Glendale, AZ 85308

Ajo Improvement Company
PO Drawer 9
Ajo, AZ 85321

Columbus Electric Cooperative
PO Box 631
Deming, NM 88031

Continental Divide Electric Cooperative
PO Box 1087
Grants, NM 87020

Dixie Escalante Rural Electric Association
CR Box 95
Beryl, UT 84714

Garkane Power Association, Inc.
PO Box 790
Richfield, UT 84701

Mohave Electric Cooperative
PO Box 1045
Bullhead City, AZ 86430

Morenci Water and Electric Co.
PO Box 68
Morenci, AZ 85540

Louis A. Stahl, Esq.
Lisa D. Duran, Esq.
Streich Lang
Renaissance One
Two North Central Ave.
Phoenix, AZ 85004-2391

Betty K. Pruitt
Arizona Community Action Association
67 E. Weldon, Suite 310
Phoenix, AZ 85012



Wendy L. Hays