



BEFORE THE ARIZONA CORPORATION COMMISSION

12

COMMISSIONERS

MIKE GLEASON, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

2007 MAY 15 P 2:13

AZ CORP COMMISSION
DOCUMENT CONTROL

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

EXCEPTIONS OF INTER-
WEST ENERGY ALLIANCE

The Interwest Energy Alliance ("Interwest") submits the following comments and exceptions in connection with the above-referenced matter.

Arizona Corporation Commission
DOCKETED

MAY 15 2007

DOCKETED BY nr

I. Introduction. Interwest has carefully read the draft order and considered the recommendations. As an association of energy-related businesses we believe it is important that the Commission authorize APS to obtain adequate and timely rate recovery of fuel and purchase power expenditures. Maintaining a healthy bottom line will allow the company to invest to meet future load growth challenges. Interwest also believes that the Opinion and Order dated April 27, 2007 and issued by Administrative Law Judge Farmer (“Opinion”) addresses several long term policy objectives which need careful consideration by the Commission.

Arizona is the only state in the West that does not employ a public integrating planning process for energy resources. Long term resource planning processes allow interested parties to evaluate and compare future resources and acquisition strategies proposed by a utility. It is often a forum to receive long term policy direction from regulators. Without such a planning process in place in Arizona decisions on resource diversity and policy direction must be at least partially addressed in rate case proceedings such as this.

In the Opinion ALJ Farmer makes three recommendations that are crucial long term policies directives that should be further delineated and included in the proposed Order. The recommendations include acquisition of long term contracts for renewables, development of a carbon management, reduction and action plan, and consideration of financial incentives that will spur APS to move more swiftly way from fossil resources to renewable energy resources. These issues, along with the requirement to adopt portions of the proposed Renewable Energy Standard and use of an independent bid evaluator are explored more fully below.

II. Adoption of the Renewable Energy Standard. Interwest supports of adoption of the RES provisions in this rate case. The provisions provide the necessary long term policy direction to APS to diversify its resource mix by purchasing or building more renewable energy resources.

On page 93 of the Opinion ALJ Farmer states in part: “We have recently adopted requirements for renewables in our decision adopting RES rules, and we find that the record in this case supports a finding that the requirement contained in the RES rules is appropriate for APS at this time”. *Id.*

Subsequently on page 140 of the Opinion in Finding of Fact No. 60 ALJ Farmer found that “[t]he record in this case supports a finding that the requirement contained in the RES rules is appropriate for APS at this time....” *Id.* Finally in the Order on page 150 of the Opinion ALJ Farmer states: “It is further ordered that given Arizona Public Service Company’s commitment to procure renewable energy, the requirement in the RES rules and our adoption of that requirement in this Decision, and our intent to hold Arizona Public Service Company to that commitment, it is not necessary to mandate additional procurements or a specific procurement schedule at this time”. *Id.*

The Commission on October 10, 2006 approved moving the draft RES rules into a formal rulemaking process. See R14-2-1801 et seq; *In the Matter of the Proposed Rulemaking for the Renewable Energy Standard and Tariff Rules*, Decision No. 68566. Those rules are currently under review by the Attorney General. The proposed rules contain multiple provisions with multiple requirements related to renewable energy. What is unclear is which portion – or portions- of these proposed regulations are the

“requirement” with which APS is ordered to comply. We would encourage the Commission to clarify the issue as it impacts upon other issues in the proposed Order.

III . Expansion of Procurement of Renewable Energy through Long Term

Contracts. Next Interwest supports the Opinion’s direction to APS that it should procure “stably prices renewable energy under long term contract to hedge against and limit exposure to high natural gas prices over at least the next 15 years” Opinion on page 150 lines 10-12. However, Interwest encourages the Commission to reconsider adopting specific procurement targets in addition to the requirements of the RES. As Interwest previously argued, the RES provides long-term policy direction to the utility but requirements in the rule do not require any near-term large-scale purchases of renewable energy resources. Accordingly, Interwest recommended that APS bid for 150MW of renewable energy every other year and purchase the resources that fit APS’ resource needs. We believe it is critical to procure the greatest amount of renewable energy resources possible because the likely alternative is purchase of more natural gas-fired resources which will only increase ratepayers’ exposure to rising natural gas prices, a primary reason for APS’ initiation of the current rate case request.

A recent poll of Arizona voters shows that the public supports renewable energy development and is willing to pay significant amounts of money to support renewable energy development. Public Opinion Strategies reports that from 600 voters polled on February 20-22, 2007

“Perhaps the most compelling fact is that 89% of Arizonans say they would be willing to pay higher energy prices in order to increase the amount of the state’s energy needs which are met by

renewable energy. Given a range of amounts, more voters choose the highest possible increase in their own bills – 41% say they would be willing to pay \$15 or more [per month]. Another 24% would be willing to pay \$10, 13% would pay \$5 and 11% would pay \$1 or less.”¹

IV. Independent Evaluator. On page 94, lines 3 and 4 of the Opinion ALJ Farmer states that requiring an independent evaluator in RFPs for renewable energy “is not necessary at this time” The Opinion further states that “If in the future problems develop in the RFP process, the affected parties should bring that to the attention of Staff and/or file a complaint with the Commission.” Opinion page 94, lines 4 and 5. In the direct testimony filed by Interwest (pages 2 -5) we documented substantial problems with the method APS used to calculate the integration cost of wind energy. We found, and APS did not disagree, that they ascribed costs that were at least double the integration costs of any other documented utility at the same resource penetration rate. Interwest believes it has documented problems sufficient to warrant inclusion of an independent evaluator at this time. We believe that an independent evaluator should be required in the early years of renewable energy procurement until APS has built expertise in utility-scale renewable energy procurement. If in future years no additional problems are documented, the requirement for an independent evaluator can be removed.

The Opinion stipulates that an independent evaluator is also not necessary because staff is conducting procurement workshops (page 140 lines 26 & 27). Interwest participated in the first of the four planned workshops. While there was discussion of an independent evaluator, the outcome of this process is anything but certain and

¹ Public Opinion Strategies, Arizona: Energy Resources and Public Opinion polling memorandum, page one.

implementation of any new policy via the workshop process is unlikely to occur in an expedient manner. Interwest contends that the problem needs to be address this year, prior to additional renewable energy purchases occurring.

The Opinion states that an independent evaluator is also not needed because an independent auditor is required as part of the RES rules. There are several reasons why this is not adequate. First, the audit provision is an “after the fact” review and does not help in design or evaluation of the bids received and second, an auditor is only required in procurement process related to the RES and not for RFPs that may not fall under the RES rule. As an example, APS currently has an RFP available for renewable energy that is not subject to the auditor requirement.

Finally, the successful “Track B” procurement process included an independent evaluator that was involved from the beginning of the process. Interwest believes this process should be replicated and recommends that an independent evaluator be included in RFPs until such time as APS has demonstrated sufficient experience procuring renewable energy resources.

V. Climate Change Management Plan and Carbon Emission Reduction Study. On page 86 of the Opinion ALJ Farmer “...directed APS to undertake a climate change management plan, carbon emission reduction study, and commitment and action plan with public input and Commission review”. *Id.* Interwest concurs with this direction and encourages the Commission to adopt specific requirements for development of a management plan and reduction study to lead to commitments and actions. Any proposed plan and study should to be coordinated with other state and local level

activities related to climate change and greenhouse gas emissions. We encourage the commission to detail this requirement in the Findings of Fact and Order.

VI. Evaluation of Incentives for Acquiring Renewable Energy. On page 140 of the Opinion in proposed Findings of Fact No. 58 ALJ Farmer required APS to hold “Collaborative Working Group meetings”. Then in proposed Finding of Fact No. 61 ALJ Farmer finds that “...[d]uring the collaborative meetings APS and interested parties should also discuss and evaluate how performance-based initiatives and decoupling of rates from revenues might encourage APS to procure more renewable energy resources”. Subsequently on page 150, lines 20- 23 of the proposed Order ALJ Farmer orders Arizona Public Service Company to hold such and meetings and to discuss the noted topics.

Interwest concurs with the proposed collaborative meeting requirement. However, Interwest encourages the Commission to also set parameters around the meeting process- that is, set a time deadline for the process to prepare and deliver to the Commission recommendations and an analysis of proposed incentives.

Interwest thanks ALJ Farmer, the Commission, and Commission staff for their hard work in this proceeding, and respectfully submits the above comments and exceptions for the Commission’s consideration this 15th day of May 2007.

Douglas V. Fant
Counsel for Interwest Energy Alliance

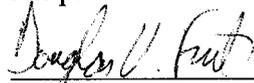
3655 W. Anthem Way
Suite A-109 PMB 411
Anthem, AZ. 85086
(602) 770-5098

The original and 13 copies
of the foregoing have been filed
as of May 15, 2007 with:

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

Copies of the foregoing have
been mailed, faxed, or trans-
mitted electronically as of
May 15, 2007 to:

All parties of record



Douglas V. Fant