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MAY 25 2007

May 25, 2007

Mr. Ernest Johnson  
Director, Utilities Division  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, Arizona 85007

DOCKETED BY  
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Re: Questions related to Resource Planning (Docket E-00000E-05-0431)

Dear Director Johnson:

Attached please find my responses to some of the questions you asked of the parties to this docket in your April 26 letter.

From an overall policy perspective, I strongly support the notion that serious IRP yields the "least-cost plan," as IRP is characterized in many other jurisdictions. Customers of all rate classes and the utilities themselves can be advantaged by an open, participative, transparent and goal-oriented process that engages portfolio theory and various statistical and scenario analyses in order to weigh and minimize risks—both known and anticipated—and yield a result that, in essence, embodies the energy products and services that customers reveal through the process that they really want.

To the degree I can, I answer your specific questions on the following pages. However, as a threshold statement, I believe all of the following about IRP:

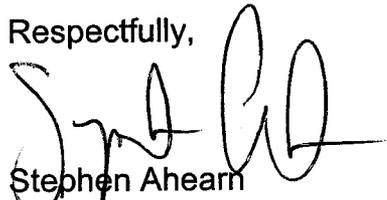
- Expectations by regulators of utility IRP filings should be very high, and if unmet, the ACC should reject filings found to be inadequate
- Planning horizons should be fairly long (~20 years or more, consistent with the expected lives of resources)
- The scope of filings should be very broad (including not only traditional central station generation, but distributed renewable applications, energy efficiency/conservation, demand response programs, transmission and distribution as well)

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- Action and implementation plans should be for not longer than 5 years
- Plans should be refreshed and re-filed every other year
- The public has an important role in the planning process

As the state's consumer advocate, RUCO believes a successful integrated planning process will deliver a desirable, cost-effective portfolio of resources to meet the future needs and circumstances of residential ratepayers and of the utilities themselves.

Respectfully,



Stephen Ahearn  
Director

SA:hs

c: Docket control  
Parties of record

**RUCO'S RESPONSES TO QUESTIONS RELATED TO RESOURCE PLANNING**  
*(responses in italics; not all questions are addressed)*

**A. Objectives of Resource Planning**

1. What should be the primary objectives of a resource planning process?

*See generic statement on cover page.*

2. Arizona first promulgated resource planning rules in 1989 (contained at AAC R 14-2-701-14-2-704), but those rules have been suspended indefinitely by the Commission, except for those portions requiring historical reporting of data. (A) Should the Commission look at using or "tweaking" these existing resource planning rules, or are they so outdated that we should design something new?

*The existing rules are not completely outdated. They can be amended and brought up-to-date.*

- (b) Do those rules accomplish the objectives of resource planning?

*With some modifications, the existing rules can yield the desired result.*

- (c) What conditions (if any) in the industry and market have changed fundamentally since 1989 that would impact the way IRP is conducted?

*Greater weight will have to be given to risk minimization given the recent history of volatile fuel pricing and an anticipated regime of carbon reduction requirements.*

3. To what extent have traditional resource planning functions been adopted by the Commission in other proceedings and rulemakings?
4. Are some traditional IRP processes best left to regional organizations rather than the state?
5. What role should the regional planning processes, particularly regional transmission organizations, play in the process?

*Regional planning must be factored and considered into the state-level IRP process.*

6. To what extent, if any, should a Commission decision "accepting" or "approving" a plan (or a part of a plan) be regarded as a finding of "prudence" in subsequent rate cases?

7. What types of information should be included in resource plans? Should this information be organized in a specified manner so that plans from each utility are consistent with each other, containing the same type of information, and in the same part of the filing?

**B. Resource Planning Processes**

1. Which utilities should be required to file resource plans?

*RUCO believes all electric utilities over a certain size should file resource plans, subject to exemption from the requirement under certain circumstances to be defined. I have mixed feelings about requiring such a plan of natural gas utilities.*

2. Should resource planning consider transmission as well as generation resources?

*Yes.*

3. What should the planning horizon be for a resource plan? (i.e. 10 years, 15 years, 20 years, or longer)

*20 years or longer, paralleling the expected lives of planned facilities.*

4. How frequently should a utility be required to file a resource plan? (i.e. every two, three or four years?)

*Every other year.*

5. Should there be a "Biennial Resource Assessment" similar to the requirement for a Biennial Transmission Assessment contained in Arizona Revised Statutes §40-360.02(g)?

6. Should resource plans be filed simultaneously by the utilities as in the past (so the Commission could focus on statewide issues), or should they be individually filed in alternating years or periods (in which the Commission could focus on the specific issues for each utility?)

*Filings can be staggered to accommodate the anticipated workload by ACC staff.*

7. What time limits, if any, should apply to the Commission's processing of a resource plan?

*For the first-time filings of the new tranche of IRPs, a lengthier time of review should be permitted the ACC. Thereafter, for subsequent filings by the affected utilities, the ACC should have a reduced, if sufficient, turnaround for plan review. RUCO does not propose a specific timetable at this point.*

8. Should there be public hearings on resource plans? Should the rules allow for interveners? Should parties be allowed to call and cross examine witnesses?

*Very strongly yes to all of these questions.*

9. How can a resource planning process be developed which takes into account changes that occur between filings? How can flexibility to adapt to new, unanticipated situations be maximized? Should the utility file annual updates of its resource plan? Should the utility file amendments to its plan as major decisions or changes are made?

*A more frequent, biennial filing of the utility IRP should itself accommodate greater flexibility than the triennial practice. Annual filings of base data and utility anecdotal/editorial information should continue and be examined by the ACC for changed circumstances in anticipation of the following year's formal IRP filing.*

10. Should resource plans include a short term "action plan" (such as the time between filing of resource plans) in which utilities could obtain more direct Commission direction and/or approval for certain critical items that must be decided in the short term?

11. How is the resource planning process affected by a building moratorium?

*There is no effect, providing the market is able to cost-effectively meet the requirements of the IRP. In the event of inability or uncertainty of the market to deliver, the utility is able to bilaterally contract with third parties or self-build needed facilities.*

12. To what extent should the process be public? How much data can be discussed and/or debated publicly given competitive considerations that are now a part of the wholesale marketplace?

*The process should be open and transparent to the degree possible. Formal intervenors should be able to review data under non-disclosure and other confidentiality terms. Only certain closely-defined process participants (e.g., utility competitors) should be segregated from confidential data.*

13. Should standardized RFP/Solicitation procedures be adopted as part of the process?

**C. Need Determination (Load Forecasting)**

1. How are load forecasts to be conducted? Should there be one consistent methodology used by all utilities, or should each utility have the flexibility to use the methodology that it prefers? Should the Commission specify the methodology by which forecasts are developed?

*A single, consistent set of forecasting variables should be defined for IRP filings and criteria for their presentation specified. However, utilities might be allowed to follow their own internal forecasting methodologies until such time has elapsed and enough filings have been made that the Commission feels informed enough to outline a more specific planning framework.*

2. What time period should load forecasts reference?
3. How can the Commission (or should the Commission) review load forecasts when considering a resource plan?
4. What is an acceptable margin of error in viewing actual, experienced, historic peaks compared with forecasted peaks? Should a significant, unexplained deviation between the historic and forecasted peak trigger an amendment or update of the resource plan?

**D. Demand Reduction (Demand-Side Management)**

1. What role should DSM play in the resource planning process?

*DSM (and demand response programs) and renewable resources should be accorded the same role as any generation resource, albeit with the need for a better understanding of their real capacity factors.*

2. Should existing Commission activities in DSM be brought within the realm of the resource planning proceedings?

*Yes.*

3. How is resource planning affected by existing DSM programs and DSM proceedings presently pending before the Commission?

*DSM should be lined up with and against every other resource in an IRP. I would only add that the existing DSM levels should be considered only as floors, not as caps or ceilings.*

4. Should the Commission adopt the following PURPA standards included in the Energy Policy Act of 2005: (1) Net metering? (2) Smart Metering?

**E. Filling Need Requirements (Supply-Side Planning)**

1. What are the supply-side resource requirements that must be planned and filled in the future and how do we decide what those requirements are?

*This question is answered through the very IRP process at issue.*

2. What portfolio(s) of options are best for filling increased load demands?

*Multiple, multi-variate analyses encompassing different statistical and scenario analyses should yield many different portfolios from which to choose and judge to be the best to fulfill the expectations revealed through the IRP process.*

3. How should risk management be factored into the decision making process?

*Risk minimization is at the core of a thorough IRP process.*

4. How should fuel diversity be evaluated?

*By using portfolio analysis.*

5. Can an expanded use of utility-scale solar electric generation be integrated with existing coal-fired operations?

*Yes.*

6. How could supply-side planning be affected by the new Renewable Portfolio standards adopted by the Commission for Arizona?

*Renewables should not be treated any differently than any other supply option; their risks, costs and benefits should be examined like any other resource, with particular attention paid to their unique risk minimization and fuel price volatility reduction characteristics.*

7. What is the risk of future carbon taxes or penalties on existing and future fossil fuel generation options? How can this risk be evaluated and quantified?

*The risk is high of a near-term imposition of a regulatory carbon regime. The risks can be examined and portfolios of resources designed to minimize exposure to such risks through scenario analyses undertaken as part of a complete IRP.*

8. Should one computer production cost modeling program be utilized?
9. How should non-utility generation (i.e. merchant generation, distributed generation) be considered in resource plans?

*Contracts for supply between IPPs and utilities are simply inputs to the plan, and subject to the planning disciplines. New supply contracts and consideration of renewals of existing contracts must conform to the needs expressed by the IRP-derived desired resource portfolio.*