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Arizona Corporation Commission

Comments of Comverge, Inc.

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Regarding Draft Staff Report on Competitive Procurement Issues

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For the Generic Investigation into

Electric Resource Planning

Docket No. E-00000E-05-0431

Arizona Corporation Commission

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12 October 2007

OVERVIEW

In response to the ACC Staff's Draft Report, Comverge agrees that it is essential to have a healthy wholesale electricity market in order to reduce infrastructure burdens and keep rates low. Moreover, Comverge agrees that merchants, developers, and others need to have confidence that resource acquisition is fair, transparent, and non-discriminatory. Comverge also agrees with the approach to adopt recommended best practices to address the major issues in resource procurement, and that RFP solicitation should be the primary resource acquisition tool. Specifically, Comverge through national experience emphasizes that the use of RFPs is essential to enable the resource potential to be more fully defined, as utilities have expended few resources to identify the types and amounts of resources that are available, particularly to address comparability in the procurement of demand-side resources. This is needed to address the legacy of bias against demand-side resources that has existed for many years in the U.S. utility industry.

The RFP Process Proposed

While Comverge agrees with the draft report that an overly prescriptive solicitation scheme is not advised, the exceptions to the RFP process that are offered seem to enable utilities to purchase power supplies when demand side resources may be more cost-effective. The exceptions do not address criteria such as, to the extent possible, *least-cost, best-fit* for any resource added. Such criteria are in the public interest, are aimed at ensuring nondiscriminatory treatment, and would provide additional important guidance in procurement when RFPs are not used.

The recommended best practices for procurement (Appendix 1), likewise, do not address the basic criteria of *least-cost, best-fit* that are critical to, as previously explained, ensure that merchants, developers, and others have confidence that resource acquisition is fair, transparent, and non-discriminatory. Least-cost is basic to all resource acquisition for electricity, and best-fit is the basic approach to ensure that the resource that is needed is used in the correct application (e.g., for super-peak needs).

On its face, the recommended best practices for procurement appear to indicate that only supply-side resources should be considered. This is contrary to the growing knowledge that long-term fully-outsourced Demand Response and Energy Efficiency (DR/EE) contracts can be more competitive than many supply-side options. Comverge specifically

competes to provide alternatives to super-peaking Combustion Turbines, through long-term DR/EE contracts, which also reduce the need for transmission and distribution system investments.

In addition, this raises the comparability question, which is related to discrimination in procurement, how will utilities properly value DR/EE when it defers or eliminates the need for electric generation as well as defers or eliminates the need for transmission and distribution facilities? Accordingly, Comverge recommends that the “Procurement Methods” (Appendix A) be amended to add language to section 1. D as follows:

D. Bilateral contracts with non-affiliated entities, based on least-cost, best fit, and to comparably consider demand side resources as well as supply-side resources.

Finally, Comverge supports the use of an independent monitor as proposed, but suggests that additional language be added regarding the “Independent Monitor” to section 6 in Appendix 1, as follows:

6. The independent monitor should provide reports (at least monthly) to Commission Staff throughout the RFP process, *including an assessment of the comparability and fairness of demand-side procurement.*

In summary, we recommend the following be included in the recommended best practices for procurement (Appendix 1):

- . Language that supports bilateral contracts based on least-cost, best fit, particularly to emphasize comparably between demand-side and supply-side resources.
- An independent monitor for resource procurement that is also responsible to perform an assessment of the comparability and fairness of demand-side and supply-side procurement.

Comverge greatly appreciates the opportunity to offer substantive input on the Commission’s draft report on resource procurement using the RFP process, and we restate our continued interest to work with the Commission and its stakeholders on this.