0000085204

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

1999 NOV 17 P 4: 18

AZ CORP COMMISSION
DOCUMENT CONTROL

Arizona Corporation Commission
DOCKETED
NOV 17 1999

CARL J. KUNASEK
Chairman
JIM IRVIN
Commissioner
WILLIAM A. MUNDELL
Commissioner

IN THE MATTER OF THE GENERIC INVENTIGATION OF THE DEVELOPMENT OF A RENEWABLE PORTFOLIO STANDARD AS A POTENTIAL PART OF THE RETAIL ELECTRIC COMPETITION RULES.

DOCKET NO. RE-00000A-99-0205

TUCSON ELECTRIC POWER COMPANY'S POST-HEARING BRIEF

Tucson Electric Power Company ("TEP"), through undersigned counsel, and pursuant to the Chief Hearing Officer's order, submits this Post-Hearing Brief.

I. <u>Introduction</u>.

TEP is committed to increasing the use of renewable resources in its generation portfolio. That commitment was bolstered three years ago with TEP's affiliation with Global Solar, a maker of photovoltaic modules which will ultimately produce significant solar capacity. TEP has also developed a program that co-burns landfill gas at its Irvington Generating Station in Tucson. This co-burn process displaces coal and produces less overall emissions than separate combustion, thus meeting TEP's 1994 IRP renewable goals in a cost effective manner. Additionally, TEP has investigated utilizing wind resources, and is presently surveying promising wind microsites in Apache County.

TEP supports a Renewable Portfolio Standard in Arizona that is consistent with the goals of electric competition and the long-term power needs of the State. The promise of competition has been lower rates for all customers. Thus, TEP has proposed a Renewable Portfolio Standard that will not increase rates, especially in the competitive market's early years, and will not place any electric service provider or load serving entity at a competitive disadvantage. TEP's proposal utilizes the existing System Benefits Charge in the first few years of competition, and allows for an expansion of the renewable program in future years as the competitive market matures.

TEP has also joined with other parties in submitting a joint proposed Renewable Portfolio Standard that will not increase rates. Although the joint proposal differs somewhat from TEP's, the basic thrust of the joint proposal -- to fund a Renewable Portfolio without adversely affecting rates -- is exactly what TEP has advocated throughout these proceedings.

II. Rates Should Not Increase As A Result Of The Renewable Portfolio Standard.

The starting point for TEP's proposal is that the Renewable Portfolio Standard should neither result in a rate increase for consumers, nor reduce the rate decreases consumers will receive as a result of its settlements. This principle should be obvious: the Commission has made clear that a goal of electric competition is to lower rates.

Nonetheless, the Arizona Clean Energy Industrial Alliance ("ACEIA") takes the position that rates should increase if that is what it will take to encourage the development of solar and other renewable power. *See* Hearing Transcript at 352:13-19; 353:23 to 354:6; 406:5-20; 519:10-18. ACEIA is a coalition of companies in the solar and renewable energy business. It represents neither Arizona consumers nor utility shareholders. Thus, it is not surprising that ACEIA would advocate rate increases as a vehicle for stimulating the solar and renewable industry.

TEP urges the Commission to reject this position. The Commission has worked hard to ensure that competition provides an immediate benefit to consumers. The rate decreases set forth in the TEP settlement provide that benefit. The Commission should not partially or fully eliminate those decreases in order to finance the Renewable Portfolio Standard.

III. <u>The Renewable Portfolio Standard Should Utilize The Existing System Benefits Charge</u>.

TEP proposes that the Renewable Portfolio Standard utilize a portion of the existing System Benefits Charge and be designated as a fixed dollar amount per kWh. Using the existing System Benefits Charge will ensure that the Renewable Portfolio Standard does not result in rate increases and will provide the proper incentives to increase efficiency in solar and other renewable power.

Under the Commission's proposed Renewable Portfolio Standard, a fixed percentage of each ESP and UDC's total load must be generated through solar or other environmentally-friendly renewable means. It further imposes a penalty of $.30 per kWh for failing to meet the percentage requirement. Basing the Renewable Portfolio Standard on a percentage of energy sold is troublesome for several reasons. First, by TEP's calculations, the proposed Renewable Portfolio Standard will increase consumer costs by 5.5% for the first five years. *See* Direct Testimony of Thomas N. Hansen, at p. 9, lines 24-27. For TEP at least, this leaves two options. One is to increase rates, something TEP's Settlement Agreement prohibits. The other is for TEP's shareholders to bear these additional costs. This, too, is unacceptable, particularly given the rate decreases to which TEP will already be subject pursuant to its Settlement Agreement.

For ESPs, the problem is somewhat different. The increased cost resulting from a percentage of load requirement will cut into already thin margins, thus making fewer customers attractive to ESPs.

A percentage standard also gives renewable energy companies little incentive to keep costs low. Rather, their incentive is to price their services just below the penalty level of $.30 per kWh. Under TEP's proposal, a fixed amount of money will be devoted to renewable resources. Thus, as costs per kWh decrease, the amount of renewables used will increase.

Finally, adoption of a percentage standard may force TEP and other UDC's to make investment in solar and other technologies that may soon become stranded investment as those technologies become outdated. The risk of stranded investment is eliminated by adopting a Renewable Portfolio Standard that is based on fixed per kWh charge.

IV. <u>The Commission Should Adopt TEP's Three-Phase Proposal</u>.

Based on the foregoing considerations, TEP has proposed that the Renewable Portfolio Standard be implemented in three phases.

In phase one, each UDC will utilize the portion of its existing System Benefits Charge already allocated to renewable energy sources, and will devote those funds to the development and procurement of solar and renewable energy. ESPs will be required to impose a per kWh charge on their customers commensurate with the portion of the System Benefits Charge which is devoted to renewables, and will be required to use those funds to procure or develop their own solar and renewable energy. TEP believes it is important that all retail providers of energy participate in the use of renewable energy. However, because ESP customers will also be paying the System Benefits Charge, they should receive a credit in the amount of the renewable charge to prevent them from paying twice.

In phase two, renewables will continue to be funded through the existing System Benefits Charge and a commensurate ESP charge. The Commission, in consultation with the parties through the workshop process, would have the option of requiring UDCs to shift dollars from the demand side management segment of the System Benefits Charge to the renewable portfolio program. TEP estimates that implementation of phase two would produce over $16 million statewide annually for renewable development.

In phase three, after review of the Renewable Portfolio Standard program, the Commission could consider an additional funding mechanism to further ratchet up the amount of dollars devoted to renewable energy, likely some sort of surcharge on generation services which would be imposed by both UDCs and ESPs. By this time, it is anticipated that competition will be more fully developed; the additional charge will be far less likely to stunt the growth of the competitive market than now.

In all phases of this proposal, the type of renewable energy which will satisfy the Renewable Portfolio Standard should be broadly defined to include such sources as wind, landfill gas, etc. Although there is no question that solar power has strong potential in Arizona, the Commission should not encourage the development of solar power to the exclusion of other environmentally friendly sources of energy.

V. **Conclusion**.

TEP's proposal will foster development of long-term, sustainable growth in the solar and renewable industries and will provide for recovery of investment, for both generating facilities and manufacturing plants. It will not require rate increases and will not stifle competition. It is the most sensible and fair means of encouraging the development of renewable energy resources.

For the foregoing reasons, TEP respectfully requests that the Commission adopt its proposal for the Renewable Portfolio Standard.

RESPECTFULLY SUBMITTED this 16th day of November, 1999.

ROSHKA HEYMAN & DEWULF, PLC

By______________________________

Raymond S. Heyman
Randall H. Warner
Two Arizona Center
400 North 5th Street, Suite 1000
Phoenix, Arizona 85004

TUCSON ELECTRIC POWER COMPANY
Bradley S. Carroll
Tucson Electric Power Company
220 West Sixth Street-DB203
P.O. Box 711
Tucson, Arizona 85702-0711

Attorneys for Tucson Electric Power Company

Original and ten copies of the foregoing filed this 17th day of November, 1999 with:

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Copy of the foregoing hand-delivered this 17th day of November, 1999 to:

Jerry L. Rudibaugh, Chief Hearing Officer
Hearing Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Paul Bullis, Chief Counsel
Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Ray Williamson, Acting Director
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Copy of the foregoing mailed this 17th day of November, 1999, to:

Distribution List for
Docket No. RE-00000A-99-0205

N. Dall

tep/pl/solarportfoliobrief.