



ORIGINAL WESTERN RESOURCE
ADVOCATES

RECEIVED
2008 OCT 14
ADVISORY COMMISSION
DOCKET CONTROL
INTERWEST
ENERGY ALLIANCE

Arizona Corporation Commission
DOCKETED
OCT 14 2008

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

FROM: David Berry
Western Resource Advocates
P.O. Box 1064
Scottsdale, AZ 85252-1064

Amanda Ormond
Interwest Energy Alliance
7650 S. McClintock Drive
Ste 103-282
Tempe, AZ 85284

DOCKETED
Mn

DATE: October 9, 2008

RE: Comments on Draft Resource Planning Rule – **Docket No. E-00000E-05-0431.**

Western Resource Advocates and Interwest Energy Alliance hereby provide comments on the draft rule on resource planning as requested by Staff at the October 3 workshop. We believe that the proposed wording changes we submitted to Staff on September 11, 2008 are still applicable. The following comments pertain primarily to issues discussed at the October 3 workshop.

1. A planning horizon of at least 10 years is proposed throughout the draft rule. We recommend a 15 year time horizon. The proposed 10 year minimum will not provide consistency among plan filings. Moreover 10 years is not a sufficiently long period to consider generation additions that require more than a 10 year planning and construction horizon such as nuclear power plants.
2. Section 702. As Staff considers the applicability section, keep in mind the burden on Staff and the Commission. It is critical that Staff and the Commission review resource plans expeditiously. Otherwise the plans will become stale and parties will have spent time and effort producing and reviewing a plan that has little application. Additionally, do not detract from consideration of the general direction of Arizona's energy future because Staff and the Commission must thoroughly review even the most minor utility decisions. We recommend that the rule include a two-tier system, with full plan filings and review for larger utilities and abbreviated plan filings and review for smaller entities.¹

¹ From the discussion at the workshop there remain significant questions on how to treat purchased power agreements, the size of the electric utility to be included (e.g., the proposed 5 MW minimum for generation), and the treatment of Electric Service Providers. As Staff has directed that a proposed resolution to these issues be submitted October 17, 2008, we may provide additional comments on these matters.

3. Section 703 (D). This section requires the filing of supply analyses and plans. It needs focus and should indicate what the analyses and plans are intended to accomplish. Add the following language near the beginning of the section.

The analyses and plans prepared in compliance with this section shall evaluate, on a comparable basis, a wide range of supply side resource options, and shall consider expected duty cycles, cost projections, other analyses as described in this section, and projected air emissions and water consumption listed in section 703(B)(1)(p).

4. Section 703 (D) (10). This paragraph pertains to calculation of costs to “back up” renewable resources. This wording is outdated. Paragraph 10 should read “*Analysis of integration costs for intermittent resources.*”
5. Section 703 (E). This section pertains to analyses of uncertainty. It needs focus and should indicate what the analyses are intended to accomplish. Add paragraph 3:

3. A plan to manage the risks and uncertainties identified and analyzed in this section.

Because the options listed in current paragraph 703 (E) (2) are not comprehensive and are overly specific, replace paragraph 2 with the following:

2. An analysis of the means for managing risks and uncertainties such as: getting more information, limiting risk exposure, using incentives, creating more options, and incorporating flexibility.

Thirdly, add construction costs and other capital and operating costs to the list of factors to be analyzed in 703 (E) (1). Recently, utilities have seen dramatic increases in construction costs and there is uncertainty about how fast construction costs will change in the future.

6. Section 703 (F). This section describes the integrated resource plan. It should include the multiple objectives of resource planning and should reflect the idea that the plans are to be “integrated.” This intent language is important for clarity of purpose and to inform entities not currently involved in the process.

After the title, “Integrated resource plan,” insert the following paragraph, delete the current paragraph 1, and revise the subsequent paragraphs so that they are complete sentences:

1. *Objectives. Each utility shall provide the Commission with a 15 year integrated resource plan by [insert date], and every two years thereafter, that selects a portfolio of resources based upon a comprehensive consideration of a wide range of supply and demand side options, and that will:*
 - a) *Reliably serve the demand for electric energy services.*
 - b) *Minimize the adverse environmental impacts of power production, including the emission of greenhouse gases.*
 - c) *Effectively manage uncertainty and risk associated with costs, environmental impacts, load forecasts, and other factors.*
 - d) *Achieve a reasonable long term total cost, taking into consideration the objectives listed above and uncertainty of future costs.*

A single least cost objective as required by the definition of resource planning in section 701 and in the current version of Section 703 (F) (1) is deficient for several reasons:

- It is contrary to the overall power of the Commission as set forth in the Arizona Constitution, Article 15, Section 3, which requires the Commission to set just and reasonable rates, not the lowest rates.
- It can lead utilities or regulators to pay inadequate attention to reliability, environmental impacts, and risk management which are crucial considerations in long term planning.
- It ignores the impossibility of calculating the “lowest cost” because of the great uncertainties about future fuel costs and other costs. If utilities or the Commission focus on expected or average values of key factors, the planning process will overlook the insights that can be gained by looking at “extreme” cases.
- It is anachronistic. Utilities and regulators in other states are considering multiple objectives in their resource planning processes because reliability, environmental impacts, and huge uncertainties are critical factors in designing a good resource plan.
- It is too narrow. A major goal of resource planning is to foster innovation. While technical analyses (such as cost minimization calculations) are important in understanding options, by themselves they do not lead to significant innovation. The Commission and utilities face problems that are murky and situations whose outcomes are not known. New ideas are needed and can be created by using market process, by formally and informally interacting with others, by mitigating or avoiding environmental incompatibilities, and by managing risks. The resource planning process should provide a platform for creating new solutions, and should not be just a calculation exercise. States which focus their resource planning process on minimum costs can miss the big issues that should be addressed by utilities and regulators, rendering the resource planning process irrelevant or misleading.

Finally, change the definition of resource planning in Section 701 to read: *integrated supply and demand analyses described in this Article*. Alternately, delete the definition.

7. Section 704. This section pertains to Commission review of utility plans. The Commission’s review should be linked to the multiple objectives listed above. Replace paragraph C with the following:

C. In making its acknowledgement determination, the Commission shall consider the multiple objectives set forth in Section 703 (F) (1).

In addition, both we and APS proposed language clarifying what “acknowledgement” means. Such language is necessary to give the utility some certainty about the effect of the Commission’s review of a resource plan. Therefore, the last sentence of 704 (A) should read (addition is italicized):

No particular ratemaking treatment shall be implied nor inferred by the Commission’s acknowledgement; *however the Commission shall give considerable weight in a rate case or other proceeding to utility actions consistent with an acknowledged integrated resource plan.*

Original and 13 copies mailed to Docket Control, October 9, 2008.