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Commissioner

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ARIZONA CORPORATION COMMISSION

ORIGINAL

November 3, 2008

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Arizona Corporation Commission

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Mr. Ruel Rogers
Superintendent, Morenci Water and Electric Company
P.O. Box 68
Morenci, AZ 85540

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MN

Re: MW&E's Renewable Energy Implementation Plan and Application for Waivers

Dear Mr. Rogers:

I have reviewed Morenci Water and Electric Company's (MW&E's) proposed 2009 Renewable Energy Implementation Plan and application for waivers that you filed with the Commission on October 1, 2008,¹ and I have some questions for you. First, let me say that it is clear to me that some type of waiver of our REST Rules is necessary for MW&E. MW&E has the unique distinction of simultaneously being one of the smallest (in terms of customers²) yet one of the largest (in terms of kWh sold) electric service providers in Arizona. Because of the small number of customers, the maximum MW&E could collect under sample REST Rule tariff rates is \$147,494.³ At the same time, due to the large number of kWh sold, MW&E estimates its cost to achieve its full renewable energy requirement in 2009 will be \$1,261,844, more than twelve times the amount of revenue it expects to collect under the sample tariffs.

The disrelation between MW&E's revenues and costs under the REST Rules is created by the fact that over 98% of MW&E's kWh is for two customers, FCX Morenci and FCX Safford. Because the disconnect is caused by the tremendous amount of electricity consumed by FCX Morenci and FCX Safford, MW&E asks us to ignore the kWh sales to FCX Morenci and FCX Safford in calculating MW&E's renewable energy requirements. My concern with MW&E's proposed resolution is that it essentially asks the Commission to exempt MW&E—more accurately 98% of MW&E—from the REST Rules altogether. The Commission intended

¹ For the benefit of others who may read this letter, MW&E requests two waivers of the Commission's Renewable Energy Standard and Tariff Rules ("REST Rules"): (1) an extension of the waiver MW&E received in 2008 to exclude the loads of Freeport-McMoRan Copper & Gold Morenci, Inc. ("FCX Morenci") and Freeport-McMoRan Copper & Gold Safford, Inc. ("FCX Safford") from MW&E's calculation of its renewable energy and distributed generation requirements under A.A.C. R14-2-1804 and A.A.C. R14-2-1805; and (2) a waiver of A.A.C. R14-2-1805.D that 50 percent of MW&E's distributed generation come from residential projects and 50 percent come from commercial projects.

² MW&E serves 2,124 customers in and around Morenci, Arizona. Approximately, 1,863 of those customers are residential and 261 are non-residential. MW&E's residential customers are unique, with about 1,200 being renters within Morenci's town-site.

³ Because not all customers will reach the sample tariff caps, however, MW&E estimates that its annual collections under the REST sample tariffs will be closer to \$105,500.

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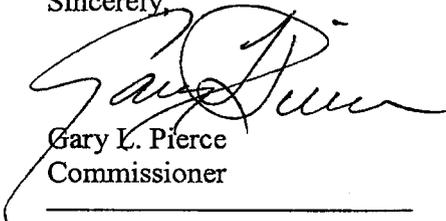
the REST Rules to have statewide application, and I question the fairness of exempting Arizona's third largest electric service provider (in terms of kWh sold) from their application. A more narrowly tailored solution to MW&E's predicament is not to ignore the kWh sales to FCX Morenci and FCX Safford, but to simply grant MW&E a waiver of the distributed generation requirements under R14-2-1805.⁴ I proposed just such an amendment to MW&E's 2008 Renewable Implementation plan but withdrew that amendment when I saw it lacked majority support from my fellow commissioners.

My questions for you are as follows:

- (1) How did MW&E calculate its renewable energy obligation in footnote 8 on page 9 of its filing? I attempted to calculate MW&E's renewable energy requirement based on MW&E's annual reports for 2006 and 2007 on file with the Commission but was unable to replicate your numbers.
- (2) On page 10 of your filing, you state that in order to generate enough revenue to comply with the REST Rules, the Commission would have to increase the sample tariff caps to: \$8.40 per month for each residential customer, \$312.00 per month for each commercial customer, and \$936.00 per month for each industrial customer. The application is not clear whether MW&E thinks this would be an appropriate allocation of the costs to comply with the REST Rules (22% residential, 75% commercial, 3% industrial) across its customer classes if the waiver is not granted. If more than 98% of MW&E's load is from its industrial class, should MW&E's industrial class bear a similar percentage of the costs of complying with the REST Rules?
- (3) On page 2 of MW&E's filing, you state: "MW&E hopes [that in 2013] the renewable resource market will be large and mature enough to allow MW&E to meet the requirements within the REST Rules for its total amount of sales." Please explain what MW&E perceives will be different in principle in 2013 than the issue we are considering today.
- (4) Does MW&E's location and inordinately high load-factor give it any advantages vis-à-vis other Arizona electric utilities in incorporating New Mexico wind resources?

I appreciate your attention to this letter.

Sincerely,



Gary L. Pierce
Commissioner

⁴ There just are not enough residential units in MW&E's service territory to make up for the tremendous amount of kWh consumed at FCX Morenci and FCX Safford, setting aside the fact that 1,200 of the 1,800 residential properties are rental homes.

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cc: Chairman Mike Gleason
Commissioner William Mundell
Commissioner Jeff Hatch-Miller
Commissioner Kris Mayes
Tim Hogan, Center for the Law in the Public Interest
David Berry, Western Resource Advocates
Amanda Ormond, The Ormond Group LLC
Sandra Bahr, Sierra Club