

ORIGINAL

OPEN MEETING



0000093829

MEMORANDUM

Arizona Corporation Commission

DOCKETED

FEB 18 2009

TO: THE COMMISSION

2009 FEB 18 P 3:14

FROM: Utilities Division

AZ CORP COMMISSION  
DOCKET CONTROL

DATE: February 18, 2009

DOCKETED BY	<i>[Signature]</i>
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RE: MORENCI WATER AND ELECTRIC COMPANY - ELECTRIC DIVISION - APPLICATION FOR APPROVAL OF ITS 2009 REST IMPLEMENTATION PLAN PER A.A.C. R14-2-1813 AND REQUEST FOR WAIVERS (DOCKET NO. E-01049A-08-0507)

On October 1, 2008, Morenci Water and Electric ("Morenci") filed an application with the Arizona Corporation Commission ("Commission") seeking approval of its 2009 Renewable Energy Standard and Tariff ("REST") Implementation Plan per Arizona Administrative Code ("A.A.C.") R14-2-1813 and waivers of certain provisions of A.A.C. R14-2-1804 and A.A.C. R14-2-1805.

The application also includes a tariff titled Applications for Distributed Renewable Energy Resources Schedule, another tariff titled Customer Self-Directed Renewable Energy Option and a third titled Renewable Energy Standard Surcharge Schedule.

The application is made in compliance with Commission Decision No. 70303 of April 2008. Decision No. 70303 approved a 2008 REST Implementation Plan, tariffs similar to those included in the instant application and, among other things, ordered Morenci to file a 2009 REST Implementation plan by October 1, 2008.

At the time Morenci filed its application seeking approval of a 2008 REST Implementation Plan, it also sought approval of a partial waiver of A.A.C. R14-2-1804 and A.A.C. R14-2-1805 for a period of five years. More specifically, the application requested that load from Freeport-McMoRan Copper & gold Morenci, Inc. ("FCX Morenci") and Freeport-McMoRan Copper & Gold Safford, Inc. ("FCX Safford") not be included in calculation of the Annual Renewable Energy Requirement (A.A.C. R14-2-1805) and the Annual Distributed Renewable Energy Requirement (A.A.C. R14-2-1805).

Rather than approving Morenci's proposed partial waiver of A.A.C. R14-2-1804 and A.A.C. R14-2-1805 for a period of five years in Decision No. 70303, the Commission approved a waiver for a period of one year. On Page 3 of Morenci's proposed 2009 REST Implementation Plan included in the instant application, Morenci requests that a partial waiver of A.A.C. R14-2-1804 and A.A.C. R14-2-1805 remain effective for the next four years (from 2009 through 2012).

In the instant application, Morenci additionally seeks a waiver of A.A.C. R14-2-1805(D) which requires that utilities meet one-half of their annual Distributed Renewable Energy

Requirement from residential applications and the remaining one-half from non-residential, non-utility applications.

The instant application is largely similar to the application Morenci filed when seeking approval of its 2008 REST Implementation Plan but includes certain updates and modifications to the implementation plan. Morenci does not seek a change to its presently approved Renewable Energy Standard Surcharge Schedule.

### **REST Plan**

Morenci does not plan to construct its own renewable generation. As an alternative, Morenci plans to procure energy generated from renewable resources. In the application, Morenci states that it is unaware of many opportunities to procure eligible renewable energy resources other than wind. Morenci also states that it has concerns about the availability of wind power and transmission constraints. Morenci anticipates that its Annual Renewable Energy Requirement will be approximately 493,427 kWh in 2009, assuming load from FCX Morenci and FCX Safford are excluded.

### **Distributed Renewable Energy Resources**

Morenci plans to offer incentive payments to customers to install Distributed Renewable Energy Resources. Eligible projects listed in Morenci's proposed 2009 Renewable Energy Standard Implementation Plan include: photovoltaic systems, solar space cooling, non-residential solar water heating and space heating, small domestic solar water heating, small domestic solar space heating, biomass/biogas cooling, non-residential solar daylight, and small wind generation. The 2009 Renewable Energy Standard Implementation Plan includes specific requirements that govern the eligibility and installation of these projects.

Incentive payments will be made at the start of such projects and will be determined based on system capacity. The Incentives section of Morenci's 2009 Renewable Energy Standard Implementation Plan proposes that incentives for any customer project will not exceed 60 percent of the total cost of the project. In the application, Morenci states that it intends to distribute incentives on a first-come first-served basis. A.A.C. R14-2-1805(D) requires that one half of the annual Distributed Renewable Energy Requirement be met from residential applications and the remaining half from non-residential, non-utility applications.

While Morenci states in the application that it intends to attempt to meet the requirements of the rules, it also asks for a waiver of A.A.C. R14-2-1805(D) in order to maximize the public interest in reduction of the impacts of NO<sub>x</sub>, SO<sub>x</sub>, and carbon dioxide emissions. Morenci notes in the application that installation of Distributed Renewable Energy Resources is costly to both Morenci and to customers. Morenci further notes that many of Morenci's residential customers are renters and do not own the premises where the distributed renewable energy facilities would be located. More specifically, in response to a data request from Staff, Morenci explained that Freeport McMoRan Copper & Gold, Inc. owns all of Morenci land within the service area and all homes in the town of Morenci are rented from Freeport McMoRan Copper and Gold, Inc. The

application states that approximately 1,200 of the 1,863 residential customers are renters within Morenci's town-site. The remainder of Morenci's residential customers reside in the Clifton area of Morenci's service territory. Morenci states that it does not believe that it can comply with the requirement that 50 percent of its annual Distributed Renewable Energy Requirement come from Distributed Renewable Energy Resources.

In discussion with Staff, representatives of Morenci have explained that the Morenci town-site is located within a canyon limiting the period of time in which solar generation can occur daily.

The application and proposed 2009 Renewable Energy Standard Implementation Plan includes information listing incentive funding levels based on the type of technology. The following table depicts the proposed incentive levels by respective technology:

Table I

Type	2009 – 2011	2012 - 2013
Biomass/Biogas (Electric, Thermal, Cooling)	TBD	TBD
Biomass/Biogas CHP (Electric, Thermal)	TBD	TBD
Daylighting	\$0.20 / kWh	\$0.18 / kWh
Geothermal (Electric)	\$0.50 / Watt	\$0.45 / Watt
Geothermal (Thermal)	\$1.00 / Watt	\$0.90 / Watt
Hydroelectric	TBD	TBD
Small Wind	\$2.50 / Watt AC	\$2.25 / Watt AC
Solar Electric – Residential	\$3.00 / Watt DC	\$2.70 / Watt DC
Solar Electric – Non-residential	\$2.50 / Watt DC	\$2.25 / Watt DC
Solar Space Cooling	TBD	TBD
Non-Residential Solar Water Heating / Space Heating	TBD	TBD
Residential Solar Water Heating / Space Heating	\$0.75 / kWh	\$0.675 / kWh
Non-Residential Pool Heating	TBD	TBD

As seen above, several of the technology types are listed as TBD meaning 'To Be Determined'. For those categories where the incentive is to be determined, the incentive amounts will be determined on a case by case basis and will include consideration of capital costs, capacity and estimated annual production.

Staff notes that the work of the Uniform Credit Purchase Program ("UCPP") Working Group, which commenced in 2006, is pending completion and will establish recommended uniform incentives for each renewable resource technology.

Staff recommends that, if the Commission approves a UCPP, Morenci should be required to develop a mechanism to incorporate UCPP procedures and incentive levels for all eligible technologies in its proposed REST plan for 2010 and later years. To the extent that Morenci feels that different incentive levels than those of the UCPP program are justified, particularly in remote, rural areas, Morenci could develop such proposals.

In the application, Morenci states that it will consider establishing its own Distributed Renewable Energy Resources for its own operations if needed to meet its Distributed Renewable Energy Requirement.

Eligibility requirements for participation in the program are delineated in Morenci's 2009 Renewable Energy Standard Implementation Plan.

Morenci anticipates that its 2009 Distributed Renewable Energy Requirement will be approximately 74,014 kWh assuming load from FCX Morenci and FCX Safford are excluded.

Page 16 of Morenci's proposed 2009 Renewable Energy Standard Implementation Plan contains a section that describes Distributed Renewable Energy System Program Monitoring. The section describes that Morenci will report on the productivity for all distributed renewable energy systems annually by reporting on the total installed capacity and projected productivity.

Also included in the program monitoring section is a statement that describes that should a renewable system be removed or left in disrepair, Morenci will reflect in the annual compliance reporting the annual historic energy production for the system.

This same language was included in Morenci's 2008 REST Implementation Plan. In order to provide the Commission with more clear understanding of the actual effectiveness of the program and to comply with the requirements of A.A.C. R14-2-1812, Staff recommended, and the Commission ordered in Decision No. 70303, that Morenci include in its compliance reports the information required in A.A.C. R14-2-1812. This includes, but is not limited to, actual kWh of energy obtained from Eligible Renewable Energy Resources and kW of generation capacity. Staff noted that Morenci could additionally report lost kW capacity and forgone kWh that result from removed or inoperable renewable generation systems describing them as such.

In order to more accurately reflect in the 2009 REST Implementation Plan that Morenci will comply with the requirements of A.A.C. R14-2-1812 when reporting on the productivity of

distributed renewable energy systems, Staff recommends Morenci's amended version of the 2009 Renewable Energy Standard Implementation Plan describe explicitly in the Distributed Renewable Energy System Program Monitoring section that Morenci will report the information required by A.A.C. R14-2-1812.

Page 19 of the 2009 Renewable Energy Standard Implementation Plan includes a section that describes the Customer Self-Directed Renewable Energy Option portion of the Distributed Renewable Energy Resources Program. Exhibit B of the application contains a proposed tariff page that describes customer eligibility for the program.

Morenci's Customer Self-Directed Renewable Energy Option plan comports with the requirements of A.A.C. R14-2-1809 and eligibility discussed in A.A.C. R14-2-1801(H).

**Funding and Surcharge Schedule**

Staff has reviewed Morenci's proposed Renewable Energy Standard Surcharge Schedule. Morenci's proposed Renewable Energy Standard Surcharge Schedule sets forth the surcharge rates and monthly maximums to be collected to fund its annual REST budget for 2009. The proposed Renewable Energy Standard Surcharge Schedule includes a surcharge of \$0.004988 per kWh for its customers. Morenci proposed that no change be made to the surcharge or cap levels. The current monthly maximums ("caps") on the Renewable Energy Standard Surcharge Schedule are:

Table II

Customer Class/Category	Existing REST Maximums/Caps
Residential	\$ 1.05
Non-Residential	\$ 39.00
Non-Residential>3MW	\$ 117.00

Morenci has calculated that the Renewable Energy Standard Surcharge Schedule will collect in 2009 the following funds, by customer category:

Table III

**Renewable Energy Standard Surcharge Schedule Funding from Current Surcharge and Caps**

	Total \$	Average \$ per Bill	% Reaching Cap
Residential	\$23,473.80	\$1.05	100%
Non-Residential	\$79,187.80	\$25.48	65.33%
Non-Residential >3MW	\$2,808.00	\$117.00	100%
Total	\$105,469.60		

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Morenci estimates that it will require approximately \$14,700 to purchase grid-tied renewable power to meet its non-distributed requirement for 2009, assuming a waiver is granted to remove FCX Safford and FCX Morenci load from the requirements calculation. Morenci estimates that it would need \$202,778 to install enough photovoltaic systems to meet the annual Distributed Renewable Energy Requirement, assuming a waiver to remove FCX Safford and FCX Morenci load from the requirements calculation. These figures are an estimate as customer energy usage, the REST requirement, and the resulting revenue collected through the Renewable Energy Standard Surcharge Schedule cannot be known with certainty at this time.

Morenci estimates that \$1,031,000 would be required to procure renewable generation for the non-distributed requirement for 2009 should the partial waiver excluding load from FCX Safford and FCX Morenci not be approved. Morenci estimates that it would cost approximately \$14,242,778 to install enough photovoltaic systems to meet the Distributed Renewable Energy Requirement should the partial waiver excluding load from FCX Safford and FCX Morenci not be approved.

These estimates were provided to Staff by Morenci following both the filing of the application and recent lay-offs that occurred at the mines.

Morenci's estimated budget provided in the application is as follows:

Table IV

	2009	2010	2011	2012	2013	Total
<b>Renewable Energy Resources</b>						
Energy Power Purchase Agreements (Wind Resources)	52,110	61,306	68,969	75,100	85,828	343,314
Energy Power Purchase Agreements (Other Eligible Renewable Resources)	0	0	0	0	0	0
Utility-Owned Systems	0	0	0	0	0	0
Administration, Implementation, Commercialization & Integration	23,316	26,698	32,705	38,712	40,648	165,079
<b>Renewable Energy -Subtotal</b>	<b>78,426</b>	<b>88,004</b>	<b>101,674</b>	<b>113,812</b>	<b>126,476</b>	<b>508,392</b>
<b>Distributed Renewable Energy Resources</b>						
Incentives	56,447	84,098	111,367	122,428	133,489	507,829
Customer Self-Directed Renewable Energy Option	0	0	0	0	0	0
Administration, Implementation, Marketing & Outreach, Commercialization & Integration.	23,296	30,684	43,302	51,725	60,148	209,155
<b>Distributed Energy - Subtotal</b>	<b>79,743</b>	<b>114,782</b>	<b>154,669</b>	<b>174,153</b>	<b>193,637</b>	<b>716,984</b>
<b>Total</b>	<b>158,169</b>	<b>202,786</b>	<b>256,343</b>	<b>287,965</b>	<b>320,113</b>	<b>1,225,377</b>

In order to implement the changes prescribed by this order, Staff recommends that Morenci file a 2009 Renewable Energy Standard Implementation Plan as modified by this

decision, the Applications for Distributed Renewable Energy Resources Schedule, the Customer Self-Directed Renewable Energy Option tariff as modified by this decision, and the Renewable Energy Standard Surcharge Schedule as modified by this decision within 15 days of the date of this decision.

Staff recognizes that the REST program is still a new program for Morenci and that there are many uncertainties related to the program such as cost, availability of renewable generated power and customer participation. Staff recommends that the proposed 2009 Renewable Energy Standard Implementation Plan, Applications for Distributed Renewable Energy Resources Schedule tariff, Customer Self-Directed Renewable Energy Option tariff, and Renewable Energy Standard Surcharge Schedule tariff be adopted, as modified by this order, so that the program can continue to evolve and establish experience from which future program budgets can be determined. Staff recommends that the proposed 2009 Renewable Energy Standard Implementation Plan, Applications for Distributed Renewable Energy Resources Schedule tariff, Customer Self-Directed Renewable Energy Option tariff, and Renewable Energy Standard Surcharge Schedule tariff remain in effect until such time as they are replaced with a subsequent Commission-approved Renewable Energy Standard Implementation Plan, Applications for Distributed Renewable Energy Resources Schedule tariff, Customer Self-Directed Renewable Energy Option tariff, and Renewable Energy Standard Surcharge Schedule tariff.

#### **Request for Partial Waiver of A.A.C. R14-2-1804 and A.A.C. R14-2-1805**

Morenci's application describes that approximately 98.37 percent of Morenci's energy sales are made to FCX Morenci and FCX Safford collectively in 2007. FCX Morenci and FCX Safford are industrial customers involved in mining. Morenci has proposed in the application that the existing surcharges be maintained. The existing surcharges are the same as the sample rates contained in the REST rules. With such surcharges in place and assuming that FCX Morenci and FCX Safford load was included in calculation of the renewable energy requirements, FCX Morenci and FCX Safford would contribute far less funding to the REST program than what would be needed to meet the REST requirements. It is unusual for such a large portion of a utility's load requirements to emanate from just two customers.

Morenci proposes that the Commission authorize that the load from FCX Morenci and FCX Safford not be included in calculation of Morenci's renewable load requirements contained in A.A.C. R14-2-1804 and A.A.C. R14-2-1805 for a period of four years. Morenci also proposes that that it be granted a waiver releasing it from the provision in A.A.C. R14-2-1805(D) that requires that 50 percent of the annual Distributed Renewable Energy Requirement be from residential applications.

In Decision No. 70303 (April 2008), the Commission approved the partial waiver of A.A.C. R14-2-1804 and A.A.C. R14-2-1805 for a period of one year by allowing that the mining load not be included in the calculation of the renewable load requirements of A.A.C. R14-2-1804 and A.A.C. R14-2-1805.

Staff recommends that the waiver granted by the Commission in Decision No. 70303 for exclusion of the mining load in calculation of the renewable load requirements continue through 2009. Staff makes this recommendation as a result of the unusual costs that would result from meeting the renewables requirements with the mining load included in the calculation. In a meeting with Staff on February 2, 2009, Morenci explained that half of the workforce employed by the mines had just been laid off. This is a result of a recent reduction in the price and demand for copper. Staff recognizes that the unique customer mix in Morenci's service territory, the decline in the mining industry, combined with the more general effects of the present economic conditions make compliance with the requirements of A.A.C. R14-2-1804 and A.A.C. R14-2-1805 especially challenging for Morenci.

Cost and consumption data to compile a complete test year of operation of Morenci's REST Implementation plan is not yet available.

In response to data requests, Morenci has communicated to Staff that it has attempted to contract with several renewable resource owners and renewable energy brokers but has been unable to find and secure the requisite transmission to move the physical energy from the renewable sources to its load. Subsequent to this communication, Morenci submitted its November Purchase Power and Fuel Adjustor ("PPFA") report which lists the purchase of 1,736 MWh of renewable energy.

Morenci has communicated to Staff that it was Morenci's intention to make this purchase of renewable energy in November large enough to satisfy the requirements of A.A.C. R14-2-1804, adjusted for the waiver granted by the Commission.

Staff has calculated Morenci's renewables requirements for 2008 under A.A.C. R14-2-1804 using information reported by Morenci in its Purchase Power and Fuel Adjustor reports. Based on the information provided in the reports, it appears that Morenci has met the 2008 renewables requirements under A.A.C. R14-2-1804, adjusted for removal of the mining load from the calculation of the requirement.

A.A.C. R14-2-1804 (B) states, "The annual increase in the annual percentage for each Affected Utility will be pro rated for the first year based on when the Affected Utility's funding mechanism is approved."

As Decision No. 70303 was issued in April of 2008, the renewable requirement under A.A.C. R14-2-1804 for Morenci in 2008 should be calculated for the time period of May through December (353 MWh). Based on the information provided in Morenci's PPFA reports, it appears that Morenci has met the 2008 renewables requirements under A.A.C. R14-2-1804 not only for the period of May through December when its REST Implementation Plan was in place, but also has met the requirement under A.A.C. R14-2-1804 that would have applied had Morenci's REST Implementation Plan been in place for all of 2008 (508 MWh). Staff notes that at 1,736 MWh of renewable energy, Morenci has more than tripled the requirement that would have applied had Morenci's REST Implementation Plan been in place for all of 2008.

**Request for Waiver of A.A.C. R14-2-1805 (D)**

The Morenci service territory includes the towns of Clifton and Morenci. In response to a data request, Morenci stated that Freeport McMoRan Copper & Gold, Inc. owns all of the land in the town of Morenci and that all of the homes are rented in Morenci. Staff spoke with a representative of the Greenlee County Assessor's office about this matter, and she confirmed that all the residential properties in the town of Morenci are owned by Freeport McMoRan Cooper & Gold, Inc.

Morenci has also communicated to Staff that it is unsure of how many of the residential customers in Clifton rent their properties. This results partly from Morenci not having data that describe if any rental properties owned by entities other than the mine exist. The representative of the Greenlee County Assessor's office communicated to Staff that the majority of residential customers in Clifton do not rent their properties from Freeport McMoRan Copper & Gold, Inc. An affidavit provided to Staff from Ruel Rogers, Superintendent of Morenci Water and Electric, stated that in December 2008 Morenci's residential customer base was 2,139, of which 1,524 are renters in the town of Morenci, 615 residential customers are served in Clifton, and that Morenci is unaware of the number of renters vs. non-renters in Clifton.

This large number of residential customers renting properties in the Morenci service territory presents a difficulty for Morenci in meeting its Distributed Renewable Energy Requirement contained in A.A.C. R14-2-1805. Part D of A.A.C. R14-2-1805 requires that "An Affected Utility shall meet one-half of its annual Distributed Renewable Energy Requirement from residential applications and the remaining one-half from non-residential, non-utility applications."

Residential customers who are renters have little incentive to make investments in the installation of Distributed Renewable Energy Resources for properties they do not own. Staff recommends that Morenci not be granted a partial waiver of A.A.C. R14-2-1805(D) for the 2009 period. Morenci's REST Implementation Plan is in its infancy and methods, not yet considered or explored, may exist for Morenci to achieve its Distributed Renewable Energy Requirement.

It is clear that the Morenci service territory has a predominance of rental arrangements. It is also clear that an individual renting a property does not have the same incentive to purchase renewable appliances as an individual owning their property.

The REST rules define Distributed Renewable Energy Resources as applications of the certain technologies (listed in the definitions) that are located at a customer's premises and that displace Conventional Energy Resources that would otherwise be used to provide electricity to Arizona customers. The REST rules make no reference to whether the Distributed Renewable Energy Resource equipment should be installed by a landlord, tenant, or individual owning their own property.

It is possible that landlords or individuals owning their own property may participate in Morenci's Distributed Renewable Energy Resources program if the incentive levels are

increased. While landlords may not pay the utility bills for the properties they rent, and consequently not benefit directly from the efficiencies gained from adoption of Distributed Renewable Energy Resources, they may choose to install Eligible Renewable Energy Resources when replacing or installing new heating or cooling appliances.

Staff recommends that the incentive payments for Distributed Renewable Energy Systems be increased above their present levels in order to provide greater incentive for customer participation in the Distributed Renewable Energy Resource program. A similar recommendation was adopted in Decision No. 70700 of January 2009 for the Ajo Improvement Company. Ajo Improvement Company's incentives for photovoltaic systems were increased to make them more economical and encourage customer participation. Ajo Improvement Company's incentive for residential photovoltaic systems was increased from \$3.00/watt to \$4.00/watt. The non-residential incentive for photovoltaic systems was increased from \$2.50/watt to \$3.50/watt.

Staff's recommended 2009 incentive levels for Morenci are as follows:

Table V

Type	Morenci Proposal	Staff Recommendation
Biomass/Biogas (Electric, Thermal, Cooling)	TBD	TBD
Biomass/Biogas CHP (Electric, Thermal)	TBD	TBD
Daylighting	\$0.20 / kWh	\$0.25 / kWh
Geothermal (Electric)	\$0.50 / Watt	\$0.65 / Watt
Geothermal (Thermal)	\$1.00 / Watt	\$1.25 / Watt
Hydroelectric	TBD	TBD
Small Wind	\$2.50 / Watt AC	\$3.50 / Watt AC
Solar Electric –Residential	\$3.00 / Watt DC	\$4.00 / Watt DC
Solar Electric – Non-Residential	\$2.50 / Watt DC	\$3.50 / Watt DC
Solar Space Cooling	TBD	TBD
Non-Residential Solar Water Heating / Space Heating	TBD	TBD

Residential Solar Water Heating / Space Heating	\$0.75 / kWh	\$0.95 / kWh
Non-Residential Pool Heating	TBD	TBD

Staff notes that on Page 15 of the Morenci's 2009 Renewable Energy Standard Implementation Plan filed as an attachment to the application, Morenci includes a table that proposes stated incentive levels for two periods: 2009-2011 and 2012 -2013. Staff's recommended incentive levels apply only to the year 2009. Staff's recommendation adopts Morenci's proposed incentive levels following 2009. These future incentive levels will be subject to adjustment pursuant to any future Commission Decision, which would likely include Commission Decisions for future REST Implementation Plan applications.

**Other Matters**

Staff reminds Morenci of the provisions of A.A.C. R14-2-1815(A) and A.A.C. R14-2-1815(B). These sections require that if an Affected Utility fails to meet the annual requirements set forth in R14-2-1804 and R14-2-1805, it shall include with its annual compliance report a notice of noncompliance. The notice of noncompliance shall provide the following information: A computation of the difference between the Renewable Energy Credits required by R14-2-1804 and R14-2-1805 and the amount actually obtained, a plan describing how the Affected Utility intends to meet the shortfall from the previous calendar year in the current calendar year, and an estimate of the costs of meeting the shortfall.

Staff recommends that Morenci file with Docket Control for Commission review a 2010 REST implementation plan by September 1, 2009. This date will replace the July 1, 2007 filing date contained in A.A.C. R14-2-1813. This differing time frame will allow for more lengthy operation of the 2009 REST implementation plan before it is replaced with a subsequent plan.

**Summary of Staff Recommendations**

Staff recommends that, if the Commission approves a UCPP, Morenci should be required to develop a mechanism to incorporate UCPP procedures and incentive levels for all eligible technologies in its proposed REST plan for 2010 and later years.

Staff recommends that Morenci's amended version of the 2009 Renewable Energy Standard Implementation Plan describe explicitly in the Distributed Renewable Energy System Program Monitoring section that Morenci will report the information required by A.A.C. R14-2-1812.

Staff recommends that Morenci file a 2009 Renewable Energy Standard Implementation Plan, the Applications for Distributed Renewable Energy Resources Schedule, the Customer Self-Directed Renewable Energy Option tariff, and the Renewable Energy Standard Surcharge Schedule as modified by this decision within 15 days of the date of this decision.

Staff recommends that the proposed 2009 Renewable Energy Standard Implementation Plan, Applications for Distributed Renewable Energy Resources Schedule tariff, Customer Self-Directed Renewable Energy Option tariff, and Renewable Energy Standard Surcharge Schedule tariff be adopted, as modified by this order.

Staff recommends that the proposed 2009 Renewable Energy Standard Implementation Plan, Applications for Distributed Renewable Energy Resources Schedule tariff, Customer Self-Directed Renewable Energy Option tariff, and Renewable Energy Standard Surcharge Schedule tariff remain in effect until such time as they are replaced with a subsequent Commission-approved Renewable Energy Standard Implementation Plan, Applications for Distributed Renewable Energy Resources Schedule tariff, Customer Self-Directed Renewable Energy Option tariff, and Renewable Energy Standard Surcharge Schedule tariff.

Staff recommends that Morenci's request for waiver of the loads from FCX Safford and FCX Morenci from Morenci's retail energy sales used to calculate the Annual Renewable Energy Requirement under A.A.C. R14-2-1804 and annual Distributed Renewable Energy Requirement under A.A.C. R14-2-1805 be granted by the Commission for 2009.

Staff recommends that Morenci not be granted a partial waiver of A.A.C. R14-2-1805(D) for the 2009 period.

Staff recommends that the incentive payments for Distributed Renewable Energy Systems be increased above their present levels as shown in Table VI for 2009.

Staff recommends that Morenci file with Docket Control for Commission review a 2010 REST implementation plan by September 1, 2009.



Ernest G. Johnson  
Director  
Utilities Division

EGJ:SPI:lm\AV

ORIGINATOR: Steve Irvine

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

KRISTIN K. MAYES  
Chairman  
GARY PIERCE  
Commissioner  
PAUL NEWMAN  
Commissioner  
SANDRA D. KENNEDY  
Commissioner  
BOB STUMP  
Commissioner

IN THE MATTER OF MORENCI WATER  
AND ELECTRIC COMPANY – ELECTRIC  
DIVISION – FOR APPROVAL OF ITS 2009  
REST IMPLEMENTATION PLAN PER  
A.A.C. R14-2-1813 AND REQUEST FOR  
WAIVERS

DOCKET NO. E-01049A-08-0507  
DECISION NO. \_\_\_\_\_  
ORDER

Open Meeting  
March 3 and 4, 2009  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Morenci Water and Electric Company – Electric Division (“Morenci”) is certificated to provide electric service as a public service corporation in the State of Arizona.
2. On October 1, 2008, Morenci filed an application with the Arizona Corporation Commission (“Commission”) seeking approval of its 2009 Renewable Energy Standard and Tariff (“REST”) Implementation Plan per Arizona Administrative Code (“A.A.C.”) R14-2-1813 and waivers of certain provisions of A.A.C. R14-2-1804 and A.A.C. R14-2-1805.
3. The application also includes a tariff titled Applications for Distributed Renewable Energy Resources Schedule, another tariff titled Customer Self-Directed Renewable Energy Option and a third titled Renewable Energy Standard Surcharge Schedule.
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7 Copper & Gold Safford, Inc. ("FCX Safford") not be included in calculation of the Annual  
8 Renewable Energy Requirement (A.A.C. R14-2-1805) and the Annual Distributed Renewable  
9 Energy Requirement (A.A.C. R14-2-1805).

10         6.       Rather than approving Morenci's proposed partial waiver of A.A.C. R14-2-1804  
11 and A.A.C. R14-2-1805 for a period of five years in Decision No. 70303, the Commission  
12 approved a waiver for a period of one year. On Page 3 of Morenci's proposed 2009 REST  
13 Implementation Plan included in the application, Morenci requests that a partial waiver of A.A.C.  
14 R14-2-1804 and A.A.C. R14-2-1805 remain effective for the next four years (from 2009 through  
15 2012).

16         7.       In the instant application, Morenci additionally seeks a waiver of A.A.C. R14-2-  
17 1805(D) which requires that utilities meet one-half of their annual Distributed Renewable Energy  
18 Requirement from residential applications and the remaining one-half from non-residential, non-  
19 utility applications.

20         8.       The instant application is largely similar to the application Morenci filed when  
21 seeking approval of its 2009 REST Implementation Plan but includes certain updates and  
22 modifications to the implementation plan. Morenci does not seek a change to its presently  
23 approved Renewable Energy Standard Surcharge Schedule.

#### 24 **REST Plan**

25         9.       Morenci does not plan to construct its own renewable generation. As an alternative,  
26 Morenci plans to procure energy generated from renewable resources. In the application, Morenci  
27 states that it is unaware of many opportunities to procure eligible renewable energy resources other  
28 than wind. Morenci also states that it has concerns about the availability of wind power and

1 transmission constraints. Morenci anticipates that its Annual Renewable Energy Requirement will  
2 be approximately 493,427 kWh in 2009, assuming load from FCX Morenci and FCX Safford are  
3 excluded.

#### 4 **Distributed Renewable Energy Resources**

5 10. Morenci plans to offer incentive payments to customers to install Distributed  
6 Renewable Energy Resources. Eligible projects listed in Morenci's proposed 2009 Renewable  
7 Energy Standard Implementation Plan include: photovoltaic systems, solar space cooling, non-  
8 residential solar water heating and space heating, small domestic solar water heating, small  
9 domestic solar space heating, biomass/biogas cooling, non-residential solar daylight, and small  
10 wind generation. The 2009 Renewable Energy Standard Implementation Plan includes specific  
11 requirements that govern the eligibility and installation of these projects.

12 11. Incentive payments will be made at the start of such projects and will be determined  
13 based on system capacity. The Incentives section of Morenci's 2009 Renewable Energy Standard  
14 Implementation Plan proposes that incentives for any customer project will not exceed 60 percent  
15 of the total cost of the project. In the application, Morenci states that it intends to distribute  
16 incentives on a first-come first-served basis. A.A.C. R14-2-1805(D) requires that one half of the  
17 annual Distributed Renewable Energy Requirement be met from residential applications and the  
18 remaining half from non-residential, non-utility applications.

19 12. While Morenci states in the instant application that it intends to attempt to meet the  
20 requirements of the rules, it also asks for a waiver of A.A.C. R14-2-1805(D) in order to maximize  
21 the public interest in reduction of the impacts of NO<sub>x</sub>, SO<sub>x</sub>, and carbon dioxide emissions.  
22 Morenci notes in the application that installation of Distributed Renewable Energy Resources is  
23 costly to both Morenci and to customers. Morenci further notes that many of Morenci's residential  
24 customers are renters and do not own the premises where the distributed renewable energy  
25 facilities would be located. More specifically, in response to a data request from Staff, Morenci  
26 explained that Freeport McMoRan Copper & Gold, Inc. owns all of Morenci land within the  
27 service area and all homes in the town of Morenci are rented from Freeport McMoRan Copper and  
28 Gold, Inc. The application states that approximately 1,200 of the 1,863 residential customers are

renters within Morenci's town-site. The remainder of Morenci's residential customers reside in the Clifton area of Morenci's service territory. Morenci states that it does not believe that it can comply with the requirement that 50 percent of its annual Distributed Renewable Energy Requirement come from Distributed Renewable Energy Resources.

13. In discussion with Staff, representatives of Morenci have explained that the Morenci town-site is located within a canyon limiting the period of time in which solar generation can occur daily.

14. The application and proposed 2009 Renewable Energy Standard Implementation Plan includes information listing incentive funding levels based on the type of technology. The following table depicts the proposed incentive levels by respective technology:

Table I

Type	2009 – 2011	2012 - 2013
Biomass/Biogas (Electric, Thermal, Cooling)	TBD	TBD
Biomass/Biogas CHP (Electric, Thermal)	TBD	TBD
Daylighting	\$0.20 / kWh	\$0.18 / kWh
Geothermal (Electric)	\$0.50 / Watt	\$0.45 / Watt
Geothermal (Thermal)	\$1.00 / Watt	\$0.90 / Watt
Hydroelectric	TBD	TBD
Small Wind	\$2.50 / Watt AC	\$2.25 / Watt AC
Solar Electric – Residential	\$3.00 / Watt DC	\$2.70 / Watt DC
Solar Electric – Non- residential	\$2.50 / Watt DC	\$2.25 / Watt DC
Solar Space Cooling	TBD	TBD
Non-Residential Solar Water Heating / Space Heating	TBD	TBD
Residential Solar Water Heating / Space Heating	\$0.75 / kWh	\$0.675 / kWh
Non-Residential Pool Heating	TBD	TBD

15. As seen above, several of the technology types are listed as TBD meaning 'To Be Determined'. For those categories where the incentive is to be determined, the incentive amounts

1 will be determined on a case by case basis and will include consideration of capital costs, capacity  
2 and estimated annual production.

3 16. Staff notes that the work of the Uniform Credit Purchase Program ("UCPP")  
4 Working Group, which commenced in 2006, is pending completion and will establish  
5 recommended uniform incentives for each renewable resource technology.

6 17. Staff has recommended that, if the Commission approves a UCPP, Morenci should  
7 be required to develop a mechanism to incorporate UCPP procedures and incentive levels for all  
8 eligible technologies in its proposed REST plan for 2010 and later years. To the extent that  
9 Morenci feels that different incentive levels than those of the UCPP program are justified,  
10 particularly in remote, rural areas, Morenci could develop such proposals.

11 18. In the application, Morenci states that it will consider establishing its own  
12 Distributed Renewable Energy Resources for its own operations if needed to meet its Distributed  
13 Renewable Energy Requirement.

14 19. Eligibility requirements for participation in the program are delineated in  
15 Morenci's 2009 Renewable Energy Standard Implementation Plan.

16 20. Morenci anticipates that its 2009 Distributed Renewable Energy Requirement will  
17 be approximately 74,014 kWh assuming load from FCX Morenci and FCX Safford are excluded.

18 21. Page 16 of Morenci's proposed 2009 Renewable Energy Standard Implementation  
19 Plan contains a section that describes Distributed Renewable Energy System Program Monitoring.  
20 The section describes that Morenci will report on the productivity for all distributed renewable  
21 energy systems annually by reporting on the total installed capacity and projected productivity.

22 22. Also included in the program monitoring section is a statement that describes that  
23 should a renewable system be removed or left in disrepair, Morenci will reflect in the annual  
24 compliance reporting the annual historic energy production for the system.

25 23. This same language was included in Morenci's 2008 REST Implementation Plan.  
26 In order to provide the Commission with more clear understanding of the actual effectiveness of  
27 the program and to comply with the requirements of A.A.C. R14-2-1812, Staff recommended, and  
28 the Commission ordered in Decision No. 70303, that Morenci include in its compliance reports the

1 information required in A.A.C. R14-2-1812. This includes, but is not limited to, actual kWh of  
2 energy obtained from Eligible Renewable Energy Resources and kW of generation capacity. Staff  
3 noted that Morenci could additionally report lost kW capacity and forgone kWh that result from  
4 removed or inoperable renewable generation systems describing them as such.

5       24. In order to more accurately reflect in the 2009 REST Implementation Plan that  
6 Morenci will comply with the requirements of A.A.C. R14-2-1812 when reporting on the  
7 productivity of distributed renewable energy systems, Staff has recommended Morenci's amended  
8 version of the 2009 Renewable Energy Standard Implementation Plan describe explicitly in the  
9 Distributed Renewable Energy System Program Monitoring section that Morenci will report the  
10 information required by A.A.C. R14-2-1812.

11       25. Page 19 of the 2009 Renewable Energy Standard Implementation Plan includes a  
12 section that describes the Customer Self-Directed Renewable Energy Option portion of the  
13 Distributed Renewable Energy Resources Program. Exhibit B of the application contains a  
14 proposed tariff page that describes customer eligibility for the program.

15       26. Morenci's Customer Self-Directed Renewable Energy Option plan comports with  
16 the requirements of A.A.C. R14-2-1809 and eligibility discussed in A.A.C. R14-2-1801(H).

#### 17 **Funding and Surcharge Schedule**

18       27. Staff has reviewed Morenci's proposed Renewable Energy Standard Surcharge  
19 Schedule. Morenci's proposed Renewable Energy Standard Surcharge Schedule sets forth the  
20 surcharge rates and monthly maximums to be collected to fund its annual REST budget for 2009.  
21 The proposed Renewable Energy Standard Surcharge Schedule includes a surcharge of \$0.004988  
22 per kWh for its customers. Morenci proposed that no change be made to the surcharge or cap  
23 levels. The current monthly maximums ("caps") on the Renewable Energy Standard Surcharge  
24 Schedule are:

25 ...

26 ...

27 ...

28 ...

Table II

Customer Class/Category	Existing REST Maximums/Caps
Residential	\$ 1.05
Non-Residential	\$ 39.00
Non-Residential>3MW	\$ 117.00

Morenci has calculated that the Renewable Energy Standard Surcharge Schedule will collect in 2009 the following funds, by customer category:

Table III

Renewable Energy Standard Surcharge Schedule Funding from Current Surcharge and Caps

	Total \$	Average \$ per Bill	% Reaching Cap
Residential	\$23,473.80	\$1.05	100%
Non-Residential	\$79,187.80	\$25.48	65.33%
Non-Residential >3MW	\$2,808.00	\$117.00	100%
Total	\$105,469.60		

28. Morenci estimates that it will require approximately \$14,700 to purchase grid-tied renewable power to meet its non-distributed requirement for 2009, assuming a waiver is granted to remove FCX Safford and FCX Morenci load from the requirements calculation. Morenci estimates that it would need \$202,778 to install enough photovoltaic systems to meet the annual Distributed Renewable Energy Requirement, assuming a waiver to remove FCX Safford and FCX Morenci load from the requirements calculation. These figures are an estimate as customer energy usage, the REST requirement, and the resulting revenue collected through the Renewable Energy Standard Surcharge Schedule cannot be known with certainty at this time.

29. Morenci estimates that \$1,031,000 would be required to procure renewable generation for the non-distributed requirement for 2009 should the partial waiver excluding load from FCX Safford and FCX Morenci not be approved. Morenci estimates that it would cost approximately \$14,242,778 to install enough photovoltaic systems to meet the Distributed

1 Renewable Energy Requirement should the partial waiver excluding load from FCX Safford and  
2 FCX Morenci not be approved.

3 30. These estimates were provided to Staff by Morenci following both the filing of the  
4 application and recent lay-offs that occurred at the mines.

5 31. Morenci's estimated budget provided in the application is as follows:

Table IV

	2009	2010	2011	2012	2013	Total
<b>Renewable Energy Resources</b>						
Energy Power Purchase Agreements (Wind Resources)	52,110	61,306	68,969	75,100	85,828	343,314
Energy Power Purchase Agreements (Other Eligible Renewable Resources)	0	0	0	0	0	0
Utility-Owned Systems	0	0	0	0	0	0
Administration, Implementation, Commercialization & Integration	23,316	26,698	32,705	38,712	40,648	165,079
<b>Renewable Energy -Subtotal</b>	<b>78,426</b>	<b>88,004</b>	<b>101,674</b>	<b>113,812</b>	<b>126,476</b>	<b>508,392</b>
<b>Distributed Renewable Energy Resources</b>						
Incentives	56,447	84,098	111,367	122,428	133,489	507,829
Customer Self-Directed Renewable Energy Option	0	0	0	0	0	0
Administration, Implementation, Marketing & Outreach, Commercialization & Integration.	23,296	30,684	43,302	51,725	60,148	209,155
<b>Distributed Energy - Subtotal</b>	<b>79,743</b>	<b>114,782</b>	<b>154,669</b>	<b>174,153</b>	<b>193,637</b>	<b>716,984</b>
<b>Total</b>	<b>158,169</b>	<b>202,786</b>	<b>256,343</b>	<b>287,965</b>	<b>320,113</b>	<b>1,225,377</b>

18  
19 32. In order to implement the changes prescribed by this order, Staff has recommended  
20 that Morenci file a 2009 Renewable Energy Standard Implementation Plan as modified by this  
21 decision, the Applications for Distributed Renewable Energy Resources Schedule, the Customer  
22 Self-Directed Renewable Energy Option tariff as modified by this decision, and the Renewable  
23 Energy Standard Surcharge Schedule as modified by this decision within 15 days of the date of  
24 this decision.

25 33. Staff recognizes that the REST program is still a new program for Morenci and that  
26 there are many uncertainties related to the program such as cost, availability of renewable  
27 generated power and customer participation. Staff has recommended that the proposed 2009  
28 Renewable Energy Standard Implementation Plan, Applications for Distributed Renewable Energy

1 Resources Schedule tariff, Customer Self-Directed Renewable Energy Option tariff, and  
2 Renewable Energy Standard Surcharge Schedule tariff be adopted, as modified by this order, so  
3 that the program can continue to evolve and establish experience from which future program  
4 budgets can be determined. Staff has further recommended that the proposed 2009 Renewable  
5 Energy Standard Implementation Plan, Applications for Distributed Renewable Energy Resources  
6 Schedule tariff, Customer Self-Directed Renewable Energy Option tariff, and Renewable Energy  
7 Standard Surcharge Schedule tariff remain in effect until such time as they are replaced with a  
8 subsequent Commission-approved Renewable Energy Standard Implementation Plan, Applications  
9 for Distributed Renewable Energy Resources Schedule tariff, Customer Self-Directed Renewable  
10 Energy Option tariff, and Renewable Energy Standard Surcharge Schedule tariff.

11 **Request for Partial Waiver of A.A.C. R14-2-1804 and A.A.C. R14-2-1805**

12 34. Morenci's application describes that approximately 98.37 percent of Morenci's  
13 energy sales are made to FCX Morenci and FCX Safford collectively in 2007. FCX Morenci and  
14 FCX Safford are industrial customers involved in mining. Morenci has proposed in the application  
15 that the existing surcharges be maintained. The existing surcharges are the same as the sample  
16 rates contained in the REST rules. With such surcharges in place and assuming that FCX Morenci  
17 and FCX Safford load was included in calculation of the renewable energy requirements, FCX  
18 Morenci and FCX Safford would contribute far less funding to the REST program than what  
19 would be needed to meet the REST requirements.

20 35. It is unusual for such a large portion of a utility's load requirements to emanate  
21 from just two customers.

22 36. Morenci proposes that the Commission authorize that the load from FCX Morenci  
23 and FCX Safford not be included in calculation of Morenci's renewable load requirements  
24 contained in A.A.C. R14-2-1804 and A.A.C. R14-2-1805 for a period of four years. Morenci also  
25 proposes that that it be granted a waiver releasing it from the provision in A.A.C. R14-2-1805(D)  
26 that requires that 50 percent of the annual Distributed Renewable Energy Requirement be from  
27 residential applications.

28 ...

1           37.     In Decision No. 70303 (April 2008), the Commission approved the partial waiver of  
2 A.A.C. R14-2-1804 and A.A.C. R14-2-1805 for a period of one year by allowing that the mining  
3 load not be included in the calculation of the renewable load requirements of A.A.C. R14-2-1804  
4 and A.A.C. R14-2-1805.

5           38.     Staff recommends that the waiver granted by the Commission in Decision No.  
6 70303 for exclusion of the mining load in calculation of the renewable load requirements continue  
7 through 2009. Staff makes this recommendation as a result of the unusual costs that would result  
8 from meeting the renewables requirements with the mining load included in the calculation. In a  
9 meeting with Staff on February 2, 2009, Morenci explained that half of the workforce employed  
10 by the mines had just been laid off. This is a result of a recent reduction in the price and demand  
11 for copper. Staff recognizes that the unique customer mix in Morenci's service territory, the  
12 decline in the mining industry, combined with the more general effects of the present economic  
13 conditions make compliance with the requirements of A.A.C. R14-2-1804 and A.A.C. R14-2-1805  
14 especially challenging for Morenci.

15           39.     Cost and consumption data to compile a complete test year of operation of  
16 Morenci's REST Implementation plan is not yet available.

17           40.     In response to data requests, Morenci has communicated to Staff that it has  
18 attempted to contract with several renewable resource owners and renewable energy brokers but  
19 has been unable to find and secure the requisite transmission to move the physical energy from the  
20 renewable sources to its load. Subsequent to this communication, Morenci submitted its  
21 November Purchase Power and Fuel Adjustor ("PPFA") report which lists the purchase of 1,736  
22 MWh of renewable energy.

23           41.     Morenci has communicated to Staff that it was Morenci's intention to make this  
24 purchase of renewable energy in November large enough to satisfy the requirements of A.A.C.  
25 R14-2-1804, adjusted for the waiver granted by the Commission.

26           42.     Staff has calculated Morenci's renewables requirements for 2008 under A.A.C.  
27 R14-2-1804 using information reported by Morenci in its Purchase Power and Fuel Adjustor  
28 reports. Based on the information provided in the reports, it appears that Morenci has met the

1 2008 renewables requirements under A.A.C. R14-2-1804, adjusted for removal of the mining load  
2 from the calculation of the requirement.

3 43. A.A.C. R14-2-1804 (B) states, "The annual increase in the annual percentage for  
4 each Affected Utility will be pro rated for the first year based on when the Affected Utility's  
5 funding mechanism is approved."

6 44. As Decision No. 70303 was issued in April of 2008, the renewable requirement  
7 under A.A.C. R14-2-1804 for Morenci in 2008 should be calculated for the time period of May  
8 through December (353 MWh). Based on the information provided in Morenci's PPFA reports, it  
9 appears that Morenci has met the 2008 renewables requirements under A.A.C. R14-2-1804 not  
10 only for the period of May through December when its REST Implementation Plan was in place,  
11 but also has met the requirement under A.A.C. R14-2-1804 that would have applied had Morenci's  
12 REST Implementation Plan been in place for all of 2008 (508 MWh). Staff notes that at 1,736  
13 MWh of renewable energy, Morenci has more than tripled the requirement that would have  
14 applied had Morenci's REST Implementation Plan been in place for all of 2008.

15 **Request for Waiver of A.A.C. R14-2-1805 (D)**

16 45. The Morenci service territory includes the towns of Clifton and Morenci. In  
17 response to a data request, Morenci stated that Freeport McMoRan Copper & Gold, Inc. owns all  
18 of the land in the town of Morenci and that all of the homes are rented in Morenci. Staff spoke  
19 with a representative of the Greenlee County Assessor's office about this matter, and she  
20 confirmed that all the residential properties in the town of Morenci are owned by Freeport  
21 McMoRan Cooper & Gold, Inc.

22 46. Morenci has also communicated to Staff that it is unsure of how many of the  
23 residential customers in Clifton rent their properties. This results partly from Morenci not having  
24 data that describe if any rental properties owned by entities other than the mine exist. The  
25 representative of the Greenlee County Assessor's office communicated to Staff that the majority of  
26 residential customers in Clifton do not rent their properties from Freeport McMoRan Copper &  
27 Gold, Inc. An affidavit provided to Staff from Ruel Rogers, Superintendent of Morenci Water and  
28 Electric, stated that in December 2008 Morenci's residential customer base was 2,139, of which

1 1,524 are renters in the town of Morenci, 615 residential customers are served in Clifton, and that  
2 Morenci is unaware of the number of renters vs. non-renters in Clifton.

3 47. This large number of residential customers renting properties in the Morenci service  
4 territory presents a difficulty for Morenci in meeting its Distributed Renewable Energy  
5 Requirement contained in A.A.C. R14-2-1805. Part D of A.A.C. R14-2-1805 requires that "An  
6 Affected Utility shall meet one-half of its annual Distributed Renewable Energy Requirement from  
7 residential applications and the remaining one-half from non-residential, non-utility applications."

8 48. Residential customers who are renters have little incentive to make investments in  
9 the installation of Distributed Renewable Energy Resources for properties they do not own.

10 49. Staff has recommended that Morenci not be granted a partial waiver of A.A.C. R14-  
11 2-1805(D) for the 2009 period. Morenci's REST Implementation Plan is in its infancy and  
12 methods, not yet considered or explored, may exist for Morenci to achieve its Distributed  
13 Renewable Energy Requirement.

14 50. It is clear that the Morenci service territory has a predominance of rental  
15 arrangements. It is also clear that an individual renting a property does not have the same  
16 incentive to purchase renewable appliances as an individual owning their property.

17 51. The REST rules define Distributed Renewable Energy Resources as applications of  
18 the certain technologies (listed in the definitions) that are located at a customer's premises and that  
19 displace Conventional Energy Resources that would otherwise be used to provide electricity to  
20 Arizona customers. The REST rules make no reference to whether the Distributed Renewable  
21 Energy Resource equipment should be installed by a landlord, tenant, or individual owning their  
22 property.

23 52. It is possible that landlords or individuals owning their property may participate in  
24 Morenci's Distributed Renewable Energy Resources program if the incentive levels are increased.  
25 While landlords may not pay the utility bills for the properties they rent, and consequently not  
26 benefit directly from the efficiencies gained from adoption of Distributed Renewable Energy  
27 Resources, they may choose to install Eligible Renewable Energy Resources when replacing or  
28 installing new heating or cooling appliances.

53. Staff has recommended that the incentive payments for Distributed Renewable Energy Systems be increased above their present levels in order to provide greater incentive for customer participation in the Distributed Renewable Energy Resource program. A similar recommendation was adopted in Decision No. 70700 of January 2009 for the Ajo Improvement Company. Ajo Improvement Company's incentives for photovoltaic systems were increased to make them more economical and encourage customer participation. Ajo Improvement Company's incentive for residential photovoltaic systems was increased from \$3.00/watt to \$4.00/watt. The non-residential incentive for photovoltaic systems was increased from \$2.50/watt to \$3.50/watt.

54. Staff's recommended 2009 incentive levels for Morenci are as follows:

Table V

Type	Morenci Proposal	Staff Recommendation
Biomass/Biogas (Electric, Thermal, Cooling)	TBD	TBD
Biomass/Biogas CHP (Electric, Thermal)	TBD	TBD
Daylighting	\$0.20 / kWh	\$0.25 / kWh
Geothermal (Electric)	\$0.50 / Watt	\$0.65 / Watt
Geothermal (Thermal)	\$1.00 / Watt	\$1.25 / Watt
Hydroelectric	TBD	TBD
Small Wind	\$2.50 / Watt AC	\$3.50 / Watt AC
Solar Electric –Residential	\$3.00 / Watt DC	\$4.00 / Watt DC
Solar Electric – Non-Residential	\$2.50 / Watt DC	\$3.50 / Watt DC
Solar Space Cooling	TBD	TBD
Non-Residential Solar Water Heating / Space Heating	TBD	TBD
Residential Solar Water Heating / Space Heating	\$0.75 / kWh	\$0.95 / kWh
Non-Residential Pool Heating	TBD	TBD

1 Staff notes that on Page 15 of the Morenci's 2009 Renewable Energy Standard  
2 Implementation Plan filed as an attachment to the application, Morenci includes a table that  
3 proposes stated incentive levels for two periods: 2009-2011 and 2012 -2013. Staff's recommended  
4 incentive levels apply only to the year 2009. Staff's recommendation adopts Morenci's proposed  
5 incentive levels following 2009. These future incentive levels will be subject to adjustment  
6 pursuant to any future Commission Decision, which would likely include Commission Decisions  
7 for future REST Implementation Plan applications.

### 8 **Other Matters**

9 55. Staff reminds Morenci of the provisions of A.A.C. R14-2-1815(A) and A.A.C.  
10 R14-2-1815(B). These sections require that if an Affected Utility fails to meet the annual  
11 requirements set forth in R14-2-1804 and R14-2-1805, it shall include with its annual compliance  
12 report a notice of noncompliance. The notice of noncompliance shall provide the following  
13 information: A computation of the difference between the Renewable Energy Credits required by  
14 R14-2-1804 and R14-2-1805 and the amount actually obtained, a plan describing how the Affected  
15 Utility intends to meet the shortfall from the previous calendar year in the current calendar year,  
16 and an estimate of the costs of meeting the shortfall.

17 56. Staff has recommended that Morenci file with Docket Control for Commission  
18 review a 2010 REST implementation plan by September 1, 2009. This date will replace the July 1,  
19 2007 filing date contained in A.A.C. R14-2-1813. This differing time frame will allow for more  
20 lengthy operation of the 2009 REST implementation plan before it is replaced with a subsequent  
21 plan.

### 22 **Summary of Staff Recommendations**

23 57. Staff has recommended that, if the Commission approves a UCPP, Morenci should  
24 be required to develop a mechanism to incorporate UCPP procedures and incentive levels for all  
25 eligible technologies in its proposed REST plan for 2010 and later years.

26 58. Staff has recommended that Morenci's amended version of the 2009 Renewable  
27 Energy Standard Implementation Plan describe explicitly in the Distributed Renewable Energy  
28 ...

1 System Program Monitoring section that Morenci will report the information required by A.A.C.  
2 R14-2-1812.

3 59. Staff has recommended that Morenci file a 2009 Renewable Energy Standard  
4 Implementation Plan, the Applications for Distributed Renewable Energy Resources Schedule, the  
5 Customer Self-Directed Renewable Energy Option tariff, and the Renewable Energy Standard  
6 Surcharge Schedule as modified by this decision within 15 days of the date of this decision.

7 60. Staff has recommended that the proposed 2009 Renewable Energy Standard  
8 Implementation Plan, Applications for Distributed Renewable Energy Resources Schedule tariff,  
9 Customer Self-Directed Renewable Energy Option tariff, and Renewable Energy Standard  
10 Surcharge Schedule tariff be adopted, as modified by this order.

11 61. Staff has recommended that the proposed 2009 Renewable Energy Standard  
12 Implementation Plan, Applications for Distributed Renewable Energy Resources Schedule tariff,  
13 Customer Self-Directed Renewable Energy Option tariff, and Renewable Energy Standard  
14 Surcharge Schedule tariff remain in effect until such time as they are replaced with a subsequent  
15 Commission-approved Renewable Energy Standard Implementation Plan, Applications for  
16 Distributed Renewable Energy Resources Schedule tariff, Customer Self-Directed Renewable  
17 Energy Option tariff, and Renewable Energy Standard Surcharge Schedule tariff.

18 62. Staff has recommended that Morenci's request for waiver of the loads from FCX  
19 Safford and FCX Morenci from Morenci's retail energy sales used to calculate the Annual  
20 Renewable Energy Requirement under A.A.C. R14-2-1804 and annual Distributed Renewable  
21 Energy Requirement under A.A.C. R14-2-1805 be granted by the Commission for 2009.

22 63. Staff has recommended that Morenci not be granted a partial waiver of A.A.C. R14-  
23 2-1805(D) for the 2009 period.

24 64. Staff has recommended that the incentive payments for Distributed Renewable  
25 Energy Systems be increased above their present levels as shown in Table VI for 2009.

26 65. Staff has recommended that Morenci file with Docket Control for Commission  
27 review a 2010 REST implementation plan by September 1, 2009.

28 66. Staff has recommended that this Order shall become effective immediately.

CONCLUSIONS OF LAW

1  
2 1. Morenci Water and Electric Company – Electric Division is a public service  
3 corporation within the meaning of Article XV of the Arizona Constitution.

4 2. The Commission has jurisdiction over Morenci Water and Electric Company –  
5 Electric Division – and the subject matter of the application.

6 3. The Commission, having reviewed the application and Staff's Memorandum dated  
7 February 18, 2009, concludes that it is in the public interest to approve the proposed 2009  
8 implementation plan with the modifications described herein.

9 4. The Commission further concludes that it is in the public interest to approve  
10 Morenci's request for waiver of the loads from FCX Safford and FCX Morenci from Morenci's  
11 retail energy sales used to calculate the Annual Renewable Energy Requirement under A.A.C.  
12 R14-2-1804 and annual Distributed Renewable Energy Requirement under A.A.C. R14-2-1805 for  
13 2009.

14 5. The Commission further concludes that it is in the public interest to deny a partial  
15 waiver of A.A.C. R14-2-1805(D) for the 2009 period.

ORDER

17 IT IS THEREFORE ORDERED that the proposed 2009 Renewable Energy Standard  
18 Implementation Plan, Applications for Distributed Renewable Energy Resources Schedule tariff,  
19 Customer Self-Directed Renewable Energy Option tariff, and Renewable Energy Standard  
20 Surcharge Schedule tariff be adopted, as modified by this order.

21 IT IS FURTHER ORDERED that, if the Commission approves a UCPP, Morenci Water  
22 and Electric Company – Electric Division - should be required to develop a mechanism to  
23 incorporate UCPP procedures and incentive levels for all eligible technologies in its proposed  
24 REST plan for 2010 and later years.

25 IT IS FURTHER ORDERED that Morenci Water and Electric Company's – Electric  
26 Division - amended version of the 2009 Renewable Energy Standard Implementation Plan describe  
27 explicitly in the Distributed Renewable Energy System Program Monitoring section that Morenci  
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1 Water and Electric Company – Electric Division - will report the information required by A.A.C.  
2 R14-2-1812.

3 IT IS FURTHER ORDERED that Morenci Water and Electric Company – Electric  
4 Division - file a 2009 Renewable Energy Standard Implementation Plan, the Applications for  
5 Distributed Renewable Energy Resources Schedule, the Customer Self-Directed Renewable  
6 Energy Option tariff, and the Renewable Energy Standard Surcharge Schedule as modified by this  
7 decision within 15 days of the date of this decision.

8 IT IS FURTHER ORDERED that the proposed 2009 Renewable Energy Standard  
9 Implementation Plan, Applications for Distributed Renewable Energy Resources Schedule tariff,  
10 Customer Self-Directed Renewable Energy Option tariff, and Renewable Energy Standard  
11 Surcharge Schedule tariff remain in effect until such time as they are replaced with a subsequent  
12 Commission-approved Renewable Energy Standard Implementation Plan, Applications for  
13 Distributed Renewable Energy Resources Schedule tariff, Customer Self-Directed Renewable  
14 Energy Option tariff, and Renewable Energy Standard Surcharge Schedule tariff.

15 IT IS FURTHER ORDERED that Morenci Water and Electric Company’s – Electric  
16 Division - request for waiver of the loads from FCX Safford and FCX Morenci from Morenci  
17 Water and Electric Company’s – Electric Division - retail energy sales used to calculate the  
18 Annual Renewable Energy Requirement under A.A.C. R14-2-1804 and annual Distributed  
19 Renewable Energy Requirement under A.A.C. R14-2-1805 is approved through 2009.

20 IT IS FURTHER ORDERED that Morenci Water and Electric Company – Electric  
21 Division – request for partial waiver of A.A.C. R14-2-1805(D) for the 2009 period is denied.

22 IT IS FURTHER ORDERED that the incentive payments for Distributed Renewable  
23 Energy Systems be increased above their present levels as shown in Table VI for 2009.

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1 IT IS FURTHER ORDERED that Morenci Water and Electric Company – Electric  
 2 Division - file with Docket Control for Commission review a 2010 REST implementation plan by  
 3 September 1, 2009.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

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**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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CHAIRMAN COMMISSIONER

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COMMISSIONER COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, MICHAEL P. KEARNS, Interim Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2009.

\_\_\_\_\_  
 MICHAEL P. KEARNS  
 INTERIM EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

EGJ:SPI:lhmvAV

1 SERVICE LIST FOR: Morenci Water and Electric Company – Electric Division  
2 DOCKET NO. E-01049A-08-0507

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