

ORIGINAL

OPEN MEETING



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MEMORANDUM

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Arizona Corporation Commission

DOCKETED 2009 MAR 26 P 1:44

TO: THE COMMISSION

FROM: Utilities Division

DATE: March 26, 2009

MAR 26 2009

AZ CORP COMMISSION
DOCKET CONTROL

DOCKETED BY 

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 Company – Electric Division (“Morenci” or “Company”) filed an application with the Arizona Corporation Commission (“Commission”) seeking approval of its 2009 Renewable Energy Standard and Tariff 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.

On February 15, 2009, Staff filed a memorandum and proposed order in this docket. The item was scheduled to be heard at Open Meeting March 3rd and 4th of 2009 and subsequently pulled from the Open Meeting Agenda prior to being heard. The item is now scheduled for Open Meeting on March 31st and April 1st.

Staff now makes this filing to make certain updates and corrections to information contained in the filing made on February 15, 2009. The filing includes a revised memorandum and proposed order that incorporate the changes. The changes that are made are as follows:

In the February 18, 2009 memorandum, at page 1, in the fourth line of the fourth paragraph, the letter g in the word gold is capitalized. A corresponding change occurs in the proposed order.

In the February 18, 2009 memorandum, at page 2, in the paragraph following the heading REST Plan, prior to the last sentence the following sentence is added: “Subsequent to the filing of the Application, Morenci was able to procure biomass energy for the 2008 requirement.” A corresponding change occurs in the proposed order.

In the February 18, 2009 memorandum, at page 3, in lines 1 through 3, the sentence ‘The application states that approximately 1,200 of the 1,863 residential customers are renters within Morenci’s town-site’ should be replaced with ‘Of the 2,095 residential customers, as of December 2008, about 1,480 of those customers are renters residing within the Morenci town-site.’ A corresponding change occurs in the proposed order.

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In the February 18, 2009 memorandum, at page 3, the second paragraph includes the words 'Morenci town-site.' These words are replaced with 'majority of Clifton.' A corresponding change is made in the proposed order.

In Table III of the February 18, 2009 memorandum, on page 6, in the column marked Total \$, the figure \$23,473.80 is replaced with \$26,397.00. The figure \$105,469.60 is replaced with \$108,392.80. A corresponding change occurs in the proposed order Table III.

In the February 18, 2009 memorandum, at page 6, the fourth line of the paragraph following Table III included the figure \$202,778. This figure is replaced with the figure \$121,667. This change is made in the proposed order. The figure \$202,778 represents Morenci's estimate of the total cost of installation for enough photovoltaic systems to meet the annual Distributed Renewable Energy Requirement. As Morenci would only finance up to 60 percent of any distributed generation infrastructure, the cost to Morenci for meeting the Distributed Renewable Energy Requirement is more accurately represented by the \$121,667 figure. The \$14,700 and \$121,667 figures assume no waiver of A.A.C. R14-2-1805(D). The \$121,667 amount is based on a \$6.00 per Watt cost. The \$6.00 cost is derived from information from the National Renewable Energy Laboratory website (www.nrel.gov/pv/projects.html).

Table IV, included in the proposed order and the February 18, 2009 memorandum, is replaced with a new Table IV. The version of the table included in the original memorandum and proposed order had been drawn from the application. The new Table IV updates figures for the row marked Energy Power Purchase Agreements (Wind Resources) and the row marked Incentives with more current information. These new figures affect the subtotal and total rows. The word 'wind', included in the title for this row is replaced with the word 'biomass.' Additionally, the columns for years following 2009 and the column marked total have been removed as the application only deals directly with the implementation plan for 2009. The sentence preceding Table IV has been changed from 'Morenci's estimated budget provided in the application is as follows:' to 'Morenci's estimated budget is as follows:'

On page 2, line 21 of the proposed order, the year 2009 is changed to 2008.

On the front page of the proposed order, the date of the Open Meeting is changed from March 3 and 4 to March 31 and April 1 to reflect the new timing of the Open Meeting.

The figures in the Staff memorandum and proposed order represent the best information that is available to Staff at this time.

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Attached to this memorandum is a revised Staff Memorandum dated March 26, 2009, and Revised Proposed Order with the above changes highlighted in bold type.



Ernest G. Johnson

Director

Utilities Division

EGJ:SPI:lm\AV

ORIGINATOR: Steve Irvine

Revised
OPEN MEETING

MEMORANDUM

TO: THE COMMISSION

FROM: Utilities Division

DATE: March 26, 2009

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. **Subsequent to the filing of the Application, Morenci was able to procure biomass energy for the 2008 requirement.** 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_x, SO_x, 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. **Of**

the 2,095 residential customers, as of December 2008, about 1,480 of those customers are renters residing within the Morenci 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 **majority of Clifton** 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	TBD	TBD

Pool Heating		
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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	\$26,397.00	\$1.05	100%
Non-Residential	\$79,187.80	\$25.48	65.33%
Non-Residential >3MW	\$2,808.00	\$117.00	100%
Total	\$108,392.80		

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 **\$121,667** 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 is as follows:

Table IV

	2009
Renewable Energy Resources	
Energy Power Purchase Agreements (Biomass Resources)	\$ 14,700
Energy Power Purchase Agreements (Other Eligible Renewable Resources)	\$ 0.00
Utility-Owned Systems	\$ 0.00
Administration, Implementation, Commercialization & Integration	\$ 23,316
Renewable Energy - Subtotal	\$ 38,016
Distributed Renewable Energy Resources	
Incentives	\$ 121,667
Customer Self-Directed Renewable Energy Option	\$ 0.00
Administration, Implementation, Marketing & Outreach, Commercialization & Integration.	\$ 23,296
Distributed Energy - Subtotal	\$ 144,963
Total	\$ 182,979

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.

THE COMMISSION

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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:lhm\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 31 and April 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.
4. 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

1 those included in the instant application and, among other things, ordered Morenci to file a 2009
2 REST Implementation plan by October 1, 2008.

3 5. At the time Morenci filed its application seeking approval of a 2008 REST
4 Implementation Plan, it also sought approval of a partial waiver of A.A.C. R14-2-1804 and A.A.C.
5 R14-2-1805 for a period of five years. More specifically, the application requested that load from
6 Freeport-McMoRan Copper & Gold Morenci, Inc. ("FCX Morenci") and Freeport-McMoRan
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 2008 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. **Subsequent to the filing of the Application, Morenci was able to**
2 **procure biomass energy for the 2008 requirement.** Morenci anticipates that its Annual
3 Renewable Energy Requirement will be approximately 493,427 kWh in 2009, assuming load from
4 FCX Morenci and FCX Safford are excluded.

5 **Distributed Renewable Energy Resources**

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

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

20 12. While Morenci states in the instant application that it intends to attempt to meet the
21 requirements of the rules, it also asks for a waiver of A.A.C. R14-2-1805(D) in order to maximize
22 the public interest in reduction of the impacts of NO_x, SO_x, and carbon dioxide emissions.
23 Morenci notes in the application that installation of Distributed Renewable Energy Resources is
24 costly to both Morenci and to customers. Morenci further notes that many of Morenci's residential
25 customers are renters and do not own the premises where the distributed renewable energy
26 facilities would be located. More specifically, in response to a data request from Staff, Morenci
27 explained that Freeport McMoRan Copper & Gold, Inc. owns all of Morenci land within the
28 service area and all homes in the town of Morenci are rented from Freeport McMoRan Copper and

1 Gold, Inc. **Of the 2,095 residential customers, as of December 2008, about 1,480 of those**
 2 **customers are renters residing within the Morenci town-site.** The remainder of Morenci's
 3 residential customers reside in the Clifton area of Morenci's service territory. Morenci states that
 4 it does not believe that it can comply with the requirement that 50 percent of its annual Distributed
 5 Renewable Energy Requirement come from Distributed Renewable Energy Resources.

6 13. In discussion with Staff, representatives of Morenci have explained that the
 7 **majority of Clifton** is located within a canyon limiting the period of time in which solar
 8 generation can occur daily.

9 14. The application and proposed 2009 Renewable Energy Standard Implementation
 10 Plan includes information listing incentive funding levels based on the type of technology. The
 11 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

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

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

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

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

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

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

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

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

27 23. This same language was included in Morenci's 2008 REST Implementation Plan.
28 In order to provide the Commission with more clear understanding of the actual effectiveness of

1 the program and to comply with the requirements of A.A.C. R14-2-1812, Staff recommended, and
2 the Commission ordered in Decision No. 70303, that Morenci include in its compliance reports the
3 information required in A.A.C. R14-2-1812. This includes, but is not limited to, actual kWh of
4 energy obtained from Eligible Renewable Energy Resources and kW of generation capacity. Staff
5 noted that Morenci could additionally report lost kW capacity and forgone kWh that result from
6 removed or inoperable renewable generation systems describing them as such.

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

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

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

19 **Funding and Surcharge Schedule**

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

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	\$26,397.00	\$1.05	100%
Non-Residential	\$79,187.80	\$25.48	65.33%
Non-Residential >3MW	\$2,808.00	\$117.00	100%
Total	\$108,392.80		

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 \$121,667 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 is as follows:

6 **Table IV**

	2009
Renewable Energy Resources	
Energy Power Purchase Agreements (Biomass Resources)	\$ 14,700
Energy Power Purchase Agreements (Other Eligible Renewable	\$ 0.00
Utility-Owned Systems	\$ 0.00
Administration, Implementation, Commercialization & Integration	\$ 23,316
Renewable Energy -Subtotal	\$ 38,016
Distributed Renewable Energy Resources	
Incentives	\$ 121,667
Customer Self-Directed Renewable Energy Option	\$ 0.00
Administration, Implementation, Marketing & Outreach,	\$ 23,296
Commercialization & Integration.	
Distributed Energy - Subtotal	\$ 144,963
Total	\$ 182,979

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

23 33. Staff recognizes that the REST program is still a new program for Morenci and that
24 there are many uncertainties related to the program such as cost, availability of renewable
25 generated power and customer participation. Staff has recommended that the proposed 2009
26 Renewable Energy Standard Implementation Plan, Applications for Distributed Renewable Energy
27 Resources Schedule tariff, Customer Self-Directed Renewable Energy Option tariff, and
28 Renewable Energy Standard Surcharge Schedule tariff be adopted, as modified by this order, so

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

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

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

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

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

26 37. In Decision No. 70303 (April 2008), the Commission approved the partial waiver of
27 A.A.C. R14-2-1804 and A.A.C. R14-2-1805 for a period of one year by allowing that the mining
28 ...

1 load not be included in the calculation of the renewable load requirements of A.A.C. R14-2-1804
2 and A.A.C. R14-2-1805.

3 38. Staff recommends that the waiver granted by the Commission in Decision No.
4 70303 for exclusion of the mining load in calculation of the renewable load requirements continue
5 through 2009. Staff makes this recommendation as a result of the unusual costs that would result
6 from meeting the renewables requirements with the mining load included in the calculation. In a
7 meeting with Staff on February 2, 2009, Morenci explained that half of the workforce employed
8 by the mines had just been laid off. This is a result of a recent reduction in the price and demand
9 for copper. Staff recognizes that the unique customer mix in Morenci's service territory, the
10 decline in the mining industry, combined with the more general effects of the present economic
11 conditions make compliance with the requirements of A.A.C. R14-2-1804 and A.A.C. R14-2-1805
12 especially challenging for Morenci.

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

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

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

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

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

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

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

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

20 46. Morenci has also communicated to Staff that it is unsure of how many of the
21 residential customers in Clifton rent their properties. This results partly from Morenci not having
22 data that describe if any rental properties owned by entities other than the mine exist. The
23 representative of the Greenlee County Assessor's office communicated to Staff that the majority of
24 residential customers in Clifton do not rent their properties from Freeport McMoRan Copper &
25 Gold, Inc. An affidavit provided to Staff from Ruel Rogers, Superintendent of Morenci Water and
26 Electric, stated that in December 2008 Morenci's residential customer base was 2,139, of which
27 1,524 are renters in the town of Morenci, 615 residential customers are served in Clifton, and that
28 Morenci is unaware of the number of renters vs. non-renters in Clifton.

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

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

8 49. Staff has recommended that Morenci not be granted a partial waiver of A.A.C. R14-
9 2-1805(D) for the 2009 period. Morenci's REST Implementation Plan is in its infancy and
10 methods, not yet considered or explored, may exist for Morenci to achieve its Distributed
11 Renewable Energy Requirement.

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

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

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

27 53. Staff has recommended that the incentive payments for Distributed Renewable
28 Energy Systems be increased above their present levels in order to provide greater incentive for

1 customer participation in the Distributed Renewable Energy Resource program. A similar
 2 recommendation was adopted in Decision No. 70700 of January 2009 for the Ajo Improvement
 3 Company. Ajo Improvement Company's incentives for photovoltaic systems were increased to
 4 make them more economical and encourage customer participation. Ajo Improvement Company's
 5 incentive for residential photovoltaic systems was increased from \$3.00/watt to \$4.00/watt. The
 6 non-residential incentive for photovoltaic systems was increased from \$2.50/watt to \$3.50/watt.

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

8 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

27 Staff notes that on Page 15 of the Morenci's 2009 Renewable Energy Standard
 28 Implementation Plan filed as an attachment to the application, Morenci includes a table that

Decision No. _____

1 proposes stated incentive levels for two periods: 2009-2011 and 2012 -2013. Staff's recommended
2 incentive levels apply only to the year 2009. Staff's recommendation adopts Morenci's proposed
3 incentive levels following 2009. These future incentive levels will be subject to adjustment
4 pursuant to any future Commission Decision, which would likely include Commission Decisions
5 for future REST Implementation Plan applications.

6 **Other Matters**

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

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

20 **Summary of Staff Recommendations**

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

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

28 ...

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

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

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

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

20 63. Staff has recommended that Morenci not be granted a partial waiver of A.A.C. R14-
21 2-1805(D) for the 2009 period.

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

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

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

27 ...

28 ...

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 March 26, 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

16
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
28 ...

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.

5
 6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

7
 8
 9 CHAIRMAN COMMISSIONER
 10
 11
 12 COMMISSIONER COMMISSIONER COMMISSIONER

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

18
 19 _____
 20 MICHAEL P. KEARNS
 21 INTERIM EXECUTIVE DIRECTOR

22 DISSENT: _____

23 DISSENT: _____

24 EGJ:SPI:lhmvAV

25
 26
 27
 28

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

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