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BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman
BOB STUMP
Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BRENDA BURNS
Commissioner

Arizona Corporation Commission

DOCKETED

MAR - 9 2011

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IN THE MATTER OF MORENCI WATER & ELECTRIC COMPANY - APPLICATION FOR APPROVAL OF ITS 2011 RENEWABLE ENERGY STANDARD TARIFF IMPLEMENTATION PLAN AND REQUEST FOR PARTIAL WAIVER

DOCKET NO. E-01049A-10-0364

DECISION NO. 72230

ORDER

Open Meeting
March 1 and 2, 2011
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Morenci Water & Electric Company ("MWE" or "Morenci") is certificated to provide electric service as a public service corporation in the State of Arizona.

MWE's Implementation Plan

2. On September 1, 2010, Morenci filed its application for approval of its 2011 Implementation Plan ("Plan") pursuant to the Renewable Energy Standard and Tariff ("REST") Rules.

3. The 2011 REST Plan is consistent with major features of the 2010 REST Plan (Decision No. 71469). Morenci again requests a partial waiver of the REST Rules to exclude certain sales from REST requirements. The 2011 REST Plan would also:

- a) Reduce certain incentives;
b) Update the distributed renewable energy ("DE") plan; and
c) Increase the REST surcharge rate and caps.

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1 Partial Waiver

2 4. Morenci requests an extension of the continued partial waiver to exclude energy
3 sales to Freeport-McMoRan Copper & Gold Morenci, Inc. ("FMI Morenci") and Freeport-
4 McMoRan Copper & Gold Safford, Inc. ("FMI Safford") from the calculation of both the Annual
5 Renewable Energy Requirement under Arizona Administrative Code ("A.A.C.") R14-2-1804 and
6 the annual Distributed Renewable Energy Requirement under A.A.C. R14-2-1805. The
7 Commission approved such a waiver in Morenci's last three Implementation Plans. (Decision
8 Nos. 70303, 70952, and 71469)

9 5. FMI Morenci and FMI Safford are industrial customers involved in mining.
10 MWE's application states that approximately 98.95 percent of MWE's energy sales were made to
11 FMI Morenci and FMI Safford collectively in 2009. It is unusual for such a large portion of a
12 utility's energy sales to go to just two customers. MWE believes that it would have to budget
13 about \$26.13 million to meet its 2011 renewable energy requirements if there were no waiver, in
14 contrast to \$296,460 with the waiver.

15 6. Staff has recommended that the waiver granted by Decision No. 71469 for
16 exclusion of the mining load in calculation of the renewable load requirements continue through
17 2011. Staff makes this recommendation as a result of the unusual costs that would result from
18 meeting the renewables requirement with the mining load included in the calculation. Staff
19 recognizes that the unique customer mix in MWE's service territory makes compliance with the
20 requirements of R14-2-1804 and R14-2-1805 especially challenging for MWE.

21 Reduced Incentives

22 7. MWE is proposing to reduce the incentives in its proposed 2011 REST Plan. This
23 is because MWE has seen increased customer interest in receiving renewable incentives and wants
24 to have funding available for all interested customers without having to place them on a waiting
25 list. Today, there is no backlog. Current and proposed incentive levels are shown in Table 1:

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Table 1
Morenci Water & Electric
Incentive Levels

	Current 2010	Proposed 2011
Biomass/Biogas (Electric, Thermal, Cooling)	TBD	TBD
Biomass/Biogas CHP (Electric, Thermal)	TBD	TBD
Daylighting	\$0.25/kWh	\$0.20/kWh
Geothermal (Electric)	\$0.65/Watt	\$0.50/Watt
Geothermal (Thermal)	\$1.25/Watt	\$1.00/Watt
Hydroelectric	TBD	TBD
Small Wind	\$3.50/Watt AC	\$2.50/Watt AC
Solar Electric - Residential	\$5.00/Watt DC	\$4.00/Watt DC
Solar Electric - Non-Residential	\$5.00/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	\$0.95/kWh	\$0.75/kWh
Non-Residential Pool Heating	TBD	TBD

8. Incentive payments for any one project will not exceed 60 percent of the total cost of the project, and no more than \$75,000 would be provided in incentives for any one project. For those categories where the incentive is to be determined ("TBD"), the incentive amounts will be determined on a case-by-case basis and will include consideration of capital costs, capacity, and estimated annual production.

Updated Distributed Renewable Energy Plan

9. MWE is proposing to update its DE plan and make it more comparable to that of other Arizona utilities. Morenci's DE plan includes an extensive discussion of requirements (now mandated in order to receive a rebate) concerning the permitted types of facilities, size constraints, and installation and interconnection requirements for each type of allowed renewable system as listed here:

- Photovoltaic Systems;
- Biomass/Biogas Electric, Hydroelectric and Geothermal Electric;
- Biomass/Biogas Thermal, Geothermal - Space Heating and Process Heating;
- Solar Space Cooling;
- Non-Residential Solar Water Heating and Space Heating;
- Small Residential Solar Water Heating and Space Heating;
- Non-Residential Solar Daylighting; and
- Small Wind Generator.

Budget

10. MWE has proposed a budget of \$296,460 for year 2011 as shown below in Table 2. Morenci is unsure what Eligible Renewable Energy Resources it will be able to procure in 2011; much depends on what it can acquire and deliver to its remote service territory. Staff proposed a smaller budget of \$179,539 to reflect Staff's estimated revenue as discussed in the next section.

**Table 2
Morenci Water & Electric
Proposed 2011 Renewable Energy Resources Budget**

	Morenci Proposed	Staff Proposed
Renewable Energy Resources		
Prospective Procurement (Biomass)	\$18,900	\$18,000
Administration, Implementation, Commercialization & Integration	\$9,050	\$9,000
Renewable Energy - Subtotal	\$27,950	\$27,000
Distributed Renewable Energy Resources		
Incentives	\$248,510	\$137,539
Administration, Implementation, Marketing & Outreach, Commercialization & Integration	\$20,000	\$15,000
Distributed Energy - Subtotal	\$268,510	\$152,539
Total	\$296,460	\$179,539

Funding and Surcharge

11. Staff has reviewed Morenci's proposed Renewable Energy Standard Surcharge ("RESS") Schedule which sets forth the surcharge rate and monthly maximums to be collected to fund its annual budget for 2011. Proposed rates and monthly caps are shown in Table 3 along with present rates and caps. The impact on typical customers is given in Table 4.

**Table 3
Morenci Water & Electric
Present and Proposed RESS Schedule Rates and Caps**

Customer Class	Present Rate (per kWh)	MWE Proposed 2011 Rate (per kWh)	Present Cap (per month)	MWE Proposed 2011 Cap (per month)
Residential	\$0.004988	\$0.006	\$1.05	\$4.00
Non-Residential	\$0.004988	\$0.006	\$39.00	\$150.00
Non-Res > 3 MW	\$0.004988	\$0.006	\$117.00	\$450.50

Table 4
Morenci Water & Electric
Customer Impact of Proposed RESS Schedule Charges

Sample Customers	Avg. kWh / Month	Monthly Cost Under Present Rate and Caps	Monthly Cost with MWE Proposed Rate and Caps
Residential	543	\$1.05	\$3.26
Company Store	221,350	\$39.00	\$150.00
High School	93,200	\$39.00	\$150.00
Motel	45,000	\$39.00	\$150.00
Gas Station	23,460	\$39.00	\$140.76
Convenience Store	23,100	\$39.00	\$138.60
Church	5,945	\$29.65	\$35.67
Restaurant	5,225	\$26.06	\$31.35
Florist	1,872	\$9.33	\$11.23
Insurance Company	992	\$4.95	\$5.95
Fashion Salon	230	\$1.14	\$1.38

12. Based on its current number of customers, for 2011 the maximum amount MWE could collect through the proposed RESS Schedule would be:

- \$100,992 per year from residential customers;
- \$478,800 per year from non-residential customers; and
- \$10,800 per year from non-residential customers with demand over 3MW; for a total no greater than \$590,592.

13. However, based on recent kWh sales, MWE forecasts that the RESS Schedule will collect between \$180,000 and \$240,000 annually with the increased rate and caps. Morenci's calculation leading to its \$180,000 to \$240,000 estimate is shown here:

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Table 5
Morenci Water & Electric
2011 Revenue at Proposed RESS Schedule Charges

Customer Class	Avg. kWh per Month	Customers	Rate	Monthly Cap	Monthly Cost	Annual Cost	TOTAL
Residential	543	2,104	\$0.00600	\$4.00	\$3.26	\$39.10	\$82,258
Non-Residential	4,722	266	\$0.00600	\$150.00	\$28.33	\$339.98	\$90,436
Non-Res > 3 MW	62,500,000	2	\$0.00600	\$450.50	\$450.50	\$5,406.00	\$10,812
Totals		2,372					\$183,506

14. Staff notes that at the present REST surcharge, revenue could be similarly estimated as:

Table 6
Morenci Water & Electric
2011 Revenue at Present RESS Schedule Charges

Customer Class	Avg. kWh per month	Customers	Rate	Monthly Cap	Monthly Cost	Annual Cost	TOTAL
Residential	543	2,104	\$0.004988	\$1.05	\$1.05	\$12.60	\$26,510
Non-Residential	4,722	266	\$0.004988	\$39.00	\$23.55	\$282.64	\$75,182
Non-Res > 3 MW	62,500,000	2	\$0.004988	\$117.00	\$117.00	\$1,404.00	\$2,808
Totals		2,372					\$104,501

15. This total revenue is less than half of the proposed budget. Staff's calculations show that at the present rate, but with the proposed caps, total revenue reaches \$154,378. Morenci also has \$75,038 rolled over from 2010. Therefore, Staff estimates revenue to total \$179,539 (\$104,501 + \$75,038).

16. Morenci has provided its estimated 2011 kWh sales by class as shown below in Table 7.

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Table 7
Morenci Water & Electric
Estimated 2011 Retail Sales

Customer Class	Estimated 2011 kWh
Residential	16,000,000
Non-Residential	16,000,000
Non-Res > 3MW	1,500,000,000

17. Morenci's 2011 sales, revenue, and customer's renewable energy facilities are relatively variable and unpredictable as MWE has indicated in its application. Given this lack of certainty, Staff is hesitant to recommend a REST surcharge revenue increase of approximately 75 percent ($183,506 / 104,501 = 1.756$). Because there is currently no backlog, Staff has recommended leaving REST surcharge rates and caps at the present levels, and should Morenci experience an increase in customer applications for renewable incentives which threatens to deplete 2011 REST resources, it may address the issue before the Commission at that time.

Recommendations

18. Staff has recommended that Morenci's proposed 2011 REST implementation plan be approved with modifications as discussed herein.

19. Staff has recommended approval of the proposed incentive levels as listed in Table 1 herein.

20. Staff has recommended approval of Morenci's updated Distributed Renewable Energy plan.

21. Staff has recommended that the REST budget amount for year 2011 of \$179,539 be approved.

22. Staff has recommended no change in Morenci's REST surcharge or monthly caps.

23. Staff has recommended that Morenci's request for waiver to exclude energy sales to Freeport-McMoRan Copper & Gold Morenci, Inc. and Freeport-McMoRan Copper & Gold Safford, Inc. from the calculation of both the Annual Renewable Energy Requirement under A.A.C. R14-2-1804 and the annual Distributed Renewable Energy Requirement under A.A.C. R14-2-1805 be granted by the Commission for 2011.

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IT IS FURTHER ORDERED that Morenci Water & Electric Company shall file in Docket Control a Renewable Energy Standard surcharge schedule consistent with the Decision in this case within 15 days of the effective date of the Decision.

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

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

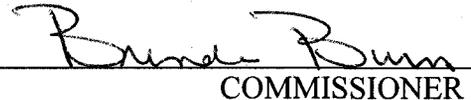

CHAIRMAN


COMMISSIONER


COMMISSIONER

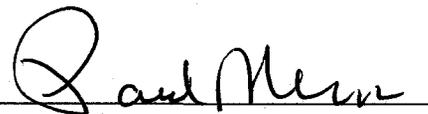


COMMISSIONER


COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, 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 9th day of MARCH, 2011.


ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: 

DISSENT: _____

SMO:JJP:lhms\SH

1 SERVICE LIST FOR MORENCI WATER & ELECTRIC COMPANY
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1 Commissioner Paul Newman's Dissent:
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3 I am writing this dissent to express my disappointment that the Commission has ignored
4 basic fairness in the Morenci case. The profits for the mines are up about thirty percent; and
5 Freeport McMoRan is one of the richest mining companies in the state, in the U.S., and in the
6 world.

7 One million Arizonans are on food stamps.

8 According to the staff report, without this waiver, Morenci would have paid over \$26
9 million into the REST fund. Morenci offered to pay a bit less than \$300,000, but staff
10 recommended that they pay even *less*. How many years should Morenci get waivers?
11 Should we wait until mine profits have doubled, and perhaps one and one-half million Arizonans
12 are on food stamps?

13 I don't get it.

14 The difference between what Morenci *should* pay and what they *will* pay is staggering:
15 over \$25 million. Morenci gets low rates for electricity and uses a lot of it. Why should
16 residential ratepayers, small business owners and others subsidize one of the wealthiest and most
17 polluting industries in our state?

18 You tell me.
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