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IN THE MATTER OF THE RECOMMENDATIONS OF THE DISTRIBUTED GENERATION AND INTERCON-NECTIONS WORKGROUP.	)))	**DOCKET NO. E-00000A-99-0431**

COMMENTS OF THE ARIZONA UTILITY INVESTORS ASSOCIATION ON THE REPORT OF THE ACCESS, METERING AND DISPATCH (AMD) COMMITTEE OF THE DGI WORKGROUP

1. Introduction

The Arizona Utility Investors Association (AUIA) has been a participant in the deliberations of the above-referenced AMD Committee. In general, the Committee's report is a sincere attempt to delineate the issues that will confront the Commission if it institutes rulemaking on the subject of distributed generation (DG).

AUIA has no philosophical objection to distributed generation, but AUIA believes that the AMD report understates the difficulties the Commission may encounter in enabling some applications of distributed generation in the context of electric competition.

DG proponents have expressed the view that it is a natural outgrowth or follow-on to retail electric competition. However, a careful reading of the AMD report discloses that DG may clash directly with ACC competition rules and FERC equal access directives, create cost shifting among electricity users and cause revenue deficiencies for utilities that are now locked into future rate treatments under Commission orders.

2. DG issues

The potential for conflict is relatively less for stand-alone self-generators that are disconnected from the electric grid. The key issues raised by unconnected generators are revenue deficiencies for the utility distribution companies (UDCs) and resultant cost shifting.

The UDCs and their distribution systems continue to be regulated as public service corporations and are authorized to earn specific rates of return. As a matter of first impression, any loss of load to self-generation would reduce the revenue stream required to support the operation of the distribution system. Since a utility can't shrink its distribution system or shut it down, the lost revenue must be shifted to other users as an added cost.

Further, Arizona Public Service Co. (APS) and Tucson Electric Power (TEP) are committed to continuing rate reductions by the terms of their stranded cost and unbundled tariff settlements and they are prevented from filing new rate cases for several years.

Thus, other users eventually will have to absorb the loss of revenues to DG, but in the short term, utility shareholders will suffer a lowered rate of return and the UDCs may experience a higher cost of capital. This is the worst of all worlds for everyone except the DG provider and user.

Comments within the AMD report equate these potential revenue deficiencies with the stranded costs associated with competitive generation. The Commission should not accept that proposition.

Power generation was declared competitive en masse, creating the need for a temporary fix to simulate the recovery of fixed costs and regulatory assets which would go unrecovered in a competitive market. It should be noted that self-generators are purposely exempted by Commission rules from any requirement to contribute to a utility's recovery of fixed costs related to generation.

The regulated distribution system is a different matter. It must continue to operate reliably and serve the vast majority of electric customers. In addition, the UDC deserves the opportunity to earn its authorized rate of return irrespective of the impact of distributed generation.

In other words, revenue shortfalls that may result from DG cannot be stranded. They can only be shifted among users.

The same revenue issues may or may not occur with DG units that are connected to the grid, depending on the applications. But, other potential problems increase significantly when the DG application is designed to interact with the distribution and transmission systems. A partial list of such problems would include these:

- A DG unit that is connected to the grid for back-up or peaking purposes places the same requirement on the distribution system as if it were using it every hour. It has to pay its way, even if it isn't consuming kWh. Some sort of facility-based demand distribution rate might be appropriate, but that would necessitate revamping UDC tariffs completely.
- Except for stand-alone self-generation, the ACC electric competition rules do not distinguish among types of commercial generators. Therefore, any generator that wants to market its output must be a certificated electric service provider (ESP) or it must sell its output to an ESP.
- Some combination of "wheeling" and access charges will be an issue for DG providers who want to move excess power across the grid, even to their own affiliates. In particular, this would arise when they cross service area boundaries into territory that isn't under Commission jurisdiction.
- Where energy movement is concerned, the laws of physics don't distinguish between the distribution and transmission systems. Therefore, DG operators who want to wheel power would be subject to the rules of the transmission operators and would have to function through Scheduling Coordinators.

• Although it is less than certain, the above condition and others may place off-site DG transactions under the jurisdiction of the Federal Energy Regulatory Commission (FERC) and its direct access regulations.

• Uner the equal access dictates of this Commission and FERC, there is no basis for owners of DG units to make special deals that would give them guaranteed access to the grid ahead of other commercial generators.

• The economics of some DG applications may require a sell-back to the UDC. Such negotiated sales apparently would conflict with Commission requirements that UDCs acquire power supplies in the open market and with prohibitions against UDCs engaging in competitive activities.

3. Summary and Recommendation

The Corporation Commission is only now finishing an excruciating, five-year process of bringing retail competition to the electric industry. The dust hasn't settled on the new competition rules.

While distributed generation may offer intriguing opportunities to an elite group of electric customers, the Commission would have to rewrite or reinterpret the competition rules and reconfigure UDC tariffs to accommodate the complete array of DG applications.

AUIA recommends that the Commission proceed cautiously in opening the market to distributed generation. Some DG applications are feasible under current conditions, but those that require extensive rules support should be held in abeyance, at least until there is some experience with retail competition.

Even the simplest DG application raises the issue of cost shifting. In our view, the Commission should begin exploring the pros and cons of shifting from distribution rates based on consumption to some kind of demand rate applicable to partial or intermittent requirements.

This concludes AUIA's comments.

RESPECTFULLY SUBMITTED,
this 22nd day of December ,1999.

Walter W. Meek

WALTER W. MEEK, PRESIDENT

CERTIFICATE OF SERVICE

Original and ten (10) copies of the referenced Comments were filed this 22nd day of December, 1999, with:

Docket Control
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Copies of the referenced Comments were hand-delivered this 22nd day of December, 1999, to:

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Copies of the referenced Comments were mailed electronically this 22nd day of December, 1999, to AMD Committee members of record.

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