

**ORIGINAL**



May 15, 2012

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Chairman Pierce  
Commissioners Burns, Stump, Kennedy and Newman  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, AZ 85007-2996

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Arizona Corporation Commission  
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MAY 15 2012

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**RE: Proposed Amendment to APS Application for a Rate Increase; Hearing to Determine the Fair Value of the Utility Property of the Company for Ratemaking Purposes, to Fix a Just and Reasonable Rate of Return Thereon, to Approve Rate Schedules Designed to Develop Such Return.  
Docket Number E-01345A-11-0224**

Chairman and Commissioners:

Interwest Energy Alliance (Interwest) was a party to the APS Settlement being considered in Special Open Meeting today. We did not sign the settlement agreement as it did not contain significant provisions related to our primary issue – renewable energy. However, we feel that the proposed amendments, if adopted, would have a negative impact on renewable energy development in Arizona. Specifically, Interwest opposes Pierce Proposed Amendment No. 1 and Burns Proposed Amendments No. 1 and 2. We provide our rationale below.

Pierce Proposed Amendment No. #1

The amendment points out that APS will have additional capacity in between 2012 – 2016. There are many reasons for having some excess capacity and the situation is not unusual for the following reasons:

1. With excess capacity, APS has the opportunity to sell generation that is does not need to reliably serve load. Arizona has had very successful agreements in the past to sell excess generation to the Pacific Northwest in the winter; when electricity needs are high in that region. Arizona benefits by purchasing hydro and other energy sources in the summer, when electricity demand is highest here.
2. No utility forecast is perfect. A utility must carry some excess reserves to ensure that if load growth, or energy demand, is higher than projected it can reliably meet demand. As the Arizona economy typically grows at three to four percent annually, it is prudent

to have excess capacity (beyond required reserves,) as short-term or spot purchases from the market to meet gaps can cost significantly more on a megawatt-hour basis.

3. Excess capacity, from renewable energy resources, is a high value commodity. APS customers may benefit, as APS can sell the energy and sell the Renewable Energy Certificates that are not necessary for compliance here.

Additionally, the amendment reads “we instruct APS to mitigate further increases in the RES surcharge *by bring on future generation assets when it no longer has excess generating capacity.*” (emphasis added) This statement is vague and it does not seem to be confined to renewable energy. **As written, it could set up a situation where APS would have to go into a supply deficit situation before “bringing on” generation. This could be interpreted to apply to any excess generating capacity, such as reserves required for reliability.**

This amendment also goes against the overwhelming public support for renewable energy. APS, through the Renewable Energy Standard and Tariff, is required to have a minimum amount of renewable energy. The standard does not set a maximum. The utility has analyzed its supply situation and has deemed that it is beneficial to have excess renewable energy.

Finally, the more renewable energy resources owned or purchased by the utility, the less price-volatile resources the utility will need. Renewable energy resources provide price certainty for customers for the next 30 years. The Commission should look at the substantial long-term benefits from creating a more stable-priced energy portfolio as well the small potential incremental increase in the REST surcharge.

#### Burns Proposed Amendments No. 1 & 2

**These proposed amendments are contrary to the policy of the Commission to encourage the adoption of renewable energy by APS customers.** Customers are being encouraged and incited to spend money on solar (because of the overall benefits to the system and the public at large). Part of the reason that customers install solar systems is to become more independent from the local utility. This provision, if adopted, chips away at this independence by requiring additional payments to the utility. It also sends contrary signals that the Commission (and thus regulated utilities) support solar but don't support solar.

#### Conclusion

Unfortunately, each of the three proposed amendments could undercut the proposed APS Settlement Agreement. These amendments fly in the face of the public's support for clean energy. APS has worked extensively to meet the renewable energy requirements of the Commission. The company has also worked extensively with stakeholders to design programs

that are efficient and effective. Proposed Amendments by Commissioners Pierce and Burns create uncertain for APS and the future of solar development in Arizona.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Amanda Ormond".

Amanda Ormond  
Southwest Representative  
Interwest Energy Alliance  
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