

ORIGINAL

OPEN MEETING



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MEMORANDUM

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Arizona Corporation Commission

DOCKET FILE

OCT 23 2012

TO: THE COMMISSION 2012 OCT 23 A 11:40

FROM: Utilities Division AZ CORP COMMISSION
DOCKET CONTROL

DOCKETED BY *JM*

DATE October 23, 2012:

RE: MORENCI WATER & ELECTRIC COMPANY – ELECTRIC DIVISION –
APPLICATION FOR APPROVAL OF ITS 2013 AND 2014 RENEWABLE
ENERGY STANDARD TARIFF IMPLEMENTATION PLAN AND REQUEST FOR
PARTIAL WAIVER (DOCKET NO. E-01049A-12-0281)

Background

On June 21, 2012, Morenci Water & Electric Company ("MWE") filed its 2013 and 2014 Renewable Energy Standard Tariff ("REST") Implementation Plan ("2013-2014 Plan") in compliance with Arizona Administrative Code ("A.A.C.") R14-2-1801 through R14-2-1816. MWE's 2013-2014 Plan includes a Plan for Eligible Renewable Energy Resources and a Plan for Distributed Renewable Energy Resources.

MWE's application includes a request for a two-year approval of the plan (2013 and 2014), with a waiver of the annual plan filing requirement for the 2014 calendar year. MWE is also requesting a two-year extension of the continued partial waiver to exclude energy sales to Freeport-McMoRan Copper & Gold, Inc. ("FMI") mining operations at Morenci and Safford from the calculation of both the Annual Renewable Energy Requirement under A.A.C. R14-2-1804, and the Distributed Renewable Energy Requirement under A.A.C. R14-2-1805.

According to MWE's REST Compliance Report for 2011, a total of 976,735 kWh of renewable energy was procured that year. The procured renewable energy was equal to MWE's annual requirement for 2011, and originated from renewable energy credits ("RECs") purchased from Tucson Electric Power Company ("TEP"). MWE has indicated that in 2013 it will also use RECs to fulfill its total annual REST requirement. MWE states that it is planning on making a procurement of Renewable Energy Resources in 2013 to meet multiple years of future total Renewable Energy Requirements.

MWE's Distributed Renewable Energy Requirement for 2011 was 293,021 kWh. MWE has three customer-sited distributed energy projects. All three projects were non-residential solar photovoltaic ("PV") systems with a combined output of approximately 32 kW. MWE did not meet its 2011 REST distributed renewable energy requirement, and will likely not meet its 2012 distributed energy requirement pursuant to A.A.C. R14-2-1805.

The 2013 and 2014 REST Implementation Plan

Waiver to Exclude Energy Sales

MWE indicates in its 2013-2014 Plan that it currently owns no generation and procures all of its energy from the wholesale market to meet load. According to MWE, it serves approximately 2,372 customers (2,104 residential customers, 266 non-residential customers with loads below 3 MW, and the 2 FMI mining customers). Energy sales to the two FMI mines totaled approximately 1,404,271 MWh which represents approximately 98 percent of MWE's total kWh sales in 2011. MWE notes that this concentration of load amongst two large customers is unique when compared to all other electric utilities in the state.

Decision No. 70303 (April 24, 2008), granted MWE a partial waiver, that excluded energy sales to the two FMI mines from the calculations of 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. The Commission extended the waiver for 2009 in Decision No. 70952 (April 7, 2009), for 2010 in Decision No. 71469 (January 26, 2010), for 2011 in Decision No. 72230 (March 9, 2011), and for 2012 in Decision No. 72893 (February 17, 2012). MWE requests that the partial waiver remain in effect for 2013 and 2014.

Table I, below, illustrates the differences in REST Rule requirements, with and without sales to the FMI mines, based on MWE's forecast of approximately 1,700,000 MWh of annual energy sales. The difference between the amounts of required renewable energy and required distributed energy with and without the FMI mine sales is several orders of magnitude, thus, MWE's request for continuation of the partial waiver.

**Table I
Annual REST Rule Requirements**

	2013		2014	
	ARER ¹	DE ²	ARER	DE
REST Rule % Requirement	4%	30%	4.5%	30%
Requirement incl. FMI Mines	68,000 MWh	20,400 MWh	76,500 MWh	22,950 MWh
Requirement w/o FMI Mines	1,280 MWh	384 MWh	1,440 MWh	432 MWh

MWE calculates that it would cost \$2,142,000 to procure the additional 47,600 MWhs of renewable energy in 2012 if the sales to the FMI mines were included when calculating the Annual Renewable Energy Requirement, assuming a \$45/MWh premium for renewable energy. MWE states that approximately an additional \$34.6 million would be necessary to fulfill the annual Distributed Renewable Energy Resources requirement in 2013 if FMI mine loads are

¹ Annual Renewable Energy Requirement as percentage of annual gross energy sales.

² Annual Distributed Renewable Energy Requirement as percentage of Annual Renewable Energy Requirement.

included.³ MWE states that under such a scenario, it would be forced to raise the REST surcharge and monthly caps to a level that would be unsustainable for its customers.

Procurement of Eligible Renewable Resources

Under the 2013-2014 Plan, MWE would continue to procure Eligible Renewable Energy Resources from one or more sources. MWE states that it cannot be specific about its procurement sources because of uncertainties related to operational performance, deliverability of such resources and the need to match deliveries with dispatch schedules. Nevertheless, MWE states that it will “make best efforts” to procure the necessary amounts of Eligible Renewable Energy Resources, with a planned multi-year procurement anticipated in 2013.

The following Table II summarizes MWE’s renewable energy procurement plans:

**Table II
Planned Renewable Energy Procurement**

	2013	2014	2015	2016	2017
Prospective Procurement (MWh)	896	1,008	1,120	1,344	1,568
Anticipated Cost (\$)⁴	40,320	45,360	50,400	60,480	70,560

Procurement of Distributed Renewable Energy Resources

MWE intends to continue offering incentives to customers that install qualified renewable energy systems, with all incentives remaining the same. MWE’s proposed incentives for distributed renewable energy resources are presented in the following Table III:

³ MWE assumes that distributed energy systems would be built at the cost of approximately \$6.20 per watt as reported in the Lawrence Berkley National Laboratory report entitled “Tracking the Sun: The Installed Cost of Photovoltaics in the U.S. from 1998-201.”

⁴ Based on a premium for renewable generation of approximately \$45 per MWh.

**Table III
Incentives for Distributed Renewable Energy Resources**

System Type	2012 – 2016 Incentives
Biomass/Biogas (electric, thermal, cooling)	TBD
Biomass/Biogas CHP (electric & thermal)	TBD
Daylighting	\$0.20/kWh of first year energy savings only.
Geothermal (electric)	\$0.50/Watt
Geothermal (thermal)	\$1.00/Watt
Hydroelectric	TBD
Small wind generators	\$2.50/Watt AC
Solar electric (PV) - Residential	\$4.00/Watt DC
Solar electric (PV) - Non-residential	\$3.50/Watt DC
Solar Space Cooling	TBD
Non-residential Solar Water Heating/Space Heating	TBD
Residential Solar Water Heating/Space Heating	\$0.75/kWh for the first year of service only.
Non-residential Pool Heating	TBD

Incentives for any one project would not exceed 60 percent of the total project cost (including financing) with a maximum incentive not to exceed \$75,000. Amounts noted as “TBD” are for technologies that require the applicant to submit an engineering report from a licensed, professional engineer that includes anticipated energy savings and the designed output for the system. MWE would then review the submission to validate anticipated energy savings and set a project-specific incentive based on the anticipated energy savings.

Staff notes that MWE has only incented the installation of distributed renewable energy systems at three locations in its service territory since the REST Rules were adopted. Staff recommends continuation of MWE’s existing incentive structure.

As required by R14-2-1809, MWE has prepared a Customer Self-Directed Renewable Energy Option (“Self-Directed Option”) tariff by which an eligible customer may apply to MWE to receive funds to install distributed renewable energy resources. Per the REST Rules, the amount of funds available may not exceed the amount annually paid into the REST fund by the eligible customer. MWE proposes to maintain its current Self-Directed Option tariff.

Budget

When preparing its budget for the 2013 Plan, MWE has assumed that the Commission will extend its waiver to exclude energy sales to the FMI mines. Based on this assumption, MWE has submitted the following REST Implementation Plan budget.

**Table IV
MWE Proposed Budget**

	2013	2014	2015	2016	2017
Total Renewable Energy – Prospective Procurement (Eligible Renewable Resources)	\$40,320	\$45,360	\$50,400	\$60,480	\$70,560
Administration, implementation, commercialization & integration	\$5,000	\$400	\$400	\$5,000	\$5,000
Renewable Energy - Subtotal	\$45,320	\$45,760	\$50,800	\$65,480	\$75,560
Incentives	\$549,285	\$630,816	\$712,346	\$875,407	\$1,038,468
Administration, implementation, commercialization & integration	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000
Distributed Energy – Subtotal*	\$554,285	\$635,816	\$717,346	\$880,407	\$1,043,468
TOTAL	\$599,605	\$681,576	\$768,480	\$945,887	\$1,119,028

* Assumes that no Distributed Energy is installed in prior years

MWE states that this budget has not been used to calculate the Renewable Energy Standard Surcharge (“RESS”). Rather, the budget is submitted to demonstrate the level of funding required to meet the Distributed Renewable Energy Requirement.

MWE currently collects a RESS of \$0.004988 per kWh. MWE proposes to leave the RESS unchanged in its 2013-2014 Plan. RESS collections are capped as follows, with no change proposed for the 2013-2014 Plan:

- \$1.05 per month for each residential customer;
- \$39.00 per month for each non-residential customer;

- \$500.00 per month for each non-residential customer with demand over 3 MW per month for three consecutive months.

Based on its current customer count, the maximum amount MWE could collect through the RESS equals approximately:

- \$26,258 per year from residential customers;
- \$124,488 per year from non-residential customers;
- \$12,000 per year from non-residential customers >3MW; for
- A total no greater than \$163,000.

However, MWE states that it is unlikely it will collect the maximum amount. MWE estimates that it will collect approximately \$59,000 from customers through the RESS in 2013. With the partial waiver of the FMI mines load, the RESS may provide sufficient funding for MWE to meet its total REST Rule requirements through the purchase of grid-tied Eligible Renewable Energy Resources in 2013 and 2014. This level of funding will not be sufficient to meet the annual Distributed Renewable Energy Requirement.

MWE states that it does not believe that raising the RESS rates or monthly caps is necessary or appropriate at this time as there has been no further interest from customers to install distributed renewable generation. MWE states that it would file to amend the RESS if and when customer interest is at a level warranting a higher collection.

Tariffs and Plan Schedule

MWE has stated that because there have been few applications submitted for incentives for eligible distributed renewable energy resources, increasing the RESS and monthly caps is not justified at this time. In addition, MWE states that any unused funds collected would continue to be rolled over to help fund future year's REST requirements. Therefore, MWE proposes that its Distributed Renewable Energy Resources Schedule tariff, Customer Self-Directed Renewable Energy Option tariff, and Renewable Energy Standard Surcharge Schedule tariff currently on file would remain in effect through 2014, with MWE filing its next REST Plan for approval on July 1, 2014.

However, Staff believes that MWE did not provide sufficient rationale to justify a waiver of filing its REST Plan due July 1, 2013. Therefore, Staff recommends that MWE be ordered to file its 2014 REST Plan on the normal schedule, as dictated by A.A.C. R14-2-1813.

Staff Analysis

Staff's analysis of MWE's 2013-2014 Plan confirms that the customer load profile of MWE presents a difficult challenge in complying with REST Rules. Staff believes that there are limited opportunities for the implementation of distributed generation, due to the terrain and demographics of the mining community.

Staff also believes that Morenci has underestimated the actual cost of the distributed energy incentives in its budget. When calculating the budget Morenci used the assumption that future installations would have a capacity factor of 25 percent. Staff believes that this is high as the three current installations have only achieved capacity factors ranging from 16 percent to 22 percent, with an average just below 21 percent. Using a capacity factor of 20.66 percent, Staff calculated that Morenci would need to spend approximately \$1,300,000 in incentives over the next five years to meet their distributed energy requirements. This is approximately 25 percent higher than Morenci's estimate of \$1,043,468.

For Morenci to meet its Distributed Energy Requirement, the RESS would have to be raised to unsustainable levels. Staff also believes there is limited demand for Solar PV in Morenci, as incentives have been above the State average and only three systems have been installed. Staff believes a waiver for 2013 for Morenci's Distributed Energy requirement is in the best interest of the public. However, Staff also believes that Morenci should continue its Distributed Energy incentives as described in its 2013 plan.

Staff Recommendations

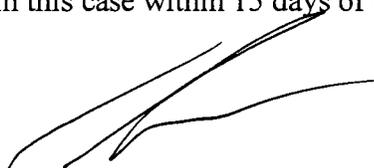
Staff recommends approval of the 2013 portion only of MWE's proposed 2013-2014 REST Implementation Plan as modified and discussed herein.

Staff further recommends that MWE be ordered to file its 2014 REST Plan on the normal schedule, as dictated by A.A.C. R14-2-1813.

Staff further recommends that MWE's request to exclude energy sales to the FMI mines 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 for 2013.

Staff further recommends Morenci receive a waiver for its Distributed Energy requirement for 2013, while continuing its current incentive structure.

Staff further recommends that MWE file its RESS tariff in compliance with the Decision in this case within 15 days of the effective date of the Decision.



Steven M. Olea
Director
Utilities Division

SMO:PML:sms\WVC

ORIGINATOR: Patrick Lowe

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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

IN THE MATTER OF THE APPLICATION) DOCKET NO. E-01049A-12-0281
OF MORENCI WATER & ELECTRIC)
COMPANY - ELECTRIC DIVISION – FOR) DECISION NO. _____
APPROVAL OF ITS 2013 AND 2014)
RENEWABLE ENERGY STANDARD) ORDER
TARIFF IMPLEMENTATION PLAN AND)
REQUEST FOR PARTIAL WAIVER)
)
)

Open Meeting
November 7 and 8, 2012
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

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

Background

2. On June 21, 2012, Morenci Water & Electric Company (“MWE”) filed its 2013 and 2014 Renewable Energy Standard Tariff (“REST”) Implementation Plan (“2013-2014 Plan”) in compliance with Arizona Administrative Code (“A.A.C.”) R14-2-1801 through R14-2-1816. MWE’s 2013-2014 Plan includes a Plan for Eligible Renewable Energy Resources and a Plan for Distributed Renewable Energy Resources.

3. MWE's application includes a request for a two-year approval of the plan (2013 and 2014), with a waiver of the annual plan filing requirement for the 2014 calendar year. MWE is also requesting a two-year extension of the continued partial waiver to exclude energy sales to

1 Freeport-McMoRan Copper & Gold, Inc. ("FMI") mining operations at Morenci and Safford from
2 the calculation of both the Annual Renewable Energy Requirement under A.A.C. R14-2-1804, and
3 the Distributed Renewable Energy Requirement under A.A.C. R14-2-1805.

4 4. According to MWE's REST Compliance Report for 2011, a total of 976,735 kWh
5 of renewable energy was procured that year. The procured renewable energy was equal to MWE's
6 annual requirement for 2011, and originated from renewable energy credits ("RECs") purchased
7 from Tucson Electric Power Company ("TEP"). MWE has indicated that in 2013 it will also use
8 RECs to fulfill its total annual REST requirement. MWE states that it is planning on making a
9 procurement of Renewable Energy Resources in 2013 to meet multiple years of future total
10 Renewable Energy Requirements.

11 5. MWE's Distributed Renewable Energy Requirement for 2011 was 293,021 kWh.
12 MWE has three customer-sited distributed energy projects. All three projects were non-residential
13 solar photovoltaic ("PV") systems with a combined output of approximately 32 kW. Despite these
14 projects, MWE did not meet its 2011 REST distributed renewable energy requirement, and will
15 likely not meet its 2012 distributed energy requirement pursuant to A.A.C. R14-2-1805.

16 **The 2012 and 2013 REST Implementation Plan**

17 Waiver to Exclude Energy Sales

18 6. MWE indicates in its 2013-2014 Plan that it currently owns no generation and
19 procures all of its energy from the wholesale market to meet load. According to MWE, it serves
20 approximately 2,372 customers (2,104 residential customers, 266 non-residential customers with
21 loads below 3 MW, and the 2 FMI mining customers). Energy sales to the two FMI mines totaled
22 approximately 1,404,271 MWh which represents approximately 98 percent of MWE's total kWh
23 sales in 2011. MWE notes that this concentration of load amongst two large customers is unique
24 when compared to all other electric utilities in the state.

25 7. Decision No. 70303 (April 24, 2008), granted MWE a partial waiver that excluded
26 energy sales to the two FMI mines from the calculations of the Annual Renewable Energy
27 Requirement under A.A.C. R14-2-1804 and the annual Distributed Renewable Energy
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1 Decision No. 70952 (April 7, 2009), for 2010 in Decision No. 71469 (January 26, 2010), for 2011
 2 in Decision No. 72230 (March 9, 2011), and for 2012 in Decision No. 72893 (February 17, 2012).
 3 MWE requests that the partial waiver remain in effect for 2013 and 2014.

4 8. Table I, below, illustrates the differences in REST Rule requirements, with and
 5 without sales to the FMI mines, based on MWE's forecast of approximately 1,700,000 MWh of
 6 annual energy sales. The difference between the amounts of required renewable energy and
 7 required distributed energy with and without the FMI mine sales is several orders of magnitude,
 8 thus, MWE's request for continuation of the partial waiver.

9 **Table I**
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 17 MWhs of renewable energy in 2012 if the sales to the FMI mines were included when calculating
 18 the Annual Renewable Energy Requirement, assuming a \$45/MWh premium for renewable
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27 ¹ Annual Renewable Energy Requirement as percentage of annual gross energy sales.

28 ² Annual Distributed Renewable Energy Requirement as percentage of Annual Renewable Energy Requirement.

1 Procurement of Eligible Renewable Resources

2 10. Under the 2013-2014 Plan, MWE would continue to procure Eligible Renewable
3 Energy Resources from one or more sources. MWE states that it cannot be specific about its
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17 distributed renewable energy resources are presented in the following Table III:

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14. Staff notes that MWE has only incented the installation of distributed renewable energy systems at three locations in its service territory since the REST Rules were adopted. Staff recommends continuation of MWE’s existing incentive structure.

15. As required by R14-2-1809, MWE has prepared a Customer Self-Directed Renewable Energy Option (“Self-Directed Option”) tariff by which an eligible customer may apply to MWE to receive funds to install distributed renewable energy resources. Per the REST Rules, the amount of funds available may not exceed the amount annually paid into the REST fund by the eligible customer. MWE proposes to maintain its current Self-Directed Option tariff.

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Budget

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- Assumes that no Distributed Energy is installed in prior years

17. MWE states that this budget has not been used to calculate the Renewable Energy Standard Surcharge (“RESS”). Rather, the budget is submitted to demonstrate the level of funding required to meet the Distributed Renewable Energy Requirement.

18. MWE currently collects a RESS of \$0.004988 per kWh. MWE proposes to leave the RESS unchanged in its 2013-2014 Plan. RESS collections are capped as follows, with no change proposed for the 2013-2014 Plan:

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2 • \$39.00 per month for each non-residential customer;
3 • \$500.00 per month for each non-residential customer with demand over 3 MW per
 month for three consecutive months.

4 19. Based on its current customer count, the maximum amount MWE could collect
5 through the RESS equals approximately:

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8 • \$12,000 per year from non-residential customers >3MW; for
 • A total no greater than \$163,000.

9 20. However, MWE states that it is unlikely it will collect the maximum amount.
10 MWE estimates that it will collect approximately \$59,000 from customers through the RESS in
11 2013. With the partial waiver of the FMI mines load, the RESS may provide sufficient funding for
12 MWE to meet its total REST Rule requirements through the purchase of grid-tied Eligible
13 Renewable Energy Resources in 2013 and 2014. This level of funding will not be sufficient to
14 meet the annual Distributed Renewable Energy Requirement.

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16 necessary or appropriate at this time as there has been no further interest from customers to install
17 distributed renewable generation. MWE states that it would file to amend the RESS if and when
18 customer interest is at a level warranting a higher collection.

19 **Tariffs and Plan Schedule**

20 22. MWE has stated that because there have been few applications submitted for
21 incentives for eligible distributed renewable energy resources, increasing the RESS and monthly
22 caps is not justified at this time. In addition, MWE states that any unused funds collected would
23 continue to be rolled over to help fund future year's REST requirements. Therefore, MWE
24 proposes that its Distributed Renewable Energy Resources Schedule tariff, Customer Self-Directed
25 Renewable Energy Option tariff, and Renewable Energy Standard Surcharge Schedule tariff
26 currently on file would remain in effect through 2014, with MWE filing its next REST Plan for
27 approval on July 1, 2014.

28 ...

1 23. However, Staff believes that MWE did not provide sufficient rationale to justify a
2 waiver of filing its REST Plan due July 1, 2013. Therefore, Staff has recommended that MWE be
3 ordered to file its 2014 REST Plan on the normal schedule, as dictated by A.A.C. R14-2-1813.

4 **Staff Analysis**

5 24. Staff's analysis of MWE's 2013-2014 Plan confirms that the customer load profile
6 of MWE presents a difficult challenge in complying with REST rules. Staff believes that there are
7 limited opportunities for the implementation of distributed generation, due to the terrain and
8 demographics of the mining community.

9 25. Staff also believes that Morenci has underestimated the actual cost of the distributed
10 energy incentives in its budget. When calculating the budget Morenci used the assumption that
11 future installations would have a capacity factor of 25 percent. Staff believes that this is high as the
12 three current installations have only achieved capacity factors ranging from 16 percent to 22
13 percent, with an average just below 21 percent. Using a capacity factor of 20.66 percent, Staff
14 calculated that Morenci would need to spend approximately \$1,300,000 in incentives over the next
15 five years to meet their distributed energy requirements. This is approximately 25 percent higher
16 than Morenci's estimate of \$1,043,468.

17 26. For Morenci to meet its Distributed Energy Requirement, the RESS would have to
18 be raised to unsustainable levels. Staff also believes there is limited demand for Solar PV in
19 Morenci, as incentives have been above the State average and only three systems have been
20 installed. Staff believes a waiver for 2013 for Morenci's Distributed Energy requirement is in the
21 best interest of the public. However, Staff also believes that Morenci should continue its
22 Distributed Energy incentives as described in its 2013 plan.

23 **Staff Recommendations**

24 27. Staff has recommended approval of the 2013 portion only of MWE's proposed
25 2013-2014 REST Implementation Plan as modified and discussed herein.

26 28. Staff has further recommended that MWE be ordered to file its 2014 REST Plan on
27 the normal schedule, as dictated by A.A.C. R14-2-1813.

28 ...

1 IT IS FURTHER ORDERED that Morenci Water & Electric Company shall receive a
2 waiver for its Distributed Energy requirement for 2013, while continuing its current incentive
3 structure.

4 IT IS FURTHER ORDERED that Morenci Water & Electric Company file its RESS tariff
5 in compliance with the Decision in this case within 15 days of the effective date of the Decision

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

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

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CHAIRMAN COMMISSIONER

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COMMISSIONER COMMISSIONER COMMISSIONER

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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 _____ day of _____, 2012.

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ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

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DISSENT: _____

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DISSENT: _____

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SMO:PML:sms\WVC

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1 SERVICE LIST FOR: Morenci Water & Electric Company
2 DOCKET NO. E-01049A-12-0281

3 Mr. Jason Gellman
4 Roshka DeWulf & Patten, PLC
5 One Arizona Center
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