

OPEN MEETING AGENDA ITEM

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BEFORE THE ARIZONA CORPORATION COMM



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ARIZONA CORPORATION COMMISSION
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IN THE MATTER OF RESOURCE PLANNING
AND PROCUREMENT IN 2011 AND 2012.

DOCKET NO. E-00000A-11-0113
WESTERN RESOURCE ADVOCATES
RESPONSE TO COMMISSIONER PIERCE'S
QUESTIONS DATED JANUARY 11, 2013

On January 11, 2013, Commissioner Pierce posed several questions to the utilities regarding excess generating capacity.¹ Western Resource Advocates (WRA) respectfully submits these brief observations which we hope are useful to the Commission and Staff.

We live in a dynamic world where technological change and new practices disrupt old ways of doing business. Those disruptions often leave old technologies with excess capacity. It might seem attractive to continue to operate the old technologies, minimize short run costs, and hold off on investing in new technologies until all excess capacity of the old technologies was fully utilized. But that's a bad idea -- suppose the introduction of mobile phone service was delayed until all capacity in landline facilities was fully used.

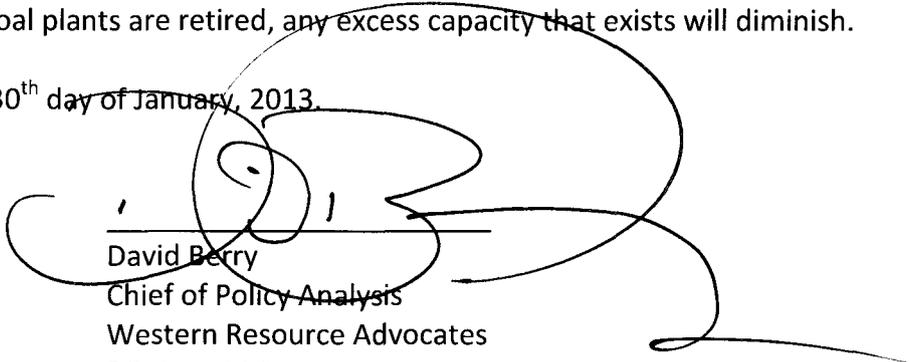
1. Focusing on short run cost minimization imposes long run opportunity costs on Arizona by delaying or foregoing better long run choices.
 - a. Technological and other changes are rendering old generation facilities obsolete before their "useful lives" have ended. Locking in to old facilities when more advantageous technologies and practices can be deployed reduces long run productivity, prolongs environmental damages from old technologies, exposes the utilities and their customers to fuel price risk, reduces resource diversity, narrows customer choice, stifles innovation, and suppresses entrepreneurship in the renewable energy and energy efficiency sectors. Superior choices include renewable energy and energy efficiency.
 - b. The electric power industry is very guarded in its adoption of major new technologies. The most recent major changes in power production prior to the advent of renewable energy and energy efficiency are combined cycle technologies and nuclear power, both of which are over 40 years old. Under the current

¹ Generating capacity is neither generic nor homogeneous. Different types of generators do different jobs. For example, some generation resources are intended to produce electricity around the clock, while others are intended to run between 20% and 70% of the time, and some are best suited to serve peak loads only a few hours year. Whether a portfolio of generating capacity is adequate or mismatched to the load should be determined by analyzing whether that portfolio is capable of serving all the load, year-round, with a very high probability. One cannot get a good picture of whether there is adequate or excess capacity by simply adding up capacities of a specific portfolio's resources.

regulatory and industrial structure, major technological shifts are sometimes instigated by regulatory or legislative action.

- c. If the Commission finds that there is excess capacity, it should consider a policy to accelerate the retirement of coal-fired power plants rather than delay deployment of new technologies. Old coal-fired power plants face the potential for increased fuel costs and environmental regulation compliance costs, and they impose very large environmental costs.²
2. The future is uncertain³ and therefore it is not possible to develop a plan to minimize long run costs.⁴ However, it is possible to manage risk well. One of the major uncertainties is future fuel prices. Conventional power plants use coal, natural gas, and nuclear fuel and all of these fuels have uncertain prices – coal and uranium prices have increased in recent years and natural gas prices have exhibited extreme volatility in the past.⁵ In contrast, the electricity provided by renewable resources such as geothermal, wind, and solar resources, is not subject to uncertain fuel prices. In addition, energy efficiency has no fuel cost. As investments in renewable energy and energy efficiency are delayed, utilities and their customers have greater exposure to fuel price risk.
3. Any assessment of excess capacity must take into account planned and potential coal plant retirements in the West. Arizona utilities operate in a regional market where many coal-fired power plants are being considered for or planned for retirement over the next decade or so. Clark Station, Arapahoe 3, Cherokee 3 and Valmont 5 in Colorado are planned for retirement. Other plants being considered for retirement include: some of the San Juan units in New Mexico, the Reid Gardner and Valmy units in Nevada, the Carbon units in Utah, and some of the Jim Bridger units in Wyoming. In addition, other plants are expected to come under scrutiny for retirement and there is uncertainty about the future of the Navajo Generating Station. As coal plants are retired, any excess capacity that exists will diminish.

Respectfully submitted this 30th day of January, 2013.



David Berry
Chief of Policy Analysis
Western Resource Advocates
PO Box 1064
Scottsdale, AZ 85252-1064
david.berry@westernresources.org

Original and 13 copies mailed to Docket Control, 1200 W. Washington St., Phoenix, AZ 85007.
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² Renewable energy and energy efficiency produce little or no air emissions.

³ For an example of errors in forecasts, see Table 2 (page 18) in WRA's comments filed in this docket on September 7, 2012.

⁴ APS's resource plan includes portfolios with relatively large amounts of renewable energy and early retirement of coal generation. The costs of these portfolios were examined under a range of scenarios and APS found very little cost difference across portfolios. See WRA's resource planning comments, pp, 16-17.

⁵ See WRA's resource planning comments, pages 14-16.