

ORIGINAL

OPEN MEETING AGENDA ITEM

BEFORE THE 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 AND
INTERWEST ENERGY ALLIANCE
EXCEPTIONS TO STAFF'S RECOMMENDED
ORDER**

Western Resource Advocates (WRA) and the Interwest Energy Alliance (Interwest) hereby submit exceptions to Staff's recommended order in this Docket.

Several parties, including WRA and Interwest, provided extensive comments in this Docket.¹ However, Staff's proposed order does not discuss these contributions in any detail nor does the proposed order provide a comparison of alternatives with regard to environmental impacts, costs, risks or risk management as discussed by stakeholders. We request that, following paragraph 16 on page 6 of the recommended order, a new section be inserted summarizing the comments of other parties, especially on topics not covered by Staff. We provide proposed language summarizing only our comments; the final order should also summarize others' comments as well. In addition, Conclusion of Law No. 3 (page 7) should be modified if the Commission adopts the changes proposed in these exceptions.

On page 6, after line 21, insert new headers and new paragraphs as follows:

Summary of Western Resource Advocates' Comments

17. Western Resource Advocates (WRA) reviewed APS's resource plan in comments filed on September 7, 2012 and in a presentation on August 22, 2012. WRA found that:

- a. Long-term forecasts are subject to error and are therefore imprecise.
- b. APS investigated four rather different portfolios and, despite their differences, the costs vary only slightly from one portfolio to the next.
- c. Coal-fired power plants impose significant health and environmental costs.
- d. Managing the environmental and health risks of coal generation by greatly reducing coal generation has only minor cost implications as indicated by the small cost differences among the four portfolios APS examined.

¹ Parties who submitted comments or made a presentation include the Interstate Renewable Energy Council, the Solar Energy Industries Association, the Sierra Club, AARP, NextEra Energy Resources and LS Power, the Arizona Competitive Power Alliance, Solar Reserve, and SWEPP.

- e. Coal and uranium prices are increasing and natural gas prices have been very volatile.
- f. Conventional generation exposes APS and its customers to large uncertainties over future fuel prices.
- g. Meeting the Commission's energy efficiency standard, as planned by APS, will reduce APS's costs and will reduce air emissions from fossil-fuel power plants.
- h. Energy efficiency and most renewable energy resources require no fuel and thus provide a hedge against high fuel prices.
- i. APS's coal retirement portfolio saves the greatest amount of water among all the portfolios it investigated.
- j. Energy efficiency, water-efficient renewable resources such as wind and PV, and dry-cooled thermoelectric power facilities are a hedge against the risk of water scarcity.
- k. Energy storage facilities can add value to wind and solar energy projects.

18. WRA concluded that: 1) APS's intent to meet the Commission's energy efficiency standard will significantly reduce wasted energy; 2) coal plant retirements will greatly reduce air pollution; 3) increased reliance on stably priced renewable energy and energy efficiency will hedge against higher fossil fuel costs; 4) use of dry cooling as proposed by APS will help manage the risk of water scarcity; 5) energy storage facilities can improve system flexibility; and 6) pursuing a plan consistent with these findings can be accomplished at a cost that is about the same as the cost of APS's preferred (base case) plan.

19. WRA recommended that: 1) the Commission approve APS's 3 year action plan, 2) the Commission acknowledge APS's enhanced renewable energy and coal retirement portfolios and direct APS to prepare an option for the next resource plan filing that blends the enhanced renewable energy and coal retirement portfolios, and 3) the Commission conduct a workshop to develop recommendations on policies to promote early adoption of energy storage projects and services.

Summary of Interwest's Comments

20. Based on its review of APS's IRP, Interwest found that:
- a. Natural gas resources expose the company and its customers to fluctuating and rising fuel costs.
 - b. Customers, not the company, bear the entire risk for increased natural gas costs and customers are concerned about this increasing risk.
 - c. The future price and supply availability of natural gas is uncertain and will be affected by international demand, possible increased regulation of hydraulic fracturing practices, and the incompatibility of rules governing the electricity and natural gas industries.
 - d. APS can create the most balanced energy portfolio by pursuing the Enhanced Renewables Portfolio.
 - e. APS can enhance the energy security of the state through its choice of energy resources.

- f. More money will be retained in the state of Arizona, increasing economic prosperity, by purchasing clean resources over fossil resources.
- g. Renewable energy resources provide long-term price stability.
- h. The Enhanced Renewables Portfolio provides the greatest cost certainty over the 15-year planning period.
- i. The costs for solar and wind resources are projected to continue to decline over time.
- j. Increased reliance on fossil fuels will burden the company and customers with unknown compliance costs for existing or future air emissions, waste disposal, and water treatment and disposal costs.
- k. APS could implement operational changes to greatly reduce the cost of integrating renewable energy resources.
- l. 94% of representative APS customers desire “an increase in the use of solar as a part of the energy portfolio” even after learning of the variable nature and costs of solar.

21. Interwest concluded that: 1) APS’s Enhanced Renewables Portfolio has greater cost certainty and will result in less electricity price volatility for customers; 2) customers have indicated their strong preference for the development of renewable energy and are concerned about price fluctuations of natural gas; 3) development of the Enhanced Renewable Energy Portfolio will pay economic dividends to the state in the form of jobs and economic development; and 4) electricity generated from renewable energy technologies is stable in price and prices are declining while costs of fossil fuels are volatile and increasing.

22. Interwest recommended that the Commission acknowledge the IRP and instruct APS to pursue the Enhanced Renewable Energy Scenario.

Summary of WRA’s and Interwest’s Response to Staff’s Critique of APS’s Plan

23. In the workshop discussion on October 25, 2012 and in subsequent written comments, WRA stated that APS’s development of four very different portfolios is a strength of its resource plan and that APS’s approach should be a model for Arizona resource plan development. In contrast, Staff is critical of APS’s analysis, stating that APS did not use “industry-accepted practices” and should instead use an optimization model to select the best resource mix. WRA and Interwest cautioned that, while optimization models are important analytical tools, their ability to consider possible future scenarios is limited. By themselves, such models focus on minor differences in plans (e.g., installing a combustion turbine in 2019 versus installing a combustion turbine in 2020) and cannot provide adequate information when a utility plans for a long time period characterized by significant uncertainty and potentially disruptive changes in fundamental factors such as technology, costs, regulation, drought, and so forth. For example, APS found that the costs of its four very different portfolios are quite similar. Had APS examined portfolios with only minor differences, it would have missed this important result. In sum, experience in planning and business indicates that the best way to explore alternatives and possible outcomes in a dynamic and uncertain world is to obtain input from a variety of sources, including those from outside the company, and evaluate highly distinct options as APS has done.

Recommended Changes to Ordering Paragraphs

We respectfully request that the Commission modify several ordering paragraphs contained in Staff's recommended order as follows:

Page 7, line 5: Replace the ordering paragraph with:

IT IS THEREFORE ORDERED that the enhanced renewable energy and coal retirement portfolios of Arizona Public Service Company are hereby acknowledged pursuant to A.A.C. R14-2-704(B) and that [Note: this paragraph should also contain language pertaining to the other utilities' resource plans but WRA and Interwest offer no recommendation on those plans.]

Page 7, after line 11, add two new ordering paragraphs as follows:

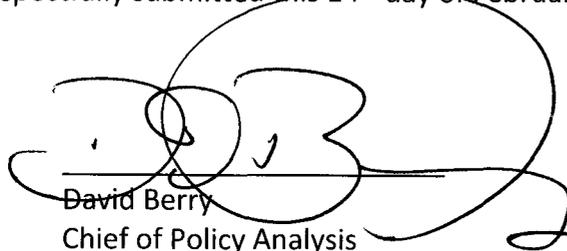
IT IS FURTHER ORDERED that Arizona Public Service Company, Tucson Electric Power Company, and UNS Electric Inc., shall include in their next Integrated Resource Plans, with input from stakeholders, a range of highly distinct portfolios for evaluation and analysis.

IT IS FURTHER ORDERED that Arizona Public Service Company shall include a blend of its enhanced renewable energy portfolio and coal retirement portfolio in its next Integrated Resource Plan.

Page 8, after line 3, insert the following ordering paragraph:

IT IS FURTHER ORDERED that Staff conduct workshops with utilities, stakeholders, and outside experts to develop, within 18 months of the effective date of this order, recommendations to the Commission pertaining to a proposed regulation, Commission policy, or other approach to stimulate early adoption of energy storage projects.

Respectfully submitted this 14th day of February, 2013.



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



Amanda Ormond
Southwest Representative
Interwest Energy Alliance
7650 S. McClintock Drive, Ste 103-282
Tempe, Arizona 85284
asormond@msn.com

Original and 13 copies filed with Docket Control, 1200 W. Washington St., Phoenix, AZ 85007.
Electronic copies to service list.