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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER-SMITH
Commissioner

Arizona Corporation Commission

DOCKETED

JAN 31 2013

DOCKETED BY	<i>NR</i>
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IN THE MATTER OF THE APPLICATION)	DOCKET NO. E-01049A-12-0281
OF MORENCI WATER & ELECTRIC)	
COMPANY - ELECTRIC DIVISION – FOR)	DECISION NO. <u>73632</u>
APPROVAL OF ITS 2013 AND 2014)	
RENEWABLE ENERGY STANDARD)	<u>ORDER</u>
TARIFF IMPLEMENTATION PLAN AND)	
REQUEST FOR PARTIAL WAIVER)	
)	
)	

Open Meeting
January 23, 2013
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
28 Requirement under A.A.C. R14-2-1805. The Commission extended the waiver for 2009 in

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**
 10 **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

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 16 9. MWE calculates that it would cost \$2,142,000 to procure the additional 47,600
 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
 19 energy. MWE states that approximately an additional \$34.6 million would be necessary to fulfill
 20 the annual Distributed Renewable Energy Resources requirement in 2013 if FMI mine loads are
 21 included.³ MWE states that under such a scenario, it would be forced to raise the REST surcharge
 22 and monthly caps to a level that would be unsustainable for its customers.

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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
4 procurement sources because of uncertainties related to operational performance, deliverability of
5 such resources and the need to match deliveries with dispatch schedules. Nevertheless, MWE
6 states that it will "make best efforts" to procure the necessary amounts of Eligible Renewable
7 Energy Resources, with a planned multi-year procurement anticipated in 2013.

8 11. The following Table II summarizes MWE's renewable energy procurement plans:

9 **Table II**
10 **Planned Renewable Energy Procurement**

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

14 Procurement of Distributed Renewable Energy Resources

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

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28 ⁴Based 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

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14 13. Incentives for any one project would not exceed 60 percent of the total project cost

15 (including financing) with a maximum incentive not to exceed \$75,000. Amounts noted as “TBD”

16 are for technologies that require the applicant to submit an engineering report from a licensed,

17 professional engineer that includes anticipated energy savings and the designed output for the

18 system. MWE would then review the submission to validate anticipated energy savings and set a

19 project-specific incentive based on the anticipated energy savings.

20 14. Staff notes that MWE has only incented the installation of distributed renewable

21 energy systems at three locations in its service territory since the REST Rules were adopted. Staff

22 recommends continuation of MWE’s existing incentive structure.

23 15. As required by R14-2-1809, MWE has prepared a Customer Self-Directed

24 Renewable Energy Option (“Self-Directed Option”) tariff by which an eligible customer may

25 apply to MWE to receive funds to install distributed renewable energy resources. Per the REST

26 Rules, the amount of funds available may not exceed the amount annually paid into the REST fund

27 by the eligible customer. MWE proposes to maintain its current Self-Directed Option tariff.

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Budget

16. 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

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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- 1 • \$1.05 per month for each residential customer;
- 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:

- 6 • \$26,258 per year from residential customers;
- 7 • \$124,488 per year from non-residential customers;
- 8 • \$12,000 per year from non-residential customers >3MW; for
- 9 • A total no greater than \$163,000.

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

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

20 **Tariffs and Plan Schedule**

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

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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. We disagree.

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.

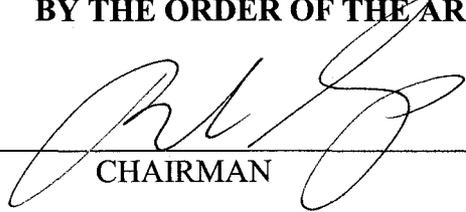
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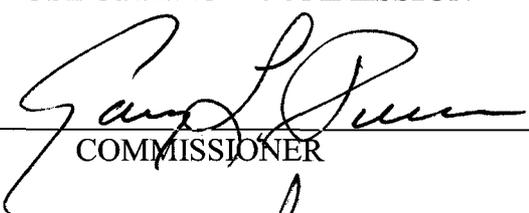
1 IT IS FURTHER ORDERED that Morenci Water & Electric Company shall receive a
2 waiver for its Distributed Energy requirement until further order of the Arizona Corporation
3 Commission, while continuing its current incentive structure.

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**

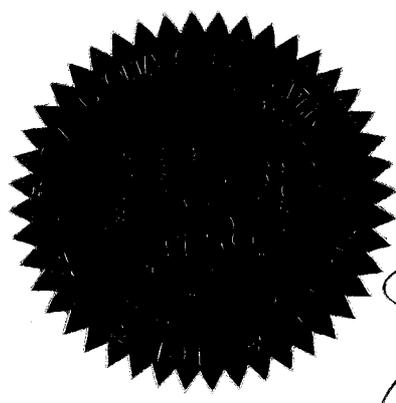
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CHAIRMAN

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COMMISSIONER

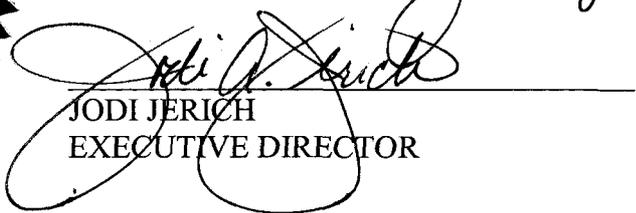
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14 IN WITNESS WHEREOF, I, JODI JERICH, Executive Director
15 of the Arizona Corporation Commission, have hereunto, set my
16 hand and caused the official seal of this Commission to be
17 affixed at the Capitol, in the City of Phoenix, this
18 31st day of January, 2013.

18 
19 JODI JERICH
20 EXECUTIVE DIRECTOR

21 DISSENT: _____

22 DISSENT: _____

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24 SMO:PML:sms\WVC

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
6 400 East Van Buren, Suite 800
7 Phoenix, Arizona 85004

8 Mr. Steven M. Olea
9 Director, Utilities Division
10 Arizona Corporation Commission
11 1200 West Washington Street
12 Phoenix, Arizona 85007

13 Ms. Janice M. Alward
14 Chief Counsel, Legal Division
15 Arizona Corporation Commission
16 1200 West Washington Street
17 Phoenix, Arizona 85007

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