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BEFORE THE ARIZONA CORPORATI

COMMISSIONERS

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

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AZ CORP COMMISSION
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2013 MAY 8 PM 2 24

IN THE MATTER OF ARIZONA PUBLIC SERVICE COMPANY REQUEST FOR APPROVAL OF UPDATED GREEN POWER RATE SCHEDULE GPS-1, GPS-2, AND GPS-3.

DOCKET NO. E-01345A-10-0394

IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR APPROVAL OF ITS 2013 RENEWABLE ENERGY STANDARD IMPLEMENTATION FOR RESET OF RENEWABLE ENERGY ADJUSTOR.

DOCKET NO. E-01345A-12-0290

IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR APPROVAL OF ITS 2013 RENEWABLE ENERGY STANDARD IMPLEMENTATION PLAN AND DISTRIBUTED ENERGY ADMINISTRATIVE PLAN AND REQUEST FOR RESET OF ITS RENEWABLE ENERGY ADJUSTOR.

DOCKET NO. E-01933A-12-0296

IN THE MATTER OF THE APPLICATION OF UNS ELECTRIC, INC. FOR APPROVAL OF ITS 2013 RENEWABLE ENERGY STANDARD IMPLEMENTATION PLAN AND DISTRIBUTED ENERGY ADMINISTRATIVE PLAN AND REQUEST FOR RESET OF ITS RENEWABLE ENERGY ADJUSTOR.

DOCKET NO. E-04204A-12-0297

STAFF'S NOTICE OF FILING REBUTTAL TESTIMONY

Staff of the Arizona Corporation Commission ("Staff") hereby files the Rebuttal Testimony of Robert G. Gray in the above-entitled docket.

RESPECTFULLY SUBMITTED this 8th day of May, 2013.

Arizona Corporation Commission

DOCKETED

MAY 08 2013

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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

IN THE MATTER OF ARIZONA PUBLIC)	DOCKET NO. E-01345A-10-0394
SERVICE COMPANY REQUEST FOR)	
APPROVAL OF UPDATED GREEN POWER)	
<u>RATE SCHEDULE GPS-1, GPS-2, AND GPS-3</u>)	
IN THE MATTER OF THE APPLICATION OF)	DOCKET NO. E-01345A-12-0290
ARIZONA PUBLIC SERVICE COMPANY FOR)	
APPROVAL OF ITS 2013 RENEWABLE)	
ENERGY STANDARD IMPEMETATION FOR)	
<u>RESET OF RENEWABLE ENERGY ADJUSTOR</u>)	
IN THE MATTER OF THE APPLICATION OF)	DOCKET NO. E-01933A-12-0296
TUCSON ELECTRIC POWER COMPANY FOR)	
APPROVAL OF ITS 2013 RENEWABLE)	
ENERGY STANDAR IMPLEMENTATION)	
PLAN AND DISTRIBUTED ENERGY)	
ADMINISTRATIVE PLAN AND REQUEST FOR)	
RESET OF ITS RENEWABLE ENERGY)	
<u>ADJUSTOR</u>)	
IN THE MATTER OF THE APPLICATION OF)	DOCKET NO. E-04204A-12-0297
UNS ELECTRIC, INC. FOR APPROVAL OF ITS)	
2013 RENEWABLE ENERGY STANDARD)	
IMPLEMENTATION PLAN AND DISTRIBUTED)	
ENERGY ADMINISTRATIVE PLAN AND)	
REQUEST FOR RESET OF ITS RENEWABLE)	
<u>ENERGY ADJUSTOR</u>)	

REBUTTAL
TESTIMONY
OF
ROBERT G. GRAY
EXECUTIVE CONSULTANT III
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

MAY 8, 2013

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DOCKET NOS. E-01345A-10-0394, ET AL

My rebuttal testimony in this proceeding provides Staff's response to testimony filed by other parties on April 24, 2013, regarding how the Commission should treat distributed energy for purposes of determining whether jurisdictional utilities are in compliance with the Renewable Energy Standard and Tariff rules. Specifically, my rebuttal testimony addresses recommendations by parties that the Commission either delay a decision regarding this matter or that the Commission adopt some form of auction or standard offer. My rebuttal further responds to comments made regarding whether the Commission has an interest in knowing what production is taking place from renewable generation facilities that have not taken a utility incentive.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Robert G. Gray. I am an Executive Consultant III employed by the Arizona
4 Corporation Commission (“ACC” or “Commission”) in the Utilities Division (“Staff”).
5 My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Are you the same Robert G. Gray that filed Direct Testimony on behalf of Staff in
8 this proceeding on April 24, 2013?**

9 A. Yes.

10

11 **Q. What is the scope of this testimony?**

12 A. My rebuttal testimony in this proceeding provides Staff’s response to testimony filed by
13 other parties on April 24, 2013, regarding how the Commission should treat distributed
14 energy for purposes of determining whether jurisdictional utilities are in compliance with
15 the Renewable Energy Standard and Tariff (“REST”) rules. Specifically, my rebuttal
16 testimony addresses recommendations by parties that the Commission either delay a
17 decision regarding this matter or that the Commission adopt some form of auction or
18 standard offer. My rebuttal further responds to comments made regarding whether the
19 Commission has an interest in knowing what production is taking place from renewable
20 generation facilities that have not taken a utility incentive.

21

22 **Q. Have you reviewed the Direct Testimony of various parties that were filed on April
23 24, 2013?**

24 A. Yes. I have reviewed their testimony and will respond to certain proposals and comments
25 in this testimony.

1 **PROPOSALS FOR DELAYING MAKING A FINDING ON THIS MATTER**

2 **Q. Have certain parties made proposals in this proceeding that would further delay the**
3 **Commission directing how utilities would demonstrate compliance when they are no**
4 **longer offering incentives?**

5 A. Yes. Solar Energy Industries Association Witness Carrie Cullen Hutt recommends in
6 April 24th testimony that the Commission take no action at this time regarding utility
7 compliance with the DE requirement or if the Commission does take action it should only
8 grant a one year waiver of the DE requirement, during which the Commission would
9 gather further data and consider the best policy choices (p.3, lines 14-19 of direct
10 testimony).

11
12 Additionally, Western Resource Advocates (“WRA”) Witness David Berry’s April 24th
13 testimony includes a proposal to hold a technical conference process prior to considering
14 the utility proposals in this proceeding (p.8, lines 21-27 of direct testimony).

15
16 Further, while not directly endorsing a delay, Vote Solar Initiative Witness Rick Gilliam
17 indicates that he believes it is premature for the Commission to address the distributed
18 renewable energy requirement (p.12, line 3 of direct testimony).

19
20 **Q. Does Staff believe that the Commission should delay addressing how utilities should**
21 **reach compliance in a situation where at least some incentives have reached zero or**
22 **are very low?**

23 A. No. The DE requirement compliance issue has been around for a while now. In Decision
24 No. 72737 (January 18, 2012), the Commission ordered that APS shall “in its 2013 REST
25 Plan, consider the problem of future distributed customers unwilling to provide
26 Renewable Energy Credits to Arizona Public Service Company and shall suggest possible

1 solutions to this dilemma.” This led to APS’ filing on June 29, 2012, its proposed 2013
2 REST plan, that included its initial track and record proposal. Similarly, TEP and UNS
3 raised this issue almost a year ago in their July 2012 REST plan filings, seeking
4 Commission guidance on this issue. Staff then made its initial track and record proposal
5 in its Staff Reports on the 2013 APS, TEP, and UNS REST plans in October 2012. The
6 Commission decided that this issue should be more fully vetted in this current proceeding.
7 Over the last year Staff has had numerous discussions regarding this issue with a wide
8 variety of parties, including utilities and a variety of renewable industry representatives.
9 A review of the testimony filed in this proceeding shows that there is little in the way of
10 new ideas on this subject that have not been put forth before in various forms, attesting to
11 the fact that this issue has received significant consideration even prior to this current
12 hearing process. Staff believes that this issue should be addressed in substantive fashion
13 in this current proceeding, as contemplated by the Commission. While some utilities may
14 be beyond compliance at the moment in certain DE segments, other utilities are not.

15
16 As noted in Staff’s direct testimony, one of Staff’s goals in proposing Track and Monitor
17 is to accurately reflect the reality of how much load is actually being met with renewable
18 energy in Arizona. Continuing the status quo will only exacerbate the incomplete picture
19 the Commission is receiving concerning the amount of renewable energy that is being
20 generated by all Arizona renewable energy production facilities.

21
22 SEIA alludes to the need to wait to gather further information (Hutt direct testimony p.11,
23 lines 1-11) as well as wait for net metering issues to be resolved (Hutt direct testimony, p.
24 11, line 27 – p. 12, line 3). WRA advocates understanding a variety of changing
25 circumstances, including regulatory changes, rate design changes, and other issues (Berry
26 Direct Testimony, p. 9, lines 30-41). However, since the REST rules have gone into

1 place, there has been constant change in the Arizona renewable energy marketplace and
2 the Commission has addressed such changes through the process of considering utilities'
3 annual REST plans as well as in other forums. The Commission can continue to address
4 such issues as they arise in the future through the variety of avenues available to it. There
5 is no need to wait in this current proceeding for things to play out in Arizona's renewable
6 marketplace in the next year(s) before taking action on a current need to address how
7 utilities reach compliance when they offer low or no incentives in at least some DE
8 segments. For example, regarding net metering, there is no clear timeline as to how long
9 the discussions and/or possible Commission proceedings on net metering could take.
10 Waiting for issues like net metering to be sorted out first is likely to greatly delay the
11 Commission acting on the compliance issue being considered in this proceeding.

12
13 Further, extending this process out possibly a year or more and/or involving filings,
14 technical conference participations, etc. will represent a significant commitment of
15 resources for Staff and other interested parties. At the January 23, 2013 hearing on the
16 APS 2013 REST plan, Solar City representative Court Rich cited a concern over resource
17 allocations in arguing that this proceeding should have been done as a technical
18 conference rather than a hearing (p.44, lines 8-15 of transcript on Item U-4). Staff agrees
19 that the Commission should expeditiously address this matter and avoid unnecessary
20 resource allocations by the many parties involved in this proceeding.

1 **Q. Do you wish to further elaborate on the Commission's interest in having renewable**
2 **energy production reported from both facilities that do and do not take an incentive**
3 **from a utility in light of NRG Solar LLC ("NRG") Witness Diane Fellman's**
4 **assertion that it is unclear whether such reporting is necessary or relevant and that it**
5 **would be confusing and potentially misleading (direct testimony, p.5, lines 22-25)?**

6 A. Yes. The Commission has very relevant and compelling interests in knowing what
7 production is coming from renewable energy facilities, whether they take an incentive
8 from utilities or not. As part of ensuring reliable utility service in Arizona, the ACC has a
9 direct interest in knowing about all electric generation facilities in Arizona; particularly
10 those on which its jurisdictional utilities will be relying.

11
12 For example, jurisdictional utilities in Arizona are required to file integrated resource
13 plans ("IRPs") in Arizona that contain a variety of planning information from the utilities.
14 These IRPs include information on the generation and other facilities or services that are
15 available to ensure that electric utilities have sufficient resources to meet their customer
16 loads, including renewable resources. Renewable resources are gradually becoming a
17 more important part of that mix of resources for meeting a utility's load requirements.
18 Utilities and the Commission have an interest in the role renewable resources play in
19 ensuring reliable electric service in Arizona, regardless of whether such facilities took an
20 incentive from a utility when they were installed or not. Similarly, utilities have an
21 interest in knowing about all interconnected renewable energy generation in their service
22 territory for transmission and generation planning purposes.

1 **Q. NRG Witness Fellman also refers to potential double counting when utilities would**
2 **report production from facilities that did not take a utility incentive because they**
3 **would be potentially used for a secondary purpose (direct testimony p.5, lines 19-22).**
4 **Are you proposing or are you aware of any secondary purposes NRG may be**
5 **referring to?**

6 A. There is no secondary purpose; there is only a single purpose. That single purpose is to
7 measure and thereby know how much of a utilities load is being served by **all** renewable
8 resources.

9
10 **Q. Would the Commission receive information on the production of renewable energy**
11 **facilities that do and do not take an incentive regardless of this proceeding?**

12 A. Yes, Staff believes so. Under prior Commission orders approving past years' REST plans,
13 including for APS, TEP, and UNS, the Commission ordered the installation of production
14 meters on all renewable energy installations within the utility service territories. Staff
15 understands that TEP and UNS already have production meters on all renewable
16 production facilities in their service territories and that APS will have production meters
17 on all renewable production facilities in its service territory in the near future.

18
19 **Q. A number of parties make recommendations that the utilities should be required to**
20 **acquire DE RECs through some sort of purchasing process. What sorts of proposals**
21 **have been made?**

22 A. WRA has made a proposal that utilities hold an auction process to acquire RECs, with the
23 specifics of the auction process being determined through a collaborative effort among
24 Staff, utilities, and stakeholders (p. 8, lines 19-20 of David Berry's Direct Testimony).
25 Vote Solar proposes that utilities conduct periodic standard offer processes to acquire
26 RECs once direct incentives have been eliminated and there is a need for RECs to meet

1 compliance (p.15, line 17 – p.16, line 15 of Rick Gilliam’s testimony). The Department of
2 Defense and All Other Federal Executive Agencies (“DOD/FEA”) suggests that utilities
3 be required to acquire the RECs that are necessary to meet compliance under the DE
4 portion of the REST rules (p. 3, lines 14-15 of Cynthia J. Cordova’s Direct Testimony),
5 without recommending a specific method of how utilities would do that.
6

7 **Q. Does Staff support the WRA or Vote Solar proposals?**

8 A. No. Staff has serious concerns about WRA’s auction proposal and Vote Solar’s standard
9 offer proposal. Some form of auction or standard offer would expose utility ratepayers to
10 an unknown and potentially large amount of additional cost that would have to be
11 recovered through the REST surcharge. Additionally, in a roundabout way, under an
12 auction or standard offer utilities would be reinstating incentives for DE at a time when
13 the direct incentives have been greatly reduced or eliminated, but without direct
14 Commission control over the level of such incentives as has traditionally been the case.
15 The additional cost incurred by utilities under these proposals would inevitably put
16 upward pressure on the REST surcharge and customer class caps.
17

18 **Q. Do these proposals violate any of Staff’s primary goals as identified on page 6 of your
19 direct testimony?**

20 A. Yes. These proposals would not minimize the cost to ratepayers as there would be some
21 level of additional cost exposure to ratepayers under either proposal.
22

23 **Q. Please describe Staff’s concern with the potential cost exposure to ratepayers of an
24 auction or standard offer model.**

25 A. Inherently the cost utilities will have to pay for DE RECs and pass along to ratepayers
26 through the REST surcharge under an auction or standard offer model will not be known

1 until the auction or standard offer actually takes place in the future. So, the cost exposure
2 to ratepayers cannot be known at this time. Additionally, it would be difficult for utilities
3 to present a budget to the Commission in their annual REST plans, when they would not
4 know how much they would be paying for RECs in the coming year.

5
6 **Q. Have parties provided any estimates of the cost to ratepayers of these approaches?**

7 A. Yes. WRA Witness David Berry noted that in early 2012 REC prices in compliance
8 markets ranged from a few dollars per MWh to \$60 per MWh (or \$0.06 per kWh),
9 depending on limitations on what technologies could be used as well as if projects could
10 only be located in certain states (p. 5, lines 2-3 of direct testimony). If an Arizona utility
11 paid such prices to meet its DE REC requirements, such expenditures could significantly
12 increase a utility's annual REST budget.

13
14 **Q. If an Arizona utility instituted such an auction, what price might they pay for DE
15 RECs?**

16 A. There is no way of knowing, but there is reason to believe that there would be some
17 upward pressure on the price of RECs under such a scenario. First, utilities would be
18 buying such DE RECs in an environment where the sellers of such RECs would know that
19 the utilities had to buy DE RECs to meet the utility's REST requirements, thus providing
20 the sellers with leverage. Second, the available market for each utility to buy from would
21 be limited to the DE RECs available within Arizona, per section 1802.B of the REST
22 rules. Vote Solar Witness Rick Gilliam notes in his testimony that a utility may need to
23 ratchet up the price under Vote Solar's standard offer proposal for utilities to gather
24 sufficient RECs for compliance (direct testimony, page 16, lines 5-7).

1 **Q. Please compare having an auction or standard offer process to the traditional way**
2 **the utilities have acquired RECs?**

3 A. Both methods are similar in that they provide a transaction whereby the utility pays the
4 customer who installs a DE system in exchange for the RECs. In a roundabout way,
5 introducing an auction or standard offer process would be a way of reinstating an
6 incentive for DE market segments where the direct incentive had been eliminated. The
7 timing of the payment is different, but the biggest difference is that under the traditional
8 way, the Commission set the specific incentive levels for various technologies through the
9 annual REST plan process, whereas under an auction or standard offer process, the
10 Commission would not know what prices are being paid until sometime after the auction
11 or standard offer took place. Staff is not recommending maintenance or reintroduction of
12 direct incentives for the sole purpose of acquiring RECs, but it is worth noting that such a
13 process would be a more defined and clear way of acquiring RECs than through an
14 auction or standard offer approach.

15
16 **Q. Does Staff have any comment on the Residential Utility Consumer Office's**
17 **("RUCO") proposal regarding the redefinition of DG compliance through**
18 **consideration of null electricity and DG system hosting?**

19 A. RUCO's proposal is not described in sufficient detail to provide a complete picture of how
20 such a system would work, but Staff believes that RUCO's proposal may be worth further
21 consideration.

22
23 **Q. Does this conclude your rebuttal testimony?**

24 A. Yes, it does.