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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE COMMISSION'S
INQUIRY INTO RETAIL ELECTRIC
COMPETITION

DOCKET NO.
E-00000W-13-0135

COMMENTS OF THE
INTERSTATE RENEWABLE
ENERGY COUNCIL, INC.

The Interstate Renewable Energy Council, Inc. ("IREC") respectfully submits these initial comments to the Arizona Corporation Commission ("Commission") pursuant to the Commission's Inquiry into Retail Electric Competition.

About IREC

IREC enables greater use of clean energy in a sustainable way by (i) introducing regulatory policy innovations that empower consumers and support a transition to a sustainable energy future, (ii) removing technical constraints to distributed energy resource integration, and (iii) developing and coordinating national strategies and policy guidance to provide consistency on these policies centered on best practices and solid research. The scope of IREC's work includes:

- Expanding programs that facilitate consumers' ability to host a renewable energy system to directly self-supply energy needs or sell energy;
- Updating interconnection processes to facilitate deployment of distributed energy resources under high deployment scenarios;
- Incorporating renewable energy resource growth into utility distribution system planning and operations;
- Ensuring that realistic assumptions about the growth and cost effectiveness of renewable energy resources are reflected in resource and transmission planning.

Overview

IREC's comments below are in response to the eighteen questions included in the Commission's letter filed May 23, 2013. While each of the questions is important, we will focus on questions 10, 14, 16, and 17 since they are most directly relevant to IREC's interests. IREC does not have a position on whether the Commission should move forward with retail competition. However, if it chooses to do so, we have significant concerns with the specific approach to implementing retail competition, which are described in our answers to these questions.

Question 10: What are the issues relating to balancing area authorities, transmission planning, and control areas which must be addressed as part of a transition to retail electric competition?

In states with restructured markets, there has typically been a consolidation of balancing authority (BA) areas (also known as control areas). For instance, ERCOT is the BA for all generators and loads in the Texas market, while ISO-NE is the BA for all generators and loads in the New England market. This consolidation is necessary as the BA function is adopted by a central entity (i.e. an RTO/ISO)¹ who takes charge of dispatching generators and operating the transmission system. In general, IREC supports this consolidation as it allows for more efficient operation of the grid through better coordination, scheduling and resource diversity. These are all important characteristics for integrating renewable energy since a larger, more diverse pool of resources that operates in a coordinated fashion can help manage intermittency and variability as more renewable resources come online. Customers could benefit financially from more efficient operations and a reduced need for utilities to procure operating reserves, which would be true regardless of additional renewable resources.

The RTO/ISO is also typically in charge of transmission planning. Currently, Arizona's investor-owned utilities conduct transmission planning for compliance with FERC Order 890 and are in the midst of developing new procedures for planning under FERC Order 1000. These activities are being coordinated through a regional planning group known as WestConnect. Additionally, Arizona utilities coordinate planning through the subregional Arizona Transmission Subcommittee and are required by ACC rules to develop a Biennial Transmission Assessment. Whatever organization emerges to fulfill the role of the RTO/ISO under a retail competition environment will also need to fulfill these existing planning obligations that are currently being conducted by the incumbent utilities. Furthermore, since Arizona's grid is inextricably tied to its neighbors, we recommend adopting a transmission planning process that is well coordinated with neighboring states.

As the Commission considers the challenges and benefits of a restructured market, and its impact on balancing authority areas, we urge the Commission to consider the potential opportunity presented by the emerging Energy Imbalance Market in the West. Participation in the Energy Imbalance Market presents a near-term opportunity for Arizona utilities to gain experience operating in a market environment. Participation in this market could achieve many of the same types of benefits that are purported by full retail competition (including cost savings to ratepayers), albeit on a much smaller scale. Before Arizona commits to retail competition, it may be wise to gain some insight and experience by first requiring utilities to participate in the Energy Imbalance Market.

¹An RTO is a Regional Transmission Organization; an ISO is an Independent System Operator. For the purpose of this discussion, these can be considered equivalent. In deregulated markets, RTOs/ISOs operate the region's electricity grid, administer the wholesale market, and plan transmission for the bulk electricity system.

Question 14: Is retail electric competition compatible with the Commission's Renewable Energy Standard that requires Arizona's utilities serve at least 15% of their retail loads with renewable energy by 2025?

Yes. In general, renewable energy standards (RES) can be compatible with retail competition. In fact, each state with a restructured electricity sector today has also adopted a renewable portfolio standard. States with restructured markets have devised several ways of achieving their renewable energy goals. One common method is to simply apply the RES requirement to each retailer, with a compliance obligation based upon the retailer's share of total sales and the ability to trade renewable energy credits (RECs). This is the approach used in Texas, among other states.² Another option would be to designate an entity to centrally procure renewable resources using funds collected from a surcharge (i.e. a "system benefits charge") that each retailer is required to collect. This approach is used in New York. Arizona's RES rule appears to be more compatible with the first approach; however, a close examination of the RES rules should be undertaken to identify any changes that would be necessary.

One issue of paramount concern for ensuring that the RES can be achieved in a restructured market is ensuring that the transmission system can be upgraded in tandem to accommodate new renewable resources in remote locations. This task will likely not be achievable by the competitive retailers or suppliers and will instead be the responsibility of the regulated transmission and distribution utilities (i.e. the wires companies). Instead the Commission will need to carefully consider how the transmission system can be systematically upgraded to meet any reliability requirements or public policy goals such as the RES. As a point of comparison, Texas has developed regulatory requirements for the transmission and distribution utilities (TDUs) to build transmission for renewable projects while also guaranteeing full cost recovery for this new transmission. This approach may not be applicable outside of Texas, since cost recovery of transmission projects in other states (including Arizona) is governed by FERC. However, it's worth noting that any RTO/ISO established in Arizona would need to develop a FERC-approved cost recovery mechanism, which should include provisions for transmission projects developed to meet renewable energy needs. In fact, Arizona utilities are already obligated to plan and provide cost allocation to projects developed for public policy requirements (such as renewable energy goals), under FERC Order No. 1000.³ These requirements would carry over to any newly established RTO/ISO. Finally, while individual states, including Arizona, don't have authority over transmission costs, they do have authority over transmission line siting and can establish procedures to ensure that transmission projects supporting renewable energy goals are given precedence.

² It should be noted, however, that Texas's renewable standard is not based on a percent of energy sales (MWh), but rather a target installed capacity (MW). However, many other states with a percentage based RPS use the same pro-rata method.

³ FERC Order 1000 requires jurisdictional utilities to develop methods for the planning and cost allocation of transmission projects developed to meet needs for reliability, economic benefits, or public policy requirements. Arizona utilities, through WestConnect, are nearing the final stages of a plan to implement these practices, which will establish a mechanism for allocating the costs of transmission associated with "public policy requirements" (including renewable energy standards).

Question 16: How should the Commission address net metering rates in a competitive market?

Net metering is an essential tool for giving distributed energy (DE) resources the ability to compete on a level playing field with traditional supply-side resources. In our view, maintaining net metering in a competitive market is critical for allowing distributed energy to compete fairly. However, this will only be true if certain conditions apply:

1. Artificial caps on net metering should be avoided.

In many restructured states, Commissions have imposed artificial caps on the number of customers that can take advantage of net metering rates. We believe this unnecessarily constrains the supply of distributed energy and would not be appropriate within a competitive market structure.⁴ One purpose of these caps may be to limit the loss of fixed costs recovered from customers with DE systems. However, we believe this issue can be addressed through other means that are less constraining to the DE sector.

2. Net metering rates should fully compensate generators for capacity benefits.

If the Commission chooses to pursue retail competition, it will be confronted with the subsequent decision of how to maintain reliability by ensuring adequate generating capacity and delivery infrastructure. Existing competitive markets have employed various means to accomplish this (e.g. forward capacity markets, scarcity pricing), but in general there must be a price signal to reflect the value of additional capacity placed onto the system. Just like supply-side resources, net metered systems can provide valuable capacity benefits to the system and should also be given the opportunity to be compensated for this value.

3. Net metering rules should be consistent across retailers

In order to ensure stability and certainty in the DE market, we encourage a consistent set of rules governing net metering rates for all retailers. Absence of consistent rules could lead to a balkanized set of rates and would prohibit future growth of the DE market. Just as the RTO/ISO will establish a consistent set of market rules for wholesale suppliers, retailers should adhere to a consistent set of rules for purchasing energy from distributed resources.

4. Customers should be permitted to engage in aggregated or virtual net metering

A truly competitive market should allow electricity suppliers (including distributed generators) to utilize all the tools at their disposal to compete effectively in the market. Currently the distributed energy market in Arizona is needlessly constrained by its inability to take advantage of aggregated or virtual net metering – practices that are in effect in several other states. If Arizona moves towards retail competition, this limitation should be removed, thereby clearing an unnecessary hurdle to the viability of DE suppliers.

Question 17: What impact will retail electric competition have on resource planning?

⁴ It would also represent a departure from the current net metering rules, which do not impose a cap, and which have been effective in spurring the rapid adoption of rooftop solar systems across Arizona.

The current practice of Integrated Resource Planning in Arizona is especially informative in part because there are few suppliers in the current market. Thus each Integrated Resource Plan (IRP) gives a comprehensive view of the current state and future trajectory of Arizona's electric sector. If Arizona moves forward with retail competition, it would be unfortunate for policy makers to lose this highly informative perspective. It may make sense to move to a state-wide IRP process or to conduct resource planning through the transmission and distribution companies, rather than individual retailers.

Furthermore, retailers competing for customers in the short term may not necessarily have customers' long-term interests in mind. Since the utility sector is slow-moving and capital-intensive, customer choice may not be sufficient to invoke rapid changes to supply if customers grow dissatisfied with their options. As such, the Commission should maintain some level of oversight to ensure that suppliers are looking ahead to maintain a stable and adequate energy supply over the long term. This long-term look should take into account risk factors such as fuel price volatility, future environmental regulations, reliability issues and so on.

Respectfully submitted on behalf of the Interstate Renewable Energy Council, Inc. this 15 day of July 2013 by:

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