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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

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OCT 15 2013

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IN THE MATTER OF THE
APPLICATION OF ARIZONA PUBLIC
SERVICE COMPANY FOR APPROVAL OF
ITS 2014 RENEWABLE ENERGY
STANDARD IMPLEMENTATION PLAN
FOR RESET OF RENEWABLE ENERGY
ADJUSTOR.

DOCKET NO. E-01345A-13-0140

APPLICATION OF FREEPORT-
MCMORAN COPPER & GOLD INC.
AND ARIZONANS FOR ELECTRIC
CHOICE AND COMPETITION
COMMENTS ON STAFF'S
MEMORANDUM AND PROPOSED
ORDER

Freeport-McMoRan Copper & Gold Inc. (“Freeport-McMoRan”) and Arizonans for Electric Choice and Competition (AECC) (collectively “AECC”) hereby submit this Response to the Staff Memorandum and Proposed Order (“Memorandum”) dated September 30, 2013, concerning Arizona Public Service Company’s (“APS”) 2014 REST (Docket No. E-01345A-13-0140).

AECC’s application for leave to intervene was granted by procedural order on September 11, 2013. As a party to the proceedings, AECC and other intervenors should receive copies of all filings made with docket control. *See* A.A.C. R14-3-107. Despite this rule, a copy of Staff’s September 30, 2013 Memorandum and Proposed Order (“Memorandum”) were not served on all parties of record. In fact, the service list included in Staff’s proposed order only lists APS and Staff.

AECC did not obtain a copy of the Memorandum until it received the Commission’s Open Meeting notice and agenda on October 9, 2013. As a result, AECC did not have an opportunity to file these Exceptions until today – one day before the Open Meeting. In light of the procedural defects concerning this proceeding,

1 AECC requests that this agenda item be held until the next Open Meeting so that all
2 parties, as well as the Commissioners, can fully consider AECC's Exceptions to the
3 Memorandum.

4 INTRODUCTION

5 In its Memorandum, Staff recommends approval of APS's proposed \$143.0
6 million budget, which would result in collection of \$114.4 million through the RES
7 adjustor after accounting for \$28.6 million in offsets. This budget represents a
8 continuation of dramatic annual increases in REST funding, and by APS's own
9 account, is designed to result in a level of renewable generation more than double that
10 required by the REST rules in 2015. If compliance with the terms of the Settlement
11 Agreement in Docket No. E-01345A-08-0172 ("2009 Settlement") can be achieved
12 with less funding than proposed by APS, and recommended by Staff, AECC
13 recommends that such lower-cost option be adopted.

14 The cost allocation methodologies presented by APS, and the method supported
15 by Staff, would result in dramatically different REAC rate increases among customer
16 classes. AECC recommends that the principle of gradualism be employed in the
17 allocation of costs and design of REAC rates.

18 DISCUSSION

19 **I. If Previously-Approved Commitments and Compliance with the 2009**
20 **Settlement Can be Achieved with Less Funding Than Proposed by APS,**
21 **Then Such Lower-Cost Option Should Be Adopted.**

22 Section 15.1 of the 2009 Settlement set renewable generation targets designed to
23 equal twice the amount required by the REST rules in 2015. AECC is signatory to that
24 settlement agreement and recognizes that APS must have sufficient funding to meet that
25 commitment. At the same time, AECC asks the Commission to recognize the
26 substantial cost of APS's renewable programs, and to limit the REST budget to the

1 minimum necessary to meet this aggressive target. AECC does not believe it is
2 reasonable for customers to fund renewable energy subsidies in excess of that amount.
3 According to APS, based on current economic and sales forecasts, APS projects to meet
4 approximately 12 percent of the Company's retail sales with renewable resources by the
5 end of 2015, which is more than double the Commission's REST requirements.

6 In its Memorandum, Staff recommends approval of APS's proposed \$143.0
7 million budget, which would result in the collection of \$114.4 million through the RES
8 adjustor after accounting for \$28.6 million in offsets (including \$6 million collected in
9 base rates). The Commission approved a 2013 REST budget of \$102.6 million,
10 including \$86.1 to be collected through the REST surcharge, and \$16.5 million in
11 offsets.¹ APS's proposal represents a budget increase of 39.4%, and a REAC increase
12 of 32.9%. However, as will be explained in greater detail below, an additional \$36.8
13 million of renewable expenditures are being recovered in base rates.

14 Table 6 on page 6 of Staff's Memorandum (replicated below) presents a
15 summary of the RES collections by rate class, including funds collected from the RES
16 adjustor and \$6 million collected in base rates. Staff Table 6 compares the collections
17 under the 2013 budget with two options designed to collect APS's proposed 2014
18 budget. Staff has spread the \$6 million collected in base rates to classes based on kWh
19 consumed, and added this to the collection through the REAC tariff.

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25 ¹ Decision No. 73765, March 21, 2013, Order Correcting Decision No. 73636 Nunc Pro Tunc.

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Replication of Staff Table 6

| REAC-1 Plus \$6 Million Base Rate Collection | | | |
|---|-----------------|------------------------------|------------------------------|
| | 2013 RES Budget | 2014 APS Example 2 Option | 2014 APS Example 3 Option |
| Residential | \$43,491,610 | \$52,141,925 | \$57,177,827 |
| Small C & I | \$45,836,461 | \$39,734,718 | \$17,352,405 |
| Medium C & I | | \$15,137,649 | \$15,110,866 |
| Large C & I | | \$7,830,458 | \$16,815,519 |
| Industrial | \$2,771,929 | \$5,555,250 | \$13,943,384 |
| Total | \$92,100,000 | \$120,400,000 | \$120,400,000 |

However, Staff Table 6 does not recognize \$36.8 million in annual REST program costs that were shifted into base rates in mid-2012 as a result of the Settlement Agreement approved in Docket No. E-01345A-11-0224 (Decision No. 73183). These dollars are shown in AECC Table 1 and are spread among customer classes in the same proportions as the \$6 million of renewable energy costs recovered in base rates shown in Staff Table 5. When the additional \$36.8 million in renewable energy expenditures are included, as shown in AECC Table 2, it shows that APS proposes to collect \$157.2 million for renewable expenditures in 2014, rather than \$120.4 million.

AECC Table 1

| Estimated Collection from Base Rates per Decision No. 73183 | | | |
|--|------------------|------------------------------|------------------------------|
| | 2013 Rate Design | 2014 APS Example 2 Option | 2014 APS Example 3 Option |
| Residential | \$17,576,085 | \$17,479,604 | \$17,479,604 |
| Small C & I | \$15,133,916 | \$5,304,734 | \$5,304,734 |
| Medium C & I | | \$4,619,482 | \$4,619,482 |
| Large C & I | | \$5,140,605 | \$5,140,605 |
| Industrial | \$4,096,999 | \$4,262,576 | \$4,262,576 |
| Total | \$36,807,000 | \$36,807,000 | \$36,807,000 |

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AECC Table 2

| Total Collections (REAC-1 plus Base Rates incl. Shift from Decision No. 73183) | | | |
|---|-----------------|------------------------------|------------------------------|
| | 2013 RES Budget | 2014 APS Example 2 Option | 2014 APS Example 3 Option |
| Residential | \$61,067,695 | \$69,621,529 | \$74,657,431 |
| Small C & I | \$60,970,377 | \$45,039,452 | \$22,657,139 |
| Medium C & I | | \$19,757,131 | \$19,730,348 |
| Large C & I | | \$12,971,063 | \$21,956,124 |
| Industrial | \$6,868,928 | \$9,817,826 | \$18,205,960 |
| Total | \$128,907,000 | \$157,207,000 | \$157,207,000 |

According to APS, the 2014 plan includes the following components:

- PPA contract commitments (\$50.6 million in 2014)
- PBI contract obligations (\$40.1 million in 2014)
- AZ Sun revenue requirements (\$36.2 million in 2014)

In addition, the Plan outlines APS's intent to move ahead with RFPs, sign contracts and begin construction on the final 50 MW of the AZ Sun program in 2014. The final 50 MW of AZ Sun includes installation of 30 MW at APS's Redhawk facility.

This pattern of rapidly-increasing annual REST budgets is impactful on customers. To the extent that previously-approved commitments and compliance with the 2009 Settlement can be achieved with less funding than proposed by APS, AECC recommends that such a lower-cost option should be adopted. This may include deferral of APS-owned projects to the extent that any are deemed unnecessary for compliance with the 2009 Settlement.

II. AECC Recommends That the Commission Not Adopt Any Change in the Customer Class Categories at This Time, But Rather Recover Any Revenue Increase Via a Proportionate Increase in the kWh Rate and Caps Using the Current Customer Class Categories.

APS presents three examples of REAC cost recovery allocations designed to collect APS's proposed \$114.4 million. Example 1 retains the current three class allocation methodology. Example 2 uses a five customer class approach, by

1 differentiating Small Commercial, Medium Commercial and Large Commercial
2 customers based on load size. Example 3 calculates an equal kWh charge that would
3 apply to all customers, with no caps.

4 Staff supports Example 2, which utilizes the same customer class categories
5 recommended in the Staff Memorandum and Proposed Order, filed October 18, 2012,
6 in the previous REST docket, Docket No. E-01345A-12-0290. The Commission's
7 Decision No. 73636 in that docket directed APS to "conduct a study of how to expand
8 the current three customer categories for the REST surcharge into more distinct
9 categories," and ordered that APS "shall file any proposed changes from the customer
10 category changes study in its 2014 REST Plan."²

11 APS does not indicate in its Application the allocation methodology or
12 underlying study from which the monthly caps proposed under Example 2 are derived.
13 As can be seen in AECC Table 3, the increase in monthly caps proposed under
14 Example 2 varies widely among the customer classes, with the Residential and Small
15 Commercial caps (as well as the kWh rate) increasing 12.5% over current rates, while
16 the Medium Commercial, Large Commercial, and Industrial caps increase by 89.3%,
17 278.6%, and 59.1%, respectively. It is also important to note that, while the Industrial
18 cap will be \$2,200 in January 2014, it progressively increased from \$1,000 during 2013,
19 so the average rate paid by Industrial customers was approximately \$1,600 in 2013.
20 Thus, APS's proposed cap of \$3,500 (under both Example 1 and Example 2) represents
21 an increase of 118.8% over the average 2013 cap for this class.

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26 ² Decision No. 73636, January 31, 2013, at 27.

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AECC Table 3

| Increase in REAC Rates Under Example 2 Approach | | | |
|--|----------------------|----------------------------|---------------------------|
| | Current Rates | 2014 REST Example 2 | % Increase in Rate |
| kWh rate | \$0.009575 | \$0.010772 | 12.5% |
| Residential Cap | \$3.83 | \$4.31 | 12.5% |
| Small Commercial Cap | \$142.25 | \$160.04 | 12.5% |
| Medium Commercial Cap | \$142.25 | \$269.30 | 89.3% |
| Large Commercial Cap | \$142.25 | \$538.60 | 278.6% |
| Industrial Cap | \$2,200.00 | \$3,500.00 | 59.1% |

Because the REAC revenue increases proposed in this case are so large, **AECC recommends that the Commission not adopt any change in the customer class categories at this time, but rather recover any revenue increase via a proportionate increase in the kWh rate and caps using the current customer class categories.** This approach would spread the rate increase proportionately among customers and be the least disruptive means to absorb the higher REAC costs.

While AECC believes this approach is preferable to the “Example 2” approach, AECC acknowledges that the Example 2 approach is still preferable to the Example 3 approach, in which an equal kWh charge would be applicable to all customers. The Example 3 approach would result in rate shock to many customers and should not be considered.

CONCLUSION

For the reasons set forth above, AECC requests that this agenda item be held until the next Open Meeting.

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RESPECTFULLY SUBMITTED this 15th day of October, 2013.

FENNEMORE CRAIG, P.C.

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