January 16, 2014





Arizona Corporation Commission
Docket Control
1200 W. Washington Street
Phoenix, Arizona 85007

ORIGINAL

**RE: In the matter of the Commission's inquiry into potential impacts to the current utility model resulting from innovation and technological developments in generation and delivery of energy.**
**DOCKET NUMBER E-00000J-13-0375**

Dear Commissioners,

Western Grid Group (WGG) works throughout the Western Interconnection to improve the efficiency of the existing transmission grid, to expand transmission access for clean, renewable energy, and to ensure that transmission is planned to minimize environmental impacts. The organization, staffed by former regulators, state officials and energy developers, encourages the development and implementation of operational and market reforms that reduce costs of integrating renewables while improving electric system operational reliability and flexibility. Program information about WGG and biographies of staff are found at www.westerngrid.net.

WGG commends the Commission on its endeavor to understand technologies that are or are likely to affect the state's regulated electric utilities. In addition to evaluating the effect and benefits of various technologies on utilities and utility business models it is equally important to evaluate what operational changes can be made to the system that might provide greater, more lasting and broader benefits.

**WGG believes that the most important long-term change that should be considered by the Commission is to move away from traditional rate-of-return regulation and toward regulating on utility performance**. The current model of rate-of-return regulation for distribution service and generation assets conflicts with the move to a more decentralized, customer-sited and owned generation mix and greater use of energy efficiency to reduce load growth. The Commission has begun to move in this direction as it has adopted a form of revenue decoupling and created performance incentives for achievements in energy efficiency. The Commission has also supported decentralized, customer-site generation through regulatory policy.

These innovative regulatory strategies have benefitted Arizona consumers by providing more choice in energy and encouraging the adoption of the lowest cost energy resources (energy

efficiency). WGG recommends that the Commission consider goals for the electric sector and electricity service providers. Established goals, such as lowest societal cost of energy, should be measured through the performance metrics of reliability, safety, emissions rates and customer satisfaction to compensate regulated utilities.

WGG commends to the Commission the work of the Western Interstate Energy Board and its Committee on Regional Electric Power Cooperation (CREPC). CREPC has been evaluating many of the issues the Commission has raised. The October 2013 CREPC meeting hosted a panel: *Future utility model - Do the facts support a change in utility business models for state regulation?* Experts from western utilities, academia, national laboratories and energy consultants provided the latest thinking for consideration by the west-wide group of state regulators. Speakers and presentations can be found at http://www.westgov.org/wieb/meetings/crepcfall2013/CREPC-SPSCagenda.pdf

CREPC is expected to continue to evaluate the topic of pressures on utilities and changing business models at its next meeting, scheduled for Tempe on March 24- 26, 2014. This meeting will provide an opportunity for Commissioners, staff and interested individual to engage in the regional dialogue on this important issue.

**WGG believes that the single most important short-term change regulated utilities can make is to join the Energy Imbalance Market (EIM) being developed by the California Independent System Operator (CAISO), PacifiCorp and Nevada Energy.**

An EIM can provide the following benefits to utilities that join this voluntary, real-time market:

**Improved Reliability** – The Federal Regulatory Energy Commission recognizes the reliability benefits of an EIM in its paper, *Qualitative Assessment of Potential Reliability Benefits from a Western Energy Imbalance Market.* [1] In addition, the Southwest Power Pool (SPP), in its experience with an EIM reports "SPP has experienced both a faster response to reliability, for thermal, stability, and voltage limits or issues, as well as SPP members experiencing a better economic solution to those limits or issues."[2] In presentations given before the Public Utility

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http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&ved=0CDkQFjAB&url=http%3A%2F%2Fwww.caiso.com%2FDocuments%2FQualitativeAssessment-PotentialReliabilityBenefits-WesternEnergyImbalanceMarket.pdf&ei=QIYfUtWjKYTvigKkhoDwCg&usg=AFQjCNHgVk_qoQ_afB6tTHmurb-XLM5mYQ&sig2=du8ynsepLX8ZlSegxCJCww&bvm=bv.51495398,d.cGE

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http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CC0QFjAA&url=http%3A%2F%2Fwww.westgov.org%2Fwieb%2Fmeetings%2Fcrepcsprg2013%2Fbriefing%2FSPPexp.pdf&ei=TPnXUuTrOczyoATSsoAY&usg=AFQjCNH9qZVqTjdoOzPnkLI7VASjLnqlSQ&sig2=krA3zWCY_GRIm4GGNYtUmA page 5.

Commission EIM group, SPP representatives reported that the reliability benefits of an EIM are likely to be more valuable than its economic benefits.

**Increased Situational Awareness** – An EIM provides increased situational awareness for utilities so they have the data necessary to see emerging issues on the transmission system to be able to take corrective action rather than respond to system failures after they occur.

**Access to Lower Cost Resources** – An EIM allows utilities to purchase imbalance energy that is available from other utilities that is lower cost than the utilities' own energy resources if transmission capacity is available.

**Lower Energy Reserves** – Utilities that have access to imbalance energy through the real-time, five minute EIM market can lower the amount of expensive reserves they must carry and thus the cost of those reserves. SPP reports "Balancing Authorities have reported reduced reserve requirements for ramping based on Schedule or Load changes."[3]

**A Market to Sell Excess Generation** – Just as a utility in an EIM can buy imbalance energy, it can also sell energy into the imbalance market creating additional revenues for the utilities and lower costs for customers (as off-system sales are credited against utility costs).

For the above stated reasons WGG respectfully requests that the Commission allow time for a thorough discussion of EIM. WGG recommends that the Commission request experts from the Western Interstate Energy Board or CAISO to present on this issue.

Thank you for the opportunity to provide these comments.

Respectfully submitted this 16th day of January, 2014.

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