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ACC Commissioners
Steven Olea, ACC Director, Utilities Division
Arizona Corporation Commission (ACC)
1200 W. Washington Street
Phoenix, AZ 85007
Via eMail

Subject: Proposed Actions to Improve Costs & IRP E-00000XX-13-0214

I am writing to propose actions for ACC consideration that I believe will optimize benefit to ratepayers and sustain our utilities, both fundamental objectives of the Commission.

Absent the natural incentives to improve, acquire and maintain market share that exist in competitive markets, I believe it critical that the Commission demonstrate the will, leadership, and guidance required to compel our regulated utilities to willfully, responsibly and aggressively implement the continuous improvement culture and process that utilizes, and develops, new technologies to reduce costs, not just explain, justify and pass them on to customers. Charging ratepayers for costs that could be avoided is neither reasonable nor appropriate.

New technology enables improved and more demanding performance metrics, standards and relationships, utility sales retention (DG kWh), that are necessary for the financial sustainability and viability of our for-profit utilities and to optimize benefit to their customers and our communities. The Commission should maintain a collaborative regulatory relationship while tasking the utilities to use their competency and ratepayer resources to deliver optimal value to ratepayers.

Many of the recent Commission decisions, practices, and underlying strategy, are inconsistent, appear to favor the utilities and would not be considered optimal by private sector shareholders resulting in sense that the Regulators, after several decades of status quo, may have become too familiar with those that they regulate. Following are several examples:

ACC Integrated Resource Plans (IRP) & Regulatory Certainty

- Lifecycle Component & System valuation

IRP's presently developed by regulated utilities and accepted by the Commission fail to comprehensively and fairly project and compare all costs and benefits of the possible generation technology mix (Utility scale & DG Solar, coal, gas, etc.), which consequently dictates the location of the generation asset and required transmission and distribution costs, for the lifetimes of the selected components and resulting systems. This practice results in avoidable costs to ratepayers.

- Utility "Purchasing Power"

The IRP's do not focus, consolidate, leverage and harvest the significant benefits inherent in the enormous multi-year "Corporate" purchasing power of our utilities to compel development and rapid achievement of product/price maturity of the technologies and products necessary to optimize use of ratepayer funds and delivery of benefits. APS & TEP could/should consolidate purchased requirements to reduce costs.

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Austin, TX's municipal utility, Austin Energy, recently established a multi-year PPA contract for 100-150MW of PV facilities at **5c/kWh** with Sun Edison, less than their cost to generate via natural gas (7c/kWh) and coal (10c/kWh) and less than the blended MCCCG of our regulated utilities. Scale and regulatory certainty were cited as fundamental factors enabling the market to provide that pricing. (Sources: http://www.statesman.com/news/news/austin-energy-close-to-signing-cheapest-solar-powe/nd8BF/ and http://www.greentechmedia.com/articles/read/Cheapest-Solar-Ever-Austin-Energy-Buys-PV-From-SunEdison-at-5-Cents-Per-Ki).

- Regulatory Certainty

Regulatory certainty is necessary to establish the participation and investment by private sector required to provide the rapid development and deployment of lower total cost technology, products and solutions.

The ACC should provide the regulatory certainty for Arizona utilities to establish multi-year contracts to satisfy current REST requirements, and enable our utilities to exceed when advantageous to ratepayers, at similar, perhaps better pricing than Austin Energy received as Arizona has greater solar intensity.

Our utilities have not aggressively promoted the development of feasible storage solutions, which would significantly reduce traditional and future costs:

1) Eliminate or reduce the current ACC approved practice for utilities to sell excess electricity generated by non-dispatchable base load plants at less than cost to a few customers, shifting those unrecovered costs to other customers, enabling significant and welcome cost reductions for 90+% of ratepayers;

2) Eliminate the traditional response to REDUCE/IDLE generation assets to resolve supply-demand imbalances, resulting in higher costs per kilowatt-hour to recover fixed assets costs;

3) Eliminate or reduce the need and long-term commitment involved with expensive natural gas peakers that require incremental transmission infrastructure and related energy loss costs, and whose fuel and emissions costs increase significantly every year and result in precious potable water loss. In particular, Tucson Electric Power Company's plan to purchase a gas generating plant located at Gila bend and incremental transmission infrastructure.

4) Improved system reliability and exposure to cascading historical "black-outs", resolve solar electric intermittency concerns, enabling the deployment of multiple utility scale dispersed local generation (PV SAT) facilities, lower remote base load(coal)plant run rates, resulting in much lower fuel, emission, transmission infrastructure capital requirements, energy losses, and water lost to evaporations costs that are expected to increase significantly over the life of traditional fossil fueled generation assets.

California has already initiated a mandate that their utilities purchase 1.3GW of storage by 2020. A two-state California-Arizona mandate would provide the demand, regulatory certainty and competition necessary to accelerate product development and cost maturity. Cost reductions to those costs included in current base rates and surcharge revenues, such as those that would be generated by multi-year utility scale PV generation, PPFAC, ECA and water costs, etc., could be used to fund storage component development.

Compensation: Rate & Reward Structure

To optimize delivery of value to shareholders AND ratepayers, the ACC should promote utility deployment of effective continuous improvement cultures and business practices utilized by best-in-class competitive market

corporations. Definition of quantifiable performance result metrics and appropriate reward and compensation policy is a critical component of those performance driven cultures.

- Cost Plus Guaranteed Profit Structure

The current ACC cost plus guaranteed profit (fee or rate-of-return, ROR) structure, and the highest average wage of all industries in the State of Arizona it supports, would not be considered "reasonable" by most reasonable persons, customers and ratepayers. The supplier (utility) has no to minimal direct consequence for increased costs and as profit is based on cost, it provides disincentive for the utility to reduce costs while preserving quality and service, promoting stagnation, mediocre performance and less than optimal value to ratepayers. The 8% ROR in a regulated low risk market is generous when compared to other competitive high risk market returns earned by competent corporations with similar challenges.

I've included in other dockets a suggestion that some version of rate reform that funds and pays ROR, profit or fee, based on the sharing of cost REDUCTIONS between shareholders and ratepayers would allow the utility to earn needed profits, initiate a continuous improvement culture, fund necessary new technology development, and reduce the amount of customer generation and lost utility sales.

- Customer Class Rate Equity

The ACC continues to maintain and approve the expansion of a very complicated cost and profit recovery structure comprised of many dependent base rates, surcharges and riders that make it very difficult, and costly, for even professional staff to understand validate. The Commission is encouraged to reduce to just a few comprehensive rates, eliminate surcharges/riders, and standardize for all regulated utilities.

Per the TEP/Roshka October 11, 2011 letter response to Commissioner Newman (page 9, item 6), 43 for-profit Industrial & Mining Customers purchase 21.6% of common system production and pay only 8.6% of the Renewable Energy Surcharge (RES) budget; those costs are shifted to Residential Customers who pay 43.2% of the RES. I also understand that most of that electricity is priced via Special Contracts at about 3-4c/kWh, much <u>less</u> than the cost to generate and deliver it, requiring recovery of those millions of dollars of costs and profits from all other customers; Residential customers pay something like 13c/kwh (invoice$/kWh).

A single rate of 11c/kWh for most all customers would generate the same amount of sales, recovery of costs & profits, and result in a much desired 15% cost reduction and economic stimulus for most customers.

- Inappropriate Utility Preference & Use of Ratepayer funds (TEP Order 74165)

The TEP 2014 REST plan approved by the ACC reimburses TEP shareholders with more than $10M of ratepayer funds over just a 3-year period, for the TEP shareholder owned Ft. Huachuca 20-MW solar facility.

I agree, and I believe that if informed most ratepayers would agree, with Commissioner Brenda Burns October 25, 2013 dissent, that it is patently inappropriate to subsidize TEP For Profit Shareholder(Investor) funded/owned Renewable energy facilities utilizing ratepayer RES funds <u>especially</u> when those Investor beneficiaries receive significant Federal tax benefits not shared with ratepayers and pay no RES, while the commercial Distributed Generation(DG) Customers that do pay into the RES are provided with zero financial support for their investments/investors in eligible renewable energy facilities.

That ACC order also eliminates the capacity for customers to self-direct and use RES funds they pay to establish RE facilities ostensibly because other customers receive no incentives; to be consistent, that logic should also be applied to shareholder owned RE assets.

- Utility Metropolitan Micro-Grids(MMG)

Most customers choose to self-generate to control and stabilize their costs, avoid never ending price increases. They recognize that they assume the incremental risk, responsibility and cost to integrate suppliers and utility to establish and maintain those systems.

As mentioned previously, our utilities have enormous purchasing power, leverage and the knowledge required to use and develop new technology to equal or better DG and Austin Energy costs.

If our utilities were to provide and stabilize the cost of electricity at similar costs most would not choose to self-generate, enabling the utilities to retain market share and sales required to reduce unit (kWh) costs, and resolve the current non-productive debates regarding DG.

The establishment of multiple distributed utility scale solar facilities and distributed storage components interconnected to the Tucson metropolitan distribution grid would improve reliability, eliminate traditional and new line balancing issues and costs, eliminate new transmission infrastructure costs and related energy losses, enable significant reduction in coal base load plant run rates and related cost shifting from mines to other customers, and cost reductions in annual recurring fuel, depreciation, emissions, carbon penalties and water loss costs which are expected to increase significantly over the next few years and life of current assets.

The REC's can be sold on future carbon markets; our Federal government, DOE/EPA, may provide CleanTech grants to support learning, and deployment by private sector to other western states. This project would provide many high wage construction and engineering jobs and attract higher wage component manufacturers.

Higher wage jobs will allow and stimulate population growth, increase utility electricity sales and recovery of fixed costs, enabling lower rates.

With the appropriate ACC leadership and support our utilities possess the knowledge and competency to provide these benefits.

In closing, to optimize the return on ratepayer funds, to focus, leverage and sustain significant and beneficial utility competencies, it is critical that the Commission evolve their traditional policy and practices to responsibly and rapidly nurture and deploy desirable new technologies and establish continuous improvement culture; that compels utilities to avoid and reduce costs not just pass them on to ratepayers.

Sincerely,

Mr. Terry Finefrock, CPIM
TEP Ratepayer
Former Director, Corporate High Technology Manufacturing Operations/Global Supply Chains