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ORIGINAL

COMMISSIONERS

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October 14, 2014

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TEP COMPANY

**IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER
(TEP) FOR APPROVAL OF ITS 2015 REST IMPLEMENTATION PLAN
Docket E-01933A-14-0248**

I am writing to provide the following observations and suggestions regarding Tucson Electric Power Company's (TEP) 2015 REST Plan for the Commission's consideration.

GENERAL

The development of new lower total cost Renewable Energy(RE)technologies to generate, store and deliver energy have created challenging opportunities for the Commission and its regulated utilities to leverage ratepayer revenues and significantly improve returns of value to ratepayers. We are fortunate that our utilities are competent and possess the capacity to quickly optimize value, control and reduce total costs, if guided, motivated and compelled to do so by the Commission.

I am encouraged by TEP's statement that they remain solidly committed to the REST and by their investment of shareholder funds to own renewable energy facilities; both actions clearly affirm the financial value of renewable technologies. However, it is disappointing that their planned actions will not exceed the minimum requirement of the REST and the subsequent reductions in lifetime total costs to ratepayers that would occur if properly implemented, an indication that there are other dynamics and constraints involved. Subsequent to discussion with utility technical staff, Integrated Resource Plans (IRP), many informed and competent ratepayers believe that a current generation mix of 30% solar would enable significant cost reductions and benefit to ratepayers for the life of existing generating assets/mix. Increasing renewables, decreasing fossil fueled asset generation, allows full depreciation and recovery of sunk cost assets over time. Increased solar mix would also avoid the imminent EPA carbon penalty, which at TEP's current generation mix, would result in about a 1.4c/kWh increase in the fuel surcharge for every \$15/ton of carbon penalty

In prior dockets I've observed that the current cost plus profit as a percent of cost rate structure is a likely constraint and disincentive to the willful, unbiased and collaborative development, evaluation and deployment of lower cost solutions and achievement of a fundamental objective of the REST...lower total cost reliable generation and delivery of electricity.

I recommend that the Commission consider near term modification of rate structure to pay the profit or fee, "return on rate", portion of the current rate via sharing of actual cost reductions in base rate and surcharge components between ratepayers and shareholders. That reward system is fair to both parties, will provide tangible incremental value to ratepayers, enables the utilities to earn and justify their highest average wages of any industry in Arizona

(\$92,000/year per the Arizona Department of Administration), will encourage utilities to adopt continuous improvement culture and methodology, improve the unbiased lifetime of assets cost evaluation of generation and delivery options for IRP's, and would reduce or control the cost of utility electricity and the consequent motivation for customers to self-generate electricity and the consequent acrimony and non-productive distractions.

I continue to be discouraged by the Commission's lack of transparency regarding financial information ratepayers require to determine if actions and agreements are fair and to offer potential improvements; in particular the redaction of traditional MCCCG data; Confidential Special Contracts, and Utility PPA's. As a government agency the Commission is bound to support transparency and the full intent of public records law, yet they allow submittals and unsubstantiated claims of confidentiality, requiring that a requestor execute a non-disclosure agreement (NDA) to acquire the information, which subsequently prohibits them from publishing conditions they deem inappropriate. Our utility markets are regulated, not competitive, utilities are guaranteed all customer retail sales in their assigned territory and their financial performance is assured and funded by ratepayers via Commission approved rates. Commission actions that constantly increase ratepayer costs while enabling utilities to pay the highest average wage of all industries in the state of Arizona (Arizona Department of Administration) and guarantee them recovery of all costs and profit equal to or greater than best-in-class competitive market businesses, provides support to claims that regulators may have become far too familiar with those that they regulate.

I recommend that the Commission make available to the Public all information, records and agreements needed by the Commission and provided by the utilities without requiring an NDA.

B. BRIGHT TUCSON BUILD-OUT PLAN (page 5)

The Commission has previously expressed appropriate concern regarding the magnitude of the Renewable Energy Surcharge (RES) and in recognition of the dramatic reduction in costs consequent to the brief 5-year and very successful program of local Customer Distributed Generation (DG) incentives (PBI-UFI) suspended local incentives for Residential & Commercial scale renewable energy facilities.

Utility Scale REST/RES Costs: Consolidate & Leverage Utility Purchases

Greater reductions in the cost of utility vs. DG scale Renewable Energy (RE) have occurred; long term contracts (PPA) for solar electric facilities that include financing, operating and maintenance costs can now be established at less than 5c/kWh, less than the amount recovered for generation included in the current base rate. And RE, solar in particular, reduces many other significant costs and surcharges consequent to fossil fueled generation. Solar can be sited locally within/adjacent to the Distribution infrastructure conserving and eliminating the need for expensive transmission infrastructure, about 10% of TEP Residential bill, and the associated 8% energy loss requiring incremental generation; solar reduces harmful emissions and does not lose billions of gallons of precious potable water to evaporation that fossil fueled generation experiences. Solar would also avoid significant new carbon penalty costs.

TEP can, but chooses not to, establish multi-year contracts for multiple "as required" solar facilities at much greater scale and lower cost than their project specific contracts; the larger

scale longer term agreements would include guarantees that the price/kWh reduce each year as improvements are made and market prices continue to decline; perhaps aggregate procurements with Arizona Public Service Company to benefit both groups of ratepayers. Scale and certainty of demand enable suppliers to invest in the research and development necessary to reduce costs and provide optimal pricing.

It is reasonable to expect that our utilities utilize procurement processes that optimize current and future costs. I suggest that the Commission consider mandating that its regulated utilities collaborate and consolidate their procurements to reduce ratepayer costs.

TEP Owned RE Facilities

Regarding TEP Owned facilities, production based incentives (PBI) funded via the Renewal Energy Surcharge (RES) and reimbursement payments funded by rates/surcharges:

TEP is a "For Profit" privately held corporation and does not contribute to the RES. TEP also receives significant tax deduction benefits from the RE facilities that are not shared with ratepayers. TEP states that it .."feels it appropriate at this time to remove the utility incentive"....(page 7; section D; TEP REST filing).

It is reasonable to believe, but I cannot affirm due to *Confidential* document filings, that the cost of utility scale solar facilities if optimally procured in recent years are less than the cost recovered by the current base rate and surcharges. Therefore, any projects initiated since the current base rate/surcharges should require neither reimbursement nor incentive payments; unrecovered and responsibly procured cost reimbursements should be funded by the base rate, not RES; Providing RES funding to the utility and not Customers is essentially an inappropriate and unearned gift and benefit to utility shareholders.

I am proposing that the Commission eliminate, not provide, RES funds or reimbursements for utility owned RE projects that were initiated after the suspension of commercial scale PBI, and/or when the optimally leveraged and contracted price/kWh of RE generation would have been equal to or less than the amount recovered by the base rate.

C. ENERGY STORAGE PROPOSAL (page 6)

I and many others believe that mature "circuit" energy storage technology is critical to the control of and reduction in system costs and reliability improvement. Although a responsible and commendable action, the minimal magnitude of actions contained in TEP proposed plan does not appropriately reflect the magnitude of recurring and significant benefits to ratepayers that "circuit" storage technology can provide. **The Commission should consider actions to significantly increase the implementation of energy storage technology by all regulated utilities.**

Although the same very expensive mature technology natural gas peakers that are presently used to mitigate the non-dispatchable base load coal plant production could also be used to mitigate solar intermittency when necessary, actions to develop and deploy mature storage technology would provide much greater cost reductions and benefits to ratepayers and taxpayers.

Storage technology and operating-integration systems are direct functional replacements for the traditional very expensive (cost/kWh) fast-response natural gas “peakers” presently required to address the non-dispatchable limitation of coal base load plants. Distributed on circuits, not centralized, where there are significant fluctuations in demand or supply, storage solutions will address most system line balancing issues, eliminate the significant costs associated with non-dispatchable coal base load plants, and as the amount of implemented solar electric generation increases would address the intermittency concerns expressed by TEP. Storage, and multiple dispersed solar electric facilities, would also improve overall system reliability.

Mature storage provides much greater value and benefit than “peakers” as they:

- 1) When charged via photovoltaics or wind, the chosen most popular technologies of TEP’s RE portfolio, they reduce significant potable water lost to evaporation; as much as seven (7) BILLION gallons/year based on TEP sales plan; alternative water sources will cost 10-50 times more than current sources (Modeer/CAP).
- 2) Enable storage of excess night-time base load plant generation and sale at retail rates, eliminating sale at less than cost to a few customers, shifting recovery of those costs to all other customers. Mining & Industrial Customer class represents about 22% of TEP sales. For example, if the *confidential* special contract rates are 4c/kWh and others pay about 12c/kWh, all customers could pay about 10.5c/kWh ($.22 \times 4 + .78 \times 12$) resulting in a **13% decrease in costs for most all ratepayers**, residential, commercial businesses, etc. Initially, until technology maturity achieved, base rate reductions could be deferred and those incremental revenues could be used to fund storage development.
- 3) In contrast to natural gas peakers, Storage & RE have neither recurring fuel nor related emissions costs (PPFAC, ECA, methane from gas mining, etc.). Natural gas prices are subject to great volatility; despite greater supply North American natural gas prices doubled to about \$5 in the last three years; Asia, Japan, India are paying \$18-23, even after liquefaction/transport the margin is much greater than North America, that demand and circumstance is likely to significantly increase local prices.
- 4) Eliminate the increased unit cost of electricity caused by conventional line balancing; when an excess occurs, reduce or disconnect the generation source. This results in less production, kWh generated, and higher cost/kWh to recover fixed costs.
- 5) When combined with local solar electric generation, conserves and eliminates the need for expensive transmission and related (8%) losses of energy requiring incremental generation and costs.

Local utility scale Metropolitan Microgrids(MMG) comprised of multiple dispersed solar electric facilities and multiple circuit energy storage located within and adjacent to the distribution infrastructure would avoid the need for expensive transmission infrastructure, 8% energy loss, environmental concerns and surcharge costs, and would significantly improve system reliability; especially for those locations at the edge/end of the transmission grid (Nogales, Sierra Vista, Tucson). Tucson is serviced by just two transmission lines; if one becomes inoperable the other would be quickly overloaded, resulting in cascading black/brown-outs and costs similar that which occurred with APS. Several years ago when wildfires threatened transmission infrastructure the Springerville base load plant was shut down for a few days,

Tucson demand satisfied by local natural gas peakers, resulting in a \$15M true-up charge to customers.

Costs are certain to increase significantly over the long life of natural gas generation assets; it is probable that long before end of asset life, full depreciation and recovery of all value, that those costs will be much greater than current alternatives.

I am proposing that the commission consider a short 5-year program mandating that our regulated utilities implement storage capacity equivalent to that being mandated by California (1.3GW by 2020) relative to Arizona's scale. As demonstrated by the Commission's very successful former PBI/UFI RE program a two-state mandated 5-year program would provide the market certainty required to accelerate the development of cost effective "circuit" storage technology

Storage cost recovery proposal(Page 6)

In this section of their REST Plan TEP requests guidance regarding cost recovery and suggested use of existing or new surcharge.

Storage, like the traditional natural gas peakers they will displace, would be an integral and critical system component. As such, it seems that their costs should be recovered by the base rate, not a surcharge.

If initial circuit storage cost is greater than that recovered for gas peakers by the base rate, and/or if and during the time that a 5-year temporary storage mandate is implemented, the Commission might consider utilizing the existing Demand surcharge to recover storage costs as is done today for the premium, above base rate, cost of natural gas peakers. The demand charge would also promote large energy users with significant fluctuation in load to invest in and encourage the market to develop behind the meter storage to manage their loads, reduce system costs paid for by all other ratepayers.

D. UTILITY OWNED DISTRIBUTED GENERATION (DG) TARIFF

Although the requirement for any modification of the REST DG Program is not substantiated at this time, a "pilot" program appears to be beneficial as it would establish more RE, would be better than the Track and Record or Monitor options which are likely to result in litigation if implemented and they will provide system data for TEP to learn how to best integrate DG. However, the REST DG carve-out acknowledged that it was important to have more than one "Buyer" of DG and as TEP stated in their filing the rate of DG installations is not decreasing, REST requirements are being achieved, and there are other actions that can and should be taken to remove-reduce current impediments to DG before any significant amount of Utility Owned DG is authorized.

The DRAFT tariff docketed by TEP does not provide many details, including a referenced contract that should address more important details; such as what occurs when the customer needs to perform roof maintenance potentially requiring temporary movement of TEP equipment and production interruption.

The cost appears to be reasonable; 3.5 MW; about 5.6M kWh/year, 140,000,000 kWh for 25-years; \$10M TEP investment; about 7.1c/kWh. However, as the typical residential rate results in about a 12c/kWh charge, this suggests that there could be \$7M, 5c/kWh, of unrecovered costs. The filing is not clear regarding if there are costs in excess of the TEP funding if they would be charged to other ratepayers, perhaps via the LFCR or other surcharges.

To assure achievement of the DG REST objectives as agreed to by all parties, utilities, interested parties and the Commission, I suggest that the Commission consider tasking Commission staff and regulated utilities to determine how best to alleviate the following recent impediments to Customer established DG:

New surcharges & tariffs that reduce net metering credit

The Commission's approval of new surcharges, rate structures that shift costs from the base rate to surcharges consequently reducing the net metering credit, complicate and discourage customer implemented DG by both Residential & Commercial customers.

Commercial Scale Engineering Study Costs

Uncertainty regarding the significant potential amount of costs and length of time for the utility to complete new engineering interconnect studies for commercial scale DG RE facilities also impede and therefore discourage the establishment of those projects. Most are established via SSA/PPA where the facilities are owned and financed by developers and financing must incorporate all costs in the customer pricing and financing opportunities are time sensitive.

The studies may provide only minimal if any incremental value; in most cases the utility is already providing an equal amount of energy to the customer via existing circuit capacity, any upgrades should be a system, not a particular customer, cost, and the customer RE facilities provide the utility with wireless disconnect capacity if needed.

As above, I believe the "pilot" program merits consideration. It is far more collaborative, innovative and productive than the program proposed by Arizona Public Service Company.

In closing, I encourage the Commission to lead and compel our regulated utilities in the harvesting and implementation of new technology to reduce ratepayer total costs and improve our economy. I thank the Commission for the opportunity to provide these comments.

Respectfully submitted,

Mr. Terry Finefrock, CPIM
TEP Ratepayer

Distribution: S. Olea; R. Gray

Beth L. Soliere

From: robert sailer <sailerrd@outlook.com>
Sent: Tuesday, October 21, 2014 1:06 PM
To: Stump-Web
Subject: ACC dockets: SW-01303A-09-0343 W-01303A-09-343

As a resident of Verrado, I would like to respectfully urge each member on the Commission to vote in favor of full consolidation of EPCOR's wastewater districts.

A decision for full consolidation is the ONLY option which satisfies the Arizona Constitution's mandate for "no discrimination between people and places" for "like and contemporaneous service". This provides scalable, reliable, and equitable pricing in the near – and long-term for an essential service. EPCOR advocates for consolidation, make clear in their testimony that THEY consider their service to be "like and contemporaneous" among their customers. As the provider, the greatest weight must be placed on their assertion.

Some cite "cost cause" pricing as justification for inequitable rate. Yet this is not the case for other major utilities, such as electricity and natural gas. In fact, it's not the case currently in place for Agua Fria customers, who collectively distribute costs for multiple and independent components of infrastructure. The Commission's prior decision to deconsolidate Anthem from the greater Agua Fria district was not based on "cost cause" principles, but rather to implement the conditions of a settlement. Cost cause is simply not a reality in today's pricing and will have a significant impact on potential growth to the communities that are bearing the brunt of the deconsolidation cost.

Although this decision will be made against a backdrop of claims on all sides, we urge the Commission not to be swayed by short-sighted sentiment. This decision will set us all on a long-term policy course that will have a major impact on the prosperity and growth of the West Valley for years to come.

Thank you for your time and consideration in this critical matter.

Warm Welcome Smiles

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