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Chairman Susan Bitter Smith
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

Arizona Corporation Commission
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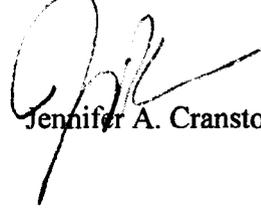
Re: *Arizona Electric Power Cooperative, Inc.'s Response to Your Letter of March 24, 2015; Docket No. E-00000V-13-0070*

Dear Chairman Bitter Smith:

Arizona Electric Power Cooperative, Inc. hereby submits the attached comments in response to your March 24, 2015 letter in this docket.

Sincerely,

GALLAGHER & KENNEDY, P.A.

By: 

Jennifer A. Cranston

JAC:njk
Enclosure
10421-73/4734865

cc (w/enclosure): Commissioner Bob Stump
Commissioner Bob Burns
Commissioner Doug Little
Commissioner Tom Forese
IRP Service List

Original and 13 copies filed with Docket
Control this 8th day of April, 2015.

Arizona Electric Power Cooperative, Inc.

Response to Request for Comments on Suggested IRP Process Improvements

In the Matter of Resource Planning and Procurement in 2013 and 2014

Docket No. E-00000V-13-0070

Arizona Electric Power Cooperative, Inc. ("AEP" or the "Cooperative") hereby submits its response to Chairman Bitter Smith's March 24, 2015 letter. As her letter indicates, on March 11, 2015, the Commission's Utilities Division Staff ("Staff") filed its report and a Proposed Order in this Integrated Resource Planning ("IRP") docket. The Proposed Order describes some concerns raised by Staff and other stakeholders regarding the IRP process and includes a variety of suggested improvements aimed at addressing these concerns. AEP appreciates this opportunity to provide the Commission with its thoughts on the suggested improvements.

Introduction

By way of background, AEP is a not-for-profit, generation cooperative that supplies all or part of the wholesale power needs of its six not-for-profit Class A Member distribution cooperatives. AEP is unique among the other load-serving entities ("LSE")¹ covered by the Resource Planning and Procurement Rules (the "Rules") because it supplies no power at retail and serves no demand-side role in the IRP process. Instead, AEP's Members are responsible for providing electricity at retail to their member/customers. Through periodic filings with the Commission, the Arizona Members are also responsible for development and deployment of any efficiency or renewable programs in relation to their retail supply function. This greatly restricts AEP's planning role in relation to the Rules.

Not only does AEP have no demand-side role, its supply-side role in the IRP process is quite limited. This is because AEP has two types of Class A Members: all-requirements members ("ARMs")² and partial-requirements members ("PRMs").³ With regard to the ARMs, AEP must plan for and meet those Members' current and future anticipated wholesale power and energy needs. However, the ARMs are AEP's smallest Member cooperatives, with a current total annual peak demand of less than 70 MW. They are also the slowest growing of AEP's Members. As a result, these three ARMs require very little in terms of AEP planning for new supply resources.

On the other hand, AEP's planning responsibility for its PRMs is dramatically different. AEP's only responsibility is to continue to make available to each PRM the

¹ The three other LSEs are Arizona Public Service Company ("APS"), Tucson Electric Power Company ("TEP") and UNS Electric, Inc. ("UNSE").

² AEP has three ARMs. Graham County Electric Cooperative, Inc. and Duncan Valley Electric Cooperative, Inc. are located in Arizona. The third, Anza Electric Cooperative, Inc., is located in south-central California.

³ AEP has three PRMs: Mohave Electric Cooperative, Inc., Sulphur Springs Valley Electric Cooperative, Inc. and Trico Electric Cooperative, Inc. All three are located in Arizona.

maximum capacity (sometimes referred to as the PRM's Allocated Capacity or "AC") which the PRM is contractually entitled to from AEP CO's existing resources. AEP CO has no responsibility or authority in relation to its PRMs to plan for, build, contract for or supply any additional power and energy above the PRM's AC which the PRM may need in the future to meet its members' retail demands. That planning and supply responsibility, instead, rests with each PRM.

Decision No. 73884

The Commission recognized AEP CO's unique attributes in its prior IRP decision, Decision No. 73884, issued in May 2013. For example, the Commission acknowledged the fact that AEP CO is exempt from the requirements of the Annual Renewable Energy Requirement, the Distributed Renewable Energy Requirement, and the Energy Efficiency Standard.⁴ Additionally, the Commission concluded that AEP CO's unique circumstances warrant a modified application of the Rules:

IT IS FURTHER ORDERED that Arizona Electric Power Cooperative shall continue in the IRP process but without the necessity of having its future IRPs acknowledged by the Commission.

IT IS FURTHER ORDERED that Arizona Electric Power Cooperative shall, in future IRP filings, submit whatever information, data, criteria, and studies it has used in its 15-year planning scenarios.

IT IS FURTHER ORDERED that Arizona Electric Power Cooperative shall provide its PRMs' load forecasts to Staff on a confidential basis when AEP CO files its IRP.⁵

Staff's Assessment and Proposed Order

In the current docket, Staff has acknowledged that the unique circumstances described in the Commission's prior decision are still in effect. Specifically, AEP CO continues to have no demand-side and only a limited supply-side role in the IRP process.⁶ Staff's Proposed Order also confirms that AEP CO submitted the information required by the Commission's prior decision.⁷ Accordingly, Staff's Proposed Order includes an Ordering Paragraph documenting AEP CO's compliance with the Commission's order.⁸

As explained in greater detail below, in considering any possible revisions to the IRP process, AEP CO urges the Commission to preserve the modified requirements approved less than two years ago. Decision No. 73884 correctly balanced the goals of the Rules with both the Cooperative's unique resource planning position compared to the other three LSEs as well as

⁴ Decision No. 73884, p. 3, ll. 11-13, Finding 5.

⁵ Decision No. 73884, p. 8, ll. 1-7.

⁶ December 19, 2014 Assessment, pp. 25-26, 43, 47, 52 and 88; Staff's Proposed Order, p. 3, ll. 21-23, Finding 6.

⁷ Staff's Proposed Order, p. 6, ll. 1-3, Finding 11.

⁸ Staff's Proposed Order, p. 13, ll. 18-19.

AEPCO's limited financial resources as a not-for-profit cooperative. Those circumstances and financial constraints remain in effect and constitute valid and compelling reasons to refrain from expanding the Cooperative's IRP obligations. This is especially true given that some of the suggestions appear to address concerns regarding how the IRP process operates for the other LSEs while others propose improvements aimed at demand-side issues that do not involve AEPCO.

Pre-Filing Public Workshops

As reflected in Staff's Proposed Order, the three other LSEs suggested that public workshops be held prior to future IRP filings in order to allow stakeholders to participate in the process of defining the issues (such as base assumptions, risk factors and new technologies) to be considered by each LSE in the planning process. Notably, Staff's proposed Commission response to this suggestion is limited to ordering the other three LSEs (APS, TEP and UNSE) to hold such workshops.⁹

Given the Cooperative's circumstances, AEPCO agrees with Staff's suggestion that any requirement to conduct pre-filing public workshops not be applied to the Cooperative. The current process and timeline are sufficient to address any concerns Staff, the Commission or stakeholders may raise regarding AEPCO's IRP filings.

Three-Year Action Plans

Staff's Proposed Order contains a number of suggestions regarding the content, evaluation and effect of the LSEs' three-year action plans, which the LSEs currently submit pursuant to A.A.C. R14-2-703.H.¹⁰ Staff has suggested the following possible revisions:

- An increased level of scrutiny of the action plans focusing on each plan's accuracy, detail and timeliness as well as how the plan implements the goals of the IRP;
- Requiring LSEs to file amendments to the action plans whenever a substantive change occurs in the near term resource plan; and
- As a prerequisite to filing an application for a Certificate of Environmental Compatibility ("CEC"), requiring the proposed resource to first appear and be discussed in the LSE's current action plan

As stated earlier, AEPCO's planning responsibility is limited to the needs of its slowest growing members, the ARMs. Given this limited obligation, AEPCO maintains that there is little, if any, benefit in requiring AEPCO to provide greater detail in its action plans or in dedicating additional Staff time to review of the plans.

Likewise, there is no need to impose on the Cooperative an obligation to amend its action plans in light of (1) the small load base and forecasted slow growth of the ARMs and (2) the current requirement in A.A.C. R14-2-703.H that an action plan be filed biannually. Further,

⁹ Staff's Proposed Order, p. 11, ll.15-25, Finding 21.

¹⁰ Staff's Proposed Order, p. 12, ll. 1-10, Finding 22.

setting aside AEPCO's individual concerns, the current proposal lacks clarity as to what kind of changes would require an amended filing.

Finally, AEPCO agrees with Staff that creating a new prerequisite to the filing of a CEC application may require legislative action.¹¹ Moreover, such a prerequisite could eliminate both the LSEs' and the Commission's flexibility to respond to unforeseen circumstances.

IRP Approval

In its Proposed Order, Staff suggests that the Commission could implement a separate approval process for the LSEs' three-year action plans, pursuant to which the Commission would approve, approve with conditions, or disapprove each action plan.¹² Meanwhile, APS has suggested that the Commission should "approve" rather than just "acknowledge" the LSEs' IRP filings.¹³

AEPCO urges the Commission to exclude it from any such "approval" process. Less than two years ago, the Commission ordered AEPCO to continue to participate in the IRP process "but without the necessity of having its future IRPs acknowledged by the Commission."¹⁴ The circumstances and factors that supported the Commission's ruling in 2013 remain in effect today and warrant a similar exemption.

Emphasis on Risks and Costs to Ratepayers

Staff's Proposed Order contains a brief paragraph suggesting that the Commission could direct the LSEs to place additional emphasis on the future risks and costs to ratepayers associated with each resource portfolio presented in the IRP.¹⁵ AEPCO should be excluded from any such requirement because it has no retail ratepayers.

Clarification of Procurement Rules

Staff has raised a concern regarding the potential ambiguity of the "procurement" portion of the Rules (specifically A.A.C. R14-2-705) and suggested that the Commission confirm that an RFP is required for any bulk acquisition of energy and capacity, regardless of whether the project is intended as a self-build project or not.¹⁶ AEPCO has no objection to a clarification, provided that the exceptions to the RFP requirement identified in Section B of the rule are preserved. These exceptions are critical because they provide LSEs with flexibility in responding to unforeseen circumstances and market opportunities.

¹¹ A.R.S. § 40-360.02 currently requires a party to file a plan with the Commission ninety days before filing a CEC application for plant construction.

¹² Staff's Proposed Order, p. 12, ll. 11-13, Finding 23.

¹³ Staff's Proposed Order, p. 10, l. 6, Finding 19.

¹⁴ Decision No. 73884, p. 8, ll. 1-2.

¹⁵ Staff's Proposed Order, p. 12, ll. 14-17, Finding 24.

¹⁶ Staff's Proposed Order, p. 12, ll. 18-23, Finding 25.

New Technologies

Finally, Staff's Proposed Order incorporates the suggestions of stakeholders that the IRP process include a discussion of new technologies in the production, storage and distribution of electricity. To that end, Staff has suggested that the Commission could direct the LSEs to include a discussion of the development status and associated costs and benefits of new technologies in each LSE's IRP and three-year action plan filings.¹⁷

AEPCO is concerned that this proposal would expand AEPCO's obligation beyond the limitations of Decision No. 73884. The Proposed Order references new technologies in the field of electricity distribution (which would logically include energy efficiency, demand-side response and distributed generation) that cannot be applicable to AEPCO because it does not provide distribution services. Likewise, it appears that a majority of the new technologies being discussed relate to demand-side issues, including renewable programs and variations in the grid associated with renewables.¹⁸ Because AEPCO has no demand-side role and is not subject to the renewables requirements, these technologies would not be applicable.

Therefore, should the Commission adopt a new technologies reporting requirement, AEPCO requests that its obligation be consistent with the Commission's prior decision. It is AEPCO's understanding that Staff interprets the obligation to be limited to reporting on what, if any new technologies, the Cooperative has analyzed in connection with meeting the needs of its ARMs.

Conclusion

Based on the foregoing, AEPCO urges the Commission to preserve the modified requirements approved in Decision No. 73884. In that decision, the Commission struck the appropriate balance between the goals of the Rules and the Cooperative's unique resource planning position and limited financial resources. Those circumstances and financial constraints remain in effect today. Therefore, in evaluating the various IRP process improvements proposed by Staff and other stakeholders, AEPCO asks that the Commission maintain consistency with the decision entered less than two years ago and reject any proposal that would expand the Cooperative's IRP obligations.

In response to the specific suggestions identified in Staff's Proposed Order, AEPCO's position on each are summarized as follows:

- AEPCO agrees with Staff that the Cooperative should not be required to conduct pre-filing public workshops;
- AEPCO should be excluded from any requirement to provide more detailed or amended three-year action plans;
- AEPCO should not be required to have either its IRPs or its three-year action plans subject to Commission acknowledgement or an approval process;

¹⁷ Staff's Proposed Order, p. 12, l. 24 – p. 13, l. 2, Finding 26.

¹⁸ December 19, 2014 Assessment, p. 84.

- AEPCO should not be directed to place additional emphasis in its IRP on the future risks and costs to ratepayers;
- Any clarification of the procurement rules should preserve the exceptions to the RFP requirements identified in A.A.C. R14-2-705.B; and
- Any IRP reporting requirement regarding new technologies should limit AEPCO's obligation in a manner consistent with Decision No. 73884.

Again, AEPCO appreciates this opportunity to provide the Commission with its thoughts on the various IRP process issues discussed herein.