

ORIGINAL

OPEN MEETING

MEMORANDUM



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RECEIVED

TO: THE COMMISSION Arizona Corporation Commission DOCKETED

FROM: Utilities Division DEC 29 2015

DATE: December 29, 2015

DOCKETED BY

2015 DEC 29 A 9:52

AZ CORP COMMISSION DOCKET CONTROL

RE: IN THE MATTER OF THE APPLICATION OF MORENCI WATER AND ELECTRIC COMPANY – ELECTRIC DIVISION – FOR A PARTIAL WAIVER OF THE RENEWABLE ENERGY STANDARD TARIFF RULES – A.A.C. R14-2-1803(E) AND (F). (Docket No. E-01049A-15-0317)

On September 1, 2015, Morenci Water and Electric Company (“MWE” or “Company”) filed an application<sup>1</sup> in accordance with the Renewable Energy Standard and Tariff Rules (“REST Rules”) so that the Company can meet the non-distributed portion of its Annual Renewable Energy Requirement by acquiring Renewable Energy Credits (“RECs”) from Salt River Project (“SRP”). Specifically, MWE seeks a partial waiver from A.A.C. R14-2-1803(E) and (F) so that the Company can acquire lower-cost RECs from SRP without acquiring the associated energy and without needing to demonstrate that the energy (kWh) associated with the RECs is delivered to MWE’s service territory. MWE seeks this waiver in order for the Company to meet its 2015 Annual Renewable Energy Requirements, and for up to five years in the future (i.e., through 2019).

BACKGROUND

MWE is a small utility with a relatively remote and low income service territory that surrounds the mining towns of Morenci and Clifton in southeastern Arizona. According to MWE, it serves approximately 2,678 customers (2,356 resident, 320 non-residential customers with loads below 3 MW, and 2 Freeport-McMoRan Incorporated (“FMI”) mining customers. Energy sales to the two FMI mines represented approximately 98 percent of MWE’s total kWh sales in 2014. MWE notes that this concentration of load among two large customers is unique when compared to all other electric utilities in the state.

In the past, MWE has struggled with compliance with the REST Rules. MWE has received waivers to exclude energy sales for the FMI mining operations, because without doing so, the costs to comply would be astronomical. MWE also has received a waiver from meeting the annual Distributed Renewable Energy Requirement. The Commission has recognized the Company’s unique circumstances when granting these waivers.

MWE has had past success meeting its non-distributed Annual Renewable Energy Requirement (with MWE’s waiver for the mining customer load) by purchasing “bundled” RECs.

<sup>1</sup> Ajo Improvement Company, Inc. filed an interrelated application seeking a waiver of its Renewable Energy Requirement for 2015 through 2019, in Docket No. E-01025A-15-0316.

Bundled RECs include the environmental attributes and the associated energy which is shown to have been delivered to the REC purchaser's (i.e. Morenci) service territory. In 2008, MWE purchased bundled RECs from a California biomass project; in 2009, 2012, and 2013, it purchased bundled RECs from a landfill gas energy project in Tucson; and in 2014, it made similar purchases from a Colorado wind energy project.

In the recent past, MWE has sold some of these bundled RECs to its sister utility, Ajo Improvement Company ("Ajo"), so that it could meet its own Annual Renewable Energy Requirement. However, finding available sellers of bundled RECs which can be economically transmitted Morenci's service territory has become increasingly difficult. For the wind energy procured in 2014, transmission issues delayed delivery of the last portions of the transaction until May 2015. In addition, the costs of wheeling the energy from the generation source to MWE's service territory have been significant, with the renewable premium costing as much as \$45 per MWh in some circumstances.

MWE is in compliance with its Annual Renewable Energy Requirement through 2014. However, MWE will need a total of 1,098,640 kWh worth of RECs to meet its 2015 requirements. MWE has reportedly explored a number of options, but has determined that the Arizona market for RECs is not robust enough for MWE to obtain RECs with the energy for delivery to its service territory. Transmission access remains elusive, and merchant Eligible Renewable Energy Resources (i.e. generation with available RECs and energy) are not being built.

Under the REST Rules, one REC is created for each kWh derived from Eligible Renewable Energy Resources. MWE has become aware of the availability of unbundled RECs from the current inventory of SRP. SRP is not an "Affected Utility" subject to the Commission's REST Rules, but it does have RECs derived from Eligible Renewable Energy Resources. SRP has agreed to sell MWE up to 20,000,000 RECs which could satisfy both Ajo's and MWE's requirements for approximately 5 years. The SRP RECs would be unbundled RECs meaning that MWE would purchase only the environmental attributes of the RECs and not the associated energy, as that energy has already been delivered to the SRP service territory. MWE proposes to purchase the SRP RECs and sell a proportionate amount of the RECs to Ajo at MWE's cost.

The unbundled RECs that SRP has offered to sell MWE were generated in May 2015 at the Dry Lake Wind Power Project located near Heber in Navajo County, Arizona. SRP purchases 100 percent of the plant's energy output under a power purchase agreement with Iberdrola Renewables. At the conclusion of the proposed REC sale, SRP would deliver to MWE a Certificate of Attestation that would verify that the RECs originated from energy produced at the Dry Lake Wind Power Project.

MWE intends to purchase the entire amount of RECs offered by SRP. MWE would place the RECs into a "bank" from which the RECs would be allocated either to MWE or to Ajo as necessary to meet that company's individual Annual Renewable Energy Requirement. The following Table No. 1 illustrates the proposed timing and quantity of REC allocation between the Companies.

**Table No. 1  
Proposed REC Allocation Schedule**

Year	Inventory (Bank)	MWE	Ajo
2015	20,000,000	2,000,000	800,000
2016	17,200,000	2,550,000	900,000
2017	13,750,000	3,000,000	1,050,000
2018	9,700,000	3,400,000	1,200,000
2019	5,100,000	3,750,000	1,350,000

Both Ajo and MWE intend to recover the cost of the RECs through each company's respective REST tariff. In response to Staff's data request, and under a Protective Agreement, Ajo and MWE have provided an amortization schedule that demonstrates that both companies will fully recover the cost of the RECs by 2019 with no increase in the currently approved REST tariff rates.

#### **STAFF ANALYSIS**

The fundamental basis for MWE's requests for a waiver to R14-2-1803(E) and (F) is the fact that the referenced REST Rules require utilities subject to these rules ("Affected Utilities") to purchase "bundled" RECs, or RECs that include both the environmental attributes, as well as the associated energy. In the proposed transaction between SRP and MWE, the energy component is not included with the offered "unbundled" RECs.

The REST Rule requirements for bundled RECs are found at A.A.C. R14-2-1803(E) and (F):

- E. Any contract by an Affected Utility for purchase or sale of energy or Renewable Energy Credits to meet the requirements of this Rule shall explicitly describe the transfer of rights concerning both energy and Renewable Energy Credits.
- F. Except in the case of Distributed Renewable Energy Resources, Affected Utilities must demonstrate the delivery of energy from Eligible Renewable Energy Resources to their retail consumers such as by providing proof that the necessary transmission rights were reserved and utilized to deliver energy from Eligible Renewable Energy Resources to the Affected Utility's system, if transmission is required, or that the appropriate control area operators scheduled the energy from Eligible Renewable Energy Resources for delivery to the Affected Utility's system.

The REST Rules clearly state that RECs must include both the environmental attributes and the associated energy to be eligible to be counted towards an Affected Utilities Annual Renewable Energy Requirement. Staff believes that this requirement was included in the REST Rules to limit

an Affected Utility's ability to comply with unbundled REC's, rather than actively establishing a renewable energy development program preferably for the Affected Utility's service territory.

The original intent of the REST Rules is important in the context of the instant applications to help determine if the purchase of unbundled RECs advances the REST Rule goals, and what, if any, value the purchase of SRP's unbundled RECs brings to the customers of MWE. In the *Notice of Final Rulemaking* published in the *Arizona Administrative Register* on July 6, 2007, Page 2390, the Commission explained its rationale for initiating the REST Rules:

*"The Commission initiated this rulemaking to promote its goal to protect the environment and increase renewable energy resources for diversity of the fuel supply, to enhance system reliability and safety in a post 9/11 era, and to mitigate against volatility in non-renewable fuel prices."*

Despite continual efforts by MWE, the company has had little success implementing a renewable energy program. Staff commends MWE for its continued efforts in this regard, and for seeking creative solutions to difficult challenges. However, Staff believes that purchasing expensive unbundled RECs, as proposed in the instant applications, provides no value to the customers of MWE.

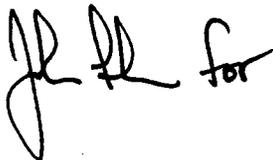
#### STAFF RECOMMENDATIONS

Staff recommends that the Commission not approve MWE's requested partial waiver of A.A.C. R14-2-1803(E) and (F).

Staff recommends that the Commission grant a waiver of the Annual Renewable Energy Requirement for MWE for the REST Plan years 2015 and 2016. Staff recommends MWE not pursue further the purchase of unbundled REC's for the post 2016 period.

Furthermore, Staff recommends that MWE file with the Commission, within 30 days of the effective date of this Decision, an application to reduce the existing \$0.004 per kWh REST surcharge for its ratepayers to reflect the budget reduction for MWE of \$52,975 for 2015 and \$63,370 for 2016 that this waiver provides.

Thomas M. Broderick  
Director  
Utilities Division



TMB:RBL:red\WVC

ORIGINATOR: Rick Lloyd

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BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH  
Chairman  
BOB STUMP  
Commissioner  
BOB BURNS  
Commissioner  
DOUG LITTLE  
Commissioner  
TOM FORESE  
Commissioner

IN THE MATTER OF THE APPLICATION )  
OF MORENCI WATER AND ELECTRIC )  
COMPANY – ELECTRIC DIVISION – FOR )  
A PARTIAL WAIVER OF THE )  
RENEWABLE ENERGY STANDARD )  
TARIFF RULES – A.A.C. R14-2-1803(E) AND )  
(F).

DOCKET NO. E-01049A-15-0317  
DECISION NO. \_\_\_\_\_  
ORDER

Open Meeting  
January 13, 2016  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Morenci Water and Electric Company ("MWE") is certificated to provide electric service as a public service corporation in the state of Arizona.

**Background**

2. On September 1, 2015, Morenci Water and Electric Company ("MWE" or "Company") filed an application<sup>1</sup> in accordance with the Renewable Energy Standard and Tariff Rules ("REST Rules") so that the Company can meet the non-distributed portion of its Annual Renewable Energy Requirement by acquiring Renewable Energy Credits ("RECs") from Salt River Project ("SRP"). Specifically, MWE seeks a partial waiver from A.A.C. R14-2-1803(E) and (F) so that the Company can acquire lower-cost RECs from SRP without acquiring the associated energy and without

<sup>1</sup> Ajo Improvement Company, Inc. filed an application identical to the instant application seeking a waiver of its Renewable Energy Requirement for 2015 through 2019, in Docket No. E-01025A-15-0316.

1 needing to demonstrate that the energy (kWh) associated with the RECs is delivered to MWE's service  
2 territory. MWE seeks this waiver in order for the Company to meet its 2015 Annual Renewable  
3 Energy Requirements, and for up to five years in the future (i.e., through 2019).

4         3. MWE is a small utility with a relatively remote and low income service territory that  
5 surrounds the mining towns of Morenci and Clifton in southeastern Arizona. According to MWE, it  
6 serves approximately 2,678 customers (2,356 resident, 320 non-residential customers with loads below  
7 3 MW, and 2 Freeport-McMoRan Incorporated ("FMI") mining customers. Energy sales to the two  
8 FMI mines represented approximately 98 percent of MWE's total kWh sales in 2014. MWE notes  
9 that this concentration of load among two large customers is unique when compared to all other  
10 electric utilities in the state.

11         4. In the past, MWE has struggled with compliance with the REST Rules. MWE has  
12 received waivers to exclude energy sales for the FMI mining operations, because without doing so, the  
13 costs to comply would be astronomical. MWE also has received a waiver from meeting the annual  
14 Distributed Renewable Energy Requirement. The Commission has recognized the Company's unique  
15 circumstances when granting these waivers.

16         5. MWE has had past success meeting its non-distributed Annual Renewable Energy  
17 Requirement (with MWE's waiver for the mining customer load) by purchasing "bundled" RECs.  
18 Bundled RECs include the environmental attributes and the associated energy which is shown to have  
19 been delivered to the REC purchaser's (i.e. Morenci) service territory. In 2008, MWE purchased  
20 bundled RECs from a California biomass project; in 2009, 2012, and 2013, it purchased bundled  
21 RECs from a landfill gas energy project in Tucson; and in 2014, it made similar purchases from a  
22 Colorado wind energy project.

23         6. In the recent past, MWE has sold some of these bundled RECs to its sister utility, Ajo  
24 Improvement Company ("Ajo"), so that it could meet its own Annual Renewable Energy  
25 Requirement. However, finding available sellers of bundled RECs which can be economically  
26 transmitted Morenci's service territory has become increasingly difficult. For the wind energy  
27 procured in 2014, transmission issues delayed delivery of the last portions of the transaction until May  
28 2015. In addition, the costs of wheeling the energy from the generation source to MWE's service

1 territory have been significant, with the renewable premium costing as much as \$45 per MWh in some  
2 circumstances.

3 7. MWE is in compliance with its Annual Renewable Energy Requirement through 2014.  
4 However, MWE will need a total of 1,098,640 kWh worth of RECs to meet its 2015 requirements.  
5 MWE has reportedly explored a number of options, but has determined that the Arizona market for  
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11 the current inventory of SRP. SRP is not an "Affected Utility" subject to the Commission's REST  
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14 approximately 5 years. The SRP RECs would be unbundled RECs meaning MWE would purchase  
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16 already been delivered to the SRP service territory. MWE proposes to purchase the SRP RECs and  
17 sell a proportionate amount of the RECs to Ajo at MWE's cost.

18 9. The unbundled RECs that SRP has offered to sell MWE were generated in May 2015  
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20 100 percent of the plant's energy output under a power purchase agreement with Iberdrola  
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22 of Attestation that would verify that the RECs originated from energy produced at the Dry Lake Wind  
23 Power Project.

24 10. MWE intends to purchase the entire amount of RECs offered by SRP. MWE would  
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11. Both Ajo and MWE intend to recover the cost of the RECs through each company's respective REST tariff. In response to Staff's data request, and under a Protective Agreement, Ajo and MWE have provided an amortization schedule that demonstrates that both companies will fully recover the cost of the RECs by 2019 with no increase in the currently approved REST tariff rates.

**Staff Analysis**

12. The fundamental basis for MWE's requests for a waiver to R14-2-1803(E) and (F) is the fact that the referenced REST Rules require utilities subject to these rules ("Affected Utilities") to purchase "bundled" RECs, or RECs that include both the environmental attributes, as well as the associated energy. In the proposed transaction between SRP and MWE, the energy component is not included with the offered "unbundled" RECs.

13. The REST Rule requirements for bundled RECs are found at A.A.C. R14-2-1803(E) and (F):

"E. Any contract by an Affected Utility for purchase or sale of energy or Renewable Energy Credits to meet the requirements of this Rule shall explicitly describe the transfer of rights concerning both energy and Renewable Energy Credits."

"F. Except in the case of Distributed Renewable Energy Resources, Affected Utilities must demonstrate the delivery of energy from Eligible Renewable Energy Resources to their retail consumers such as by providing proof that the necessary transmission rights were reserved and utilized to deliver energy from Eligible Renewable Energy Resources to the Affected Utility's system, if transmission is required, or that the appropriate control area operators scheduled the energy from Eligible Renewable Energy Resources for delivery to the Affected Utility's system."

14. The REST Rules clearly state that RECs must include both the environmental attributes and the associated energy to be eligible to be counted towards an Affected Utilities Annual Renewable Energy Requirement. Staff believes that this requirement was included in the REST Rules

1 to limit an Affected Utility's ability to comply with unbundled REC's, rather than actively establishing  
2 a renewable energy development program preferably for the Affected Utility's service territory.

3 15. The original intent of the REST Rules is important in the context of the instant  
4 applications to help determine if the purchase of unbundled RECs advances the REST Rule goals, and  
5 what, if any, value the purchase of SRP's unbundled RECs brings to the customers of MWE. In the  
6 Notice of Final Rulemaking published in the Arizona Administrative Register on July 6, 2007, Page  
7 2390, the Commission explained its rationale for initiating the REST Rules:

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9 *renewable energy resources for diversity of the fuel supply, to enhance system reliability and safety in a post*  
10 *9/11 era, and to mitigate against volatility in non-renewable fuel prices."*

11 16. Despite continual efforts by MWE, the company has had little success implementing a  
12 renewable energy program. Staff commends MWE for its continued efforts in this regard, and for  
13 seeking creative solutions to difficult challenges. However, Staff believes that purchasing expensive  
14 unbundled RECs, as proposed in the instant applications, provides no value to the customers of  
15 MWE.

#### 16 **Staff Recommendations**

17 17. Staff has recommended that the Commission not approve MWE's requested partial  
18 waiver of A.A.C. R14-2-1803(E) and (F).

19 18. Staff has recommended that the Commission grant a waiver of the Annual Renewable  
20 Energy Requirement for MWE for the REST Plan years 2015 and 2016. Staff recommends MWE not  
21 pursue further the purchase of unbundled REC's for the post 2016 period.

22 19. Furthermore, Staff has recommended that MWE file with the Commission, within 30  
23 days of the effective date of this Decision, an application to reduce the existing \$0.004 per kWh REST  
24 surcharge for its ratepayers to reflect the budget reduction for MWE of \$52,975 for 2015 and \$63,370  
25 for 2016 that this waiver provides.

#### 26 CONCLUSIONS OF LAW

27 1. Morenci Water and Electric Company is an Arizona public service corporation within  
28 the meaning of Article XV, Section 2, of the Arizona Constitution.



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IT IS FURTHER ORDERED that Morenci Water and Electric Company shall file with the Commission, within 30 days of the effective date of this Decision, an application to reduce the REST surcharge for its ratepayers to reflect the budget reduction that the waiver provides.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

CHAIRMAN	COMMISSIONER	
COMMISSIONER	COMMISSIONER	COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2016.

\_\_\_\_\_  
JODI JERICH  
EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

TMB:RBL:red/WVC

1 SERVICE LIST FOR: Morenci Water and Electric Company  
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