

ORIGINAL

OPEN MEETING



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MEMORANDUM

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AZ CORP COMMISSION  
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TO: THE COMMISSION <sup>Arizona Corporation Commission</sup> **DOCKETED**

FROM: Utilities Division DEC 29 2015

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DATE: December 29, 2015 **DOCKETED BY**

RE: IN THE MATTER OF THE APPLICATION OF AJO IMPROVEMENT 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-01025A-15-0316)

On September 1, 2015, Ajo Improvement Company (“Ajo” 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, Ajo seeks a partial waiver from Arizona Administrative Code (“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 Ajo’s service territory. Ajo 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**

Ajo is a small utility serving approximately 1,100 customers. Ajo’s customer profile consists mostly of residential and small commercial customers within an approximate one square mile service territory. Most residential customers are retirees, and there are no large commercial customers within Ajo’s service territory.

In the past, Ajo has struggled with compliance with the REST Rules. Ajo has received a waiver from meeting the annual Distributed Renewable Energy Requirement. The Commission has recognized the Company’s unique circumstances when granting this waiver.

Ajo has had past success meeting its non-distributed Annual Renewable Energy Requirement by purchasing “bundled” RECs. Bundled RECs include the environmental attributes and the associated energy which is shown to have been delivered to the REC purchaser’s (i.e. Ajo’s) service territory.

<sup>1</sup> Morenci Water and Electric Company, Inc. filed an interrelated application seeking a waiver of its Renewable Energy Requirement for 2015 through 2019, in Docket No. E-01049A-15-0317.

In the recent past, Ajo has purchased some of these bundled RECs from its sister utility, Morenci Water and Electric Company ("MWE"), so that it can meet its own Annual Renewable Energy Requirement. However, finding available sellers of bundled RECs which can be economically transmitted to Ajo's service territory has become increasingly difficult. The costs of wheeling the energy from the generation source to Ajo's service territory have been significant, with the renewable premium costing as much as \$45 per MWh in some circumstances. The single 69kV transmission line that feeds Ajo has made the wheeling of bundled RECs to its service territory particularly difficult.

Ajo is in compliance with its Annual Renewable Energy Requirement through 2014. Ajo has reportedly explored a number of options to meet 2015 requirements and beyond but has determined that the Arizona market for RECs is not robust enough for Ajo 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. Ajo and MWE became 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 Ajo 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**

<b>Year</b>	<b>Inventory (Bank)</b>	<b>MWE</b>	<b>Ajo</b>
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 Ajo's request 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 simply buy its way into compliance, rather than actively establishing a renewable energy development program within 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 Ajo. 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 Ajo, the company has had little success implementing a renewable energy program. Staff commends Ajo for its continued efforts in this regard, and for seeking creative solutions to difficult challenges. However, Staff believes that purchasing unbundled RECs, as proposed in the instant applications, provides no value to the customers of Ajo.

#### **Staff Recommendations**

Staff recommends that the Commission not approve Ajo'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 Ajo for the REST Plan years 2015 and 2016. Staff recommends Ajo not pursue further the purchase of unbundled REC's for the post 2016 period.

Furthermore, Staff recommends that Ajo 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 Ajo of \$20,688 for 2015 and \$24,625 for 2016 that this waiver provides.

Thomas M. Broderick  
Director  
Utilities Division



TMB:RBL:nr\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 AJO IMPROVEMENT 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-01025A-15-0316  
DECISION NO. \_\_\_\_\_  
ORDER

Open Meeting  
January 12, 2016  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Ajo Improvement Company (“Ajo”) is certificated to provide electric service as a public service corporation in the state of Arizona.

Background

2. On September 1, 2015, Ajo Improvement Company (“Ajo” 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, Ajo seeks a partial waiver from Arizona Administrative Code (“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> Morenci Water and Electric Company, Inc. filed an interrelated application seeking a waiver of its Renewable Energy Requirement for 2015 through 2019, in Docket No. E-01049A-15-0317.

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

4 3. Ajo is a small utility serving approximately 1,100 customers. Ajo's customer profile  
5 consists mostly of residential and small commercial customers within an approximate one square mile  
6 service territory. Most residential customers are retirees, and there are no large commercial customers  
7 within Ajo's service territory.

8 4. In the past, Ajo has struggled with compliance with the REST Rules. Ajo has received a  
9 waiver from meeting the annual Distributed Renewable Energy Requirement. The Commission has  
10 recognized the Company's unique circumstances when granting this waiver.

11 5. Ajo has had past success meeting its non-distributed Annual Renewable Energy  
12 Requirement by purchasing "bundled" RECs. Bundled RECs include the environmental attributes and  
13 the associated energy which is shown to have been delivered to the REC purchaser's (i.e. Ajo's) service  
14 territory.

15 6. In the recent past, Ajo has purchased some of these bundled RECs from its sister utility,  
16 Morenci Water and Electric Company ("MWE"), so that it can meet its own Annual Renewable Energy  
17 Requirement. However, finding available sellers of bundled RECs which can be economically  
18 transmitted to Ajo's service territory has become increasingly difficult. The costs of wheeling the energy  
19 from the generation source to Ajo's service territory have been significant, with the renewable premium  
20 costing as much as \$45 per MWh in some circumstances. The single 69kV transmission line that feeds  
21 Ajo has made the wheeling of bundled RECs to its service territory particularly difficult.

22 7. Ajo is in compliance with its Annual Renewable Energy Requirement through 2014. Ajo  
23 has reportedly explored a number of options to meet 2015 requirements and beyond but has determined  
24 that the Arizona market for RECs is not robust enough for Ajo to obtain RECs with the energy for  
25 delivery to its service territory. Transmission access remains elusive, and merchant Eligible Renewable  
26 Energy Resources (i.e. generation with available RECs and energy) are not being built.

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

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

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

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26 11. Both Ajo and MWE intend to recover the cost of the RECs through each company's  
 27 respective REST tariff. In response to Staff's data request, and under a Protective Agreement, Ajo and  
 28

1 MWE have provided an amortization schedule that demonstrates that both companies will fully recover  
2 the cost of the RECs by 2019 with no increase in the currently approved REST tariff rates.

3 **Staff Analysis**

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

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

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

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

20 14. The REST Rules clearly state that RECs must include both the environmental attributes  
21 and the associated energy to be eligible to be counted towards an Affected Utilities Annual Renewable  
22 Energy Requirement. Staff believes that this requirement was included in the REST Rules to limit an  
23 Affected Utility's ability to simply buy its way into compliance, rather than actively establishing a  
24 renewable energy development program within the Affected Utility's service territory.

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

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

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

#### 10 **Staff Recommendations**

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

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

16 19. Furthermore, Staff has recommended that Ajo file with the Commission, within 30 days  
17 of the effective date of this Decision, an application to reduce the existing \$0.004 kWh REST surcharge  
18 for its ratepayers to reflect the budget reduction for Ajo of \$20,688 for 2015 and \$24,625 for 2016 that  
19 this waiver provides.

#### 20 CONCLUSIONS OF LAW

21 1. Ajo Improvement Company is an Arizona public service corporation within the  
22 meaning of Article XV, Section 2, of the Arizona Constitution.

23 2. The Commission has jurisdiction over Ajo Improvement Company and over the subject  
24 matter of the application.

25 3. The Commission, having reviewed the application and Staff's memorandum dated  
26 December 11, 2015, concludes that it is in the public interest to not approve Ajo Improvement  
27 Company's requested partial waiver of A.A.C. R14-2-1803(E) and (F).

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ORDER

IT IS THEREFORE ORDERED that Ajo Improvement Company's requested partial waiver of A.A.C. R14-2-1803 (E) and (F) is hereby not approved.

IT IS FURTHER ORDERED that Ajo Improvement Company is hereby grant a waiver of its Annual Renewable Energy Requirement for the REST Plan years 2015, and 2016.

IT IS FURTHER ORDERED that Ajo Improvement 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:nr/WVC

- 1 SERVICE LIST FOR: Ajo Improvement Company
- 2 DOCKET NO. E-01025A-15-0316
- 3 Mr. Jason D. Gellman
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- 9 Director, Utilities Division
- 10 Arizona Corporation Commission
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- 12 Phoenix, Arizona 85007
- 13 Ms. Janice M. Alward
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