April 26, 2019

Dear Commissioners, Commission Staff, and Interested Parties,

I have attended the workshops and reviewed the comments from both stakeholders and my fellow Commissioners in this matter. I am writing today to present what I believe to be a compromise on several contentious issues. This is a large undertaking that covers the range of resource planning and renewable policy in Arizona. It is important to build some consensus on the Commission as soon as possible so that we can enact rules that will foster clean, safe, and reliable energy in Arizona. In my view, this proposal strikes a balance between our policy objectives and the best interest of the ratepayers. Striking that balance, of course, is the function of the Commission. With that goal in mind, I ask the Commissioners, Staff, stakeholders, and the public to review the following proposal and provide their comments in the docket or at the upcoming workshop. I welcome ideas, alternatives, and productive suggestions so we can move forward with these rules.

Clean and Renewable Energy Standards

The current rules set an incremental annual renewable energy requirement that started at 1.25% in 2006 and escalates to 15% by 2024. Commissioners have proposed conflicting standards for addressing the next steps for our renewable energy standard. As a compromise, I propose the adoption of a Clean Energy Standard (CES) and a revised Renewable Energy Standard.

The Clean Energy Standard (CES)

I agree with Commissioner Tobin that a clean energy standard would work well in Arizona. As such, the rules shall include a CES that requires all public service corporations who are load-serving entities to acquire 85% of their power generation from clean sources by 2050. This sets a standard for each utility to obtain 85% of their total electric load from carbon-free sources by 2050. The focus of the CES is to cut down on the main culprit of environmental harm (pollution emissions) and foster a healthy environment for our forests and watersheds. An affected utility will satisfy the CES through acquiring eligible renewable energy resources, nuclear, and/or storage. The CES will be cumulative and include all existing energy resources.
An affected utility will satisfy the CES in 5-year increments so that a utility can make resource choices that are in the best interest of the ratepayer and avoid stranding assets. Specifically, affected utilities will be required to meet the following compliance requirements:

- 25% by 2025
- 35% by 2030
- 45% by 2035
- 58% by 2040
- 70% by 2045
- 85% by 2050

The Renewable Energy Standard (RES)

The rules shall revise the RES to require all public service corporations servicing retail electric load to obtain 35% of their total load from renewable sources by 2030. This raises the existing RES from 15% to 35% over the next decade. This requirement is technology neutral and can be satisfied with any Eligible Renewable Energy Resource through Renewable Energy Credits. The rules will also add storage to the existing list of Eligible Renewable Energy Resources. Like CES, the revised RES is a cumulative goal that will include all existing eligible renewable energy resources and storage. The RES will count towards the utilities’ CES requirement.

An affected utility will satisfy the revised RES in two increments that will allow the utility to make the business decisions that are in the best interest of ratepayers. The rules will require affected utilities to meet 23% by 2024 and 31% by 2028.

RES: Storage Requirements and Multipliers

Distributed Renewable Storage Requirement. The rules shall include a “Distributed Renewable Storage Requirement” which requires each utility to obtain at least 4% of the total 35% Renewable Energy Standard from renewable energy credits created by new distributed renewable generation that incorporates energy storage. This should be patterned after the existing Distributed Renewable Energy Requirement. The 4% should exclude existing distributed renewable generation with energy storage sources that were installed prior to the effective date of the new rules. The utility will implement the requirement by reaching 3% by 2024 and 5% by 2028.

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1 The “Renewable Energy Credit” is not an ideal way to capture the amount of renewable energy in a utility’s portfolio, but it is the standard we have applied for years. I am open to alternate suggestions as to how we can best account for CES and RES without using a “credit” system.
Renewable Energy Storage Extra Credit Multiplier: The rules will include a "Renewable Energy Storage Extra Credit Multiplier." The Renewable Energy Storage Extra Credit Multiplier will allow utilities to obtain an extra credit multiplier for renewable energy credits generated by renewable energy resources that include storage and are installed before 2025. The multiplier will be applied for the life of the facility based on the year it was installed. The diminishing multiplier will be awarded based upon the year in which the infrastructure deployed as follows:

- 2020 = 0.3
- 2021 = 0.25
- 2022 = 0.2
- 2023 = 0.15
- 2024 = 0.1

RES: Distributed Renewable Energy Requirements and Multipliers

Distributed Renewable Energy Requirement: The rules shall extend the current “Distributed Renewable Energy Requirement” and require 4% of the total 35% Renewable Energy Standard from renewable energy credits created be through new Distributed Renewable Energy Resources. The current rules require that 5% of the total 15% RES requirement come from distributed renewable energy. This would add an additional 4% of new distributed renewable energy resources to the RES, resulting in 9% of the total 35% RES requirement coming from distributed renewable energy resources.

Distributed Solar Electric Generator and Solar Incentive Program Extra Credit Multiplier: The rules shall extend the “Distributed Solar Electric Generator and Solar Incentive Program Extra Credit Multiplier.” The “Distributed Solar Electric Generator and Solar Incentive Program Extra Credit Multiplier” should continue under the new rules and allow utilities to obtain an extra credit multiplier for renewable energy credits generated by Distributed Solar Electric Generators that are installed before 2025. The multiplier will be applied for the life of the facility based on the year it was installed. The diminishing multiplier will be awarded based upon the year in which the infrastructure is deployed as follows:

- 2020 = 0.4
- 2021 = 0.3
- 2022 = 0.2
- 2023 = 0.15
- 2024 = 0.1
RES: Arizona Forest Bioenergy

Since opening my docket in 2017, I have been committed to providing safe and reliable electricity and protecting our watersheds through Arizona forest bioenergy.2 Last year, I spearheaded the creation of the Commission’s policy statement with Commissioner Tobin on forest bioenergy. I continue my support for this important goal with the following proposal.

Arizona Corporation Commission Policy Statement Regarding the Role of Forest Bioenergy in Arizona. The rules shall incorporate the Arizona Corporation Commission Policy Statement Regarding the Role of Forest Bioenergy in Arizona (Decision No. 77045). Following the issuance of that Decision, I have received countless letters from counties, municipalities, and stakeholders asking for the policy to be incorporated into the rules. I agree that this policy should be incorporated into the rules.

Arizona Forest Bioenergy Extra Credit Multiplier. There has been great dispute over the cost of this energy. I propose we encourage affected utilities to make the smart choice to purchase forest bioenergy through a multiplier (the “Arizona Forest Bioenergy Extra Credit Multiplier”). This will provide an extra renewable energy credit multiplier of 0.5 for acquiring renewable energy credits from a biomass electricity generator that uses raw or processed plant-derived Arizona forest biomass for generation and was installed before 2026. This multiplier will apply for the life of the facility.

Demand-Side Management (DSM)

The current rules set an incremental annual cumulative energy savings standard of 22% by 2020. This standard must be satisfied through DSM programs that include energy efficiency, demand response, and load management. The current rules limit the savings that can be earned from demand response and load management DSM programs. The new rules shall revise the Energy Efficiency Standard (EES) and capture demand response and load management programs under the new heading of Peak Reduction Programs.

Peak Reduction Programs (PRP)

Peak reduction is the central feature of both demand response and load management programs. Grouping them together under the goal of peak reduction seems more appropriate. The EES will retain a limitation on these Peak Reduction Programs but increase the limit to 20%.

PRP: Storage Extra Savings Multiplier

The rules shall include a “Storage Extra Savings Multiplier.” The Storage Extra Savings Multiplier will allow utilities to obtain a diminishing extra savings multiplier for storage targeting peak reduction that is installed before 2025. The multiplier will be applied for the life of the facility based on the year it was installed. The diminishing multiplier will be awarded based upon the year in which the infrastructure deployed as follows:

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2 Commissioner Dunn's Inquiry into the Role of Forest Bioenergy in Arizona (Docket # E-00000Q-17-0138).
• 2020 = 0.3
• 2021 = 0.25
• 2022 = 0.2
• 2023 = 0.15
• 2024 = 0.1

PRP: Electric Vehicle Charging

Incentives for Off-peak Electric Vehicle Charging. The rules shall require affected utilities to include EV-specific rates and programs that address and encourage off-peak charging.

Ratepayer Impact Study. We have discussed at length what electric vehicle costs would be passed on to ratepayers. I am interested in knowing whether the growth in electric vehicles, and their associated energy demand, would actually reduce rates over time. I would like the affected utilities to produce a study of the potential rate reduction from the proliferation of electric vehicles over the next 10 years. Please file that study in the docket within the next 60 days.

Energy Efficiency Standard (EES)

The rules shall adopt a revised Energy Efficiency Standard that requires utilities to achieve cumulative annual energy savings equivalent of at least 35% of their retail electric energy sales by 2030. This raises the existing Energy Efficiency Standard (EES) from 22% to 35% over the next decade. The affected utility shall meet two milestones to satisfy the 2030 requirement of 26% by 2024 and 31% by 2028.

EES: Seasonal Energy Efficiency Valuation

Not all kilowatt hours are equal, and savings during the summer months are far more valuable than those saved during the winter. This valuation will encourage peak reduction during that critical summer season. The rules shall include “Seasonal Energy Efficiency Valuation” in the Energy Efficiency Standard. This will award 0.5 of savings for kilowatt hours saved during the winter months.

EES: Electric Vehicle Programs and Multipliers

Arizona Corporation Commission Policy Statement for Electric Vehicles, Electric Vehicle Infrastructure, and Electrification of the Transportation Sector in Arizona. The rules shall incorporate the Arizona Corporation Commission Policy Statement for Electric Vehicles, Electric Vehicle Infrastructure, and Electrification of the Transportation Sector in Arizona (Decision No. 77044). I led the efforts at the Commission through my docket on electric vehicle
planning and infrastructure. I know how much work went into this endeavor and the value of including it in the rules.

Electric Vehicle Infrastructure Energy Savings Multiplier. The rules shall include an “Electric Vehicle Infrastructure Energy Savings Multiplier” for installing make-ready infrastructure for electric vehicles before 2025. The multiplier will be applied for the life of the facility based on the year it was installed. The diminishing multiplier will be awarded based upon the year in which the infrastructure deployed as follows:

- 2020 = 0.4
- 2021 = 0.3
- 2022 = 0.25
- 2023 = 0.2
- 2024 = 0.1

Low-income Electric Vehicle Energy Savings Multiplier. The rules shall include an “Low-income Electric Vehicle Energy Savings Multiplier” for energy savings generated from electric vehicles energy efficiency programs that target low-income residential populations. The multiplier will provide extra energy savings of 0.5 for affected utilities that have electric vehicle energy efficiency programs targeting low-income populations. The multiplier will be applied for the life of the facility based on the year it was installed.

Arizona’s Electric Cooperatives

I am committed to removing unnecessary burdens on Arizona’s Electric Cooperatives. The rules should reflect this goal. Under the new rules, cooperatives will keep the REST and EE programs and tariffs as they are currently structured, but with the following changes:

- Cooperatives should file IRP (if applicable), REST, and DSM plans every 4 years. They have the option to seek a REST or DSM adjustor in the intervening years.
- There will be a Clean Energy Goal of 30% by 2040. This is a goal, not a requirement. Cooperatives should include a compliance update in their IRP/REST/DSM plans every 4 years.
- The other “requirements” that apply to affected utilities (e.g. Distributed Renewable Storage Requirement), do not apply to the cooperatives. However, the multipliers are available for their use in meeting the Clean Energy Goal.
- The rules will include a streamlined process for cooperatives in processing the IRP, REST, and DSM. Staff and stakeholders should work together to propose a rule that

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3 Commissioner Dunn’s Inquiry into Electric Vehicles, Electric Vehicle Infrastructure, and Electrification of the Transportation Sector in Arizona (Docket # E-00000J-18-0266).
includes (1) accelerated processing times, and (2) removes the unnecessary procurement barriers.

**Gas Utility Energy Efficiency Standard (GUEES)**

I am concerned that the Gas Utility Energy Efficiency Standards are outdated and ineffective in Arizona’s climate. I am inclined to propose their deletion from the rules entirely. Before I go down this road, I request utilities and stakeholder comment on whether the GUEES rules should be eliminated under the new rules.

We have the opportunity to shape the resource planning and renewable standards for Arizona well into the future. I do not want our small battles to derail the Commission from our goal to ensure safe, reliable, clean, and affordable energy to the citizens of our State. The Commission must reach a consensus for us to move forward. I think this proposal can be the solution and I solicit your feedback on my proposal. I look forward to discussing these issues in the upcoming workshops and hearing from all interested parties.

Sincerely,

Commissioner Boyd Dunn
On this 26th day of April, 2019, the foregoing document was filed with Docket Control as a Correspondence From Commissioner, and copies of the foregoing were mailed on behalf of Boyd Dunn, Commissioner - A.C.C. to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission’s eDocket program will automatically email a link to the foregoing to the following who have consented to email service.

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RU-00000A-18-0284

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