

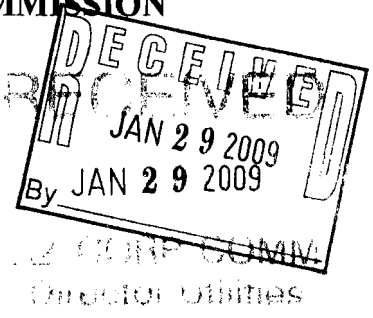
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**BEFORE THE ARIZONA CORPORATION COMMISSION
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AZ CORP COMMISSION
DOCKET CONTROL



IN THE MATTER OF ARIZONA PUBLIC
SERVICE COMPANY'S RESOURCE
PLAN APPLICATION

DOCKET NO. E-01345A-09-_____

**APPLICATION AND SUBMISSION
OF RESOURCE PLAN**

I. Introduction

Arizona Public Service Company ("APS" or "Company") hereby submits its long-term resource plan ("APS Resource Plan" or "Resource Plan"). With projected growth in both the number of customers and in overall energy consumption, the Company faces a significant need for new resources in the future. The long lead times required to develop, permit, and construct new generation resources require that decisions relating to the appropriate mix of these resources be made soon. Additionally, APS believes that there are significant opportunities to expand the use of renewable resources and energy efficiency, and that action should begin now to ensure that these resources can be developed. Thus, with this filing, APS is seeking policy guidance from the Arizona Corporation Commission ("Commission") regarding the long-term resources that APS should pursue. APS respectfully requests that the Commission either (i) formally approve the Resource Plan, or (ii) acknowledge that APS considered all relevant resources, risks and uncertainties known or knowable, and at the time the Commission makes its determination, the Company's Resource Plan is reasonable and in the public interest.¹

¹ The concept of "acknowledgement" of a resource plan has developed in the on-going Commission workshops that are re-examining the Resource Planning Rules in Docket No. E-00000E-05-0431.

1 The APS Resource Plan proposes that the Company increase energy efficiency
2 resources well beyond what would be achieved from the current level of effort; acquire
3 renewable resources beyond that required by the Renewable Energy Standard Rules (“RES
4 Rules”);² and take the initial steps to preserve the option for potential future development of a
5 new baseload nuclear resource. APS believes that the risk of future climate change
6 legislation and the potential for significant resulting cost increases make the acquisition of
7 new coal resources unattractive at this time. APS also believes that limiting reliance on
8 natural gas is important to managing fuel cost volatility and the potential for customer price
9 impacts.

10 Additionally, APS believes that issues of statewide energy policy should be discussed
11 in conjunction with the Resource Plan. While the analysis in the Resource Plan highlights
12 major uncertainties and risks, and accordingly proposes the increased use of renewable
13 resources and energy efficiency, it is nonetheless a plan developed from the point of view of
14 one electric utility. And, although APS believes that the plan reflects a careful balancing of
15 several important objectives, such as cost and advancing the deployment of solar
16 technologies, because of the magnitude of these resource decisions and their impacts on state
17 energy policy, the Commission has a critical voice in this energy policy debate. APS believes
18 that this Resource Plan filing will provide a platform to help facilitate this important
19 discussion.

20 There is, therefore, a fundamental need for Commission engagement and ongoing
21 support to ensure that the right types of generation resources are available in the future when
22 they are required in a manner that meets not just APS’s resource requirements, but also the
23 broader energy policy objectives of our state. If the Commission believes that a long-term
24 resource approach different from the one that APS is proposing is more appropriate, the
25 Company must know that now, so that it can change course in accordance with the
26 Commission’s policy determinations. For these reasons, APS is seeking either the
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28 ² A.A.C. R14-2-1801 through 1816.

1 Commission's approval or the Commission's acknowledgment of the Company's Resource
2 Plan.

3 Additionally, regulatory involvement and support will be needed in implementing the
4 Resource Plan to ensure that APS can realistically consider the capital-intensive resource
5 options identified in the Resource Plan. Thus, in the future, APS expects to bring the
6 Commission subsequent filings to address specific projects or efforts associated with the
7 Resource Plan's deployment. A discussion of this process may also be appropriate as the
8 Commission addresses the Resource Plan in general.

9 The APS Resource Plan is fully described in the Resource Plan Report ("Report"),
10 which is attached as Attachment A. An Action Plan is also included in the Report, which
11 describes those actions that APS believes are required within the next three years to begin
12 implementing the proposed Resource Plan.

13 **II. Procedural Background**

14 During the past year, two parallel resource planning dockets have proceeded at the
15 Commission. Commission Staff has held on-going workshops to revise the Commission's
16 Resource Planning Rules ("Modified Rules").³ At the time of this filing, Commission Staff is
17 taking into consideration the comments of interested parties and preparing a rule package to
18 present to the Commission.

19 APS supports the efforts of Commission Staff to develop Modified Rules that would
20 provide formal resource planning requirements for electric utilities. It is the Company's
21 intent that this Resource Plan filing reflect the key components of the Modified Rules.⁴ The
22 Modified Rules propose more regulatory certainty than the current rules by providing that,
23 after a hearing, the Commission will determine whether to order an "acknowledgment" of a
24 utility's resource plan, which indicates that the Commission found the resource plan
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26 ³ The Commission adopted the current Resource Planning Rules, A.A.C. R14-2-701 through 704, in the early
27 1990s, and significant portions of those rules were stayed by the Commission (Decision No. 60385, issued
28 Aug. 29, 1997) in response to the onset of retail electric competition.

⁴ The most recent draft of the Modified Rules was provided to workshop participants for review and comment
in the October 3, 2008 workshop.

1 reasonable at the time the acknowledgment is given. The Modified Rules also include a
2 provision that authorizes a utility to seek Commission approval of specific resource planning
3 actions.

4 On a similar but distinct path, in January 2008, APS filed its Resource Alternatives
5 Report,⁵ which provided information on and analysis of a wide range of long-term resource
6 alternatives. With that filing, the Company commenced a public process, holding meetings
7 with interested stakeholders during a six-month period. The stakeholder meetings addressed
8 a wide range of resource planning issues, including growth and resource needs; the trends and
9 drivers that influence current APS planning decisions; resource portfolio development,
10 conventional resources and energy efficiency; and the economic and financial impacts of
11 long-term resource procurement. The Company also conducted extensive outreach to
12 community leaders, addressing the Company's future resource needs and resource planning
13 issues throughout the APS service territory.

14 **III. APS's Proposed Resource Plan**

15 Significant long-term growth is forecast for the APS service territory, even with the
16 current economic downturn. APS expects its customer base to increase from 1.2 million
17 customers to 1.7 million customers between 2009 and 2025 (the "Planning Period"). APS
18 projects that by 2025, at peak demand (the moment when energy demand is at its highest,
19 which usually occurs on the hottest day of the year), customer demand will be 60 percent
20 higher than current levels. By 2025, the Company's total system energy requirement is
21 expected to increase by about 17,000 gigawatt hours, which represents an increase of more
22 than 50 percent over 2009 levels. The APS Resource Plan proposes a diverse portfolio of
23 generation resources to meet the long-term needs of customers that reasonably balances
24 reliability, cost, and environmental impacts. The primary components of the APS Resource
25 Plan include:

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⁵ Docket No. E-01345A-08-0010.

1 Energy Efficiency Initiatives. Increased energy efficiency programs are a
2 fundamental component of the Resource Plan because they are cost effective,
3 reduce environmental impacts, and provide a means for customers to manage their
4 usage and costs. Future energy efficiency initiatives are expected to contribute
5 more than 3,100 gigawatt hours of energy by 2025, a significant increase in energy
6 efficiency programs from the Company's current levels.

7 Renewable Resources. The Resource Plan proposes that the Company
8 accelerate acquisition of renewable resources, beyond the requirements for
9 compliance under the RES Rules. By 2015, the Resource Plan proposes to double
10 the amount of renewable energy required by the RES Rules. Renewable resources
11 are expected to meet about 45 percent of the incremental growth in customers'
12 energy consumption by 2025.

13 Baseload Resources. To provide reliable baseload power—energy that is
14 available 24 hours a day, 365 days a year—there are currently two options
15 available: coal and nuclear. Development of baseload resources have long lead
16 times, typically taking more than ten years for plants to be operational. With the
17 uncertainty of future climate change regulations and carbon-reducing technologies
18 still in the developmental stages, APS does not believe that coal is a currently
19 preferred option. As a result, APS has concluded that a nuclear resource in the
20 2022-2023 timeframe is likely to be the most reasonable baseload resource to meet
21 customers' demand for electricity, while minimizing the potential risks and costs
22 of climate change regulation. In the near-term, the Company intends to take
23 preliminary steps to assure that a nuclear resource remains an option for
24 installation in this timeframe.

25 Peaking Resources. The Resource Plan recognizes that purchases from the
26 wholesale market, natural gas-fired capacity resources, and/or additional demand
27 response opportunities will be needed to meet customers' future peak demand and
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1 to replace existing long-term purchases that will expire within the Resource Plan's
2 time horizon.

3 The Report discusses the varying factors that affect the Resource Plan and provides a
4 technical analysis of the different resource options.

5 **IV. Key Resource Planning Considerations**

6 The APS Resource Plan has been developed during a time of extraordinary
7 uncertainty. During the past year, energy prices have been exceptionally volatile and an
8 unprecedented economic downturn has resulted in a national recession. The electric utility
9 industry is one of the most capital-intensive industries in the world, and electric utilities, such
10 as APS, must have ready access to liquid capital markets. The current financial crisis has
11 penetrated into the energy sector; however, the magnitude of the impact of the current
12 economic downturn on utility capital funding for significant generation projects is not yet
13 clear. Additionally, concerns about climate change, emerging technology, and changing
14 regulatory policies are complexities that significantly influence the choice of future energy
15 resources and pose challenges for the Company's planning efforts.

16 While it would be desirable to simply wait until the uncertainties are resolved, this is
17 not a realistic approach. If APS does not begin now to address future resource needs, because
18 of the long lead times for planning and construction of some technologies, the most beneficial
19 options could be foreclosed in the future. Taking steps now will enable the Company to
20 avoid a future where the primary solution is to rely on natural gas-fired generation and it will
21 preserve options for the future development of resources, such as renewable energy and
22 energy efficiency programs. In this climate of uncertainty, it is imperative to maintain
23 flexibility to respond to unprecedented changes in the marketplace, regulation, and
24 legislation, and to maintain APS's ability to pursue resource alternatives in the future.

25 Another key planning consideration is the substantial financial impact of implementing
26 the APS Resource Plan. To implement the Resource Plan, APS will need to make major
27 investments in generation, transmission and distribution during the Planning Period. New
28 baseload plants and renewable resources are costly and require significant investment over

1 time. Consideration must be given to the financial impact to customers when adding new
2 resources, including rate levels, the timing of cost impacts, and exposure to price volatility.
3 No reasonable planning scenario currently contemplated suggests that APS could meet its
4 long-term obligations without some level of revenue increase over and above anticipated sales
5 increases. Constructive and supportive regulatory actions will be necessary to allow APS
6 access to the capital required to implement the Resource Plan.

7 **V. Other Compliance Matters.**

8 1. Hedging Policy

9 APS discussed its commodity hedging program and strategies in its Resource
10 Alternatives Report filing and with stakeholders at meetings during the spring of 2008. At
11 that time, the Company projected increases in natural gas consumption, and therefore was
12 discussing an expansion of the current hedging program from three years to five years.
13 However, in light of current uncertainty in financial markets and the reduction in the growth
14 of natural gas requirements due to reduced growth, at this time APS no longer believes that it
15 needs to expand the timeframes for hedging at this time.

16 2. Carbon Emission Reduction Study

17 In Decision No. 69663, the Commission ordered the Company to study carbon
18 emission reduction approaches and to file its findings with the Commission for review.⁶
19 Carbon emissions were an integral part of the resource planning analyses and stakeholder
20 discussions, and were a significant factor in selection of the recommended plan. The APS
21 Resource Plan Report incorporates and serves as this carbon emission study.

22 **VI. Conclusion**

23 After Commission consideration of the APS Resource Plan, APS respectfully requests
24 that the Commission issue a decision that:

- 25 • Approves APS's Resource Plan, or in the alternative, acknowledges that APS
26 considered all relevant resources, risks, and uncertainties known or knowable, and
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28 ⁶ Decision No. 69663 (June 28, 2007) at pg. 155.

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at the time of the Commission's determination, the Resource Plan is reasonable and in the public interest.

- Determines that the pursuit of renewable resources above the requirements of the RES Rules is in the public interest.
- Determines that taking the initial steps to preserve the ability of APS to pursue a new nuclear baseload resource is in the public interest.
- Determines that it is appropriate for APS to proceed to implement the Resource Plan.

RESPECTFULLY SUBMITTED this 29th day of January, 2009.

PINNACLE WEST CAPITAL CORPORATION
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ORIGINAL and thirteen (13) copies of the foregoing filed this 29th day of January, 2009, with:

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