

**ARIZONA RESIDENTIAL UTILITY CONSUMER OFFICE COMMENTS ON
EPA'S PROPOSED EMISSION GUIDELINES FOR
EXISTING ELECTRIC GENERATING UNITS
EPA-HQ-OAR-2013-0602**

The Arizona Residential Utility Consumer Office ("RUCO") submits these comments on EPA's Clean Power Plan Proposed Rule (CPP).

RUCO is a state governmental agency that represents the interests of Arizona's residential ratepayers. Since our establishment in 1983 by the Arizona legislature, RUCO has provided a voice for the residential consumer in rate-related proceedings involving public service corporations of all kinds. RUCO also actively participates in high-level policy decisions made by the state utility commission.

RUCO has a long history of being a thoughtful stakeholder that brings an objective perspective to sometimes very contentious issues. RUCO strives to guide the development of smart policies that maximize benefits for residential ratepayers and for the utility system as a whole. It is with that frame that RUCO offers its comments on the proposed Clean Power Plan rules.

Based on review of the proposed rule, RUCO has four major concerns. These four issues do not represent the totality of our position, but rather a high level synopsis of our main concerns around methodology, structure, and feasibility. RUCO's top concerns are as follows:

1. An inappropriate and rudimentary analysis of re-dispatch capability
2. An unrealistic and impractical interim goal
3. Lack of consideration for useful life of existing coal assets
4. Questionable treatment of certain non-carbon emitting resources

RUCO also offers the following solutions:

1. The EPA must apply a phase-in approach to building block 2.
2. The EPA should allow states to set their own interim goal.
3. The EPA needs to consider the remaining useful life of existing plants when formulating the group of affected generating units.
4. The EPA should recognize first adopters and reconfigure the way nuclear energy is treated.

TOP CONCERNS:

An inappropriate and rudimentary analysis of re-dispatch capability

The CPP calls for a significant and concerning level of re-dispatch from coal to natural gas. In fact, re-dispatch represents Arizona's largest building block by far - roughly 70-80% of the state's potential. This target could very well force Arizona to wind down nearly all of the coal plants outside of Native American lands.

While Arizona has a large amount of natural gas generation, only ~50% of these facilities are owned by Arizona utilities. Moreover, these units are largely located in one general area West of Phoenix. To that end, we are concerned that the EPA's assumed level of re-dispatch fails to account for several important factors including: existing contractual obligations, transmission capacity constraints, peak summertime demand, pipeline availability, security considerations, and air quality limitations.

An unrealistic and impractical interim goal

According to the proposed rule, EPA assumes Arizona would be able to complete this foundational transition from coal to natural gas by around 2020 - about five years after Arizona receives clarity on the state target and even less time from when Arizona's state plan actually gains approval. Since Arizona has no natural gas storage and only two major natural gas pipelines, this radically compressed timeline leaves Arizona virtually no time for proper economic, safety, and reliability based preparation. Furthermore, Arizona operates outside of an RTO/ISO. Thus, Arizona does not have the same flexibility to easily re-dispatch as other states.

The scale of re-dispatch mixed with this interim goal creates a perfect storm that would expose Arizona ratepayers to serious reliability and safety issues. In a desert southwest summer, reliable electricity is not a luxury. It is a life sustaining necessity. RUCO urges the EPA to provide a substantially longer runway for states to make this coal-to-natural gas transition and include a phased approach to re-dispatch. Again, since the interim average target is so close to the end 2030 target, it leaves little room for flexibility let alone enough time to site needed upgrades.

Lack of consideration for useful life of existing coal assets

Arizona has a relatively young coal fleet. Closing a significant portion of these plants would not only burden ratepayers with billions of dollars in stranded costs but it would also require expensive new infrastructure. In addition, these coal plants have been retrofitted with billions of dollars' worth of emission equipment stemming from other EPA rules. Therefore, it is socially and economically suboptimal to close a majority of these plants before their useful life. Again, the interim goal and the re-dispatch

assumptions combine to guarantee a wide scale shutdown of these plants. Moreover, the shutdown would occur within five years - preventing rate gradualism and not allowing a proper transition for communities reliant on coal related economic activity.

Questionable treatment of certain non-carbon emitting resources

Nuclear energy is a key resource for Arizona ratepayers. In fact, Arizona is home to the largest nuclear generating station in the country. However, in the current CPP methodology nuclear is treated more as a liability than an asset. Another resource that was treated improperly or ignored is hydroelectric generation. Arizona was built on this resource yet it receives no credit for this carbon free form of generation. Next, little credit is given to states that have led the way in clean energy and energy efficiency. States like Arizona have introduced renewable energy and energy efficiency policies that have reduced carbon emissions for many years. Yet, Arizona is limited in what the state can apply forward to meeting the 2030 target. Arizona has some of the highest levels of solar energy deployed per capita and aggressive energy efficiency standards. It was these very policies that the EPA looked to for as guidance on setting state targets. Arizona ratepayers should realize some return on their investment from these actions.

PROPOSED SOLUTIONS

The EPA must apply a phase-in approach to building block 2.

The current structure of anticipated resource deployment assumes that states can re-dispatch by 2020. In Arizona's case, this method of application significantly reduces any flexibility the state has to implement other strategies/building blocks to meet the 2030 target. Therefore, RUCO urges the EPA to phase-in the re-dispatch component of building block 2.

The EPA should allow states to set their own interim goal.

As mentioned above, the 2020 interim goal does not provide enough time for an orderly transition to the 2030 target. The EPA must allow states to determine the interim goal. This will allow a glide path to the 2030 target in way that ensures reliability and reduces rate shock.

The EPA needs to consider the remaining useful life of existing plants when formulating the group of affected generating units.

Exclude coal plants from the re-dispatch calculation if they are 40 or less years old as of 2030. This policy was recommended by Arizona utilities and RUCO also strongly supports this idea. This policy in conjunction with allowing a glide path on the interim goal will present a more reasonable end target for the state of Arizona and provide

enough time to put in place infrastructure to accommodate the transition away from coal based electricity.

The EPA should recognize first adopters and reconfigure the way nuclear energy is treated.

Forward looking states should get credit for their leadership. Notably, the EPA's "best practices for energy efficiency" are partially based on the energy efficiency targets and savings demonstrated by Arizona; yet it did not give Arizona credit for its work as an early adopter. Likewise there is little benefit to have nuclear generation as part of Arizona's portfolio. There are several ways to remedy this issue. Regarding energy efficiency and renewable energy standards, states should be able to count some portion of verified savings/production since inception of their standards. Regarding nuclear power, an Arizona investor owned utility, Arizona Public Service, has put forward a pragmatic solution that RUCO feels deserves serious consideration. Their proposal is to allow states to take credit for the portion of annual nuclear generation in excess of the average historical performance of the nuclear fleet. Similarly, Arizona should get some credit for its hydroelectric investments, which have provided carbon-free energy reliably for many years.

Conclusion

RUCO would like to reiterate our deep concerns about the level of natural gas switching proposed for Arizona. Dispatching to natural gas generation that Arizona utilities do not own, whose location largely resides in one part of a large state, and on such an aggressive timeline presents grave technical and economic challenges. These factors lead us to question the basic achievability of the EPA's target.

Finally, RUCO thanks the EPA staffers in advance for taking these comments into consideration and for acting on the concerns outlined above. As the EPA evaluates the comments, RUCO urges consideration of the following: Arizona is one of only two states not to see a net benefit from this rule. We also have one of the highest rates of reduction. For these reasons, RUCO is concerned that the proposed rule could expose Arizona ratepayers to economic, health, and security risks that are unduly burdensome. As such, we urge EPA to revisit Arizona's target and consider the suggestions RUCO has presented.

The task that the EPA challenged itself with is a daunting one and will set the tone for how the US deals with carbon emissions for decades to come. Getting this rule's implementation wrong will be counterproductive to the goals of EPA and the goals of EPA's supporters. Success starts with an understanding of a state's true potential and establishing an adequate transition period. Please work with stakeholders like RUCO to get this right for Arizona.