

**Comments of Susan Bitter Smith
Chairman, Arizona Corporation Commission**

**Before the Federal Energy Regulatory Commission
Technical Conference on Environmental Regulations and Electric Reliability, Wholesale
Electricity Markets and Energy Infrastructure**

Docket No. AD15-4-000

**Washington, D.C.
February 19, 2015**

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Introduction

The Arizona Corporation Commission (“ACC”) believes the following statement accurately, clearly and concisely expresses the situation that the State of Arizona faces with respect to the United States Environmental Protection Agency’s (“EPA”) proposed Clean Power Plan Rule 111(d).

“The final analysis is clear and unequivocal: It is not possible to shut down all coal plants in 2020 without seriously jeopardizing grid reliability, national security and Arizona’s resource portfolio planning process. There is simply no way for Arizona to implement a state plan, as is required under EPAs proposal, without irreparable disruption to the state’s electric power system. Arizona does not have the flexibility to propose or implement a plan that would even approach compliance with the EPA’s proposal.”¹

Comments

In regards to Electric Grid Reliability, *the Proposed Rule, in effect, requires the retirement of all coal plants not located on Tribal lands in Arizona by 2020, resulting in insufficient generation to meet Arizona’s summer demand, inadequate electric transmission to meet electrical demand in Arizona, and inadequate pipeline to deliver the necessary quantity of natural gas to all parts of the state.* The Proposed Rule undermines the reliability of electric service associated with retiring all coal plants in 2-3 years from adoption of a State Plan. Such action upsets years of proper planning by Arizona utilities to achieve system diversity and redundancy. The Proposed Rule is projected by EPA to turn Arizona from a net exporter of electricity to a net importer, which could have many economic and reliability issues. Over half of

¹ Arizona Corporation Commission Rule 111(d) comments (December 1, 2014).

the Natural Gas Combined Cycle (“NGCC”) generation in Arizona is merchant-owned, and not available for in-state consumption. The EPA fails to consider the electric transmission system impacts and the lack of adequate transmission capacity to deliver existing NGCC energy at the levels assumed. The EPA fails to consider the time, cost and environmental implication of building additional natural gas pipeline and electric transmission capacity. Under the EPA’s proposed timeline, a state plan would be approved in 2017 or 2018. This gives Arizona only 2-3 years (assuming EPA takes 1 year to approve the final SIP) to retire all of its coal plants, shift to NGCC generation, restructure its electric transmission lines to accommodate this drastic change, and attempt to get additional natural gas pipeline capacity to the state.

In regards to ratepayer impact, *Arizona has one of the youngest (6th newest) coal fleets in the nation. The Proposed Rule will adversely impact ratepayers by stranding \$3 Billion of investment in coal plants, creating the need for new electric generation to replace retired coal plants, and resulting in Arizona’s diversified generation portfolio becoming overly reliant on natural gas, subjecting ratepayers to the high price volatility of natural gas.* The Proposed Rule fails to capture many significant costs when projecting the financial impact of the Proposed Rule. For instance, the EPA did not consider “stranded costs” associated with its proposal, which will be tremendous. For Arizona alone, the Proposed Rule results in approximately \$3.0 billion of stranded investment. This does not include costs for Arizona’s new electric generation, electric transmission and natural gas pipeline infrastructure that will be necessary under EPA’s proposal. The Proposed Rule fails to consider the remaining useful life of existing electric generating units (“EGUs”), as required under the Clean Air Act (“CAA”). Arizona utilities have made large investments in many of their coal plants in recent years to comply with other EPA regulations. Two of the units to be shut down will be less than 20 years old in 2020 and others will have undergone hundreds of millions of dollars in environmental retrofits to comply with other EPA requirements. The Proposed Rule will significantly increase Arizona’s reliance on natural gas

fired generation. Arizona has one of the most diversified generation portfolios in the Western States. EPA has not considered the associated price risk and transportation constraints. Such a shift is imprudent from economic, security, and reliability standpoints.

In regards to National Security, *the Proposed Rule jeopardizes national security by rendering Arizona's energy infrastructure less resilient to natural disasters or terrorist attacks.* Without coal generation, Arizona's electrical generation is highly concentrated in and around the Palo Verde Hub resulting in the electrical transmission pathways delivering power to Arizona customers becoming increasingly concentrated. In addition, any disruption to either of the only two pipelines delivering natural gas to Arizona becomes increasingly debilitating.

Summary of ACC Recommendations

The ACC has recommended that EPA **not** proceed with its Proposed Rule. EPA enforcement of issues the ACC oversees is unprecedented and unlawful. ***If however,*** EPA does proceed to adopt the Proposed Rule, then at a minimum, the ACC strongly believes the following issues need to be resolved.

- A. The EPA must address the disparate treatment of the various states. Arizona, currently in the middle of the states for carbon emissions, was assigned the second highest carbon reduction goal in the country;
- B. When more reasonable and realistic assumptions are used for Arizona, its Final Goal should approximate 1,136 lbs CO₂/Mwh, rather than 702 lbs CO₂/Mwh, as calculated by EPA;
- C. EPA should either eliminate the Interim Goal completely or create a “glide-path” giving Arizona the same degree of flexibility that other states have, *and* States should be allowed significant latitude in how they achieve the “glide-path” to reach the end goal in 2030;
- D. Remaining “Useful Life” and “Book Life” must be considered by EPA, as required by the CAA, especially given Arizona's younger fleet and recent modifications to the fleet to comply with other EPA requirements;
- E. Smaller utilities must be given special consideration. These entities typically do not have the resources or flexibility to deal with the broad sweeping changes envisioned by the Proposed Carbon Rules;

- F. The EPA's Proposed Rule must be structured so as to not impede the ability of state public utility commissions (such as the ACC) to oversee and ensure the reliability of electric service and integrated resource portfolio planning issues; *and*
- G. The EPA must address increased national security concerns created by the Proposed Rule.