

DEEP DIVE

APS spent millions defeating Prop 127. Is a clean energy compromise ahead?

The utility beat the push for 50% renewables, but now there's talk of an 80% clean energy standard.

By Herman K. Trabish

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Both sides of Arizona's bitter Proposition 127 debate argued the state could benefit from more renewables, indicating there may be a path to compromise now that the election is behind them.

While the dispute over increasing Arizona's renewable energy mandate found little common ground, both sides accept the inevitability of nuclear power making up a big part of the state's electricity generation for decades. That could be the foundation on which they build a compromise for a clean energy mandate.

An agreement of that kind could support financial stability for the utility that led the charge against Proposition 127, as well as the large infusion of renewables that the proposition's supporters fought for.

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Director of Resources Planning, Arizona Public Service

The ballot measure, which would have increased the state's renewables mandate from 15% by 2025 to 50% by 2030, lost 69.3% to 30.7%. Yet 86% of Arizona voters support investing in renewables, according to a non-partisan June 2018 poll. Controversy remains over why voters seemed to contradict themselves, but not over the need to grow Arizona renewables.

"We have always been thinking about renewables, but one policy does not fit all states," Arizona Public Service (APS) Director of Resources Planning Jeff Burke told Utility Dive. "Instead of a bigger mandate, APS wants a discussion about how to reduce greenhouse gas emissions, and about adding renewables that are affordable and match the way our customers use electricity."

A \$53 million+ fight

APS, the dominant investor-owned electric utility (IOU) in the state, provided almost \$30.3 million of the \$30.7 million spent to defeat Proposition 127, through corporate parent Pinnacle West. NextGen Climate Action, backed by billionaire climate change activist Tom Steyer, spent \$23.2 million supporting the initiative in the most expensive ballot measure campaign in Arizona history.



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Kris Mayes

Former Chair, Arizona Corporation Commission

"If APS is in favor of renewable energy, they have a strange way of showing it, Kris Mayes, former chair of the Arizona Corporation Commission (ACC), which regulates IOUs, told Utility Dive. "This is a utility that talks a good game but does nothing. Its last plan called for 5,400 MW of new natural gas generation."

Mayes, who led the fight that established the existing Arizona renewables mandate, worked for the passage of Proposition 127. "What amazes me is that Arizona's utilities said many of the same things this year they said in 2006, that rates would go up and reliability would be at risk and the sky would fall, but none of it happened and they met the 15% mandate ten years early."

There are two still-unresolved key points in the debate about the proposed increase in Arizona's current mandate, which it calls the Renewable Energy Standard and Tariff — its impact on the state's Palo Verde Nuclear Generation Station and its cost to ratepayers.

Mandate costs and benefits

There was strong disagreement over the costs and benefits of Proposition 127. The Arizona Chamber of Commerce and Arizona Residential Utility Consumers Office, projected annual cost increases for ratepayers of \$1,250 and \$630, respectively, while the Natural Resources Defense Council said average household bills would be \$33 per year lower in 2030.

The debate about cost was never resolved. But, Mayes asked, "why have states like California, Oregon and Nevada moved to 50% renewables standards expecting ratepayer savings if it raises costs?"

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Jeff Burke

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Arizona uses energy differently, Burke responded. "Load can be 7,500 MW in the summer, but not over 4,000 MW the rest of the

year," he added. "This poorly constructed measure would have forced us to buy renewables we would only use four months of the year and that would drive rates up."

The numbers on Proposition 127's potential costs and benefits were the subject of much dispute leading up to Nov. 6. But it was how those numbers were described that led to even greater controversy.

Once Arizona Attorney General Mark Brnovich added language to the sample ballot summary that said it would mandate the 50% renewable standard "irrespective of cost to consumers," support for the measure fell 63% to 33%, according to polling done by FM3 Research.

Former Arizona Democratic Party Executive Director D.J. Quinlan told Utility Dive that use of the phrase was "ludicrous" and "deceptive." He, Mayes, and Natural Resources Defense Council (NRDC) Research Scientist Dylan Sullivan are convinced it swayed the vote. But the controversy over the Palo Verde nuclear plant may be what sways Arizona's future.

Nuclear versus renewables?


APS expects to face a 30% increase in demand by 2030, and it will use a "clean-energy strategy" to build "a clean-energy future," APS Chairman, President and CEO Don Brandt said after Prop 127 was defeated.

The utility wants to increase battery storage, electric vehicles and other customer-sited resources, but "Palo Verde is the anchor of Arizona's clean-energy future," he added.

Proposition 127 threatened the closure of Palo Verde by making it uneconomic, APS's Burke said. Nuclear plant operations cannot be turned up and down like natural gas plants, but APS would need to run its renewables to meet the mandate, he said. Western markets would be flooded with clean energy generation from both renewables and nuclear generation, adding to the

renewables curtailment and negative pricing challenges those markets already face.

"All the owners of Palo Verde would be in the same position and the economics would force the plant's closure," Burke said. "That would wipe out 30 million MWh of clean energy. Renewables would not replace that for years without long duration storage, which would be very expensive."



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Kris Mayes

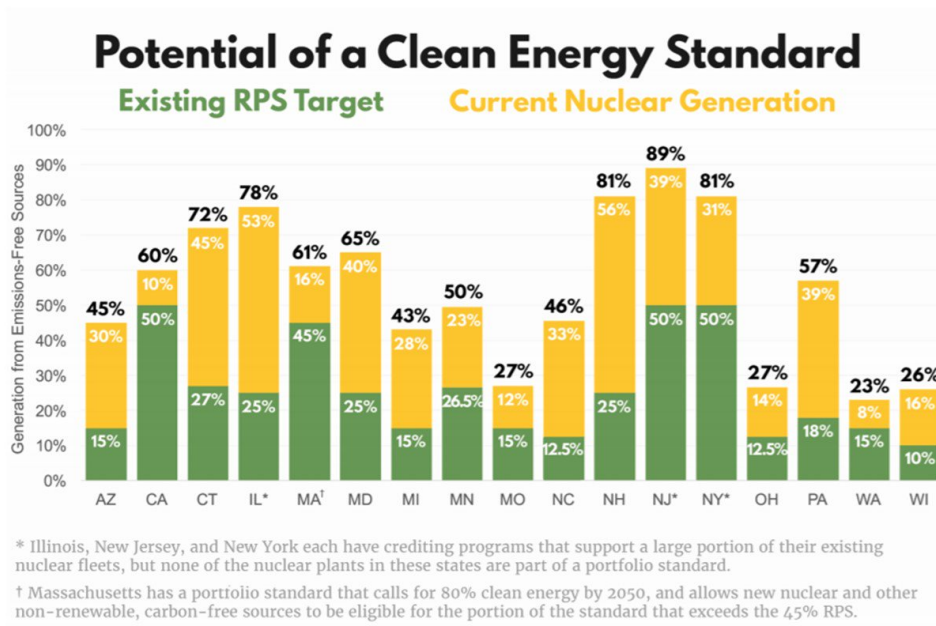
Former Chair, Arizona Corporate Commission

But NRDC modeling showed Proposition 127 would not have forced APS to close the 3.3 GW nuclear plant, Sullivan said. "Adding low-cost renewables to the regional power mix would displace higher-cost coal and natural gas generation, not low-cost Palo Verde-generated electricity."

"A U.S. Department of Energy study showed that, as one of the biggest U.S. nuclear plants, Palo Verde's economies of scale would keep it in service even if price drops force over 80% of all U.S. nuclear capacity to shut down by 2050," he added.

Palo Verde "is one of the safest nuclear plants in the U.S. and will not close until the Nuclear Regulatory Commission says it has to," Mayes said. "APS's argument is nonsensical."

This agreement by both sides in the Proposition 127 fight — regarding the inevitability of Arizona relying on nuclear power well into mid-century — could point to a compromise in the fight for the future of Arizona's power system.



Credit: From the Breakthrough Institute/Third Way CES paper (used with permission).

A "clean" standard instead?

"We want to get past 127," Burke said. "We are 50% clean energy now, with Palo Verde, and we are adding batteries to our solar to reduce curtailment and increase renewable energy production."

APS favors a clean energy standard (CES) rather than a renewable portfolio standard and "is in alignment with the proposal by Arizona Corporation Commissioner Andy Tobin for an 80% clean energy target by 2050," Burke added. "We want cost off-ramps in it, but we like its all-of-the-above portfolio."

The Tobin plan is part of an ongoing ACC proceeding on revising the current Renewable Energy Standard and Tariff. The proceeding has received extensive input from stakeholders and awaits further action after the two newly-elected members of the five-person commission are seated.

A CES is essentially a renewable portfolio standard that includes all emissions-reducing resources instead of only renewables. Some CESs include tradable zero emission credits that support existing nuclear generation.

At present, New York, Illinois and Massachusetts have CESs. Massachusetts' standard for 2050, though debated, is considered by many the best designed of the CESs because it requires an increase to 80% clean energy as well as an increase to 45% renewables.

As a result of the Proposition 127 vote, Commissioner Tobin's proposed CES for Arizona may now have more viability, according to both Burke and Mayes. The Tobin Energy Modernization Plan would replace the current Renewable Energy Standard and Tariff with a Clean Resource Energy Standard and Tariff (CREST).

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Arizona Public Service

It targets 80% clean energy by 2050 and an "ultimate goal" of 100%, according to Commissioner Tobin's proposal. It would lead to "broader diversified energy policies relating to clean energy resources, energy storage and energy efficiency, not just those related to renewable energy."

If approved by the commission, Arizona's regulated utilities, including APS and Tucson Electric Power (TEP) "will file a CREST Implementation Plan describing their strategy to achieve their goal" and a "Compliance Report detailing their progress," the proposal adds. It also targets 3,000 MW of deployed energy storage by 2030 and a Clean Peak Target (CPT) seeking 1.5% annual growth in "clean resources deployed during peak hours."

APS sees the Tobin proposal as "a bold vision for the future" and "encourages the Commission to continue to move the Energy

Modernization Plan forward," according to comments the utility submitted to the commission. "This is far better than a mandated energy policy derived outside of any regulatory process that would be inflexible as technologies and customer expectations evolve."

No accountability?

The problem with the Tobin proposal, and the reason APS likes it, is that there is no accountability, former Commissioner Mayes said. "APS could technically wait until 2049 to meet it. But the commission should move forward as a starting point and layer in accountability."

Commissioner Tobin was unavailable to discuss the feasibility of changes to his plan.

Commissioners Bob Burns and Tom Forese requested comments from the Arizona utilities and "a thorough analysis of the prospective costs to ratepayers" of the Tobin plan by the ACC Staff.

TEP and UNS Electric "support the principles and objectives outlined in the Energy Modernization Plan," according to their filing. But "instead of pursuing a one-size-fits-all approach, the Commission should draft rules that accommodate the unique situation of each regulated utility."

A wide-ranging group of environmental advocates "broadly support the clean energy resource provisions," their filing reported. Endorsed by Western Resource Advocates, the Arizona Utility Ratepayer Alliance, the Conservative Alliance for Solar Energy, the Southwest Energy Efficiency Project, Vote Solar and others, the filing said initial analyses showed the Tobin plan to be cost-effective.

But, they added, "it is critical that Arizona's regulated utilities are directed to begin acquiring clean energy resources in the immediate near term. Therefore, we encourage the Commission

to establish interim, enforceable targets."

"The big reason we wanted a constitutional amendment was to get APS to actually move on renewables instead of paying lip service."

D.J. Quinlan

Former Executive Director, Arizona Democratic Party

As for Palo Verde, it was excluded from Proposition 127 because the emphasis was on new resources, former Democratic Party Executive Director Quinlan said. "That was why we chose 50%. If you add our 50% and Palo Verde's 27% of Arizona electricity, it is almost the Tobin proposal's 80%, so a clean standard may be a potential compromise."

Without provisions for accountability, renewables advocates won't accept it, he noted. But that could bring opposition from APS.

"APS may prefer moving from 2030 to 2050, but Arizonans concerned about climate change and about the state's competitiveness in renewables will not. And if those things are added, APS might not support it."

It is possible we could move forward on renewables and clean energy through the Tobin proposal, but even though Proposition 127 did not pass, "it changed Arizona," Quinlan said. "The big reason we wanted a constitutional amendment was to get APS to actually move on renewables instead of paying lip service. That will be necessary."