ASU Energy Policy Innovation Council

Extended Natural Gas Moratorium

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The essentials

- The Arizona Corporation Commission recently amended its 2018 decision to institute a moratorium on the procurement of natural gas power plants.
- The moratorium has now been extended to last until August 2019.
- The extension increases the likelihood that regulated utilities will need to invest in energy sources other than natural gas, including renewables.

The Original Decision

On March 29, 2018, the Arizona Corporation Commission (ACC) issued a lengthy decision, which, among other things, instituted a moratorium on the purchase, acquisition, and construction of natural gas generating plants. The order applied to all public utilities regulated by the ACC that deliver electricity to consumers and specifically prohibited them from procuring natural gas facilities above 150 MW of capacity, without first:

- Conducting an analysis of how the costs incurred under their current plan involving natural gas generation compare to the costs of other options. This analysis would then be reviewed by Commission staff.
- Petitioning the Corporation Commission to allow the specific procurement of a natural gas facility and receiving approval.

In addition to these limitations the moratorium was created with an expiration date of January 1, 2019.

The decision also concluded that, for the first time, utilities' 2015-2016 Integrated Resource Plans (IRPs) did not meet the Corporation Commission's rules for planning and procurement. In addition to rebuking utilities' plans by issuing this finding, the Corporation Commission issued several orders imposing more stringent requirements on utilities' planning processes. Some additional orders included in the decision required utilities to do the following:

- Include the projected cost changes for both established and new technologies in their energy portfolio analyses.
- Include a breakdown of different energy sources and types and their respective contributions to capacity in prospective portfolios.
- Hold public workshops within 60 days of filing future IRPs.
- Analyze the projected costs of future energy storage technologies in their IRPs.
- Include low and no growth scenarios in future IRPs.

- Justify their 2015-2016 IRP's load growth projections (specific to APS, which projected 2.4% annual growth).
- Include portfolio plans that include low fossil fuel additions (20% of additional capacity or lower) in the short run.
- Include long term (15-year forecast) portfolio plans that assume high levels of renewable energy (at least 50% of capacity).

Furthermore, through this decision the Commission ordered their staff to hire one or more third party analysts to assess the costs and benefits of the scenarios and portfolios presented in IRPs and develop additional scenarios and portfolio plans as necessary. The Commission also stipulated that the hiring of the aforementioned analysts would require their prior approval.

In the long term this decision is intended to push utilities to adopt renewable energy and energy storage technologies while restricting their ability to invest in natural gas generating facilities. In addition, it will obligate them to increase the transparency of their planning processes.

In the context of the rest of the decision and the ACC's energy modernization plans, the natural gas moratorium clearly contributes to a concerted effort by the Commission to discourage utilities from investing in unnecessary natural gas generation. In addition to issuing the moratorium, the Commission ordered utilities to consider projections in which the cost of natural gas increased, the cost of renewable sources and energy storage decreased, and the need for additional energy sources (based on load growth) was minimal. Thus, the Commission signaled their desire that utilities adopt portfolios consisting of less natural gas and more renewable energy.

The Extension

On February 6, 2019 Corporation Commissioner Andy Tobin proposed an extension to the moratorium on natural gas. The ACC approved this extension, providing a revised end date of August 1, 2019. The original moratorium prevented utilities from unilaterally increasing their natural gas energy assets and was first included in a decision with other orders that promoted lower dependence on natural gas. Therefore, it stands to reason that the extension has largely the same intent as the original order.

Third Party Opinions

A variety of interest groups including the Sierra Club, the Ceres BICEP Network, and the Arizona PIRG Education Fund argued in favor of extending the moratorium. Although some groups requested that the moratorium be extended until the end of the year (2019), and others requested a multiyear extension, their arguments were largely similar.

Proponents of the extension argued that investment in natural gas facilities would result in the purchase of unnecessary and outdated infrastructure and would cause energy costs to increase if the price of natural gas itself were to increase. These issues would then be laid at the feet of customers in the form of higher electricity prices. The interest groups argued that the extension would give the Commission more time to evaluate the acquisition of further natural gas resources so as to prevent unnecessary and costly investments.

Additionally, several groups argued in favor of extension on the grounds that it would promote timely investments in new renewable energy and energy storage technologies.

Many of the groups that argued for an extension to the moratorium also requested that the relevant order be amended to restrict utilities from entering into power purchase agreements (PPAs) that involve electricity generated using natural gas. If such a rule were to be adopted it would prohibit utilities not only from investing in natural gas facilities, but also from purchasing energy generated using natural gas from third parties. Several interest groups viewed this proposed amendment as an opportunity to close what they saw as a PPA loophole that allowed utilities to circumvent the moratorium.

Scope of the Extension

Although the Corporation Commission voted to extend the moratorium until August 1, 2019, the order that accomplished this did not include several components favored by interest groups, namely a longer extension and an amendment regarding PPAs. Many of the groups that argued in favor of extension requested that the ACC extend the moratorium for a year or more so that the utilities' 2019-2020 Integrated Resource Plans would have to take the moratorium into account. This advice was not fully heeded. Likewise, interest groups' requests for PPAs to be included in the moratorium did not result in action by the Commission. Thus, the current extension is limited in scope and only includes a portion of what many in the energy policy community advocated for.

Learn more

To find the relevant ACC e-docket
Go to:
https://edocket.azcc.gov/Docket/DocketDetailSearch?docketId=18939#docket-detail-container1

Contact information

Energy Policy Innovation Council
School for the Future of Innovation in Society
Arizona State University
EnergyPolicy@asu.edu

Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Az 85007-2996

Arizona Corporation Commission
Andy Tobin, Commissioner
602-542-3625
Tobin-web@azcc.gov

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