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In the Matter of the Commission's Inquiry and Review of the Existing Rate Classifications and other Potential Issues related to Data Centers (Docket No. E-0000A-25-0069)

Commissioners,

The Interwest Energy Alliance ("Interwest") is a non-profit 501(c)(6) trade association representing the leading renewable energy, transmission, and energy storage developers and manufacturers in proceedings throughout the states of Arizona, Colorado, Nevada, New Mexico, Utah, and Wyoming. Interwest appreciates the opportunity to submit comments in response to the Arizona Corporation Commission's ("ACC" or "Commission") inquiry and review regarding existing rate classifications and other potential issues related to data centers, as outlined in Chair Thompson's letter dated April 3, 2025. In these comments, Interwest specifically addresses the exploration of "user-funded utility scale generation to help large customers such as data centers meet their power needs, while at the same time providing improvements to Arizona's power infrastructure that ultimately benefits the utilities' and other ratepayers through a more robust grid," as highlighted by Chair Thompson. This topic is of particular interest to Interwest's members because user-funded resource initiatives provide a unique opportunity for accelerated development of reliable, cost-effective resources to meet the growing energy demand, which our members are interested in serving.

INTRODUCTION

Large customer load is forecasted to increase on an unprecedented scale. As noted in Chair Thompson's letter, novel and innovative approaches are essential to maintain a reliable and cost-effective system for all customers, and to match the pace and scale of this growth. Customer-funded resource tariffs offer an effective opportunity to help manage this load growth while simultaneously fostering economic investment in Arizona and maintaining a stable utility. These tariffs can attract diverse industries to the state and serve as a financial hedge by protecting the general rate base from costs associated with substantial load growth from a specific customer segment. Interwest supports the Commission's exploration of new user-funded resource initiatives for the state, as well as modernizing existing opportunities offered in Arizona

to enhance their ability to address growing load and bring economic development benefits to the state.

While there may be many possible variations of user-funded resource initiatives, Interwest's comments are focused on a new utility tariff that facilitates customer-funded resource procurements to satisfy all or part of the customer's demand while expanding economic opportunities of the state. We recognize that there are existing programs designed to allow customers to procure their own resources, such as the Arizona Public Utility Green Power Project options and the Tucson Electric Power Rider-23 Option C. While these programs offer their own benefits, they do not incorporate several of the principles discussed below and do not afford customers the flexibility that a new tariff based on our principles would allow. Based on Interwest's experience in the Public Utilities Commission of Nevada's approval docket for the Clean Transition Tariff ("CTT")[1], we found that this alternative type of customer tariff provides substantial benefits to participating large customers, the utility, and non-participating utility customers. The CTT facilitates the development of diverse resource technologies by large customers, such as data centers, through partnerships with developers and the utility, with no limitations on load or customer participation. Resource costs are directly allocated to participating customers via an Energy Supply Agreement[2] that accounts for system and non-participant benefits, while these resources are integrated and dispatched as system assets, improving overall grid reliability and cost-effectiveness. This model also accelerates the deployment of utility-scale resources necessary for accommodating rapid load growth, aligning with Chair Thompson's interest in user-funded utility-scale generation. Therefore, the CTT serves as a valuable blueprint for a similar initiative in Arizona and is the central focus of our comments at this time.

GUIDING PRINCIPLES FOR CUSTOMER FUNDED TARIFFS

In developing and approving customer-funded utility-scale resource tariffs in Arizona, Interwest recommends the ACC consider the following guiding principles, which are informed by successful models like the Nevada CTT and address the goals outlined in Chair Thompson's letter:

1. Customer-funded resource tariffs should not contain a cap on the amount of load or the number of qualifying customers that may be served by these tariffs.

To maximize their effectiveness in addressing large customer load growth and accelerating resource development, customer-funded resource tariffs should not cap the amount of load or the number of participating customers that may be served by the tariff. One of the most important benefits associated with customer-funded resource opportunities is the ability to bring

[1] Public Utilities Commission of Nevada, Docket No. 24-05022.
[2] The Energy Supply Agreement is component of the Clean Transition Tariff that is defined within the tariff language. It is the mechanism through which CTT resources costs are allocated to the customer.

more resources online to meet growing demand without burdening all non-participating customers with the costs of those resources. Any limitation on the amount of load or the number of eligible customers will unnecessarily curtail this benefit. Additionally, keeping these tariffs open to any number of qualifying customers will maximize the appeal to new industries and customers that are looking to locate business and infrastructure in Arizona. It is reasonable, however, to establish an eligibility threshold based on customer load to ensure participation is focused on resource procurements with a substantial grid impact. One potential threshold could be an average annual load of 5 MW or more, which is similar to the threshold used in the CTT.[3] For existing customers this may be calculated using historical load data. For new customers this could be based on a forecasted annual load until historical load can be used to satisfy the threshold.

2. Both existing and new utility customers should be allowed to use these programs.

Allowing both existing and new customers immediate access to these tariffs is crucial. Another key advantage of customer-funded initiatives is their capacity to drive economic development by attracting companies that wish to procure their own resources, which will also assist Arizona in meeting its rapid load growth. Requiring new businesses to take standard utility service before accessing these tariffs could deter investment, especially as other states develop similar, potentially more attractive, customer-funded resource options. Immediate participation avoids unnecessary time restrictions that could limit economic growth. It also prevents a potential resource gap by allowing customers to bring their own resources online concurrently with their load, thereby expediting the interconnection process and associated economic benefits.

3. Customer-funded resources should be subject to the existing procurement process in Arizona and be exempt from using an RFP as the primary acquisition process.

Interwest recommends that customer-funded resources be subject to the existing Arizona resource procurement process governed by Arizona Administrative Code § R14-2-705, and specifically that customer-funded resources qualify for the request for proposal ("RFP") exception under R14-2-705(B)(5). The existing process under § R14-2-705 requires resources to be procured through an RFP process. However, there is an exception to the RFP requirement under R14-2-705(B)(5) that applies to unanticipated opportunities to acquire resources at a significant discount that provide unique value to customers. Customer-funded resources, paid for by the customer and driven by their specific needs, represent such an unanticipated opportunity. Because the customer is paying for the majority, if not all of the costs of the resource, the utility is getting a system resource that neither it nor its general rate base is paying for. Further, as a

[3] Public Utilities Commission of Nevada, Docket No. 24-05022, Order issued on March 11, 2025, PDF page 12 ("This clean transition tariff rate schedule is applicable to all non-Residential Service Customers demonstrating that they will have an average annual hourly load of five megawatts or more based on a consecutive twelve-month rolling average").

system resource, the general rate base will derive discrete benefits through enhanced reliability, cost-offsetting, and interconnection upgrades.[4]

Soliciting resources in an RFP is the gold standard for identifying the most cost-effective, reliable resources through a transparent and competitive process. Interwest strongly believes that RFPs should be the default procurement method for all resources, especially those that may end up being paid for by the general rate base. However, in the case of customer-funded resources, providing customers with flexibility in resource selection, through both utility-led RFPs and direct engagement with developers, is essential. Given the customer-funded nature of these tariffs, customers should be empowered to identify resources that precisely align with their specific needs and goals. If these resources are not typically bid into RFPs—such as nuclear, innovative storage, and geothermal resources—the customer will need to seek out these resources more directly. On the other hand, resources identified through utility RFPs that are not selected by the utility but that fulfill specific customer requirements provide a regular, transparent, and competitive opportunity for customer resource procurements. Utility RFPs could also be issued to specifically procure resources for customers participating in a customer-funded resource tariff. This method would be especially useful when a customer is looking for innovative technologies that may not be fully established in the market. By leveraging the existing resource procurement process, customers may take advantage of this all-of-the-above approach to procurement to maximize flexibility and enhance the effectiveness of these programs for a wide range of customers.

4. Resource options procured through these tariffs should include all resource technologies, including storage resources.

Customer-funded resource tariffs are designed to empower customers to procure resources that precisely align with their specific needs. Many companies are driven to participate in these self-procurement opportunities to secure flexible, non-emitting energy that helps them achieve internal corporate goals. By not restricting the types of resources eligible under a customer-funded tariff, the ACC can maximize the tariffs appeal to a diverse range of companies and industries with varying motivations for procuring their own resources. Storage resources, both standalone and paired with generation, should also be included as resource options to provide customers with the operational flexibility afforded by these resources. In addition to providing certain benefits to customers, storage resources help enhance the reliability of the grid, which brings discrete benefits for all customers of a utility's system. As such, all resource technologies, including storage, should be allowed under any customer-funded resource tariff.

[4] Should the ACC disagree that customer-funded resource procurements fall under the exception in R14-2-705(B)(5), Interwest recommends amending the Arizona Administrative Code to include a specific exception for customer-funded resources from the RFP requirement to facilitate flexibility.

5. Include clear provisions for resource and interconnection cost calculation and allocation.

An important consideration that was highlighted during the review and approval of the Nevada CTT is the need for a clear definition of how costs for customer-funded resources will be calculated and allocated under various circumstances, particularly if a participating customer is no longer able to fulfill their financial obligations. Under the Nevada CTT model, resource costs are 'sleeved through' directly to the participating customer via an energy supply agreement. If a customer ceases to take service under the CTT, the utility will likely file an application to reallocate the resource costs to general ratepayers based on prevailing market prices for similar resources at that time.

Interwest also believes that the cost calculation and allocation provisions should address the interconnection and grid improvement costs necessary to interconnect customer-funded resources. It is likely that large customer-funded resources will require upgrades and improvements to the grid, including the transmission system. These costs should be borne by the customer who triggers the need for these investments due to their resource procurement. That being said, if the grid upgrades provide general customers with some proven benefit, these benefits should be considered when calculating and/or allocating the costs of grid upgrades.[5] Customer-funded resource tariffs therefore also encourage investment in grid improvements and transmission expansion to accommodate these resources. It is worth noting that issues may cross over into FERC's jurisdiction. At this time Interwest will wait to provide comments on this possibility but we look forward to providing additional input on these issues as the discussion progresses.

Clearly establishing how costs are calculated and how they are allocated upfront provides essential certainty for all parties involved regarding the allocation of costs should a customer be unable to continue payments. This also serves as a vital consumer protection mechanism for non-participating customers, ensuring they are not unexpectedly burdened with these costs. Interwest strongly recommends that any customer-funded resource initiative established by the ACC include explicit provisions detailing cost calculation methods and clear allocation processes for reasonably foreseeable circumstances.

CONCLUSION

Interwest appreciates the opportunity to submit initial comments on the important and novel issues raised in the Commission's inquiry regarding large customer load and potential user-funded resource initiatives. These comments represent an introduction to the principles and considerations that are important to our members in this area, and we look forward to commenting on the other issues raised during this investigation even if not mentioned here. We

[5] Anecdotally, grid improvement costs may also be relevant to another issue that Chair Thompson raised in his letter, "behind-the-meter and front-of-meter solutions". To the extent that a customer develops a behind-the-meter solution that requires improvements to the grid, the customer should bear those costs after considering any proven benefits to the entire rate base that may offset those costs for the customer.

recognize the complexity of these matters and look forward to continuing to engage with the Arizona Corporation Commission and all stakeholders throughout this process to help shape effective solutions.

Respectfully submitted,

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