

SPECIAL REPORT 2007

Valley utilities face growing demand, fee increases

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The Valley's population boom and large-scale utility infrastructure needs will continue to push utility rates higher in the near future, industry experts say.

Just how high remains to be seen.

According to a recent study by the North American Electric Reliability Council, energy demands will increase by 19 percent nationwide in the next 10 years. The same study estimated more than \$300 billion in energy plant and infrastructure expenditures are needed to ensure reliable energy supplies for the next 25 years.

These projections have national utilities scrambling to find more efficient ways to deliver power and fuel without steep increases in customer rates. Both Arizona Public Service Co. and Salt River Project, the Valley's largest energy providers, continue to add thousands of new customers each year.

APS added about 40,000 customers last year, and now serves more than 1 million people in the state. SRP added 30,000, pushing it past 900,000 Valley customers.

"It is a challenge to keep up with a fast-growing customer base," said Steve Schluter, an SRP economist.

Citing increased population, energy demands and more than \$1 billion in annual capital expenditures, APS hopes to raise rates by 20.4 percent next year. The Arizona Corporation Commission recommended a 9 percent increase.

The potential rate increase has no relation to Palo Verde Nuclear Generating Station, which is under increased scrutiny by the Nuclear Regulation Commission. APS officials say they are considering adding two reactors to the three-reactor site to help boost energy production, but talks are still in their infancy.

"The level of growth here is unprecedented," said Don Brandt, recently elected president of Arizona Public Service Co. "The need for the rate increase is a combination of fuel cost, principally driven by natural gas prices, and increased demand for energy."

The commission is expected to make a decision in the spring.

Although SRP has no plans to increase rates, officials have not ruled it out because of potential infrastructure costs, said Patty Garcia-Likens, SRP spokeswoman.

Approximately two-thirds of APS' energy and 25 percent of SRP's comes from natural gas, a commodity that has spiked in price during the past five years. Projections by the Energy Information Administration show natural gas prices will begin to stabilize next year and begin to fall in 2009.

Environmental factors like unusually cold winters and hurricanes Katrina and Rita have affected gas prices. But demand on electric utilities nationwide has influenced prices the most, said Roger Montgomery, vice president of pricing at Southwest Gas.

"What has driven up the price is the electricity companies' decisions to use natural



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gas for most of their (generating plants)," he said.

In Arizona, natural gas storage may help defray costs locally, said Arizona Corporation Commissioner Bob Gray. The Federal Energy Regulatory Commission recently named Arizona as one of the poorest states in terms of natural gas storage.

"If you time things right and buy when prices are low and take it out when prices are high, there can be a financial benefit," he said. "The trick is when to put it in and when to pull it out."

Aside from gas kept in various under-

ground pipelines crossing the state, there is no storage capability in Arizona. That may change in the near future.

El Paso Natural Gas Co., which controls the majority of natural gas pipelines in the state, is looking to build a storage facility in Eloy, north of Tucson. Gas stored at the facility would serve the greater Phoenix area. If built, the facility could be operational by 2010, said Richard Wheatley, El Paso spokesman.

Montgomery applauded the idea, but warned price will dictate the potential savings.

"We would like to see storage built in Arizona, but it has to be economically sensible," he said.

More utilities are expected to turn to renewable energy and conservation-minded practices in the next decade. The ACC passed the Renewable Energy Standard in October, requiring energy companies to gradually increase the amount of renewable energy they produce. Next year, 1 percent of energy produced by ACC-regulated utilities like APS must come from renewable sources like solar or wind power.

The percentage increases to 15 percent in 2025.

Both APS and SRP, which is not regulated by the ACC, already have begun working on plans to integrate new technologies to meet this requirement. APS also will purchase electricity from renewable energy generators out of state to help meet the standard.