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Arizona Corporation Commission
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May 13, 2003

Chairman Mark Spitzer
Commissioner William Mundell
Commissioner Jeff Hatch-Miller
Commissioner Mike Gleason
Commissioner Kristin Mayes
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85012

Dear Commissioners,

The Arizona Solar Energy Industries Association (AriSEIA) strongly supports the Renewable Energy Advocates document titled "A Proposal for Developing Renewable Energy Generation in Excess of 1.1% Annual Electric Energy in Arizona". This proposal provides recommendations on changes to the existing Environmental Portfolio Standard (EPS) and offers a means to expand renewable energy development in Arizona. It is supported by an organized and cooperative base of EPS stakeholders and was prepared by many dedicated individuals – most participating on a voluntary basis.

AriSEIA would like to emphasize several key points contained in the Renewable Energy Advocates proposal and AriSEIA's position paper filed with the Commission in August of 2003. They include the following (specific language changes are attached to this cover letter):

- Add language to the rule that supports the development of a statewide, uniform EPS Credit Purchase Program for renewable distributed generation and identifies the Standards Working Group as the mechanism to develop such a program for Commission approval.
- Allow extra credit multipliers for all qualified, customer-owned renewable distributed generation, including small wind and solar thermal systems.
- Allow solar thermal water heating to compete for the full 40% of "Other Renewables" required under the existing EPS rule.
- Allow solar thermal water heating to replace all fossil fueled water heating systems.
- Clarify restrictive language in Section K of the rule dealing with solar thermal water heating.

The above changes help to facilitate a vibrant residential and commercial market for all renewable distributed generation technologies while enabling <u>all</u> ratepayers subject to the EPS surcharge to participate. Your support in this effort will solidify Arizona's status as a leader in renewable distributed generation.

Sincerely,

Sean M. Seitz
President
Arizona Solar Energy Industries Association

R14-2-1618. Environmental Portfolio Standard

A. Upon the effective implementation of a Commission-approved Environmental Portfolio Standard Surcharge tariff, any Load-Serving Entity selling electricity or aggregating customers for the purpose of selling electricity under the provisions of this Article must derive at least .2% of the total retail energy sold from new solar resources or environmentally-friendly renewable electricity technologies, whether that energy is purchased or generated by the seller. Solar resources include photovoltaic resources and solar thermal resources that generate electricity. New solar resources and environmentally-friendly renewable electricity technologies are those installed on or after January 1, 1997.

1. Electric Service Providers, that are not UDCs, are exempt from portfolio requirements until 2004, but could voluntarily elect to participate. ESPs choosing to participate would receive a pro rata share of funds collected from the Environmental Portfolio Surcharge delineated in R14-2-1618.A.2 for portfolio purposes to acquire eligible portfolio systems or electricity generated from such systems.

2. Utility Distribution Companies would recover part of the costs of the portfolio standard through current System Benefits Charges, if they exist, including a re-allocation of demand side management funding to portfolio uses. Additional portfolio standard costs will be recovered by a customer Environmental Portfolio Surcharge on the customers' monthly bill. The Environmental Portfolio Surcharge shall be assessed monthly to every metered and/or non-metered retail electric service. This monthly assessment will be the lesser of $0.000875 per kWh or:

a. Residential Customers: $.35 per service,

b. Non-Residential Customers: $13 per service,

c. Non-Residential Customers whose metered demand is 3,000 kW or more for 3 consecutive months: $39.00 per service. In the case of unmetered services, the Load-Serving Entity shall, for purposes of billing the Environmental Portfolio Standard Surcharge and subject to the caps set forth above, use the lesser of (i) the load profile or otherwise estimated kWh required to provide the service in question; or (ii) the service's contract kWh.

3. Customer bills shall reflect a line item entitled "Environmental Portfolio Surcharge, mandated by the Corporation Commission."

4. Utility Distribution Companies or ESPs that do not currently have a renewables program may request a waiver or modification of this Section due to extreme circumstances that may exist.

<u>5. In 2005, through 2012, a set-aside of funds will be made for renewable distributed generation programs. The funds will be used to offset a portion of the cost incurred by customers that install qualified renewable distributed generation on their properties. This set-aside will not be used to offset the cost of projects owned or operated by the Load-Serving Entities affected by this rule. Program rules and guidelines will be developed by the Standard's Working Group and approved by Commissioners for implementation by Load-Serving Entities on or before January 1st, 2005.</u>

B. The portfolio percentage shall increase after December 31, 2000.

1. Starting January 1, 2001, the portfolio percentage shall increase annually and shall be set according to the following schedule:

YEAR	PORTFOLIO PERCENTAGE
2001	.2%
2002	.4%
2003	.6%
2004	.8%
2005	1.0%
2006	1.05%
2007-2012	1.1%

2. The Commission would continue the annual increase in the portfolio percentage after December 31, 2004, only if the cost of environmental portfolio electricity has declined to a Commission-approved cost/benefit point. The Director, Utilities Division shall establish, not later than January 1, 2003, an Environmental Portfolio Cost Evaluation Working Group to make recommendations to the Commission of an acceptable portfolio electricity cost/benefit point or portfolio kWh cost impact

maximum that the Commission could use as a criteria for the decision to continue the increase in the portfolio percentage. The recommendations of the Working Group shall be presented to the Commission not later than June 30, 2003. In no event, however, shall the Commission increase the surcharge caps as delineated in R14-2-1618(A)(2).

3. The requirements for the phase-in of various technologies shall be:

a. In 2001, the Portfolio kWh makeup shall be at least 50 percent solar electric, and no more than 50 percent other environmentally-friendly renewable electricity technologies or solar hot water or R&D on solar electric resources, but with no more than 10 percent on R&D.

b. In 2002 and 2003, the Portfolio kWh makeup shall be at least 50 percent solar electric, and no more than 50 percent other environmentally-friendly renewable electricity technologies or solar hot water or R&D on solar electric resources, but with no more than 5 percent on R&D.

c. In 2004, through 2012, the portfolio kWh makeup shall be at least 60 percent solar electric with no more than 40 percent solar hot water or other environmentally-friendly renewable electricity technologies.

C. Load-Serving Entities shall be eligible for a number of extra credit multipliers that may be used to meet the portfolio standard requirements. Extra credits may be used to meet portfolio requirements and extra credits from solar electric technologies will also count toward the solar electric fraction requirements in R14-2-1618(B)(3). With the exception of the Early Installation Extra Credit Multiplier, which has a five-year life from operational start-up, all other extra credit multipliers are valid for the life of the generating equipment.

1. Early Installation Extra Credit Multiplier: For new solar electric systems installed and operating prior to December 31, 2003, Load-Serving Entities would qualify for multiple extra credits for kWh produced for 5 years following operational start-up of the solar electric system. The 5-year extra credit would vary depending upon the year in which the system started up, as follows:

YEAR	EXTRA CREDIT MULTIPLIER
1997	.5
1998	.5
1999	.5
2000	.4
2001	.3
2002	.2
2003	.1

Eligibility to qualify for the Early Installation Extra Credit Multiplier would end in 2003. However, and eligible system that was operational in 2003 or before would still be allowed the applicable extra credit for the full five years after operational start-up.

2. Solar Economic Development Extra Credit Multipliers: There are 2 equal parts to this multiplier, an in-state installation credit and an in-state content multiplier.

a. In-State Power Plant Installation Extra Credit Multiplier: Solar electric power plants installed in Arizona shall receive a .5 extra credit multiplier.

b. In-State Manufacturing and Installation Content Extra Credit Multiplier: Solar electric power plants shall receive up to a .5 extra credit multiplier related to the manufacturing and installation content that comes from Arizona. The percentage of Arizona content of the total installed plant cost shall be multiplied by .5 to determine the appropriate extra credit multiplier. So, for instance, if a solar installation included 80% Arizona content, the resulting extra credit multiplier would be .4 (which is .8 X .5).

3. Distributed Solar Electric Generator and Solar Incentive Program Extra Credit Multiplier: Any distributed solar electric generator, solar water heating systems, or other distributed renewable energy resource that meets more than one of the eligibility conditions will be limited to only one .5 extra credit multiplier from this subsection. Appropriate meters will be attached to each solar electric generator and read at least once annually to verify solar performance.

a. Distributed renewable energy generators installed at or on the customer premises in Arizona. Eligible customer premises locations will include both grid-connected and remote, non-grid-connected locations. In order for Load-Serving Entities to claim an extra credit multiplier, the Load-Serving

Entity must have contributed at least 10% of the total installed cost or have financed at least 80% of the total installed cost.
b. Solar electric generators located in Arizona that are included in any Load-Serving Entity's Green Pricing program.
c. Solar electric generators located in Arizona that are included in any Load-Serving Entity's true Net Metering or
d. Distributed renewable energy generators located in Arizona that are included in any Load-Serving Entity's solar leasing program.
e. All Green Pricing, Net Metering, Net Billing, and Solar Leasing programs must have been reviewed and approved by the Director, Utilities Division in order for the Load-Serving Entity to accrue extra credit multipliers from this subsection.
4. All multipliers are additive, allowing a maximum combined extra credit multiplier of 2.0 in years 1997-2003, for equipment installed and manufactured in Arizona and either installed at customer premises or participating in approved solar incentive programs. So, if a Load-Serving Entity qualifies for a 2.0 extra credit multiplier and it produces 1 solar kWh, the Load-Serving Entity would get credit for 3 solar kWh (1 produced plus 2 extra credit).
D. Load-Serving Entities selling electricity under the provisions of this Article shall provide reports on sales and portfolio power as required in this Article, clearly demonstrating the output of portfolio resources, the installation date of portfolio resources, and the transmission of energy from those portfolio resources to Arizona consumers. The Commission may conduct necessary monitoring to ensure the accuracy of these data. Reports shall be made according to the Reporting Schedule in R14-2-1613(B).
E. Distributed renewable energy resources that are located on the consumer's premises shall count toward the Environmental Portfolio Standard applicable to the current Load-Serving Entity serving that consumer unless a different Load-Serving Entity is entitled to receive credit for such resources under the provisions of R14-2-1618(C)(3)(a).
F. Any Distributed renewable energy generators installed by an Affected Utility to meet the environmental portfolio standard shall be counted toward meeting renewable resource goals for Affected Utilities established in Decision No. 58643.
G. Any Load-Serving Entity that produces or purchases any eligible kWh in excess of its annual portfolio requirements may save or bank those excess kWh for use or sale in future years. Any eligible kWh produced subject to this rule may be sold or traded to any Load-Serving Entity that is subject to this rule. Appropriate documentation, subject to Commission review, shall be given to the purchasing entity and shall be referenced in the reports of the Load-Serving Entity that is using the purchased kWh to meet its portfolio requirements.
H. Environmental Portfolio Standard requirements shall be calculated on an annual basis, based upon electricity sold during the calendar year.
I. A Load-Serving Entity shall be entitled to receive a partial credit against the portfolio requirement if the Load-Serving Entity or its affiliate owns or makes a significant investment in any renewable energy manufacturing plant that is located in Arizona. The credit will be equal to the amount of the nameplate capacity of the solar electric generators produced in Arizona and sold in a calendar year times 2,190 hours (approximating a 25% capacity factor).
1. The credit against the portfolio requirement shall be limited to the following percentages of the total portfolio requirement:
2001: Maximum of 50% of the portfolio requirement
2002: Maximum of 25% of the portfolio requirement
2003 and on: Maximum of 20% of the portfolio requirement
2. No extra credit multipliers will be allowed for this credit. In order to avoid double-counting of the same equipment, solar electric generators that are used by other Load-Serving Entities to meet their Arizona portfolio requirements will not be allowable for credits under this Section for the manufacturer/Electric Service Provider to meet its portfolio requirements.
J. The Director, Utilities Division shall develop appropriate safety, durability, reliability, and performance standards necessary for solar generating equipment and environmentally-friendly renewable electricity technologies and to qualify for the portfolio standard. Standards requirements will apply only to facilities constructed or acquired after the standards are publicly issued.

K. A Load-Serving Entity shall be entitled to meet up to 40% of the portfolio requirement with solar water heating systems or solar air conditioning systems purchased by the Load-Serving Entity for use by its customers, or purchased by its customers and paid for by the Load-Serving Entity through bill credits or other similar mechanisms. In order for Load-Serving Entities to claim an extra credit multiplier, the Load-Serving Entity must have contributed at least 10% of the total installed cost or have financed at least 80% of the total installed cost. The solar water heaters must replace or supplement the use of fossil fueled water heaters for residential, commercial, or industrial water heating purposes. For the purposes of this rule, solar water heaters will be credited with 1 kWh of electricity produced for each 3,415 British Thermal Units of heat produced by the solar water heater and solar air conditioners shall be credited with kWhs equivalent to those needed to produce a comparable cooling load reduction. Solar water heating systems and solar air conditioning systems shall be eligible for Early Installation Extra Credit Multipliers as defined in R14-2-1618(C)(1) and Solar Economic Development Extra Credit Multipliers as defined in R14-2-1618(C)(2)(b) and all distributed system multipiers.

L. A Load-Serving Entity shall be entitled to meet the portfolio requirement with electricity produced in Arizona by environmentally-friendly renewable electricity technologies that are defined as in-state landfill gas generators, wind generators, and biomass generators, consistent with the phase-in schedule in R14-2-1618(B)(3). Systems using such technologies shall be eligible for Early Installation Extra Credit Multipliers as defined in R14-2-1618(C)(1) and Solar Economic Development Extra Credit Multipliers as defined in R14-2-1618(C)(2)(b).