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STATE OF ARIZONA

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GOVERNOR
AZ CORP COMMISSION
DOCUMENT CONTROL

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October 15, 2004

Environmental Portfolio Standard
Docket No. RE-00000C-00-0377

Arizona Corporation Commission,

On behalf of Janet Napolitano's Forest Health Oversight Council we are writing to express the views of the Council regarding revisions to the Arizona Environmental Portfolio Standard (EPS).

The Council was established by the Governor as a means to provide citizens an opportunity to help identify solutions to the problems of unnatural wildfire and degraded forest health. The Council has worked diligently for 18 months to develop an integrated set of recommendations designed to help solve some of the ecological, economic and social issues confronting our forests.

One of the biggest barriers to achieving forest restoration is the lack of markets for small diameter wood. Energy generation using forest biomass can simultaneously serve two purposes—create a renewable, clean energy supply and create a market for thinned material. For these reasons we support modifications to the EPS that will lead to the use of biomass.

The Council recommends the following:

1. **Increase the surcharge to support alternative energy development.** Members of the Corporation Commission have stated publicly that doubling or tripling the surcharge will be necessary to make alternatives competitive. We recommend that at a minimum the surcharge be doubled.
2. **Increase the portfolio percentage to 10%.** Interruptions in energy production nationally over the last several years, underscore the need for new and innovative methods for generating and distributing energy. Elevating the portfolio percentage is appropriate in light of the seriousness of our current energy situation and underscores the importance of developing new approaches to energy production.
3. **Eliminate the EPS expiration date.** The expiration date for the EPS should be eliminated. This is necessary to stimulate investment and ensure investment recapture.
4. **Include credit for thermal energy as well as electrical energy.** A desire to replace fossil fuels with renewable fuels to extend the life of fossil fuels can also be accomplished by heating and/or cooling with biomass fuels. Thermal energy from biomass is also more economical and efficient when comparing biomass energy with conventional fossil fuel energy.

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Changes to the EPS that accelerate biomass development will help solve the small wood utilization challenge interrupting the reduction of hazardous fuels in our forests. They may also stimulate the development of a sustainable, reliable source of energy and jobs.

If you need further information please do not hesitate to contact either of us.

Sincerely,

Representative Tom O'Halleran
Co-Chair

Ms. Diane Vosick
Co-Chair