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Arizona Cogeneration Association

(d.b.a. Distributed Energy Association of Arizona)

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DOCKETED BY

Ernest G. Johnson
Arizona Corporation Commission
1200 W. Washington
Division: Hearing
Phoenix, AZ 85007

Re: Comments on Staff Report on Proposed Changes to the Environmental Portfolio Standard (EPS) rules (Docket Nos. RE-00000C-00-0377 and RE-00000C-05-0030)

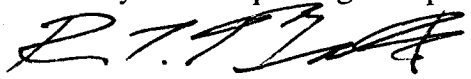
The Distributed Energy Association of Arizona appreciates the opportunity to offer our comments on your draft report of the proposed Environmental Portfolio Standard (EPS) Rules. We are mindful of the time and energy the committee and staff have put into this effort. The DEAA applauds the Commission's continuing attention to this vital issue and it's willingness to re-visit the EPS in recognition of the absolute urgency of securing abundant and reliable supplies of energy for Arizona's present and future generations. The EPS should be an example for other states.

Distributed Energy Association of Arizona (DEAA) Recommendations on the EPS:

1. Distributed "Renewable Energy Resources" need to be defined as being **non-utility resources.**
2. These resources will be beneficial to consumers only with **pro-renewable rate schedules and pro-renewable "net metering" policies.**
3. Although DEAA hasn't conducted a detailed study of the actual technologies allowed in the portfolio standards of other states, it appears that the staff recommendation of 5% portfolio standard in 2015 is quite low as compared to these states. This is especially true of the surrounding States of California, Texas New Mexico. New Mexico has a standard of 10 percent by 2011. California has a standard of 20 percent by 2017. Colorado voters adopted a standard of 10 percent by 2015. And, Texas 2,000MW by 2009. Staff should keep in mind that APS is increasing their load by 5% a year in our robust economy. Therefore, renewables must meet that amount of 5% to stay even with the load increase and further the EPS should double the 5% rate to start replacing fossil fuels in the reasonable foreseeable future. **We recommend the Staff raise its sights to 10% by 2010, 15% by 2015, and 25% by 2025.**

4. **"Qualified" Combined Heat and Power (CHP) fossil fueled generators used in conjunction with renewable fuels or technologies should be funded up to a 500 kW level and should be included as a "Distributed Renewable Energy Resource."** States, such as California have included small efficient CHP under renewable funding.
5. **The EPS needs to have an energy efficiency component. EPS funding should be first directed to displace technologies that utilize natural gas at power plants where its use is inefficient.** SWEEP has shown that not all energy is "equal."
6. While DEAA is an Arizona Corporation, we should support some degree of co-operation with surrounding states in the production of renewables. Otherwise, we will have neighboring states following our lead and drawing boundaries around their states, which ultimately hurts the industry. We would propose that the EPS rules allow some percentage of renewables produced outside of Arizona to be eligible for funding if it is beneficial to Arizona consumers. **Our major issues are jobs creation, greater power reliability & power quality, and reduced electric line losses, therefore DEAA recommends that only 25% of the Portfolio be purchased from out of state sources.**
7. It appears that only the solar electric mix has carved out a portion of the renewable portfolio. It would seem that for a limited time, Arizona will also have excess biomass for use because of forest thinning of the hazardous conditions of our dried beetle infested forests in Arizona. **We would support a portion of the portfolio to be directed to the biomass industry until 2015**, which is the end of the first Healthy Forest Stewardship Contract. There is every possibility that biomass energy will be bypassed for the more glamorous forms of energy or those sources based on wholesale costs alone. See the Biomass attachment on this condition.
8. Some of our members are concerned that solar cooling installations will not be able to gain a foot hold in Arizona with solar electric and solar residential hot water taking large portions of EPS funding and state tax credits already subsidizing homeowners. DEAA recommends that solar cooling installations used in conjunction with CHP or waste heat be included in addition to the 500 kW CHP funding levels. Also that at least **five (5) solar cooling and heating (HVAC) projects that displace electric power plant load be funded by 2010.**
9. The added rules that are finally proscribed by the ACC must be conformed with the existing 2001 rules into one document or there will undoubtedly be a good deal of misunderstanding having to page between the two documents.

Thank you for requesting our opinion.



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Attachment

BIOMASS GENERATION

Biomass generation is a renewable energy production source recognized by DOE and other States. Some parties confuse it with biogas generation because of a close association with waste gas combustion; however, it is a separate technology, it requires very different equipment and it solves a different set of environmental issues.

Key Issues of Biomass

Currently 190 million acres of forestland in the USA are at risk of catastrophic wildfire. Of that, over 70 million acres are in immediate danger. The summers of 2000 and 2002 were the two largest and most-destructive fire seasons in the last 50 years. In 2002 and 2003, hundreds of homes and other structures were destroyed, and thousands of people were evacuated. 23 firefighters lost their lives in 2002. The American taxpayers spent in excess of $1.5 billion containing 2002's record setting blazes. Rural economies that rely on tourism have suffered significant financial losses.

The Healthy Forests Restoration Act, passed last in 2003, calls for Congress to appropriate more than $700 million per year to restore the forests. Governor Napolitano has announced that $58 million has been allocated to Arizona and New Mexico so far. According to the U S Forest Service, that money should be available in 2005. Given the massive scale of the threat that catastrophic wildfire and disease and insect infestation pose to the health of pristine forest ecosystems, threatened and endangered species, air quality, water quality and the safety of thousands of communities, it has become clear to the government and citizens that we in Arizona need to address and resolve this urgent problem.

There are 1,000,000 acres of woody vegetation in Yavapai County and 2,000,000 acres in the White Mountains, alone. Forest clearing in the range of 100,000 to 200,000 acres per year needs to occur to make any dent in the problem. Using this waste biomass to generate electrical power could produce 100 MW to 200 MW for endless generations since forests are renewable in the photosynthesis-carbon cycle world.

Union Of Concerned Scientists For Biomass

We view biomass power as a substitute for natural gas. According to the Union of Concerned Scientists, if average annual natural gas prices were $4 per million per Btu through 2010, the EPS would save consumers $918 million (in $2001) during this period. With natural gas prices of $5 per million Btu, the EPS would reduce consumers' bills even more, with an overall savings of $1.8 billion ($2001) by 2010. Today, prices are in the $6 per million BTU and appear likely to increase further. If natural gas prices decline to the US Energy Information Administration's projection of about $3 per million Btu on average, the EPS would still save $360 million between 2003 and 2010 ($2001). In the unlikely event that gas prices fall below $3, the EPS would add a negligible amount to consumer electricity bills. A cap mechanism within the EPS could ensure that costs would not exceed $10.44 per household annually in 2010 and thereafter. Thus the EPS would provide inexpensive insurance against high natural gas and electricity prices and could save consumers billions of dollars.

Further, the Union of Concerned Scientists recently announced that savings of $11 billion from electricity and $15 billion from natural gas could be available if the US would switch to alternative energy sources. According to modeling performed by the National Renewable Energy Laboratory, this could be achieved with a mix of 20% GREEN POWER by 2020.