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Docket Control  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, AZ 85007

September 30, 2003

**RE: Comments on the Cost Evaluation Working Group Report Recommendations**

**Docket No. RE-00000C-00-0377**

On June 30, 2003, the Environmental Portfolio Cost Evaluation Working Group (CEWG) submitted its report to the Commission regarding the activities taking place under the Environmental Portfolio Standard.

Arizonans for Electric Choice and Competition (AECC) participated in the CEWG and commends the participants for thoroughly documenting the activities underway.

The CEWG report identifies two options for proceeding with respect to the Environmental Portfolio Standard:

1. Take no action at this time and leave the annual renewable energy target at 0.8 percent of retail energy sales until a future review determines that either Portfolio Standard funding is sufficient, or solar generation costs have declined to the point for Portfolio Standard program success for all utilities at the 0.8 percent level, then increase the program percentage to 1.1 percent.
2. Continue the renewable energy requirement increase to 1.1 percent by 2007.

**AECC would like to express its support for Option 1.** At the current level of charges and subsidization, TEP reached an Environmental Portfolio penetration level of .32 percent for 2002, and APS reached a 2002 penetration level of .24 percent. This occurred despite a delay in the implementation of the program. As noted in the CEWG report, these penetration levels have already made Arizona a national leader in the installation of large, utility-scale PV systems. At current funding levels, these penetration levels will continue to grow. TEP projects that it will reach a penetration level of 1.1 percent by 2012, and APS projects that it will reach a 0.8 percent penetration level by 2010, and 1.1 percent by 2017.

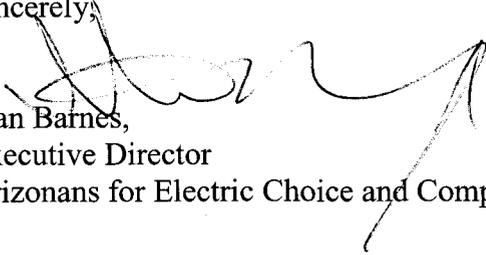
AECC recommends against increasing the surcharge or raising the per-meter surcharge caps on charges at this time. The Environmental Portfolio program is on the way to achieving significant penetration levels under the current funding mechanism. AECC notes that the Commission's intent with respect to the surcharge caps is clearly spelled out in Rule 14-2-1618(B)(2):

“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 Rule 14-2-1618(A)(2).*” [Emphasis added.]

Finally, while AECC commends the effort of the CEWG group and the valuable data collection that has been achieved through its efforts, we believe that the “net simple cost premium” of 11 cents/kwh for photovoltaic projects, as cited in the report, understates the cost premium for these projects. The understatement occurs because the “net simple cost” of these projects is calculated by dividing the investment cost of the project by the lifetime kwh anticipated for the project over 25 years. This measurement does not take proper account of the time value of money, and consequently understates the per-kwh economic cost. At the same time, in measuring the *benefits* of these projects, the benefits of avoided capacity are measured using the time value of money. This results in a mismatch between the bases used to measure costs and benefits,<sup>1</sup> understating the cost premium.

AECC does not object to the use of “net simple cost premium” as a benchmark for tracking future cost reductions, as proposed by CEWG. However, AECC would object to any use of this calculation to defend raising the surcharges paid by customers.

Sincerely,



Stan Barnes,  
Executive Director  
Arizonans for Electric Choice and Competition

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<sup>1</sup> Similarly, avoided O&M costs are included in the measurement of benefits, but incurred O&M is not included in the costs.