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IN THE MATTER OF NOTICE OF PROPOSED ) DOCKET NO. RE-00000C-00-0377  
RULEMAKING FOR THE ENVIRONMENTAL )  
PORTFOLIO STANDARD )

**COMMENTS OF THE LAND AND WATER FUND OF THE ROCKIES,  
THE GRAND CANYON TRUST, THE ARIZONA CONSUMERS COUNCIL,  
AND THE GRAND CANYON CHAPTER OF THE SIERRA CLUB,  
ON THE ENVIRONMENTAL PORTFOLIO STANDARD RULES**

The Land and Water Fund of the Rockies, The Grand Canyon Trust, The Arizona Consumers Council, and The Grand Canyon Chapter of the Sierra Club hereby submit their comments on the Commission's rules related to the Environmental Portfolio Standard for the State of Arizona. These rules are the result of a multi-year process involving virtually all parties that have actively participated in the Commission's restructuring of the electric industry in Arizona. The process culminated with testimony being filed and hearings held approximately one year ago in Docket No. E-0000A-99-0205. In concluding that docket, Commission Decision No. 62506 (May 4, 2000) ordered Staff to commence a rulemaking to adopt the proposed rules, hence this docket was initiated.

These rules properly balance the benefits that can result from a resource portfolio diversified with clean energy generation, with a very modest cost that includes appropriate cost caps, and should be adopted. History has shown that voluntary methods of encouraging renewable resources have resulted only in very limited programs. Conversely, as a result of

Commission Decision No. 62506, there has been significant activity throughout the state already in preparation for achieving the portfolio standard in 2001.

## THE BENEFITS AND COSTS OF THE ENVIRONMENTALLY-FRIENDLY PORTFOLIO STANDARD

By way of history, a working group was established by the Commission in 1997, that included the solar industry, incumbent utilities and new entrant electricity suppliers, the Commission Staff, customer groups (including large industrial, residential, and low-income), the non-profit environmental community, and municipalities. This group, in essence the same stakeholders still active in this proceeding, agreed upon objectives for the Solar Portfolio Standard (the precursor to the Environmentally-friendly Portfolio Standard or EPS). We submit that the EPS contemplated in these rules accomplishes each of these goals:

1. Encourage the use of solar electric technologies to increase the fuel diversity in the electricity generation mix.
2. Increase utility and electric service provider expertise and experience in the procurement, installation, and operation of solar electric systems or in the purchase and transmission of solar electricity from other sources.
3. Encourage new solar electric technologies as a reasonable percentage of competitive retail electric sales that is significantly less than the annual growth of demand for electricity.
4. Encourage the use of modest-sized, distributed solar generators to reduce the loading on existing transmission lines and also reduce the need to build new, expensive transmission lines as the demand for electricity increases in the future.
5. Contribute to the commercialization of solar electric technologies, which will decrease the cost of solar electricity to Arizona customers in the future.
6. Contribute to economic benefits throughout Arizona.
7. Encourage environmental benefits.
8. Encourage a market-based solar electric industry.
9. Increase public information/awareness of solar electricity.

10. Reach an acceptable cost/benefit point.
11. Encourage solar resource development, rather than payment for non-compliance.

These goals seek to capture a balanced mix of economic benefits, electric utility system benefits, and benefits to the environment. During the hearing in Docket No. E-0000A-99-0205, key parties discussed the mandatory standard concept as it relates to these benefits. For example, the Arizona Public Service Company (“APS”) opined that “economic development benefits can [] result from a subsidized renewable energy program.... and [d]eveloping renewable technologies can create jobs for Arizonans in high-tech industry with export potential. (Edward Z. Fox, Direct Testimony, Page 4). In addition, the City of Tucson, Arizona’s second largest city, expressed strong support for the proposed Portfolio Standard citing the potential for job growth and other economic benefits for Arizona cities. (See Direct Testimony of Vincent Hunt.)

Several of these objectives have taken on new importance recently. The recent run-up in natural gas prices emphasizes the need to diversify the resource mix, particularly with electric generators that have no fuel cost and no emissions. This is especially relevant in a state where some 12,000 MW of new natural gas fired generation is planned to be built over the next few years. Moreover, the need to provide additional customer resource choice, such as through distributed PV technologies, has been driven home by the recent price increases experienced by the residents of San Diego.

The rule as written captures far more benefits and risk reduction than its cost of about a penny a day from residential electricity consumers, \$13 per month from most commercial and industrial customers, and \$39 each month from the largest commercial and industrial customers – those with annual electric bills totaling around \$1 million or more. Nevertheless, a fair question to ask is how the market is reacting, if at all, to a five-month-old Commission Decision that does not yet have the force of a rule.

THE ENVIRONMENTAL PORTFOLIO STANDARD IS ALREADY BRINGING BENEFITS TO THE STATE OF ARIZONA.

In the past few months, one major utility has already figured out how it can achieve the entire portfolio standard, using PV technologies for the solar electric portion. This same utility is proactively developing a mix of programs that includes volume purchases of small systems to capture economies of scale as well as a rebate program that will further reduce the cost of individual residential and small commercial-size applications. This is exactly the kind of leadership needed to develop a vibrant solar rooftop market in the state. In addition, this program will spin off other benefits that include job creations and growth (e.g. electrical contractors and others), development of manufacturing capacity within the state (read more jobs), and potentially to reduce the loading on existing transmission and distribution lines and reduce the need to build new, expensive transmission and distribution lines as future demand grows.

Another large utility has indicated it plans to release a request for proposals that will use competitive forces to drive down the costs of achieving the portfolio standard. This approach will contribute to the commercialization of solar electric technologies, decreasing the cost of solar electricity to Arizona customers in the future, and help renewable technologies to reach an acceptable cost/benefit point.

Yet a third utility has already issued a request for proposals for environmentally friendly resources, and will have bids in hand by October 18.

NativeSUN, the Hopi Solar Electric Enterprise, has been analyzing ways that the EPS can help it to grow its business of bringing electricity and economic benefit to the indigenous peoples of Arizona utilizing solar energy technologies.

Another example of solar commitment comes from the City of Tucson. It is using the electricity cost savings from TEP's 1% rate reduction to fund solar energy projects at City facilities. In other words, Tucson will continue to budget for its electricity bill at the rate levels

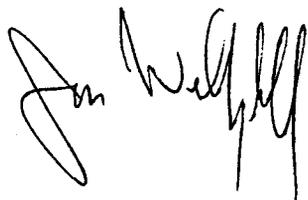
preceding TEP's 1% rate reduction, utilizing the revenue generated, about \$160,000 annually, for solar electric installations. Tucson hopes to leverage this commitment with funding from the EPS to increase the scope of its solar program.

#### SUMMARY AND RECOMMENDATION

The EPS as contemplated by the rules proposed in this docket is already having a positive effect on the energy market in Arizona. It is our strong belief that virtually all of the benefits and goals of the portfolio standard can be realized if the Commission will stay the course. Of special note, we are not aware of any entity that is subject to the portfolio standard that is not planning to achieve it, even though no penalty exists for non-compliance.

We urge this Commission to adopt the rules as promulgated.

Submitted this 3<sup>rd</sup> day of October, 2000.



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Jon Wellinghoff  
411 Wedgewood Dr.  
Henderson NV 89014

On behalf of the Land and Water Fund of the Rockies, the Grand Canyon Trust, the Arizona Consumers Council, and the Grand Canyon Chapter of the Sierra Club.

## CERTIFICATE OF SERVICE

I hereby certify that the original and 10 copies of the COMMENTS OF THE LAND AND WATER FUND OF THE ROCKIES, THE GRAND CANYON TRUST, THE ARIZONA CONSUMERS COUNCIL, AND THE GRAND CANYON CHAPTER OF THE SIERRA CLUB, ON THE ENVIRONMENTAL PORTFOLIO STANDARD RULES were sent via FedEx to Docket Control, Arizona Corporation Commission, 1200 West Washington Street, Phoenix, Arizona 85007, on the 3d day of October 2000, and a true and correct copy was sent by U.S. mail, first-class and postage prepaid, to each of the following:

LEE TANNER  
ELECTRISOL LTD  
1215 E HARMONT DRIVE  
PHOENIX AZ 85020

MONEER H. AZZAM  
ASE AMERICAS  
4 SUBURBAN PARK DRIVE  
BILLERICA ME 01821

KATHY KELLY  
CSTRR  
6863 W CHARLESTON  
LAS VEGAS NV 89117

DALE ROGERS  
ROCKETDYNE DIVISION  
BOEING NORTH AMERICA  
P O BOX 7922, MS FA-66  
CANOGA PARK CA 91309-7922

RAY DRACKER  
BECHTEL CORPORATION  
P O BOX 193965  
SAN FRANCISCO CA 94119

BRADLEY S. CARROLL  
TEP LEGAL DEPT. - DB203  
PO BOX 711  
TUCSON AZ 85702

STEVE CHALMERS  
POWERMARK CORPORATION  
4044 E WHITTON  
PHOENIX AZ 85018

BARRY L. BUTLER, PH.D  
SCIENCE APPLICATIONS INT'L CORP.  
10260 CAMPUS POINT DRIVE, MS-C2  
SAN DIEGO CA 92121

SOLAR ENERGY INDUSTRIES ASSN.  
1111 N. 19TH ST. SUITE 260  
ARLINGTON VA 22209

MICHAEL NEARY  
ARISEIA  
2034 N 13TH STREET  
PHOENIX AZ 85001

ROBERT H. ANNAN  
6605 E. EVENING GLOW DRIVE  
SCOTTSDALE AZ 85262

HOWARD WENGER  
PACIFIC ENERGY GROUP  
32 VALLA COURT  
WALNUT CREEK CA 94596

CHRIS SHERRING  
PVI  
171 COMMERCIAL ST.  
SUNNYVALE CA 94086

GALE PROSKI-MARSLAND  
PROGRESSIVE SOLAR, INC.  
PO BOX 50332  
TUCSON AZ 85703-1332

JIM B. COMBS  
CONSERVATIVE ENERGY SYSTEMS  
40 W BASELINE #112  
MESA AZ 85210

JAN MILLER  
SRP  
1600 N PRIEST DRIVE  
TEMPE AZ 85281

JAMES H. CALDWELL, JR.  
CEERT  
P O BOX 26  
TRACY'S LANDING MD 20779

VINCENT HUNT  
CITY OF TUCSON  
4004 S PARK AVE  
BUILDING #2  
TUCSON AZ 85714

SAM SWANSON  
PO BOX 4245  
BURLINGTON VT 05406

HERB HAYDEN  
APS  
P O BOX 53999, MAIL STN. 9110  
PHOENIX AZ 85072-3999

PAUL BULLIS  
ACC  
1200 W. WASHINGTON ST  
PHOENIX AZ 85007

VAHAN GARBOUSHIAN  
AMONIX, INC.  
3425 FUJITA STREET  
TORRANCE CA 90505

ERIC WILLS  
DAGGETT LEASING CORPORATION  
20668 PASEO DE LA CUMBRE  
YORBA LINDA CA 92887

HARRY BRAUN III  
STIRLING ENERGY SYSTEMS  
6245 N. 24TH PARKWAY, SUITE 209  
PHOENIX AZ 85016

JEFFREY R. GOLDEN  
AMOCO/ENRON SOLAR POWER DEV.  
P O BOX 1188  
HOUSTON TX 75221-1188

ALPHONSE BELLAC  
YORK RESEARCH CORPORATION  
6 LADYSLIPPER LANE  
OLD LYME CT 06371

ROBERT WALKER  
ENTECH INC.  
1077 CHISOLM TRAIL  
KELLER TX 76248

DAN GREENBERG  
ASCENSION TECHNOLOGY  
235 BEAR HILL ROAD  
WALTHAM ME 02154

JANE WEISSMAN  
PV4U  
15 HAYDEN STREET  
BOSTON MA 02131-4013

DAVID BERRY  
RMI  
302 N FIRST AVENUE, SUITE 810  
PHOENIX AZ 85003

RORY MAJENTY  
FT. MCDOWELL MOHAVE APACHE  
INDIAN COMMUNITY  
P O BOX 17779  
FOUNTAIN HILLS AZ 85269

MICHAEL GRANT  
GALLAGHER & KENNEDY  
2600 N CENTRAL AVENUE  
PHOENIX AZ 85004-3020

BARRY M. GOLDWATER, JR.  
ARISEIA  
3104 E CAMELBACK RD., SUITE 274  
PHOENIX AZ 85016

RICK TEWA  
OFFICE OF ECONOMIC DEVELOPMENT  
THE HOPI TRIBE  
P O BOX 123  
KYKOTSMOVI AZ 86039

PETER GLASER  
SHOOK, HARDY & BACON, L.L.P.  
600 14TH ST. NW, SUITE 800  
WASHINGTON DC 20005-2004

FRANK BRANDT  
1270 E. APPALACHIAN ROAD  
FLAGSTAFF AZ 86004

BARBARA POLEY, DIRECTOR  
THE HOPI FOUNDATION  
P. O. BOX 169  
HOTEVILLA, AZ 86030

DAVID G. CALLEY  
SOUTHWEST WINDPOWER INC  
2131 N FIRST STREET  
FLAGSTAFF AZ 86004

CHRISTY HERIG  
NREL  
1617 COLE BLVD  
GOLDEN CO 80401

CAMERON DANIES  
HUALAPAI TRIBE  
P O BOX 179  
PEACH SPRINGS AZ 86434

KENNETH R. SALINE  
K.R. SALINE & ASSOCIATES  
160 N PASADENA, SUITE 101  
MESA AZ 85201-6764

MARK RANDALL  
DAYSTAR CONSULTING LLC  
PP BOX 761  
CLARKSDALE AZ 86324

JIMMY DANIELS  
NAVAJO TRIBAL UTILITY AUTHORITY  
P O BOX 170  
FT DEFIANCE AZ 86504

TOM LEPLEY  
PHASOR ENERGY CO.  
4202 E EVANS DRIVE  
PHOENIX AZ 85032

JANE WINIECKI  
YAVAPAI-APACHE NATION  
ECONOMIC DEVEL. AUTHORITY  
P O BOX 1188  
CAMP VERDE AZ 86322

LEONARD GOLD  
398 S MILL AVE., SUITE 306  
TEMPE AZ 85281

MIKE PATTERSON  
RT. 1, BOX  
SWANSEA  
LONE PINE CA 93545

FRED SANCHEZ  
YAVAPAI-APACHE NATION  
P O BOX 1188  
CAMP VERDE AZ 86322

STEVE SECREST  
GOLDEN GENESIS COMPANY  
P O BOX 14230  
SCOTTSDALE AZ 85267

DERRICK REBELLO  
QUANTUM CONSULTING  
2030 ADDISON STREET  
BERKELEY CA 94704

PHYLLIS BIGPOND  
INTER TRIBAL COUNCIL OF ARIZONA  
2214 N CENTRAL, SUITE 100  
PHOENIX AZ 85004

JEFF SCHLEGEL  
1167 W SAMALAYUCA DRIVE  
TUCSON AZ 85704-3224

BRYAN SCOTT CANADA  
620 E BROADWAY LANE  
TEMPE AZ 85282

ROBERT JACKSON  
COLORADO RIVER INDIAN TRIBES  
ROUTE 1, BOX 23-B  
PARKER AZ 85334

CLYDE HOSTETTER  
3055-190 N RED MOUNTAIN  
MESA AZ 85207

C. WEBB CROCKETT  
FENNEMORE CRAIG  
3003 N CENTRAL AVE, SUITE 2600  
PHOENIX AZ 85012-2913

STEVEN BROWN  
YAVAPAI TRIBE  
530 E MERRITT  
PRESCOTT AZ 86301

CHRISTOPHER EMGE  
ACAA  
2627 N 3RD STREET, SUITE 2  
PHOENIX AZ 85004

GREG PATTERSON  
RUCO  
2828 N CENTRAL AVE, SUITE 1200  
PHOENIX AZ 85004

DR. DONALD W. AITKEN  
UNION OF CONCERNED SCIENTISTS  
2397 SHATTUCK AVE., SUITE 203  
BERKELEY CA 94704

CHRIS KING  
UTILITY.COM INC.  
828 SAN PABLO AVE.  
ALBANY CA 94706

DOUGLAS C. NELSON, P.C.  
7000 N. 16TH STREET, SUITE 120-30  
PHOENIX AZ 85020-5547

ROBERT V. D'AIELLO  
PHOTOVOLTAIC RESOURCES  
INTERNATIONAL  
6100 S. MAPLE, SUITE 117  
TEMPE AZ 85283

BARBARA KLEMSTINE  
PO BOX 53999  
PHOENIX AZ 85072-3999

DAVID DEIBEL  
CITY OF TUCSON  
PO BOX 27210  
TUCSON AZ 85726-7210

PAUL MICHAUD  
MARTINEZ & CURTIS  
2712 NORTH 7<sup>TH</sup> ST  
PHOENIX AZ 85006-01090

JON WELLINGHOFF  
411 WEDGEWOOD DR  
HENDERSON NV 89014

BRUCE FEDER  
FEDERAL LAW OFFICE  
2525 E ARIZONA BILTMORE CIR #1  
PHOENIX AZ 85016



---