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2003 SEP 12 A 10: 54

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SEP 12 2003

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September 8, 2003

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

RE: Comments on the Cost Evaluation Working Group Report Recommendations: **Docket No. RE-00000C-00-0377**

On June 30, 2003, the Cost Evaluation Working Group (CEWG) submitted its report on the Environmental Portfolio Standard (A.A.C. R14-2-1618) to the Commission. Western Resource Advocates (formerly the Land and Water Fund of the Rockies) participated in the CEWG. We believe that the CEWG report contains a thorough and careful review of the status, costs, benefits, and impacts of the Environmental Portfolio Standard and we believe that the utilities have made noteworthy advances in implementing the Portfolio Standard. We also support the policy and goals underlying the Portfolio Standard and believe that Portfolio Standard is worth continuing as originally envisioned.

The CEWG presented two options for the Commission's consideration:

Option 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.

Option 2. Continue the renewable energy requirement increase to 1.1 percent by 2007.

Western Resource Advocates supports Option 2 for the reasons outlined below:

a. The costs of meeting the Portfolio Standard are declining and the CEWG report indicates that the program has substantial benefits. Solar hot water and landfill gas projects have been cost effective to date. It has been recognized from the outset that the costs of photovoltaics for generating electricity would be higher than the costs of conventional generation, but that the Portfolio Standard would induce cost reductions. Those reductions are occurring.

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b. There are untapped opportunities for reducing utility costs through leveraging, thereby increasing solar installations within the current budget limitations. Putting more program emphasis on customer owned photovoltaic projects located at customers' premises will leverage substantial amounts of private capital. To date, the utilities have emphasized large utility owned projects for which they pay the entire cost. As an example of leveraging, assume that small PV projects for residential or commercial sites cost on average $8.50 per watt. Assume further that the utility subsidizes these projects at a rate of $2.50 per watt and that utility marketing costs are $0.50 per watt. The utility cost would therefore be $3.00 per watt. In contrast, a utility would pay about $4.50 per watt for large utility owned photovoltaic projects. Continuing with the example, for each $1 million of Portfolio Standard expenses, a utility could acquire about 222 kW of large utility owned projects. With leveraging, about 333 kW of customer-sited photovoltaic projects could be installed. Utility-owned large projects might have an average capacity factor of 25 percent while customer-sited projects might have an average capacity factor of 20 percent. Using these assumptions, the leveraged customer-sited projects would yield 20 percent more kWh than the utility owned large projects for the same utility cost.[1]

c. The Commission's Track B process has clarified the existence of load pockets in the Phoenix and Yuma areas. Additional distributed, customer-sited photovoltaic generation located in the Phoenix and Yuma areas can help address transmission import limitations without adding to air pollution, especially in non-attainment areas.

d. Giving greater emphasis to customer-sited photovoltaic projects will help make such projects more visible to consumers and may accelerate consumer interest in deploying photovoltaics on residences and businesses.

e. TEP is likely to meet the 1.1 percent goal prior to 2012, indicating that the 1.1. percent goal is attainable.

f. There are no monetary penalties for shortfalls. Thus, no pecuniary harm will befall a utility that works diligently to meet the Portfolio Standard even if there is not enough money to meet the 1.1 percent goal.

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[1] Utilities may be concerned about the lost revenues from customers installing PV projects that reduce utility kWh sales to customers. If revenues minus short run utility variable costs are $0.05 per kWh and the capacity factor of the customer sited PV projects is 20 percent, total lost revenues from 333 kW of customer-sited projects are $29,000 per year. We believe that this is a small impact.

g. The Commission should focus on the real problem in meeting the Portfolio Standard goals. The problem is not the goals themselves, but insufficient money to purchase resources. The monetary shortfall results from the cap on the surcharge. If the cap were relaxed, the 1.1 percent goal could be reached more quickly. The Commission could adjust the cap in the pending APS rate case for APS or through rulemaking for all utilities. We believe that any consideration of changes to the rule ought to be limited to adjusting the cap on the surcharge. It would be counterproductive to throw the utilities and the industry into a state of confusion and delay by considering other changes to the rule. Similar confusion occurred at the outset of the Portfolio Standard and set back implementation by about a year.

Thank you for the opportunity to comment on the Portfolio Standard.

Sincerely,

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cc: Cost Evaluation Working Group members by e-mail