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**TUCSON SOLAR ALLIANCE**

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*fostering community and choice for Tucson's energy future*

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*to* The Honorable Carl Kunasek  
Arizona Corporation Commission

*from* Paul Huddy # pages 2 follow this page

*re* Docket No. RE-00000-C-94-0165), proposed revisions of the Retail  
Electric Competition Rules

Dear Commissioner Kunasek:

Thank you very much for your interest in opening a portion of the Solar Portfolio Standard to solar water heating. This is proven technology that is economical in almost all circumstances for domestic hot water. By reducing peaks and spreading loads, it contributes to a more balanced electrical system. It is especially important for many rural ratepayers, who typically use electricity or propane to heat water, both very expensive.

A broader view should be taken of electric companies, serving customer needs rather than simply delivering a product, providing a whole range of energy products and services. For example, if people need hot water, wouldn't it be better to satisfy that in the best, most cost-effective way and use the increasingly expensive electrons more efficiently? This is a natural role for utilities and a means by which they can remain vital, important parts of our economy. It is also the best way to use existing resources, spread costs in introducing new technology, effect economic efficiency and reduce costs to our society.

We widely circulated the new draft Rules and other material, collected responses and would like to submit a brief summary of major concerns and recommendations. There is great concern that the staff recommendation of July 24 does not appear to incorporate anything from the public comment period and hearings.

Sincerely yours,

Paul Huddy

Arizona Corporation Commission  
**DOCKETED**

P. O. Box 57756 • Tucson, AZ 85732-7756 • (520) 881-4772 • fax 881-2339 • e-mail pasha@azstate.gov

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**Tucson Solar Alliance**

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Docket No. RE-00000-C-94-016

## **Comments & Recommendations on Draft Electric Competition Rules**

**1) Rate of Progress and Duration of Solar Portfolio Standard (SPS).** The new draft gives two big gifts to utilities. First, it looks like there are plans to reduce the initial amount of solar generation required. Second, the new solar generation installed under previous Integrated Resource Plans will count toward the SPS. There were already serious concerns about the short duration of the SPS, only ten years. With the rather small penalty proposed, \$ .30 /kWh, many are concerned that utilities will simply pay the penalty or buy alternative power for ten years rather than enter into 20-30 year commitments to purchase and operate solar generating facilities.

*Recommendation:* **Extend period of SPS to 20 years. At the very least, if the amount of solar generation is reduced from .5%, the duration of the SPS should be extended beyond 10 years to make up for it.**

**2) Penalty Assessments.** To be effective, a penalty should not be so slight as to become the preferred course of action. Moreover, if the Commission is going to make it even easier to fulfill the conditions of the SPS, then it should be considerably less tolerant of failure to comply.

*Recommendation:* **Increase the penalty to at least \$.50 /kWh as a starting point.**

*Recommendation:* **To make it less attractive to pay the penalty year after year, double the penalty on the shortfall carried over from the previous year.** For example, if the shortfall is 1,000 kWh at the end of the first year, the penalty would be the standard at, \$ .50 /kWh, for \$500. If the shortfall the following year is 2,000 kWh, the penalty would be the sum of 1,000 kWh from the previous year at twice the amount (\$ 1.00 /kWh), for \$1000, plus 1,000 kWh at the base rate (\$ .50 /kWh) for the current year for \$500, for a total of \$1500. If the shortfall is 3,000 kWh in the third year, it would be (1,000 kWh x \$2 /kWh) + (1,000 kWh x \$1 /kWh) + (1,000 kWh x \$ .50 /kWh).

**3) Penalty Fund Accessibility and Use.** The proposed penalty fund looks like another government giveaway program. That has been tried before in solar water heating, with the result of "gold-plated showcases" and orphan systems. In fact, a recent study of such systems funded previously in Arizona found that almost all of them are now nonfunctional. Experience shows that giveaways of this kind seriously undermine sustained orderly economic development of a market. Changing to buy-downs would place this program back into the real world. The success of the real marketplace depends on people using their own money to make economic decisions. Small subsidies can help this: giveaways do not. The proposed rules focus on utilities and government, but, for the new competitive market to succeed, it is important to also involve and empower consumers. The ratepayers are paying for this: it seems only fair to open the penalty fund to all small ratepayers on an equal opportunity basis.

**Tucson Solar Alliance**

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Docket No. RE-00000-C-94-016

**Recommendation:** Open the penalty fund to all small ratepayers. At the very least, expand the concept of "public entity" to include non-profit public service organizations.

**Recommendation:** Use penalty funds for buy-downs, not giveaways. No more than 25% of the cost of a system should come from the penalty fund. Do not allow the penalty fund to be used for any other purpose, like purchasing electricity, planning, administration, maintenance or other uses - these should be part of the recipient's commitment.

**4) Consumer Role.** Customers, consumers, ratepayers, purchasers of electric power constitute 50% of a functional competitive market, but their role is quite vague in the proposed rules. The rights of consumers should be clearly established. In particular, the SPS needs to clarify how customer-owned solar energy systems fit into these rules. In a real market, these are the ones who drive the market. Their role should be carefully considered, defined and protected.

**Recommendation:** Initiate a new ACC public participation process to define the rights of consumers and small scale solar energy equipment owners in the new competitive marketplace.

**5) Industry Role.** Electric companies should be encouraged to take a broader view of their role and serve customer needs rather than simply delivering a product. They can provide a whole range of energy products and services. For example, if people need hot water, wouldn't it be better to satisfy that in the best, most cost-effective way and use increasingly expensive electricity more efficiently? Although inclusion of solar water heating (SWH) has long been discussed, it has been omitted from the Solar Portfolio Standard. Because SWH displaces electrical loads, it contributes to a balanced electrical program. In addition, SWH is especially important for many rural and remote ratepayers, who typically use electricity or propane to heat water, both very expensive.

**Recommendation:** Expand the definition of allowed solar energy equipment to dedicate a small portion of the SPS to solar water heating.

**6) Freedom of Aggregation.** Small ratepayers need all the help they can get. Aggregation is essential for them to function in the marketplace. What good does it do small consumers to be in a competitive market if they cannot join together to compete? This has been omitted from the first phase of competition. The ACC should provide itself with the authority to allow a small number of pilot projects by organizations that are noncommercial and not-for-profit in nature.

**Recommendation:** Provide for ACC authorization of pilot aggregation projects by noncommercial, nonprofit entities during the first phase, starting 1999.