



WESTERN RESOURCE ADVOCATES

November 19, 2003

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

RE: Comments on Chairman Spitzer's and Commissioner Mundell's Proposals Regarding
Renewable Energy and Energy Efficiency
Docket No. RE-00000C-00-0377

In connection with the Open Meeting on October 6, 2003, Chairman Spitzer and Commissioner Mundell prepared proposals on the future of renewable energy and energy efficiency investments in Arizona. Chairman Spitzer proposed changes to the existing Environmental Portfolio Standard (EPS) rules (A.A.C. R14-2-1618) that would return system benefits charges to energy efficiency, increase renewable energy funding by raising the caps on the EPS surcharge, and remove multipliers for all new projects. Commissioner Mundell indicated that the Commission needs to decide whether it wishes to continue the annual increase in the portfolio standard percentage up to 1.1 percent as set forth in the existing rule and to examine whether the Commission should be looking at higher percentages or other means for ensuring that Arizona moves toward the use of viable and appropriate renewable energy resources.

Western Resource Advocates (WRA) commends Chairman Spitzer and Commissioner Mundell for their important leadership in fostering clean energy policies in Arizona. WRA offers the following comments on their proposals:

Renewable Energy and Energy Efficiency Objectives

WRA believes that there should be three over-arching objectives to the Commission's efforts to revise its renewable energy and energy efficiency policies:

First, solar energy should continue to be fostered by the Commission as set forth in the current EPS. The Cost Evaluation Working Group Report found that the current EPS is an effective means for fostering the development of solar resources. The Commission should keep the current EPS framework intact and increase the existing EPS renewable energy requirement to 1.1 percent by 2007 as set forth in Option 2 in the Cost Evaluation Working Group report. As discussed below, the Commission should also increase the amount of money available to the utilities to accomplish the EPS goals to match the timetable contained in the EPS rule.

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Second, utilities should make much greater use of other, lower cost, large-scale renewable energy resources, such as wind energy. Wind energy, landfill gas, some biomass co-firing, commercial solar hot water, and perhaps other technologies are currently cost effective or nearly cost effective. These resources avoid air emissions and water use associated with conventional generation, and serve as a hedge against natural gas price volatility and future environmental regulatory costs. However, their development will require a different policy approach than the existing EPS, which is primarily intended to advance higher cost solar electric energy. Energy from these lower cost renewable resources could be acquired in Arizona and neighboring states. The Commission should consider goals of 15 to 20 percent of utility sales being derived from renewable resources in the next 15 years.

Third, cost-effective energy efficiency programs should be pursued on a large scale with adequate funding. Cost-effective investments in energy efficiency and demand-side management (DSM) can reduce the total dollars spent by Arizona consumers on meeting the demand for electric energy services while reducing the environmental impacts of electricity generation and managing the risks to ratepayers of gas price volatility and future environmental regulatory costs. The Commission should consider energy efficiency goals at levels proposed by the Southwest Energy Efficiency Project (SWEET).

Vehicles for Achieving Renewable Energy and Energy Efficiency Objectives

WRA recommends that the Commission make use of existing forums for achieving the objectives set forth above. Specifically, the Commission should consider the roles that the DSM and Environmental Risk Management Workshops and utility rate proceedings can play to complement or supplement any rulemaking on renewable energy and energy efficiency policies as described below.

Rulemaking: One vehicle would be to initiate rulemaking procedures. The rulemakings could develop energy efficiency programs and policies for large-scale, low cost renewable energy acquisition. WRA believes that the current EPS rule has proven to be effective at fostering solar development and recommends that the current targets and framework already in place for solar development under the EPS be preserved. Any new rulemaking proceeding should focus instead on establishing DSM programs and setting separate targets or other mechanisms for the acquisition of wind and other cost-competitive renewable resources.

Rate Cases: Rate cases can be venues for initiating and funding programs for energy efficiency and renewable energy. For example, in a rate case, the Commission could pursue significant amounts of low cost renewable energy as a hedge against natural gas price increases that may otherwise result in rate increases. Additionally, the Commission could adopt energy efficiency programs to reduce the cost of meeting the demand for electric energy services. Rate cases also provide the opportunity to deal with funding of renewable energy and energy efficiency programs, including addressing the adequacy of the funding of the EPS. Rates for funding DSM and renewable energy programs could be set in the rate case as adjustor mechanisms, for example, perhaps with caps and means for dealing with large over- or under-

collections relative to expenditures on DSM and renewable energy. The pending Arizona Public Service Company (APS) rate case presents the Commission with an opportunity for setting APS' rates to adequately fund DSM and renewable energy programs, for example.

DSM Workshops: The ongoing DSM workshops required by the Commission in Decision No. 65743 provide a vehicle for addressing demand-side management issues. The DSM workshops can be used to develop consensus recommendations to the Commission on policy directives regarding the design, funding and savings goals for energy efficiency programs, which could then feed into a more comprehensive DSM rulemaking if one is determined to be necessary. In addition, the workshops can be used as a public forum for the design, implementation and rollout of specific DSM measures. WRA has participated in such collaborative processes in Nevada, Colorado and Utah and has found them to be beneficial. WRA believes that the DSM workshops can be used to identify near-term opportunities for DSM savings for ratepayers and cautions against completely postponing DSM acquisition until a rulemaking is completed.

Environmental Risk Management Workshops: The Commission may use the ongoing Environmental Risk Management Workshops, required by the Commission in Decision No. 65743, to further the roles of renewable energy and DSM acquisition. Renewable energy resources and DSM can be used to manage the effects of environmental risks on ratepayers, including the risks of future environmental regulatory costs. For example, as a result of the workshops, utilities may commit to environmental goals that can be implemented in part through renewable energy and energy efficiency projects.

Thank you for the opportunity to comment on these important matters.

Sincerely,

A handwritten signature in black ink, appearing to read 'DB', with a stylized flourish extending to the right.

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cc: Cost Evaluation Working Group members by e-mail