

1 Commissioner Pierce *dissenting*:

2 I dissent from the Commission's approval of Staff's Option A REST
3 Implementation plan. The Commission should have approved Staff's Option B Plan,
4 which would have provided the same amount of renewable energy and the same amount
5 of distributed generation for more than two million dollars less than Staff's Option A
6 Plan. Aside from the cost savings entailed in Staff's Option B Plan, the primary
7 difference between the two plans is that the Option B Plan relaxes the requirement found
8 in A.A.C. R14-1805.D that 50% of distributed generation come from residential rooftops
9 and 50% come from commercial rooftops. Because there is no public policy basis for
10 distinguishing between residential DG and commercial DG, I cannot support Staff's
11 Option A Plan.

12 The cost of residential DG¹ is staggering. Staff's Option A Plan costs \$33 million.
13 Eighty-seven percent of that cost—\$28.6 million—is for residential and commercial DG.
14 Of that number, approximately ninety percent—\$25.7 million—is for residential DG. In
15 other words, more than three-fourths of the cost of Staff's Option A Plan is for residential
16 DG, which will produce less than 5% of APS's renewable energy in 2008. A stubborn
17 insistence by this Commission that 50% of DG come from residential facilities is an
18 albatross around the neck of our REST rules.

19 Given the negative externalities associated with generating electricity using fossil
20 fuels, I believe the Commission is justified in requiring utilities to acquire a portion of

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22 ¹ It is difficult to make an apples-to-apples comparison of the cost of residential DG with
23 the cost of commercial DG because residential facilities receive an up-front incentive,
24 whereas commercial facilities receive a performance-based incentive. This results in
25 residential DG looking relatively more expensive in early years than commercial DG. It
26 also results in the risk of underperformance of the facility being shifted from residential
customers to all ratepayers. There is no doubt, however, that residential DG is more
expensive than commercial DG; the very reason residential customers receive an up-front
incentive is because, unlike commercial customers, they are difficult to entice with
performance-based incentives. The only uncertainty is the magnitude of the cost premium
of residential DG over commercial DG.

DECISION NO: _____

1 their electricity—at premium prices—from renewable and DG sources. We cannot afford,
2 however, to require utilities to pay super-premium prices for residential DG for no
3 discernable reason.

4 So far I have spoken only of the direct costs of residential DG, but I'm equally
5 concerned about the opportunity cost. In other words, what did the Commission give up
6 when it required APS to devote \$25.7 million towards residential DG in 2008? APS's
7 application indicates that APS can generate or purchase 464,568 MWh of renewable
8 energy for \$5.9 million. Assuming linear pricing, APS could more than quadruple the
9 amount of renewable energy it acquires in 2008 if the Commission would relax its
10 residential DG requirement. In other words, for the same cost, APS could have enjoyed
11 more than four times the amount of reductions in NO_x, SO_x, and Carbon Dioxide
12 emissions in 2008 than it will experience under Staff's Option A Plan.

13 Inquiring into the opportunity costs of requiring 50% of DG to come from
14 residential rooftops begs the question: what are we trying to achieve in our REST rules?
15 Are we trying to increase the number of DG facilities installed on residential rooftops, or
16 are we trying to promote and increase the use of renewable energy generally? The name
17 of the rules—i.e., the *Renewable Energy* Standard and Tariff—certainly suggests that their
18 purpose is to promote renewable energy generally, and that is certainly how the rules are
19 portrayed to and perceived by the general public. Given this, it occurs to me that there is a
20 certain amount of mislabeling associated with approving a REST implementation plan
21 that spends more money on installing residential DG than it does on generating and
22 acquiring renewable energy.

23 If the Commission continues to use the REST rules to prop up residential DG,² it
24 will sour me on the entire enterprise. I dissent.

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26 ² I hold no animus towards residential DG. I'd be happy to see residential DG flourish so
long as it does so on the same terms that are being offered to commercial DG customers.

1 Note: Following are some tables and graphs that visually describe what I've tried to
 2 explain here.

APS's REST Targets & Budget

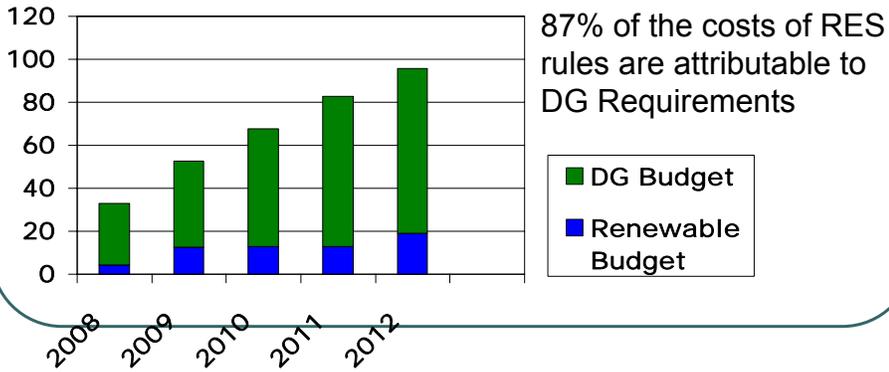
	2008	2009	2010	2011	2012
TARGETS:					
Renewable Target	1.75%	2.00%	2.50%	3.00%	3.50%
DG Target	.175%	.3%	.5%	.75%	1.05%
BUDGET: (millions)					
Renewable Budget	\$4.4	\$12.6	\$12.8	\$12.8	\$19.0
DG Budget	\$28.6	\$39.9	\$55.0	\$70.1	\$76.7
Total Budget	\$33.0	\$52.5	\$67.8	\$82.9	\$95.7

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 DECISION NO: _____

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APS's Forecasted REST Costs

	2008	2009	2010	2011	2012
Total Cost (millions)	\$33.0	\$52.5	\$67.8	\$82.9	\$95.7
Renewable Cost	\$4.4	\$12.6	\$12.8	\$12.8	\$19.0
DG Cost	\$28.6	\$39.9	\$55.0	\$70.1	\$76.7



APS's 2008 DG Budget

Total 2008 DG Budget	\$28.6
Residential DG Component	\$25.7
Commercial DG Component	\$2.9

