

1 Commissioner Pierce *dissenting*:

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

12 The cost of residential DG<sup>1</sup> is staggering. Staff's Proposed Plan costs \$15.9  
13 million. Sixty-two percent of that cost (\$9.7 million) is for residential and commercial  
14 DG. Of that number, approximately ninety percent (\$8.7 million) is for residential DG.  
15 In other words, more than half of the cost of Staff's Proposed Plan is for residential DG,  
16 which will produce less than 5% of TEP'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 <sup>1</sup> 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.

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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 costs. In other words, what did the Commission give up  
6 when it required TEP to devote \$8.7 million towards residential DG in 2008? TEP's  
7 application indicates that TEP can generate or purchase 170,000 MWh of renewable  
8 energy for \$5.9 million. Assuming linear pricing, TEP could more than double 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, TEP could have enjoyed  
11 more than twice the amount of reductions in NO<sub>x</sub>, SO<sub>x</sub>, and Carbon Dioxide emissions in  
12 2008 than it will experience under Staff's Proposed Plan.

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

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

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26 <sup>2</sup> 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.

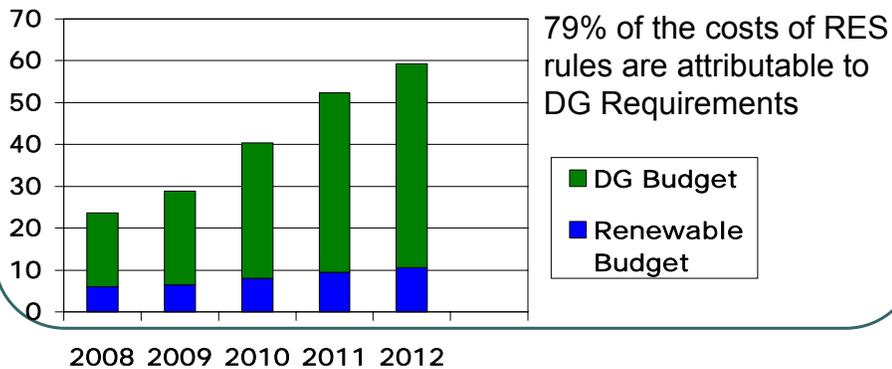
1 Note: Following are some tables and graphs that visually describe what I've tried to  
 2 explain here.

### TEP's REST Targets & Budget

	2008	2009	2010	2011	2012
<b>TARGETS:</b>					
Renewable Target	1.75%	2.00%	2.50%	3.00%	3.50%
DG Target	.175%	.3%	.5%	.75%	1.05%
<b>BUDGET: (millions)</b>					
Renewable Budget	\$5.9	\$6.5	\$8.0	\$9.6	\$10.7
DG Budget	\$17.7	\$22.4	\$32.4	\$42.9	\$48.8
Total Budget	\$23.6	\$28.9	\$40.4	\$52.5	\$59.5

### TEP's Forecasted REST Costs

	2008	2009	2010	2011	2012
Total Cost (millions)	\$23.6	\$28.9	\$40.4	\$52.3	\$59.3
Renewable Cost	\$6.0	\$6.5	\$8.0	\$9.5	\$10.6
DG Cost	\$17.6	\$22.4	\$32.4	\$42.8	\$48.7

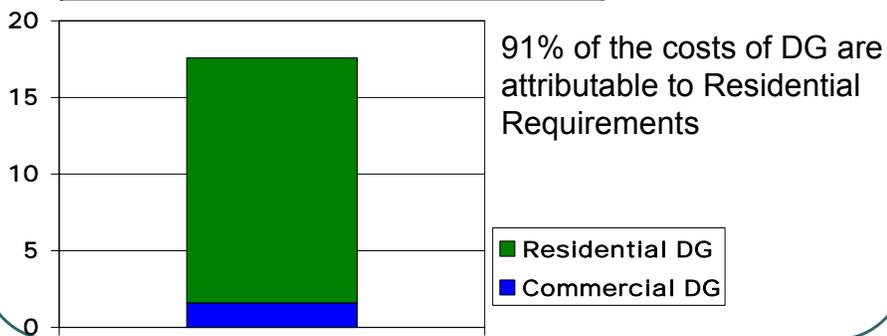


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### TEP's 2008 DG Budget

<b>Total 2008 DG Budget</b>	<b>\$17.6</b>
Residential DG Component	\$16.0
Commercial DG Component	\$1.6



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