

**Non-Consensus Recommendations to the Arizona Department of Environmental Quality
for Consideration in the Development of the Pollution Prevention Section
of the Arizona Regional Haze SIP**

July 31, 2003

The P2WG has identified the following four issues on which we cannot reach consensus. The purpose of this document is to present these issues along with recommendations supported by certain stakeholders within the P2WG. Each issue is identified below, followed by the recommendation relating to the respective issue and a list of stakeholders, potentially among others, who support the recommendation. The support of a working group member does not necessarily bind the member's county government, state agency, or the Executive branch.

1. ADEQ's roles and responsibilities related to the pollution prevention section of the Regional Haze Rule (RHR).

Recommendation

Under the RHR, the ADEQ is responsible for developing a SIP submittal by December 2003, reporting to EPA in 2008, 2013, and 2018, and demonstrating reasonable progress. At issue is the role that ADEQ should play between now and 2018 to ensure that Arizona can demonstrate reasonable progress.

The Grand Canyon Visibility Transport Commission, Western Regional Air Partnership (WRAP), and Environmental Protection Agency recognize that energy efficiency and renewable energy can improve air quality and help reduce regional haze. The Regional Haze Rule itself is unique in that it established a relationship between energy policy and pollution. Further, it requires states to work toward achieving the lofty policy goal of developing 10 percent of the region's power needs from renewables by 2005 and 20 percent by 2015.

As strategies, the expanded use of energy efficiency and development of renewable energy resources were not found in the modeling work of the Western Regional Partnership to be significant in reducing regional haze. However, these strategies are beneficial as methods to reduce the cost of compliance with the sulfur cap, expected as a result of the Cap and Trade Program. And, although the contribution to reductions in regional haze by energy efficiency and renewable energy may be small, there are other public-goods benefits that support investment in these strategies.

Since ADEQ must report on progress made under the pollution prevention section, ADEQ should have a role in monitoring and reporting on energy efficiency and renewable energy activities. Further, since Arizona must demonstrate progress, it is important for ADEQ to evaluate its role in the development of energy policies and programs that could affect regional haze.

To ensure that Arizona is able to meet the reasonable progress test in 2008, 2013, and 2018, the majority of P2WG members recommend that ADEQ consider increasing its role in Arizona

energy policy development, including advocating for energy policies that will have a direct effect on reducing regional haze. This could include monitoring and advocating for policies at the Arizona Corporation Commission, Arizona Legislature, Governor's Office and Western Governors' Association.

Stakeholders supporting the recommendation

Bud Annan, Annan Group

Ursula Kramer, Director, Pima County Department of Environmental Quality

Craig Marks, Arizona Department of Commerce Energy Office

Amanda Ormond, Ormond Group - representing Grand Canyon Trust, Land and Water Fund of the Rockies, Environmental Defense and Southwest Energy Efficiency Project

Rich Polito, Maricopa County

Jeff Schlegel, Southwest Energy Efficiency Project and Schlegel & Associates, LLC

Ray Williamson, Arizona Corporation Commission

2. The Arizona Corporation Commission's Environmental Portfolio Standard and its relationship to the RHR.

Recommendation

51 CRF 309(d)(8)(vi) states that, "To the extent that it is not feasible for a state to meet its contribution to the regional renewable [10/20] energy goals, the State must identify in the progress reports the measures implemented to achieve its contribution and explain why meeting the State's contribution was not feasible."

To address this and other sections of the RHR, the Western Governors' Association supported and assisted the Western Regional Air Partnership, and its forum on pollution prevention, the Air Pollution Prevention Forum (AP2). In its report, *Recommendations of the Pollution Prevention Forum to Increase the Generation of Electricity from Renewable Resources*, the AP2 ranked policies for consideration by states and the federal government to help achieve the 10/20 goal. There were only two recommended state policies that received the highest ranking from the group: adopting a Renewable Portfolio Standard, and adopting a system benefit charge (or funding source) to support renewables.

In its work, the Arizona P2WG reviewed the policy recommendations of the AP2, and then developed an Arizona-specific list and ranking. The P2WG ranking also identifies a renewable portfolio standard as the most important renewable energy policy for Arizona.

Arizona is one of only 17 states in the country to have enacted a renewable portfolio standard, known in Arizona as the Environmental Portfolio Standard (EPS). This policy was enacted by the Arizona Corporation Commission (ACC) and applies only to utilities regulated by the ACC. The Cost Evaluation Working Group (CEWG), a committee established by the ACC, recently completed its review of the EPS and submitted its report on June 30, 2003. The CEWG report provides cost and benefit information, which may be valuable to ADEQ in quantification of the EPS in regional haze reduction. See www.cc.state.az.us for a copy of the report. The ACC is

expected to begin considering the CEWG report, and whether to modify the EPS, some time in 2003.

The EPS, adopted by the Arizona Corporation Commission (ACC) for regulated utilities, is the single most important policy for Arizona to make progress toward meeting the 10/20 renewable energy goal. Therefore, we recommend that the ADEQ support continuation or possible expansion of the EPS for its potential to reduce emissions that contribute to regional haze, and for its potential to reduce the cost of compliance. Additionally, the ADEQ should support policies that support the EPS, such as system benefit charges and EPS surcharges.

Stakeholders supporting the recommendation

Bud Annan, Annan Group

Ursula Kramer, Director, Pima County Department of Environmental Quality

Craig Marks, Arizona Department of Commerce Energy Office

Amanda Ormond, Ormond Group - representing Grand Canyon Trust, Land and Water Fund of the Rockies, Environmental Defense and Southwest Energy Efficiency Project

Rich Polito, Maricopa County

Jeff Schlegel, Southwest Energy Efficiency Project and Schlegel & Associates, LLC

Ray Williamson, Arizona Corporation Commission

3. Quantification of the costs and benefits of energy programs.

Recommendation

As mentioned above, energy programs have been recognized for the first time in a regulatory air process for their potential to reduce regional haze. Although there have been recent EPA efforts to evaluate the potential contributions of energy programs to reduce haze-forming pollutants, there is no definitive quantification methodology recognized by the EPA at this time for use in SIPs.

To develop its portion of the SIP, P2WG members quantified energy programs, where data were available, in terms of reductions in kWh or MWh. For a simplistic analysis, these energy reductions could be translated to emissions reductions by applying Arizona's resource generation mix, and then considering the known emissions characteristics for each fuel. This methodology may suffice for a rough estimate for 2003. However, if programs are to be relied upon for future regional haze reduction, standardized methodologies need to be developed to quantify the impacts of energy efficiency and renewable energy programs and their effects on regional haze.

Therefore we recommend that the ADEQ work to quantify the impacts and benefits of renewable energy and energy efficiency programs for use in compliance programs. This includes supporting and participating in Arizona, national, or EPA efforts.

Stakeholders supporting the recommendation

Bud Annan, Annan Group

Ursula Kramer, Director, Pima County Department of Environmental Quality

Craig Marks, Arizona Department of Commerce Energy Office

Amanda Ormond, Ormond Group - representing Grand Canyon Trust, Land and Water Fund of the Rockies, Environmental Defense and Southwest Energy Efficiency Project
Rich Polito, Maricopa County
Jeff Schlegel, Southwest Energy Efficiency Project and Schlegel & Associates, LLC
Ray Williamson, Arizona Corporation Commission

4. ADEQ’s obligation related to Section 51.309(d)(8)(iii), which states that the SIP plan must provide for “programs to preserve and expand energy conservation efforts.”

Recommendation

51 CFR 309 (d)(8)(iii) states that “The [SIP] plan must provide for programs to preserve and expand energy conservation efforts.” PPWG members disagreed on what was necessary to meet this section of the RHR. This issue is similar to the discussion regarding progress relating to the 10/20 renewable energy goal in that it questions whether the ADEQ has a new or expanded role regarding energy policies as a result of the RHR.

Some the P2WG members felt that just documenting existing energy-efficiency programs would constitute compliance with the Rule’s language of “preserve and expand.” However, other members who support the recommendation below felt that just listing programs that exist today was inadequate because:

- A number of the existing energy-efficiency programs listed are not assured of ongoing funding, and therefore the existing efforts may not be preserved; and
- The consensus SIP tables (including P2-F) completed by the group do not include recommended programs or actions in the future that would expand energy-efficiency efforts.

The Grand Canyon Visibility Transport Commission recognized that the electric utility industry was going through substantial changes in the form of restructuring and “deregulation.” The Commission understood such restructuring could result in the loss of programs and funding for energy efficiency. Thus, the Commission recommended, and the RHR reflects an intention, to “preserve” the programs that were in place. Further, the Commission and RHR recognize that energy-efficiency programs reduce haze-causing emissions, and therefore included recommendations to “expand” energy-efficiency programs.

Since the publication of the Commission report the number and funding of energy-efficiency programs operated by Arizona utilities has decreased significantly, as was anticipated when the report was written.

Energy-efficiency programs can be one of the most cost-effective methods for reducing emissions from power plants, by decreasing or delaying the need for new power plants, reducing existing demand, and thereby reducing emissions. In addition, energy efficiency opportunities often are the least cost resource. The majority members of the PPWG have developed the following list of energy-efficiency programs that, if pursued and implemented, could assist Arizona in meeting the requirements of the RHR, reduce regional haze, and reduce the cost of compliance.

To meet the "preserve and expand" requirements of the RHR for energy efficiency we recommend that ADEQ support:

- 1. Adopting Systems Benefit Charges and/or Energy Efficiency Performance Standards (energy savings goals) to create or expand utility-based energy efficiency programs. For utilities not regulated by the ACC, adopting internal goals (performance standards) and funding mechanisms (SBC or other) to create or expand energy efficiency programs.*
- 2. Providing utilities with financial incentives to implement effective energy efficiency programs.*
- 3. Developing and implementing utility rates to encourage greater energy efficiency.*
- 4. Developing and adopting state-of-the-art building codes, and promoting the construction of highly efficient new buildings that exceed these codes.*
- 5. Adopting minimum efficiency standards on products and appliances not yet covered by national standards*
- 6. Expanding participation in industrial voluntary commitment energy-efficiency programs.*
- 7. Adopting "best practices" in public-sector energy management, including the implementation of HB 2324, but also future expanded efforts.*
- 8. Expanding energy-efficiency training and technical assistance programs.*
- 9. Incorporating energy-efficiency initiatives in other government and industry pollution control strategies.*

To meet the requirement of the RHR, which calls for states to support existing programs, the ADEQ should consider:

- 1. Supporting continued or expanded funding for the Arizona Department of Commerce's Energy Office and its many programs described in the SIP tables; and*
- 2. Supporting the continuation of existing energy-efficiency programs offered by ACC-regulated and unregulated utilities in Arizona.*

Stakeholders supporting the recommendation

Bud Annan, Annan Group

Ursula Kramer, Director, Pima County Department of Environmental Quality

Craig Marks, Arizona Department of Commerce Energy Office

Amanda Ormond, Ormond Group - representing Grand Canyon Trust, Land and Water Fund of the Rockies, Environmental Defense and Southwest Energy Efficiency Project

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Ray Williamson, Arizona Corporation Commission

Conclusion

Over ten years of work, millions of dollars and tens of thousands of person-hours have gone into the development of material and guidance documents to assist Arizona and other states in the preparation of 309 Haze SIPs. The ADEQ and its constituency should determine what actions are necessary to submit an acceptable Haze SIP in 2003, and what actions and roles ADEQ should plan to take between the SIP submittal in December 2003 and the first progress report in

2008 to demonstrate reasonable progress. The majority of P2WG hopes ADEQ will consider carefully these non-consensus recommendations.

- [1] Cost Evaluation Working Group; Final Report – Costs, Benefits, and Impacts of the Arizona Environmental Portfolio Standard; June 30, 2003
- [2] ICF Consultants; Economic Assessment of Implementing the 10/20 Goals and Energy Efficiency Recommendations
- [3] WRAP Draft Policy; Renewable Energy and Energy Efficiency Strategies for Regional Haze, February 2003