

ARIZONA HOUSE OF REPRESENTATIVES
Fifty-first Legislature – Second Regular Session

**COMMITTEE ON ENERGY, ENVIRONMENT
AND NATURAL RESOURCES**

Minutes of Special Meeting
Thursday, August 21, 2014
State of Arizona Regional Complex, Tucson, AZ -- 3:00 p.m.

Chairman Pratt called the meeting to order at 3:02 p.m.

Members Present

Mr. Orr
Ms. Peshlakai

Mr. Saldate

Mr. Pratt, Chairman

Members Absent

Mr. Hale
Mr. Shope

Mr. Thorpe

Ms. Fann, Vice-Chairman

Chairman Pratt introduced Representative David Stevens and Majority Leader, David Gowan.

OPENING REMARKS

Majority Leader David Gowan related that the U.S. Environmental Protection Agency's (EPA) Clean Power Plan to reduce carbon emissions will negatively impact rural cooperatives such as Arizona Electric Power Cooperative (AEPSCO) and have severe consequences for ratepayers. He stressed the necessity of finding reasonable solutions to preserve affordable energy costs.

Chairman Pratt remarked that the purpose of the meeting is to assist the Arizona Department of Environmental Quality (ADEQ) with the public comment portion of the state's response to EPA.

Representative David Stevens thanked Chairman Pratt and the Members for addressing the concerns to EPA's proposed plan. He reiterated apprehension for the impact the plan will have on consumers and the importance of having an affordable power source.

PRESENTATION

Beth Hager, Director of Public Affairs, Arizona Department of Environmental Quality (ADEQ), reviewed a slideshow presentation and provided background on EPA's proposed Clean Power Plan to reduce carbon dioxide (CO₂) (Attachment 1). She advised that on June 2, 2014, EPA announced the new proposed rule that require states to develop plans to reduce CO₂. The nationwide goal is to reduce CO₂ emissions to 30 percent below 2005 emission levels. Ms. Hager said that EPA's proposed rule is focused on eliminating fossil fuel power facilities and

the reliance on fossil fuels such as coal. The proposed plan significantly impacts Arizona compared to other states. Arizona has the second highest goal in the country: 52 percent reduction, excluding the Navajo Generating Station (NGS). Ms. Hager explained that NGS is located on tribal lands and that EPA will develop a plan for the Tribal Nations.

Majority Leader Gowan inquired if EPA requested the state to work together with Tribal Nations to develop a plan for NGS. Ms. Hager responded that EPA has not given clear instructions on the matter.

Ms. Hager returned to the presentation and reviewed the following EPA "building blocks" to reduce CO2 levels:

- Increase efficiency of existing fossil fuel power plants through equipment upgrades and process improvements
- Expand use of low-emitting power sources such as natural gas
- Use more zero- and low-emitting power sources such as solar, wind and nuclear power
- Increase energy efficiency and reduce energy demand

Ms. Hager referred to the requirement to expand the use of natural gas. She said that EPA's goal will increase the natural gas usage to 70 percent nationwide. EPA based Arizona's natural gas consumption on an average annual basis but, due to the state's extreme weather conditions, the state's full natural gas capacity could not supply enough electricity in the summer months to operate air conditioners, which creates a public health issue. ADEQ is currently working with EPA on addressing the unique considerations particular to Arizona before the rule is finalized on June 2, 2015. She suggested that EPA consider using weekly or monthly energy demand statistics for Arizona instead of annual demands. Ms. Hager pointed out that Arizona is exceeding other states in the use of low-emitting power sources. She said that because Phoenix is a relatively new city compared to cities in the eastern United States, the city has been developed with much better energy efficiencies.

Ms. Hager advised that the states have until June 2016 to submit implementation plans with possible EPA extensions for legislative approvals and multi-state approaches. The timeline is incredibly aggressive and contains the following deadlines:

- Public comment period ends – October 16, 2014
- Publish final rule – June 2, 2015
- State's initial plans are due – June 30, 2016
- EPA extension for legislative approvals if necessary – June 30, 2017
- EPA extension for multi-state plans – June 30, 2018

Ms. Hager advised that if states do not meet the initial plan limit of June 30, 2016, EPA will take over the planning process, eliminating stakeholders' input. She opined that ADEQ and the Legislature are better equipped to develop the state's approach than the federal government.

Ms. Hager stated that ADEQ is focused on changing the state goals and numbers, which will not work in Arizona, established by EPA's proposed draft rule. Currently, ADEQ is working with utility companies and other stakeholders to obtain and submit comments to promote changes to

the plan. On a weekly basis, ADEQ is in contact with EPA to provide feedback and discuss concerns.

Ms. Hager pointed out that the demand for energy continues to grow as the state population increases. She said that closing coal-fired power plants in the eastern part of the United States where populations are decreasing will have less of an impact on these states than closing a plant in Arizona.

Ms. Hager reminded Members that in 2010 (Forty-ninth Legislature, Second Regular Session), the Legislature enacted HB2442 which requires "express legislative authorization" to allow Arizona's participation in a state or multi-state program designed to limit greenhouse gas emissions. She said that ADEQ cannot do anything in response to EPA's proposed rule until the Legislature first gives the authority to do so.

Chairman Pratt related that a bill folder addressing the corrections to HB2442 has been opened and will be considered in the upcoming legislative session.

In response to questions posed by the Committee, Ms. Hager advised of the following:

- EPA has not clarified whether or not an extension for the plan will be granted if the state collaborates with the Tribal Nations
- Environmental considerations for installing and storing natural gas will be brought to EPA's attention
- Concerns with the effect of an expanding population and the proposed rule to reduce energy demand have been brought to EPA's attention
- Arizona has the second highest goals with Washington State as the highest; however, there is no direct correlation that Arizona is the second worst CO₂ emitter
- Coal-fired power plants recently installed expensive, high level updates to create more eco-friendly facilities and reduce CO₂ emissions
- EPA's overall goal is to eliminate fossil fuels and promote the use of low-emitting power sources such as solar, wind and natural gas
- ADEQ is reviewing the economic impact the plan will have on rural communities which are heavily reliant on fossil fuels
- ADEQ is considering a multi-state plan approach

PUBLIC TESTIMONY

John LeSueur, Assistant Director, Utilities Division, Arizona Corporation Commission (ACC), stated apprehension for EPA's proposed Clean Power Plan to reduce CO₂ emissions. He explained that ACC is the state's economic regulator with the mission of ensuring reliable and affordable power. The impact of the proposed plan to the economy and the electric grid are gravely concerning. Mr. LeSueur said that if the proposed plan is implemented without any revisions, the state will not be able to generate enough electricity to meet peak electrical demands in the summer months. The issue is not simply about cost but also availability. In response to Majority Leader Gowan's inquiry, Mr. LeSueur explained why coal is the more stable choice for fuel compared to natural gas. He said that when natural gas is readily available,

the price is affordable; however, an environmental event such as Hurricane Katrina in 2005 drastically increased the price of natural gas, proving the unpredictable nature of natural gas.

Joe Salkowski, Manager of Government Relations, Tucson Electric Power (TEP), stated concern for EPA's proposed Clean Power Plan which will dramatically change TEP's energy generation portfolio plan, the electric grid and the cost of electricity. He said that TEP's current portfolio plan significantly reduces reliance on coal-fired power, increases reliance on natural gas-fired resources and continues the expansion of renewable energy sources at a responsible pace. Mr. Salkowski related the following challenges with EPA's proposed plan:

- Accelerated timeline
- Providing reliable energy
- Transmission grid configuration
- Locating additional resources
- Researching land and water usage
- Affordability
- Ability to comply with the new standards

Mr. Salkowski stated appreciation for ADEQ's efforts and advised that TEP will continue to work with ADEQ on a response to EPA's proposed Clean Power Plan.

In response to Chairman Pratt's question, Mr. Salkowski explained that the complete removal of coal-fired energy sources is not currently attainable. Power suppliers rely on coal to "keep the lights on." He said that in order to rely on natural gas, the entire infrastructure and transmission grid must be reconfigured as the transmission corridors are not equipped or prepared to carry the necessary amount of power. The process will take a significant reallocation of resources.

Mr. Orr commended Mr. Salkowski on TEP's commitment to renewable energy. He asked if EPA was aware, consulted or involved in the development of the company's renewable energy portfolio. Mr. Salkowski answered in the negative, explaining that the process is state based and in partnership with the ACC which has set ambitious goals for the development of renewable energy. He related that TEP has met and exceeded the goals over the years. Mr. Orr commented that EPA's aggressive timeline is extremely problematic and a waste of taxpayer resources.

Mr. Saldate stated his appreciation for Chairman Pratt and his efforts to inform the public on EPA's proposed plan.

Ms. Peshlakai inquired the origin of the state's source of natural gas and if "fracking" will be necessary to attain EPA goals. Mr. Salkowski responded that he was unaware of any plans for "fracking" and related that the majority of Arizona's natural gas is delivered through a pipeline from New Mexico and Texas. Currently, the pipeline's capacity will not be able to supply the natural gas necessary to replace coal-fired power plants.

Mr. Stevens gave an account of the shortages Cochise County experienced with the delivery of natural gas and stated concern with relying on a single resource. Mr. Salkowski concurred, stating the benefit of having multiple energy resources.

Majority Leader Gowan commented on the importance of defending rural Arizona and relaying current energy-shortage complications to EPA. He said that for three freezing cold days, the natural gas pipeline was shut down last winter and the southern portion of the state was left without power.

Phillip Bashaw, Director of Government Relations, Grand Canyon State Electric Cooperative Association, Inc., provided background on the predominately rural, consumer-owned nonprofit cooperative. He explained that cooperatives have one source of revenue: the consumer. EPA's proposed rule and accelerated timeline will have severe negative consequences in rural Arizona. Mr. Bashaw compared Arizona's 52 percent emission reduction goal to other state goals and said that the proposed rule has created significant inequities. He said that 25 states emit higher levels of CO2 than Arizona; however, EPA's proposed rule calls for a much lower percent of reduction for these states. Vermont and Washington do not have any fossil fuel generation plants and will not have to submit state plans. Mr. Bashaw stated that EPA's proposed rule puts Arizona at an economic disadvantage; future energy costs will hinder the state's ability to attract new manufacturing facilities. He related that at one time, U.S. policy stated that natural gas should not be used in the generation of electricity. That policy drove the electric power industry into using coal generation, which now, the EPA wants to eliminate. Mr. Bashaw stressed the importance of finding reasonable solutions for the state's energy needs.

Felecia Rotellini, representing self, delivered a letter of opposition to the EPA Clean Power Plan (Attachment 2) and opined that the proposed rules will have a negative impact on innovation, jobs, the economy and consumers.

Jana Salward, Chief Consulate, Arizona Corporation Commission echoed Mr. LeSueur's previous comments and stated the importance of protecting Arizona's future by ensuring reliable electric services. She said that she continues to look forward to a partnership with ADEQ, stakeholders and Legislators to address the issues.

Chairman Pratt announced that the next meeting will be held in Globe, Arizona on August 22, 2014 at 10:00 a.m.

Without objection, the meeting adjourned at 4:41 p.m.

Abby Selvey, Committee Secretary
September 19, 2014

(Original minutes, attachments and audio on file in the Office of the Chief Clerk; video archives available at <http://www.azleg.gov>)