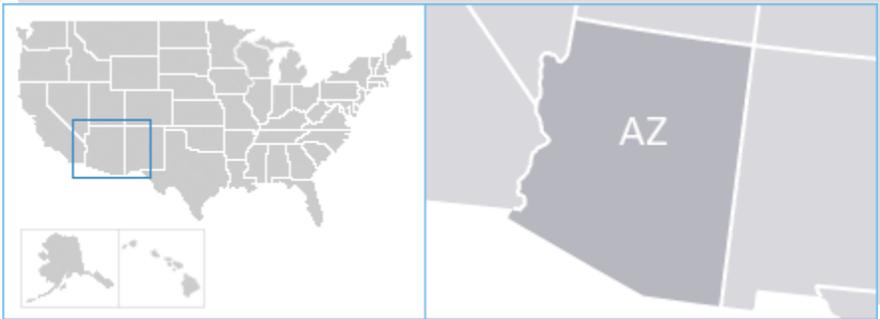


ARIZONA



Arizona’s CHP market is better than the rest of the Southwestern U.S., but is only average among all U.S. states. Arizona scored 3 out of 5 on ACEEE’s 2010 *Scorecard*, reflecting good portfolio standards and net metering policies. Between 2005 and 2010, the state installed two new CHP systems with a combined capacity of 16.3 MW.

The main barrier to new CHP in Arizona is economics. Electricity is cheap, and despite gas utility incentives of \$400–500/kW across much of Arizona, few projects have been moving forward lately. Bad standby rates make the economics of projects even worse, and rates from Arizona Public Service Company are viewed as “the worst.” However, additional financial incentives from ARRA programs have jump-started interest in CHP in the state, causing a handful of new projects to be considered. Several of the projects going forward have payback rates of less than three years, which appears to have satisfied decision-makers at facilities such as hospitals and hotels.

The practice of offering facilities considering CHP cheaper electricity rates to discourage CHP projects appears to be used in Arizona. This has been a bigger problem among the state’s investor-owned utilities. Interconnection is also a barrier in the state, as Arizona chose not to adopt statewide interconnection standards in response to the federal Energy Policy Act of 2005, which required that states consider adopting updated interconnection standards. Instead, each major utility has developed its own interconnection processes, which are regarded as hard to work through but not project-killers: “When you get to the point of interconnection, you can probably plow through it, but you won’t be very happy.”

Air emissions regulations do not appear to have stalled CHP projects in the state, while several regulations designed to encourage CHP do not appear to have yet made much impact on the market. The state’s RPS counts renewable-fueled CHP as an eligible resource, and has been used to move a handful of biomass and biogas-fueled CHP projects forward. In addition, the state’s 2009 EERS, which counts all CHP as an eligible resource, will begin to go into effect in 2011. The new standard could present new opportunities for CHP and could help remove some utility resistance.

New CHP Sites (2005-2010):
2 sites (#34)

New CHP Capacity (2005-2010):
16.3 MW (#20)

Average Capacity per Site (2005-2010):
8.1 MW

Total Primary Energy Consumption (2008):
1,553 trillion Btu (#24)

Average Gas Price (2009):
\$12.67 per MCF (#10)

Average Electricity Price (2010):
9.86¢ per kWh (#19)

Energy Consumption by Sector

