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April 15, 2005

HAND DELIVERED

Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

Re: *AEPCO's Annual EPS Report; Docket No. RE-00000C-00-0377*

Dear Sir/Madam:

Pursuant to Finding of Fact 12 and the second ordering paragraph of Decision No. 67176 and the requirements of A.A.C. R14-2-1618.D, enclosed are the original and 13 copies of AEPCO's EPS Report for 2004.

Very truly yours,

GALLAGHER & KENNEDY, P.A.

By:
Michael M. Grant

MMG/plp
10421-38/1263818
Enclosures

Original and 13 copies delivered to
Docket Control this 15th day of April, 2005.

cc (w/enclosures): Brian Bozzo, Compliance Section
Ray Williamson, Utilities Division
Romi Wittman

Arizona Corporation Commission
DOCKETED

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**ARIZONA ELECTRIC POWER COOPERATIVE AND ITS ARIZONA
MEMBER COOPERATIVES**

ENVIRONMENTAL PORTFOLIO STANDARD PROGRAMS

2004 ANNUAL REPORT

DOCKET NO. RE-00000C-00-0377

4/15/05

EXECUTIVE SUMMARY

In October 2001, Arizona Electric Power Cooperative, Inc. ("AEPCO"), on behalf of its five Arizona member cooperatives, Duncan Valley Electric Cooperative, Inc. ("DVEC"), Graham County Electric Cooperative, Inc. ("GCEC"), Mohave Electric Cooperative, Inc. ("Mohave"), Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC") and Trico Electric Cooperative, Inc. ("Trico"), submitted to the Arizona Corporation Commission ("ACC") its Environmental Portfolio Standard Plan, SunWatts.

In August 2004, the ACC, in Decision No. 67176, authorized AEPCO to administer this environmental portfolio program on behalf of its member cooperatives. Furthermore, the ACC granted provisional approval of the cooperatives' SunWatts program, which proposed funding all EPS programs through surcharge monies only. The ACC order left open the possibility for the cooperatives to return to the Commission for projects that may fall outside the parameters of the approved SunWatts program. The order also directed the cooperatives to meet or hold a teleconference with representatives of RUS and ACC staff to discuss loan financing options. Finally, the order mandated that AEPCO and the member cooperatives submit a revised EPS plan by December 31, 2005.

The SunWatts program consists of three parts: the Contribution Program, the Incentive Program and the Large-Scale Renewable Program. This report covers SunWatts and the cooperatives' progress from August 1, 2004 through December 31, 2004.

Program Kick-Off

The SunWatts program officially kicked off in October 2004. This kick-off included several promotional events and mailings to customers in each of the cooperative service territories. Events included displays at county fairs, annual meetings, community luncheons and the like. Direct mail items and articles outlining the program were also sent and featured in cooperative publications.

SunWatts Educational Activities

AEPCO and its five Arizona member cooperatives participated in a number of events and activities to promote the SunWatts program. Trico hosted an educational luncheon at its headquarters and invited members of the community, the solar industry and others. SSVEC, during its annual community luncheons, featured SunWatts and distributed SunWatts materials to its members. Several of the cooperatives featured a SunWatts display and educational materials at their respective annual meetings. The cooperatives also undertook several direct mailings and featured informational articles in their cooperative newsletters.

Discussions with RUS Regarding Renewable Loan Financing

On November 23, 2004, AEPCO staff, including SunWatts program manager Romi Carrell Wittman and AEPCO Chief Financial Officer Dirk Minson, held a teleconference with Victor Vu and William Railey, both of the Rural Utilities Services, Inc. ("RUS") Electric Staff Division. The purpose of the call was to discuss RUS and its loan financing options for renewables projects. AEPCO staff was informed that RUS recently had a policy change and now had loan financing available for least cost renewable projects. Landfill methane, wind, solar and heat recovery are acceptable technologies under this loan program, which is not part of RUS's general loan program. There are a limited amount of funds available and there possibly will be a lot of competition among RUS borrowers for these funds.

After the call, RUS sent AEPCO its guidelines for what constituted an acceptable renewable project under the loan program. AEPCO and RUS staff then determined that a face-to-face meeting was not needed. These guidelines were provided to Ray Williamson of ACC staff.

2005 PROJECTS

Solar Cooling Project

AEPCO, on behalf of its Arizona member cooperatives, seeks to partner with the Cooperative Research Network ("CRN") on a research project to identify and evaluate renewable options for increasing peak generation capacity. The first phase of the project would be a research project to evaluate the feasibility and cost effectiveness of the solar cooling of inlet air for combustion turbines. This project has been recommended for funding by the CRN Advisory Committee. Next, the Cooperative Research Committee must vote on financing, which will take place in April 2005. If the project is approved, the research project is slated to begin in April 2005 and to end no later than December 2005.

Should this technology prove feasible and cost effective, solar cooling equipment would be permanently installed on Gas Turbine #4 at Apache Generating Station in Cochise, Arizona. This technology would create a green output of 5 to 12 MW, possibly more with extra credit multipliers. If the research portion of the project concludes on time, equipment installation would commence in December 2005 or January 2006, with a mid-2006 completion. However, if the research portion of the project runs long and construction cannot be completed by the May-October 2006 peak power season, installation of the project would be pushed back to November 2006 or later.

Financing for this project could come from the EPS surcharge funds or the RUS renewable loan program.

Thornsdale

In 2004, the City of Tucson, in conjunction with AEPCO and Trico, agreed to install a large photovoltaic system at its Thornsdale Reclaimed Water Reservoir Site, with AEPCO contributing \$50,000 of EPS funds to this project.

The project began generating power on January 19, 2005. The 72 panels that comprise the system are mounted directly on the reservoir's concrete roof. The electricity generated by the solar panels is fed directly into the site and helps supply electricity to booster pumps, which are used to supply reclaimed water to golf courses north of the reservoir. The system is rated at 22,000 watts DC with an estimated annual electric output of 37,000 kWh. AEPCO, on behalf of its Arizona member cooperatives, retains the rights to all green credits from this project.

Incentive Program

Eight cooperative customers in GCEC's service territory signed up for the SunWatts Incentive program in 2004, but their systems did not go online until 2005. They have installed qualifying equipment with a cumulative rated output of 14,000 watts, representing approximately \$56,000 in rebates (at \$4 per watt). These installations are off-grid.

Since January 2005, 16 customers in the SSVEC territory have signed up for the rebate program, representing more than 15,000 watts in rated output and an estimated rebate reimbursement of \$62,000 (at \$4 per watt).

2005 PROJECTS UNDER CONSIDERATION

Department of Corrections – Solar Water Heating: The Cooperatives are investigating a project involving solar water heating at the Fort Grant Prison near Safford, Arizona. This project would involve installing solar collectors on asphalt shingle roofs. These collectors, which would be configured as a closed glycol loop system, would be tilted and oriented to maximize thermal energy delivery. This entire project could eventually deliver approximately 510 MWh of green energy per year, not taking into account any available extra credit multipliers.

WAATS: Arizona Army National Guard, State of Arizona, Department of Emergency and Military Affairs (“DEMA”) Western Army Aviation Training Site (“WAATS”) Heliport, in Marana, Arizona. WAATS and Trico, along with AEPCO, are in discussions to partner on photovoltaic installations at the WAATS facility. This could include the installation of PV equipment as well as the purchase of green tags from existing qualifying equipment.

Habitat Homes: Arizona electric cooperatives seek to partner with Habitat for Humanity to bring solar technologies to low-income families. A project is currently under way in the Sierra Vista area. The manufacturer is donating the inverter and the Solar Store in Tucson is donating the installation.

SSVEC, along with the Solar Store, is hosting an installation seminar open to members of the community as well as cooperative staff. This seminar will teach PV system fundamentals as well as installation techniques.

AEPCO, on behalf of its member cooperatives, will be submitting to the ACC an amendment to its original EPS plan outlining its Habitat program.

Green Tags: AEPCO and Arizona's electric cooperatives will purchase, for a fixed incentive payment, energy credits from member-customers that have installed certain renewable energy systems. In order to be eligible for the green tag program, the installation cannot have received EPS rebates. The renewable energy system must be a qualifying renewable technology located in the State of Arizona, within the service territory of the participating Cooperative and on land owned or leased by the customer-member.

2004 Arizona Cooperatives' EPS Annual Report

SunWatts

	DVEC	GCEC	Mohave	SSVEC	Trico	AEPCCO	TOTAL
Annual Retail Sales (kWh)	19,260,213	121,193,443	607,391,779	641,748,654	467,551,355	1,857,145,444	1,857,145,444
Percent of total	1.04%	6.53%	32.71%	34.56%	25.18%	n/a	100%
Surcharge Collected*	\$ 32,668.62	\$ 168,139.78	\$ 640,000.00	\$ 933,281.24	\$ 496,998.56	n/a	\$ 2,271,088.20
Contribution dollars collected	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	\$ 68.68	\$ 362.69	\$ -	\$ -	\$ -	\$ -	\$ 431.37
Administrative							
Admin	\$ -	\$ (1,468.62)	\$ (2,778.74)	\$ (8,744.47)	\$ (6,574.44)	\$ (372.77)	\$ (19,939.04)
Advertising	\$ -	\$ (1,744.96)	\$ (1,472.18)	\$ (22,016.05)	\$ -	\$ (2,757.17)	\$ (27,990.36)
R&D	\$ -	\$ -	\$ -	\$ (4,386.05)	\$ -	\$ -	\$ (4,386.05)
TOTAL ADMIN	\$ -	\$ (3,213.58)	\$ (4,250.92)	\$ (35,146.57)	\$ (6,574.44)	\$ (3,129.94)	\$ (52,315.45)
Rebates paid	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net surcharge	\$ 32,737.30	\$ 165,288.89	\$ 635,749.08	\$ 898,134.67	\$ 490,424.12	n/a	\$ 2,219,204.12
# of Unifs Installed	0	0	0	0	0	0	-
Off-grid	0	0	0	0	0	0	-
On-grid	0	0	0	0	0	0	-
Rated output (watts)	0	0	0	0	0	0	-

* This amount reflects surcharge collections from 2001 - 2004