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

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Re: *AEPCO and Its Arizona Member Cooperatives' Environmental Portfolio
Standard Programs Report for 2006 in Compliance With Decision No. 67176 and
the Requirements of A.A.C. R14-2-1618.D; Docket No. RE-00000C-00-0377*

Dear Sir/Madam:

Pursuant to Finding of Fact 12 and the second ordering paragraph of Decision No. 67176, as well as the requirements of A.A.C. R14-2-1618.D, enclosed are the original and 13 copies of AEPCO's EPS Report for 2006.

Very truly yours,

GALLAGHER & KENNEDY, P.A.

By:

Michael M. Grant

MMG/plp
10421-38/1542857
Attachment

Original and 13 copies filed with Docket
Control this 11th day of April, 2007.

cc (w/attachment): Ray Williamson, Utilities Division (delivered)
Brian Bozzo, Compliance Section, Utilities Division (delivered)

**ARIZONA ELECTRIC POWER COOPERATIVE, INC.
AND ITS ARIZONA MEMBER COOPERATIVES**

**ENVIRONMENTAL PORTFOLIO STANDARD PROGRAMS
REPORT THROUGH DECEMBER 31, 2006**

EXECUTIVE SUMMARY

In October 2001, Arizona Electric Power Cooperative, Inc. (AEP CO), 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 (Commission or ACC) its Environmental Portfolio Standard (EPS) Plan called SunWatts.

In August 2004, the ACC, in Decision No. 67176, approved SunWatts as consistent with the EPS Rules' requirements and authorized AEP CO to administer SunWatts on behalf of its member cooperatives. The ACC decision also authorized the Cooperatives to return to the Commission to seek approval for projects that may fall outside the parameters of the approved SunWatts program.¹

These two-and-a-half years since approval of SunWatts have given the Cooperatives the opportunity to see what programs work well and are best received by our retail members, as well as those programs that haven't met our expectations.

As required by A.A.C. R14-2-1618.D, this report covers SunWatts and the Cooperatives' activities and results from January 1, 2006, through December 31, 2006.

AEP CO'S EPS PLAN/ON-GOING PROJECTS

The SunWatts program originally consisted of three parts: the Contribution Program, the Incentive Program and the Large-Scale Renewable Program.

- Contribution Program: allows customers to contribute to a 'green' fund to install photovoltaic systems throughout our state.

¹ As required by Decision No. 68328 (the "Decision"), AEP CO filed (1) an Amended and (2) an Amended and Restated EPS/REST Plan on December 22, 2006 and March 29, 2007, respectively, to satisfy the requirement of the Decision that an Amended EPS Plan be filed by December 31, 2006 as well as to meet the REST Rules' requirement, assuming they take effect, that the Cooperatives file by July 1, 2007 a plan for acquiring Renewable Energy Credits. The March 29, 2006 Amended and Restated Plan reflects the fact that SSVEC has elected to file its own REST plan. The Decision provides that the current EPS SunWatts program will remain in effect until the Commission acts on the amended plan. As mentioned in the December 22 and March 29 filings, further amendments to the Plan may be necessary if the REST Rules do not take effect.

- Incentive/Rebate Program: gives customers a rebate of \$4 a watt (or up to half the total cost, whichever is less) to install qualifying photovoltaic (solar) systems on homes and small businesses.
- Renewable Generation Program: allows the Arizona Cooperatives to take part in large-scale (greater than 100 kW) photovoltaic, landfill gas, biomass and wind energy projects.

Habitat for Humanity Amendment

Since receiving approval for the original SunWatts EPS Plan, AEPCO, on behalf of its member cooperatives, requested the addition of another component, the Habitat for Humanity program, which was approved on September 14, 2005.

Under this amendment, AEPCO contributes dollars toward the purchase of photovoltaic and other renewable energy equipment to be installed on Habitat homes in member cooperative service territories. The type and amount of such equipment varies from project to project. AEPCO and the member cooperatives also assist Habitat by finding local renewable energy equipment dealers who are willing to donate products and services to the projects.

The Cooperatives received approval to undertake up to five of these projects each year, not to exceed \$30,000. The amount paid per kW of installed solar capacity is similar to that paid to residential customers participating in the SunWatts Incentive/Rebate program. To date, the member cooperatives have undertaken one Habitat home project in the Sierra Vista (SSVEC) area.

Green Tags

Under this program, AEPCO purchases, 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 member-customer. AEPCO received informal Staff approval for this addendum to its EPS Plan. Formal approval was not required because green tags are an approved part of the EPS Rules.

Parking-Shade Mounted PV Amendment

In January of 2006, AEPCO and the Cooperatives filed an amendment requesting approval to install parking-shade mounted photovoltaic equipment at schools and other municipalities throughout their service territories. Priority would have been given to installations at schools. The Cooperatives proposed to fund each of these projects 100 percent through the EPS Surcharge.

This proposed amendment was considered at an Open Meeting in September of 2006 and failed on a 2 to 2 vote.

2006 INSTALLATIONS AND ENERGY GENERATED

In 2006, 78 new photovoltaic locations were installed in Cooperative service areas. Of these new sites, 60 were located off-grid and 18 were located on-grid. The total kW capacity of these new units was 89.72. These additions bring the number of installations supported by the Cooperatives to 369 (283 off-grid and 86 on-grid) with a total installed capacity of 194.09 kW.

In 2006, these units generated an estimated 425,048 kilowatt hours of electricity. For more detail on energy generated, see Table 3.

2006 SURCHARGE COLLECTIONS AND EXPENSES

Surcharge

In 2006, the Arizona Cooperatives collected \$829,550 in gross surcharges from their member-customers. After expenses, \$343,013 of the 2006 surcharges remain unspent and carry over to 2007.

Surcharge dollars carried over from previous years amounted to \$2,477,027. Thus, a total of \$2,888,188 is available for future EPS-related projects as of January 1, 2007. Of these carry-over funds, however, \$50,000 has been committed to the Thornydale Phase II project and an additional \$237,603 will be expended to complete the AEPCO headquarters PV project in 2007. (See Table 1 for more detail and a breakdown of surcharge collections and expenses by cooperative.)

Incentives/Rebates Paid

The Cooperatives paid out \$196,824 in rebates/incentives to member-customers and committed \$50,000² to the City of Tucson for Phase II of the Thornydale Project. This resulted in 89.7 kWh of renewable energy generation, both on- and off-grid.

SSVEC advises AEPCO that it spent an additional \$252,522 on photovoltaic projects that are still in progress and which are not included in the totals reported.

Expenses

In 2006, the Cooperatives incurred \$6,309 in advertising expenses; \$4,745 in research and development expenses; and \$26,137 in administrative expenses. In addition, AEPCO allocated \$8,245 to administrative expenses. These expenses were less than the five percent maximum allowed under the EPS Plan. (See Tables 1 and 2 for more information and a breakdown of expenses by cooperative.)

² Rebate to be paid in 2007 for Phase II which was completed in 2006.

2006 PROJECTS – LARGE SCALE

City of Tucson /Thornsdale Phase II

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 in January 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.

In March 2006, Phase II of the City of Tucson photovoltaic project went online at the Thornsdale Site. This project is identical to the first phase and includes the installation of approximately 72 panels mounted directly on the reservoir's concrete roof. The system, rated at 22,000 watts DC, will generate about 37,000 kWh each year. AEPCO and the Arizona Cooperatives will contribute \$50,000 to the project and retain rights to the green tags associated with the project. No request for payment of the Cooperative contribution was made until March of 2007. Therefore, the payment for this project does not appear in the financial tables at the end of this report.

The City of Tucson, Trico and AEPCO are in the process of completing an agreement for Phase III of this project with expected completion some time in late 2007.

AEPCO HQ Photovoltaic Installation

AEPCO issued a request for proposals in December 2005 for the installation of a 15 kW system at the AEPCO Benson headquarters facility. While two companies expressed an interest in the project, AEPCO received no bids. Following a second unsuccessful solicitation for bids, AEPCO's internal engineering staff acted as the project manager and oversaw the project. Contracts were let in early summer 2006, but due to a shortage of photovoltaic panels, installation did not begin until January 2007. The project, except for the installation of one transformer, was completed in mid-March 2007.

LARGE SCALE PROJECTS – 2007 AND BEYOND

Renewable RFP

AEPCO issued a request for proposals for renewable energy resources in May 2006. Proposals were received in June and were reviewed and evaluated in conjunction with AEPCO's other power supply processes. Based on the results of the evaluation, AEPCO has negotiated an agreement with an out-of-state supplier of renewable energy to begin supplying AEPCO with 24,000 MWh of renewable energy beginning in 2007 and

continuing for five years. Execution of the contract is dependent upon the REST Rules taking effect and approval by the Commission of the Amended and Restated EPS/REST Plan submitted by AEPCO.

Solar Cooling Project

AEPCO, on behalf of its Arizona member cooperatives, has partnered with the Cooperative Research Network on a research project to identify and evaluate renewable options for increasing peak generation capacity. The first phase of the project was a research project to evaluate the feasibility and cost effectiveness of the solar cooling of inlet air for combustion turbines.

The results of the study conducted by Sergeant and Lundy Engineering showed this technology to be feasible and possibly cost effective. As a result, AEPCO and Sergeant and Lundy are preparing a RFP to install solar cooling equipment on Gas Turbine #4 at Apache Generating Station in Cochise, Arizona. This technology would create a green output of 5 to 12 MW during the summer season. Once the bids on this installation are received and evaluated, it is expected that a final decision will be made regarding the installation of this equipment in September 2007.

Concentrated Solar Generation

AEPCO has joined the Joint Development Group, which is made up of generation utilities in California, Nevada, Arizona and New Mexico. This group is investigating the development of a large scale (250 MW) Concentrated Solar Generation Project. AEPCO is exploring the potential of some ownership or, more likely, a purchased power agreement in a range between 2.5 to 10 MW for 20 to 30 years. This project, if built, is anticipated to come on line in 2009 or 2010.

Solar Plant – Tucson

AEPCO has begun preliminary discussions with the City of Tucson and Tucson Electric Power Company regarding the potential of building a jointly-owned solar generating plant on land owned by the City of Tucson in the Avra Valley area northwest of Tucson. This project may be either photovoltaic or solar thermal and could range in size from one MW (PV) to 100 MW (Solar Thermal). If this project moves forward, it could be ready for commercial operation between 2008 and 2010.

Biomass/Biogas Project

AEPCO has been contacted by two independent developers who have suggested the development of biomass and/or biogas projects at two sites in Cochise County. The first is a project to heat commercial greenhouses using plant wastes and chipped pallets in place of natural gas. The Cooperatives would buy Renewable Energy Credits created by this process. The second proposal calls for the development of a biogas generator that uses animal wastes from a large dairy. Both projects are in the initial phases of discussion and would not be operational until 2008 or 2009 at the earliest. These Cochise County projects may be considered for implementation by either SSVEC or AEPCO.

TABLE 1

AEPCO and the Arizona Cooperative's EPS Activities 01/01/2006 through 12/31/2006

SunWatts¹

2006 REVENUES						
	DVEC	TRICO	MOHAVE	GCEC	SSVEC	TOTAL
EPS Surcharge Collected ²	(\$11,615.86)	(\$161,225.82)	(\$276,497.09)			(\$449,338.77)
EPS Surcharge Collected - NOT remitted to AEPCO ³				(\$51,988.63)	(\$328,198.97)	(\$380,187.60)
EPS Contributions Collected						\$0.00
Collected - NOT remitted to AEPCO ⁴					(\$24.00)	(\$24.00)
Total 2006 Dollars Collected	(\$11,615.86)	(\$161,225.82)	(\$276,497.09)	(\$51,988.63)	(\$328,222.97)	(\$829,550.37)
2006 EXPENSES						
EPS Advertising Expense		\$1,759.00				\$1,759.00
EPS Advertising Expense - NOT Remitted to AEPCO ⁵					\$4,549.59	\$4,549.59
EPS R & D Expense						\$0.00
EPS R&D Expense - NOT remitted to AEPCO ⁶					\$4,745.30	\$4,745.30
EPS Administrative Expense		\$14,410.21	\$3,035.50			\$17,445.71
EPS Admin Expense - NOT remitted to AEPCO ⁷				\$4,965.41	\$3,725.65	\$8,691.06
EPS Incentive Program (Rebates Paid)		\$23,680.00	\$8,000.00			\$31,680.00
EPS Rebates Paid - NOT remitted through AEPCO ⁸				\$102,464.00	\$62,680.00	\$165,144.00
PV Projects - Work-In-Progress - NOT remitted through AEPCO ⁹					\$252,522.43	\$252,522.43
TOTAL EXPENSES	\$0.00	\$39,849.21	\$11,035.50	\$107,429.41	\$328,222.97	\$486,537.09
2006 Interest Accrual	(2,810.28)	(20,481.83)	(29,425.94)	(4,290.59)	(11,138.64)	(68,147.28)
2006 Totals	(\$14,426.14)	(\$141,858.44)	(\$294,887.53)	\$51,150.19	(\$11,138.64)	(\$411,160.56)
Carryover from 2005	(\$52,536.66)	(\$784,922.92)	(\$939,412.66)	(\$199,571.61)	(\$500,583.58)	(\$2,477,027.43)
Cumulative Surcharge Dollars Available¹⁰	(\$66,962.80)	(\$926,781.36)	(\$1,234,300.19)	(\$148,421.42)	(\$511,722.22)	(\$2,888,187.99)

1 Financial records are preliminary and unaudited, due to the ongoing installation of an integrated enterprise accounting system for AEPCO.

- 2 These figures represent the dollar amount collected by the member cooperatives and remitted to AEPCO.
- 3 In the first quarter of 2005, SSVEC and GCEC decided to no longer remit their surcharge dollars to AEPCO. As such, AEPCO's accounting system reflects only those dollars that each co-op remitted and does not track those co-ops expenses. These additional figures represent what GCEC and SSVEC say they collected from their members for the EPS surcharge. These dollars are NOT included in AEPCO's accounting system.
- 4 SSVEC is not remitting its contribution dollars to AEPCO. This figure represents the amount SSVEC says it collected from members in the form of voluntary contribution dollars.
- 5 SSVEC and GCEC are now accounting for their own advertising expenses. These figures represent what they say they incurred in the form of advertising expenses.
- 6 SSVEC and GCEC are now accounting for their own research and development (R&D) expenses. These figures represent what they say they incurred in the form of R&D expenses.
- 7 SSVEC and GCEC are now accounting for their own administration expenses. These figures represent what they say they incurred in the form of administration expenses.
- 8 SSVEC and GCEC are now accounting for their own incentives/rebate expenses. These figures represent what they say they incurred in the form of incentive/rebate expenses.
- 9 SSVEC has undertaken several solar module projects at school facilities. This figure represents SSVEC's costs incurred and reported to AEPCO to date.
- 10 This figure includes surcharge dollars from previous years.

TABLE 2 - AEP CO EXPENSE ALLOCATION¹

	AEP CO Expenses	DVEC	GCEC	MOHAVE	SSVEC	TRICO	TOTALS
Member kWh		26,687,611	151,350,741	765,187,000	794,244,590	561,018,773	2,298,488,715
Member % kWh of total		1.16%	6.58%	33.29%	34.56%	24.41%	100.00%
AEP CO HQPV Expenses	\$73,506.66	\$852.68	\$4,836.74	\$24,470.37	\$25,403.90	\$17,942.98	\$73,506.66
AEP CO Admin Expenses	\$8,245.28	\$95.65	\$542.54	\$2,744.85	\$2,849.57	\$2,012.67	\$8,245.28
Total AEP CO Expenses	\$81,751.94	\$948.32	\$5,379.28	\$27,215.22	\$28,253.47	\$19,955.65	\$81,751.94

Notes: ¹ EPS and SunWatts-related expenses incurred by AEP CO are allocated across all member cooperatives. The allocation is based on the member's percentage of energy sales at retail.

Table 3 - 2006 EPS Renewable Output

	DVEC	TEC	MEC	GCEC	SSVEC	TOTAL
2006 Annual Sales (kWh)	26,687,611	561,018,773	765,187,000	151,350,741	794,244,590	2,298,488,715
Percent of Total	1.16%	24.41%	33.29%	6.58%	34.56%	100.00%
2006 EPS Requirement in kWh - .0125 percent of Annual Sales						28,731,109
Total Output (Installed kW x 2190 = kWh/yr)						425,048
Shortfall as of 2006 (kW)						(28,306,061)
2005 Installations	DVEC	TRICO	MOHAVE	GCEC	SSVEC	
Installations:						
Off-grid	0	0	0	0	223	223
On-grid	0	3	3	4	58	68
Total Installations:	0	3	3	4	281	291
Rated Output (kW)	0	55.2	7.02	5.27	36.88	104.37
2006 Installations	DVEC	TRICO	MOHAVE	GCEC	SSVEC	
Installations:						
Off-grid	0	0	0	9	51	60
On-grid	0	8	1	6	3	18
Total Installations:	0	8	1	15	54	78
Rated Output (kW)	0	36.24	2.00	32.91	18.57	89.72
Total Installations	DVEC	TRICO	MOHAVE	GCEC	SSVEC	TOTALS
Total Program Installs to year end 2006	-	11	4	19	335	369
Total Installed kW year end 2006	0.00	91.44	9.02	38.18	55.45	194.09