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Ernest Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Re: Revised EPS/REST Plan for Sulphur Springs Valley Electric Cooperative, Inc.
Docket No. E-01575A-07-0310

Dear Mr. Johnson:

On April 17, 2007, Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC") submitted its EPS/ REST Plan ("Plan") pursuant to the requirements of Arizona Corporation Commission ("Commission") Decision No. 68328 dated December 9, 2005.¹ On May 22, 2007, the Commission's Utilities Division ("Staff") issued a letter to SSVEC that set forth various questions and comments regarding the Plan. In response, SSVEC hereby submits, through counsel undersigned, a revised Plan ("Revised Plan") that is intended to address the questions and comments contained in Staff's letter.

Should you or any other member of Staff have any questions concerning the Revised Plan, please do not hesitate to contact me or Jack Blair at SSVEC at 520-508-9957.

Very truly yours,

Snell & Wilmer


Bradley S. Carroll

Enclosure

¹ The Plan was docketed with the Commission's Docket Control on May 22, 2007.

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Ernest Johnson
Director, Utilities Division
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Page 2

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Control this 11th day of June, 2007.

cc: Ray Williamson, Utilities Division (w/encl.)
Janice Alward, Legal Division (w/encl.)
Jack Blair, SSVEC (w/encl.)
Christopher Hitchcock, Esq. (w/encl.)



Sulphur Springs Valley Electric Cooperative, Inc.

A Touchstone Energy® Cooperative 

**Sulphur Springs Valley Electric Cooperative
EPS/REST Plan
2007/2008**

(Revised on 6/7/07)

TABLE OF CONTENTS

I. BACKGROUND1

II. SSVEC EPS/REST PLAN.....3

III. MISCELLANEOUS ISSUES.....9

IV. ADMINISTRATION OF THE SUNWATTS PROGRAM10

V. ESTIMATED RESULTS/BUDGET/TARIFFS11

I. BACKGROUND

On February 8, 2001, the Arizona Corporation Commission ("Commission") entered Decision No. 66364 adopting the Environmental Portfolio Standard ("EPS") Rules as A.A.C. R14-2-1618. Pursuant to subsequent Decisions, Sulphur Springs Valley Electric Cooperative Inc. ("SSVEC") agreed to allow Arizona Electric Power Cooperative, Inc. ("AEPCO"), on behalf of its member distribution cooperatives (collectively, the "Cooperatives"), to file for Staff review and Commission approval, an EPS Plan describing the various programs the Cooperatives would undertake in relation to the EPS Rules. On August 10, 2004, in Decision No. 67176, the Commission approved the EPS Plan as "consistent with the requirements of the EPS Rules for AEPCO and its Arizona Class A member distribution cooperatives."

By Decision No. 68328 dated December 9, 2005, the Commission extended until December 31, 2006, the filing date for an Amended EPS Plan by the Cooperatives finding that "the AEPCO EPS Plan approved in Decision No. 67176 is consistent with the requirements of the current EPS Rules and, as they may be revised, until the Commission acts on the amended EPS Plan filing and associated requests."

Recently, the Commission passed the Renewable Energy Standard and Tariff Rules ("REST Rules") in Decision No. 69127 dated November 14, 2006. Among other things, the REST Rules require affected utilities serving retail electric load, such as AEPCO's member distribution cooperatives, to derive certain percentages of the total energy they sell at retail from Eligible Renewable Energy Resources. This decision also allows the distribution cooperatives to file their own plans and to not be a part of the AEPCO plan. Although the Commission has finalized the REST Rules, they are not yet in effect pending certification by the Attorney General and filing with the Secretary of State's Office.

After an in-depth study, the management of SSVEC recommended to its Board of Directors and the Board approved a resolution to allow SSVEC to withdraw from the AEPCO plan and establish its own EPS/REST plan and program. AEPCO and the other Cooperatives have been notified of such. After the REST Rules take effect, SSVEC will file the required tariffs to establish a REST surcharge or request a reset of their adjustor mechanisms, if applicable, pursuant to proposed Rule 1808. Upon Commission approval, SSVEC will collect the surcharge and will use the surcharge proceeds to administer and implement the EPS/REST Plan (the "Plan") as described herein.

The REST Rules contain a section that specifically addresses Electric Power Cooperatives. Similar to the procedure which has been followed for several years under the current EPS Rules, proposed Rule 1814.A instructs the Cooperatives to file "an appropriate plan for acquiring Renewable Energy Credits from Eligible Renewable Energy Resources for the next calendar year. Upon Commission approval of this plan, its provisions shall substitute for the requirements of R14-2-1804 and R14-2-1805 for the electric power cooperative proposing the plan."

Because the REST Rules are not yet in effect, SSVEC submits this Plan for two purposes: (1) to comply with the requirement of Decision No. 68328 that it file an amended plan in relation to the current EPS Rules; and (2) to satisfy the REST Rules requirement in proposed Rule 1814.B, that they file by July 1, 2007, a plan for acquiring Renewable Energy Credits from Eligible Renewable Energy Resources for the next calendar year or, in this case, 2008.

SSVEC notes that it has formulated this Plan based on the assumption that the REST Rules will take effect. Should, however, the REST Rules not be certified, SSVEC will make a

subsequent filing with the Commission to adjust this Plan to the requirements of the current EPS Rules and the proceeds of the current surcharge.

II. SSVEC EPS/REST PLAN

SSVEC will use surcharge dollars, any proceeds from consumer participation in the Green Energy Purchase Program and other potential sources to fund its renewable program. These programs include both residential and commercial photovoltaic and wind project distributed generation rebates and large-scale renewable installations, including possible participation in multi-utility joint projects. Surcharge funds will also be used to pay for the administration, advertising and promotion of these programs, as well as educational activities.

There are five primary parts to the Cooperatives' REST plan, which are called SunWatts:

- (1) The SunWatts Green Energy Purchase Program;
- (2) The SunWatts Residential and Commercial Rebate Program;
- (3) The public schools Clean Renewable Energy Bond program;
- (4) The SunWatts Large-Scale Generating Program;
- (5) SunWatts Residential and Small Business Loan Program;
- (6) SunWatts Loan Program for Large (over 20 kW) Systems.

Each of these programs is discussed in detail below.

(1) SunWatts Green Contribution Program: SSVEC will continue to offer its SunWatts Green Power Contribution Program. Although to date SSVEC has not signed up anyone for this program, we believe that the reason for this is that we've been emphasizing the rebate portion of the SunWatts program and have made the contribution portion of the program only a "small type" portion of the program.

Over the next five years, SSVEC anticipates we can add 50 participants each year with an average participation of \$5.00 per month. Increased advertising and promotion activities will support this program with the contribution portion of the plan being heavily emphasized.

(2) SunWatts Residential and Commercial Rebate Program: The SunWatts rebate program pays customers' rebates for the installation of qualifying photovoltaic (PV) and small wind installations. For both PV and small wind systems, SSVEC will pay \$4 per installed watt, up to 50 percent of the total cost of the system. For PV and small wind systems, in general, this equates to 2,000 watts or \$8,000 for residential installations or 5,000 watts or \$20,000 for commercial systems, although the wattage size of the installation and corresponding rebate support may be adjusted. This program will also be used in support of the Customer Self-Directed Renewable Energy Option as described in proposed Rule 1809.

Payment will be made following inspection and approval of the installed unit prior to energization. Customers have the option of hiring an electrician to certify the installation or having the distribution cooperative perform the inspection. Should the customer opt to have the cooperative do the inspection, he/she will pay a trip charge to the cooperative.

One-half of the surcharge funds collected each year will be set aside to support this distributed generation rebate program. Of the funds earmarked for distributed renewable generation, at least half will be set aside for residential distributed projects. Any allocated funds not used in a particular year will roll over to the following year and may subsequently be used to support any program.

In the past year, the pace of rebate-supported distributed generation installations has slowed considerably from SSVEC's initial success in 2004-2005. For this reason, in 2007, SSVEC is hopeful we can support up to 25 distributed installations with a total installed capacity

of 25 kW and would expect to add up to 20 to 25 such installations annually over the next five years. SSVEC believes that we can increase participation by working with the builders in our service territory to offer solar as an option on new homes. This way, the homeowner can amortize the system cost over the term of their mortgage and also receive the SunWatts rebate. After discussions with several builders, we believe that adding a \$1,000 incentive (2,000 watt minimum) for the builder, in addition to the rebate to the homeowner, would significantly increase the solar installations and want to add this to the existing SunWatts programs. We already have several builders ready to participate in this program as soon as it is approved.

(3) The Clean Renewable Energy Bonds for Schools: As part of the Federal Energy Bill of 2006, there was a provision for electric cooperatives to borrow monies at no interest. SSVEC submitted 41 projects for a total of \$11,480,000 in order to fund solar shade structures for each public school in SSVEC's service territory. SSVEC was informed in early December that all of the projects submitted by SSVEC have been approved by the federal government. These solar sunshades differ from those presented by AEPCO to the Commission several months ago. Based on the input received from the Commissioners during the AEPCO solar carport structure, SSVEC retooled this program in order to cut costs and secure funding/grants above and beyond using solely EPS monies collected. Specifically:

- The structures have been re-engineered from a carport structure to a shade structure, which will save on the cost of steel since a shade structure will require a less expensive support system compared to a cantilever carport design.
- SSVEC will only offer two designs to the schools to choose from, thus saving on the cost of designing 41 separate structures.

- All of these systems will be built in an “assembly line” type process, thus saving labor costs.
- Any grant monies that are secured will be used to increase the size of the structure, thus increasing the amount of renewable power being generated. The system has been designed so that additional sections can be added in the future.
- Use of the zero interest CREB bonds will also improve the economics.
- The scope of this project would result in approximately 975 kW of renewable resources which is over 18 times the PV resources installed in the last two years, a noteworthy increase.

The use of the PV shade structures for the schools is a result of several focus groups held with SSVEC members to solicit ideas on how EPS/REST monies should be spent. It was abundantly clear from these meetings that our members, wherever possible, want these monies spent on projects in our service territory that are for the “greater good of all SSVEC members.” By far, the clear cut winner was assisting our schools in keeping their utility bills as low as possible so that more money could go towards classroom spending. In short, the SSVEC Board of Directors and management, as well as our members, feel that the EPS/REST funds are being collected from our members and should be spent for the benefit of the members. Local schools are budget constrained for this type of project, and the only funding mechanism would be in the form of higher taxes from our members, which are the same people who have contributed to the EPS/REST program via their electric bill.

We will be submitting our proposal to the Commission by the end of July 2007.

(4) The SunWatts Large-Scale Generating Program: The large-scale program calls for SSVEC to install and operate or build/operate utility-sized renewable generating units.

SSVEC will seek to develop one such program each year and, in order to increase the size of the project or the efficiency of the expenditure, seek partners wherever possible that can contribute funding, in-kind facilities, services or expertise. SSVEC may also own and operate these large-scale projects or enter into long-term purchase power agreements.

SSVEC is also exploring several potential large-scale projects:

Biomass/Biogas Project: SSVEC 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. SSVEC 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.

Wind Power: We have been working with Arizona Public Service ("APS") as a "stakeholder" on their plan to add 1,000 MW in an area still to be determined in Northern Arizona. We have also begun working with a private investment group and the leaders at the Fort Huachuca military base on several wind projects.

Solid Waste Incineration: We are currently working with a local government agency in a project to convert trash to electricity. Preliminary studies indicate that this would be a 4 to 6 MW project.

(5) **SunWatts Residential and Small Business Loan Program.** SSVEC focus groups have shown us that if we added a loan program in addition to the current rebate program, it would substantially increase the number of renewable energy installations by our members, particularly on existing homes and businesses. These focus groups have shown that many more

of our residential and business members would install renewable generation if they had a rebate and a low interest loan program as part of the SunWatts program. Therefore, we are proposing a loan program to be funded from the SSVEC EPS/REST funds. Consumers would be eligible to receive a loan at a 3% interest rate. The consumer would be allowed to borrow \$2.00 per watt up to a maximum of 2,000 watts for residential (\$4,000 loan) and a maximum of 4,000 watts for a business (\$8,000). The maximum amount of the loan will not exceed 50% of the rebate amount (in total, between loans and the rebate, no more than 75% of the total cost of the project will be funded). Payments and interest from the SunWatts Loan Program will be remitted back to the SSVEC EPS/REST fund. Payments would be monthly and payable over a 60-month period. These will be secured loans, and liens will be placed against the property. Statements will be sent in a separate billing from the electric bill and the member will have a choice of being billed on either the 1st or the 15th of the month. Members requesting loans under this program will be subject to internal and external credit checks. Loans will be subject to program budget limitations. We will limit the residential/small business loan program and the SunWatts large (over 20 kW) systems at 20% of the monies collected under the EPS program each year on a first come, first serve basis.

(6) SunWatts Loan Program for Large (Over 20 kW) Systems. SSVEC will offer a loan program for large (over 20 kW) systems for our commercial and industrial customers. These customers will be able to borrow \$2.00 a watt up to a maximum of 50% of the cost of the project. The interest rate on these loans will be 3%. Payments and interest from the SunWatts Loan Program will be remitted back to the SSVEC EPS/REST fund. Payments would be monthly and payable over a 60-month period. These will be secured loans, and liens will be placed against the property. Statements will be sent in a separate billing from the electric bill,

and the member will have a choice of being billed on either the 1st or the 15th of the month. Members requesting loans under this program will be subject to internal and external credit checks. These customers will also be eligible for the SunWatts rebate of \$4.00 per watt up to a maximum of 5,000 watts (\$20,000). Loans will be subject to program budget limitations. We will limit the residential/small business loan program and the SunWatts large (over 20 kW) systems at 20% of the monies collected under the EPS program each year on a first come, first serve basis.

III. MISCELLANEOUS ISSUES

Habitat for Humanity Program

SSVEC will continue our partnership with the Habitat for Humanity Program to offer renewable energy options to low-income families in cooperative service territories. SSVEC will contribute dollars to the Habitat organization for the purchase of photovoltaic and other renewable energy equipment to be installed on Habitat homes and will also assist in finding local renewable energy equipment dealers who are willing to donate products and services. The type and amount of equipment will vary from project to project. Up to two of these projects will be undertaken each year at a cost not to exceed \$15,000.

Federal Grants

SSVEC has been working with a local grant writer to determine which federal agencies offer grants that SSVEC could combine with our EPS monies in order to fund programs in our service territory. After reviewing these available grants, SSVEC is confident that we can obtain some of these additional monies. SSVEC anticipates spending approximately \$7,500 to \$10,000 per year on grant writing in the first year. Future years will depend on the grant monies available from the federal government. Our plan is waiting until the federal grant money available is

released each year. We will then study the grant requirements and apply only for those grants which we are qualified for and believe that we have a reasonable chance to secure. This will be expensed under "administration" in the EPS program. SSVEC will not exceed the 5% allowed under this category. A listing of the available grants that SSVEC is eligible for will be provided to the Commission's Utilities Division.

IV. ADMINISTRATION OF THE SUNWATTS PROGRAM

Annual Reporting

On September 1, 2007, SSVEC will file a report that describes results under the current approved EPS Plan. Assuming the REST Rules take effect and this Plan is approved, compliance reports will be filed in relation to this Plan and subsequent plans beginning September 1, 2008, and every April 1st thereafter.

Beginning July 1, 2008, and every July 1st thereafter, SSVEC will file an updated plan as required by proposed Rule 1814.B.

Advertising, Promotion and Education

SSVEC will develop and execute a plan for advertising and promoting the various SunWatts programs available to residential and business customers, including the rebate program and the green power purchase program. SSVEC will develop and place this advertising as well as evaluate its effectiveness. Advertising will include a variety of mediums including, but not limited to: bill inserts and ads/stories in monthly newsletters; counter cards and posters; paid ads in local newspapers and rural radio stations; participation at local events, such as cooperative annual meetings and county fairs; and presence on the SSVEC Web site. SSVEC will also spend a portion of its current advertising budget to further build awareness of the SunWatts program.

These will be monies above and beyond the 5% allowed under the current plan and will be funded by SSVEC and not SunWatts/EPS monies.

SSVEC is also exploring the possibility of the joint marketing of renewable programs with APS, Tucson Electric Power Company ("TEP"), the other Cooperatives in the state and the Salt River Project ("SRP"). Initially, this group is planning to conduct a statewide consumer survey.

In a separate project, SSVEC has joined with the other Arizona Cooperatives, APS, SRP, TEP and Navopache Electric Cooperative in the Arizona Utility Renewable Energy Education ("AZURE") project. AZURE is jointly developing renewable energy education materials for teachers and educators across Arizona. The group's Web site is already up and running—www.azureeducation.com—and the group is working with the National Renewable Energy Laboratory to bring the NREL wagon, an interactive vehicle that shows renewable energy at work, on a tour of Arizona schools sometime in 2007.

Finally, SSVEC is offering teachers in their service territories education grants for the development of renewable projects for the classroom. SSVEC plans to grant ten teachers in our service territory school district \$500 annually for this purpose, up to a maximum of \$5,000.

In order to ensure that their members receive maximum value from the SunWatts programs, SSVEC will not use more than 15% of total surcharge funds for administrative, research and development and advertising expenses. At the end of each year, unused funds, if any, will be carried over to fund activities and programs in the following year.

V. ESTIMATED RESULTS/BUDGET/TARIFFS

In 2005, SSVEC collected \$314,723.32 under the EPS program, paid out rebates totaling \$145,364.78 for 238 projects with a total rated output of 37 kW, and had a total

administrative/research and development/advertising costs of \$46,423.65 (15% of total monies collected).

Through the first 3 quarters of 2006, SSVEC has collected \$252,558.91 under the EPS program, paid out rebates totaling \$38,200.00 for 34 projects with a total rated output of 10.6 kW, and had total administrative/research and development/advertising costs of \$7,607.79 (3% of total monies collected).

As of June 1, 2007, SSVEC has a positive balance of \$1,100,000 in the EPS Fund that has been collected but not spent.

Anticipated REST Surcharge and Proposed Cooperative Budget

Anticipated REST Surcharge and Proposed Cooperative Budget						
	Budget Limits	2007	2008	2009	2010	2011
Estimated Funds Collected		\$ 1,546,976	\$ 1,587,385	\$ 1,629,006	\$ 1,671,877	\$ 1,716,033
Interest earned on prior year*			9,281.86	9,924.59	10,202.03	10,471.22
Payments on Principal*			57,431.26	61,408.16	63,124.83	64,790.45
Available EPS / REST Funds		\$ 1,546,976	\$ 1,654,098	\$ 1,700,339	\$ 1,745,204	\$ 1,791,295
Loan Funds	20%	\$ 309,395	\$ 330,820	\$ 340,068	\$ 349,041	\$ 358,259
R&D**	3%	\$ 46,409	\$ 47,622	\$ 48,870	\$ 50,156	\$ 51,481
Advertising	2%	\$ 30,940	\$ 31,748	\$ 32,580	\$ 33,438	\$ 34,321
Administration	1.5%	\$ 23,205	\$ 23,811	\$ 24,435	\$ 25,078	\$ 25,740
CREB Bond Repayment		\$ 800,000	\$ 800,000	\$ 800,000	\$ 800,000	\$ 800,000
SunWatts Rebates		\$ 337,027	\$ 420,098	\$ 454,366	\$ 487,491	\$ 521,494

* Assumes 100% participation in Loan program
 ** includes Grant writing and Education Grants

Tariffs

SSVEC will file a REST surcharge tariff (or reset of its adjustor clause, if applicable), a Customer Self-Directed tariff and a Green Energy Purchase Program tariff, assuming the REST Rules take effect.