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BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

Arizona Corporation Commission
DOCKETED

JUL 30 2007

DOCKETED BY ne

IN THE MATTER OF ARIZONA ELECTRIC
POWER COOPERATIVE, INC.'S
AMENDED AND RESTATED EPS/REST
PLAN.

DOCKET NO. E-01773A-05-0723
DECISION NO. 69728
ORDER

Open Meeting
July 24 and 25, 2007
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Electric Power Cooperative, Inc. ("AEPCO") and its Arizona member distribution cooperatives are certificated to provide electricity as a public service corporations in the State of Arizona.

2. On December 9, 2005, the Arizona Corporation Commission ("Commission") entered Decision No. 68328, which required Arizona Electric Power Cooperative, Inc. ("AEPCO"), on behalf of its Arizona member distribution cooperatives ("the Cooperatives") to file an amended Environmental Portfolio Standard ("EPS") Plan by December 31, 2006, or "120 days after the EPS Rules are amended, whichever comes first."

3. On December 22, 2006, AEPCO submitted an Amended EPS/Renewable Energy Standard and Tariff ("REST") Plan ("the December Plan").

4. On March 29, 2007, AEPCO submitted an Amended and Restated EPS/REST Plan ("the March Restated Plan").

...

1 5. One reason for the filing of the March Restated Plan was that the Sulphur Springs
2 Valley Electric Cooperative (“SSVEC”) Board had authorized SSVEC to file its own Renewable
3 Energy Standard Plan, separate from the AEPCO EPS/REST Plan.

4 6. The March Restated Plan was designed, in part, to reflect changes in Section V
5 pertaining to Estimated Results/Budget/Tariffs, resulting from the fact that SSVEC will no longer
6 be participating in the AEPCO March Restated Plan. The budget and estimated results were
7 modified to reflect SSVEC’s departure from the joint efforts of the other member distribution
8 cooperatives.

9 7. One other change reflected in the March Restated Plan was the addition of a solar
10 water heating component to the SunWatts Residential and Commercial Rebate Program, which is
11 described in Section II (2) of the March Restated Plan.

12
13 The March Restated Plan

14 8. The AEPCO March Restated Plan is a joint effort in which AEPCO will assist four
15 of its member distribution cooperatives (“the Cooperatives”) in meeting their EPS/REST
16 obligations. These four distribution cooperatives are Duncan Valley Electric Cooperative, Inc.,
17 Graham County Electric Cooperative, Inc., Mohave Electric Cooperative, Inc., and Trico Electric
18 Cooperative, Inc.

19 9. The March Restated Plan consists of four primary parts, known as SunWatts.

20
21 The SunWatts Green Energy Purchase Program

22 10. The SunWatts Green Energy Purchase Program is a voluntary program for retail
23 customers who wish to support renewable energy by purchasing blocks of “green energy.” Retail
24 customers may purchase 50 kWh blocks of green energy for \$2.00 per block. AEPCO and its
25 members anticipate adding 100 participants each year over the next five years.

26 11. The Cooperatives currently offer a Voluntary Contribution Program under
27 Commission-approved tariffs. If the new SunWatts Green Energy Purchase Program is approved,
28 the current tariffs would be withdrawn and replaced with new tariffs.

1 The SunWatts Residential and Commercial Rebate Program

2 12. The SunWatts Residential and Commercial Rebate Program provides incentives to
3 customers for installation of qualifying photovoltaic, solar water heating and small wind energy
4 systems.

5 13. For photovoltaic and small wind systems, the Cooperatives will provide incentives
6 of \$4.00 per installed Watt, up to 50 percent of the total cost of the system.

7 14. For solar water heating, the Cooperatives will provide incentives of \$0.50 per kWh
8 of energy to be saved in the first year of operation, based on the OG-300 ratings of the national
9 Solar Rating and Certification Corporation.

10 15. The Cooperatives commit up to one-half of the total surcharge funds collected each
11 year to be set aside for the SunWatts Residential and Commercial Rebate Program. At least one-
12 half of the Rebate Program funds will be set aside for residential distributed projects. Any
13 allocated funds not used in a particular year will roll over to the following year and may be used in
14 subsequent years to support any program.

15 16. The Cooperatives anticipate that incentives will support around 50 projects with an
16 installed capacity of 50 kW and a cost of \$200,000 in 2007. The Cooperatives expect customer
17 demand will add a similar number of projects each year for the following five years.

18
19 The SunWatts Large-Scale Purchase Power Contract Program

20 17. The SunWatts Large-Scale Purchase Power Contract Program will purchase a
21 significant amount of renewable energy from third-party producers. Contracts will be secured
22 from the results of a competitive bid program.

23
24 The SunWatts Large-Scale Generating Program

25 18. The SunWatts Large-Scale Generating Program will have the Cooperatives, as a
26 group or in partnership with others, install and operate utility-sized renewable generating units.

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1 19. The Cooperatives plan to develop one large scale program each year. In order to
2 optimize efficiency, the Cooperatives will seek partners that can provide services, contribute
3 funding in-kind facilities or expertise.

4 20. One project being considered is the use of solar cooling of inlet air for combustion
5 turbines at the Apache Generating Station, which could provide from 5 to 12 MW of output.

6 21. AEPCO is part of the Joint Development Group, which is considering a joint
7 concentrated solar generation project from which AEPCO might own or purchase power from a
8 2.5 to 10 MW part of the joint project.

9 22. AEPCO is in discussions with parties about a jointly-owned solar generating plant
10 in the Tucson area. AEPCO also is in discussions about the development of two Biomass/Biogas
11 Projects.

12 23. The March Restated Plan would continue AEPCO's partnership with Habitat for
13 Humanity to offer renewable energy options on low-income housing in the Cooperative service
14 territories. Up to five Habitat home projects would be undertaken each year at a cost not to exceed
15 \$30,000.

16 24. AEPCO will also install a large photovoltaic system on the AEPCO Headquarters in
17 Benson in 2007.

18 25. The Cooperatives will develop a joint advertising and promotion program about the
19 SunWatts programs. The program will cost \$128,100 in the first year, increasing gradually over
20 the following four years. This budget item is 5 percent of the total estimated surcharge funds that
21 will be collected.

22 26. AEPCO will allocate \$128,100 for program administration in the first year, with
23 annual increases similar to those for advertising.

24 27. In 2008, AEPCO proposes to expend \$960,000 of the estimated \$2,636,436 in
25 surcharge funds collected for renewable energy power purchases.

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1 Staff Review of the March Restated Plan

2 28. Staff has reviewed the AEPCO March Restated Plan and recommends approval of
3 the Plan with some specific proposed changes and modifications.

4 29. Staff recognizes the fact that the operations of electric cooperatives are significantly
5 different than those of investor owned utilities. In particular, as it relates to the installation and
6 operation of renewable energy systems, electric cooperatives face some unique challenges. Many
7 of the cooperatives' electric customers live in remote, rural areas where they are likely to be
8 hundreds of miles from the nearest renewable energy contractors. This distance factor can
9 contribute to the complexity and cost of obtaining renewable energy service.

10 30. The electric cooperatives, in general, have much smaller staffs than the larger
11 investor owned utilities and are less likely to have employees with extensive renewable energy
12 backgrounds. They, therefore, will have to make do with a limited number of Staff members to
13 accomplish their renewable goals.

14 31. Staff recognizes that the March Restated Plan is a logical expansion of previous
15 AEPCO plans submitted under the Environmental Portfolio Standard Rules. The March Restated
16 plan is an excellent first step toward meeting the goals of the REST Rules.

17 32. Staff considers the March Restated Plan as an opportunity for AEPCO and its
18 member cooperatives to demonstrate how well they can expand their renewables efforts in 2007
19 and 2008.

20 33. Staff recommends that member distribution cooperatives submit Renewable Energy
21 Standard Surcharge Tariffs, as soon as practicable and consistent with R14-2-1808 and Appendix
22 A: Sample Tariff of the REST Rules, in order to promptly commence the collection of surcharge
23 funds needed to implement the March Restated Plan.

24
25 The SunWatts Green Energy Purchase Program

26 34. Staff agrees with AEPCO's change to offering blocks of renewable power for a
27 specified price. In this new method, customers who volunteer to purchase renewable energy will

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1 know how much energy their contributions are supporting. Staff recommends approval of the
2 SunWatts Green Energy Purchase Program section of the March Restated Plan.

3
4 The SunWatts Residential and Commercial Rebate Program

5 35. Staff has reviewed this Program and is in general agreement with the scope and
6 implementation details of the program. Staff does, however, have some recommendations for
7 Program modifications. Currently the Program provides incentives only for photovoltaic ("PV"),
8 small wind, and solar water heating systems.

9 36. Staff notes that the March Restated Plan has wording that appears to imply a 2 KW
10 cap for residential PV and small wind systems and a 5 kW cap for commercial PV and small wind
11 systems. Staff recommends against setting any firm caps for system size.

12 37. Over the past five years, when various caps have been set for incentive programs, it
13 often has resulted in the need for a utility to come back for a revision of the cap in order to
14 accommodate the enthusiastic response of customers.

15 38. Rather than set fixed caps, Staff suggests using a funding allocation mechanism
16 which allocates funding for various sized customer systems. As an example, AEPCO has
17 proposed to expend \$132,000 in 2008 for PV rebates. Staff recommends that AEPCO determine,
18 prior to January 1, 2008, that X percent of the \$132,000 will be allocated to residential systems up
19 to 2 kW in size and commercial systems up to 5 kW in size. AEPCO could also allocate the
20 remainder of the PV rebate funding using Y percent of the \$132,000, for systems larger than 2 kW
21 for residential and larger than 5 kW for commercial. Then, at some time in June or July of 2008,
22 AEPCO could review how much funding is left unspent and re-allocate, as needed, to meet the
23 customer demand for incentives.

24 39. Staff communicated this concern to AEPCO and Staff has been notified by AEPCO
25 that its EPS Review Committee has agreed to support the elimination of system size caps for the
26 photovoltaic systems. AEPCO did indicate, however, that it wishes to retain the "cap" or limit of
27 the amount of rebates paid to 50 percent of the total installation price. Staff agrees that the 50
28 percent of installation price "cap" or limit should be retained.

1 40. Staff notes that only three of the 21-24 technologies and subtechnologies that are
2 authorized in the REST Rules are offered incentives. This is reasonable for 2007 and 2008,
3 particularly since the REST Rules were not yet certified when the plan was submitted. Also, the
4 work of the Uniform Credit Purchase Program Working Group, which commenced in 2006, needs
5 to be completed prior to development of reasonable uniform incentives for each technology.

6 41. However, Staff believes that the work of the Uniform Credit Purchase Program
7 Working Group should be completed in 2007. Staff believes that, if the Commission approves a
8 Uniform Credit Purchase Program ("UCPP"), that AEPCO should be required to develop a
9 mechanism to incorporate UCPP procedures and incentive levels into its proposed REST Plan for
10 2009 and later years. To the extent that AEPCO feels that different incentive levels than those of
11 the UCPP program are justified, particularly in remote, rural areas, AEPCO could petition for an
12 appropriate variance.

13
14 The SunWatts Large-Scale Purchase Power Contract Program

15 42. Staff has reviewed this sub-program and recommends approval without changes.
16

17 The SunWatts Large-Scale Generating Program

18 43. Staff has reviewed this sub-program and recommends approval without changes.
19 This particular sub-program, in conjunction with other utilities and partners has the potential of
20 taking advantage of large system economies of scale, which, in turn, has the potential to
21 significantly reduce the cost of renewable kWh.
22

23 Budget

24 44. Staff believes that AEPCO's proposed budget is a reasonable first step in meeting
25 the proposed REST Rules requirements.

26 45. However, Staff does note that the proposed allocation for the customer-sited,
27 Residential and Commercial Rebate Program is less than 10 percent of total expected annual
28 surcharge funds. In early years, such an allocation may be appropriate, but as the annual

1 Distributed Renewable Energy Requirement increases, Staff doubts that 10 percent of the budget
2 will be sufficient to meet the annual distributed kWh requirement. Therefore, Staff recommends
3 that the Commission authorize AEPCO to double the total rebate funding available in 2008, if
4 customer demand for customer-sited systems outstrips the limited funding included in the March
5 Restated Plan budget. AEPCO would be authorized to re-allocate funds from elsewhere in the
6 budget, or from unspent surcharge funds collected in 2001-2007, to the rebate program without
7 further Commission approval, if customer demand for customer-sited system rebates exceeds the
8 project level estimated in the March Restated Plan Budget.

9 CONCLUSIONS OF LAW

10 1. Arizona Electric Power Cooperative, Inc. is an Arizona public service corporation
11 within the meaning of Article XV, Section 2, of the Arizona Constitution.

12 2. Duncan Valley Electric Cooperative, Inc., Graham County Electric Cooperative,
13 Inc., Mohave Electric Cooperative, Inc., and Trico Electric Cooperative, Inc. are public service
14 corporations within the meaning of Article XV, Section 2, of the Arizona Constitution.

15 3. The Commission has jurisdiction over AEPCO, Duncan Valley Electric
16 Cooperative, Inc., Graham County Electric Cooperative, Inc., Mohave Electric Cooperative, Inc.,
17 and Trico Electric Cooperative, Inc. and the subject matter of the application.

18 4. Approval of the filing does not constitute a rate increase as contemplated by A.R.S.
19 Section 40-250.

20 5. The Commission, having reviewed the application and Staff's Memorandum dated
21 July 6, 2007, concludes that the AEPCO amended and restated EPS/REST Plan with Staff's
22 recommended changes included in Findings of Fact Nos. 36 and 45, is reasonable, fair and
23 equitable and therefore is in the public interest.

24 ORDER

25 IT IS THEREFORE ORDERED that AEPCO's Amended and Restated EPS/REST Plan
26 for 2007 and 2008 is approved with Staff's recommended changes included in Findings of Fact
27 Nos. 36 and 45

28 ...

1 IT IS FURTHER ORDERED that, if the Commission approves a Uniform Credit Purchase
2 Program, AEPCO shall incorporate the Uniform Credit Purchase Program procedures and
3 incentive levels in its proposed REST Plan for 2009 and later years.

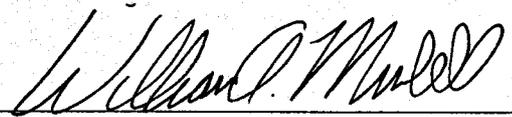
4 IT IS FURTHER ORDERED that, if customer demand for customer-sited system rebates
5 outstrips the limited funding included in the 2008 budget, AEPCO is authorized to double the total
6 rebate funding available in 2008, at its sole discretion, without further Commission approval,
7 consistent with Finding of Fact No. 45.

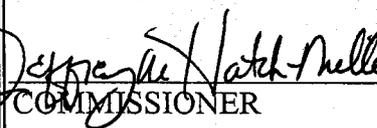
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1 IT IS FURTHER ORDERED that AEP CO work with Duncan Valley Electric Cooperative,
 2 Inc., Graham County Electric Cooperative, Inc., Mohave Electric Cooperative, Inc., and Trico
 3 Electric Cooperative, Inc. to file Renewable Energy Standard Surcharge Tariffs not later than
 4 October 15, 2007, consistent with R14-2-1808 and Appendix A: Sample Tariff of the REST
 5 Rules, in order to commence the collection of surcharge funds needed to implement the March
 6 Restated Plan, as discussed herein, and comply with this decision.

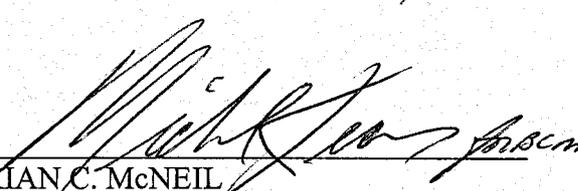
7 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

8
 9 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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 CHAIRMAN 
 COMMISSIONER

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 COMMISSIONER 
 COMMISSIONER 
 COMMISSIONER

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 16 IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive
 17 Director of the Arizona Corporation Commission, have
 18 hereunto, set my hand and caused the official seal of this
 Commission to be affixed at the Capitol, in the City of
 Phoenix, this 30th day of JULY, 2007.

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 21 
 BRIAN C. McNEIL
 22 Executive Director

23
 24 DISSENT: _____
 25
 26 DISSENT: _____

27 EGJ:RTW:lhj\JMA

1 SERVICE LIST FOR: Arizona Electric Power Cooperative, Inc.
2 DOCKET NO. E-01773A-05-0723

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