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MEMORANDUM

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Arizona Corporation Commission

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AZ CORP COMMISSION
DOCKET CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: December 4, 2007

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RE: IN THE MATTER OF SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.'S AMENDED AND RESTATED EPS/REST PLAN (DOCKET NO. E-01575A-07-0310)

Background

On December 9, 2005, the Arizona Corporation Commission ("Commission") entered Decision No. 68328, which required Arizona Electric Power Cooperative, Inc. ("AEPSCO"), 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."

On December 22, 2006, AEPSCO submitted an Amended EPS/Renewable Energy Standard and Tariff ("REST") Plan, including Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC") as part of the Plan.

In December 2006, the Board of Directors of SSVEC voted to allow SSVEC to withdraw from the AEPSCO EPS/REST Plan and establish its own EPS/REST Plan and Program.

On March 29, 2007, AEPSCO submitted an Amended and Restated EPS/REST Plan, indicating that SSVEC was no longer a participant in the AEPSCO Plan.

On April 17, 2007, SSVEC submitted its EPS/REST Plan pursuant to the requirements in Arizona Corporation Commission Decision No. 68328.

On June 11, 2007, SSVEC filed a Revised EPS/REST Plan.

On August 30, 2007, SSVEC filed an Amended REST Plan and Tariff.

Details of the SSVEC REST Plan

The SSVEC EPS/REST Plan is very similar to the AEPSCO EPS/REST Plan, with a few differences. Both programs have a SunWatts Green Energy Purchase Program, a SunWatts Residential and Commercial Rebate Program, and a SunWatts Large Scale Generating Program.

The major differences are that SSVEC does not have a Large-Scale Power Purchase Contract Program and does not have solar water heating as part of its Residential and Commercial Rebate Program. SSVEC has two major new programs that are not included in the AEPCO Plan: A Loan Program for residential, commercial and large systems and a Public Schools Clean Renewable Energy Bond Program.

The SunWatts Green Contribution Program

SSVEC will continue to offer its SunWatts Green Power Contribution Program. In this current program, customers may elect to contribute additional dollars on their bills to be used to fund various renewable energy projects.

The SunWatts Residential and Commercial Rebate Program

The SunWatts Residential and Commercial Rebate Program provides incentives to customers for installation of qualifying photovoltaic ("PV") and small wind energy systems.

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

SSVEC commits that a portion of the total surcharge funds collected each year will be set aside for the SunWatts Residential and Commercial Rebate Program. At least one-half of the Rebate Program funds 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 be used in subsequent years to support any program.

SSVEC anticipates that rebate incentives will support around 20-25 projects each year with an installed capacity of 25 kW.

SSVEC believes that it can increase participation by offering new home builders a \$1,500 incentive (for 2 kW systems or larger) to add PV systems as an option on new homes. SSVEC already has several builders planning to participate if the incentive is approved.

The Clean Renewable Energy Bonds ("CREB") for Schools Program

The Federal Energy Bill of 2006 allowed cooperatives to borrow monies at no interest for renewable energy projects. SSVEC submitted 41 projects, requesting \$11,480,000 to fund solar shade structures for each public school in SSVEC's service territory. In December 2006, SSVEC was notified that all of the projects were approved. The total program will provide 975 kW of renewable resources.

The SunWatts Large-Scale Generating Program

The SunWatts Large-Scale Generating Program will have SSVEC, by itself or in partnership with others, install and operate utility-sized renewable generating units.

SSVEC plans to develop one large-scale program each year. In order to optimize efficiency, SSVEC will seek partners that can provide services, contribute funding, in-kind facilities, services or expertise.

SSVEC is in discussions about the development of two Biomass/Biogas Projects at two sites in Cochise County. One project would heat commercial greenhouses using plant wastes and chipped pallets instead of natural gas. The second project is a biogas generator using animal wastes from a large dairy. Other possibilities are wind projects in Arizona.

The SunWatts Residential and Small Business Loan Program

SSVEC has learned from customer focus groups that the addition of a loan program to the current rebate program would greatly increase the number of renewable installations by members, particularly on existing homes and businesses.

Customers would receive a loan at a 3 percent interest rate. The customer could borrow \$2.00 per Watt up to a maximum of 2,000 Watts for residential (\$4,000 loan). For a business, the maximum loan would be for 4,000 Watts, or \$8,000. The maximum amount of the loan will not exceed 50 percent of the rebate amount. In total, no more than 75 percent of the total project cost will be funded by utility incentives.

Payments and interest will be remitted back to the SSVEC Loan Fund for funding of additional loans. Payments will be monthly over a 60-month period. Loans will be secured and liens will be placed against the property. SSVEC will limit total loan program funds for residential, small business and large systems each year to 15 percent of the monies collected under the REST Program each year.

The SunWatts Loan Program for Large (Over 20 kW) Systems

This program is for commercial and industrial customers with large (over 20 kW) systems. These customers may borrow \$2.00 a Watt up to a maximum of 50 percent of the cost of the project. Similar to the Residential and Small Business Loan Program, the interest rate will be 3 percent, payable monthly over 60 months. Loans will be subject to program budget limitations. Customers will also be eligible for SunWatts rebates.

Annual Reporting

SSVEC's Plan includes the filing of Compliance Plans on October 1, 2008 and October 1, 2009, and then reverting to the Compliance Plan filing date (April 1st) required in

R14-2-1812.A in years after 2009. The proposed plan also sets a date of December 1st each year as the date for SSVEC's filing of its annual REST Implementation Plan, which is different than the Implementation Plan filing date of July 1st required in R14-2-1813.A.

Advertising, Promotion, R&D and Education

SSVEC has set limits on advertising, promotion, R&D and education programs. The R&D effort, which will include grant writing and education programs will be limited to 3 percent of the annual budget. Advertising will be limited to 2 percent of the annual budget, but SSVEC operating funds (not REST funds) may also be used to build awareness of SunWatts programs. Finally, the cost of program administration will be limited to 1.5 percent of the budget. All combined advertising, promotion, R&D, and administration will not exceed 6.5 percent of the annual budget.

Habitat for Humanity

SSVEC plans to continue its partnership with Habitat for Humanity to encourage renewable energy options for low-income families within SSVEC's service territory. Up to two projects a year will be undertaken at a cost not to exceed \$15,000.

Budget

SSVEC, in its application, submitted a five-year budget plan for its REST Implementation Plan. For 2008, the largest percentage of the budget (48.2%) is for \$765,333 which will be allocated for the repayment of the CREB bonds for the school photovoltaic systems. The next largest allocation (17.6%) is for \$279,459 in rebates for residential renewable systems. The third largest allocation (15%) is for \$238,108 for the Loan Fund. A total of \$186,306 of the budget (11.7%) will be allocated to SunWatts rebates for commercial customers installing renewable systems. A total of \$103,180 (or 6.4%) will be allocated for R&D, Advertising, and Administration of the program. Finally, \$15,000 (.9%) of the annual budget will support Habitat for Humanity programs.

In response to questions from Staff, SSVEC submitted the following revised budget to replace the budget numbers shown on Page 13 of the REST Plan application¹:

¹ SSVEC's revised budget was included in SSVEC's response to Staff's inquiries. The full SSVEC response is included in Attachment A.

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Estimated REST Funds Collected	Budget Limits	2007	2008	2009	2010	2011
		\$ 1,546,976	\$ 1,587,385	\$ 1,629,006	\$ 1,671,877	\$ 1,716,033
Loan Fund *	15%	\$ 232,046	\$ 238,108	\$ 244,351	\$ 250,782	\$ 257,405
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
Habitat for Humanity projects		\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000
CREB Bond Repayment		\$ 765,333	\$ 765,333	\$ 765,333	\$ 765,333	\$ 765,333
SunWatts Rebates Residential ***		\$ 260,426	\$ 279,459	\$ 299,062	\$ 319,254	\$ 340,052
SunWatts Rebates Commercial ***		\$ 173,617	\$ 186,306	\$ 199,375	\$ 212,836	\$ 226,701
Total Projected Budget		\$ 1,546,976	\$ 1,587,385	\$ 1,629,006	\$ 1,671,877	\$ 1,716,033

* Revolving Loan Fund Budget is found in Section 5

** includes Grant writing and Education Grants

*** SSVEC reserves the right to reallocate funds for residential and commercial projects, if demand in one exceeds the demand for the other.

Tariffs

SSVEC has submitted two possible tariffs for consideration by the Commission: REST Tariff A and REST Tariff B.

Both proposed tariffs include a surcharge rate of \$0.005 per kWh subject to monthly maximums that vary by customer category. The monthly maximums, for both tariffs, are:

Residential Customers	\$1.30
Commercial & Industrial	\$42.00
Industrial (Demand over 3 MWs)	\$150.00

The only difference between REST Tariff A and REST Tariff B is that REST Tariff A includes an annual adjustment mechanism. This mechanism is based on the December 31st REST fund balance. If the balance is more than \$2 million, an automatic mechanism will reduce the monthly maximum amount by 25 percent or more, depending on how large the year-end fund balance is. The new adjusted monthly maximums would go into effect on February 1st of the next year. SSVEC prefers the approval of REST Tariff A because it includes the adjustor mechanism.

SSVEC has calculated that REST Tariff A or REST Tariff B will collect the following funds, by customer category:

REST Funding from Proposed Surcharge

	Total \$ (000)	Average \$ per Bill	% reaching Cap
Residential	585,405	\$ 1.21	87.3%
Small Commercial (Rate GS)*	562,143	\$ 6.07	2.7%
Large Commercial (Rate P and PI)	206,638	\$ 36.95	75.6%
Irrigation (Rates IS, CD, CW, CD-I, etc.)	233,195	\$ 33.47	69.4%
Industrial (Contract Rates)**	4	\$150.00	100%
Total	1,587,385		

SSVEC believes that the surcharge rate and monthly maximums proposed in SSVEC's REST Tariff A and REST Tariff B will be sufficient to fund SSVEC's annual budget for 2008.²

Requests for Clarification

In its application, SSVEC asks for clarification that the REST Rules are the standard that applies to renewable energy issues for SSVEC and that the former Environmental Portfolio Standard Rules ("EPS Rules") are no longer applicable to or legally binding on SSVEC. Specifically, SSVEC requests the following clarifications:

1. The REST Rules have superseded the EPS Rules and any other reporting requirements related to renewable energy resources.
2. The REST Tariff supersedes the EPS surcharge and upon Commission approval of the REST Tariff, SSVEC shall no longer be required to charge customers the current EPS surcharge.
3. All monies collected under the EPS surcharge for the current EPS program will be transferred to the REST Program.
4. In the event that the REST Rules or REST Tariff are rescinded during the 16-year life of the CREB program, an equivalent surcharge necessary to cover SSVEC's repayment obligation shall remain on customers bills until such time as the loan is repaid, in order to ensure that SSVEC is in compliance with its repayment obligations with respect to the Cooperative Finance Corporation ("CFC") loan.

² SSVEC's full response, describing the impact of the proposed new Tariffs on a variety of specific customer types, is included in Attachment B.

Staff Review of the SSVEC REST Plan

Staff has reviewed the SSVEC REST Plan and has some specific suggestions of proposed changes and modifications.

The SunWatts Green Contribution Program

Staff supports Commission approval of the continuation of the SunWatts Green Contribution Program, as described in the plan.

The SunWatts Residential and Commercial Rebate Program

Staff has reviewed this Program and is in general agreement with the scope and implementation details of the program. Staff does, however, have some recommendations for Program modifications. Currently the Program provides incentives only for photovoltaic ("PV") and small wind systems. Staff believes that SSVEC's decision to offer \$4 per installed Watt as an incentive, up to 50 percent of the total installed cost of the system, is an appropriate incentive level for 2008. This is identical to the incentive approved in the AEPCO REST Plan in July 2007.

Staff notes that the Plan has wording that appears to imply a 2.5 kW cap for residential PV and small wind systems and a 10 kW cap for commercial PV and small wind systems. Staff recommends against setting any firm caps for system size.

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

Rather than establishing fixed system size caps, Staff suggests using a funding allocation mechanism which allocates funding for various sized customer systems. As an example, SSVEC has proposed to expend \$279,459 in 2008 for residential rebates. Staff recommends that SSVEC determine, prior to January 1, 2008, that X percent of the \$279,459 will be allocated to residential systems up to 2.5 kW in size. SSVEC could also allocate the remainder of the residential rebate funding using Y percent of the \$279,459 for systems larger than 2.5 kW. A similar funding allocation approach could be used for commercial systems of sizes above and below 10 kW. This would accommodate any size system proposed, but would be limited by the budget allocation to a specific total dollar expenditure.

Then, at some time in June or July of 2008, SSVEC could review how much rebate funding is left unspent in the 2008 budget and re-allocate, as needed, to meet the customer demand for incentives.

Staff's recommendation is that no system size caps be established and that SSVEC be allowed to control the size of systems by how it allocates its funding. Staff supports SSVEC's decision to limit rebates to a maximum of 50 percent of the total installed cost of the system.

Staff notes that only two of the 24 technologies and subtechnologies that are authorized in the REST Rules are offered incentives in the SSVEC Plan. This is reasonable for 2007 and 2008, particularly since the REST Rules were not yet certified when the original plan was submitted. Also, the work of the Uniform Credit Purchase Program ("UCPP") Working Group, which commenced in 2006, needs to be completed prior to development of reasonable uniform incentives for each technology.

Staff believes that the work of the UCPP Working Group should be completed in 2008. Staff believes that, if the Commission approves a UCPP, that SSVEC should be required to develop a mechanism to incorporate UCPP procedures and incentive levels for all eligible technologies in its proposed REST Plan for 2009 and later years. To the extent that SSVEC feels that different incentive levels than those of the UCPP program are justified, particularly in remote, rural areas, SSVEC could develop such proposals.

The Clean Renewable Energy Bonds for Schools Program

Staff notes that the School CREB Bond application by SSVEC resulted from focus groups and input from SSVEC members. The SSVEC members wanted the REST funding to be spent on projects in the SSVEC service territory that are for the "greater good of all SSVEC members."

Staff believes that the Clean Renewable Energy Bonds for Schools Program is an excellent way to allocate REST Surcharge funding, while building a series of distributed generation systems throughout the SSVEC service territory. In a cooperative, where the members are the customers, the benefits from the program will accrue to all customer/taxpayers in lower school energy bills.

The federal no-interest CREB Bonds are an excellent way to finance major renewable system capital costs, while allowing SSVEC to repay the bonds gradually through the use of REST surcharge funds collected each month.

Staff recommends approval of the Clean Renewable Energy Bonds for Schools Program.

The SunWatts Large-Scale Generating Program

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

SSVEC is exploring a number of diverse projects such as biomass, biogas, and wind projects. Completion of projects such as these would greatly diversify SSVEC's renewable portfolio.

The SunWatts Residential and Small Business Loan Program

The use of loans for residential and small business incentives to encourage wide-spread use of distributed renewable systems may be the key to meeting a major portion of SSVEC's Distributed Renewable Energy Requirement. Although the distributed system rebates are an ideal incentive for those who have access to immediate capital to buy and install a renewable energy system, the vast majority of potential customers will need to consider financing in order to purchase such a system. The 3 percent interest rate is an excellent incentive that will encourage customers to purchase a system.

The structure of the loan program has numerous advantages for SSVEC and its customers. First, when a loan is granted, the funding is not consumed, but becomes part of a revolving loan package that will re-use the money over and over again as the monthly principal and interest payments are made each year, allowing more loans to be granted. Second, because the 3 percent interest rate returns more funds than were originally allocated, the revolving loan account will grow by 3 percent each year.

For instance, if SSVEC loans out \$238,108 at the beginning of 2008, by 2009, those first year customers will have returned \$47,621 of principal (one-fifth of \$238,108) and \$7,143 of interest, totaling \$54,764. Add a new year's allocation of loan funds in 2009 (\$244,351) and the revolving loan fund will be able to provide \$299,115 in loans in 2009.

SSVEC has set a limit for residential loans at 2 kW and a similar limit for businesses at 4 kW. Unfortunately, even though customers could, if they chose to do so, install much larger systems, this "cap" on loans could become an effective financial barrier to customers wanting to install much larger systems. Staff recommends that the caps on loan amounts be increased to 4 kW for residential systems and 10 kW for small businesses. If SSVEC is concerned that these increased limits will allow customers wanting large systems to capture all or most of the loan funds, Staff suggests that SSVEC could allocate most of the loan funds in its budget for smaller systems, with a reasonable amount for residential systems over 2 kW and business systems greater than 4 kW.

Staff notes that in SSVEC's REST Plan the only option for the customer is to obtain a 5-year loan. Although this loan term may be sufficient to induce a small number of customers to purchase and install a renewable energy system, other customers may require a longer term of loan. A range of loan options, from five- up to ten-year loans, may be key to attracting more customers to the renewable program. Staff recommends that SSVEC offer different loan packages: a minimum five-year loan, up to a maximum ten-year loan. Staff believes that allowing the customer these options will greatly increase the potential for customers to seek participation as a worthwhile financial investment.

SunWatts Loan Program for Large (over 20 kW) Systems

Staff supports the SSVEC Loan Program for Large (over 20 kW) Systems. However, Staff notes that the limitation that only 10 kW of the system will receive a rebate may limit the number of customers interested in installing systems larger than 20 kW.

At this time, Staff does not recommend any changes to the SunWatts Loan Program for Large (over 20 kW) Systems. Staff recommends the approval of the Large System Loan Program as proposed.

Annual Reporting

In its August 30 filing, SSVEC indicated that it planned to file its Compliance Report, as required by the REST Rules, on October 1, 2008. In response to an inquiry by Staff concerning the date of the Compliance Report filing, SSVEC responded that "In the best case, a report filing date of February 15th (based on the prior calendar year) each year would fit better into both our internal workload and our internal financial report." Staff agrees with SSVEC that a February 15th filing date for SSVEC's Compliance Report is more timely than an October 1st filing date. Staff recommends that the Commission waive the April 1st Compliance Report filing date, required in R14-2-1812.A., for SSVEC and replace that date with a filing date of February 15th each year.

SSVEC also requested a filing date for its annual REST Implementation Plan for December 1st of each year, rather than the July 1st filing date as required in R14-2-1813.A. Staff agrees with SSVEC that there are good reasons for SSVEC to shift its filing date to a time later than July 1st. For instance, a filing of eight REST Implementation Plans and revised tariffs on July 1st of each year will have the effect of creating a Staff backlog of work for 4-6 months to evaluate and respond to each plan and tariff. In particular, the plans of the largest utilities such as Arizona Public Service Company, Tucson Electric Power Company, and UNS Electric will require extensive review and analysis by Staff, intervenors and other interested parties.

Staff recommends that the Commission waive the July 1st filing date for SSVEC's REST Implementation plan and replace that date with an October 1st filing date each year.

Advertising, Promotion, R&D, and Education

Staff has reviewed SSVEC's plans for advertising, promotion, R&D, and education, and finds the allocations of funding and planned activities to be reasonable. SSVEC has committed a portion of its current advertising budget (from operating funds, not REST funds) to build awareness of the SunWatts Program.

Staff agrees with SSVEC that writing applications for grants to promote the use of renewable energy technologies may be worthwhile, particularly in the next few years. Staff

believes that the annual cost of grant writing, ranging from \$7,500 to \$10,000 per year is reasonable.

Habitat for Humanity

Staff supports SSVEC's continued funding of programs to sponsor the use of renewables in low-income family houses. Staff believes that the \$15,000 per year limit on this program is reasonable.

Budget

Staff has reviewed the Proposed Cooperative Budget and has a few comments. First, Staff believes that SSVEC's proposed budget is a reasonable first step in meeting the renewable objectives of the REST Rules requirements. The allocations of funding among the various programs contribute to a diversity of efforts to broaden the use of renewables in SSVEC's service territory.

Staff recommends that, in SSVEC's preparation of its 2009 REST Plan, careful consideration should be given to a specific allocation of funding for the SunWatts Large-Scale Generating Program, which is designed to "install and operate or build/operate utility-sized renewable generating units."

Staff recommends that SSVEC be given substantial flexibility in utilizing its budget to provide renewable energy resources in its service territory. In this respect, Staff recommends that SSVEC be allowed to shift budget allocations mid-year and later if the various programs are not working as originally anticipated.

If, for instance, one program is an unexpected "winner", while another program is not working, Staff believes that SSVEC should be allowed to reallocate funding from the "losing" program to the "winning" program. SSVEC would accomplish this, without prior Commission approval, by filing a letter in this docket explaining the need for the change and how the change will be accomplished.

Tariffs

Staff has reviewed SSVEC's proposed REST Tariff A and REST Tariff B. Both are identical in terms of tariff rate and monthly customer maximums. Both would collect exactly the same amount of money.

Both proposed tariffs include a surcharge of \$0.005 per kWh, a 571.42% increase from the existing EPS surcharge of \$0.000875, subject to monthly maximums that vary by customer category. The proposed monthly maximums ("caps"), for both tariffs (compared to the existing EPS maximums) are:

Customer Category	Proposed REST Caps	Existing EPS Caps	Difference (\$)	Increase (%)
Residential Customers	\$ 1.30	\$ 0.35	\$ 0.95	371.43%
Commercial & Industrial	\$ 42.00	\$13.00	\$ 29.00	323.08%
Industrial (Demand over 3 MWs)	\$150.00	\$39.00	\$111.00	384.61%

REST Tariff A would include an adjustor mechanism. SSVEC claims that the purpose would be to adjust for an "over collection within a calendar year."

Staff's review indicates that rather than adjusting for an "over collection," this adjustor would adjust for SSVEC's under-spending or failure to find enough renewable projects to utilize all the funding that was available.

If the Tariff was supposed to collect \$1,587,385 as SSVEC claims, but it actually collected \$2,000,000, that would be an example of "over collection."

If SSVEC collected \$1,587,385 in 2008 and a similar amount in 2009, but SSVEC failed to spend \$2,000,000 or more of that money, the REST Tariff A adjustor would kick in and reduce the monthly maximums for all customers. This would, in effect, reward SSVEC's failure to provide renewable energy resources.

Staff believes that SSVEC's proposals regarding the adjustor mechanism in Tariff A need to be addressed in the context of a general rate case. The proposed establishment of a new adjustor mechanism is best addressed in a rate case. In addition, pursuant to R14-2-1813.B.4., SSVEC can file revisions to its tariff with its Annual Implementation Plan, if necessary.

For these reasons, Staff recommends denial of REST Tariff A. Staff recommends approval of REST Tariff B.

Fair Value Determination of REST Tariff B

Staff has analyzed SSVEC's application in terms of whether there are fair value implications. In Decision No. 58358, issued on July 23, 1993, the Commission determined the fair value of SSVEC's property to be \$57,277,245. According to SSVEC, as of June 30, 2007, the value of SSVEC's plant is \$151,859,317. Staff considered both of these values for purposes of this analysis. The proposed REST Tariff B would have no impact on the Company's revenue, fair value rate base, or rate of return. Because plant developed pursuant to the REST programs is not added to the rate base, there will be no corresponding effect on SSVEC's ultimate revenue or rate of return.

Requests for Clarification

Staff agrees with SSVEC that a number of issues need to be clarified as we move from the old Environmental Portfolio Standard Rules to the newly-adopted REST Rules.

Staff recommends ordering paragraphs that say:

- For Sulphur Springs Valley Electric Cooperative, Inc., the Renewable Energy Standard Rules (A.A.C. R14-2-1801 through -1806) supersede the Environmental Portfolio Standard Rules (A.A.C. R14-2-1618) and any other reporting requirements related to renewable energy resources.
- For Sulphur Springs Valley Electric Cooperative, Inc., the REST Tariff B, herein approved, supersedes the EPS Surcharge and upon Commission approval of REST Tariff B, SSVEC shall no longer be required to charge customers the current EPS Surcharge.
- All monies collected by SSVEC under the EPS Surcharge for the current EPS program shall be transferred to the REST Program.

In regard to SSVEC's request for an equivalent surcharge, if the REST Rules or REST Tariff are rescinded, Staff has the following comments:

Staff's pro forma debt service coverage ratios ("DSC") calculated in Docket No. E-01575A-07-0501, which reflect SSVEC's projected operating income as well as depreciation and amortization for the years 2007 through 2009, show DSC results at or above 1.06. These results suggest that projected operating results are sufficient to meet all obligations, including the repayment of the CREB loans.

Therefore, Staff believes that an equivalent surcharge guarantee is unneeded. In the remote chance that such a change were to occur in the future, SSVEC would have ample opportunity to apply for such a tariff.

Summary of Staff's Recommendations

Staff recommends Commission approval of the SunWatts Green Contribution Program, as described in the plan, without changes.

Staff recommends approval of the SunWatts Residential and Commercial Rebate Program, with one change. Staff recommends that no system size caps be established in this program and that SSVEC be allowed to control the size of systems by how it allocates its funding.

Staff recommends that, if the Commission approves a UCPP, that SSVEC should be required to develop a mechanism to incorporate UCPP procedures and incentive levels for all eligible technologies into its proposed REST Plan for 2009 and later years. To the extent that SSVEC determines that different incentive levels than those of the UCPP Program are justified, SSVEC may develop such proposals.

Staff recommends approval of the Clean Renewable Energy Bonds for Schools Program.

Staff recommends approval of the SunWatts Large-Scale Generating Program as proposed.

Staff recommends approval of the SunWatts Residential and Small Business Loan Program with two changes. Staff recommends that the caps on loan amounts be increased to 4 kW for residential systems and 10 kW for small businesses. Staff recommends that SSVEC offer different loan packages: a minimum 5-year loan, up to a maximum 10-year loan.

Staff recommends approval of the SunWatts Loan Program for Large (over 20 kW) Systems as proposed.

Staff recommends that the Commission waive the April 1st Compliance Report filing date, required in R14-2-1812.A., for SSVEC and replace that date with a filing date of February 15th each year.

Staff recommends that the Commission waive the July 1st filing date for SSVEC's REST Implementation Plan and replace that date with an October 1st filing date each year.

Staff recommends approval of the Advertising, Promotion, R&D, education, and Habitat for Humanity programs, as proposed.

Staff recommends approval of SSVEC's annual budget for 2008. Staff recommends that SSVEC be given substantial flexibility in utilizing its budget to provide renewable energy resources in its service territory. Staff recommends that SSVEC be allowed to shift budget allocations mid-year and later, up to 25 percent (25%) of the total budget, if the various programs are not working as originally anticipated. SSVEC would accomplish this, without prior Commission pre-approval, by filing a letter in this docket explaining the need for the change and how the change will be accomplished.

Staff recommends rejection of REST Tariff A and approval of REST Tariff B.

Staff recommends ordering paragraphs that say:

- For Sulphur Springs Valley Electric Cooperative, Inc., the Renewable Energy Standard Rules (A.A.C. R14-2-1801 through -1806) supersede the Environmental Portfolio Standard Rules (A.A.C. R14-2-1618) and any other reporting requirements related to renewable energy resources.
- For Sulphur Springs Valley Electric Cooperative, Inc., the REST Tariff B, herein approved, supersedes the EPS Surcharge and upon Commission approval of REST Tariff B, SSVEC shall no longer be required to charge customers the current EPS Surcharge.

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- All monies collected by SSVEC under the EPS Surcharge for the current EPS program shall be transferred to the REST Program.



Ernest G. Johnson
Director
Utilities Division

EGJ:RTW:CLA:lhmvJFW

ORIGINATORS: Ray T. Williamson and Candrea Allen



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Mr. Ray Williamson
Arizona Corporation Commission
Phoenix, AZ

RE: questions regarding the SSVEC REST plan.

ISSUE #1:

There are two different numbers for annual loans that are included in your August 30, 2007, Amended REST Plan. On Page 9, in the Table entitled "Revolving Loan Fund" the 2008 number for loans is \$238,108. This is consistent with the 2008 number in the "Budget Summary" chart on Page 14, but different than the 2008 budget number for the "Loan Fund" (\$317,477) shown in the Table on Page 13.

Which is it: \$238,108 or \$317,477?

One table did not get updated when the loan fund was modified to match the proposed budget. Here is the correct table that should have been at the top of page 13

Estimated REST Funds Collected	Budget Limits	Budget Limits				
		2007	2008	2009	2010	2011
Estimated REST Funds Collected		\$ 1,546,976	\$ 1,587,385	\$ 1,629,006	\$ 1,671,877	\$ 1,716,033
Loan Fund *	15%	\$ 232,046	\$ 238,108	\$ 244,351	\$ 250,782	\$ 257,405
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
Habitat for Humanity projects		\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000
CREB Bond Repayment		\$ 765,333	\$ 765,333	\$ 765,333	\$ 765,333	\$ 765,333
SunWatts Rebates Residential ***		\$ 260,426	\$ 279,459	\$ 299,062	\$ 319,254	\$ 340,052
SunWatts Rebates Commercial ***		\$ 173,617	\$ 186,306	\$ 199,375	\$ 212,836	\$ 226,701
Total Projected Budget		\$ 1,546,976	\$ 1,587,385	\$ 1,629,006	\$ 1,671,877	\$ 1,716,033

* Revolving Loan Fund Budget is found in Section 5

** includes Grant writing and Education Grants

*** SSVEC reserves the right to reallocate funds for residential and commercial projects, if demand in one exceeds the demand for the other.

ISSUE #2:

Similar to issue #1, the amount for the 2008 rebates in the Table on Page 13 (\$386,395) is different than the number on Page 14 in the "Budget Summary" table for "Rebates Paid" (\$465,764).

Which is it: \$386,395 or \$465,764?

During the revision process we wanted more funds available for rebates and lowered the loan funding percentage to 15% of collected funds. In the process we also expanded the rebate details to show the residential and commercial goals. Combining the residential and the commercial rebates will get you to the \$465,765 (One Dollar difference is in the rounding to whole dollars by Excel)



ISSUE #3:

On Page 12 you say that SSVEC "has a positive balance of \$1,100,000 in the EPS Fund." How do you plan to spend this money and when do you plan to spend it? It is not mentioned in your budget.

It has always been our assumption that we would use this money to fund the current SunWatts program as approved under the EPS program and that when the REST program replaces the EPS program that any remaining funds would be "rolled over" into the REST budget. Because the EPS funds continue to decrease with rebates and increase with the collection of the surcharge the \$1,100,000 balance is an estimate.

ISSUE #4:

Your Plan (on Page 7) in the Sun Watts Large Scale Generating Program section says that SSVEC "will seek to develop one such program each year." However, your annual budgets for 2007-2011 show no expenditures for this program.

How do you plan to do any projects without any money budgetted for the projects?

These are considered commercial projects and were addressed in the updated table when we allocated rebate funds into residential and commercial rebates (60% for residential and 40% for commercial). With the potential for rapid change in the renewable energy technologies we need the flexibility to use the rebate funds to get the most benefit for the cooperative members. We also did not want to simply hold funds for a commercial project that may not develop and not be able to fund rebates in a residential program that does develop or vice versa. The goal is to invest the money in renewable energy where the technology makes sense instead of holding funds in a nonflexible budget for technologies that may not develop in a reasonable time.

ISSUE 5: Legality of Loan Program

Have your attorneys researched the legality of utilities offering loan programs? Do you need approvals from the Arizona Banking Department or other financial regulatory agencies in order to offer loans?

See separate response from our attorney

ISSUE #6:

On Page 8, your application says "We will fund the residential/small business loan program and the Sun Watts large (over 20 kW) systems at 20% of the monies collected under the REST program each year . . ."

On Page 9, your application says "We will fund the residential/small business loan program and the Sun Watts large (over 20 kW) systems at 15% of the monies collected under the REST program each year . . ."

Which is it: 20% or 15%?

We revised the loan program (see above table) to 15% of the collected funds and missed the reference on page 8.

ISSUE #7: Report Dates

Why did you pick October 1, 2008 and 2009 as compliance report filing dates?

Our goal was to have this to the ACC in September and October was our estimated the start of the new program. We missed our target date on submission. In the best case, a report filing date of February 15th (based on the prior calendar year) each year would fit better into both our internal workload and our internal financial reporting. For example a report in February of 2008 would allow us to document and report on the transition from the EPS to the REST program and show the amount of the EPS "roll-over" amount and the beginning 2008 adjusted budget (based on the year end account balance from the EPS program).

Why did you pick December 1st as your REST Plan filing date?

Again, this was based on our best estimation on when we could get the program amended and submitted.

Respectfully,



David Bane
Key Account Manager
520-515-3472

Rest Funding from Surcharge

	Total \$ (000)	Average \$ per Bill	% reaching Cap
Residential	585,405	\$ 1.21	87.3%
Small Commercial (Rate GS)*	562,143	\$ 6.07	2.7%
Large Commercial (Rate P and IP)	206,638	\$ 36.95	75.6%
Irrigation (Rates IS, CD, CW, CD-I, etc)	233,195	\$ 33.47	69.4%
Industrial (Contract Rates)**	4	\$ 150.00	100%
Total	1,587,385		

Current EPS Charge	0.000875	per kWh
Proposed REST Charge	0.005	per kWh

Proposed REST Caps

Residential	\$ 1.30
Commercial & Industrial	\$ 42.00
Industrial 3MW +	\$ 150.00

Sample Customers	Average kWh	Monthly Bill Impact	
		Current EPS	Proposed REST
Barber Shop	3,541	\$ 3.10	\$ 17.71
Department Store	161,760	\$ 13.00	\$ 42.00
Mall (less tenants)	61,872	\$ 13.00	\$ 42.00
Retail Video Store	12,843	\$ 11.24	\$ 42.00
Large Hotel	30,700	\$ 13.00	\$ 42.00
Large Building Supply and Hardware	157,707	\$ 13.00	\$ 42.00
Motel	30,227	\$ 13.00	\$ 42.00
Large Office Building	78,120	\$ 13.00	\$ 42.00
Hospital	360,075	\$ 13.00	\$ 42.00
Supermarket	117,860	\$ 13.00	\$ 42.00
Convenience Store	18,403	\$ 13.00	\$ 42.00
School	67,967	\$ 13.00	\$ 42.00
Irrigation Customer	51,745	\$ 13.00	\$ 42.00

Notes & Comments:

* The GS rate includes many private domestic wells which do not use a great deal of energy and rarely come close to reaching the CAP.

** We only have two customer who meet the 3+ MW criteria.

As a rule if you reached the CAP under the EPS surcharge you will reach the CAP faster with the new REST surcharge. If you didn't reach the CAP under EPS you will get closer to the REST CAP and will have a larger increase as a percentage than other users.

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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

IN THE MATTER OF SULPHUR SPRINGS)
VALLEY ELECTRIC COOPERATIVE,)
INC.'S AMENDED AND RESTATED)
EPS/REST PLAN)
_____)

DOCKET NO. E-01575A-07-0310
DECISION NO. _____
ORDER

Open Meeting
December 18 and 19, 2007
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC" or "Company") is engaged in providing electric service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("Commission").

2. On December 9, 2005, the 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, including SSVEC as part of the Plan.

4. In December 2006, the Board of Directors of SSVEC voted to allow SSVEC to withdraw from the AEPCO EPS/REST Plan and establish its own EPS/REST Plan and Program.

...

1 5. On March 29, 2007, AEPCO submitted an Amended and Restated EPS/REST Plan,
2 indicating that SSVEC was no longer a participant in the AEPCO Plan.

3 6. On April 17, 2007, SSVEC submitted its EPS/REST Plan pursuant to the
4 requirements in Commission Decision No. 68328.

5 7. On June 11, 2007, SSVEC filed a Revised EPS/REST Plan.

6 8. On August 30, 2007, SSVEC filed an Amended REST Plan and Tariff.
7

8 **Details of the SSVEC REST Plan**

9 9. The SSVEC EPS/REST Plan is very similar to the AEPCO EPS/REST Plan, with a
10 few differences. Both programs have a SunWatts Green Energy Purchase Program, a SunWatts
11 Residential and Commercial Rebate Program, and a SunWatts Large Scale Generating Program.

12 10. The major differences are that SSVEC does not have a Large-Scale Power Purchase
13 Contract Program and does not have solar water heating as part of its Residential and Commercial
14 Rebate Program. SSVEC has two major new programs that are not included in the AEPCO Plan:
15 A Loan Program for residential, commercial and large systems and a Public Schools Clean
16 Renewable Energy Bond Program.
17

18 The SunWatts Green Contribution Program

19 11. SSVEC will continue to offer its SunWatts Green Power Contribution Program. In
20 this current program, customers may elect to contribute additional dollars on their bills to be used
21 to fund various renewable energy projects.
22

23 The SunWatts Residential and Commercial Rebate Program

24 12. The SunWatts Residential and Commercial Rebate Program provides incentives to
25 customers for installation of qualifying photovoltaic ("PV") and small wind energy systems.

26 13. For the photovoltaic and small wind systems, SSVEC will provide incentives of
27 \$4.00 per installed Watt, up to 50 percent of the total installed cost of the system.
28 . . .

1 14. SSVEC commits that a portion of the total surcharge funds collected each year will
2 be set aside for the SunWatts Residential and Commercial Rebate Program. At least one-half of
3 the Rebate Program funds will be set aside for residential distributed projects. Any allocated funds
4 not used in a particular year will roll over to the following year and may be used in subsequent
5 years to support any program.

6 15. SSVEC anticipates that rebate incentives will support around 20-25 projects each
7 year with an installed capacity of 25 kW.

8 16. SSVEC believes that it can increase participation by offering new home builders a
9 \$1,500 incentive (for 2 kW systems or larger) to add PV systems as an option on new homes.
10 SSVEC already has several builders planning to participate if the incentive is approved.

11
12 The Clean Renewable Energy Bonds ("CREB") for Schools Program

13 17. The Federal Energy Bill of 2006 allowed cooperatives to borrow monies at no
14 interest for renewable energy projects. SSVEC submitted 41 projects, requesting \$11,480,000 to
15 fund solar shade structures for each public school in SSVEC's service territory. In December
16 2006, SSVEC was notified that all of the projects were approved. The total program will provide
17 975 kW of renewable resources.

18
19 The SunWatts Large-Scale Generating Program

20 18. The SunWatts Large-Scale Generating Program will have SSVEC, by itself or in
21 partnership with others, install and operate utility-sized renewable generating units.

22 19. SSVEC plans to develop one large-scale program each year. In order to optimize
23 efficiency, SSVEC will seek partners that can provide services, contribute funding, in-kind
24 facilities, services or expertise.

25 20. SSVEC is in discussions about the development of two Biomass/Biogas Projects at
26 two sites in Cochise County. One project would heat commercial greenhouses using plant wastes
27 and chipped pallets instead of natural gas. The second project is a biogas generator using animal
28 wastes from a large dairy. Other possibilities are wind projects in Arizona.

1 The SunWatts Residential and Small Business Loan Program

2 21. SSVEC has learned from customer focus groups that the addition of a loan program
3 to the current rebate program would greatly increase the number of renewable installations by
4 members, particularly on existing homes and businesses.

5 22. Customers would receive a loan at a 3 percent interest rate. The customer could
6 borrow \$2.00 per Watt up to a maximum of 2,000 Watts for residential (\$4,000 loan). For a
7 business, the maximum loan would be for 4,000 Watts, or \$8,000. The maximum amount of the
8 loan will not exceed 50 percent of the rebate amount. In total, no more than 75 percent of the total
9 project cost will be funded by utility incentives.

10 23. Payments and interest will be remitted back to the SSVEC Loan Fund for funding
11 of additional loans. Payments will be monthly over a 60-month period. Loans will be secured and
12 liens will be placed against the property. SSVEC will limit total loan program funds for
13 residential, small business and large systems each year to 15 percent of the monies collected under
14 the REST Program each year.

15
16 The SunWatts Loan Program for Large (Over 20 kW) Systems

17 24. This program is for commercial and industrial customers with large (over 20 kW)
18 systems. These customers may borrow \$2.00 a Watt up to a maximum of 50 percent of the cost of
19 the project. Similar to the Residential and Small Business Loan Program, the interest rate will be 3
20 percent, payable monthly over 60 months. Loans will be subject to program budget limitations.
21 Customers will also be eligible for SunWatts rebates.

22
23 Annual Reporting

24 25. SSVEC's Plan includes the filing of Compliance Plans on October 1, 2008 and
25 October 1, 2009, and then reverting to the Compliance Plan filing date (April 1st) required in R14-
26 2-1812.A in years after 2009. The proposed plan also sets a date of December 1st each year as the
27 date for SSVEC's filing of its annual REST Implementation Plan, which is different than the
28 Implementation Plan filing date of July 1st required in R14-2-1813.A.

1 Advertising, Promotion, R&D and Education

2 26. SSVEC has set limits on advertising, promotion, R&D and education programs.
3 The R&D effort, which will include grant writing and education programs will be limited to 3
4 percent of the annual budget. Advertising will be limited to 2 percent of the annual budget, but
5 SSVEC operating funds (not REST funds) may also be used to build awareness of SunWatts
6 programs. Finally, the cost of program administration will be limited to 1.5 percent of the budget.
7 All combined advertising, promotion, R&D, and administration will not exceed 6.5 percent of the
8 annual budget.

9
10 Habitat for Humanity

11 27. SSVEC plans to continue its partnership with Habitat for Humanity to encourage
12 renewable energy options for low-income families within SSVEC's service territory. Up to two
13 projects a year will be undertaken at a cost not to exceed \$15,000.

14
15 Budget

16 28. SSVEC, in its application, submitted a five-year budget plan for its REST
17 Implementation Plan. For 2008, the largest percentage of the budget (48.2%) is for \$765,333
18 which will be allocated for the repayment of the CREB bonds for the school photovoltaic systems.
19 The next largest allocation (17.6%) is for \$279,459 in rebates for residential renewable systems.
20 The third largest allocation (15%) is for \$238,108 for the Loan Fund. A total of \$186,306 of the
21 budget (11.7%) will be allocated to SunWatts rebates for commercial customers installing
22 renewable systems. A total of \$103,180 (or 6.4%) will be allocated for R&D, Advertising, and
23 Administration of the program. Finally, \$15,000 (.9%) of the annual budget will support Habitat
24 for Humanity programs.

25 ...

26 ...

27 ...

28 ...

29. In response to questions from Staff, SSVEC submitted the following revised budget to replace the budget numbers shown on Page 13 of the REST Plan application:

Estimated REST Funds Collected	Budget Limits	2007	2008	2009	2010	2011
		\$ 1,546,976	\$ 1,587,385	\$ 1,629,006	\$ 1,671,877	\$ 1,716,033
Loan Fund *	15%	\$ 232,046	\$ 238,108	\$ 244,351	\$ 250,782	\$ 257,405
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
Habitat for Humanity projects		\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000
CREB Bond Repayment		\$ 765,333	\$ 765,333	\$ 765,333	\$ 765,333	\$ 765,333
SunWatts Rebates Residential ***		\$ 260,426	\$ 279,459	\$ 299,062	\$ 319,254	\$ 340,052
SunWatts Rebates Commercial ***		\$ 173,617	\$ 186,306	\$ 199,375	\$ 212,836	\$ 226,701
Total Projected Budget		\$ 1,546,976	\$ 1,587,385	\$ 1,629,006	\$ 1,671,877	\$ 1,716,033

* Revolving Loan Fund Budget is found in Section 5
 ** includes Grant writing and Education Grants
 *** SSVEC reserves the right to reallocate funds for residential and commercial projects, if demand in one exceeds the demand for the other.

Tariffs

30. SSVEC has submitted two possible tariffs for consideration by the Commission: REST Tariff A and REST Tariff B.

31. Both proposed tariffs include a surcharge rate of \$0.005 per kWh subject to monthly maximums that vary by customer category. The monthly maximums, for both tariffs, are:

Residential Customers	\$1.30
Commercial & Industrial	\$42.00
Industrial (Demand over 3 MWs)	\$150.00

32. The only difference between REST Tariff A and REST Tariff B is that REST Tariff A includes an annual adjustment mechanism. This mechanism is based on the December 31st REST fund balance. If the balance is more than \$2 million, an automatic mechanism will reduce the monthly maximum amount by 25 percent or more, depending on how large the year-end fund balance is. The new adjusted monthly maximums would go into effect on February 1st of the next year. SSVEC prefers the approval of REST Tariff A because it includes the adjustor mechanism.

SSVEC has calculated that REST Tariff A or REST Tariff B will collect the following funds, by customer category:

...
 ...

REST Funding from Proposed Surcharge

	Total \$ (000)	Average \$ per Bill	% reaching Cap
Residential	585,405	\$ 1.21	87.3%
Small Commercial (Rate GS)*	562,143	\$ 6.07	2.7%
Large Commercial (Rate P and PI)	206,638	\$ 36.95	75.6%
Irrigation (Rates IS, CD, CW, CD-I, etc.)	233,195	\$ 33.47	69.4%
Industrial (Contract Rates)**	4	\$150.00	100%
Total	1,587,385		

SSVEC believes that the surcharge rate and monthly maximums proposed in SSVEC's REST Tariff A and REST Tariff B will be sufficient to fund SSVEC's annual budget for 2008.¹

Requests for Clarification

33. In its application, SSVEC asks for clarification that the REST Rules are the standard that applies to renewable energy issues for SSVEC and that the former Environmental Portfolio Standard Rules ("EPS Rules") are no longer applicable to or legally binding on SSVEC. Specifically, SSVEC requests the following clarifications:

1. The REST Rules have superseded the EPS Rules and any other reporting requirements related to renewable energy resources.
2. The REST Tariff supersedes the EPS surcharge and upon Commission approval of the REST Tariff, SSVEC shall no longer be required to charge customers the current EPS surcharge.
3. All monies collected under the EPS surcharge for the current EPS program will be transferred to the REST Program.
4. In the event that the REST Rules or REST Tariff are rescinded during the 16-year life of the CREB program, an equivalent surcharge necessary to cover SSVEC's repayment obligation shall remain on customers bills until such time as the loan is repaid, in order to ensure that SSVEC is in compliance with its repayment obligations with respect to the CFC loan.

¹ SSVEC's full response, describing the impact of the proposed new Tariffs on a variety of specific customer types, is included in Attachment B.

1 **Staff Review of the SSVEC REST Plan**

2 34. Staff has reviewed the SSVEC REST Plan and has some specific suggestions of
3 proposed changes and modifications.

4
5 The SunWatts Green Contribution Program

6 35. Staff supports Commission approval of the continuation of the SunWatts Green
7 Contribution Program, as described in the plan.

8
9 The SunWatts Residential and Commercial Rebate Program

10 36. Staff has reviewed this Program and is in general agreement with the scope and
11 implementation details of the program. Staff does, however, have some recommendations for
12 Program modifications. Currently the Program provides incentives only for photovoltaic ("PV")
13 and small wind systems. Staff believes that SSVEC's decision to offer \$4 per installed Watt as an
14 incentive, up to 50 percent of the total installed cost of the system, is an appropriate incentive level
15 for 2008. This is identical to the incentive approved in the AEPSCO REST Plan in July 2007.

16 37. Staff notes that the Plan has wording that appears to imply a 2.5 kW cap for
17 residential PV and small wind systems and a 10 kW cap for commercial PV and small wind
18 systems. Staff recommends against setting any firm caps for system size.

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

22 39. Rather than establishing fixed system size caps, Staff suggests using a funding
23 allocation mechanism which allocates funding for various sized customer systems. As an
24 example, SSVEC has proposed to expend \$279,459 in 2008 for residential rebates. Staff
25 recommends that SSVEC determine, prior to January 1, 2008, that X percent of the \$279,459 will
26 be allocated to residential systems up to 2.5 kW in size. SSVEC could also allocate the remainder
27 of the residential rebate funding using Y percent of the \$279,459 for systems larger than 2.5 kW.
28 A similar funding allocation approach could be used for commercial systems of sizes above and

1 below 10 kW. This would accommodate any size of system proposed, but would be limited by the
2 budget allocation to a specific total dollar expenditure.

3 40. Then, at some time in June or July of 2008, SSVEC could review how much rebate
4 funding is left unspent in the 2008 budget and re-allocate, as needed, to meet the customer demand
5 for incentives.

6 41. Staff's recommendation is that no system size caps be established and that SSVEC
7 be allowed to control the size of systems by how it allocates its funding. Staff supports SSVEC's
8 decision to limit rebates to a maximum of 50 percent of the total installed cost of the system.

9 42. Staff notes that only two of the 24 technologies and subtechnologies that are
10 authorized in the REST Rules are offered incentives in the SSVEC Plan. This is reasonable for
11 2007 and 2008, particularly since the REST Rules were not yet certified when the original plan
12 was submitted. Also, the work of the Uniform Credit Purchase Program ("UCPP") Working
13 Group, which commenced in 2006, needs to be completed prior to development of reasonable
14 uniform incentives for each technology.

15 43. Staff believes that the work of the Uniform Credit Purchase Program Working
16 Group should be completed in 2008. Staff believes that, if the Commission approves a UCPP, that
17 SSVEC should be required to develop a mechanism to incorporate UCPP procedures and incentive
18 levels for all eligible technologies in its proposed REST Plan for 2009 and later years. To the
19 extent that SSVEC feels that different incentive levels than those of the UCPP program are
20 justified, particularly in remote, rural areas, SSVEC could develop such proposals.

21
22 The Clean Renewable Energy Bonds for Schools Program

23 44. Staff notes that the School CREB Bond application by SSVEC resulted from focus
24 groups and input from SSVEC members. The SSVEC members wanted the REST funding to be
25 spent on projects in the SSVEC service territory that are for the "greater good of all SSVEC
26 members."

27 45. Staff believes that the Clean Renewable Energy Bonds for Schools Program is an
28 excellent way to allocate REST Surcharge funding, while building a series of distributed

1 generation systems throughout the SSVEC service territory. In a cooperative, where the members
2 are the customers, the benefits from the program will accrue to all customer/taxpayers in lower
3 school energy bills.

4 46. The federal no-interest CREB Bonds are an excellent way to finance major
5 renewable system capital costs, while allowing SSVEC to repay the bonds gradually through the
6 use of REST surcharge funds collected each month.

7 47. Staff recommends approval of the Clean Renewable Energy Bonds for Schools
8 Program.

9
10 The SunWatts Large-Scale Generating Program

11 48. Staff has reviewed this sub-program and recommends approval without changes.
12 This particular sub-program, in conjunction with other utilities and partners, has the potential of
13 taking advantage of large system economies of scale, which, in turn, has the potential to
14 significantly reduce the cost of renewable kWh.

15 49. SSVEC is exploring a number of diverse projects such as biomass, biogas, and
16 wind projects. Completion of projects such as these would greatly diversify SSVEC's renewable
17 portfolio.

18
19 The SunWatts Residential and Small Business Loan Program

20 50. The use of loans for residential and small business incentives to encourage wide-
21 spread use of distributed renewable systems may be the key to meeting a major portion of
22 SSVEC's Distributed Renewable Energy Requirement. Although the distributed system rebates
23 are an ideal incentive for those who have access to immediate capital to buy and install a
24 renewable energy system, the vast majority of potential customers will need to consider financing
25 in order to purchase such a system. The 3 percent interest rate is an excellent incentive that will
26 encourage customers to purchase a system.

27 51. The structure of the loan program has numerous advantages for SSVEC and its
28 customers. First, when a loan is granted, the funding is not consumed, but becomes part of a

1 revolving loan package that will re-use the money over and over again as the monthly principal
2 and interest payments are made each year, allowing more loans to be granted. Second, because the
3 3 percent interest rate returns more funds than were originally allocated, the revolving loan
4 account will grow by 3 percent each year.

5 52. For instance, if SSVEC loans out \$238,108 at the beginning of 2008, by 2009, those
6 first year customers will have returned \$47,621 of principal (one-fifth of \$238,108) and \$7,143 of
7 interest, totaling \$54,764. Add a new year's allocation of loan funds in 2009 (\$244,351) and the
8 revolving loan fund will be able to provide \$299,115 in loans in 2009.

9 53. SSVEC has set a limit for residential loans at 2 kW and a similar limit for
10 businesses at 4 kW. Unfortunately, even though customers could, if they chose to do so, install
11 much larger systems, this "cap" on loans could become an effective financial barrier to customers
12 wanting to install much larger systems. Staff recommends that the caps on loan amounts be
13 increased to 4 kW for residential systems and 10 kW for small businesses. If SSVEC is concerned
14 that these increased limits will allow customers wanting large systems to capture all or most of the
15 loan funds, Staff suggests that SSVEC could allocate most of the loan funds in its budget for
16 smaller systems, with a reasonable amount for residential systems over 2 kW and business systems
17 greater than 4 kW.

18 54. Staff notes that in SSVEC's REST Plan the only option for the customer is to obtain
19 a 5-year loan. Although this loan term may be sufficient to induce a small number of customers to
20 purchase and install a renewable energy system, other customers may require a longer term of
21 loan. A range of loan options, from five- up to ten-year loans, may be key to attracting more
22 customers to the renewable program. Staff recommends that SSVEC offer different loan
23 packages: a minimum five-year loan, up to a maximum ten-year loan. Staff believes that allowing
24 the customer these options will greatly increase the potential for customers to see participation as a
25 worthwhile financial investment.

26 ...

27 ...

28 ...

1 SunWatts Loan Program for Large (over 20 kW) Systems

2 55. Staff supports the SSVEC Loan Program for Large (over 20 kW) Systems.
3 However, Staff notes that the limitation that only 10 kW of the system will receive a rebate may
4 limit the number of customers interested in installing systems larger than 20 kW.

5 56. At this time, Staff does not recommend any changes to the SunWatts Loan Program
6 for Large (over 20 kW) Systems. Staff recommends the approval of the Large System Loan
7 Program as proposed.

8
9 Annual Reporting

10 57. In its August 30 filing, SSVEC indicated that it planned to file its Compliance
11 Report, as required by the REST Rules, on October 1, 2008. In response to an inquiry by Staff
12 concerning the date of the Compliance Report filing, SSVEC responded that "In the best case, a
13 report filing date of February 15th (based on the prior calendar year) each year would fit better into
14 both our internal workload and our internal financial report." Staff agrees with SSVEC that a
15 February 15th filing date for SSVEC's Compliance Report is more timely than an October 1st filing
16 date. Staff recommends that the Commission waive the April 1st Compliance Report filing date,
17 required in R14-2-1812.A., for SSVEC and replace that date with a filing date of February 15th
18 each year.

19 58. SSVEC also requested a filing date for its annual REST Implementation Plan for
20 December 1st of each year, rather than the July 1st filing date as required in R14-2-1813.A. Staff
21 agrees with SSVEC that there are good reasons for SSVEC to shift its filing date to a time later
22 than July 1st. For instance, a filing of eight REST Implementation Plans and revised tariffs on July
23 1st of each year will have the effect of creating a backlog of work for 4-6 months to evaluate and
24 respond to each plan and tariff. In particular, the plans of the largest utilities such as Arizona
25 Public Service Company, Tucson Electric Power Company, and UNS Electric will require
26 extensive review and analysis by Staff, intervenors and other interested parties.

27 59. Staff recommends that the Commission waive the July 1st filing date for SSVEC's
28 REST Implementation plan and replace that date with an October 1st filing date each year.

1 Advertising, Promotion, R&D, and Education

2 60. Staff has reviewed SSVEC's plans for advertising, promotion, R&D, and education,
3 and finds the allocations of funding and planned activities to be reasonable. SSVEC has
4 committed a portion of its current advertising budget (from operating funds, not REST funds) to
5 build awareness of the SunWatts Program.

6 61. Staff agrees with SSVEC that writing applications for grants to promote the use of
7 renewable energy technologies may be worthwhile, particularly in the next few years. Staff
8 believes that the annual cost of grant writing, ranging from \$7,500 to \$10,000 per year is
9 reasonable.

10
11 Habitat for Humanity

12 62. Staff supports SSVEC's continued funding of programs to sponsor the use of
13 renewables in low-income family houses. Staff believes that the \$15,000 per year limit on this
14 program is reasonable.

15
16 Budget

17 63. Staff has reviewed the Proposed Cooperative Budget and has a few comments.
18 First, Staff believes that SSVEC's proposed budget is a reasonable first step in meeting the
19 renewable objectives of the REST Rules requirements. The allocations of funding among the
20 various programs contribute to a diversity of efforts to broaden the use of renewables in SSVEC's
21 service territory.

22 64. Staff recommends that, in SSVEC's preparation of its 2009 REST Plan, careful
23 consideration should be given to a specific allocation of funding for the SunWatts Large-Scale
24 Generating Program, which is designed to "install and operate or build/operate utility-sized
25 renewable generating units."

26 65. Staff recommends that SSVEC be given substantial flexibility in utilizing its budget
27 to provide renewable energy resources in its service territory. In this respect, Staff recommends
28 ...

1 that SSVEC be allowed to shift budget allocations mid-year and later if the various programs are
2 not working as originally anticipated.

3 66. If, for instance, one program is an unexpected “winner”, while another program is
4 not working, Staff believes that SSVEC should be allowed to reallocate funding from the “losing”
5 program to the “winning” program. SSVEC would accomplish this, without prior Commission
6 approval, by filing a letter in this docket explaining the need for the change and how the change
7 will be accomplished.

8
9 Tariffs

10 67. Staff has reviewed SSVEC’s proposed REST Tariff A and REST Tariff B. Both
11 are identical in terms of tariff rate and monthly customer maximums. Both would collect exactly
12 the same amount of money.

13 68. Both proposed tariffs include a surcharge of \$0.005 per kWh, a 571.42% increase
14 from the existing EPS surcharge of \$0.000875, subject to monthly maximums that vary by
15 customer category. The proposed monthly maximums (“caps”), for both tariffs (compared to the
16 existing EPS maximums) are:

Customer Category	Proposed REST Caps	Existing EPS Caps	Difference (\$)	Increase (%)
Residential Customers	\$ 1.30	\$ 0.35	\$ 0.95	371.43%
Commercial & Industrial	\$ 42.00	\$13.00	\$ 29.00	323.08%
Industrial (Demand over 3 MWs)	\$150.00	\$39.00	\$111.00	384.61%

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21 69. REST Tariff A would include an adjustor mechanism. SSVEC claims that the
22 purpose would be to adjust for an “over collection within a calendar year.”

23 70. Staff’s review indicates that rather than adjusting for an “over collection,” this
24 adjustor would adjust for SSVEC’s under-spending or failure to find enough renewable projects to
25 utilize all the funding that was available.

26 71. If the Tariff was supposed to collect \$1,587,385 as SSVEC claims, but it actually
27 collected \$2,000,000, that would be an example of “over collection.”
28 ...

1 72. If SSVEC collected \$1,587,385 in 2008 and a similar amount in 2009, but SSVEC
2 failed to spend \$2,000,000 or more of that money, the REST Tariff A adjustor would kick in and
3 reduce the monthly maximums for all customers. This would, in effect, reward SSVEC's failure to
4 provide renewable energy resources.

5 73. The proposed establishment of a new adjustor mechanism is best addressed in a rate
6 case. Staff believes that SSVEC's proposals regarding the adjustor mechanism in Tariff A need to
7 be addressed in the context of a general rate case. In addition, pursuant to R14-2-1813.B.4.,
8 SSVEC can file revisions to its tariff with its Annual Implementation Plan, if necessary.

9 74. For these reasons, Staff recommends denial of REST Tariff A. Staff recommends
10 approval of REST Tariff B.

11 12 Fair Value Determination of REST Tariff B

13 75. Staff has analyzed SSVEC's application in terms of whether there are fair value
14 implications. In Decision No. 58358, issued on July 23, 1993, the Commission determined the fair
15 value of SSVEC's property to be \$57,277,245. According to SSVEC, as of June 30, 2007, the
16 value of SSVEC's plant is \$151,859,317. Staff considered both of these values for purposes of
17 this analysis. The proposed REST Tariff B would have no impact on the Company's revenue, fair
18 value rate base, or rate of return. Because plant developed pursuant to the REST programs is not
19 added to the rate base, there will be no corresponding effect on SSVEC's ultimate revenue or rate
20 of return.

21 22 Requests for Clarification

23 76. Staff agrees with SSVEC that a number of issues need to be clarified as we move
24 from the old Environmental Portfolio Standard Rules to the newly-adopted REST Rules.

25 77. Staff recommends ordering paragraphs that say:

- 26 • For Sulphur Springs Valley Electric Cooperative, Inc., the Renewable Energy
27 Standard Rules (A.A.C. R14-2-1801 through -1806) supersede the
28 Environmental Portfolio Standard Rules (A.A.C. R14-2-1618) and any other
reporting requirements related to renewable energy resources.

- 1 • For Sulphur Springs Valley Electric Cooperative, Inc., the REST Tariff B,
2 herein approved, supersedes the EPS Surcharge and upon Commission
3 approval of REST Tariff B, SSVEC shall no longer be required to charge
4 customers the current EPS Surcharge.
- 5 • All monies collected by SSVEC under the EPS Surcharge for the current EPS
6 program shall be transferred to the REST Program.

7 78. In regard to SSVEC's request for an equivalent surcharge, if the REST Rules or
8 REST Tariff are rescinded, Staff has the following comments:

- 9 • Staff's pro forma debt service coverage ratios ("DSC") calculated in Docket
10 No. E-017575A-07-0501, which reflect SSVEC's projected operating income
11 as well as depreciation and amortization for the years 2007 through 2009,
12 show DSC results at or above 1.06. These results suggest that projected
13 operating results are sufficient to meet all obligations, including the repayment
14 of the CREB loans.
- 15 • Therefore, Staff believes that an equivalent surcharge guarantee is unneeded.
16 In the remote chance that such a change were to occur in the future, SSVEC
17 would have ample opportunity to apply for such a tariff.

18 **Summary of Staff's Recommendations**

19 79. Staff recommends Commission approval of the SunWatts Green Contribution
20 Program, as described in the plan, without changes.

21 80. Staff recommends approval of the SunWatts Residential and Commercial Rebate
22 Program, with one change. Staff recommends that no system size caps be established in this
23 program and that SSVEC be allowed to control the size of systems by how it allocates its funding.

24 81. Staff recommends that, if the Commission approves a Uniform Credit Purchase
25 Program, that SSVEC should be required to develop a mechanism to incorporate UCPP procedures
26 and incentive levels for all eligible technologies into its proposed REST Plan for 2009 and later
27 years. To the extent that SSVEC determines that different incentive levels than those of the UCPP
28 Program are justified, SSVEC may develop such proposals.

29 82. Staff recommends approval of the Clean Renewable Energy Bonds for Schools
30 Program.

31 ...

1 83. Staff recommends approval of the SunWatts Large-Scale Generating Program as
2 proposed.

3 84. Staff recommends approval of the SunWatts Residential and Small Business Loan
4 Program with two changes. Staff recommends that the caps on loan amounts be increased to 4 kW
5 for residential systems and 10 kW for small businesses. Staff recommends that SSVEC offer
6 different loan packages: a minimum 5-year loan, up to a maximum 10-year loan.

7 85. Staff recommends approval of the SunWatts Loan Program for Large (over 20 kW)
8 Systems as proposed.

9 86. Staff recommends that the Commission waive the April 1st Compliance Report
10 filing date, required in R14-2-1812.A., for SSVEC and replace that date with a filing date of
11 February 15th each year.

12 87. Staff recommends that the Commission waive the July 1st filing date for SSVEC's
13 REST Implementation Plan and replace that date with an October 1st filing date each year.

14 88. Staff recommends approval of the Advertising, Promotion, R&D, education, and
15 Habitat for Humanity programs, as proposed.

16 89. Staff recommends approval of SSVEC's annual budget for 2008. Staff
17 recommends that SSVEC be given substantial flexibility in utilizing its budget to provide
18 renewable energy resources in its service territory. Staff recommends that SSVEC be allowed to
19 shift budget allocations mid-year and later, up to 25 percent (25%) of the total budget, if the
20 various programs are not working as originally anticipated. SSVEC would accomplish this,
21 without prior Commission pre-approval, by filing a letter in this docket explaining the need for the
22 change and how the change will be accomplished.

23 90. Staff recommends rejection of REST Tariff A and approval of REST Tariff B.

24 91. Staff recommends ordering paragraphs that say:

- 25 • For Sulphur Springs Valley Electric Cooperative, Inc., the Renewable Energy
26 Standard Rules (A.A.C. R14-2-1801 through -1806) supersede the
27 Environmental Portfolio Standard Rules (A.A.C. R14-2-1618) and any other
28 reporting requirements related to renewable energy resources.

1 Environmental Portfolio Standard Rules (A.A.C. R14-2-1618) and any other reporting
2 requirements related to renewable energy resources.

3 IT IS FURTHER ORDERED that for Sulphur Springs Valley Electric Cooperative, Inc.,
4 the REST Tariff B, herein approved, supersedes the EPS Surcharge and SSVEC shall no longer be
5 required to charge customers the current EPS Surcharge.

6 IT IS FURTHER ORDERED that all monies collected by SSVEC under the EPS
7 Surcharge for the current EPS program shall be transferred to the REST Program.

8 IT IS FURTHER ORDERED that this Order shall become effective immediately.

9

10 **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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IN WITNESS WHEREOF, I DEAN S. MILLER, Interim
Executive Director of the Arizona Corporation Commission,
have hereunto, set my hand and caused the official seal of
this Commission to be affixed at the Capitol, in the City of
Phoenix, this _____ day of _____, 2007.

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21

DEAN S. MILLER
Interim Executive Director

22

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DISSENT: _____

24

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DISSENT: _____

26

EGJ:RTW:CLA:lhm\JFW

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