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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

APR 24 2008

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IN THE MATTER OF THE APPLICATION)
OF NAVOPACHE ELECTRIC)
COOPERATIVE, INC. FOR APPROVAL OF)
RENEWABLE ENERGY STANDARD)
PLAN AND TARIFFS }

DOCKET NO. E-01787A-07-0576
DECISION NO. 70305
ORDER

Open Meeting
April 8 and 9, 2008
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

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

2. On October 5, 2007, NEC filed with the Commission an application for approval of a proposed Renewable Energy Standard and Tariff ("REST") implementation plan. The application also includes three associated tariffs: a Renewable Energy Standard Tariff, Voluntary Renewable Energy Program, and a Renewable Energy Customer Self-Directed Tariff.

REST Implementation Plan

3. NEC plans to use a combination of existing infrastructure and renewable energy credits in order to comply with the requirements of the REST rules. At present, NEC has four photovoltaic systems that were funded through the Environmental Portfolio surcharge. NEC has five members who have installed photovoltaic systems and plans to begin a net metering program

1 with these systems when it is authorized. NEC has entered into an agreement to purchase
2 renewable energy credits from Industrial Solar Technology Corporation and has had discussions
3 with other providers of wind and solar energy to enter into further agreements. Examples of these
4 agreements are included as Exhibits B and C in the application. Finally, NEC is considering the
5 development of a geothermal project.

6 4. NEC has also proposed a Voluntary Renewable Energy Program (Schedule No. 10).
7 The tariff provides a voluntary option to customers to allow them to elect to purchase 50 kWh
8 blocks of electric generation from renewable resources for an additional \$2.00 per block. Funds
9 collected through this tariff will be used for renewable energy projects.

10 **Distributed Renewable Energy Resources**

11 5. NEC includes in the application a Renewable Energy Customer Self-Directed Tariff
12 (Schedule No. 11). The tariff is designed based on the criteria contained in A.A.C. R14-2-1809.
13 The tariff creates an option where customers with multiple meters paying more than \$25,000
14 annually in REST surcharge funds may apply to receive funds to install distributed renewable
15 energy resources, provided that they fund at least half of the project.

16 6. Staff noticed that in NEC's REST implementation plan, there is no extensive plan
17 to provide incentives to homeowners or business owners to encourage the installation of eligible
18 distributed renewable energy systems at customers' premises. NEC has installed a number of
19 utility-owned distributed renewable energy systems at schools and at NEC facilities that offer the
20 benefits of distributed applications. However, NEC has had to pay for the full cost of each of
21 those systems, making the cost of the delivered renewable kWh much higher than it would have
22 been if NEC had partnered jointly with the customers to split the installed cost of the systems.

23 7. In programs for Arizona Public Service Company, Tucson Electric Power
24 Company, UNS Electric, and a number of Arizona Electric Power Cooperative, Inc.'s distributed
25 cooperatives, incentives have allowed those utilities to accrue renewable kWh to help meet their
26 portfolio requirements at a fraction of the cost of installing the systems without partners.

27 8. Typically, the utilities have developed Commission-approved programs that offer
28 up-front incentives to residential customers that are as high as one-half the installed cost of the

1 new renewable systems. In return for the incentives, the residential customers offer the utility the
2 opportunity to count the entire output of the renewable energy system toward meeting the utility's
3 REST requirements.

4 9. This results in an advantageous situation for the individual customer, for the utility
5 and for all of the utility's customers. The customer who installs the system benefits by getting
6 help from the utility to pay for the installed cost of the system and sees savings every month on
7 his/her utility bill. The utility benefits by getting a small "renewable power plant" installed at its
8 customer's premises at half the cost (or less) of installing the system itself at full price. The utility,
9 which only paid half-price, gets to count the entire renewable kWh output toward its REST
10 requirement. And finally, all of the utility's customers benefit because the utility was able to
11 procure renewable kWh at half-price to meet its REST requirement. This "bargain price" kWh
12 procurement means the utility will be less likely to need an increase in the REST surcharge
13 amount, since its partnership with customers helps to meet the REST requirement at a much lower
14 cost.

15 10. On page 2 of the application, NEC states that it will encourage members to install
16 distributed generation resources and participate in the Uniform Credit Purchase Program
17 ("UCPP") as well as any net metering program adopted for implementation by the Commission.

18 11. Staff anticipates that the work of the UCPP Working Group should be completed in
19 2008. Staff has recommended that if the Commission approves a UCPP, NEC should be required
20 to develop a mechanism to incorporate UCPP procedures and incentive levels for all eligible
21 technologies in its proposed REST implementation plan for 2009 and later years. To the extent
22 that NEC feels that different incentive levels than those of the UCPP program are justified,
23 particularly in remote, rural areas, NEC could develop such proposals.

24 12. Staff believes that it is too late in 2008 for NEC to add a detailed customer
25 incentive program to its REST implementation plan for 2008. However, Staff has recommended
26 that the Commission order NEC to develop such a program, after reviewing similar programs
27 developed by AEPCO, Sulphur Springs Valley Electric Cooperative, and Arizona Public Service
28 Company, for inclusion in NEC's 2009 REST implementation plan, which should be filed by

1 October 1, 2008, rather than the implementation plan filing date of July 1, 2008, as specified in the
 2 REST rules. NEC should undertake consideration and drafting of plans for such a program in spite
 3 of the ongoing work of the UCPP Working Group so that implementation of an incentives program
 4 in the NEC system is not wholly dependent on Commission adoption of a UCPP. Should NEC
 5 choose to reflect in that filing procedures and incentive levels established previously in a UCPP, it
 6 may do so.

7 **Funding and Surcharge Schedule**

8 13. Staff has reviewed Navopache's proposed Renewable Energy Standard Tariff
 9 which sets forth the surcharge rates and monthly maximums to be collected to fund its annual
 10 budget for 2008. The proposed tariff includes a surcharge of \$0.000875 per kWh for
 11 governmental and agricultural customers. The proposed monthly maximums for governmental and
 12 agricultural customers are \$13.00 per service and \$39.00 per service for governmental and
 13 agricultural customers whose demand is 3,000 kW or more for three consecutive months. For the
 14 residential and non-residential customers, Navopache is proposing a surcharge of \$0.004988 per
 15 kWh, a 570.06 percent increase from the existing Environmental Portfolio Standard ("EPS")
 16 surcharge of \$0.000875. The proposed monthly maximum per service for residential customers is
 17 \$1.05. Navopache is proposing a \$39.00 per service monthly maximum for non-residential
 18 customers. For non-residential customers whose demand is 3,000 kW or more for three
 19 consecutive months, the proposed monthly maximum is \$117.00 per service. The proposed
 20 monthly maximums ("caps") for Navopache's proposed tariff, compared to the existing EPS
 21 maximums, are:

23 Customer Class/Category	Existing EPS Maximums/Caps	Proposed REST Maximums/Caps	Difference(\$)	Increase (%)
24 Residential	\$ 0.35	\$ 1.05	\$ 0.70	300%
25 Governmental & Agricultural	\$ 13.00	\$ 13.00	-	-
Governmental & Agricultural >3MW	\$ 39.00	\$ 39.00	-	-
Commercial & Industrial	\$ 13.00	\$ 39.00	\$ 26.00	300%
26 Commercial & Industrial >3MW	\$ 39.00	\$ 117.00	\$ 78.00	300%

14. The following table provides examples of sample Navopache customers and the projected typical impact to customers.

Monthly Bill Impact

Sample Customers	Typical kWh	Current EPS	Proposed REST	Difference
Residential	600	\$.35	\$1.05	\$.70
School District	21,230	\$13.00	\$13.00	-
Bank	14,480	\$12.67	\$39.00	\$26.33
Wastewater Treatment Facility	229,200	\$13.00	\$39.00	\$26.00
Telephone Service Provider	5,936	\$5.19	\$29.61	\$24.42
Condo Association	2,520	\$2.21	\$12.57	\$10.36
Water Company	4,560	\$3.99	\$22.75	\$18.76
Land & Water Company	14,353	\$12.55	\$39.00	\$26.45
Town Complex	1,155	\$1.01	\$5.76	\$4.75

15. Navopache has calculated that its Renewable Energy Standard Tariff will collect the following funds, by customer category:

REST Funding from Surcharge

	Total \$	Average \$ per Bill	% Reaching Cap
Residential	\$436,149	\$1.05	59.9%
Non-Residential	\$660,616	\$15.72	14.9%
Irrigation	\$6,299	\$9.54	N/A *
Non-Residential >3MW	\$1,404	\$117.00	100%
Total	\$1,104,468		

* Not Available

16. Based on information provided by NEC, the proposed surcharge would collect \$1,104,468. This combined with the current EPS balance, Demand Side Management Surcharge and the balance of a Rural Utilities Service loan would provide \$3,334,622 for the first year of operation of the program.

17. Staff notes that NEC's application does not include some of the information required by A.A.C. R14-2-1813 such as A.A.C. R14-2-1813(B)(5) "A line item budget that allocates specific funding for Distributed Renewable Energy Resources, for the Customer Self-Directed Renewable Energy Option, for power purchase agreements, for utility-owned systems, and for each Eligible Renewable Energy Resource described in the Affected Utility's implementation plan."

1 18. In response to a data request, NEC provided to Staff a 5 year line item budget. As
 2 the budget includes information required by A.A.C. R14-2-1813(B)(5), Staff has recommended
 3 that NEC include the budget when filing the final plan. The amended budget is as follows:

4 **Navopache Electric Cooperative, Inc.**
 5 **5-Year Renewable Energy Resource Budget**

		2008	2009	2010	2011	2012
	Funding Available	\$3,119,111	\$1,269,283	\$1,210,253	\$1,244,016	\$1,272,042
	<u>Resource</u>	<u>Expenditure</u>	<u>Expenditure</u>	<u>Expenditure</u>	<u>Expenditure</u>	<u>Expenditure</u>
	Photovoltaic Generation	\$2,700,000	\$950,000	\$700,000	\$750,000	\$850,000
	Distributed Renewable Energy	\$84,840	\$84,840	\$84,840	\$84,840	\$84,840
	Purchase Power Agreement	\$55,000	\$55,000	\$55,000	\$55,000	\$0
	Wind Generator	\$0	\$0	\$200,000	\$200,000	\$200,000
	Customer Self-Directed*	\$0	\$0	\$0	\$0	\$0
	RUS Loan Repayment	\$90,247	\$90,247	\$90,247	\$90,247	\$90,247
	Annual Expenditure	\$2,930,087	\$1,180,087	\$1,130,087	\$1,180,087	\$1,225,087
	Carry-Over	\$189,024	\$89,196	\$80,166	\$63,929	\$46,955
	*NEC has determined that there are not any cooperative members that will qualify for the Customer-Self Directed Option					
	Photovoltaic Generation - Utility Owned					
	Installed KW	385	135	100	110	122
	kWh Obtained	843,150	295,650	219,000	240,900	267,180
	Distributed Renewable Energy					
	Installed KW	30	60	90	120	150
	kWh Obtained	65,700	131,400	197,100	262,800	328,500
	Purchase Power Agreement					
	Installed KW	700	700	700	700	
	kWh Obtained	1,533,000	1,533,000	1,533,000	1,533,000	
		2008	2009	2010	2011	2012
	Wind Generator					
	Installed KW			100	100	100
	kWh Obtained			262,800	262,800	262,800
	Photovoltaic Generation - Utility Owned					
	Cost / kWh	\$0.225	\$0.225	\$0.225	\$0.225	\$0.225

1	Total Cost / Year		\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
2	Distributed Renewable Energy						
3	Cost / kWh		\$1.29	\$0.64	\$0.43	\$0.35	\$0.25
4	Total Cost / Year		\$84,840	\$84,840	\$84,840	\$84,840	\$84,840
5	Purchase Power Agreement						
6	Cost / kWh		\$0.06	\$0.06	\$0.06	\$0.06	\$0.06
7	Total Cost / Year		\$55,000	\$55,000	\$55,000	\$55,000	\$55,000
8	Wind Generator						
9	Cost / kWh				\$0.76	\$0.76	\$0.76
10	Total Cost / Year				\$200,000	\$200,000	\$200,000

11 19. Staff recognizes that this is a new program for NEC and that there are many
 12 uncertainties related to the program such as cost, availability of renewable generated power and
 13 customer participation. Customer participation and the resulting benefits of the Voluntary
 14 Renewable Energy Program also cannot be anticipated. In the application, NEC explains that its
 15 ability to meet the requirements of the REST rules could depend largely on the realization of a
 16 wind project currently under consideration by the Town of Eager jointly with other parties.

17 20. Page 4 of the application discusses a second wind project that could provide enough
 18 renewable generation to meet the 2008 requirements. The application does not discuss the project
 19 at length as the provider has asked for confidentiality at this time. NEC indicates that it would
 20 enter into an energy credit purchase agreement with the provider should the project occur.

21 21. Should either of the wind projects be undertaken, NEC estimates that the budget
 22 needed to comply with the REST requirements in 2008 will be \$1,800,000. Should the wind
 23 project not occur, NEC estimates that the budget needed to comply with the REST requirements of
 24 2008 will be approximately \$16,205,000. This figure, \$16,205,000, differs from the \$7,500,000
 25 figure cited in the application as necessary for meeting the 2008 REST requirements should neither
 26 of the wind projects be developed. Staff learned of this new higher projection through a data
 27 request sent to NEC. The new higher projection is based on an update to the variables used in the
 28 original projection.

29 22. Staff has recommended that the proposed REST implementation plan, Renewable
 30 Energy Standard Tariff, Voluntary Renewable Energy Program tariff, and Renewable Energy

1 Customer Self-Directed Tariff be adopted so that the program can commence and establish a test
2 year from which future program budgets can be determined. Staff further has recommended that
3 the proposed REST implementation plan, Renewable Energy Standard Tariff, Voluntary
4 Renewable Energy Program tariff, and Renewable Energy Customer Self-Directed Tariff remain in
5 effect until further order of the Commission. Staff has further recommended that NEC file the
6 Renewable Energy Standard Tariff, Voluntary Renewable Energy Program tariff, and Renewable
7 Energy Customer Self-Directed Tariff consistent with this decision within 15 days of the effective
8 date of this decision.

9 **Release from Environmental Portfolio Standard**

10 23. It is Staff's understanding that the REST is meant to supplant the EPS.
11 Accordingly, Staff has recommended that NEC be released from the requirements of the EPS and
12 any remaining EPS funding be applied to the REST program in order to make use of the EPS
13 funding for the purposes of developing renewable generation as it was originally intended. Staff
14 has further recommended that the REST rules (A.A.C. R14-2-1801 through -1806) supersede the
15 EPS Rules (A.A.C. R14-2-1618) and any other reporting requirements related to renewable energy
16 resources. Staff has further recommended that NEC no longer charge customers the current EPS
17 surcharge.

18 **Fair Value**

19 24. Staff has analyzed NEC's application in terms of whether there are fair value
20 implications. In Decision No. 64293, issued on December 28, 2001, the Commission determined
21 NEC's fair value rate base to be \$37,360,051 and adopted a rate design based on a 9 percent rate of
22 return. NEC's 2006 annual report filed with the Commission indicates that for its Arizona
23 operations net income is estimated as \$2,607,869. Staff considered these figures for purposes of
24 this analysis. The proposed REST implementation plan, Renewable Energy Standard Tariff,
25 Voluntary Renewable Energy Program tariff, and Renewable Energy Customer Self-Directed
26 Tariff would have no impact on the Company's revenue, fair value rate base, or rate of return
27 because plant developed pursuant to the REST programs is not added to the rate base.

28 ...

Staff Recommendations

25. Staff has recommended that the proposed REST implementation plan, Renewable Energy Standard Tariff, Voluntary Renewable Energy Program tariff, and Renewable Energy Customer Self-Directed Tariff be approved as discussed herein.

26. Staff has recommended that the proposed Renewable Energy Standard implementation plan, Renewable Energy Standard Tariff, Voluntary Renewable Energy Program tariff, and Renewable Energy Customer Self-Directed Tariff remain in effect until further order of the Commission.

27. Staff has recommended that if the Commission approves a Uniform Credit Purchase Program, NEC develop a mechanism to incorporate Uniform Credit Purchase Program procedures and incentive levels for all eligible technologies in its proposed REST implementation plan for 2009 and later years.

28. Staff has recommended that NEC develop a detailed customer incentive program as part of its 2009 REST plan and file such a program by October 1, 2008.

29. Staff has recommended that NEC include the 5 year budget contained herein when filing the final REST plan.

30. Staff has recommended that NEC be released from the requirements of the Environmental Portfolio Standard and any remaining Environmental Portfolio Surcharge funding be applied to the REST implementation plan.

31. Staff has recommended that the REST 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.

32. Staff has recommended that NEC shall no longer be required to charge customers the current Environmental Portfolio Standard surcharge.

33. Staff has recommended that NEC file a Renewable Energy Standard Tariff, Voluntary Renewable Energy Program tariff, and Renewable Energy Customer Self-Directed Tariff consistent with this decision within 15 days of the effective date of this decision.

...

1 IT IS FURTHER ORDERED that Navopache Electric Cooperative, Inc. is released from
2 the requirements of the Environmental Portfolio Standard and any remaining Environmental
3 Portfolio Surcharge funding be applied to the REST implementation plan.

4 IT IS FURTHER ORDERED that for Navopache Electric Cooperative, Inc. the REST rules
5 (A.A.C. R14-2-1801 through -1816) supersede the Environmental Portfolio Standard Rules
6 (A.A.C. R14-2-1618) and any other reporting requirements related to renewable energy resources.

7 IT IS FURTHER ORDERED that Navopache Electric Cooperative, Inc. shall no longer
8 charge customers the current Environmental Portfolio Standard surcharge.

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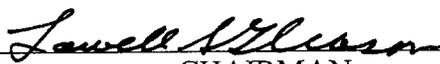
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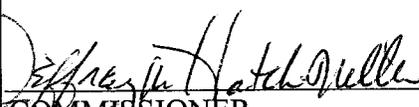
1 IT IS FURTHER ORDERED that Navopache Electric Cooperative, Inc. file a Renewable
2 Energy Standard Tariff, Voluntary Renewable Energy Program tariff, and Renewable Energy
3 Customer Self-Directed Tariff consistent with this decision within 15 days of the effective date of
4 this decision.

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

6
7 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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CHAIRMAN

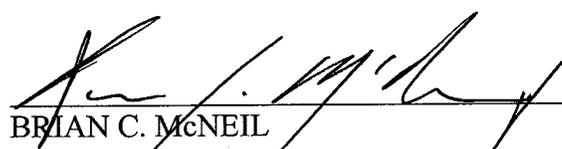

COMMISSIONER

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COMMISSIONER


COMMISSIONER


COMMISSIONER

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14 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
15 Director of the Arizona Corporation Commission, have
16 hereunto, set my hand and caused the official seal of this
17 Commission to be affixed at the Capitol, in the City of
18 Phoenix, this 24th day of April, 2008.

19
20 
BRIAN C. McNEIL
Executive Director

21
22 DISSENT: _____

23
24 DISSENT: _____

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26 EGJ:SPI:lh\CH

1 SERVICE LIST FOR: Navopache Electric Cooperative
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