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**Sulphur Springs Valley RECEIVED
Electric Cooperative, Inc.**

A Touchstone Energy® Cooperative

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AZ CORP COMMISSION
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October 16, 2008

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Mike Gleason, Chairman
William A. Mundell, Commissioner
Jeff Hatch-Miller, Commissioner
Kristin K. Mayes, Commissioner
Gary Pierce, Commissioner
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007-2996

Re: **Recent Article Regarding Sulphur Springs Valley Electric
Cooperative's Consideration of Building a Peaker Power Plant**

Dear Commissioners:

You may have seen a recent article that appeared in the *Sierra Vista Herald* titled "SSVEC Considers Building a 'Peaker' Power Plant." The article was based upon a presentation that was made at Sulphur Springs Valley Electric Cooperative's ("SSVEC" or "Cooperative") annual Community Leaders Luncheon by the Cooperative's Chief Member Service Officer, Jack Blair. Although this is the first time SSVEC has discussed this in a public forum such as this, SSVEC's consideration of buying or building a small peaking power plant to address its anticipated need for additional sources of generation has been discussed with the Arizona Corporation Commission ("Commission") on several occasions over the past year.

The power plant being studied is a relatively small peaking plant, most likely under 100 megawatts in capacity. It would be fueled by natural gas, and it would run on the order of 1,000 hours per year or less. Water needs would be minimal as there is no steam cycle associated with this type of technology. SSVEC sees several potential benefits associated with the plant. The plant would offer security for future years when generation reserve margins in the state are expected to drop to low levels. The plant would also offer less reliance on the heavily loaded transmission grid that serves southeast Arizona, and it would offer increased reliability in SSVEC's service territory. The plant would offer lower costs as well, because it would allow SSVEC to buy less power from volatile and expensive wholesale markets, which costs are expected to only

increase in the future. Of course, as a non-profit cooperative, SSVEC pays no income tax, and it can borrow money at low rates to help fund such a plant.

As you may recall, over the last year, members of my staff and I have met with several of the Commissioners and with the Utilities Division where the issue of SSVEC's potential purchase or construction of a peaker plant at some time in the future was discussed in conjunction with SSVEC's partial requirements and rate applications. We anticipate that this will be a topic of discussion at our rate case hearing currently scheduled in April 2009.

Although our plans to build or acquire a peaker plant are still in the preliminary stages, please be assured that we will keep the Commission apprised should we begin to move definitively toward this plan. If, however, you would like additional information regarding the Cooperative's future plans, I would be happy to come to Phoenix and meet with you at any time.

Very truly yours,


Credeñ W. Huber
Chief Executive Officer

CWH/gb

cc: Ernest Johnson, Utilities Director

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SSVEC considers building a "peaker"™ power plant

*By Derek Jordan
Herald/Review*

SIERRA VISTA — In an effort to deal with rising energy costs, the Sulphur Springs Valley Electric Cooperative announced on Friday it has begun considering the possibility of building its own gas turbine power plant.

Jack Blair, chief member services officer for Sulphur Springs Valley Electric Cooperative, made the announcement during the annual SSVEC Community Leaders Luncheon.

The possibility of looking into constructing a plant began about a year ago, Blair said, "but within the last six months, with the costs going through the roof, is when that went from the back burner to the front burner."

He stressed that the idea was still in early stages of discussion, but noted the numerous advantages it would allow.

"We think that it's a solution that we need to really, really explore," Blair said, "but you can also imagine that we're not going to build one if it's not going to pay its costs out."

SSVEC does not currently create any energy itself, but purchases it from entities such as the Arizona Electric Power Cooperative.

If the plan goes through, a small energy plant, called a peaker plant, would be used to produce more energy during peak usage times, such as hot summer months.

"We're not talking about something that runs 24 hours a day, 365 days a year. Literally, there's someone sitting there going, we need some extra power," he said, making a button-pushing motion.

The rising costs of fuel, spurred by the increased resource consumption of nations such as China and India, escalated the need to find ways to cut costs, leading to further study of the plant, he said.

"The initial numbers that we looked at were very encouraging, so as a result, we're really putting this under the microscope," Blair said. "We've gone out and seen how other people do it."

Blair spoke to a gathering of local business and community leaders about the current energy situation and the problems and possible solutions that may lie in the future.

"In today's world we are truly a global economy where the market demands in one part of the world affects another," he told the crowd of 30 to 40 people.

Blair cited the construction of China's Three Gorges Dam, the largest hydroelectric dam in the world, as responsible for increasing costs of finished steel 30 to 40 percent.

"From 2004 to 2007, non-renewable generation, transmission and distribution equipment rose 25 to 35 percent in price," he said.

Pat Call, Cochise County supervisor, who was at the luncheon, described the presentation as an "eye-opener."

If the facts presented were accurate, Call said, he worries that current state and federal environmental policies will impact energy production in the future.

“People in this country are concerned about the environment, while the fastest-growing nations in the world, China and India, are making absolutely no effort to worry about the environment, and are using a cheap fuel source — coal,” he said.

The combination of massive energy production and resource consumption by those countries threatens to disrupt the United States economy, he said.

“The balance of the economic equation keeps getting more and more out of balance.” he said.

Efforts to control pollution are not bad ideas, Call said, but may be detrimental to economic growth.

“It’s noble,” Call said. “We need to look after the environment, but we’re playing by rules that no one else is playing by, and it’s beginning to cost us a great deal of money.”

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