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ARIZONA CORPORATION COMMISSION
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June 30, 2009

Arizona Corporation Commissioner

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E-01773A-09-0335

Ernest Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

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Re: *AEPCO and Its Participating Member Distribution Cooperatives' REST Plan for Calendar Year 2010 (the "2010 REST Plan"); A.A.C. R14-2-1814; Docket No. E-01773A-09-_____*

Dear Mr. Johnson:

Pursuant to the requirements of A.A.C. R14-2-1814, enclosed is the 2010 REST Plan submitted by the Arizona Electric Power Cooperative, Inc. ("AEPCO") on behalf its participating Member Distribution Cooperatives which are Duncan Valley Electric Cooperative, Inc.; Graham County Electric Cooperative, Inc.; and Trico Electric Cooperative, Inc. (collectively, the "Cooperatives").¹ The Cooperatives request that the Commission approve the Cooperatives' 2010 REST Plan as provided in R14-2-1814.

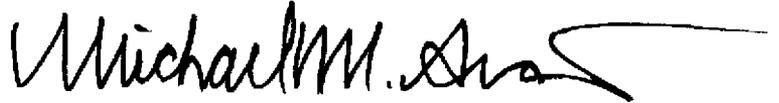
¹ As required by the Rule, an electronic copy of the 2009 REST Plan is also being e-mailed to you.

Ernest Johnson
June 30, 2009
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Should you or any Staff member have questions concerning the 2010 REST Plan, please contact me or Chris Baggett at AEPCO. Your assistance in relation to these matters is appreciated.

Very truly yours,

GALLAGHER & KENNEDY, P.A.



By:

Michael M. Grant

MMG/plp
10421-51/2132595

Enclosure

Original and 13 copies filed with Docket
Control this 30th day of June, 2009.

cc (w/enclosure): Ernest Johnson, Utilities Division (delivered and e-mailed)
Ray Williamson, Utilities Division (delivered and e-mailed)
Brian Bozzo, Utilities Division (delivered)

**AEPCO and Its Participating Member
Distribution Cooperatives**

REST Plan for Calendar Year 2010

A.A.C. R14-2-1814

June 30, 2009

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I. BACKGROUND

On behalf of certain of its Class A member distribution cooperatives identified below, the Arizona Electric Power Cooperative, Inc. ("AEPSCO") submits this REST Plan for calendar year 2010.

~~The Commission approved the Renewable Energy Standard and Tariff Rules ("REST Rules") in Decision No. 69127 dated November 14, 2006. Following Attorney General certification, the REST Rules took effect August 14, 2007.~~

After the REST Rules took effect, the three AEPSCO Arizona member distribution cooperatives which are participating in this REST plan¹ filed tariffs to establish a REST surcharge pursuant to the requirements of R14-2-1808. The ACC approved these tariffs in early 2008. The distribution cooperatives collect the surcharge and remit proceeds, less rebates paid to retail members, to AEPSCO on a quarterly basis. AEPSCO uses the surcharge proceeds to administer and implement the Plan.

The REST Rules contain a section that specifically addresses electric power cooperatives. R14-2-1814.B instructs the cooperatives to file "an appropriate plan for acquiring Renewable Energy Credits from Eligible Renewable Energy Resources for the next calendar year." Upon Commission approval, the provisions of the plan substitute for the requirements of R14-2-1804 and R14-2-1805 for the cooperatives proposing the plan.

Pursuant to these requirements, AEPSCO submits this REST Plan for calendar year 2010 (the "2010 REST Plan"). The three Arizona distribution cooperatives participating in the 2010 REST Plan are DVEC, GCEC and Trico (the "Participating Cooperatives"). Mohave Electric

¹ Those distribution cooperatives are Duncan Valley Electric Cooperative, Inc. ("DVEC"); Graham County Electric Cooperative, Inc. ("GCEC"); and Trico Electric Cooperative, Inc. ("Trico").

Cooperative has decided not to participate in this 2010 REST Plan and will file its own plan. Sulphur Springs Valley Electric Cooperative also submits its own plan.

II. THE PARTICIPATING COOPERATIVES' 2010 REST PLAN

The Participating Cooperatives primarily use surcharge dollars and proceeds from consumer participation in the Green Energy Purchase Program to fund renewable programs. The 2010 REST Plan includes rebate or performance based incentive ("PBI") support for distributed residential and commercial photovoltaic, solar water heating, wind generation and other technologies. It also anticipates participation in large-scale renewable energy purchase power contracts and large-scale renewable installations.

The 2010 REST Plan continues rebate support for all technologies that were approved as part of the 2009 REST Plan.² Funds will also be used to pay for the administration, advertising and promotion of all SunWatts programs.

There are six SunWatts programs that make up the Participating Cooperatives' 2010 REST plan:

- (1) The Green Energy Purchase Program;
- (2) The Residential and Commercial Rebate Program;
- (3) The Large-Scale Purchase Power Contract & Generating Program;
- (4) The Educational Grant Program;
- (5) The PV for Schools Program; and
- (6) The Habitat for Humanity Program.

Each of these programs is discussed in greater detail below.

(1) SunWatts Green Energy Purchase Program: In this program, Participating Cooperatives' retail customers are given the opportunity to voluntarily support "green energy."

² Decision No. 70655 dated December 18, 2008.

Green energy is offered to customers for purchase in 50 kWh blocks at a cost of \$2.00 per block. Green energy purchases are reflected as a line item on participating customers' retail bills. All funds received are used in support of the 2010 REST Plan programs. Advertising and other promotional activities encourage participation in this program.

~~(2) SunWatts Residential and Commercial Rebate Program:~~ The rebate program pays customers rebates to encourage the installation of qualifying photovoltaic ("PV"), solar water heating, small wind systems and other renewable technologies. For PV and small wind systems, the cooperatives will pay \$3 per installed watt—up to 50% of the total cost of the system for systems up to 50 kW in size. PV and small wind energy systems larger than 50 kW will be eligible to receive a PBI over a ten-year period at the Uniform Credit Purchase Program ("UCPP") Working Group recommended incentive levels. All distributed generation projects will be rebated on a first-come, first-served basis until funding is exhausted. Systems that are not rebated are eligible to be placed on a waiting list until additional funding is available. Systems that qualify for a PBI will be subject to a competitive selection process. The most cost effective projects will be rebated until all budgeted money has been expended. PBI projects will be selected on a quarterly basis. This program will also be used to support the Customer Self-Directed Renewable Energy Option described in R14-2-1809.

The Participating Cooperatives will also offer rebates for solar water heaters. A rebate—the UCPP recommended incentive—equal to \$0.75 per kWh of energy saved during the system's first year of operation will be paid. Only systems certified by the Solar Ratings and Certification Corporation ("SRCC") as being OG-300 are eligible for this rebate. A list of OG-300 certified Solar Systems is available at the Solar Rating and Certification Corporation's website at www.solar-rating.org. In addition, the customer contribution to the cost of the solar water heater

project must be a minimum of 15% of the total project cost after accounting for and applying all federal and state incentives. Solar swimming pool heating systems are not eligible for the rebate.

Rebates will be paid directly to the customer following a final inspection of the system. System installations are required to be performed by a licensed renewable energy contractor or electrician. In the case of solar water heaters, a licensed plumber can be used. If local conditions dictate, a cooperative may allow self-installations as long as the customer has the installation inspected and verified by a licensed contractor.

Table 1 illustrates these and other technologies supported by the 2010 REST Plan and the incentive levels provided for each technology.

Table 1

Technology	UFI	PBI
Solar Electric	\$3 per watt up to 50kW	\$.202 per kWh over 10 years (over 50 kW)
Small Wind	\$3 per watt up to 50kW	\$.202 per kWh over 10 years (over 50 kW)
Solar Water Heating	\$.75 per kWh for first year savings	
Solar Daylighting	\$.20 per kWh for first year savings	
Geothermal Electric Thermal		\$.024 per kWh over 10 years \$.048 per kWh over 10 years
Biogas/Biomass Electric Thermal Cooling CHP-Electric CHP-Thermal		\$.060 per kWh over 10 years \$.015 per kWh over 10 years \$.032 per kWh over 10 years \$.035 per kWh over 10 years \$.018 per kWh over 10 years
Solar Space Cooling		\$.129 per kWh over 10 years

PBIs are available for solar and wind projects that are 50 kW or larger. Geothermal, Biogas/Biomass and Solar Space Cooling are only eligible for a PBI.

At least, one-half of the surcharge funds collected each year are set aside to support the distributed generation rebate program. It should be stressed that this is a set-aside—not a budget cap. Of the funds earmarked for distributed renewable generation, at least half will be set aside for residential distributed projects. Any allocated funds not used in the plan year will roll over to the following year and may be used to support any REST program.

In 2008, the number of residential rebated distributed generation installations increased by more than 100% in the cooperatives' service territories. This trend seems to be holding through the first half of 2009. In addition, there has been increased distributed generation activity in the commercial sector. For these reasons, the Participating Cooperatives are hopeful the rebate program will support the installation of approximately 700 kW in 2010.

In addition, these larger distributed generation projects are currently under consideration for rebate support:

Solar Plant – Tucson: AEPCO and Trico are working with the City of Tucson Water Department to develop a 1 MW PV plant and locate it in the Avra Valley area northwest of Tucson. The cooperatives have agreed, in principle, to purchase the renewable energy credits (“RECs”) generated by the facility. The cooperatives are currently working on a REC purchase agreement with Tucson Water.

Wilcox Greenhouse Geothermal: The Participating Cooperatives, in cooperation with Sulphur Springs Valley Electric Cooperative, are also evaluating a potential geothermal project located in the Wilcox area. If built, this project could provide as much as 1.5 MWs of RECs.

(3) The SunWatts Large-Scale Purchase Power Contract and Generating Program:

The SunWatts large-scale program calls for the Participating Cooperatives, as a group or in partnership with others, to participate and assist in the development of large-scale renewable

resources either through purchase power agreements or by construction of utility owned resources.

For the past three years, the Participating Cooperatives have attempted to purchase a significant amount of renewable energy from third-party producers which have responded to requests for proposals (“RFP”) issued by AEPCO. In 2006, AEPCO issued a renewable RFP and one proposal from an out-of-state supplier was chosen. Unfortunately, the renewable requirements of the state in which the supplier was located were increased and the supplier ultimately refused to sign a purchased power agreement.

AEPCO promptly issued another RFP and used ACES Power Marketing to assist in project analysis. The Participating Cooperatives are currently evaluating a selected project. Studies for the project are underway and should be completed shortly. Should the studies verify project viability, the cooperatives will proceed to negotiate and execute an agreement. If developed, this project will provide substantial amounts of large-scale renewable MWhs.

(4) PV for Schools Program: The Participating Cooperatives intend to award four schools—one in or near each Cooperative service area—a 5 kW PV system at no cost to the school. Schools will be selected after a competitive application process. Eligible schools will either be located in a cooperative’s service territory or have enrolled a substantial number of students from homes served by a cooperative. The budget for this program is \$140,000. The schools’ selection process is currently underway. The cooperatives are also discussing with the Schools Facilities Board a possible partnership in 2010. The objective of such a partnership would be to allow the cooperatives to leverage budgeted money for this program with stimulus money allocated to the schools to provide additional PV support for schools located in cooperative service areas.

(5) SunWatts Habitat for Humanity Program: The Participating Cooperatives will continue their partnership with the Habitat for Humanity to offer renewable energy options to low-income families. The Habitat organization will receive grants for the purchase of PV and other renewable energy equipment to be installed on Habitat homes. We also assist in finding ~~local renewable energy equipment dealers who are willing to donate products and services.~~ The type and amount of equipment will vary from project to project. Up to two of these projects will be undertaken each year with a total budget of \$50,000.

(6) SunWatts Educational Grant Program: The Participating Cooperatives will continue their support of renewable energy education in the classroom by offering teachers education grants for the development of renewable curricula for the classroom. The intention is to provide grants to teachers in each service territory annually for this purpose—up to a maximum of \$5,000 per service territory.

Further, the Participating Cooperatives, in partnership with APS, Salt River Project, Tucson Electric Power Company and Navopache Electric Cooperative, will also continue their support of the *Arizona Utilities for Renewable Energy Education* (“AZURE”) initiative. AZURE is jointly developing renewable energy education materials for teachers and educators across Arizona. The group’s website is www.azureeducation.com.

III. ADMINISTRATION OF THE SUNWATTS PROGRAM

Annual Reporting and Plan Development: By April 1, 2010, AEPCO will file a report that describes results for the 2009 REST Plan and will file a report for this 2010 REST Plan by April 1, 2011. On or before July 1 of each year, AEPCO, on behalf of its participating member cooperatives, will file an updated plan as required under R14-2-1814.B.

Advertising and Promotion: The Participating Cooperatives have jointly developed a plan for advertising and promoting the various SunWatts programs available to residential and

business customers. Advertising includes a variety of mediums, including, but not limited to: bill inserts and ads/stories in monthly newsletters; counter cards and posters; paid ads in local newspapers; paid ads on rural radio stations; participation at local events, such as Cooperative annual meetings and county fairs; and a SunWatts promotional presence on the websites of each member Cooperative.

The Participating Cooperatives will not use more than 15% of total surcharge funds for administration, research and development and advertising expenses. At the end of each program year, unused funds will be carried over to fund activities and programs in the following year.

IV. ESTIMATED RESULTS/BUDGET/TARIFFS

Based on the programs and projects currently in place, as well as the assumptions stated in this 2010 REST Plan, the cooperatives anticipate a full year's operation would generate nearly 6,500 MWhs of distributed renewable energy. As mentioned, efforts also continue to purchase a substantial amount of renewable energy. In the interim, the cooperatives will continue to promote and expand the distributed generation portions of the plan.

Table 2

Proposed Cooperative 2010 REST Budget

	2010
Collected REST Funds	\$ 1,700,000
	Expenses
Rebate Program	\$ (1,080,000)
L-S Purchase Power & Generation Program	\$ (160,000)
Habitat for Humanity Program	\$ (50,000)
Educational Grant Program	\$ (15,000)
School PV Program	\$ (140,000)
Advertising, Admin, R&D	\$ (255,000)
Total Expenses	\$ (1,700,000)

This budget assumes an increase to \$2.00 per customer per month in the Participating Cooperatives' REST surcharge tariffs.

Tariffs

The surplus of funding the Participating Cooperatives have had from previous years' collections will be almost depleted by the end of 2009. To adequately fund programs starting in 2010, an adjustment will be needed to the Participating Cooperatives' REST tariffs. Each Participating Cooperative will file a revised REST surcharge tariff (or will reset its adjustor clause, if applicable) with supporting calculations for a revised surcharge later this year.

V. RESPONSES TO ISSUES RAISED IN CHAIRMAN MAYES' APRIL 20, 2009 LETTER

Solar Map Development: The development of a solar map would be an asset to Arizona's solar industry. Utility customers, solar contractors and solar developers alike could benefit from and utilize such a resource. The cooperatives would support and participate in the development of such a map. Once completed the tool could be accessed and utilized through links on utility and stakeholder websites. Because a project of this scale would be difficult for

any one utility, the cooperatives recommend a multi-utility approach to develop such a resource. If a project consortium approach was used, all interested parties would share in project costs proportionally based on the utility's size. Utilities should be able to utilize REST funds for this purpose at a capped level. Additionally, the cooperatives recommend that the Arizona consortium study and utilize information from other similar state projects to streamline efforts, keep costs down and develop a superior resource.

Encouraging solar development in Congestion Zones: The Participating Cooperatives' service territories are largely comprised of relatively low-density residential or rural areas and do not have many high-density commercial or "Congestion Zones." This is particularly true given the fact that this 2010 REST Plan covers only DVEC, GCEC and Trico. For these reasons, the Participating Cooperatives do not believe that there would be any significant benefit to identifying such zones in their service territories.

Making heightened rebates available to early adopters and large-scale developers: The Participating Cooperatives think that their incentive levels are currently very generous and do not believe heightened rebates for early adopters of the RES program or for those that adopt solar on a large scale are needed in their case. The recently enhanced tax credits and the over 100% increase in DG installations through 2008 and 2009 to date also indicate that still higher rebates are not necessary at this time.

Encourage deployment of solar on multifamily buildings and community centers: To encourage the deployment of solar on multifamily buildings and community centers, the cooperatives would target such an initiative with a program designed for this purpose. The cooperatives would develop a program that offers multifamily building developers a performance incentive based on the actual metered output from all solar meters—paid based on the UCPP incentive matrix over a ten-year period.