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ORIGINAL

November 6, 2009

HAND DELIVERED

Steve Olea, Director
Utilities Division
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

Arizona Corporation Commission
DOCKETED
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DOCKETED BY

Re: *AEPCO on Behalf of Its Participating Member Distribution Cooperatives' Amended and Restated REST Plan for Calendar Year 2010 (the "Amended 2010 Plan"); Docket No. E-01773A-09-0335*

Dear Mr. Olea:

Enclosed is the Amended 2010 Plan submitted by the Arizona Electric Power Cooperative, Inc. ("AEPCO") on behalf of 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"). The Cooperatives request that the Amended 2010 Plan be substituted in its entirety for the 2010 Rest Plan which was submitted on June 30, 2009 and that the Commission approve this Amended 2010 REST Plan as provided in R14-2-1814.

The dramatic increase which the Cooperatives had seen in the distributed rebate program in late 2008 not only continued this year, but accelerated rapidly. As a result, the Cooperatives not only spent all surplus and carryover monies from prior years in support of rebates, Graham and Trico also exhausted all available current year funding in August and September and, as of the date of this filing, Mohave¹ and Duncan Valley are quickly exhausting remaining funds.

In addition to updating the previously filed plan to reflect these and other developments, the primary changes in the attached Amended 2010 REST Plan adjust the previously filed plan for these developments by increasing next year's funding for the rebate program and making program changes designed to support the installation of more systems:

¹ Mohave has submitted its own REST Plan for 2010.

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- The budget for the residential and commercial rebate program has been increased to \$1.34 million for 2010.
- In order to support the installation of more systems, up front incentive (“UFI”) rebates will be decreased from \$4 to \$3 per watt and the percentage the rebate can represent as part of the system cost will be 40%.
- The system size eligible to receive a performance based incentive (“PBI”) is being decreased from 50 to 10 kW; the percentage a PBI can represent as part of the project’s cost is 50%; and a not-to-exceed PBI of \$0.14 per kWh has been added. An invoice cap of \$7.50 per watt applies to projects eligible to receive a UFI or PBI.
- Because all prior years’ surplus funds have been exhausted, all funding administration will be at the distribution cooperative level next year.

A copy of the Amended 2010 REST Plan is also being transmitted to you electronically. Should you or any other Staff member have questions, please contact me or Chris Baggett at AEPCO.

Very truly yours,

GALLAGHER & KENNEDY, P.A.



By:

Michael M. Grant

MMG/plp
10421-51/2287972

Enclosure

Original and 13 copies filed with Docket
Control this 6th day of November, 2009.

**AEPCO and Its Participating Member
Distribution Cooperatives**

**Amended and Restated REST Plan
for Calendar Year 2010**

A.A.C. R14-2-1814

November 6, 2009

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I. BACKGROUND

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.

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, AEPCO submits this Amended and Restated REST Plan for calendar year 2010 (the “2010 REST Plan”) on behalf of its three participating Arizona distribution cooperatives: Duncan Valley Electric Cooperative, Inc. (“DVEC”), Graham County Electric Cooperative, Inc. (“GCEC”) and Trico Electric Cooperative, Inc. (“Trico”) (the “Participating Cooperatives”).

II. THE PARTICIPATING COOPERATIVES’ 2010 AMENDED AND RESTATED REST PLAN

The Participating Cooperatives use surcharge dollars and proceeds from consumer participation in the Green Energy Purchase Program to fund renewable programs. In addition, Trico and DVEC were awarded American Recovery Reinvestment Act (“ARRA”) grants that will also be used to support SunWatts rebate program activities beyond current allocated budgets. The 2010 REST Plan includes incentive support for distributed residential and commercial photovoltaic, solar water heating, wind generation and other renewable technologies. Funds are also used to pay for the administration, advertising and promotion of SunWatts programs.

The 2010 REST Plan continues rebate support for all technologies that were approved as part of the 2009 REST Plan.¹ There are six SunWatts programs that make up the Participating Cooperatives' 2010 REST Plan:

- (1) The Green Energy Purchase Program;
- (2) The Residential, Commercial and Large 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." 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, Commercial and Large 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. Rebate program goals are to promote a fair and equitable distribution of program incentives over as many projects and members as possible.

The residential rebate program will pay Up Front Incentives ("UFI") to members interested in installing qualifying PV, small wind, solar water heating and solar daylighting

¹ Decision No. 70655 dated December 18, 2008.

systems. The Participating Cooperatives will pay a UFI, for systems up to 10 kW in size, of \$3 per installed watt. Projects receiving a UFI can receive no more than 40% of the total cost of the system in an incentive payment. In addition, solar and wind systems will be subject to a \$7.50 per watt invoice cap. For residential or commercial projects, when an eligible project's invoice for PV and wind systems exceeds the \$7.50 per watt cap, the incentive will be calculated based on a total system cost reflecting the \$7.50 per watt cap. The Participating Cooperatives will own all the RECs from a project receiving a UFI for its operational life.

The commercial rebate program provides incentives for PV and small wind energy systems that are larger than 10 kW. Performance Based Incentives ("PBI") will be offered on all technologies outlined in Appendix 1. PBI agreements are available for up to a 25-year term, but may be limited to the expected operational life of the technology. On all projects supported by a PBI, the Participating Cooperatives will own the renewable energy credits ("RECs") for the term of the REC agreement. PV and small wind generators are eligible to receive a PBI for up to 25 years at a not-to-exceed PBI of \$0.14 per kWh. Further, total PBI payments cannot exceed 50% of actual project cost. Systems that qualify for a PBI will also be subject to a competitive selection process. The most cost effective projects will be rebated. PBI projects will be competitively selected on a quarterly to semiannual basis. If a project is not chosen for funding, the applicant will be informed of the project's status and given an opportunity to resubmit the project for consideration during the next selection process. Regardless of the number of projects submitted in a given evaluation period, the Participating Cooperatives reserve the right to negotiate the PBI agreement based on current market conditions to acquire the most competitively priced RECs. Distributed projects that are one megawatt or larger are not eligible for the incentives outlined in Appendix 1, but instead will be negotiated on a per-project basis relative to current market conditions.

Subject to the foregoing, distributed generation projects will be rebated on a first-come, first-served basis until funding is exhausted. Approved systems that are not rebated are eligible to be placed on a waiting list until additional funding is available. When funding is available, rebates will be paid 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 Participating Cooperative may allow self-installations as long as the customer has the installation inspected and verified by a licensed contractor. Incentives for all supported technologies are found in Appendix 1.

Normally, at least 50% of the surcharge funds collected each year are set aside to support the distributed generation rebate program. However, due to high demands on the Participating Cooperatives' rebate program, the amended 2010 REST Plan budget designates over 80% of the surcharge funds to support these projects. 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 Participating Cooperatives' service territories. This trend accelerated in 2009. In addition, there was increased distributed generation activity in the commercial sector. For these reasons, the Participating Cooperatives are hopeful the residential and commercial rebate program will support the installation of approximately 800 kW in 2010.

In addition, the following 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 located in the Avra Valley area northwest of Tucson. The Participating Cooperatives have already agreed, in principle, to purchase the RECs generated by the facility. The parties are currently working on the necessary agreements.

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 MW of renewable generation.

(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.

AEPCO and the Participating Cooperatives continue to seek large-scale renewable resources to improve their overall renewable resource to retail percentage sales results, but have encountered several setbacks. For example, in 2006, AEPCO issued an RFP for large-scale renewable resources and received three responses. One company was selected. AEPCO negotiated a purchase power agreement, but shortly before executing the agreement, the offering Company retracted its bid and refused to enter into the contract. AEPCO promptly issued another RFP in 2008 and ultimately selected two projects. One was to participate in a consortium of several utilities, known as the Joint Development Group, to build a CSP power plant from which AEPCO would receive a percentage of the output. Last fall, however, the Joint Development Group decided not to move forward with that project. The second project chosen is still under evaluation, but it has a number of challenges. The Participating Cooperatives are

not certain if this project is an appropriate fit for their large-scale renewable energy needs. If this project doesn't proceed, AEPCO anticipates issuing another RFP to solicit large-scale renewables proposals.

(4) PV for Schools Program: The Participating Cooperatives intend to award at least one school in a cooperative service area a 5 kW PV system at no cost to the school. The school will be selected after a competitive application process. The eligible school will either be located in a cooperative service territory or have enrolled a substantial number of students from homes served by a cooperative. The budget for this program is \$30,000. The Participating Cooperatives are also discussing with the Schools Facilities Board a possible partnership in 2010. Its objective would be to allow the leverage of budgeted money for this program with stimulus money allocated to the schools so as to provide additional PV support for schools.

(5) SunWatts Habitat for Humanity Program: This program offers a Habitat organization building a home in a Participating Cooperative service territory a grant for the purchase of PV and other renewable energy equipment. In a normal program year, one of these projects will be undertaken with a total budget of \$25,000. Currently, however, no Habitat Homes are planned for completion in a service territory during the 2010 program year. Due to the Participating Cooperatives' budget shortages and the surge in rebate program activities, a budget has not been allocated for this program in 2010. But, should a Habitat home be completed in 2010, the Participating Cooperatives will work to support the project.

(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. 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 Arizona Public Service, 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.azure-education.com.

III. ADMINISTRATION OF THE SUNWATTS PROGRAM

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

Advertising and Promotion: SunWatts programs will be advertised in 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 Participating Cooperative annual meetings and county fairs; and a SunWatts promotional presence on the websites of each Participating Cooperative.

Rebate Program Process and Procedures

The Participating Cooperatives generally follow the program process guidelines of the Uniform Credit Purchase Program (“UCPP”) working group recommendations. Although rebates are processed somewhat differently at each Participating Cooperative, each follows a similar process based on the UCPP.

Projects eligible to receive a UFI incentive are handled based on procedures similar to the following. First, the member submits an enrollment form to the Participating Cooperative indicating interest in the program. The enrollment form is evaluated to determine project

eligibility and form completeness. If the enrollment form is not sufficient or the project is not eligible, the member is notified of project status. If the project qualifies, the Participating Cooperative determines funding availability. If funds are available, the member is notified of project acceptance and that the project must be ready for inspection within six months of the application date. If the six months expires prior to inspection, the member must resubmit the project (an extension may be granted for good cause on a case-by-case basis). If no funding is available, the project is put on a waiting list and the member is notified as to that status. All projects on a waiting list will be funded in the order received as additional funding becomes available. Once the Participating Cooperative accepts a project, the member must complete an interconnection agreement, submit a system schematic and provide copies of the project estimate and all permits within 60 days. Once the system is installed, the member informs the Participating Cooperative of that fact. The system is inspected and the interconnection is verified. Once the system passes the inspection, the Participating Cooperative processes the incentive.

Projects that are eligible to receive a PBI first submit an enrollment form indicating interest in participation. Enrollment forms are evaluated for completeness and project eligibility. The member is notified of any deficiencies and given an opportunity to resubmit. If the enrollment form is accepted, it is put in a queue to competitively compete against other projects. Project evaluations are conducted quarterly or semiannually and all projects received during an evaluation period compete with other applications received. Projects will be evaluated based on the PBI being requested, the benefit the project brings to the community and the benefit the project brings to the system. The top projects will be awarded support until the budgeted funding for that period is exhausted. Any projects not selected can resubmit for consideration in the next evaluation period. Selected PBI projects must be installed within eight months of

acceptance before the project needs to be resubmitted. The remainder of the PBI process is similar to the process for UFI projects.

IV. ESTIMATED RESULTS/BUDGET/TARIFFS

Estimated Results

Based on the programs and projects currently in place, as well as the assumptions stated in this 2010 REST Plan, the Participating Cooperatives anticipate a full year's operation would generate nearly 5,600 MWh of additional distributed renewable energy.

Budget

The budget for this 2010 REST Plan is provided in Appendix 2. Beginning in 2010, funds will no longer be administered by AEPCO. Instead, all program funding will be administered at the Participating Cooperative level. Because all the RECs associated with the renewable resources installed under the Participating Cooperatives' REST Plans to date have been pooled, AEPCO and the Participating Cooperatives have begun to discuss the process of allocating RECs among the Participating Cooperatives. This allocation process will facilitate formulation of specific plans for each. The Participating Cooperatives reserve the right to move budgeted monies from program areas where funding is unspent to the rebate program.

Tariffs

The surplus of funding the Participating Cooperatives have had from previous years' collections will be 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 has filed for a revised REST surcharge. If current rebate trends continue through the first part of 2010, Trico may need to adjust its surcharge tariff further and file a midyear

adjustment to the REST tariff. All Participating Cooperatives will closely monitor activity throughout 2010 and file appropriate adjustments to their REST tariffs as needed.

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 Participating 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 Participating 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 Participating 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 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 their incentive levels are generous and do not believe heightened rebates for early adopters of the REST 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 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 Participating Cooperatives would target such an initiative with a program designed for this purpose. The Participating 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.

APPENDIX 1

REBATE PROGRAM INCENTIVE MATRIX

Technology	UFI	PBI
Solar Electric	\$3 per watt up to 10 kW	Not to exceed \$0.14 per kWh (for systems over 10 kW)
Small Wind	\$3 per watt up to 10 kW	Not to exceed \$0.14 per kWh (for systems over 10 kW)
Solar Water Heating	\$.75 per kWh for first year savings	Not Eligible
Solar Daylighting	\$.20 per kWh for first year savings	Not Eligible
Geothermal Electric Thermal	Not Eligible	\$.022 per kWh over 20 years \$.043 per kWh over 20 years
Biogas/Biomass Electric Thermal Cooling CHP-Electric CHP-Thermal	Not Eligible	\$.054 per kWh over 20 years \$.013 per kWh over 20 years \$.029 per kWh over 20 years \$.031 per kWh over 20 years \$.016 per kWh over 20 years
Solar Space Cooling	Not Eligible	\$.115 per kWh over 20 years

APPENDIX 2

Table 2

Proposed Cooperative 2010 REST Budget

	2010
Collected REST Funds	\$ 1,624,349
	Expenses
Rebate Program	\$ (1,339,349)
Residential DG	\$ (1,033,349)
Commercial DG	\$ (150,000)
Large-Scale Commercial DG	\$ (156,000)
L-S Purchase Power & Generation Program	\$ -
Habitat for Humanity Program	\$ -
Educational Grant Program	\$ (15,000)
School PV Program	\$ (30,000)
Advertising	\$ (27,000)
Administration/R&D	\$ (213,000)