

Sulphur Springs Valley Electric Cooperative

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JAMES F ROWLEY III
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Arizona Corporation Commission
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Dear James F Rowley Iii,

Please allow me to bring you up to date on our efforts to construct a new power line to serve the Elgin, Sonoita, and Patagonia areas, since there is some danger of misinformation and politics forcing your electric rates to go up unnecessarily.

Sulphur Springs Valley Electric Cooperative (SSVEC) has proposed building a 23 mile 69kV transmission line to serve that area because it experiences 270 hours of outages a year, far more than the approximately 20 hours per year that our other members experience on average. Right now there is only one line into that area with no backup route, and the demand for electricity there has outgrown the existing line's ability to handle it.

In August, a small group of opponents of that line appeared before the Arizona Corporation Commission (ACC), which is elected by the voters to regulate certain aspects of the electric utility business. They persuaded the ACC to order us to stop work on that line and look at some alternatives.

We had already examined many of those suggestions and ruled some of them out for one reason or another. Where the suggestions make some sense (such as perhaps adding some solar energy) we are pursuing them, but we are concerned that further delay could add millions of dollars to the project's cost, and those millions in extra costs must be collected from you in the form of higher monthly electric bills.

Sometime early next year the ACC will reconsider its decision forcing us to delay construction of the line. (A few weeks after making their original vote, the ACC voted to rehear the case due to the number of SSVEC members who wrote wanting the line built with no delay.) We hope they will allow us to proceed. In the meantime, here are some of the questions we've been asked, some of the concerns that have been expressed, and our responses.

Why is the ACC involved in this issue?

The ACC does not have legal jurisdiction, or say-so, on transmission lines this size, only on higher voltage lines of 100kV and above. However, SSVEC applied for a rate increase in 2008 and a few dozen people from among our 52,000 consumers showed up at an August meeting at the ACC about our rate case and protested the new line.

The protesters claimed that the number of outages on our existing power the line were 'overstated' by SSVEC. Protesters also said that the community was not concerned about the outages. We respectfully disagree and have the engineering data to prove that the outages in that area are far, far worse than anywhere else on the system.

The ACC ordered us to cease work on the new line despite the fact that the record is clear, based upon the evidence submitted and sworn testimony by SSVEC staff and the ACC's own staff, about the need for that new line.

In fact, an ACC Administrative Law Judge reviewed the facts in the case and concluded the following:

- ✓ ***"It is not in the public interest, however, to order SSVEC to delay the planned upgrade."***
- ✓ *The ACC's "Line Siting Committee does not have jurisdiction over the siting of the proposed 69 kV line."*
- ✓ *"The Commission does not design utility infrastructure."*
- ✓ *"To allow substandard service is not in the public interest."*
- ✓ *"The Cooperative has explored alternative configurations for the project and has selected the project as presented as the best balance between cost and impact on the community."*

And, ACC "staff testified that the Project would improve reliability in the area."

Is SSVEC's proposed route the best?

Initially, when the letters of opposition to the project began to enter into the rate case, the ACC Staff Engineer made a visit to SSVEC, toured the affected area, and reviewed SSVEC's engineering analysis, including alternative route analysis which had been suggested by opponents of the project. The Staff Engineer provided sworn testimony that based upon his expertise and review, the project is necessary, that SSVEC had thoroughly reviewed all options, and that SSVEC should proceed with the project as planned.

Several proposals were made to SSVEC regarding alternatives for the line, including coordination with other utilities and re-configuring SSVEC's existing lines that serve the area. SSVEC's engineers carefully analyzed each suggestion based upon its ability to solve the power quality and reliability problems for a reasonable number of years and at a reasonable cost.

Some of the suggestions, particularly those involving other utility companies, had been previously studied and ruled out due to the other companies' limitations, either technically or legally.

Suggestions for reconfiguring the existing line were also scrutinized. The analysis concluded that the costs far outweighed the benefits.



What about renewable energy alternatives?

When it was clear that we had done our homework correctly on the line design and location, opponents suggested we examine alternative energy solutions. Although some of those ideas sound good until you look at the details, we did think a few were worth a good look.

Fortunately, SSVEC's Engineering Manager has a good background and expertise in renewable energy systems, so we were able to research alternative energy ideas expertly. We reviewed suggestions such as solar, wind, bio-mass, and a distributed generator.

How about bio-mass?

Burning bio-mass to make steam to generate electricity was ruled out because the area does not have a fuel source. The suggestion to build a bio-mass generator at the garbage transfer station in Sonoita showed not enough garbage there to make it work unless you hauled garbage to it by truck all the way from Sierra Vista, Nogales, and/or Tucson. Way too expensive, and probably even more harmful to the environment, all told.

How about wind?

There are several wind generators in the area but there is not enough potential wind power in the area to generate enough electricity to eliminate the need for a new line. A study by Northern Arizona University ranked Santa Cruz County in the lowest category for wind potential. The wind does not blow all the time and usually doesn't blow when you need it most: on the hottest and coldest days, so you'd still need a new line, and instead of power line poles, we'd have to put up several dozen of those big towers in someone's view to make a decent dent in the problem. At best, wind would be very expensive part-time power but would not eliminate the need for a new line.

How about solar?

Although solar, too, does have some limitations, it is the most viable option for renewable energy generation in the area, and SSVEC has embraced this alternative by incorporating some solar electric generation into the design of the project.

Remember, though, that solar has the same problem as wind: the sun does not shine 24 hours a day; therefore, energy is only produced part-time. The electric line which serves this area is a 'winter peaking feeder,' meaning that the most energy typically used at any one time in this area is during the cold winter months - especially early mornings before the sun is shining. By then, any currently-known energy storage system would have run out of power hours earlier. So even with solar, the area will require traditional energy via the proposed 69kV line to warm houses on cold winter mornings.

In addition, solar is expensive. This summer we asked solar developers for proposal for a 750 kW solar project. That's enough to provide for the kWh consumption of 180 medium size (750 kWh per month) homes but only during the daylight hours, in other

words, a fraction of the need. The estimated costs came in at 15 cents to 20 cents per kilowatt hour, which is five to seven times what we paid for power this summer.

How about using a fossil-fuel generator to avoid the need to build the line?

Residents of Sonoita know that there is not a natural gas distribution provider in their area. While there is a major El Paso Natural Gas transmission gas line running through the area, 'tapping' this line would require a full pressure regulator station in order to reduce the gas pressure to distribution levels, and that is very costly and is a non-renewable source. Therefore, the generator for night-time use would likely be a diesel unit, which does not qualify as renewable energy. Worse, diesel units run at nearly 80 decibels (similar to standing by a passing freight train), emit gasses into the air, and are costly to operate and maintain.

So what is SSVEC's plan for renewable energy?

After review of all the options, SSVEC recommended incorporating some solar energy into the design of the project. SSVEC has applied for two different funding programs to bring renewable energy to Sonoita.

One part involves the 'Smart-Grid' solution valued at \$1 million. That will use computer technology to manage energy use in a way that reduces total demand for electricity.

The other part is a \$6 million solar unit that would be installed at the new Sonoita Substation and would bring solar energy to all of SSVEC's customers in the Project area.

The bad news is, these still won't eliminate the need for a new line -- and these funds could be lost with a delay in the 69kV line.

Who are the opponents to the 69kV line?

Opponents of this line are mainly members who purchased property along the proposed route AFTER SSVEC had purchased the easements to build the line almost 30 years ago in anticipation of the growth in the area. Many of these opponents have actually supported different routes that do not go past their property. They have presented false, inaccurate and misleading information to the ACC and to their community. The bottom line is their proposed solutions cost more money or don't solve the problem and can't be supported by facts. Many of these opponents are not even SSVEC members.

What is the ACC doing?

At the ACC's open meeting in August, 38 opponents of the Project appeared. It was interesting to note their claim that SSVEC is not to be trusted, even though more than a third of them are not members of SSVEC, nor are they landowners in the service area. They raised question after question and, we believe, were factually incorrect on numerous points.

Nevertheless, SSVEC was ordered by the ACC to delay the project and do more studies, even though our experts have already covered much of the study subjects.



SSVEC followed the ACC's orders by asking for bids from independent third party companies to do the extra studies. We asked for bids from 14 nationally recognized firms with significant expertise in engineering, planning, and environmental analysis of utility infrastructure. Of the fourteen companies, only two responded with actual bids. On November 2, SSVEC, after consulting with the ACC staff engineer, selected Navigant Consulting Inc., to do the feasibility study. We expect to have the results in a few weeks.

The consultant's cost for the study plus the costs on our side of the table will exceed \$300,000. Then there will be costs for more public meetings, attorneys, consultants, and so forth. The real cost, however, is delay. A year or two or three could add millions to the total cost, and every penny of it, plus interest, must be recovered by charging you more for electricity. Because China is building so many power plants so fast, we are in an international bidding war to obtain the supplies and materials needed to build electric utilities. The prices are skyrocketing.

At least two members of the ACC have remarked publicly that once the ACC starts inserting itself into transmission line decisions like this one, they're going to be pressured to do so all over the state. Let's hope that wisdom is heeded when the ACC takes up our motion to reconsider their August order putting an immediate halt to the construction of that line.

What happens in the meantime?

Since the order from the ACC to delay the Project came down, SSVEC has received numerous telephone calls, e-mails, and letters from members who are angry that the poor service quality and frequent outages in the area will continue indefinitely.

Given that the one existing line into the Patagonia/Elgin/Sonoita area is often overloaded, we have requested a moratorium on new hookups in the affected area. We hope the moratorium will be limited and temporary but it could become permanent in the affected area if the new line is not built.

You will no doubt be hearing more from both sides as the issue progresses. We expect that we will be accused of an assortment of wrongdoing because we refuse to endorse technically impossible, unworkable, or expensive alternatives.

Will the outages continue?

Yes, and by adding new load they will get worse. The electrical system serving your area is not designed to carry the electrical load that currently exists or the requests for new services. The recent outages of December 8th are a perfect example. Most members were out of power for almost two hours. Had our proposed electrical solution been in place the outage would have been confined to a small area and affected only a small amount of members instead of almost everyone served off the line.

In addition, this was not an extremely cold weather event and the substation transformer peaked at 8,394 kW, well past the design capacity. Capacity limits were also exceeded on the one substation regulator and the line conductor. It is not "Will

the transformer fail?" it is "When will the transformer fail?" based on this type of operation. The costs of the failure of the transformer will be borne by you, our members, and the outage caused by the failure will be an extended outage not just a few hours. The cost of losses for this type of failure for individual members (or SSVEC) is not covered by our insurance.

Because this is a cooperative, you, as a member, are a part owner, and because it is you who ultimately pays the bill, we believe it is our duty to find the most cost-effective solution that fairly balances the various considerations, and also our duty to keep you informed every step of the way.

We hope this letter answers some of the questions you may have heard and we invite you to call, e-mail us, or drop a note via our Web site, www.ssvec.org.

Many thanks for your patience and understanding. We'd appreciate any help or suggestions you can offer.

Sincerely,

Jack Blair

Jack Blair

Chief Member Services Officer

Sulphur Springs Valley Electric Cooperative