



Sulphur Springs Valley Electric C

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A Touchstone Energy Cooperative

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November 2, 2010

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Kristin K. Mayes, Chairman
Arizona Corporation Commission
1200 West Washington Avenue
Phoenix, AZ 85007

Arizona Corporation Commission
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**Re: Sulphur Springs Valley Electric Cooperative, Inc. 2011 REST Implementation Plan;
Response to Request for Additional Information in Advance of November 10, 2010,
Workshop; Docket No E-01575A-10-0308**

Dear Chairman Mayes:

The purpose of this letter is to respond to your letter dated October 21, 2010, concerning Sulphur Springs Valley Electric Cooperative, Inc.'s ("SSVEC" or "Cooperative") 2011 REST Implementation Plan ("Plan") and your request for additional information. Set forth below are SSVEC's responses to your questions:

RESIDENTIAL DISTRIBUTED ENERGY PROGRAMS

The proposed APS step-down program is not appropriate for SSVEC. In SSVEC's proposed 2011 Plan, we lowered the One Time Incentive to \$2.00 per watt, lowered the total incentive to 40% of the system cost, lowered the PBI rate by 2 cents per kWh, and lowered the PBI maximum to 50% of the total cost. These numbers are based on many community meetings with our members, formal presentations to our members, and community leaders' input. It is also based on the declining cost of solar systems, as well as a meeting with ACC Staff earlier this year, and is in line with our understanding of what the other utilities in the state are proposing.

Our market is not nearly as complex as that of APS and setting trigger points to modify our program would add more cost than value to our program. In addition, we have discussed in depth with our members and many solar installers, various options and trigger point mechanisms that were not highly regarded nor had any support. Our members and the solar installers are solidly behind the method that we currently use. That is when the member signs up, that date determines the rebate amount paid even; if that wait is a year or more.

Based on numerous meetings with our members to solicit input for our Plan, as well as input from our solar installers, a rapid reservation is not a program that we believe our members would support. Our members and the solar installers clearly support a simple system based upon receiving a set amount of money based upon when they made their reservation. This is what we have promised our members and solar installers and this is the program that SSVEC and its members support.

	Systems	kW
From 2004 to 2008	= 20	40.500e
2009	= 12	51.245
2010	= 27	85.922
Total	= 59	177.667

For detailed assessment of 2009 and 2010 please see charts on next two pages:

For 2009

For ACC Report		
Systems installed in 2009	Projects	Watts Installed
Solar	237	1,769,013
Wind	18	56,690
Water	42	872,758
Other	1	1,047,000
Total	298	3,745,461
TOTAL PROJECTS 2007 and prior	102	141,928
TOTAL PROJECTS 2008	90	171,416
TOTAL PROJECTS 2009	298	3,745,461
TOTAL PROGRAM	490	4,058,805
2009 Incentives Paid		\$ 1,724,471
2009 Incentives Reserved (system installed)		\$ 1,266,574
2009 Incentives Reserved (systems NOT installed)		\$ 3,843,999
2009 Loans		\$ 36,231
E. kWh production of 2009 installs (prorated based on activation month)		3,383,916
E. 2009 kWh of Schools Project (prorated based on activation month)		1,077,480
Using the cost of Incentives paid only (excluding customers cost of \approx 50%)		
E. Cost per kWh (20 year life) PV & Wind		\$ 0.04
E. Cost per kW of Capacity (PV & Wind)		\$ 3,863.62
Renewable Energy Credits (RECs)		
E. PV, Wind, Water, Other		2,167,772
C. Biomass (thermal)		2,293,624
E. 2009 Total		4,461,396
Normalized for full year production (RECs)		
E. PV and Wind		8,202,560
C. Biomass (thermal)		2,293,624
E. 2009 Total		10,496,184
E. Total program (2005-2009 installs) RECs for 2009		11,182,407
Goal Tracking		
2009 Total kWh System Sales		834,119,415
2009 Renewables as a %		1.34%
2009 Renewables Goal		1.00%
Target of A.A.C. R14-2-1804 for other utilities (investor owned)		2.00%

For 2010 YTD

Renewable Recap for SSVEC									
	PV		Wind		Other		Solar WH		
	Count	Watts	Count	Watts	Count	RECs	Count	RECs	
2005	37	35,593							
2006	14	16,790							
2007	49	83,145	3	15,000					
2008	77	149,416	10	22,000	1	1,604,129			
2009	237	1,769,013	18	56,690	1	1,047,000	42	102,205	
2010 YTD	107	406,190	-	-	1	1,136,048	15	39,834	
Totals	521	2,460,147	31	93,690	2	3,787,177	57	142,039	
Residential NET Metering Customers = 204					Commercial NET Metering Customers = 9				
Program Totals Converted to RECs									
Assumption	6 hrs x nameplate x 365 = annual RECs								
Assumption	Wind has a 20% load factor (i.e. only produces nameplate output 20% of the day)								
PV watt	2,460,147								
Wind Watts	93,690								
PV RECs	5,387,722								
Wind RECs	164,145								
Other RECs	3,787,177								
SWH RECs	142,039								
Total RECs	9,481,083								
Per Year (assuming no more 2010 installations)									
2010 Estimated MWh sales = 917,376					Renewable Goal = 11,467 MWh		Achieved YTD = 9,481 MWh		
Percentage of goal achieved = 83%									
Program Totals Converted to Watts									
Assumption	RECs divided by 2190 = equivalent PV panel Watts								
Assumption	Wind has a 20% load factor (i.e. only produces nameplate output 20% of the day)								
PV Watts	2,460,147								
Wind Watts	75 (derated for assumed load factor)								
Other Watts	1,729								
SWH Watts	65								
Total Watts	2,462,016								
Installed (assuming no more 2010 installations)									
Installed Systems waiting for Incentives									
Residential	83		(68 PV system and 15 SWH)						
C&I	6		(all PV)						
Dollar Value of Incentives outstanding					Residential	\$ 791,166			
					C&I	\$ 38,600			
					Total	\$ 829,766			
Systems Reserved but NOT installed									
Type	Count	Watts							
Res PV	109	619,897							
Res SWH	21	64,005							
RES Wind	2	6,000							
C&I	16	451,206							
C&I SWH	2	6,800							
Residential Incentives Reserved					\$ 2,207,275				
C&I Incentives Reserved					\$ 1,885,123				
Total					\$ 4,092,398				
Other RECs (PBI)									
2008	1,604,129	RECs	This is the use of bio-mass to replace Natural Gas (Sunizona Greenhouse)						
2009	1,047,000	RECs	This is the use of bio-mass to replace Natural Gas (Sunizona Greenhouse)						
2010	1,136,048	RECs	This is the use of Geo-Thermal energy to replace Natural Gas and is YTD (WXGreenhouse) The 2010 bio-mass RECs will be calculated at the end of the year. (Sunizona Greenhouse)						
Updated as of 9/23/2010									

We currently have 28 C&I systems with reservations that are not installed (waiting to reach the top of the incentive list) with a capacity totaling 525.901 kW with \$1,968,703 of reserved incentives. We anticipate (based on actual events and various phone conversations) that many of these systems will not be built and were simply reserved in anticipation that they would be built. We also currently have two systems that may fall out of the queue due to lack of progress on the part of the members.

SSVEC's project for Schools is complete with 41 systems (one per campus in our system) rated at 24kW each for .984MW. Two Schools each have 10.34 kW systems under contract for additional capacity to be installed by the end of the year.

The total budget for the SSVEC Plan is \$3.3 million and the ACC has already allowed SSVEC to reallocate from underperforming items to over performing. Based on its budgets and actual monies collected, SSVEC shifts monies at the end of each month to ensure that residential and commercial distributed energy projects are paid as soon as possible. Two examples are the SSVEC utility scale project which has not begun, and the loan program which is performing less than anticipated. In both of these cases it did not make sense to simply allow the funding to accrue so the Cooperative (using the flexibility granted to us in 2009 by the ACC.) is not accruing monies in any specific line item. Accordingly, SSVEC has re-allocated these monies to fund the payment of residential and commercial distributed energy projects on our reservation list. SSVEC has carried over less than \$5,000 for each month in its REST bank fund. This is allowing SSVEC to move quicker through its reservation list for residential and commercial members than originally budgeted.

Estimated REST Collections	\$ 3,019,635	\$ 3,019,635	
2010 REST Budget		Revised 7/1/10	
Loan Fund from Surcharge	\$ 200,000	\$ 200,000	6.6%
Program Costs (R&D, Advertising, Admin)	\$ 200,000	\$ 200,000	6.6%
Habitat for Humanity projects	\$ 34,000	\$ 34,000	1.1%
School Solar Project (debt service)	\$ 1,045,000	\$ 1,045,000	34.6%
Utility Scale Project	\$ 650,000	\$ -	0.0%
SunWatts Incentives Residential	\$ 534,381	\$ 1,021,881	33.8%
SunWatts Incentives Commercial	\$ 356,254	\$ 481,009	15.9%
PBI Residential		\$ 22,647	0.75%
PBI Commercial		\$ 15,098	0.50%

Our plan is to use all "unused budget" to reduce the residential backlog as much as possible. SSVEC will carry over somewhere in the neighborhood of \$5,000 in total REST collected funds from 2010 to 2011.

		REST Funding Options Requested				
	Proposed 2011 funding level	Increased to pay 100% of backlog of \$4.9 million (surcharge set to 1.5 cents and caps adjusted to meet goal)	Increased to pay 50% of backlog (surcharge set to 1.5 cents and caps adjusted to meet goal)	Increased to pay 25% of backlog (surcharge set to 1.5 cents and caps adjusted to meet goal)	Increased to 5% higher than proposed 2011 plan (adjusting caps to increase funding)	Increased by 10% higher than proposed 2011 plan (adjusting caps to increase funding)
Rest Surcharge	\$ 0.009880	\$ 0.015000	\$ 0.015000	\$ 0.015000	\$ 0.009880	\$ 0.009880
Res Cap	\$ 3.49	\$ 14.07	\$ 6.21	\$ 4.45	\$ 3.79	\$ 4.11
GS	\$ 85.00	\$ 342.69	\$ 151.29	\$ 108.30	\$ 92.31	\$ 100.10
Irrigation	\$ 50.00	\$ 201.58	\$ 89.00	\$ 63.71	\$ 54.30	\$ 58.88
Rate P & IP	\$ 200.00	\$ 806.32	\$ 355.98	\$ 254.83	\$ 217.20	\$ 235.54
3MW + Cap	\$ 300.00	\$ 1,209.49	\$ 533.97	\$ 382.25	\$ 325.80	\$ 353.31
Rest Collection	\$ 3,301,791	\$ 8,000,000	\$ 5,500,000	\$ 4,500,000	\$ 3,466,880	\$ 3,631,970
% of Change	10%	166%	83%	50%	15%	21%
2010 Budget	\$ 3,009,635					

Please note that although we do have \$5.9 million in reservations on the list, in contacting a sampling of members who have reservations but have not installed systems, 20% will proceed, 10% may proceed, and the balance have determined that they mostly likely will NOT install the reserved system. This information is based on randomly contacting 20 members on our reservation list in May 2010 to inquire as to their intentions. In addition, from anecdotal conversations with other members, it appears that this is a fairly valid number.

To further support this concept, we currently have sent 16 certified letters to customers who worked their way to the top of the reservation list but had not installed systems. 3 have returned paperwork proving intent to install, 4 have cancelled their reservation, 1 did not respond at all and was dropped, and 8 have received letters but not provided proof of intent but are within the allowable window to provide intent.

Based on the phone survey and our written responses, we feel our oversubscription is more likely between \$0.8 Million and \$1.2 Million for residential and commercial systems. We feel our proposed funding level will let address the backlog within a reasonable amount of time without imposing additional costs to the members in this depressed economic climate.

SSVEC remains convinced that our requested tariff and proposed budget will meet the needs of our program, make significant reduction (or eliminate) the backlog of incentives, and not have a negative impact on our members bills. Discussions with members begin to show a negative shift in program acceptance when the cap exceeds \$3.49 and approaches the \$4.00 level. This is a particularly strong reaction with the retirees with fixed income, members with lower income, and those that rent their homes and cannot take advantage of the tax incentives or the utility incentives for renewables. Since it only takes a kWh level of 353 kWh to reach the cap, at \$3.49

this represents a surcharge of 3.9% and 4.6% surcharge at the \$4.00 level. This is in addition to the other taxes and assessments.

The Federal Tax Credit and the low rate of return on savings and other money markets is the driving force on the commitment to install renewable. We no longer have people complaining about the wait for the incentives as they are now understanding how we receive the funds and see that we are doing all we can to pay them as soon as we can.

SSVEC received a grant for commercial projects which is helping us accelerate the paying of the backlog and we continue to search our grants to supplement our program.

The moderate climate of our service area and our long term DSM efforts has an effect our kWh sales. I want to share some recent statistics from NRECA regarding our residential customer sales.

SSVEC Average monthly kWh	721	(\$87.74 cost)
US Average Monthly kWh	1173	(\$142.75 cost)
Average AZ Monthly kWh	764	(\$92.98 cost)

Based on residential kWh sales:

SSVEC ranks 759 out of 816 cooperatives in the United States for monthly kWh sales per residential member. In short, our residential members use significantly less power than almost all other cooperatives (and probably inventor owned utilities as well) thus any increase in surcharges affects our residential bills on a percent basis much more than others.

SSVEC ranks 4 out of 6 in the state's cooperatives for monthly kWh sales. Once again, SSVEC residential members do not consume power in the amounts that other cooperatives in the state of Arizona do thus increases in surcharges affect our members to a greater degree.

SSVEC supports the option of allowing commercial and residential distributed energy projects to fill the gap created by the potential failure of utility scale projects and in fact is already doing this.

DISTRIBUTED ENERGY SMALL GENERATION

SSVEC shares your concern that extremely large systems can have a negative impact on the SSVEC program. As such, for 2011 we asked to include a 50 kW cap in our commercial incentive program without review by the Commission so that funding could be adjusted to allow for a large project.

With the current economy, we don't see any large scale projects in the near term. In our system we only have 4 loads that exceed 1 MW. None of these customers have expressed an interest in large scale projects.

Due to the current reservation system backlog, we are not actively seeking small generation or utility scale projects other than the CREB project for approximately 1 MW that was submitted in 2010 that has not begun. SSVEC anticipates beginning this project in 2011.

We do receive inquiries from individuals or groups that want to install large multiple MW systems within our service area. Most of these inquiries do not take into consideration the transmission constraints of SSVEC, Southwest Transco, or the cost to build capacity on land they can find that is so cheap (because there is not existing infrastructure on the land).

VIABILITY AND SECURITY DEPOSITS

Although SSVEC does not oppose enhanced up-front security deposits for Arizona's RFP and PBI-based renewable energy programs, it is the policy of SSVEC that any potential party will pay for both a feasibility study (to determine what is needed to move energy to the grid) and an engineering cost study to determine the actual cost of the upgrade to meet the needs of the party with the generation source. This is broken into two cost studies to minimize the investment by the proposed generation company. If the feasibility study does not support the project, no engineering time has been spent on the upgrade costs study.

UTILITY SCALE GENERATION

SSVEC utility scale project will be limited to the maximum capacity we can achieve using the CREBs that have been approved by the Federal government and has been submitted to the ACC as part of the SSVEC pending loan package. SSVEC believes we can get close to 1MW with the current price of systems. The project will be located adjacent to an existing or proposed substation or substations where we currently have or can procure land at a reasonable price. The ACC, as part of the SSVEC 2010 plan, approved the repayment of the CREBs loan in the amount of \$650,000 per annum which SSVEC has also budgeted in its 2011 Plan.

FEED-IN-TARIFF PROPOSALS (WHOLESALE DISTRIBUTED GENERATION)

It is SSVEC's opinion that any Commission-mandated FIT is not appropriate for a company that does not own generation assets and has long term contracts to purchase energy.

SSVEC is under a long term contract to purchase a fixed level of power from AEPSCO that meets approximately 80% of our annual needs, and 100% of our needs in the shoulder months for 2010. In 2011, this amount will increase because the current AEPSCO contract to provide 100 MW of power to SRP will expire and SSVEC will be able to use our share of that contract, or approximately 30 MW. We have short term (less than 5 years) contracts to meet the remaining 20% of our needs on a seasonal basis. Our supplemental needs are primarily for peaking power.

If the Cooperative had a FIT at the level proposed by APS of 19.5 cents, as the SSVEC wholesale fuel cost is currently \$0.072127 per kWh, the "premium" paid by SSVEC members would be \$0.122873 per kWh for the FIT.

SSVEC could find itself in a position of having to buy power at 19.5 cents that it can't use or be forced to sell to the power market at a significant loss to SSVEC and its members. As a cooperative, without owning generation assets, SSVEC does not have the ability to take energy under a FIT without creating a high cost burden on our member-owners. There is also no guarantee that energy provided under a FIT would be able to meet the timing and peaking needs of the 20% of our load which we purchase under short-term contract. This also runs counter to our mission of procuring energy at the least possible cost for our members.

SSVEC is in the process of developing a renewable energy wheeling tariff that would allow the construction of large renewable energy projects within the borders of our service territory using SSVEC to wheel the power to those entities that can purchase it.

RESEARCH AND DEVELOPMENT/STUDIES

As a small rural cooperative, our annual REST budget is so small that our entire budget would not make a meaningful contribution to an R&D effort. SSVEC however is a member of the Cooperative Research Network (CRN). CRN does research on behalf of cooperatives nationwide on renewable energy, emerging technologies, and best practices.

I hope we have addressed all of your questions. Please do not hesitate to contact me if there is any additional information that you require.

Sincerely,



Jack Blair
Chief Member Services Officer

Sulphur Springs Valley Electric Cooperative

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