



December 29, 2011

Docket Control
Arizona Corporation Commission
1200 West Washington, Room 108
Phoenix, AZ 85007

RE: Notice of Compliance Filing – Docket No. E-00000D-09-0020

Docket Control:

Pursuant to Arizona Corporation Commission (Commission) Decision No. 72031 December 10, 2010 (Decision”, enclosed for filing is a progress report and draft Memorandum of Understanding (MOU), by and among Southwest Transmission Cooperative, Inc. (SWTC), Arizona Public Service Company (APS), Sulphur Springs Valley Electric Cooperative,, Inc. (SSVEC) (collectively Parties) and Tucson Electric Power Company, Inc. (TEP). The Decision requires that:

“SWTC, APS, Tucson Electric Power Company (“TEP”) and Sulphur Springs Valley Electric Cooperative (“SSVEC”) shall jointly complete additional actions and file specified information related to the Cochise County Study Group plan of service with the Commission as follows:

By December 31, 2011, substantially complete contractual negotiations with affected parties over cost responsibility, wheeling arrangements, Engineering, Procurement and Construction (“EPC”), operations and maintenance, etc. (described as pending items in the CCSG 2009 report), and file a draft memorandum of understanding among the affected parties addressing these items with the Commission.”

Although the draft MOU currently includes SSVEC; SWTC, APS, and TEP have not reached final agreement with SSVEC on certain provisions of the MOU. Although the Parties have negotiated in good faith to create the attached progress report and draft MOU, on December 23, 2011, SSVEC indicated that it was concerned with certain narrow issues regarding cost allocation. Other comments provided by SSVEC, unrelated to these issues of concern, are however included in the filing. The Parties will continue to diligently work towards a mutually agreeable MOU.

An original and 13 copies of this compliance filing are enclosed.

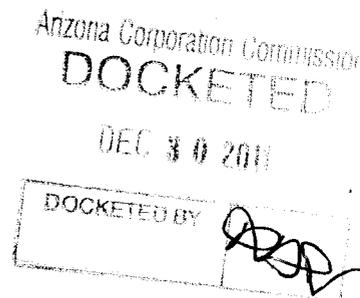
Sincerely,



Jacquelyn T. Cook
Director of Planning and Business Development

Enclosures

c/Vincent Thor, APS
Ron Belval, TEP
David Bryan, SSVEC
P. Ledger
Corp. Records



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AZ CORP COMMISSION
DOCKET CONTROL

CCSG DECEMBER 2011 PROGRESS REPORT

INTRODUCTION

The attached draft Memorandum of Understanding (“MOU”), attached as Exhibit A, is hereby filed in compliance with the following provision of Arizona Corporation Commission (“ACC” or “Commission”) Decision No. 72031 (December 10, 2010):

“SWTC, APS, Tucson Electric Power Company (“TEP”) and Sulphur Springs Valley Electric Cooperative (“SSVEC”) shall jointly complete additional actions and file specified information related to the Cochise County Study Group plan of service with the Commission as follows:

By December 31, 2011, substantially complete contractual negotiations with affected parties over cost responsibility, wheeling arrangements, Engineering, Procurement and Construction (“EPC”), operations and maintenance, etc. (described as pending items in the CCSG 2009 report), and file a draft memorandum of understanding among the affected parties addressing these items with the Commission.”

Since the formation of the Cochise County Study Group (“CCSG”) in late 2007, a significant amount of collaboration and technical work has been accomplished. However, the understanding of the interrelationships of the CCSG transmission system to serve the customers within this region of Arizona continues to be complex. It is clear among the CCSG transmission and load serving entities within this region that additional transmission and subtransmission systems improvements are needed in the long-term, and plans will continue to be evaluated as the load serving requirements are evaluated annually. It is also clear, and consensus has been reached, that “emergency back-up transmission”, or “mutual assistance” subtransmission facilities, and the associated agreements, are the most economical and best method to meet the respective near-term load serving obligations of the area.

In the Sixth BTA, the ACC accepted the concept of Continuity of Service (“COS”) to mean that “loss of any single transmission facility will not result in loss of load that requires subsequent System Operator intervention, either directly or through Energy Management System, to restore service.” The recent filings with the ACC (June 2011, September 2011) by the parties to the MOU have included the long-term and near-term projects evaluated by the CCSG to achieve COS requirements. Included in this filing is a narrowed list of projects that provides the first phase of projects in the CCSG’s plan to achieve the COS requirement, and a draft MOU (attached as Exhibit A) to address projects in the first phase.

CCSG COS Evaluation

The findings in the CCSG analysis led to the conclusion that a cost effective strategy should be pursued in phases that could ultimately meet the COS standard within a reasonable time period.

The first phase (near-term) consists of specific projects to reinforce the area 69kV networks to be implemented within five years. These projects would allow the 69kV systems to be operated in a normally open configuration. Procedures will guide system operators following loss of any single transmission line serving SSVEC and/or APS customers in Cochise County. The capital improvements will allow more timely restoration of load to begin simultaneously with initiation of procedures to place the affected transmission line back into service.

The projects identified in the first stage will become the foundation upon which the next stage (longer-term) will be built. A plan and schedule for implementation of additional projects that have been identified to ultimately meet COS requirements will be prepared. Automated operating schemes and operating procedures will be developed to further reduce restoration time in the interim until investment in the additional longer-term capital projects can be economically justified.

SUMMARY OF RECENT CCSG ACTIVITIES

The CCSG has continued to meet and study the issues requested by the ACC since the September 2011 filing. This includes the following activities:

- (1) Additional technical analysis for the initial phase of improvements of existing 69kV circuits operated as normally open and closed following operating procedures during a transmission outage for either an emergency or scheduled maintenance. This will provide more timely restoration of service to customers with the closure of the 69kV system while the transmission line is being returned to service.
- (2) The CCSG has identified projects from previous technical work that have been studied in more detail to determine suitability for a "near-term list" of projects that can be implemented in the 5 year time-frame. The potential projects identified are now staged into two levels of improvement:
 - a. In-service dates are subject to change depending on contractual negotiations, securing financing for the projects, ACC and RUS regulatory approvals, operational agreements, and other necessary approvals. FERC jurisdictional utilities provide transmission services under their individual OATTs. Any facilities that are not defined as transmission are not considered FERC jurisdictional.
 - b. The near-term list of projects will provide emergency back-up service amongst the CCSG entities and will proceed under the attached draft MOU.

- (3) The formation of a CCSG Contracts Group was initiated to reach agreement on how costs of the various projects identified through the CCSG study efforts will be objectively allocated. The CCSG Contracts Group has engaged in discussions on general principles for cost allocation and the development of criteria to objectively assign cost responsibility. The principles are that cost allocation should be based on benefits/needs associated with projects, cost effectiveness of each project as the best alternative, and flexibility on selection and timing to implement projects.

The CCSG Technical Group developed a methodology, at the request of the Contracts Group, to identify system transmission or other physical power delivery elements that would realize improved reliability attributed to each of the identified projects. The result was a tabulation of near-term projects with associated pre- and post-project metrics (*e.g.* voltage, facility loading, etc.). The CCSG Contracts Group then evaluated these near-term projects as part of the allocation methodology in order to facilitate agreement on which entities would be parties in cost sharing for each of the projects. Specific cost shares will be in proportion to the benefits.

PROJECTS AND PROCEDURES RECOMMENDED FOR NEAR-TERM

The CCSG Contracts Group has agreed that the following projects provide for improved reliability and back-up service under emergency and maintenance outage conditions to the loads within the CCSG area in the near-term. Each of these projects is also discussed in detail following the list.

1. Boothill 115/69kV (including Boothill to Tombstone Junction 69kV line upgrade) Project
2. Palominos to Hereford 69kV tie
3. Don Luis to Mural 69kV line rebuild
4. Various Shunt Capacitors
5. Agreements and Establishing Operating Committees

Boothill 115/69kV Project

The primary purpose of this project is to provide back-service with the 69kV tie through the Boothill substation to SSVEC's load at WEBB 69kV substation and Tombstone Junction 69kV substation. Back-up is needed to the SSVEC load centers if the SWTC 230kV transmission line is lost. APS would also receive back-up service to the 2.6MW of load at Boothill substation when the APS Adams – Mural 115kV line is lost.

Parties to participate: APS and SSVEC

Palominos to Hereford 69kV Tie

The primary purpose of this project is to provide both SSVEC and APS back-up service. Back-up support is needed by both load serving entities due to the outage of a transmission line in their respective areas.

Parties to participate APS and SSVEC

Don Luis to Mural 69kV Line Rebuild

The primary purpose is to provide additional load service capacity to APS and back-up support to SSVEC. The upgrade of this line will provide optimal support for APS and SSVEC through the Palominas – Hereford 69kV tie.

Parties to participate: APS only

Various Shunt Capacitors

The recent CCSG technical studies have shown the need for additional shunt capacitors to maintain a reasonable voltage level at substations within the CCSG area. The criteria used for the technical studies have not been confirmed as to the specific power factor and minimum acceptable voltage criteria for the various entities. Additional studies will be performed based on the principle that additional shunt devices would be determined and that there would be no impact (*e.g.* no violation of specific criteria) to the neighboring systems under normal or emergency conditions.

Agreements and Establishing Operating Committees

1. Operating procedures will need to be developed by the respective operating committees to energize and de-energize 69kV tie-lines, as well as coordination of system protection schemes.
2. Additional agreements and procedures for providing emergency power to/from various entities, determination of loss factors, scheduling of energy, and review of TEP's Two-County Rule.
3. TEP does not have any projects listed for "near-term" because it has an Automatic Throw Over ("ATO") scheme in place that activates following loss of the 138 kV Vail to Fort Huachuca line, transferring service to the South Loop to Fort Huachuca 46 kV line. The ATO provides back up support for up to 18 MW in the winter or 16 MW in the summer. Because of the historical peak demand of over 25MW, TEP is working with Fort Huachuca on efficiency and demand reduction options including the ability to interrupt non-critical loads until 138kV line restoration is complete. This ATO and restoration procedures comply with the provision of service requirements in Section 8 of TEP's ACC approved Rules and Regulations that apply to its retail customers, including Fort Huachuca.

PROJECTS CONSIDERED FOR LONG-TERM

The CCSG identified a comprehensive list of projects to be considered in a ten year or longer-term plan. The CCSG participants propose to jointly conduct annual assessments in coordination with their respective annual ten year transmission planning cycles. The list of projects that will be continually considered is as follows:

1. Kartchner to Buffalo Solder 69kV line

The Kartchner – Buffalo Soldier 69 kV tie is planned to be operated normally open, and is proposed to be a second back-up or a third source to Fort Huachuca. It is intended that this second backup, in combination with the 46 kV backup, could provide full emergency capacity to Fort Huachuca. Congressional approval by Fort Huachuca will be required to fund the Kartchner-Buffalo Soldier project.

2. Webb Substation Improvements

3. Ramsey 69kV Sectionalizing Breaker

4. San Rafeal – Ramsey 69kV Line Rebuild

5. Hawes 2 – 69kV Sectionalizing Breakers

6. Bella Vista 69kV GOAB to Double Circuit 69kV

7. Bella Vista 2 – 69kV Sectionalizing Breakers

8. Bella Vista single circuit 69kV to double circuit

9. New San Rafeal to Charleston Jct. 69kV line

10. Charleston Jct. to Tombstone Jct. 69kV line rebuild

11. Replace Chiricahua with Sunizona Substation

12. San Pedro Substation Improvements

13. Kartchner Substation Improvements

14. Additional Shunt Capacitors as needed

Exhibit A

Draft Memorandum of Understanding

THIS MEMORANDUM OF UNDERSTANDING (the "Memorandum") is entered into as of this ____ day of _____, 2012 (the "Effective Date"), by and among Southwest Transmission Cooperative, Inc. ("SWTC"); Arizona Public Service Company ("APS"); Tucson Electric Power Company ("TEP"); and Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC"); (each, a "Utility" and collectively the "Utilities"). Each signatory to this Memorandum may also be referred to individually as a "Party" and collectively as the "Parties".

Recitals

- A. In October 2007, the City of Sierra Vista and its surroundings experienced a series of power outages. In the Fifth Biennial Transmission Assessment ("BTA") (Decision No. 70635, December 11, 2008), the Arizona Corporation Commission (the "ACC" or the "Commission") ordered the Utilities to perform a collaborative study to find a solution to the reliability issue. The ACC ordered that such solution must entail development of a long-range system plan founded on the principle of continuity of service following a transmission line outage.
- B. In the Sixth BTA (Decision No. 72031, December 10, 2010), the Commission accepted the following definition of Continuity of Service ("COS") set forth in the Cochise County Technical Study Report (December 2009) ("2009 Report"): "Loss of any single transmission facility will not cause loss of any retail load that requires subsequent System Operator intervention, either directly or through EMS to restore service." Thus, momentary interruptions within the timeframe that automated schemes typically operate would be allowed. The ACC found the COS concept to be appropriate for planning of the Cochise County systems.
- C. In the Sixth BTA, the ACC found that the Cochise County Study Group's ("CCSG") transmission plan identified in the 2009 Report represented a reasonable set of transmission expansion projects to ultimately achieve the COS objective in Cochise County.
- D. In the Sixth BTA, the ACC and the Utilities agreed that possible changes in the Cochise County load forecast may allow delaying certain components of the plan of service in the 2013-2018¹ time frame without jeopardizing the COS objective in Cochise County.
- E. The CCSG, based on previous technical studies, developed a near-term list of projects (collectively referred to as the "Projects") (see Section 3 of this Memorandum) that would provide improved reliability and back-up service to the loads within Cochise County that may be constructed in a five-year time period.
- F. In the Sixth BTA, the Commission directed the Utilities to file a Memorandum of Understanding, which includes terms and conditions regarding cost responsibility, wheeling

¹ The original plan of service was developed in 2009 based on 2008 load forecasts for the ten year planning horizon. Subsequent forecasts indicate that projects may be deferred approximately four years.

FOR DISCUSSION PURPOSES ONLY

arrangements, engineering, procurement and construction, operations and maintenance, and in-service dates for the projects².

NOW, THEREFORE, in consideration of the foregoing and the mutual understandings set forth in this Memorandum, the Parties intend to proceed as follows:

1. Description of each Party's electric system in Cochise County.

- 1.1 SWTC provides wholesale transmission service to SSVEC via two high voltage radial transmission lines (Pantano - Kartchner 115 kV and Butterfield to San Rafael 230 kV). In addition, SWTC, in union with SSVEC, also currently provides emergency backup transmission service to APS via the Restated McNeal Mutual Standby Transmission Service Agreement among SSVEC, SWTC and APS.

TEP and SWTC have agreed within the Restated Power Service Agreement and Restated Westwing-Vail 345 kV Transmission Facilities Participation Agreement and Winchester Substation Participation Agreement between TEP and SWTC dated June 18, 2004, to provide emergency backup for Fort Huachuca in the amount of 50 MW, delivered at SWTC's option at either the Kartchner or San Rafael Substations. This service requires mutual agreement between SWTC and TEP, in the event a decision is made by Fort Huachuca to construct the proposed Kartchner to Buffalo Soldiers 69 kV project.

- 1.2 APS has 37.9 Megawatts ("MW") of load serving obligation in Cochise County. APS serves its customers in the south-central and far southeastern corner of Cochise County. This is currently being served via a radial 115kV line from Adams Tap substation to Mural substation. APS has emergency backups at McNeal tie between APS and SSVEC and the Fairview generation should the Adams Tap - Mural 115kV line be out of service.
- 1.3 TEP serves Fort Huachuca (a TEP retail customer), via a radial 138 kV line that emanates from the Vail substation. Presently, an alternative path for delivering of up to 18 MW in the winter or 16 MW in the summer for emergency backup service to Fort Huachuca, through an Automatic Throw-Over ("ATO") scheme, is provided by a TEP 46 kV sub-transmission line connected to the TEP 138 kV bus at the South Loop substation. Because of its historical peak demand of 25 MW, TEP is working with Fort Huachuca on efficiency and demand reduction options including the ability to shed non-critical loads until 138kV line restoration is complete. This ATO and the restoration procedures comply with the provision of service requirements in Section 8 of the ACC approved TEP Rules and Regulations that apply to its retail customers, including Fort Huachuca.

² The Parties are presently contemplating the negotiation and execution of a definitive agreement(s) which will address the specific work scope, schedule, cost and terms and conditions pursuant to which the Parties will undertake the construction and/or installation of the individual Projects, as further contemplated by this Memorandum.

- 1.4 SSVEC is a distribution load serving entity with approximately 105 MW of load within the area of the CCSG with an extensive 69kV system. SSVEC's sole transmission provider is SWTC. SSVEC provides backup to APS's loads in the CCSG area via the McNeil Tie Agreement described in Section 4.1.
2. Cochise County Area Boundaries and Facilities.
 - 2.1 Cochise County region comprises the southeastern corner of Arizona and is bordered by New Mexico to the east and Mexico to the south. The major cities in the County include Benson, Bisbee, Douglas, Sierra Vista, Tombstone, and Willcox.
 - 2.2 Transmission Service within Cochise County consists principally of three radial high-voltage transmission lines, which feed into the underlying sub-transmission systems and a fourth dedicated radial 138 kV line serving Fort Huachuca.
 3. Consistent with the September 2011 ACC filing by the Utilities, the principles are that cost allocation of specific Projects should be based on benefits/needs associated with such Projects, cost effectiveness of each project as the best alternative, and flexibility on selection and timing to implement the following Projects. All costs will be equitably shared by the Parties to the extent the Utility is directly benefited by a specific Project.
 - 3.1 New Hereford - Palominas 69 kV Tie
 - 3.1.1 Potential parties to the Palominas-Hereford 69k Tie project are APS and SSVEC.
 - 3.1.2 APS agrees to construct two (2) miles of 69kV line from the APS Palominas Substation to a tie point outside of the planned SSVEC Hereford Substation.
 - 3.1.3 APS agrees to pay the construction costs associated with the two miles of 69kV line from Palominas to Hereford tie point and the modifications required in Palominas Substation to accommodate the 69kV line.
 - 3.1.4 The projected in-service date for the Palominas to Hereford tie point is Summer 2014.
 - 3.1.5 SSVEC agrees to construct two (2) miles of 69kV line from outside of the planned SSVEC Hereford substation to meet with APS tie point.
 - 3.2 Upgrade of Mural-Don Luis 69 kV line
 - 3.2.1 APS agrees to upgrade the existing Mural to Don Luis 69 kV line upon the completed construction of the Palominas to Hereford Tie Project.
 - 3.2.2 APS agrees to pay all costs associated with this line upgrade.
 - 3.2.3 The projected in-service date for this line upgrade is 2014, provided the Palominas to Hereford Tie Project has been constructed by APS and SSVEC as described in Section 3.1 above.

- 3.3 New substation interconnection at Boothill with a new 50 MVA, 115/69 kV transformer
 - 3.3.1 Potential parties to this project are SSVEC and APS.
 - 3.3.2 APS agrees to coordinate and lead the construction of this project.
 - 3.3.3 APS agrees to pay minimal costs, commensurate with the direct benefit of 2.6 MW of load associated with new substation improvements.
 - 3.3.4 This project has a projected in-service date of 2014 as shown in the analysis for the 2014 Case Evaluation.
 - 3.3.5 APS will continue to operate and maintain the existing and new Boothill substations upon completion of construction.
 - 3.3.6 SSVEC agrees to loop in its existing 69kV lines into Boothill.
 - 3.3.7 SSVEC agrees to upgrade the Webb-Boothill 69kV line as needed.
- 3.4 The recent CCSG technical studies have shown the need for additional shunt capacitors to maintain a reasonable voltage level at substations within the CCSG area. The criteria used for the technical studies have not been confirmed as to the specific power factor and minimum acceptable voltage criteria for the various entities. Additional studies will be performed based on the principle that additional shunt devices would be determined and that there would be no impact (e.g. no violation of specific criteria) to the neighboring systems under normal or emergency conditions.

4. Existing Contractual Arrangements and System Limitations.

- 4.1 McNeal Tie Agreement. Restated McNeal Mutual Standby Transmission Service Agreement among SSVEC, SWTC, and APS dated February 6, 2007. This agreement was originally executed on November 22, 1966 by SSVEC, APS and AEPCO (as SWTC's predecessor in interest) providing for mutual standby transmission service in southern Cochise, County, Arizona. This agreement is in effect for fifteen (15) years from the effective date of the agreement, and shall continue to be in force and effect thereafter until terminated by any party upon five (5) years written notice to be given at any time to the other parties.
- 4.2 Adams Tap Agreement. APS wheels firm transmission service from Western Area Power Administration ("WAPA") under Contract No. DE-ME65-82WP39125 between United States Department of Energy Western Area Power Administration, Parker-Davis Project, and APS. This agreement provides for the Adams Tap on the WAPA Tucson-Cochise 115kV transmission line which provides APS wheeling of transmission service to the Boothill Substation. This agreement was executed June 9, 1982 between WAPA and APS. This agreement will require amendments for the Boothill 50MVA transformer interconnection project.

FOR DISCUSSION PURPOSES ONLY

4.3 TEP and SWTC have agreed within the Restated Power Service Agreement and Restated Westwing-Vail 345 kV Transmission Facilities Participation Agreement and Winchester Substation Participation Agreement between TEP and SWTC dated June 18, 2004, to provide emergency backup for Fort Huachuca in the amount of 50 MW, delivered at SWTC's option to either the Kartchner or San Rafael Substations. This service requires mutual agreement between SWTC and TEP in the event a decision is made by Fort Huachuca to construct the proposed Kartchner to Buffalo Soldiers 69 kV project.

5. The Parties' Authorized Representatives.

Each Party's authorized representative (each, an "Authorized Representative") for the purposes of this Memorandum shall be as set forth in Appendix A attached hereto.

6. Execution.

This Memorandum has been executed by the duly Authorized Representatives of the Parties, effective as of the Effective Date.

**Sulphur Springs Valley Electric Cooperative, Inc.
"SSVEC"**

**Arizona Public Service Company
"APS"**

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

**Tucson Electric Power Company
"TEP"**

**Southwest Transmission Cooperative, Inc.
"SWTC"**

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

APPENDIX A

The Parties' Authorized Representatives

SSVEC

Name:
Title:
Address:

Telephone:
Phone:
Email:

APS

Name:
Title:
Address:

Telephone:
Phone:
Email:

TEP

Name:
Title:
Address:

Telephone:
Phone:
Email:

SWTC

Name:
Title:
Address:

Telephone:
Phone:
Email: