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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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- GARY PIERCE, Chairman
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SECRET CONTROL

IN THE MATTER OF THE APPLICATION
 OF AJO IMPROVEMENT COMPANY
 ELECTRIC DIVISION – FOR APPROVAL OF
 ITS 2010 RENEWABLE ENERGY STANDARD
 TARIFF IMPLEMENTATION PLAN

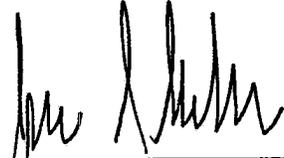
DOCKET NO. E-01025A-09-0339

NOTICE OF FILING
COMPLIANCE

71470

In compliance with the Renewable Energy Standard and Tariff Rules (“REST RULES”) Ajo Improvement Company (“AIC”) files its 2010 Renewable Energy Standard Tariff report.

RESPECTFULLY SUBMITTED this 22nd day of March, 2011.

By 
 Michael W. Patten
 Jason D. Gellman
 ROSHKA DEWULF & PATTEN, PLC.
 One Arizona Center
 400 East Van Buren Street, Suite 800
 Phoenix, Arizona 85004

Original and thirteen copies of the foregoing filed this 22nd day of March 2011, with:

Docket Control
 ARIZONA CORPORATION COMMISSION
 1200 West Washington Street
 Phoenix, Arizona 85007

1 Copy of the foregoing hand-delivered
2 this 22nd day of March 2011 to:

3 Lyn A. Farmer, Esq.
4 Chief Administrative Law Judge
5 Hearing Division
6 ARIZONA CORPORATION COMMISSION
7 1200 West Washington Street
8 Phoenix, Arizona 85007

9 Janice Alward, Esq.
10 Chief Counsel, Legal Division
11 ARIZONA CORPORATION COMMISSION
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15 Utilities Division
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17 1200 West Washington Street
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20 Compliance Manager, Utilities Division
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Ajo Improvement Company

Renewable Energy Standard and Tariff Compliance Report 2010 Compliance Year

March 2011

RENEWABLE ENERGY STANDARD AND TARIFF PROGRAM REPORT YEAR-END 2010

Introduction

Pursuant to Arizona Administrative Code (“A.C.C.”) R14-2-1812, Ajo Improvement Company (“AIC”) submits the AIC 2010 Renewable Energy Standard and Tariff Compliance Report. This report relates to the Ajo Improvement Company REST Plan which was approved by the Commission in Decision 71470 dated January 26, 2010.

Summary

The 2010 AIC REST plan was approved by Decision No. 71470 pursuant to A.C.C. R14-2-1813.

AIC 2010 retail sales were 11,836,863 kWh. This results in a renewable requirement of 295,922 kWh, of which 236,738 kWh is the grid-tied requirement and the remaining 59,184 kWh is the distributed requirement.

Surcharge dollars collected from retail tariffs are used to fund the procurement of renewable energy, incentive payments for customer installed projects, marketing, and administrative costs to administer the REST program. AIC collected \$21,254.72 in EPS and REST surcharges in 2010.

This report contains information as required by A.C.C. R14-2-1812.

The REST Plan

The 2010 REST plan consists of the following programs:

- Procure grid-tied requirements from entities willing to transact at AIC transmission access points.

- Offer incentives up to 60% of cost with a maximum of \$11,000 to customers who install qualified distributed energy projects.

- Raised incentives for solar hot water heaters to \$1.20 per kWh for the kWh saved in the first year.

- Raised incentives for photovoltaic systems to \$5.00/watt for residential systems, and \$5.00/watt for non-residential systems.

- Consider establishing distributed renewable energy generation for AIC operations to meet distributed requirement.

AIC is faced with circumstances unique to AIC in meeting grid-tied and distributed REST requirements. The challenges in meeting its distributed requirement are well documented and will not be repeated here.

AIC is a distribution only utility, and has no direct access to energy markets where renewable energy can be readily procured. There is no available transmission capacity on a year-around basis to AIC's system from markets where renewable energy is transacted and transmitted.

Because of the well documented challenges that AIC has in meeting its distributed requirement and the timeframe to install physical generation, AIC used purchased Renewable Energy Credits from Tucson Electric Power Company ("TEP") for compliance year 2010.

Required Elements pursuant to A.A.C. R14-2-1812

1. Actual kWh of energy or equivalent obtained from Eligible Renewable Energy Resources:

Renewable Energy Source	kWh
Renewable Energy Credits purchased from TEP	295,922

2. The kWh of energy or equivalent obtained from Eligible Renewable Energy Resources normalized to reflect a full year's production:

Renewable Energy Source	kWh
Renewable Energy Credits purchased from TEP	295,922

3. The kW of generation capacity, disaggregated by technology type:

Renewable Energy Source	kW
	NA

Generation capacity not available due to the type of transaction between AIC and TEP.

4. Cost information regarding cents per actual kWh of energy obtained from Eligible Renewable Energy Resources and cents per kW of generating capacity, disaggregated by technology type:

Renewable Energy Source	Cents/kWh	Cents/kW
Renewable Energy Credits purchased from TEP	4.500	NA

5. A breakdown of the Renewable Energy Credits used to satisfy both the Annual Renewable Energy Requirement and the Distributed Renewable Energy Requirement and appropriate documentation of the Affected Utility's receipt of those Renewable Energy Credits:

Annual Renewable Energy Requirement	Annual Renewable Energy Requirement kWh	Distributed Renewable Energy Requirement kWh
Renewable Energy Credits purchased from TEP	295,922	0

Attachment 1 is the Renewable Energy Credits Confirmation Statement from TEP confirming the purchase of the Renewable Energy Credits.

6. A description of the Affected Utility's procedures for choosing Eligible Renewable Energy Resources and certification from an independent auditor that those procedures are fair and unbiased and have been appropriately applied.

For the 2010 Compliance year, AIC purchased the balance of its requirements from TEP. Of the two entities that can deliver power to the AIC distribution system, only TEP offered to sell Renewable Energy Credits to AIC. Because of these facts, and independent audit was not performed.

Planned Projects

AIC has issued a solicitation for renewable projects that could satisfy its grid-tied and distributed renewable energy requirements. Until a project is awarded and constructed, AIC will continue to meet its renewable energy requirements from the market.

In addition, AIC will continue to aggressively market the distributed renewable energy program to its customers.

Attachment 1

2010 Renewable Energy Credits Confirmation
Statement

**DEAL CONFIRMATION BETWEEN
Tucson Electric Power Company (TEPC) and
Ajo Improvement Company (AIC)**

This document ("**Confirmation**"), which incorporates Attachment 1 and Appendix A, confirms the terms of a transaction entered into on November 20th, 2009 between Tucson Electric Power Company ("**TEPC**") and Ajo Improvement Company ("**AIC**") regarding the sale and purchase of Renewable Energy Credits, which the parties agree shall be governed in accordance with the WSPP Inc agreement ("**WSPP Agreement**"), effective May 6, 2009, between the Parties as supplemented by this Confirmation.

Renewable Energy Credits sold and purchased hereunder are more fully described in Attachment 1. In the event of any conflict between the terms of the WSPP Agreement and this Confirmation, this Confirmation will govern.

Terms used but not defined in this Confirmation, including Attachment 1, shall have the meanings ascribed to them in the WSPP Agreement.

Seller: Tucson Electric Power Company
Represented by: Carmine Tilghman Phone: (520) 745-7108
Fax: (520) 571-4065

Purchaser: Ajo Improvement Company
Represented by: H.D. Garz Phone: (602) 366-8173
Fax: (602) 366-7314

Product: Renewable Energy Credits (REC) as defined in the Arizona Renewable Energy Standard and Tariff, Arizona Administrative Code R14-2-1803.

Eligible Facility: Landfill gas production credits from Sundt #4 Generating Facility, located at Sundt Generating Station, 3950 E. Irvington Road, Tucson, Arizona 85714.

Contract Quantity: 700,000 credits (1 credit per kWh derived from an Eligible Renewable Energy Resource).

Renewable Energy Credit Price: \$0.045 per credit.

Total Amount Due: \$31,500

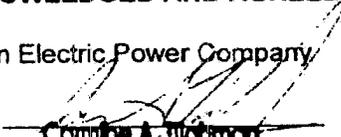
Trade Date: November 20, 2009

Special Conditions

The terms of this Transaction are confidential, and any information contained in or provided pursuant to this Confirmation is confidential and is intended solely for the Party to whom it is addressed. Each Party agrees to keep confidential all information contained herein, provided to it, discussed or otherwise exchanged between the Parties in relation to this Transaction, except as otherwise mandated by statute, regulation or court order.

Please confirm that the terms stated in this Confirmation accurately reflect the agreement between TEPC and AIC by returning an executed copy of this Confirmation by fax to TEPC at (520) 545-1536.

ACKNOWLEDGED AND AGREED TO:

Tucson Electric Power Company
By: 
Name: Camille A. Lightman
Director - Energy Planning and
Procurement
Title: Wholesale Energy
Tucson Electric Power Co.
Date: 11/20/09

Ajo Improvement Company
By: 
Name: Horst-Dieter Garz
Title: PRESIDENT
Date: 11/20/09

**ATTACHMENT 1
RENEWABLE ENERGY CREDITS**

This Attachment 1 is incorporated into and forms a part of the Confirmation, entered into between Tucson Electric Power Company and Ajo Improvement Company, to which it is attached. Terms used but not defined in this Attachment 1 shall have the meanings ascribed to them in the WSPP Agreement or the Confirmation, as the case may be.

1. DEFINITIONS

In the Confirmation, including this Attachment 1, the following capitalized terms, whether in the singular or plural, will have the following meanings:

- (a) "Eligible Facility" means the electricity generating facility(s) as described above and meeting the requirements of the Arizona Renewable Energy Standard and Tariff, Arizona Administrative Code R14-2-1802.
- (b) "Emission Reduction Rights" means all the right, benefit, title and interest related, in whole or in part, to any rights, credits or offsets arising from a reduction in Greenhouse Gas Emissions.
- (c) "Renewable Energy Credit" means a representation of all credits, benefits, and allowances (including Emission Reduction Rights) attributable to the non-energy, environmental attributes, if any, associated with the generation of one kilowatt-hour (kWh) of energy from Eligible Facilities but excludes any tax credits or deductions, incentives, grants or subsidies associated with any Eligible Facility.
- (d) "Greenhouse Gas Emissions" means emissions of carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, sulphur hexafluoride, and any other gas substance that is the subject of the United Nations Framework Convention on Climate Change and subsequent or related protocols, treaties, agreements and instruments.

2. RENEWABLE ENERGY CREDITS

- (a) Seller represents that:
 - (i) only one Renewable Energy Credit was issued for each kWh of energy produced from the Eligible Facility and allocated to the Transaction;
 - (ii) there is no energy associated with the sale of these Renewable Energy Credits;
 - (iii) each Renewable Energy Credit is sold only once;

- (b) Seller will provide verification to ensure that the Renewable Energy Credits purchased and sold hereunder are effectively transferred and credited to Purchaser and Purchaser is able to derive the benefits, if any, available from such Renewable Energy Credits.

3. ATTESTATION/AUDIT

- (a) Seller will provide Purchaser with a Certification of Retirement for the Renewable Energy Credits sold or transferred (signed by Seller or the owner, operator or party entitled to output from Eligible Facilities) which shall verify;
 - (i) The total number of Renewable Energy Credits delivered to Purchaser
 - (ii) The number of Renewable Energy Credits delivered to Purchaser that was generated by each Eligible Facility.

Such letter shall be the instrument that conveys, sells and transfers to Purchaser the Renewable Energy Credits associated with the Renewable Energy to be purchased and sold hereunder.

- (b) Purchaser shall be entitled to obtain an audit, at the sole expense of Purchaser, from a qualified independent third party of the Eligible Facilities and generation records thereof (to the extent that Seller has access to such records) for the purpose of verifying the requirements referred to in items (i) to (ii) inclusive of paragraph (a) above. Purchaser shall give Seller at least 10 days' notice of its wish to obtain such an audit. Any such audit will be at the sole cost of Purchaser.

4. ASSIGNMENT OR TRANSFER

Purchaser may not transfer or assign any of its interest in the Renewable Energy Credits to any third party without the prior written consent of Seller (which will not be unreasonably denied).

APPENDIX A



CERTIFICATE OF RETIREMENT OF RENEWABLE ENERGY CREDITS

Original Certificate Issue

Certificate No. TEP/AIC: LG00000001 – 700,000

On November 20, 2009 Tucson Electric Power Company (TEP) retired 700,000 Landfill Gas Credits for a sale to the Ajo Improvement Company (AIC).

1. TEP certifies that it derived the Landfill Credits from application of the Actual Generation of Electricity from the combustion of landfill gas produced at the Los Reales Landfill for the generation of electricity at TEP's Sundt Generating Station.
2. TEP further certifies that, at the time of this transfer, it had title to the Credits transferred to AIC and that such Credits have not previously expired, have not been otherwise used by TEP to meet its Environmental Portfolio Standard or Renewable Energy Standard requirements, and have not been transferred by TEP to any other entity.

Attested to:

Name of TEP officer – Philip J. Dion
Title – Vice President, Legal & Environmental Services
Date – November 20, 2009

Signature

A handwritten signature in black ink, appearing to be 'P. J. Dion', written over a horizontal line.