

Douglas A. Ducey
Governor



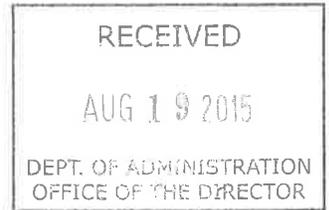
Kevin Donnellan
Acting Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 401
PHOENIX, ARIZONA 85007

(602) 542-1500



**Summary of Document
Requiring Director's Signature**

This summary must accompany all documents submitted for the Director's signature.

Date Submitted:	August 19, 2015
Pertinent Information:	Attached is correspondence for your signature to State Senator Andy Biggs and Representative David M. Gowan.
Requested Due Date:	August 20, 2015
Title/Purpose of Document:	Correspondence dated August 20, 2015 to the Honorable Andy Biggs and Representative David M. Gowan to transmit the Oil Overcharge Restitution Funds Annual Report as required by A.R.S. § 41-4153
ADOA Contact Person:	Carly Fleege
Other Parties Involved:	N/A
Cost/Fee (if applicable):	N/A



Douglas A. Ducey
Governor

Kevin Donnellan
Acting Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 401
PHOENIX, ARIZONA 85007

(602) 542-1500

August 20, 2015

The Honorable Andy Biggs
Arizona State Senate
1700 West Washington Street, Room 205
Phoenix, Arizona 85007

The Honorable David M. Gowan, Sr.
Arizona House of Representatives
1700 West Washington Street, Room 223
Phoenix, Arizona 85007

Re: Oil Overcharge Restitution Funds Annual Report

Dear Senator Biggs and Representative Gowan:

Pursuant to A.R.S. § 41-4153, the Arizona Department of Administration is providing the enclosed Oil Overcharge Restitution Funds Annual Report for 2015.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin Donnellan".

Kevin Donnellan
Acting Director

Enclosure

cc: Arizona Library and Archives
Carly Fleege, Public Information Officer

STATE OF ARIZONA
Oil Overcharge Restitution Funds

Annual Report
Fiscal Year 2015

July 31, 2015

OIL OVERCHARGE RESTITUTION FUNDS
Annual Report
Fiscal Year 2015

Arizona Revised Statutes (A.R.S.) § 41-110 established the Oil Overcharge Restitution Fund for monies received as part of lawsuit settlements to states during the 1970's and early 1980's resulting from crude oil overcharges by oil producers. A.R.S. § 41-110(D) requires an annual report to be submitted by December 31 of each year to the legislature on the status of the oil overcharge fund including a financial summary and other programmatic information. This report specifically details work completed during FY15 for the Stripper Well Restitution Funds and includes information about the *Renewable Technology and Sustainable Resource Planning Program, Solar Electric Program, State Building Program and Energy Planning, Policy and Data Program*.

As outlined in A.R.S. § 41-4110, at least fifteen percent of all oil overcharge restitution monies shall be allocated for loans, grants and other purposes intended to benefit low income populations. The statute authorizes the State to grant loans (Revolving Energy Loans for Arizona (RELA)) from the principal balance of the fund to assist political subdivisions and nonprofit organizations in Arizona with funding energy-related projects. The remaining funds are used for Department of Energy (DOE) approved programs and their administration. Investment earnings on the unexpended balance of the oil overcharge fund is credited to the oil overcharge fund.

As a condition of receiving the settlement monies, DOE requires the State of Arizona to submit annual reports outlining the status of DOE-approved projects as well as a financial summary of the settlement funds. However, all original settlement dollars have been exhausted and the State is no longer required to report to DOE. Additionally, DOE regulations do not require the State to report on principle payments on the RELA loans. The report required under A.R.S. § 41-4110 will continue to be filed each year, until the RELA principle payment funds are exhausted. The chart at the bottom of this report shows the RELA principle payment funds remaining balance.

The Energy Office, the entity charged with administering the oil overcharge restitution programs, has encountered a great deal of change over the last several years. Prior to 2011, the Energy Office was part of the Arizona Department of Commerce. Beginning on July 1, 2011, the Department of Commerce became a private entity and the Energy Office joined the Governor's Office as the Governor's Office of Energy Policy (OEP). Four years later, on May 11, 2015, the Governor's Office of Energy Policy (GOEP) moved to the Arizona Department of Administration, Office of Grants and Federal Resources (GFR).

SECTION ONE—OVERVIEW OF OIL OVERCHARGE RESTITUTION PROGRAMS

Warner Restitution Program

Warner funds are exhausted.

Exxon Restitution Program

Exxon funds are exhausted. Cumulative Exxon Revolving Energy Loans for Arizona (RELA) principle payments totaling \$10,798 remain as of June 30, 2015.

The RELA principle funds do not require DOE approval but must be expended consistent with the terms and conditions of the Court Order and federal rules and regulations. Expenditures must be in one or more of the five federal energy conservation programs. These five programs are:

- state energy conservation program,
- energy extension service,
- institutional conservation program,
- low income weatherization
- low income home energy assistance program.

No administrative expenses are allowed, and funds may not be used to supplant either state or federal funding. Also, funds may not be used for capital expenditures for state government, except in the form of a loan for energy conservation items that may be repaid out of energy savings.

Stripper Well Restitution Program

Stripper Well Funds are exhausted.

During FY 2015, the State of Arizona received \$0 in Stripper Well disbursements. Through June 30, 2015, the State of Arizona has cumulatively received \$22,227,356 in Stripper Well Restitution disbursements, \$8,481,814 in accrued investment interest, and \$203,047 in cumulative loan repayment interest. These amounts bring total available Stripper Well funding to \$30,912,217. Expenditures of \$235,893 in FY 2015 brought total cumulative expenditures to \$31,092,274.

Cumulative Expenditures include RELA Principle Repayment Funds. RELA Principle Repayment Funds are not included in the Total Stripper Well Funding.

All program expenditures of Stripper Well funds have been approved by US Department of Energy and comply with the terms and conditions of the Court Order and federal rules and regulations.

Diamond Shamrock Restitution Program

Diamond Shamrock funds are exhausted.

SECTION TWO - PROGRAM AND PROJECT DESCRIPTIONS

EXXON RESTITUTION PROGRAM

The Exxon Restitution Settlement agreement required that funds received must be expended in one of five federal energy programs to achieve a balanced program that benefits all Arizona citizens through indirect restitution

Exxon funds are exhausted.

STRIPPER WELL RESTITUTION PROGRAM

Stripper Well funds are exhausted. Cumulative Stripper Well RELA principle payments totaling \$900,678 remain as of June 20, 2015.

The Stripper Well Settlement Agreement provides indirect restitution to citizens of Arizona who were overcharged for petroleum products from 1973 to 1981. The agreement allows the funds to be expended through a number of mechanisms. The State of Arizona has chosen to seek approval for its programs primarily under the guidelines of the Chevron Trust Settlement Agreement referenced in the Kansas Agreement (the following program descriptions reflect this approval authority.). Further, the agreement specified that the state's restitution program must be balanced in a manner that will benefit all citizens.

U.S. DOE approval was granted in April 1998, to include three existing Exxon Restitution programs under the Stripper Well section hereunder, including State Buildings Program, Renewable Technology and Sustainable Resource Planning, and the Energy Planning, Policy and Data Program.

A. RENEWABLE TECHNOLOGY AND SUSTAINABLE RESOURCE PLANNING PROGRAMS

Projects Completed

Community Energy Program (CEP) 2015 - The Arizona CEP remains active as staff continues to provide technical assistance and outreach to communities and businesses in Arizona on Energy and Renewable Energy; Policy Development, Educational Services and Project Management.

In September 2012, the GOEP received funding from the US DOE to develop a process to assist in the implementation of deep, whole facility upgrades to improve the energy efficiency of wastewater and drinking water systems. The Water Energy Partnership (WEPA) project is designed to better understand energy consumption of facilities by benchmarking energy use, identifying and addressing barriers to energy efficiency, and creating sector-based models of success that can be emulated by other state or local governments. To date, 85 facilities have been benchmarked using EPA's Portfolio Manager. Providing education and training to energy and water professionals has become an important part of the program. During the past year over 100 individuals have attended a

seminar focused on energy efficiency. The program continues to gain new organizations working to save energy and water in Arizona.

Arizona is a Home Rules State so work continues with local utility companies, Historic Preservation, Planning Association and the Municipal League as the means of Building Energy Code education. GOEP monitors the energy code adoption and compliance within the 92 cities and towns and 15 counties in Arizona that directly adopt their own building codes, currently:

- Thirty-three entities have adopted the 2009 or 2012 IECC.
- Twenty-nine entities have adopted the 2006 IECC.

B. SOLAR ELECTRIC PROGRAMS

Projects Completed

Solar Electric

The GOEP Director gave a presentation on the “State of Electric Vehicles in Arizona” at the Green Chamber of Commerce on November 12, in Phoenix, Arizona.

Solar Education and Information

GOEP Staff coordinated the submittal, judging and selection of the application/nomination submittals for the *2014 Governor's Award of Excellence in Energy Education*. Announcement letters were sent to the award recipients. Award winners included:

- **Excellence In Leadership Category:** Tempe Union High School District, Innovative Energy Solutions & Sustainability Project
- **Outstanding Energy Education Program Category:** Mingus Union High School District, The Road to a Sustainable High School Program
- **Outstanding Energy Educator Category:** Tucson Unified School District, David Kukla
- **Outstanding Energy Student Category:** Baboquivari Unified School District, Total Solar Strategy for Tohono O'odham Nation Team Project by Jacquell Rivers & Arne Joi Nipales

Certificates of Special Recognition were provided to:

- Cory Owan, Practical Solar Tracking Stirling Electrical Generator Project at Catalina Foothills High School
- Mesa Public Schools, John Jung, Educator
- Fort Huachuca Accommodation Schools - Colonel Smith Middle School, Energy Monitoring by Students, Staff & District
- StarShine Academy, K-12 Charter School Creative Community EcoVillage

GOEP Staff worked with AZURE Education to provide updated educational materials to the public via the internet, so that it is accessible to everyone in the state as well as around the world. The website is updated throughout the year to provide information on current renewable energy events and new curriculum or activities developed and workshops that are available to teachers and students.

C. STATE BUILDING PROGRAMS

Projects Completed

State Buildings

Buildings are a major energy consumer in Arizona. The funding allocation is utilized to promote energy efficiency through innovative program elements.

State Buildings

During FY 2015, GOEP staff worked with the State Procurement Office (SPO) on prequalifying Energy Performance Contractors for the State of Arizona cooperative purchase agreement. Staff prequalified 13 contractors which reside on this three year prequalified list. A meeting with all prequalified contractors was held January 20, 2015, which included an overview of the contract and its implementation. Agreement was reached on re-establishing the AZ Chapter of the Energy Services Coalition as a tool to provide education about the benefits and successes of performance contracting.

State Energy Efficiency Development Fund (SEED)

The GOEP in partnership with ADOA developed an Interagency Services Agreement (ISA) between the two departments to conduct Energy Conservation Measures (ECM) in ADOA managed state facilities. The GOEP and ADOA will work with contractors to perform energy audits, then scope projects and utilize \$1.1 million ARRA SEP funds to conduct such projects. ADOA will then payback the funds, plus additional savings, to the GOEP within the specified time frame as agreed upon through the energy savings realized as part of the project. This agreement between ADOA and GOEP will last fifteen (15) years and may be continued after that time frame.

During the year, several meetings were held with the Department of Administration to determine the steps required to establish a revolving fund. After several meetings it was determined that Arizona lacks the required enabling legislation, therefore legislative efforts have been delayed until the start of the FY2016 legislative session.

D. ENERGY PLANNING, POLICY, AND DATA PROGRAMS

Projects Completed

Data was collected and analyzed for the weekly update/post on website the National and State gasoline average data and average price data for Phoenix, Tucson, Flagstaff and Yuma. In addition, the gasoline weekly data for Kingman, Show Low and Sierra Vista was update and posted.

During FY15 this program was responsible for the ongoing production of the electronic publication the *Energy Policy Update/Energy Update*, which provides a news summary of energy and environment-related issues, technologies, and legislation on a state and national level. This publication is distributed to over 450 readers.

GOEP Staff attended and spoke at the Integrated Nuclear-Renewable Energy Systems Foundational Workshop at the Idaho National Laboratory (INL), July 8-10, 2014. This

was to help establish a partnership between the Governor's Office of Energy Policy and INL.

The GOEP Director attended the CSG Solar Policy Academy, August 12-14, 2014 in Anchorage, Alaska. This was to assure that Arizona solar activity was accurately reflected at this conference.

A Commercial Property-Assessed Clean Energy (C-PACE) meeting held on August 26, 2014 to discuss the possibility of an AZ C-PACE program. The meeting was held at the Arizona League of Cities and Towns and attended by financial and government representatives. David Gabrielson, Executive Director of Pace Now, an issue expert, was guest speaker.

The GOEP Director presented an overview of a proposed "CSP Power Tower" projects to state and military leadership, September 18, 2014, at the State Capitol. This information was presented to plan for potential flight path conflicts for Arizona military bases.

The GOEP Director gave a presentation on the "Arizona Collaboratory for Advanced Energy Solutions (AZ CAES)", on October 1, 2014 in Phoenix, Arizona. AZ CAES was established to coordinate energy-related research among Arizona universities to better partner when competing for U.S. Department of Energy funding.

The GOEP Director attended and spoke on "How Mexico's Energy Reform Has Affected Energy in Arizona" and the "Water Energy Partnership in Arizona" at the International Border Energy Forum on October 17, 2014 in Monterrey, Nuevo Leon, Mexico.

GOEP Staff attended the Arizona-Mexico Commission Board of Directors and Co-Chairs/Delegates Meeting & Luncheon on October 14, 2014.

A Commercial Property-Assessed Clean Energy (C-PACE) meeting was held on November 5, 2014 to continue discussion of the possibility of implementing an AZ C-PACE program. The meeting was held at the Arizona League of Cities and Towns and attended by financial and government representatives. Guest speaker Doug McMurray, CEO of Vail Development of Colorado, provided a developer's perspective.

GOEP staff attended the Tribal Solar Working Group Meetings on January 21, and March 24, 2015, to discuss financing options to develop solar on tribal lands.

GOEP Staff attended the *State Energy State Emergency Response and Recovery Plan* Quarterly Meetings on March 31, and May 21, 2015 at the Arizona Department of Emergency Management.

SECTION THREE - PROGRAM AND PROJECT MONITORING

All oil overcharge funds are managed by the OEP. Each settlement fund is tracked separately. The funds are invested through the State Treasurer's Office, and interest is credited to each account for expenditure on approved programs.

The Diamond Shamrock and the Kansas Stripper Well Restitution funds allocated to administrative uses, in conjunction with federal program funds, are utilized to provide contract monitoring, supervision, accounting services, auditing services and other similar administrative functions necessary to the proper management of oil overcharge restitution

programs. Field monitoring, in-house computerized tracking of projects and accounting services are provided by these funds.

All contracts contain provisions for adequate accounting of funds, and compliance with all applicable federal rules and regulations. All programs implemented through the OEP are evaluated for energy and dollar savings as an integral part of the project. Contract projects incorporate mandatory provisions for evaluation of energy and dollar savings accrued from project activity.

SECTION FOUR--FINANCIAL SUMMARY TABLES

TABLE 1

Petroleum Violation Escrow Funds Summary
Arizona FY 2015 (July 1, 2014 – June 30, 2015)

Fund Type	Funds Concluded in FY 2015	Funds Approved ¹ in FY 2015	Funds Expended in FY 2015	Cumulative Funds Concluded	Cumulative Funds Approved ¹	Cumulative Funds Expended
Warner		-0-	-0-		2,371,829	2,371,829
Exxon		-0-	-0-		36,072,888	36,072,888
Stripper Well	-0-	235,893	235,893	30,912,217	30,912,217	*31,092,274
Diamond Shamrock		-0-	-0-		616,831	616,831

*Cumulative Funds Expended include RELA Principle Repayment Funds. RELA Principle Repayment Funds are not included in the Total Funds Designated.

¹ In the case of Diamond Shamrock funds approved, indicate the funds obligated as no approval process is involved under the settlement agreement.
Note: Funds concurred, approved, and expended for the FY 2015 and Cumulative on Table 1, should match the corresponding total funds on Table 2 for each of the oil overcharge funds. For example, Funds Expended in FY 2015 for Stripper Well under Table 1 should match Total Funds Expended in FY 2015 for Stripper Well under Table 2.

TABLE 2

**Petroleum Violation Escrow Funds Summary by Program
Arizona FY 2015 (July 1, 2014 – June 30, 2015)**

WARNER FUNDS	Funds Approved in FY 2015	Funds Expended in FY 2015	Cumulative Funds Approved	Cumulative Funds Expended
WAP				
ICP				
SECP/SEP				
EES				
LIHEAP				
TOTAL	-0-	-0-	2,371,829	2,371,829

EXXON FUNDS	Funds Approved in FY 2015	Funds Expended in FY 2015	Cumulative Funds Approved	Cumulative Funds Expended
WAP				
ICP				
SECP/SEP				
EES				
LIHEAP				
TOTAL	-0-	-0-	36,072,888	36,072,888

STRIPPER WELL	Funds Concurring in FY 2015	Funds Approved in FY 2015	Funds Expended in FY 2015	Cumulative Funds Concurred	Cumulative Funds Approved	Cumulative Funds Expended
WAP	-0-	-0-	-0-	-0-	-0-	-0-
ICP	-0-	-0-	-0-	-0-	-0-	-0-
SECP/SEP	-0-	116,697	116,697	2,148,152	2,148,152	2,148,152
EES	-0-	-0-	-0-	-0-	-0-	-0-
LIHEAP	-0-	-0-	-0-	1,476,052	1,476,052	1,476,052
ADMIN.	-0-	21,971	21,971	1,935,939	1,935,939	1,935,939
OTHER	-0-	97,225	97,225	25,532,131	25,532,131	25,532,131
TOTAL	-0-	235,893	235,893	31,092,274	31,092,274	*31,092,274

*Cumulative Funds Expended include RELA Principle Repayment Funds. RELA Principle Repayment Funds are not included in the Total Funds Designated.

DIAMOND SHAMROCK	Funds Approved in FY 2015	Funds Expended in FY 2015	Cumulative Funds Approved	Cumulative Funds Expended
WAP				
ICP				
SECP/SEP				
EES				
LIHEAP				
ADMIN.	-0-	-0-	616,831	616,831
OTHER				
TOTAL	-0-	-0-	616,831	616,831

TABLE 3

**Stripper Well Funding Summary by Individual Project
Arizona FY 2015 (July 1, 2014 – June 30, 2015)**

Stripper Well Project Title	Date of DOE Concurrence³	Funds Expended in FY 2015	Cumulative Funds Expended	Comments
Administration 5%	5/87	21,971	1,935,939	Project completed
Loan Service Delivery	7/89	-0-	1,934,842	Project completed
1986 RFP Projects	4/91	-0-	4,716,384	Project completed
Solar Communities Planning	5/87	-0-	179,955	Project completed
Solar Communities Tech Asst	5/87	-0-	255,821	Project completed
Solar Home Program	5/87	-0-	175,000	Project completed
Solar HW Repair/Asst	5/87	-0-	125,000	Project completed
Solar Promotion	5/87	-0-	196,023	Project completed
Waste to Energy Tech Asst	6/94	-0-	15,720	Project completed
Solar Oasis II	6/94	-0-	1,422,885	Project completed
Solar Village	5/87	-0-	850,000	Project completed
Energy Loan Program	6/94	-0-	900,678	Project completed
Low Income Heating/Cooling	6/94	-0-	6,037	Project completed
Solar/Electric Cars	6/94	-0-	239,236	Project completed
Desert Home Demo Projects	6/94	-0-	569,728	Project completed
Int'l Technology Center	6/94	-0-	108,160	Project completed
Solar Electric Program	6/94	-0-	326,121	Project completed
Solar Education & Information	6/94	55,482	1,029,534	Project completed
Photovoltaic Demo Projects	6/94	-0-	-0-	Project completed
Solar Communities	6/94	-0-	415,685	Project completed
Hopi Foundation PV Demo	5/87	-0-	150,000	Project completed
Geothermal	6/94	-0-	306,887	Project completed
State Buildings Program	4/98	-0-	4,352,473	Project completed
Alt Fuels Demonstration	6/94	-0-	3,331,868	Project completed
Museum of Science & Tech	6/96	-0-	1,723,457	Project completed
Renewable Tech./Sust. Resource Plan.	4/98	23,423	1,597,517	Project completed
Energy Policy/Data Programs	4/98	135,017	2,106,272	Project completed
LIHEAP	4/91	-0-	1,476,052	Project completed
Navajo Nation Disbursements	5/87	-0-	645,000	Project completed
TOTAL		235,893	*31,092,274	

³ Date of DOE concurrence or decision date if filed with OHA

*Cumulative Funds Expended include RELA Principle Repayment Funds.

TABLE 4

Administrative and Tribal Funds

STRIPPER WELL	FY 2015	Cumulative
Administrative Expenses (non-attorney)	21,971	1,935,939
Attorney Expenses	-0-	-0-
Total Administrative Expenses	21,971	1,935,939
Funds to Tribal Governments	-0-	645,000

DIAMOND SHAMROCK	FY 2015	Cumulative
Administrative Expenses (non-attorney)	-0-	616,831
Attorney Expenses	-0-	-0-
Total Administrative Expenses	-0-	616,831

RELA Principle Repayment Funds	Cumulative Funds Received	Cumulative Funds Spent	Remaining Balance
Exxon	3,199,763	3,188,965	10,798
Kansas	900,678	180,057	720,621

RELA Principle Repayment Funds are not included in Cumulative Funds or Cumulative Funds Expended.

RELA Principle Repayment Funds must be spent on previously approved DOE programs.