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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION  
OF ARIZONA ELECTRIC POWER  
COOPERATIVE, INC. FOR A RATE  
INCREASE.

DOCKET NO. E-01773A-04-0528

IN THE MATTER OF THE APPLICATION  
OF SOUTHWEST TRANSMISSION  
COOPERATIVE, INC. FOR A RATE  
INCREASE.

DOCKET NO. E-04100A-04-0527

POST-HEARING BRIEF OF MOHAVE  
ELECTRIC COOPERATIVE, INC.

Mohave Electric Cooperative, Inc. ("Mohave") files its Post-Hearing Brief in the above-captioned matter.

**A. Mohave's Position**

Mohave is one of six Class A Members of Arizona Electric Power Cooperative, Inc. ("AEPSCO ") and Southwest Transmission Cooperative, Inc. ("SWTCO"). Prior to submission of the present applications for rate increase, Mohave voted, along with the other Members, for the increase in revenue requirements recommended by AEPSCO staff. However, in doing so, Mohave had the expectation that any recovery of increased revenues would be implemented consistent with: existing contracts and agreements, traditional Arizona Corporation Commission ("ACC" or "Commission") rate-making policy, and the underlying concepts that have caused the ACC and AEPSCO staffs to support a 15.44% phased increase in power supply revenue requirements.

1                   Unfortunately, the ACC staff did not consider basic differences between the all-  
2 requirements and partial-requirements customers in developing their recommendations. This is  
3 why Mohave believes it is important to make the Commission aware of the fundamental  
4 differences and how these differences should be reflected in final rates.

5                   **1.       SUMMARY OF MOHAVE'S RECOMMENDATIONS**

6                   As will be explained more fully herein, Mohave respectfully requests the  
7 Commission's Decision and Order:

- 8                   1.       Approve a 12.44 % increase in AEPCO rates and a 19.45% increase in SWTCO  
9 rates to become effective immediately.
- 10                  2.       Conditionally authorize the prospective 1.5 percent increases for AEPCO, but do  
11 not allow them to go into effect unless AEPCO submits to the Commission and  
12 AEPCO's Members relevant financial information demonstrating that the rate  
13 increases are necessary to achieve a Debt Service Ratio of 1.0.
- 14                  3.       Conditionally authorize the prospective phase 2, 3 and 4 increases for SWTCO, but  
15 do not allow them to go into effect unless SWTCO submits relevant financial  
16 information to the Commission and SWTCO's Members demonstrating that the  
17 increases are in fact necessary to permit SWTCO to meet its financial obligations.
- 18                  4.       Require both AEPCO and SWTCO to provide an Equity Improvement Analysis by  
19 March 31, 2006.
- 20                  5.       Require AEPCO to file a rate case six months after Sulphur Springs Valley  
21 Electric Cooperative ("Sulphur Springs") has completed a full year as a partial  
22 requirements member ("PRM").
- 23                  6.       Provide that in any Demand Side Management ("DSM") requirement, that each  
24 distribution cooperative be responsible for its own program and not be subject to  
25 AEPCO's direction.

                  The foregoing recommendations are premised upon the following concerns:

- 1                   1.       The partial requirements members of AEPCO will be improperly allocated a  
2 portion of the approximately \$4.56 million additional revenue requirement associated with

1 achieving financial goals for which partial requirements members and their retail customers are  
2 not responsible and will not benefit.<sup>1</sup>

3 2. The Commission will not address Mohave's rate design issue under the mistaken  
4 belief that the customer impact is *de minimus* when in fact it is not.

5 3. The Commission may be misled into believing that additional phased increases  
6 related to equity growth should be imposed on Mohave to achieve a particular financial result  
7 when in fact none may be required.

8 4. ACC staff's recommendation to permit automatic recovery of changes that  
9 constitute a significant portion of the total cost to serve will foreclose the proper allocation of  
10 revenue requirements if not addressed during this proceeding.

11 **B. Implications Of Partial Requirements Service Obligations**

12 AEPCO provides wholesale service to six distribution cooperatives. Typically, a  
13 generation and transmission cooperative (G&T), such as AEPCO, will plan to serve the total  
14 power supply requirements for all of its member systems. However, AEPCO does not have the  
15 same power supply obligation for each of the six Members. Two of the six members – Mohave  
16 Electric Cooperative and Sulphur Springs – have elected to change from all requirements  
17 members (ARM) to partial requirements members (PRM). These two members reflect  
18 approximately 65% of the test year power supply requirements billing units (Schedule A-1.0  
19 attached).

20 This has very important implications for AEPCO in its role as wholesale power  
21 supplier. AEPCO does not have to plan for serving nor does it have responsibility to serve the  
22 load growth of the partial requirements members. Mohave and Sulphur Springs have an

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24 <sup>1</sup> ACC staff is proposing an increase of \$1,962,451 because staff is ignoring non-operating income in  
25 the calculation of coverage ratios. ACC staff is proposing a Phase II and Phase III increase to build  
equity of \$1.3 million for each Phase. The total revenue requirement associated with these  
adjustments is \$4.56 million. This total amount will flow through to earnings to increase equity.

1 allocation of existing AEPCO resources but must make their own arrangements to serve load  
2 growth in excess of the capability of existing resources allocated to them. Because AEPCO has  
3 no responsibility to provide resources for serving PRM requirements in excess of the allocated  
4 AEPCO resources, AEPCO has no future capital requirements associated with new resources to  
5 serve approximately 65% of the total Member load.

6           The ACC staff is recommending, and apparently the AEPCO staff is supporting, an  
7 increase in revenue requirement based on the need to maintain financial stability to finance  
8 *future* plant additions and replacements. Even if we ignore for a moment the complete  
9 disconnect between the historical test year rate-making concept followed by the Commission and  
10 this future test year rate-making concept, there is a question as to the fairness of requiring a  
11 customer who will not cause, and is not allowed to participate in, the future event to have  
12 revenue responsibility for that event.

13           One of the justifications for the ACC proposed increase in equity is to make certain  
14 that AEPCO has access to capital markets to provide debt capital to build *future* power supply  
15 resources. This has an annual cost of approximately \$2.6 million. However, a PRM should not be  
16 allocated revenue responsibility to meet financing objectives for assets the PRM will not use. To  
17 assign revenue responsibility for assets that are not used and useful in providing service to a  
18 customer is inconsistent with rate-making principles and is inconsistent with public policy. Prior  
19 to allowing the allocation of any revenue responsibility associated with a future event to a PRM  
20 such as Mohave, there should be findings as to whether or not the proposed assets will be used  
21 and useful in serving the PRM. Clearly a strategy to build equity in order to finance future power  
22 supply projects which Mohave is not allowed to use and expect Mohave or any PRM to pay for  
23 implementing the strategy is inconsistent with sound rate-making policy. The record in this  
24 proceeding is completely void of any data relating future capital needs required to serve a PRM.  
25

1 No financial forecast has been presented showing total forecasted capital needs and the ARM and  
2 PRM responsibility for and use of the future assets.

3 This assumes of course that the proper predicate has been established for  
4 implementing the revenue requirement to increase equity. The testimony establishes the  
5 following facts:

6 1. There is no forecast of future needs.

7 Transcript, page 69, lines 12 – page 70, line 21:

8 Q. (Mr. Grant) Mr. Edwards, Staff has suggested the preparation by the  
9 Cooperatives of an Equity Improvement Plan to be filed with the Commission,  
10 and the Cooperatives agree with that suggestion . . . . Does an Equity  
11 Improvement Plan allow you to focus on a variety of different factors to  
12 attempt to come up with an individualized result which may be more fitted to a  
13 particular cooperative.

14 . . . .

15 A. (Mr. Edwards) I believe it would.

16 . . . .

17 Q. But Mr. Edwards, just very briefly, and this is my last question, Ms. Rodda had  
18 discussed a few factors with you that would impact what might be a correct  
19 equity level for a particular cooperative. Will an Equity Improvement Plan  
20 look at those factors and a lot of other factors to try to reach a more accurate  
21 indication of what an appropriate equity level would be for either AEPCO or  
22 Southwest or both?

23 A. It should.

24 2. The data for G&Ts indicates that the ACC staff objective is clearly excessive.

25 Transcript, page 54, line 25-page 55, line 9:

1 Q. (Mr. Sabo) And you prepared a study of G&T equity ratios as part of your  
2 testimony, is that correct?

3 A. (Mr. Edwards) Yes.

4 Q. And that study is set forth on Schedule WKE-1 to your testimony, is that right?

5 A. That is correct.

6 Q. And that study shows that the median G&T equity ratio is 13.22 percent for the  
7 most recent year listed there?

8 A. Yes, and that was 2002.

9 Transcript, page 76, lines 9-19:

10 Q. (Mr. Grant) But if they [RUS and CFC] agree to grant a loan, they will not  
11 discriminate as to the rate? In other words, they don't say, "Well, you're a bad  
12 credit risk, for you it's 10 percent. And for you, you're a good credit risk, it's  
13 four percent.?"

14 A. (Mr. Edwards) That's correct. We . . . do have different rates for different term  
15 loans, you know, a 30-year note will be priced differently than a one-year note.  
16 But based on the credit quality, if the decision is made to make the loan, it  
17 would be at the same interest rate regardless of the quality.

18 3. The lender has indicated that it is not necessary to achieve the staff recommendations  
19 in order obtain financing.

20 Transcript, page 72, line 21-page 73, line 12:

21 Q. (Mr. Leonetti) . . . I'm returning to a previous question I asked about the  
22 concept of overqualification in terms of the TIER and DSC ratings. You, if I  
23 recall, advised that you could not tell us anything more than the minimum  
24 requirements for TIER and DSC. And in other testimony a short time ago you  
25

1 defined that – and forgive me if I don't recall this perfectly – that you don't  
2 discriminate on the quality of a loan?

3 A. (Mr. Edwards) We do not – On the pricing of a loan so far as its interest rate,  
4 we do not discriminate, like a number of lenders. And particularly in the public  
5 markets, the rating agencies, when they assign a rating to a particular company,  
6 it's extraordinarily important because it defines what you can expect your cost  
7 of funds to be.

8 4. The lender has indicated that there is no benefit in terms of lower capital costs by  
9 achieving the ACC staff objective.

10 Transcript, page 63, line 22-page 64, line 8:

11 Q. (ALJ Jane Rodda) As they increase their equity, though, would they get better  
12 rates from CFC?

13 A. (Mr. Edwards) No. That's another thing. Staff had suggested, in its testimony,  
14 one of the points that it says that a low ratio was a problem for was that the  
15 higher the debt cost – you would have higher debt cost, as a result of a low  
16 equity ratio, for new issuances. Neither the RUS nor CFC discriminate in  
17 pricing credit on that basis. So, you know, to a large extent, it's a binary  
18 question, either you make a loan or you don't. You don't – We have never, you  
19 know, had to price the quality of the loan.

20 5. The record shows that the ACC staff method of computing coverage ratios is not  
21 consistent with how the lender computes coverage.

22 Transcript, page 65, line 11-page 66, line 2:

23 Q. (ALJ Jane Rodda) Is that – Can you tell, is that calculation based on the way  
24 Staff calculates the DSC?  
25

1 A. (Mr. Edwards) I believe, by the way it's described, it is. It's described here as  
2 an operating DSC and an operating TIER, which does not include the  
3 miscellaneous revenues.

4 Q. Right. But you all include the miscellaneous revenues so that under your  
5 calculations the DSC and TIER would be greater?

6 A. It would be greater by some amount.

7 Q. But you haven't done that calculation?

8 A. I have not done that calculation. We generally look at things on a net basis for  
9 credit purposes. For regulatory purposes, I generally tend to look at things on  
10 an operating basis. Although, we certainly understand, in support of this case,  
11 the company's net position.

12 Transcript, page 67, lines 15-25:

13 Q. (Mr. Curtis) Yes. As a lender, you don't need to follow Staff's methodology in  
14 deriving these nets that you just described, you use the RUS formula, is that  
15 right?

16 A. (Mr. Edwards) That's correct.

17  
18 Q. I just want to know, which one leads to the higher rates, Mr. Edwards?

19 A. It's typically the net.

20 6. The record does indicate that AEPCO will be able to achieve an equity growth without  
21 the additional revenue recommended by staff.

22 AEPCO-2, Rebuttal Testimony of Dirk Minson, page 8, line 11:

23 Q. Do you disagree with Mr. Ramirez' recommendation that AEPCO continue to  
24 improve its equity position?  
25

1 Not at all. The rates that we propose would generate \$8.2 million in net margins  
2 on an annual basis. Absent other changes, this level of margins would build  
3 AEPCO's equity ratio to 30% in eight years.

4 The record in this proceeding reflects a Procrustean effort to use what little  
5 evidence exists to establish a recommendation upon which the ACC is expected to make a  
6 decision. If ten scintilla of data comprise one gossamer of evidence, the record in this proceeding  
7 offered in support of an additional revenue requirement to increase equity is at best two  
8 gossamers.

9 **C. The Revenue Requirement Increased Due To Staff's Adjustments.**

10 AEPCO originally filed for a change in rates that would produce an additional  
11 \$8.45 million in revenues, or a 9.77% increase. In rebuttal testimony, AEPCO revised their  
12 request to reflect an increase of \$9.48 million in revenues, or 10.94% increase. This change was  
13 primarily a result of a correction to reflect debt service for a note that should have been included  
14 in the test year pointed out by the ACC staff. However, in response to other issues raised by ACC  
15 staff, AEPCO agreed to ignore non-operating income in the calculation of coverage ratios and to  
16 increase the revenue requirement by an additional \$2.6 million to reflect equity objectives. As a  
17 result of the regulatory review process, the ACC staff and AEPCO staff have recommended and  
18 agreed to increase the revenue requirement to the AEPCO Members by \$13.36 million, or  
19 15.44%. This is \$4.91 million or 58% more than the amount originally requested and presented to  
20 the AEPCO board of directors.

21 The situation is much the same for SWTCO. The original filing reflected a change  
22 in Network Transmission Service and System Control & Dispatching (the cost of transmission  
23 service for the AEPCO Member systems). The impact on the Class A Members was originally  
24 \$3.2 million. After filing rebuttal and rejoinder exhibits, the increase is now \$3.27 million, with  
25 an additional \$1.7 million increase to be effective January 1, 2006, another \$241,000 to be

1 effective July 1, 2006, and yet another \$243,000 to be effective July 1, 2007. The overall increase  
2 for transmission service assuming the Commission grants the SWTCO request is \$5.4 million, or  
3 32.2%. In other words, the proposed increase for SWTCO is now 65% more than originally  
4 requested.

5 If the Commission adopts the revenue requirement proposed by AEPCO staff and  
6 ACC staff, the total cost of power delivered to the wholesale meter will increase from  
7 \$50.61/MWh to \$59.84/MWh, or \$9.23/MWh, an 18.23% increase. Assuming a 750 kWh per  
8 month residential user, the increase at the retail metering with 10% losses is \$7.69 per month or  
9 \$92.30 per year. This Commission decision in this proceeding will have a significant impact on  
10 the retail customers served by the AEPCO Member systems.

11 **D. AEPCO/SWTCO Have Understated The Impact Of The Proposed AEPCO And**  
12 **SWTCO Rate Increase.**

13 Mr. Grant and Mr. Minson have understated the impact of this increase to the  
14 Commission. Mr. Grant stated in opening remarks that:

15 “However, it is still a modest request. For the average residential  
16 consumer using 750 kWh per month, taking into account our  
17 current rejoinder requests which I’ll describe in just a moment, we  
18 estimate the AEPCO generation request would this year produce  
19 about a \$3.70 monthly bill increase, and the Southwest  
20 Transmission case this year would produce about a \$1.45 bill  
21 increase.” (Transcript page 17, lines 1-8)

22 The total impact based on Mr. Grant’s representation is \$5.15 per month. Based on  
23 data from this proceeding, the total increase will be in the range of \$7.69 per month for a 750  
24 kWh retail customer, or 49% more than represented. See, attached Schedule B-1, page 5. The  
25 impact will vary depending on the distribution wires losses. Assuming a 6% loss, the impact is

1 \$7.36 per month. The important point is that impact needs to be measured at the retail level  
2 because it is the retail customer that will be paying for the increase.

3 Mr. Grant also has mischaracterized the increase associated with the additional 3%  
4 increase.

5 "The additional three percent request translates to about 1.3 mills per kWh on  
6 AEPCO's generation rate. So the average residential customer impact in two  
7 years for the total three percent would be about 10 cents per month."

8 (Transcript page 21, lines 1-5)

9 The actual value assuming 750 kWh per month and a \$0.0013/kWh increase is  
10 \$0.975 per month. If consideration is given to the impact measured at the retail level, and  
11 assuming 10% losses the value is \$1.06 per month (see, Schedule B-1.0, page 3) and assuming  
12 6% losses the value is \$1.04 per month.

13 When questioned by Mr. Grant about the impact of the AEPCO Phase II and Phase  
14 III rate adjustments presented in rejoinder exhibits, Mr. Minson responded:

15 Q. Mr. Minson, can you estimate the impact of the total three percent, the 1.5 and  
16 1.5, on the average residential customer?

17 A. Right. Effectively, the two 1.5 percent increases is about 1.3 mills per kilowatt  
18 hour. And that would add, on the generation side, about 10 cents a month for a  
19 user of -- an average user of 750 kilowatt hours per month. (Transcript page  
20 87, lines 8-15)

21 Mr. Minson is correct in that the impact of the two AEPCO 1.5% increases is  
22 approximately 1.3 mills/kWh. Even if we ignore the difference between the impact measured at  
23 the wholesale vs. the retail level, Mr. Minson's estimate of \$0.0013/kWh for a 750 kWh/month  
24 customer should be \$0.975 per month rather than \$0.10 per month. His impact analysis of the  
25 Phase II and III equity growth misses the mark substantially. If the analysis considers that the

1 retail customer is paying based on retail cost and not wholesale cost, the impact on the retail  
2 customer is more likely in the range of \$1.08 per month, or \$13 per year.

3           Unfortunately, Mr. Minson makes the same error when he characterizes the impact  
4 of the SWTCO increase.

5           Q. Mr. Minson, can you estimate for the Judge and the Commission what is the  
6 impact of the additional three percent over the two-year time frame being  
7 requested?

8           A. The three percent, then, would generate 0.3 mils per kilowatt hour, or roughly  
9 two cents a month, again, going back to that average customer that uses 750  
10 kilowatt hours per month. (Transcript page 104, line 8)

11           Assuming an increase of \$0.0003/kWh at the wholesale level and a 750 kWh  
12 monthly usage, the impact is \$0.225/month and not two cents a month.

13           Mohave recognizes that an increase in revenue is required at both the AEPCO and  
14 SWTCO level. At issue for Mohave, as a PRM, is the equity growth component, particularly for  
15 AEPCO. Because AEPCO does not have responsibility to provide new power supply resources  
16 for Mohave, Mohave does not believe its retail customers should have responsibility for equity  
17 growth. Mohave does not want the Commission to approve the allocation of equity growth  
18 component of the revenue requirement thinking that the impact is only pennies.

19           Schedule B-1.0 pages 1 – 5 attached hereto provide a more detailed analysis of the  
20 impact given AEPCO's current rate design proposal. The impact is slightly different for each of  
21 the ARM. The impact is greater for Mohave than any of the ARM systems. For example, the  
22 average increase for the AEPCO proposal including all phases is 20.37% for Mohave as  
23 compared to 13% for the average APM. (See Schedule B-1.0, page 3) The analysis also shows  
24 the cost component associated with the Phase 2 and Phase 3 for AEPCO and the Phase 3 and  
25 Phase 4 for SWTCO.

1 **E. The Misrepresentation Of Customer Impact Is Particularly Egregious Given The**  
2 **Lack Of Customer Impact Evidence Provided By Staff Witness Ramirez.**

3 Staff witness Ramirez recommended that customer impact be considered in  
4 developing a financial plan to achieve a particular equity level. In his surrebuttal testimony, Mr.  
5 Ramirez states:

6 However, it is Staff's position that AEPCO's rates should be sufficient  
7 to move toward a sound financial position while also taking into  
8 account the ratepayer impact. (S-13, Surrebuttal Testimony of  
9 Alejandro Ramirez, page 5)

10 Unfortunately Mr. Ramirez prepared no such ratepayer impact analysis in  
11 developing his recommendations.

12 Q. (Mr. Curtis) Do you know how the AEPCO wholesale rates compare with  
13 rates charged by other utilities for similar service?

14 A. (Mr. Ramirez) No, I do not.

15 Q. Do you know how the AEPCO wholesale rate, which is service at primary  
16 voltage, compares with service at primary or transmission voltages charged by  
17 IOUs in the area of Arizona?

18 A. No, I do not.

19 Q. Do you know how the member retail rates – the distribution cooperative rates  
20 of AEPCO compare with the retail rates charged by the other utilities in the  
21 area?

22 A. No, I do not. (Transcript, page 236, line 19-page 237, line 2)

23 There is no analysis of the impact on the retail customers served by the AEPCO  
24 members, and there is no analysis to determine the extent to which the proposed rates may result  
25 in the Member retail rates being non-competitive. By ignoring the impact of compounding both  
the base component based on a historical test year with equity component based on some

1 anticipated future events, the staff could unknowingly make it more difficult for AEPCO to  
2 realize the financial stability they are seeking. Non-competitive retail rates and increased rate  
3 pressure at the retail level can cause a decrease in the growth rate and a deterioration of the equity  
4 position. The impact will be exacerbated when the total equity growth component is assigned to  
5 ARM.

6           Whereas, Mr. Ramirez recognized the importance of evaluating the impact his  
7 recommendation may have on the customer, he provided no customer impact analysis in support  
8 of his recommendations. This leaves the Commission in the unfortunate position of having to  
9 consider a staff recommendation without knowing the impact of the recommendation on the  
10 distribution cooperative or more importantly on the retail customer served by the cooperative.  
11 The attached Schedule B-1.0 page 5 analysis shows that the impact on the 750 kWh retail  
12 customer is significant.

13 **F.     There Is No Basis For The Commission Approving \$1.96 Million Of The Proposed**  
14 **Rate Increase Related To Meeting Specific Financial Objectives Based On Operating**  
15 **Income Rather Than A Net Income.**

16           The record in this case is unique in that a portion of the ACC staff recommended  
17 rate increase is related to the need to meet specific coverage ratios. The coverage ratios are based  
18 on requirements imposed by the lender. However, the method used by the ACC staff to compute  
19 the coverage is inconsistent with the methodology used by the very lenders the staff references as  
20 requiring the coverage. The difference is the magnitude of the non-operating income of  
21 approximately \$1.96 million.

22           The staff's rationale for ignoring the non-operating income is that they are required  
23 to deal with only operating activities and are required to ignore non-operating activities in  
24 establishing revenue requirements. Apparently, consistency with regulatory standards applies to  
25 certain elements of the rate proceeding but not others. For example, the ACC staff is more than

1 willing to establish revenue requirements based on events not only outside the test year but  
2 events not documented or included in the record.

3           One possible rationale for accepting the ACC staff position in the AEPCO  
4 proceeding is that the non-operating income which the staff elects to ignore will in fact exist, it  
5 will be another source of cash, and it will contribute to an increase in equity and contribute to  
6 meeting its equity goals. Unfortunately, the equity contribution will not benefit Mohave because  
7 Mohave does not have access to the assets that will be financed by the equity. Therefore, ignoring  
8 non-operating income may be helpful to the ARM but will not benefit Mohave. For that reason  
9 the margins used to establish Mohave's rates should be based on total income available to  
10 provide coverage of debt service and not include any other revenue components that will  
11 contribute to building equity to finance future assets for which Mohave will not benefit.

12 **G. Mohave Should Not Be Allocated Any Portion Of The Additional Revenue**  
13 **Requirement Associated With Meeting Equity Objectives.**

14           There are three reasons why Mohave should not be allocated any responsibility for  
15 the equity growth component of the revenue requirement. Two have already been discussed:

- 16 1. The future equity requirements are driven by the need to have access to debt  
17 capital to finance future power supply requirements. Mohave as a PRM is not  
18 allowed to use these resources and therefore should not be assigned any cost  
19 responsibility.
- 20 2. Whereas the Staff seems compelled to comply with ACC rate-making principles  
21 for certain elements of the revenue requirement (exclusion of non-operating  
22 income) they ignore rate-making principles associated with test year cost concepts  
23 and rates based on known and measurable adjustments that are of a continuing  
24 nature.
- 25 3. The lenders have indicated that the Staff's 30% equity is not appropriate. It is  
excessive as compared to other G&Ts similarly situated. They have indicated that

1           it is not their requirement that AEPCO achieve a 30% equity in order to obtain  
2           additional financing.

3           Ignoring for a moment these fundamental issues, a reasonable question is what  
4           would be the results if the Commission approved AEPCO's original rate request or the impact  
5           assuming the rate increase reflected in the rejoinder position. Administrative Law Judge Jane  
6           Rodda (the "ALJ") asked Mr. Minson:

7           Q. Under your rejoinder position in terms of your revenue request, how much –  
8           what do your projections indicate how much equity you're going to be building  
9           in the next five years or so?

10          A. I haven't looked at them recently, frankly. We're in the thralls of doing –  
11          developing a financial forecast now, and we have been for the last nine months.  
12          As a result of switching from one model to another, it's taken us a little bit  
13          longer than what it should have to create a financial forecast, and that's what  
14          we're doing now. (Transcript, page 146, lines 7-17)

15          However, in rebuttal testimony Mr. Minson did offer an opinion as to what would  
16          be expected with regard to increase in equity.

17          Q. Do you disagree with Mr. Ramirez' recommendation that AEPCO continue to  
18          improve equity position?

19          A. Not at all. The rates we propose would generate \$8.2 million in net margins on  
20          an annual basis. Absent other changes, this level of margins would build  
21          AEPCO's equity ratio to 30% in about eight years. (AEPCO-2, Rebuttal  
22          Testimony of Dirk Minson, page 8, line 11)

23          It is not clear why Mr. Minson did not refer to his analysis that was the basis for  
24          his comments in his rebuttal testimony when responding to the ALJ. However, it is important to  
25          note that the rejoinder position will produce greater margins than the original rate proposal;

1 therefore, it is reasonable to assume that the 30% equity level will be achieved even sooner than  
2 eight years.

3           The important point is that AEPCO and SWTCO will have load growth that will  
4 produce additional revenue and additional margins. There is no evidence to support the need for  
5 additional revenue to support equity growth. Apparently Mr. Minson's own analysis showed that  
6 the originally requested rates were more than sufficient. At a minimum, Mohave as a PRM  
7 should not be allocated any of the revenue responsibility. The Commission should also seriously  
8 consider all the implications of developing equity growth recommendations for a G&T that is not  
9 responsible for new resources to serve 65% of the current Member load since that load is now  
10 PRMs.  
11

12 **H. AEPCO SHOULD NOT CONTROL MOHAVE'S CHOICE OF DSM ACTIVITIES.**

13           While the earlier staff testimony indicated that AEPCO was to have control in  
14 choosing DSM programs, the issue was clarified by the following exchange between Mr. Curtis  
15 and Ms. Keene at page 212, lines 9-20 of the hearing transcript:  
16

17           Q. But to the extent AEPCO has a DSM program, I believe all of us agree that it ought to  
18 be able to recover the cost?

19           A. Of course.

20           Q. But to the extent that distribution coops don't want to be under the terms of the  
21 AEPCO DSM, should those distribution cooperatives be required to pay any extra  
22 costs to AEPCO?

23           A. If they're not participating in those programs, no. They should participate on their  
24 own, then, and would recover those costs if the mechanism is established for them.  
25

1 **I. CONCLUSION**

2 In light of the above observations, Mohave requests that the Commission take the  
3 following actions:

- 4 1. Approve a 12.44 % increase in AEPCO rates and a 19.45% increase in SWTCO  
5 rates to become effective immediately.
- 6 2. Conditionally authorize the prospective 1.5 percent increases for AEPCO, but do  
7 not allow them to go into effect unless AEPCO submits to the Commission and  
8 AEPCO's Members, relevant financial information demonstrating that the rate  
9 increases are necessary to achieve a Debt Service Ratio of 1.0. See, copy of  
10 AEPCO Board of Directors' resolution passed on April 22, 2005 attached hereto as  
11 Exhibit A)
- 12 3. Conditionally authorize the prospective phase 2, 3 and 4 increases for SWTCO, but  
13 do not allow them to go into effect unless SWTCO submits relevant financial  
14 information to the Commission and SWTCO's Members demonstrating that the  
15 increases are in fact necessary to permit SWTCO to meet its financial obligations.
- 16 4. Both AEPCO and SWETCO should be ordered to provide an Equity Improvement  
17 Analysis by March 31, 2006 which shall include:
  - 18 a. An analysis of the benefits, if any, that PRMs obtain by improving the equity  
19 position of AEPCO and SWTCO respectively;
  - 20 b. An analysis of the benefits which the ARMs obtain by improving the equity  
21 position of AEPCO and SWTCO respectively and of the optimum equity level  
22 to obtain such benefits;
  - 23 c. An analysis of methods other than rate increases for increasing equity; and

1 d. A consideration of possible methods to permit future borrowings to meet load  
2 growth of ARMs to be based upon the equity of those ARMs that benefit from  
3 the borrowing.

4 5. Require AEPSCO to file a rate case six months after Sulphur Springs has completed  
5 a full year as a PRM.

6 6. Provide that in any DSM requirement, that each distribution cooperatives be  
7 responsible for its own program and not be subject to AEPSCO's direction or  
8 control.

9 DATED this 9<sup>th</sup> day of May, 2005.

10 CURTIS, GOODWIN, SULLIVAN,  
11 UDALL & SCHWAB, P.L.C.

12 By: 

13 Michael A. Curtis  
14 William P. Sullivan  
15 2712 North 7th Street  
16 Phoenix, Arizona 85006-1090  
17 Attorneys for Mohave Electric  
18 Cooperative, Inc.

19 PROOF OF AND CERTIFICATE OF MAILING

20 I hereby certify that on this 9th day of May, 2005, I caused the foregoing document  
21 to be served on the Arizona Corporation Commission by delivering the original and fifteen (15)  
22 copies of the above to:

23 Docket Control  
24 Arizona Corporation Commission  
25 1200 West Washington  
Phoenix, Arizona 85007

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Copies of the foregoing were hand delivered/mailed  
this 9th day of May, 2005 to:

Ernest Johnson  
Arizona Corporation Commission  
Director of Utilities  
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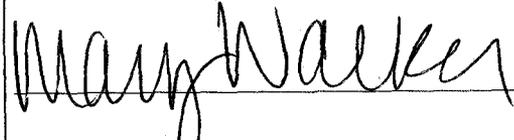
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Summary of Test Year Usage

Schedule A-1.0

| Member  | ARM | Demand<br>KW | Demand<br>% | Energy<br>mWh | Energy<br>% |
|---------|-----|--------------|-------------|---------------|-------------|
| Anza    | ARM | 82,464       | 2.19%       | 44,661        | 2.21%       |
| Duncan  | ARM | 50,200       | 1.34%       | 26,783        | 1.32%       |
| Graham  | ARM | 264,486      | 7.03%       | 136,552       | 6.74%       |
| Mohave  | PRM | 1,270,181    | 33.79%      | 716,979       | 35.40%      |
| Sulphur | PRM | 1,182,500    | 31.45%      | 662,993       | 32.74%      |
| Trico   | ARM | 909,762      | 24.20%      | 437,359       | 21.59%      |
| Total   | ARM | 3,759,593    | 100.00%     | 2,025,327     | 100.00%     |

Summary of Proposed Rates

**AEP CO Rates**

|          | Existing | Phase 1<br>7/1/2005 | Phase 2<br>7/1/2006 | Phase 3<br>7/1/2007 |
|----------|----------|---------------------|---------------------|---------------------|
| Existing |          |                     |                     |                     |

**All Requirement Members**

|               | Existing           | Phase 1<br>7/1/2005 | Phase 2<br>7/1/2006 | Phase 3<br>7/1/2007 |
|---------------|--------------------|---------------------|---------------------|---------------------|
| Demand Charge | \$/kw/mon<br>12.44 | 14.31               | 14.64               | 14.98               |
| Energy Charge | \$/mwh<br>19.89    | 20.73               | 20.73               | 20.73               |

**Partial Requirement Members**

|                   | Existing             | Phase 1<br>7/1/2005 | Phase 2<br>1/1/2006 | Phase 3<br>7/1/2006 | Phase 3<br>7/1/2007 |
|-------------------|----------------------|---------------------|---------------------|---------------------|---------------------|
| Facilities Charge | \$/mon<br>688,556.00 | 791,099.00          | 822,728.00          | 855,112.00          |                     |
| O&M Charge        | \$/kw/mon<br>4.76    | 7.15                | 7.21                | 7.26                |                     |
| Energy Charge     | \$/mwh<br>19.89      | 20.73               | 20.73               | 20.73               |                     |

**SWTCO Rates**

|          | Existing | Phase 1<br>7/1/2005 | Phase 2<br>1/1/2006 | Phase 3<br>7/1/2006 | Phase 3<br>7/1/2007 |
|----------|----------|---------------------|---------------------|---------------------|---------------------|
| Existing |          |                     |                     |                     |                     |

**Transmission Service**

|                                   | Existing            | Phase 1<br>7/1/2005 | Phase 2<br>1/1/2006 | Phase 3<br>7/1/2006 | Phase 3<br>7/1/2007 |
|-----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Network Service                   | \$/month<br>1092016 | 1420722             | 1566081             | 1587088             | 1608258             |
| System Control & Load Dispatching | \$/kw/mon<br>0.422  | 0.289               | 0.289               | 0.289               | 0.289               |
| Regulatory Access Charge          | \$/mwh<br>1.41      | 1.41                | 1.41                | 1.41                | 1.41                |

Impact of Proposed Change in Rates

|         | Existing Rates  |                |                | Proposed Rates  |                |                | Proposed Increase |                |                | Proposed Increase |            |            |
|---------|-----------------|----------------|----------------|-----------------|----------------|----------------|-------------------|----------------|----------------|-------------------|------------|------------|
|         | AEPSCO<br>\$000 | SWTCO<br>\$000 | Total<br>\$000 | AEPSCO<br>\$000 | SWTCO<br>\$000 | Total<br>\$000 | AEPSCO<br>\$000   | SWTCO<br>\$000 | Total<br>\$000 | AEPSCO<br>%       | SWTCO<br>% | Total<br>% |
| Anza    | 1,914           | 364            | 2,278          | 2,161           | 478            | 2,639          | 247               | 115            | 362            | 12.90%            | 31.55%     | 15.88%     |
| Duncan  | 1,159           | 229            | 1,388          | 1,310           | 302            | 1,612          | 150               | 74             | 224            | 12.98%            | 32.18%     | 16.14%     |
| Graham  | 6,017           | 1,161          | 7,178          | 6,806           | 1,530          | 8,337          | 789               | 370            | 1,159          | 13.11%            | 31.85%     | 16.14%     |
| Sulphur | 27,949          | 5,386          | 33,335         | 31,521          | 7,097          | 38,617         | 3,572             | 1,711          | 5,283          | 12.78%            | 31.77%     | 15.85%     |
| Trico   | 20,055          | 4,125          | 24,180         | 22,740          | 5,481          | 28,221         | 2,685             | 1,356          | 4,041          | 13.39%            | 32.87%     | 16.71%     |
| Total   | 57,095          | 11,264         | 68,358         | 64,538          | 14,889         | 79,427         | 7,443             | 3,625          | 11,068         | 13.04%            | 32.18%     | 16.19%     |
| Mohave  | 28,591          | 5,558          | 34,149         | 34,415          | 7,356          | 41,771         | 5,824             | 1,798          | 7,622          | 20.37%            | 32.36%     | 22.32%     |
| Total   | 85,686          | 16,822         | 102,507        | 98,952          | 22,245         | 121,197        | 13,267            | 5,423          | 18,690         | 15.48%            | 32.24%     | 18.23%     |
| Anza    | 42.86           | 8.14           | 51.00          | 48.39           | 10.71          | 59.10          | 5.53              | 2.57           | 8.10           |                   |            |            |
| Duncan  | 43.29           | 8.53           | 51.82          | 48.91           | 11.28          | 60.18          | 5.62              | 2.75           | 8.36           |                   |            |            |
| Graham  | 44.07           | 8.50           | 52.57          | 49.84           | 11.21          | 61.05          | 5.78              | 2.71           | 8.48           |                   |            |            |
| Sulphur | 42.16           | 8.12           | 50.28          | 47.54           | 10.70          | 58.25          | 5.39              | 2.58           | 7.97           |                   |            |            |
| Trico   | 45.85           | 9.43           | 55.29          | 51.99           | 12.53          | 64.53          | 6.14              | 3.10           | 9.24           |                   |            |            |
| Total   | 43.64           | 8.61           | 52.25          | 49.33           | 11.38          | 60.71          | 5.69              | 2.77           | 8.46           |                   |            |            |
| Mohave  | 39.88           | 7.75           | 47.63          | 48.00           | 10.26          | 58.26          | 8.12              | 2.51           | 10.63          |                   |            |            |
| Total   | 42.31           | 8.31           | 50.61          | 48.86           | 10.98          | 59.84          | 6.55              | 2.68           | 9.23           |                   |            |            |

Note: Summary does not include DAF charges. Calculation based on historical billing units.

Impact of Proposed AEPCCO Rate Increase

Reference: Calculations do not include DAF Charges  
Based on historical billing units.

|         | Existing \$000 | Proposed Increase \$000 |         |         | Cumulative Increase \$000 |          |          | Total Incr \$000<br>Phase 2 + 3 | % Increase |         |         |        |
|---------|----------------|-------------------------|---------|---------|---------------------------|----------|----------|---------------------------------|------------|---------|---------|--------|
|         |                | Phase 1                 | Phase 2 | Phase 3 | Phase 1                   | Phase 2  | Phase 3  |                                 | Phase 1    | Phase 2 | Phase 3 | Total  |
| Anza    | 1,914.2        | 191.7                   | 27.2    | 28.0    | 191.7                     | 218.9    | 247.0    | 55.3                            | 10.02%     | 1.42%   | 1.46%   | 12.90% |
| Duncan  | 1,159.3        | 116.8                   | 16.6    | 17.1    | 116.8                     | 133.4    | 150.5    | 33.7                            | 10.07%     | 1.43%   | 1.48%   | 12.98% |
| Graham  | 6,017.4        | 611.4                   | 87.5    | 90.1    | 611.4                     | 698.8    | 788.9    | 177.6                           | 10.16%     | 1.45%   | 1.50%   | 13.11% |
| Sulphur | 27,948.8       | 2,777.9                 | 391.0   | 402.9   | 2,777.9                   | 3,168.9  | 3,571.8  | 793.9                           | 9.94%      | 1.40%   | 1.44%   | 12.78% |
| Trico   | 20,055.1       | 2,074.2                 | 300.8   | 309.9   | 2,074.2                   | 2,375.0  | 2,684.9  | 610.8                           | 10.34%     | 1.50%   | 1.55%   | 13.39% |
| Total   | 57,094.8       | 5,771.9                 | 823.1   | 848.0   | 5,771.9                   | 6,595.0  | 7,443.1  | 1,671.1                         | 10.11%     | 1.44%   | 1.49%   | 13.04% |
| Mohave  | 28,590.8       | 4,914.1                 | 456.7   | 453.0   | 4,914.1                   | 5,370.7  | 5,823.8  | 909.7                           | 17.19%     | 1.60%   | 1.58%   | 20.37% |
| Total   | 85,685.6       | 10,686.0                | 1,279.8 | 1,301.1 | 10,686.0                  | 11,965.8 | 13,266.8 | 2,580.8                         | 12.47%     | 1.49%   | 1.52%   | 15.48% |

|         | Billing mWh | Proposed Increase \$/mwh |         |         | Cumulative Increase \$/mwh |         |         | Total Incr \$/mwh<br>Phase 2 + 3 | Total \$/mwh<br>Existing | Total \$/mwh<br>Proposed |
|---------|-------------|--------------------------|---------|---------|----------------------------|---------|---------|----------------------------------|--------------------------|--------------------------|
|         |             | Phase 1                  | Phase 2 | Phase 3 | Phase 1                    | Phase 2 | Phase 3 |                                  |                          |                          |
| Anza    | 44,661      | 4.29                     | 0.61    | 0.63    | 4.29                       | 4.90    | 5.53    | 1.24                             | 42.86                    | 48.39                    |
| Duncan  | 26,783      | 4.36                     | 0.62    | 0.64    | 4.36                       | 4.98    | 5.62    | 1.26                             | 43.29                    | 48.91                    |
| Graham  | 136,552     | 4.48                     | 0.64    | 0.66    | 4.48                       | 5.12    | 5.78    | 1.30                             | 44.07                    | 49.84                    |
| Sulphur | 662,993     | 4.19                     | 0.59    | 0.61    | 4.19                       | 4.78    | 5.39    | 1.20                             | 42.16                    | 47.54                    |
| Trico   | 437,359     | 4.74                     | 0.69    | 0.71    | 4.74                       | 5.43    | 6.14    | 1.40                             | 45.85                    | 51.99                    |
| Total   | 1,308,348   | 4.41                     | 0.63    | 0.65    | 4.41                       | 5.04    | 5.69    | 1.28                             | 43.64                    | 49.33                    |
| Mohave  | 716,979     | 6.85                     | 0.64    | 0.63    | 6.85                       | 7.49    | 8.12    | 1.27                             | 39.88                    | 48.00                    |
| Total   | 2,025,327   | 5.28                     | 0.63    | 0.64    | 5.28                       | 5.91    | 6.55    | 1.27                             | 42.31                    | 48.86                    |

|         | Retail Usage kWh | Loss Factor | Proposed Increase \$/month |         |         | Cumulative Increase \$/month |         |         | Total \$/month<br>Phase 2 + 3 | Total \$/year |
|---------|------------------|-------------|----------------------------|---------|---------|------------------------------|---------|---------|-------------------------------|---------------|
|         |                  |             | Phase 1                    | Phase 2 | Phase 3 | Phase 1                      | Phase 2 | Phase 3 |                               |               |
| Anza    | 750              | 10.00%      | 3.58                       | 0.51    | 0.52    | 3.58                         | 4.09    | 4.61    | 1.03                          | 55.30         |
| Duncan  | 750              | 10.00%      | 3.63                       | 0.52    | 0.53    | 3.63                         | 4.15    | 4.68    | 1.05                          | 56.19         |
| Graham  | 750              | 10.00%      | 3.73                       | 0.53    | 0.55    | 3.73                         | 4.26    | 4.81    | 1.08                          | 57.77         |
| Sulphur | 750              | 10.00%      | 3.49                       | 0.49    | 0.51    | 3.49                         | 3.98    | 4.49    | 1.00                          | 53.87         |
| Trico   | 750              | 10.00%      | 3.95                       | 0.57    | 0.59    | 3.95                         | 4.53    | 5.12    | 1.16                          | 61.39         |
| Total   | 750              | 10.00%      | 3.68                       | 0.52    | 0.54    | 3.68                         | 4.20    | 4.74    | 1.06                          | 56.89         |
| Mohave  | 750              | 10.00%      | 5.71                       | 0.53    | 0.53    | 5.71                         | 6.24    | 6.77    | 1.06                          | 81.23         |
| Total   | 750              | 10.00%      | 4.40                       | 0.53    | 0.54    | 4.40                         | 4.92    | 5.46    | 1.06                          | 65.50         |

Impact of Proposed SWTCO Rate Increase

| Existing \$000 | Proposed Increase \$000 |         |         |         | Cumulative Increase \$000 | Total Incr \$000 | % Increase |        |        |       |       |        |
|----------------|-------------------------|---------|---------|---------|---------------------------|------------------|------------|--------|--------|-------|-------|--------|
|                | Phase 1                 | Phase 2 | Phase 3 | Phase 4 |                           |                  |            |        |        |       |       |        |
| Anza           | 364                     | 69.1    | 35.4    | 5.1     | 5.2                       | 69.1             | 10.3       | 18.99% | 9.73%  | 1.41% | 1.42% | 31.55% |
| Duncan         | 229                     | 44.4    | 22.6    | 3.3     | 3.3                       | 44.4             | 6.5        | 19.44% | 9.88%  | 1.43% | 1.44% | 32.18% |
| Graham         | 1,161                   | 222.6   | 114.0   | 16.5    | 16.6                      | 222.6            | 33.1       | 19.18% | 9.82%  | 1.42% | 1.43% | 31.85% |
| Sulphur        | 5,386                   | 1,032.3 | 526.0   | 76.0    | 76.6                      | 1,032.3          | 152.6      | 19.17% | 9.77%  | 1.41% | 1.42% | 31.77% |
| Trico          | 4,125                   | 819.5   | 415.9   | 60.1    | 60.6                      | 819.5            | 120.7      | 19.87% | 10.08% | 1.46% | 1.47% | 32.87% |
| Total          | 11,264                  | 2,187.9 | 1,113.9 | 161.0   | 162.2                     | 2,187.9          | 323.2      | 19.42% | 9.89%  | 1.43% | 1.44% | 32.18% |
| Mohave         | 5,558                   | 1,083.8 | 553.8   | 80.0    | 80.7                      | 1,083.8          | 160.7      | 19.50% | 9.97%  | 1.44% | 1.45% | 32.36% |
| Total          | 16,822                  | 3,271.7 | 1,667.8 | 241.0   | 242.9                     | 3,271.7          | 483.9      | 19.45% | 9.91%  | 1.43% | 1.44% | 32.24% |

| Billing mWh | Proposed Increase \$/mwh |         |         |         | Cumulative Increase \$/mwh | Total Incr \$/mwh | Total Existing \$/mwh | Total Proposed \$/mwh |      |      |       |
|-------------|--------------------------|---------|---------|---------|----------------------------|-------------------|-----------------------|-----------------------|------|------|-------|
|             | Phase 1                  | Phase 2 | Phase 3 | Phase 4 |                            |                   |                       |                       |      |      |       |
| Anza        | 44,661                   | 1.55    | 0.79    | 0.11    | 0.12                       | 1.55              | 2.34                  | 2.45                  | 2.57 | 8.14 | 10.71 |
| Duncan      | 26,783                   | 1.66    | 0.84    | 0.12    | 0.12                       | 1.66              | 2.50                  | 2.62                  | 2.75 | 8.53 | 11.28 |
| Graham      | 136,552                  | 1.63    | 0.83    | 0.12    | 0.12                       | 1.63              | 2.47                  | 2.59                  | 2.71 | 8.50 | 11.21 |
| Sulphur     | 662,993                  | 1.56    | 0.79    | 0.11    | 0.12                       | 1.56              | 2.35                  | 2.47                  | 2.58 | 8.12 | 10.70 |
| Trico       | 437,359                  | 1.87    | 0.95    | 0.14    | 0.14                       | 1.87              | 2.82                  | 2.96                  | 3.10 | 9.43 | 12.53 |
| Total       | 1,308,348                | 1.67    | 0.85    | 0.12    | 0.12                       | 1.67              | 2.52                  | 2.65                  | 2.77 | 8.61 | 11.38 |
| Mohave      | 716,979                  | 1.51    | 0.77    | 0.11    | 0.11                       | 1.51              | 2.28                  | 2.40                  | 2.51 | 7.75 | 10.26 |
| Total       | 2,025,327                | 1.62    | 0.82    | 0.12    | 0.12                       | 1.62              | 2.44                  | 2.56                  | 2.68 | 8.31 | 10.98 |

| Retail Usage KWh | Loss Factor | Proposed Increase \$/month |         |         |         | Cumulative Increase \$/month |         |         |         | Total \$/month | Total \$/year |       |
|------------------|-------------|----------------------------|---------|---------|---------|------------------------------|---------|---------|---------|----------------|---------------|-------|
|                  |             | Phase 1                    | Phase 2 | Phase 3 | Phase 4 | Phase 1                      | Phase 2 | Phase 3 | Phase 4 |                |               |       |
| Anza             | 750         | 10.00%                     | 1.29    | 0.66    | 0.10    | 0.10                         | 1.29    | 1.95    | 2.04    | 2.14           | 0.19          | 24.53 |
| Duncan           | 750         | 10.00%                     | 1.38    | 0.70    | 0.10    | 0.10                         | 1.38    | 2.08    | 2.19    | 2.29           | 0.20          | 26.23 |
| Graham           | 750         | 10.00%                     | 1.36    | 0.70    | 0.10    | 0.10                         | 1.36    | 2.05    | 2.15    | 2.26           | 0.20          | 25.86 |
| Sulphur          | 750         | 10.00%                     | 1.30    | 0.66    | 0.10    | 0.10                         | 1.30    | 1.96    | 2.05    | 2.15           | 0.19          | 24.65 |
| Trico            | 750         | 10.00%                     | 1.56    | 0.79    | 0.11    | 0.12                         | 1.56    | 2.35    | 2.47    | 2.58           | 0.23          | 29.62 |
| Total            | 750         | 10.00%                     | 1.39    | 0.71    | 0.10    | 0.10                         | 1.39    | 2.10    | 2.21    | 2.31           | 0.21          | 26.47 |
| Mohave           | 750         | 10.00%                     | 1.26    | 0.64    | 0.09    | 0.09                         | 1.26    | 1.90    | 2.00    | 2.09           | 0.19          | 23.96 |
| Total            | 750         | 10.00%                     | 1.35    | 0.69    | 0.10    | 0.10                         | 1.35    | 2.03    | 2.13    | 2.23           | 0.20          | 25.58 |

Estimated Additional Monthly Cost for Retail Customer With 750 kWh per Month Usage

|         | Base Component |               |               |            | Equity Growth Component |                 |              |        | Total |
|---------|----------------|---------------|---------------|------------|-------------------------|-----------------|--------------|--------|-------|
|         | AEPCO Phase 1  | SWTCO Phase 1 | SWTCO Phase 2 | Total Base | AEPCO Phase 2+3         | SWTCO Phase 3+4 | Total Equity | Total  |       |
| Anza    | \$/month 3.58  | 1.29          | 0.66          | 5.53       | 1.03                    | 0.19            | 1.22         | 6.75   |       |
| Duncan  | \$/month 3.63  | 1.38          | 0.70          | 5.72       | 1.05                    | 0.20            | 1.25         | 6.97   |       |
| Graham  | \$/month 3.73  | 1.36          | 0.70          | 5.79       | 1.08                    | 0.20            | 1.29         | 7.07   |       |
| Sulphur | \$/month 3.49  | 1.30          | 0.66          | 5.45       | 1.00                    | 0.19            | 1.19         | 6.64   |       |
| Trico   | \$/month 3.95  | 1.56          | 0.79          | 6.31       | 1.16                    | 0.23            | 1.39         | 7.70   |       |
| Total   | \$/month 3.68  | 1.39          | 0.71          | 5.78       | 1.06                    | 0.21            | 1.27         | 7.05   |       |
| Mohave  | \$/month 5.71  | 1.26          | 0.64          | 7.61       | 1.06                    | 0.19            | 1.24         | 8.86   |       |
| Total   | \$/month 4.40  | 1.35          | 0.69          | 6.43       | 1.06                    | 0.20            | 1.26         | 7.69   |       |
| Anza    | \$/year 42.93  | 15.46         | 7.92          | 66.31      | 12.37                   | 2.30            | 14.67        | 80.98  |       |
| Duncan  | \$/year 43.60  | 16.58         | 8.43          | 68.61      | 12.58                   | 2.45            | 15.03        | 83.64  |       |
| Graham  | \$/year 44.77  | 16.30         | 8.35          | 69.42      | 13.00                   | 2.42            | 15.43        | 84.85  |       |
| Sulphur | \$/year 41.90  | 15.57         | 7.93          | 65.40      | 11.97                   | 2.30            | 14.28        | 79.68  |       |
| Trico   | \$/year 47.43  | 18.74         | 9.51          | 75.67      | 13.96                   | 2.76            | 16.72        | 92.40  |       |
| Total   | \$/year 44.12  | 16.72         | 8.51          | 69.35      | 12.77                   | 2.47            | 15.24        | 84.60  |       |
| Mohave  | \$/year 68.54  | 15.12         | 7.72          | 91.38      | 12.69                   | 2.24            | 14.93        | 106.31 |       |
| Total   | \$/year 52.76  | 16.15         | 8.23          | 77.15      | 12.74                   | 2.39            | 15.13        | 92.28  |       |

**ARIZONA ELECTRIC POWER COOPERATIVE, INC.**

The following Resolution was adopted at a special meeting of the Board of Directors of Arizona Electric Power Cooperative, Inc. (AEPCO), held in Benson, Arizona on April 22, 2005.

**RESOLUTION**

*WHEREAS, the Management of Arizona Electric Power Cooperative, Inc. (AEPCO) has presented additional information to the Directors pertaining to incremental increases in AEPCO Class A Member revenue in two phases beyond the initial rate adjustment currently being considered by the Arizona Corporation Commission (ACC); and*

*WHEREAS, the increase in revenue is in response to the ACC staff's concern about AEPCO's future debt and the ability to generate sufficient operating revenue to produce an adequate Debt Service Coverage Ratio (DSCR) given AEPCO's increasing principal payments over the next several years; and*

*WHEREAS, Management has prepared and reviewed with the Directors certain financial and rate schedules depicting the two phased revenue increases of 1.5 percent each scheduled for July 1, 2006 and July 1, 2007 and amounting to an estimated increase of approximately \$1.3 million each;*

*NOW, THEREFORE BE IT RESOLVED, that the Board of Directors of Arizona Electric Power Cooperative, Inc., hereby confirms its approval of the 12.44 percent increase intended to become effective in 2005. Additionally, the AEPCO Board of Directors supports the 1.5 percent increases in July 2006 and July 2007. However, the AEPCO Board of Directors requests that the effective rate order provide that the 1.5 percent increases will only be enacted after a submittal by AEPCO of relevant financial information to the ACC prior to the scheduled increases, and only if this information demonstrates that the rate increases are necessary to achieve a Debt Service Coverage Ratio of 1.0. The DSCR shall be calculated based upon earnings before interest on long term debt. AEPCO staff is instructed to submit all such financial information to the Board for approval prior to its submission to the ACC.*

I, Lyn R. Opalka, do hereby certify that I am Secretary of AEPCO, and that the foregoing is a true and correct copy of the Resolution adopted by the Board of Directors at a special meeting held on April 22, 2005.

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Secretary