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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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Arizona Corporation Commission
DOCKETED

MAY - 9 2005

DOCKETED BY

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

AEPCO'S CLOSING BRIEF

GALLAGHER & KENNEDY, P.A.
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INTRODUCTION

The Arizona Electric Power Cooperative, Inc. ("AEPCO") submits this Closing Brief in support of its rate requests. To facilitate the preparation by the Administrative Law Judge of separate orders, a separate Closing Brief in support of the rate requests of the Southwest Transmission Cooperative, Inc. ("SWTC") is also being filed. Two issues common to both cases, i.e., equity levels and Staff's recommendation of a separate cost of service study for the Anza Electric Cooperative ("Anza"), will be addressed in this brief and incorporated by reference in the SWTC Closing Brief.

BACKGROUND

This will be the first general rate increase on the AEPCO system in more than 20 years. Instead, since 1985, Class A member distribution cooperative rates have been reduced by approximately 22% and, in addition, more than \$27 million in fuel and purchased power costs has either been refunded or forgiven over the same period. According to the Consumer Price Index published by the Bureau of Labor Statistics, from 1985 to January of this year, the cost of

1 living has increased more than 90%, while at the same time AEPCO rates have decreased by
2 22%.

3 As filed, adjusted 2003 test year results for AEPCO produced a net margin loss of \$4.5
4 million and a Debt Service Coverage Ratio (“DSCR”) of only .70—well below the Rural
5 Utilities Service (“RUS”) mortgage minimum requirement of 1.0. (Minson Direct, AEPCO 1,
6 p. 9, ll. 5-7.) AEPCO suffered another operating loss in 2004 and, as a result, is no longer in
7 financial compliance under the terms of its mortgage as well as the requirements of the RUS
8 rules, primarily 7 CFR 1710.114. (Minson Rebuttal, AEPCO 2, p. 1, l. 17-p. 2, l. 15.) There are
9 three primary reasons for the 2003/2004 downturn in AEPCO’s financial performance:
10 (1) higher delivered coal and natural gas costs, (2) increased maintenance costs associated with
11 aging generation plant at the Apache Generating Station and (3) necessary capital additions to
12 meet load growth on the Class A members’ distribution systems. (Minson Direct, AEPCO 1,
13 pp. 7-9.) Prompt action on this request will return AEPCO to mortgage compliance and allow it
14 once again to build equity, which all parties and the Commission agree is a desirable goal.

15 Although it’s difficult to estimate precisely the retail impact of these wholesale rate
16 requests, for an average residential consumer using 750 kWh, this year’s Phase 1 increase would
17 produce about a \$3.70 monthly bill increase. (HR TR, p. 174.) The combined effect of the two
18 1.5% deferred increases in 2006 and 2007 would produce about a \$0.90 monthly increase spread
19 over the next two years. (HR TR, p. 175, as corrected by the Notice of Errata dated April 25,
20 2005.)

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1 **AREAS OF AGREEMENT**

2 Revenue Requirements

3 Staff and AEPCO agree as to the revenue requirements, rate base and rate of return
4 issues. For convenience, attached as Exhibit A is a schedule summarizing these results.
5 Adjusted test year revenues were \$138,919,725 which produced an operating income of
6 \$10,425,443.

7 The recommended 15.46% increase in operating revenues of \$13,359,318 produces an
8 operating DSC of 1.13 on a test year adjusted basis. This results in a 12.54% rate of return on
9 the rate base of \$189,637,810 (Column C, Exhibit A). However, as discussed at hearing,
10 AEPCO requests that 3.02% of the increase be deferred for implementation in 2006 and 2007.

11 As Mr. Minson testified, these requests are reasonable and adequate TIER, DSC and rate
12 of return levels given the circumstances of this case. He also expects the RUS would find them
13 sufficient to return AEPCO to mortgage compliance. (HR TR, pp. 87-88). Similarly,
14 Mr. Edwards testified that, in his opinion, the requests would allow AEPCO to continue to
15 qualify for borrowing from the RUS and the National Rural Utilities Cooperative Finance
16 Corporation. (HR TR, p. 37.)

17 Rates

18 Staff and AEPCO have also agreed on the rates to be implemented. Attached hereto as
19 Exhibit B is a schedule stating the rates for Phases 1, 2 and 3 which AEPCO asks that the
20 Commission authorize in this Order. Assuming the Commission enters its Order at a June Open
21 Meeting, Column A, lines 1-9 sets forth the requested Phase 1 rates for all- and partial-
22 requirements members effective on July 1, 2005. Columns B and C set forth the requested
23 Phase 2 and Phase 3 rates which AEPCO requests the Commission authorize for implementation
24 on July 1, 2006 and July 1, 2007. The deferred Phases 2 and 3 requests were developed to

1 address Staff's continued concerns on surrebuttal that AEPCO's Phase 1 request would not allow
2 it "to service its current outstanding debt, finance future capital projects, and . . . improve its
3 equity position." (Ramirez Surrebuttal, 5-13, p. 2, ll. 9-10.)

4 At its April 22, 2005 Special Meeting, AEPCO's Board of Directors did support the
5 request for the deferred 1.5% increases in 2006 and 2007. Its resolution to that effect was filed
6 with Docket Control on April 25, 2005. AEPCO's Board, however, also wanted to review,
7 before the increases take effect, the prior year's achieved financial results and the effect the 1.5%
8 increases would have. Because of concerns that Class A members and their retail member
9 customers not pay higher rates if the increases were not needed to allow AEPCO to achieve an
10 operating DSCR of 1.0, the Board wanted the opportunity to review and communicate that
11 information to the Commission and its concurrence with the need for the Phases 2 and 3
12 increases prior to them taking effect.

13 In order to implement that process, AEPCO recommends that this Order instruct it to file
14 by no later than May 15, 2006 or 2007: (1) a revised tariff stating the authorized change in rates
15 for the applicable Phase with an effective date of July 1, (2) financial information for the
16 previous year which takes into account the 1.5% increase and shows its effect on AEPCO's
17 operating DSCR and (3) any recommendation concerning implementation of the rate increase.
18 This procedure will allow timely implementation of the rate increases, but also will allow both
19 the Commission and the Cooperative to review their anticipated financial impacts on AEPCO at
20 a time nearer their scheduled implementation.

21 Fuel and Purchased Power Cost Adjustor

22 Staff and AEPCO are also in agreement that a Fuel and Purchased Power Cost Adjustor
23 ("FPPCA") should be established for AEPCO. The Power Cost Adjustor Base should be set at
24 \$0.01687/kWh for all-requirements members and at \$0.01603/kWh for partial-requirements

1 member Mohave (Exhibit B, ll. 4 and 9). In light of the clarification by Ms. Keene in her
2 surrebuttal testimony and at hearing that differences in the levels of future economy sales
3 margins, positive or negative, will be treated the same way as other clause revenues and costs,
4 AEPCO also agrees that economy sales margins should be included in the clause (HR TR,
5 p. 217, l. 1-p. 219, l. 18). Finally, Staff's other recommendations on clause administration and
6 reporting as set forth in Ms. Keene's direct testimony are also acceptable (S-7, p. 4, l. 11-p. 8,
7 l. 10).

8 AEPCO's fuel and purchased power expenses amounted to almost one-half of AEPCO's
9 total expenses for the adjusted 2003 test year and, as previously discussed, their volatility was a
10 primary reason AEPCO suffered a margin loss in the test year which is continuing today. The
11 FPPCA will allow timely recovery of increases in fuel and purchased power costs over which
12 AEPCO has little control as well as refunds of any decreases in such costs without the time and
13 expense of a full rate proceeding. The adjustor mechanism will provide AEPCO greater
14 financial and margin stability, while also reducing regulatory costs for both its members and the
15 Commission (Pierson Direct, AEPCO 3, p. 14, l. 17-p. 16, l. 4). The Commission should
16 approve the FPPCA.

17 Revised Depreciation Rates

18 As discussed at page 11 of Mr. Minson's Direct Testimony (AEPCO 1), AEPCO also
19 requests that the Commission approve the revised depreciation rates set forth in his
20 Exhibit DCM-1 for Apache Station Units 2 and 3 and their associated common facilities. These
21 lower depreciation rates are based upon a Burns & McDonnell condition assessment study and
22 lowered costs in the test year by slightly more than \$1.47 million dollars. They will continue to
23 lower the members' cost of service through the Units' extended life of 2035. Staff has agreed
24

1 that the revised depreciation rates should be approved by the Commission (Jerry D. Smith
2 Memorandum, S-22).

3 Demand Side Management

4 As a wholesale generator, AEPCO does not agree with Staff's recommendation that it
5 engage in DSM programs. While AEPCO will assist its Arizona Class A member distribution
6 cooperatives if they are required to implement such programs, Mr. Minson in his rebuttal
7 testimony outlined several reasons why such programs are best designed and administered at the
8 local distribution cooperative level—not at the generation level (AEPCO 2, pp. 11-12).

9 Initially, this appeared to be a subject of disagreement between Staff and AEPCO.
10 However, in her surrebuttal and hearing testimony, Ms. Keene clarified that while Staff believes
11 that AEPCO should design and implement DSM programs, that issue does not need to be
12 addressed in this Order. Instead, it can be reserved for a Commission decision in the DSM Rules
13 matter, Docket No. RE-00000C-05-0230 (HR TR, pp. 216-217 and 219-221). Pending the
14 decision in the Rules docket, AEPCO agrees that this Order should contain an authorization for
15 recovery of Commission-approved DSM program costs based on whatever Rule is adopted later
16 this year.

17 **AREAS OF DISAGREEMENT***

18 Equity Improvement

19 AEPCO and SWTC do not agree with the Staff recommendations that this Order should
20 establish firm equity goals for either Cooperative and strongly disagree with Staff's 30% target
21 equity level. Both Cooperatives, however, do agree with Staff that building equity is important
22 and their records on this issue demonstrate that commitment. In AEPCO's case, following

23 _____
24 * The following two issues are common to both AEPCO and SWTC. They will be addressed jointly and
incorporated by reference in the SWTC Closing Brief.

1 extremely adverse 1980s economic events, including a recession and loss of 125 MW in copper
2 mining loads, AEPCO was able to increase equity as a percentage of assets from a negative
3 14.9% to a positive 7% from 1991 to 2002 (Minson Rebuttal, AEPCO 2, pp. 8-9). In SWTC's
4 case, it only commenced operations in late 2001. But, its test year equity was approximately
5 4.7% (HR TR, p. 139, ll. 19-22) and absent other changes, the level of margins requested in this
6 case would build its equity ratio to 15% in about ten years (Minson Rebuttal, SWTC 2, p. 3).

7 However, while equity is an important factor in judging the Cooperatives' financial
8 strength, it is only one element among many other important factors. Both Mr. Edwards and
9 Mr. Minson discussed that issue at hearing (HR TR, pp. 60-64 and 99-100). Mr. Ramirez also
10 agreed that many different elements—not just the equity level—impact a cooperative's financial
11 health (HR TR, p. 243, l. 22-p. 245, l. 17). Referring to pages 1-3 of his surrebuttal exhibit
12 AXR-2 (S-14), Fitch Ratings looked at some 12 different factors in assigning a rating to Golden
13 Spread Electric Cooperative including, but not limited to, the strength of its requirements
14 contracts, management quality, adequate liquidity, overall financial profile, DSC and TIER
15 results as well as its equity level. Neither the Cooperatives nor the Commission want to be in the
16 difficult position in the future where potentially unnecessarily high rate increases would be
17 driven by an equity target which had been set inflexibly or without adequate consideration as to
18 its correct level.

19 There also is ample evidence here that the equity level of 30% recommended by Staff is
20 simply too high for a generation or transmission cooperative. Mr. Minson testified that, subject
21 to Board approval and the preparation of additional analysis, his opinion as Chief Financial
22 Officer of both Cooperatives is a reasonable equity level would be in the 15-20% range (HR TR,
23 p. 147, l. 24-p. 148, l. 16).

1 Consistent with that position, Mr. Ramirez' Exhibit AXR-2 (S-11 and S-12) is a listing of
2 some G&T cooperatives which are rated by Standard & Poors. Only two of the 13 rated
3 cooperatives listed have patronage equity levels above 30%. The remaining 11 have equity
4 levels ranging from 26% to as low as 8%, but still carry S&P ratings. The average is only 19%.
5 As Mr. Edwards testified, G&T cooperatives nationwide had a median equity ratio at the end of
6 2002 of only slightly more than 13%—well below Staff's recommended target equity level of
7 30% (Edwards Direct, AEPCO 6, p. 10 and Edwards Direct, SWTC 5, p. 9). Finally, as
8 Mr. Minson noted, in a survey conducted by R.W. Beck in 2002, the median equity goal for
9 G&T cooperatives responding was only 17.5% (Minson Rebuttal, AEPCO 2, p. 9).

10 The most important factor here is that these issues have never been carefully analyzed
11 with specific reference to the numerous factors which impact the financial strength and needs of
12 AEPCO and SWTC. Staff points to the Commission Decisions and Capital Plans which AEPCO
13 and SWTC filed in response to those Decisions at the end of 2002 (Late Filed Exhibits, April 20,
14 2005). However, these were only Capital Plans, not equity analyses. They simply set forth what
15 the then current financial forecasts indicated based on a number of stated qualifications and
16 assumptions. Further, both Cooperatives expressed then the same concerns expressed here about
17 focusing only on equity levels:

18 [T]he financial strength of a cooperative is evaluated in light of several factors
19 including the strength of member service territories, load projections and
20 economic forces and not just on a predetermined level of equity. AEPCO's
21 [Southwest's] future equity levels will be judged and determined in light of these
22 and other factors. AEPCO [Southwest] will attempt to balance the needs of its
23 members for the lowest possible rates while continuing to maintain AEPCO's
24 [Southwest's] ability to attract sufficient funds for capital improvement and
expansion. (AEPCO Capital Plan, p. 6; Southwest Capital Plan, p. 5.)

23 As suggested by Staff, AEPCO and SWTC will prepare an equity analysis and will file it
24 with the Commission by March 31, 2006. Both Cooperatives will use that process to carefully

1 analyze these issues, consult with their lenders and seek advice and reactions from their Boards
2 and members. As importantly, the products will give the Commission important, Cooperative-
3 specific information that it does not have now.

4 In the interim, the Cooperatives request that the Commission take no action on these
5 subjects in this Order. Following the filing of the equity analyses next year, these issues can be
6 re-addressed, if needed, in the Cooperatives' next rate cases.

7 Finally as to this subject, while neither AEPCO or SWTC have any intention of making
8 patronage capital refunds in the foreseeable future, the Cooperatives do not object to Staff's
9 recommendation that they comply with the requirements of 7 CFR Part 1717 concerning
10 patronage capital refunds (Exhibits S-23 and S-24; HR TR, p. 251, l. 5-p. 252, l. 16). They also
11 do not object to Mr. Ramirez' recommendation that each Cooperative file another rate case
12 within at most three to five years of the effective date of this Order.

13 Anza Cost of Service Study

14 AEPCO and SWTC ask that the Commission not require in future rate cases a separate
15 cost of service study for Anza, a Class A member distribution cooperative located in south-
16 central California. Anza is a very small cooperative which joined AEPCO and its five other
17 Arizona Class A members in 1979. In the three rate cases which have been conducted since that
18 time, the Commission has never required, nor has Staff recommended, a jurisdictional separation
19 study for Anza.

20 Anza's load and the revenues it provides AEPCO and SWTC are quite small—in
21 AEPCO's case they were only 1.5% of its total energy sales in 2003 (Minson Rebuttal,
22 AEPCO 2, p. 7). Mr. Minson testified that the estimated cost of preparing such a study would be
23 in the range of \$40-60,000 and cost of service differences for Anza, if any even exist, would
24 justify neither the expense of preparing such a study, nor the Staff and Commission effort

1 required to evaluate it (HR TR, pp. 141-143). Both the Commission and the Cooperatives are
2 trying to simplify and streamline the costs and complexity associated with rate filings. Requiring
3 a separate cost of service study for Anza actively works against both goals. Stated another way,
4 it would be an “undue burden” to require such a study—a primary ground stated in Commission
5 rules for waiving any of the standard filing requirements. A.A.C. R14-2-103.B.6.

6 Staff’s current recommendation is also inconsistent with the position it took at the
7 beginning of these matters. Attached hereto as Exhibits C and D are Decision Nos. 67220 and
8 67216. Prior to filing these cases, both AEPCO and SWTC filed Applications requesting either a
9 sufficiency determination as to its cost of service presentation in AEPCO’s case, i.e.,
10 Mr. Daniel’s study, or a waiver of the fully allocated embedded cost of service study requirement
11 in Southwest’s case. Staff recommended approval of both requests. It specifically stated in each
12 that “Staff does not need cost of service information by distribution cooperative...” (Exhibit C,
13 p. 2, ll. 23-24) and “Cost of service information by distribution cooperative is unnecessary”
14 (Exhibit D, p. 3, l. 5).

15 The SWTC Application which the Commission approved also pointed out several
16 additional complications associated with a member cost of service study including rate shock
17 from shifting costs among cooperatives and the fact that Commission approval of differentiated
18 transmission rates would necessitate redrafting the OATT, transmission service agreements and a
19 new FERC “safe harbor” filing. (Exhibit D, p. 2, Finding 9.) AEPCO and SWTC request that
20 the Commission not require a jurisdictional separation study for Anza in future rate filings.

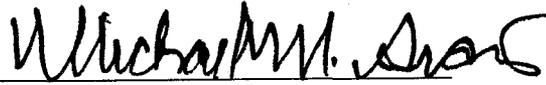
21 CONCLUSION

22 AEPCO requests that the Commission enter its Order in this matter authorizing the rates
23 and other matters discussed above as promptly as possible. The rates requested are just and
24 reasonable and will return AEPCO to a sound financial footing.

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DATED this 9th day of May, 2005.

GALLAGHER & KENNEDY, P.A.

By 

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Original and fifteen copies filed
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EXHIBIT A

Arizona Electric Power Cooperative, Inc.

Docket No. E-01773A-04-0528
Test Year Ended December 31, 2003

REVENUE REQUIREMENT - COMPANY FINAL POSITION

LINE NO.	DESCRIPTION	[A] COMPANY FINAL POSITION <u>Phase 1</u>	[B] COMPANY FINAL POSITION <u>Phase 2</u>	[C] COMPANY FINAL POSITION <u>Phase 3</u>
1	Adjusted Operating Income (Loss)	\$ 10,425,443	\$ 10,425,443	\$ 10,425,443
2	Depreciation and Amortization	\$ 7,539,289	\$ 7,539,289	\$ 7,539,289
3	Income Tax Expense	-	-	-
4	Long-term Interest Expense	\$ 13,313,164	\$ 13,313,164	\$ 13,313,164
5	Principal Repayment	\$ 14,360,494	\$ 14,360,494	\$ 14,360,494
6a	Recommended Increase in Operating Revenue	\$ 10,751,925	\$ 1,295,119	\$ 1,312,274
6b	Percent Increase (Line 6a / Line 7b) - Per Staff	7.74%	0.93%	0.94%
6c	Percent Increase (Line 6a / Line 7a) - Per Coop	12.44%	1.50%	1.52%
7a	Adjusted Class A Member Revenue	\$ 86,441,965	\$ 86,441,965	\$ 86,441,965
7b	Adjusted Test Year Operating Revenue	\$ 138,919,725	\$ 138,919,725	\$ 138,919,725
8	Recommended Annual Operating Revenue	\$ 149,671,650	\$ 150,966,769	\$ 152,279,043
9a	Recommended Operating Margin Before Interest	\$ 21,177,368	\$ 22,472,487	\$ 23,784,761
9b	Recommended Margins(Loss) After Interest	\$ 7,521,814	\$ 8,816,933	\$ 10,129,207
10a	Operating TIER (L3+L9a)/L4	1.59	1.69	1.79
11a	Operating DSC (L2+L3+L9b)/(L4+L5)	1.04	1.08	1.13
12	Adjusted Rate Base	\$ 189,637,810	\$ 189,637,810	\$ 189,637,810
13	Rate of Return (L9a / L12)	11.17%	11.85%	12.54%

EXHIBIT B

Arizona Electric Power Cooperative, Inc.

Docket No. E-01773A-04-0528

Test Year Ended December 31, 2003

SUMMARY OF PROPOSED RATES - COMPANY FINAL POSITION

Line No.	Description	[A]	[B]	[C]
		Company Final Position Phase 1	Company Final Position Phase 2	Company Final Position Phase 3
	Proposed Effective Dates (1)	<u>July 1, 2005</u>	<u>July 1, 2006</u>	<u>July 1, 2007</u>
1	All Requirements Members:			
2	Demand Rate - \$/kW Month	\$ 14.31	\$ 14.64	\$ 14.98
3	Energy Rate - \$/kWh	\$ 0.02073	\$ 0.02073	\$ 0.02073
4	Power Cost Adjustor Base - \$/kWh	\$ 0.01687	\$ 0.01687	\$ 0.01687
5	Partial Requirements Members:			
6	Fixed Charge - \$/Month	\$ 790,722	\$ 822,728	\$ 855,113
7	O&M Rate - \$/kW Month	\$ 7.15	\$ 7.21	\$ 7.26
8	Energy Rate - \$/kWh	\$ 0.02073	\$ 0.02073	\$ 0.02073
9	Power Cost Adjustor Base - \$/kWh	\$ 0.01603	\$ 0.01603	\$ 0.01603
10	Proposed Revenue Increase - (\$000's):			
11	Anza	\$ 195.3	\$ 27.6	\$ 28.5
12	Duncan Valley	117.6	16.7	17.2
13	Graham County	616.3	88.1	90.8
14	Mohave	4,893.9	460.4	452.0
15	Sulphur Springs	2,816.5	396.1	408.2
16	Trico	2,112.4	306.1	315.5
17	Total Class A	\$ 10,752.0	\$ 1,295.0	\$ 1,312.2
18	Proposed Revenue Increase - Percent:			
19	Anza	10.04%	1.42%	1.47%
20	Duncan Valley	10.09%	1.43%	1.48%
21	Graham County	10.17%	1.45%	1.50%
22	Mohave	17.15%	1.61%	1.58%
23	Sulphur Springs	9.95%	1.40%	1.44%
24	Trico	10.35%	1.50%	1.55%
25	Total Class A	12.44%	1.50%	1.52%

(1) Proposed effective dates are based upon the assumption that the Commission will act upon the proposed Order in this proceeding at the June 2005 Open Meeting.

EXHIBIT C

1 BEFORE THE ARIZONA CORPORATION COMMISSION

2 MARC SPITZER
Chairman
3 WILLIAM A. MUNDELL
Commissioner
4 JEFF HATCH-MILLER
Commissioner
5 MIKE GLEASON
Commissioner
6 KRISTIN K. MAYES
Commissioner
7

Arizona Corporation Commission

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AUG 24 2004

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8 IN THE MATTER OF ARIZONA ELECTRIC)
POWER COOPERATIVE, INC. - REQUEST)
9 FOR A SUFFICIENCY DETERMINATION)
10 IN RELATION TO ITS COST OF SERVICE)
STUDY REQUIREMENTS)
11

DOCKET NO. E-01773A-04-0373

DECISION NO. 67220

ORDER

12 Open Meeting
13 August 19, 2004
14 Phoenix, Arizona

15 BY THE COMMISSION:

16 FINDINGS OF FACT

17 1. Arizona Electric Power Cooperative, Inc. ("AEPCO" or "Company") is certificated
18 to provide electric service as a public service corporation in the State of Arizona.

19 2. On May 18, 2004, AEPCO filed a request for a sufficiency determination in relation
20 to its cost of service study requirements.

21 Background

22 3. The Decision in AEPCO's last rate case (Decision No. 58405, September 3, 1993)
23 ordered AEPCO to conduct a fully allocated embedded cost-of-service study in conjunction with
24 its next rate filing.

25 4. Decision No. 63868 (July 25, 2001) approved the restructuring of AEPCO,
26 including the transfer of transmission assets to Southwest Transmission Cooperative, Inc.
27 ("Southwest"). The Decision ordered that AEPCO and Southwest file an "informational
28 submission" to the Utilities Director within 35 months of the date of closing.

1 5. Decision No. 65367 (November 4, 2002) approved Southwest's Open Access
2 Transmission Tariff ("OATT"). This Decision clarifies that Decision No. 63868 ordered AEPCO
3 and Southwest to file rate case and cost of service informational submissions with the Director by
4 July 1, 2004. The filings would contain all information outlined in A.A.C. R14-2-103. A.A.C.
5 R14-2-103 requires Class A utilities to file cost of service information when costs incurred by the
6 utility are likely to vary significantly from one defined segment of customers to another.
7 Southwest is a Class A utility.

8 6. AEPCO filed a rate case application on July 23, 2004, in Docket No. E-01773A-04-
9 0528. A.A.C. R14-2-103 requires Staff to determine the sufficiency of a utility's rate case
10 application within 30 days after receipt of the filing.

11 AEPCO's Request for a Sufficiency Determination

12 7. On May 18, 2004, AEPCO filed a request for a sufficiency determination in relation
13 to its cost of service study requirements. AEPCO asks that information described in its request be
14 considered sufficient for its rate case filing.

15 8. AEPCO commissioned GDS Associates, Inc. to prepare a study entitled
16 "Appropriate Cost of Service Demand Allocation Methodology for Arizona Electric Power
17 Cooperative, Inc. Power Supply Resources Fixed Costs." The GDS study recommends that the 12-
18 CP demand cost allocation methodology be used for determining the cost of service on the
19 AEPCO system. AEPCO believes that the cost of service information and method described in the
20 study is fully compliant with the cost of service requirements.

21 9. Staff has found that the provided study is not sufficient because the GDS study only
22 addresses demand. However, Staff would support a Commission finding of sufficiency regarding
23 cost of service requirements if AEPCO files additional information. Although Staff does not need
24 cost of service information by distribution cooperative, Staff does need cost information that (1)
25 separates the costs to serve Class A members from the costs to serve other classes; (2) categorizes
26 costs by demand, energy, and customer-related; and (3) breaks down the costs for ancillary
27 services by cost component in accordance with FERC definitions, with firm and variable costs
28

1 separated. Staff has discussed this needed information with the Company, and the Company has
2 agreed to provide it.

3 10. Therefore, Staff has recommended that the Commission confirm the sufficiency of
4 AEPCO's cost of service information, but that the additional information requested by Staff in
5 Findings of Fact No. 9 be provided as a condition of sufficiency of AEPCO's rate case application.

6 11. Staff also recommends that the Commission retroactively extend the deadline for
7 Southwest's rate informational filing from July 1, 2004 to July 23, 2004.

8 CONCLUSIONS OF LAW

9 1. AEPCO is an Arizona public service corporation within the meaning of Article XV,
10 Section 2, of the Arizona Constitution.

11 2. The Commission has jurisdiction over AEPCO and over the subject matter of the
12 application.

13 3. The Commission, having reviewed the application and Staff's Memorandum dated
14 August 9, 2004, concludes that it is in the public interest to approve the application.

15 4. It is also in the public interest to retroactively extend the deadline for Southwest's
16 rate informational filing from July 1, 2004 to July 23, 2004.

17 ORDER

18 THEREFORE, IT IS ORDERED that AEPCO be granted a sufficiency determination in
19 relation to its cost of service study requirements with the condition that AEPCO provide the
20 information listed in Findings of Fact No. 9.

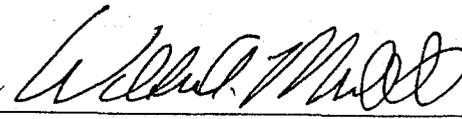
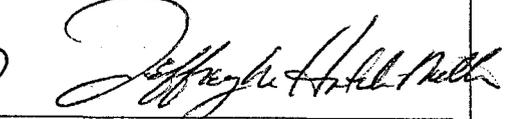
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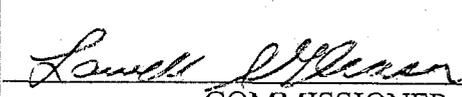
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IT IS FURTHER ORDERED that the deadline for Southwest's rate informational filing is retroactively extended to July 23, 2004.

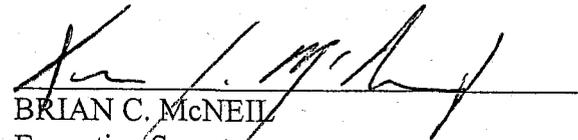
IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

		
CHAIRMAN	COMMISSIONER	COMMISSIONER

	
COMMISSIONER	COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 24th day of August, 2004.


 BRIAN C. McNEIL
 Executive Secretary

DISSENT: _____

DISSENT: _____

EGJ:BEK:lh\TS

1 SERVICE LIST FOR: Arizona Electric Power Cooperative, Inc.
2 DOCKET NO. E-01773A-04-0373

3 Mr. Michael M. Grant
4 Gallagher & Kennedy, P.A.
5 2575 East Camelback Road
6 Phoenix, Arizona 85016

7 Mr. Ernest G. Johnson
8 Director, Utilities Division
9 Arizona Corporation Commission
10 1200 West Washington St.
11 Phoenix, Arizona 85007

12 Mr. Christopher C. Kempley
13 Chief Counsel
14 Arizona Corporation Commission
15 1200 West Washington St.
16 Phoenix, Arizona 85007

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EXHIBIT D

BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

Arizona Corporation Commission

DOCKETED

AUG 24 2004

DOCKETED BY NR



IN THE MATTER OF SOUTHWEST
TRANSMISSION COOPERATIVE, INC. -
WAIVER REQUEST CONCERNING
CERTAIN COST OF SERVICE STUDY
REQUIREMENTS

DOCKET NO. E-04100A-04-0356

DECISION NO. 67216

ORDER

Open Meeting
August 19, 2004
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Southwest Transmission Cooperative, Inc. ("Southwest" or "Company") is certificated to provide electric service as a public service corporation in the State of Arizona.

2. On May 10, 2004, Southwest filed a waiver request concerning certain cost of service study requirements.

Background

3. The Decision in Arizona Electric Power Cooperative's ("AEP"CO") last rate case (Decision No. 58405, September 3, 1993) ordered AEP"CO to conduct a fully allocated embedded cost-of-service study in conjunction with its next rate filing.

4. Decision No. 63868 (July 25, 2001) approved the restructuring of AEP"CO, including the transfer of transmission assets to Southwest. The Decision ordered that AEP"CO and Southwest file an "informational submission" to the Utilities Director within 35 months of the date of closing.

1 5. Decision No. 65367 (November 4, 2002) approved Southwest's Open Access
2 Transmission Tariff ("OATT"). This Decision clarifies that Decision No. 63868 ordered AEPCO
3 and Southwest to file rate case and cost of service informational submissions with the Director by
4 July 1, 2004. The filings would contain all information outlined in A.A.C. R14-2-103. A.A.C.
5 R14-2-103 requires Class A utilities to file cost of service information when costs incurred by the
6 utility are likely to vary significantly from one defined segment of customers to another.
7 Southwest is a Class A utility.

8 6. Southwest filed a rate case application on July 23, 2004, in Docket No. E-04100A-
9 04-0527. A.A.C. R14-2-103 requires Staff to determine the sufficiency of a utility's rate case
10 application within 30 days after receipt of the filing.

11 Southwest's Request for Waiver

12 7. On May 10, 2004, Southwest filed a request for a waiver of the fully allocated,
13 embedded cost of service study requirement in relation to its rate case filing. Instead, Southwest
14 has filed schedules reflecting the cost of service method employed in its current OATT.

15 8. In its request, Southwest explains that AEPCO has always had uniform rates for its
16 Class A member distribution cooperatives. These distribution cooperatives represent one class of
17 customers, consistent with the reason why generation and transmission ("G&T") systems were
18 formed. Direct Assignment Facilities ("DAF") are facilities built to benefit only one distribution
19 cooperative. Southwest anticipated in its rate filing to grandfather DAF constructed prior to
20 September 30, 1999. DAF constructed after that date would be directly assigned to individual
21 distribution cooperatives.

22 9. Southwest requests a waiver of the requirement to submit a cost of service study
23 because: (1) a cost of service study is not wanted by the distribution cooperatives; (2) it would be
24 expensive (\$150,000-\$200,000); (3) because of the age of facilities and the state of property
25 records, a study could not be performed with any degree of reliability; (4) rate shock would result
26 from shifting costs among distribution cooperatives; (5) fully allocated, embedded cost of service
27 rates would complicate retail access; (6) Commission approval of differentiated transmission rates
28 would necessitate redrafting the OATT, transmission service agreements, and a new Federal

1 Energy Regulatory Commission ("FERC") "safe harbor" filing; and (7) FERC may not approve the
2 new rates.

3 10. Without addressing the validity of all of Southwest's claims, Staff supports
4 Southwest's request for a waiver of the filing of a fully allocated, embedded cost of service study.
5 Cost of service information by distribution cooperative is unnecessary. However, Staff's support
6 of the waiver is conditioned on Southwest providing some additional information. That
7 information is: (1) costs for ancillary services, broken down by FERC-defined types of ancillary
8 service; and (2) a breakdown of DAF cost allocations and the associated charges for transmission
9 construction, by distribution cooperative. Staff has discussed this needed information with the
10 Company, and the Company has agreed to provide it.

11 11. Therefore, Staff has recommended that the Commission grant a waiver of the filing
12 of a fully allocated, embedded cost of service study, but that the additional information requested
13 by Staff in Findings of Fact No. 10 be provided as a condition of sufficiency of Southwest's rate
14 case application.

15 12. Staff also recommends that the Commission retroactively extend the deadline for
16 Southwest's rate informational filing from July 1, 2004 to July 23, 2004.

17 CONCLUSIONS OF LAW

18 1. Southwest is an Arizona public service corporation within the meaning of Article
19 XV, Section 2, of the Arizona Constitution.

20 2. The Commission has jurisdiction over Southwest and over the subject matter of the
21 application.

22 3. The Commission, having reviewed the application and Staff's Memorandum dated
23 August 9, 2004, concludes that it is in the public interest to approve the application.

24 4. It is also in the public interest to retroactively extend the deadline for Southwest's
25 rate informational filing from July 1, 2004 to July 23, 2004.

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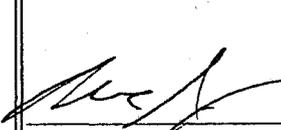
ORDER

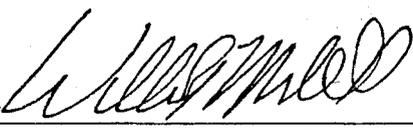
THEREFORE, IT IS ORDERED that Southwest Transmission Cooperative, Inc., be granted a waiver of the requirement to file a fully allocated, embedded cost of service study with the condition that Southwest Transmission Cooperative, Inc., provide the information listed in Findings of Fact No. 10.

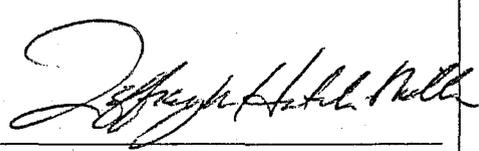
IT IS FURTHER ORDERED that the deadline for Southwest's rate informational filing is retroactively extended to July 23, 2004.

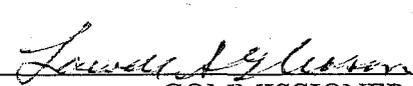
IT IS FURTHER ORDERED that this Decision shall become effective immediately.

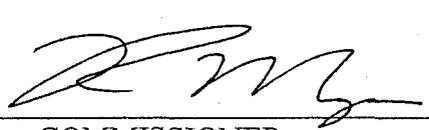
BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION


CHAIRMAN

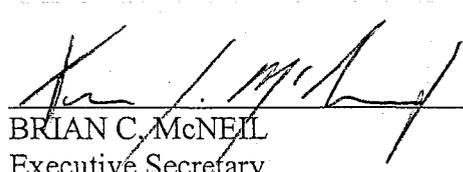

COMMISSIONER


COMMISSIONER


COMMISSIONER


COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 24th day of August, 2004.


BRIAN C. McNEIL
Executive Secretary

DISSENT: _____

DISSENT: _____

EGJ:BEK:lhmvTS

1 SERVICE LIST FOR: Southwest Transmission Cooperative, Inc.
2 DOCKET NOS. E-04100A-04-0356

3 Mr. Michael M. Grant
4 Gallagher & Kennedy, P.A.
5 2575 East Camelback Road
6 Phoenix, Arizona 85016

7 Mr. Ernest G. Johnson
8 Director, Utilities Division
9 Arizona Corporation Commission
10 1200 West Washington St.
11 Phoenix, Arizona 85007

12 Mr. Christopher C. Kempley
13 Chief Counsel
14 Arizona Corporation Commission
15 1200 West Washington St.
16 Phoenix, Arizona 85007

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