



0000020945

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

Arizona Corporation Commission

DOCKETED

JUL 06 2005

DOCKETED BY []

AZ CORP COMMISSION
DOCUMENT CONTROL

2005 JUL -6 P 4: 28

RECEIVED

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

DOCKET NO. E-04100A-04-0527

DOCKET NO. E-04100A-04-0527

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

AEPCO'S EXCEPTIONS TO
RECOMMENDED OPINION
AND ORDER

GALLAGHER & KENNEDY, P.A.
2575 E. CAMELBACK ROAD
PHOENIX, ARIZONA 85016-9225
(602) 530-8000

The Arizona Electric Power Cooperative, Inc. ("AEPCO") submits these exceptions to the Recommended Opinion and Order ("ROO") dated June 27, 2005 pertaining to its case in this consolidated matter. The Southwest Transmission Cooperative, Inc. ("SWTC") has also filed exceptions pertaining to its case.

This is the first general rate increase on the AEPCO system in more than 20 years. Instead, since 1985, while the overall cost of living has increased 90%, AEPCO has reduced Class A member distribution cooperative rates by approximately 22%. In addition, over that same time frame, more than \$27 million in fuel and purchased power costs have either been refunded or forgiven.

However, as the ROO states, higher delivered coal and natural gas costs, increased maintenance costs associated with aging generation plant and necessary capital additions for efficiencies and load growth produced a net margin loss in the 2003 test year and another operating loss in 2004. As a result, AEPCO is no longer in financial compliance under the terms of its mortgage and Rural Utilities Service rules. Commission approval of the rates

1 recommended in the ROO, together with implementation of the Fuel and Purchased Power Cost
2 Adjustor, will allow AEPCO to return to mortgage compliance, build equity and stabilize its
3 financial position. The phasing of the rate increases described at Finding 23 of the ROO
4 minimizes to the maximum extent possible ratepayer impact, while allowing AEPCO to continue
5 to provide safe, reliable and adequate service to its Class A member distribution cooperatives
6 and the retail member consumers they serve.

7 AEPCO supports the ROO and appreciates the efforts of both the Administrative Law
8 Judge and the Utilities Division Staff in processing these consolidated cases. These exceptions
9 are directed to clarification or amendment of a few issues.

10 **Phases 2 and 3 Implementation**

11 As discussed at Findings 24-29, the AEPCO Board of Directors, which is comprised of
12 representatives of AEPCO's member owners, did not have an opportunity to approve the
13 Phases 2 and 3, 1.5% step increases (the "step increases") prior to the hearing on this matter.
14 The Board subsequently approved them, but also requested the opportunity to review their
15 impact on AEPCO's financial results closer to the time of implementation in 2006 and 2007.
16 AEPCO would ask that the Commission allow AEPCO and its Board this opportunity to submit
17 information prior to the step increases actually taking effect.

18 AEPCO is a member owned and controlled non-profit generation cooperative. As to rate
19 matters, its Board's role is very similar to the one performed by the Commission. The Board
20 attempts to balance AEPCO's need for adequate revenues so it can continue to deliver service at
21 the lowest, reasonable cost with the impact of rates at the distribution cooperative and retail
22 level.

1 In this case, the Board agrees that, based on information currently available, the step
2 increases will be necessary to maintain AEPCO's financial health and also will minimize rate
3 payer impact. It is possible, however, that conditions might change over the next two years. For
4 example, Staff has used an operating DSC in this case. If non-operating margins from sources
5 like interest income or patronage allocations from other organizations were to be higher than
6 expected, this would improve AEPCO's financial results and build equity—possibly without the
7 need for one of the step increases.¹

8 At Finding 29, the ROO rejects the Board's request that AEPCO be allowed to submit
9 additional information prior to the scheduled implementation date of the step increases because
10 the process appears "unnecessarily complicated and could delay the implementation of the rates
11 we find necessary to restore AEPCO's financial health." The following substitute Finding 29
12 which AEPCO asks that the Commission adopt addresses both issues:

13 29. A total revenue level of \$152,279,203 is fair and reasonable and fully
14 supported by the record. We adopt the phased in approach to minimize the
15 immediate impact on rate payers and will instruct AEPCO to file a tariff stating
16 the rates and charges authorized in Exhibit A including the step increases.
17 However, AEPCO may file by May 15 of 2006 and 2007 financial information
18 for the previous year which takes into account the 1.5% scheduled step increase
19 and its impact on AEPCO's achieved operating DSC together with any
20 recommendation concerning the scheduled step increase. The Commission will
21 evaluate such information and recommendation and take action as it deems
22 appropriate.

23 This process will assure timely implementation of the rates recommended in the ROO.
24 However, it will also allow AEPCO's Board to assess the impact of the step increases at a time

23 ¹ Given the large margin losses which have already occurred prior to implementation of new
24 rates, it is unlikely that AEPCO will achieve a 1.0 DSC on either standard in 2005. The
situation, however, might be different in 2006.

1 closer to their implementation and communicate its conclusions and recommendations
2 concerning them to the Commission.

3 Next Rate Case

4 At Findings 31-32 and the Ordering Paragraph at p. 15, l. 28-p. 16, l. 3, the ROO orders
5 the filing of a rate case "six months after Sulphur Springs Valley Electric Cooperative, Inc. has
6 completed a full year as a partial requirements member, or not later than five years after the
7 effective date of this Decision, whichever is earlier." AEPCO suggests the Order be clarified to
8 state the filing will be made a full calendar year after SSVEC's conversion. Consistent with
9 normal practice, this will allow the test year to match AEPCO's fiscal year and to take into
10 account any adjustments and other matters covered in its audited financial statements.

11 The word "calendar" should be added after "full" at p. 8, l. 7 and p. 8, l. 8. "Calendar"
12 should also be inserted after "full" in the Ordering paragraph at p. 16, l. 1.

13 Equity Improvement Analysis

14 Findings 43-54 discuss equity issues and the Ordering paragraph at p. 16, ll. 8-12
15 instructs AEPCO to file an equity improvement analysis by March 31, 2006. AEPCO will
16 perform that analysis and supports the ROO's conclusion that no specific equity goal be
17 established in this case. As discussed in the SWTC exceptions, the analysis will provide
18 important information for the Cooperative, Staff and the Commission to further assess this issue.

19 As the ROO states at Finding 54, the Mohave Electric Cooperative, Inc. ("Mohave")
20 raised arguments regarding possible differences between partial- and full-requirements members
21 on this issue for the first time in its Closing Brief. AEPCO does not agree with Mohave's
22 assertions that equity improvement impacts or benefits members differently. For example, much
23 of the borrowing which AEPCO undertakes has nothing to do with capacity resource expansion,
24

1 but instead is directed at maintaining or improving the operating efficiency of the existing plant
2 which serves equally both partial- and full-requirements members. Mohave, together with all
3 other AEPCO members, will participate over the next several months in the equity analysis
4 process and will have the opportunity to raise any issues it considers relevant. No amendment of
5 the ROO is necessary on this issue. However, for record purposes, AEPCO wanted to advise the
6 Commission of its position on this issue which Mohave raised for the first time after the hearing
7 record had closed.

8 Anza Cost of Service Study

9 Findings 55-60 of the ROO discuss Staff's recommendation that the Commission should
10 order AEPCO to file jurisdictionally separated information for the Anza Electric Cooperative,
11 Inc. ("Anza") in its next rate case. Anza is a small distribution cooperative in south central
12 California which has been an AEPCO member for 25 years. In the four rate cases since that
13 time, AEPCO has never filed such information. Finding 60 does not grant Staff's request, but
14 instead allows AEPCO to request a waiver of the separation requirement in R14-2-103.B.6 in
15 conjunction with its next rate case.

16 Although AEPCO appreciates that allowance, it would ask that the Commission settle the
17 issue in this Decision. Anza is and always has been a small distribution cooperative on the
18 AEPCO system. As Mr. Minson testified at hearing, there is no reason to expect that the cost of
19 service to Anza would be different than the cost to serve other Class A members. Rate case
20 filings take several months to prepare and uncertainties over what information they must contain
21 simply add to AEPCO, Staff and the Commission's time and expense in processing them.

22 In Decision No. 67220, the Commission granted AEPCO's request for a sufficiency
23 determination as to its cost of service study requirements in this case. The Decision notes at
24

1 Finding 9 that while Staff did not need cost of service information by distribution cooperative
2 including Anza, it did need cost information separating costs to serve Class A members from
3 other classes, categorization of costs by demand, energy and customer-related costs and a
4 breakdown of costs for ancillary services by cost component with firm and variable costs
5 separated. AEPCO supplied that information in relation to this filing and is willing to do so in
6 future filings.

7 To bring this matter to a close, AEPCO would request that the Commission delete
8 Finding 60 in the ROO and insert the following:

9 60. Given the circumstances of this case, we will not require AEPCO to
10 prepare and file jurisdictionally separated schedules for Anza. However, AEPCO
11 shall submit with its next rate case the information specified in Finding 9 of
12 Decision No. 67220.

13 **Conclusion**

14 AEPCO requests that the Commission approve the ROO with the amendments requested
15 in these exceptions.

16 DATED this 6th day of July, 2005.

17 GALLAGHER & KENNEDY, P.A.

18 By 
19 Michael M. Grant
20 Todd C. Wiley
21 2575 East Camelback Road
22 Phoenix, Arizona 85016-9225
23 Attorneys for Arizona Electric Power
24 Cooperative, Inc.

1 **Original and fifteen copies** of the foregoing
filed this 6th day of July, 2005, with:

2 Docket Control
3 Arizona Corporation Commission
1200 West Washington
4 Phoenix, Arizona 85007

5 **Two copies** of the foregoing delivered
this 6th day of July, 2005, to:

6 Chairman Jeff Hatch-Miller
7 Arizona Corporation Commission
1200 West Washington
8 Phoenix, Arizona 85007

9 Commissioner William A. Mundell
Arizona Corporation Commission
10 1200 West Washington
Phoenix, Arizona 85007

11 Commissioner Marc Spitzer
12 Arizona Corporation Commission
1200 West Washington
13 Phoenix, Arizona 85007

14 Commissioner Mike Gleason
Arizona Corporation Commission
15 1200 West Washington
Phoenix, Arizona 85007

16 Commissioner Kristin K. Mayes
17 Arizona Corporation Commission
1200 West Washington
18 Phoenix, Arizona 85007

19 **Copy** of the foregoing delivered
this 6th day of July, 2005, to:

20 Timothy J. Sabo
21 Legal Division
Arizona Corporation Commission
22 1200 West Washington
Phoenix, Arizona 85007

23
24

1 **Copies** of the foregoing mailed/faxed*
this 6th day of July, 2005, to:

2
3 Administrative Law Judge Jane L. Rodda*
4 Hearing Division
5 Arizona Corporation Commission
6 400 West Congress
7 Tucson, Arizona 85701-1347
8 Fax: (520) 628-6559

9 Michael A. Curtis
10 Martinez & Curtis, P.C.
11 2712 North Seventh Street
12 Phoenix, Arizona 85006-1090
13 Attorneys for Mohave Electric Cooperative, Inc.

14 Christopher Hitchcock
15 Law Offices of Christopher Hitchcock, P.L.C.
16 One Copper Queen Plaza
17 Post Office Box AT
18 Bisbee, Arizona 85603-0115
19 Attorneys for Sulphur Springs Valley Electric Cooperative, Inc.

20 John T. Leonetti
21 HC 70, Box 4003
22 Sahuarita, Arizona 85629

23 
24 10421-36/1282277