



ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

Arizona Corporation Commission

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IN THE MATTER OF THE EMERGENCY
APPLICATION OF THE ARIZONA ELECTRIC
POWER COOPERATIVE, INC. FOR PERMISSION
TO TEMPORARILY EXCEED THE SEVEN
PERCENT SHORT-TERM DEBT LIMITATION OF
A.R.S. § 40-302.D

DOCKET NO. E-01773A-06-0007

APPLICATION

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

Pursuant to A.R.S. § 40-302.D, the Arizona Electric Power Cooperative, Inc. ("AEPCO" or the "Cooperative") in support of its Emergency Application states as follows:

1. AEPCO is a non-profit, member-owned cooperative which supplies all or most of the power and energy requirements of its five Arizona and one California Class A member distribution cooperatives. AEPCO's Board of Directors is comprised of representatives of its members. The Cooperative will seek Board approval for this request at its meeting next week and will file a Board resolution in relation to this Emergency Application immediately thereafter.

2. As soon as possible, AEPCO requests that the Commission issue its Order authorizing AEPCO to temporarily exceed the seven percent short-term debt limitation set forth in A.R.S. § 40-302.D. Specifically, AEPCO requests that the authorized level of short-term borrowing capability be increased from approximately \$16 million to \$30 million through 2006. Because of factors explained below, AEPCO has only about \$1 million in short-term debt capacity remaining to support fuel, purchased power and other working capital needs. Prompt action on this Application will allow AEPCO to continue to meet its obligations as they come

1 due and to finance on a short-term basis the very large undercollections in its FPPAC being
2 caused by unprecedented increases in the costs of natural gas and purchased power. Further, it
3 will allow AEPCO to continue purchases under its physical hedging program designed to limit
4 future gas costs. Finally, it will allow both the Cooperative and the Commission additional time
5 to consider a solution to the FPPAC undercollection problem over the next sixty days so as to
6 mitigate the impact of these large cost increases on AEPCO's members and the retail members
7 they serve.

8 3. Last August, in Decision No. 68071, the Commission authorized AEPCO to
9 institute a Fuel and Purchased Power Cost Adjustor ("FPPAC") allowing it to recover or refund
10 changes in its costs of fuel and power purchased from others as compared to its test year
11 experience. AEPCO's natural gas cost in the 2003 test year was approximately \$4.50 per Dth.
12 As the Commission is aware, the market price of natural gas has increased dramatically over the
13 past several months—at times reaching \$14.00—although, because of a physical hedging
14 program, AEPCO was able to hold most of its cost of natural gas at \$4.50 until October of 2005,
15 when quantities purchased previously were exhausted.

16 4. However, in September and October, AEPCO still experienced approximately a
17 \$3.7 million undercollection in its FPPAC and had expected a roughly \$1.2 million
18 undercollection in November. Instead, the undercollection totaled another \$3.7 million. The
19 unexpectedly large increase was due to two factors. First, a scheduled minor overhaul of Steam
20 Turbine Unit No. 2, once commenced, revealed that far more extensive work than a minor
21 overhaul was required. This additional work cost \$3.6 million over budget and also caused the
22 unit to be out of service for 11 more days than anticipated. This forced AEPCO to purchase
23 replacement power and/or burn higher priced natural gas for a longer time than expected and at
24

1 elevated market prices. Second, during this extended outage, purchased power costs were very
2 high and at times reached 100 mills per kWh. AEPCO only became aware of the complete
3 financial impact of the problem late last month.

4 5. This combination of events, coupled with prior undercollections, has almost
5 completely exhausted the Cooperative's short-term borrowing limit. AEPCO has only two
6 sources of short-term capital—a \$12 million line of credit with the National Rural Utilities
7 Cooperative Finance Corporation ("CFC") and a member investment program ("MIP") under
8 which its members advance monies to AEPCO on a short-term basis.¹ As of December 31,
9 2005, AEPCO has borrowed \$10 million on its CFC line of credit and has \$5 million outstanding
10 in the MIP.

11 6. This leaves only \$1 million available to the Cooperative under the seven percent
12 short-term debt limitation to continue to finance primarily the increasing undercollections in its
13 fuel and purchased power costs as well as to meet other working capital needs as required.
14 Currently, AEPCO projects that fuel and purchased power undercollections alone will total
15 \$16.8 million through the remainder of 2006.

16 7. CFC has indicated that it is willing to increase the maximum amount available
17 under the line of credit to \$25 million. Assuming \$5 million continues to be available from the
18 MIP, the Cooperative requests that the Commission authorize a short-term borrowing level of
19 \$30 million through the end of 2006. This should allow AEPCO to continue to meet its
20 obligations as they come due while affording the Cooperative and the Commission more time to
21 resolve the separate issue of earlier implementation of recovery of the undercollections.

22
23 ¹ The member investment program has been in place for many years. It allows the Cooperative to borrow money
24 from its members at rates lower than AEPCO would be charged by others, but at a higher rate than the members
could earn on their short-term deposits.

1 **Original and thirteen copies** filed
this 6th day of January, 2006, with:

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

5 **Copies** of the foregoing delivered
this 6th day of January, 2006, to:

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

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

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

19 Brian McNeil, Executive Secretary
20 Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

21

22

23

24

1 Lyn A. Farmer, Hearing Division
Arizona Corporation Commission
2 1200 West Washington
Phoenix, Arizona 85007

3
4 Jason Gellman, Legal Division
Arizona Corporation Commission
1200 West Washington
5 Phoenix, Arizona 85007

6 Ernest Johnson, Director
Utilities Division
7 Arizona Corporation Commission
1200 West Washington
8 Phoenix, Arizona 85007

9 Steve Olea, Assistant Director
Utilities Division
10 Arizona Corporation Commission
1200 West Washington
11 Phoenix, Arizona 85007

12 Gordon Fox, Utilities Division
Arizona Corporation Commission
13 1200 West Washington
Phoenix, Arizona 85007

14
15 Barbara Keene, Utilities Division
Arizona Corporation Commission
1200 West Washington
16 Phoenix, Arizona 85007

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**MOTION FOR EXPEDITED
TREATMENT**

The Arizona Electric Power Cooperative, Inc. ("AEPCO") has this date filed its
Emergency Application for Permission to Temporarily Exceed the Seven Percent Short-Term
Debt Limitation of A.R.S. § 40-302.D. As explained in the Emergency Application, AEPCO has
almost completely exhausted its short-term borrowing capabilities primarily as a result of high
natural gas and purchased power costs. Prompt Commission action is needed to allow AEPCO
to continue to meet its obligations as they come due and afford both AEPCO and the
Commission additional time to devise a solution to the undercollection problem.

AEPCO will provide any additional information necessary to process the Emergency
Application as promptly as possible. It requests that the Commission enter its Order approving
the relief requested no later than January 31, 2006.

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

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RESPECTFULLY SUBMITTED this 6th day of January, 2006.

GALLAGHER & KENNEDY, P.A.

By 

Michael M. Grant
Todd C. Wiley
2575 East Camelback Road
Phoenix, Arizona 85016-9225
Attorneys for Arizona Electric Power
Cooperative, Inc.

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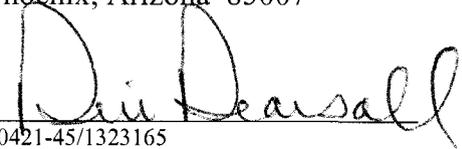
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