0000039754

Transcript Exhibit(s)

Docket #(s): E-01773A-00-0826

Exhibit # : A-1, A-2

EXHIBIT
A-1
Admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF THE ARIZONA ELECTRIC POWER COOPERATIVE, INC. FOR VARIOUS AUTHORIZATIONS ASSOCIATED WITH ITS RESTRUCTURING	No.: E-01773-A-00-0826 **APPLICATION**

The Arizona Electric Power Cooperative, Inc. ("AEPCO"), by and through its attorneys undersigned, submits this application for various approvals necessary to accomplish its restructuring. As part of the restructuring, AEPCO also seeks Commission approval of an overall 3.05% rate decrease for its members as well as permission to forgive an undercollection in its Purchased Power and Fuel Adjustment Clause (PPFAC) bank currently estimated to be $3 million as of December 31, 2000. AEPCO is an Arizona non-profit, generation and transmission cooperative which holds, pursuant to Decision No. 33677 dated February 13, 1962, a Certificate of Convenience and Necessity ("CC&N") to generate electricity and transmit that power and energy to its member distribution cooperatives at wholesale.

AEPCO's Arizona Class A member distribution cooperatives are Duncan Valley Electric Cooperative, Inc., Graham County Electric Cooperative, Inc., Mohave Electric Cooperative, Inc., Sulphur Springs Valley Electric Cooperative, Inc. and Trico Electric Cooperative, Inc. (collectively, the "Member Distribution Cooperatives"). The Member Distribution Cooperatives take the power and energy supplied by AEPCO at wholesale through their all requirements agreements and deliver it to meet the needs of their members at retail. This AEPCO system supplies electricity to roughly 250,000 rural Arizonans living in areas ranging from Greenlee,

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Graham and Cochise counties in the southeast part of the state through southern Arizona to Mohave county in the northwest.

The Rural Utilities Service ("RUS"), an agency of the U.S. Department of Agriculture, is AEPCO's primary lender or guarantor for the funds necessary to construct the generation and transmission facilities to deliver this power throughout much of rural Arizona. RUS also finances a substantial portion of the distribution facilities which are operated by the Member Distribution Cooperatives at retail. To secure the loans it makes to AEPCO, the RUS relies on two primary forms of security: (1) a mortgage on all of AEPCO's assets and (2) a security interest in the all requirements agreements executed by the Member Distribution Cooperatives under which AEPCO commits to generate and deliver and the members agree to purchase all of the energy they need to supply at retail (thus providing a revenue stream for debt repayment to RUS). These all requirements agreements currently extend to December 31, 2020. Although RUS is AEPCO's primary lender and guarantor, AEPCO also borrows money from other sources - principally the National Rural Utilities Cooperative Finance Corporation ("CFC"). CFC and other lenders and bondholders/trustees also hold encumbrances on AEPCO's assets. All lenders' consent is necessary for AEPCO's restructuring.

I. SHORT STATEMENT OF THE APPLICATION.

Following more than four years of analysis, negotiation and document formulation, including extensive consultation with RUS, AEPCO and its Member Distribution Cooperatives have completed the planning for and form of the restructuring of AEPCO. Essentially, the AEPCO restructuring involves the functional separation of the existing AEPCO into three, separate member-owned non-profit cooperatives--two new and one old. The two new cooperatives (which have already been formed) are Sierra Southwest Cooperative Services, Inc.

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("Sierra") and Southwest Transmission Cooperative, Inc. ("Southwest Transmission"). AEPCO continues in existence to provide the wholesale generation of power while several of its former functions are being transferred to Southwest Transmission and Sierra.

In order to accomplish the restructuring, AEPCO seeks the Commission's approval, pursuant to A.R.S. § 40-285, to transfer its regulatory assets and the transmission-related assets including the transmission portion of its CC&N to Southwest Transmission (the "Transmission Assets") as well as to transfer certain other relatively minor assets (the "CSP business") to Sierra. No new borrowing is involved in order to accomplish the restructuring. Sierra will pay cash for the CSP business. Southwest Transmission will pay for the transmission assets at their appraised, fair market value by assuming and securing a portion of existing AEPCO RUS and CFC debt through entering into replacement notes secured by a new mortgage and by entering into assumption and indemnity agreements with existing AEPCO lenders other than RUS and CFC. AEPCO may also execute replacement notes on the portion of debt attributable to its generating and other facilities not transferred to Southwest Transmission. Commission approval, pursuant to A.R.S. § 40-301 et. seq., of these AEPCO and Southwest Transmission notes, mortgages and assumption and indemnity agreements is sought.

The restructuring also involves the approval of a new Partial Requirements Capacity and Energy Agreement ("Partial Requirements Agreement") with Mohave Electric Cooperative, Inc. ("Mohave"). With the consent of the RUS, Mohave has elected as part of the AEPCO restructuring to change its relationship to a partial instead of an all requirements member. As a result of this change, AEPCO seeks Commission approval of the new Partial Requirements Agreement with Mohave and certain changes to its existing Class A member wholesale tariff. The rates proposed for all Member Distribution Cooperatives in the Partial Requirements

Agreement and the revised tariff represent an average 3.05% decrease in rates based on a 1999 test year. Finally, AEPCO also seeks certain other miscellaneous approvals associated with the restructuring.

It is the parties' intention to close the AEPCO restructuring by January 31, 2001. Therefore, AEPCO requests that the Commission act favorably on this Application at its December Open Meeting so as to allow sufficient time for the parties to finalize documentation, arrange a myriad of details and logistics associated with the closing and meet the intended closing date.

II. BACKGROUND OF THE RESTRUCTURING.

Attached to this Application as Exhibit A is the Restructuring Agreement and its Schedules 1 through 3 by and among AEPCO, Southwest Transmission and Sierra. Its Section 2 provides an excellent overview of the details associated with the restructuring. The Restructuring Agreement was presented to and approved by the Boards of Directors of the three cooperatives on October 10 and 11, 2000.

The approval of the Restructuring Agreement culminates a grass roots study and implementation process which began in earnest in 1996 with the formation of the AEPCO Structure/Wholesale Power Contract Study Committee. The Study Committee was comprised and chaired by representatives of the Member Distribution Cooperatives. Over the next more than 15 months, it analyzed and debated various reorganization issues and concepts. Videos of Study Committee discussions were made available to members throughout the AEPCO system and were accompanied by several system-wide presentations concerning its monthly progress.

Ultimately, the Study Committee settled upon the basic outline of the reorganization, as reflected in the Restructuring Agreement, and issued its report to the AEPCO Board. These

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Conceptual Recommendations were presented to a membership information meeting attended by the directors of AEPCO's Member Distribution Cooperatives and their retail members in September of 1997. They were then accepted and approved by AEPCO's Board.

In approaching restructuring, AEPCO's Board, its Class A members and their retail members recognized that greater flexibility was required for AEPCO and its Member Distribution Cooperatives as they prepare for the opportunities and challenges of competition in the 21st century. But, the Study Committee also wanted to preserve certain concepts and assets which had served the cooperatives well for much of the 20th century. The restructuring approach formulated by the Study Committee identified several basic reasons why its chosen form of restructuring afforded both the desired degree of flexibility and stability. Among them are:

- Increased competitiveness. The separation of AEPCO into three cooperatives allows each entity to focus on more specific areas of responsibility and maximize the utilization and productivity of each entity's assets and workforce. Sierra is also available to assist the Member Distribution Cooperatives in their competitive efforts and to provide competitive options and technology in rural areas--a market expected to be unserved or underserved by competitive providers.

- Focused generation and transmission resource financing. The restructuring allows the cooperative system to retain valuable assets, but to augment, improve and maintain those assets based on separately identified generation and transmission goals.

- Create additional organizational, operational, financial and marketing efficiencies. Although each of the three cooperatives will have certain staff dedicated and employed by that entity, Sierra's role as a general staffing organization allows the Cooperatives to focus efforts without unnecessary and expensive duplication of other personnel.

- Make available more flexible power purchase arrangements to the Member Distribution Cooperatives. Most of AEPCO's Class A Members wanted to continue the historic all-requirements arrangement, but Mohave desired a different approach. The restructuring and Partial Requirements Agreement accommodates both desires.

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- Full compliance with regulatory requirements. The separation of generation, transmission and competitive service functions into three cooperatives facilitates compliance by each with federal and state regulatory mandates including FERC Open Access and OASIS Orders and this Commission's Electric Competition Rules.

Following Board approval of the Conceptual Recommendations in late 1997, a Member Review Team comprised of counsel and consultants from the Member Distribution Cooperatives was formed. This team has been responsible for creating specific documents and negotiating precise details of the restructuring. AEPCO and the team have also conducted extensive discussions and negotiations with RUS.

Last month, RUS gave its conceptual approval to the restructuring and approval to proceed with the filing of this Application. It also agreed to the specific provisions of the Restructuring Agreement.

III. NATURE OF THE RESTRUCTURING.

AEPCO's restructuring functionally separates AEPCO into three distinct cooperatives:

- AEPCO retains ownership of the generation business including the 520 MW of resources at Apache Station and its purchased power contracts. AEPCO will focus on its traditional generation functions including Apache Station operation, existing wholesale power purchases and sales, wholesale merchant marketing, resource pool operation and planning for and meeting the power needs of its all requirements Member Distribution Cooperatives.

- Southwest Transmission will acquire the Transmission Assets from AEPCO. It will operate and maintain the transmission business and perform SCADA, system reliability and control, dispatch and related transmission functions including construction and operation of necessary future additions to the system.

- Sierra will perform two functions, the first of which includes power marketing, retail electric service marketing and sales and retail sales of other products. Sierra will also act as a staffing organization for AEPCO and Southwest Transmission. Most of the current AEPCO employees will be transferred to Sierra and their services will then be contracted back to AEPCO and Southwest Transmission. Both cooperatives will retain, however, certain upper level management and dedicated personnel to perform generation-related merchant marketing and resource pool functions for AEPCO and transmission related system operation

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functions for Southwest Transmission.

Each cooperative's Board is comprised of representatives of its members. AEPCO will continue to be governed as it is today. Southwest Transmission has two classes of membership for Board representation--the Class A Member Distribution Cooperatives and a Class B designation for AEPCO, Sierra and other wholesale contract customers of Southwest Transmission. Sierra has three member classes: (1) Class A Member Distribution Cooperatives, (2) a Class B member category comprised of AEPCO and Southwest Transmission and (3) a Class C membership for customers buying Sierra's energy or energy related services at retail.

The restructuring also involves a new partial requirements power supply arrangement with Mohave. Under this agreement, Mohave commits to purchase a fixed amount of capacity and energy from AEPCO based upon historic investment and demand, but then may secure from any source its additional power requirements. AEPCO's other Member Distribution Cooperatives will continue to acquire power from AEPCO under their existing all requirements agreements.

Mohave will enter into a Transmission Agreement with Southwest Transmission for delivery of its energy from AEPCO and AEPCO will enter into a Network Service Agreement with Southwest Transmission for delivery of AEPCO's energy to the other all requirements Class A members. Both the Transmission Agreement and the Network Service Agreement will be submitted for filing with the Federal Energy Regulatory Commission (FERC) along with Southwest Transmission's Open Access Transmission Tariff (OATT), OATT rates (wholesale open access transmission rates), OASIS Standards of Conduct and other wholesale OATT agreements in conformance with FERC Orders No. 888 and 889. Southwest Transmission will seek a "safe harbor" determination from FERC that it meets reciprocity standards to receive open access transmission service from others.

IV. SPECIFIC APPROVALS REQUESTED.

A. Transfer Of Assets.

The division of the functions is accomplished through the sale and transfer by AEPCO of the Transmission Assets to Southwest Transmission and the CSP business to Sierra. More precise details concerning these transfers are set forth in Section 2 and Schedules 1-3 of the Restructuring Agreement.

The Transmission Assets include the transmission, substation, communications and other non-generation related assets identified on Schedule 1 to the Restructuring Agreement. The Transmission Assets will be transferred at their fair market value to Southwest Transmission together with the regulatory assets of AEPCO as already authorized by the Commission in Decision No. 62758. Southwest Transmission will pay for the Transmission Assets generally by assuming a portion of existing AEPCO debt. The purchase price of the transmission assets is established by an independent appraisal. The CSP business consists of relatively minor assets as identified on Schedule 2 to the Restructuring Agreement. Sierra will pay cash for these assets.

Pursuant to A.R.S. § 40-285, AEPCO requests Commission approval to transfer the Transmission Assets to Southwest Transmission and the CSP business to Sierra.

B. Financing Approvals.

No new borrowing is involved in the restructuring and replacement notes will be on the same interest terms and conditions as the existing debt. Primarily based upon the appraisal of the Transmission Assets and the assignment of the regulatory assets, existing debt will be allocated between AEPCO and Southwest Transmission which will enter into replacement notes with the RUS and CFC, secured by a mortgage, and four assumption and indemnity agreements.

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Schedule 3 to the Restructuring Agreement provides additional information concerning the allocation of debt.

Southwest Transmission will execute notes and a mortgage evidencing the borrowings and securing them. AEPCO may execute replacement notes for the balance. Southwest Transmission will also execute assumption and indemnity agreements pertaining to debt issued by existing AEPCO lenders other than RUS and CFC. This debt cannot be released and novated in the same fashion as the RUS and CFC debt.

Pursuant to A.R.S. § 40-301 et seq., AEPCO requests Commission approval for the execution by it and Southwest Transmission of these notes, mortgages and assumption and indemnity agreements.

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C. Partial Requirements Capacity And Energy Agreement/Revised Class A Member Tariff Approval.

Attached hereto as Exhibit B is the Partial Requirements Agreement including its Rate Schedule A and the non-table portions of Schedule B between AEPCO and Mohave. It is a new agreement which, when finalized, will control the sale and purchase of power and energy between AEPCO and Mohave after restructuring. Also attached as Exhibit C is a revised all requirements Class A member AEPCO tariff. Because of the change in relationship between AEPCO and Mohave as well as the re-basing of the rates premised on a 1999 test year, certain applicability and rate modifications also are necessary to the existing tariff concerning sales to the rest of the Member Distribution Cooperatives.

Rates have been designed in accordance with the concepts and provisions of Rate Schedule A to the Partial Requirements Agreement. They are based upon costs incurred in the 1999 calendar test year. The rates proposed in Exhibits B and C, including transmission rates to be charged by Southwest Transmission, will produce on average 3.05% less revenues than produced under current rates. The proposed rates produce an 8.44% rate of return on AEPCO's generation related assets at original cost (which it agrees can be used as its fair value) and afford a debt service coverage ratio of 1.0, the minimum required by RUS to avoid mortgage default.

In addition, as part of this Application, AEPCO also seeks Commission approval to forgive the undercollection in its PPFAC bank as of the effective date of the restructuring and to eliminate from its tariff its PPFAC on an on-going basis. It is projected that, as of December 31, 2000, this PPFAC undercollected balance will amount to approximately $3 million. Based on 1999 test year revenues, this $3 million forgiveness amounts to an additional 3.6% one time decrease.

Pursuant to A.R.S. § 40-367, Commission approval of the Partial Requirements Agreement and the revised Class A all requirements member tariff attached as Exhibit C is requested.

D. <u>Other Approvals</u>.

AEPCO is not certain that the provisions of A.A.C. R14-2-1615 apply to it because it does not have "competitive generation assets" as that term is used in the Rule. AEPCO does believe, however, that the restructuring described in this Application meets and, in fact, exceeds the Rule's requirements and requests Commission confirmation of that compliance.

On February 4, 2000, AEPCO and its Member Distribution Cooperatives filed a request for waivers and a Code of Conduct pursuant to R14-2-1616 in relation to each of them and Sierra. A copy of this filing is attached hereto and incorporated herein as Exhibit D. Because waiver of the provisions of the Rule or approval of the Code of Conduct is required to effectuate a number of agreements which achieve the purposes of the restructuring, Commission approval of the requested waivers or the Code of Conduct pursuant to R14-2-1616 is requested.

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Finally, the Commission has previously granted a CC&N to Sierra in Decision No. 61932 subject to confirmation of credit arrangements and the extent of the financial commitment from AEPCO. As indicated in the Restructuring Agreement, AEPCO and Southwest Transmission will make capital contributions to Sierra of $4 million upon closing of the restructuring. Sierra has also applied for credit support in the amount of $3 million from CFC in connection with its needs. Therefore, confirmation by the Commission that the requirements of Decision No. 61932 have been satisfied is requested.

CONCLUSION

The AEPCO restructuring is in the public interest for a variety of reasons. It delivers immediate rate reductions and benefits to rural Arizona; facilitates compliance with this Commission's and FERC's regulatory mandates; enhances competitive options; better focuses generation and transmission resource financing and operation; and affords both flexibility and stability for future power purchase arrangements for members.

In light of the foregoing, AEPCO respectfully requests that the Commission enter its Order:

1. Approving the transfer of its Transmission Assets to Southwest Transmission and its CSP business to Sierra;
2. Approving the execution by it and Southwest Transmission of the notes, mortgages and assumption and indemnity agreements associated with the restructuring;
3. Approving the Partial Requirements relationship between AEPCO and Mohave with the final executed agreement to be filed with the Commission upon completion of the restructuring;

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4. Approving the revised Class A member all requirements tariff attached as Exhibit C and authorizing AEPCO to forgive its PPFAC undercollection as of the effective date of the restructuring;

5. Confirming that by its restructuring AEPCO has complied with the requirements of R14-2-1615;

6. Approving the waivers or alternatively the Code of Conduct as described in Exhibit D;

7. Confirming that the financial commitment conditions of Decision No. 61932 pertaining to Sierra have been satisfied; and

8. Authorizing AEPCO, Southwest Transmission and Sierra to engage in any transactions and to execute any documents necessary to effectuate these authorizations and complete the restructuring.

In order that the restructuring may close and the rate reductions may take effect as promptly as possible, AEPCO requests the Commission enter this Order at its December Open Meeting.

DATED this 17th day of October, 2000.

GALLAGHER & KENNEDY, P.A.

BY: Michael M. Grant

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ORIGINAL and ten copies filed this date with Docket Control.

Linda Maqueda

10407-0008/868983

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EXHIBIT
A-2
Admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF THE ARIZONA ELECTRIC POWER COOPERATIVE, INC. FOR VARIOUS AUTHORIZATIONS ASSOCIATED WITH ITS RESTRUCTURING	No.: E-01773-A-00-0826 **AMENDMENT TO APPLICATION**

On October 17, 2000, the Arizona Electric Power Cooperative, Inc. ("AEPCO") submitted its Application for various approvals necessary to accomplish its restructuring. By this Amendment, AEPCO seeks Commission approval for (1) a revised all requirements Class A member tariff (Exhibit C to the Application) and (2) revised rates for the Partial Requirements Agreement with Mohave (Exhibit A-1 to Rate Schedule A; Exhibit B to the Application).

The rates proposed in the Application were based on revenues and expenses in the 1999 test year. As the Commission is aware, fuel prices have escalated rapidly since that time. Based upon March 2001 natural gas and coal prices, AEPCO's annualized fuel costs have now increased by almost $16 million. In context, that increase represents a roughly 24% rise over test year production operation and maintenance expenses. Although AEPCO expects to recover a substantial portion of that cost increase through revenues from non-member sales, more than $5.7 million of the increase is attributable to member related production costs.

If AEPCO were to propose rates designed to fully recover these costs, a rate increase of approximately 3%--rather than the rate decrease of 3.05% originally requested in the Application--would be necessary. Because it does not want to increase member rates and

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believes currently that it can manage a portion of the cost increase through load growth, operating efficiencies and revenues from other off system sales, AEPCO requests revised rates in this Amendment which neither increase nor decrease the revenues produced by current rates.

Attached hereto as Exhibit A is a revised Exhibit A-1 to Rate Schedule A to the Partial Requirements Agreement.[1] The revised proposed rates decrease the originally proposed fixed charge and O&M rate, but increase the energy rate.

Attached hereto as Exhibit B is a revised all requirements tariff.[2] The revised proposed rates decrease the originally proposed demand charge, but increase the energy rate.

The revised rates requested in this Amendment to Application were discussed with AEPCO's Board of Directors at its meeting on April 11, 2001. The Board, which is comprised of representatives of the members, approved the revised rates and authorized filing of this Amendment to Application.

The proposed rates in Exhibits A and B, including transmission rates to be charged by Southwest Transmission, represent no change or rate increase from the revenues derived from current rates. They produce a rate of return on AEPCO's generation-related assets of 6.76%. Attached hereto as Exhibit C are schedules: (1) summarizing the present and proposed rates, (2) setting forth rate base and rate of return data and (3) summarizing rate base and results of operations for the test year.

AEPCO continues to request authorization (1) to forgive the under-collected balance in its PPFAC bank as of the effective date of the restructuring and (2) to eliminate its PPFAC on an on-going basis. Because of sharp increases in fuel costs, the PPFAC balance was approximately

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[1] The Partial Requirements Agreement was Exhibit B to the October 17 Application.
[2] Exhibit C to the October 17 Application.

$6.7 million at December 31, 2000. Commission authorization of the forgiveness of the balance constitutes at least an 8.4% one time rate decrease.

AEPCO expects to receive the necessary approvals associated with its restructuring from the Federal Energy Regulatory Commission by late May and has now scheduled closing of the restructuring transaction for June 1, 2001. Therefore, AEPCO requests that the Commission act on this matter no later than its May 22 Open Meeting and enter its Order granting the approvals requested at pages 11-12 of the October 17, 2000 Application with the revised rates as set forth in Exhibits A and B attached hereto.

RESPECTFULLY submitted this 11th day of April, 2001.

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BY: Michael M. Grant

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this date with Docket Control.

Linda Magana

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A

EXHIBIT A-1
TO RATE SCHEDULE A

Partial Requirements Member
Rates and Fixed Charge
(Effective as of ______________________)

Fixed Charge Mohave Electric Cooperative, Inc.	[$688,556 per month,]
O&M Rate	[$ 4.76 per kW/month]
Energy Rate	$0.01989 per kWh used during the billing period.

NOTE: THE RATES AND FIXED CHARGE SHALL BE ADJUSTED FURTHER FOR ANY POWER FACTOR ADJUSTMENT, DEMAND OVERRUN ADJUSTMENTS, STRANDED COST RECOVERY, AND TAXES AND/OR ASSESSMENTS, PURSUANT TO SECTIONS 2.2, 2.3, AND 2.4, RESPECTIVELY, AND ANY ADJUSTMENTS RESULTING FROM SCHEDULE B OF THE AGREEMENT.

B

ARIZONA ELECTRIC POWER COOPERATIVE, INC.

TARIFF

PERMANENT

Effective Date: ____________________

Availability

Available to all cooperative associations which are or shall be all requirements Class A members of the Arizona Electric Power Cooperative, Inc. ("AEPCO").

MONTHLY RATE (BILLING PERIOD)

Electric power and energy furnished under this tariff will be subject to the following rates and terms:

Demand Charge
$12.44 per kW of billing demand, plus

Energy Charge
$0.01989 per kWh used during billing period.

Billing Demand - The billing demand shall be that thirty minute integrated Class A member metered demand coincident at the hour of the AEPCO monthly peak. Contracts specifying demand levels and billing parameters are not included in this Class A member definition of billing demand and are billed separately.

Billing Month - The first calendar month preceding the month the bill is rendered.

Additional Charges - Service is also subject to the rates and charges stated in AEPCO's Regulatory Assets and Competition Transition Charge Supplemental Tariff. The demand and energy rates stated herein include no allowance for recovery of regulatory assets. Pursuant to Decision No. 62758, the regulatory assets and RAC have been assigned to Southwest Transmission Cooperative, Inc. AEPCO will pass through to its Class A members the RAC assessed by Southwest Transmission Cooperative, Inc.

Power Factor - Each member shall maintain power factor at the time of maximum demand as close to unity as possible. In the event the power factor measured at the time of the maximum demand is less than 90% lagging or leading, the maximum demand shall be adjusted for billing purposes by dividing the maximum measured demand by the measured power factor multiplied by .9. The provisions of the power factor adjustment will be waived if power factor is detrimentally impacted as a direct result of system improvements or a change in operational procedure by AEPCO to reduce transmission losses and/or improve system reliability.

Taxes - Bills rendered are also subject to adjustment for all federal, state and local government taxes or levies on such sales and any assessments that are or may be imposed by federal or state regulatory agencies on electric utility gross revenues.

Transmission And Ancillary Service Charges - Each Class A member will also be billed by AEPCO for charges it incurs for the transmission of energy to the Class A member's delivery point(s). Such charges will be assessed to the Class A member at the rates actually charged AEPCO by the transmission provider and others for transmission service and the provision of ancillary services.

C

Arizona Electric Power Cooperative, Inc.

Summary of Present and Proposed Rates

Test Year Ended December 31, 1999

Description		Billing Rate	Billing Unit
Present Rates:*			
Demand Charge	$	15.25	Per kW/Month
Energy Charge	$	0.02228	Per kWh
Fuel and Purchased Power Base Cost	$	0.01714	Per kWh
Proposed Rates:*			
All Requirements Class A Members:			
Demand Charge	$	12.44	Per kW/Month
Energy Charge	$	0.01989	Per kWh
Partial Requirements Class A Members:			
Facilities Charge	$	688,556	Per Month
Demand Charge	$	4.76	Per kW/Month
Energy Charge	$	0.01989	Per kWh

* Present Rates include both generation and transmission charges. Proposed Rates are for generation service only. Open Access Transmission Tariff (OATT) rates charges by Southwest Transmission under the transmission agreement with Mohave or the Network Service Agreement with AEPCO will either be directly billed in Mohave's case or passed through by AEPCO in the case of the all-requirements members.

Arizona Electric Power Cooperative, Inc.

Computation of Increase in Gross Revenue Requirements

Test Year Ended December 31, 1999

Line No.	Description	Total Original Cost	Generation Original Cost
1	Adjusted Rate Base	$ 260,436,970	$ 196,804,012
2	Electric Operating Margins	19,151,705	13,611,680
3	Current Rate of Return	7.35%	6.92%
4	Required Electric Operating Margins	19,151,705	13,300,369
5	Required Rate of Return	7.35%	6.76%
6	Operating Income Deficiency	0	(311,311)
7	Gross Revenue Conversion Factor	1.0000	1.0000
8	Increase(Decrease) in Gross Revenue Requirements	$0	$ (311,311)

	Customer Classification:	Projected Revenues Proposed Rates	Projected Revenues Proposed Rates
9	Member Contracts All-Requirements	$ 52,493,510	$ 45,526,098
10	Member Contracts Part. Requirements	27,721,399	24,212,468
11	Total	$ 80,214,909	$ 69,738,566
12	Revenue Present Rates	$ 80,214,909	$ 70,049,877
13	Percent Dollar Increase	0.00%	-0.44%

Arizona Electric Power Cooperative, Inc.
Summary of Original Cost Rate Base

Line No.	Description	Original Cost Rate Base	Generation Cost Rate Base
1	Gross Utility Plant in Service	$ 452,673,307	$ 347,805,280
	Less:		
2	Accumulated Depreciation & Amort.	204,074,764	160,670,991
3	Net Utility Plant in Service	248,598,543	187,134,289
	Less:		
4	Customer Advances for Construction	0	0
5	Contributions in Aid of Construction	0	0
	Add:		
6	Allowance for Working Capital	11,558,289	9,454,617
7	Retirement Work in Progress	280,138	215,106
8	Total Rate Base	$ 260,436,970	$ 196,804,012

Arizona Electric Power Cooperative, Inc.
Summary Results of Operations
Test Year Ended December 31, 1999

Line No.	Description	Prior Years 12/31/97	12/31/98	Test Year Per Books 12/31/99	12/31/99 Adjusted	Proj. Year Present Rates	12/31/99 Proposed Rates
1	Operating Revenues	$ 175,649,337	$ 170,856,412	$ 163,141,948	$ 179,421,666	$ 179,421,666	$ 179,421,666
2	Operating Revenue Deductions	139,780,852	136,698,369	139,803,335	160,269,961	160,269,961	160,269,961
3	Electric Operating Margins	35,868,485	34,158,043	23,338,613	19,151,705	19,151,705	19,151,705
4	Interest and Other Deductions	24,633,942	25,217,897	22,596,549	21,114,749	21,114,749	21,114,749
5	Operating Margins	11,234,543	8,940,146	742,064	-1,963,044	-1,963,044	-1,963,044
6	Non-Operating Margins	3,354,765	3,246,398	4,035,021	4,035,021	4,035,021	4,035,021
7	Net Margins & Patronage Capital	$ 14,589,308	$ 12,186,544	$ 4,777,085	$ 2,071,977	$ 2,071,977	$ 2,071,977
	Depreciation & Amortization Expense	10,204,054	10,591,497	10,477,485	10,847,879	10,847,879	10,847,879
	Interest On Long Term Debt	21,220,210	19,112,676	18,606,775	18,606,775	18,606,775	18,606,775
	Debt Service Payments	38,783,737	37,063,431	34,846,107	34,846,107	34,846,107	34,846,107
8	Times Interest Earned Ratio	1.69	1.64	1.26	1.11	1.11	1.11
9	Debt Service Coverage Ratio	1.19	1.13	0.97	0.90	0.90	0.90

Arizona Electric Power Cooperative, Inc.
Pro-Forma Statement of Operations
Twelve Months Ended December 31, 1999

Description	Per Books	Adjustments	Pro forma	Revenue Increase (Decrease)	Pro forma with Revenue Increase	Generation Pro forma with Revenue Increase
Operating Revenues:						
Sales to Class A Members	$80,604,376	($389,467)	$80,214,909	$0	$80,214,909	$69,738,566
Other Sales for Resale	76,049,010	17,223,830	93,272,840	0	93,272,840	82,539,863
Total Sales for Resale	156,653,386	16,834,363	173,487,749	0	173,487,749	152,278,429
Other Operating Revenues	6,488,562	(554,645)	5,933,917	0	5,933,917	3,960,610
Total Operating Revenues	163,141,948	16,279,718	179,421,666	0	179,421,666	156,239,039
Operating Expenses:						
Production O&M Expense	63,813,047	15,650,808	79,463,855	0	79,463,855	79,463,855
Other Power Supply Expense	40,962,415	848,356	41,810,771	0	41,810,771	40,195,135
Transmission O&M Expense	10,952,060	(1,095,592)	9,856,468	0	9,856,468	1,010,977
Administrative & General Expense	13,596,728	(1,196,092)	12,400,636	0	12,400,636	9,953,658
Depreciation & Amortization	10,477,485	370,394	10,847,879	0	10,847,879	7,791,719
Taxes	1,600	5,888,752	5,890,352	0	5,890,352	4,523,326
Total Operating Expenses	139,803,335	20,466,626	160,269,961	0	160,269,961	142,938,670
Electric Operating Margins	23,338,613	(4,186,908)	19,151,705	0	19,151,705	13,300,369
Interest & Other Deductions:						
Interest on Long Term Debt	18,606,775	0	18,606,775	0	18,606,775	14,287,363
Interest Charged to Construction	(223,777)	0	(223,777)	0	(223,777)	(171,910)
Other Interest Expense	1,413,828	0	1,413,828	0	1,413,828	1,085,618
Other Deductions	2,799,723	(1,481,800)	1,317,923	0	1,317,923	989,712
Total Interest & Other Deductions	22,596,549	(1,481,800)	21,114,749	0	21,114,749	16,190,783
Operating Margins	742,064	(2,705,108)	(1,963,044)	0	(1,963,044)	(2,890,414)
Nonoperating Margins	4,035,021	0	4,035,021	0	4,035,021	4,035,021
Net Patronage Capital or Margins	$4,777,085	($2,705,108)	$2,071,977	$0	$2,071,977	$1,144,607
Times Interest Earned Ratio	1.26		1.11		1.11	1.08
Debt Service coverage Ratio	0.97		0.90		0.90	0.89

Revenues - Present Rates	$80,214,909	$70,049,877
Increase over Revenues - Present Rates	$0	($311,311)
Percent Increase	0.00%	-0.44%