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BEFORE THE ARIZONA CORPORATION COMMISSION

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MIKE GLEASON
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

Arizona Corporation Commission

DOCKETED

DEC 21 2007

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IN THE MATTER OF THE JOINT APPLICATION OF THE ARIZONA ELECTRIC POWER COOPERATIVE, INC., SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC. AND MOHAVE ELECTRIC COOPERATIVE, INC. FOR APPROVAL OF (1) A PARTIAL-REQUIREMENTS AGREEMENT WITH SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC., (2) AN AMENDMENT TO THE PARTIAL-REQUIREMENTS AGREEMENT WITH MOHAVE ELECTRIC COOPERATIVE, INC. AND (3) REVISED PARTIAL-REQUIREMENTS RATES IN RELATION THERETO

DOCKET NOS. E-01773A-07-0490
E-01575A-07-0490
E-01750A-07-0490

DECISION NO. 70105

ORDER

Open Meeting
December 18 and 19, 2007
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Electric Power Cooperative, Inc. ("AEPSCO"), Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC"), and Mohave Electric Cooperative, Inc. ("MEC") are certificated to provide electric service as public service corporations in the State of Arizona.

2. Currently, AEPSCO's Arizona Class A all-requirements members are the Duncan Valley Electric Cooperative, Inc., Graham County Electric Cooperative, Inc., Trico Electric Cooperative, Inc. and SSVEC. The partial-requirements Class A member is MEC.

1 3. APECO is an Arizona non-profit electric generation cooperative which supplies all
2 or most of the power and energy needs of its five Class A member distribution cooperatives. MEC
3 is currently AEPCO's only partial-requirements Class A member.

4 4. Under the partial-requirements relationship, MEC commits to purchase a fixed
5 amount of capacity and energy from AEPCO and then secures from a source of its own choosing
6 any additional power requirements necessary to meet the power and energy needs of its retail
7 members.

8 5. On August 22, 2007, AEPCO, SSVEC and MEC submitted a Joint Application for
9 approval of a new partial-requirements Capacity and Energy Agreement between AEPCO and
10 SSVEC, an Amendment to the Partial-Requirements Agreement between AEPCO and MEC and a
11 revised Partial-Requirements Rates and Fixed Charge Schedule in relation thereto.

12 6. SSVEC has elected to convert its Class A member relationship with AEPCO from
13 an all-to a partial-requirements relationship. SSVEC implemented a request to become a partial-
14 requirements member of AEPCO under rights granted by the Arizona Corporation Commission
15 ("Commission") in Decision No. 63868, dated July 25, 2001.

16 7. AEPCO's Board reviewed, approved and supports SSVEC's request to convert
17 from an all-requirements to a partial-requirements member of AEPCO's generation cooperative.

18 8. SSVEC's conversion to partial-requirements status is also subject to the review and
19 approval of the Rural Utilities Service ("RUS"). By letter dated June 7, 2007, the RUS notified
20 AEPCO of its approval of the Partial-Requirements Capacity and Energy Agreement between
21 AEPCO and SSVEC ("SSVEC PRA").

22 9. The SSVEC PRA differs in certain respects from the MEC Partial-Requirements
23 Capacity and Energy Agreement ("MEC PRA"). In the letter dated June 7, 2007, the RUS also
24 approved an amendment to the MEC PRA to make the SSVEC PRA and the MEC PRA more
25 uniform in terms, conditions, content and layout.

26 10. AEPCO proposes that SSVEC and MEC be charged the same O&M and energy
27 rates. These rates were approved by the Commission in Decision No. 68071 dated August 17,
28 2005. SSVEC's proposed monthly fixed Facilities Charge in the amount of \$757,429 is based

1 upon the same method authorized by the Commission, but is less than MEC's Facility Charge
2 because SSVEC has a lower Allocated Capacity Percentage than MEC.

3 11. No revisions to the rates charged to AEPCO's remaining all-requirements members
4 or MEC are necessary as a result of SSVEC's partial-requirements conversion.

5 12. AEPCO is proposing that SSVEC's fuel and purchased power base cost should be
6 the same as MEC's in the amount of \$0.01603 per kWh. Regarding the Power Cost Adjustor Rate,
7 AEPCO is proposing that the rate for SSVEC remain at the all-requirements level until the time of
8 the first semi-annual adjustment following approval of the Application.

9 13. AEPCO's pro forma Times Interest Earned Ratio ("TIER") and Debt Service
10 Coverage Ratio ("DSC") are improved slightly to 2.20 and 1.63, respectively, due to decreased
11 capacity and energy charges being greater than decreased revenues expected when SSVEC
12 becomes a partial-requirements member.

13 14. In order to allow SSVEC to promptly commence planning and procurement for the
14 summer of 2008 and to afford AEPCO the full 2008 calendar year of operating experience with
15 SSVEC as a partial-requirements member, the Applicants request that the Commission approve
16 their Application no later than its December 2007 Open Meeting.

17 STAFF'S RECOMMENDATIONS AND FINDINGS

18 15. Staff has recommended approval of the Joint Application filed On August 22, 2007
19 by AEPCO, SSVEC and MEC. Staff's recommendation is supported by the findings that follow.

20 16. The approved Joint Application will allow SSVEC to finalize conversion to become
21 a new partial-requirements member and timely implement planning and procurement of capacity
22 and energy needs for the summer 2008 requirements (Joint Application, p.4, Item No. 11).

23 17. AEPCO's Board and its members' representatives have reviewed, approved and
24 support SSVEC's conversion to a partial-requirements member (Joint Application, p.2, Item No.
25 4).

26 18. The RUS has approved the Partial-Requirements Capacity and Energy Agreement
27 between AEPCO and SSVEC and an Amendment to the Partial-Requirements Agreement between
28 AEPCO and MEC (Joint Application, Exhibit B).

1 19. Staff submitted the following two-part data request to Attorneys Michael
2 Grant and Bradley Carroll regarding MEC's experiences operating as a partial-
3 requirements member since 2001:

4 "AEPCO restructuring and the Mohave Electric Cooperative, Inc. ("MEC")
5 conversion to a partial-requirements member are discussed in item No. 2 of
6 the Application. In the period of time since Decision No. 63868, has MEC
7 incurred any administrative complications with any public service
8 corporations or administration agencies due primarily to its conversion from
9 an all-to a partial-requirements member?"

10 "Also, have any of the end-users of MEC incurred any reliability problems or
11 higher energy costs attributable primarily to the MEC conversion from an all-
12 to a partial-requirements member?"

13 MEC's responses to Staff's data request(s) reassures Staff that the AEPCO restructuring and
14 SSVEC's conversion to a partial-requirements member are in the best interests of AEPCO and
15 SSVEC. The following excerpt from MEC's responses summarizes the nature of the responses
16 received from MEC on this matter: "To date there have been no complications or adverse
17 impacts of any nature as the result of the conversion."

18 20. Regarding the all-requirements members, they benefit from SSVEC's conversion
19 with no revisions in rates (Joint Application, p.4, Item No. 8) and higher TIER and DSC ratios
20 (Joint Application, Exhibit F, p.2).

21 21. Staff was able to verify SSVEC's Allocated Capacity Percentage and the proposed
22 monthly Facilities Charge in the amount of \$757,429 by referring to the Schedule of Allocated
23 Capacity Percentages filed as Exhibit A in the Joint Application (Appendix A to Exhibit A-5).

24 22. AEPCO will not incur any stranded costs as a result of SSVEC converting to a
25 partial-requirements member (AEPCO's response to a Staff data request).

26 23. Staff supports allowing SSVEC to continue using the all-requirements adjustor rate
27 until the normal semi-annual adjustment process occurs because it keeps all of AEPCO's members
28 on the same schedule for updating adjustor rates. As of October 1, 2007, the all-requirements
adjustor rate for SSVEC is expected to be \$0.01268 per kWh. Depending on the effective date of

1 the Commission's decision on this Joint Application, the update of SSVEC's adjustor rate to the
2 partial-requirements level will likely occur April 2008.

3 24. In light of the findings discussed above, Staff has recommended that the
4 Commission approve the AEPCO/SSVEC/MEC Joint Application to convert SSVEC to a partial-
5 requirements member (Joint Application, Exhibit A), implement the second amendment to the
6 MEC Partial Agreement (Joint Application, Exhibit C), revise Partial-Requirements Members
7 Rates and Fixed Charge Schedule (Joint Application, Exhibit E) and allow the continued use of the
8 all-requirements adjustor rate for SSVEC until the rate is recalculated.

9 25. Staff has also recommended that the Commission specify in its Order that approval
10 of the Joint Application at this time does not constitute a rate increase under A.R.S. Section 40-250
11 or guarantee any future ratemaking treatment of the Application.

12 CONCLUSIONS OF LAW

13 1. AEPCO, SSVEC, and MEC are public service corporations within the meaning of
14 Article XV, Section 2, of the Arizona Constitution.

15 2. The Commission has jurisdiction over AEPCO, SSVEC, and MEC and the subject
16 matter of the Application.

17 3. The Commission, having reviewed the Application and Staff's memorandum dated
18 December 4, 2007, concludes that it is in the public interest to approve the Joint Application of
19 Arizona Electric Power Cooperative, Sulphur Springs Valley Electric Cooperative and Mohave
20 Electric Cooperative.

21 ORDER

22 IT IS THEREFORE ORDERED that the Joint Application of Arizona Electric Power
23 Cooperative, Inc., Sulphur Springs Valley Electric Cooperative, Inc., and Mohave Electric
24 Cooperative, Inc. to convert Sulphur Springs Valley Electric Cooperative, Inc. (Exhibit A) to a
25 partial-requirements member is approved.

26 IT IS FURTHER ORDERED that the Joint Application of Arizona Electric Power
27 Cooperative, Inc., Sulphur Springs Valley Electric Cooperative, Inc. and Mohave Electric

28 ...

1 Cooperative, Inc. to implement the second amendment to the Mohave Electric Cooperative, Inc.
2 Partial Agreement (Exhibit C) is approved.

3 IT IS FURTHER ORDERED that the Joint Application of Arizona Electric Power
4 Cooperative, Inc., Sulphur Springs Valley Electric Cooperative, Inc. and Mohave Electric
5 Cooperative, Inc. to revise Partial-Requirements Members Rates and Fixed Charge Schedule
6 (Exhibit E) is approved.

7 IT IS FURTHER ORDERED that the Joint Application of Arizona Electric Power
8 Cooperative, Inc., Sulphur Springs Valley Electric Cooperative, Inc. and Mohave Electric
9 Cooperative, Inc. to allow the continued use of the all-requirements adjustor rate for Sulphur
10 Springs Valley Electric Cooperative, Inc. until the rate is recalculated is approved.

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1 IT IS FURTHER ORDERED that approval of the Joint Application at this time does not
2 constitute a rate increase under A.R.S. Section 40-250 or guarantee any future ratemaking
3 treatment of the Application.

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

5
6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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8 *Laurel J. Mason*
CHAIRMAN

William Miller
COMMISSIONER

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10 *Jeffrey H. Hatch Miller*
COMMISSIONER

R. M. [Signature]
COMMISSIONER

Gary [Signature]
COMMISSIONER

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13 IN WITNESS WHEREOF, I Dean S. Miller, Interim
14 Executive Director of the Arizona Corporation Commission,
15 have hereunto, set my hand and caused the official seal of
16 this Commission to be affixed at the Capitol, in the City of
17 Phoenix, this 21st day of December, 2007.

Dean S. Miller

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19 _____
Dean S. Miller
Interim Executive Director

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21 DISSENT: _____

22 DISSENT: _____

23 EGJ:WHM:tdp\CCK
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1 SERVICE LIST FOR: Arizona Electric Power Cooperative, Inc. et al
2 DOCKET NOS. E-01773A-07-0490 et al

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