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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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Arizona Corporation Commission
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MAR 28 2008

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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

SSVEC'S RESPONSE TO AEPCO'S
REQUEST FOR REVIEW OF FPPCA
EFFICACY AND IMPLEMENTATION
OF ALTERNATIVE ADJUSTOR
RATES

Pursuant to Arizona Corporation Commission ("Commission") Decision No. 68071 dated August 17, 2005 (the "Rate Case Decision") in Docket Nos. E-01773A-04-0528 and E-04100A-04-0527 (the "AEPCO Rate Case Dockets"), on February 29, 2008, Arizona Electric Power Cooperative, Inc. ("AEPCO") filed a Request for Review of FPPCA¹ Efficacy and Implementation of Alternative Adjustor Rates ("AEPCO's Request"). Intervenor Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC")² hereby files its response to AEPCO's Request. Although SSVEC supports AEPCO's Request, SSVEC is requesting the Commission require AEPCO (as part of its next semi-

¹ Fuel and Purchased Power Cost Adjustment ("FPPCA").

² On January 11, 2005, the Commission granted SSVEC's intervention in the AEPCO Rate Case Dockets. By Procedural Order dated March 13, 2006, the Commission also granted SSVEC's intervention in Docket No. E-01772A-06-0047, *In the Matter of the Application of the Arizona Electric Power Cooperative, Inc. for Approval to Implement a Fuel and Purchased Power Cost Adjustor Rate on April 1, 2006* which implemented the FPPCA pursuant to the Rate Case Decision. Accordingly, as the AEPCO Request was filed in dockets where SSVEC has been granted intervention, SSVEC believes that it has due standing as a party to file this Response. If, however, the Commission disagrees with this assessment, please also consider this filing as SSVEC's Motion to Intervene.

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1 annual filing) to revise and true-up its methodology to fairly allocate the fuel and
2 purchased power costs to the members of the class of Partial Requirements Members
3 (“PRMs”) and the members of the class of All Requirements Members (“ARMs”)
4 consistent with actual fuel and purchased power expenses attributable to the members,
5 thereby eliminating cross-subsidies that currently exist as a result of the methodology that
6 AEPCO uses.³

7 I. SSVEC

8 SSVEC is a member-owned Arizona nonprofit corporation. SSVEC is a public
9 service corporation providing electric distribution service in parts of Cochise, Santa Cruz,
10 Pima, and Graham Counties pursuant to a Certificate of Convenience and Necessity
11 issued by this Commission. SSVEC is a PRM of AEPCO, and AEPCO is a wholesale
12 supplier of electricity to SSVEC. For these reasons, SSVEC will be directly and
13 substantially affected by a Decision of the Commission in this proceeding.

14 II. SSVEC SUPPORTS AEPCO’S REQUEST TO CONVERT TO A SIX
15 MONTH AMORTIZATION PERIOD

16 SSVEC recognizes that the 12-month bank balance amortization/recovery
17 mechanism is not allowing AEPCO to keep pace with fuel and purchased power expenses
18 and that the under-collected bank balances remain high and resistant to reduction.
19 Although (as more fully described below) SSVEC disagrees with the underlying
20 methodology that AEPCO utilizes to calculate the allocation of fuel and purchased power
21 expenses on which the revised adjustor rates are based, SSVEC supports AEPCO’s
22 Request to (i) revise the adjustor rates as set forth therein based on a six-month bank
23 amortization method; and (ii) continue to use the six-month method until the FPPCA can
24 be re-examined in AEPCO’s next rate case.

25 _____
26 ³ By making this filing, SSVEC does not intend nor is it proposing that the Commission’s approval of
AEPCO’s Request be delayed.

1 III. THE COMMISSION SHOULD REQUIRE AEPCO TO FAIRLY
2 ALLOCATE FUEL AND PURCHASED POWER COSTS BETWEEN THE
3 INDIVIDUAL MEMBERS OF THE PRMS AND ARMS AS PART OF ITS
4 NEXT SEMI-ANNUAL FILING

5 AEPCO's Request proposes to set the FPPCA for the two rate classes it serves, the
6 PRMs and ARMs. SSVEC has converted its membership in AEPCO from an ARM to a
7 PRM, effective January 1, 2008, pursuant to Commission Decision No. 70105 (December
8 21, 2007). Together with Mohave Electric Cooperative ("MEC"), the other PRM, PRMs
9 represent approximately two thirds of the AEPCO system in terms of kilowatt-hour sales.
10 As PRMs, SSVEC and MEC have elected to take on the responsibility of meeting portions
11 of their wholesale power needs from non-AEPCO sources, whereas ARMs rely on
12 AEPCO to meet all of their power supply needs. As a result, SSVEC and MEC procure
13 power on the wholesale market independently from AEPCO, and they rely on AEPCO for
14 power in a much different way than do the ARMs. In SSVEC's case, it expects to procure
15 approximately 75 MW, or about 35 percent of its peak load, from non-AEPCO resources
16 this year.

17 The AEPCO Request, as well as the semi-annual filing (also made on February 29,
18 2008) to revise the FPPCA adjustor, are the first FPPCA-related filings that AEPCO has
19 made since SSVEC became a PRM. What is at issue for SSVEC as a PRM is not the rates
20 that AEPCO is currently proposing *per se*, but whether AEPCO's proposed allocations of
21 fuel and purchased power costs underlying those rates are reasonable and appropriate for
22 the two rate classes. SSVEC's review of the AEPCO filing raises questions in this regard.
23 SSVEC believes that the single adjustment⁴ made by AEPCO to account for the difference
24 between fuel and purchased power costs for ARMs and PRMs is somewhat arbitrary and
25 that additional work should be required by the time of the next semi-annual filing to
26 adequately and reasonably assign fuel and purchased power costs to the individual

⁴ See State 2 Member Fuel Cost column on page 3 of Exhibit A of AEPCO's Request.

1 members of the two rate classes. The AEPCO Request does not include any information
2 that demonstrates that this one and only adjustment that is proposed is a reasonable and
3 appropriate method for differentiating the fuel and purchased power costs between the two
4 rate classes. It is the only difference between the two factors and it is not explained in the
5 filing. SSVEC maintains that the PRMs are inappropriately and unfairly assigned fuel and
6 purchased power costs attributable to ARMs, thereby causing the PRMs to pay higher
7 rates and subsidize the ARMs.

8 For example, AEPCO incurs costs related to natural gas purchases for its units to
9 serve peak load in the summer months, when SSVEC will purchase much of its peak
10 power on its own. While the ARMs will take 100% of their power from AEPCO, the
11 PRMs will take far less than 100%. AEPCO averages the higher priced natural gas fuel
12 used primarily by the ARMs with other AEPCO fuel costs and allocates these costs to the
13 PRMs thereby causing the PRMS to pay costs relating to power they do not take. Said
14 another way, AEPCO is allocating higher natural gas fuel costs to the PRMs when the
15 PRMs are scheduling primarily lower cost coal-generated power. Analysis previously
16 prepared by AEPCO and its members relating to this issue has demonstrated that
17 AEPCO's continued application of the current methodology will result in SSVEC and its
18 ratepayers paying millions of extra dollars over time.

19 The issues raised by SSVEC in this pleading are not new to SSVEC and AEPCO.
20 There have been discussions between AEPCO, SSVEC and MEC for the last four years
21 regarding the appropriate allocations of fuel and purchased power costs between ARMs
22 and PRMs. These discussions have been unsuccessful and little progress has been made.
23 It will be approximately 15 months before AEPCO files its next rate case. It will then be
24 an additional 12 to 15 months before the Commission issues a decision in that proceeding.
25 Accordingly, because SSVEC's ratepayers will continue to pay higher retail rates because
26 of the way AEPCO has been allocating these costs, this is the appropriate time for the

1 Commission to require AEPCO to examine this issue and propose FPPCA adjustor rates
2 in its next semi-annual filing to correct this important deficiency.

3 IV. CONCLUSION

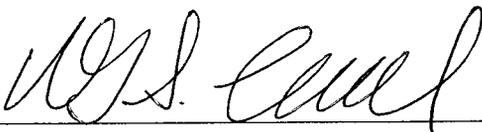
4 On the basis of the foregoing, SSVEC requests that the Commission issue an order
5 granting AEPCO's Request, subject to true-up, and further ordering that as part of its
6 September 1, 2008 filing for the October 1, 2008 to April 1, 2009 semi-annual periods,
7 AEPCO file with the Commission:

8 1. A fully detailed methodology that fairly and appropriately allocates fuel and
9 purchased power costs between the individual members of the PRMs and individual
10 members of the ARMs consistent with actual fuel and purchased power expenses
11 attributable to the respective members and classes; and

12 2. True-up calculations adjusting the fuel bank account as if the above
13 methodology had been in effect on April 1, 2008 (the date that AEPCO started charging
14 SSVEC for fuel and purchased power as a PRM pursuant to Decision No. 70105.)

15 RESPECTFULLY SUBMITTED this 28th day of March, 2008.

16 SNELL & WILMER L.L.P.

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8 COPIES of the foregoing hand-delivered
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