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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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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

**AEPCO'S REPLY TO SSVEC'S  
RESPONSE FILED APRIL 8, 2008**

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AEPCO submits this reply to SSVEC's Response which was filed on April 8, 2008 (the "April 8 Response"). SSVEC continues to maintain that the Commission should, in this narrow efficacy review, undertake instead a wholesale revision to the FPPCA which was formulated and agreed to by all parties, including SSVEC, in the 2005 Rate Decision. SSVEC's request should be denied.

At page 2 of its April 8 Response, SSVEC asserts erroneously that AEPCO does not deny that a cost allocation mismatch is occurring between its partial- and all-requirements members. To the contrary, AEPCO does deny that costs are being improperly allocated between the ARMs and the PRMs under the partial-requirements agreements between the parties which this Commission has approved.

This is the first time that SSVEC has raised such an argument before the Commission. Indeed, although SSVEC intervened to protest AEPCO's request to accelerate the FPPCA in March of 2006, SSVEC said absolutely nothing about this issue and raised absolutely no

1 objection to AEPCO's cost allocations. In fact, in that same proceeding, partial-requirements  
2 member MEC affirmatively stated its consultant had independently verified that AEPCO's  
3 calculations of the initial adjustors were, in fact, correct. AEPCO continues to use precisely the  
4 same adjustor formula and calculations today that it did in computing the adjustors two years  
5 ago.

6 Wholly unaddressed in the SSVEC April 8 Response is the fact that if the Commission  
7 did, between rate cases, adopt SSVEC's completely new cost allocation method, it would  
8 produce adjustors wholly incomparable to the average-cost power cost bases which were set in  
9 the 2005 Rate Decision. The result, among others, is that the new adjustors would not accurately  
10 track changes compared to base power costs, nor would they meet the legal requirement that all  
11 elements of the clause be designed consistently so achieved costs are neither over- nor under-  
12 recovered.

13 At pages 2-4 of its April 8 Response, SSVEC cites rate order provisions on the FPPCA,  
14 including requirements to file regular monthly reports and the Commission's and Staff's right to  
15 review FPPCA calculations. From this list of information that indicates the Commission will  
16 closely monitor the clause, SSVEC makes the unrelated and legally unfounded leap that the  
17 Commission intended instead to leave open wholesale revision of the clause. Nothing supports  
18 that surmise and SSVEC's request is, in fact, a collateral attack on the rate case decision.

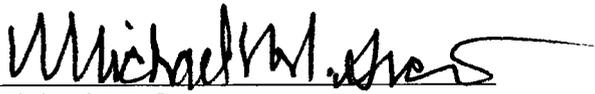
19 Similarly dispatched are SSVEC's remaining points that (1) this issue should not wait  
20 until next year's rate case filing and (2) AEPCO may have an ability to allocate costs among  
21 members at least on a monthly basis. The Commission ordered in the 2005 Rate Decision that it  
22 would undertake, and AEPCO should file, recommendations concerning the clause in the next  
23

1 rate case. SSVEC's attempt to accelerate that specifically addressed process is also a collateral  
2 attack on the order.

3 AEPCO asks that the Commission deny SSVEC's requests for implementation of a new  
4 adjustor method and also asks that revised adjustors of 14.76 mills/kWh for its all-requirements  
5 members and 13.05 mills/kWh for its partial-requirements members be instituted as soon as  
6 possible.

7 RESPECTFULLY SUBMITTED this 15<sup>th</sup> day of April, 2008.

8 GALLAGHER & KENNEDY, P.A.

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10 By   
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14 **Original and 15 copies** filed this  
15 15<sup>th</sup> day of April, 2008, with:

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18 **Copies** of the foregoing delivered  
19 this 15<sup>th</sup> day of April, 2008, to:

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