

OPEN MEETING AGENDA ITEM



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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

2008 MAY -1 P 1:04

Arizona Corporation Commission
DOCKETED

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

AZ CORP COMMISSION
DOCKET CONTROL

MAY -1 2008

DOCKETED BY ne

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 COMMENTS
REGARDING THE STAFF
REPORT AND PROPOSED
ORDER FILED APRIL 22, 2008;
MAY 6-7 OPEN MEETING,
ITEM NO. 16**

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

AEPCO submits these comments in support of the Staff Report filed April 22, 2008 and urges the Commission to adopt Staff's Proposed Order. As the Staff Report states, the small increases in the current adjustors on June 1 "will decrease under-collected bank balances, decrease the Cooperative's interest expense, lower the cost of service by lowering interest expense and ultimately lower the adjustor rates, and slightly decrease short-term borrowing pressures on the Cooperative."¹

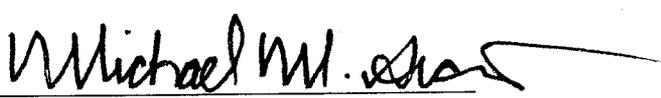
AEPCO also supports the Staff recommendation that the issues primarily raised by Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC") are appropriately addressed in next year's rate case.² The replies which AEPCO has filed in support of that position on April 4 and April 15, 2008 are attached as Exhibit A.

¹ Staff Report, third paragraph, p. 9.
² Staff Proposed Order, p. 14, ll. 13-14.

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RESPECTFULLY SUBMITTED this 1st day of May, 2008.

GALLAGHER & KENNEDY, P.A.

By 
Michael M. Grant
2575 East Camelback Road
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Attorneys for Arizona Electric Power
Cooperative, Inc.

Original and 15 copies filed this
1st day of May, 2008, with:

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Phoenix, Arizona 85007

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Administrative Law Judge
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9 Jim Deasall
10 10421-46/1821162

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EXHIBIT A

GALLAGHER & KENNEDY, P.A.
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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

The Arizona Electric Power Cooperative, Inc. ("AEPCO" or the "Cooperative") submits this reply to the Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC") Response to AEPCO's Request for Review of FPPCA Efficacy and Implementation of Alternative Adjustor Rates.

I. SUMMARY OF REPLY

SSVEC supports prompt approval of AEPCO's request to implement alternate adjustor rates based on a six-month bank amortization method and to continue use of that method until the FPPCA is reexamined in AEPCO's next rate case to be filed next year.¹ The Cooperative acknowledges that support and urges the Commission to approve, for implementation as soon as possible, the amended adjustor rates of 14.76 mills/kWh for all-requirements members ("ARMs") and 13.05 mills/kWh for its partial-requirements members ("PRMs").

¹ SSVEC Response, p. 2, ll. 21-26.

1 For several reasons, however, AEPCO opposes SSVEC's request to implement prior to
2 the next rate case a different way of assigning cost responsibility among its members than the
3 method followed for the past two years. First, as a legal matter, SSVEC's request that next
4 September 1 AEPCO "propose FPPCA adjustor rates [which allocate] fuel and purchased power
5 costs between the individual members of the PRMs and individual members of the ARMs"² is
6 not what the Commission ordered in the 2005 Rate Case. SSVEC's request is a collateral attack
7 on that decision. Second, as a practical matter, while it is working on developing such a
8 capability, the Cooperative does not currently have the ability to track, record and allocate to a
9 particular member the hourly cost of energy by resource which the method suggested by SSVEC
10 requires. Third, even if AEPCO did have that capability, the power cost bases set in the rate case
11 were not determined that way. Therefore, SSVEC's new adjustors would not produce fuel and
12 purchased power adjustments comparable to the bases on which they are premised. Finally, the
13 Commission already has ordered a review of the FPPCA in the next rate case. That filing—not a
14 request for efficacy review with narrow participation on a limited bank amortization/cost
15 recovery issue—is the appropriate forum for and procedure to address SSVEC's arguments.

16 **II. ARGUMENT**

17 SSVEC proposes a radical departure from the current structure of AEPCO's FPPCA.
18 The current clause was discussed and approved in the 2005 Rate Case without objection by any
19 party, including SSVEC.³ As discussed in the Rate Case Decision and the referenced testimony
20 of Staff witness Barbara Keene (Ex. S-7), a separate base cost of power was established for the
21 ARM class and the PRM class. This was accomplished by dividing all test-year kWhs into all

22
23 ² SSVEC Response, p. 5, ll. 1, 8-10.

24 ³ "We also note that no party objected to Staff's recommendations for the FPPCA." Decision No. 68071 ("Rate Case Decision"), p. 9, ll. 27-28.

1 test-year allowed fuel and purchased power costs, excluding the capacity costs, but not the
2 energy costs, associated with the summer peaking contract in which PRM Mohave Electric
3 Cooperative did not participate.⁴ This produced system average cost of service power bases
4 which did not differentiate based on individual unit generation or purchased power costs or
5 individual member usage patterns. The resulting base for ARMs was about 0.8 mills/kWh higher
6 than the PRM base to take into account the fact that the PRM did not participate in the
7 May-September peaking contract.⁵ Adjustors were authorized on a semi-annual basis
8 “calculated by comparing the rolling 12-month average of actual fuel and purchased power costs
9 to the base cost established in the rate case” plus an allowance to recover the balancing account.⁶
10 This formula was then used in AEPCO’s all-requirements member tariff and partial-requirements
11 schedule and approved for filing pursuant to the Rate Case Decision.⁷

12 In sharp contrast to this adjustor mechanism—which was offered by Staff, agreed to by
13 the parties, fully vetted and discussed in the rate case, recommended by the Administrative Law
14 Judge and approved by the Commission—SSVEC requests that AEPCO propose next fall six,
15 rather than two, adjustor rates. Further, unlike the system average cost and usage method
16 authorized by the Rate Case Decision, these would allocate “fuel and purchased power costs
17 between the individual members of the PRMs and individual members of the ARMs consistent
18 with...expenses attributable to the respective members and classes.”⁸ While AEPCO has no
19 objection to studying pros and cons of the current FPPCA or any other system in next year’s rate
20

21 ⁴ This allocation of the capacity costs associated with the “State 2” member costs continues in order to maintain
22 consistency with the rate decision as reflected in that column of page 3 of the Schedule attached to the March 28
Amended Filing.

23 ⁵ Rate Case Decision, Finding 37.

24 ⁶ Rate Case Decision, Finding 34 and S-7, p. 4, ll. 24-26.

⁷ Copies of the approved tariff and schedule are attached as Exhibit A.

⁸ SSVEC Response, p. 5, ll. 8-11.

1 case, which it is already required to do,⁹ SSVEC's request to do that now cannot and should not
2 be approved.

3 A. SSVEC's Request to institute a new FPPCA procedure is a collateral attack
4 on the Rate Case Decision.

5 A.R.S. § 40-252 provides, in pertinent part, that: "In all collateral actions or proceedings,
6 the orders and decision of the commission which have become final shall be conclusive." As
7 explained previously, what SSVEC wants is a dramatic redesign of the FPPCA wholly different
8 than the current clause, which all parties to the rate case, including SSVEC, either agreed or did
9 not object to, which Staff recommended and which the Commission approved. SSVEC also asks
10 that the new method be applied retroactively to the April 2008 adjustors. These adjustors,
11 however, relate to 2007 rolling average prices and 2007 bank undercollection experience when
12 SSVEC was still an ARM. The requests are clearly an impermissible collateral attack on the
13 Rate Case Decision and violate A.R.S. § 40-252.

14 The only issue which the Commission expressly held open in the Rate Case Decision was
15 permission for AEPCO to request a review of the FPPCA if its "recovery of fuel and purchased
16 power costs [is] outpaced by the rate of future fuel and purchased power cost increases." That is
17 precisely what the Cooperative has done in its February 29 and March 28 amended filings. They
18 ask that the Commission approve a six- rather than 12-month bank recovery feature because of
19 persistent under-collections which are consistently "outpacing" recovery. That request is
20 consistent with the Rate Case Decision. Unlike SSVEC's request, it does not involve a redesign
21 of the clause nor the manner in which costs are tracked and allocated, but only the pace at which
22 those costs are recovered consistent with the existing, approved system.

23 _____
24 ⁹ Rate Case Decision, Findings 34-35, Fifth Ordering Paragraph, Ex. S-7, p. 5.

1 B. AEPCO does not currently have the ability to track, record and allocate
2 costs as SSVEC proposes.

3 As a practical matter, AEPCO doesn't have the information required to implement the
4 system SSVEC wants. In attempting to justify an entirely new FPPCA procedure, "SSVEC
5 maintains that the PRMs are inappropriately and unfairly assigned fuel and purchased power
6 costs attributable to ARMs, thereby causing the PRMs to pay higher rates and subsidize the
7 ARMs."¹⁰ AEPCO does not necessarily agree with that statement. But, the fact is AEPCO does
8 not have the infrastructure and software capability to track and record the data necessary to
9 address the assertion—much less implement a wholly different FPPCA system to assign costs
10 based on it as SSVEC suggests.

11 Like most utilities, AEPCO has a broad portfolio of resources which it uses to meet its
12 members' hourly needs, including coal, older and newer natural gas units, hydro, purchased
13 power contracts, spot purchases and a small, but growing, portfolio of renewables. The cost of
14 most of these resources and the mix of these resources varies on an hour-by-hour basis. What
15 the Cooperative currently has (and during the test year had) is the ability to track, capture and
16 record hourly load data—in the aggregate and by individual member—as well as the total hourly
17 cost of all power generated and purchased to meet all members' needs. What AEPCO does not
18 have is the ability to track, capture and record the hourly per unit cost of energy of each of its
19 power resources, as well as which resource served what portion of the ARM or PRM member's
20 load.

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23 ¹⁰ SSVEC Response, p. 4, ll. 5-7. SSVEC also asserts that the current FPPCA methodology will result in SSVEC
24 paying millions of extra dollars over time. That statement is simply one of several different and conflicting
estimates which assume that nothing would be done on this issue before the year 2020.

1 AEPCO's Board has authorized the money to develop a system which would allow
2 AEPCO to track that more specific cost, resource and attribution information. The development
3 of that system is currently underway. However, the soonest the system is expected to be online
4 is the first quarter of 2009. While it is hoped that it will be capable of developing data not only
5 on a real time, but also on a historic period (such as calendar year 2008) basis, AEPCO is not
6 certain that will be the case. What is certain is that the Cooperative does not currently have and
7 will not have the ability for quite some time to even attempt the more specific allocation of costs
8 which SSVEC requests be used in developing different FPPCA adjustors.

9 C. SSVEC's suggested allocation system would create a mismatch between the
10 adjustors and power cost bases.

11 As previously discussed, the ARM and PRM power cost bases developed by Staff and
12 AEPCO for use in the FPPCA were designed based on a test-year average cost of service, not on
13 the hourly-specific unit cost, member-by-member assignment method which SSVEC now
14 suggests. The bases were designed "in gross" based upon total allowed fuel and purchased
15 power costs incurred in the test year (netted only in MEC's case for the capacity, but not energy
16 costs associated with the summer peaking contract then in effect) and divided by total test-year
17 kWhs. Obviously, (1) had the capability existed to track and assign costs on a more granular
18 basis, (2) if parties had discussed and agreed whether and how to use that data and (3) if that data
19 had been used, the power cost base of each member and/or the collective base of the ARMs and
20 PRMs developed in the rate case could, and very likely would, have been different.

21 Even if the capability existed now to design the adjustors with that higher degree of
22 granularity (which it does not), the application of those adjustors to bases not crafted the same
23 way creates an inherent mismatch between the adjustors and the power cost bases. It would
24

1 violate the symmetry the Commission and parties envisioned in tracking “changes in the cost of
2 fuel for AEPCO’s generating units and power purchases...by comparing the...actual fuel and
3 purchased power costs to the base cost established in this rate case.”¹¹ Finally, it violates one of
4 the basic tenets of adjustor clauses that all elements be consistently formulated so that
5 comparability is maintained and an assurance exists that allowed, achieved costs are not under-
6 or over-recovered. SSVEC’s request to revise the adjustors “mid-stream” violates each of those
7 propositions.

8 D. The correct forum for SSVEC to raise its redesign of the clause is AEPCO’s
9 2009 rate case.

10 As the Commission is aware, adjustor clauses are complicated subjects. Different parties
11 will have differing opinions on cost quantification, cost causation, cost allocation and cost
12 responsibility. Clause complexity is an important consideration. So are ease of administration
13 and the expense, as well as the reliability of data tracking and reporting mechanisms. Various
14 public policy issues also come into play. For example, in general, the Commission has preferred
15 a uniform adjustor rate which applies broadly instead of the six different adjustor rates which
16 SSVEC seems to be suggesting. AEPCO, AEPCO’s members, Staff, potential intervenors and,
17 of course, the Commissioners will have a variety of views about these and other subjects.

18 The Rate Case Decision requires that AEPCO’s 2009 rate case filing provide information
19 that “addresses the FPPCA’s operation, its merits, and its shortcomings and that provides
20 recommendations as to whether the FPPCA should remain in effect.”¹² That forum and
21 procedure, not this narrowly-focused efficacy request, is the appropriate place to take up
22 SSVEC’s, AEPCO’s and others’ suggestions concerning the design of the FPPCA.

23 ¹¹ Rate Case Decision, p. 8, ll. 23-24, with reference to S-7.

24 ¹² Ex. S-7, p. 5, ll. 14-16.

1 **III. CONCLUSION**

2 AEPCO requests that the Commission enter its Order:

3 1. Approving for implementation by May 1 or as soon as is possible revised adjustor
4 rates of 14.76 mills/kWh for its all-requirements members and 13.05 mills/kWh for its partial-
5 requirements members and continued use of the six-month bank amortization method until the
6 FPPCA is reexamined in AEPCO's next rate case; and

7 2. Denying SSVEC's requests for implementation of a new adjustor methodology on
8 October 1, 2008 with true-up retroactively to April 1, 2008.

9 RESPECTFULLY SUBMITTED this 4th day of April, 2008.

10

GALLAGHER & KENNEDY, P.A.

11

12

By 

13

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

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16 **Original and 15 copies filed this**
17 **4th day of April, 2008, with:**

18

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Arizona Corporation Commission
1200 West Washington Street
19 Phoenix, Arizona 85007

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1 **Copies** of the foregoing delivered
this 4th day of April, 2008, to:

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3 Commissioner Mike Gleason, Chairman
4 Arizona Corporation Commission
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Phoenix, Arizona 85007

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8 Commissioner Jeff Hatch-Miller
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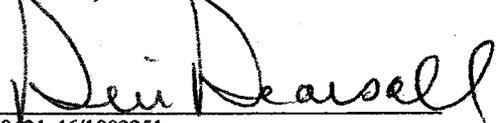
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2 Arizona Corporation Commission
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4 **Copies** of the foregoing mailed
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9 Electric Cooperative, Inc.

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



BRIAN C. McNEIL
Executive Director

ARIZONA CORPORATION COMMISSION

EXHIBIT A

September 27, 2005

Mr. Michael M. Grant
Gallagher & Kennedy, P.A.
2575 East Camelback Road
Phoenix, Arizona 85016-9225

RE: ARIZONA ELECTRIC POWER COOPERATIVE, INC.
DOCKET NO. E-01773A-04-0528
DECISION NO. 68071



Dear Mr. Grant:

Enclosed is a stamped copy of the tariffs that were approved as being in compliance to the above Decision, with an effective date of September 1, 2005.

If you have questions regarding the filing of these tariffs, please contact me at (602) 542-4251.

Sincerely,

A handwritten signature in cursive script that reads "Lori H. Miller".

Lori H. Miller
Programs & Projects Specialist II
Utilities Division

/lhm

Enclosures

cc: Brian K. Bozzo
Compliance Enforcement

ORIGINAL

ARIZONA ELECTRIC POWER COOPERATIVE, INC.

TARIFF

PERMANENT

Effective Date: September 1, 2005

AVAILABILITY

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

MONTHLY RATE (BILLING PERIOD)

Electric power and energy furnished under this Tariff will be subject to the rates set forth in the attached Exhibit A and the terms set forth herein.

Billing Demand – The billing demand shall be that thirty minute integrated Class A member metered demand coincident at the hour of the AEPSCO 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 AEPSCO'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. AEPSCO 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 95% 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 .95. 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 AEPSCO 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.

APPROVED FOR FILING
DECISION #: 68071

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.

Power Cost Adjustor Rate – The monthly bill computed under this Tariff will, on the procedures stated herein, be increased or decreased by an amount equal to the result of multiplying the kWh used by the Power Cost Adjustor Rate where:

$$F = (PC + BA) - \$0.01687$$

F = Power Cost Adjustor Rate in dollars per kWh, rounded to the nearest one-thousandth of a cent (\$0.00001).

PC = The Commission allowed pro forma fuel, purchased power and wheeling costs in dollars per kWh, rounded to the nearest one-thousandth of a cent (\$0.00001).

BA = The "Bank Account" represents allowable accumulated fuel and purchased energy costs in dollars per kWh, rounded to the nearest one-thousandth of a cent (\$0.00001) over or under collected in the past.

Allowable fuel, purchased power and wheeling costs include:

- A. The costs of fossil fuel and natural gas consumed in AEPCO's own plants as recorded in RUS Accounts 501 and 547, plus
- B. The actual costs associated with power purchased for reasons other than identified in paragraph (C) below as recorded in RUS Account 555, plus
- C. The cost of energy purchased when such energy is purchased on an economic dispatch basis. Included therein may be such costs as that charged for economy energy purchases and the charges as a result of scheduled outage. All such kinds of energy being purchased by AEPCO to substitute for its own higher cost energy as recorded in RUS Account 555, plus
- D. The firm and non-firm wheeling expenses associated with the delivery of energy as recorded in RUS Account 565, excepting network service transmission payments made by AEPCO to Southwest Transmission Cooperative, Inc for electric power and energy furnished to the all-requirements Class A members and less
- E. The demand and energy costs recovered through non-tariff contractual firm sales of power and energy as recorded in RUS Account 447, less

APPROVED FOR FILING
DECISION #: 68071

ORIGINAL

- F. The demand and energy costs recovered through inter-system sales including the incremental fuel and/or purchased energy costs related to economy energy sales and other energy sold on an economic dispatch basis as recorded in RUS Account 447.

On a calendar semi-annual basis commencing on October 1, 2006, AEPCO shall compute the Power Cost Adjustor Rate as specified herein based upon a rolling twelve-month average and file on September 1 or March 1 of the month preceding the effective date of the revised Power Cost Adjustor Rate (i.e., October 1 or April 1): (1) calculations supporting the revised Adjustor Rate with the Director, Utilities Division and (2) a Tariff reflecting the revised Adjustor Rate with the Commission which shall be effective for billings after the 1st day of the following month and which shall continue in effect until revised pursuant to the procedures specified herein.

DSM Adjustor Rate – Monthly bills for service provided hereunder will also include an amount for recovery of costs associated with pre-approved DSM programs. The DSM Adjustor Rate will be calculated by dividing the account balance of any costs incurred by AEPCO for pre-approved DSM programs less revenues received through the DSM Adjustor Rate by the total number of kWh sold to Class A members in the previous calendar year. AEPCO will file a request for the initial or revised DSM Adjustor Rate and supporting documentation with Utilities Division Staff by February 1 for a DSM Adjustor Rate to be effective on March 1.

APPROVED FOR FILING
DECISION #: 68071

ORIGINAL

EXHIBIT A

Effective Date	September 1, 2005*	September 1, 2006*	September 1, 2007*
All-Requirements Members:			
Demand Rate - \$/kW Month	14.31	14.64	14.98
Energy Rate - \$/kWh	0.02073	0.02073	0.02073
Power Cost Adjustor Base - \$/kWh	0.01687	0.01687	0.01687

Power Cost Adjustor Rate - \$/kWh 0.00000**
DSM Adjustor Rate - \$/kWh 0.00000**

* Rates are effective for service provided on and after this date.
** Determined as set forth in the Tariff.

APPROVED FOR FILING
DECISION #: 68071

ORIGINAL

Arizona Electric Power Cooperative, Inc.

Partial-Requirements Member
Rates and Fixed Charge
(Effective September 1, 2005)

Service provided to Mohave Electric Cooperative, Inc. by the Arizona Electric Power Cooperative, Inc. under the Partial Requirement Capacity and Energy Agreement shall be at the rates set forth in the attached Exhibit A.

Power Cost Adjustor Rate – The monthly bill computed under this Schedule will, on the procedures stated herein, be increased or decreased by an amount equal to the result of multiplying the kWh used by the Power Cost Adjustor Rate where:

$$F = (PC + BA) - \$0.01603$$

F = Power Cost Adjustor Rate in dollars per kWh, rounded to the nearest one-thousandth of a cent (\$0.00001).

PC = The Commission allowed pro forma fuel, purchased power and wheeling costs in dollars per kWh, rounded to the nearest one-thousandth of a cent (\$0.00001).

BA = The "Bank Account" represents allowable accumulated fuel and purchased energy costs in dollars per kWh, rounded to the nearest one-thousandth of a cent (\$0.00001) over or under collected in the past.

Allowable fuel, purchased power and wheeling costs include:

- A. The costs of fossil fuel and natural gas consumed in AEPCO's own plants as recorded in RUS Accounts 501 and 547, plus
- B. The actual costs associated with power purchased for reasons other than identified in paragraph (C) below as recorded in RUS Account 555, plus
- C. The cost of energy purchased when such energy is purchased on an economic dispatch basis. Included therein may be such costs as that charged for economy energy purchases and the charges as a result of scheduled outage. All such kinds of energy being purchased by AEPCO to substitute for its own higher cost energy as recorded in RUS Account 555, plus
- D. The firm and non-firm wheeling expenses associated with the delivery of energy as recorded in RUS Account 565, excepting network service transmission payments made by AEPCO to Southwest Transmission Cooperative, Inc for electric power and energy furnished to the all-requirements Class A members and less

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- E. The demand and energy costs recovered through non-tariff contractual firm sales of power and energy as recorded in RUS Account 447, less
- F. The demand and energy costs recovered through inter-system sales including the incremental fuel and/or purchased energy costs related to economy energy sales and other energy sold on an economic dispatch basis as recorded in RUS Account 447.

On a calendar semi-annual basis commencing on October 1, 2006, AEPCO shall compute the Power Cost Adjustor Rate as specified herein based upon a rolling twelve-month average and file on September 1 or March 1 of the month preceding the effective date of the revised Power Cost Adjustor Rate (i.e., October 1 or April 1): (1) calculations supporting the revised Adjustor Rate with the Director, Utilities Division and (2) a Schedule reflecting the revised Adjustor Rate with the Commission which shall be effective for billings after the 1st day of the following month and which shall continue in effect until revised pursuant to the procedures specified herein.

DSM Adjustor Rate – Monthly bills for service provided hereunder will also include an amount for recovery of costs associated with pre-approved DSM programs. The DSM Adjustor Rate will be calculated by dividing the account balance of any costs incurred by AEPCO for pre-approved DSM programs less revenues received through the DSM Adjustor Rate by the total number of kWh sold to Class A members in the previous calendar year. AEPCO will file a request for the initial or revised DSM Adjustor Rate and supporting documentation with Utilities Division Staff by February 1 for a DSM Adjustor Rate to be effective on March 1.

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EXHIBIT A

Effective Date	September 1, 2005*	September 1, 2006*	September 1, 2007*
Partial-Requirements Members:			
Fixed Charge – \$/month	790,722	822,728	855,113
O&M Rate – \$/kW Month	7.15	7.21	7.26
Energy Rate – \$/kWh	0.02073	0.02073	0.02073
Power Cost Adjustor Base – \$/kWh	0.01603	0.01603	0.01603

Power Cost Adjustor Rate – \$/kWh

0.00000**

DSM Adjustor Rate – \$/kWh

0.00000**

* Rates are effective for service provided on and after this date.

** Determined as set forth in the Schedule.

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DECISION #: 69071

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 MIKE GLEASON, Chairman
4 WILLIAM A. MUNDELL
5 JEFF HATCH-MILLER
6 KRISTIN K. MAYES
7 GARY PIERCE

8 IN THE MATTER OF THE APPLICATION OF
9 ARIZONA ELECTRIC POWER COOPERATIVE,
10 INC., FOR A RATE INCREASE.

Docket No. E-01773A-04-0528

11 IN THE MATTER OF THE APPLICATION OF
12 SOUTHWEST TRANSMISSION COOPERATIVE,
13 INC., FOR A RATE INCREASE.

Docket No. E-04100A-04-0527

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

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

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

24 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.

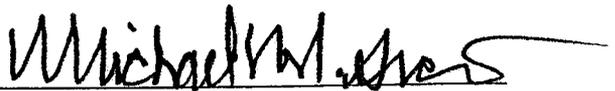
3 AEPCO asks that the Commission deny SSVEC's requests for implementation of a new
4 adjustor method and also asks that revised adjustors of 14.76 mills/kWh for its all-requirements
5 members and 13.05 mills/kWh for its partial-requirements members be instituted as soon as
6 possible.

7 RESPECTFULLY SUBMITTED this 15th day of April, 2008.

8 GALLAGHER & KENNEDY, P.A.

9

10

By 

11

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14 **Original and 15 copies filed this**
15 **15th day of April, 2008, with:**

16 Docket Control
17 Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

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

20 Commissioner Mike Gleason, Chairman
21 Arizona Corporation Commission
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