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14 Oct 2008

Arizona Corporation Commission  
Commissioners Wing  
1200 West Washington  
Phoenix, AZ 85007-2996

ATTENTION: Commissioner Kristin Mays

Dear Ms Mays,

Please do what you and your fellow commissioners can do to reduce and control the horrendous "Fuel Adjustment Cost" passed on from AEPCO to the Sulphur Springs Valley Coop and which was again allocated to SSVEC customers.

Rather than reiterating all the details, I am enclosing a copy of a letter from SSVEC concerning this Fuel Adjustment Cost and also my letter reply to Jack Blair, Chief Member Services Officer, SSVEC.

Thank you for your assistance in this matter.

Congratulations on your accomplishments in the scholastic world as shared in your web site biographical sketch!!

When you were at ASU, you may have received a New Testament from me or one of my fellow Gideons as we distribute copies of God's word annually at our AZ colleges and universities.

Sincerely,

*Harold E. Pederson*

Harold E. Pederson  
233 E. Martin Drive  
Sierra Vista, AZ, 85635-1125  
(520) 458-5966  
E-mail: petedee@cox.net

Arizona Corporation Commission

DOCKETED

OCT 15 2008

DOCKETED BY *MM*

2 ENCLOSURES AS STATED

RECEIVED  
2008 OCT 16 A 9:37  
AZ CORP COMMISSION  
DOCKET CONTROL

RECEIVED  
OCT 15 2008  
By

13 Oct 2008

Sulpher Springs Valley Electric Cooperative  
P. O. Box 820  
Willcox, AZ 85644-0820

ATTN. Mr. Jack Blair

Dear Sir,

I recently read a brief complaint from one of your clients in the Sierra Vista Herald Dispatch about the rapid increase of the AEPCO Fuel Adjustment. My account for that line item climbed from \$6.36 26 Mar 08 to \$45.60 for 25 Sep 08, an astounding 700% increase.

I read your letter which for was overwhelming since I am not educated in all the technically familiar with all the complexities and terms contained therein. I thank you for trying to educate me and all the people SSVEC serves in this region.

My retirement COLA however can't nearly compete with all the cost of living increases in utilities, gasoline, taxes, etc., etc.

What I expect you to do is to look for many ways to counterdict the Fuel Adjustment Costs as posed by AEPCO. Please investigate what the ACC can do for our relief. Negotiate with AEPCO regarding these charges. Coordinate your clients concerns with the ACC.

I will communicate with the ACC to relay my dismay with this "fuel adjustment" cost increase passed on to SSVEC customers.

I encourage you to continue with rapid reconsideration of building a "Peaker" power plant and generate all the electricity you possibly can to be more independent from AEPCO in the production of electricity. Solicit support from your customers if you need to make such a proposal to the ACC for approval.

Keep us all appraised of your progress in helping to resolve this excessive fuel charge.

Sincerely yours,



HAROLD AND DELORES PEDERSON  
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(520) 458-5966 E-mail: petedee@cox.net

ENCLOSURE 1



HAROLD E PEDERSON  
233 E MARTIN DR  
SIERRA VISTA, AZ 85635-1125

012354 / 065

Dear Fellow Member:

During the past few weeks, Sulphur Springs Valley Electric Cooperative (SSVEC) has received some phone calls concerning the line on your electric bill "AEP CO Fuel Adjustment." We are, therefore, resending information previously provided to members on what makes up this line item on your bill as well as some updated information.

SSVEC is a not-for-profit electric distribution cooperative. As such, SSVEC does not actually produce any electricity. Until January 2008, SSVEC was contractually obligated to purchase all of its electricity from Arizona Electric Power Cooperative (AEP CO).

AEP CO is a not-for-profit cooperative that is in the business of producing electricity; their plant is located in Cochise, Arizona. The power produced by AEP CO is transmitted to SSVEC via Southwest Transmission Cooperative (SWTC). SWTC is also a not-for-profit cooperative who transmits the electricity produced by AEP CO to the SSVEC system as well as to the other electric cooperatives in Arizona.

SSVEC, AEP CO, and SWTC are all regulated by the Arizona Corporation Commission (ACC), the state branch of government that regulates utilities and their rates.

To allow for the changes in purchased power costs and fuel costs over time, electric rates are designed with a fuel adjuster mechanism. When SSVEC filed its rate case in 1993 the power costs were based on 1992 costs. After the rate case was approved, power costs actually declined and from 1993 until 2005 our members actually received a credit on their bills each month on the "fuel adjuster" line. The fuel adjuster is comprised of the following components, each of which will be discussed in more detail:

1. Any over- or under-collected balances
2. Certain Demand Side Management (DSM) costs
3. The cost of AEP CO's power costs above our base rate
4. The cost of SSVEC's purchased power
5. The cost of AEP CO's fuel and purchased power adjustment.

1. Any over- or under-collected balances Each month the average cost of power changes and the average kWh usage per member changes. Although our goal is to keep the fuel bank balance at zero, it is either over-collected which would result in a decreased adjuster rate or under-collected

ENCLOSURE 2

which results in an increased adjuster rate. The balance is currently under-collected resulting in a small increased adjuster.

2. Certain Demand Side Management (DSM) costs The ACC allows SSVEC to collect certain DSM costs through the fuel adjuster. DSM are costs of energy savings and management programs that were approved by the ACC in 1993. Once again, this represents a small amount, and the costs of these programs are approved by the ACC prior to SSVEC being allowed to collect them.
3. The cost of AEPCO's power costs above our base rate SSVEC's last rate case was in 1993, with a test year of 1992. This base rate set in 1992 allows SSVEC to collect or credit changes above or below that base rate. This represents the changes in the cost to produce or purchase power from 1992 to the present time. Since 1992 AEPCO has increased its rate to SSVEC several times, without SSVEC changing its base rate. Included are the AEPCO increases in its rates since 1992; also included are increased transmission costs from SWTC.
4. The cost of SSVEC's purchased power SSVEC became a partial requirements member of AEPCO, which means we have the right to purchase some power from someone other than AEPCO. This smaller amount for power purchases made this year by SSVEC to meet our summer peaking needs is included. The revenue we receive from selling power is included in other revenue and not reflected in the fuel adjuster.
5. The cost of AEPCO's fuel and purchased power adjustment In 2005, AEPCO submitted to the ACC a rate increase which was subsequently approved. As part of the AEPCO rate increase, which is included in #3, they also received permission to submit to the ACC their fuel and purchased power costs every six months and have these numbers reviewed and approved by the ACC and then passed on to SSVEC (and the other electric cooperatives that they supply power to). During the first four fuel adjustments the amount increased, then decreased once, then started to increase again. Because this is a rather involved process, the changes you see on your bill are for prices that are 6 to 12 months in the past, unlike gasoline which can change overnight.

The major components of the fuel adjuster are AEPCO power costs; unfortunately there is not any good news in this area. AEPCO just announced a 95% increase in AEPCO's fuel and purchased power adjuster to SSVEC effective October 1, 2008. We believe that we can absorb this increase with our current fuel adjuster as portions of the items in the fuel adjuster (mainly the DSM and SSVEC purchased power portions) will be reduced or collected in full. Based on our average residential kWh usage this would be a cost of \$8.72 a month if we added that amount to our rate. Although we plan to review the adjuster again in December 2008, at this time we believe that it will remain about the same until the first quarter of 2009.

We are asked: will this get better in 2009? AEPCO files for an adjustment every six months. The next change is scheduled to be effective April 1, 2009. Our expectation is that it will not get better. AEPCO has announced that it has signed new coal and transportation contracts beginning January 1, 2009. The new coal costs are 85% higher than their current coal and transportation costs. Based on our average residential kWh usage this would be a cost of \$8.40 a month if we added that to our rate at some point during 2009. Based on the current six month schedule the first impact of the coal contracts will hit on October 1, 2009.

SSVEC is being proactive in attempting to keep these fuel adjuster charges as low as possible. In January of 2008, after a three year process, SSVEC became a partial member of AEPCO which means that instead of having AEPCO supply all of our needs, SSVEC can go out in the market and purchase a portion of our

electricity needs. If there is excess power available to SSVEC, your cooperative can also sell this power to other electric companies and use the profits made to decrease our members' electric bills. To date the results have been encouraging. SSVEC is in the preliminary stages of determining if owning and operating a small gas electric plant in our service territory might give our members a lower cost. Finally, SSVEC has filed a complaint with the ACC concerning the manner in which AEPCO calculates its fuel adjuster. Our complaint is to ensure the high cost of natural gas and purchased power sold to other utilities is not included in AEPCO's bill to SSVEC.

In closing, the increased cost of electricity is not just a local problem. Arizona Public Service (APS) has had rate increases and has asked for a fuel adjuster. The Salt River Project (SRP), the second largest utility in the state, just announced its tenth rate increase since 2002. Increasing energy costs is a national issue that requires a national answer. There is an increasing demand for electricity and a decreasing capacity to meet this demand. Experts now say some areas of the country will be short of power within a year or two. Some say we can meet this demand through efficiency and renewable energy. The reality is ~~we need all the efficiency and renewable energy that we can get, but that will still not be enough.~~ To avert an energy crisis, the federal government must exercise true leadership. Without a sound, responsible plan, government risks not only the reliability of our system, but the ability of many Americans to afford to pay their electric bills. For more information on this and what you can do, visit our Web site at [www.ssvvec.org](http://www.ssvvec.org) and click on the "Our Energy, Our Future" icon.

We have also enclosed a brochure titled "101 Low-Cost/No-Cost Home Energy-Saving Measures" to assist you in lowering your energy usage. We also have available on our Web site ([www.ssvvec.org](http://www.ssvvec.org)) more helpful hints on energy savings.

We apologize for any misinformation conveyed by the line labeled "AEPCO Fuel Adjustment" on members' bills. This line item has been on the bill for years, and it was only January 1, 2008, that we began buying a limited amount of power from someone other than AEPCO. We are checking with the ACC to see if we need their approval to change the language on the billing statement.

In the future, SSVEC will advise you of major changes in the fuel adjuster via a bill insert.

*Jack Blair*

Chief Member Services Officer  
Sulphur Springs Valley Electric Cooperative