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AZ CORP COMMISSION
DOCKET CONTROL

September 18, 2009

HAND DELIVERED

Steve Olea, Director
Utilities Division
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

Arizona Corporation Commission

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Re: *Comments of the Arizona Electric Power Cooperative, Inc. ("AEPSCO") on Staff's Revised Draft Proposed Resource Planning and Procurement Rules (the "Draft Rules"); Docket No. RE-00000A-09-0249*

Dear Mr. Olea:

As requested in your September 4, 2009 memorandum to Docket Control, AEPSCO submits these comments on the Draft Rules. AEPSCO and several other cooperatives have participated in these proceedings for quite some time. In that regard, attached hereto is AEPSCO Chief Operating Officer Gary Grim's September 19, 2008 letter to Ms. Keene outlining the reasons why AEPSCO should not be subject to the Draft Rules.

Briefly to summarize, AEPSCO is exclusively a generation cooperative. It supplies no power at retail. In this non-vertically integrated cooperative model, AEPSCO plays no direct role in retail customer power supply and AEPSCO has no responsibility for or authority concerning formulation, implementation and reporting on demand-side management, energy efficiency or distributed renewable programs as they impact end-use customers. Thus, the demand-side formulation, implementation and reporting aspects of the Draft Rules simply don't have any application to AEPSCO.

While AEPSCO obviously does perform a supply-side role for its Class A member distribution cooperatives, that role has lessened dramatically since the Integrated Resource Planning Rules were originally adopted in 1989. AEPSCO's two largest Class A members—Mohave Electric Cooperative, Inc. and Sulphur Springs Valley Electric Cooperative, Inc.—are partial-requirements members. They collectively account for more than 67% of AEPSCO's

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generation capacity. They, not AEPCO, are singularly responsible for all power supply planning beyond their entitlements in existing AEPCO resources. And, as Staff is aware, even AEPCO's remaining but greatly reduced supply-side role is subject to extensive evaluation, planning, bidding and procurement regulatory requirements by AEPCO's federal regulator, the Rural Utilities Service.

In light of these factors, AEPCO's position is that it should be exempted from the Draft Rules' requirements. In that regard, the definition of "Load-serving entity" (Section R14-2-701.26) should be modified to add at its end ", but does not include a member-owned nonprofit generation cooperative corporation."

Alternatively, AEPCO would request that the Draft Rules be clarified to make inapplicable to AEPCO several specific provisions of Rules 703 and 704 that do not apply to a generation cooperative which does not supply electricity at retail. Attached as Exhibit B is a listing of those specific, inapplicable provisions.

AEPCO would also call Staff's attention to an additional issue at page 16 of the Draft Rules, i.e., Section 703.F.4, which concerns all cooperatives. This provision requires the 15-year resource plan to include renewable energy resources sufficient to meet the requirements in R14-2-1804 or those set forth in a chart at that location.

However, electric distribution cooperatives are subject to a different process and renewables requirements than Rule 1804. Their process and requirements are based on the annual plan filing requirement pursuant to R14-2-1814. Once the distribution cooperative's annual REST Plan is approved by the Commission, Rule 1814 provides that the Plan's "provisions substitute for the requirements of" Rules 1804 and 1805. Therefore, AEPCO would request that the following sentence be added after the chart on page 16: "In the case of electric power cooperatives, the 15-year resource plan will include renewable energy resources consistent with the latest plan approved by the Commission pursuant to R14-2-1814."

Finally, AEPCO is very concerned about its ability to meet, as well as the cost of meeting, the requirements of proposed rule R14-2-702.E. That section provides that next year, the full cycle of resource plan documentation will be due 120 days after the rules become effective instead of the normal two-year cycle allowed for this activity envisioned by the Draft Rules. If it is subject to the Draft Rules, AEPCO will have to rely even more heavily on outside consulting at considerable increased expense to attempt to meet that requirement and it has doubts as to whether it is possible to meet that schedule even under those circumstances. AEPCO requests, therefore, that the time frame be extended to at least 180 days or, alternatively, electric cooperatives be exempted from draft rule R14-2-702.E.

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We appreciate Staff's review and consideration of these comments.

Very truly yours,

GALLAGHER & KENNEDY, P.A.

A handwritten signature in black ink, appearing to read "Michael M. Grant", with a large, stylized flourish at the end.

By:

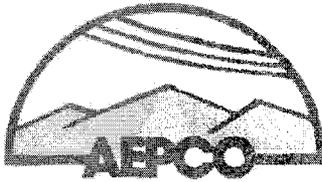
Michael M. Grant

MMG/plp
10421-42/2199385
Attachment

cc (w/attachment): Steve Olea, Director (delivered)
Barbara Keene (delivered)

Original and 13 copies filed with Docket
Control this 18th day of September, 2009.

EXHIBIT A



Arizona Electric Power Cooperative, Inc.

P.O. Box 670 • Benson, Arizona 85602-0670 • Phone 520-586-3631

September 19, 2008

VIA E-MAIL AND U.S. MAIL

Barbara Keene
Utilities Division
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

Re: *AEPCO's Comments on Resource Planning Issues;*
Docket No. E-00000E-05-0431

Dear Ms. Keene:

This letter offers AEPCO's comments concerning Integrated Resource Planning ("IRP") issues in Docket No. E-00000E-05-0431. AEPCO believes that the electric cooperatives should not be subject to the Resource Planning Rules for various reasons, including those stated in AEPCO's previously filed comments.

In particular, AEPCO stresses the following circumstances which are unique to the Arizona cooperatives:

1) Unlike other utilities, AEPCO is not vertically integrated. As a generation and transmission cooperative engaged exclusively in sales for resale, it does not own or control distribution facilities or serve end use customers. AEPCO has wholesale power contracts that govern its sales for resale to the six distribution cooperatives (five in Arizona) which own and control AEPCO ("AEPCO Class A Members"), and those contracts do not include responsibility for demand side management programs. As importantly, AEPCO does not and cannot control DSM program planning and implementation and, in fact, does not even have the end use customer information to plan or implement DSM initiatives. While AEPCO has supported the efforts of its Class A distribution cooperatives in demand side management and direct load control programs, and will continue to support such distribution cooperative efforts, at a minimum, **AEPCO should be exempt from the obligations that relate to the elements of determining, implementing and reporting on demand side management programs and measures because AEPCO has no control and no information about such measures.**



2) Further, of the five Arizona AEPCO Class A Members, AEPCO provides supply side resource planning for only three. Those distribution cooperatives are referred to as All Requirements Members ("ARM"), and include: Duncan Valley Electric Cooperative, Inc. located in Duncan AZ; Graham County Electric Cooperative, Inc., located in Pima AZ; and Trico Electric Cooperative, Inc., located in Marana, AZ. AEPCO's wholesale power contracts with its other two Arizona Class A Members, which are Mohave Electric Cooperative, Inc. ("Mohave"), of Bullhead City, AZ, and Sulphur Springs Valley Electric Cooperative, Inc. ("Sulphur") of Willcox, AZ, specifically exclude any AEPCO resource planning obligation at the request of these cooperatives. Mohave and Sulphur, as Partial Requirements Members ("PRM") of AEPCO, perform their own resource planning and demand side management analysis and implementation based on their total load forecast, including any loads above their respective entitlements to capacity and energy from AEPCO's existing resources (which are established through 2035). AEPCO is unaware of the details, nature and extent of the resource planning and demand side management programs of these PRMs. **Therefore, AEPCO also should be exempt from any supply side and demand side planning, implementation and reporting for its PRMs.**

On other issues, the Commission, in rate cases and other proceedings, should presume prudent a utility's implementation of resources that are consistent with the "acknowledged" resource plan of that utility. Also, AEPCO believes that utilities should report air emissions (not "Environmental Impacts") solely for generating units they own or control and operate and not for whatever generating units from which purchased power is obtained. Those generating units will not necessarily be known to AEPCO. Even if known, the owner/operator may be unwilling or unable to share air emissions data with the purchaser.

It is important to note that, to the extent that AEPCO's Class A members seek AEPCO's support in determining, implementing and reporting on demand side management programs and measures, AEPCO has limited staff for such support, but will provide assistance within its staffing constraints.

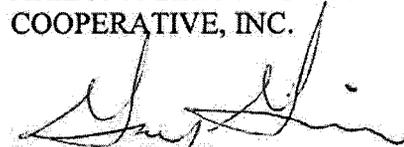
Because of filing timing constraints, these comments have not been reviewed by AEPCO's Board of Directors, nor the Boards of its member distribution cooperatives. AEPCO reserves the right to amend and supplement its positions as this matter proceeds.

We appreciate Staff and the Commission's thoughtful consideration of the circumstances unique to Arizona's cooperatives.

Barbara Keene
September 19, 2008
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Very truly yours,

ARIZONA ELECTRIC POWER
COOPERATIVE, INC.



By: Gary G. Grim
Senior VP and Chief Operating Officer

/plp
10421-42/1913184v2

cc (delivered): Commissioner Mike Gleason, Chairman
Commissioner William A. Mundell
Commissioner Jeff Hatch-Miller
Commissioner Kristin K. Mayes
Commissioner Gary Pierce

EXHIBIT B

Draft Rules Sections Inapplicable to AEPCO

R14-2-703.A.1.a

A.2

A.3

A.4

703.B.3

703.C.1 (the residential, commercial, etc., class separately portion)

C.2

703.D.4

D.5

D.13

D.14

703.E.1.b (the demand management measures portion)

703.F.1 (“and demand” portion)

R14-2-704.2 (the “including demand management” portion)