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January 20, 2011

**HAND DELIVERED**

Docket Control  
Arizona Corporation Commission  
1200 W. Washington St.  
Phoenix, AZ 85007

Re: *AEPCO's Purchased Power and Fuel Adjustment Clause ("PPFAC") Plan for Administration; Docket No. E-01773A-09-0472*

Dear Sir or Madam:

Enclosed are the original and 13 copies of AEPCO's final PPFAC Plan for Administration.

Very truly yours,

GALLAGHER & KENNEDY, P.A.

By:

Michael M. Grant

MMG/plp  
10421-59/2650016  
Enclosure

**Original and 13 copies** filed with Docket Control this 20<sup>th</sup> day of January, 2011.

cc (w/enclosure): Barbara Keene, Utilities Division (delivered)  
Service List (emailed)

Arizona Corporation Commission  
**DOCKETED**  
JAN 20 2011

DOCKETED BY

# **Arizona Electric Power Cooperative, Inc.**

## **Purchased Power and Fuel Adjustment Clause Plan for Administration**

1           **Purchased Power and Fuel Adjustment Clause—Plan for Administration**

2           **General Description:**

3           The purpose of the Arizona Electric Power Cooperative, Inc. (“AEPCO”) Purchased  
4           Power and Fuel Adjustment Clause (“PPFAC”) is to track changes in AEPCO’s fuel and  
5           purchased power costs and to recover or return increases or decreases in those costs  
6           through an adjustor mechanism without the time and expense of a general rate case.

7           The PPFAC was first authorized in Decision No. 68071 and consisted of the following  
8           major components:

- 9           1. Establishment of power cost adjustor bases for all- and partial-requirements  
10           members;
- 11           2. Monthly calculation of all-requirements and partial-requirements Class A  
12           Members’ fuel and purchased power costs over-collection and/or under-  
13           collection;
- 14           3. Establishment of bank balancing accounts for each Class A Member subject to the  
15           provisions of the PPFAC; and
- 16           4. Development and filing semi-annually of all-requirements and partial-  
17           requirements Power Cost Adjustor Rates.

18           In the most recent rate case (Decision No. 72055), AEPCO and its members agreed to,  
19           and the Commission approved, modifications to its Class A Members’ rate schedules and  
20           the PPFAC. Attached to this Plan for Administration as Exhibits A and B are the  
21           approved all-requirements member Tariff and partial-requirements Schedule, including  
22           the PPFAC provisions, developed by AEPCO and its Class A members. AEPCO will file  
23           monthly information regarding calculations of all-requirements and partial-requirements  
24           Class A Members’ fuel and purchased power costs, over-collection and/or under-  
25           collection amounts and changes to each Class A Member’s bank balance account. The  
26           changes proposed to the current PPFAC include the following:

- 27           1. Separate fuel and purchased power cost adjustor bases for Base Resources and for  
28           Other Resources for the collective all-requirements Class A Members (“CARM”)  
29           and for each partial-requirements Class A Member (“PRM”).

- 1        2. Based upon test year data, power cost adjustor bases for the CARM are  
2        \$0.03361/kWh for energy and power from Base Resources and \$0.07941/kWh for  
3        energy and power from Other Resources. For partial-requirements Class A  
4        Members, a Base Resources power cost adjustor base of \$0.03330/kWh applies to  
5        Mohave Electric Cooperative, Inc. ("MEC"), \$0.03337/kWh for Sulphur Springs  
6        Valley Electric Cooperative, Inc. ("SSVEC") and \$0.03336/kWh for Trico  
7        Electric Cooperative, Inc. ("Trico"). Power cost adjustor bases for Other  
8        Resources are \$0.06971/kWh for MEC; \$0.07241/kWh for SSVEC; and  
9        \$0.09084/kWh for Trico.
- 10       3. AEPCO will determine monthly sales to each PRM and for the CARM as a  
11       whole, separately identified by Base Resources and Other Resources. These kWh  
12       sales by resource type are developed in a Billing Unit Program ("BUP") that  
13       reflects the member loads served by each resource type.
- 14       4. The PPFAC adjustor rates for all Class A Members will initially be set at zero  
15       until new adjustors are established as described below.
- 16       5. AEPCO will calculate the costs and revenue credits associated with transfers of  
17       power and energy among Class A Member supply resources and to third parties  
18       and will net the revenues against the costs of such transfers.
- 19       6. AEPCO will set the bank balances for the six (6) new bases for each Class A  
20       Member to zero at the time new rates are implemented. A temporary surcharge  
21       has been authorized by the Commission to recover or refund Class A Members'  
22       bank balances attributable to the prior PPFAC.
- 23       7. AEPCO will record and separately maintain bank balances by type of resource  
24       (i.e., Base Resources and Other Resources) for each Class A Member at the time  
25       new adjustor rates are implemented.

26       The results of the PPFAC calculations will be applied to the rates of the all-requirements  
27       and partial-requirements Class A Members through the Power Cost Adjustor Rates.  
28       Initially set at zero, the Power Cost Adjustors will be recalculated commencing on  
29       September 1, 2011 to be effective October 1, 2011. Thereafter, on or before March 1 or  
30       September 1, AEPCO will file (1) calculations supporting revised Adjustor Rates with  
31       the Director, Utilities Division, and (2) a new Tariff and Schedule reflecting the revised  
32       Adjustor Rates with Docket Control with an effective date of April 1 or October 1.

1 Each month, AEPCO will continue to submit to Utilities Division, Compliance Section, a  
2 report of its calculation of the all-requirements and partial-requirements Base Resources  
3 and Other Resources fuel and purchased power costs over-collection and/or under-  
4 collection. In addition, AEPCO will continue to provide certain information  
5 confidentially to the Director, Utilities Division, regarding generating units, power  
6 purchases and fuel purchases on a monthly basis.

7 **Allowable Costs and Revenue Credits:**

8 The cost components allowed in the calculation of the PPFAC are described in the Tariff  
9 and Schedule attached as Exhibits A and B and generally are those costs recorded in RUS  
10 Account 501 (fuel costs for steam generation, less legal fees and less fixed fuel costs,  
11 except for gas reservation charges), RUS Account 547 (fuel costs for other generation),  
12 RUS Account 555 (purchased power costs, both demand and energy) and RUS  
13 Account 565 (wheeling costs, both firm and non-firm, except for network service  
14 transmission payments made by AEPCO to Southwest Transmission Cooperative, Inc. for  
15 electric power and energy furnished to the Class A Members). Prudent direct costs of  
16 contracts used for hedging fuel and purchased power costs will also be included. Power  
17 supply costs directly assignable to special contract customers will not be included.  
18 Revenues credited in the calculation of the PPFAC would be those Non-Class A Member  
19 revenues recorded in RUS Account 447 (Non-Class A sales for resale revenues, less  
20 revenues for fuel-related legal expenses).

21 **Computations:**

22 **Part 1. Monthly Fuel and Purchased Power Costs:**

23 AEPCO will calculate, on a monthly basis and for each Class A Member separately, the  
24 amount of over-collection or under-collection by type of resource based upon allowable  
25 fuel and purchased power costs and revenue credits. The calculation will differentiate  
26 and direct assign the Southpoint and Griffith purchase power expenses and associated  
27 wheeling charges that are applicable to the CARM and Trico but not to other Class A  
28 Members. In addition, subsequent purchased power agreements shall be differentiated  
29 and direct assigned if they are applicable only to certain Class A Member(s).  
30 Furthermore, AEPCO will calculate the costs and revenue credits associated with  
31 transfers of power and energy among Class A Member supply resources and from the  
32 resources of Class A Members to third parties.

33 **Part 2. Determination of Bank Balancing Accounts:**

34 Upon determination of the monthly Base Resources and Other Resources fuel and  
35 purchased power costs on a per-kWh basis for the all-requirements and partial-  
36 requirements Class A Members, AEPCO will subtract the appropriate power cost adjustor  
37 bases to determine the monthly under-collected (over-collected) fuel and purchased

1 power costs on a per-kWh basis separately identified for Base Resources and Other  
2 Resources. The appropriate monthly under-collected (over-collected) fuel and purchased  
3 power costs on a per-kWh basis will then be multiplied by each Class A Member's kWh  
4 sales attributable to that resource for the month to determine the dollar amount of under-  
5 collected (over-collected) fuel and purchased power costs by resource type for each  
6 Class A Member. The under-collected (over-collected) fuel and purchased power costs  
7 for each resource type will be added to the prior month's bank balancing account and  
8 amounts collected by the Power Cost Adjustor Rate will be subtracted to determine the  
9 current month's bank balance amount for each resource type. Amounts collected by the  
10 Power Cost Adjustor Rate shall be determined by multiplying the Power Cost Adjustor  
11 Rate for each resource type by the Class A Member's kWh sales attributable to each  
12 resource type and shall be the same amount that is shown on the Class A Member's  
13 monthly power bill.

14 **Part 3. Determination of the Power Cost Adjustor Rate:**

15 The CARM Base Resources Power Cost Adjustor Rate shall be determined as the sum of  
16 (1) the CARM Base Resources under- or over-collections for the previous 12 months  
17 divided by the previous 12 months of CARM Base Resources kWh sales and (2) the  
18 current CARM Base Resources bank balance divided by the previous six months of  
19 CARM Base Resources kWh sales. The CARM Other Resources Power Cost Adjustor  
20 Rate shall be determined as the sum of (1) the CARM Other Resources under- or over-  
21 collections for the previous 12 months divided by the sum of the previous 12 months of  
22 CARM Other Resources kWh sales and (2) the current CARM Other Resources bank  
23 balance divided by the previous six months of CARM Other Resources kWh sales. The  
24 Base Resources Power Cost Adjustor Rate for each partial-requirements member  
25 ("PRM") shall be determined as the sum of (1) the PRM Base Resources under- or over-  
26 collections for the previous 12 months divided by the previous 12 months of PRM Base  
27 Resources kWh sales and (2) the current PRM Base Resources bank balance by the  
28 previous six months of PRM Base Resources kWh sales. The PRM Other Resources  
29 Power Cost Adjustor Rate shall be determined as the sum of (1) the PRM Other  
30 Resources under- or over-collections for the previous 12 months divided by the sum of  
31 the previous 12 months of PRM Other Resources kWh sales and (2) the current PRM  
32 Other Resources bank balance by the previous six months of PRM Other Resources kWh  
33 sales.

34 **Compliance Reports:**

35 AEPCO will file a report showing the monthly calculation of all-requirements and  
36 partial-requirements Class A Members' fuel and purchased power costs over-collection  
37 and/or under-collection by resource type and each Class A Member's balancing account  
38 balance for each resource type. The initial report will cover the fuel and purchased power

1 costs in January, 2011 and will be due on April 1, 2011. Thereafter, each month's report  
2 will be due on the first day of the third month following the end of the reporting month.  
3 This report will set forth:

- 4
- 5 1. Bank balance calculations, including all inputs and outputs;
- 6 2. Total power and fuel costs by resource type;
- 7 3. Class A Member Sales, both in kWh and dollars, by Member for each  
8 resource type;
- 9 4. Detailed listing of all items excluded from the PPFAC calculations;
- 10 5. Detailed listing of any adjustments to the report;
- 11 6. Non-Class A Member Sales; and
- 12 7. The name and phone number of a contact person at AEPCO for questions.

13 In addition, AEPCO will file a confidential report providing information on its generating  
14 units, power purchases and fuel purchases with the Director, Utilities Division. The  
15 initial report will provide information on January, 2011 and will be due April 1, 2011.  
16 Thereafter, each month's report will be due on the first day of the third month following  
17 the end of the reporting month. This report will set forth:

- 18 1) Generating unit information:
  - 19 a) Net generation, in MWh per month, and 12-month cumulatively;
  - 20 b) Average heat rate, both monthly and 12-month average;
  - 21 c) Equivalent forced outage rate, both monthly and 12-month average;
  - 22 d) Outage information for each month, including event type, start date and  
23 time, end date and time and description of outage;
  - 24 e) Total fuel costs per month; and
  - 25 f) Fuel cost per kWh month.
- 26 2) Power purchases information:
  - 27 a) Quantity purchased in MWh;
  - 28 b) Demand purchased in MW to the extent the information is specified in the  
29 contract;
  - 30 c) Total cost for demand to the extent the information is specified in the  
31 contract;
  - 32 d) Total cost for energy;
  - 33 e) Aggregated information on economy interchange purchases; and

- 1           f) Itemization of off-system sales.
- 2           3) Fuel purchase information:
- 3           a) Coal contract commodity costs;
- 4           b) Natural gas interstate pipeline costs, itemized by pipeline and by
- 5           individual cost components, such as reservation charge and incremental
- 6           cost; and
- 7           c) Natural gas commodity costs.

8   Each report will be accompanied by a certification from the AEPCO Chief Executive  
9   Officer, Chief Financial Officer or Chief Operating Officer that all information provided  
10  in the report is true and accurate to the best of his or her information and belief.

11   **PPFAC Review:**

12   AEPCO may file with any semi-annual report a request that the Commission review the  
13   efficacy of the PPFAC.

14   **Notification:**

15   At the time AEPCO files with the Commission its revised Tariff and information  
16   supporting revised PPFAC rates, it will also provide its member distribution cooperatives  
17   a form of notice requesting that (1) each member complete the form with the information  
18   relevant to each system and (2) each member promptly distribute the completed notice to  
19   its customers by separate mailing, inclusion in a Currents or other newsletter publication  
20   or bill stuffer.

**EXHIBIT A**

**ARIZONA ELECTRIC POWER COOPERATIVE, INC.**

TARIFF

PERMANENT

Effective Date: January 1, 2011

AVAILABILITY

Available to all cooperative associations which are or shall be collective all-requirements Class A members ("CARM") 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 in addition to any applicable terms set forth in the Member's Wholesale Power Contract.

Billing Month – The first calendar month preceding the month the bill is rendered.

Demand Overrun Adjustment – If, in any hour, the CARM's metered load exceeds its Allocated Capacity, then AEPSCO shall compute a Demand Overrun Adjustment for the CARM and each Member shall be charged a portion of such Demand Overrun Adjustment in proportion to that Member's demand ratio share. Such Demand Overrun Adjustment shall equal the product of the CARM's Fixed Charge multiplied by the demand overrun adjustment factor. The demand overrun adjustment factor shall be any non-negative number determined from the following formula:

$$\text{doaf} = ((\text{mbdkW}) / \text{AC}) - 1$$

Where:

doaf = Demand Overrun Adjustment Factor,  
mbdkW = Metered kW of CARM, and  
AC = Allocated Capacity of CARM, in kW.

In addition, Member shall pay for the energy associated with the Demand Overrun Adjustment at the then-applicable Other Resources Energy Rate.

Power Factor – Each Member shall maintain Power Factor at the time of maximum demand as close to unity as possible. If the Power Factor of Member measured at the aggregated Member's Delivery Point(s) at the time of Member peak demand is outside a bandwidth of 95% leading to 95% lagging, a Power Factor Adjustment shall be separately charged to the Member. The Power Factor Adjustment shall be the product of the Member's power factor adjustment (as set forth

below) multiplied by the quotient of the Member's demand ratio share of the CARM O&M Charge divided by the sum of the CARM's 12-month rolling average demand. The power factor adjustment shall be any non-negative number determined from the following formula:

$$pfakW = ((mkW / mpf)(bpf)) - mkW$$

Where:

pfakW = power factor adjustment in kW,  
mkW = Member Metered kW,  
mpf = measured power factor at the time of Member peak demand, and  
bpf = 0.95.

The provisions of the power factor adjustment may be waived if power factor is detrimentally impacted as a direct result of system improvements or a change in operational procedure by AEPCO to reduce transmission losses and/or improve system reliability.

Capacity and Energy Below Allocated Capacity – If CARM is utilizing a Future Resource, Supplemental Purchase or S&G PPA in any hour to serve Native Load and CARM fails to take its required share of Minimum Base Capacity or Minimum Other Capacity, CARM shall pay a charge as set forth in Section 2.4 of Rate Schedule A to the Member's Wholesale Power Contract.

Taxes – Bills rendered are subject to adjustment for all federal, state and local government taxes or levies, including any taxes or levies imposed as a carbon tax or "cap and trade" or other carbon assessments system imposed on electricity sales or electricity production and any assessments that are or may be imposed by federal or state regulatory agencies on electric utility gross revenues.

Transmission and Ancillary Service Charges – Each Class A member shall also be billed by AEPCO for charges AEPCO incurs for the transmission of power and 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 Rates

"Base Resources" are defined as (1) AEPCO's Steam Turbine Units 2 and 3, (2) power purchased under contract from the Western Area Power Administration and (3) economy purchases displacing base resources generation.

"Other Resources" are defined as (1) AEPCO's generation units other than Steam Turbine Units 2 and 3, (2) power purchased under contracts which serve the combined scheduled loads of AEPCO's Class A members plus power purchased under contract and economy energy purchases (other than economy purchases displacing base resources generation) made for the purpose of meeting the scheduled load requirements of all Class A members and (3) power purchased under contracts or resources which have been acquired to serve Class A Member load and which the Member has expressly agreed to in a participation agreement.

The monthly bill computed under this Tariff shall, using the procedures stated herein, be increased or decreased by an amount equal to the result of multiplying the kWh derived from each resource type by the applicable Power Cost Adjustor Rate for Base Resources and Other Resources where:

Base Resources Adjustor Rate

$$BF = (BPC + BBA) - \$0.03361$$

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

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

BBA = The "Base Resources 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 from Base Resources. The BBA component is determined by dividing the over-collected or under-collected bank balance dollars by six months of Base Resources kWh energy sales.

Allowable Base Resources fuel, purchased power and wheeling costs include:

- A. The costs of fossil fuel and natural gas consumed in AEPCO's Steam Generating Units 2 and 3 as recorded in RUS Account 501, plus
- B. The actual costs associated with Base Resources 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 to substitute for higher cost Base Resources energy as recorded in RUS Account 555, plus
- D. The firm and non-firm wheeling expenses associated with the delivery of Base Resources 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 collective all-requirements Class A members, less
- E. The demand and energy costs recovered through non-tariff contractual firm sales of Base Resources power and energy as recorded in RUS Account 447, less

- F. The demand and energy costs recovered through inter-system economy energy and/or intra-system resource transfer sales of Base Resources power and energy sold on an economic dispatch basis as recorded in RUS Account 447.

Other Resources Adjustor Rate

$$OF = (OPC + OBA) - \$0.07941$$

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

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

OBA = The "Other Resources 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 from Other Resources. The OBA component is determined by dividing the over-collected or under-collected bank balance dollars by six months of Other Resources kWh energy sales.

Allowable Other Resources fuel, purchased power and wheeling costs include:

- A. The costs of fossil fuel and natural gas consumed in AEPCO's Steam Generating Units 1, 4, 5 and 6 as recorded in RUS Accounts 501 and 547, plus
- B. The actual costs associated with Other Resources purchased power for reasons other than identified in paragraph (C) below as recorded in RUS Account 555, plus
- C. The cost of Other Resources energy purchased when such energy is purchased on an economic dispatch basis. Included therein are such costs as those charged for economy energy purchases and the charges resulting from a scheduled outage of Other Resources generation units. All such kinds of Other Resources energy being purchased by AEPCO to substitute for its own higher cost Other Resources energy as recorded in RUS Account 555, plus
- D. The firm and non-firm wheeling expenses associated with the delivery of Other Resources 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 collective all-requirements Class A members, less
- E. The demand and energy costs recovered through non-tariff contractual firm sales of Other Resources power and energy as recorded in RUS Account 447, less

- F. The demand and energy costs recovered through inter-system economy energy and/or intra-system resource transfer sales of Other Resources power and energy sold on an economic dispatch basis as recorded in RUS Account 447.

On a calendar semi-annual basis, AEPCO shall compute the Power Cost Adjustor Rates as specified herein based upon a rolling 12-month average of allowable fuel, purchased power and wheeling costs for the BPC and the OPC plus the bank balance amortization component for the BBA and OBA. AEPCO shall initially file by September 1, 2011 and thereafter on March 1 or September 1 of the month preceding the effective date of the revised Power Cost Adjustor Rates (i.e., April 1 or October 1): (1) calculations supporting the revised Adjustor Rates with the Director, Utilities Division, and (2) a Tariff reflecting the revised Adjustor Rates with the Commission which shall be effective for billings after the first day of the following month and which shall continue in effect until revised pursuant to the procedures specified herein.

**EXHIBIT A**

Effective Date	January 1, 2011*
Collective All-Requirements Members:	
Total Fixed Charge/Month	\$238,793**
Total O&M Charge/Month	\$414,019**
Base Resources Energy Rate – \$/kWh	\$0.03156
Other Resources Energy Rate – \$/kWh	\$0.06170

Base Resources Power Cost Adjustor Rate – \$/kWh      \$0.00000\*\*\*  
Other Resources Power Cost Adjustor Rate – \$/kWh      \$0.00000\*\*\*

- \* Rates are effective for service provided on and after this date.
- \*\* The Total Fixed Charge and the Total O&M Charge will be apportioned among the CARMs and allocated to each CARM based upon each CARM's monthly Demand Ratio Share. The Demand Ratio Share will be calculated each month as the percentage of each CARM's 12-month rolling average demand to the total of the CARMs' 12-month rolling average demand.
- \*\*\* Effective January 1, 2011 and determined and revised as set forth in the Tariff.

**EXHIBIT B**

# Arizona Electric Power Cooperative, Inc.

## Partial-Requirements Schedule Rates and Fixed Charge (Effective January 1, 2011)

Service provided to Mohave Electric Cooperative, Inc. ("MEC"), Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC") and Trico Electric Cooperative, Inc. ("Trico") by the Arizona Electric Power Cooperative, Inc. ("AEPSCO") under the Partial Requirements Capacity and Energy Agreements shall be at the rates set forth in the attached Exhibit A and subject to the terms set forth herein in addition to any applicable terms set forth in the Members' Partial Requirements Capacity and Energy Agreement.

Billing Month – The first calendar month preceding the month the bill is rendered.

Demand Overrun Adjustment – If, in any hour, (i) Member's scheduled load (if Member is not in AEPSCO's Control Area) or (ii) Member's metered load less capacity obtained from sources outside the Dispatch Pool (if Member is in AEPSCO's Control Area) exceeds its Allocated Capacity, then Member shall be charged a Demand Overrun Adjustment. Such Demand Overrun Adjustment shall equal the product of Member's Fixed Charge multiplied by the demand overrun adjustment factor. The demand overrun adjustment factor shall be any non-negative number determined from the following formula:

$$\text{doaf} = ((\text{mbdkW}) / \text{AC}) - 1$$

Where:

- doaf = Demand Overrun Adjustment Factor,
- mbdkW = Member Schedule in kW or Metered kW less capacity from sources outside the Dispatch Pool, as applicable, and
- AC = Allocated Capacity of Member, in kW.

In addition, Member shall pay for the energy associated with the Demand Overrun Adjustment at the then-applicable Other Resources Energy Rate.

Power Factor – Each Member shall maintain Power Factor at the time of maximum demand as close to unity as possible. If the Power Factor of Member measured at the aggregated Member's Delivery Point(s) at the time of Member's peak demand is outside a bandwidth of 95% leading to 95% lagging, a Power Factor Adjustment shall be separately charged to the Member. The Power Factor Adjustment shall be the product of the Member's power factor adjustment (as set forth below) multiplied by the quotient of the Member's O&M Charge divided by the sum of the Member's 12-month rolling average demand. The power factor adjustment kW shall be any non-negative number determined from the following formula:

$$pfakW = ((mkW / mpf)(bpf)) - mkW$$

Where:

- pfakW = power factor adjustment in kW,
- mkW = Member Metered kW,
- mpf = measured power factor at the time of Member peak demand, and
- bpf = 0.95.

The provisions of the power factor adjustment may be waived if power factor is detrimentally impacted as a direct result of system improvements or a change in operational procedure by AEPCO to reduce transmission losses and/or improve system reliability.

Taxes – Bills rendered are subject to adjustment for all federal, state and local government taxes or levies, including any taxes or levies imposed as a carbon tax or “cap and trade” or other carbon assessments system imposed on electricity sales or electricity production and any assessments that are or may be imposed by federal or state regulatory agencies on electric utility gross revenues.

Power Cost Adjustor Rates

“Base Resources” are defined as (1) AEPCO’s Steam Turbine Units 2 and 3, (2) power purchased under contract from the Western Area Power Administration and (3) economy purchases displacing base resources generation.

“Other Resources” are defined as (1) AEPCO’s generation units other than Steam Turbine Units 2 and 3, (2) power purchased under contracts which serve the combined scheduled loads of AEPCO’s Class A members plus power purchased under contract and economy energy purchases (other than economy purchases displacing base resources generation) made for the purpose of meeting the scheduled load requirements of all Class A members and (3) power purchased under contracts or resources which have been acquired to serve Class A Member load and which the Member has expressly agreed to in a participation agreement.

The monthly bill computed under this Tariff shall, using the procedures stated herein, be increased or decreased by an amount equal to the result of multiplying the kWh derived from each resource type by the applicable Power Cost Adjustor Rate for Base Resources and Other Resources where:

Base Resources Adjustor Rate

$$BF = (BPC + BBA) - BFB$$

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

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

BBA = The "Base Resources 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 from Base Resources. The BBA component is determined by dividing the over-collected or under-collected bank balance dollars by six months of Base Resources kWh energy sales.

BFB = The Base Resources Fuel Base or BFB is \$0.03330 for MEC, \$0.03337 for SSVEC and \$0.03336 for Trico.

Allowable Base Resources fuel, purchased power and wheeling costs include:

- A. The costs of fossil fuel and natural gas consumed in AEPCO's Steam Generating Units 2 and 3 as recorded in RUS Account 501, plus
- B. The actual costs associated with Base Resources 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 to substitute for higher cost Base Resources energy as recorded in RUS Account 555, plus
- D. The firm and non-firm wheeling expenses associated with the delivery of Base Resources 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, less
- E. The demand and energy costs recovered through non-tariff contractual firm sales of Base Resources power and energy as recorded in RUS Account 447, and less
- F. The demand and energy costs recovered through inter-system economy energy and/or intra-system resource transfer sales of Base Resources power and energy sold on an economic dispatch basis as recorded in RUS Account 447.

Other Resources Adjustor Rate

OF = (OPC + OBA) - OFB

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

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

OBA = The "Other Resources 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 from Other Resources. The OBA component is determined by dividing the over-collected or under-collected bank balance dollars by six months of Other Resources energy sales.

OFB = The Other Resources Fuel Base or OFB is equal to \$0.06971 for MEC, \$0.07241 for SSVEC and \$0.09084 for Trico.

Allowable Other Resources fuel, purchased power and wheeling costs include:

- A. The costs of fossil fuel and natural gas consumed in AEPCO's Steam Generating Units 1, 4, 5 and 6 as recorded in RUS Accounts 501 and 547, plus
- B. The actual costs associated with Other Resources purchased power for reasons other than identified in paragraph (C) below as recorded in RUS Account 555, plus
- C. The cost of Other Resources energy purchased when such energy is purchased on an economic dispatch basis. Included therein are such costs as those charged for economy energy purchases and the charges as a result of a scheduled outage of Other Resources generation units. All such kinds of Other Resources energy being purchased by AEPCO to substitute for its own higher cost Other Resources energy as recorded in RUS Account 555, plus
- D. The firm and non-firm wheeling expenses associated with the delivery of Other Resources 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, less
- E. The demand and energy costs recovered through non-tariff contractual firm sales of Other Resources power and energy as recorded in RUS Account 447, and less
- F. The demand and energy costs recovered through inter-system economy energy and/or intra-system resource transfer sales of Other Resources power and energy sold on an economic dispatch basis as recorded in RUS Account 447.

On a calendar semi-annual basis, AEPCO shall compute the Power Cost Adjustor Rates as specified herein based upon a rolling 12-month average of allowable fuel, purchased power and wheeling costs (BPC and OPC) plus a bank balance amortization component (BBA and OBA). AEPCO shall initially file by September 1, 2011 and thereafter on March 1 or September 1 of the month preceding the effective date of the revised Power Cost Adjustor Rates (i.e., April 1 or October 1): (1) calculations supporting the revised Adjustor Rates with the Director, Utilities Division, and (2) a Tariff reflecting the revised Adjustor Rates with the Commission which shall be effective for billings after the first day of the following month and which shall continue in effect until revised pursuant to the procedures specified herein.

**EXHIBIT A**

Effective Date	January 1, 2011*		
	MEC	SSVEC	Trico
Partial Requirements Members:			
Fixed Charge – \$/month	\$727,283	\$643,991	\$646,435
O&M Charge – \$/month	\$1,274,882	\$1,128,876	\$764,465
Base Resources Energy Rate – \$/kWh	\$0.03215	\$0.03229	\$0.03238
Other Resources Energy Rate – \$/kWh	\$0.06879	\$0.06676	\$0.06604

MEC

Base Resources Power Cost Adjustor Rate – \$/kWh	0.00000**
Other Resources Power Cost Adjustor Rate – \$/kWh	0.00000**

SSVEC

Base Resources Power Cost Adjustor Rate – \$/kWh	0.00000**
Other Resources Power Cost Adjustor Rate – \$/kWh	0.00000**

Trico

Base Resources Power Cost Adjustor Rate – \$/kWh	0.00000**
Other Resources Power Cost Adjustor Rate – \$/kWh	0.00000**

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

\*\* Effective January 1, 2011 and determined as set forth in the Tariff.