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HAND DELIVERED

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

Re: *Arizona Electric Power Cooperative, Inc. ("AEPSCO") PPFAC Written Processes and Procedures; Compliance Item for Decision No. 72055; Docket No. E-01773A-09-0472*

Dear Sir or Madam:

Enclosed are AEPSCO's Written Processes and Procedures concerning the Purchased Power and Fuel Adjustment Clause ("PPFAC") approved by the Commission in Decision No. 72055. The contents of the Exhibits to the processes and procedures are not being filed publicly, because they contain confidential and proprietary information. If Staff or any party to the proceeding wants a copy of the Exhibits, please contact the undersigned and that information will be supplied pursuant to the terms of a Protective Agreement entered or to be entered into between AEPSCO and the requesting party.

Very truly yours,

GALLAGHER & KENNEDY, P.A.



By:

Michael M. Grant

MMG/plp
10421-59/2740886

cc: Barbara Keene, Utilities Division (delivered)

Original and 13 copies filed with Docket Control this 29th day of April, 2011.

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ARIZONA ELECTRIC POWER COOPERATIVE, INC.
PURCHASED POWER & FUEL ADJUSTMENT CLAUSE
(PPFAC)

PROCESSES & PROCEDURES

April 29, 2011

ARIZONA ELECTRIC POWER COOPERATIVE, INC. ("AEP")
PURCHASED POWER & FUEL ADJUSTMENT CLAUSE ("PPFAC")
PROCESSES & PROCEDURES

The purpose of this document is to outline the processes and procedures necessary to calculate amounts to be collected or refunded pursuant to AEP's PPFAC, which was approved by the Arizona Corporation Commission ("ACC") in Decision No. 72055. Sources of data, actual report data, as well as various checks and corresponding line items in the PPFAC Report(s) are presented as a package for ease of reference. These processes and procedures will be reviewed and revised from time-to-time as AEP gains actual operating experience under the new ARM and PRM contract amendments, the rate design and the PPFAC approved by the ACC.

A. Sources of Data

1. Cost of Coal (RUS 501) – Accounting provides a monthly summary of the cost of coal for Apache Steam Units 2 & 3. Exhibit 1 contains an example of the Excel spreadsheet provided by Accounting for the month of February 2011. This spreadsheet provides the data for the cost of coal for the PPFAC model, as well as ending inventory amounts and burn data for the legal expense amortization spreadsheet discussed in Item 2 below.
2. Amortization of Legal Expenses – Legal expenses are not an allowable expense in the calculation of the fuel bank. The amount of legal expenses to be excluded from the fuel bank calculation is reported monthly as shown in Exhibit 1, p. 6. In this example, total legal expenses for the month of February are shown in the column labeled Legal Expenses, with the month of February highlighted. Because legal expenses are included in the coal inventory and eventually enter fuel expense via the coal burned in any given month, the spreadsheet calculates the amount of legal expense that flows through fuel expense based on the ratio of burn for the month to the total ending inventory for the month. The highlighted amounts for Ending Inventory and Burn are entered each month. As shown in Exhibit 1, p. 6, it typically takes about five months for legal expenses to fully amortize out of inventory via the burn. Looking at legal expenses for the month of August 2010 shows that the full amount of legal expenses for August was not completely amortized from the coal inventory until the month of December 2010. A similar pattern is shown in data concerning the ensuing months. In this example, the amount of legal expenses to be entered for the month of February is shown on the line labeled Total Legal Expenses – Fuel Bank. This amount is excluded from the calculation of total coal costs. This spreadsheet is maintained on AEP's V drive.
3. Cost of Gas (RUS 547) – The cost of gas is also provided by the Accounting Department. In Exhibit 1, p. 7 is a copy of the Excel spreadsheet provided by Accounting. The cost of gas associated with Apache Steam Units 2 & 3 is properly includable in RUS 501 for flame stabilization purposes. Gas associated with the remaining gas units is properly includable in RUS 547 and is included in the PPFAC. These inputs are shown on the bottom of Exhibit 1, p. 7.

4. Generation Summary – Information provided in the generation summary is used for the calculation of coal energy cost in the PPFAC model and also for informational purposes. In Exhibit 1, p. 8 is a copy of the monthly generation summary report.
5. Purchased Power & Wheeling Expense – Wheeling expense is obtained from SAP via the KOB1 reports in Exhibit 2, p. 9.
6. Billing Unit Program – The Billing Unit Program (“BUP”) provides a number of key inputs for the new PPFAC model. Exhibit 4, p. 22 provides the PPFAC data associated with hourly kWh transactions and prices associated with economy purchases and sales. Because the collective all-requirements members (“CARM”) are treated as a single entity in the BUP, it is necessary to split this group between the three members that comprise the group (i.e., Anza Electric Cooperative, Duncan Valley Electric Cooperative and Graham County Electric Cooperative). This is accomplished using the base and other energy ratios of each member to the total for the group. This calculation is performed within the PPFAC model, Exhibit 6, p. 41 (highlighted in green).

B. Reconciliation of SAP/BUP Data

Because daytime and nighttime prices and kWh for economy purchases and sales are obtained from the billing unit model, it is not necessary to enter this data into the PPFAC model. Economy purchases and sales are allocated hourly to the CARM and partial-requirements members. Because various items are not specifically accounted for in the billing unit model, the calculations obtained from the billing unit model for economy purchases and sales must be reconciled to the SAP accounting records. This reconciliation process is provided in Exhibit 5, p. 27. Any differences are included in the PPFAC model as adjustments so that the results of the billing unit model match AEPCO’s SAP accounting records.

C. Data Checks

SAP general ledger checks are conducted to ensure that the source data described above is consistent with AEPCO’s accounting records. This series of checks is provided in Exhibit 7, p. 43 as actual output of AEPCO’s SAP accounting system.

D. PPFAC Model

The PPFAC model is provided in Exhibit 6, p. 32. All input items are highlighted in green for ease of user reference and are contained in the data sources discussed above in Section A. The PPFAC model is maintained on AEPCO’s V drive.

E. Semi-Annual Adjustor Calculations

The semi-annual adjustor calculations will continue to be done in the same manner as under the FPPCA that was approved in ACC Decision No. 68071. AEPCO has not yet developed the spreadsheets to calculate the semi-annual adjustments under the PPFAC that was approved in ACC Decision No. 57022. However, these calculations will be performed in the same manner as the prior fuel bank. Instead of calculating two adjustors (i.e., one for the partial-requirements members and one for the all-requirements members), eight adjustors will be calculated. Two

adjustors (i.e., base and other energy) will be calculated for the collective all-requirements members (Anza, Duncan and Graham) and two adjustors will be calculated for each partial-requirements member (Mohave, Sulphur Springs and Trico). The details for the calculations are contained in AEPCO's PPFAC Plan for Administration. The prior fuel bank calculations that were effective October 1, 2010 are provided in Exhibit 8, p. 68 for illustrative purposes.

Exhibit 1

Cost of Coal/Gas Inputs

Exhibit 2
Purchased
Power
&
Wheeling
Expense

Exhibit 3

Energy

Revenue

Exhibit 4
Billing Unit
Model
Inputs

Exhibit 5
Sales &
Purchases
Reconciliation

Exhibit 6

PPFAC

Model

Exhibit 7
General Ledger
Check Data

Exhibit 8
Calculation of
Semi-Annual
Adjustors