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Arizona Electric Power Cooperative, Inc.

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June 29, 2011

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

Arizona Corporation Commission
DOCKETED

JUN 29 2011

DOCKETED BY 

RE: ARIZONA ELECTRIC POWER COOPERATIVE, INC. (AEPCO) QUARTERLY UPDATE ON ITS ACTION PLAN; COMPLIANCE ITEM IN RELATION TO DECISION NO. 72055; DOCKET NO. E-01773A-09-0472

Dear Sir or Madam:

As required by the Final Ordering Paragraph at page 17 of Decision No. 72055, AEPCO submits this quarterly update on the Action Plan which it filed in this Docket on January 27, 2011 (the Action Plan). The Action Plan identified several items which have already been completed.

As to the status of items which are ongoing:

1. Under Fuel Supply Management (Action Plan, p. 1, item 1) regarding undertaking a formal process to determine physical vs. book inventory differences, action has been completed on this item.
2. Under Fuel Supply Management (Action Plan, p. 1, item 2) regarding the plan for reducing coal inventory, the minimum tonnage has been ordered for 2011 and additional coal delivery delay or avoidance possibilities continue to be explored.
3. Under Gas Hedging (Action Plan, p. 2, item 1) regarding the creation of performance measures for gas traders, the plan and action have been completed on this item.
4. Under Power Transactions (Action Plan, p. 2, item 2, third responsive step), development of written PPFAC processes and procedures, AEPCO filed the written processes and procedures with Docket Control on April 29, 2011 and action has been completed on this item.

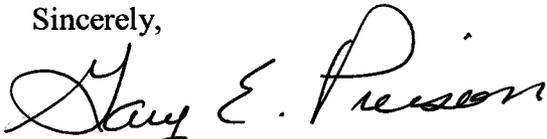


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5. Under Engineering Analysis/Plant Management (Action Plan, p. 3, items 1 and 2), the monitoring and assembly of data concerning Apache Station usage have commenced and will continue through March 31, 2012, with the studies anticipated to be completed by September 30 of 2012.

An updated Action Plan matrix reflecting the progress to date on the eight recommendation areas is attached and AEPCO will file its next quarterly update on the Action Plan by September 30, 2011.

Sincerely,



Gary E. Pierson
Manager of Financial Services

Attachment

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

Arizona Electric Power Cooperative, Inc.
Action Plan/Prudence Review Recommendations
Updated - June 29, 2011

<u>Recommendation</u>	<u>Responsive Steps</u>	<u>Timetable</u>	<u>Status</u>
<p>Organization, Staffing and Controls</p> <p>1. More frequent internal audits of fuel and energy procurement and management.</p>	<p>A fuel and energy procurement and management audit will be conducted in 2011.</p>	<p>Plan Complete</p>	<p>2011 Audit Pending</p>
<p>Fuel Contracting</p> <p>1. Future solicitations for forward gas purchases should be directed to additional suppliers.</p>	<p>ISD agreements have been developed with additional suppliers to expand solicitation group.</p>	<p>Plan Complete</p>	<p>Action Completed</p>
<p>Fuel Supply Management</p> <p>1. Undertake formal process to determine physical vs. book inventory differences.</p> <p>2. Develop plan for reducing coal inventory.</p> <p>3. Create performance measures for gas traders.</p>	<p>A team has been formed to determine the cause of differences and necessary corrective steps.</p> <p>In 2010, AEPCO avoided, due to <i>force majeure</i>, delivery of 141,000 tons. AEPCO continues to explore coal delivery delay/avoidance opportunities with coal companies. AEPCO has ordered minimum tonnage in 2011.</p> <p>AEPCO has completed work with ACES to develop and implement.</p>	<p>Plan Complete</p> <p>Plan Ongoing</p> <p>Plan Complete</p>	<p>Action Completed</p> <p>Ongoing</p> <p>Action Completed</p>

<u>Recommendation</u>	<u>Responsive Steps</u>	<u>Timetable</u>	<u>Status</u>
<p>Gas Hedging</p> <ol style="list-style-type: none"> 1. Adopt program for measurement of hedging program results. 2. Periodically, internal audit to review processes and systems to track transactions. 	<p>Consulted with ACES to develop.</p> <p>Internal audit will address and implement recommendation in the 2011 internal audit plan.</p>	<p>Plan Complete</p> <p>Plan Complete</p>	<p>Action Completed</p> <p>Action Completed</p>
<p>Power Transactions</p> <ol style="list-style-type: none"> 1. Require PRMs to provide timely pre-schedules. 2. Take steps to minimize and eliminate errors in relation to the effectiveness of new PPFAC. 	<p>Exhibit B-1 to Schedule B of the PRM contracts approved by the Commission in Decision No. 72055, p. 17, ll. 9-10 has such requirements.</p> <ul style="list-style-type: none"> • Internal audit completed and changes instituted to address errors in 2007-2008. • A PPFAC Plan for Administration was developed and filed with Docket Control on January 20, 2011. • Written PPFAC processes and procedures are being developed. • A clause audit will be conducted in 2011 and more frequent reviews of the PPFAC will be conducted. 	<p>Plan Complete</p> <p>Plan Complete</p> <p>Plan Complete</p> <p>Plan Complete</p> <p>Plan Complete</p>	<p>Action Completed</p> <p>Action Completed</p> <p>Action Completed</p> <p>Action Completed</p> <p>Action Completed</p> <p>2011 Audit Pending</p>

<u>Recommendation</u>	<u>Responsive Steps</u>	<u>Timetable</u>	<u>Status</u>
<p>Engineering Analysis/ Plant Management</p> <p>1. Conduct a study of Apache's future role and how it relates to member needs for future power.</p> <p>2. Include in Apache study rate impact assessment of known or pending EPA rulemakings or regulatory actions and provide mitigation recommendations on rate exposure (Decision No. 72055; p. 18, ll. 1-7.</p> <p>3. Examine methods for more structured/formal outage planning and management.</p> <p>4. AEPCO should examine root causes of trips from personnel errors.</p>	<ul style="list-style-type: none"> • Monitor and assemble data concerning Apache usage in 2011 under the new power requirements contracts. • Complete study of Apache role in relation to member needs. <p>Will be included in study of Apache's future role.</p> <p>Summary Outage Plans, as recommended, will be prepared 5-6 months prior to an outage and periodically updated.</p> <ul style="list-style-type: none"> • Two individuals (instead of one) are permanently assigned to review and report on all large equipment failures and forced outages on coal- and gas-fired units. • The report will include statements from the trip originator, control room operator and the operations manager as well as recommendations for problem avoidance. • The report will be reviewed to detect specific trends/problem areas to address. 	<p>January 1, 2011 through March 31, 2012</p> <p>September 30, 2012</p> <p>September 30, 2012</p> <p>Plan Complete</p> <p>Plan Complete</p> <p>Plan Complete</p> <p>Plan Complete</p>	<p>On Schedule</p> <p>Pending</p> <p>Pending</p> <p>Action Completed</p> <p>Action Completed</p> <p>Action Completed</p> <p>Action Completed</p>

<u>Recommendation</u>	<u>Responsive Steps</u>	<u>Timetable</u>	<u>Status</u>
<p>Engineering Analysis/ Plant Management (con't)</p> <p>4. Root causes of trips (con't).</p>	<ul style="list-style-type: none"> An additional training program through GPiLEARN has commenced to better train employees to anticipate and avoid problems. 	<p>Plan Complete</p>	<p>Action Completed</p>
<p>PPFAC</p> <p>1. Examine more current PPFAC recovery method.</p> <p>2. AEPCO should propose a surcharge plan for closing the old FPPAC balances.</p>	<p>AEPCO recommended that the "efficacy" provision of the 2005 rate decision should be continued to address recovery issues, should they arise, in the future. The Commission approved this request in Decision No. 72055, p. 17, ll. 15-18.</p> <p>AEPCO recommended a surcharge close-out plan in Mr. Pierson's rejoinder testimony; it was approved by the Commission in Decision No. 72055; and the Temporary PPFAC Rider No. 1 to close out old balances was filed December 20, 2010 with an effective date of January 1, 2011.</p>	<p>Plan Complete</p> <p>Plan Complete</p>	<p>Action Completed</p> <p>Action Completed</p>