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P.A.

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September 1, 2011

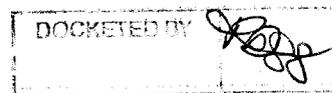
**HAND DELIVERED**

Commissioner Gary Pierce, Chairman  
Commissioner Bob Stump  
Commissioner Sandra D. Kennedy  
Commissioner Paul Newman  
Commissioner Brenda Burns  
Arizona Corporation Commission  
1200 W. Washington St.  
Phoenix, AZ 85007

Arizona Corporation Commission

DOCKETED

SEP 1 2011



Re: *Arizona Electric Power Cooperative, Inc. ("AEPSCO") Request for Review of PPFAC Efficacy and Approval of Alternate Adjustor Rates ("Efficacy Filing"); Decision No. 72055 dated January 6, 2011 (the "Rate Case Decision"); Docket No. E-01773A-09-0472*

Dear Commissioners:

In AEPSCO's Rate Case Decision approved earlier this year, the Commission authorized continuation of the Purchased Power and Fuel Adjustment Clause ("PPFAC") and, as well, continued AEPSCO's ability to request modifications to the PPFAC should problems with cost recovery develop:

[AEPSCO] may file a request that the Commission review the efficacy of the [PPFAC] with Arizona Electric Cooperative Inc.'s submission of any semi-annual report required by the tariff and this Decision. (The Rate Case Decision, p. 17, Third Full Ordering Paragraph.)<sup>1</sup>

This filing requests that efficacy review to correct a substantial problem which has arisen with recovery of certain fixed costs in the PPFAC.

<sup>1</sup> Simultaneous with this Efficacy Filing, AEPSCO has submitted revised adjustors using the PPFAC's current structure for October 1 implementation if the Commission cannot act on this request by that date. However, AEPSCO asks that the Commission approve the adjustors requested here as soon as possible.

A month ago, when AEPCO personnel began developing the data and schedules necessary to make its initial adjustor filing, a serious problem was detected with the allocation method used to assign certain fixed-gas costs within, and recover those costs through, the PPFAC. The problem has three major, negative consequences for AEPCO and its members: (1) the allocation of a majority of these costs through the Other Resources energy rate artificially disadvantages AEPCO's gas-fired units against the purchased power market; (2) it results in an inequitable allocation of these fixed costs to certain of AEPCO's member distribution cooperatives; and (3) ultimately, because of this allocation problem, AEPCO likely will not be able to recover these costs, because AEPCO's gas-fired units will not be selected as a power source by any of AEPCO's members or, in the case of the collective all-requirements members ("CARMs"), by AEPCO on their behalf. If that occurs, AEPCO would take an approximate \$4.6 million dollar loss to its bottom line. To place that loss in context, the rates the Commission authorized earlier this year were only designed to produce an operating margin of \$2.95 million.<sup>2</sup>

As a first step to address this issue, this Efficacy Filing requests a change in the PPFAC allocation method used in relation to these costs. In that regard, attached are a revised all-requirements tariff and partial-requirements schedule, as well as schedules supporting the revised adjustors and PPFAC allocation methodology which AEPCO asks that you approve.<sup>3</sup> This will temporarily address and partially resolve the problem.

On a longer-term basis, AEPCO believes these fixed-gas costs should instead be allocated to the fixed monthly charges which each member pays rather than being assigned to the energy rates. After discussing further this issue internally and with its members, AEPCO anticipates filing soon a request under A.R.S. § 40-252 to amend the Rate Case Decision to accomplish that result.

### **Background**

As background, about \$3.8 million of fixed-gas costs from El Paso and Unocal were incurred in the test year ending March 31, 2009. These fixed costs are paid to assure flame stabilization gas for the coal-fired units, as well as to assure the gas-fired units will have fuel to generate anytime they are called upon for use by any of the partial-requirements members ("PRMs") and CARMs.

In the rate case, most of these expenses were assigned for cost recovery through the energy rate. A flame stabilization estimate of approximately \$545,000 was included in developing the Base Resources energy rate. That was allocated between the members premised upon their anticipated use of the coal units.

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<sup>2</sup> Decision No. 72055, Finding 50.

<sup>3</sup> AEPCO will shortly file revised monthly reports for January through June of this year in support of these adjustors.

\$3.1 million of these fixed-gas costs were included in the Other Resources energy rate. These costs were allocated generally between the members based upon their anticipated use of the gas-fired units.

The allocations were developed based on assumed levels of gas-fired generation using a billing unit model applied against the adjusted test year. The model predicted anticipated Base and Other Resource kWh usages under the new rate structure, which consists of fixed monthly charges, fixed monthly O&M charges, Base Resources and Other Resources energy rates.

### **The Problem**

In preparing the required semi-annual adjustor filing, AEPCO realized, based on actual operating experience, that actual use was significantly different than what the billing unit model had predicted. As a result, the allocation method is producing an inequitable allocation of costs to certain of AEPCO's members. Also, including the fixed-gas costs in the Other Resources energy rate has resulted in a price signal which is artificially disadvantaging AEPCO's gas-fired units against the rest of the purchased power market. As a result of that cost disadvantage, two of AEPCO's PRMs have elected almost exclusively to purchase in that market rather than use AEPCO gas-fired resources. Therefore, the remaining members have been, under this system, allocated the vast majority of these fixed-gas costs. The result is a substantial under-collection which AEPCO, absent a change, will need to collect from Anza, Duncan, Graham, Trico and their retail members.

Mohave and SSVEC will only contribute in a small way towards the recovery of these fixed-gas costs—even though these costs provide them reserves and enable them to call upon AEPCO's gas-fired generation at any time when and if needed. If the remaining members were also to stop using these gas-fired resources, then AEPCO would not be able to collect any of the \$3.1 million in fixed costs built into the Other Resource energy rate and base, nor collect any of the approximately \$1.5 million increase in costs which AEPCO is incurring annually as a result of an El Paso rate increase that became effective April 1, 2011. If AEPCO cannot recover these fixed-gas costs through its rates, the result is margin losses of approximately \$4.6 million—a loss substantially greater than the \$2.95 million of operating margins allowed in the rate case.

### **The Solution**

In order to address and resolve these issues, AEPCO proposes a two-step solution. As a temporary first step, AEPCO proposes that fixed-gas costs be allocated to the CARMs and each PRM on an Allocated Capacity Percentage ("ACP") basis. The ACPs for each are as follows: CARMs – 11.4%, Mohave – 35.8%, Sulphur – 31.7% and Trico – 21.1%. This ACP cost assignment will then be split between Base and total Other Resources energy for the CARMs and each of the PRMs. The total Other Resources energy category includes not only AEPCO's gas resources, but also power purchased on behalf of the CARMs and/or Trico.

Commissioners  
September 1, 2011  
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Attached to this Efficacy Filing are: (1) a revised tariff for the CARMs; (2) a revised partial-requirements Schedule; and (3) a nine-page schedule providing supporting information in relation to the revised adjustors. AEPCO requests the Commission authorize these adjustors for October 1 implementation or as soon as possible thereafter.

The PPFAC bases for the CARMs and each of the PRMs also have been re-designed to reflect the new allocation methodology associated with the fixed-gas costs. The under/(over) collected PPFAC balances have been recalculated for the period January 2011 thru June 2011 using the new PPFAC bases and AEPCO's proposed allocation methodology in order to derive revised under/(over) collected PPFAC balances.

While approval of these adjustors will solve the immediate allocation and revenue problems created by the current allocation methodology on a short-term basis, a better and more permanent resolution of these issues is to instead assign these fixed-gas costs to the CARMs and PRMs' respective fixed charges. In that regard, after further consultation with its members, AEPCO anticipates filing soon a request under A.R.S. § 40-252 to amend the Rate Case Decision to adjust the fixed monthly charges accordingly.

**Conclusion**

AEPCO requests that the Commission enter its Order approving the revised adjustors in the CARM Tariff and the PRM Schedule attached hereto.

Very truly yours,

GALLAGHER & KENNEDY, P.A.



By:

Michael M. Grant

MMG/plp  
10421-59/2848117  
Attachments

cc w/attachments (delivered): Commissioners (2 copies)  
Terri Ford, Utilities Division  
Barbara Keene, Utilities Division  
Candrea Allen, Utilities Division

**Original and 13 copies** filed with Docket  
Control this 1<sup>st</sup> day of September, 2011.

**ARIZONA ELECTRIC POWER COOPERATIVE, INC.**

TARIFF

PERMANENT

Effective Date:           October 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. ("AEPCO").

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 AEPCO 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      \$0.00622\*\*\*  
Other Resources Power Cost Adjustor Rate – \$/kWh      (\$0.05026)\*\*\*

\* 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 October 1, 2011 and determined and revised as set forth in the Tariff.

# Arizona Electric Power Cooperative, Inc.

## Partial-Requirements Schedule Rates and Fixed Charge (Effective October 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. ("AEPCO") 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 AEPCO's Control Area) or (ii) Member's metered load less capacity obtained from sources outside the Dispatch Pool (if Member is in AEPCO'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	\$0.01054**
Other Resources Power Cost Adjustor Rate – \$/kWh	(\$0.03348)**

SSVEC

Base Resources Power Cost Adjustor Rate – \$/kWh	\$0.00762**
Other Resources Power Cost Adjustor Rate – \$/kWh	(\$0.03608)**

Trico

Base Resources Power Cost Adjustor Rate – \$/kWh	\$0.00490**
Other Resources Power Cost Adjustor Rate – \$/kWh	(\$0.06838)**

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

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

**Arizona Electric Power Cooperative  
Computation of CARM Power Cost Adjustor Rates  
Six Months Ended June 30, 2011**

**Base Resources:**

CARM Tariff Formula - Base Resources Adjustor Rate:

$$BF = ( BPC + BBA ) - \$0.03513$$

BF = Adjustment factor in dollars per kWh, rounded to the nearest one-thousandth of a cent (\$0.00001).

BPC = The Commission allowed Base Resources pro forma fuel, purchased power and wheeling costs 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.

**Computation of BPC:**

Pro Forma Fuel, Purchased Power and Wheeling Costs	\$ 3,995,177.34
CARM Base Resources kWh sales	104,480,506
CARM Base Resources PC - \$/kWh	<u>\$0.03824</u>

**Computation of BBA:**

CARM Under Collected Balance - as of June 30, 2011	\$ 324,777.17
CARM Amount Recovered Through PPFCA	\$ -
CARM Total Under Collected Balance - as of June 30, 2011	<u>\$ 324,777.17</u>
CARM Base Resources kWh sales	104,480,506
CARM BA - \$/kWh	<u>\$0.00311</u>

**Computation of CARM Base Resources**

Power Cost Adjustor Rate - \$/kWh

$$F = ( \$ 0.03824 + \$ 0.00311 ) - \$0.03513$$

$$F = \$ 0.04135 - \$ 0.03513$$

$$F = \$ 0.00622$$

Adjustor Rate for October 1, 2011	\$0.00622
Adjustor Rate Effective January 1, 2011	<u>\$0.00000</u>
Increase to Adjustor Rate	<u>\$0.00622</u>

**Arizona Electric Power Cooperative  
Computation of CARM Power Cost Adjustor Rates  
Six Months Ended June 30, 2011**

**Other Resources:****CARM Tariff Formula - Other Resources Adjustor Rate:**

$$OF = ( OPC + OBA ) - \$0.07188$$

OF = Adjustment factor in dollars per kWh, rounded to the nearest one-thousandth of a cent (\$0.00001).

OPC = The Commission allowed Other Resources pro forma fuel, purchased power and wheeling costs 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.

**Computation of OPC:**

Pro Forma Fuel, Purchased Power and Wheeling Costs	\$ 692,230.66
CARM Other Resources kWh sales	14,808,280
CARM Other Resources PC - \$/kWh	<u>\$0.04675</u>

**Computation of OBA:**

CARM Under Collected Balance - as of June 30, 2011	\$ (372,188.50)
CARM Amount Recovered Through PPFCA	\$ -
CARM Total Under Collected Balance - as of June 30, 2011	<u>\$ (372,188.50)</u>
CARM Other Resources kWh sales	14,808,280
CARM OBA - \$/kWh	<u>(\$0.02513)</u>

**Computation of CARM Other Resources****Power Cost Adjustor Rate - \$/kWh**

$$F = ( \$ 0.04675 + \$ (0.02513) ) - \$0.07188$$

$$F = \$ 0.02162 - \$ 0.07188$$

$$F = \$ (0.05026)$$

Adjustor Rate for October 1, 2011	(\$0.05026)
Adjustor Rate Effective January 1, 2011	<u>\$0.00000</u>
Increase to Adjustor Rate	<u>(\$0.05026)</u>

**Arizona Electric Power Cooperative  
Computation of Mohave Electric Cooperative Power Cost Adjustor Rates  
Six Months Ended June 30, 2011**

**Base Resources:****Mohave Tariff Formula - Base Resources Adjustor Rate:**

$$BF = ( BPC + BBA ) - \$0.03454$$

**BF = Adjustment factor in dollars per kWh, rounded to the nearest one-thousandth of a cent (\$0.00001).**

**BPC = The Commission allowed Base Resources pro forma fuel, purchased power and wheeling costs 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.**

**Computation of BPC:**

Pro Forma Fuel, Purchased Power and Wheeling Costs	\$ 11,888,746.26
Mohave Base Resources kWh sales	298,611,000
Mohave Base Resources PC - \$/kWh	<u>\$0.03981</u>

**Computation of BBA:**

Mohave Under Collected Balance - as of June 30, 2011	\$ 1,574,722.32
Mohave Amount Recovered Through PPFCA	\$ -
Mohave Total Under Collected Balance - as of June 30, 2011	<u>\$ 1,574,722.32</u>
Mohave Base Resources kWh sales	298,611,000
Mohave BA - \$/kWh	<u>\$0.00527</u>

**Computation of Mohave Base Resources****Power Cost Adjustor Rate - \$/kWh**

$$F = ( \$ 0.03981 + \$ 0.00527 ) - \$ 0.03454$$

$$F = \$ 0.04508 - \$ 0.03454$$

$$F = \$ 0.01054$$

Adjustor Rate for October 1, 2011	\$0.01054
Adjustor Rate Effective January 1, 2011	<u>\$0.00000</u>
Increase to Adjustor Rate	<u>\$0.01054</u>

**Arizona Electric Power Cooperative  
Computation of Mohave Electric Cooperative Power Cost Adjustor Rates  
Six Months Ended June 30, 2011**

**Other Resources:**

Mohave Tariff Formula - Other Resources Adjustor Rate:

$$OF = ( OPC + OBA ) - \$0.06191$$

OF = Adjustment factor in dollars per kWh, rounded to the nearest one-thousandth of a cent (\$0.00001).

OPC = The Commission allowed Other Resources pro forma fuel, purchased power and wheeling costs 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.

**Computation of OPC:**

Pro Forma Fuel, Purchased Power and Wheeling Costs	\$ 11,517.55
Mohave Other Resources kWh sales	255,000
Mohave Other Resources PC - \$/kWh	<u>\$0.04517</u>

**Computation of OBA:**

Mohave Under Collected Balance - as of June 30, 2011	\$ (4,269.50)
Mohave Amount Recovered Through PPFCA	\$ -
Mohave Total Under Collected Balance - as of June 30, 2011	<u>\$ (4,269.50)</u>
Mohave Other Resources kWh sales	255,000
Mohave OBA - \$/kWh	<u>(\$0.01674)</u>

**Computation of Mohave Other Resources  
Power Cost Adjustor Rate - \$/kWh**

$$F = ( \$ 0.04517 + \$ (0.01674) ) - \$0.06191$$

$$F = \$ 0.02843 - \$ 0.06191$$

$$F = \$ (0.03348)$$

Adjustor Rate for October 1, 2011	(\$0.03348)
Adjustor Rate Effective January 1, 2011	<u>\$0.00000</u>
Increase to Adjustor Rate	<u>(\$0.03348)</u>

**Arizona Electric Power Cooperative  
Computation of Sulphur Springs Valley Electric Coop. Power Cost Adjustor Rates  
Six Months Ended June 30, 2011**

**Base Resources:**

Sulphur Springs Tariff Formula - Base Resources Adjustor Rate:

$$BF = ( BPC + BBA ) - \$0.03449$$

BF = Adjustment factor in dollars per kWh, rounded to the nearest one-thousandth of a cent (\$0.00001).

BPC = The Commission allowed Base Resources pro forma fuel, purchased power and wheeling costs 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.

**Computation of BPC:**

Pro Forma Fuel, Purchased Power and Wheeling Costs	\$ 12,515,827.20
Sulphur Springs Base Resources kWh sales	326,757,000
Sulphur Springs Base Resources PC - \$/kWh	<u>\$0.03830</u>

**Computation of BBA:**

Sulphur Springs Under Collected Balance - as of June 30, 2011	\$ 1,245,212.55
Sulphur Springs Amount Recovered Through PPFCA	\$ -
Sulphur Springs Total Under Collected Balance - as of June 30, 2011	<u>\$ 1,245,212.55</u>
Sulphur Springs Base Resources kWh sales	326,757,000
Sulphur Springs BA - \$/kWh	<u>\$0.00381</u>

**Computation of Sulphur Springs Base Resources  
Power Cost Adjustor Rate - \$/kWh**

$$F = ( \$ 0.03830 + \$ 0.00381 ) - \$0.03449$$

$$F = \$ 0.04211 - \$ 0.03449$$

$$F = \$ 0.00762$$

Adjustor Rate for October 1, 2011	\$0.00762
Adjustor Rate Effective January 1, 2011	<u>\$0.00000</u>
Increase to Adjustor Rate	<u>\$0.00762</u>

**Arizona Electric Power Cooperative  
Computation of Sulphur Springs Valley Electric Coop. Power Cost Adjustor Rates  
Six Months Ended June 30, 2011**

**Other Resources:**

Sulphur Springs Tariff Formula - Other Resources Adjustor Rate:

$$OF = ( OPC + OBA ) - \$0.06449$$

OF = Adjustment factor in dollars per kWh, rounded to the nearest one-thousandth of a cent (\$0.00001).

OPC = The Commission allowed Other Resources pro forma fuel, purchased power and wheeling costs 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.

**Computation of OPC:**

Pro Forma Fuel, Purchased Power and Wheeling Costs	\$ 9,011.57
Sulphur Springs Other Resources kWh sales	<u>194,000</u>
Sulphur Springs Other Resources PC - \$/kWh	<u><u>\$0.04645</u></u>

**Computation of OBA:**

Sulphur Springs Under Collected Balance - as of June 30, 2011	\$ (3,499.49)
Sulphur Springs Amount Recovered Through PPFCA	\$ -
Sulphur Springs Total Under Collected Balance - as of June 30, 2011	<u>\$ (3,499.49)</u>
Sulphur Springs Other Resources kWh sales	<u>194,000</u>
Sulphur Springs OBA - \$/kWh	<u><u>(\$0.01804)</u></u>

**Computation of Sulphur Springs Other Resources  
Power Cost Adjustor Rate - \$/kWh**

$$F = ( \$ 0.04645 + \$ (0.01804) ) - \$0.06449$$

$$F = \$ 0.02841 - \$ 0.06449$$

$$F = \$ (0.03608)$$

Adjustor Rate for October 1, 2011	(\$0.03608)
Adjustor Rate Effective January 1, 2011	<u>\$0.00000</u>
Increase to Adjustor Rate	<u><u>(\$0.03608)</u></u>

**Arizona Electric Power Cooperative  
Computation of Trico Electric Cooperative Power Cost Adjustor Rates  
Six Months Ended June 30, 2011**

**Base Resources:**

Trico Tariff Formula - Base Resources Adjustor Rate:

$$BF = (BPC + BBA) - \$0.03431$$

**BF = Adjustment factor in dollars per kWh, rounded to the nearest one-thousandth of a cent (\$0.00001).**

**BPC = The Commission allowed Base Resources pro forma fuel, purchased power and wheeling costs 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.**

**Computation of BPC:**

Pro Forma Fuel, Purchased Power and Wheeling Costs	\$ 8,059,956.31
Trico Base Resources kWh sales	219,277,112
Trico Base Resources PC - \$/kWh	<u>\$0.03676</u>

**Computation of BBA:**

Trico Under Collected Balance - as of June 30, 2011	\$ 536,903.89
Trico Amount Recovered Through PPFCA	\$ -
Trico Total Under Collected Balance - as of June 30, 2011	<u>\$ 536,903.89</u>
Trico Base Resources kWh sales	219,277,112
Trico BA - \$/kWh	<u>\$0.00245</u>

**Computation of Trico Base Resources**

Power Cost Adjustor Rate - \$/kWh

$$F = ( \$ 0.03676 + \$ 0.00245 ) - \$ 0.03431$$

$$F = \$ 0.03921 - \$ 0.03431$$

$$F = \$ 0.00490$$

Adjustor Rate for October 1, 2011	\$0.00490
Adjustor Rate Effective January 1, 2011	<u>\$0.00000</u>
Increase to Adjustor Rate	<u>\$0.00490</u>

**Arizona Electric Power Cooperative  
Computation of Trico Electric Cooperative Power Cost Adjustor Rates  
Six Months Ended June 30, 2011**

**Other Resources:**

Trico Tariff Formula - Other Resources Adjustor Rate:

$$OF = ( OPC + OBA ) - \$0.08274$$

OF = Adjustment factor in dollars per kWh, rounded to the nearest one-thousandth of a cent (\$0.00001).

OPC = The Commission allowed Other Resources pro forma fuel, purchased power and wheeling costs 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.

**Computation of OPC:**

Pro Forma Fuel, Purchased Power and Wheeling Costs	\$ 4,144,122.32
Trico Other Resources kWh sales	85,355,420
Trico Other Resources PC - \$/kWh	<u>\$0.04855</u>

**Computation of OBA:**

Trico Under Collected Balance - as of June 30, 2011	\$ (2,918,185.13)
Trico Amount Recovered Through PPFCA	\$ -
Trico Total Under Collected Balance - as of June 30, 2011	<u>\$ (2,918,185.13)</u>
Trico Other Resources kWh sales	85,355,420
Trico OBA - \$/kWh	<u>\$ (0.03419)</u>

**Computation of Trico Other Resources**

Power Cost Adjustor Rate - \$/kWh

$$F = ( \$ 0.04855 + \$ (0.03419) ) - \$0.08274$$

$$F = \$ 0.01436 - \$ 0.08274$$

$$F = \$ (0.06838)$$

Adjustor Rate for October 1, 2011	(\$0.06838)
Adjustor Rate Effective January 1, 2011	<u>\$0.00000</u>
Increase to Adjustor Rate	<u>(\$0.06838)</u>

**Arizona Electric Power Cooperative, Inc.**  
**Summary of Base and Other Resource Fuel Adjustor Costs**  
**Six Months ended June 30, 2011**

Description	Total Costs	CARM Allocated	MEC Allocated	SSVEC Allocated	TRICO Allocated
<b>Base Resource Fuel Adjustor Costs:</b>					
January 1, 2011	\$ 6,842,455.90	\$ 704,324.56	\$ 2,130,859.57	\$ 2,339,318.88	\$ 1,667,952.89
February 1, 2011	6,089,751.88	640,813.96	1,868,996.29	2,131,596.19	1,448,345.44
March 1, 2011	4,783,250.53	528,687.99	1,586,642.16	1,651,492.53	1,016,427.86
April 1, 2011	4,334,330.28	491,756.19	1,553,232.87	1,419,769.75	869,571.47
May 1, 2011	6,525,554.63	714,288.74	2,134,353.97	2,292,717.52	1,384,194.40
June 1, 2011	7,884,363.90	915,305.90	2,614,661.41	2,680,932.33	1,673,464.26
<b>Total</b>	<b>\$ 36,459,707.11</b>	<b>\$ 3,995,177.34</b>	<b>\$ 11,888,746.26</b>	<b>\$ 12,515,827.20</b>	<b>\$ 8,059,956.31</b>
<b>Other Resource Fuel Adjustor Costs:</b>					
January 1, 2011	\$ 249,265.17	\$ 18,134.14	\$ -	\$ 429.92	\$ 230,701.11
February 1, 2011	289,407.96	25,711.75	253.84	1,687.13	261,755.24
March 1, 2011	613,843.57	146,892.58	11,148.80	5,378.70	450,423.49
April 1, 2011	968,374.42	214,830.48	\$28.37	\$546.23	\$752,969.34
May 1, 2011	1,102,274.21	113,795.83	9.96	800.11	987,668.32
June 1, 2011	1,633,716.78	172,865.88	\$76.58	\$169.48	\$1,460,604.83
<b>Total</b>	<b>\$ 4,856,882.11</b>	<b>\$ 692,230.66</b>	<b>\$ 11,517.55</b>	<b>\$ 9,011.57</b>	<b>\$ 4,144,122.32</b>
<b>Base Resource Billing Units:</b>					
January 1, 2011	180,271,017	18,264,934	54,728,000	62,145,000	45,133,083
February 1, 2011	155,316,752	16,074,113	45,960,000	55,075,000	38,207,639
March 1, 2011	122,007,641	13,856,885	38,687,000	42,226,000	27,237,756
April 1, 2011	111,663,173	13,435,749	38,254,000	35,359,000	24,614,424
May 1, 2011	169,275,091	18,364,411	53,012,000	60,437,000	37,461,680
June 1, 2011	210,591,944	24,484,414	67,970,000	71,515,000	46,622,530
<b>Total</b>	<b>949,125,618</b>	<b>104,480,506</b>	<b>298,611,000</b>	<b>326,757,000</b>	<b>219,277,112</b>
<b>Other Resource Billing Units:</b>					
January 1, 2011	4,189,920	259,806	-	7,000	3,923,114
February 1, 2011	6,138,582	296,410	8,000	19,000	5,815,172
March 1, 2011	20,426,664	4,365,804	245,000	129,000	15,686,860
April 1, 2011	26,656,440	5,802,008	1,000	13,000	20,840,432
May 1, 2011	16,098,331	1,756,668	-	23,000	14,318,663
June 1, 2011	27,102,763	2,327,584	1,000	3,000	24,771,179
<b>Total</b>	<b>100,612,700</b>	<b>14,808,280</b>	<b>255,000</b>	<b>194,000</b>	<b>85,355,420</b>
<b>Summary of Under (Over) Collected Bank Balances:</b>					
Base Resources	\$ 3,681,615.93	324,777.17	1,574,722.32	1,245,212.55	536,903.89
Other Resources	(3,298,142.62)	(372,188.50)	(4,269.50)	(3,499.49)	(2,918,185.13)
<b>Total</b>	<b>\$ 383,473.32</b>	<b>\$ (47,411.34)</b>	<b>\$ 1,570,452.82</b>	<b>\$ 1,241,713.06</b>	<b>\$ (2,381,281.23)</b>