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November 4, 2011

HAND DELIVERED

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

Arizona Corporation Commission
DOCKETED

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Re: *Arizona Electric Power Cooperative's ("AEPSCO") Notice of Proposed Modifications to Its 2009-2011 Construction Work Plan; Decision No. 71111; Docket No. E-01773A-08-0587*

Dear Mr. Olea:

In Decision No. 71111, dated June 5, 2009 (the "Decision"), the Commission approved AEPSCO's request for CFC interim financing in an amount not to exceed \$42.287 million and RUS/FFB permanent loan financing in an amount not to exceed \$36.032 Million for its 2009-2011 Construction Work Plan ("CWP"). The Commission also approved continuation of the procedure for authorizing amendments to the CWP without the need to file an amended application as follows:

Arizona Electric Power Cooperative, Inc. shall file in this docket any proposed modifications to the 2009-2011 Construction Work Plan which substantially conform to the purposes of the 2009-2011 Construction Work Plan and which cost more than \$500,000, but do not exceed the authorized amount of... \$36.032 million for long-term financing, and unless Staff files an objection to the proposed modifications within 60 days of Arizona Electric Power Cooperative, Inc. filing the proposed changes, the proposed project modifications shall be deemed approved.¹

¹ Decision, page 7, first full ordering paragraph. There is a typographical error in the ordering paragraph which has been corrected in this quotation. The authorized finance amount was \$36.032 million (see Findings 12 and 22.b), not the \$36.082 stated in the ordering paragraph.

In a March 16, 2011 filing with Docket Control, AEPCO used this procedure to propose modifications to the projects included in the CWP, which amendment had been authorized by its Board of Directors in 2010 (the "March 16 Filing"). Staff filed no objection to the March 16 Filing and these CWP modifications, therefore, took effect by the terms of the Decision in May of this year.

On July 13, 2011, the AEPCO Board of Directors approved another amendment to the projects included in the CWP, which amendment was submitted to, and subsequently approved by, the RUS (the "November 2011 Amendment"). The purpose of this filing is to use the procedure the Commission authorized to propose those same modifications to the CWP approved in the Decision as the CWP was modified by the March 16 Filing.

Attached as Exhibit A is a schedule summarizing the changes in the November 2011 Amendment to the CWP, which are being funded by the RUS R-8 Loan. The first column states the cost estimates associated with the projects originally authorized by the Decision; the second column states the amendments to estimated costs and projects which were made by the March 16 Filing; and the third column states the changes to estimated costs and projects which are included in this request.

The reasons for this November 2011 Amendment to projects/costs are as follows:

1. For two projects (ST2/3 Limestone Mill Addition and ST3 SDAS Tower Outlet Duct/Damper Upgrade),² cost estimates have been revised to reflect recent increases in material and labor costs, as well as changes in the scope of the projects.
2. AEPCO has determined that four projects (ST2/3 Precipitator Performance Improvement, Coal Feeder and Conveyor Upgrades, ST3 Classifier Replacement and 3A/3B Coal Piping Elbow Upgrades)³ are not needed in this CWP and are being deferred to a later construction work plan or funding application.
3. Two projects with cost estimates in excess of \$500,000 (ST1 Furnace Tube Upgrade and ST3 Stack Liner Corrosion Protection)⁴ have been added.

Also attached as Exhibit B is a schedule which provides more detail on the revised estimates, deletions and additions to the smaller projects that comprise the category "Plant Upgrades/Improvements under \$500,000 individually" at line 24 of Exhibit A.

As required by the Decision, (1) each of the projects conforms to the purpose of the CWP, which is to make necessary improvements and upgrades to meet reliability and service quality standards and (2) total borrowings will not exceed the Commission-authorized level of

² Lines 1 and 8; Exhibit A.

³ Lines 10, 18, 20 and 25; Exhibit A.

⁴ Lines 2 and 4; Exhibit A.

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\$36.032 million. Please note that, while the cost estimates total \$40.837 million currently, AEPCO expects actual costs to be lower. In no event, however, will the amount borrowed in relation to the CWP and the RUS R-8 Loan exceed the Commission-authorized level of \$36.032 million.

By the terms of the Decision, Staff does not need to take affirmative action on this request for the proposed changes to take effect. The changes will take effect 61 days after filing if no objection is filed before then.

Staff's assistance in relation to this matter is appreciated. If we can supply additional information concerning these CWP modifications, please contact me or Gary Pierson at AEPCO (602-269-3415, ext. 5364).

Very truly yours,

GALLAGHER & KENNEDY, P.A.



By:

Michael M. Grant

MMG/plp
10421-56/2902609v2

Attachments

cc (w/attachments): Steve Olea, Director, Utilities Division (delivered)

Original and 13 copies filed with Docket
Control this 4th day of November, 2011.

**Arizona Electric Power Cooperative, Inc.
Summary of Revisions to Projects in R8 Loan
2009-2011 Construction Work Plan**

	Project Name	Original Projects Authorized Per Decision No. 71111	Total Projects Authorized Per March 16 Filing	November 2011 Amendment to Projects/Costs
1	ST2/3 Limestone Mill Addition	\$6,200,000	\$6,200,000	\$7,350,000
2	ST1 Furnace Tube Upgrade	\$0	\$0	\$4,900,000
3	ST2/3 GSU Transformer Critical Spare	\$4,061,000	\$4,061,000	\$4,061,000
4	ST3 Stack Liner Corrosion Protection	\$0	\$0	\$3,900,000
5	ST2 Boiler Cleaning Upgrades	\$2,350,000	\$2,350,000	\$2,350,000
6	ST3 Gas Recirculation Fan Replacement	\$2,135,000	\$2,135,000	\$2,135,000
7	ST3 Boiler Cleaning Upgrades	\$2,100,000	\$2,100,000	\$2,100,000
8	ST3 SDAS Tower Outlet Duct/Damper Upgrade	\$1,660,000	\$1,660,000	\$1,755,000
9	ST2 SDAS Tower Outlet Duct/Damper Upgrade	\$1,650,000	\$0	\$0
10	ST2/3 Precipitator Performance Improvement	\$970,000	\$970,000	\$0
11	ST3 Stack Liner Coating Upgrade, 2009	\$930,000	\$930,000	\$930,000
12	ST2/3 Ash Line Piping Replacement	\$908,000	\$908,000	\$908,000
13	ST3 Turbine Control System Upgrade	\$850,000	\$850,000	\$850,000
14	GT4 Catalyst Replacement	\$759,000	\$0	\$0
15	ST2 Bottom Ash Hopper Reline Upgrade	\$615,000	\$746,000	\$746,000
16	ST3 LP3 Feedwater Heater Upgrade	\$600,000	\$600,000	\$600,000
17	ST2/ST3 Mercury Reduction	\$0	\$598,000	\$598,000
18	Coal Feeder and Conveyor Upgrades	\$580,000	\$580,000	\$0
19	ST3 Bottom Ash Hopper Reline Upgrade	\$579,000	\$579,000	\$579,000
20	ST3 Classifier Replacement	\$575,000	\$575,000	\$0
21	ST3 Classifier Replacement	\$553,500	\$0	\$0
22	3A Scrubber Tower Shelf & Bowl Upgrade	\$535,000	\$535,000	\$535,000
23	2B Scrubber Tower Shelf & Bowl Upgrade	\$520,000	\$520,000	\$520,000
24	3B Scrubber Tower Shelf & Bowl Upgrade	\$506,000	\$506,000	\$506,000
25	3A/3B Coal Piping Elbows Upgrades	\$0	\$504,000	\$0
26	Plant Upgrades/Improvements under \$500,000 individually (b)	\$6,395,500	\$8,650,600	\$5,513,500
	CWP Total	\$36,032,000	\$36,557,600	\$40,836,500 (a)

(a) These are cost estimates; AEPCO expects actual cost of construction to be less. Decision No. 71111 authorized financing in an amount up to \$36,032,000 and, in no event will AEPCO's borrowing under the R8 loan exceed that amount.

(b) See Exhibit B for detail.

**Arizona Electric Power Cooperative, Inc.
Details on Revisions to Plant Upgrades
In Exhibit A, includes Detail of Line 25**

RUS Code	Project Name	Project Number	Original ACC Authorized Estimate	Total ACC Authorized Estimate	Application Requested Revisions	Additions, Revisions and/or Changes	Comments
Projects Authorized Per ACC Decision No. 71111							
1200.6	2B Scrubber Tower Shelf & Bowl Upgrade	CAPG1.00830	\$520,000	\$520,000	\$520,000	\$0	
1200.13	ST3B Mill Trunnion Bearings Replacement	CAPG1.00859	\$125,000	\$125,000	\$0	(\$125,000)	Removed to new application
1200.14	Apache Road Paving	CAPG1.00871	\$435,000	\$492,000	\$492,000	\$0	
1200.15	ST2/3 Ash Line Piping Replacement	CAPG1.00872	\$908,000	\$908,000	\$908,000	\$0	
1200.16	ST2/3 Event Recorder/Panel Alarm Replacement	CAPG1.00873	\$358,000	\$358,000	\$358,000	\$0	
1200.17	GT1 Controls Upgrade	CAPG1.00874	\$350,000	\$350,000	\$350,000	\$0	
1200.18	GT3 Controls Upgrade	CAPG1.00875	\$475,000	\$475,000	\$475,000	\$0	
1200.19	3A Scrubber Tower Shelf & Bowl Upgrade	CAPG1.00831	\$535,000	\$535,000	\$535,000	\$0	
1200.2	ST2/3 GSU Transformer Critical Spare	CAPG1.00632	\$4,061,000	\$4,061,000	\$4,061,000	\$0	
1200.23	ST1 CEM Analyzers & Probes Replacement	CAPG1.00624.010	\$95,000	\$95,000	\$95,000	\$0	
1200.24	ST2 CEM Analyzers & Probes Replacement	CAPG1.00624.011	\$120,000	\$120,000	\$120,000	\$0	
1200.25	ST3 CEM Analyzers & Probes Replacement	CAPG1.00624.012	\$120,000	\$120,000	\$120,000	\$0	
1200.26	ST3 Turbine Control System Upgrade	CAPG1.00642	\$850,000	\$850,000	\$850,000	\$0	
1200.27	Coal Handling Washdown System	CAPG1.00661	\$271,000	\$0	\$0	\$0	
1200.28	ST3 SDAS Upper Loop Spray Nozzle Upgrade	CAPG1.00671.011	\$490,000	\$490,000	\$490,000	\$0	
1200.29	Coal Feeder and Conveyor Upgrades	CAPG1.00675	\$580,000	\$580,000	\$0	(\$580,000)	Removed
12.3	ST3 BFP Recirc Valve Upgrade	CAPG1.00764.011	\$272,000	\$0	\$0	\$0	
12.31	ST2 LP3 Feedwater Heater Upgrade	CAPG1.00772	\$493,000	\$493,500	\$493,500	\$0	
1200.32	ST3 Stack Liner Coating Upgrade, 2009	CAPG1.00807	\$930,000	\$930,000	\$930,000	\$0	
1200.33	3B Scrubber Tower Shelf & Bowl Upgrade	CAPG1.00829	\$506,000	\$506,000	\$506,000	\$0	
1200.34	ST2A Mill Trunnion Bearings Replacement	CAPG1.00855	\$109,500	\$109,500	\$109,500	\$0	
1200.35	ST3A Mill Trunnion Bearings Replacement	CAPG1.00858	\$106,000	\$106,000	\$106,000	\$0	
1200.36	ST2 Classifier Replacement	CAPG1.00920	\$553,500	\$0	\$0	\$0	
1200.37	ST3 Classifier Replacement	CAPG1.00921	\$575,000	\$575,000	\$0	(\$575,000)	Removed to new application
1200.38	ST3 Electromatic Safety Valve Upgrade	CAPG1.00922	\$121,000	\$121,000	\$121,000	\$0	
1200.39	Cathodic Protection Upgrade	CAPG1.00923	\$85,000	\$87,000	\$87,000	\$0	
1200.4	GT4 Catalyst Replacement	CAPG1.00924	\$759,000	\$0	\$0	\$0	
1200.41	2B Circ Water Pump Rebuild	CAPG1.00928	\$230,000	\$230,000	\$230,000	\$0	
1200.42	ST3 LP3 Feedwater Heater Upgrade	CAPG1.00938	\$600,000	\$600,000	\$600,000	\$0	
1200.43	3B Circ Water Pump Rebuild	CAPG1.00949	\$235,000	\$235,000	\$235,000	\$0	
1200.44	ST2 Bottom Ash Hopper Reline Upgrade	CAPG1.00959	\$615,000	\$746,000	\$746,000	\$0	
1200.45	ST3 Bottom Ash Hopper Reline Upgrade	CAPG1.00960	\$579,000	\$579,000	\$579,000	\$0	
1200.46	ST3 JEM Meter Upgrade	CAPG1.00969	\$58,000	\$58,000	\$58,000	\$0	
1200.47	ST2/3 Lab Sample Coolers Upgrade	CAPG1.00972	\$54,000	\$54,100	\$54,100	\$0	
1200.48	ST2 Boiler Seal Trough Upgrade	CAPG1.00973	\$136,500	\$289,000	\$289,000	\$0	
1200.49	ST3 Boiler Seal Trough Upgrade	CAPG1.00974	\$132,000	\$236,500	\$236,500	\$0	
1200.5	Misc Minor Capital Expenses 2009	CAPG1.00975	\$300,000	\$0	\$0	\$0	
1200.51	Misc Minor Capital Expenses 2010	CAPG1.00976	\$300,000	\$300,000	\$274,000	(\$26,000)	Revised Estimate
1200.52	Misc Minor Capital Expense 2011	CAPG1.00977	\$300,000	\$300,000	\$184,000	(\$116,000)	Revised Estimate
1200.55	ST1 Sequential Tripping	CAPG1.00981	\$155,000	\$155,000	\$80,000	(\$75,000)	Revised Estimate
1200.56	ST2 SDAS Tower Outlet Duct/Damper Upgrade	CAPG1.00985	\$1,650,000	\$0	\$0	\$0	
1200.57	ST3 SDAS Tower Outlet Duct/Damper Upgrade	CAPG1.00986	\$1,660,000	\$1,660,000	\$1,755,000	\$95,000	Revised Estimate
1200.58	ST2 Boiler Cleaning Upgrades	CAPG1.00987	\$2,350,000	\$2,350,000	\$2,350,000	\$0	
1200.59	ST3 Boiler Cleaning Upgrades	CAPG1.00988	\$2,100,000	\$2,100,000	\$2,100,000	\$0	
1200.61	ST3 XFMR Fire Protect Upgrade	CAPG1.00982	\$47,000	\$47,000	\$47,000	\$0	
1200.62	ST3 Gas Recirculation Fan Replacement	CAPG1.00877	\$2,135,000	\$2,135,000	\$2,135,000	\$0	
1200.63	ST2/3 Limestone Mill Addition	CAPG1.00998	\$6,200,000	\$6,200,000	\$7,350,000	\$1,150,000	Revised Estimate
1200.64	ST2/3 Precipitator Performance Improvement	CAPG1.01000	\$970,000	\$970,000	\$0	(\$970,000)	Removed
1200.65	ST2/3 Pulverizer Gearbox Modifications, 2009	CAPG1.01001	\$81,000	\$0	\$0	\$0	

Arizona Electric Power Cooperative, Inc.
Details on Revisions to Plant Upgrades
In Exhibit A, includes Detail of Line 25

RUS Code	Project Name	Project Number	Original ACC Authorized Estimate	Total ACC Authorized Estimate	Application Requested Revisions	Additions, Revisions and/or Changes	Comments
Projects Authorized Per ACC Decision No. 71111							
1200.66	ST3 Igniter Scanner Upgrade	CAPG1.01003	\$116,000	\$116,000	\$116,000	\$0	
1200.67	Apache Station Roofing Upgrades 2009	CAPG1.01004	\$110,000	\$110,000	\$110,000		
1200.68	Apache Station Roofing Upgrades 2010	CAPG1.01005	\$115,500	\$0	\$0	\$0	Removed
Totals per ACC Decision No. 71111, original			\$36,032,000	\$32,477,600	\$31,255,600	(\$1,222,000)	
1200.72	ST2/3 Turb/Gen Brgs Crit Spare	5-00801		\$248,300	\$0	(\$248,300)	Removed to new application
1200.75	ST1 No. 1 Circ Water Pump Rebuild	5-00929		\$150,000	\$0	(\$150,000)	Removed to new application
1200.81	ST2/ST3 Mercury Reduction	5-01114		\$598,000	\$598,000	\$0	
1200.82	ST1 Turbine Blades Replacement	CAPG1.01107		\$300,000	\$0	(\$300,000)	Removed to new application
1200.83	ST1 O2 Probes Replacement	5-01118		\$61,000	\$0	(\$61,000)	Removed to new application
1200.84	ST2 Oxygen (O2) Probes Replacement	5-01119		\$211,000	\$211,000	\$0	
1200.85	ST3 O2 Probes Replacement	5-01120		\$217,000	\$0	(\$217,000)	Removed to new application
1200.86	ST2/3 Turbine Crossover Bellows Critical Spare	5-01126		\$67,500	\$0	(\$67,500)	Removed
1200.9	ST2/3 Conveyor 1 Fire Protection Upgrade	5-01158		\$235,000	\$0	(\$235,000)	Removed to new application
1200.91	4A/4B Conveyor Gearbox Critical Spare	5-01159		\$25,000	\$0	(\$25,000)	Removed
1200.92	ST2/3 Duct Opacity Monitor Installation	5-01164		\$146,000	\$0	(\$146,000)	Removed to new application
1200.99	ST3 SDAS Lower Quench Nozzle Upgrade	5-01178		\$131,000	\$0	(\$131,000)	Removed to new application
1200.1	ST3 Large Fan Lube Oil Skids Upgrades	5-01140		\$59,000	\$0	(\$59,000)	Removed to new application
1200.101	3A/3B Coal Piping Elbow Upgrades	5-01179		\$504,000	\$0	(\$504,000)	Removed to new application
1200.102	ST1 Cold Reheat Attemperator Spray Liner	5-01152		\$167,000	\$0	(\$167,000)	Removed to new application
1200.104	ST3 Generator Relay Upgrade	5-01167		\$93,800	\$0	(\$93,800)	Removed to new application
1200.105	ST1 Boiler Tube Replacement	5-01165		\$425,000	\$0	(\$425,000)	Removed to new application
1200.107	ST3 Generator SCT Replacement	5-01163		\$147,500	\$0	(\$147,500)	Removed to new application
1200.109	ST2/3 Chimney Roof Protection	5-01181		\$84,000	\$0	(\$84,000)	Removed to new application
1200.11	ST3 Coal Transport Pipe Elbows	CAPG1.00975.010		\$47,000	\$47,000	\$0	
1200.111	ST1 Hydrogen Coolers	CAPG1.00975.011		\$49,000	\$49,000	\$0	
1200.112	Engineer Bldg Chiller Unit	CAPG1.00975.012		\$53,000	\$53,000	\$0	
1200.113	SDAS Control Rm. HVAC Replacement	CAPG1.00975.013		\$17,700	\$17,700	\$0	
1200.114	Boral Ash Collector I&C Integration	CAPG1.00975.014		\$35,000	\$35,000	\$0	
1200.115	ST2/3 Coal Handling MCC A/C Replacement	CAPG1.00975.015		\$8,200	\$8,200	\$0	
Totals per ACC Decision No. 71111, as amended			\$36,032,000	\$36,557,600	\$32,274,500	(\$4,283,100)	
New Projects Requested							
1200.126	ST1 Furnace Tube Upgrade	5-01185			\$4,662,000	\$4,662,000	Added
1200.128	ST3 Stack Liner Corrosion Protection	5-01189			\$3,900,000	\$3,900,000	Added
Total Projects for Revision			\$36,032,000	\$36,557,600	\$40,836,500 (a)	\$4,278,900	(a)