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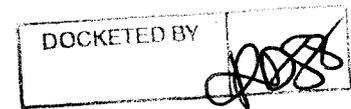
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December 20, 2011

Arizona Corporation Commission  
DOCKETED

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**HAND DELIVERED**

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

**Re: *AEPCO's 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, we submit this quarterly update on AEPCO's behalf in relation to the Action Plan which it filed in this Docket on January 27, 2011 (the "Action Plan"). The Action Plan and the subsequent quarterly updates which have been filed this year have identified numerous items which have been completed.

As to the status of items which are ongoing:

1. Under Organization, Staffing and Controls (Action Plan, p. 1, item 1) regarding more frequent internal audits of fuel and energy procurement and management, the audit originally scheduled for 2011 is now scheduled for completion by July 2012.
2. Under Fuel Supply Management (Action Plan, p. 2, item 2) regarding the plan for reducing coal inventory, the minimum tonnage was ordered for 2011 and additional coal delivery delay or avoidance possibilities continue to be explored. The recent favorable decision in AEPCO's STB case will affect the Company's overall coal strategy going forward.
3. Under Power Transactions (Action Plan, p. 3, item 2, fourth responsive step) regarding the effectiveness of the new PPFAC, an internal audit of the billing unit program has been completed. Audit results will be discussed with appropriate departments in the first quarter

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of 2012. The PPFAC audit for the period January-June of 2011 has been completed. The PPFAC audit for the period July-December is in progress and is expected to be completed during the first half of 2012.

4. Under Engineering Analysis/Plant Management (Action Plan, p. 4, 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, 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 March 31, 2012.

Very truly yours,

GALLAGHER & KENNEDY, P.A.



By:

Michael M. Grant

MMG/plp  
10421-59/2939837  
Attachment

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

# Arizona Electric Power Cooperative, Inc.

## Action Plan/Prudence Review Recommendations

Updated – December 19, 2011

<u>Recommendation</u>	<u>Responsive Steps</u>	<u>Timetable</u>	<u>Status</u>
<p><b>Organization, Staffing and Controls</b></p> <p>1. More frequent internal audits of fuel and energy procurement and management.</p>	<p>A fuel and energy procurement and management audit originally scheduled for 2011 is now scheduled for completion by July 2012.</p>	<p>Plan Complete</p>	<p>Ongoing</p>
<p><b>Fuel Contracting</b></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><b>Fuel Supply Management</b></p> <p>1. Undertake formal process to determine physical vs. book inventory differences.</p>	<p>A team has been formed to determine the cause of differences and necessary corrective steps.</p>	<p>Plan Complete</p>	<p>Action Completed</p>

<u>Recommendation</u>	<u>Responsive Steps</u>	<u>Timetable</u>	<u>Status</u>
<p><b>Fuel Supply Management (con't)</b></p> <p>2. Develop plan for reducing coal inventory.</p> <p>3. Create performance measures for gas traders.</p>	<p>In 2010, AEPSCO avoided, due to <i>force majeure</i>, delivery of 141,000 tons. AEPSCO continues to explore coal delivery delay/avoidance opportunities with coal companies. AEPSCO ordered minimum tonnage in 2011. The recent favorable decision in AEPSCO's STB case will affect the Company's overall coal strategy.</p> <p>AEPSCO has completed work with ACES to develop and implement.</p>	<p>Plan Ongoing</p> <p>Plan Complete</p>	<p>Ongoing</p> <p>Action Completed</p>
<p><b>Gas Hedging</b></p> <p>1. Adopt program for measurement of hedging program results.</p> <p>2. Periodically, internal audit to review processes and systems to track transactions.</p>	<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><b>Power Transactions</b></p> <p>1. Require PRMs to provide timely pre-schedules.</p> <p>2. Take steps to minimize and eliminate errors in relation to the effectiveness of new PPFAC.</p>	<p>Exhibit B-1 to Schedule B of the PRM contracts approved by the Commission in Decision No. 72055, p. 17, II. 9-10 has such requirements.</p> <ul style="list-style-type: none"> <li>Internal audit completed and changes instituted to address errors in 2007-2008.</li> </ul>	<p>Plan Complete</p> <p>Plan Complete</p>	<p>Action Completed</p> <p>Action Completed</p>

<u>Recommendation</u>	<u>Responsive Steps</u>	<u>Timetable</u>	<u>Status</u>
<p><b>Power Transactions (con't)</b></p>	<ul style="list-style-type: none"> <li>• A PPFAC Plan for Administration was developed and filed with Docket Control on January 20, 2011.</li> <li>• Written PPFAC processes and procedures are being developed.</li> <li>• A clause audit will be conducted in 2011 and more frequent reviews of the PPFAC will be conducted.</li> </ul>	<p>Plan Complete</p> <p>Plan Complete</p> <p>Plan Complete</p>	<p>Action Completed</p> <p>Action Completed</p> <p>Billing Unit Program Audit Completed. Audit Results to be discussed with appropriate departments in 2012.</p> <p>PPFAC Audit completed for the period Jan.-Jun. 2011. Jul.-Dec. in progress. Expected completion date 1<sup>st</sup> Qtr. 2012.</p>

<u>Recommendation</u>	<u>Responsive Steps</u>	<u>Timetable</u>	<u>Status</u>
<p><b>Engineering Analysis/ Plant Management</b></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, II. 1-7.</p> <p>3. Examine methods for more structured/formal outage planning and management.</p> <p>4. AEPSCO should examine root causes of trips from personnel errors.</p>	<ul style="list-style-type: none"> <li>• Monitor and assemble data concerning Apache usage in 2011 under the new power requirements contracts.</li> <li>• Complete study of Apache role in relation to member needs.</li> </ul> <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"> <li>• 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.</li> <li>• The report will include statements from the trip originator, control room operator and the operations manager as well as recommendations for problem avoidance.</li> <li>• The report will be reviewed to detect specific trends/problem areas to address.</li> </ul>	<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><b>Engineering Analysis/ Plant Management (con't)</b></p>	<ul style="list-style-type: none"> <li>An additional training program through GPiLEARN has commenced to better train employees to anticipate and avoid problems.</li> </ul>	<p>Plan Complete</p>	<p>Action Completed</p>
<p><b>PPFAC</b></p> <ol style="list-style-type: none"> <li>Examine more current PPFAC recovery method.</li> <li>AEPCO should propose a surcharge plan for closing the old FPPAC balances.</li> </ol>	<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>