

ORIGINAL



0000135516



# Arizona Electric Power Cooperative, Inc.

P.O. Box 670 • Benson, Arizona 85602-0670 • Phone 520-586-3631

March 30, 2012

Arizona Corporation Commission

**DOCKETED**

MAR 30 2012

RECEIVED  
AZ CORP COMMISSION  
DOCKET CONTROL  
2012 MAR 30 PM 1 01

**HAND DELIVERED**

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

DOCKETED BY  
MJC

**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, 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 Organization, Staffing and Controls (Action Plan, p. 1, item 1) regarding more frequent internal audits of fuel and energy procurement and management, coal and gas transactions were verified as part of the PPFAC audit commenced in 2011 and scheduled to be completed in 2<sup>nd</sup> Qtr 2012. In addition, an internal audit of coal and gas procurement will take place in 2012.

2. Under Fuel Supply Management (Action Plan, p. 1, item 2) regarding the plan for reducing coal inventory, approximately 700,000 tons of coal were ordered instead of the 1,150,000 tons ordered in previous years.

3. Under Power Transactions (Action Plan, p. 2, item 2, fourth responsive step) regarding the effectiveness of the new PPFAC, an internal audit of the billing unit program and PPFAC clause is in process and expected to be finalized in the 2<sup>nd</sup> Qtr of 2012.



Docket Control  
March 30, 2012  
Page 2

4. 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, 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 June 30, 2012.

Sincerely,

A handwritten signature in black ink that reads "Gary E. Pierson". The signature is fluid and cursive, with the first name "Gary" being particularly prominent.

Gary E. Pierson  
Manager of Financial Services

Attachment

**Original and 13 copies** filed with Docket Control this 30<sup>th</sup> day of March, 2012.

**Arizona Electric Power Cooperative, Inc.**  
**Action Plan/Prudence Review Recommendations**  
**Updated – March 26, 2012**

<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>
<p><b>Fuel Supply Management (con't)</b></p> <p>2. Develop plan for reducing coal inventory.</p>	<p>AEPCO plans to order approximately 700,000 tons in 2012 instead of the 1,150,000 tons that it has ordered in previous years.</p>	<p>Plan Ongoing</p>	<p>Ongoing</p>
<p>3. Create performance measures for gas traders.</p>	<p>AEPCO has completed work with ACES to develop and implement.</p>	<p>Plan Complete</p>	<p>Action Completed</p>

<u>Recommendation</u>	<u>Responsive Steps</u>	<u>Timetable</u>	<u>Status</u>
<p><b>Gas Hedging</b></p> <ol style="list-style-type: none"> <li>1. Adopt program for measurement of hedging program results.</li> <li>2. Periodically, internal audit to review processes and systems to track transactions.</li> </ol>	<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> <ol style="list-style-type: none"> <li>1. Require PRMs to provide timely pre-schedules.</li> <li>2. Take steps to minimize and eliminate errors in relation to the effectiveness of new PPFAC.</li> </ol>	<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"> <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>
<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 work completed. Initial findings reviewed with appropriate departments. Audit</p>

<u>Recommendation</u>	<u>Responsive Steps</u>	<u>Timetable</u>	<u>Status</u>
			<p>results to be finalized in 2<sup>nd</sup> Qtr 2012.</p> <p>PPFAC audit work completed. Initial findings reviewed with appropriate departments. Audit results to be finalized in 2<sup>nd</sup> Qtr 2012.</p>
<p><b>Engineering Analysis/ Plant Management</b></p> <ol style="list-style-type: none"> <li>1. Conduct a study of Apache's future role and how it relates to member needs for future power.</li> <li>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.</li> </ol>	<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>January 1, 2011 through March 31, 2012</p> <p>September 30, 2012</p> <p>September 30, 2012</p>	<p>On Schedule</p> <p>Pending</p> <p>Pending</p>

<u>Recommendation</u>	<u>Responsive Steps</u>	<u>Timetable</u>	<u>Status</u>
<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>	<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>Plan Complete</p>	<p>Action Completed</p>
<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> <p>1. Examine more current PPFAC recovery method.</p>	<p>AEPSCO 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>Plan Complete</p>	<p>Action Completed</p>

<u>Recommendation</u>	<u>Responsive Steps</u>	<u>Timetable</u>	<u>Status</u>
<p>2. AEPCO should propose a surcharge plan for closing the old FPPAC balances.</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>Action Completed</p>