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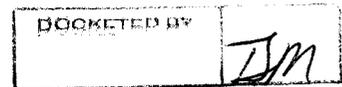
Arizona Corporation Commission

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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, AEPCO submits this quarterly update on the Action Plan which it filed in this Docket on January 27, 2011 (the "Action Plan"). All but one of the Action Plan's items have been completed.

In that regard, the data analysis has been completed on the first year of Apache's usage under the new rate design approved by the Commission. The preparation of the Apache study report is underway and it is expected to be filed October 22, 2012.

An updated Action Plan matrix is attached.

Very truly yours,

GALLAGHER & KENNEDY, P.A.

By:

Michael M. Grant

MMG/plp
10421-59/3150781
Attachment

Original and 13 copies filed with Docket Control this 1st day of October, 2012.

Arizona Electric Power Cooperative, Inc.
Action Plan/Prudence Review Recommendations
Updated – October 1, 2012

<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 commenced in 2011 is scheduled for completion in the third quarter of 2012.</p>	<p>Plan Complete</p>	<p>Action Completed; Periodic audits will be scheduled</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>AEPCO ordered approximately 700,000 tons in 2012 instead of the 1,150,000 tons that it has ordered in previous years.</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>Action Completed</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 on Billing Unit Program and PPFAC Audits. Periodic audits will be scheduled.</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>	<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>	<p>January 1, 2011 through March 31, 2012</p> <p>October 22, 2012</p> <p>October 22, 2012</p> <p>Plan Complete</p>	<p>Action Completed</p> <p>Data analysis complete; report to be filed by October 22, 2012.</p> <p>Will be included in Apache study report.</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. AEPCO should examine root causes of trips from personnel errors.</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. • An additional training program through GPiLEARN has commenced to better train employees to anticipate and avoid problems. 	<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>PPFAC</p> <p>1. Examine more current PPFAC recovery method.</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>Plan Complete</p>	<p>Action Completed</p>

<u>Recommendation</u>	<u>Responsive Steps</u>	<u>Timetable</u>	<u>Status</u>
<p>PPFAC (con't)</p> <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>