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BEFORE THE ARIZONA CORPORATION COMMISSION

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2013 SEP 12 P 3:32

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. E-01773A-12-0305
ARIZONA ELECTRIC POWER COOPERATIVE,)
INC. FOR A HEARING TO DETERMINE THE)
FAIR VALUE OF ITS PROPERTY FOR)
RATEMAKING PURPOSES, TO FIX A JUST)
AND REASONABLE RETURN THEREON AND)
TO APPROVE RATES DESIGNED TO)
DEVELOP SUCH RETURN.)

Arizona Corporation Commission

DOCKETED

SEP 12 2013

DOCKETED BY 112

REPLY BRIEF
OF TRICO ELECTRIC COOPERATIVE, INC.

SEPTEMBER 12, 2012

1 Trico Electric Cooperative, Inc. ("Trico"), through undersigned counsel, respectfully
2 submits its Reply Brief in this matter.

3 As it stated in its Initial Post-Hearing Brief, Trico believes this is a case that should be
4 determined based on specific known and measurable data, not speculation. The known and
5 measurable data entered into evidence in this case supports the request from Arizona Electric
6 Power Cooperative, Inc. ("AEPCO") for a 2.77% rate decrease. By contrast, Liberty Consulting
7 Group ("Liberty"), who formulates Staff's position in this case, cannot support its
8 recommendation for a higher revenue requirement and no rate decrease, as its position is based on
9 speculation. Further, Trico does not believe that Liberty demonstrated that a rate increase based
10 on either environmental compliance costs or the cost competitiveness of Apache Generating
11 Station ("Apache") is inevitable.

12 Trico strongly supports the following points AEPCO raises in its Opening Brief justifying
13 AEPCO's rate decrease request:

- 14 • Liberty's revenue requirement recommendation would result in the collection of an
15 additional \$17 million from AEPCO's members and their customers by 2017. Liberty
16 does not specifically address what AEPCO should do with the additional revenue; but
17 its recommendation represents more than 60% of the anticipated capital (approximately
18 \$30 million) needed to comply with the U.S. Environmental Protection Agency
19 ("EPA") Regional Haze requirements on the terms currently being processed by
20 AEPCO and EPA. Requiring current customers of distribution cooperatives to
21 essentially fund a long-term capital improvement up front in this manner is both
22 unnecessary and unfair.¹
- 23 • AEPCO's Class A members (including Trico) provide full recovery of AEPCO's fixed
24 costs through their respective contracts.²

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27 ¹ AEPCO's Opening Brief at 3.

² Id. at 4.

- 1 • AEPCO’s Purchase Power and Fuel Adjustor Clause (“PPFAC”) allows it to timely
2 recover purchase power costs.³
- 3 • Liberty’s recommendation is based on uncertainties that are not known and
4 measurable.⁴
- 5 • Liberty’s concern regarding the Apache Generating Station becoming stranded is
6 highly unlikely.⁵
- 7 • Liberty disregards the impact of an unnecessary increase in AEPCO’s revenue
8 requirement on the customers of its distribution cooperatives.⁶

9 Further, Trico supports the following points Mohave Electric Cooperative, Inc. (“MEC”)
10 made in its Opening Post-Hearing Brief:

- 11 • Liberty failed to show how its recommendation will help AEPCO meet its
12 environmental mitigation responsibilities or make it more cost competitive in the
13 future.⁷
- 14 • Liberty appears to conclude that the appropriate Debt Service Coverage ratio (“DSC”)
15 is whatever DSC is produced from the current rates.⁸
- 16 • Liberty’s recommendation arbitrarily deviates from the standards and rules that the
17 Commission has employed in the past to determine whether rates are just and
18 reasonable.⁹
- 19 • Liberty ignores the fact that AEPCO has worked with its members to achieve cost
20 savings that should be passed through to members and ultimately retail customers.¹⁰

21 Again, Liberty’s recommendation is unsupportable. No evidence was presented that
22 decreasing AEPCO’s rates to reflect its cost-saving measures will create the need for or exacerbate

24 ³ Id. at 5.

25 ⁴ Id. at 11.

26 ⁵ Id. at 12.

27 ⁶ Id. at 13.

28 ⁷ MEC Opening Post-Hearing Brief at 6.

29 ⁸ Id. at 8.

30 ⁹ Id. at 9.

31 ¹⁰ Id. at 10.

1 any subsequent rate increase. Put simply, AEPCO's proposed decrease should not be denied
2 based on the speculative prospect of a future increase. As discussed in Trico's Initial Post-
3 Hearing Brief, the evidence supports the likelihood that EPA compliance costs will be
4 significantly lower than the estimates Liberty used to support its recommendation denying a rate
5 decrease, as EPA will accept AEPCO's proposal submitted in May 2013.¹¹ An increase to
6 AEPCO's revenue requirement should occur only when the costs to comply with EPA regulations
7 are known and measurable. Moreover, environmental compliance costs can be recovered through
8 the Environmental Compliance Adjustor Rider ("ECAR") proposed by AEPCO. Similar
9 mechanisms have been used successfully to collect the carrying cost of capital expenditures
10 relating to environmental compliance by other utilities such as Arizona Public Service Company
11 and Tucson Electric Power Company.

12 Finally, in its Opening Brief, AEPCO highlighted the situation involving two purchase
13 power agreements reflected in AEPCO's rates that expire in 2014.¹² AEPCO highlighted the
14 potentially punitive increase in the margins charged on those contracts under Liberty's
15 recommendation, and affirmed its commitment to remove from its rates costs and charges related
16 to these contracts when they expire. Accordingly, Trico and AEPCO have agreed to propose the
17 following language be included in the final order in this docket to address the issue:

18
19 IT IS FURTHER ORDERED THAT AEPCO shall file an application in this docket
20 no later than August 1, 2014 requesting to remove from its rates all costs and
21 charges related to two purchase power contracts that expire on October 31, 2014.
This docket shall remain open for the purpose of addressing that application.

22 In conclusion, the Commission should approve AEPCO's proposal and reject Liberty's
23 recommendation and approve a 2.77% overall decrease.
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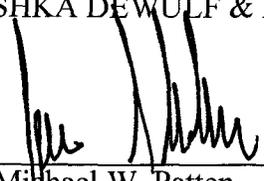
27 ¹¹ See Trico's Initial Post-Hearing Brief at 9-11.

¹² AEPCO Opening Brief at 13.

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RESPECTFULLY SUBMITTED this 12th day of September 2013.

ROSKA DEWULF & PATTEN, PLC.

By 

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Original and thirteen copies of the foregoing
filed this 12th day of September 2013, with:

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