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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

SUSAN BITTER SMITH, Chairman
BOB STUMP
BOB BURNS
DOUG LITTLE
TOM FORESE

IN THE MATTER OF THE APPLICATION OF THE 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	Docket No. E-01773A-12-0305 **AEPCO'S NOTICE OF FILING TESTIMONY SUMMARIES RE ECAR**

Notice is given that, pursuant to the Procedural Order dated May 7, 2015 (as modified by the August 10, 2015 Procedural Order), Arizona Electric Power Cooperative, Inc. hereby files testimony summaries of Peter Scott and Joe King.

RESPECTFULLY SUBMITTED this 5th day of October, 2015.

GALLAGHER & KENNEDY, P.A.

By _____
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Arizona Corporation Commission
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Testimony Summary of Peter Scott
Arizona Electric Power Cooperative, Inc. ("AEPCO" or the "Cooperative")
Rate Case / ECAR
Docket No. E-01773A-12-0305

June 19, 2015 Direct Testimony

Mr. Scott is the Chief Financial Officer of AEPCO. He serves on the Cooperative's Division Managers Group and reports directly to the Chief Executive Officer. His direct testimony, among other things, provides background information concerning AEPCO's request for an Environmental Compliance Adjustment Rider ("ECAR") and explains some of the unique characteristics of the Cooperative that support the request to include chemical costs as eligible for potential recovery through the mechanism.

AEPCO filed its rate case in July 2012, seeking an overall rate decrease. During the course of the case, the Environmental Protection Agency ("EPA") issued a ruling requiring the installation of expensive technology on the coal units at AEPCO's Apache Station. AEPCO responded with an alternative plan that would meet the EPA's goal of reducing regional haze but cost significantly less than the EPA's initial plan. The EPA approved AEPCO's alternative plan in February 2015.

During the rate case, the Commission's Utilities Division Staff ("Staff") expressed concerns about the compliance costs associated with the EPA's regional haze ruling. In order to address these concerns, AEPCO proposed the ECAR as a method to recover the costs of complying with environmental regulations (including regional haze), but to do so at a time when more detailed compliance cost information would become available. The Commission agreed in concept and issued Decision No. 74173 approving the Cooperative's rate decrease and holding the rate case open to allow AEPCO to file an application for approval of a revised ECAR mechanism. After conferring with Staff, AEPCO filed its application for approval of the ECAR in April 2014. At that time, Staff agreed that the ECAR should be approved, but only for recovery of compliance-related capital expenses, not chemical costs.

Mr. Scott's direct testimony highlights several of the bases for AEPCO's position that a limited category of chemical expenses (RUS Account 502) incurred solely due to environmental regulation should be eligible for recovery through the ECAR. Attached to his testimony as Exhibit PS-3 is a Stipulated Statement of Facts confirming Staff's agreement that the chemical costs associated with two pending regulations are variable and potentially volatile. Additionally, Mr. Scott's testimony explains that AEPCO's position as a member-controlled, not-for-profit cooperative provides further assurance that the company will operate efficiently and incur only those compliance costs (including chemical expenses) that benefit the company and its members. Also, Mr. Scott points out that an additional ratepayer benefit of the ECAR is that it provides greater transparency to the Cooperative's members regarding compliance costs.

Mr. Scott's testimony concludes by requesting that the Commission enter its Order approving the ECAR Tariff and Plan of Administration in the forms provided as Exhibits JK-1 and JK-2 to Joe King's direct testimony.

September 16, 2015 Rebuttal Testimony

On rebuttal, Mr. Scott provides AEPCO's testimony in response to the direct testimony of Staff witness Candrea Allen.

In light of Staff's support for including RUS Account 502 chemical expenses as eligible for recovery through the ECAR, Mr. Scott's rebuttal testimony confirms the parties' agreement that the Commission should approve the ECAR Tariff and Plan of Administration attached to Mr. King's direct testimony as Exhibits JK-1 and JK-2.

Testimony Summary of Joe King
Arizona Electric Power Cooperative, Inc. ("AEPCO" or the "Cooperative")
Rate Case / ECAR
Docket No. E-01773A-12-0305

June 19, 2015 Direct Testimony

Mr. King is a Senior Financial Analyst for Sierra Southwest Cooperative Services, Inc., which provides various support services to AEPCO. His direct testimony provides an overview of the ECAR and a description of the costs associated with the environmental regulations AEPCO is currently facing.

The ECAR is a funding mechanism tailored to assist AEPCO in meeting future environmental compliance obligations mandated by federal, state and/or local laws or regulations. Once approved by the Commission, the ECAR will be set at zero. Thereafter, if AEPCO determines that its margins are insufficient to cover the compliance costs associated with a particular environmental regulation, the Cooperative will prepare an initial Environmental Compliance Strategy ("ECS") – which will identify the scope of work, anticipated timeline and cost estimates – for review by its Board of Directors and members. If approved by AEPCO's Board and members, the Cooperative will submit the ECS and a revised tariff to the Commission for approval. If the ECS and revised tariff are approved by the Commission, the tariff will remain in effect until project completion or termination. AEPCO's members may pass along the ECAR charges to their retail members via their respective purchased power clauses.

Mr. King's testimony describes various provisions and procedural mechanisms of the ECAR, including the proposed categories of expenses that are eligible for recovery, account administration and refunds, tariff revision process, compliance reports to Staff, and a slight modification to the mechanism's recovery methodology. On the latter subject, Mr. King explains that AEPCO revised the ECAR (compared to the draft attached to the Cooperative's April 2014 application) to include a variable charge for chemical expenses in order to account for anticipated price and quantity fluctuations. As a result, the ECAR Tariff and Plan of Administration attached to Mr. King's direct testimony as Exhibits JK-1 and JK-2 include two types of charges: (1) a fixed monthly charge to recover environmental compliance capital costs (carrying costs and/or contributions in aid of construction) and (2) an energy charge ($/kWh) to recover environmental compliance operations' costs (including chemical expenses).

Mr. King also addresses two federal regulations with upcoming deadlines that may require funding through the ECAR: (1) the EPA's regional haze regulation and (2) the EPA's Mercury & Air Toxics Standards. Mr. King provides an overview of the compliance strategy and timeline as well as the estimated compliance costs associated with these two regulations.

Finally, Mr. King provides additional testimony supporting AEPCO's position that RUS Account 502 chemical expenses incurred solely due to environmental regulation should be eligible for recovery through the ECAR. Specifically, he confirms the anticipated price volatility of the chemical costs at issue and provides Exhibits JK-3 and JK-4 to demonstrate the anticipated fluctuation. Mr. King also clarifies that the chemical costs as issue are similar to other expenses recovered through other Commission-approved adjustor mechanisms. Lastly, he explains the potential impact that exclusion of chemical costs from the ECAR could have on the Cooperative's finances.