

NEW APPLICATION



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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

Arizona Corporation Commission

DOCKETED

TOM FORESE, Chairman
BOB BURNS
DOUG LITTLE
ANDY TOBIN
BOYD W. DUNN

FEB 28 2017

DOCKETED BY

[Signature]

E-01773A-17-0061

IN THE MATTER OF THE APPLICATION OF THE
ARIZONA ELECTRIC POWER COOPERATIVE,
INC. TO REDUCE CERTAIN RATES UNDER ITS
ANCILLARY SERVICES TARIFF

Docket No. E-01773A-17-____

APPLICATION

Pursuant to A.R.S. §§ 40-250(B) and 40-367, Arizona Electric Power Cooperative, Inc.
("AEPCO" or the "Cooperative"), in support of its Application, states as follows:

1. AEPCO is an Arizona not-for-profit electric generation and transmission cooperative which supplies all or most of the power and energy requirements of its six Class A member distribution cooperatives.

2. AEPCO was originally formed and certificated as a generation and transmission cooperative in 1962. In the early 2000s, AEPCO restructured to create a separate, affiliated entity – Southwest Transmission Cooperative, Inc. ("SWTC") – that assumed ownership and operational control of the Cooperative's transmission assets. However, in response to certain market conditions and changes in available financing, AEPCO and SWTC merged back into a single entity – with AEPCO as the surviving generation and transmission cooperative – in 2016, which merger was pre-approved by the Commission in Decision No. 74591.

3. In 2013, prior to the AEPCO/SWTC merger, the Commission approved SWTC's Ancillary Services Tariff (the "Subject Tariff") in Decision No. 74172.

4. As part of the merger approval, the Commission's Decision No. 74591 also authorized AEPCO to re-issue SWTC's tariffs under the AEPCO name.

5. Accordingly, following the merger, AEPCO re-issued the Subject Tariff with an effective date of March 2, 2016.

6. In light of recent developments in the requirements for the Cooperative's participation in the Southwest Reserve Sharing Group ("SRSG"), AEPCO reevaluated three categories of service under the Subject Tariff. AEPCO's analysis led to the conclusion that three ancillary service rates should be reduced.

7. Specifically, the Cooperative proposes to reduce the rates under Schedule 3 (Regulation and Frequency Response Service), Schedule 5 (Operating Reserve - Spinning Reserve Service), and Schedule 6 (Operating Reserve - Supplemental Reserve Service) as follows:

Service	Current Rate	Revised Rate
Schedule 3 Regulation and Frequency Response Service	0.2575 \$/kW Mon.	0.1852 \$/kW Mon.
Schedule 5 Operating Reserve - Spinning Reserve Service	0.7157 \$/kW Mon.	0.1348 \$/kW Mon.
Schedule 6 Operating Reserve - Supplemental Reserve Service	0.4959 \$/kW Mon.	0.1157 \$/kW Mon.

8. Clean and redline versions of the Subject Tariff are attached hereto as Exhibits 1 and 2, respectively.

9. The revised rates take into account the SRSG issues, but are based on the same revenue requirements adopted by the Commission in the prior SWTC rate case, Decision No. 74172.

1 **Copies** of the foregoing emailed
2 this 28th day of February, 2017, to:

3 Terri Ford
4 Utilities Division
5 Arizona Corporation Commission
6 1200 West Washington Street
7 Phoenix, Arizona 85007

8 Barbara Keene
9 Utilities Division
10 Arizona Corporation Commission
11 1200 West Washington Street
12 Phoenix, Arizona 85007

13 Candrea Allen
14 Utilities Division
15 Arizona Corporation Commission
16 1200 West Washington Street
17 Phoenix, Arizona 85007

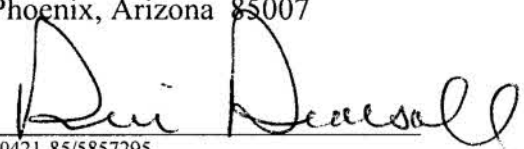
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EXHIBIT 1

ARIZONA ELECTRIC POWER COOPERATIVE, INC.

ANCILLARY SERVICES

TARIFF

PERMANENT

Effective Date: April 1, 2017.

AVAILABILITY OF ANCILLARY SERVICES

Available to all cooperative associations which are or shall be Class A members of AEPCO, as well as to other Eligible Customers. In addition, AEPCO offers network and firm and non-firm point-to-point transmission service. All service is subject to the terms and conditions of AEPCO's Open Access Transmission Tariff ("OATT") which follows the OATT that Southwest Transmission Cooperative, Inc. previously filed with the Federal Energy Regulatory Commission.

ANCILLARY SERVICES

AEPCO's rates and general terms of service for providing Ancillary Services are specified in Schedules 1 through 6. The basic charges are as follows:

Schedule 1

Scheduling, System Control and Dispatch Service is required to schedule the movement of power through, out of, within or into a Control Area. The basic charge for each whole month of service or whole month's peak period of Reserved Capacity is as set forth in the attached Exhibit A. The service may be purchased for shorter periods of time.

Schedule 2

Reactive Supply and Voltage Control from Generation Sources Services addresses the reactive power needed to maintain transmission voltage on AEPCO's transmission facilities within acceptable limits. The basic charge for network customers for each whole month of service of Network Load and the basic charge for Point-to-Point Transmission Customers for each whole month of service or whole month's on-peak period of Reserved Capacity is as set forth in the attached Exhibit A. The service may be purchased for shorter periods of time.

Schedule 3

Regulation and Frequency Response Service addresses the continuous balancing of resources and load to maintain scheduled Interconnection frequency at sixty cycles per second (60 Hz) despite moment-by-moment changes in load. The basic charge for each whole month of service or whole month's on-peak period of reserved Capacity or Network Load is as set forth in the attached Exhibit A. The service may be purchased for shorter periods of time.

Schedule 4

Energy Imbalance Service is provided when a difference occurs between scheduled and actual delivery of energy to a load located within a Control Area over a single hour. If AEPCO does not receive the energy imbalance back in kind or if the energy imbalance is outside the deviation band of +/- 1.5 percent (with a minimum of 2MW) then AEPCO will charge the following: (i) for positive imbalances, the Transmission Customers receive a credit of 90% of AEPCO's average monthly fuel cost (currently 32.63 mills per kWh) applied to the amount of energy imbalance or (ii) for negative imbalances, Transmission Customers receive a charge of the greater of 100 mills per kWh or the price plus 10% that AEPCO paid for energy to satisfy the imbalance.

Schedule 5

Operating Reserve - Spinning Reserve Service addresses resources needed to serve load immediately in the event of a system contingency so as to maintain reliability. The basic charge for each whole month of service or whole month's on-peak period of Reserved Capacity or Network Load is as set forth in the attached Exhibit A. The service may be purchased for shorter periods of time.

Schedule 6

Operating Reserve - Supplemental Reserve Service addresses resources needed to serve load within a period of fifteen minutes rather than immediately in the event of a system contingency so as to maintain reliability. The basic charge for each

whole month of service or whole month's on-peak period of Reserved Capacity or Network Load is as set forth in the attached Exhibit A. The service may be purchased for shorter periods of time.

The Transmission Customer may also be responsible for other charges.

EXHIBIT A

Network Ancillary Services

Schedule 1: System Control and Load Dispatch - \$/kW Mon.	0.1730
Schedule 2: Cost of Reactive Power (VAR) Production - \$/kW Mon.	0.0960
Schedule 3: Regulation and Frequency Response - \$/kW Mon.	0.1852
Schedule 4: Energy Imbalance - \$/MWh	32.63
Schedule 5: Operating Reserves – Spinning - \$/kW Mon.	0.1348
Schedule 6: Operating Reserves – Supplemental - \$/kW Mon.	0.1157

Point-to-Point Ancillary Services

Schedule 1: System Control and Load Dispatch - \$/kW Mon.	0.1730
Schedule 2: Cost of Reactive Power (CAR) Production - \$/kW Mon.	0.0700
Schedule 3: Regulation and Frequency Response - \$/kW Mon.	0.1852
Schedule 4: Energy Imbalance - \$/MWh	32.63
Schedule 5: Operating Reserves – Spinning - \$/kW Mon.	0.1348
Schedule 6: Operating Reserves – Supplemental - \$/kW Mon.	0.1157

EXHIBIT 2

ARIZONA ELECTRIC POWER COOPERATIVE, INC.

ANCILLARY SERVICES

TARIFF

PERMANENT

Effective Date: ~~March 2, 2016~~ April 1, 2017.

AVAILABILITY OF ANCILLARY SERVICES

Available to all cooperative associations which are or shall be Class A members of AEPCO, as well as to other Eligible Customers. In addition, AEPCO offers network and firm and non-firm point-to-point transmission service. All service is subject to the terms and conditions of AEPCO's Open Access Transmission Tariff ("OATT") which follows the OATT that Southwest Transmission Cooperative, Inc. previously filed with the Federal Energy Regulatory Commission.

ANCILLARY SERVICES

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Exhibit A. The service may be purchased for shorter periods of time.

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EXHIBIT 3

ARIZONA ELECTRIC POWER COOPERATIVE, INC.

The following Resolution was adopted at a **regular meeting** of the Board of Directors of Arizona Electric Power Cooperative, Inc. (AEPCO), held in Benson, Arizona on February 8, 2017.

RESOLUTION

***WHEREAS**, the Board of Directors of Arizona Electric Power Cooperative, Inc., (AEPCO) has been presented with Management's recommendation for a reduction in rates associated with ancillary services Schedule 3 - Regulation and Frequency Response Service, Schedule 5 - Operating Reserve - Spinning Reserve Service and Schedule 6 - Operating Reserve - Supplemental Reserve Service; and*

***WHEREAS**, the Board of Directors has been presented with Management's recommendation for authority to file an application with the Arizona Corporation Commission to request changes in the aforementioned ancillary service rate schedules; and*

***WHEREAS**, the Board of Directors has discussed the matter and considered pertinent information, including the accompanying Executive Staff Summary dated February 8, 2017;*

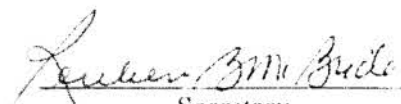
***NOW, THEREFORE BE IT RESOLVED**, the Board of Directors authorizes the Management of Arizona Electric Power Cooperative, Inc., to update ancillary service Rate Schedules 3, 5, and 6; and*

***BE IT FURTHER RESOLVED**, that Management is hereby authorized to file an application with the Arizona Corporation Commission to request the changes in ancillary service Rate Schedules 3, 5, and 6;*

***BE IT FURTHER RESOLVED**, that Management is hereby authorized to take those actions deemed necessary to give effect to this Resolution.*

I, Reuben B. McBride, do hereby certify that I am Secretary of AEPCO, and that the foregoing is a true and correct copy of the Resolution adopted by the Board of Directors at a **regular meeting** held on February 8, 2017.

Reub


Secretary