

ORIGINAL

Arizona Electric Power Cooperative, Inc.

**Purchased Power and Fuel Adjustment Clause
(PPFAC)
Plan of Administration**

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DECISION #: 74173

1 Purchased Power and Fuel Adjustment Clause — Plan of Administration

2 General Description:

3 The purpose of the Arizona Electric Power Cooperative, Inc. ("AEPSCO") Purchased
4 Power and Fuel Adjustment Clause ("PPFAC") is to track changes in AEPSCO's fuel,
5 purchased power and wheeling costs and to recover or return increases or decreases in
6 those costs through an adjustor mechanism without the time and expense of a general rate
7 case.

8 The PPFAC was first authorized in Decision No. 68071 and consisted of the following
9 major components:

- 10 1. Establishment of power cost adjustor bases for all- and partial-requirements
11 members;
- 12 2. Monthly calculation of all-requirements and partial-requirements Class A
13 Members' fuel and purchased power costs over-collection and/or under-
14 collection;
- 15 3. Establishment of bank balancing accounts for each Class A Member subject to the
16 provisions of the PPFAC; and
- 17 4. Development and filing semi-annually of all-requirements and partial-
18 requirements Power Cost Adjustor Rates.

19 In a subsequent rate case (Decision No. 72055), AEPSCO and its members agreed to, and
20 the Commission approved, modifications to its Class A Members' rate schedules and the
21 PPFAC. One of the modifications refined the PPFAC calculations to distinguish between
22 the costs associated with Base Resources Energy and Other Resources Energy. The
23 PPFAC was also revised to separate adjustor bases and rates for AEPSCO's collective all-
24 requirements Class A Members (collectively, the "CARM") and for each of the three
25 partial-requirements Class A Members ("PRM"). These modifications resulted in eight
26 (8) PPFAC bases, eight (8) PPFAC adjustor rate calculations and eight (8) PPFAC bank
27 balances.¹

28 In AEPSCO's most recent rate case (Decision No. 74173), AEPSCO and its members
29 agreed to, and the Commission approved, further modifications to the PPFAC. One
30 modification removed fixed power costs from the calculation of PPFAC Base and Other
31 Resources and instead authorized AEPSCO to track and recover those fixed costs through

¹ The bank balances were included in the adjustor rate calculations.

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1 the establishment of a fixed power costs base and a separate adjustor rate based on a
2 monthly charge. The second modification removed the bank balances from the kWh
3 adjustor rate calculations. As a result, the bank balances for each CARM and PRM are
4 now amortized over a six (6) month period at the time revised PPFAC adjustor rates
5 become effective (i.e., April 1 and October 1 of each year). The intent of these
6 modifications was to establish kWh adjustor rates that reflect the truly variable kWh cost
7 of fuel, purchased power, and wheeling. These modifications resulted in twelve (12)
8 PPFAC bases, twelve (12) PPFAC adjustor rate/charge calculations and twelve (12)
9 PPFAC bank balances.²

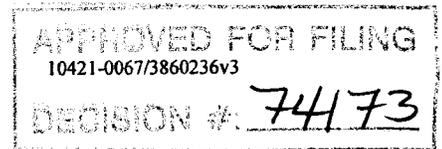
10 Attached to this Plan of Administration as Exhibits A and B are the approved CARM
11 Tariff and PRM Schedule, including the PPFAC provisions, developed by AEPCO and
12 its Class A members. AEPCO will file monthly information regarding calculations of the
13 fuel, purchased power and wheeling costs and separately identified fixed power costs,
14 over-collection and/or under-collection amounts and changes to each Class A Member's
15 bank balance accounts. The above-described modifications have been incorporated into
16 the prior PPFAC and result in the following:

- 17 1. Separate adjustor bases for Base Resources, Other Resources and Fixed Power
18 Costs for the CARM and for each PRM.

- 19 2. Based upon 2011 test year data, power cost adjustor bases for the CARM are
20 \$0.02958/kWh for Base Resources, \$0.03904/kWh for Other Resources and
21 \$183,236.00/month for Fixed Power Costs. For the PRMs, a Base Resources
22 power cost adjustor base of \$0.02931/kWh applies to Mohave Electric
23 Cooperative, Inc. ("MEC"), \$0.02975/kWh for Sulphur Springs Valley Electric
24 Cooperative, Inc. ("SSVEC") and \$0.02984/kWh for Trico Electric Cooperative,
25 Inc. ("Trico"). Adjustor bases for Other Resources are \$0.04118/kWh for MEC,
26 \$0.04139/kWh for SSVEC and \$0.03747/kWh for Trico. The Fixed Power Costs
27 Bases are \$549,433.00/month for MEC, \$486,509.00/month for SSVEC and
28 \$574,197.00/month for Trico.

- 29 3. AEPCO will determine monthly sales to each PRM and for the CARM as a
30 whole, separately identified by Base Resources and Other Resources. These kWh
31 sales by resource type are developed in a Billing Unit Program ("BUP") that
32 reflects the member loads served by each resource type.

² Individual bank balances for each CARM (i.e., Anza, Duncan, and Graham) will be tracked and reported separately. See CARM Tariff, Exhibit A, for a more detailed explanation.



- 1 4. Fixed Power Costs will be separately identified and allocated monthly to each
- 2 PRM and for the CARM as a whole.

- 3 5. The Base and Other Resources adjustor rates and Fixed Power Costs adjustor
- 4 charges for all Class A Members will initially be set at zero until new adjustors
- 5 are established as described below.

- 6 6. AEPCO will calculate the costs and revenue credits associated with transfers of
- 7 power and energy among Class A Member supply resources and AEPCO sales to
- 8 third parties and will net the revenues against the costs of such transfers.

- 9 7. AEPCO will set the bank balances for each Class A Member to zero at the time
- 10 new rates are implemented. A Rider No. 1 temporary surcharge has been
- 11 authorized by the Commission to recover or refund Class A Members' bank
- 12 balances attributable to the prior PPFAC. The surcharge will collect or refund the
- 13 bank balances, as they existed on November 1, 2013, through a monthly charge
- 14 and will remain in effect for twelve (12) months. On or before November 29,
- 15 2013, AEPCO will file Rider No. 1 (a draft of which is attached to this Plan of
- 16 Administration as Exhibit C) to become effective December 1, 2013.

- 17 8. AEPCO will record and separately maintain bank balances by type of resource
- 18 (i.e., Base Resources, Other Resources and Fixed Power Costs) for each Class A
- 19 Member at the time new adjustor rates and charges are implemented.

- 20 The results of the PPFAC calculations will be applied to the rates of the PRM and CARM
- 21 Members through the Power Cost Adjustor Rates. Initially set at zero, the Power Cost
- 22 Adjustors will be recalculated commencing on March 1, 2014 to be effective April 1,
- 23 2014. Thereafter, on or before March 1 or September 1, AEPCO will file (1) calculations
- 24 supporting revised Adjustor Rates and Bank Charges with the Director, Utilities Division,
- 25 and (2) a new Tariff and Schedule reflecting the revised Adjustor Rates and Bank
- 26 Charges with Docket Control with an effective date of April 1 or October 1.

- 27 Each month, AEPCO will continue to submit to the Utilities Division, Compliance
- 28 Section, a report of its calculation of the CARM and PRM Base Resources and Other
- 29 Resources fuel, purchased power and wheeling costs and Fixed Power Costs over-
- 30 collection and/or under-collection. In addition, AEPCO will continue to provide certain
- 31 information confidentially to the Director, Utilities Division, regarding generating units,
- 32 power purchases and fuel purchases on a monthly basis.

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1 **Allowable Costs and Revenue Credits:**

2 The cost components allowed in the calculation of the PPFAC are described in the Tariff
3 and Schedule attached as Exhibits A and B and generally are those costs recorded in RUS
4 Account 501 (fuel costs for steam generation, less legal fees and less fixed fuel costs,
5 except for gas reservation charges), RUS Account 547 (fuel costs for other generation),
6 RUS Account 555 (purchased power costs, both demand and energy) and RUS
7 Account 565 (wheeling costs, both firm and non-firm, except for network service
8 transmission payments made by AEPCO to Southwest Transmission Cooperative, Inc. for
9 electric power and energy furnished to the Class A Members). Prudent direct costs of
10 contracts used for hedging fuel and purchased power costs will also be included. Power
11 supply costs directly assignable to special contract customers will not be included.
12 Revenues credited in the calculation of the PPFAC would be those Non-Class A Member
13 revenues recorded in RUS Account 447 (Non-Class A sales for resale revenues, less
14 revenues for fuel-related legal expenses). The Fixed Power Costs, if any, associated with
15 the aforementioned RUS Accounts will be identified and tracked separately for purposes
16 of the PPFAC calculations.

17 **Computations:**

18 **Part 1. Monthly Fuel and Purchased Power Costs:**

19
20 AEPCO will calculate, on a monthly basis and for each Class A Member separately, the
21 actual costs for Base Resources and Other Resources based upon allowable fuel,
22 purchased power and wheeling costs and revenue credits. In addition, Fixed Power Costs
23 will be calculated in a similar fashion, but will not be differentiated by Base and Other
24 Resources. These calculations will differentiate and direct assign the Southpoint and
25 Griffith purchased power expenses and associated wheeling charges that are applicable to
26 the CARM and Trico but not to other Class A Members. In addition, subsequent
27 purchased power agreements shall be differentiated and direct assigned if they are
28 applicable only to certain Class A Member(s). Furthermore, AEPCO will calculate the
29 costs and revenue credits associated with transfers of power and energy among Class A
30 Member supply resources and from the resources of Class A Members to third parties.

31 **Part 2. Monthly Determination of Bank Balancing Accounts:**

32
33 Upon determination of the actual monthly Base Resources and Other Resources fuel,
34 purchased power and wheeling costs on a per-kWh basis for the CARM and each PRM,
35 AEPCO will subtract the applicable Commission-approved power cost adjustor bases to
36 determine the separate monthly under-collected (over-collected) costs on a per-kWh basis
37 for Base Resources and Other Resources. The resultant monthly under-collected (over-
38 collected) costs on a per-kWh basis will then be multiplied by each Class A Member's
39 kWh sales attributable to that resource for the month to determine the dollar amount of

1 under-collected (over-collected) fuel, purchased power and wheeling costs by resource
2 type for each Class A Member. The under-collected (over-collected) fuel and purchased
3 power costs for each resource type will be added to the prior month's bank balancing
4 account. In order to determine the current month's bank balance amount for Base and
5 Other Resources, AEPCO will also subtract from the prior month's bank balancing
6 account any amounts collected by the Power Cost Adjustor Rate (which is determined by
7 multiplying the applicable Power Cost Adjustor Rate by the Class A Member's kWh
8 sales attributable to each resource type).

9 The Fixed Power Costs bank balancing account component will be determined by
10 subtracting the applicable Commission-approved Fixed Power Cost adjustor base from
11 the actual monthly Fixed Power Costs for the CARM and each PRM. The resultant
12 under-collected (over-collected) fixed fuel, purchased power and wheeling costs will be
13 added to the Member's prior month's bank balancing account. In order to determine the
14 current month's bank balance amount for Fixed Power Costs, AEPCO will also subtract
15 from the prior month's bank balancing account any amounts collected by the Fixed
16 Power Costs Adjustor Charge.

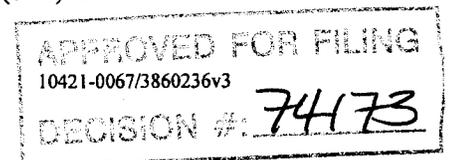
17 **Part 3. Semi-Annual Determination of Bank (Refunds)/Charges:**

18
19 As described in Exhibits A and B to this Plan of Administration, the bank
20 (refunds)/charges for each CARM and PRM by type of resource (Base Resources, Other
21 Resources and Fixed Power Costs) are based on the accumulated (over)/under collections
22 for the six (6) month period between semi-annual adjustor filings. The initial period (i.e.,
23 March 1 filing with the ACC) will only contain two (2) months (i.e., November and
24 December of 2013) of (over)/under collections since the new rates in Decision No. 74173
25 are effective November 1, 2013. Thereafter, the six-month accumulated bank balances
26 associated with Base Resources, Other Resources, and Fixed Power Costs for each
27 CARM and PRM at the end of December and June of each year will be determined by
28 dividing the balance of each bank by six (6).³ This calculation represents a six-month
29 amortization of each of the bank balance components of the PPFAC. A fixed monthly
30 (refund)/charge for each of these bank components will be itemized on each Members'
31 bill.

32 **Part 4. Semi-Annual Determination of Power Cost Adjustor Rates and Charges:**

33
34 The CARM and PRM power cost adjustor rates and charges shall be determined as
35 described in the Tariff and Schedule attached to this Plan of Administration as Exhibits A
36 and B.

³ The bank (refunds)/charges for each individual CARM is based on the accumulated (over)/under collections for that individual Member.



1 **Compliance Reports:**

2 AEPCO will file a report showing the monthly calculation of the CARM and PRM
3 Members' fuel, purchased power and wheeling costs over-collection and/or under-
4 collection by resource type and each Member's balancing account balance for each
5 resource type and by fixed power cost components. The initial report will cover the fuel,
6 purchased power and wheeling costs in November 2013 and will be due on February 1,
7 2014. Thereafter, each month's report will be due on the first day of the third month
8 following the end of the reporting month. This report will set forth:

- 9
- 10 1. Bank balance calculations, including all inputs and outputs;
- 11 2. Total power and fuel costs by resource type and by fixed component(s);
- 12 3. Class A Member Sales, both in kWh and dollars, by Member for each
- 13 resource type;
- 14 4. Detailed listing of all items excluded from the PPFAC calculations;
- 15 5. Detailed listing of any adjustments to the report;
- 16 6. Non-Class A Member Sales; and
- 17 7. The name and phone number of a contact person at AEPCO for questions.

18 In addition, AEPCO will file a confidential report providing information on its generating
19 units, power purchases and fuel purchases with the Director, Utilities Division. The
20 initial report will provide information for November 2013 and will be due February 1,
21 2014. Thereafter, each month's report will be due on the first day of the third month
22 following the end of the reporting month. This report will set forth:

- 23 1) Generating unit information:
- 24 a) Net generation, in MWh per month, and 12-month cumulatively;
- 25 b) Average heat rate, both monthly and 12-month average;
- 26 c) Equivalent forced outage rate, both monthly and 12-month average;
- 27 d) Outage information for each month, including event type, start date and
- 28 time, end date and time and description of outage;
- 29 e) Total fuel costs per month; and
- 30 f) Fuel cost per kWh month.
- 31 2) Power purchases information:
- 32 a) Quantity purchased in MWh;

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- 1 b) Demand purchased in MW to the extent the information is specified in the
- 2 contract;
- 3 c) Total cost for demand to the extent the information is specified in the
- 4 contract;
- 5 d) Total cost for energy;
- 6 e) Aggregated information on economy interchange purchases; and
- 7 f) Itemization of off-system sales.

- 8 3) Fuel purchase information:

- 9 a) Coal contract commodity costs;
- 10 b) Fixed coal costs, such as rail car lease costs;
- 11 c) Natural gas interstate pipeline costs, itemized by pipeline and by
- 12 individual cost components, such as reservation charge and incremental
- 13 cost; and
- 14 d) Natural gas commodity costs.

15 Each report will be accompanied by a certification from the AEPCO Chief Executive
16 Officer or Chief Financial Officer that all information provided in the report is true and
17 accurate to the best of his or her information and belief.

18 **PPFAC Review:**

19 AEPCO may file with any semi-annual report a request that the Commission review the
20 efficacy of the PPFAC.

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