Question & Answers

Arizona Electric Power Cooperative (AEPCO)
Environmental Compliance Adjustment Rider (ECAR) Filing

1) **What is the justification for the ECAR? Do the AEPCO financial forecast results indicate the need for an AEPCO ECAR?**

   Response: The ECAR provides AEPCO a mechanism whereby the costs of environment compliance not reflected in its current rate tariffs may be recovered through the ECAR Tariff without the time and expense of filing a new rate case. Further the ECAR may provide a rates gradualism mechanism to smooth out sudden rate increases as a result of the costs of environmental compliance. During AEPCO's financial forecast presentation to the Board of Directors in January, 2014, the possibility of an ECAR Surcharge based upon MATS mercury control costs and SNCR chemical costs was discussed. The ranges mentioned were $2.6 million per year to $5.1 million per year for the 2016-2020 timeframe, prior to any possible adjustments for O&M cost savings.

2) **Can AEPCO provide a draft of the ECS Plan or describe what will be included in the ECS Plan? When will AEPCO expect to implement a tariff charge greater than zero?**

   Response: AEPCO does not yet have a draft of an ECS Plan prepared. As mentioned in the Plan of Administration, the ECS Plan would be a formal plan to meet an environmental compliance requirement and would include, as a minimum, a scope of work, anticipated timelines and cost estimates. AEPCO would expect that a tariff charge greater than zero could be implemented in the 2016-2020 time frame to address compliance with MATS and/or Regional Haze environmental regulations.

3) **Will the Member's approve and/or have opportunity to review the ECS before AEPCO files it with the ACC? If so can we include language in the Plan of Administration that reflects this? When does AEPCO plan to file the ECS with the ACC?**

   Response: Yes. The AEPCO Board Approval and Member Consent Section, page 4 of the plan of administration, states that, prior to filing an initial ECS plan and revised ECAR Tariff or seeking a subsequent modification of either the ECS or ECAR, AEPCO will seek authorization from the Board and unanimous consent of its Members. AEPCO would review the ECS Plan as it is developed with the Members. AEPCO expects that an ECS Plan could be developed and filed with the Commission no sooner than approximately six months after the Strategic Resource Planning Group finalizes the Apache Station Study.

4) **How did AEPCO resolve all of the ACC Staff issues raised in Finding of Fact No. 78 of the Rate Decision? For reference below:**
   a. **Minimum or maximum dollar amounts not specified**

b. **Needs specificity regarding environmental compliance obligations**
c. **Does not address whether the surcharge will base revenue requirements upon short or long-term financing, or simply upon ongoing operating cash requirements**
d. **Does not include a formalized process and list of regulatory accounts to be used for recording funds received and classification of qualified environmental assets**
e. **Does not include a provision requiring that the ECAR remain subject to Commission audit on an annual or bi-annual basis**

Response: AEPCO worked with the Staff to address the issues listed in Finding of Fact No. 78. AEPCO was able to reach agreement with the Staff on all aspects of the ECAR except for the issue of recovering additional chemical costs incurred due to environmental regulation(s). AEPCO has filed the ECAR Plan of Administration and Tariff incorporating the recovery of additional chemical costs incurred due to environmental regulation(s) and asked the Commission to approve the filing with that inclusion.

5) **How does AEPCO plan to use the ECAR to recover MATS Chemical Costs? Is it just for cost recovery until the ST2 conversion, what is the total dollars ($7.5M)? What period of time is the recovery over, 5 years, 10 years? Can AEPCO provide an example?**

Response: AEPCO would address these issues in the development of the ECS Plan. As mentioned in the response to question number 1, during AEPCO's financial forecast presentation to the Board of Directors in January, 2014, the possibility of an ECAR Surcharge based upon MATS mercury control costs and SNCR chemical costs was discussed. These costs range from $2.6 million per year in 2016, $5.1 million per year in 2017, and $4.6 million per year in the 2018-2020 timeframe.

6) **Does AEPCO plan to provide savings that result in environmental compliance such as the ST2 conversion? If so how would this be accomplished under the current Plan of Administration?**

Response: Yes. AEPCO expects that savings that result from environmental compliance would be included in the ECS Plan as an offset and the net cost estimates would be used to develop the ECAR Tariff.

7) **Does the AEPCO plan use the ECAR for recovery of the EPA capital compliance costs of approximately $30M? Will this include only carrying costs or capital or a combination? Over what time period will AEPCO recover the costs and over what time period will AEPCO finance the costs? If AEPCO plans to charge carrying costs how would this be accomplished under the current Plan of Administration?**

Response: The possible plan that AEPCO discussed during the financial forecast presentation to the Board of Directors involved the recovery of MATS mercury control chemical costs. AEPCO has not yet developed an ECS Plan which may include the recovery of environmental capital carrying costs.

8) **How will the Class A Members absorb the AEPCO ECAR costs? Can the Class A Members pass this through in their Wholesale Power Cost Adjustors? Was this discussed with the ACC? Is there a cap on the rate impact allowable to the Class A Member retail customers?**

   Response: AEPCO discussed with the Staff the fact that the ECAR Tariff charges would be included as a part of the Members' Wholesale Power Cost Adjustors similar the charges under the current rate tariffs. The Staff indicated that the Wholesale Power Cost Adjustors would be the mechanism for the Members to recover those charges. The Staff did not request a cap on the rate impact allowable to the Class A Members as part of the ECAR Plan of Administration and Tariff filing. If Staff has concerns in that regard, those concerns would be properly addressed during the ECS Plan filing.

9) **What is the anticipated Class A Member rate impact of the AEPCO ECAR to meet the current ECS Plan?**

   Response: AEPCO has not yet developed an ECS Plan that would quantify the rate impact of a proposed ECAR Tariff filing.

10) **What is AEPCO's schedule for implementation of the ECAR?**

   Response: AEPCO expects that an ECS Plan could be developed and filed with the Commission no sooner than approximately six months after the Strategic Resource Planning Group finalizes the Apache Station Study.

11) **Other items that AEPCO believes may be helpful to the Class A Members?**

   Response: For additional detail you may refer to the reference materials that AEPCO has furnished, such as the ECAR Plan of Administration and Tariff Application which includes a copy of the ECAR Plan of Administration and Tariff as filed. AEPCO has also furnished a redline comparison of the ECAR Plan of Administration and Tariff to the drafts that were included in AEPCO's last rate case as Exhibits GEP-7 and GEP-8.