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BEFORE THE ARIZONA CORPORATION COMMISSION

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1
2 JEFF HATCH-MILLER
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6 KRISTIN K. MAYES
Commissioner

2005 FEB 25 P 1:38

AZ CORP COMMISSION
DOCUMENT CONTROL

9 AVIS READ, individually, and behalf of all others
similarly situated,

DOCKET NO. E-01345A-04-0657

10 Complainant,

11 v.

12 ARIZONA PUBLIC SERVICE COMPANY,

13 Respondent.

14
15 IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY FOR A
16 DECLARATORY ORDER REGARDING BILL
ESTIMATION PROCEDURES.

DOCKET NO. E-01345A-03-0775

NOTICE OF FILING PROPOSED
SETTLEMENT

17
18
19 Commission Staff hereby gives notice of filing a proposed settlement of all parties to Docket
Nos. E-01345A-04-0657 and E-01345A-03-0775.

20 RESPECTFULLY SUBMITTED this 25th day of February 2005.

24 Arizona Corporation Commission

25 DOCKETED

26 FEB 25 2005

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Jason D. Gellman
Diane Targovnik
Attorneys, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

DOCKETED BY

RD

1 The original and fifteen (15) copies
of the foregoing were filed this 25th
2 day of February 2005 with:

3 Docket Control
Arizona Corporation Commission
4 1200 West Washington Street
Phoenix, Arizona 85007

5 Copies of the foregoing were
6 mailed/hand-delivered this 25th
day of February 2005 to:

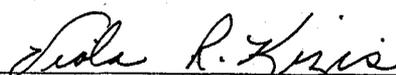
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Viola R. Kizis, secretary to
27 Janet Wagner

PROPOSED SETTLEMENT AGREEMENT

Arizona Public Service Company ("APS" or "the Company"), the Estate of the late Mrs. Avis Read ("Read"), and the Arizona Corporation Commission Staff ("Staff") (collectively, "the Parties") hereby propose settlement of the following matters currently pending before the Arizona Corporation Commission ("Commission"): APS' Application for a Declaratory Order, Docket No. E-01345A-03-0775; Read's Formal Complaint, Docket No. E-01345A-04-0657 (including any matters raised in the related Superior Court case previously brought by Mrs. Read); and Staff's Inquiry into APS' Usage Estimation, Meter Reading, and Billing Practices. These matters shall be collectively referred to as the "Bill Estimation Matter." The following numbered paragraphs are intended to resolve all issues associated with the Bill Estimation Matter.

RECITALS

1. The purpose of this Agreement is to settle all issues presented by the Bill Estimation Matter in a manner that will promote the public interest. The Parties agree that the terms of this Agreement will serve the public interest by providing a just and reasonable resolution of the issues presented by the Bill Estimation Matter.
2. The Parties agree that the negotiation process undertaken in this matter was open to all Parties and provided all Parties with an equal opportunity to participate. All Parties were notified of the settlement process and encouraged to participate.
3. APS acknowledges the concerns raised by Staff regarding APS' failure to implement the demand estimation procedures set forth in Rate Schedules EC-1 and ECT-1R, notwithstanding APS' contention that these tariffs were implemented up until the time that APS implemented its 1998 customer information system. APS expresses its regret over its failure to properly implement these tariffs and states its intention to fully implement all Commission-approved tariffs in the future.
4. APS acknowledges the concerns raised by Staff regarding APS' failure to send Mrs. Read a monthly bill from September 1999 to January 2000 with respect to Mrs. Read's non-demand account, notwithstanding APS' contention that its failure to bill Mrs. Read was the result of complications associated with the implementation of its customer information system. APS expresses its regret over its failure to send Mrs. Read timely bills during those months and states its intention to use all reasonable efforts to provide monthly bills to all customers in the future.
5. APS acknowledges that there were instances when it did not obtain access to Mrs. Read's meter and that Staff has concerns about whether APS made all reasonable efforts to resolve those access issues, notwithstanding APS' contention that it could not obtain access to the meter. APS acknowledges that it could have done more to obtain

access to Mrs. Read's meter and states its intention to work to decrease the number of "no access" meters in the future.

I. ESTIMATION ISSUES

6. The Parties agree that APS did not implement the demand estimation methodology contained in Rate Schedules EC-1 and ECT-1R when it designed its bill estimation procedures for its customer information system. The demand estimation methodology set forth in those schedules provides for the use of customer specific kW from the last actual read in order to estimate a customer's demand.

7. From April 1999 to the present, APS has used class average load factors to estimate demand in most instances. The Parties agree that this estimation method tends to result in a net underestimation of kW. The Parties also agree that the use of this estimation method resulted in a greater overall net underbilling for customers subscribing to Rate Schedules EC-1 and ECT-1R than would have resulted had APS implemented the estimation methodology set forth in those schedules. The Parties agree that APS' class average load factor method is less accurate than the tariffed method. Specifically, for the statistical samples of customers with known kW considered in this proceeding, the use of the tariffed method to estimate kW resulted in a greater central tendency toward the known kW of the sample groups than the use of APS' class average load factor method.

8. APS' use of class average load factors to estimate demand is consistent with the requirements of A.A.C. R14-2-210 but inconsistent with the provisions of Rate Schedules EC-1 and ECT-1R.

9. APS' methods for estimating Mrs. Read's kW and kWh resulted in underestimation, which in turn resulted in underbills.

10. APS acknowledges that it has an independent obligation to implement its Commission-approved tariffs.

11. The Parties agree that the use of customer specific kW from the prior month is the most accurate method for estimating demand of those methods analyzed in this proceeding, by which the Parties mean that, for the statistical samples of customers with known kW considered in this proceeding, the use of customer specific kW from the prior month to estimate kW resulted in a greater central tendency toward the known kW of the sample groups than the use of any of the other estimation methods considered in this proceeding, including APS' class average load factor method.

12. When the appropriate data is available, APS shall use customer specific kW from the prior month to estimate demand for all of its demand tariffs.

13. Customer-specific kW from the prior month will not be available if the prior month's bill was an initial bill or an estimated bill.

14. For initial bills covering a period of fewer than eleven days, APS will not bill demand. The customer's bill will consist of a prorated basic service charge, and kWh will be trued up in the subsequent bill. For initial bills covering a period of eleven or more days, demand will be estimated using actual premises history from the prior month. If no demand exists for the prior month or if the prior month's demand was estimated, APS will estimate demand using the actual kW reading from the same month of the prior year at the same premises. If it is determined that the general characteristics of the previous customer vary significantly from those of the current customer or if there is no kW history for the premises, APS will estimate kW by first estimating kWh and then applying a class average load factor to estimate kW. Any initial bills issued in any of the circumstances described in this paragraph shall contain a clear description of the charges depicted in the bill. APS shall collaborate with Staff to develop appropriate language for each of these circumstances.

15. If the prior month's customer-specific kW is not available, APS will use the customer's kW from the same month of the prior year as the basis for the estimated demand reading. If this customer-specific historical information is not available, APS will estimate kW based upon premises-specific history, using the actual kW reading from the last month at the same premises. If this information is not available, APS shall use the actual kW reading from the same month of the prior year at the same premises. If none of the above customer-specific or premises-specific information is available, APS will estimate kW by first estimating kWh and then applying a class average load factor to estimate kW.

16. APS shall implement the demand estimation methodology set forth in Paragraphs 12-15 of this Agreement within seven months of the Commission's final approval of APS' bill estimation tariff. APS may use its existing bill estimation procedures until APS has completed the implementation required by Paragraphs 12-15, and bills issued before such implementation will not be invalidated for being based upon APS' bill estimation procedures as they exist as of the date of this Agreement, except as set forth in Paragraphs 19 through 21. Nothing in this Agreement shall be construed as eliminating APS' duty to properly, accurately, and consistently apply any specific bill estimation procedure.

17. APS shall conduct a study to determine the impact of reclassifying May as a non-summer month for purposes of kWh estimation. By December 30, 2005, APS shall file a report with the Commission that describes the results of this study and that discusses whether revisions to APS' bill estimation procedures are desirable.

18. APS shall not be required to recalculate demand estimations that are based upon class average load factors and that occurred between April 1999 and the effective date of the new kW demand estimation procedures specified in Paragraphs 12-15. Demands estimated pursuant to APS' existing or prior class average load factor estimation methodology shall not be subject to subsequent adjustment for being based upon this methodology, except as specified in Paragraphs 19 through 21. Nothing in this

Agreement shall be construed as eliminating APS' duty to properly, accurately, and consistently apply any specific bill estimation procedure.

19. APS acknowledges that, due to implementation problems associated with its customer information system, some of its demand estimates were higher than the subsequent reads. APS shall credit all customers who, between September 1, 1998 and October 1, 2003, had an actual demand reading that was lower than the immediately preceding estimate. An estimate of these credits is set forth in Exhibit A. Credits shall include interest at the established one year Treasury Constant Maturities rate, effective on the first business day of each year, as published on the Federal Reserve Website. Credits for general service customers shall be adjusted to prevent double credits for the same adjustment and to reflect ratchet demands and contract demands. APS' calculations of these credits shall be reviewed in the audit required by Paragraph 39 and, if the Commission determines that the audit referred to in Paragraph 41 is necessary, in the audit contemplated by that paragraph. Within thirty days after the conclusion of APS' implementation of Paragraphs 19 through 21, APS shall file a report with the Commission that accounts for the credits issued pursuant to this Agreement.

20. APS shall make reasonable efforts to locate all customers who have left its system and who are entitled to credits greater than or equal to \$5.00 pursuant to Paragraph 19. APS shall confer with Staff in order to determine the specific efforts that APS will undertake to locate these customers. In order to be eligible for a credit, a customer who has left APS' system must contact APS within 180 days after the conclusion of APS' location efforts undertaken pursuant to this paragraph. If a customer who is entitled to a credit greater than or equal to \$5.00 cannot be located, APS shall add the amount of the credit to the expenditures required by Paragraphs 22 through 24.

21. APS shall not be required to locate customers who have left its system and who are entitled, pursuant to Paragraph 19, to credits under \$5.00. Such credits shall be added to the amount of expenditures required by Paragraphs 22 through 24.

22. APS shall design a cost effective Access Improvement Program to achieve a reduction in the number of instances of kW and kWh estimation due to "no access" issues. Unless otherwise ordered by the Commission, the Program shall apply solely to specific remedies, such as moving meters or installing appropriate meter-reading technologies, for customer premises where access to the meter is a recurring problem. Meter reading technologies applied in these circumstances shall include, but shall not be limited to, remote ports or similar devices, advanced metering systems, and enhanced radio technology. Expenditures made pursuant to this Program shall have a direct, measurable effect upon APS' ability to obtain access to premises where access is a recurring problem.

23. APS shall expend \$600,000 on the program described in Paragraph 22, and these expenditures must be separate from any ongoing or anticipated expenditures. The \$600,000 may be increased pursuant to Paragraphs 20 and 21. Expenditures

associated with this Program shall be limited to implementing the measures set forth in Paragraph 22.

24. APS shall submit the details of its proposed Access Improvement Program to the Commission for approval within sixty days of the Commission's decision in this case. After Commission review and approval, APS shall implement the Program over the next six months. No later than fifteen months after the conclusion of the Program's implementation, APS shall file a report with the Commission that addresses the impact of the Program and that details and verifies the Program's expenditures. APS' report shall contain, among other things, a comparison of the number of estimated bills per thousand bills issued during the twelve months following the Program's implementation to the number of estimated bills per thousand bills issued during 2004. Expenditures associated with this Program shall be examined in the audits set forth in Paragraphs 39 and 41.

25. The following items shall not be recoverable:

- a. Any amounts expended pursuant to Paragraphs 19 through 24.
- b. Any training costs specifically attributable to implementing Paragraphs 12 through 15. This provision is not intended to preclude APS from seeking cost recovery of any reasonable and prudent training costs that are not specifically associated with implementing Paragraphs 12 through 15.
- c. Any costs of the audits, reviews, or reports required by Paragraphs 39 through 41.
- d. Any amounts expended in order to comply with Paragraphs 12-15 to implement CIS changes that are related in any way to estimating demand for residential customers. This provision is not intended to preclude APS from seeking cost recovery of any reasonable and prudent costs of implementing CIS changes that are solely applicable to general service customers.
- e. Any one-time costs of implementing Paragraphs 32(b), 32(d), 32(k), and 33(b), and all other costs associated with implementing Paragraphs 32 and 33 incurred within 36 months after the Commission's decision in this matter.

26. APS shall amend all applicable rate schedules to remove language related to estimation procedures. APS' estimation procedures for all rates shall be governed by a bill estimation tariff that shall be consistent with the Commission's decision in this matter. APS shall file its bill estimation tariff for Commission review within thirty days after Commission approval of this Agreement.

27. For the purposes of APS' bill estimation procedures, the ten circumstances set forth in Exhibit A to the January 24, 2005 testimony of Staff Witness Matthew Rowell

shall be considered to be part of APS' bill estimation procedures, and APS shall adopt all Staff recommendations contained in that Exhibit A.

28. If APS wishes to amend any of its bill estimation procedures in the future, it must file them as a tariff filing with the Commission.

II. METER READING ISSUES

29. The Parties acknowledge that customers have an obligation to provide safe and unrestricted access to the customer's electric meter in accordance with A.A.C. R14-2-209(D), and APS acknowledges that it has an obligation to undertake reasonable efforts to accomplish timely reads of its customers' meters.

30. APS estimated Mrs. Read's demand meter for the months of January, March, April, and May of 1999.

31. APS acknowledges that accuracy in meter reading and in estimation of kW and kWh is an important public and regulatory policy. APS also acknowledges that an effective way to improve the accuracy of billing is to reduce the number of times that APS estimates kW or kWh.

32. APS will implement the following provisions in order to decrease the incidence of "no access" to customer meters:

a. APS shall provide evidence to the Commission that new procedures have been put in place to ensure that staffing resources are sufficient to address emergency short-term needs for meter reading shops that are either smaller or remote. A report that describes the new procedures and explains how they reduce the potential for "skipped" meter readings due to staffing resource issues will be provided to the Commission within six months of a decision in this matter.

b. APS shall revise the "No Access Meters" report, KM06R20, to provide the following additional features:

--Report the present number of consecutive months that the meter reading department could not access the meter so that the Administrative Coordinator can track the steps required for each month of access problems and prioritize the APS response.

--Report the other instances that the meter reading department was unable to read the meter during the previous twenty-four months to simplify identification of recurring "no access" problems at the same premises.

--Prioritize accounts to focus first on demand-billed customers when working the "no access" report. APS should compile and maintain these reports for purposes of the audits required by Paragraphs 39 and 41.

c. APS shall develop and install a performance measure to monitor the extent to which APS is complying with the Commission requirement to read meters each month (no less than twenty-five days after the last meter read and no more than thirty-five days after the last meter reading). APS shall provide to the Commission a description of its performance measure and the results of its analysis within six months of a decision in this matter.

d. APS shall change the options settings in the Itron software in all locations so that the Itron HHC used by meter readers in each of the APS meter read shops no longer includes the last month's usage and the last month's meter reading. This feature shall be disabled throughout APS' service territory within thirty days of a decision in this matter.

e. For the next six years, APS shall provide the Commission with biannual reports related to the status of the remote meter reading pilot and implementation plans. The reports shall provide a description of the meter reading technology being implemented, APS' plan for implementation, the number and type of customers involved in the pilot program, the costs associated with implementation, and the operational efficiencies associated with implementation.

f. APS will implement a pilot program to evaluate whether using an auto-dialer to communicate with customers who have experienced two consecutive months of "no access" will facilitate resolution of additional "no access" accounts. Such calls will be made within ninety-six hours before the scheduled read date, will indicate the time frame in which the next read is scheduled to occur, and will indicate that the schedule may be subject to change. APS' failure to call a customer in the circumstances described in this paragraph shall not relieve the customer of the obligation to provide APS with unrestricted access to the meter. APS shall maintain records on the number of instances that the auto-dialer is used to call customers in these circumstances so that one may determine whether use of the auto-dialer improves APS' access to "no access" meters. For the twelve months following Commission approval of this Agreement, the results of this practice shall be reported to the Commission in quarterly reports, beginning with the quarter ending September 30, 2005.

g. APS shall be required to implement a policy to ensure that meter reading supervisors or their designees periodically inspect meter locations reported as "no access" to verify that appropriate corrective measures are taken. APS shall file a copy of this policy within ninety days of a decision in this matter.

h. APS shall continue to participate in benchmarking studies that compare its practices to other utilities in the industry. APS shall provide such

benchmarking analysis to the Commission and Staff on a confidential basis within ninety days of the completion of such studies.

i. APS shall develop and install performance measures to document the efforts that it has taken to secure an accurate reading of the meter after the second consecutive month of estimating the customer's bill for other than weather.

j. APS shall specifically include the use of EZ-Read as one of the steps taken to resolve a "no access" situation.

k. APS shall utilize available DB Microware reports to review lock-outs by route to monitor trends in lock-outs and reduce the number of "no access" meters.

l. APS shall establish an internal process whereby, after three consecutive estimates, continued instances of consecutive estimates due to "no access" situations are reported and made visible to increasingly higher levels of APS management.

33. APS shall implement the following provisions in order to improve its communications with its customers:

a. APS shall train its Billing Service Representatives and others involved in kW and kWh estimation, meter reading, and billing processes to understand that customers value an accurate bill. APS shall also train them to recognize that the underestimation of kW and kWh may result in problems for their customers. Finally, APS shall develop training procedures to familiarize these personnel with applicable Commission rules and APS tariffs. These procedures shall stress the importance of APS' adherence to Commission rules and tariffs. APS shall provide Staff with a description of its training process within six months of a Commission decision in this matter.

b. APS shall provide a clearer notice on a re-billed amount. Such notice shall clearly state that the new bill replaces the previously issued bill and that the customer should only pay the reissued bill amount. APS shall make the appropriate modifications to its billing system to implement this change no later than sixty days after a final Commission decision in APS' pending rate case, Docket No. E-01345A-03-0437.

34. This Settlement takes no position on the validity or the applicability of the amendments to A.A.C. R14-2-210. For purposes of this Settlement, the Parties agree that APS should not be assessed a penalty for any alleged violations of A.A.C. R14-2-210(A)(5)(a) or 210(A)(6)(b) and that any such alleged violations do not affect the validity of any estimated bills issued before the effective date of the Commission's approval of APS' bill estimation tariff.

35. If the Commission approves this Settlement, the Read Complaint shall be dismissed with prejudice, provided that such dismissal shall not be deemed to preclude Mrs. Read's attorneys from seeking any attorneys' fees to which they might be entitled

under applicable law. This paragraph shall not be construed as an admission by any party that attorneys' fees are appropriate in any forum.

III. BILLING ISSUES

36. APS did not send Mrs. Read any bills for five months from September 1999 to January 2000 due to implementation problems associated with its CIS, which became operational in September, 1998.

37. APS acknowledges that it has an obligation to bill each of its customers in accordance with A.A.C. R14-2-210(A).

38. This Agreement is not intended to diminish or to establish any rights in any other customers who were not issued bills by APS as a result of APS' CIS implementation problems, nor is this Agreement intended to eliminate APS' duty to properly, accurately, and consistently apply any specific bill estimation procedure.

IV. COMPLIANCE

39. APS' Regulatory Compliance Department shall conduct an audit of APS' kW and kWh estimation, meter reading, and billing practices after the Commission issues a final order in this matter and at least once every three years thereafter. These audits shall also address APS' compliance with the provisions set forth in this Agreement, any Commission order resulting therefrom, and Commission tariffs, rules, and regulations regarding estimation, meter reading, and billing. The results of the audit shall be certified by APS' Director of Regulatory Compliance. The results of the audit along with any management response shall be provided on a confidential basis to the Commission and Staff. APS shall either implement the audit's recommendations or provide the Commission with a written explanation as to why any recommendations were not implemented. APS shall complete the initial audit required by this paragraph and file a copy of the audit report, along with any management response, with the Commission no later than nine months after Commission approval of this Agreement. Subsequent audit reports conducted pursuant to this paragraph shall be filed within thirty days of the completion of the audit.

40. APS shall conduct an internal review of its compliance program relating to all Commission-approved tariffs and shall submit a report on a confidential basis to the Commission and its Staff within twelve months of the Commission's approval of this Agreement. Such report shall include a description of all programs, processes, and organizations utilized by APS to educate employees about tariff provisions and to ensure compliance. The report will address APS' ongoing plans to ensure compliance with Commission tariffs, any specific changes or additions to current practices that may be necessary to ensure compliance, and the implementation plan for any recommended modifications.

41. Within thirty days after the completion of the actions referred to in Paragraphs 39 and 40, APS shall file a report with the Commission that fully describes the results of those actions and the Company's compliance efforts in this matter. If, after consideration of those items, the Commission believes that an additional audit is required, APS shall participate in a third-party audit by an independent auditor selected by Staff and paid for by APS. This audit shall evaluate whether the Company's meter reading, billing practices, estimation methods, and related management processes are adequate and whether APS has appropriately conducted the actions required by Paragraphs 39 and 40. The audit shall also evaluate whether the Company has complied with the Commission's decision in this matter. The Commission will establish the timing and budget for the independent audit at the time that it determines its necessity.

V. MISCELLANEOUS PROVISIONS

42. APS shall withdraw the testimony of APS Witness Alan Kessler. APS may offer the Accion Report through the testimony of another witness who is not affiliated with the Accion Consulting Group. All other filed testimony and exhibits shall be accepted into the Commission's record as evidence.

43. Each provision of this Agreement is in consideration and support of all other provisions, and it is expressly conditioned upon acceptance and approval by the Commission without change. Unless the Parties to this Agreement otherwise agree, if the Commission does not accept and approve this Agreement according to its terms, it shall be deemed withdrawn by the Parties, and the Parties shall be free to pursue their respective positions without prejudice.

44. This Agreement represents the Parties' mutual desire to compromise and settle all disputed claims in a manner consistent with the public interest. This Agreement represents a compromise of the positions of the Parties. Acceptance of this Agreement is without prejudice to any position taken by any party, and none of the provisions may be referred to, cited, or relied upon by any other party as precedent in any proceeding before this Commission, any other regulatory agency, or any court of law for any purpose except in furtherance of the purposes and results of this Agreement.

45. All negotiations relating to or leading to this Agreement are privileged and confidential, and no party is bound by any position asserted in negotiations, except to the extent expressly stated in this Agreement. As such, evidence of conduct or statements made in the course of negotiation of this Agreement are not admissible as evidence in any proceeding before the Commission, any other regulatory agency, or any court.

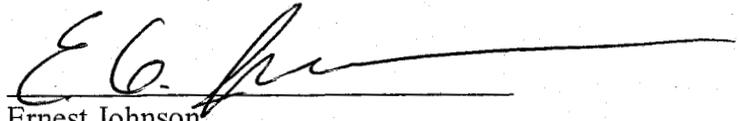
46. This Agreement represents the complete agreement of the Parties. There are no understandings or commitments other than those specifically set forth herein. The Parties acknowledge that this Agreement resolves all issues that were raised in the Bill Estimation Matter and is a complete and total settlement between the Parties.

47. Each Signatory Party will support and defend this Agreement and any Commission order approving this Agreement before the Commission, before any other regulatory agency, or before any court in which it may be at issue. This Agreement shall not be construed to require the Commission to participate in any proceeding related to the recovery of attorneys' fees in this or any related matter.

Dated this 25th day of February 2005.

Arizona Corporation Commission Staff

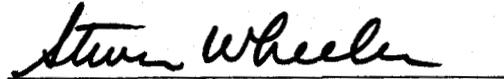
By:



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Arizona Public Service Company

By:



Steven Wheeler
Executive Vice President of
Customer Service and Regulation
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Estate of Avis Read

By:

Barry G. Reed
Zimmerman Reed P.L.L.P.
14646 N. Kierland Blvd., Suite 145
Scottsdale, Arizona 85254

47. Each Signatory Party will support and defend this Agreement and any Commission order approving this Agreement before the Commission, before any other regulatory agency, or before any court in which it may be at issue. This Agreement shall not be construed to require the Commission to participate in any proceeding related to the recovery of attorneys' fees in this or any related matter.

Dated this 25th day of February 2005.

Arizona Corporation Commission Staff

By: _____
Ernest Johnson
Utilities Division Director
1200 West Washington Street
Phoenix, Arizona 85007-2927

Arizona Public Service Company

By: _____
Steven Wheeler
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Estate of Avis Read

By:  _____
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Exhibit A

Estimate of Potential Settlement Credits

September 1, 1998 through October 1, 2003

General Service ¹	Residential	Total ²
\$2,045,546	\$171,686	\$2,217,232

Notes:

¹ Does not reflect any potential reductions due to account review. Actual Credits will reflect any reductions due to double credits for same adjustment, ratchets and/or contract demands.

² Does not include interest which would be calculated in accordance with Paragraph 19.