



0000068907

E-00000A-02-0051

E-01345A-01-0822

E-00000A-01-0630

E-01933A-02-0069

E-01933A-98-0471

PART 2 OF 2

BAR CODE # 0000068907

To review Part 1 please see:

BAR CODE #0000068906

ON-SITE GENERATION TERMS AND CONDITIONS

Customers served under this rate schedule who have on-site generation connected to the Company's electrical delivery grid shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

CONTRACT PERIOD

0 - 1,999 kW:	As provided in Company's standard agreement for service.
2,000 kW and above:	Three (3) years, or longer, at Company's option for initial period when construction is required. One (1) year, or longer, at Company's option when construction is not required.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These Schedules have provisions that may affect customer's monthly bill.

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS10
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
EXTRA LARGE GENERAL SERVICE

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. This rate schedule is applicable only to customers whose monthly maximum demand is 3,000 kW or more for three (3) consecutive months in any continuous twelve (12) month period ending with the current month. Service must be supplied at one point of delivery and measured through one meter unless otherwise specified by individual customer contract. For those customers whose electricity is delivered through more than one meter, service for each meter shall be computed separately under this rate unless conditions in accordance with the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service) are met.

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at Company's standard voltages that are available within the vicinity of customer's premise.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
\$/month	\$2,430.00			
per kW		\$3.53		\$2.82
per kWh		\$0.00999	\$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE:

1. For customers served at primary voltage (12.5kV to below 69kV), the Distribution charge will be discounted by 4.8%.
2. For customers served at transmission voltage (69kV or higher), the Distribution charge will be discounted 36.7%.
3. Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 15-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.
2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

\$2,430.00 per month plus \$1.74 per kW per month.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	\$35.00 per month
Meter Reading	\$ 0.30 per month
Billing	\$ 0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customers served under this rate schedule are responsible for acquiring their own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

Customers served under this rate schedule who have on-site generation connected to the Company's electrical delivery grid shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

CONTRACT PERIOD

For service locations in:

- a) Isolated Areas: Ten (10) years, or longer, at Company's option, with standard seven (7) year termination period.
- b) Other Areas: Three (3) years, or longer, at Company's option.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS11
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
RALSTON PURINA

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to Ralston Purina (Site #863970289) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 12.5 kV.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
\$/month	\$2,430.00			
per kW		\$2.58		\$1.86
per kWh		\$0.00732	\$0.00115	

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

- The kW used for billing purposes shall be the average kW supplied during the 15-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.
- The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

\$2,430.00 per month plus \$1.74 per kW per month.

ADJUSTMENTS

- When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	\$55.00 per month
Meter Reading	\$ 0.30 per month
Billing	\$ 0.30 per month
- The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customer is responsible for acquiring its own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

If Customer has on-site generation connected to the Company's electrical delivery grid, it shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS12
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
BHP COPPER

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to BHP Copper (Site #774932285) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 12.5 kV or higher.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution at Primary Voltage	Distribution at Transmission Voltage	System Benefits	Competitive Transition Charge
\$/month	\$2,430.00				
per kW		\$2.35	\$1.22		\$1.54
per kWh		\$0.00665	\$0.00346	\$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE:

Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 30-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.
2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

\$2,430.00 per month plus \$1.74 per kW per month.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	\$55.00 per month
Meter Reading	\$ 0.30 per month
Billing	\$ 0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customer is responsible for acquiring its own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

If Customer has on-site generation connected to the Company's electrical delivery grid, it shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS13
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
CYPRUS BAGDAD

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to Cyprus Bagdad (Site #120932284) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 115 kV or higher.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
\$/month	\$2,430.00			
per kW		\$1.05		\$1.34
per kWh		\$0.00298	\$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE:

Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 30-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.
2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

\$2,430.00 per month plus \$1.74 per kW per month, until June 30, 2004 when this minimum will no longer be applicable.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	\$55.00 per month
Meter Reading	\$ 0.30 per month
Billing	\$ 0.30 per month
2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customer is responsible for acquiring its own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

If Customer has on-site generation connected to the Company's electrical delivery grid, it shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

ARIZONA PUBLIC SERVICE COMPANY

Competitive Transition Charges
By Direct Access Rate Classes

Line #	Direct Access Rate Class	Competition Transition Charges Effective January 1 of					
		1999	2000	2001	2002	2003	2004
1	Residential, DA-R1 (per kWh)	\$ 0.0093	\$ 0.0084	\$ 0.0063	\$ 0.0056	\$ 0.0050	\$ 0.0036
2	Under 3 mW, DA-GS1, (per kW/mo.)	\$ 2.43	\$ 2.20	\$ 1.66	\$ 1.46	\$ 1.30	\$ 0.94
3	3 mW and Above, DA-GS10 (per kW/mo.)	\$ 2.82	\$ 2.55	\$ 1.89	\$ 1.72	\$ 1.51	\$ 1.09
4	BHP Copper (per kW/mo.)	\$ 1.54	\$ 1.53	\$ 1.06	\$ 0.95	\$ 0.83	\$ 0.61
5	Cyprus Copper (per kW/mo.)	\$ 1.34	\$ 1.46	\$ 1.05	\$ 0.94	\$ 0.82	\$ 0.61
6	Ralston Purina (per kW/mo.)	\$ 1.86	\$ 1.98	\$ 1.50	\$ 1.34	\$ 1.18	\$ 0.87
7	Average Retail (per kWh)	\$ 0.0067	\$ 0.0061	\$ 0.0054	\$ 0.0048	\$ 0.0043	\$ 0.0031

Charges are based upon recovery of \$350 million NPV derived from APS' Compliance Filing of 8/21/98 as adjusted to synchronize Direct Access and Standard Offer revenue decreases.

ARIZONA PUBLIC SERVICE COMPANY

Distribution Charges
By Direct Access Rate Classes

Line #	Direct Access Rate Class	Distribution Charges Effective January 1 of					2004 ^w
		1999	2000	2001	2002	2003	
Residential, DA-RI							
1	Summer per kWh	\$ 0.04158	\$ 0.04041	\$ 0.03934	\$ 0.03837	\$ 0.03748	\$ 0.03689
2	Winter per kWh	\$ 0.03518	\$ 0.03419	\$ 0.03329	\$ 0.03247	\$ 0.03172	\$ 0.03122
DA-GS1 (Under 3 mW)							
Summer Rates							
3	per kW for all kW over 5	\$ 0.721	\$ 0.691	\$ 0.663	\$ 0.638	\$ 0.615	\$ 0.600
4	per kWh for the first 2,500 kWh	\$ 0.04255	\$ 0.04075	\$ 0.03912	\$ 0.03763	\$ 0.03627	\$ 0.03537
5	per kWh for the next 100 kWh per kW over 5	\$ 0.04255	\$ 0.04075	\$ 0.03912	\$ 0.03763	\$ 0.03627	\$ 0.03537
6	per kWh for the next 42,000 kWh	\$ 0.02901	\$ 0.02779	\$ 0.02667	\$ 0.02565	\$ 0.02473	\$ 0.02411
7	per kWh for all additional kWh	\$ 0.01811	\$ 0.01735	\$ 0.01665	\$ 0.01602	\$ 0.01544	\$ 0.01506
Winter Rates							
8	per kW for all kW over 5	\$ 0.652	\$ 0.624	\$ 0.599	\$ 0.576	\$ 0.555	\$ 0.541
9	per kWh for the first 2,500 kWh	\$ 0.03827	\$ 0.03666	\$ 0.03519	\$ 0.03385	\$ 0.03263	\$ 0.03182
10	per kWh for the next 100 kWh per kW over 5	\$ 0.03827	\$ 0.03666	\$ 0.03519	\$ 0.03385	\$ 0.03263	\$ 0.03182
11	per kWh for the next 42,000 kWh	\$ 0.02600	\$ 0.02490	\$ 0.02390	\$ 0.02299	\$ 0.02216	\$ 0.02161
12	per kWh for all additional kWh	\$ 0.01614	\$ 0.01546	\$ 0.01484	\$ 0.01427	\$ 0.01376	\$ 0.01342
Voltage Discounts							
13	Primary Voltage	11.6%	12.1%	12.6%	13.1%	13.6%	13.9%
14	Transmission Voltage	52.6%	54.9%	57.2%	59.5%	61.7%	63.3%
DA-GS10 (3 mW and Above)							
15	per kW	\$ 3.53	\$ 3.33	\$ 3.15	\$ 2.98	\$ 2.83	\$ 2.73
16	per kWh	\$ 0.00999	\$ 0.00943	\$ 0.00892	\$ 0.00845	\$ 0.00802	\$ 0.00774
Voltage Discounts							
17	Primary Voltage Discount	4.8%	5.1%	5.3%	5.6%	5.9%	6.2%
18	Transmission Voltage Discount	36.7%	38.9%	41.1%	43.4%	45.8%	47.4%
DA-GS11 (Ralston Purina)							
19	per kW	\$ 2.58	\$ 2.71	\$ 2.57	\$ 2.44	\$ 2.32	\$ 2.25
20	per kWh	\$ 0.00732	\$ 0.00767	\$ 0.00727	\$ 0.00691	\$ 0.00657	\$ 0.00635
DA-GS12 (BHP Copper)							
21	Primary Voltage Delivery - per kW	\$ 2.35	\$ 2.30	\$ 2.16	\$ 2.07	\$ 1.99	\$ 1.93
22	per kWh	\$ 0.00665	\$ 0.00651	\$ 0.00611	\$ 0.00585	\$ 0.00561	\$ 0.00546
23	Transmission Voltage Delivery - per kW	\$ 1.22	\$ 1.17	\$ 1.03	\$ 0.94	\$ 0.85	\$ 0.80
24	per kWh	\$ 0.00346	\$ 0.00332	\$ 0.00292	\$ 0.00266	\$ 0.00242	\$ 0.00227
DA-GS13 (Cynrus Bagdad)							
25	per kW	\$ 1.05	\$ 1.21	\$ 1.03	\$ 0.94	\$ 0.85	\$ 0.80
26	per kWh	\$ 0.00297	\$ 0.00343	\$ 0.00292	\$ 0.00266	\$ 0.00242	\$ 0.00227

^w Transmission voltage customers will not pay Distribution Charges after June 30, 2004

ARIZONA PUBLIC SERVICE COMPANY

Regulatory Asset Amortization Schedule
(Millions of Dollars)

	1999	2000	2001	2002	2003	1/1 - 6/30 2004 ^{1/}	Total ^{2/}
	164	158	145	115	86	18	686

^{1/} Amortization ends 6/30/2004

^{2/} Includes the disallowance from Section 3.3

Exhibit B

Annual ACC Jurisdictional Sales of Delivered kWh or kW¹ x % then Eligible for Access x Applicable CTC (\$/kWh or \$/kW²) = Annual Recovery³

1999	Residential	20	.93
	General Service less than 3MW	20	2.43
	General Service greater than 3MW	20	2.82
	BHP Copper	20	1.54
	Cyprus Copper	20	1.34
	Ralston Purina	20	1.86
2000	Residential	20	.84
	General Service less than 3MW	20	2.20
	General Service greater than 3MW	20	2.55
	BHP Copper	20	1.53
	Cyprus Copper	20	1.46
	Ralston Purina	20	1.98
2001	Residential	100	.63
	General Service less than 3MW	100	1.66
	General Service greater than 3MW	100	1.89
	BHP Copper	100	1.06
	Cyprus Copper	100	1.05
	Ralston Purina	100	1.50
2002	Residential	100	.56
	General Service less than 3MW	100	1.46
	General Service greater than 3MW	100	1.72
	BHP Copper	100	.95
	Cyprus Copper	100	.94
	Ralston Purina	100	1.34
2003	Residential	100	.50
	General Service less than 3MW	100	1.30
	General Service greater than 3MW	100	1.51
	BHP Copper	100	.83
	Cyprus Copper	100	.82
	Ralston Purina	100	1.18
2004	Residential	100	.36
	General Service less than 3MW	100	.94
	General Service greater than 3MW	100	1.09
	BHP Copper	100	.61
	Cyprus Copper	100	.61
	Ralston Purina	100	.87

¹ This formula assumes no change in APS' distribution service territory. In the event of any material change (e.g. by purchase, sale, expansion, condemnation, etc.) the formula will be adjusted such that APS receives the same opportunity to recover the agreed upon level of costs.

² General Service unmetered loads will have a demand calculated for CTC purposes based on contract energy.

³ At the end of 2004 the net present value will be calculated to compare to the \$350 million.

EXHIBIT C

Generation assets include, but are not limited to, APS' interest in the following generating stations:

**Palo Verde
Four Corners
Navajo
Cholla
Saguaro
Ocotillo
West Phoenix
Yucca
Douglas
Childs
Irving**

including allocated common and general plant, support assets, associated land, fuel supplies and contracts, etc. Generation assets will not include facilities included in APS' FERC transmission rates.

EXHIBIT D
Affiliate Rules Waivers

R14-2-801(5) and R14-2-803, such that the term "reorganization" does not include, and no Commission approval is required for, corporate restructuring that does not directly involve the utility distribution company ("UDC") in the holding company. For example, the holding company may reorganize, form, buy or sell non-UDC affiliates, acquire or divest interests in non-UDC affiliates, etc., without Commission approval.

R14-2-804(A)

R14-2-805(A) shall apply only to the UDC

R14-2-805(A)(2)

R14-2-805(A)(6)

R14-2-805(A)(9), (10), and (11)

Recision of Prior Commission Orders

Section X.C of the "Cogeneration and Small Power Production Policy" attached to Decision No. 52345 (July 27, 1981) regarding reporting requirements for cogeneration information.

Decision No. 55118 (July 24, 1986) - Page 15, Lines 5-1/2 through 13-1/2; Finding of Fact No. 24 relating to reporting requirements under the abolished PPFAC.

Decision No. 55818 (December 14, 1987) in its entirety. This decision related to APS Schedule 9 (Industrial Development Rate) which was terminated by the Commission in Decision No. 59329 (October 11, 1995).

9th and 10th Ordering Paragraphs of Decision No. 56450 (April 13, 1989) regarding reporting requirements under the abolished PPFAC.

BEFORE THE ARIZONA CORPORATION COMMISSION

DOCKETED

OCT 06 1999

CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER

DOCKETED BY 

IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY FOR
APPROVAL OF ITS PLAN FOR STRANDED
COST RECOVERY.

DOCKET NO. E-01345A-98-0473

IN THE MATTER OF THE FILING OF ARIZONA
PUBLIC SERVICE COMPANY OF UNBUNDLED
TARIFFS PURSUANT TO A.A.C. R14-2-1601 *ET*
SEQ.

DOCKET NO. E-01345A-97-0773

IN THE MATTER OF COMPETITION IN THE
PROVISION OF ELECTRIC SERVICES
THROUGHOUT THE STATE OF ARIZONA.

DOCKET NO. RE-00000C-94-0165

DECISION NO. 61973

OPINION AND ORDER

DATES OF HEARING:

July 12, 1999 (pre-hearing conference), July 14, 15, 16, 19, 20, and 21, 1999

PLACE OF HEARING:

Phoenix, Arizona

PRESIDING OFFICER:

Jerry L. Rudibaugh

IN ATTENDANCE:

Carl J. Kunasek, Chairman
Jim Irvin, Commissioner

APPEARANCES:

Mr. Steven M. Wheeler, Mr. Thomas Mumaw and Mr. Jeffrey B. Guldner, SNELL & WILMER, LLP, on behalf of Arizona Public Service Company;

Mr. C. Webb Crockett and Mr. Jay Shapiro, FENNEMORE CRAIG, on behalf of Cyprus Climax Metals, Co., ASARCO, Inc., and Arizonans for Electric Choice & Competition;

Mr. Scott S. Wakefield, Chief Counsel, and Ms. Karen Nally on behalf of the Residential Utility Consumer Office;

Ms. Betty Pruitt on behalf of the Arizona Community Action Association;

Mr. Timothy Hogan on behalf of the Arizona Consumers Council;

1 Mr. Robert S. Lynch on behalf of the Arizona
2 Transmission Dependent Utility Group;

3 Mr. Walter W. Meek on behalf of the Arizona Utility
4 Investors Association;

5 Mr. Douglas C. Nelson, DOUGLAS C. NELSON, P.C.,
6 on behalf of Commonwealth Energy Corporation;

7 Mr. Lawrence V. Robertson, Jr., MUNGER &
8 CHADWICK, and Ms. Leslie Lawner, Director
9 Government Affairs on behalf of Enron Corporation,
10 and Mr. Robertson on behalf of PG&E Energy Services;

11 Mr. Lex J. Smith, BROWN & BAIN, P.A., on behalf of
12 Illinova Energy Partners and Sempra Energy Trading;

13 Mr. Randall H. Werner, ROSHKA, HEYMAN &
14 DeWULF, P.L.C., on behalf of NEV Southwest;

15 Mr. Norman Furuta on behalf of the Department of the
16 Navy;

17 Mr. Bradley S. Carroll on behalf of Tucson Electric
18 Power Company; and

19 Mr. Christopher C. Kempley, Assistant Chief Counsel
20 and Ms. Janet F. Wagner, Staff Attorney, Legal Division
21 on behalf of the Utilities Division of the Arizona
22 Corporation Commission.

23 **BY THE COMMISSION:**

24 On December 26, 1996, the Arizona Corporation Commission ("Commission") in Decision
25 No. 59943 enacted A.A.C. R14-2-1601 through R14-2-1616 ("Rules" or "Electric Competition
26 Rules").

27 On June 22, 1998, the Commission issued Decision No. 60977, the Stranded Cost Order
28 which required each Affected Utility to file a plan for stranded cost recovery.

On August 10, 1998, the Commission issued Decision No. 61071 which made modifications
to the Rules on an emergency basis.

On August 21, 1998, Arizona Public Service Company ("APS") filed its Stranded Costs plan.

On November 5, 1998, APS filed a Settlement Proposal that had been entered into with the
Commission's Utilities Division Staff ("Staff Settlement Proposal"). Our November 24, 1998
Procedural Order set the matter for hearing. On November 25, 1998, the Commission issued

1 Decision No. 61259 which established an expedited procedural schedule for evidentiary hearings on
2 the Staff Settlement Proposal.

3 On November 30, 1998, the Arizona Attorney General's Office, in association with numerous
4 other parties, filed a Verified Petition for Special Action and Writ of Mandamus with the Arizona
5 Supreme Court ("Court") regarding the Commission's November 25, 1998 Procedural Order,
6 Decision No. 61259. The Attorney General sought a Stay of the Commission's consideration of the
7 Staff Settlement Proposal with APS and Tucson Electric Power Company ("TEP").

8 On December 1, 1998, Vice Chief Justice Charles J. Jones granted a Motion for Immediate
9 Stay of the Procedural Order. On December 9, 1998, the Commission Staff filed a notice with the
10 Supreme Court that the Staff Settlement Proposal had been withdrawn from Commission
11 consideration.

12 On April 27, 1999, the Commission issued Decision No. 61677, which modified Decision No.
13 60977. On May 17, 1999, APS filed with the Commission a Notice of Filing, Application for
14 Approval of Settlement Agreement ("Settlement" or "Agreement")¹ and Request for Procedural
15 Order.

16 Our May 25, 1999 Procedural Order set the matter for hearing commencing on July 14, 1999.

17 This matter came before a duly authorized Hearing Officer of the Commission at its offices in
18 Phoenix, Arizona. APS, Cyprus Climax Metals, Co., ASARCO, Inc., Arizonans for Electric Choice
19 & Competition ("AECC"), Residential Utility Consumer Office ("RUCO"), the Arizona Community
20 Action Association ("ACAA"), the Arizona Consumers Council, the Arizona Transmission
21 Dependent Utility Group, the Arizona Utility Investors Association, Enron Corporation, PG&E
22 Energy Services, Illinova Energy Partners, Sempra Energy Trading, NEV Southwest, the Department
23 of the Navy, Tucson Electric Power Company, Commonwealth Energy Corporation
24

25 ¹ The Parties to the Proposed Settlement are as follows: the Residential Utility Consumer Office, Arizona Public
26 Service Company, Arizona Community Action Association and the Arizonans for Electric Choice and Competition which
27 is a coalition of companies and associations in support of competition that includes Cable Systems International, BHP
28 Copper, Motorola, Chemical Lime, Intel, Honeywell, Allied Signal, Cyprus Climax Metals, Asarco, Phelps Dodge,
Homebuilders of Central Arizona, Arizona Mining Industry Gets Our Support, Arizona Food Marketing Alliance,
Arizona Association of Industries, Arizona Multi-housing Association, Arizona Rock Products Association, Arizona
Restaurant Association, Arizona Retailers Association, Boeing, Arizona School Board Association, National Federation
of Independent Business, Arizona Hospital Association, Lockheed Martin, Abbot Labs and Raytheon.

1 ("Commonwealth") and Staff of the Commission appeared through counsel. Evidence was presented
 2 concerning the Settlement Agreement, and after a full public hearing, this matter was adjourned
 3 pending submission of a Recommended Opinion and Order by the Presiding Officer to the
 4 Commission. In addition, a post-hearing briefing schedule was established with simultaneous briefs
 5 filed on August 5, 1999.

6 DISCUSSION

7 Introduction

8 The Settlement provides for rate reductions for residential and business customers; sets the
 9 amount, method, and recovery period of stranded costs that APS can collect in customer charges;
 10 establishes unbundled rates; and provides that APS will separate its generating facilities, which will
 11 operate in the competitive market, from its distribution system, which will continue to be regulated.

12 According to APS, the Settlement was the product of months of hard negotiations with
 13 various customer groups. APS opined that the Settlement provides many clear benefits to customers,
 14 potential competitors, as well as to APS. Some of those benefits as listed by APS are as follows:

- 15 • Allowing competition to commence in APS' service territory months before otherwise
 16 possible and expanding the initial eligible load by 140 MW;
- 17 • Establishing both Standard Offer and Direct Access rates, and providing for annual
 18 rate reductions with a cumulative total of as much as \$475 million by 2004;
- 19 • Ensuring stability and certainty for both bundled and unbundled rates;
- 20 • Resolving the issue of APS' stranded costs and regulatory asset recovery in a fair and
 21 equitable manner;
- 22 • Providing for the divestiture of generation and competitive services by APS in a cost-
 23 effective manner;
- 24 • Removing the specter of years of litigation and appeals involving APS and
 25 Commission over competition-related issues;
- 26 • Continuing support for a regional ISO and the AISA;
- 27 • Continuing support for low income programs; and
- 28 • Requiring APS to file an interim code of conduct to address affiliate relationships.

1 The Settlement was entered into by RUCO and the ACAA reflecting Agreement by
 2 residential customers of APS to the Settlement's terms and conditions. In addition, the Settlement
 3 was executed by the AECC, a coalition of commercial and industrial customers and trade
 4 associations. AECC opined that since residential and non-residential customers have agreed to the
 5 Settlement, the "public interest" has been served. AECC indicated the Settlement was not perfect but
 6 was the result of "give and take" by each of the parties. Accordingly, AECC urged the Commission
 7 to protect the "public interest" by approving the Settlement and not allow Energy Service Providers
 8 ("ESPs") to delay the benefits that competition has to offer.

9 Legal Issues:

10 The Arizona Consumers Council ("Consumers Council") opined that the Agreement was not
 11 legal because: (1) there was no full rate proceeding²; (2) Section 2.8 of the Agreement violates
 12 A.R.S. Section 40-246, regarding Commission initiated rate reductions; and (3) the Agreement
 13 illegally binds future Commissions. According to the Consumers Council, the Commission does not
 14 have evidence to support a finding that the rates proposed in the Agreement are just and reasonable;
 15 that the rate base proposed is proper; and asserted the proposed adjustment clause can not be
 16 established outside a general rate case.

17 Staff argued that the Commission in Decision No. 59601, dated April 26, 1996, has
 18 previously determined just and reasonable rates for APS which must be charged until changed in a
 19 rate proceeding. According to Staff, this case is not about changing existing rates, but instead
 20 involves the introduction of a new service - direct access. The direct access rates have been designed
 21 to replicate the revenue flow from existing rates. Staff opined that the Commission has routinely, and
 22 lawfully, approved rates for new services outside of a rate case. Further, Staff asserted that the rates
 23 proposed in the Settlement are directly related to a complete financial review. Staff indicated that the
 24 Consumers Council has provided no contrary information and should not be allowed to collaterally
 25 attack Decision No. 59601.

26 APS argued that no determination of fair value rate base ("FVRB"), fair value rate of return

27 _____
 28 ² Although the Consumers Council indicated they did not believe a full rate proceeding was necessary, it is unclear as to the type of proceeding the Consumers Council believed was necessary.

1 ("FVROR"), or other financial analysis is legally necessary to justify current APS rate levels, allow
2 the introduction of a new service, or to evaluate a series of voluntary rate decreases. In spite of that,
3 APS did provide information to support a FVRB of \$5,195,675,000 and FVROR of 6.63 percent. No
4 other party presented evidence in support of a FVRB or FVROR. Staff supported APS.

5 We concur with Staff and APS. The Consumers Council has provided no legal authority that
6 a full rate proceeding is necessary in order to adopt a rate reduction or rates for new services.
7 Further, pursuant to the Arizona Constitution, the Commission has jurisdiction over ratemaking
8 matters. We also find that notice of the application and hearing was provided and that APS has
9 provided sufficient financial information to support a finding of FVRB and FVROR. Lastly, this
10 Commission can clearly bind future Commissions as a result of its Decision. However, as later
11 discussed, we agree there are limitations to such legal authority.

12 Shopping Credit

13 One of the most contentious issues in the hearing was the level of the "shopping credit." The
14 "shopping credit" is the difference between the customer's Standard Offer Rate and the Direct Access
15 Rate available to customers who take service from ESPs. The ESPs generally argued that the
16 Settlement's "shopping credits" were not sufficient to allow a new entrant to make a profit. AECC
17 opined that such an argument was nothing more than a request to increase ESP's profits.

18 Staff opined that the "shopping credit" was too low and recommended it be increased without
19 impacting the stranded cost recovery amount of \$350 million. Under Staff's proposal, the increased
20 "shopping credit" would be offset by reducing the competitive transition charge ("CTCs"). Further,
21 Staff recommended that any stranded costs not collected could simply be deferred and collected after
22 2004.

23 The AECC expert testified that the "shopping credit" under the Agreement was superior to the
24 "Shopping Credit" in the Staff Settlement Proposal as well as the one offered to SRP's customers.
25 APS argued that artificially high shopping credits will likely increase ESP profits without lowering
26 customer rates and will encourage inefficient firms to enter the market. Based on the analysis of the
27

28

1 40kW to 200 kW customer group³, APS showed an average margin on the "shopping credit" of over
 2 8 mils per kWh or a 23 percent markup over cost. APS asserted that the test for a reasonable
 3 "shopping credit" "should not be whether all ESPs can profit on all APS customers all of the time".

4 Based on the evidence presented, the "shopping credits" appear to be reasonable to allow
 5 ESPs to compete in an efficient manner. Further, we do not find customer rates should be increased
 6 simply to have higher "shopping credits".

7 Metering and Billing Credits

8 The metering and billing credits resulting from the Agreement are based on decremental costs.
 9 Several of the ESPs and Staff argued that these credits should be based upon embedded costs and not
 10 decremental costs. APS responded that such a result could cause them to lose revenues since its costs
 11 would only go down by the decremental amounts. Staff testified that the Company would not lose
 12 significant income if it used embedded costs since it would free up resources to service new
 13 customers.

14 We concur. The proposed credits for metering, meter reading and billing⁴ will result in a
 15 direct access customer paying a portion of APS costs as well as a portion of the ESP's costs. We
 16 believe this would stymie the competitive market for these services. As a result, we find the approval
 17 of the Settlement should be conditioned upon the use of Staff's proposed credits for metering, meter
 18 reading, and billing.

19 Proposed One-Year Advance Notice Requirement:

20 Section 2.3 provides that

21 "Customers greater than 3MW who chose a direct access supplier must give APS one
 22 year's advance notice before being eligible to return to Standard Offer service."
 23 [emphasis added]

24 Several parties expressed concerns that the one-year notice requirement to return to Standard
 25 Offer service would create a deterrent to load switching by large industrial, institutional and
 26 commercial customers. PG&E proposed that any increased cost could be charged directly to the

27 ³ Represents over 80 percent of the general service customers for competitive access in phase one.

28 ⁴ For example, the monthly credits for a direct access residential customers are \$1.30, \$0.30, and \$0.30 for
 metering, meter reading and billing, respectively.

1 customer as a condition to its return.

2 We agree that APS needs to have some protection from customers leaving the system when
3 market prices are low and jumping back on Standard Offer rates when market prices go up. The
4 suggestion by PG&E that the customer be allowed to go back to the Standard Offer if the customer
5 pays for additional costs it has caused is a reasonable resolution. Accordingly, we will order APS to
6 submit substitute language on this issue.

7 Section 2.8

8 Several of the parties expressed concern that Section 2.8 of the Agreement allows APS to seek
9 rate increases under specified conditions. Additionally, as previously discussed, the Consumers
10 Council opined that Section 2.8 violated A.R.S. Section 40-246. Staff recommended the Commission
11 condition approval of the Agreement on Section 2.8 being amended to include language that the
12 Commission or Staff may commence rate change proceedings under conditions paralleling those
13 provided to the utility, including response to petitions submitted under A.R.S. § 40-246.

14 We agree that Section 2.8 is too restrictive on the Commission's future action. Accordingly,
15 we will condition approval of the Agreement on inclusion of the following language in Section 2.8:

16 Neither the Commission nor APS shall be prevented from seeking or
17 authorizing a change in unbundled or Standard Offer rates prior to July 1,
18 2004, in the event of (a) conditions or circumstances which constitute an
19 emergency, such as an inability to finance on reasonable terms, or (b)
20 material changes in APS' cost of service for Commission-regulated
21 services resulting from federal, tribal, state or local laws, regulatory
22 requirements, judicial decisions, actions or orders. Except for the changes
23 otherwise specifically contemplated by this Agreement, unbundled and
24 Standard Offer rates shall remain unchanged until at least July 1, 2004.

25 Section 7.1

26 The Consumers Council opined that there was language in the Agreement which would
27 illegally bind future Commissions. While Staff disagreed with the legal opinion of the Consumers
28 Council, Staff was concerned with some of the binding language in the Agreement and in particular
with the following language in Section 7.1:

7.1. To the extent any provision of this Agreement is inconsistent with any existing
or future Commission order, rule or regulation or is inconsistent with the Electric

1 Competition Rules as now existing or as may be amended in the future, the provisions of
2 this Agreement shall control and the approval of the Agreement by the Commission shall
3 be deemed to constitute a Commission-approved variation or exemption to any
4 conflicting provision of the Electric Competition Rules.

5 Staff recommended the Commission not approve Section 7.1.

6 We share Staff's concerns. We also recognize that the parties want to preserve their benefits
7 to their Agreement. We agree with the parties that to the extent any provision of the Agreement is
8 inconsistent with the Electric Competition Rules as finalized by the Commission in September 1999,
9 the provisions of the Agreement shall control. We want to make it clear that the Commission does
10 not intend to revisit the stranded cost portion of the Agreement. It is also not the Commission's
11 intent to undermine the benefits that parties have bargained for. With that said, the Commission must
12 be able to make rule changes/other future modifications that become necessary over time. As a
13 result, we will direct the parties and Staff to file within 10 days, a revised Section 7.1 consistent with
14 the Commission's discussions herein and subsequently approved by this Commission.

15 Generation Affiliate

16 Section 4.1 of the Agreement provides the following:

17 4.1 The Commission will approve the formation of an affiliate or affiliates of APS
18 to acquire at book value the competitive services assets as currently required by the
19 Electric Competition Rules. In order to facilitate the separation of such assets
20 efficiently and at the lowest possible cost, the Commission shall grant APS a two-year
21 extension of time until December 31, 2002, to accomplish such separation. A similar
22 two-year extension shall be authorized for compliance with A.A.C. R14-2-1606(B).

23 Related to Section 4.1 is Section 2.6(3) which allows APS to defer costs of forming the generation
24 affiliate, to be collected beginning July 1, 2004.

25 According to NEV Southwest, APS indicated that it intends to establish a generation affiliate
26 under Pinnacle West, not under APS. Further, that APS intends to procure generation for standard
27 offer customers from the wholesale generation market as provided for in the Electric Competition
28 Rules. Additionally, it was NEV Southwest's understanding that the affiliate generation company
29 could bid for the APS standard offer load under an affiliate FERC tariff, but there would be no
30 automatic privilege outside of the market bid. NEV Southwest supports the aforementioned concepts
31 and recommended they be explicitly stated in the Agreement.

32 We concur with NEV Southwest. We shall order APS to include language as requested by

1 NEV Southwest. Power for Standard Offer Service will be acquired in a manner consistent with the
2 Commission's Electric Competition Rules. We generally support the request of APS to defer those
3 costs related to formation of a new generation affiliate pursuant to the Electric Competition Rules.
4 We also recognize the Company is making a business decision to transfer the generation assets to an
5 affiliate instead of an unrelated third party. As a result, we find the Company's proposed mitigation
6 of stranded costs⁵ in the Settlement should also apply to the costs of forming the new generation
7 affiliate. Accordingly, Section 2.6(3) should be modified to reflect that only 67 percent of those costs
8 to transfer generation assets to an affiliate shall be allowed to be deferred for future collection.

9 Some parties were concerned that Sections 4.1 and 4.2 provide in effect that the Commission
10 will have approved in advance any proposed financing arrangements associated with future transfers
11 of "competitive services" assets to an affiliate. As a result, there was a recommendation that the
12 Commission retain the right to review and approve or reject any proposed financing arrangements. In
13 addition, some parties expressed concern that APS has not definitively described the assets it will
14 retain and which it will transfer to an affiliate.

15 We share the concerns that the non-competitive portion of APS not subsidize the spun-off
16 competitive assets through an unfair financial arrangement. We want to make it clear that the
17 Commission will closely scrutinize the capital structure of APS at its 2004 rate case and make any
18 necessary adjustments. The Commission supports and authorizes the transfer by APS to an affiliate
19 or affiliates of all its generation and competitive electric service assets as set forth in the Agreement
20 no later than December 31, 2002. However, we will require the Company to provide the Commission
21 with a specific list of any assets to be so transferred, along with their net book values at the time of
22 transfer, at least thirty days prior to the actual transfer. The Commission reserves the right to verify
23 whether such specific assets are for the provision of generation and other competitive electric
24 services or whether there are additional APS assets that should be so transferred.

25 Unbundled Rates

26 Several parties expressed concern that the Agreement's unbundled rates fail to provide the
27

28 ⁵ Agreement to not recover \$183 million out of a claimed \$533 million.

1 necessary information to determine whether a competitor's price is lower than the Standard Offer
2 rate. Further, some of the parties asserted that APS has not performed a functional cost-of-service
3 study and as a result the Settlement's "shopping credit" is an artificial division of costs. In response,
4 APS indicated the Standard Offer rates can not be unbundled on a strict cost-of-service basis unless
5 the Standard Offer rates are redesigned to equal cost-of-service. APS opined that such a process
6 would result in significant rate increases for many customers.

7 AECC asserted that a full rate case would result in additional months/years of delay with
8 continued drain of resources by all interested entities.

9 The ESPs asserted that the bill format proposed by APS is misleading and too complex. In
10 general, the ESPs desired a bill format that would allow customers to easily compare Standard Offer
11 and Direct Access charges in order to make an informed decision. As a result, APS was directed to
12 circulate an Informational Unbundled Standard Offer Bill ("Bill") to the parties for comments.
13 Subsequent to the hearing, a Bill was circulated to the parties for comments to determine what
14 consensus could be reached on its format. In general, there was little dispute with the format of the
15 Bill. However, PG&E and Commonwealth disagreed with the underlying cost allocation
16 methodologies. Enron was concerned that the Bill portrayed the Standard Offer to be more simplistic
17 than the Direct Access portion of the Bill. Enron proposed a bill format that would clearly identify
18 those services which are available from an ESP. Based on comments from RUCO and Staff, APS
19 made general revisions to the proposed Bill.

20 We find the APS Attachment AP-1R, second revised dated 8/16/99 provides sufficient
21 information in a concise manner to enable customers to make an informed choice. (See Attachment
22 No. 2 herein). However, we find the Enron breakdown into a Part 1 versus Parts 2 and 3 will further
23 help educate customers as to choice. We will direct APS to further revise its Bill to have a Part 1 as
24 set forth by the Enron breakdown. We believe Parts 2 and 3 can be combined for simplicity.

25 We concur with APS that it is not necessary to file a revised cost-of-service study at this time.
26 The proposed Standard Offer rates contained in the Settlement are based on existing tariffs approved
27 by this Commission. Further, we concur with AECC that a full rate case with a revised cost-of-
28 service study would result in months/years of additional delay. Lastly, the Standard Offer rates as

1 proposed in the Settlement are consistent with the Commission's requirement that no customer shall
2 receive a rate increase. The following was extracted from Decision No. 61677:

3 "No customer or customer class shall receive a rate increase as a result of
4 stranded cost recovery by an Affected Utility under any of these options."

5 Code of Conduct

6 There were concerns expressed that APS would be writing its own Code of Conduct.
7 Subsequently, APS did provide a copy of its proposed Code of Conduct to the parties for comment.
8 Several parties also expressed concern that any Code of Conduct would not cover the actions of a
9 single company during the two-year delay for transferring generation assets.

10 Based on the above, we will direct APS to file with the Commission no later than 30 days of
11 the date of this Decision, its interim Code of Conduct. We will direct APS to file its revised Code of
12 Conduct within 30 days of the date of this Decision. Such Code of Conduct should also include
13 provisions to govern the supply of generation during the two-year period of delay for the transfer of
14 generation assets so that APS doesn't give itself an undue advantage over the ESPs. All parties shall
15 have 60 days from the date of this Decision to provide their comments to APS regarding the revised
16 Code of Conduct. APS shall file its final proposed Code of Conduct within 90 days of the date of this
17 Decision. Subsequently, within 10 days of filing the Code of Conduct, the Hearing Division shall
18 establish a procedural schedule to hear the matter.

19 Section 2.6(1)

20 Pursuant to the Agreement, the Commission shall approve an adjustment clause or clauses
21 which among other things would provide for a purchased power adjustor ("PPA") for service after
22 July 1, 2004 for Standard Offer obligations. Part of the justification for the PPA was the fact that
23 these costs would be outside of the Company's control.

24 We concur that a PPA would result in less risk to the Company resulting in lower costs for
25 the Standard Offer customers. As a result, we will approve the concept of the PPA as set forth in
26 Section 2.6(1) with the understanding that the Commission can eliminate the PPA once the
27 Commission has provided reasonable notice to the Company.

28 ...

1 Requested Waivers

2 . Section 4.3 of the Agreement would automatically act to exempt APS and its affiliates from
3 the application of a wide range of provisions under A.R.S. Title 40. In addition, under Section 4.5 of
4 the Agreement, Commission approval without modification will act to grant certain waivers to APS
5 and its affiliates of a variety of the provisions of the Commission's affiliate interest rules (A.A.C.
6 R14-2-801, *et seq.*), and the rescission of all or portions of certain prior Commission decisions.

7 Staff recommended that the Commission reserve its approval of the requested statute waivers
8 until such time as their applicability can be evaluated on an industry-wide basis, rather than providing
9 a blanket exemption for APS and its affiliates. Additionally, Staff recommended that the
10 Commission not waive the applicability of A.A.C. R14-2-804(A), in order to preserve the regulatory
11 authority needed by the Commission to justify approving Exempt Wholesale Generator ("EWG")
12 status for APS' generation affiliate.

13 We concur with Staff. Accordingly, the requested statutory waivers shall not be granted by
14 this Decision. Those waivers will be considered in an industry-wide proceeding to be scheduled at
15 the Commission's earliest convenience. The requested waivers of affiliate interest rules and
16 rescission of prior Commission decisions shall be granted, except that the provisions of A.A.C. R14-
17 2-804(A) shall not be waived.

18 ANALYSIS/SUMMARY

19 Consistent with our determination in Decision No. 60977, the following primary objectives
20 need to be taken into consideration in deciding the overall stranded cost issue:

- 21
- 22 A. Provide the Affected Utilities a reasonable opportunity to collect 100 percent of their unmitigated stranded costs;
- 23 B. Provide incentives for the Affected Utilities to maximize their mitigation effort;
- 24 C. Accelerate the collection of stranded costs into as short of a transition period as possible consistent with other objectives;
- 25 D. Minimize the stranded cost impact on customers remaining on the standard offer;
- 26 E. Don't confuse customers as to the bottom line; and
- 27
- 28

1 F. Have full generation competition as soon as possible.

2 The Commission also recognized in Decision No. 60977 that the aforementioned objectives
3 were in conflict. Part of that conflict is reflected in the following language extracted from
4 Decision No. 60977:

5
6 One of the main concerns expressed over and over by various consumer groups
7 was that the small consumers would end up with higher costs during the transition
8 phase and all the benefits would flow to the larger users. At the time of the hearing,
9 there had been minimal participation in California by residential customers in the
10 competitive electric market place. It is not the Commission's intent to have small
11 consumers pay higher short-term costs in order to provide lower costs for the larger
12 consumers. Accordingly, we will place limitations on stranded cost recovery that will
13 minimize the impact on the standard offer.

14 Decision No. 61677 modified Decision No. 60977 and allowed each Affected Utility to chose from
15 five options.

16 With the modifications contained herein, we find the overall Settlement satisfies the
17 objectives set forth in Decision Nos. 60977 and 61677. We believe the Settlement will result in an
18 orderly process that will have real rate reductions⁶ during the transition period to a competitive
19 generation market. The Settlement allows every APS customer to have the immediate opportunity to
20 benefit from the change in market structure while maintaining reliability and certainty of delivery.
21 Further, the Settlement in conjunction with the Electric Rules will provide every APS customer with
22 a choice in a reasonable timeframe and in an orderly manner. If anything, the Proposed Settlement
23 favors customers over competitors in the short run since APS has agreed to reductions in rates
24 totaling 7.5 percent⁷. This Commission supports competition in the generation market because of
25 increased benefits to customers, including lower rates and greater choice. While some of the
26 potential competitors have argued that higher "shopping credits" will result in greater choice, we find
27 that a higher shopping credit would also mean less of a rate reduction for APS customers. We find
28 that the Settlement strikes the proper balance between competing objectives by allowing immediate

⁶ There have been instances in other states where customers were told they would receive rate decreases which were then offset by a stranded cost add-on.

⁷ Pursuant to Decision No. 59601, dated April 24, 1996, 0.68 percent of that decrease would have occurred on July 1, 1999.

1 rate reductions while maintaining a relatively short transition period for collection of stranded costs,
 2 followed shortly thereafter with a full rate case. At that point in time the collection of stranded costs
 3 will be completed and unbundled rates can be modified based upon an updated cost study.

4 * * * * *

5 Having considered the entire record herein and being fully advised in the premises, the
 6 Commission finds, concludes, and orders that:

7 FINDINGS OF FACT

8 1. APS is certificated to provide electric service as a public service corporation in the
 9 State of Arizona.

10 2. Decision No. 59943 enacted R14-2-1601 through -1616, the Retail Electric
 11 Competition Rules.

12 3. Following a hearing on generic issues related to stranded costs, the Commission issued
 13 Decision No. 60977, dated June 22, 1998.

14 4. Decision No. 61071 adopted the Emergency Rules on a permanent basis.

15 5. On August 21, 1998, APS filed its Stranded Costs plan.

16 6. On November 5, 1998, APS filed the Staff Settlement Proposal.

17 7. Our November 24, 1998 Procedural Order set the matter for hearing.

18 8. Decision No. 61259 established an expedited procedural schedule for evidentiary
 19 hearings on the Staff Settlement Proposal.

20 9. The Court issued a Stay of the Commission's consideration of the Staff Settlement
 21 Proposal.

22 10. Staff withdrew the Staff Settlement Proposal from Commission consideration.

23 11. On May 17, 1999, APS filed its Settlement requesting Commission approval.

24 12. Our May 25, 1999 Procedural Order set the Settlement for hearing commencing on
 25 July 14, 1999.

26 13. Decision No. 61311 (January 11, 1999) stayed the effectiveness of the Emergency
 27 Rules and related Decisions, and ordered the Hearing Division to conduct further proceedings in this
 28 Docket.

1 14. In Decision No. 61634 (April 23, 1999), the Commission adopted modifications to
2 R14-2-201 through-207, -210 and 212 and R14-2-1601 through -1617.

3 15. Pursuant to Decision No. 61677, dated April 27, 1999, the Commission modified
4 Decision No. 60977 whereby each Affected Utility could choose one of the following options: (a)
5 Net Revenues Lost Methodology; (b) Divestiture/Auction Methodology; (c) Financial Integrity
6 Methodology; (d) Settlement Methodology; and (e) the Alternative Methodology.

7 16. APS and other Affected Utilities filed with the Arizona Superior Court various appeals
8 of Commission Orders adopting the Competition Rules and related Stranded Cost Decisions (the
9 "Outstanding Litigation").

10 17. Pursuant to Decision No. 61677, APS, RUCO, AECC, and ACAA entered into the
11 Settlement to resolve numerous issues, including stranded costs and unbundled tariffs.

12 18. The difference between market based prices and the cost of regulated power has been
13 generally referred to as stranded costs.

14 19. Any stranded cost recovery methodology must balance the interests of the Affected
15 Utilities, ratepayers, and the move toward competition.

16 20. All current and future customers of the Affected Utilities should pay their fair share of
17 stranded costs.

18 21. Pursuant to the terms of the Settlement Agreement, APS has agreed to the
19 modification of its CC&N in order to implement competitive retail access in its Service Territory.

20 22. The Settlement Agreement provides for competitive retail access in APS' Service
21 Territory, establishes rate reductions for all APS customers, sets a mechanism for stranded cost
22 recovery, resolves contentious litigation, and therefore, is in the public interest and should be
23 approved.

24 23. The information and formula for rate reductions contained in Exhibit AP-3 Appended
25 to APS Exhibit No. 2 provides current financial support for the proposed rates.

26 24. RUCO, ACAA, and AECC collectively, represent residential and non-residential
27 customers.

28 25. According to AECC, the Agreement results in higher shopping credits than in the Staff

1 Settlement Proposal as well as those offered by SRP.

2 26. The decremental approach for metering and billing will not provide sufficient credits
3 for competitors to compete.

4 27. Pursuant to the Settlement, customers will receive substantial rate reductions without
5 the necessity of a full rate case.

6 28. An APS rate case would take a minimum of one year to complete.

7 29. ESPs that have been certificated have shown more of an interest in serving larger
8 business customers than residential customers.

9 30. It is not in the public or customers' interests to forego guaranteed Standard Offer rate
10 reductions in order to have a higher shopping credit.

11 31. The Settlement will permit competition in a timely and efficient manner and insure all
12 customers benefit during the transition period.

13 32. Based on the evidence presented, the FVRB and FVROR of APS is determined to be
14 \$5,195,675,000 and 6.63 percent, respectively.

15 33. The terms and conditions of the Settlement Agreement as modified herein are just and
16 reasonable and in the public interest.

17 CONCLUSIONS OF LAW

18 1. The Affected Utilities are public service corporations within the meaning of the
19 Arizona Constitution, Article XV, under A.R.S. §§ 40-202, -203, -250, -321, -322, -331, -336, -361, -
20 365, -367, and under the Arizona Revised Statutes, Title 40, generally.

21 2. The Commission has jurisdiction over the Affected Utilities and of the subject matter
22 contained herein.

23 3. Notice of the proceeding has been given in the manner prescribed by law.

24 4. The Settlement Agreement as modified herein is just and reasonable and in the public
25 interest and should be approved.

26 5. APS should be authorized to implement its Stranded Cost Recovery Plan as set forth
27 in the Settlement Agreement.

28 6. APS' CC&N should be modified in order to permit competitive retail access in APS'

1 CC&N service territory.

2 7. The requested statutory waivers should not be granted at this time. A proceeding
3 should be commenced to consider statutory waivers on an industry-wide basis. The other waivers
4 requested by APS in the Settlement should be granted as modified herein, except that the provisions
5 of A.A.C. R14-2-804(A) shall not be waived.

6 ORDER

7 IT IS THEREFORE ORDERED that the Settlement Agreement as modified herein is hereby
8 approved and all Commission findings, approvals and authorizations requested therein are hereby
9 granted.

10 IT IS FURTHER ORDERED that Arizona Public Service Company's CC&N is hereby
11 modified to permit competitive retail access consistent with this Decision and the Competition Rules.

12 IT IS FURTHER ORDERED that within 30 days of the date of this Decision, Arizona Public
13 Service Company shall file a proposed Code of Conduct for Commission approval.

14 IT IS FURTHER ORDERED that Arizona Public Service Company shall file a revised
15 Settlement Agreement consistent with the modifications herein.

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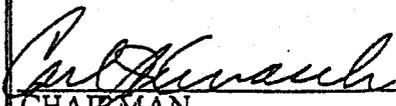
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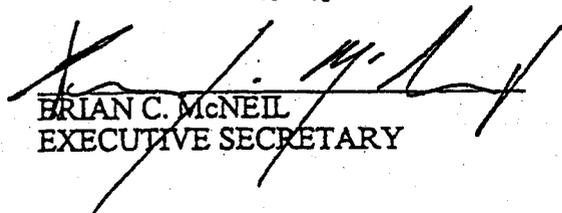
1 IT IS FURTHER ORDERED that within ten days of the date the proposed Code of Conduct
2 is filed, the Hearing Division shall issue a Procedural Order setting a procedural schedule for
3 consideration of the Code of Conduct.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

6
7  
8 CHAIRMAN COMMISSIONER COMMISSIONER

9
10 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
11 Secretary of the Arizona Corporation Commission, have
12 hereunto set my hand and caused the official seal of the
13 Commission to be affixed at the Capitol, in the City of Phoenix,
14 this 6th day of October 1999.

15 
16 BRIAN C. McNEIL
17 EXECUTIVE SECRETARY

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16 DISSENT _____
17 JLR:dap

1 SERVICE LIST FOR: ARIZONA PUBLIC SERVICE COMPANY

2 DOCKET NOS.: E-01345A-98-0473, E-01345A-97-0773 and RE-
3 00000C-94-0165

4 Service List for RE-00000C-94-0165

5 Paul A. Bullis, Chief Counsel
6 LEGAL DIVISION
7 1200 W. Washington Street
8 Phoenix, Arizona 85007

9 Utilities Division Director
10 ARIZONA CORPORATION COMMISSION
11 1200 W. Washington Street
12 Phoenix, Arizona 85007

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SETTLEMENT AGREEMENT

May 14, 1999

This settlement agreement ("Agreement") is entered into as of May 14, 1999, by Arizona Public Service Company ("APS" or the "Company") and the various signatories to this Agreement (collectively, the "Parties") for the purpose of establishing terms and conditions for the introduction of competition in generation and other competitive services that are just, reasonable and in the public interest.

INTRODUCTION

In Decision No. 59943, dated December 26, 1996, the Arizona Corporation Commission ("ACC" or the "Commission") established a "framework" for introduction of competitive electric services throughout the territories of public service corporations in Arizona in the rules adopted in A.A.C. R14-2-1601 *et seq.* (collectively, "Electric Competition Rules" as they may be amended from time to time). The Electric Competition Rules established by that order contemplated future changes to such rules and the possibility of waivers or amendments for particular companies under appropriate circumstances. Since their initial issuance, the Electric Competition Rules have been amended several times and are currently stayed pursuant to Decision No. 61311, dated January 5, 1999. During this time, APS, Commission Staff and other interested parties have participated in a number of proceedings, workshops, public comment sessions and individual negotiations in order to further refine and develop a restructured utility industry in Arizona that will provide meaningful customer choice in a manner that is just, reasonable and in the public interest.

This Agreement establishes the agreed upon transition for APS to a restructured entity and will provide customers with competitive choices for generation and certain other retail services. The Parties believe this Agreement will produce benefits for all customers through implementing customer choice and providing rate reductions so that the APS service territory may benefit from economic growth. The Parties also believe this Agreement will fairly treat APS and its shareholders by providing a reasonable opportunity to recover prudently incurred investments and costs, including stranded costs and regulatory assets.

Specifically, the Parties believe the Agreement is in the public interest for the following reasons. First, customers will receive substantial rate reductions. Second, competition will be promoted through the introduction of retail access faster than would have been possible without this Agreement and by the functional separation of APS' power production and delivery functions. Third, economic development and the environment will

benefit through guaranteed rate reductions and the continuation of renewable and energy efficiency programs. Fourth, universal service coverage will be maintained through APS' low income assistance programs and establishment of "provider of last resort" obligations on APS for customers who do not wish to participate in retail access. Fifth, APS will be able to recover its regulatory assets and stranded costs as provided for in this Agreement without the necessity of a general rate proceeding. Sixth, substantial litigation and associated costs will be avoided by amicably resolving a number of important and contentious issues that have already been raised in the courts and before the Commission. Absent approval by the Commission of the settlement reflected by this Agreement, APS would seek full stranded cost recovery and pursue other rate and competitive restructuring provisions different than provided for herein. The other Parties would challenge at least portions of APS' requested relief, including the recovery of all stranded costs. The resulting regulatory hearings and related court appeals would delay the start of competition and drain the resources of all Parties.

NOW, THEREFORE, APS and the Parties agree to the following provisions which they believe to be just, reasonable and in the public interest:

TERMS OF AGREEMENT

ARTICLE I IMPLEMENTATION OF RETAIL ACCESS

- 1.1. The APS distribution system shall be open for retail access on July 1, 1999; provided, however, that such retail access to electric generation and other competitive electric services suppliers will be phased in for customers in APS' service territory in accordance with the proposed Electric Competition Rules, as and when such rules become effective, with an additional 140 MW being made available to eligible non-residential customers. The Parties shall urge the Commission to approve Electric Competition Rules, at least on an emergency basis, so that meaningful retail access can begin by July 1, 1999. Unless subject to judicial or regulatory restraint, APS shall open its distribution system to retail access for all customers on January 1, 2001.
- 1.2. APS will make retail access available to residential customers pursuant to its December 21, 1998, filing with the Commission.
- 1.3. The Parties acknowledge that APS' ability to offer retail access is contingent upon numerous conditions and circumstances, a number of which are not within the direct control of the Parties. Accordingly, the Parties agree that it may become necessary to modify the terms of retail access to account for such factors, and they further agree to address such matters in good faith and to cooperate in an effort to propose joint resolutions of any such matters.

1.4. APS agrees to the amendment and modification of its Certificate(s) of Convenience and Necessity to permit retail access consistent with the terms of this Agreement. The Commission order adopting this Agreement shall constitute the necessary Commission Order amending and modifying APS' CC&Ns to permit retail access consistent with the terms of this Agreement.

ARTICLE II
RATE MATTERS

2.1. The Company's unbundled rates and charges attached hereto as Exhibit A will be effective as of July 1, 1999. The Company's presently authorized rates and charges shall be deemed its standard offer ("Standard Offer") rates for purposes of this Agreement and the Electric Competition Rules. Bills for Standard Offer service shall indicate individual unbundled service components to the extent required by the Electric Competition Rules.

2.2. Future reductions of standard offer tariff rates of 1.5% for customers having loads of less than 3 MW shall be effective as of July 1, 1999, July 1, 2000, July 1, 2001, July 1, 2002, and July 1, 2003, upon the filing and Commission acceptance of revised tariff sheets reflecting such decreases. For customers having loads greater than 3 MW served on Rate Schedules E-34 and E-35, Standard Offer tariff rates will be reduced: 1.5%, effective July 1, 1999; 1.5% effective July 1, 2000; 1.25% effective July 1, 2001; and .75% effective July 1, 2002. The 1.5% Standard Offer rate reduction to be effective July 1, 1999, includes the rate reduction otherwise required by Decision No. 59601. Such decreases shall become effective by the filing with and acceptance by the Commission of revised tariff sheets reflecting each decrease.

2.3. Customers greater than 3 MW who choose a direct access supplier must give APS one year's advance notice before being eligible to return to Standard Offer service.

2.4. Unbundled rates shall be reduced in the amounts and at the dates set forth in Exhibit A attached hereto upon the filing and Commission acceptance of revised tariff sheets reflecting such decreases.

2.5. This Agreement shall not preclude APS from requesting, or the Commission from approving, changes to specific rate schedules or terms and conditions of service, or the approval of new rates or terms and conditions of service, that do not significantly affect the overall earnings of the Company or materially modify the tariffs or increase the rates approved in this Agreement. Nothing contained in this Agreement shall preclude APS from filing changes to its tariffs or terms and conditions of service which are not inconsistent with its obligations under this Agreement.

2.6. Notwithstanding the rate reduction provisions stated above, the Commission shall, prior to December 31, 2002, approve an adjustment clause or clauses which

will provide full and timely recovery beginning July 1, 2004, of the reasonable and prudent costs of the following:

- (1) APS' "provider of last resort" and Standard Offer obligations for service after July 1, 2004, which costs shall be recovered only from Standard Offer and "provider of last resort" customers;
- (2) Standard Offer service to customers who have left Standard Offer service or a special contract rate for a competitive generation supplier but who desire to return to Standard Offer service, which costs shall be recovered only from Standard Offer and "provider of last resort" customers;
- (3) compliance with the Electric Competition Rules or Commission-ordered programs or directives related to the implementation of the Electric Competition Rules, as they may be amended from time to time, which costs shall be recovered from all customers receiving services from APS; and
- (4) Commission-approved system benefit programs or levels not included in Standard Offer rates as of June 30, 1999, which costs shall be recovered from all customers receiving services from APS.

By June 1, 2002, APS shall file an application for an adjustment clause or clauses, together with a proposed plan of administration, and supporting testimony. The Commission shall thereafter issue a procedural order setting such adjustment clause application for hearing and including reasonable provisions for participation by other parties. The Commission order approving the adjustment clauses shall also establish reasonable procedures pursuant to which the Commission, Commission Staff and interested parties may review the costs to be recovered. By June 30, 2003, APS will file its request for the specific adjustment clause factors which shall, after hearing and Commission approval, become effective July 1, 2004. APS shall be allowed to defer costs covered by this Section 2.6 when incurred for later full recovery pursuant to such adjustment clause or clauses, including a reasonable return.

2.7. By June 30, 2003, APS shall file a general rate case with prefiled testimony and supporting schedules and exhibits; provided, however, that any rate changes resulting therefrom shall not become effective prior to July 1, 2004.

2.8. APS shall not be prevented from seeking a change in unbundled or Standard Offer rates prior to July 1, 2004, in the event of (a) conditions or circumstances which constitute an emergency, such as the inability to finance on reasonable terms, or (b) material changes in APS' cost of service for Commission regulated services resulting from federal, tribal,

state or local laws, regulatory requirements, judicial decision, actions or orders. Except for the changes otherwise specifically contemplated by this Agreement, unbundled and Standard Offer rates shall remain unchanged until at least July 1, 2004.

ARTICLE III
REGULATORY ASSETS AND STRANDED COSTS

3.1. APS currently recovers regulatory assets through July 1, 2004, pursuant to Commission Decision No. 59601 in accordance with the provisions of this Agreement.

3.2. APS has demonstrated that its allowable stranded costs after mitigation (which result from the impact of retail access), exclusive of regulatory assets, are at least \$533 million net present value.

3.3. The Parties agree that APS should not be allowed to recover \$183 million net present value of the amounts included above. APS shall have a reasonable opportunity to recover \$350 million net present value through a competitive transition charge ("CTC") set forth in Exhibit A attached hereto. Such CTC shall remain in effect until December 31, 2004, at which time it will terminate. If by that date APS has recovered more or less than \$350 million net present value, as calculated in accordance with Exhibit B attached hereto, then the nominal dollars associated with any excess recovery/under recovery shall be credited/debited against the costs subject to recovery under the adjustment clause set forth in Section 2.6(3).

3.4. The regulatory assets to be recovered under this Agreement, after giving effect to the adjustments set forth in Section 3.3, shall be amortized in accordance with Schedule C of Exhibit A attached hereto.

3.5. Neither the Parties nor the Commission shall take any action that would diminish the recovery of APS' stranded costs or regulatory assets provided for herein. The Company's willingness to enter into this Agreement is based upon the Commission's irrevocable promise to permit recovery of the Company's regulatory assets and stranded costs as provided herein. Such promise by the Commission shall survive the expiration of the Agreement and shall be specifically enforceable against this and any future Commission.

ARTICLE IV
CORPORATE STRUCTURE

4.1. The Commission will approve the formation of an affiliate or affiliates of APS to acquire at book value the competitive services assets as currently required by the Electric Competition Rules. In order to facilitate the separation of such assets efficiently and at the lowest possible cost, the Commission shall grant APS a two-year extension of time until

December 31, 2002, to accomplish such separation. A similar two-year extension shall be authorized for compliance with A.A.C. R14-2-1606(B).

4.2. Approval of this Agreement by the Commission shall be deemed to constitute all requisite Commission approvals for (1) the creation by APS or its parent of new corporate affiliates to provide competitive services including, but not limited to, generation sales and power marketing, and the transfer thereto of APS' generation assets and competitive services, and (2) the full and timely recovery through the adjustment clause referred to in Section 2.6 above for all of the reasonable and prudent costs so incurred in separating competitive generation assets and competitive services as required by proposed A.A.C. R14-2-1615, exclusive of the costs of transferring the APS power marketing function to an affiliate. The assets and services to be transferred shall include the items set forth on Exhibit C attached hereto. Such transfers may require various regulatory and third party approvals, consents or waivers from entities not subject to APS' control, including the FERC and the NRC. No Party to this Agreement (including the Commission) will oppose, or support opposition to, APS requests to obtain such approvals, consents or waivers.

4.3. Pursuant to A.R.S. § 40-202(L), the Commission's approval of this Agreement shall exempt any competitive service provided by APS or its affiliates from the application of various provisions of A.R.S. Title 40, including A.R.S. §§ 40-203, 40-204(A), 40-204(B), 40-248, 40-250, 40-251, 40-285, 40-301, 40-302, 40-303, 40-321, 40-322, 40-331, 40-332, 40-334, 40-365, 40-366, 40-367 and 40-401.

4.4. APS' subsidiaries and affiliates (including APS' parent) may take advantage of competitive business opportunities in both energy and non-energy related businesses by establishing such unregulated affiliates as they deem appropriate, which will be free to operate in such places as they may determine. The APS affiliate or affiliates acquiring APS' generating assets may be a participant in the energy supply market within and outside of Arizona. Approval of this Agreement by the Commission shall be deemed to include the following specific determinations required under Sections 32(c) and (k)(2) of the Public Utility Holding Company Act of 1935:

APS or an affiliate is authorized to establish a subsidiary company, which will seek exempt wholesale generator ("EWG") status from the Federal Energy Regulatory Commission, for the purposes of acquiring and owning Generation Assets.

The Commission has determined that allowing the Generation Assets to become "eligible facilities," within the meaning of Section 32 of the Public Utility Holding Company Act ("PUHCA"), and owned by an APS EWG affiliate (1) will benefit consumers, (2) is in the public interest, and (3) does not violate Arizona law.

The Commission has sufficient regulatory authority, resources and access to the books and records of APS and any relevant associate, affiliate, or subsidiary company to exercise its duties under Section 32(k) of PUHCA.

APS will purchase any electric energy from its EWG affiliate at market based rates. This Commission has determined that (1) the proposed transaction will benefit consumers and does not violate Arizona law; (2) the proposed transaction will not provide APS' EWG affiliate an unfair competitive advantage by virtue of its affiliation with APS; (3) the proposed transaction is in the public interest.

The APS affiliate or affiliates acquiring APS' generating assets will be subject to regulation by the Commission, to the extent otherwise permitted by law, to no greater manner or extent than that manner and extent of Commission regulation imposed upon other owners or operators of generating facilities.

4.5. The Commission's approval of this Agreement will constitute certain waivers to APS and its affiliates (including its parent) of the Commission's existing affiliate interest rules (A.A.C. R14-2-801, *et seq.*), and the rescission of all or portions of certain prior Commission decisions, all as set forth on Exhibit D attached hereto.

4.6. The Parties reserve their rights under Sections 205 and 206 of the Federal Power Act with respect to the rates of any APS affiliate formed under the provisions of this Article IV.

ARTICLE V WITHDRAWAL OF LITIGATION

5.1. Upon receipt of a final order of the Commission approving this Agreement that is no longer subject to judicial review, APS and the Parties shall withdraw with prejudice all of their various court appeals of the Commission's competition orders.

ARTICLE VI APPROVAL BY THE COMMISSION

6.1. This Agreement shall not become effective until the issuance of a final Commission order approving this Agreement without modification on or before August 1, 1999. In the event that the Commission fails to approve this Agreement without modification according to its terms on or before August 1, 1999, any Party to this Agreement may withdraw from this Agreement and shall thereafter not be bound by its provisions; provided, however, that if APS withdraws from this Agreement, the Agreement shall be null and void and of no further force and effect. In any event, the rate reduction provisions of this Agreement shall not take effect until this Agreement is approved. Parties so withdrawing shall be free to pursue

their respective positions without prejudice. Approval of this Agreement by the Commission shall make the Commission a Party to this Agreement and fully bound by its provisions.

6.2. The Parties agree that they shall make all reasonable and good faith efforts necessary to (1) obtain final approval of this Agreement by the Commission, and (2) ensure full implementation and enforcement of all the terms and conditions set forth in this Agreement. Neither the Parties nor the Commission shall take or propose any action which would be inconsistent with the provisions of this Agreement. All Parties shall actively defend this Agreement in the event of any challenge to its validity or implementation.

ARTICLE VII MISCELLANEOUS MATTERS

7.1. To the extent any provision of this Agreement is inconsistent with any existing or future Commission order, rule or regulation or is inconsistent with the Electric Competition Rules as now existing or as may be amended in the future, the provisions of this Agreement shall control and the approval of this Agreement by the Commission shall be deemed to constitute a Commission-approved variation or exemption to any conflicting provision of the Electric Competition Rules.

7.2. The provisions of this Agreement shall be implemented and enforceable notwithstanding the pendency of a legal challenge to the Commission's approval of this Agreement, unless such implementation and enforcement is stayed or enjoined by a court having jurisdiction over the matter. If any portion of the Commission order approving this Agreement or any provision of this Agreement is declared by a court to be invalid or unlawful in any respect, then (1) APS shall have no further obligations or liability under this Agreement, including, but not limited to, any obligation to implement any future rate reductions under Article II not then in effect, and (2) the modifications to APS' certificates of convenience and necessity referred to in Section 1.4 shall be automatically revoked, in which event APS shall use its best efforts to continue to provide noncompetitive services (as defined in the proposed Electric Competition Rules) at then current rates with respect to customer contracts then in effect for competitive generation (for the remainder of their term) to the extent not prohibited by law and subject to applicable regulatory requirements.

7.3. The terms and provisions of this Agreement apply solely to and are binding only in the context of the purposes and results of this Agreement and none of the positions taken herein by any Party may be referred to, cited or relied upon by any other Party in any fashion as precedent or otherwise in any other proceeding before this Commission or any other regulatory agency or before any court of law for any purpose except in furtherance of the purposes and results of this Agreement.

7.4. This Agreement represents an attempt to compromise and settle disputed claims regarding the prospective just and reasonable rate levels, and the terms and conditions

of competitive retail access, for APS in a manner consistent with the public interest and applicable legal requirements. Nothing contained in this Agreement is an admission by APS that its current rate levels or rate design are unjust or unreasonable.

7.5. As part of this Agreement, APS commits that it will continue the APS Community Action Partnership (which includes weatherization, facility repair and replacement, bill assistance, health and safety programs and energy education) in an annual amount of at least \$500,000 through July 1, 2004. Additionally, the Company will, subject to Commission approval, continue low income rates E-3 and E-4 under their current terms and conditions.

7.6. APS shall actively support the Arizona Independent Scheduling Administrator ("AISA") and the formation of the Desert Star Independent System Operator. APS agrees to modify its OATT to be consistent with any FERC approved AISA protocols. The Parties reserve their rights with respect to any AISA protocols, including the right to challenge or seek modifications to, or waivers from, such protocols. APS shall file changes to its existing OATT consistent with this section within ten (10) days of Commission approval of this Agreement pursuant to Section 6.1.

7.7. Within thirty (30) days of Commission approval of this Agreement pursuant to Section 6.1, APS shall serve on the Parties an Interim Code of Conduct to address inter-affiliate relationships involving APS as a utility distribution company. APS shall voluntarily comply with this Interim Code of Conduct until the Commission approves a code of conduct for APS in accordance with the Electric Competition Rules that is concurrently effective with codes of conduct for all other Affected Utilities (as defined in the Electric Competition Rules). APS shall meet and confer with the Parties prior to serving its Interim Code of Conduct.

7.8. In the event of any disagreement over the interpretation of this Agreement or the implementation of any of the provisions of this Agreement, the Parties shall promptly convene a conference and in good faith shall attempt to resolve such disagreement.

7.9. The obligations under this Agreement that apply for a specific term set forth herein shall expire automatically in accordance with the term specified and shall require no further action for their expiration.

7.10. The Parties agree and recommend that the Commission schedule public meetings and hearings for consideration of this Agreement. The filing of this Agreement with the Commission shall be deemed to be the filing of a formal request for the expeditious issuance of a procedural schedule that establishes such formal hearings and public meetings as may be necessary for the Commission to approve this Agreement in accordance with

Exhibit A
5/10/99
DA-R1ELECTRIC DELIVERY RATESARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and RegulationA.C.C. No. XXXX
Tariff or Schedule No. DA-R1
Original Tariff
Effective: XXX XX 1999DIRECT ACCESS
RESIDENTIAL SERVICEAVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company and where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. This rate schedule is applicable only to electric delivery required for residential purposes in individual private dwellings and in individually metered apartments when such service is supplied at one point of delivery and measured through one meter. For those dwellings and apartments where electric service has historically been measured through two meters, when one of the meters was installed pursuant to a water heating or space heating rate schedule no longer in effect, the electric service measured by such meters shall be combined for billing purposes.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be single phase, 60 Hertz, at one standard voltage (120/240 or 120/208 as may be selected by customer subject to availability at the customer's premise). Three phase service is furnished under the Company's Conditions Governing Extensions of Electric Distribution Lines and Services (Schedule #3). Transformation equipment is included in cost of extension. Three phase service is required for motors of an individual rated capacity of 7-1/2 HP or more.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for load profiling or hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

May - October Billing Cycles (Summer):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
\$/month	\$10.00			
All kWh		\$0.04158	\$0.00115	\$0.00930

November - April Billing Cycles (Winter):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
\$/month	\$10.00			
All kWh		\$0.03518	\$0.00115	\$0.00930

B. MINIMUM \$ 10.00 per month

DECISION NO. 61973

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	\$1.30 per month
Meter Reading	\$0.30 per month
Billing	\$0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customers served under this rate schedule are responsible for acquiring their own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

Customers served under this rate schedule who have on-site generation connected to the Company's electrical delivery grid shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to the Company's Terms and Conditions for Standard Offer and Direct Access Services (Schedule #1) and Schedule #10. These schedules have provisions that may affect customer's monthly bill.

Exhibit A
5/10/99
DA-GS1

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS1
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
GENERAL SERVICE

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. This rate schedule is applicable to all electric service required when such service is supplied at one point of delivery and measured through one meter. For those customers whose electricity is delivered through more than one meter, service for each meter shall be computed separately under this rate unless conditions in accordance with the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service) are met. For those service locations where electric service has historically been measured through two meters, when one of the meters was installed pursuant to a water heating rate schedule no longer in effect, the electric service measured by such meters shall be combined for billing purposes.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

This rate schedule is not applicable to residential service, resale service or direct access service which qualifies for Rate Schedule DA-GS10.

TYPE OF SERVICE

Service shall be single or three phase, 60 Hertz, at one standard voltage as may be selected by customer subject to availability at the customer's premise. Three phase service is furnished under the Company's Conditions Governing Extensions of Electric Distribution Lines and Services (Schedule #3). Transformation equipment is included in cost of extension. Three phase service is not furnished for motors of an individual rated capacity of less than 7-1/2 HP, except for existing facilities or where total aggregate HP of all connected three phase motors exceed 12 HP. Three phase service is required for motors of an individual rated capacity of more than 7-1/2 HP.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for load profiling or hourly metering specified in the Company's Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

June - October Billing Cycles (Summer):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
5 month	\$12.50			
Per kW over 5		\$0.721		
Per kWh for the first 2,500 kWh		\$0.04255		
Per kWh for the next 100 kWh per kW over 5		\$0.04255		
Per kWh for the next 42,000 kWh		\$0.02901		
Per kWh for all additional kWh		\$0.01811		
Per all kWh			\$0.00115	
Per all kW				\$2.43

A. RATE (continued)

November - May Billing Cycles (Winter):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
\$/month	\$12.50			
Per kW over 5		\$0.632		
Per kWh for the first 2,500 kWh		\$0.03827		
Per kWh for the next 100 kWh per kW over 5		\$0.03827		
Per kWh for the next 42,000 kWh		\$0.02600		
Per kWh for all additional kWh		\$0.01614		
Per all kWh			\$0.00115	
Per all kW				\$7.43

PRIMARY AND TRANSMISSION LEVEL SERVICE:

- For customers served at primary voltage (12.5kV to below 69kV), the Distribution charge will be discounted by 11.6%.
- For customers served at transmission voltage (69kV or higher), the Distribution charge will be discounted 32.6%.
- Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the average kW supplied during the 15-minute period of maximum use during the month, as determined from readings of the delivery meter.

B. MINIMUM

\$12.50 plus \$1.74 for each kW in excess of five of either the highest kW established during the 12 months ending with the current month or the minimum kW specified in the agreement for service, whichever is the greater.

ADJUSTMENTS

- When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	\$4.00 per month
Meter Reading	\$0.30 per month
Billing	\$0.30 per month
- The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customers served under this rate schedule are responsible for acquiring their own generation and any other required competitively supplied services from an ESP or under the Company's Open Access Transmission Tariff. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

(CONTINUED ON PAGE 3)

DECISION NO. 61973

ON-SITE GENERATION TERMS AND CONDITIONS

Customers served under this rate schedule who have on-site generation connected to the Company's electrical delivery grid shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

CONTRACT PERIOD

0 - 1,999 kW:	As provided in Company's standard agreement for service.
2,000 kW and above:	Three (3) years, or longer, at Company's option for initial period when construction is required. One (1) year, or longer, at Company's option when construction is not required.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These Schedules have provisions that may affect customer's monthly bill.

Section 6.1 and that afford interested parties adequate opportunity to comment and be heard on the terms of this Agreement consistent with applicable legal requirements.

DATED at Phoenix, Arizona, as of this 14th day of May, 1999.

RESIDENTIAL UTILITY
CONSUMER OFFICE

By Greg Patterson
Title DIRECTOR

ARIZONA PUBLIC SERVICE COMPANY

By Jack Davis
Title PRESIDENT Delivery & Sales

ARIZONA COMMUNITY ACTION
ASSOCIATION

(Party) _____

By Janet R. Regan
Title Executive Director

By _____
Title _____

ARIZONANS FOR ELECTRIC CHOICE
AND COMPETITION, a coalition of

companies and associations in support of competition that includes Cable Systems International, BHP Copper, Motorola, Chemical Lime, Intel, ~~IBM~~, Honeywell, Allied Signal, Cyprus Climax Metals, Asarco, Phelps Dodge, ~~Boise~~, Homebuilders of Central Arizona, Arizona Mining Industry Gets Our Support, Arizona Food Marketing Alliance, Arizona Association of Industries, Arizona Multi-housing Association, Arizona Rock Products Association, Arizona Restaurant Association, ~~Arizona Association of Contractors~~, ~~Arizona Contractors Association~~, and Arizona Retailers Association. **

(Party) _____

By _____
Title _____

(Party) _____

By Steven A. Wozny
Title CHAIRMAN

By _____
Title _____

Enron is NOT a signatory to this Agreement

Exhibit A
5/10/99
DA-GS10

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS10
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
EXTRA LARGE GENERAL SERVICE

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. This rate schedule is applicable only to customers whose monthly maximum demand is 3,000 kW or more for three (3) consecutive months in any continuous twelve (12) month period ending with the current month. Service must be supplied at one point of delivery and measured through one meter unless otherwise specified by individual customer contract. For those customers whose electricity is delivered through more than one meter, service for each meter shall be computed separately under this rate unless conditions in accordance with the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service) are met.

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at Company's standard voltages that are available within the vicinity of customer's premise.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
\$/month	\$2,430.00			
per kW		\$3.53		\$2.82
per kWh		\$0.00999	\$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE:

1. For customers served at primary voltage (12.5kV to below 69kV), the Distribution charge will be discounted by 4.8%.
2. For customers served at transmission voltage (69kV or higher), the Distribution charge will be discounted 36.7%.
3. Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 15-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.
2. The minimum kW specified in the agreement for service or individual customer contract.

1.1072

B. MINIMUM

\$2,430.00 per month plus \$1.74 per kW per month.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	\$35.00 per month
Meter Reading	\$ 0.30 per month
Billing	\$ 0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customers served under this rate schedule are responsible for acquiring their own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

Customers served under this rate schedule who have on-site generation connected to the Company's electrical delivery grid shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

CONTRACT PERIOD

For service locations in:

- a) Isolated Areas: Ten (10) years, or longer, at Company's option, with standard seven (7) year termination period.
- b) Other Areas: Three (3) years, or longer, at Company's option.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

1 1072

Exhibit A
5/13/99
DA-GS11

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS11
Original Tariff
Effective: XXXX, 1999

DIRECT ACCESS
RALSTON PURINA

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to Ralston Purina (Site #863970289) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 12.5 kV.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
\$/month	\$2,430.00			
per kW		\$2.58		\$1.86
per kWh		\$0.00732	\$0.00115	

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 15-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.
2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

\$2,430.00 per month plus \$1.74 per kW per month.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:
 - Meter \$55.00 per month
 - Meter Reading \$ 0.30 per month
 - Billing \$ 0.30 per month
2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

1 1072

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customer is responsible for acquiring its own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

If Customer has on-site generation connected to the Company's electrical delivery grid, it shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

1 1072

Exhibit A
5/13/99
DA-GS12

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS12
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
BHP COPPER

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to BHP Copper (Site #774932283) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 12.5 kV or higher.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution at Primary Voltage	Distribution at Transmission Voltage	System Benefits	Competitive Transition Charge
\$/month	\$2,430.00				
per kW		\$2.35	\$1.22		\$1.54
per kWh		\$0.00665	\$0.00346	\$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE:

Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 30-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.
2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

\$2,430.00 per month plus \$1.74 per kW per month.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	\$55.00 per month
Meter Reading	\$ 0.30 per month
Billing	\$ 0.30 per month
2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customer is responsible for acquiring its own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

If Customer has on-site generation connected to the Company's electrical delivery grid, it shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

Exhibit A
5/13/99
DA-GS13

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS13
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
CYPRUS BAGDAD

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to Cyprus Bagdad (Site #120932284) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 11.5 kV or higher.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
\$/month	\$2,430.00			
per kW		\$1.03		\$1.34
per kWh		\$0.00298	\$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE:

Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 30-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.
2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

\$2,430.00 per month plus \$1.74 per kW per month, until June 30, 2004 when this minimum will no longer be applicable.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	\$55.00 per month
Meter Reading	\$ 0.30 per month
Billing	\$ 0.30 per month
2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customer is responsible for acquiring its own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

If Customer has on-site generation connected to the Company's electrical delivery grid, it shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

Competitive Transition Charges
By Direct Access Rate Classes

Line #	Direct Access Rate Class	Competition Transition Charges Effective January 1 of					
		1999	2000	2001	2002	2003	2004
1	Residential, DA-RI (per kWh)	\$ 0.0093	\$ 0.0084	\$ 0.0063	\$ 0.0056	\$ 0.0050	\$ 0.0036
2	Under 3 mW; DA-GS1, (per kW/mo.)	\$ 2.43	\$ 2.20	\$ 1.66	\$ 1.46	\$ 1.30	\$ 0.94
3	3 mW and Above, DA-GS10 (per kW/mo.)	\$ 2.82	\$ 2.55	\$ 1.89	\$ 1.72	\$ 1.51	\$ 1.09
4	BHP Copper (per kW/mo.)	\$ 1.54	\$ 1.53	\$ 1.06	\$ 0.95	\$ 0.83	\$ 0.61
5	Cyprus Copper (per kW/mo.)	\$ 1.34	\$ 1.46	\$ 1.05	\$ 0.94	\$ 0.82	\$ 0.61
6	Ralston Purina (per kW/mo.)	\$ 1.86	\$ 1.98	\$ 1.50	\$ 1.34	\$ 1.18	\$ 0.87
7	Average Retail (per kWh)	\$ 0.0067	\$ 0.0061	\$ 0.0054	\$ 0.0048	\$ 0.0043	\$ 0.0031

Charges are based upon recovery of \$350 million NPV derived from APS' Compliance Filing of 8/21/98 as adjusted to synchronize Direct Access and Standard Offer revenue decreases.

Distribution Charges
By Direct Access Rate Classes

Line #	Direct Access Rate Class	Distribution Charges Effective January 1 of					
		1999	2000	2001	2002	2003	2004 ^u
Residential DA-R1							
1	Summer per kWh	\$ 0.04158	\$ 0.04041	\$ 0.03934	\$ 0.03837	\$ 0.03748	\$ 0.03689
2	Winter per kWh	\$ 0.03518	\$ 0.03419	\$ 0.03329	\$ 0.03247	\$ 0.03172	\$ 0.03122
DA-GS1 (Under 3 mW)							
Summer Rates							
3	per kW for all kW over 5	\$ 0.721	\$ 0.691	\$ 0.663	\$ 0.638	\$ 0.615	\$ 0.600
4	per kWh for the first 2,500 kWh	\$ 0.04255	\$ 0.04075	\$ 0.03912	\$ 0.03763	\$ 0.03627	\$ 0.03537
5	per kWh for the next 100 kWh per kW over 5	\$ 0.04255	\$ 0.04075	\$ 0.03912	\$ 0.03763	\$ 0.03627	\$ 0.03537
6	per kWh for the next 42,000 kWh	\$ 0.02901	\$ 0.02779	\$ 0.02667	\$ 0.02565	\$ 0.02473	\$ 0.02411
7	per kWh for all additional kWh	\$ 0.01811	\$ 0.01735	\$ 0.01665	\$ 0.01602	\$ 0.01544	\$ 0.01506
Winter Rates							
8	per kW for all kW over 5	\$ 0.652	\$ 0.624	\$ 0.599	\$ 0.576	\$ 0.555	\$ 0.541
9	per kWh for the first 2,500 kWh	\$ 0.03827	\$ 0.03666	\$ 0.03519	\$ 0.03385	\$ 0.03263	\$ 0.03182
10	per kWh for the next 100 kWh per kW over 5	\$ 0.03827	\$ 0.03666	\$ 0.03519	\$ 0.03385	\$ 0.03263	\$ 0.03182
11	per kWh for the next 42,000 kWh	\$ 0.02600	\$ 0.02490	\$ 0.02390	\$ 0.02299	\$ 0.02216	\$ 0.02161
12	per kWh for all additional kWh	\$ 0.01614	\$ 0.01546	\$ 0.01484	\$ 0.01427	\$ 0.01376	\$ 0.01342
Voltage Discounts							
13	Primary Voltage	11.6%	12.1%	12.6%	13.1%	13.6%	13.9%
14	Transmission Voltage	52.6%	54.9%	57.2%	59.5%	61.7%	63.3%
DA-GS10 (3 mW and Above)							
15	per kW	\$ 3.53	\$ 3.33	\$ 3.15	\$ 2.98	\$ 2.83	\$ 2.73
16	per kWh	\$ 0.00999	\$ 0.00943	\$ 0.00892	\$ 0.00845	\$ 0.00802	\$ 0.00774
Voltage Discounts							
17	Primary Voltage Discount	4.8%	5.1%	5.3%	5.6%	5.9%	6.2%
18	Transmission Voltage Discount	36.7%	38.9%	41.1%	43.4%	45.8%	47.4%
DA-GS11 (Ralston Purina)							
19	per kW	\$ 2.58	\$ 2.71	\$ 2.57	\$ 2.44	\$ 2.32	\$ 2.25
20	per kWh	\$ 0.00732	\$ 0.00767	\$ 0.00727	\$ 0.00691	\$ 0.00657	\$ 0.00635
DA-GS12 (DIP Conner)							
21	Primary Voltage Delivery - per kW	\$ 2.35	\$ 2.30	\$ 2.16	\$ 2.07	\$ 1.99	\$ 1.93
22	per kWh	\$ 0.00665	\$ 0.00651	\$ 0.00611	\$ 0.00585	\$ 0.00561	\$ 0.00546
23	Transmission Voltage Delivery - per kW	\$ 1.22	\$ 1.17	\$ 1.03	\$ 0.94	\$ 0.85	\$ 0.80
24	per kWh	\$ 0.00346	\$ 0.00332	\$ 0.00292	\$ 0.00266	\$ 0.00242	\$ 0.00227
DA-GS13 (Cynrus Bagdad)							
25	per kW	\$ 1.05	\$ 1.21	\$ 1.03	\$ 0.94	\$ 0.85	\$ 0.80
26	per kWh	\$ 0.00297	\$ 0.00343	\$ 0.00292	\$ 0.00266	\$ 0.00242	\$ 0.00227

^u Transmission voltage customers will not pay Distribution Charges after June 30, 2004

Exhibit A
5/14/99
Schedule C

ARIZONA PUBLIC SERVICE COMPANY

Regulatory Asset Amortization Schedule
(Millions of Dollars)

	1999	2000	2001	2002	2003	1/1 - 6/30 2004 ^{1/}	Total ^{2/}
	164	158	145	115	86	18	686

^{1/} Amortization ends 6/30/2004

^{2/} Includes the disallowance from Section 3.3

EXHIBIT C

Generation assets include, but are not limited to, APS' interest in the following generating stations:

Palo Verde
Four Corners
Navajo
Cholla
Saguaro
Ocotillo
West Phoenix
Yucca
Douglas
Childs
Irving

including allocated common and general plant, support assets, associated land, fuel supplies and contracts, etc. Generation assets will not include facilities included in APS' FERC transmission rates.

DECISION NO. 61973

Annual ACC Jurisdictional Sales of Delivered kWh or kW¹ x $\frac{2}{3}$ then Eligible for Access x Applicable CTC (¢/kWh or ¢/kW²) = Annual Recovery³

Year	Category	Eligible for Access	Applicable CTC (¢/kWh or ¢/kW ²)	Annual Recovery ³
1999	Residential	20	.93	
	General Service less than 3MW	20	2.43	
	General Service greater than 3MW	20	2.82	
	BHP Copper	20	1.54	
	Cyprus Copper	20	1.34	
Ralston Purina	20	1.86		
2000	Residential	20	.84	
	General Service less than 3MW	20	2.20	
	General Service greater than 3MW	20	2.55	
	BHP Copper	20	1.53	
	Cyprus Copper	20	1.46	
Ralston Purina	20	1.98		
2001	Residential	100	.63	
	General Service less than 3MW	100	1.66	
	General Service greater than 3MW	100	1.89	
	BHP Copper	100	1.06	
	Cyprus Copper	100	1.05	
Ralston Purina	100	1.50		
2002	Residential	100	.56	
	General Service less than 3MW	100	1.46	
	General Service greater than 3MW	100	1.72	
	BHP Copper	100	.95	
	Cyprus Copper	100	.94	
Ralston Purina	100	1.34		
2003	Residential	100	.50	
	General Service less than 3MW	100	1.30	
	General Service greater than 3MW	100	1.51	
	BHP Copper	100	.83	
	Cyprus Copper	100	.82	
Ralston Purina	100	1.18		
2004	Residential	100	.36	
	General Service less than 3MW	100	.94	
	General Service greater than 3MW	100	1.09	
	BHP Copper	100	.61	
	Cyprus Copper	100	.61	
Ralston Purina	100	.87		

¹ This formula assumes no change in APS distribution service territory. In the event of any material change (e.g. by purchase, sale, expansion, condemnation, etc.) the formula will be adjusted such that APS receives the same opportunity to recover the agreed upon level of costs.

² General Service unmetered loads will have a demand calculated for CTC purposes based on contract energy.

³ At the end of 2004 the net present value will be calculated to compare to the \$350 million.

EXHIBIT D
Affiliate Rules Waivers

R14-2-801(5) and R14-2-803, such that the term "reorganization" does not include, and no Commission approval is required for, corporate restructuring that does not directly involve the utility distribution company ("UDC") in the holding company. For example, the holding company may reorganize, form, buy or sell non-UDC affiliates, acquire or divest interests in non-UDC affiliates, etc., without Commission approval.

R14-2-804(A)

R14-2-805(A) shall apply only to the UDC

R14-2-805(A)(2)

R14-2-805(A)(6)

R14-2-805(A)(9), (10), and (11)

Revision of Prior Commission Orders

Section X.C of the "Cogeneration and Small Power Production Policy" attached to Decision No. 52345 (July 27, 1981) regarding reporting requirements for cogeneration information.

Decision No. 55118 (July 24, 1986) - Page 15, Lines 5-1/2 through 13-1/2; Finding of Fact No. 24 relating to reporting requirements under the abolished PPFAC.

Decision No. 55818 (December 14, 1987) in its entirety. This decision related to APS Schedule 9 (Industrial Development Rate) which was terminated by the Commission in Decision No. 59329 (October 11, 1995).

9th and 10th Ordering Paragraphs of Decision No. 56450 (April 13, 1989) regarding reporting requirements under the abolished PPFAC.

639333 01

DECISION NO. 61973

ATTACHMENT 2

ARIZONA PUBLIC SERVICE COMPANY

Informational Unbundling for Standard Offer
Proposed Standard Offer Bill

Sample Summer Bill on Rate E-12 at the Proposed 7/1/99 Rate Level
1.5% Overall Residential Class Decrease (1.68% decrease in energy charges from 9/1/98 Rate Level)

The following information is proposed to be shown on the customer's monthly bill:

Page 1, Standard Offer Bill Calculation:

Your total energy usage this month is: 991 kWh

Basic Service Charge	\$ 7.50
Charge for kWh used	100.09
Regulatory Assessment	0.20
Sales Tax	7.06
TOTAL	\$ 114.85

Page 2, Informational Unbundling:

Your total energy usage for this month is: 991 kWh
You Standard Offer Bill is (see page 1): \$ 114.85

If you choose to receive competitive services from an Electric Service Provider, your APS bill on Rate DA-R1 for delivery service would include:

Metering Service:	\$ 1.30
Meter Reading Service:	0.30
Billing Service:	0.30
Distribution Service:	49.30
System Benefits:	1.14
Competitive Transition Charge:	9.22
Regulatory Assessment:	0.12
Sales Tax:	4.04

Total Charges for APS Delivery Service Only: \$ 65.72

Transmission and Ancillary Services
billed to your Electric Service Provider:
Generation Services: \$ 5.09
\$ 44.04

Shopping Credit to purchase competitively supplied Generation and Transmission Service, including any applicable taxes and regulatory assessments \$ 49.13 or, 4.96 ¢/kWh

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BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
Chairman
JIM IRVIN
Commissioner
MARC SPITZER
Commissioner

Arizona Corporation Commission

DOCKETED

FEB 08 2001

DOCKETED BY *sd*

IN THE MATTER OF ARIZONA PUBLIC
SERVICE COMPANY - APPLICATION FOR
APPROVAL OF ENVIRONMENTAL
PORTFOLIO SURCHARGE EPS-1

DOCKET NO. E-01345A-01-0034

DECISION NO. 63354

ORDER

Open Meeting
January 30 and 31, 2001
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company (APS) is certificated to provide electric service as a public service corporation in the State of Arizona.
2. On January 10, 2001, APS filed an application for approval of a tariff, Environmental Portfolio Surcharge EPS-1. The proposed tariff would be dependent on the Commission's adoption of the proposed rules on the Environmental Portfolio Standard.
3. On August 2, 2000 (Decision No. 62762), the Commission issued a notice of proposed rulemaking for the Environmental Portfolio Standard. The proposed Environmental Portfolio Standard rules require a portion of electricity sold to be derived from solar resources or environmentally friendly renewable technologies. At least part of portfolio standard costs are to be recovered by an Environmental Portfolio Surcharge on customer bills. The surcharge is to be \$0.000875 per kWh of retail electricity purchased by the customer. There is to be a surcharge cap of \$0.35 per month for residential customers. The surcharge cap for nonresidential customers is to be \$13 per month per meter, or per service if no meter is used, except for those nonresidential customers with demands of 3,000 kW or more for three consecutive months who will have a surcharge of \$39.00 per month per meter. Customer bills are to have a line item entitled "Environmental Portfolio Surcharge, mandated by the Corporation Commission."

1 4. On January 2, 2001, a procedural order was issued in Docket Nos. RE-00000C-00-0377
2 and E-00000A-99-0205 that ordered Affected Utilities to file proposed surcharge tariffs on or before
3 January 10, 2001. APS filed Environmental Portfolio Surcharge EPS-1 in response to the procedural
4 order.

5 5. On January 17, 2001, the Hearing Officer issued a proposed order on RE-00000C-00-
6 0377, suggesting certain modifications to the proposed Environmental Portfolio Standard rules.

7 6. Staff recommends the following:

8 a. The proposed tariff should be approved because its features conform to the
9 surcharge requirements discussed above.

10 b. The surcharge should be applied to special contract service customers unless
11 a previously approved special contract explicitly excluded any additional
12 charges.

13 c. The proposed tariff should be approved on an interim basis, pending true-up in
14 a rate review proceeding in which fair value findings are determined by the
15 Commission. The reason Staff is recommending adoption of the surcharge on
16 an interim basis is the urgent need for increased energy capacity in the western
17 United States at this time. The proposed tariff would provide an incentive to
18 the applicant to obtain solar resources and environmentally friendly generation
19 capacity much sooner than would otherwise be possible. In a future rate review
20 proceeding, the Commission could evaluate the actual costs of acquiring
21 environmentally friendly generation capacity and whether the applicant used
22 the surcharge funds appropriately.

23 d. If the applicant does not file an application for a rate review proceeding that
24 would provide sufficient information for a fair value determination within 18
25 months of the date of implementation of this tariff, Staff recommends that the
26 applicant file such information, including at minimum the following:

27 (i) A dollar amount representing its total revenue for the first twelve
28 months after implementation of the surcharge.

 (ii) Its total actual operating expenses for the first twelve months after
 implementation of the surcharge.

 (iii) The value of all assets, listed by major category, used for the first twelve
 months after implementation of the surcharge to provide electric service
 to customers. The applicant should specifically identify the assets, and
 their value, acquired to comply with the Environmental Portfolio
 Standard.

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With this information, the interim surcharge and its impact on the applicant's rates related to fair value can be reviewed and appropriate findings and rate determinations made by the Commission, including true-up, refund, or the setting of permanent rates.

- e. The tariff should become effective with the first APS standard billing cycle no. 1 starting at least 45 days from the effective date of the Environmental Portfolio Standard rule.
- f. Within the electric competition rules, R14-2-1615(A) requires generation assets to be separated from an Affected Utility prior to January 1, 2001. Staff recommends that the applicant be granted a waiver of R14-2-1615(A) as needed to allow the applicant to own "solar resources" and "environmentally friendly renewable electricity technologies" as those terms are described in the Environmental Portfolio Standard rules. The waiver would apply only to solar resources and environmentally friendly renewable electricity technologies.
- g. The applicant should file annual reports within 60 days of the end of a calendar year. The reports should list the amount of funds collected through the surcharge during the year, the amount of surcharge funds spent during the year, and a brief description of the projects for which the funds were spent.
- h. The applicant should be allowed up to 45 days to implement the tariff as necessary to prepare its billing system to accommodate the surcharge.
- i. The tariff filed by the applicant should be modified to conform with the final Environmental Portfolio Standard rules adopted by the Commission.

CONCLUSIONS OF LAW

1. APS is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.
2. The Commission has jurisdiction over APS and over the subject matter of the application.
3. The Commission, having reviewed the application and Staff's Memorandum dated January 12, 2001, concludes that it is in the public interest to approve the application.

ORDER

THEREFORE, IT IS ORDERED that the proposed tariff be and hereby is approved.

IT IS FURTHER ORDERED that the surcharge shall be applied to special contract service customers unless a previously approved special contract explicitly excluded any additional charges.

IT IS FURTHER ORDERED that the tariff is approved on an interim basis.

1 IT IS FURTHER ORDERED that if the applicant does not file an application for a rate review
 2 proceeding that would provide sufficient information for a fair value determination within 18 months
 3 of the date of implementation of this tariff, the applicant shall file the information described in Finding
 4 of Fact Nos. 5(c)(i) through 5(c)(iii).

5 IT IS FURTHER ORDERED that the tariff shall become effective with the first APS standard
 6 billing cycle no. 1 starting at least 45 days from the effective date of the Environmental Portfolio
 7 Standard rule.

8 IT IS FURTHER ORDERED that the applicant is granted a waiver of R14-2-16,15(A) as
 9 needed to allow the applicant to own "solar resources" and "environmentally friendly renewable
 10 electricity technologies" as those terms are described in the Environmental Portfolio Standard rules.

11 IT IS FURTHER ORDERED that the applicant shall file annual reports as described in Finding
 12 of Fact No. 5(f).

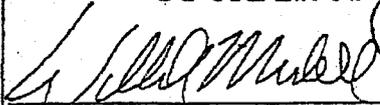
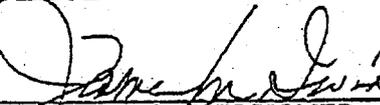
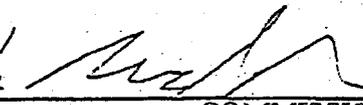
13 IT IS FURTHER ORDERED that the applicant shall file tariff pages consistent with the terms
 14 of this Decision within 15 days from the effective date of the Decision.

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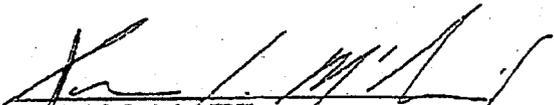
1 IT IS FURTHER ORDERED that the applicant shall modify its tariff to conform to the
2 Commission's final Environmental Portfolio Standard rules.

3 IT IS FURTHER ORDERED that this Decision shall become effective immediately.
4

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION

6 
7 CHAIRMAN  COMMISSIONER  COMMISSIONER

8 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
9 Secretary of the Arizona Corporation Commission, have
10 hereunto, set my hand and caused the official seal of this
11 Commission to be affixed at the Capitol, in the City of
12 Phoenix, this 3rd day of February, 2001.

13 
14 BRIAN C. McNEIL
15 Executive Secretary

16 DISSENT: _____

17 DRS:BEK:ihm
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1 SERVICE LIST FOR: Arizona Public Service Company
DOCKET NO. E-01345A-01-0034

2 Ms. Jana Van Ness
3 Manager, State Regulations
4 Arizona Public Service Company
5 Mail Station 9905
P. O. Box 53999
Phoenix, Arizona 85072-3999

6 Ms. Lyn Farmer
7 Chief Counsel
8 Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

9 Ms. Deborah Scott
10 Director, Utilities Division
11 Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

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- 1 46.44. "Universal Node Identifier" is a unique, permanent, identification number assigned to each service
2 delivery point.
- 3 47.45. "Utility Distribution Company" (UDC) means the electric utility entity regulated by the Commission
4 that operates, constructs, and maintains the distribution system for the delivery of power to the end user
5 point of delivery on the distribution system.
- 6 48.46. "Utility Industry Group" (UIG) refers to a utility industry association that establishes national standards
7 for data formats.

7 R14-2-1618. Environmental Portfolio Standard

8 A. Upon the effective implementation of a Commission-approved Environmental Portfolio Standard Surcharge
9 tariff," Starting on January 1, 2001, any Load-Serving Entity Electric Service Provider selling electricity or
10 aggregating customers for the purpose of selling electricity under the provisions of this Article must derive at
11 least .2% of the total retail energy sold from new solar resources or environmentally-friendly renewable
12 electricity technologies, whether that energy is purchased or generated by the seller. Solar resources include
13 photovoltaic resources and solar thermal resources that generate electricity. New solar resources and
14 environmentally-friendly renewable electricity technologies are those installed on or after January 1, 1997.

14 1. Electric Service Providers Competitive ESPs, that are not UDCs, are exempt from portfolio
15 requirements until 2004, but could voluntarily elect to participate. ESPs choosing to participate would
16 receive a pro rata share of funds collected from the Environmental Portfolio Surcharge delineated in
17 R14-2-1618.A.2 for portfolio purposes to acquire eligible portfolio systems or electricity generated
18 from such systems.

18 2. Utility Distribution Companies would recover part of the costs of the portfolio standard through current
19 System Benefits Charges, if they exist, including a re-allocation of demand side management funding to
20 portfolio uses. Additional portfolio standard costs will be recovered by a customer Environmental Portfolio
21 Surcharge on the customers' monthly bill. The Environmental Portfolio Surcharge shall be assessed monthly to
22 every metered and/or non-metered retail electric service. This monthly assessment will be the lesser of

23 \$0.000375 per kWh or:

- 24 • Residential Customers: \$.35 per service
- 25 • Non-Residential Customers: \$13 per service
- 26 • Non-Residential Customers whose metered demand is 3,000 kW or more for 3 consecutive months:
27 \$39.00 per service.

28 In the case of unmetered services, the Load-Serving Entity shall, for purposes of billing the

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Environmental Portfolio Standard Surcharge and subject to the caps set forth above, use the lesser of (i) the load profile or otherwise estimated kWh required to provide the service in question; or (ii) the service's contract kWh. The Environmental Portfolio Surcharge shall be 5.000875 per kWh of retail electricity purchased by the customer. There shall be a surcharge cap of \$.35 per month for residential customers. There shall be a surcharge cap of \$13 per month per meter or per service if no meter is used for all non-residential customers, except for those non-residential customers whose meter's registered demand is 3000 kW or more for 3 consecutive months, who will be subject to a surcharge cap of \$39.00 per month per meter.

- 3. Customer bills shall reflect a line item entitled "Environmental Portfolio Surcharge, mandated by the Corporation Commission."
- 4. Utility Distribution Companies or ESPs that do not currently have a renewables program may request a waiver or modification of this section due to extreme circumstances that may exist.

B. The portfolio percentage shall increase after December 31, 2000.

- 1. Starting January 1, 2001, the portfolio percentage shall increase annually and shall be set according to the following schedule:

YEAR	PORTFOLIO PERCENTAGE
2001	.2%
2002	.4%
2003	.6%
2004	.8%
2005	1.0%
2006	1.05%
2007-2012	1.1%

- 2. The Commission would continue the annual increase in the portfolio percentage after December 31, 2004 only if the cost of environmental portfolio electricity has declined to a Commission-approved cost/benefit point. The Director, Utilities Division shall establish, not later than January 1, 2003, an Environmental Portfolio Cost Evaluation Working Group to make recommendations to the Commission of an acceptable portfolio electricity cost/benefit point or portfolio kWh cost impact maximum that the Commission could use as a criteria for the decision to continue the increase in the portfolio percentage. The recommendations of the Working Group shall be presented to the Commission not later than June 30 December 31, 2003. In no event, however, shall the Commission increase the surcharge caps as delineated in R14-2-1618.A.2 above.
- 3. The requirements for the phase-in of various technologies shall be:

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- a. In 2001, the Portfolio kWh makeup shall be at least 50 percent solar electric, and no more than 50 percent other environmentally-friendly renewable electricity technologies or solar hot water or R&D on solar electric resources, but with no more than 10 percent on R&D
- b. In 2002 and 2003, the Portfolio kWh makeup shall be at least 50 percent solar electric, and no more than 50 percent other environmentally-friendly renewable electricity technologies or solar hot water or R&D on solar electric resources, but with no more than 5 percent on R&D.
- ~~c. In 2003, the Portfolio kWh makeup shall be at least 50 percent solar electric, and no more than 50 percent other environmentally-friendly renewable electricity technologies or solar hot water or R&D on solar electric resources, but with no more than 5 percent on R&D.~~
- c.d. In 2004, through 2012, the portfolio kWh makeup shall be at least 60 percent solar electric with no more than 40 percent solar hot water or other environmentally-friendly renewable electricity technologies.

~~C. The portfolio requirement shall apply to all retail electricity in the years 2001 and thereafter.~~

C.D. Load-Serving Entities Electric Service Providers shall be eligible for a number of extra credit multipliers that may be used to meet the portfolio standard requirements. Extra credits may be used to meet portfolio requirements and extra credits from solar electric technologies will also count toward the solar electric fraction requirements in R14-2-1618B.3. With the exception of the Early Installation Extra Credit Multiplier, which has a five-year life from operational start-up, all other extra credit multipliers are valid for the life of the generating equipment.

1. Early Installation Extra Credit Multiplier: For new solar electric systems installed and operating prior to December 31, 2003, Load-Serving Entities Electric Service Providers would qualify for multiple extra credits for kWh produced for 5 years following operational start-up of the solar electric system. The 5-year extra credit would vary depending upon the year in which the system started up, as follows:

YEAR	EXTRA CREDIT MULTIPLIER
1997	.5
1998	.5
1999	.5
2000	.4
2001	.3
2002	.2
2003	.1

1 Eligibility to qualify for the Early Installation Extra Credit Multiplier would end in 2003.
2 However, any eligible system that was operational in 2003 or before would still be allowed the
3 applicable extra credit for the full five years after operational start-up.

- 4 2. Solar Economic Development Extra Credit Multipliers: There are 2 equal parts to this multiplier, an in-
5 state installation credit and an in-state content multiplier.
- 6 a. In-State Power Plant Installation Extra Credit Multiplier: Solar electric power plants installed
7 in Arizona shall receive a .5 extra credit multiplier.
- 8 b. In-State Manufacturing and Installation Content Extra Credit Multiplier: Solar electric power
9 plants shall receive up to a .5 extra credit multiplier related to the manufacturing and
10 installation content that comes from Arizona. The percentage of Arizona content of the total
11 installed plant cost shall be multiplied by .5 to determine the appropriate extra credit
12 multiplier. So, for instance, if a solar installation included 80% Arizona content, the resulting
13 extra credit multiplier would be .4 (which is .8 X .5).
- 14 3. Distributed Solar Electric Generator and Solar Incentive Program Extra Credit Multiplier: Any
15 distributed solar electric generator that meets more than one of the eligibility conditions will be limited
16 to only one .5 extra credit multiplier from this subsection. Appropriate meters will be attached to each
17 solar electric generator and read at least once annually to verify solar performance.
- 18 a. Solar electric generators installed at or on the customer premises in Arizona. Eligible customer
19 premises locations will include both grid-connected and remote, non-grid-connected locations.
20 In order for Load-Serving Entities ~~Electric Service Providers~~ to claim an extra credit
21 multiplier, the Load-Serving Entity ~~Electric Service Provider~~ must have contributed at least
22 10% of the total installed cost or have financed at least 30% of the total installed cost.
- 23 b. Solar electric generators located in Arizona that are included in any Load-Serving Entity's
24 ~~Electric Service Provider's~~ Green Pricing program.
- 25 c. Solar electric generators located in Arizona that are included in any Load-Serving Entity's
26 ~~Electric Service Provider's~~ Net Metering or Net Billing program.
- 27 d. Solar electric generators located in Arizona that are included in any Load-Serving Entity's
28 ~~Electric Service Provider's~~ solar leasing program.
- 29 e. All Green Pricing, Net Metering, Net Billing, and Solar Leasing programs must have been
30 reviewed and approved by the Director, Utilities Division in order for the Load-Serving Entity
31 ~~Electric Service Provider~~ to accrue extra credit multipliers from this subsection.
- 32 4. All multipliers are additive, allowing a maximum combined extra credit multiplier of 2.0 in years 1997-
33 2003, for equipment installed and manufactured in Arizona and either installed at customer premises or

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participating in approved solar incentive programs. So, if a ~~an~~ Load-Serving Entity Electric Service Provider qualifies for a 2.0 extra credit multiplier and it produces 1 solar kWh, the Load-Serving Entity Electric Service Provider would get credit for 3 solar kWh (1 produced plus 2 extra credit).

D.E. ~~Load-Serving Entities Electric Service Providers~~ selling electricity under the provisions of this Article shall provide reports on sales and portfolio power as required in this Article, clearly demonstrating the output of portfolio resources, the installation date of portfolio resources, and the transmission of energy from those portfolio resources to Arizona consumers. The Commission may conduct necessary monitoring to ensure the accuracy of these data. Reports shall be made according to the Reporting Schedule in R14-2-1613.B

E.F. If a ~~an~~ Load-Serving Entity Electric Service Provider selling electricity under the provisions of this Article fails to meet the requirements of this rule as modified by the Commission after consideration of the recommendations of the Environmental Portfolio Cost Evaluation Working Group, the Commission ~~may~~ shall impose a deficiency payment penalty, beginning no earlier than January 1, 2004, on that Load-Serving Entity Electric Service Provider that the Load-Serving Entity Electric Service Provider pay an amount equal to 30¢ per kWh to the Solar Electric Fund for deficiencies in the provision of solar electricity. This deficiency payment, which is in lieu of any other monetary payment penalty which may be imposed by the Commission, may not be imposed for any calendar year prior to 2004. This Solar Electric Fund will be established and utilized to purchase solar electric generators or solar electricity in the following calendar year for the use by public entities in Arizona such as schools, cities, counties, or state agencies. Title to any equipment purchased by the Solar Electric Fund will be transferred to the public entity. In addition, if the provision of solar energy is consistently deficient, the Commission may void a ~~an~~ Load-Serving Entity's Electric Service Provider's contracts negotiated under this Article.

1. The Director, Utilities Division shall establish a Solar Electric Fund in 2004 to receive deficiency payments and finance solar electricity projects.
2. The Director, Utilities Division shall select an independent administrator for the selection of projects to be financed by the Solar Electric Fund. A portion of the Solar Electric Fund shall be used for administration of the Fund and a designated portion of the Fund will be set aside for ongoing operation and maintenance of projects financed by the Fund.

E.G. Photovoltaic or solar thermal electric resources that are located on the consumer's premises shall count toward the solar portfolio standard applicable to the current Load-Serving Entity Electric Service Provider serving that consumer.

G.H. Any solar electric generators installed by an Affected Utility to meet the environmental portfolio standard shall be counted toward meeting renewable resource goals for Affected Utilities established in Decision No. 53643.

1 H.I. Any Load-Serving Entity Electric Service Provider or independent solar electric generator that produces or
 2 purchases any eligible solar kWh in excess of its annual portfolio requirements may save or bank those excess
 3 solar kWh for use or sale in future years. Any eligible solar kWh produced subject to this rule may be sold or
 4 traded to any Load-Serving Entity Electric Service Provider that is subject to this rule. Appropriate
 5 documentation, subject to Commission review, shall be given to the purchasing entity and shall be referenced in
 6 the reports of the Load-Serving Entity Electric Service Provider that is using the purchased kWh to meet its
 portfolio requirements.

7 I.J. Environmental Portfolio Standard requirements shall be calculated on an annual basis, based upon electricity
 8 sold during the calendar year.

9 I.K. A ~~A~~ Load-Serving Entity Electric Service Provider shall be entitled to receive a partial credit against the
 10 portfolio requirement if the Load-Serving Entity Electric Service Provider or its affiliate owns or makes a
 11 significant investment in any solar electric manufacturing plant that is located in Arizona. The credit will be
 12 equal to the amount of the nameplate capacity of the solar electric generators produced in Arizona and sold in a
 calendar year times 2,190 hours (approximating a 25% capacity factor).

13 1. The credit against the portfolio requirement shall be limited to the following percentages of the total
 14 portfolio requirement:

- 15 2001 Maximum of 50 % of the portfolio requirement
- 16 2002 Maximum of 25 % of the portfolio requirement
- 17 2003 and on Maximum of 20 % of the portfolio requirement

18 2. No extra credit multipliers will be allowed for this credit. In order to avoid double-counting of the same
 19 equipment, solar electric generators that are used by other Load-Serving Entities Electric Service
Providers to meet their Arizona portfolio requirements will not be allowable for credits under this
 20 Section for the manufacturer/Electric Service Provider to meet its portfolio requirements.

21 K.L. The Director, Utilities Division shall develop appropriate safety, durability, reliability, and performance
 22 standards necessary for solar generating equipment and environmentally-friendly renewable electricity
 23 technologies and to qualify for the portfolio standard. Standards requirements will apply only to facilities
 constructed or acquired after the standards are publicly issued.

24 L.M. A ~~A~~ Load-Serving Entity Electric Service Provider shall be entitled to meet up to 20% of the portfolio
 25 requirement with solar water heating systems or solar air conditioning systems purchased by the Load-Serving
 26 Entity Electric Service Provider for use by its customers, or purchased by its customers and paid for by the
 27 Load-Serving Entity Electric Service Provider through bill credits or other similar mechanisms. The solar water
 28 heaters must replace or supplement the use of electric water heaters for residential, commercial, or industrial
 water heating purposes. For the purposes of this rule, solar water heaters will be credited with 1 kWh of

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electricity produced for each 3,415 British Thermal Units of heat produced by the solar water heater and solar air conditioners shall be credited with kWhs equivalent to those needed to produce a comparable cooling load reduction. Solar water heating systems and solar air conditioning systems shall be eligible for Early Installation Extra Credit Multipliers as defined in R14-2-1618 CD.1 and Solar Economic Development Extra Credit Multipliers as defined in R14-2-1618 CD.2.b.

M.N. ~~A An Load-Serving Entity Electric Service Provider~~ shall be entitled to meet the portfolio requirement with electricity produced in Arizona by environmentally-friendly renewable electricity technologies that are defined as in-state landfill gas generators, wind generators, and biomass generators, consistent with the phase-in schedule in R14-2-1618 B.3. Systems using such technologies shall be eligible for Early Installation Extra Credit Multipliers as defined in R14-2-1618 CD.1 and Solar Economic Development Extra Credit Multipliers as defined in R14-2-1618 CD.2.b.

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**Morgan, Lewis
& Bockius LLP**
C O U N S E L O R S A T L A W

May 11, 2001

Snell & Wilmer L.L.P.
One Arizona Center
Phoenix, Arizona 85004

Re: Pinnacle West Capital Corporation Form U-1 Application (File No. 070-09745)

Ladies and Gentlemen:

Morgan, Lewis & Bockius LLP serves as special counsel to Pinnacle West Capital Corporation ("PNW") and its subsidiaries, Arizona Public Service Company ("APS") and Pinnacle West Energy Corporation ("PWE"), on certain federal regulatory matters involving their electric utility operations, exempt wholesale generators ("EWG"), and power marketing activities. We are familiar with the "Development Activities," as such term is defined in the Form U-1 Application (File No. 070-09745) filed with the Securities and Exchange Commission (the "SEC") by PNW on September 12, 2000, as amended on December 8, 2000, January 17, 2001, and April 27, 2001 (the "Application"). We have been asked to provide an opinion that the regulatory applications and approvals that are required under the Public Utility Holding Company Act of 1935, as amended ("PUHCA"), and the Federal Power Act, as amended ("FPA"), in connection with the Development Activities have been obtained from the SEC or the Federal Energy Regulatory Commission ("FERC"), as appropriate.

Capitalized terms used herein and not otherwise defined will have the meanings given in the Application. The term "Associate Companies," when used herein, will have the meaning given in Section 2(a)(10) of PUHCA.

As described in the Application, the Development Activities involve PWE's operation of its West Phoenix Unit No. 4 as a non-EWG under PUHCA. The Development Activities were completed on May 2, 2001, when PWE filed a Notice of Withdrawal of its Application for Determination of Exempt Wholesale Generator Status with FERC. Due to its ownership and operation as a non-EWG of facilities used for the generation of electric energy for sale (i.e., the West Phoenix Unit No. 4 generating facility), PWE is now an "electric utility company" and a "public-utility company," as those terms are defined in Sections 2(a)(3) and 2(a)(5) of PUHCA.

Philadelphia Washington New York Los Angeles Miami Harrisburg Pittsburgh Princeton
London Brussels Frankfurt Tokyo

In preparing this opinion we have examined and relied solely upon:

1. The Application for Authorization to Transfer Jurisdictional Facilities filed by Arizona Public Service Company, Pinnacle West Capital Corporation, and Pinnacle West Energy Corporation in Docket No. EC00-118-000 and FERC's Order Authorizing Disposition of Jurisdictional Facilities reported at 93 FERC ¶ 61,216 (2000);
2. The Application filed with the SEC and the SEC's Order Authorizing the Acquisition of a Public Utility Company Subsidiary by an Exempt Holding Company, Holding Company Act Release No. 35-27386 (April 27, 2001);
3. The Notice of Withdrawal filed by PWE on May 2, 2001, with FERC in Docket No. EG01-163-000;
4. In addition, we have examined the originals, or copies certified to our satisfaction, of such corporate records of PNW, APS and PWE and agreements, instruments, and other documents, as we have deemed necessary as a basis for the opinions expressed below.

As to questions of fact material to our opinion, we have, relied upon the statements set forth in the various regulatory filings and corporate documents we examined. We have assumed that such documents accurately describe and contain the understanding of the parties, and that there are no oral or written statements or agreements that modify, amend, or vary, or purport to modify, amend, or vary, any of the terms of such documents.

Based upon the foregoing, and subject to the assumptions and conditions set forth herein, we are of the opinion that all of the regulatory approvals required under PUHCA and the FPA to effect the Reorganization have been obtained.

The opinion expressed herein is limited to the FPA and PUHCA, as interpreted and implemented by the decisions, rules and regulations of the SEC and FERC. We express no opinion on any other statute, or the laws of any other jurisdiction. The opinion expressed herein is based upon the law in effect on the date hereof, and we assume no obligation to revise or supplement this opinion should such law be changed by legislative action, judicial decision, or in any other manner, or otherwise to notify you of any changes in law or fact relevant to the opinion expressed herein. This opinion letter is rendered solely for the benefit of Snell & Wilmer L.L.P. in connection with the transactions described above, and this opinion letter is not to be used, circulated, quoted, or otherwise referred to for any other purpose.

We hereby consent to the use of this opinion as an attachment to an exhibit to the Application.

Very truly yours,

MORGAN, LEWIS & BOCKIUS LLP

Morgan Lewis & Bockius LLP

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[PRELIMINARY – TRANSFER TRANSACTION]

April 25, 2001

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Pinnacle West Capital Corporation Form U-1 Application / Declaration
(File No. 070-09745)

Ladies and Gentlemen:

We are Arizona counsel for Pinnacle West Capital Corporation, an Arizona corporation (the "*Company*"), and are familiar with the matters relating to the "*Transfer Transaction*," as such term is defined in the Form U-1 Application / Declaration (File No. 070-09745) under the Public Utility Holding Company Act of 1935, as amended (the "*Act*"), filed with the Securities and Exchange Commission (the "*Commission*") by the Company on September 12, 2000, as amended by filings made on December 8, 2000, January 17, 2001 and April, 2001 (the "*Application*"). Capitalized terms used herein and not otherwise defined will have the meanings given in the Application. The term "*Assets*," when used herein will mean those assets actually contributed to Transitory Subsidiary in the Transfer Transaction, as contemplated in the Application. The term "*Assumed Debt*," when used herein, will mean the indebtedness of APS actually assumed or agreed to be assumed by Transitory Subsidiary and ultimately by PWE in the Transfer Transaction, as contemplated in the Application. Insofar as the fossil assets of APS may be acquired by PWE at different times, it is understood that the term "*Transfer Transaction*," when used herein, will refer only to the first transaction described herein and in the Application whereby PWE acquires Assets of APS. As described in the Application, the Transfer Transaction involves the following:

1. The formation of Transitory Subsidiary as a wholly-owned subsidiary of APS (the "*Formation*");
2. The contribution of the Assets and the Assumed Debt by APS to Transitory Subsidiary in exchange for the common stock of Transitory Subsidiary and the assumption of or agreement to assume the Assumed Debt (the "*Capitalization*");

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April 25, 2001
Page 2

3. The distribution of the stock of Transitory Subsidiary by APS to the Company (the "*Spin-off*"); and
4. The merger of Transitory Subsidiary into PWE, with PWE surviving (the "*Merger*").

Among other things, we have examined:

- (a) The Application;
- (b) The parties' corporate proceedings and the proceedings before the Arizona Corporation Commission (the "*ACC*") relative to the Transfer Transaction and related matters; and
- (c) Such other documents and certificates (including those being delivered to you concurrently herewith) and such statutes, rules, and regulations as we have deemed relevant.

In our examination of the documents referred to above, we have assumed (i) the genuineness of the signatures not witnessed, the authenticity of documents submitted to us as originals, and the conformity to originals of documents submitted to us as copies; (ii) the legal capacity of all natural persons executing such documents; (iii) that such documents accurately describe and contain the mutual understanding of the parties, and that there are no oral or written statements or agreements that modify, amend, or vary, or purport to modify, amend, or vary, any of the terms of such documents; (iv) with respect to the Assumed Debt, that each such entity (other than APS, PWE, and Transitory Subsidiary), and with respect to all such other documents, that each such entity, had the power to enter into and perform its obligations under such documents, and that such documents have been duly authorized, executed, and delivered by, and are valid, binding upon, and enforceable against, such entities; (v) that the parties to such documents will receive no interest, charges, fees, or other benefits or compensation in the nature of interest in connection with the transactions other than those that the Company has agreed in writing in such documents to pay; and (vi) that no fraud has occurred in connection with such transactions.

Based upon the foregoing, and subject to the assumptions and conditions set forth herein, we are of the opinion that, in the event that the Transfer Transaction is consummated in accordance with the Application:

1. All laws of the State of Arizona applicable to the Company's acquisition of PWE as a public utility company through the Transfer Transaction will have been complied with.

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April 25, 2001
Page 3

2. Following the Formation and the Capitalization, Transitory Subsidiary will be validly organized and duly existing.
3. The common stock of Transitory Subsidiary issued to APS in the Formation and the Capitalization will be validly issued, fully paid and non-assessable, and APS, as the holder of such stock following the Formation and the Capitalization, and the Company, as the holder of such stock immediately following the Spin-off, will be entitled to the rights and privileges appertaining thereto set forth in the articles of incorporation of Transitory Subsidiary.
4. PWE is validly organized and duly existing.
5. The common stock of PWE held by the Company is validly issued, fully paid and non-assessable, and the Company legally acquired such stock and is entitled to the rights and privileges appertaining thereto set forth in the articles of incorporation of PWE.
6. The common stock of PWE to be held by the Company following the Transfer Transaction will be validly issued, fully paid and non-assessable, and the Company, as the holder of such stock immediately following the Merger, will be entitled to the rights and privileges appertaining thereto set forth in the articles of incorporation of PWE.
7. Following the Capitalization, the Assumed Debt that is assumed effective as of the date of the Capitalization will be the valid and binding obligation of Transitory Subsidiary in accordance with its terms. Upon the effective time of the Merger, the Assumed Debt that is assumed effective as of the date of the Merger be the valid and binding obligation of PWE in accordance with its terms.
8. Upon the effective time of the Spin-off, the Company will legally acquire the common stock of Transitory Subsidiary issued in the Capitalization.
9. The consummation of the Transfer Transaction will not violate the legal rights of the holders of any securities issued by the Company or any "associate company," as defined in the Act, thereof.

The opinions expressed above are subject to the following assumptions and conditions:

- (a) The Transfer Transaction, as contemplated by the Application, will be authorized by the Commission. The Commission will duly enter an appropriate order or orders with respect to the Transfer Transaction, as described in the Application, granting and permitting the Application to become effective under the Act and the

Securities and Exchange Commission
April 25, 2001
Page 4

rules and regulations thereunder and the Transfer Transaction will be consummated in accordance with the Application.

- (b) The Transfer Transaction will be duly authorized and approved to the extent required by the governing documents and applicable federal and state laws, by the board of directors of each of APS, Transitory Subsidiary and PWE, and by the Company as the sole shareholder of APS, Transitory Subsidiary and PWE, and such authorizations and approvals remain in full force and effect.
- (c) Without limitation of paragraph (b) above, the board of directors of Transitory Subsidiary will authorize the issuance of the common stock to APS in the Capitalization in accordance with Arizona law, and the number of shares so issued will be authorized in the articles of incorporation of Transitory Subsidiary.
- (d) The Spin-off will be effected in accordance with Arizona law and the amount thereof will not exceed any limitation contained in APS' articles of incorporation.
- (e) Instruments of merger will be duly and validly filed with the ACC, and such other corporate formalities as are required by the laws of the State of Arizona for the consummation of the Merger will be taken, and the Merger will become effective in accordance with the laws of the State of Arizona.
- (f) None of the Capitalization, the Spin-off or the Merger will constitute a fraudulent conveyance and APS will not be rendered insolvent as a result of the Transfer Transaction.
- (g) All required approvals, authorizations, consents, certificates, and orders of, and all filings and registrations with, all applicable federal and state commissions and regulatory authorities with respect to the Transfer Transaction will be obtained or made, as the case may be, and remain in effect (including the approval and authorization of the Commission under the Act, the Federal Energy Regulatory Commission under the Federal Power Act, as amended, and the rules and regulations thereunder, and the ACC under the applicable laws of the State of Arizona), and the Transfer Transaction will be accomplished in accordance with all such approvals, authorizations, consent, certificates, orders, filings and registrations. APS will not utilize utility funds to form Transitory Subsidiary or to divest itself of Transitory Subsidiary.
- (h) The parties will comply with, or obtain all consents, waivers and releases, if any, required for the Transfer Transaction under all applicable governing corporate documents, contracts, agreements, debt instruments, indentures, franchises,

Securities and Exchange Commission
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licenses, and permits to be listed on a schedule to be provided by the Company and/or any of its associate companies.

- (i) Our opinions herein are given solely with respect to the actual effectuation of the Transfer Transaction, including with respect to consents, licenses, permits, filings with and approvals of governmental authorities that are required to effect the Transfer Transaction, and no opinion is given as to whether APS, the Company, Transitory Subsidiary, or PWE or their businesses or operations are currently in compliance with any laws or will be after the Transfer Transaction or as to any consents, licenses, permits, filings with or approvals of any governmental body or agency or other person required for the ownership or operation of the Assets before or following the Transfer Transaction.
- (j) The opinions set forth in paragraph 7 herein are subject to, and limited by, the following:
 - (i) the effect of any applicable bankruptcy, insolvency, reorganization, arrangement, moratorium or other similar laws relating to or affecting creditors rights generally;
 - (ii) the effect of general principles of equity, including (without limitation) concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law);
 - (iii) the qualification that certain waivers, procedures, remedies, and other provisions of the documents governing the Assumed Debt may be unenforceable under or limited by the law of the State of Arizona; however, such law does not, in our opinion, substantially prevent the practical realization of the benefits intended by such documents; and
 - (iv) we express no opinion as to the effect of the law of any jurisdiction other than the State of Arizona wherein any creditor may be located or wherein enforcement of the Assumed Debt may be sought which limits the rates of interest legally chargeable or collectible.
- (k) No act or event other than as described herein shall have occurred subsequent to the date hereof that would change the opinions expressed herein.
- (l) The Transfer Transaction will be consummated as described in the Application or with such changes as we have approved, and all legal matters incident thereto will be satisfactory to us. With respect to required approvals of the ACC, we note that two parties have filed legal actions challenging the validity of the Settlement as

Securities and Exchange Commission
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Page 6

approved by the ACC. However, under Arizona law, an ACC order remains in effect pending appeal.

- (m) In giving the final opinion required by the Commission in connection with the Transfer Transaction in the event that the Transfer Transaction occurs prior to the Development Activities and relinquishment by PWE of EWG status in connection therewith as described in the Application, we may rely exclusively upon opinions of other counsel to the Company as to certain matters, or such other counsel may provide certain of such opinions in separate opinion letters provided to the Commission concurrently with our final opinion.

The opinions expressed herein are limited to the laws of the State of Arizona and, except with respect to paragraphs 1, 2, and 4, the federal law of the United States of America and we express no opinion on the laws of any other jurisdiction. Without limiting the foregoing, opinions herein relating to labor/employment or employee benefit matters, environmental matters, tax matters, and real estate matters are limited to the laws of the State of Arizona. The opinions expressed herein are based upon the law in effect on the date hereof, and we assume no obligation to revise or supplement this opinion should such law be changed by legislative action, judicial decision, or in any other manner, or otherwise to notify you of any changes in law or fact relevant to the opinions expressed herein. This opinion letter is rendered solely for your benefit in connection with the transactions described above, and this opinion letter is not to be used, circulated, quoted, or otherwise referred to for any other purpose.

We hereby consent to the use of this opinion as an exhibit to the Application.

Very truly yours,

Snell & Wilmer LLP

Snell & Wilmer

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[PRELIMINARY – DEVELOPMENT ACTIVITIES]

April 25, 2001

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Pinnacle West Capital Corporation Form U-1 Application / Declaration
(File No. 070-09745)

Ladies and Gentlemen:

We are Arizona counsel for Pinnacle West Capital Corporation, an Arizona corporation (the "*Company*"), and are familiar with the matters relating to the "*Development Activities*," as such term is defined in the Form U-1 Application / Declaration (File No. 070-09745) under the Public Utility Holding Company Act of 1935, as amended (the "*Act*"), filed with the Securities and Exchange Commission (the "*Commission*") by the Company on September 12, 2000, as amended by filings made on December 8, 2000, January 17, 2001 and April, 2001 (the "*Application*"). Capitalized terms used herein and not otherwise defined will have the meanings given in the Application.

Among other things, we have examined:

- (a) The Application; and
- (b) Such other documents and certificates (including those being delivered to you concurrently herewith) and such statutes, rules, and regulations as we have deemed relevant.

In our examination of the documents referred to above, we have assumed (i) the genuineness of the signatures not witnessed, the authenticity of documents submitted to us as originals, and the conformity to originals of documents submitted to us as copies; (ii) the legal capacity of all natural persons executing such documents; (iii) that such documents accurately describe and contain the mutual understanding of the parties, and that there are no oral or written statements or agreements that modify, amend, or vary, or purport to modify, amend, or vary, any of the terms of such documents; (iv) that each such party had the power to enter into and perform

Securities and Exchange Commission

April 25, 2001

Page 2

its obligations under such documents, and that such documents have been duly authorized, executed, and delivered by, and are valid, binding upon, and enforceable against, such party; (v) that the parties to such documents will receive no interest, charges, fees, or other benefits or compensation in the nature of interest in connection with the transactions other than those that the Company has agreed in writing in such documents to pay; and (vi) that no fraud has occurred in connection with such transactions.

Based upon the foregoing, and subject to the assumptions and conditions set forth herein, we are of the opinion that, in the event that the Development Activities are consummated in accordance with the Application:

1. All laws of the State of Arizona applicable to the Company's acquisition of PWE as a public utility company through the Development Activities will have been complied with.
2. PWE is validly organized and duly existing.
3. The common stock of PWE held by the Company is validly issued, fully paid and non-assessable, and the Company legally acquired such stock and is entitled to the rights and privileges appertaining thereto set forth in the articles of incorporation of PWE.
4. The consummation of the Development Activities will not violate the legal rights of the holders of any securities issued by the Company or any "associate company," as defined in the Act, thereof.

The opinions expressed above are subject to the following assumptions and conditions:

- (a) The Development Activities, as contemplated by the Application, will be authorized by the Commission. The Commission will duly enter an appropriate order or orders with respect to the Development Activities, as described in the Application, granting and permitting the Application to become effective under the Act and the rules and regulations thereunder and the Development Activities will be consummated in accordance with the Application.
- (b) The Development Activities will be duly authorized and approved to the extent required by the governing documents and applicable federal and state laws, by the board of directors of PWE, and such authorizations and approvals remain in full force and effect.
- (c) All required approvals, authorizations, consents, certificates, and orders of, and all filings and registrations with, all applicable federal and state commissions and

Securities and Exchange Commission
April 25, 2001
Page 3

regulatory authorities with respect to the Development Activities will be obtained or made, as the case may be, and remain in effect (including the approval and authorization of the Commission under the Act, and any required approvals of the Federal Energy Regulatory Commission under the Federal Power Act, as amended, and the rules and regulations thereunder, and the Arizona Corporation Commission under the applicable laws of the State of Arizona), and the Development Activities will be accomplished in accordance with all such approvals, authorizations, consent, certificates, orders, filings and registrations.

- (d) The parties will comply with, or obtain all consents, waivers and releases, if any, required for the Development Activities under all applicable governing corporate documents, contracts, agreements, debt instruments, indentures, franchises, licenses, and permits to be listed on a schedule to be provided by the Company and/or any of its associate companies.
- (e) Our opinions herein are given solely with respect to the actual effectuation of the Development Activities, including with respect to consents, licenses, permits, filings with and approvals of governmental authorities that are required to effect the Development Activities, and no opinion is given as to whether APS, the Company, or PWE or their businesses or operations are currently in compliance with any other laws or will be after the Development Activities.
- (f) No act or event other than as described herein shall have occurred subsequent to the date hereof that would change the opinions expressed herein.
- (g) The Development Activities will be consummated as described in the Application or with such changes as we have approved, and all legal matters incident thereto will be satisfactory to us.
- (h) In giving the final opinion required by the Commission in connection with the Development Activities in the event that the Development Activities and the relinquishment by PWE of EWG status in connection therewith occurs prior to the Transfer Transaction as described in the Application, we may rely exclusively upon opinions of other counsel to the Company (including in-house counsel) as to certain matters, or such other counsel may provide certain of such opinions in separate opinion letters provided to the Commission concurrently with our final opinion.

The opinions expressed herein are limited to the laws of the State of Arizona and, with respect to paragraphs 3 and 4, the federal law of the United States of America and we express no opinion on the laws of any other jurisdiction. Without limiting the foregoing, opinions herein relating to labor/employment or employee benefit matters, environmental matters, tax matters,

Securities and Exchange Commission

April 25, 2001

Page 4

and real estate matters are limited to the laws of the State of Arizona. The opinions expressed herein are based upon the law in effect on the date hereof, and we assume no obligation to revise or supplement this opinion should such law be changed by legislative action, judicial decision, or in any other manner, or otherwise to notify you of any changes in law or fact relevant to the opinions expressed herein. This opinion letter is rendered solely for your benefit in connection with the transactions described above, and this opinion letter is not to be used, circulated, quoted, or otherwise referred to for any other purpose.

We hereby consent to the use of this opinion as an exhibit to the Application.

Very truly yours,

Snell & Wilmer LLP



Susan M. McCormack
Attorney at Law
Direct Dial: 505-346-9136
E-MAIL smm@keleher-law.com

April 26, 2001

Via Facsimile (202)467-7176
and Overnight Courier

Mary Ann Huntington
Morgan, Lewis & Bockius LLP
1800 M Street, NW
Washington, DC 20036

Re: Pinnacle West Capital Corporation
Form U-1 Application/Declaration
(File No. 070-09745), as amended (the "Application")

Dear Ms. Huntington:

Enclosed please find one executed original and one copy of our revised preliminary opinion dated April 26, 2001, which we understand will be filed together with recent amendments to the Application.

Very truly yours,

KELEHER & McLEOD, P.A.

By: Susan McCormack
Susan M. McCormack

SMM/sls0822
Enclosure

cc: Betsy Pregulman, Esq.
Herbert Zinn, Esq.
Charles L. Moore, Esq.

W. A. Keleher (1886-1972)
A.H. McLeod (1902-1976)

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[PRELIMINARY]

April 26, 2001

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Pinnacle West Capital Corporation
Form U-1 Application/Declaration
(File No. 070-09745)

Ladies and Gentlemen:

We are special New Mexico counsel for Pinnacle West Capital Corporation, an Arizona corporation (the "Company"), in regard to certain matters relating to the "Reorganization," as such term is defined in the Form U-1 Application/Declaration (File No. 070-09745) under the Public Utility Holding Company Act of 1935, as amended (the "Act"), filed with the Securities and Exchange Commission (the "Commission") by the Company on September 12, 2000, as amended by filings made on December 8, 2001, January 17, 2001 and April, 2001 (the "Application"). Capitalized terms used herein and not otherwise defined will have the meanings given in the Application, which we have examined. The term "Four Corners Transfer," when used herein, will mean the transfer of the Four Corners Power Plant from APS, an Arizona corporation, to PWE, an Arizona corporation, pursuant to the Reorganization, as contemplated in the Application.

We understand that the Company was formed in 1985 under the laws of Arizona as a holding company owning APS and certain other subsidiaries. We also understand that the Company formed PWE in 1999 under the laws of Arizona, as a wholly owned subsidiary of the Company.

We have relied upon the following representations made to us by the Company:

(A) The Company, itself, is not engaged in any business in the State of New Mexico, except that from October 1, 2000 to the present, the Company has been engaged in the purchase and sale of power and energy, at wholesale, from the switchyard of the Four Corners Power Plant, located within the boundaries of the Navajo Reservation; and

W. A. Keleher (1886-1972)
A.H. McLeod (1902-1976)

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Public Art Collection in 1991.

(B) Only two subsidiaries of the Company conduct business in the State of New Mexico: (1) SunCor Development Company, an Arizona corporation, which owns and operates certain residential or commercial real estate properties in New Mexico; and (2) APS.

APS has represented to us, and we have relied upon such representation, that the only business in which it is engaged in the State of New Mexico consists of and is limited to ownership and operation of electric generating units (or undivided interests therein) and electric transmission lines, sales of electricity at retail to BHP Navajo Coal Company ("BHP") solely for its conduct of coal mining operations on the Navajo Reservation which provides coal to the Four Corners Power Plant for the generation of electricity ("BHP Contract"), transmission of electricity from Tucson Electric Power Company to the Navajo Tribal Utility Authority for resale, and wholesale transactions with other utilities.

APS and PWE have represented to us, and we have relied upon such representation, that the only asset located in the State of New Mexico that is being transferred from APS to PWE pursuant to the Reorganization is the Four Corners Power Plant.

PWE has represented to us, and we have relied upon such representation, that it is not currently engaged in any business in the State of New Mexico, and that the only business in which it will be engaged in the State of New Mexico immediately following the Reorganization consists of and is limited to ownership and operation of electric generating units (or undivided interests therein) at the Four Corners Power Plant and the sale of power and energy at wholesale from the Four Corners Power Plant.

Our opinions herein are given solely with respect to the actual effectuation of the Four Corners Transfer, and no opinion is given as to whether APS, the Company, Transitory Subsidiary or PWE, or their businesses or operations, are currently in compliance with any laws, or will be after the Reorganization, or as to any consents, licenses, permits, filings with or approvals of any governmental body or agency or other person required for the ownership or operation of the Four Corners Power Plant before or following the Reorganization.

Our opinions relate only to the Four Corners Transfer. In respect only of the laws of New Mexico, and subject to the qualifications and limitations with respect to this opinion letter set forth above, we are of the opinion that:

1. The activities of APS in the State of New Mexico to date do not constitute it a "public utility" as that term is defined in the relevant laws of the State of New Mexico, and accordingly, no approval, authorization, or consent of the New Mexico Public Regulation Commission is required by APS for the Four Corners Transfer contemplated in the Application. In addition, the rates and charges pursuant to the BHP Contract between APS and BHP are not subject to regulation by the New Mexico Public Regulation Commission.

2. The activities of PWE in the State of New Mexico to date do not, and immediately following the Reorganization will not, constitute it a "public utility" as that term is defined in the relevant laws of the State of New Mexico, and accordingly, no approval, authorization, or consent of the New Mexico Public Regulation Commission is required by PWE for the Four Corners Transfer contemplated in the Application.
3. The activities of the Company in the State of New Mexico to date do not constitute it a "public utility" as that term is defined in the relevant laws of the State of New Mexico, and accordingly, no approval authorization, or consent of the New Mexico Public Regulation Commission is required by the Company for the Four Corners Transfer contemplated in the Application.
4. All laws of the State of New Mexico applicable to PWE becoming, pursuant to the Reorganization, a "public utility company" under the Act and to the Company then holding, pursuant to the Reorganization, two such "public utility companies", APS and PWE, if any, have been complied with.

The opinions expressed herein are limited to the laws of the State of New Mexico and we express no opinion about the laws of any other jurisdiction. The opinions expressed herein are based upon the law in effect on the date hereof, and we assume no obligation to revise or supplement this opinion should such law be changed by legislative action, judicial decision, or in any other manner, or otherwise to notify you of any changes in law or fact relevant to the opinions expressed herein. Without limitation of the foregoing, we express no opinion on the requirements that might become applicable upon the implementation of open access in New Mexico, currently scheduled to begin January 1, 2007. This opinion letter is rendered solely for your benefit in connection with the Four Corners Transfer described above, and this opinion letter is not to be used, circulated, quoted, or otherwise referred to for any other purpose.

We hereby consent to the use of this opinion as an exhibit to the Application.

Yours truly,

KELEHER & MCLEOD, P.A.

By: Susan McCormack
Susan M. McCormack



[PRELIMINARY]

April 26, 2001

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Pinnacle West Capital Corporation
Form U-1 Application/Declaration
(File No. 070-09745)

Ladies and Gentlemen:

We are special New Mexico counsel for Pinnacle West Capital Corporation, an Arizona corporation (the "**Company**"), in regard to certain matters relating to the "**Reorganization**," as such term is defined in the Form U-1 Application/Declaration (File No. 070-09745) under the Public Utility Holding Company Act of 1935, as amended (the "**Act**"), filed with the Securities and Exchange Commission (the "**Commission**") by the Company on September 12, 2000, as amended by filings made on December 8, 2001, January 17, 2001 and April, 2001 (the "**Application**"). Capitalized terms used herein and not otherwise defined will have the meanings given in the Application, which we have examined. The term "**Four Corners Transfer**," when used herein, will mean the transfer of the Four Corners Power Plant from APS, an Arizona corporation, to PWE, an Arizona corporation, pursuant to the Reorganization, as contemplated in the Application.

We understand that the Company was formed in 1985 under the laws of Arizona as a holding company owning APS and certain other subsidiaries. We also understand that the Company formed PWE in 1999 under the laws of Arizona, as a wholly owned subsidiary of the Company.

We have relied upon the following representations made to us by the Company:

(A) The Company, itself, is not engaged in any business in the State of New Mexico, except that from October 1, 2000 to the present, the Company has been engaged in the purchase and sale of power and energy, at wholesale, from the switchyard of the Four Corners Power Plant, located within the boundaries of the Navajo Reservation; and

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A.H. McLeod (1902-1976)

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(B) Only two subsidiaries of the Company conduct business in the State of New Mexico: (1) SunCor Development Company, an Arizona corporation, which owns and operates certain residential or commercial real estate properties in New Mexico; and (2) APS.

APS has represented to us, and we have relied upon such representation, that the only business in which it is engaged in the State of New Mexico consists of and is limited to ownership and operation of electric generating units (or undivided interests therein) and electric transmission lines, sales of electricity at retail to BHP Navajo Coal Company ("BHP") solely for its conduct of coal mining operations on the Navajo Reservation which provides coal to the Four Corners Power Plant for the generation of electricity ("BHP Contract"), transmission of electricity from Tucson Electric Power Company to the Navajo Tribal Utility Authority for resale, and wholesale transactions with other utilities.

APS and PWE have represented to us, and we have relied upon such representation, that the only asset located in the State of New Mexico that is being transferred from APS to PWE pursuant to the Reorganization is the Four Corners Power Plant.

PWE has represented to us, and we have relied upon such representation, that it is not currently engaged in any business in the State of New Mexico, and that the only business in which it will be engaged in the State of New Mexico immediately following the Reorganization consists of and is limited to ownership and operation of electric generating units (or undivided interests therein) at the Four Corners Power Plant and the sale of power and energy at wholesale from the Four Corners Power Plant.

Our opinions herein are given solely with respect to the actual effectuation of the Four Corners Transfer, and no opinion is given as to whether APS, the Company, Transitory Subsidiary or PWE, or their businesses or operations, are currently in compliance with any laws, or will be after the Reorganization, or as to any consents, licenses, permits, filings with or approvals of any governmental body or agency or other person required for the ownership or operation of the Four Corners Power Plant before or following the Reorganization.

Our opinions relate only to the Four Corners Transfer. In respect only of the laws of New Mexico, and subject to the qualifications and limitations with respect to this opinion letter set forth above, we are of the opinion that:

1. The activities of APS in the State of New Mexico to date do not constitute it a "public utility" as that term is defined in the relevant laws of the State of New Mexico, and accordingly, no approval, authorization, or consent of the New Mexico Public Regulation Commission is required by APS for the Four Corners Transfer contemplated in the Application. In addition, the rates and charges pursuant to the BHP Contract between APS and BHP are not subject to regulation by the New Mexico Public Regulation Commission.

2. The activities of PWE in the State of New Mexico to date do not, and immediately following the Reorganization will not, constitute it a "public utility" as that term is defined in the relevant laws of the State of New Mexico, and accordingly, no approval, authorization, or consent of the New Mexico Public Regulation Commission is required by PWE for the Four Corners Transfer contemplated in the Application.
3. The activities of the Company in the State of New Mexico to date do not constitute it a "public utility" as that term is defined in the relevant laws of the State of New Mexico, and accordingly, no approval authorization, or consent of the New Mexico Public Regulation Commission is required by the Company for the Four Corners Transfer contemplated in the Application.
4. All laws of the State of New Mexico applicable to PWE becoming, pursuant to the Reorganization, a "public utility company" under the Act and to the Company then holding, pursuant to the Reorganization, two such "public utility companies", APS and PWE, if any, have been complied with.

The opinions expressed herein are limited to the laws of the State of New Mexico and we express no opinion about the laws of any other jurisdiction. The opinions expressed herein are based upon the law in effect on the date hereof, and we assume no obligation to revise or supplement this opinion should such law be changed by legislative action, judicial decision, or in any other manner, or otherwise to notify you of any changes in law or fact relevant to the opinions expressed herein. Without limitation of the foregoing, we express no opinion on the requirements that might become applicable upon the implementation of open access in New Mexico, currently scheduled to begin January 1, 2007. This opinion letter is rendered solely for your benefit in connection with the Four Corners Transfer described above, and this opinion letter is not to be used, circulated, quoted, or otherwise referred to for any other purpose.

We hereby consent to the use of this opinion as an exhibit to the Application.

Yours truly,

KELEHER & MCLEOD, P.A.

By: Susan M. McCormack
Susan M. McCormack

As filed with the Securities and Exchange
Commission on May 11, 2001

File No. 070-9745

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 4 TO
FORM U-1
APPLICATION
UNDER
THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

PINNACLE WEST CAPITAL CORPORATION
400 East Van Buren Street, Suite 700
Phoenix, Arizona 85004

(Name of company filing this statement and address of principal executive offices)

None

(Name of top registered holding company parent)

Herbert I. Zinn
Pinnacle West Capital Corporation
400 North Fifth Street
Mail Station 8695
Phoenix, Arizona 85004

Mary Ann K. Huntington
Morgan, Lewis & Bockius LLP
1800 M Street, N.W.
Washington, D.C. 20036

(Name and address of agents for service)

The Commission is requested to send copies of all notices, orders, and communications in
connection with this Application to:

Herbert I. Zinn
Pinnacle West Capital Corporation
400 North Fifth Street
Mail Station 8695
Phoenix, Arizona 85004

Mary Ann K. Huntington
Morgan, Lewis & Bockius LLP
1800 M Street, N.W.
Washington, D.C. 20036

Certificate Pursuant to Rule 24

Pinnacle West Capital Corporation (PNW) hereby files this Certificate of Notification (the Certificate) in connection with the transactions proposed in the Form U-1 Application dated September 12, 2000, as amended by filings made on December 8, 2000, January 17, 2001 and April 27, 2001, filed by PNW in File No. 70-9745. These transactions were authorized by order of the Securities and Exchange Commission (the Commission) dated April 27, 2001 (Order). PNW hereby certifies the matters set forth below pursuant to 17 C.F.R. 250.24 of the Commission's regulations under the Public Utility Holding Company Act of 1935:

1. On May 2, 2001, Pinnacle West Energy Corporation (PWE), a wholly-owned subsidiary of PNW, filed with the Federal Energy Regulatory Commission (FERC) a Notice of Withdrawal of its Application for Determination of Exempt Wholesale Generator (EWG) Status.
2. The Development Activities, as that term is defined in the Application, were carried out in accordance with the terms and conditions of and for the purposes represented by the Application of PNW to the Commission dated September 12, 2000, as amended, and by the Order of the Commission, dated April 27, 2001 (Release No. 35-27386).
3. Pursuant to paragraph F.(2) of the instructions as to exhibits for Form U-1, filed herewith as Exhibit F-2 to the Application are the "past tense" opinions of counsel.

Dated May 11, 2001.

PINNACLE WEST CAPITAL CORPORATION

BY: Barbara M. Gray
Treasurer

Snell & Wilmer

L.L.P.
LAW OFFICES

One Arizona Center
Phoenix, Arizona 85004-2202
(602) 382-6000
Fax: (602) 382-6070
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[FINAL – DEVELOPMENT ACTIVITIES]

May 11, 2001

PHOENIX, ARIZONA

TUCSON, ARIZONA

IRVINE, CALIFORNIA

SALT LAKE CITY, UTAH

DENVER, COLORADO

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Pinnacle West Capital Corporation Form U-1 Application / Declaration
(File No. 070-09745)

Ladies and Gentlemen:

We are Arizona counsel for Pinnacle West Capital Corporation, an Arizona corporation (the "*Company*"), and are familiar with the matters relating to the "*Development Activities*," as such term is defined in the Form U-1 Application / Declaration (File No. 070-09745) (the "*Original Application*"), under the Public Utility Holding Company Act of 1935, as amended (the "*Act*"), filed with the Securities and Exchange Commission (the "*Commission*") by the Company on September 12, 2000, as amended by filings made by the Company with the Commission on December 8, 2000, January 17, 2001 and April 27, 2001 (the Original Application, as so amended, being referred to herein as the "*Application*"). The term "Associate Company" has the meaning given in the Act. Capitalized terms used herein and not otherwise defined will have the meanings given in the Application.

Among other things, we have examined:

- (a) The Application; and
- (b) Such other documents and certificates (including those being delivered to you concurrently herewith) and such statutes, rules, and regulations as we have deemed relevant.

In giving the opinions herein, we have relied upon a certification by an appropriate officer of the Company as to the securities issued by the Company and each Associate Company of the Company in connection with the Development Activities and the documents evidencing the same (the "*Securities Documents*"). We have examined the originals, or copies certified to our satisfaction, of the Securities Documents. In addition, we have examined the originals, or copies certified to our satisfaction, of such corporate records of the Company and PWE, certificates of public officials and of officers of the Company or any of the Associate Companies, and agreements, instruments, and other documents, as we have deemed necessary as a basis for the opinions expressed below. As to questions of fact material to such opinions, we have, when relevant facts were not independently established by us, relied upon certificates of appropriate officers of the Company or an Associate Company or of public officials.

Snell & Wilmer

LLP

Securities and Exchange Commission

May 11, 2001

Page 3

- (c) In giving the opinion in paragraphs 1 and 5 hereof, we have relied solely on the opinion of Nancy Loftin, the General Counsel of the Company, filed concurrently herewith, and no other investigation of such matters has been made.

The opinions expressed herein are limited to the laws of the State of Arizona and, with respect to paragraphs 3, 4 and 5 herein, the federal law of the United States of America and we express no opinion on the laws of any other jurisdiction. The opinions expressed herein are based upon the law in effect on the date hereof, and we assume no obligation to revise or supplement this opinion should such law be changed by legislative action, judicial decision, or in any other manner, or otherwise to notify you of any changes in law or fact relevant to the opinions expressed herein. This opinion letter is rendered solely for your benefit in connection with the transactions described above, and this opinion letter is not to be used, circulated, quoted, or otherwise referred to for any other purpose.

We hereby consent to the use of this opinion as an exhibit to the Application.

Very truly yours,

Snell & Wilmer LLP

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PINNACLE WEST
CAPITAL CORPORATION

Nancy C. Lofin
Vice President and
General Counsel

May 11, 2001

Snell & Wilmer
400 East Van Buren
Phoenix, Arizona 85004

Re: Pinnacle West Capital Corporation Form U-1 Application/Declaration
(File No. 070-09745)

Ladies and Gentlemen:

The Pinnacle West Capital Corporation Law Department provides and coordinates legal services for Pinnacle West Capital Corporation, an Arizona corporation (the "Company"), and is familiar with the matters relating to the "Development Activities," as such term is defined in the Form U-1 Application/Declaration (File No. 070-09745) (the "Original Application"), under the Public Utility Holding Company Act of 1935, as amended (the "Act"), filed with the Securities and Exchange Commission (the "Commission") by the Company on September 12, 2000, as amended by filings made by the Company with the Commission on December 8, 2000, January 17, 2001 and April 27, 2001 (the Original Application, as so amended, being referred to herein as the "Application"). The term "Associate Company" has the meaning given in the Act. Capitalized terms used herein and not otherwise defined will have the meanings given in the Application.

Among other things, we have examined:

- (a) The Application; and
- (b) Such other documents and certificates (including those being delivered to you concurrently herewith) and such statutes, rules, and regulations as we have deemed relevant.

In addition, we have examined the originals, or copies certified to our satisfaction, of such corporate records of the Company and PWE, certificates of public officials and of officers of the Company or any of the Associate Companies, and agreements, instruments,

P.O. Box 53999 Station 9068 Phoenix, AZ 85072-3999 602-250-3253 Fax 602-250-3002 E-Mail: nlofin@spsc.com

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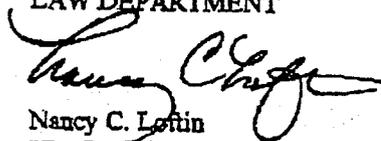
Snell & Wilmer
May 11, 2001
Page 3

relevant to the opinions expressed herein. This opinion letter is rendered solely for your benefit in connection with the rendering of your final legal opinion to the Securities and Exchange Commission as it relates to the transactions described above, and this opinion letter is not to be used, circulated, quoted, or otherwise referred to for any other purpose.

We hereby consent to the use of this opinion as an exhibit to the Application.

Very truly yours,

PINNACLE WEST CAPITAL
CORPORATION
LAW DEPARTMENT



Nancy C. Loftin
Vice President & General Counsel

NCL:RIZ:lhc



May 7, 2001

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Pinnacle West Capital Corporation
Form U-1 Application/Declaration
(File No. 070-09745)

Ladies and Gentlemen:

We are special New Mexico counsel for Pinnacle West Capital Corporation, an Arizona corporation (the "Company"), in regard to certain matters relating to the "Reorganization," as such term is defined in the Form U-1 Application/Declaration (File No. 070-09745) under the Public Utility Holding Company Act of 1935, as amended (the "Act"), filed with the Securities and Exchange Commission (the "Commission") by the Company on September 12, 2000, as amended by filings made on December 8, 2001, January 17, 2001 and April 27, 2001 (the "Application"). Capitalized terms used herein and not otherwise defined will have the meanings given in the Application, which we have examined. The term "Four Corners Transfer," when used herein, will mean the transfer of the Four Corners Power Plant from APS, an Arizona corporation, to PWE, an Arizona corporation, pursuant to the Reorganization, as contemplated in the Application.

We understand that the Company was formed in 1985 under the laws of Arizona as a holding company owning APS and certain other subsidiaries. We also understand that the Company formed PWE in 1999 under the laws of Arizona, as a wholly owned subsidiary of the Company.

We have relied upon the following representations made to us by the Company:

(A) The Company, itself, is not engaged in any business in the State of New Mexico, except that from October 1, 2000 to the present, the Company has been engaged in the purchase and sale of power and energy, at wholesale, from the switchyard of the Four Corners Power Plant, located within the boundaries of the Navajo Reservation; and

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(B) Only two subsidiaries of the Company conduct business in the State of New Mexico: (1) SunCor Development Company, an Arizona corporation, which owns and operates certain residential or commercial real estate properties in New Mexico; and (2) APS.

APS has represented to us, and we have relied upon such representation, that the only business in which it is engaged in the State of New Mexico consists of and is limited to ownership and operation of electric generating units (or undivided interests therein) and electric transmission lines, sales of electricity at retail to BHP Navajo Coal Company ("BHP") solely for its conduct of coal mining operations on the Navajo Reservation which provides coal to the Four Corners Power Plant for the generation of electricity ("BHP Contract"), transmission of electricity from Tucson Electric Power Company to the Navajo Tribal Utility Authority for resale, and wholesale transactions with other utilities.

APS and PWE have represented to us, and we have relied upon such representation, that the only asset located in the State of New Mexico that is being transferred from APS to PWE pursuant to the Reorganization is the Four Corners Power Plant.

PWE has represented to us, and we have relied upon such representation, that it is not currently engaged in any business in the State of New Mexico, and that the only business in which it will be engaged in the State of New Mexico immediately following the Reorganization consists of and is limited to ownership and operation of electric generating units (or undivided interests therein) at the Four Corners Power Plant and the sale of power and energy at wholesale from the Four Corners Power Plant.

Our opinions herein are given solely with respect to the actual effectuation of the Four Corners Transfer, and no opinion is given as to whether APS, the Company, Transitory Subsidiary or PWE, or their businesses or operations, are currently in compliance with any laws, or will be after the Reorganization, or as to any consents, licenses, permits, filings with or approvals of any governmental body or agency or other person required for the ownership or operation of the Four Corners Power Plant before or following the Reorganization.

Our opinions relate only to the Four Corners Transfer. In respect only of the laws of New Mexico, and subject to the qualifications and limitations with respect to this opinion letter set forth above, we are of the opinion that:

1. The activities of APS in the State of New Mexico to date do not constitute it a "public utility" as that term is defined in the relevant laws of the State of New Mexico, and accordingly, no approval, authorization, or consent of the New Mexico Public Regulation Commission is required by APS for the Four Corners Transfer contemplated in the Application. In addition, the rates and charges pursuant to the BHP Contract between APS and BHP are not subject to regulation by the New Mexico Public Regulation Commission.

2. The activities of PWE in the State of New Mexico to date do not, and immediately following the Reorganization will not, constitute it a "public utility" as that term is defined in the relevant laws of the State of New Mexico, and accordingly, no approval, authorization, or consent of the New Mexico Public Regulation Commission is required by PWE for the Four Corners Transfer contemplated in the Application.
3. The activities of the Company in the State of New Mexico to date do not constitute it a "public utility" as that term is defined in the relevant laws of the State of New Mexico, and accordingly, no approval authorization, or consent of the New Mexico Public Regulation Commission is required by the Company for the Four Corners Transfer contemplated in the Application.
4. All laws of the State of New Mexico applicable to PWE becoming, pursuant to the Reorganization, a "public utility company" under the Act and to the Company then holding, pursuant to the Reorganization, two such "public utility companies", APS and PWE, if any, have been complied with.

The opinions expressed herein are limited to the laws of the State of New Mexico and we express no opinion about the laws of any other jurisdiction. The opinions expressed herein are based upon the law in effect on the date hereof, and we assume no obligation to revise or supplement this opinion should such law be changed by legislative action, judicial decision, or in any other manner, or otherwise to notify you of any changes in law or fact relevant to the opinions expressed herein. Without limitation of the foregoing, we express no opinion on the requirements that might become applicable upon the implementation of open access in New Mexico, currently scheduled to begin January 1, 2007. This opinion letter is rendered solely for your benefit in connection with the Four Corners Transfer described above, and this opinion letter is not to be used, circulated, quoted, or otherwise referred to for any other purpose.

We hereby consent to the use of this opinion as an exhibit to the Application.

Yours truly,

KELEHER & MCLEOD, P.A.

By: Susan McCormack
Susan M. McCormack