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AZ CORP COMMISSION  
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1 FENNEMORE CRAIG  
 A Professional Corporation  
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 3003 North Central Avenue  
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 Phoenix, Arizona 85012-2913  
 5 Telephone: (602) 916-5000  
 6 Attorneys for Cyprus Sierrita Corporation

BEFORE THE ARIZONA CORPORATION COMMISSION

9 TUCSON ELECTRIC POWER  
 COMPANY, an Arizona corporation,  
 10  
 Complainant,  
 11  
 v.  
 12  
 13 CYPRUS SIERRITA CORPORATION, a  
 Delaware corporation,  
 14  
 Respondent.

DOCKET NO. E-00001-99-0243

**CYPRUS SIERRITA CORPORATION'S  
NOTICE OF SUPPLEMENTAL FILING**

15  
 16 Cyprus Sierrita Corporation ("Cyprus"), through undersigned counsel, hereby  
 17 provides notice that copies of the tabbed exhibits A through E containing  
 18 designated portions of deposition transcripts to be introduced in evidence at the  
 19 hearing in the above-captioned docket were omitted from "Cyprus Sierrita's  
 20 Corporation's (1) Notice of Filing Designated Portions of Deposition Transcripts and  
 21 (2) Notice of Designating TEP Witnesses for Live Testimony." Complete copies of  
 22 these documents were hand-delivered to counsel for Tucson Electric Power  
 23 Company ("TEP") and mailed to the Hearing Officer on Wednesday, October 27,  
 24 1999, and are attached hereto.

Arizona Corporation Commission

**DOCKETED**

OCT 28 1999

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Dated this 28<sup>th</sup> day of October, 1999.

FENNEMORE CRAIG

By   
Paul J. Mooney  
Jay L. Shapiro  
Thomas D. Ulreich  
Attorneys for Cyprus Sierrita  
Corporation

ORIGINAL and ten copies of  
the foregoing filed this 28<sup>th</sup> day of  
October, 1999, with:

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

\*  
COPY of the foregoing hand- \* without attachments  
delivered this 28<sup>th</sup> day of October,  
1999 to:

Raymond S. Heyman  
Roshka Heyman & DeWulf, PLC  
Two Arizona Center  
400 N. 5<sup>th</sup> Street  
Suite 1000  
Phoenix, AZ 85004  
Attorneys for Tucson Electric Power Company

\*  
COPY of the foregoing mailed \*without attachments  
this 28<sup>th</sup> day of October, 1999, to:

Bradley S. Carroll  
Tucson Electric Power Company  
220 W. Sixth Street-DB203  
PO Box 711  
Tucson, AZ 85702

...  
...  
...  
...

1 Jane L. Rodda  
Hearing Officer  
2 Arizona Corporation Commission  
4000 W. Congress Street  
3 Tucson, AZ 85701

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By:  \_\_\_\_\_

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BEFORE THE ARIZONA CORPORATION COMMISSION

TUCSON ELECTRIC POWER COMPANY, )  
an Arizona corporation, )  
Complainant, )  
vs. )  
CYPRUS SIERRITA CORPORATION, )  
INC., a Delaware corporation, )  
Respondent. )  
-----)

Docket No.  
E-00000A-99-0243

**CERTIFIED  
COPY**

Deposition of MICHAEL J. DECONCINI,  
JR. taken by the RESPONDENT at One  
South Church, Suite 1030, Tucson,  
Arizona, commencing a 9:15 a.m.,  
September 13, 1999.

-----  
HUNT REPORTING  
3442 EAST HAWTHORNE STREET  
TUCSON, ARIZONA 85716  
TELEPHONE: (520) 326-3371  
1 (800) 545-6584  
FAX: (520) 326-0209

-----  
REPORTED BY  
NAOLA C. THIMESCH  
RPR, NOTARY PUBLIC

1 BE IT REMEMBERED that pursuant to  
2 Notice of Taking Deposition in the above-styled and  
3 numbered cause, the deposition of MICHAEL J.  
4 DECONCINI, JR. was taken upon oral examination at the  
5 law offices of Fennemore Craig, One South Church,  
6 Suite 1030, in the City of Tucson, County of Pima,  
7 State of Arizona, before me, Naola C. Thimesch, a  
8 Notary Public in and for the County of Coconino,  
9 State of Arizona, on the 13th day of September, 1999,  
10 commencing at the hour of 9:15 a.m. on said day.

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MICHAEL J. DECONCINI, JR.,

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having been first duly sworn upon his oath to

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tell the truth, the whole truth, and nothing but

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the truth, testified as follows:

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Q. Sir, why don't you go ahead and state  
20 your full name for the record.

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A. Michael John DeConcini, Junior.

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By whom are you employed?

A. Unisource Energy Corporation.

Q. And what is your business address?

A. 220 West 6th Street.

Q. And what is your position with Unisource?

A. I'm a vice president of strategic  
planning for Unisource.

Q. Why don't you tell me who is Unisource.

A. Unisource is the parent company of Tucson  
Electric Power Company and any of its subsidiaries,  
as well as Millennium Energy Corporation, which is  
the unregulated holding company under Unisource.

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Q. As the VP of strategic planning for Unisource, what are your responsibilities?

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A. I'm in charge of overseeing the high level strategic direction of all of the businesses of Unisource under the direction of Jim Pignatelli, who's the CEO.

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Q.

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what positions did you hold or what

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other positions did you hold at the same time?

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A. Prior to that I was the manager of

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wholesale marketing for Tucson Electric Power.

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Q. And how long did you hold that position?

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A. I'm estimating that I started that in

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September of 1994.

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Q. And you held it until September of 1998?

1           A.       Correct.

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6           Q.       What were your responsibilities as the  
7 manager of wholesale marketing for TEP?

8           A.       I was responsible for oversight of our  
9 wholesale energy business and also was involved in  
10 contract negotiations with large customers.

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Q. I'm going to show you what I will mark as TEP depo Exhibit No. 2. I'll ask you if you're familiar with that document, Mr. DeConcini?

A. Yes, I am.

Q. And were you involved in the negotiations of that document?

A. I was involved largely internal to the company, yes.

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Q. What do you mean by internal to the company, Mr. DeConcini?

A. I was at the initial meeting that Cyprus called in December of 1995 to discuss this agreement

1 that initiated the amendment. Subsequent to that I  
2 was primarily involved internally and represented in  
3 the negotiations by Leland Snook who worked for me in  
4 wholesale marketing.

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17 Q. Did Mr. Snook report back to you. Were  
18 you supervising his role as the negotiator?

19 A. Mr. Snook was one of the negotiators.  
20 Mr. Glaser was, I believe, the primary negotiator,  
21 but at the time Mr. Snook reported to me and, yes, I  
22 supervised him.

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Q. Well, would you agree with me that the

1 TEP FERC account 501 is a known and measurable index?  
2 A. Yes.  
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Q. In connection with the negotiations that resulted in Amendment No. 2, did you ever ask anybody the question does 501 include all of our fuel costs?

A. No, I didn't.

Q. To your knowledge did Mr. Snook ever ask anybody that question?

A. Not to my knowledge.

1 Q. Well, if it was intended to be  
2 representational of the fuel costs, wouldn't that be  
3 an important question to ask?

4 A. I have enough knowledge about 501 that,  
5 to the extent there may be fuel costs that aren't  
6 included in it, it would be a very small amount. So  
7 I didn't believe it was necessary to ask anyone.

8 Q. Are you making that statement based on  
9 your knowledge at the time or based on your  
10 after-the-fact reconsideration of what happened, that  
11 you didn't believe it was appropriate to ask somebody  
12 that question?

13 A. I'm making that statement based on my  
14 knowledge at the time.

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Q. Nothing would have required TEP to sit down with Cyprus and renegotiate the agreement?

A. That's correct.

Q. And one of the factors that TEP considered was the possibility that Cyprus could go off the system and self-generate when the contract was up?

A. Yes. That was one of the issues.

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Q. So it was your understanding that as these negotiations began that Cyprus' goal was to obtain a rate from TEP of 3.5 cents per kilowatt hour?

A. Understood it was a stated goal of theirs, yes.

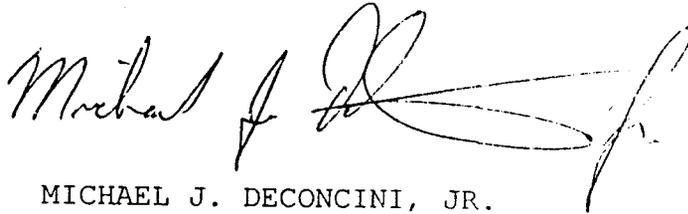
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SIGNATURE PAGE

I, MICHAEL J. DECONCINI, JR. a deponent in the matter of Tucson Electric Power v. Cyprus Sierrita, Docket No. E-00000A-99-0243, exercising my right to read and sign my deposition taken on the 13th day of September, 1999, place my signature hereon and make the following changes on the 6<sup>th</sup> day of October, 1999.

(IF THERE ARE NO CHANGES, WRITE NONE.)



MICHAEL J. DECONCINI, JR.

PAGE	LINE	READS	CHANGE TO	REASON
9	12	of an independent	in the independent	meaning
11	15	CC+m of	CC+N from	transcription error
11	22		delete "which is an end special contract customers"	meaning/flow
13	8	Under	into	transcription error
14	18	primary	primarily	" "
36	2	fuel	fuel	" "
57	25	customer that	delete "that"	" "

C E R T I F I C A T E

STATE OF ARIZONA )  
 ) ss.  
COUNTY OF COCONINO )

I, NAOLA C. THIMESCH, a Notary Public in  
and for the County of Coconino, State of Arizona,  
certify:

That the foregoing deposition of MICHAEL J.  
DECONCINI, JR. taken before me at the time and place  
therein set forth, at which time the witness was put  
under oath by me;

That the testimony of the witness and all  
objections made at the time of the examination were  
recorded stenographically by me and were thereafter  
transcribed;

That the foregoing transcript comprises a  
true record of the testimony and of all objections  
made at the time of the examination;

That I am in no way related to the parties  
in this action, nor interested in the outcome  
thereof.

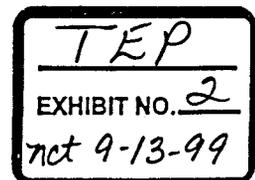
IN WITNESS WHEREOF, I have subscribed my  
name and affixed my seal this 20th day of September,  
1999.



*Naola C. Thimesch*

NAOLA C. THIMESCH, RPR/CSR  
NOTARY PUBLIC

Amendment No. 2  
to the  
Electric Service Agreement  
between  
Tucson Electric Power Company  
&  
Cyprus Sierrita Corporation



CYP000065

**Amendment No. 2  
to the  
Electric Service Agreement**

**1. PARTIES AND RECITALS**

Dated this 8<sup>th</sup> day of November, 1996, between Tucson Electric Power Company (the "Company"), and Cyprus Sierrita Corporation (the "Customer"), (collectively "Parties"). The Company and the Customer are parties to an Electric Service Agreement dated February 6, 1991, as amended December 15, 1992, (the "Agreement"), pursuant to which electric utility service is purchased by and provided to the Customer for its Sierrita Mine Operations and related facilities. The Company and the Customer wish to amend the Agreement to provide (i) changes in the pricing for service to the Customer; (ii) interruptible service with respect to a portion of the Customer's load; and (iii) market access for a portion of the Customer's load. Accordingly, upon satisfaction of the conditions precedent set forth below, the Parties hereby amend the Agreement as specified herein.

**2. AGREEMENT**

The Parties amend the Agreement as follows:

2.1. The Agreement is hereby amended by deleting Exhibit C, which is not being replaced, and deleting Section VI of the Agreement in its entirety and substituting therefor the following:

“VI. PRICING

A. Firm Power. Firm power demand shall be 15 MW. The price for such firm power shall consist of a Demand Charge of \$5.25/kW-Mo. and an Energy Charge of \$0.03748/kWh.

B. Interruptible Power. Interruptible power demand shall be up to 82 MW. The Company shall provide Customer no less than ten (10) minutes notice of pending interruption of service. The price for such interruptible service shall consist of a Demand Charge of \$2.02/kW-Mo. and an Energy Charge of \$0.03748/kWh, provided that during any hours in which the Company's system incremental cost of producing energy exceeds the Energy Charge, the Customer shall be required to reduce its load to the point where the Company's incremental cost is equal to the Energy Charge. In the alternative, the Customer shall have the ability to pay for replacement energy. The sales price to the Customer for replacement energy purchases shall include, but not be limited to, the following as applicable:

1. demand charges,
2. energy charges,
3. unit startup costs,
4. minimum run time charges,

5. minimum quantity purchase obligation,

6. other expenses charged by suppliers,

7. Company's applicable transmission wheeling and ancillary services charges as ultimately approved by FERC and the ACC in the Company's Open Access Transmission and Distribution Tariffs, which upon regulatory approval shall be, subject to refund or increase, \$2.56/kW-Mo. (\$0.118/kW-day, \$0.007385/kWh) for EHV Point-to-Point Transmission Service, \$1.08/kW-Mo. (\$0.05/kW-day, \$0.003116/kWh) for 138kV Point-to-Point Distribution Service, \$0.05/kW-Mo. (\$0.002/kW-day, \$0.001/kWh, subject to a minimum charge of \$200 per schedule) for Scheduling, System Control and Dispatch Service and \$0.547/kW-Mo. (\$0.025/kW-day, \$0.002/kWh) for Reactive Supply and Voltage Control from Generation Sources Service for a total charge of \$4.237/kW-Mo. (\$0.195/kW-day). The following ancillary services, Regulation and Frequency Response Service, Energy Imbalance Service, Operating Reserve - Spinning Reserve Service and Operating Reserve - Supplemental Reserve Service are to be included in the firm energy product delivered to Company. For tariff purposes only, all of Customers' Delivery Points are considered to be at 138kV Distribution Service.

8. a handling charge of 10 % of the sum of the above charges 1 through 6. and

9. cost of transmission losses for delivery to the Company's system.

Capacity interruptions shall be limited to 128 hours in any calendar year, or 8 hours in any calendar day. Following an interruption, permitted capacity interruptions for the calendar year shall be reduced by the greater of the actual duration of the interruption or four (4) hours.

C. Market Pricing. The Customer shall have the ability to designate up to 5 MW of the first 102 MW of demand, and all demand in excess of 102 MW, for purchase by the Customer at market pricing. In the event the Customer elects to designate power for market pricing from Company, the Company shall wheel the power to the Customer at a price based on the Palo Verde Index, which price shall be trued-up in the following month's billing based on the actual daily Palo Verde Index prices during each previous calendar month. In addition, a 10% handling charge, as well as the applicable Transmission and Distribution charges specified in VI.B.7. above shall apply. The Palo Verde Index is defined as the daily quoted price in \$/MWh as published in the Wall Street Journal for prescheduled, firm on-peak and firm off-peak power. Off-peak hours shall be hours ending (HE) 2300 to 0600 Mountain Standard Time (MST) Monday-Sunday. On-peak hours shall be HE0700-2200 MST Monday-Sunday. Power delivered at market pricing shall be considered first through the meter.

D. Minimum Payment. The minimum payment obligation shall be \$434,000 per month until December 31, 1997, and thereafter shall be \$234,000 per month, through the expiration or termination of this Agreement.

E. Operating Procedure. Customer and Company shall develop and approve detailed operating procedures for scheduling replacement energy and market power from Company. Such procedures shall be consistent with the practical operation of Company's electrical system and Customer's mine operations, and necessary or convenient for the implementation of this Agreement.

F. Calculation of Energy Charges. Energy Charges shall be indexed to the Company's system average fuel cost (FERC Account 501 dollars per MWh of net

generation). Energy Charges shall be increased or decreased quarterly, but in no event shall they increase by more than 1% in any calendar year. Quarterly changes shall be computed using a twelve (12) month rolling period ending three months prior. The base period for the calculation of the index shall be twelve months from July 1995 through June 1996.

G. Billing Demand. Demand billing calculations hereunder shall be based on the average of the three highest 15-minute metered demands during the month.

H. Wire Transfer. Notwithstanding Section V of this Agreement, the Customer's payments for service shall be wire transferred according to the Company's instructions within ten (10) calendar days of receipt of billing statements.

I. Retail Access. If, during the term of this Agreement, any regulatory or other governmental authority renders any decision or order or implements any legislation (other than a "pilot" or "experimental" program) which permits similarly situated copper mining customer(s) in Arizona (without limitation, Asarco Mission and Ray, BHP Pinto Valley and San Manuel, and Cyprus Bagdad and Miami are specifically considered similarly situated) to purchase electric energy produced by entities other than the electric utility serving such customers' service territory for use within such service territory ("Retail Access"), and the Customer would have the benefit of such Retail Access but for this Agreement, the Company shall in good faith with the Customer provide access to the competitive market comparable to that provided by Retail Access."

2.2. The Agreement is hereby amended by deleting Section VIII of the Agreement in its entirety and substituting therefor the following:

"VIII. EFFECTIVE DATE AND TERM

Subject to Section 2.6 below, this Amendment No. 2 shall be effective September 16, 1996, ("Effective Date") and shall expire at 12:00 a.m. on January 1, 2003, subject to earlier termination in the event the Customer elects to close its Sierrita Mine operations during the term of this Agreement, provided however, neither Party shall have any other early termination option."

2.3 Upon regulatory approval of this Amendment No. 2 to the Agreement, it is the intent of the Parties to re-invoice the Customer billing from the Effective Date forward and credit Customer's next monthly invoice any overpayment for electrical service.

2.4 The Agreement is hereby amended by deleting Section XVIII of the Agreement in its entirety and substituting therefor the following:  
For purposes of any notification contemplated to be given by or to either party under this Agreement, the following shall constitute the appropriate address for delivery for such notice:

To the Company:

Tucson Electric Power Company

c/o Secretary

P.O. Box 711

Tucson, Arizona 85702

To the Customer:

Cyprus Sierrita Corporation

Attention: Vice President/General Manager

P.O. Box 527

Green Valley, Arizona 85622

With copies to:

Cyprus Climax Metals Company

Attention: Legal Department

P.O. Box 22015

Tempe, Arizona 85285

and:

Cyprus Climax Metals Company

Attention: Manager, Power

P.O. Box 22015

Tempe, Arizona 85285

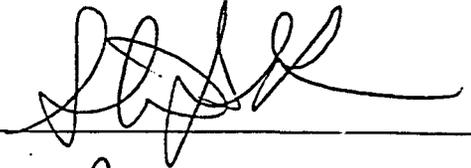
2.5 If the Commission orders any material changes to or modifications of this Amendment No. 2 which are unacceptable to either Party, the objecting Party shall notify

the other Party within five (5) days of receipt of the Commission order and this Amendment No. 2 shall be void and the Agreement without this Amendment No. 2 shall be in full force and effect.

2.6 Conditions Precedent. This Amendment No. 2 is subject to the receipt by the Parties of all necessary regulatory approvals.

IN WITNESS WHEREOF, the Parties have caused this Amendment No. 2 to the Agreement to be executed as of the 8<sup>th</sup> day of November, 1996.

TUCSON ELECTRIC POWER COMPANY

By 

Title VP

CYPRUS SIERRITA CORPORATION

By AR Edwards

Title: Vice President/General Manager

**Tucson Electric Power &  
Cyprus Sierrita Corporation  
Electric Service Agreement Amendment No. 2  
Operating Procedure**

Tucson Electric Power Company (the "Company") and Cyprus Sierrita Corporation (the "Customer"), herein referred to as ("Party") or collectively as ("Parties") hereby agree to the following Operating Procedure Pursuant to Section VI.E of Amendment No. 2 of the Electric Service Agreement:

I. REPLACEMENT ENERGY

A. During any hours in which the Company's system incremental cost of producing energy exceeds the Energy Charge (indexed quarterly), the Company shall have the right to require Customer to reduce its load to a point where the Company's incremental cost is equal to the Energy Charge, subject to the limitations in I.H below. When Company requires Customer to reduce load, the Customer shall alternatively have the ability to pay for replacement energy.

B. Company shall notify Customer when circumstances require either an interruption of some level of service, or alternatively, the purchase of replacement energy ("Qualifying Event"), as soon as practicable, but in no event shall notice be less than ten (10) minutes.

C. Notifications to Company or Customer will be made via telephone to the designated representative as follows:

<u>Customer Primary:</u>	
Mill Control Room	(520) 648-8811
<u>Customer Alternate #1:</u>	
Mill Control Room	(520) 648-8735
<u>Customer Alternate #2:</u>	
Secondary Control Room	(520) 648-8812
Remote Facsimile ("Fax")	(520) 648-8730
<u>Company Primary:</u>	
Energy Trading Real Time	(520) 745-3249
Energy Trading Fax	(520) 571-4065
<u>Company Alternate #1:</u>	
Energy Trading Backup	(520) 745-3213
<u>Company Alternate #2:</u>	
Generation Dispatch & Control	(520) 745-3312

For the purposes of this Operating Procedure, voice messaging shall not constitute notification.

D. Notwithstanding the notification requirements above, Customer authorizes Company to purchase replacement energy at prevailing market prices when Company's system incremental cost of producing energy exceeds the Energy Charge. This authorization applies to the initial two (2) hours of each Qualifying Event.

E. Normal notification procedure shall be:

1. Company gives Customer a courtesy call to warn of situations existing which may require either the purchase of replacement energy, or alternatively, an interruption of some level of service.
2. Should interruption or replacement energy be necessary, the Company shall provide Customer with the following:

- a. Quantity of energy that interruption or replacement purchases will require.
  - b. Whether replacement energy is available or Sierrita will be required to shed load within 10 minutes.
  - c. Cost of replacement energy for the first hour and anticipated cost of replacement energy for the second hour.
  - d. Expected duration of the Qualifying Event and anticipated cost of replacement energy for the duration.
3. Within one (1) hour of receipt of the information in E.2 above, Customer shall notify Company of intent to continue to purchase replacement energy beyond the initial two (2) hours, reduce load or a combination of the two.

If Customer intends to purchase replacement energy, Customer shall send Company via fax a signed copy of Exhibit "A", or refer to the most recent Exhibit "A" on file with the Company, which lists the Customer's threshold price and duration for purchases.

If Customer intends to curtail load, and does not actually reduce its load by the appropriate amount, a penalty will be incurred. For the first occurrence the penalty will be an additional Firm Power Demand Charge for the month applied to the quantity of uncurtailed load as measured by the Company's metering equipment, plus the cost of all replacement energy provided, in accordance with Sections VI.A and B of Amendment No. 2 of the Electric Service Agreement. For

- subsequent occurrences the penalty will include a three month ratchet applied to the additional Firm Power Demand Charge. This penalty shall also apply to any reductions required pursuant to I.E.2.b above.
4. Company shall notify Customer when the Qualifying Event has abated.
  5. Company will notify Customer via fax by 12:00 noon within two business days of the actual MWh's and total price of replacement energy purchased on behalf of Customer.

F. In the event notification cannot be made by either party within the time constraints specified herein, Company will keep Customer in-service and purchase replacement energy, even if the replacement cost exceeds those set forth in the most recent Exhibit "A" on file with the Company.

G. Replacement energy shall be priced in accordance with section VI.B of Amendment No. 2 to the Electric Service Agreement and at terms as favorable as any economy energy sale that Company may enter into during, and for delivery in, the same hours as the replacement energy is delivered.

H. Interruptions or replacement energy purchases, up to 82 MW as necessary or available, shall be limited to 128 hours in any calendar year, or eight (8) hours in any calendar day. Following an interruption or replacement energy purchase, the calendar year hours shall be reduced by the greater of the actual duration of the interruption/replacement or four (4) hours. TEP's tracking of event hours will be reflected in attachments to the Customer's bill.

## II. MARKET POWER

Customer shall have the right to designate up to 5 MW of the first 102 MW of demand, and all demand in excess of 102 MW, for purchase by Customer at market pricing ("Market Power").

A. Current operating procedure shall be for Company to deliver the appropriate amount of Market Power, as determined by the monthly Billing Demand, at a market price determined by the Palo Verde Index price as published in the Wall Street Journal for pre-scheduled, firm on-peak and firm off-peak power. This Market Power procedure shall roll over from month-to-month unless customer notifies Company pursuant to Section II.D below.

B. Off-peak hours shall be hours ending (HE) 2300 to 0600 Mountain Standard Time (MST) Monday-Sunday. On-peak hours shall be HE0700-2200 MST Monday-Sunday.

C. Market Power shall be considered first through the meter.

D. In the event Customer desires to act as its own agent for purchasing Market Power, Customer must notify Company within ten (10) days of the first of the month. Customer shall be allowed to act as agent for a capacity amount determined by either the previous month's Billing Demand, or a mutually agreeable capacity amount. Customer must contact Company to determine the transmission paths available to Customer. The Company is not required to deliver any Market Power purchases to the Customer on paths not approved in advance by Company.

E. Market Power shall be priced in accordance with section VI.C of Amendment No. 2 to the Electric Service Agreement.

III. OPERATING COMMITTEE

Each Party shall designate up to three (3) persons as its Operating Committee Representatives. Such Representatives shall be authorized to act on behalf of the Party designating such Representative in carrying out the provisions of this Operating Procedure. Each Party shall notify the other Party within fifteen (15) calendar days after execution of this Procedure of the designation of its authorized Representatives and shall promptly notify the other Party of any subsequent changes in such designation. The Representatives will meet as required to provide coordination with respect to matters which affect the implementation of this Operating Procedure. However, such Representatives shall have no authority to modify any of the provisions of this Operating Procedure.

**COMPANY**

Electric Operations

Toby Voge

Supervisor, Short Term Power

Phone: 520-884-3976

Fax: 520-770-2064

Contract Administration

Mike DeConcini

Manager, Contracts & Wholesale Marketing

Phone: 520-884-3964

Fax: 520-770-2064

**CUSTOMER**

Electric Operations

Contract Administration

Malcolm Spiller

Mike McElrath

Supt. Engineering Services

Manager, Power

Phone: 520-648-8843

Phone: 602-929-4507

Fax: 520-648-8730

Fax: 602-929-4510

IN WITNESS WHEREOF, the Parties have caused this Operating Procedure for

Amendment No. 2 to the Agreement to be executed as of the 14<sup>th</sup> day of June, 

1997.

TUCSON ELECTRIC POWER COMPANY

By 

Title VP

CYPRUS SIERRITA CORPORATION

By AR Edwards

Title VP-GM

Exhibit "A"

**Cyprus Sierrita Threshold Price- Replacement Energy**

Fax to: Tucson Electric Power Company  
Energy Trading Real Time (520) 571-4065

<u>Duration (Hrs)</u>	<u>Price ¢/kWh</u>
8	<u>15</u>
7	<u>15</u>
6	<u>15</u>
5	<u>20</u>
4	<u>20</u>
3	<u>20</u>

If the Threshold Price is the same for all time periods, only the eight (8) hour price is required to be filled-in. This Exhibit "A" to remain in effect until superseded by another Exhibit "A".

CYPRUS SIERRITA CORPORATION

By MR. [Signature]  
Title Staff Engineer Cyprus Sierrita  
Date 7-10-97

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BEFORE THE ARIZONA CORPORATION COMMISSION

TUCSON ELECTRIC POWER COMPANY, )  
an Arizona corporation, )  
Complainant, )  
vs. )  
CYPRUS SIERRITA CORPORATION, )  
INC., a Delaware corporation, )  
Respondent. )

Docket No.  
E-00000A-99-0243

**CERTIFIED  
COPY**

Deposition of TODD CLARK taken by  
the RESPONDENT at One South Church,  
Suite 1030, Tucson, Arizona,  
commencing a 2:28 p.m.,  
September 14, 1999.

HUNT REPORTING  
3442 EAST HAWTHORNE STREET  
TUCSON, ARIZONA 85716  
TELEPHONE: (520) 326-3371  
1 (800) 545-6584  
FAX: (520) 326-0209

REPORTED BY  
NAOLA C. THIMESCH  
RPR, NOTARY PUBLIC

1 BE IT REMEMBERED that pursuant to  
2 Notice of Taking Deposition in the above-styled and  
3 numbered cause, the deposition of **TODD CLARK** was  
4 taken upon oral examination at the law offices of  
5 Fennemore Craig, One South Church, Suite 1030, in the  
6 City of Tucson, County of Pima, State of Arizona,  
7 before me, Naola C. Thimesch, a Notary Public in and  
8 for the County of Coconino, State of Arizona, on the  
9 14th day of September, 1999, commencing at the hour  
10 of 2:28 p.m. on said day.

11

12

**TODD CLARK,**

13

having been first duly sworn upon his oath to

14

tell the truth, the whole truth, and nothing but

15

the truth, testified as follows:

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Q. Why don't you state your name for the  
20 record, please.

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A. Todd Clark.

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Q. What is your current position with TEP?

A. Assistant controller.

Q. And how long have you been the assistant controller at TEP?

A. I think three years.

Q. And prior to that position, what was your position with TEP?

A. I was the tax manager.

Q. And how long approximately were you the tax manager?

A. Since 1990.

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Q. Give me a day-to-day job description.  
Your position as assistant controller, what do your  
duties include?

1           A.       Many personnel issues. I oversee much of  
2 the tax function. I participate in the financial  
3 accounting function, but generally that is Karen's  
4 responsibility. And many meetings.

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Q. Prior to May 31 of '96 there was a separate legal entity known as Valencia Energy Company, correct?

A. Correct.

Q. And I understand that on that date it was merged into Tucson Electric Power Company, correct?

A. Correct.

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Q.

When Mr. Moony was asking you about the tax implications at the collapse of Valencia, was there any state sales tax avoidance consequences as a result of the collapse of Valencia into TEP?

A. Yes, there were.

Q. Why don't you explain for us what those were.

A. It was our belief -- and we have not seen an assessment; so I think our belief is correct -- that by collapsing Valencia into TEP it prevented a group of costs from being included in the cost of coal, and, therefore, assessed by the Department of Revenue as part of the price of the coal transfer pricing between Valencia and TEP.

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Hypothetically let's assume you get a refund of some or all of the amounts that are in dispute in the cases for which you're seeking a refund.

6

A. Okay.

7

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9

Q. Those costs, to the extent they were incurred sales tax items that you paid, were accounted for in FERC account 501, correct?

10

A. They were prior to the Valencia collapse?

11

Q. Yes.

12

A. Yes.

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Q. So prior to the Valencia merger into TEP, which, as I understand it, eliminated the issue, all of the sales tax payments that have been made would have passed through account 501, correct?

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A. They were recorded as a contingent sales tax. Not as a -- more or less as a -- again, a reserve. We've talked about a reserve earlier, but as a reserve, an expected future expense that would be recorded in the accounting literature today.

22

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All of the coal pricing contingent sales tax was recorded in Valencia, but not all of the rental sales tax.

25

Q. I appreciate that clarification. Just so

1 we're clear, the approximately 33 million dollar  
2 piece that we talked about earlier which related to  
3 the coal handling part of the sales tax assessments,  
4 that part of the issue would have flowed through  
5 account 501, correct?

6 A. As I understand it. Karen would know  
7 that for sure.

8 Q. Cameron is?

9 A. Karen would know that for sure.

10 Q. That was Karen's testimony, and I guess  
11 the question she couldn't answer and I will put to  
12 you is this. Maybe you can, maybe you can't.

13 Assuming you win and you get that money  
14 back, is there, to your knowledge, an obligation on  
15 the part of TEP or Valencia to refund those sales tax  
16 amounts back to the customers who paid for energy  
17 based in part on the FERC 501 account index?

18 A. I believe there would be. For those who  
19 were affected by it, I think we would feel an  
20 obligation. As a general rule, the retail customer  
21 was not affected by it. As I recall it was not  
22 included in the rate structure.

23 Q. So a tariff paying customer would not  
24 have experienced that cost because that was not  
25 allowed in your rate base?

1           A.       Correct.

2           Q.       But a customer whose charges were based  
3 on a special contract where FERC 501 may have been  
4 used as a determinant for the charges they paid for  
5 power, they would be entitled to at least some  
6 percentage or portion of that refund?

7           A.       Generally, yes. Now, depending on the  
8 contractual relationship, that may be a driver above  
9 and beyond that. But generally in the utility world,  
10 if rates were reduced or increased by an amount, then  
11 we have a refund of an amount, we would generally see  
12 to it that the customer would get that back.

13          Q.       Ultimately that's going to be a contract  
14 question between the customer and the utility?

15          A.       That is correct.

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SIGNATURE PAGE

I, TODD CLARK, a deponent in the matter of Tucson Electric Power v. Cyprus Sierrita, Docket No. E-00000A-99-0243, exercising my right to read and sign my deposition taken on the 14th day of September, 1999, place my signature hereon and make the following changes on the 30th day of September, 1999.

(IF THERE ARE NO CHANGES, WRITE NONE.)



TODD CLARK

PAGE	LINE	READS	CHANGE TO	REASON
9	19	SOPs	OPs	misspelling



**C**

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BEFORE THE ARIZONA CORPORATION COMMISSION

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3 TUCSON ELECTRIC POWER COMPANY, )

4 an Arizona corporation, )

4 )

5 Complainant, )

5 ) Docket No.

6 vs. ) E-00000A-99-0243

6 )

7 CYPRUS SIERRITA CORPORATION, )

7 INC., a Delaware corporation, )

8 )

8 Respondent. )

9 \_\_\_\_\_ )

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13 Deposition of WILLIAM S. JOHNSON

14 taken by the RESPONDENT at One South

15 Church, Suite 1030, Tucson, Arizona,

16 commencing a 1:22 p.m., October 18,

17 1999.

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22 HUNT REPORTING

REPORTED BY

22 3442 EAST HAWTHORNE STREET

NAOLA C. THIMESCH

23 TUCSON, ARIZONA 85716

RPR, NOTARY PUBLIC

23 TELEPHONE: (520) 326-3371

24 1 (800) 545-6584

24 FAX: (520) 326-0209

0005

1 BE IT REMEMBERED that pursuant to  
2 Notice of Taking Deposition in the above-styled and  
3 numbered cause, the deposition of WILLIAM S. JOHNSON  
4 was taken upon oral examination at the law offices of  
5 Fennemore Craig, One South Church, Suite 1000, in the  
6 City of Tucson, County of Pima, State of Arizona,  
7 before me, Naola C. Thimesch, a Notary Public in and  
8 for the County of Coconino, State of Arizona, on the  
9 18th day of October, 1999, commencing at the hour of  
10 1:22 p.m. on said day.

11

12 WILLIAM S. JOHNSON ,  
13 having been first duly sworn upon his oath to  
14 tell the truth, the whole truth, and nothing but  
15 the truth, testified as follows:

16

17 EXAMINATION

18 BY MR. MOONEY:

19 Q. Would you go ahead and state your name  
20 for the record, please.

21 A. My name is William S. Johnson.

22 Q. And where do you live, Mr. Johnson?

23 A. My address is 2940 West Camino Carmelia,  
24 Tucson, Arizona.

25 Q. And I understand that you were previously

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1 employed by Tucson Electric Power Company; is that  
2 correct?

3 A. Yes.

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8 Q. And when you left TEP, what was your last  
9 job title or position when you worked there?

10 A. Senior rates analyst.

11 Q. Is there a particular department or  
12 section of TEP that you worked in?

13 A. Pricing and economics, I think, was the  
14 title.

15 Q. And who was your immediate supervisor  
16 when you last worked at TEP?

17 A. Carolyn Gardner.

18 Q. Okay.

19 A. Ms. Carolyn Gardner.

20 Q. Do you know Joe King?

21 A. Yes, I do.

22 Q. We took his deposition in this case  
23 probably, oh, a few weeks ago, and he indicated that  
24 you worked for him. Is that an accurate description?

25 A. Yes.

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1 Q. Was Mr. King over your supervisor,  
2 Carolyn Gardner?

3 A. No.

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6 Q. Did he have the position that she had  
7 before she had it?

8 A. That's correct.

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16 Q. I understand you had a telephone  
17 conversation last Thursday or so with the young man  
18 who's seated to my left, your right, Tom Ulreich?

19 A. Yes.

20 Q. Prior to that had you ever had any  
21 occasion to discuss the dispute between TEP and  
22 Cyprus with anybody that was representing Cyprus?

23 A. No.

24 Q. Okay. Fair enough.

25 And you and I have never spoken before

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1 today, correct?

2 A. No.

3 Q.

4 And I understand that you had left a  
5 message asking Tom if we would issue a subpoena to  
6 have you come here today, and you are appearing today  
7 pursuant to a subpoena?

8 A. Yes.

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How long had you worked for TEP?

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1 A. October 1978 through my official  
2 retirement, June 30, 1999.

3 Q. And did you retire from the company at  
4 that time?

5 A. Yes, I did retire from Tucson Electric  
6 June 30, 1999.

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12 do you have a college degree?

13 A. Yes, I have a degree in accounting from  
14 the University of Arizona.

15 Q. What year did you graduate from U of A?

16 A. January 1973.

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20 Q. And approximately when did you become the  
21 senior rates analyst, your last position that you had  
22 with the company? Just ballpark.

23 A. 1991, I think. That's the closest I can  
24 remember.

25 Q. So for roughly the last eight years of

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1 your employment with TEP you were the senior rates  
2 analyst?

3 A. A senior rates analyst.

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17 Q. Do you know anything about the lawsuit  
18 that brought you here today?

19 A. Yes.

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22 But tell me generally what you  
23 understand this lawsuit to be about.

24 A. My understanding is that Tucson Electric  
25 has filed a suit. And I'm not sure if suit is the

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1 right word, but has an action with the Arizona  
2 Corporation Commission to recover some costs that  
3 Tucson Electric says Cyprus should pay.

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9 Q. When did you first become aware that  
10 there was a dispute between Cyprus and TEP over what  
11 led to this action or suit, as you referred to it?

12 A. My best estimate is the last part of  
13 1997, September of 1997.

14 Q. And who first made you aware that there  
15 was a dispute between the two companies?

16 A. My then boss at the time, Joe King.

17 Q. What did Joe tell you about it in  
18 September or thereabouts of '97 when he first spoke  
19 to you about it?

20 A. Just that the contract that had been  
21 negotiated between Cyprus and Tucson Electric Power  
22 was a problem on the part of the company because we  
23 had -- let's see. What did we talk about. There was  
24 a certain part of the fuel costs, and I don't  
25 remember exactly -- it was -- that bill is so

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1 complicated.

2                   A portion of it has an adjustment up or  
3 down based on fuel costs as coming out of  
4 account 501, and we had put a ceiling on that  
5 component but not a floor.

6       Q.       Okay.

7       A.       And that the floor was falling away  
8 faster than had originally been contemplated.

9       Q.       You weren't involved in negotiating that  
10 contract, were you?

11      A.       No, I was not.

12      Q.       Do you know who did the negotiating of  
13 that contract?

14      A.       The only thing I can tell you about that  
15 contract is that Steven Glaser's name is the officer  
16 that signed off on it. I heard a lot of innuendo,  
17 but I don't speculate in innuendo.

18      Q.       All right. You have seen the contract at  
19 some point in time, correct?

20      A.       Yes, I have.

21      Q.       Did you have some involvement or role  
22 with respect to calculating the billings that would  
23 be due from Cyprus pursuant to that contract?

24      A.       I had a part in calculating a component,  
25 a portion of that contract. And this is the

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1 component that's in question.

2 Q. What role did you play with respect to  
3 the calculation of one of the components or tell me  
4 what it was that you were involved with.

5 A. I developed a spreadsheet to keep track  
6 of the -- I'm going to use the word index, the up and  
7 down index that was specified in the contract.

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15 A. Joe King and myself developed this  
16 mechanism, this spreadsheet over a period of time.

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19 Q. Was this spreadsheet that you developed  
20 with Joe King something that you developed after you  
21 became aware that the floor, as you said, was falling  
22 away faster than had originally been contemplated?

23 A. Oh, no. No. The spreadsheet was a  
24 necessity, because the contract specified that this  
25 particular index could go up no more than, if I

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1 remember correctly, 1 percent a year, but there was  
2 no limit as to how fast it could go down.

3 Q. I see.

4 A. No. The spreadsheet was necessary  
5 because of the way the contract stipulated that  
6 monthly billing component.

7 Q. And you developed that spreadsheet  
8 jointly with Joe?

9 A. Joe -- Joe gave me the job of developing  
10 a method of keeping track of the index, and then he  
11 and I talked about it at length on the best way to do  
12 it and making sure it was done properly, as per the  
13 contract.

14 Q. Did you share the results of what you  
15 were putting into that spreadsheet with somebody else  
16 at TEP?

17 A. Yes. With the billing department.

18 Q. Okay.

19 A. Who actually did the monthly billing. We  
20 gave that -- we supplied that particular billing  
21 component.

22 Q. And so just as I understand it, there is  
23 an index called for under the contract, and if, based  
24 on the spreadsheet you were developing, you found  
25 that the index had changed to .97 of 1.0, for

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1 example, that's the information you would share with  
2 the billing department?

3       A.       Yes. Yes. The contract specified, I  
4 believe, that the fuel costs coming out of  
5 account 501 for 12 months ending June '96 would form  
6 a basis of 1. And then from there on it would change  
7 every quarter, based on a 12-month running average, I  
8 believe.

9       Q.       So it was that quarterly calculation that  
10 you were responsible for helping make in this  
11 spreadsheet, correct?

12       A.       Yes.

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12 Q. Well, let me give you -- I'll give you a  
13 copy of the contract and you can refer to that if  
14 you'd like. It's already been marked as Exhibit  
15 No. 2, and that's a copy.

16 A. Okay. There it is under section F on  
17 page 5.

18 Q. I've got a copy.

19 A. It talks about calculation of energy  
20 charges, charges to be indexed to the company's  
21 system average. Yeah. Energy charges shall be  
22 increased or decreased quarterly, but in no event  
23 shall they increase by more than 1 percent in any  
24 calendar year. Quarterly changes shall be computed  
25 using a 12-month rolling average ending three months

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1 prior. The base period for the calculation of the  
2 index shall be 12 months from July '95 through June  
3 '96. Repeat the question.

4 Q. Yeah. I'll try. I was going to do that.

5 So with refreshing your recollection from  
6 looking at the contract, when do you believe would  
7 have been the first time that you would have  
8 calculated something on this spreadsheet that you  
9 were telling me about?

10 A. September 1996, 'cause it was -- it  
11 started in June of '96. So the first quarter would  
12 have been September 1996. June, July, August,  
13 September. Yeah. September -- ending September to  
14 affect billing beginning in October. It was the  
15 following quarter.

16 Q. Now, let me -- because I don't mean to --  
17 I don't want to trick you with this, but my  
18 understanding is that the contract itself was  
19 actually dated in November, but it was made  
20 retroactively effective, I think, to September the  
21 16th.

22 If you look at the last page, page 10 of  
23 that contract, I think you'll see that it's dated  
24 November the 8th, and I believe it was approved by  
25 the corporation commission in mid-November of 1996.

0022

1 And we've --

2 A. Okay.

3 Q. -- had some other testimony that I think  
4 the first billings under the new contract that were  
5 sent out to Cyprus were sent in -- commencing in, I  
6 believe, December of 1996. So --

7 A. Well, that would be about right. Again,  
8 this whole process was to calculate the index, okay.

9 Q. Okay.

10 A. So it wouldn't make any -- we couldn't  
11 have billed them prior to okay of the contract by the  
12 commission.

13 Q. Right.

14 A. Yeah.

15 Q. But you still would have calculated on  
16 the spreadsheet an index as of September 30th of '96?

17 A. Oh, yeah, because that's specified in  
18 here.

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8 Q. Maybe I can help you a little bit. I see  
9 you're struggling a little bit with my question.

10 This document was identified as a  
11 document that was provided by Mr. Snook, who was the  
12 negotiator for TEP, to Mr. McElrath, who was the  
13 negotiator for Cyprus while they were still trying to  
14 finalize their negotiations on this contract,  
15 Amendment No. 2.

16 And this document -- that second page of  
17 it, Exhibit No. 33 that you were just looking at, was  
18 sent to Mr. McElrath as some pro forma calculations  
19 of savings that Mr. Snook was representing TEP had  
20 calculated that Cyprus would save under this  
21 contract.

22 With that additional clarification, do  
23 you recognize that second page spreadsheet at all?

24 A. You know, I can't honestly positively say  
25 that this is the sheet that I gave Leland. This

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1 looks like something that I could have prepared, but  
2 honestly I do not remember this. I know we did  
3 something similar to this, but I'm not sure if this  
4 is the document.

5 Q. Just so you'll be clear, when we took  
6 Mr. King's deposition and Mr. Snook's deposition,  
7 Mr. Snook said that you had provided him some  
8 information that he used to provide to Mr. McElrath.  
9 You certainly recall providing information to  
10 Mr. Snook, correct?

11 A. Yes. Yes, I do.

12 Q. Something like the second page of  
13 Exhibit 33?

14 A. It could have looked something like this.

15 Q. And Mr. King, when I took his deposition,  
16 identified this document, Exhibit 33, in particular  
17 this spreadsheet, as a document which you had  
18 prepared.

19 A. Okay.

20 Q. With that additional clarification, do  
21 you have any reason to quarrel with that?

22 A. It's been so long since I've seen it.  
23 Three years.

24 Q. I understand.

25 A. This is minutia.

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1 Q. I understand.

2 A. And it could have looked something like  
3 this. It could have.

4 Q. This spreadsheet, though, that's the  
5 second page of Exhibit 33 was not the spreadsheet  
6 that you were referring to earlier that you prepared  
7 to track the billings?

8 A. No. No. This is -- this is not that  
9 spreadsheet.

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18 Q. Mr. Johnson, I'm going to hand you what  
19 the court reporter has marked as Exhibit 89, which is  
20 a document that was attached to some testimony that  
21 was filed by Leland Snook in this case. And just  
22 take a moment and look at that.

23 Does that document look at all familiar  
24 to you?

25 A. Yes, it does.

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1 Q. Okay. Is that the spreadsheet to which  
2 you were just making reference?

3 A. That I developed?

4 Q. Yes.

5 A. No, it is not.

6 Q. How is it you're familiar with  
7 Exhibit 89?

8 A. This is the document that was kept in the  
9 billing department. The document I developed arrived  
10 only at -- this is such a summary. Mine came up with  
11 total dollars prior to taxes, okay. This one adds  
12 taxes, state tax, ACC tax. Mine developed the  
13 original price and the revised price. This is not  
14 the document that I developed either. I haven't seen  
15 a copy of that yet. This was kept down in the --  
16 derived in the billing department.

17 Q. Okay. But some of the information used  
18 in generating this document would have come from your  
19 spreadsheet?

20 A. That's correct.

21 Q. Would you open in that notebook, let's  
22 see, to tab number 13.

23 This, for the  
24 record, is a letter that was dated October 9th of  
25 '97. It was sent to Mr. McElrath by Mr. Glaser, and

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1 it has some documents attached to it.

2           What I'd like you to do, if you could, is  
3 if you'll flip to the fourth page of that exhibit  
4 there's a spreadsheet there. Does that --

5       A.     This --

6       Q.     -- spreadsheet look familiar to you?

7       A.     This is the document that I developed.

8       Q.     Okay. So this for the record is the page  
9 that has the letters at the bottom right, CYP000228?

10      A.     Yes.

11      Q.     And followed by 229?

12      A.     Yes.

13      Q.     So both of these pages are pages you  
14 developed?

15      A.     That appears to be.

16      Q.     Now, these two pages look like they're  
17 copied on two separate pages. Are they part of a  
18 single spreadsheet the way you generated them  
19 originally?

20      A.     Yes. Yeah, this is part of that  
21 spreadsheet.

22      Q.     This particular spreadsheet was attached  
23 to a letter, as I think I indicated, that Mr. Glaser  
24 wrote to Mr. McElrath in the fall of 1997, in which  
25 Mr. Glaser advised Mr. McElrath that there was an

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1 error in the way TEP had been billing Cyprus. That  
2 was the claim, at least in this letter. And then  
3 these spreadsheets that were attached.

4           The spreadsheets that were attached to  
5 this letter, did you develop these specifically for  
6 Mr. Glaser?

7       A.     These spreadsheets were developed at the  
8 request of my boss, Joe King, to show what this index  
9 would have looked like under the original terms of  
10 the contract, and what the revised index would have  
11 been, had these particular costs of the Springerville  
12 adjustments -- or not Springerville, but the Valencia  
13 coal company, the collapse of the Valencia coal  
14 company would have looked like had they been removed  
15 from account 501.

16       Q.     In the base period?

17       A.     In the base period, that's correct.

18       Q.     All right.

19       A.     They were not directly developed for  
20 Mr. Glaser. My boss, Joe King, asked me to do these.

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13       Q.       But this particular spreadsheet that  
14 we've been looking at right now is not the same  
15 spreadsheet that you were talking about earlier that  
16 you developed with Mr. King to implement the billing  
17 under the contract, correct?

18       A.       It evolved into -- yeah, the top part of  
19 this is what we developed to develop the index.

20       Q.       I got you.

21       A.       And then when he came along and said,  
22 okay, now, what would this look like if those  
23 Valencia costs had not been included in the base, and  
24 my numbers were right here. All the 501 account  
25 numbers are up here in the dollars, and we plugged

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1 them in here and subtracted them out, made new  
2 revised fuel numbers, and, boom, that's how you get  
3 your new 12-month rolling as the base.

4 Q. When you say the top half of this is the  
5 same as the spreadsheet you developed for billing --

6 A. Originally.

7 Q. When you say top half, where does it end?  
8 What line on the left-hand side of the page is the  
9 end of where the spreadsheet that you first --

10 A. Where it says index energy cents per  
11 kilowatt hour.

12 Q. Cents per kilowatt hour, right?

13 A. Right here.

14 Q. So if I was to draw a line on my exhibit,  
15 my copy of that exhibit, which I've got right here,  
16 right where I've drawn it, that would be where the  
17 old spreadsheet ended?

18 A. The one that we originally developed,  
19 that's correct.

20 Q. Okay. Fair enough. And so that  
21 corresponds to the line on Bates label page 228 that  
22 appears after index to energy cents per kilowatt  
23 hour, correct?

24 A. Correct.

25 Q. And the calculations below that line that

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1 appear on this particular spreadsheet were  
2 calculations you had to make later at Mr. King's  
3 request?

4 A. Yes.

5 Q. In which he basically said, why don't you  
6 go back in and change the base to take the Valencia  
7 costs out, correct?

8 A. That's correct.

9 Q.

10 When did you first become personally  
11 aware that there had been a change to the accounting  
12 for 501 fuel costs by TEP? At Springerville, in  
13 particular.

14 A. I would say that I began to become aware  
15 of it about the time we started developing these  
16 sheets, after a couple weeks after I started this. I  
17 had heard that Valencia would be collapsed. And  
18 having been in the accounting department for ten  
19 years before that, I just wondered how the accounting  
20 would be handled. And then I saw this and became  
21 aware of it. But I still wasn't sure what we were  
22 doing here.

23 Q. When you developed your initial  
24 spreadsheet, did you sit down with anybody in the  
25 accounting department to find out what the individual

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1 components were that went into the FERC account 501?

2 A. No.

3 Q. As I understand it, the way this  
4 spreadsheet works, just looking at it the way I see  
5 it, you are including in this spreadsheet the dollars  
6 for account 501 for all of the generating facilities  
7 that TEP owned and operated, correct?

8 A. Yes.

9 Q. Springerville being merely one out of  
10 what are separately identified on this exhibit, at  
11 least, as Four Corners, San Juan, Navajo,  
12 Springerville, Irvington coal and Irvington gas,  
13 correct?

14 A. That's correct.

15 Q. So that the summary of all of those power  
16 plants is what appears under the line item fuel,  
17 number 501, correct?

18 A. Yes.

19 Q. Is it your understanding, Mr. Johnson,  
20 that only Springerville of all of those had this  
21 Valencia accounting issue in it?

22 A. Yes.

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17 Q. Springerville adjustment is what accounts  
18 for the difference between the way TEP was billing  
19 Cyprus and the way -- the way TEP is claiming in this  
20 action should have been used, correct?

21 A. What these costs do here is reflect what  
22 the base calculation would have been had those costs  
23 not been included in account 501.

24 Q. How did you get to those numbers?

25 A. The accounting department developed them

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1 for me.

2 Q. Okay. Who in the accounting department  
3 developed these numbers?

4 A. I got these numbers from Leonard  
5 Nehrmeyer.

6 Q. So Mr. Nehrmeyer is the one who told you  
7 what the Springerville --

8 A. Components.

9 Q. -- components were that were -- that  
10 would change as a result of taking Valencia out,  
11 correct?

12 A. That's correct.

13 Q. So you simply plugged in each of these  
14 headings, capital lease, property tax, contingent  
15 sales tax, depreciation, maintenance, other  
16 operations, interest expense contingent? All of  
17 those numbers were provided to you by Mr. Nehrmeyer?

18 A. That's correct.

19 Q. And from those you calculated a column  
20 that you call total Springerville adjustment,  
21 correct?

22 A. A row titled Springerville adjustment,  
23 yes.

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23 Q. Why don't we strike that and let's go  
24 back because I think I understand the spreadsheet  
25 better than I did, and I think we can walk through it

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1 together.

2 I'll go to the page which you told me was  
3 the first of the two pages, which is the one with the  
4 229 on the bottom. As I understand it the columns  
5 running across the top of this represent the months  
6 in the year 1996, January, February, March and so on  
7 through November, and then the months across from the  
8 top of the second one start with December '96 and run  
9 through August or September of 1997.

10 A. That's correct.

11 Q. All right. And if you go to the first of  
12 the two pages, in the month of June, 1996, in the  
13 upper half of the chart, there is a line item that  
14 says quarterly index, 1.0.

15 A. That's correct.

16 Q. And if you look down below, what you  
17 added to this spreadsheet, the revised quarterly  
18 index, you're also showing as 1.0, correct? Both  
19 quarterly index and revised quarterly index in June  
20 are the same?

21 A. This is the original index. This is the  
22 revised index.

23 Q. Correct. But in both the original index  
24 and the revised index, your starting point is a 1.0,  
25 correct?

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1 A. Correct. That's the 12 months ended  
2 June 1996.

3 Q. Correct. And that 12 months ended  
4 June 1996, as I understand it, for the calculation  
5 that resulted in the 1.0 up above, that included  
6 certain Valencia costs at Springerville, correct?

7 A. Let's see now. Yes. Yes, these numbers  
8 up to that point did. You're right. That's correct.

9 And the reason that these numbers were  
10 added back was to calculate, to revise upward how  
11 this number, the original index, would have looked,  
12 had the Valencia costs been included because they  
13 stopped going in in May of 1996.

14 Q. Okay. That gets to kind of an essential  
15 thing that I want to talk to you about.

16 What you were doing starting with the  
17 bottom of this spreadsheet in July of '96 was you  
18 were adding back in to the period after Valencia was  
19 collapsed Valencia costs that were no longer being  
20 accounted for in 501, correct?

21 A. That is correct.

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23 Q. That's what I was getting to  
24 earlier about the fact that, even though the contract  
25 had a retroactive effective date, it didn't start

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1 getting billed until December of '96. So with that  
2 additional clarification, you and I are in agreement  
3 the first time an adjustment would have been made was  
4 for the January '97 billings?

5 A. Yes.

6 Q. And that was to effectuate a reduction  
7 from the .03748 cents per kilowatt hour called for in  
8 the contract to the number that was used for billing  
9 in January of .0369028, correct?

10 A. This is the floor that we're talking  
11 about --

12 Q. Right. This is the reduction.

13 A. -- before.

14 Q. Right. And then that number, .0369028  
15 was used for the next three months?

16 A. That's correct.

17 Q. And then if I'm following across on the  
18 way the top part of this spreadsheet works, at that  
19 point you would have made your next quarterly  
20 calculation.

21 A. As of the end of March '97.

22 Q. Correct. And that's when you came up  
23 with the .9347 number, and you would multiply that  
24 times the .0369028 to get your new number of  
25 .0350326?

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1 A. Yes.

2 Q. Again, you billed that for three  
3 consecutive months. You recompute the index, and  
4 that's how this spreadsheet that you developed with  
5 Mr. King worked, correct?

6 A. Yes.

7 Q. So it was the information on the top half  
8 of this page, that index calculation, that we've just  
9 been going through a couple times that you provided  
10 to the billing department?

11 A. Yes.

12 Q. Now, turning our attention now and  
13 contrasting that with the bottom part of the page,  
14 the bottom part of the page was something you  
15 developed later, correct?

16 A. Yes.

17 Q. At, again Mr. King's request?

18 A. Yes.

19 Q. And the purpose of that was now to go  
20 through and recompute how that index would have been  
21 calculated, had you put the Valencia costs back in  
22 the calculation in each of the periods after Valencia  
23 was dissolved or merged, correct?

24 A. Yes.

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Q. So in effect, if you take and you  
8 compute the index and the index ends up being more  
9 than 1 percent, which it would have been in December  
10 of '96, what you would do is simply take the base  
11 amount called for in the contract of .03748 and  
12 multiply it times 1.01?

13 A. The 1 percent.

14 Q. That gets you .0375848 by my math as  
15 well.

16 A. Yeah. And then in January we applied the  
17 1 percent again. That's where it jumped from 37 to  
18 38.

19 Q. That was one of my questions. Why did  
20 you apply the 1 percent in consecutive months,  
21 December and January?

22 A. Well, the contract specifies 1 percent a  
23 year.

24 Q. I see.

25 So when you say the contract specified

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1 1 percent a year, then your interpretation was that  
2 the 1 percent could be taken in December of '96 and  
3 again in January of '97?

4       A.       Yes. On page 6 of the contract it says,  
5 "Energy charges shall be increased or decreased  
6 quarterly, but in no event shall they increase by  
7 more than 1 percent in any calendar year." Calendar  
8 being interrupted as January through December, and we  
9 went from December of '96 to January of '97. Change  
10 in calendar year.

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20 Q.

And because

21 you're capped at 1 percent per year, when you made  
22 the calculation in December of '96 and increased it  
23 by 1 percent in December and then increased it by  
24 1 percent in January, you held that constant  
25 throughout the remainder of '97 because you'd already

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1 capped at the 1 percent, correct?

2 A. Having no more pages to look at, I would  
3 assume that's true.

4 Q. Okay.

5 A. That looks like what we did there.

6 Q. Did you ever do a spreadsheet like  
7 this in which, on the first page -- instead of adding  
8 the numbers in for the Valencia costs that had been  
9 removed as a result of the merger, in which you  
10 subtracted the Valencia costs for the base period?

11 A. No, I did not.

12 Q. Do you know of anybody that did that?

13 A. No, I do not know.

14 Q. When you left in June of '99, were you  
15 still updating a spreadsheet like this one?

16 A. I think the last time I did it was in  
17 April. I would have done it in May of '99, which  
18 would have reflected, I believe, April's numbers.  
19 We're always a month behind.

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22 Q. But in May of '99, which would have been  
23 the last quarterly adjustment period that a  
24 calculation would have been made before you left the  
25 company, you would have made this calculation?

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1       A.       Actually the last quarterly calculation  
2 would have been April of '99 that I would have done.

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9       Q.       But up until the date you left the  
10 company, you were still making calculations, upper  
11 and lower spreadsheet calculations like those that  
12 are depicted on these two sheets from Exhibit 33,  
13 correct?

14       A.       That's correct. Down -- once we got past  
15 the 12 months, this was the only thing that was  
16 required from there on because what we've done, once  
17 you get past this 12-month period, everything is  
18 based on this base and this base. So you don't need  
19 to make these adjustments any further.

20       Q.       So once you have 12 months of data in  
21 place for adding Valencia back in, there isn't any  
22 need to do the addition back?

23       A.       That's correct.

24       Q.       So Mr. Nehrmeyer wouldn't have furnished  
25 you any more detailed information after the first

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1 12 months?

2 A. No.

3 Q. But would have continued then to make two  
4 sets of calculations, both the calculations in the  
5 upper part of the page as well as the calculations  
6 for the revised quarterly index?

7 A. Yes.

8 Q. And you continued to do that until you  
9 left the company?

10 A. Yes.

11 Q. And did you continue to provide both of  
12 those calculations to the billing department?

13 A. Yes.

14 Where did these come out of? I'm sorry.

15 Q. They came out of Exhibit 13. I'm sorry.  
16 I misspoke a moment ago when I said Exhibit 33. I  
17 meant Exhibit 13. Put them in backwards the way they  
18 were before.

19 A. 228 and 229.

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6 Q. You left the company in June of '99?

7 A. Actually June 1. Actually May 31.

8 Q.

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12 As of that date were you aware that TEP

13 had filed the lawsuit or action you talked about

14 earlier?

15 A. I had heard a rumor, and that's all it

16 was was scuttlebutt.

17 Q. Well, I'll tell you that according to the

18 documents that have been filed in this case, I

19 believe the complaint was filed in April of 1999 with

20 the corporation commission.

21 You were aware that this dispute had not

22 been resolved as of the date you left the company?

23 A. That's -- yes.

24 Q. And one of the ways you were aware of

25 that was the fact that you were asked to continue to

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1 make the calculation of the two sets of numbers.

2 A. I was told to keep a running track of  
3 the, quote, lost revenue.

4 Q. Who called it the lost revenue?

5 A. That's a label that I probably stuck on  
6 the spreadsheet. It could have been called anything.  
7 I probably labeled it a lost revenue.

8 Q. So these -- the label that appears under  
9 here as lost revenue, that's a calculation of dollars  
10 that resulted from the application of the index of  
11 the top part of the page versus the application of  
12 the index on the bottom part of page, correct?

13 A. That's correct.

14 Q. And was that a calculation which you also  
15 made?

16 A. Yes.

17 Q. Did you get information from anybody else  
18 necessary to make the remainder of that computation?

19 A. That calculation is merely taking the  
20 difference in the original cents per KWH minus the  
21 new cents per KWH times the kilowatt hours involved  
22 in that particular part of the bill.

23 Q. So it's simply the mechanics of taking  
24 the difference times the number of kilowatts used?

25 A. Yes.

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1 Q. Who provided you the kilowatt usage?

2 A. Oh, that came off of the monthly -- a  
3 copy of the monthly Cyprus bill, which we kept a copy  
4 of in the pricing -- rates and pricing department.

5 Q. And you did that because that was part of  
6 your responsibilities?

7 A. We kept a copy of the bill that was sent  
8 out to what we called major customers under the  
9 contract. The copy of the Cyprus bill was just one  
10 of all contract billings that were sent out each  
11 month. It wasn't kept for any particular -- this  
12 particular purpose.

13 Q. Okay. Fair enough.

14 Earlier you told me that you became aware  
15 that the floor, as you called it, in this contract  
16 was falling away faster than had originally been  
17 contemplated.

18 Was that something that you were aware of  
19 personally at the time it was occurring?

20 A. No. It became a -- I became aware of  
21 it -- I became aware of it when I started putting  
22 these numbers together.

23 Q. And you were asked to do that again by  
24 Mr. King at some point?

25 A. Yes.

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10 Q. Do you recall participating in any  
11 discussions with anybody else at TEP in which anybody  
12 asked you the question why is the index dropping so  
13 dramatically?

14 A. After Joe asked me to -- Mr. King asked  
15 me to prepare these numbers, that's when we started  
16 talking about this rapid decline in the index.  
17 That's when we started talking about it. And after  
18 that it became a conversational topic within the  
19 rates department.

20 Q. When you say a conversational topic, what  
21 do you mean?

22 A. Well, it was affecting our revenue.

23 Q. Okay.

24 A. And at that time anything that affected  
25 revenue affected us all, and this being probably the

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1 biggest contract we have concerned us.

2 Q. Do you recall, when you first learned  
3 about this dramatic decline, did you know why it was  
4 declining? Did anybody say to you this is why or  
5 were you asked to go find out why?

6 A. After I put these numbers together, I saw  
7 exactly why it was declining.

8 Q. When you say after you put these numbers  
9 together, part of these numbers, I think you told me,  
10 were furnished by Mr. Nehrmeyer, correct?

11 A. Yeah. After I put these numbers -- after  
12 these numbers, after we started looking at -- what  
13 we're talking about here is the original index to  
14 cents per KWH and the revised energy cents of KWH and  
15 then we calculated the numbers. It became evident  
16 after we had done all that why it was declining.

17 Q. But when you say it was after you made  
18 those calculations, the only way you could have made  
19 those calculations is by adding back in the Valencia  
20 costs, correct?

21 A. Yes. This was after -- after  
22 Mr. Nehrmeyer had furnished all these adjustments.

23 Q. Okay.

24 A. And we moved forward from that point on.  
25 Then it became evident.

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1 Q. What I'm asking you to go back slightly  
2 before and tell me is: Who made the decision that we  
3 need to put the Valencia costs back in? How was it  
4 determined that that is what needed to be done?

5 A. I don't remember, to tell you the truth.  
6 I don't think that was ever discussed. Joe called me  
7 and said, how can we find out what the Valencia  
8 numbers were like, you know, and so I went to Leonard  
9 and I said, we need to do this, and he said, oh,  
10 okay. I can get those for you. And he gave them to  
11 me.

12 Q. Okay. So actually the way the question  
13 was put to you initially was, what would happen if we  
14 put the Valencia costs back in?

15 A. Joe asked me to identify the Valencia  
16 costs that were going to other accounts rather than  
17 through 501, and is there some way I can identify  
18 those. And after talking to Leonard at length, he  
19 said, yes, I can identify those for you. And so  
20 that's how we were able to put this calculation  
21 together.

22 Q. But Joe actually told you that it was the  
23 Valencia costs that you needed to go get from  
24 somebody in accounting?

25 A. He said is there any way we can identify

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1 the Valencia costs that would have gone to 501 during  
2 this base period calculation or after this base  
3 period calculation and see what these fuel costs  
4 would have looked like had this collapse of Valencia  
5 not have happened. That's the question that was  
6 asked of me.

7 Q. Okay.

8 A. And it took me a while to figure out how  
9 to do that.

10 Q. Did you ever have any conversations with  
11 Mr. Glaser about this subject matter?

12 A. No. No.

13 Q. Did you ever have any conversations with  
14 Mr. DeConcini about it?

15 A. No.

16 Q. Did you ever have any conversations with  
17 Leland Snook about this part of the billing  
18 controversy?

19 A. Once or twice Leland and I talked about  
20 why the -- and this was after all this had been done.  
21 We talked about how this could have happened.

22 Q. I see.

23 A. And that was about the extent of it.

24 Q. When you say this was after all this was  
25 done, it was after all these spreadsheets --

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1 A. Yes.

2 Q. -- that we've been talking about in

3 Exhibit 13 were prepared?

4 A. Yes.

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18       Q.       We identified earlier, I think, Exhibit  
19 No. 89, and I recognize that's a document that looks  
20 like it was generated probably after you left TEP  
21 because it goes through -- on the second page, it  
22 looks like it goes through the month of September  
23 1999. So obviously that wouldn't have been something  
24 you generated.

25               Did you ever generate anything like this

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1 document, Exhibit 89, as of the date you left TEP?

2 A. No. No. I knew this existed because, as  
3 you can see, the numbers that they use in calculating  
4 this difference are these two, original price and the  
5 revised price. Those are the numbers I furnished.  
6 And then they take the kilowatt hours and come up  
7 with the, quote, difference, and then apply taxes.  
8 My work stopped right here.

9 Q. Okay. So your work with respect to this  
10 Exhibit 89 would have been the furnishing of the  
11 numbers, the little numbers, the .0369028 versus the  
12 .0368548?

13 A. That's correct.

14 Q. And those come directly from that  
15 spreadsheet we were just talking about?

16 A. Yes.

17 Q. Okay. Fair enough.

18 You left it to somebody in the billing  
19 department or somewhere else to actually generate the  
20 dollar implications of that?

21 A. My spreadsheet came up with these dollars  
22 on a monthly basis.

23 Q. The column labeled difference?

24 A. Yes. They should have calculated the  
25 original price, the revised price, and the

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1 difference.

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4 Q. Now, the reason I ask that question is if  
5 you go back to that spreadsheet for a second -- and  
6 let's see if we can compare these. I've just been  
7 having a little trouble figuring this out. If you  
8 look in the spreadsheet under the column for  
9 January 1997. You see that?

10 A. Now, which spreadsheet?

11 Q. I'm looking at your spreadsheet.

12 A. Okay.

13 Q. Under the column January '97, which is  
14 the first month on Exhibit 89.

15 A. Okay.

16 Q. And the first month, January 97, shows a  
17 difference of -- before taxes of 57,131.06. You see  
18 that?

19 A. Yeah. I see that.

20 Q. I'm trying to understand what number of  
21 yours that corresponds to, 'cause you have a column  
22 labeled lost revenue that computes in January to  
23 79,848.34.

24 A. Hum.

25 Q. And I'm just curious if you know why

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1 there's a difference between those two numbers.

2       A.       I can't explain that difference.

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22 Q. Okay. No problem.

23 Let me show you -- why don't you flip in  
24 that book, while we're at it, to Exhibit No. 56. It  
25 would be the tab marked 56. Do you recognize that

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1 document?

2 A. Not this particular document. I remember  
3 seeing documents that look like this or similar to  
4 this years before.

5 Q. When you say years before, when you  
6 worked in the accounting department?

7 A. Yes. We're talking back in the 1980s,  
8 very early '90s, 1990, 1991.

9 Q. But you didn't see a document like  
10 Exhibit 56 in connection with this dispute that we're  
11 here about today?

12 A. No. No.

13 Q. Would you flip in the book to Exhibit 44.

14 Have you ever seen the letter from  
15 Mr. Pignatelli?

16 A. I think -- yes, I did see this.

17 Q. And there are documents attached to it  
18 that represent underbilling calculations.

19 Did you have any involvement in preparing  
20 any of those documents?

21 A. These are from the billing department,  
22 along with this. Again, my calculations did not  
23 include taxes.

24 Q. Okay. So these would have been the  
25 very -- the backup kinds of sheets to Exhibit 89 that

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1 we were just talking about?

2 A. Yes. These are -- these are quite  
3 similar.

4 Q. Okay.

5 A. These are similar.

6 Q. But they would have been generated by  
7 your billing department based in part on the numbers  
8 that you were providing them?

9 A. Yes.

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4 Q. You know who Kevin Higgins is?

5 A. No.

6 Q. Have you ever had any conversations with  
7 a gentleman named Kevin Higgins?

8 A. Not that I can recollect.

9 Q. If I tell you that Mr. Higgins was a  
10 consultant that was hired by Cyprus to assist them  
11 with trying to sort out this billing controversy, do  
12 you recall having provided any information to  
13 somebody that was Cyprus' consultant?

14 A. Yes. I did provide some information to a  
15 consultant from Cyprus. I did not remember his name  
16 as being Kevin Higgins.

17 Q. Okay.

18 A. But I'm terrible at names anyway.

19 Q. Okay. Well, one of the things we asked  
20 Mr. King in his deposition was whether he provided  
21 documents to Mr. Higgins through himself personally  
22 or his department, and his answer to our question was  
23 that Bill Johnson did.

24 A. Yes.

25 Q. So that's consistent with your

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1 recollection that you would have provided some of  
2 that billing information?

3       A.       Yes.

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22            Would you flip over two more, over to

23 Exhibit 62 for me real quick.

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2 A. 62. I'm sorry.

3 Q. That's okay. You're close.

4 Do you ever remember getting a newsletter  
5 like this type of newsletter while you were at TEP?

6 I don't mean this particular one, but did  
7 you receive a newsletter periodically at TEP?

8 A. Yeah, I got the Current Generations at  
9 TEP. This seems vaguely familiar. It's approaching  
10 three years old.

11 Q. I understand.

12 A. I probably remember this. I should. I  
13 probably saw it.

14 Q. You mentioned earlier, I think, when we  
15 were talking that you were aware that Valencia had  
16 been merged back into TEP, and you wondered -- I  
17 think you told me you wondered, 'cause you'd been in  
18 the accounting department, what kinds of accounting  
19 changes that would create.

20 A. Yes. I wondered.

21 Q. Okay. As it turned out, you got to find  
22 out, didn't you?

23 A. Firsthand.

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2 Q. Do you ever remember seeing a document  
3 like Exhibit 70 as you were working to calculate  
4 the --

5 A. Yes. Leonard gave me a copy of this  
6 thing, oh, about the time we started looking at  
7 restating. Again, this would be, I don't know,  
8 latter part of '97. Something like that. I believe  
9 this was how they decided they were going to do the  
10 accounting, I remember is what he told me, and I  
11 needed this to figure out what categories of expense  
12 to clarify these readjustments in.

13 Q. Okay. But he actually is the one who  
14 provided you the ledger line entries for each of  
15 these account codes?

16 A. Yes.

17 Q. So this was by way of explanation to you  
18 about how the accounting change had caused accounts  
19 to be moved around?

20 A. Yes.

21 Q. You didn't do a detailed analysis of that  
22 spreadsheet or anything other than simply relying on  
23 Mr. Nehrmeyer?

24 A. That is correct. That is exactly right.

25 Q.

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1 let me try it a different way.

2           Do you know what I'm referring to when I  
3 use the terminology normalization?

4       A.       That is a tax term used by the tax  
5 department. Being a CPA, I have an offhand  
6 knowledge, but I never -- I never was a tax  
7 practitioner, and any time I got involved in the  
8 normalization of taxes down at the utility, it was  
9 enough to spin my head right off my body.

10           So I just -- they talk normalization, I  
11 would look at the clouds, I would have a drink of  
12 water, and I would let them finish their discussion,  
13 and when it was finished, then I would get back into  
14 the discussion. Other than that, no.

15       Q.       You haven't ever been involved in doing  
16 any normalizing then as a part of your job  
17 responsibilities at TEP?

18       A.       No. No.

19       Q.       The work you did in this particular case  
20 of adjusting the -- calculating the index before and  
21 after the TEP merger with Valencia, that is not  
22 normalization, as you understand the terminology?

23       A.       No.

24       Q.       The other day when Mr. Ulreich called you  
25 to talk to you about this dispute, you told him you

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1 knew exactly what the dispute was about, and it's  
2 obvious to me you were kind of right in the middle of  
3 it. Fair statement?

4 A. That's correct.

5 Q. You also made the comment to Mr. Ulreich  
6 during your conversation with him that there was a  
7 lot of finger pointing going on while you were at TEP  
8 over this situation. You recall that?

9 A. Between Cyprus and TEP.

10 Q. Okay. Was there finger pointing going on  
11 within TEP?

12 A. To the extent that somebody made a  
13 comment one time about the boys in rates, you know,  
14 trying to -- trying to make someone in rates  
15 responsible for the contract, the negotiations on the  
16 contract.

17 Any time anyone ever said that, I just  
18 pulled a copy of the contract out and pointed to the  
19 signature on it and said, I had nothing to do with  
20 the negotiations that went into this contract.

21 Q. That would have been Mr. Glaser's  
22 department?

23 A. Well, Steve Glaser signed the contract.

24 Q. Do you know if there were any individuals  
25 at TEP who, for lack of a better term or a more

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1 precise term, were blamed for this?

2 A. I never heard anybody being blamed for  
3 this. I never heard the statement made by anyone  
4 saying anyone in authority, 'cause I would have to --  
5 it would have to come from high authority saying this  
6 person was responsible for this. I never heard that.

7 Q. Do you know why Mr. King was transferred  
8 from his position where he was your boss prior to  
9 your leaving the company?

10 A. Only speculation. And I do not deal in  
11 speculation.

12 Q. Fair enough.

13 Without dealing in speculation, was your  
14 speculation related to this situation?

15 A. I can't say for sure. Again, it's just  
16 my own opinion, and we're not here for opinions.

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3 Q.

4 You also made the comment during your  
5 conversation with Mr. Ulreich that you were being  
6 asked to do things in reference to this particular  
7 matter that you didn't feel comfortable doing. Do  
8 you recall that?

9 A. Yes.

10 Q. What did you mean by that?

11 A. After I had put in my retirement papers,  
12 a fellow named Steve Smallinger called me into his  
13 office. He was a new employee, and he said that he  
14 had been called and wanted to know if there was any  
15 way that we could shift some additional costs into  
16 the 501 account to make up for some of these revenues  
17 we were losing.

18 And so having a general knowledge of the  
19 way accounting is done on the 501 account, there's  
20 what is called the FERC accounting manual. It  
21 describes what goes into each account and it  
22 describes it in great detail.

23 I didn't think there was anything we  
24 could do; so I went up and talked to Mr. Nehrmeyer,  
25 Leonard, and I said, you know, this is what I've been

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1 asked to investigate, and I said as far as I know  
2 there is not a thing we can do, our hands are tied,  
3 and he agreed with me.

4           So I went back and told Mr. Smallinger  
5 that, no, we're unable to affect any change in  
6 accounting procedure at this time. And I said we  
7 can't do it and we won't do it.

8       Q.     Did anybody ever ask you to do it as  
9 opposed to just asking whether you could?

10      A.     I was later, about -- I don't remember if  
11 it was the same day or the next day. Leonard called  
12 me back in his office and he said that he was told  
13 that our answer was not good enough. So I went back  
14 and talked to Leonard for a few more minutes, and we  
15 said not only can we not do this, we won't do it.  
16 You know, there's just nothing that can be done at  
17 this time. So that's where that came from.

18      Q.     Is that where it ended?

19      A.     It ended right there 'cause I made it  
20 clear that as far as I was concerned this was a dead  
21 issue.

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18 Q. You made another comment to Mr. Ulreich,  
19 and you made the comment that a contract is a  
20 contract. You recall that?

21 A. Yes, I do.

22 Q. What'd you mean by that?

23 A. In all my training at the university and  
24 all my training as a CPA, we've had classes in  
25 business law, and the studies have been brought up,

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1 or the case situations have been brought up in all my  
2 experience that in a contract if one party makes a  
3 mistake that, if it's a legally -- if it's a legal  
4 contract, it has all the elements of a contract, that  
5 that doesn't matter if the mistake is big enough to  
6 cause the bankruptcy of one party to the contract,  
7 that's tough. That's tough. A contract is a  
8 contract is a contract.

9           And I'm confused as to how a contract can  
10 be negotiated and signed off on both sides and have  
11 there be a dispute about it. So that's why I made  
12 that comment.

13       Q.

14           When you were asked to make the  
15 calculations of the index called for under the second  
16 amendment, did you have any difficulty figuring out  
17 how to do that?

18       A.     Only -- it took us about two, three  
19 weeks. I made several passes at it. And Joe -- then  
20 Joe and I would sit down and talk about them. But  
21 the contract is very -- is very explicit. And some  
22 of the ways that I made the calculations originally  
23 did not fit within the confines of the contract.  
24 That's why it took us so long.

25           These are -- these are not just

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1 calculations you make and fly with them because the  
2 ramifications later on -- being, you know, a  
3 regulated electric utility, you want to make sure  
4 that the information that you calculate and later use  
5 is correct. That's why I took the time.

6 Q. You understood from reading the contract  
7 then that the index was to be measured based on  
8 changes in the account 501?

9 A. Yes.

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14 Q.

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17 We've been told repeatedly that Valencia  
18 was dissolved on May 31 of '96.

19 A. Yes.

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23 Q. And this contract was signed by the  
24 parties in November of '96.

25 A. Yes.

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1 Q. About six months later.

2 If somebody made a mistake in selecting  
3 FERC account 501 as the way in which this index was  
4 to be calculated based on not understanding what  
5 components in that account had changed as a result of  
6 the Valencia merger, is that a contract that should  
7 be enforced, according to the way it's written?

8 MR. CARROLL: Objection to the extent it  
9 calls for a legal conclusion.

10 BY MR. MOONEY:

11 Q. You can go ahead and answer.

12 A. I am not a lawyer.

13 Q. I understand that.

14 A. And so my understanding of a contract may  
15 not be the same as a bar lawyer.

16 Q. Okay.

17 A. Account 501 is used in the calculation of  
18 energy for several of our other customers. It's a  
19 standard account 501, which is used as either the  
20 only monetary input, as in this case, and in some of  
21 the other contracts, others. So when people talk  
22 about 501, it's assumed that it will not change.  
23 It's a pretty cut and dried contract -- account  
24 configuration.

25 Q. Recognizing that you're not a lawyer but

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1 being involved in calculating the magnitude, if you  
2 will, of this dispute as it occurred, and  
3 recognizing, as you've stated earlier, that a  
4 contract is a contract, did you believe that Cyprus  
5 owes TEP the amounts of money that are listed as the  
6 difference on the Exhibit 89 document?

7 MR. CARROLL: Same objection. Go ahead.

8 BY MR. MOONEY:

9 Q. But you can go ahead and answer.

10 A. In my own personal opinion, the contract  
11 should have been allowed to stand. In my own  
12 personal opinion.

13 Q. Meaning the answer to my question is no?

14 A. If that's what that means.

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4 Q.

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6 That spreadsheet that we were looking at

7 earlier that you had prepared for Mr. -- or for --

8 that was attached to Mr. Glaser's letter, in any

9 event, I take it you continued to make calculations

10 like the upper and lower half of that spreadsheet up

11 until the time you left the company?

12 A. Yes.

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2 MR. CARROLL: I don't know whether it  
3 would exist anymore, but certainly if it exists,  
4 we'll give it to you.

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20 Q. Mr. Johnson, let's go back to that  
21 Exhibit 13 spreadsheet. Here, this one that was  
22 attached to Mr. Glaser's letter.

23 This one ends by -- the last entry is  
24 September of '97, and actually the last column is  
25 August of '97.

0087

1                   When you were still at TEP, this  
2 spreadsheet, you still continued making the  
3 calculations reflected on these two pages up through  
4 the date you left the company; is that correct?

5           A.       Yes.

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17       Q.

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19                   But when you left the company, in any  
20 event, this spreadsheet -- there would still be a  
21 continuation for October '97, November '97,  
22 December '97, January, '98, and so on?

23       A.       Yes.

24       Q.       And it would have entries for both the  
25 top and the bottom half of the sheet?

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1 A. Down through this part right here. These  
2 numbers stopped.

3 Q. When you say these numbers, you mean the  
4 numbers at the very bottom of the page ended?

5 A. Yes. These adjustment numbers. There  
6 was only need for 12 months of those.

7 Q. Okay. All right. When you say there was  
8 only a need for 12 months of those, explain to me  
9 again why after 12 months you didn't have to add the  
10 Valencia costs back in.

11 A. Well, we had recalculated the base  
12 period, which ran for 12 months, and so we restated  
13 the 12 months following. And so that got the, quote,  
14 revised index on the same basis as the prior 12-month  
15 index.

16 Q. I'm with you now. So once you had done  
17 12 months of adding back in Valencia through the next  
18 12-month period, which would have been through, I  
19 guess, July or June of 1997, you no longer needed to  
20 add?

21 A. That's correct.

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1 proceedings were had herein:)

2 BY MR. MOONEY:

3 Q. Let's put it on the record just so we're  
4 clear. What we've been talking about off the record  
5 is what you would have called this spreadsheet, and  
6 it doesn't have a formal title, but you would  
7 describe it as the spreadsheet used to calculate the  
8 original and revised energy costs on the Cyprus  
9 contract?

10 A. That's how I would describe it, yes.

11 Q. And do you know who succeeded Carolyn  
12 Gardner?

13 A. Leland Snook, but that was after I had  
14 left.

15 Q. I believe Mr. Snook told us he  
16 came back in July of '99. So it would have been a  
17 full month after you were gone.

18 So the department that he's over  
19 now is the same department that you worked in?

20 A. Yes.

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SIGNATURE PAGE

2

I, WILLIAM S. JOHNSON a deponent in

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the matter of Tucson Electric Power v. Cyprus

3

Sierrita, Docket No. E-00000A-99-0243, exercising my

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right to read and sign my deposition taken on the

4

18th day of October, 1999, place my signature hereon

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and make the following changes on the \_\_\_\_ day of

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\_\_\_\_\_, 1999.

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(IF THERE ARE NO CHANGES, WRITE NONE.)

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\_\_\_\_\_  
WILLIAM S. JOHNSON

9

10	PAGE	LINE	READS	CHANGE TO	REASON
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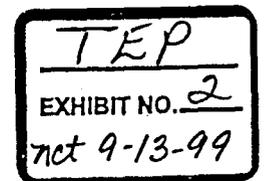
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Amendment No. 2  
to the  
Electric Service Agreement  
between  
Tucson Electric Power Company  
&  
Cyprus Sierrita Corporation



CYP000065

**Amendment No. 2  
to the  
Electric Service Agreement**

**1. PARTIES AND RECITALS**

Dated this 8<sup>th</sup> day of November, 1996, between Tucson Electric Power Company (the "Company"), and Cyprus Sierrita Corporation (the "Customer"), (collectively "Parties"). The Company and the Customer are parties to an Electric Service Agreement dated February 6, 1991, as amended December 15, 1992, (the "Agreement"), pursuant to which electric utility service is purchased by and provided to the Customer for its Sierrita Mine Operations and related facilities. The Company and the Customer wish to amend the Agreement to provide (i) changes in the pricing for service to the Customer; (ii) interruptible service with respect to a portion of the Customer's load; and (iii) market access for a portion of the Customer's load. Accordingly, upon satisfaction of the conditions precedent set forth below, the Parties hereby amend the Agreement as specified herein.

**2. AGREEMENT**

The Parties amend the Agreement as follows:

2.1. The Agreement is hereby amended by deleting Exhibit C, which is not being replaced, and deleting Section VI of the Agreement in its entirety and substituting therefor the following:

“VI. PRICING

A. Firm Power. Firm power demand shall be 15 MW. The price for such firm power shall consist of a Demand Charge of \$5.25/kW-Mo. and an Energy Charge of \$0.03748/kWh.

B. Interruptible Power. Interruptible power demand shall be up to 82 MW. The Company shall provide Customer no less than ten (10) minutes notice of pending interruption of service. The price for such interruptible service shall consist of a Demand Charge of \$2.02/kW-Mo. and an Energy Charge of \$0.03748/kWh, provided that during any hours in which the Company's system incremental cost of producing energy exceeds the Energy Charge, the Customer shall be required to reduce its load to the point where the Company's incremental cost is equal to the Energy Charge. In the alternative, the Customer shall have the ability to pay for replacement energy. The sales price to the Customer for replacement energy purchases shall include, but not be limited to, the following as applicable:

1. demand charges,
2. energy charges,
3. unit startup costs,
4. minimum run time charges,

5. minimum quantity purchase obligation,

6. other expenses charged by suppliers,

7. Company's applicable transmission wheeling and ancillary services charges as ultimately approved by FERC and the ACC in the Company's Open Access Transmission and Distribution Tariffs, which upon regulatory approval shall be, subject to refund or increase, \$2.56/kW-Mo. (\$0.118/kW-day, \$0.007385/kWh) for EHV Point-to-Point Transmission Service, \$1.08/kW-Mo. (\$0.05/kW-day, \$0.003116/kWh) for 138kV Point-to-Point Distribution Service, \$0.05/kW-Mo. (\$0.002/kW-day, \$0.001/kWh, subject to a minimum charge of \$200 per schedule) for Scheduling, System Control and Dispatch Service and \$0.547/kW-Mo. (\$0.025/kW-day, \$0.002/kWh) for Reactive Supply and Voltage Control from Generation Sources Service for a total charge of \$4.237/kW-Mo. (\$0.195/kW-day). The following ancillary services, Regulation and Frequency Response Service, Energy Imbalance Service, Operating Reserve - Spinning Reserve Service and Operating Reserve - Supplemental Reserve Service are to be included in the firm energy product delivered to Company. For tariff purposes only, all of Customers' Delivery Points are considered to be at 138kV Distribution Service.

8. a handling charge of 10 % of the sum of the above charges 1 through 6. and

9. cost of transmission losses for delivery to the Company's system.

Capacity interruptions shall be limited to 128 hours in any calendar year, or 8 hours in any calendar day. Following an interruption, permitted capacity interruptions for the calendar year shall be reduced by the greater of the actual duration of the interruption or four (4) hours.

C. Market Pricing. The Customer shall have the ability to designate up to 5 MW of the first 102 MW of demand, and all demand in excess of 102 MW, for purchase by the Customer at market pricing. In the event the Customer elects to designate power for market pricing from Company, the Company shall wheel the power to the Customer at a price based on the Palo Verde Index, which price shall be trued-up in the following month's billing based on the actual daily Palo Verde Index prices during each previous calendar month. In addition, a 10% handling charge, as well as the applicable Transmission and Distribution charges specified in VI.B.7. above shall apply. The Palo Verde Index is defined as the daily quoted price in \$/MWh as published in the Wall Street Journal for prescheduled, firm on-peak and firm off-peak power. Off-peak hours shall be hours ending (HE) 2300 to 0600 Mountain Standard Time (MST) Monday-Sunday. On-peak hours shall be HE0700-2200 MST Monday-Sunday. Power delivered at market pricing shall be considered first through the meter.

D. Minimum Payment. The minimum payment obligation shall be \$434,000 per month until December 31, 1997, and thereafter shall be \$234,000 per month, through the expiration or termination of this Agreement.

E. Operating Procedure. Customer and Company shall develop and approve detailed operating procedures for scheduling replacement energy and market power from Company. Such procedures shall be consistent with the practical operation of Company's electrical system and Customer's mine operations, and necessary or convenient for the implementation of this Agreement.

F. Calculation of Energy Charges. Energy Charges shall be indexed to the Company's system average fuel cost (FERC Account 501 dollars per MWh of net

generation). Energy Charges shall be increased or decreased quarterly, but in no event shall they increase by more than 1% in any calendar year. Quarterly changes shall be computed using a twelve (12) month rolling period ending three months prior. The base period for the calculation of the index shall be twelve months from July 1995 through June 1996.

G. Billing Demand. Demand billing calculations hereunder shall be based on the average of the three highest 15-minute metered demands during the month.

H. Wire Transfer Notwithstanding Section V of this Agreement, the Customer's payments for service shall be wire transferred according to the Company's instructions within ten (10) calendar days of receipt of billing statements.

I. Retail Access. If, during the term of this Agreement, any regulatory or other governmental authority renders any decision or order or implements any legislation (other than a "pilot" or "experimental" program) which permits similarly situated copper mining customer(s) in Arizona (without limitation, Asarco Mission and Ray, BHP Pinto Valley and San Manuel, and Cyprus Bagdad and Miami are specifically considered similarly situated) to purchase electric energy produced by entities other than the electric utility serving such customers' service territory for use within such service territory ("Retail Access"), and the Customer would have the benefit of such Retail Access but for this Agreement, the Company shall in good faith with the Customer provide access to the competitive market comparable to that provided by Retail Access."

2.2. The Agreement is hereby amended by deleting Section VIII of the Agreement in its entirety and substituting therefor the following:

"VIII. EFFECTIVE DATE AND TERM

Subject to Section 2.6 below, this Amendment No. 2 shall be effective September 16, 1996, ("Effective Date") and shall expire at 12:00 a.m. on January 1, 2003, subject to earlier termination in the event the Customer elects to close its Sierrita Mine operations during the term of this Agreement, provided however, neither Party shall have any other early termination option."

2.3 Upon regulatory approval of this Amendment No. 2 to the Agreement, it is the intent of the Parties to re-invoice the Customer billing from the Effective Date forward and credit Customer's next monthly invoice any overpayment for electrical service.

2.4 The Agreement is hereby amended by deleting Section XVIII of the Agreement in its entirety and substituting therefor the following:

For purposes of any notification contemplated to be given by or to either party under this Agreement, the following shall constitute the appropriate address for delivery for such notice:

To the Company:

Tucson Electric Power Company

c/o Secretary

P.O. Box 711

Tucson, Arizona 85702

To the Customer:

Cyprus Sierrita Corporation

Attention: Vice President/General Manager

P.O. Box 527

Green Valley, Arizona 85622

With copies to:

Cyprus Climax Metals Company

Attention: Legal Department

P.O. Box 22015

Tempe, Arizona 85285

and:

Cyprus Climax Metals Company

Attention: Manager, Power

P.O. Box 22015

Tempe, Arizona 85285

2.5 If the Commission orders any material changes to or modifications of this Amendment No. 2 which are unacceptable to either Party, the objecting Party shall notify

the other Party within five (5) days of receipt of the Commission order and this Amendment No. 2 shall be void and the Agreement without this Amendment No. 2 shall be in full force and effect.

2.6 Conditions Precedent. This Amendment No. 2 is subject to the receipt by the Parties of all necessary regulatory approvals.

IN WITNESS WHEREOF, the Parties have caused this Amendment No. 2 to the Agreement to be executed as of the 8<sup>th</sup> day of November, 1996.

TUCSON ELECTRIC POWER COMPANY

By   
Title VP

CYPRUS SIERRITA CORPORATION

By AR Edwards  
Title: Vice President/General Manager

**Tucson Electric Power &  
Cyprus Sierrita Corporation  
Electric Service Agreement Amendment No. 2  
Operating Procedure**

Tucson Electric Power Company (the "Company") and Cyprus Sierrita Corporation (the "Customer"), herein referred to as ("Party") or collectively as ("Parties") hereby agree to the following Operating Procedure Pursuant to Section VI.E of Amendment No. 2 of the *Electric Service Agreement*:

I. REPLACEMENT ENERGY

A. During any hours in which the Company's system incremental cost of producing energy exceeds the Energy Charge (indexed quarterly), the Company shall have the right to require Customer to reduce its load to a point where the Company's incremental cost is equal to the Energy Charge, subject to the limitations in I.H below. When Company requires Customer to reduce load, the Customer shall alternatively have the ability to pay for replacement energy.

B. Company shall notify Customer when circumstances require either an interruption of some level of service, or alternatively, the purchase of replacement energy ("Qualifying Event"), as soon as practicable, but in no event shall notice be less than ten (10) minutes.

C. Notifications to Company or Customer will be made via telephone to the designated representative as follows:

<u>Customer Primary:</u>	
Mill Control Room	(520) 648-8811
<u>Customer Alternate #1:</u>	
Mill Control Room	(520) 648-8735
<u>Customer Alternate #2:</u>	
Secondary Control Room	(520) 648-8812
Remote Facsimile ("Fax")	(520) 648-8730
<u>Company Primary:</u>	
Energy Trading Real Time	(520) 745-3249
Energy Trading Fax	(520) 571-4065
<u>Company Alternate #1:</u>	
Energy Trading Backup	(520) 745-3213
<u>Company Alternate #2:</u>	
Generation Dispatch & Control	(520) 745-3312

For the purposes of this Operating Procedure, voice messaging shall not constitute notification.

D. Notwithstanding the notification requirements above, Customer authorizes Company to purchase replacement energy at prevailing market prices when Company's system incremental cost of producing energy exceeds the Energy Charge. This authorization applies to the initial two (2) hours of each Qualifying Event.

E. Normal notification procedure shall be:

1. Company gives Customer a courtesy call to warn of situations existing which may require either the purchase of replacement energy, or alternatively, an interruption of some level of service.
2. Should interruption or replacement energy be necessary, the Company shall provide Customer with the following:

- a. Quantity of energy that interruption or replacement purchases will require.
  - b. Whether replacement energy is available or Sierrita will be required to shed load within 10 minutes.
  - c. Cost of replacement energy for the first hour and anticipated cost of replacement energy for the second hour.
  - d. Expected duration of the Qualifying Event and anticipated cost of replacement energy for the duration.
3. Within one (1) hour of receipt of the information in E.2 above, Customer shall notify Company of intent to continue to purchase replacement energy beyond the initial two (2) hours, reduce load or a combination of the two.

If Customer intends to purchase replacement energy, Customer shall send Company via fax a signed copy of Exhibit "A", or refer to the most recent Exhibit "A" on file with the Company, which lists the Customer's threshold price and duration for purchases.

If Customer intends to curtail load, and does not actually reduce its load by the appropriate amount, a penalty will be incurred. For the first occurrence the penalty will be an additional Firm Power Demand Charge for the month applied to the quantity of uncurtailed load as measured by the Company's metering equipment, plus the cost of all replacement energy provided, in accordance with Sections VI.A and B of Amendment No. 2 of the Electric Service Agreement. For

subsequent occurrences the penalty will include a three month ratchet applied to the additional Firm Power Demand Charge. This penalty shall also apply to any reductions required pursuant to I.E.2.b above.

4. Company shall notify Customer when the Qualifying Event has abated.
5. Company will notify Customer via fax by 12:00 noon within two business days of the actual MWh's and total price of replacement energy purchased on behalf of Customer.

F. In the event notification cannot be made by either party within the time constraints specified herein, Company will keep Customer in-service and purchase replacement energy, even if the replacement cost exceeds those set forth in the most recent Exhibit "A" on file with the Company.

G. Replacement energy shall be priced in accordance with section VI.B of Amendment No. 2 to the Electric Service Agreement and at terms as favorable as any economy energy sale that Company may enter into during, and for delivery in, the same hours as the replacement energy is delivered.

H. Interruptions or replacement energy purchases, up to 82 MW as necessary or available, shall be limited to 128 hours in any calendar year, or eight (8) hours in any calendar day. Following an interruption or replacement energy purchase, the calendar year hours shall be reduced by the greater of the actual duration of the interruption/replacement or four (4) hours. TEP's tracking of event hours will be reflected in attachments to the Customer's bill.

## II. MARKET POWER

Customer shall have the right to designate up to 5 MW of the first 102 MW of demand, and all demand in excess of 102 MW, for purchase by Customer at market pricing ("Market Power").

A. Current operating procedure shall be for Company to deliver the appropriate amount of Market Power, as determined by the monthly Billing Demand, at a market price determined by the Palo Verde Index price as published in the Wall Street Journal for pre-scheduled, firm on-peak and firm off-peak power. This Market Power procedure shall roll over from month-to-month unless customer notifies Company pursuant to Section II.D below.

B. Off-peak hours shall be hours ending (HE) 2300 to 0600 Mountain Standard Time (MST) Monday-Sunday. On-peak hours shall be HE0700-2200 MST Monday-Sunday.

C. Market Power shall be considered first through the meter.

D. In the event Customer desires to act as its own agent for purchasing Market Power, Customer must notify Company within ten (10) days of the first of the month. Customer shall be allowed to act as agent for a capacity amount determined by either the previous month's Billing Demand, or a mutually agreeable capacity amount. Customer must contact Company to determine the transmission paths available to Customer. The Company is not required to deliver any Market Power purchases to the Customer on paths not approved in advance by Company.

E. Market Power shall be priced in accordance with section VI.C of Amendment No. 2 to the Electric Service Agreement.

III. OPERATING COMMITTEE

Each Party shall designate up to three (3) persons as its Operating Committee Representatives. Such Representatives shall be authorized to act on behalf of the Party designating such Representative in carrying out the provisions of this Operating Procedure. Each Party shall notify the other Party within fifteen (15) calendar days after execution of this Procedure of the designation of its authorized Representatives and shall promptly notify the other Party of any subsequent changes in such designation. The Representatives will meet as required to provide coordination with respect to matters which affect the implementation of this Operating Procedure. However, such Representatives shall have no authority to modify any of the provisions of this Operating Procedure.

**COMPANY**

Electric Operations

Toby Voge

Supervisor, Short Term Power

Phone: 520-884-3976

Fax: 520-770-2064

Contract Administration

Mike DeConcini

Manager, Contracts & Wholesale Marketing

Phone: 520-884-3964

Fax: 520-770-2064

**CUSTOMER**

Electric Operations

Contract Administration

Malcolm Spiller

Mike McElrath

Supt. Engineering Services

Manager, Power

Phone: 520-648-8843

Phone: 602-929-4507

Fax: 520-648-8730

Fax: 602-929-4510

IN WITNESS WHEREOF, the Parties have caused this Operating Procedure for

Amendment No. 2 to the Agreement to be executed as of the 14<sup>th</sup> day of June,

1997.

TUCSON ELECTRIC POWER COMPANY

By [Signature]

Title VP

CYPRUS SIERRITA CORPORATION

By AR Edwards

Title VP-GM

Exhibit "A"

**Cyprus Sierrita Threshold Price- Replacement Energy**

**Fax to: Tucson Electric Power Company  
Energy Trading Real Time (520) 571-4065**

<u>Duration (Hrs)</u>	<u>Price ¢/kWh</u>
8	<u>15</u>
7	<u>15</u>
6	<u>15</u>
5	<u>20</u>
4	<u>20</u>
3	<u>20</u>

If the Threshold Price is the same for all time periods, only the eight (8) hour price is required to be filled-in. This Exhibit "A" to remain in effect until superseded by another Exhibit "A".

CYPRUS SIERRITA CORPORATION

By MR. Miller  
Title Staff Engineer Cyprus Sierrita  
Date 7-10-87



Tucson Electric Power Company  
Telecopy Transmittal

Receiving Telecopy

Number: 1 (602) 929-4524

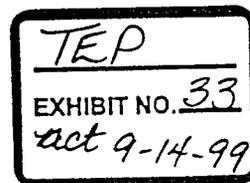
Date: September 30, 1996

Time: 9:11 AM

Deliver To: Mr. Michael D. McElrath

Manager, Power

Cyprus Climax Metals Company



From: Leland R. Snook

Phone: (520) 884-3763 Fax: (520) 770-2064

Comments: I have attached the profoma rate calculations we  
discussed. The savings in August would have been approx.  
\$310k; savings over the last twelve months approx. \$3.5MM.  
As well I have attached the FERC 501 Account information.  
If you have any questions please call.

Total number of pages including cover sheet: 5

If you do not receive all of the pages. please call Leland Snook at (520) 884-3763.

\*\*\*PRIVILEGE AND CONFIDENTIALITY NOTICE\*\*\*

The information contained in this telecopy is privileged and confidential, and is intended for the named recipient(s) only. If you have received this telecopy in error, please notify us immediately by telephone and return the original message to us via the U.S. Postal Service.

TRD11072

TEP 0194

CYPRUS INTERRUPTIBLE SERVICE PROPOSAL FOR LAST 12 BILLING MONTHS

	Sep-95	Oct-95	Nov-95	Dec-95	Jan-96	Feb-96	Mar-96	Apr-96	May-96	Jun-96	Jul-96	Aug-96	TOTAL
HOURS IN BILLING MONTH	768	720	792	720	672	768	720	720	720	720	696	768	736
ACTUAL LOAD FACTOR	90.80%	88.34%	84.95%	88.21%	89.89%	87.38%	87.73%	86.71%	87.84%	88.13%	85.40%	90.82%	88.16%
REMAINING LOAD - INTERRUPTIBLE	97,024	97,959	98,910	95,649	84,354	95,801	95,014	98,160	98,121	97,478	97,781	94,366	1,180,307
Cyprus Service - Cogeneration Deferral	87,860,000	87,304,160	88,274,100	80,749,200	56,887,500	64,507,980	60,017,600	62,886,400	66,196,740	61,856,120	58,118,660	65,874,080	752,912,540
DEMAND CHARGE / kW	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
ENERGY CHARGE / kWh	0.03748	0.03748	0.03748	0.03748	0.03748	0.03748	0.03748	0.03748	0.03748	0.03748	0.03748	0.03748	0.03748
BASE RATES - FIRST 15 MW	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
15 MW DEMAND CHARGE	0.03748	0.03748	0.03748	0.03748	0.03748	0.03748	0.03748	0.03748	0.03748	0.03748	0.03748	0.03748	0.03748
5 MW MARKET POWER	0.025	0.025	0.025	0.025	0.025	0.025	0.025	0.025	0.025	0.025	0.025	0.025	0.025
REMAINING LOAD - INTERRUPTIBLE	12.02	12.02	12.02	12.02	12.02	12.02	12.02	12.02	12.02	12.02	12.02	12.02	12.02
12.02 - KVA-HOUR FOR TERMINATE NOTICE INTERRUPTIBLE SERVICE	0.03748	0.03748	0.03748	0.03748	0.03748	0.03748	0.03748	0.03748	0.03748	0.03748	0.03748	0.03748	0.03748
SAME ENERGY PRICE AS FIRM SERVICE	509,376.00	514,284.75	517,177.50	502,187.25	495,358.50	503,480.25	498,873.60	515,287.50	515,123.25	511,759.50	513,350.25	495,471.50	6,091,811.75
COGEN RATE BILL CALCULATION	2,462,012.08	2,287,123.22	2,411,881.84	2,210,841.88	2,131,371.18	2,412,733.28	2,248,435.84	2,348,481.20	2,481,022.34	2,316,322.84	2,178,264.13	2,481,438.23	27,928,232.22
DEMAND CHARGE	2,971,368.08	2,781,408.82	2,928,758.48	2,712,899.14	2,626,729.85	2,921,213.64	2,746,258.14	2,884,748.70	2,898,182.89	2,820,102.14	2,891,814.38	2,956,853.75	34,079,945.07
ENERGY CHARGE	78,750.00	78,750.00	78,750.00	78,750.00	78,750.00	78,750.00	78,750.00	78,750.00	78,750.00	78,750.00	78,750.00	78,750.00	945,000.00
TOTAL COGEN BILL BEFORE TAXES	392,051.99	357,572.03	376,228.60	357,068.03	338,839.99	378,184.84	355,125.50	359,065.66	379,284.83	356,752.40	334,158.07	391,283.46	4,377,575.41
INTERRUPTIBLE RATE BILL CALCULATION	87,169.15	79,502.65	84,095.65	79,390.79	75,337.98	84,081.47	78,958.89	79,834.95	84,330.50	79,370.82	74,298.97	86,993.89	973,313.64
BASE BILL	155,588.48	157,477.18	158,590.20	152,810.98	150,195.06	153,320.02	151,528.28	157,863.00	157,804.42	156,505.36	157,117.62	150,219.32	1,859,020.14
DEMAND CHARGE	2,013,160.82	1,856,397.21	1,979,648.47	1,800,789.31	1,879,607.25	1,913,539.30	1,775,958.97	1,870,732.06	1,925,340.70	1,842,697.51	1,732,743.28	1,930,779.80	22,382,394.78
ENERGY CHARGE - FIRM	2,226,220.44	2,531,859.27	2,878,312.92	2,488,809.11	2,322,730.77	2,607,855.84	2,440,321.65	2,546,245.87	2,875,510.45	2,514,028.09	2,377,085.95	2,847,006.57	30,537,203.97
5 MW MARKET POWER ENERGY CHARGE	244,667.64	249,709.25	249,446.53	243,890.03	303,999.38	313,357.90	307,937.49	318,503.03	320,652.13	316,076.05	314,548.43	309,853.23	3,492,641.10
REMAINING LOAD - INTERRUPTIBLE													
DEMAND CHARGE													
ENERGY CHARGE													
15 MW													
TOTAL INTERRUPTIBLE BILL BEFORE TAXES													
INTERRUPTION SAVINGS OVER COGEN RATE													

TRD11073

TEP 0195

# OPERATION AND MAINTENANCE EXPENSE ACCOUNTS

## 1. POWER PRODUCTION EXPENSES

### A. STEAM POWER GENERATION

#### Operation

#### 500 Operation supervision and engineering.

This account shall include the cost of labor and expenses incurred in the general supervision and direction of the operation of steam power generating stations. Direct supervision of specific activities, such as fuel handling, boiler-room operations, generator operations, etc., shall be charged to the appropriate account. (See operating expense instruction 1.)

#### 501 Fuel.

A. This account shall include the cost of fuel used in the production of steam for the generation of electricity, including expenses in unloading fuel from the shipping media and handling thereof up to the point where the fuel enters the first boiler plant bunker, hopper, bucket, tank or holder of the boiler-house structure. Records shall be maintained to show the quantity, B.t.u. content and cost of each type of fuel used.

B. The cost of fuel shall be charged initially to account 151, Fuel Stock, and cleared to this account on the basis of the fuel used. Fuel handling expenses may be charged to this account as incurred or charged initially to account 152, Fuel Stock Expenses Undistributed. In the latter event, they shall be cleared to this account on the basis of the fuel used. Respective amounts of fuel stock and fuel stock expenses shall be readily available.

#### Items

##### Labor:

1. Supervising purchasing and handling of fuel.
  2. All routine fuel analyses.
  3. Unloading from shipping facility and putting in storage.
  4. Moving of fuel in storage and transferring fuel from one station to another.
  5. Handling from storage or shipping facility to first bunker, hopper, bucket, tank or holder of boiler-house structure.
  6. Operation of mechanical equipment such as locomotives, trucks, cars, boats, barges, cranes, etc.
- Materials and Expenses:
7. Operating, maintenance and depreciation expenses and ad valorem taxes on utility-owned transportation equipment used to

transport fuel from the point of acquisition to the unloading point.

8. Lease or rental costs of transportation equipment used to transport fuel from the point of acquisition to the unloading point.

9. Cost of fuel including freight, switching, demurrage and other transportation charges.

10. Excise taxes, insurance, purchasing commissions and similar items.

11. Stores expenses to extent applicable to fuel.

12. Transportation and other expenses in moving fuel in storage.

13. Tools, lubricants and other supplies.

14. Operating supplies for mechanical equipment.

15. Residual disposal expenses less any proceeds from sale of residuals.

Note: Abnormal fuel handling expenses occasioned by emergency conditions shall be charged to expense as incurred.

#### 502 Steam expenses.

This account shall include the cost of labor, materials used and expenses incurred in production of steam for electric generation. This includes all expenses of handling and preparing fuel beginning at the point where the fuel enters the first boiler plant bunker, hopper, tank or holder of the boiler-house structure.

#### Items

##### Labor:

1. Supervising steam production.
  2. Operating fuel conveying, storage, weighing and processing equipment within boiler plant.
  3. Operating boiler and boiler auxiliary equipment.
  4. Operating boiler feed water purification and treatment equipment.
  5. Operating ash-collecting and disposal equipment located inside the plant.
  6. Operating boiler plant electrical equipment.
  7. Keeping boiler plant log and records and preparing reports on boiler plant operation.
  8. Testing boiler water.
  9. Testing, checking, and adjusting meters, gauges, and other instruments and equipment in boiler plant.
  10. Cleaning boiler plant equipment when not incidental to maintenance work.
  11. Repacking glands and replacing gauge glasses where the work involved is of a minor nature and is performed by regular operating crews. Where the work is of a major character, such as that performed on high-pressure boilers, the item should be considered as maintenance.
- Materials and Expenses:
12. Chemicals and boiler inspection fees.

TUCSON ELECTRIC POWER COMPANY  
CHART OF ACCOUNTS

ACCT	SUBLEGD	PL CL	LOC	ACCT CNTL	ACTV	SUB ACT	DESCRIPTION
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ELECTRIC OPERATION AND MAINTENANCE EXPENSE

1. POWER PRODUCTION EXPENSES

A. STEAM POWER GENERATION

OPERATION

OPERATION SUPERVISION AND ENGINEERING

500							OPERATION SUPERVISION & ENGINEERING - GENERAL
500		FC					OPERATION SUPERVISION & ENGINEERING - FOUR CORNERS
<del>500</del>		<del>FC</del>				<del>ENV</del>	<del>OPERATION SUPERVISION &amp; ENGINEERING - FOUR CORNERS - ENVIRONMENTAL</del>
500		FC	ENV				OPERATION SUPERVISION & ENGINEERING - FOUR CORNERS - ENVIRONMENTAL
500		IV					OPERATION SUPERVISION & ENGINEERING - IRVINGTON
<del>500</del>		<del>IV</del>				<del>ENV</del>	<del>OPERATION SUPERVISION &amp; ENGINEERING - IRVINGTON - ENVIRONMENTAL</del>
500		IV	ENV				OPERATION SUPERVISION & ENGINEERING - IRVINGTON - ENVIRONMENTAL
500		IVC					OPERATION SUPERVISION & ENGINEERING - IRVINGTON COMMON
500		IV1					OPERATION SUPERVISION & ENGINEERING - IRVINGTON UNIT #1
500		IV2					OPERATION SUPERVISION & ENGINEERING - IRVINGTON UNIT #2
500		IV3					OPERATION SUPERVISION & ENGINEERING - IRVINGTON UNIT #3
500		IV4					OPERATION SUPERVISION & ENGINEERING - IRVINGTON UNIT #4
500		NV					OPERATION SUPERVISION & ENGINEERING - NAVAJO
500		SC1					OPERATION SUPERVISION & ENGINEERING - SPRINGERVILLE COMMON UNIT 1
<del>500</del>		<del>SC1</del>				<del>ENV</del>	<del>OPERATION SUPERVISION &amp; ENGINEERING - SPRINGERVILLE COMMON UNIT 1 - ENVIRONMENTAL</del>
500		SC1	ENV				OPERATION SUPERVISION & ENGINEERING - SPRINGERVILLE COMMON UNIT 1 ENVIRONMENTAL
<del>500</del>		<del>SC1</del>	<del>SO2</del>			<del>ENV</del>	<del>OPERATION SUPERVISION &amp; ENGINEERING - SPRINGERVILLE COMMON UNIT 1 ENVIRONMENTAL - SO2</del>
500		SC1	SO2				OPERATION SUPERV. & ENGINEERING - SPRINGERVILLE COMMON UNIT 1 ENVIRONMENTAL - SO2
500		SC2					OPERATION SUPERVISION & ENGINEERING - SPRINGERVILLE COMMON UNIT 2
<del>500</del>		<del>SC2</del>				<del>ENV</del>	<del>OPERATION SUPERVISION &amp; ENGINEERING - SPRINGERVILLE COMMON UNIT 2 - ENVIRONMENTAL</del>
500		SC2	ENV				OPERATION SUPERVISION & ENGINEERING - SPRINGERVILLE COMMON UNIT 2 ENVIRONMENTAL
<del>500</del>		<del>SC2</del>	<del>SO2</del>			<del>ENV</del>	<del>OPERATION SUPERVISION &amp; ENGINEERING - SPRINGERVILLE COMMON UNIT 2 ENVIRONMENTAL - SO2</del>
500		SC2	SO2				OPERATION SUPERV. & ENGINEERING - SPRINGERVILLE COMMON UNIT 2 ENVIRONMENTAL - SO2
500		SJ					OPERATION SUPERVISION & ENGINEERING - SAN JUAN
500		SP1					OPERATION SUPERVISION & ENGINEERING - SPRINGERVILLE - UNIT 1
<del>500</del>		<del>SP1</del>				<del>ENV</del>	<del>OPERATION SUPERVISION &amp; ENGINEERING - SPRINGERVILLE - UNIT 1 - ENVIRONMENTAL</del>
500		SP1	ENV				OPERATION SUPERVISION & ENGINEERING - SPRINGERVILLE - UNIT 1 ENVIRONMENTAL
<del>500</del>		<del>SP1</del>	<del>SO2</del>			<del>ENV</del>	<del>OPERATION SUPERVISION &amp; ENGINEERING - SPRINGERVILLE - UNIT 1 ENVIRONMENTAL - SO2</del>
500		SP1	SO2				OPERATION SUPERVISION & ENGINEERING - SPRINGERVILLE - UNIT 1 ENVIRONMENTAL - SO2
500		SP2					OPERATION SUPERVISION & ENGINEERING - SPRINGERVILLE UNIT 2
<del>500</del>		<del>SP2</del>				<del>ENV</del>	<del>OPERATION SUPERVISION &amp; ENGINEERING - SPRINGERVILLE UNIT 2 - ENVIRONMENTAL</del>
500		SP2	ENV				OPERATION SUPERVISION & ENGINEERING - SPRINGERVILLE UNIT 2 - ENVIRONMENTAL
<del>500</del>		<del>SP2</del>	<del>SO2</del>			<del>ENV</del>	<del>OPERATION SUPERVISION &amp; ENGINEERING - SPRINGERVILLE UNIT 2 - ENVIRONMENTAL - SO2</del>
500		SP2	SO2				OPERATION SUPERVISION & ENGINEERING - SPRINGERVILLE UNIT 2 - ENVIRONMENTAL - SO2

FUEL

501	COAL	FC					COAL - FOUR CORNERS
<del>501</del>	<del>COAL</del>	<del>FC</del>				<del>ENV</del>	<del>FUEL EXPENSE - FOUR CORNERS - ENVIRONMENTAL</del>
501	COAL	FC	ENV				FUEL EXPENSE - FOUR CORNERS - ENVIRONMENTAL
501	COAL	FC	HNG				FUEL HANDLING EXPENSE - FOUR CORNERS
501	COAL	FC	WAST				RESIDUAL WASTE - FOUR CORNERS
501	COAL	IV					COAL - IRVINGTON UNIT 4
<del>501</del>	<del>COAL</del>	<del>IV</del>				<del>ENV</del>	<del>FUEL HANDLING EXPENSE - ENVIRONMENTAL</del>
501	COAL	IV	ENV				FUEL HANDLING EXPENSE - ENVIRONMENTAL
501	COAL	IV	ADJ				PHYSICAL INVENTORY ADJUSTMENT
501	COAL	IV	HNG				FUEL HANDLING EXPENSE - COAL
501	COAL	IV	STAB				GAS STABILIZATION - IRVINGTON COAL
501	COAL	IV	TORP				COAL - PITTSBURGH & MIDWAY - TAKE OR PAY COSTS
501	COAL	NV					COAL - NAVAJO
<del>501</del>	<del>COAL</del>	<del>NV</del>				<del>ENV</del>	<del>FUEL EXPENSE - NAVAJO - ENVIRONMENTAL</del>
501	COAL	NV	ENV				FUEL EXPENSE - NAVAJO - ENVIRONMENTAL
501	COAL	NV	HNG				FUEL HANDLING EXPENSE - NAVAJO
501	COAL	NV	WAST				RESIDUAL WASTE - NAVAJO
501	COAL	SJ					COAL - SAN JUAN
<del>501</del>	<del>COAL</del>	<del>SJ</del>				<del>ENV</del>	<del>FUEL EXPENSE - SAN JUAN - ENVIRONMENTAL</del>
501	COAL	SJ	ENV				FUEL EXPENSE - SAN JUAN - ENVIRONMENTAL
501	COAL	SJ	HNG				FUEL HANDLING EXPENSE - SAN JUAN
501	COAL	SJ	NEGO				SAN JUAN COAL - RENEGOTIATE SAN JUAN COAL CONTRACT
501	COAL	SJ	TORP				SAN JUAN COAL - SAN JUAN COAL CO. TAKE OR PAY COSTS
501	COAL	SJ	WAST				RESIDUAL WASTE - SAN JUAN
501	COAL	SP					COAL - SPRINGERVILLE UNIT 2 STARTUP

TRD11075

TUCSON ELECTRIC POWER COMPANY  
CHART OF ACCOUNTS

ACCT	SUBLEDG	PL CL	LOC	ACCT CNTL	ACTV	SUB ACT	DESCRIPTION
501	COAL		SP1				COAL - SPRINGERVILLE UNIT 1
<del>501</del>	<del>COAL</del>		<del>SP1</del>		<del>FIXD</del>		<del>COAL - SPRINGERVILLE UNIT 1 - FIXED FUEL COSTS</del>
501	COAL		SP1	FIXD			COAL - SPRINGERVILLE UNIT 1 - FIXED FUEL COSTS
<del>501</del>	<del>COAL</del>		<del>SP1</del>		<del>ENV</del>		<del>COAL - SPRINGERVILLE UNIT 1 - ENVIRONMENTAL</del>
501	COAL		SP1	ENV			COAL - SPRINGERVILLE UNIT 1 - ENVIRONMENTAL
501	COAL		SP1	HNG			COAL - SPRINGERVILLE UNIT 1 - HANDLING EXPENSE
501	COAL		SP1	REVL			COAL - SPRINGERVILLE UNIT 1 - COAL CREDIT FOR REVERSAL OF VEC CONTINGENT LIABILITIES
501	COAL		SP1	WAST			COAL - SPRINGERVILLE UNIT 1 - RESIDUAL WASTE
501	COAL		SP2				COAL - SPRINGERVILLE UNIT 2
<del>501</del>	<del>COAL</del>		<del>SP2</del>		<del>FIXD</del>		<del>COAL - SPRINGERVILLE UNIT 2 - FIXED FUEL COSTS</del>
501	COAL		SP2	FIXD			COAL - SPRINGERVILLE UNIT 2 - FIXED FUEL COSTS
<del>501</del>	<del>COAL</del>		<del>SP2</del>		<del>ENV</del>		<del>COAL - SPRINGERVILLE UNIT 2 - ENVIRONMENTAL</del>
501	COAL		SP2	ENV			COAL - SPRINGERVILLE UNIT 2 - ENVIRONMENTAL
501	COAL		SP2	HNG			COAL - SPRINGERVILLE UNIT 2 - HANDLING EXPENSE
501	COAL		SP2	REVL			COAL - SPRINGERVILLE UNIT 2 - COAL CREDIT FOR REVERSAL OF VEC CONTINGENT LIABILITIES
501	COAL		SP2	WAST			COAL - SPRINGERVILLE UNIT 2 - RESIDUAL WASTE
501	GAS		FC				GAS - FOUR CORNERS
501	GAS		I12				GAS - IRVINGTON UNITS 1 & 2
501	GAS		IV				GAS - IRVINGTON UNITS 1 - 4
501	OIL		IV				OIL - IRVINGTON UNITS 1 - 4
501	OIL		IV	HNG			FUEL HANDLING EXPENSE - GAS AND OIL
501	OIL		NV				OIL - NAVAJO
501	OIL		SJ				OIL - SAN JUAN

STEAM EXPENSES

502			FC				STEAM EXPENSES - FOUR CORNERS
<del>502</del>			<del>FC</del>		<del>ENV</del>	<del>ENV</del>	<del>STEAM EXPENSES - FOUR CORNERS - ENVIRONMENTAL</del>
502			FC	ENV			STEAM EXPENSES - FOUR CORNERS - ENVIRONMENTAL
502			IV				STEAM EXPENSES - IRVINGTON
<del>502</del>			<del>IV</del>		<del>ENV</del>	<del>ENV</del>	<del>STEAM EXPENSES - IRVINGTON - ENVIRONMENTAL</del>
502			IV	ENV			STEAM EXPENSES - IRVINGTON - ENVIRONMENTAL
502			NV				STEAM EXPENSES - NAVAJO
<del>502</del>			<del>NV</del>		<del>ENV</del>	<del>ENV</del>	<del>STEAM EXPENSES - NAVAJO - ENVIRONMENTAL</del>
502			NV	ENV			STEAM EXPENSES - NAVAJO - ENVIRONMENTAL
<del>502</del>			<del>SC1</del>		<del>ENV</del>	<del>ENV</del>	<del>STEAM EXPENSES - SPRINGERVILLE COMMON UNIT 1 - ENVIRONMENTAL</del>
502			SC1	ENV			STEAM EXPENSES - SPRINGERVILLE COMMON UNIT 1 - ENVIRONMENTAL
<del>502</del>			<del>SC1</del>		<del>SO2</del>	<del>ENV</del>	<del>STEAM EXPENSES - SPRINGERVILLE COMMON UNIT 1 - ENVIRONMENTAL - SO2</del>
502			SC1	SO2			STEAM EXPENSES - SPRINGERVILLE COMMON UNIT 1 - ENVIRONMENTAL - SO2
502			SC2				STEAM EXPENSES - SPRINGERVILLE COMMON UNIT 2
<del>502</del>			<del>SC2</del>		<del>ENV</del>	<del>ENV</del>	<del>STEAM EXPENSES - SPRINGERVILLE COMMON UNIT 2 - ENVIRONMENTAL</del>
502			SC2	ENV			STEAM EXPENSES - SPRINGERVILLE COMMON UNIT 2 - ENVIRONMENTAL
<del>502</del>			<del>SC2</del>		<del>SO2</del>	<del>ENV</del>	<del>STEAM EXPENSES - SPRINGERVILLE COMMON UNIT 2 - ENVIRONMENTAL - SO2</del>
502			SC2	SO2			STEAM EXPENSES - SPRINGERVILLE COMMON UNIT 2 - ENVIRONMENTAL - SO2
502			SJ				STEAM EXPENSES - SAN JUAN
<del>502</del>			<del>SJ</del>		<del>ENV</del>	<del>ENV</del>	<del>STEAM EXPENSES - SAN JUAN - ENVIRONMENTAL</del>
502			SJ	ENV			STEAM EXPENSES - SAN JUAN - ENVIRONMENTAL
502			SP1				STEAM EXPENSES - SPRINGERVILLE UNIT 1
<del>502</del>			<del>SP1</del>		<del>ENV</del>	<del>ENV</del>	<del>STEAM EXPENSES - SPRINGERVILLE UNIT 1 - ENVIRONMENTAL</del>
502			SP1	ENV			STEAM EXPENSES - SPRINGERVILLE UNIT 1 - ENVIRONMENTAL
<del>502</del>			<del>SP1</del>		<del>SO2</del>	<del>ENV</del>	<del>STEAM EXPENSES - SPRINGERVILLE UNIT 1 - ENVIRONMENTAL - SO2</del>
502			SP1	SO2			STEAM EXPENSES - SPRINGERVILLE UNIT 1 - ENVIRONMENTAL - SO2
502			SP2				STEAM EXPENSES - SPRINGERVILLE UNIT 2
<del>502</del>			<del>SP2</del>		<del>ENV</del>	<del>ENV</del>	<del>STEAM EXPENSES - SPRINGERVILLE UNIT 2 - ENVIRONMENTAL</del>
502			SP2	ENV			STEAM EXPENSES - SPRINGERVILLE UNIT 2 - ENVIRONMENTAL
<del>502</del>			<del>SP2</del>		<del>SO2</del>	<del>ENV</del>	<del>STEAM EXPENSES - SPRINGERVILLE UNIT 2 - ENVIRONMENTAL - SO2</del>
502			SP2	SO2			STEAM EXPENSES - SPRINGERVILLE UNIT 2 - ENVIRONMENTAL - SO2

ELECTRIC EXPENSES

505			FC				ELECTRIC EXPENSES - FOUR CORNERS
<del>505</del>			<del>FC</del>		<del>ENV</del>	<del>ENV</del>	<del>ELECTRIC EXPENSES - FOUR CORNERS - ENVIRONMENTAL</del>
505			FC	ENV			ELECTRIC EXPENSES - FOUR CORNERS - ENVIRONMENTAL
505			IV				ELECTRIC EXPENSES - IRVINGTON
505			NV				ELECTRIC EXPENSES - NAVAJO
<del>505</del>			<del>NV</del>		<del>ENV</del>	<del>ENV</del>	<del>ELECTRIC EXPENSES - NAVAJO - ENVIRONMENTAL</del>
505			NV	ENV			ELECTRIC EXPENSES - NAVAJO - ENVIRONMENTAL
505			SC1				ELECTRIC EXPENSES - SPRINGERVILLE COMMON UNIT 1
<del>505</del>			<del>SC1</del>		<del>ENV</del>	<del>ENV</del>	<del>ELECTRIC EXPENSES - SPRINGERVILLE COMMON UNIT 1 - ENVIRONMENTAL</del>
505			SC1	ENV			ELECTRIC EXPENSES - SPRINGERVILLE COMMON UNIT 1 - ENVIRONMENTAL
<del>505</del>			<del>SC1</del>		<del>SO2</del>	<del>ENV</del>	<del>ELECTRIC EXPENSES - SPRINGERVILLE COMMON UNIT 1 - ENVIRONMENTAL - SO2</del>

TRD11076



*Tucson Electric Power Company*

220 West Sixth Street  
P.O. Box 711  
Tucson, Arizona 85702

Steven J. Glaser  
Vice President  
Energy Services

(520) 884-3601  
FAX (520) 884-3991

October 9, 1997

Mr. Michael D. McElrath  
Manager, Power  
Cyprus Climax Metals Company  
1501 West Fountainhead Parkway, Suite 290  
Tempe, Arizona 85282-1846

*Bill Champion  
Lowell Shank  
as per e-mail  
mcb*

Dear Mike:

As part of Amendment No. 2 to the Electric Service Agreement between Tucson Electric Power Company (TEP) and Cyprus Sierrita Corporation (Cyprus), TEP and Cyprus agreed to index energy charges under the Agreement to changes in TEP's system average fuel cost as recorded in FERC Account 501. The purpose of this index was to share the benefit with Cyprus if TEP reduced fuel costs. However, subsequent to the initial calculation of the index TEP has implemented an accounting change that has inadvertently impacted the index calculation, and an adjustment to the original index is necessary to offset this impact.

In July 1996, TEP collapsed its Valencia subsidiary, which was responsible for coal handling at Springerville. All coal handling costs at Springerville flowed through Valencia (including the lease expense for the coal handling facilities), which in turn was expensed through FERC Account 501. When Valencia was collapsed into TEP, these expenses no longer flowed through FERC Account 501, but were still very real costs to TEP. Due to the rolling twelve months of data used to calculate the index the problem is cumulative in nature and regrettably, went undetected for some time. Through the twelve month period ending August 1997, an approximate adjustment to TEP's fuel expense of \$24.8 million is necessary to true-up the impact of the Valencia accounting change.

The original index calculation was 98.46% in December 1996, 93.47% in March 1997 and 90.07% in June 1997. The adjusted index calculation is 106.82% in December 1996, 103.56% in March 1997 and 102.0% in June 1997. Since escalation is capped at 1% per year, the original September 1996 energy price of \$37.48/MWh should have been adjusted in December 1996 to \$37.8548/MWh, and adjusted by 1% in March 1997 to \$38.2333. To date this adjustment has resulted in TEP underbilling Cyprus by approximately \$1.5 million dollars through August 1997.

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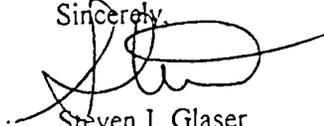


CYP000225

September's energy charge will be \$38.2333/MWh under the adjusted index, which should also be a good number for Cyprus to use in estimating its power costs for 1998.

I apologize for this oversight and would like to meet with you at your earliest convenience to review the details of the accounting change.

Sincerely,

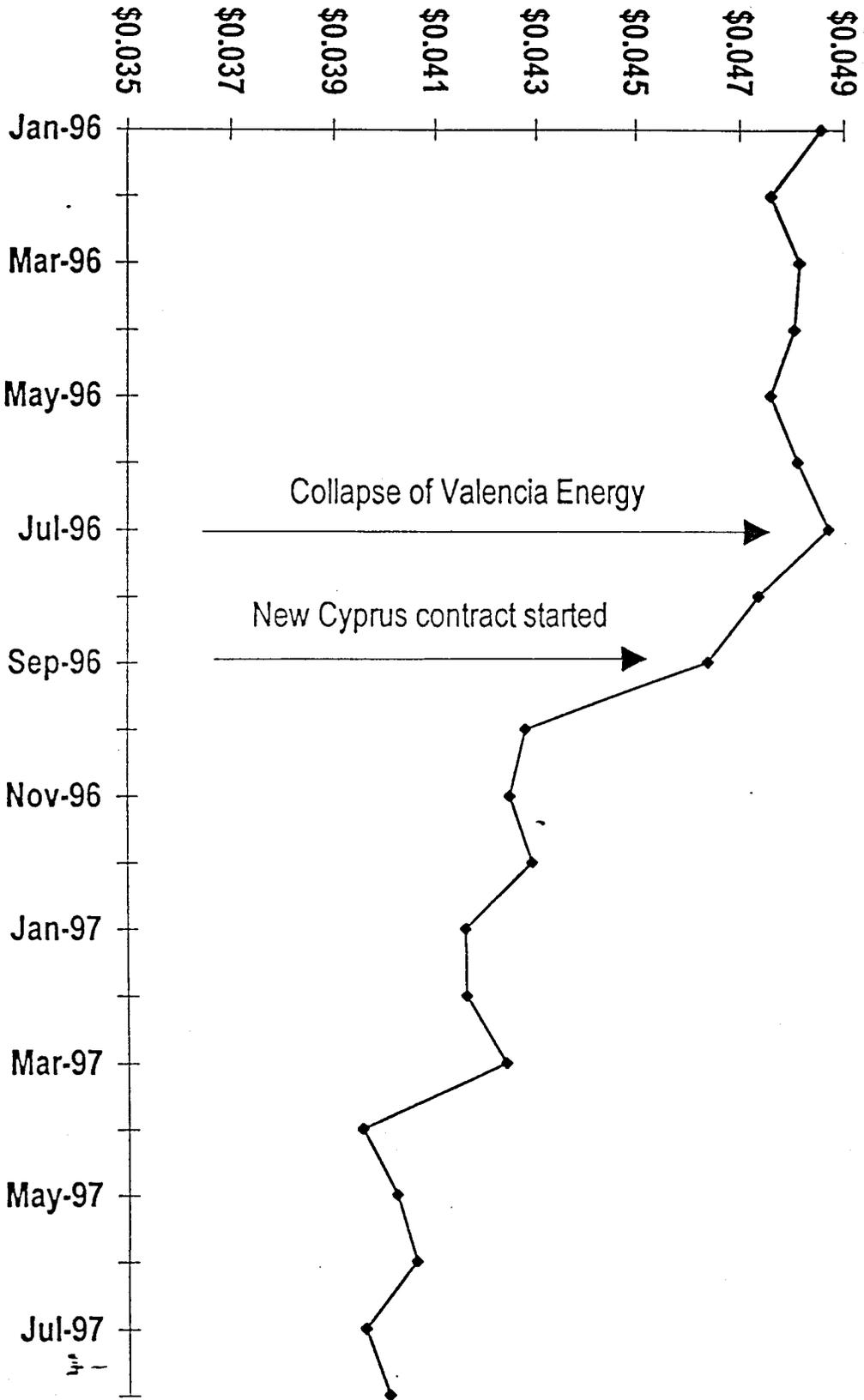
A handwritten signature in black ink, appearing to read 'S. Glaser', with a long horizontal flourish extending to the right.

Steven J. Glaser  
Vice President  
Energy Services

CYP000226

# Cyprus Average Energy Costs

\$/kWh



	1986	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987
	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
FOUR CORN.	77,211	68,003	61,789	63,100	72,181	48,404	64,482	48,841	67,373	206,813	67,373	206,813	67,373
SAN JUAN	227,326	188,388	108,604	181,843	149,536	170,138	158,074	228,306	206,813	206,813	206,813	206,813	206,813
NAVAJO	68,881	48,494	44,766	44,766	44,766	44,766	44,766	44,766	44,766	44,766	44,766	44,766	44,766
SPRINGER	641,887	617,768	465,816	418,818	353,002	489,928	478,861	617,424	486,348	486,348	486,348	486,348	486,348
IRVING, COAL	68,981	48,419	39,920	39,322	60,338	47,894	42,781	52,824	70,868	70,868	70,868	70,868	70,868
IRVING, GAS	(643)		(486)	3,237	(6)	4,401	11,539	48,260	70,227	70,227	70,227	70,227	70,227
OTHER GEN.	121	3	23	(60)	988	2,473	1,017	7,088	6,977	6,977	6,977	6,977	6,977
PUCH, POWER													
NET INTERCH.													
TOTAL	(242,270)	(198,138)	(118,433)	(81,802)	(40,208)	(107,287)	(40,248)	(101,264)	(88,518)	(88,518)	(88,518)	(88,518)	(88,518)
	731,413	704,188	646,727	648,262	639,648	768,633	792,623	884,518	926,768	926,768	926,768	926,768	926,768

DOLLARS

FOUR CORN.	\$1,207,480	\$788,667	\$688,166	\$716,388	\$788,437	\$687,888	\$764,667	\$668,112	\$868,627	\$868,627	\$868,627	\$868,627	\$868,627
SAN JUAN	\$3,980,874	\$4,222,440	\$3,684,878	\$3,878,241	\$2,903,184	\$3,380,376	\$3,248,802	\$4,029,770	\$3,965,416	\$3,965,416	\$3,965,416	\$3,965,416	\$3,965,416
NAVAJO	\$846,306	\$881,646	\$618,876	\$621,122	\$621,122	\$621,122	\$621,122	\$621,122	\$621,122	\$621,122	\$621,122	\$621,122	\$621,122
SPRINGER	\$9,891,028	\$9,681,808	\$8,400,203	\$7,608,838	\$6,438,084	\$8,907,080	\$8,649,868	\$8,979,608	\$8,336,078	\$8,336,078	\$8,336,078	\$8,336,078	\$8,336,078
IRVING, COAL	\$1,176,786	\$785,317	\$803,400	\$841,702	\$1,216,002	\$1,186,180	\$1,047,060	\$1,208,441	\$1,679,168	\$1,679,168	\$1,679,168	\$1,679,168	\$1,679,168
IRVING, GAS	\$162,886	\$2,742	\$2,772	\$88,248	\$1,811	\$126,288	\$476,816	\$1,341,417	\$2,886,920	\$2,886,920	\$2,886,920	\$2,886,920	\$2,886,920
FUEL #601	\$17,369,668	\$18,332,668	\$14,188,246	\$13,864,647	\$12,116,082	\$16,436,167	\$16,329,860	\$17,626,422	\$18,742,138	\$18,742,138	\$18,742,138	\$18,742,138	\$18,742,138
MO. €/KWH	2.3734	2.3184	2.1864	2.1564	2.1366	1.8940	1.9341	1.8683	2.0246	2.0246	2.0246	2.0246	2.0246
12 MO. END. €/KWH	2.3217	2.2842	2.2828	2.2042	2.1402	2.1366	2.1240	2.1222	2.1336	2.1336	2.1336	2.1336	2.1336
QUARTERLY INDEX	0.9848			0.8347			0.9007						0.9032

12-MONTH ROLLING QUARTERLY INDEX

INDEXED ENERGY €/KWH	0.0374800	0.0368028	0.0368028	0.0368028	0.0360326	0.0360326	0.0360326	0.0337682	0.0337682	0.0337682	0.0337682	0.0337682	0.0337682
REVISED FUEL €/€	\$18,681,019	\$17,847,280	\$16,613,262	\$16,171,076	\$13,427,072	\$18,747,881	\$18,640,828	\$18,843,863	\$19,800,837	\$19,800,837	\$19,800,837	\$19,800,837	\$19,800,837
REVISED 12 MO. END	2.6514	2.6081	2.3987	2.3367	2.0981	2.2077	2.0985	2.1068	2.1388	2.1388	2.1388	2.1388	2.1388
REVISED QTRLY. INDEX	2.5188	2.5048	2.4869	2.4422	2.3986	2.4021	2.4063	2.4021	2.1068	2.1068	2.1068	2.1068	2.1068
REVISED ENERGY €/KWH	1.0882			1.0368			1.0200						
LOST REVENUE	22,021.23	78,848.34	78,176.86	68,066.96	210,887.18	188,242.66	189,482.18	267,213.26	281,211.62	281,211.62	281,211.62	281,211.62	281,211.62

kwh	68,764,820	60,011,820	68,765,380	61,167,080	66,818,080	69,812,080	62,844,680	67,476,820	68,388,380	68,388,380	68,388,380	68,388,380	68,388,380
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Spring Adjustment

1/2 Capital Lease	826,736	826,648	826,662	826,476	826,388	826,302	826,214	825,127	825,039	825,039	825,039	825,039	825,039
1/2 Prop. Tax - Other	136,130	146,162	146,162	146,162	146,162	146,162	146,162	146,162	-101,144	-101,144	-101,144	-101,144	-101,144
Contingent Sales Tax	371	10,844					1,748						
Depreciation	72,610	72,610	72,610	72,610	72,610	72,610	72,610	72,610	72,610	72,610	72,610	72,610	72,610
Maintenance	180,000	180,000	180,000	180,000	180,000	180,000	180,000	180,000	180,000	180,000	180,000	180,000	180,000
Other Operations	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest Expense - Contingent	87,614	79,348	80,683	82,182	87,860	87,760	86,142	93,532	82,194	82,194	82,194	82,194	82,194
Total Spring Adjustment	1,301,360	1,314,612	1,316,017	1,306,429	1,312,010	1,311,824	1,310,878	1,317,431	1,056,888	1,056,888	1,056,888	1,056,888	1,056,888
Coal Adjustment	0	0	0	0	0	0	0	0	0	0	0	0	0

CYP000228

	M/WHS											
	1988 JAN	1988 FEB	1988 MAR	1988 APR	1988 MAY	1988 JUN	1988 JUL	1988 AUG	1988 SEP	1988 OCT	1988 NOV	
FOUR CORN.	22,280	27,908	40,620	43,624	62,123	61,266	66,048	54,686	71,302	72,381	88,424	
SAN JUAN	188,086	165,878	154,160	146,802	86,196	150,117	204,948	197,734	191,358	183,213	214,482	
NAVAJO	53,133	38,316	45,327	62,747	75,108	78,008	80,368	87,436	84,467	108,352	77,653	
SPRINGFR.	610,373	444,331	624,324	507,066	484,064	476,873	560,683	627,791	631,626	636,848	610,506	
IRVING, COAL	47,487	37,366	32,628	2,043	44,107	50,061	57,884	67,038	14,446	62,603	70,809	
IRVING, GAS	(388)	(471)	468	9,880	1,048	19,142	30,260	61,687	40,081	8,311	(637)	
OTHER GEN.	511	(180)	(108)	(187)	(100)	620	7,387	4,302	(121)	(121)	289	
PUCH, POWER												
NET INTERCH.	(177,946)	(128,331)	(181,104)	(147,476)	(8,418)	(44,264)	(102,066)	(80,833)	(178,814)	(231,164)	(267,853)	
TOTAL	643,526	584,816	616,097	623,606	744,717	780,823	811,489	889,731	754,448	738,181	683,762	

DOLLARS

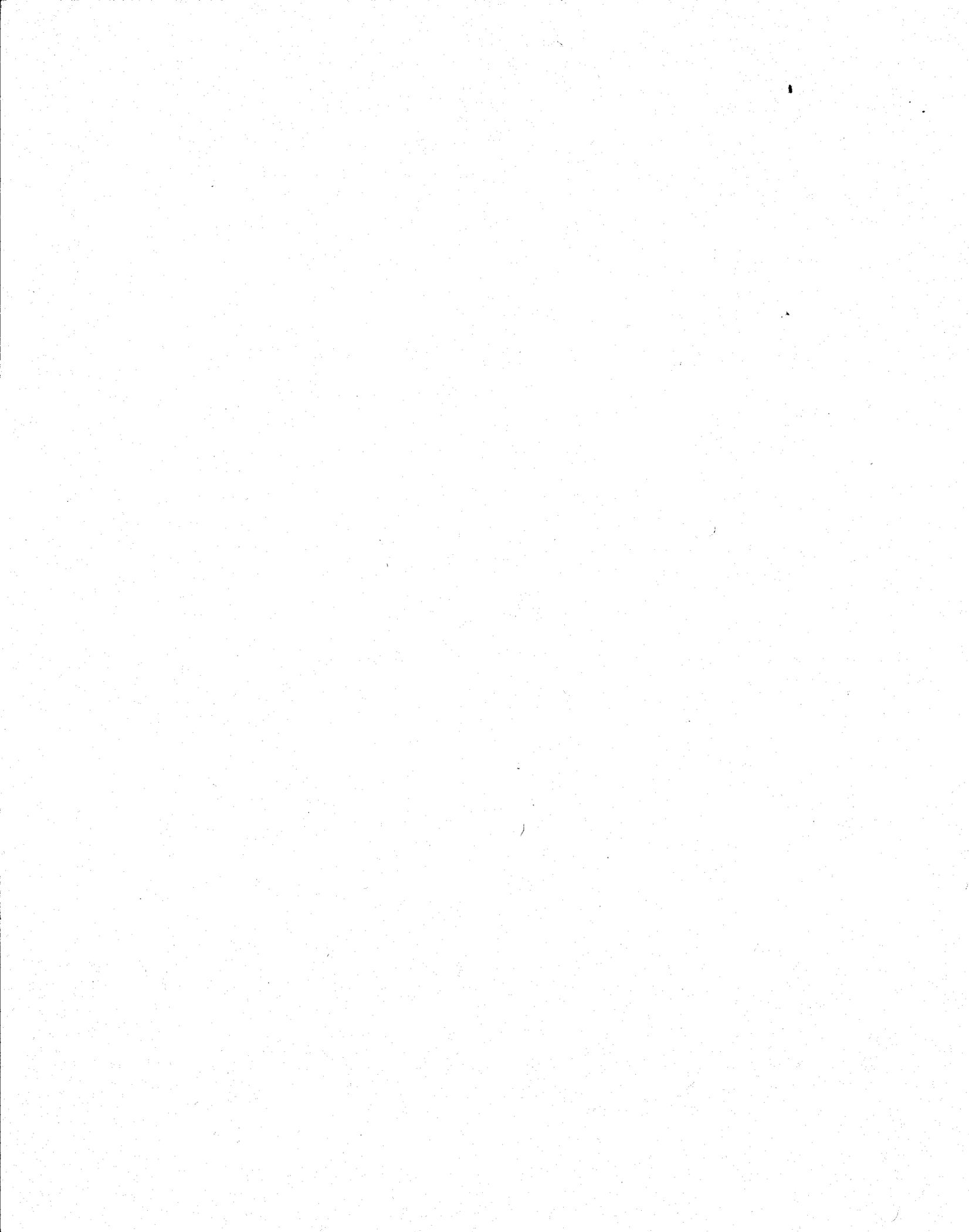
EXPLANATION:

	EXPLANATION:											
	1988 JAN	1988 FEB	1988 MAR	1988 APR	1988 MAY	1988 JUN	1988 JUL	1988 AUG	1988 SEP	1988 OCT	1988 NOV	
FOUR CORN.	\$424,576	\$318,480	\$464,623	\$446,828	\$938,165	\$841,873	\$793,440	\$678,197	\$902,884	\$1,200,243	\$474,578	
SAN JUAN	\$3,581,404	\$3,230,982	\$3,810,281	\$3,436,408	\$2,217,288	\$3,276,661	\$3,732,672	\$3,736,321	\$3,633,147	\$3,688,687	\$3,806,148	
NAVAJO	\$876,212	\$683,987	\$846,141	\$918,477	\$976,827	\$1,024,261	\$1,380,043	\$898,867	\$1,128,684	\$1,333,788	\$812,008	
SPRINGFR.	\$11,583,072	\$10,680,137	\$11,715,860	\$11,368,133	\$10,788,872	\$9,486,227	\$9,885,681	\$9,427,566	\$9,332,388	\$9,824,896	\$9,238,482	
IRVING, COAL	\$1,066,183	\$862,523	\$1,062,862	\$469,433	\$1,098,201	\$1,180,038	\$1,243,218	\$1,062,937	\$605,386	\$1,248,084	\$1,322,671	
IRVING, GAS	\$3,888	(\$736)	\$41,614	\$286,117	\$63,066	\$488,484	\$1,001,888	\$1,448,783	\$784,840	\$171,492		
FUEL #601	\$17,344,414	\$15,653,053	\$18,320,381	\$16,923,386	\$18,086,219	\$16,316,536	\$18,046,861	\$17,183,661	\$18,387,417	\$17,268,189	\$16,762,788	
MO. C/KWH	2,8962	2,6890	2,8738	2,7142	2,1688	2,0632	1,9788	1,9088	2,1121	2,3369	2,3038	
12-MO. END. C/KWH	2,2883	2,2868	2,3692	2,3878	2,3013	2,3681	2,3477	2,3248	2,3228	2,2886	2,3088	
12-MONTH ROLLING QUARTERLY INDEX						1,0000			0,9860			
INDEXED ENERGY C/KWH												
REVISED FUEL \$/S	\$17,344,414	\$15,653,053	\$18,320,381	\$16,923,386	\$18,086,219	\$16,316,536	\$18,046,861	\$17,183,661	\$18,387,417	\$17,268,189	\$16,762,788	
REVISED C/KWH	2,8962	2,6890	2,8738	2,7142	2,1688	2,0632	1,9788	1,9088	2,1121	2,3369	2,3038	
REVISED 12-MO. END	2,2883	2,2868	2,3692	2,3878	2,3013	2,3681	2,3477	2,3248	2,3228	2,2886	2,3088	
REVISED QRTL. INDEX						1,0000						
REVISED ENERGY C/KWH												
LOST REVENUE												
KWH												

- Spring, Adjustment
- 1/2 Capital Lease
- 1/2 Prop. Tax. - Other
- Contingent Sales Tax
- Depreciation
- Maintenance
- Other Operations
- Interest Expense - Contingent
- Total Sprinyle, Adjustment
- Coal Adjustment

CYP000229

**CONFIDENTIAL EXHIBIT 6 TO  
LELAND SNOOK'S PREFILED DIRECT  
TESTIMONY**



VALENCIA ENERGY FUEL TRANSFER COSTS -- 1990

BASED ON ANNUAL TONNAGE OF 3,102,840		ANNUAL COST	\$/TON	CENTS/KWH @ \$200 BTU
	SOURCE			
<b>MINING COSTS</b>				
Mine - Lee Ranch	LRCC coal cost	\$66,388,957	\$21.396	\$1.147
LRCS	LRCS adjustment	<del>(\$425,000)</del>	<del>(\$0.137)</del>	<del>(\$0.011)</del>
TOTAL MINE		\$66,963,957	\$21.259	\$1.140
<b>TRANSPORTATION COSTS</b>				
Transportation Agreement	ATSF freight cost	\$18,854,966	\$6.080	\$0.326
Shipper Car Lease	Residco railcar lease	\$463,608	\$0.149	\$0.008
	SRP/other railcar lease	<u>\$103,200</u>	<u>\$0.033</u>	<u>\$0.002</u>
TOTAL TRANSPORTATION		\$19,421,774	\$6.262	\$0.336
<b>OIL FLAME STABILIZATION</b>				
	Units fuel oil	\$198,582	\$0.064	\$0.003
<b>OTHER COSTS</b>				
Operation & Maintenance				
	BRIS maintenance services	\$510,928	\$0.165	\$0.009
	BRIS mechanic services	\$316,889	\$0.102	\$0.005
	TEP maintenance services	\$671,436	\$0.216	\$0.012
	TEP mechanical services	\$96,540	\$0.031	\$0.002
	Misc. maint./mech. services	\$296,812	\$0.092	\$0.005
	Union Tank Car rail car services	\$155,280	\$0.050	\$0.003
	ATSF rail car services	\$31,800	\$0.010	\$0.001
	Rail car material	\$239,808	\$0.077	\$0.004
	Misc. equipment rentals	\$70,233	\$0.023	\$0.001
	Chemicals	\$187,704	\$0.060	\$0.003
	Equipment parts	\$318,848	\$0.103	\$0.006
	System parts	\$351,684	\$0.113	\$0.006
	All other stores issues	<u>\$3,656</u>	<u>\$0.001</u>	<u>\$0.000</u>
		\$3,241,458	\$1.043	\$0.058
Property Tax				
	Deferred tax allocation	\$193,200	\$0.062	\$0.003
	Property tax	<u>\$4,058,143</u>	<u>\$1.308</u>	<u>\$0.070</u>
		\$4,251,343	\$1.370	\$0.073
Track Maintenance				
	ATSF railroad maintenance	\$291,120	\$0.094	\$0.005
	SRP railroad maintenance	\$275,400	\$0.089	\$0.005
	VEC railway maintenance	<u>\$106,600</u>	<u>\$0.034</u>	<u>\$0.002</u>
		\$672,120	\$0.217	\$0.012
Other				
	Communication services	\$11,574	\$0.004	\$0.000
	Depreciation expense	\$177,360	\$0.057	\$0.003
	General liability/Property ins.	\$81,404	\$0.026	\$0.001
	Books & periodicals	\$715	\$0.000	\$0.000
	Misc. expenses	\$90,669	\$0.029	\$0.002
	Office/training equipment	\$5,464	\$0.002	\$0.000
	Permits & licenses	\$2,220	\$0.001	\$0.000
	Utilities expense	\$276	\$0.000	\$0.000
	Coal survey services	\$15,000	\$0.005	\$0.000
	TEP A&G	\$180,000	\$0.058	\$0.003
	Pension & benefits	\$0	\$0.000	\$0.000
	Payroll & Vehicle allocation	\$130,000	\$0.042	\$0.002
	Employee travel expense	<u>\$8,019</u>	<u>\$0.003</u>	<u>\$0.000</u>
		\$682,701	\$0.221	\$0.012
ARIZONA SALES TAX @ 5.5%				
		\$3,662,318	\$1.180	\$0.063
subtotal				
		\$98,104,250	\$31.618	\$1.694
<OVER> UNDER COLLECTED				
		\$2,152,000	\$0.694	\$0.037
<b>TOTAL VARIABLE COSTS</b>				
		\$100,256,260	<u>\$32.310</u>	\$1.731
<b>CONTINGENT LIABILITY</b>				
		\$1,270,771	\$0.410	\$0.022
<b>LEASE</b>				
	Interest expense	\$18,061,591	\$5.821	\$0.312
	Regulatory interest	<del>(\$258,973)</del>	<del>(\$0.08)</del>	<del>(\$0.00)</del>
	Depreciation	\$2,026,228	\$0.653	\$0.035
	Straight line amortization	<u>\$1,356,000</u>	<u>\$0.437</u>	<u>\$0.023</u>
TOTAL LEASE COSTS		\$21,184,846	\$6.828	\$0.366
<b>CONTINGENT LIABILITY</b>				
		\$897,178	\$0.289	\$0.015
<b>RETURN ON DEFERRAL</b>				
		\$3,296,361	\$1.062	\$0.057
<b>RETURN ON INVESTMENT</b>				
		\$1,500,000	\$0.483	\$0.026
<b>TOTAL LEASE COSTS</b>				
		\$28,149,166	\$9.072	\$0.486
<b>TOTAL FUEL COSTS</b>				
		\$128,405,406	\$41.382	\$2.217

PURCHASE BASED ON 3,102,840 MINIMUM COMMITMENT TO LRCC UNDER MOD. 10  
EST. BURN OF 3.2 MILLION BASED ON PROMOD RUN 1/8/98

TRN065A.XLS 6/12/96 T. Mead/Niehmeier

TEP EXHIBIT 56  
 DATE 9-28-99  
 CECELIA BROOKMAN, RPR



## *Tucson Electric Power Company*

220 West Sixth Street, Post Office Box 711  
Tucson, Arizona 85702

Area Code 520  
Telephone 571-4000

December 29, 1997

Mr. Michael D. McElrath  
Manager, Power  
Cyprus Climax Metals Company  
1501 West Fountainhead Parkway, Suite 290  
Tempe, Arizona 85282-1846

Dear Mike:

We had hoped to hear from you several weeks ago regarding the disposition of the undercollections associated with the misstated energy index. The undercollected base amount as of the last letter dated October 30, 1997, was \$1.1 million, which represented underbillings through August 1997. The base amount has now increased to approximately \$1.5 million as of November 1997.

We are enclosing a bill for \$1,627,757.29, which includes taxes and assessments. This represents the unbilled amount through November 1997. We will use the restated indexed energy figures beginning with the December 1997 bill.

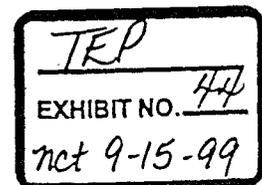
We look forward to meeting with you on January 7, 1998. We are hopeful that this matter can be resolved as soon as possible. If you have any questions, please contact me at (520) 884-3623 or Joe King at (520) 884-3866.

Sincerely,

*James Pignatelli /jzk*

James Pignatelli  
Senior Vice President,  
Energy Services

cc: M. Spiller  
W. Rickards



# Tucson Electric Power Company

220 WEST SIXTH STREET  
 P.O. BOX 27327  
 TUCSON, ARIZONA 85726  
 623-7711

IF YOUR NAME IS MISPELLED OR YOUR ADDRESS OR ZIP CODE IS INCORRECT, PLEASE CHECK THE ABOVE BOX AND MAKE CHANGE ON REVERSE SIDE OF THE RETURN ENVELOPE.

232600092 0 00000000 0 416743648 0 0

<b>AMOUNT DUE</b>		TSH	BR	MA
4,167,436.48		0	1	2
PLEASE MAKE CHECK PAYABLE TO <b>Tucson Electric Power Company</b>				
DATE OF BILL	BILL MONTH	PAST DUE DATE		
12-26-97	12-97	01-13-97		
		CYPRUS SIERRITA PO BOX 527 GREEN VALLEY AZ		85622

26-00 2326-0009-2 5 SERVICE AT 6000 W DUVAL MINE RD

DETACH PORTION ABOVE AND MAIL WITH YOUR PAYMENT—THANK YOU

NAME-SERVICE ADDRESS	SERVICE PERIOD		<b>Tucson Electric Power Company</b> 220 WEST SIXTH STREET P.O. BOX 27327 TUCSON, ARIZONA 85726 623-7711
CYPRUS SIERRITA CORP 6000 W DUVAL MINE RD SAHUARITA AZ 85629	FROM DATE	BILL MONTH	
	11-25-97	NOV	
	TO DATE	NUMBER OF DAYS	
	12-26-97	031	

ACCOUNT NO. 2326-0009-2

DATE OF BILLING 12-26-97

RATE NO.	METER READINGS		MULTIPLIER	KILOWATT HOURS USED		AMOUNT
	PRESENT	PREVIOUS				
90	SEE STATEMENT FOR DETAILS					4,167,436.48

Para informacion que le ayuda a traducir su cuenta, lea el reverso de esta pagina.

SALES TAX, CITY FRANCHISE TAX AND REGULATORY ASSESSMENT INCLUDED IN THE CURRENT BILL					PLEASE MAKE CHECK PAYABLE TO <b>Tucson Electric Power Company</b>
CITY	STATE	CITY FRANCHISE	REGULATORY ASSESSMENT	TOTAL TAX & ASSESSMENT	
	120,929.05		3,550.34	124,479.39	
PURCHASED POWER/FUEL COST SURCHARGE		SEE CUSTOMER INFORMATION ON REVERSE SIDE			PAST DUE DATE APPLIES TO CLOSING ONLY 01-13-97
CENTS PER KWH	AMOUNT				
					PLEASE PAY THIS AMOUNT
					4,167,436.

ACCOUNT  
2326-0009-2

CORRECTED ENERGY INDEX

DATE OF BILL: December 30, 1997  
DATE DELINQUENT: January 13, 1998

TUCSON ELECTRIC POWER COMPANY  
SERVICES RENDERED  
CYPRUS SIERRITA CORPORATION

1997	KWH	ORIGINAL PRICE PER KWH	REVISED PRICE PER KWH	DIFFERENCE	STATE TAX	ACC	TOTAL
1ST QUARTER							
JAN	60,011,620	\$2,214,596.81	\$2,271,727.87	\$57,131.06	\$2,860.55	\$83.98	\$60,075.60
FEB	58,755,380	\$2,168,238.04	\$2,224,173.16	\$55,935.12	\$2,800.67	\$82.22	\$58,818.02
MAR	51,157,080	\$1,887,839.49	\$1,936,541.03	\$48,701.54	\$2,438.49	\$71.59	\$51,211.62
		0.0369028	0.0378548				
		0.0360326	0.0377703				
APR	65,918,080	\$2,309,281.73	\$2,489,745.66	\$180,463.93	\$9,035.83	\$265.28	\$189,765.04
		\$9,730.00	\$8,186.00	-\$1,544.00	-\$77.31	-\$2.27	-\$1,623.58
		\$2,060,340.07	\$2,221,349.91	\$161,009.83	\$1,061.76	\$236.68	\$169,308.28
MAY	58,812,080	\$2,060,340.07	\$2,221,349.91	\$161,009.83	\$1,061.76	\$236.68	\$169,308.28
JUN	52,944,560	\$1,854,785.59	\$1,999,731.91	\$144,946.32	\$7,257.46	\$213.07	\$152,416.86
		0.0337582	0.0370094				
JUL	57,475,920	\$1,940,283.60	\$2,127,149.31	\$186,865.71	\$5,356.37	\$274.69	\$196,496.77
		\$16,388.00	\$14,770.00	-\$1,618.00	-\$81.01	-\$2.38	-\$1,701.39
		\$1,970,444.53	\$2,160,214.99	\$189,770.46	\$9,502.76	\$298.89	\$199,572.11
AUG	58,369,360	\$1,970,444.53	\$2,160,214.99	\$189,770.46	\$9,502.76	\$298.89	\$199,572.11
		\$34,738.00	\$31,476.00	-\$3,262.00	-\$163.33	-\$4.80	-\$3,430.12
		\$1,937,601.85	\$2,124,209.29	\$186,607.44	\$9,344.37	\$293.91	\$196,245.71
SEP	57,396,480	\$1,937,601.85	\$2,124,209.29	\$186,607.44	\$9,344.37	\$293.91	\$196,245.71
		\$106,296.00	\$98,094.00	-\$8,202.00	-\$410.67	-\$12.06	-\$8,624.73
		0.0330825	0.0362677				
OCT	56,958,000	\$1,884,313.04	\$2,065,735.66	\$181,422.62	\$9,084.74	\$285.74	\$190,793.10
		\$49,946.98	\$45,558.94	-\$4,388.04	-\$219.71	-\$6.45	-\$4,614.20
		\$1,807,822.99	\$1,981,881.11	\$174,058.12	\$8,715.96	\$274.14	\$183,048.22
NOV	54,645,900	\$1,807,822.99	\$1,981,881.11	\$174,058.12	\$8,715.96	\$274.14	\$183,048.22
		\$6,662.03	\$6,082.29	-\$579.74	-\$29.03	-\$0.85	-\$609.62
		0.0330825	0.0362677				
TOTAL DUE		(see bill statement)		\$1,547,318.38	\$77,506.92	\$2,352.26	\$1,627,757.29

ACCOUNT  
2326-0009-2

DATE OF BILL: December 30, 1997  
DATE DELINQUENT: January 13, 1998

**TUCSON ELECTRIC POWER COMPANY  
SERVICES RENDERED  
CYPRUS SIERRITA CORPORATION  
NOVEMBER 25, 1997 TO DECEMBER 26, 1997**

15,000 KW FIRM POWER DEMAND  
82,000 KW MAXIMUM INTERRUPTIBLE DEMAND  
ALL OTHER KW MARKET PRICING DEMAND  
88,742.9 KW (AVERAGE OF THE THREE HIGHEST 15-MINUTE COINCIDENTAL DEMANDS)  
61,364,760 TOTAL KWH  
16,939,240 TOTAL KVARH      POWER FACTOR =      96.39 %

MARKET POWER RATE

TRANSMISSION CHARGE

5,000 KW @ \$4.237 PER KW \$21,185.00

FIRM POWER RATE

DEMAND CHARGE

15,000 KW @ \$5.25 PER KW \$78,750.00

INTERRUPTIBLE POWER RATE

DEMAND CHARGE

68,743 KW @ \$2.02 PER KW \$138,860.86

MARKET ENERGY CHARGE FIRM ON PEAK

2,480,000 KWH @ 0.0222429 PER KWH (plus 10% handling charge) \$60,678.63

MARKET ENERGY CHARGE FIRM OFF PEAK

1,240,000 KWH @ 0.0155871 PER KWH (plus 10% handling charge) \$21,260.80

ENERGY CHARGE FIRM

10,372,104 KWH @ 0.0330825 PER KWH \$343,135.13

10,372,104 KWH @ 0.0362677 PER KWH (new index price difference) \$33,037.23

ENERGY CHARGE INTERRUPTIBLE

47,272,656 KWH @ 0.0330825 PER KWH \$1,563,897.64

47,272,656 KWH @ 0.0362677 PER KWH (new index price difference) \$150,572.87

REPLACEMENT POWER

\$3,821.65

SUBTOTAL

(\$434,000 MINIMUM)

\$2,415,199.80

ARIZONA CORPORATION COMMISSION ASSESSMENT

\$3,550.34

STATE SALES TAX

\$120,929.05

REBILLED MARGIN INDEX AMOUNT

\$1,627,757.29

TOTAL AMOUNT DUE

\$4,167,436.48

12/31/97 WED 08:20 FAX 1 520 6488718  
12/30/97 TUE 07:52 FAX 1 520 884 3934

SIERRITA PLANT PURCH  
TEP

002  
002

ACCOUNT  
2326-0009-2

DATE OF BILL: December 30, 1997  
DATE DELINQUENT: January 13, 1998

**TUCSON ELECTRIC POWER COMPANY  
SERVICES RENDERED  
CYPRUS SIERRITA CORPORATION  
NOVEMBER 25, 1997 TO DECEMBER 26, 1997**

15,000 KW FIRM POWER DEMAND  
82,000 KW MAXIMUM INTERRUPTIBLE DEMAND  
ALL OTHER KW MARKET PRICING DEMAND  
88,742.9 KW (AVERAGE OF THE THREE HIGHEST 15-MINUTE COINCIDENTAL DEMANDS)  
61,364,760 TOTAL KWH  
16,939,240 TOTAL KVARH POWER FACTOR = 96.39 %

MARKET POWER RATE

TRANSMISSION CHARGE  
5,000 KW @ \$4.237 PER KW \$21,185.00

FIRM POWER RATE

DEMAND CHARGE  
15,000 KW @ \$5.25 PER KW \$78,750.00

INTERRUPTIBLE POWER RATE

DEMAND CHARGE  
68,743 KW @ \$2.02 PER KW \$138,860.86

MARKET ENERGY CHARGE FIRM ON PEAK  
2,480,000 KWH @ 0.0222429 PER KWH (plus 10% handling charge) \$60,678.63

MARKET ENERGY CHARGE FIRM OFF PEAK  
1,240,000 KWH @ 0.0155871 PER KWH (plus 10% handling charge) \$21,260.80

ENERGY CHARGE FIRM  
10,372,104 KWH @ 0.0330825 PER KWH \$343,135.13  
10,372,104 KWH @ 0.0362677 PER KWH (new index price difference) (\$33,037.23)

ENERGY CHARGE INTERRUPTIBLE  
47,272,656 KWH @ 0.0330825 PER KWH \$1,563,897.64  
47,272,656 KWH @ 0.0362677 PER KWH (new index price difference) (\$150,572.87)  
REPLACEMENT POWER \$3,821.65

SUBTOTAL (\$434,000 MINIMUM) \$2,231,589.67 \$2,415,199.80

ARIZONA CORPORATION COMMISSION ASSESSMENT .0014699 3,280.21 \$3,550.34  
STATE SALES TAX .0500699 111,735.41 \$120,929.05

REBILLED MARGIN INDEX AMOUNT \$1,627,757.29  
TOTAL AMOUNT DUE \$4,167,436.48

AM TOTAL \$2,346,605.20

ACCOUNT  
 2326-0009-2

DATE OF BILL: December 30, 1997  
 DATE DELINQUENT: January 13, 1998

**TUCSON ELECTRIC POWER COMPANY  
 SERVICES RENDERED  
 CYPRUS SIERRITA CORPORATION  
 NOVEMBER 25, 1997 TO DECEMBER 26, 1997**

ENERGY METERS SERVICE PT	METER NO	PRES READ	PREV READ	DIFF	CONST	KWH
POINT A	APM2000	00724	00705	19	1,200	22,800
LESS KWH TO GREEN VALLEY SUB	APM-111	00000	00000	0	14,400	0
WATER FARM	APM2013	00512	00506	6	800	4,800
SUB C-24 MILL	APM-203	03500	03359	141	14,000	1,974,000
SUB C-23 MILL	APM-225	02118	01539	579	14,000	8,106,000
SUB C-14 MILL	APM-226	18048	17378	670	14,000	9,380,000
SUB C-13 MILL	APM-201	20176	19405	771	14,000	10,794,000
SUB C-4 MILL	APM-202	17274	16639	635	14,000	8,890,000
SUB C-3 MILL	APM-205	19100	18402	698	14,000	9,772,000
SUB UNIT #4 CANOA	APM2005	03568	03472	96	5,600	537,600
BOOSTER C-1	WVM10	26807	25819	988	320	316,160
BOOSTER C-2	WVM24	03833	02008	1,825	320	584,000
SUB C-74 138KV	APM-207	09734	09408	326	28,000	9,128,000
GREEN VALLEY SUB TO CYPRUS	APM-123	00000	00000	0	14,400	0
TAILINGS RECLAIM SUB	APM2020	08869	08252	617	1,600	987,200
RAW WATER BOOSTER	APM2019	13718	13359	359	2,400	861,600
INTERCEPTOR SUB	APM264	00645	00645	0	1,600	0
ADM PLANT	APM233	00709	00687	22	300	6600

TOTAL KWH 61,364,760

REACTIVE METERS SERVICE PT	METER NO	PRES READ	PREV READ	DIFF	CONST	KVARH
POINT A SUB	APM2000	00461	00442	19	1,200	22,800
LESS KWH TO GREEN VALLEY SUB	APM-111	00000	00000	0	14,400	0
WATER FARM	APM2013	01654	01609	45	800	36,000
SUB C-24 MILL	APM-203	00070	00069	1	14,000	14,000
SUB C-23 MILL	APM-225	00122	00101	21	14,000	294,000
SUB C-14 MILL	APM-226	03638	03535	103	14,000	1,442,000
SUB C-13 MILL	APM-201	02607	02543	64	14,000	896,000
SUB C-4 MILL	APM-202	04081	03949	132	14,000	1,848,000
SUB C-3 MILL	APM-205	05708	05522	186	14,000	2,604,000
SUB UNIT #4 CANOA	APM2005	02274	02216	58	5,600	324,800
BOOSTER C-1	WVM10	98342	97437	905	320	289,600
BOOSTER C-2	WVM24	34977	33530	1,447	320	463,040
SUB C-74 138KV	APM-207	08823	08547	276	28,000	7,728,000
GREEN VALLEY SUB TO CYPRUS	APM-123	00000	00000	0	14,400	0
TAILINGS RECLAIM SUB	APM2020	05092	04742	350	1,600	560,000
RAW WATER BOOSTER	APM2019	06644	06477	167	2,400	400,800
INTERCEPTOR SUB	APM264	00330	00330	0	1,600	0
ADM PLANT	APM233	01280	01226	54	300	16,200

TOTAL KVARH 16,939,240

TANGENT = .27604 POWER FACTOR = 96.39 %

12/31/97 WED 08:20 FAX 1 520 6488718  
 12/30/97 TUE 07:53 FAX 1 520 884 3934

SIERRITA PLANT PURCH  
 TEP

004  
 004

ACCOUNT  
 2326-0009-2

DATE OF BILL: December 30, 1997  
 DATE DELINQUENT: January 13, 1998

**TUCSON ELECTRIC POWER COMPANY  
 SERVICES RENDERED  
 CYPRUS SIERRITA CORPORATION  
 NOVEMBER 25, 1997 TO DECEMBER 26, 1997  
 DEMAND INFORMATION**

**INDIVIDUAL 15-MINUTE KW DEMAND PEAKS**

<u>SERVICE PT</u>	<u>DATE</u>	<u>TIME</u>	<u>KW</u>
Mine	12-25-97	23:15	84,640.0
Canoa	11-29-97	12:30	1,471.7
Booster	12-15-97	16:15	2,244.7
Water Farm	11-25-97	18:00	7.7
Raw Water	12-11-97	19:00	2,275.2
Reclaim	12-25-97	03:30	2,067.8
Interceptor	00-00-00	00:00	0.0
Point A	11-25-97	15:15	61.9
ADM Plant	12-17-97	12:45	46.4

**THREE HIGHEST 15-MINUTE COINCIDENTAL KW DEMAND PEAKS**

<u>DATE</u> <u>TIME</u>	<u>138 KV SUB</u>	<u>BOOSTER</u>	<u>CANOA</u>	<u>WATER FARM</u>	<u>POINT A</u>	<u>RW WATER BOOSTER</u>	<u>RECLAIM</u>	<u>INTER-CEPTOR</u>	<u>A</u>
12/25/97 23:15	84,640.0	1,062.3	672.0	6.7	31.7	1,103.0	1,317.1	0.0	
11/27/97 22:45	83,760.0	1,082.3	732.5	7.7	31.7	1,229.8	1,847.0	0.0	
11/27/97 20:00	<del>83,840.0</del>	<del>1,140.4</del>	<del>732.5</del>	<del>7.7</del>	<del>30.2</del>	<del>1,085.8</del>	<del>1,845.1</del>	<del>0.0</del>	
	252,240.0	3,285.0	2,137.0	22.1	93.6	3,418.6	5,009.2	0.0	
	SUM OF COINCIDENTAL DEMAND PEAKS =								266,228.6
	AVERAGE OF COINCIDENTAL DEMAND PEAKS =								88,742.9

0:00 = MIDNIGHT

**CORRECTED ENERGY INDEX**

ACCOUNT  
 2326-0009-2

December 30, 1997  
 January 13, 1998

DATE OF BILL:  
 DATE DELINQUENT:

**TUCSON ELECTRIC POWER COMPANY  
 SERVICES RENDERED  
 CYPRUS SIERRITA CORPORATION**

1997	KWH	ORIGINAL PRICE PER KWH	REVISED PRICE PER KWH	DIFFERENCE	STATE TAX	ACC	TOTAL
1ST QUARTER		0.0363028	0.0378548				
JAN	60,011,620	\$2,214,596.81	\$2,271,727.87	\$57,131.06	\$2,860.55	\$83.98	\$60,075.60
FEB	58,755,380	\$2,168,238.04	\$2,224,173.16	\$55,935.12	\$2,800.67	\$82.22	\$58,818.02
MAR	51,157,080	\$1,887,839.49	\$1,936,541.03	\$48,701.54	\$2,438.49	\$71.59	\$51,211.62
APR	65,918,080	\$2,309,281.73	\$2,489,745.66	\$180,463.93	\$9,035.83	\$265.28	\$189,765.04
Replacement		\$9,730.00	\$8,186.00	-\$1,544.00	-\$77.31	-\$2.27	-\$1,623.58
MAY	58,812,080	\$2,060,340.07	\$2,221,349.91	\$161,009.83	\$8,061.76	\$236.68	\$169,308.28
JUN	52,944,560	\$1,854,785.59	\$1,999,731.91	\$144,946.32	\$7,257.46	\$213.07	\$152,416.86
JUL	57,475,920	\$1,940,283.60	\$2,127,149.31	\$186,865.71	\$9,356.37	\$274.69	\$196,496.77
Replacement		\$16,388.00	\$14,770.00	-\$1,618.00	-\$81.01	-\$2.38	-\$1,701.39
AUG	58,369,360	\$1,970,444.53	\$2,160,214.99	\$189,770.46	\$9,502.76	\$298.89	\$199,572.11
Replacement		\$34,738.00	\$31,476.00	-\$3,262.00	-\$163.33	-\$4.80	-\$3,430.12
SEP	57,396,480	\$1,937,601.85	\$2,124,209.29	\$186,607.44	\$9,344.37	\$293.91	\$196,245.71
Replacement		\$106,296.00	\$98,094.00	-\$8,202.00	-\$410.67	-\$12.06	-\$8,624.73
OCT	56,958,000	\$1,884,313.04	\$2,065,735.66	\$181,422.62	\$9,084.74	\$285.74	\$190,793.10
Replacement		\$49,946.98	\$43,550.54	-\$6,396.44	-\$219.71	-\$6.45	-\$4,614.20
NOV	54,645,900	\$1,807,822.99	\$1,981,881.11	\$174,058.12	\$8,715.96	\$274.14	\$183,048.22
Replacement		\$6,662.03	\$6,082.29	-\$579.74	-\$29.03	-\$0.85	-\$609.62
<b>TOTAL DUE</b>				\$1,547,318.38	\$77,508.92	\$2,352.26	\$1,627,757.29

(see bill statement)

REPLACEMENT

41  
1

Replacement power cost - Cynris

Maximum allowable replacement power hours per year 128  
 Total number of replacement hours used this event 4  
 Total number of replacement hours previously this year 105  
 Total number of replacement power hours left this year as of 12/28/97 19

Date	Resource	Capacity (Mw)	Start Time	Stop Time	Duration (Hours)	Time multiplier	Energy \$/Mwh	Energy \$ (total cost)	Startup Cost \$	Wheel \$/Mwh	Wheel (total cost)	Handling cost-10%	Total Cost	\$/Mwh
12/8/97	PAC CREDIT	64	20:00	21:00	1:00	1.00	\$40.00	\$2,560.00 (\$2,117.12)	\$0.00	\$13.501	\$864.06	\$342.41	\$3,768.47 (\$2,117.12) \$1,651.35	56.0511
12/8/97	CREDIT	64	21:00	23:00	2:00	2.00	\$32.00	\$4,096.00 (\$4,234.24)	\$0.00	\$13.501	\$1,728.13	\$682.41	\$6,408.54 (\$4,234.24) \$2,172.30	50.0511

Total \$3,821.65

**TUCSON ELECTRIC POWER COMPANY  
 SERVICES RENDERED  
 CYPRUS SIERRITA CORPORATION**

**DATA SHEET**

BILLING DATES FROM: 11/25/97 TO: 12/26/97

**MARKET PRICE**

5mW + ANY OVER 102 mW	5000 kW		
# of hours in day	24 hours		
kWh in day	120000 kWh		
X number of day in billing period	31 days		
tl kWh for month	3720000 kWh		
On peak kWh	2480000 kWh		
price kwh on peak	0.022242903 \$per kWh		
Off peak kWh	1240000 kWh		
price kwh off peak	0.015587097 \$perkWh		
Off peak hours	23:01	7:00	8 hours
On peak hours	7:01	23:00	16 hours
Palo Verde Index Prices per mWh	\$22.24	\$15.59	

**FIRM LOADING FACTOR**

15mW always	15000 kW
total kwh	61,364,760 kwh
hours in billing period	744 HOURS
total kwh divided by # hours	82479.52 average demand
average of 3 high coincidental demands	88742.9 kw
average demand divided by single highest demand	92.94% load factor
kwh to be billed at firm rate	10372104

**Dow Jones Palo Verde Electricity Price Index**

Date	Firm on-peak	Firm off-peak	11/25/97	12/26/97
25-Dec-97	\$19.65	\$16.21		
24-Dec-97	\$22.72	\$16.38		
23-Dec-97	\$23.07	\$16.28		
22-Dec-97	\$23.88	\$16.11		
21-Dec-97	\$20.78	\$16.19		
20-Dec-97	\$22.25	\$15.90		
19-Dec-97	\$22.52	\$16.03		
18-Dec-97	\$22.07	\$16.49		
17-Dec-97	\$22.63	\$16.62		
16-Dec-97	\$22.80	\$16.75		
15-Dec-97	\$24.16	\$17.30		
14-Dec-97	\$20.16	\$16.84		
13-Dec-97	\$23.38	\$16.06		
12-Dec-97	\$23.94	\$15.50		
11-Dec-97	\$23.30	\$21.00		
10-Dec-97	\$21.88	\$15.15		
9-Dec-97	\$21.75	\$15.62		
8-Dec-97	\$21.78	\$15.66		
7-Dec-97	\$19.81	\$16.58		
6-Dec-97	\$21.79	\$16.36		
5-Dec-97	\$21.85	\$15.72		
4-Dec-97	\$22.43	\$14.76		
3-Dec-97	\$22.20	\$13.88		
2-Dec-97	\$21.77	\$13.69		
1-Dec-97	\$22.86	\$13.43		
30-Nov-97	\$20.19	\$13.25		
29-Nov-97	\$22.01	\$12.85		
28-Nov-97	\$22.77	\$13.04		
27-Nov-97	\$19.95	\$14.83		
26-Nov-97	\$24.47	\$14.31		
25-Nov-97	\$24.71	\$14.41		

<b>AVERAGE OCTOBER 1997</b>	\$22.24	\$15.59
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# TEP CURRENT GENERATIONS

News for  
The Energy People at  
Tucson Electric  
Power Company

June 4, 1996

## Book Worms Surface... And Pay Up!

After just the first day of the week-long annual TEP Book Sale, \$357.65 had been earned to benefit local domestic violence shelters. This included \$215 from the e-mail Encyclopedia pre-sale; \$566.65 from books sold Downtown and \$76 from the Downtown Cake Raffle, which was won by Susan Wallach. (Pictured: book sale volunteer Irma Robles.)



## Valencia Energy Company Merges Into TEP

**V**alencia Energy Company was merged into Tucson Electric Power Company effective May 31, 1996. Effective with the merger, TEP assumes all of the assets and liabilities of Valencia; the responsibilities for the procurement; coal transportation and coal handling services at Springerville Generating Station; and the responsibilities as the lessee of the coal handling facilities.

After the closing of TEP's financial restructuring in 1992, Valencia had only one customer, TEP, thus eliminating the need for a separate entity to administer the coal handling costs.

In addition, the Arizona Department of Revenue assessed transaction privilege taxes on gross income received by Valencia from coal sales, transportation, and coal-handling services to TEP.

While the merger of Valencia into TEP will not reduce the amounts of sales taxes already assessed for prior periods, the merger will prevent future assessments, thus saving TEP millions of dollars on an annual basis.

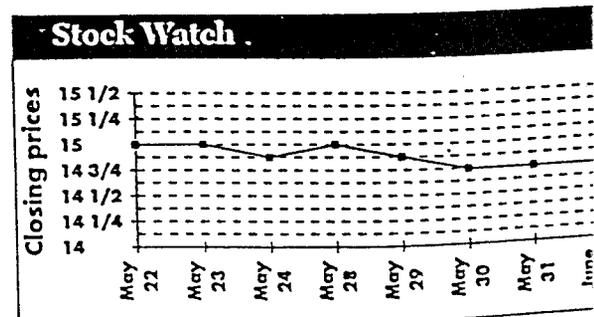
If the Arizona Department of Revenue prevails in its prior assessments, the annual savings from the sales tax assessments prevented by the

merger of Valencia and TEP average approximately \$3.4 million. Approximately \$2.2 million will be saved in June-December 1996.

Previously, Valencia could not be merged into TEP until certain provisions of the coal handling lease were modified and accepted by the debt and equity participants in the coal handling facilities leases. Such modifications were accepted on May 31, 1996.

— Karen Kissinger

TEP  
EXHIBIT NO. 6  
net 10-9-96





DESCRIPTION OF ACTIVITY	OLD (PRE VEC MERGER)	NEW (POST VEC MERGER)			
	F/S LINE ITEM	F/S LINE ITEM	ACCT	SUBLEDGER	LOC ACCT CNTL
<b>SELECTED BALANCE SHEET ITEMS:</b>					
COAL PURCHASE			FUEL INVENTORY- ACCT 151		
RCS ADJUSTMENT			151	COAL	SP PURC
STSF FREIGHT COST					L RCS
RESIDCO CAR LEASE					TRSP
SRP RAILCAR LEASE					TRSP
1/2 PROPERTY TAXES	FUEL INVENTORY- ACCT 151	151	COAL	SP	TRSP
1/2 LEASE & 1/2 DEFERRED LEASE		151	COAL	SP	INT&DEFR
1/2 LEASE DEPR		151	COAL	SP	DEPR
TOTAL	151 COAL				
RAILROAD OPER & MAINT. TO ROTARY CAR DUMPER	FUEL INVENTORY- ACCT 151	151	COAL	SP	
OPERATING COST FROM ROTARY CAR DUMPER TO COAL SILO	FUEL INVENTORY- ACCT 151	151	COAL	SP	HNG
OIL STABILIZATION	FUEL INVENTORY- ACCT 151	152	OIL	SP	HNG
	151 COAL				
	OPERATING EXPENSES		OPERATING EXPENSES		
THE ABOVE ITEMS ARE ALLOCATED TO ACCT 501 BASED ON BURN.	FUEL EXPENSE - ACCT 501		FUEL EXPENSE - ACCT 501	501 COAL	SP1&2
			FUEL EXPENSE - ACCT 501	501 OIL	SP1&2
ASH HANDLING OUTSIDE OF PLANT	FUEL EXPENSE - ACCT 501		FUEL EXPENSE - ACCT 501	501 COAL	SP1&2 ASH
ASH HANDLING INSIDE OF PLANT	FUEL EXPENSE - ACCT 501		STEAM EXPENSE - 502	502	SP1&2 ENV
1/2 LEASE & 1/2 DEFERRED LEASE EXPENSE	FUEL EXPENSE - ACCT 501		FUEL EXPENSE - ACCT 501	501 COAL	SP1&2 DEPR
NOTE: TRANSFERED FROM THE 151 ACCT BASED ON BURN			Depr expense June thru Dec 96 in (000)		SP1 301 SP2 301 SP1&2 INT&DEFR
			501 COAL		Int, Reg Int & Depr expense - June thru Dec 96 in (000)
					SP1 2,790 SP2 2,790
1/2 PROPERTY TAXES	FUEL EXPENSE - ACCT 501		TAXES OTHER THAN INCOME - ACCT 408	408 PROP	SPV
1/2 LEASE & 1/2 DEFERRED LEASE EXPENSE	FUEL EXPENSE - ACCT 501		RENT - ACCT 507	507	SP1&2 DEPR
			Depr expense June thru Dec 96 in (000)		SP1 301 SP2 301 SP1&2 INT&DEFR
			507		Int, Reg Int & Depr expense - June thru Dec 96 in (000)
					SP1 2,790 SP2 2,790
1/2 DEFERRED LEASE EXPENSE \$113,019.11 A MONTH	FUEL EXPENSE - ACCT 501		AMORT REGULATORY - ACCT 407	407	SPV
DEPRECIATION ON EQUIPMENT	FUEL EXPENSE - ACCT 501		403		
DEFERRED TAX GAIN ALLOCATION \$18,100 a month	FUEL EXPENSE - ACCT 501		AMORT REGULATORY - ACCT 407	407	SPV
OPERATING COST FROM SILO TO PULVERIZERS	FUEL EXPENSE - ACCT 501		STEAM EXPENSE - 502	502	SP1&2 HNG
MAINTENANCE COST FROM ROTARY CAR DUMPER TO THE PULVERIZERS	FUEL EXPENSE - ACCT 501		MAINTENANCE OF BOILER PLANT - ACCT 512	512	SP1 &2 HNG
INCOME TAXES ABOVE THE LINE	INCOME TAXES - ABOVE THE LINE		INCOME TAXES - ABOVE THE LINE		
1/2 DEPRECIATION ON THE LEASE	FUEL EXPENSE - ACCT 501		DEPRECIATION - ACCT 111	111	SPV
INTEREST ON SALES TAX ISSUE	FUEL EXPENSE - ACCT 501		SEE BELOW		
	OTHER INCOME (DEDUCTIONS)		OTHER INCOME (DEDUCTIONS)		
INCOME TAXES BELOW THE LINE	INCOME TAXES - BELOW THE LINE		INCOME TAXES - BELOW THE LINE		
INTEREST INCOME FROM TEP	OTHER INCOME		ELIMINATED		
OTHER INCOME	OTHER		OTHER		
	INTEREST EXPENSE		INTEREST EXPENSE		
INTEREST EXPENSE TO TEP	SHORT TERM DEBT		ELIMINATED		
INTEREST ON SALES TAX ISSUE:	SEE ABOVE		OTHER INTEREST EXPENSE - ACCT 431		
(A) CONTINGENT INT ON COAL SALE LIAB			431		CSTX
(B) CONTINGENT INT ON RENTS PAID TO THE LESSORS			431		LEAS

**TEP**  
 EXHIBIT NO. 70  
 Oct 10-7-99



**ROSHKA HEYMAN & DEWULF**

ROSHKA HEYMAN & DEWULF, PLC  
ATTORNEYS AT LAW  
TWO ARIZONA CENTER  
400 NORTH 5TH STREET  
SUITE 1000  
PHOENIX, ARIZONA 85004-3906  
TELEPHONE NO 602-256-6100  
FACSIMILE 602-256-6800

October 20, 1999

**VIA FACSIMILE &  
FIRST-CLASS MAIL**

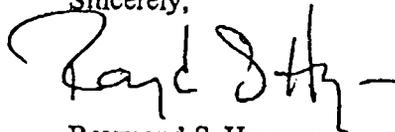
Thomas D. Ulreich, Esq.  
Fennemore Craig, P.C.  
3003 N. Central Avenue, Suite 2600  
Phoenix, Arizona 85012-2913

Re: *Tucson Electric Power Company v. Cyprus Sierrita Corporation*  
Docket No. E-000001-99-0243

Dear Tom:

Pursuant to your October 19, 1999 letter to Bradley S. Carroll, enclosed is the Spreadsheet to Calculate the Original and Revised Costs on Cyprus Contract for the period of September 1997 through June 1999, Bates stamped TDR16194 through TDR16196. This document is the continuation of Deposition Exhibit B that Mr. Johnson testified to at his deposition on October 18, 1999.

Sincerely,



Raymond S. Heyman  
For the Firm

cc: Bradley S. Carroll, Esq.  
tcp/cyprussierrita/trs/ulreich05.

MONTHS	1997												1998												1999											
	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP										
JUR CORR.	31,822	40,408	73,445	78,487	53,084	69,468	66,467	63,348	58,101	63,763	70,784	67,080	60,231	187,663	168,822	187,663	202,385	208,827	210,835	176,610	208,167	206,043	206,043	211,018	204,378											
WALD	110,401	89,831	97,756	111,929	84,934	53,836	72,399	96,428	70,456	112,306	58,170	117,099	97,840	488,075	533,401	602,550	504,288	516,430	490,932	483,410	440,334	504,237	504,237	478,499	600,724											
WING. COAL	65,411	48,286	22,077	67,116	2,603	(452)	41,509	22,297	34,919	41,811	87,101	57,642	57,642	46,765	11,006	5,098	(413)	10,515	6,312	812	1,217	17,418	65,665	70,654												
WING. GAS	7,158	601	(20)	283	22	419	247	235	280	1,308	3,928	4,013	2,011	HER GEN.																						
ICH. POWER															ST INTERCH																					
TOTAL	(84,388)	(146,618)	(216,408)	(187,688)	(160,178)	(21,583)	(104,876)	(209,886)	(100,371)	(13,311)	(88,157)	(40,172)	(91,627)	885,363	766,787	678,581	776,087	776,237	639,306	701,977	680,041	720,836	807,645	960,797	989,400											

DOCLARS

MONTHS	1997												1998												1999											
	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP										
JUR CORR.	(1987,011)	\$137,750	\$710,437	\$651,940	\$782,131	\$894,094	\$784,686	\$768,228	\$706,184	\$669,673	\$823,172	\$788,940	\$103,611	\$3,233,189	\$3,316,377	\$3,689,120	\$4,509,686	\$3,575,720	\$2,307,428	\$4,344,240	\$4,150,118	\$3,331,316	\$3,724,518	\$4,230,637	\$4,089,171											
WALD	\$1,544,190	\$1,338,835	\$1,320,306	\$831,963	\$1,078,865	\$870,334	\$876,331	\$1,173,452	\$892,868	\$1,398,113	\$1,443,924	\$1,090,737	\$1,580,945	\$8,368,401	\$9,173,285	\$8,614,892	\$8,412,299	\$8,412,299	\$7,581,600	\$6,858,586	\$8,274,500	\$8,332,140	\$8,412,117	\$7,689,351	\$8,099,045											
WING. COAL	\$1,421,432	\$1,182,383	\$517,940	\$777,181	\$391,250	\$366,400	\$1,266,831	\$810,605	\$1,094,612	\$1,094,392	\$1,421,571	\$1,060,148	\$1,060,148	\$831,106	\$380,341	\$301,794	(\$88,370)	\$424,785	\$253,686	\$109,481	\$75,515	\$462,211	\$2,218,006	\$2,193,214	\$2,081,335											
WING. GAS														MO. GPMH	1,6343	2,0807	2,2318	1,9807	2,0207	1,7991	2,0423	2,2417	2,0087	1,7672	1,9259	1,7668										
HER GEN.														1-MO. END. GPMH	2,0815	2,0206	2,0581	2,0232	2,0002	1,9719	1,9657	1,9910	1,9910	1,9741	1,9705	1,9435										
ST INTERCH														QUARTERLY INDEX	0,9827			0,8380			0,8336			0,8374		0,8361										
ICH. POWER														INDEXED ENERGY GPMH	0,0037682	0,0038825	0,0038025	0,0038425	0,0031670	0,0021570	0,0021570	0,0021570	0,0012491	0,0012491	0,0012491	0,0013758	0,0013758									
ST INTERCH														REVERSED PUL. \$S	\$14,489,307	\$15,724,980	\$15,153,389	\$16,371,977	\$14,675,170	\$11,844,440	\$14,338,159	\$15,244,477	\$14,475,090	\$14,272,911	\$18,600,614	\$17,470,502	\$15,124,396									
WALD	1,6343	2,0807	2,2318	1,9807	2,0207	1,7991	2,0423	2,2417	2,0087	1,9741	1,9259	1,7668	1,8687	REVERSED GPMH	1,6343	2,0807	2,2318	1,9807	2,0207	1,7991	2,0423	2,2417	2,0087	1,9741	1,9259	1,7668										
WING. COAL	0,9827			0,8380			0,8336			0,8374		0,8361		REVERSED 12-MO. END	2,0815	2,0206	2,0581	2,0232	2,0002	1,9719	1,9657	1,9910	1,9910	1,9741	1,9705	1,9435										
WING. GAS														REVERSED QNTLY. INDEX	0,9877			0,8406			0,8139			0,9177		0,9066										
HER GEN.														REVERSED ENERGY GPMH	0,0070094	0,0068677	0,0062877	0,0062677	0,0052531	0,0052531	0,0052531	0,0042513	0,0042513	0,0042513	0,0043968	0,0043968										
ST INTERCH														LOST REVENUE	186,605,80	181,425,49	174,060,88	183,613,00	177,507,12	182,627,89	163,445,45	172,610,76	167,684,15	170,753,35	188,844,97	173,074,19	189,908,83									
ICH. POWER														CUMULATIVE TOTAL	1,211,434,98	1,392,860,48	1,586,821,35	1,764,534,35	1,928,041,47	2,110,659,38	2,274,114,81	2,446,725,58	2,614,410,73	2,785,164,08	2,954,010,06	3,127,084,23	3,297,021,06									
ST INTERCH														KWH	57,398,480	56,968,000	54,845,900	57,644,760	57,331,780	58,985,700	62,790,100	65,743,520	66,743,520	66,763,480	65,892,060	67,281,700	66,253,160									

TDR16194

MARGININDEX.XIS

	1998	1998	1998	1999	1999	1999
	OCT	NOV	DEC	JAN	FEB	MAR
FOUR CORN	61,046	75,341	77,212	60,194	64,430	69,375
SAN JUAN	204,561	200,098	199,061	207,083	171,036	163,174
NAVALO	103,803	103,982	106,121	73,869	62,561	63,902
SPRINGER	509,310	489,681	508,404	524,747	479,032	429,816
IRVING, COAL	14,659	16,408	45,990	36,615	44,413	53,725
IRVING, GAS	32,970	19,276	13,320	6,859	292	14,784
OTHER GEN.	641	(71)	1,139	562	131	(59)
PUCH, POWER						
NET INTERCH.						
TOTAL	(163,276)	(220,610)	(197,787)	(177,684)	(178,380)	(122,442)
	763,702	693,903	753,460	731,245	645,625	691,275

DOLLARS

FOUR CORN.	\$365,431	\$543,037	\$736,506	809,100	\$776,689	\$843,602
SAN JUAN	\$1,166,856	\$1,678,655	\$1,537,532	4,067,955	\$3,364,341	\$3,195,885
NAVALO	\$1,270,960	\$1,276,781	\$1,308,179	915,064	\$784,549	\$1,020,009
SPRINGER	\$6,146,027	\$7,950,835	\$10,404,373	9,043,841	\$8,351,313	\$7,424,956
IRVING, COAL	\$302,500	\$750,014	\$1,063,901	939,841	\$1,132,457	\$1,162,095
IRVING, GAS	\$517,273	\$774,492	\$307,848	233,086	\$24,272	\$365,691
FUEL #501	\$13,770,549	\$14,674,814	\$17,403,439	\$16,005,487	\$14,412,621	\$14,013,117

MO. P/KNWH  
12-MO. END. P/KNWH

12-MONTH ROLLING  
QUARTERLY INDEX

INDEXED ENERGY P/KNWH

REVISED FUEL, \$/S  
REVISED P/KNWH  
REVISED 12-MO. END  
REVISED QRTL.Y. INDEX  
REVISED ENERGY P/KNWH

LOST REVENUE  
CUMULATIVE TOTAL  
Kwh

	1.8031	2.1750	2.3105	2.1886	2.2327	2.0271
	1.9255	1.9215	1.9479	1.9611	1.9913	1.9901
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MRGINDEX4.K15

	MONTHS		
	1999 APR	1999 MAY	1999 JUN
FOUR CORN	73,136	50,636	53,174
SAN JUAN	124,140	206,936	176,250
NAVALO	86,924	101,078	97,669
SPRINGER	291,592	422,159	501,021
IRVING COAL	62,435	29,913	56,492
IRVING GAS	42,826	49,123	50,968
OTHER GEN.	61	328	1,764
PUNCH POWER			
NET INTERCH.			
TOTAL	(2,415)	(75,985)	(60,579)
	677,719	796,315	863,669

DOLLARS

FOUR CORN	\$872,599	\$611,327	\$662,771
SAN JUAN	\$2,511,978	\$3,978,841	\$3,346,051
NAVALO	\$1,125,366	\$1,173,310	\$1,207,225
SPRINGER	\$5,295,530	\$7,227,387	\$8,289,923
IRVING COAL	\$1,206,291	\$793,673	\$1,163,692
IRVING GAS	\$1,482,337	\$1,186,263	\$1,631,691
FUEL #501	\$12,564,101	\$14,980,861	\$18,471,743

12-MO. END. P/WH	1.8524	1.9061	1.9072
12-MO. END. P/WH	1.9618	1.9534	1.9651
12-MO. END. P/WH			1.9651

12-MONTH ROLLING

QUARTERLY INDEX

INDEXED ENERGY P/WH

REVERSED FUEL \$/S

REVERSED P/WH

REVERSED 12-MO. END

REVERSED QRTL.Y. INDEX

REVERSED ENERGY P/WH

12-MO. END. P/WH	0.0316309	0.0316309	0.0318309
REVERSED FUEL \$/S	\$12,564,101	\$14,980,861	\$16,471,743
REVERSED P/WH	1.9624	1.9651	1.9672
REVERSED 12-MO. END	1.9618	1.9534	1.9651
REVERSED QRTL.Y. INDEX			0.9136
REVERSED ENERGY P/WH	0.0346764	0.0346764	0.0346764
LOST REVENUE	167,307.98	168,304.53	173,091.80
CUMULATIVE TOTAL	4,469,590.01	4,637,894.54	4,810,986.35
kw	54,936,260	55,263,480	56,835,400

TDR16196

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0001

1 BEFORE THE ARIZONA CORPORATION COMMISSION

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3 TUCSON ELECTRIC POWER COMPANY, )

4 an Arizona corporation, )

4 )

5 Complainant, )

5 ) Docket No.

6 vs. ) E-00000A-99-0243

6 )

7 CYPRUS SIERRITA CORPORATION, )

7 INC., a Delaware corporation, )

8 )

8 Respondent. )

9 )

9

10

11

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13 Deposition of RICHARD R. FRANKLIN

14 taken by the RESPONDENT at One South

15 Church, Suite 1000, Tucson, Arizona,

16 commencing a 1:25 p.m., October 22,

17 1999.

18

19

19

20

20

21

21

22 HUNT REPORTING

REPORTED BY

22 3442 EAST HAWTHORNE STREET

NAOLA C. THIMESCH

23 TUCSON, ARIZONA 85716

RPR, NOTARY PUBLIC

23 TELEPHONE: (520) 326-3371

24 1 (800) 545-6584

24 FAX: (520) 326-0209

0002

1 APPEARANCES OF COUNSEL:

2

2 For the Complainant:

3

3

ROSHKA HEYMAN & DEWULF

4

BY: MATTHEW J. DERSTINE, ATTORNEY

4

Two Arizona Center

5

400 North 5th Street, Suite 1000

5

Phoenix, Arizona 85004

6

(602) 256-6100

6

7

and

7

8

TUCSON ELECTRIC POWER COMPANY

8

BY: BRADLEY S. CARROLL, ATTORNEY

9

220 West Sixth Street

9

Tucson, Arizona 85702

10

(520) 884-3945

10

11

11 For the Respondent:

12

12

FENNEMORE CRAIG, P.C.

13

BY: THOMAS D. ULREICH, ATTORNEY

13

3003 North Central Avenue, Suite 2600

14

Phoenix, Arizona 85012-2913

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(602) 916-5000

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0006

1 BE IT REMEMBERED that pursuant to  
2 Notice of Taking Deposition in the above-styled and  
3 numbered cause, the deposition of RICHARD R. FRANKLIN  
4 was taken upon oral examination at the law offices of  
5 Fennemore Craig, One South Church, Suite 1000, in the  
6 City of Tucson, County of Pima, State of Arizona,  
7 before me, Naola C. Thimesch, a Notary Public in and  
8 for the County of Coconino, State of Arizona, on the  
9 22nd day of October, 1999, commencing at the hour of  
10 1:25 p.m. on said day.

11

12 RICHARD R. FRANKLIN,  
13 having been first duly sworn upon his oath to  
14 tell the truth, the whole truth, and nothing but  
15 the truth, testified as follows:

16

17 EXAMINATION

18 BY MR. ULREICH:

19 Q. Would you please state your name for to  
20 record.

21 A. Richard A. Franklin.

22 Q. And your home address, Mr. Franklin?

23 A. 11030 East Tia Linda Vista.

16 Q. Okay. Why don't you tell me a little bit  
17 about your education, Mr. Franklin?

18 A. I graduated from the University of  
19 Arizona with a bachelor's of science in accounting.

20 Q. When was that?

21 A. 1971.

22 Q. Do you have any postgraduate work?

25 A. I've taken classes that -- Tucson

0010

1 Electric has offered many master's classes.

4 Q. In what areas were those?

5 A. Business.

8 Q. Any particular areas? Accounting?

9 Finance? Management?

10 A. Management.

15 Q. . . . . Where do you -- who's your  
16 current employer?

17 A. Currently I am a consultant.

18 Q. For whom?

19 A. Arizona Electric Power Coop.

24 Q. And what do you do? What are your  
25 responsibilities for Arizona Power Cooperative?

0011

1 A. I work on various financial projects that  
2 they give me.

3 Q.

4 What type of financial projects?

5 A. Mainly dealing with the deregulation of  
6 the utility industry today.

7 Q. And how long have you worked for Arizona  
8 Electric Power Cooperative?

9 A. Right at three years.

10 Q. And before that, who did  
11 you work for?

12 A. Tucson Electric Power.

13 Q. I understand you left Tucson Electric  
14 Power Company in 1996; is that correct?

15 A. Yes.

16 Q. Do you remember exactly when that was?

17 A. June 30.

7 Q.

8 How long did you work for Tucson  
9 Electric Power?

10 A. 20 -- a little under 25 years.

11 Q. So you made a career of Tucson  
12 Electric?

13 A. Yes. Yes.

21 Q. Did you go straight from the University  
22 of Arizona to Tucson Electric Power Company?

23 A. Yes, sir.

24 Q. When you left Tucson Electric Power  
25 Company in 1996, what was your position there?

0013

1       A.       I was manager of plant and operations  
2 accounting.

5       Q.       What exactly does that mean?  What were  
6 your responsibilities?

7       A.       I was responsible for the accounting of  
8 the fixed assets and the accounting of the yearly  
9 operation and maintenance of the company.

10 Q.

15 Was that part of your responsibilities,  
16 to what accounts to book certain costs, whether they  
17 be costs of fixed assets or operational and  
18 maintenance costs?

19 A. Yes.

22 Q. How long were you the manager of plant  
23 and operations accounting?

24 A. Three years.

3 Q. Before that what was your prior position?

4 A. Supervisor of plant accounting.

9 Q. And prior to that, prior  
10 to being supervisor of plant accounting, did you have  
11 any other positions at Tucson Electric?

12 A. I was an accountant in the accounting  
13 department.

15 A. Before that I was an internal auditor,  
16 and before that I was a cost analyst in the  
17 engineering department.

12 Q.

24 A. Who did you report to directly?  
Karen Kissinger.

7 Q. And the tax return, okay.

8 Now, in your department did you have  
9 responsibility for filling out FERC related forms,  
10 like the FERC Form 1?

11 A. Yes.

12 Q. Anything of that nature?

13 A. Yes.

25 Q.

2 I understand, Mr. Franklin, that you had  
3 some involvement with the accounting changes that  
4 went on at TEP as a result of the merger of Valencia  
5 Energy Company into TEP back in 1996. Do you recall  
6 that?

7 A. I recall, yes.

12 Q. Do you recall the merger of Valencia into  
13 TEP?

14 A. I believe that actually happened after I  
15 left in June. Either very close or right after I  
16 left. So to answer you, I don't recall exactly when  
17 that happened.

18 Q. Okay. Mr. Franklin, I'm going to ask you  
19 to open this booklet up. We'll see if we can refresh  
20 your recollection here. If you open the book up to  
21 tab number 62. They're over there on the side.

22 A. Okay.

23 Q. This document appears -- do you recognize  
24 this document?

25 A. It is the Current Generations. Yeah.

0021

1 Q. That's a newsletter, an internal  
2 newsletter at TEP; is that correct?

3 A. Yes.

4 Q. And was this widely distributed during --  
5 while you worked at TEP was it widely distributed at  
6 the company?

7 A. Yes.

17 Does that refresh your recollection about  
18 the timing of the merger of Valencia versus when you  
19 left TEP?

20 A. Yes.

21 Q. So it actually happened before you  
22 departed at the end of June of 1996?

23 A. Yes.

24 Q. If you would turn to Exhibit No. 82.

2 Q. Exhibit No. 82 appears to be an e-mail  
3 from Karen Kissinger to some individuals. It appears  
4 that your name is -- you were copied on this e-mail.  
5 Do you recall -- do you recognize this e-mail? Have  
6 you seen it before?  
7 A. I really don't recall seeing this.

14 Q. That is your name, though, that appears  
15 on that?

16 A. Right.

17 Q. And the date on that  
18 document is what?

19 A. Is May 31st, 1996.

20 Q. So it's fair to say that this is an  
21 electronic mail memorandum essentially announcing the  
22 merger of Valencia Energy Corporation into TEP; is  
23 that correct?

24 A. Yes.

17 Q.

18 Do you know what the subject matter is  
19 over which TEP is suing Cyprus?

20 A. No.

10 Q. Well, before I went off on that tangent,  
11 we were talking about the merger of Valencia into  
12 TEP, and we had established that it occurred on  
13 May 31st, 1996, correct?

14 A. Yes.

15 Q. And my understanding is that there were  
16 some accounting changes that resulted from that  
17 merger, and I believe earlier you testified that you  
18 recalled that; is that correct?

19 A. Yes, sir.

17 Q.

18 You have a specific recollection of there  
19 being a certain effect on certain lease payments on  
20 the accounting or booking of those lease payments as  
21 a result of the merger of Valencia. You recall  
22 having worked with that issue?

23 A. Yes.

24 Q. And, I guess, in a broader sense, you  
25 were working to figure out how FERC accounting

0028

1 guidelines would affect the booking of certain  
2 charges, including these lease charges as a result of  
3 the merger of Valencia?

4 A. Yes.

5 Q. So what I'm understanding is that the  
6 costs were going to be booked differently before  
7 the -- were booked differently before the merger than  
8 they were going to be after the merger; is that  
9 correct?

10 A. The issue was to try to understand  
11 whether they should be booked differently.

13 A. I tend to be somewhat of a FERC  
14 accountant. I've done that for 25 years.

16 A. So that was kind of my expertise was to  
17 be sure that what we did was in accordance with FERC  
18 accounting guidelines. And to also comply with any  
19 generally accepted accounting procedures.

16 Q.

17 So you said it was your role then to  
18 figure out how to conform or comply with FERC  
19 guidelines?

20 A. Yes.

21 Q.

2                                    My understanding is that you  
3 were researching these particular issues for more  
4 than just a couple of years; is that correct?

5        A.        Yeah.

22        Q.

4 Do you recall where those lease  
5 costs were being booked before the merger?

6 A. Well, I recall Valencia paying the lease  
7 costs, and Valencia included the lease costs in the  
8 price of fuel to Tucson Electric. So if you look on  
9 at the books you will see those costs in the fuel  
10 account.

11 Q. Would that be fuel account -- FERC 501  
12 account?

13 A. Yes. 501.

14 Q.  
15 Prior to the merger of Valencia, do you  
16 recall why TEP was booking all of those costs in its  
17 FERC account 501? Was that an issue you ever looked  
18 into?

19 A. Yeah. We felt that Valencia was  
20 basically a third-party supplier, and any costs that  
21 they incurred for fuel would be considered FERC 501  
22 costs. No different than if you were to go out into  
23 the market and buy fuel and pay the lease costs of  
24 the supplier that you get the fuel from. So we felt  
25 that they were like a third-party supplier.

2 Q. Do you know who made that initial  
3 determination?

4 A. You're probably looking at in the early  
5 '80s because Springerville unit one went into service  
6 in 1985. So you're probably looking at somewhere  
7 around that time. My boss was Carl Frund.

21 Q. Okay. When you took over, it was  
22 already -- when you went into accounting and would  
23 have had that sort of responsibility for these costs,  
24 the determination had already been made --

25 A. Yes.

0037

1 Q. -- as to how those costs would be  
2 treated?

3 A. Yes.

19 Q.

20 Why don't you open to tab  
21 number 23. This has been previously marked as  
22 Exhibit 23 to other depositions. It's a memo to file  
23 from Leonard Nehrmeier dated June 18, 1996.

24 A. Okay.

3 Q.

5 The first thing I see under background  
6 there it says you were researching the issue, which  
7 is what we discussed for the collapse of Valencia,  
8 correct?

9 A. Yes.

10 Q. And then it says for the SRP and for the  
11 Nevada billing. Do you know what that means?

12 A. I assume it's the effect on the SRP power  
13 sale and the Nevada Power sale.

17 Q. I understand that there was some dispute  
18 there; is that correct?

19 A. Yes. I'm aware of the dispute with SRP.  
20 I'm not sure I'm aware of the dispute with Nevada  
21 Power.

22 Q. To the best of your recollection what was  
23 the dispute with SRP?

24 A. SRP felt that the lease payment that we  
25 were paying Valencia as part of the coal price should

0042

1 have been booked into a FERC 507 account, which is a  
2 demand side of the equation, and excluded from the  
3 fuel.

13 Q.

19 My understanding was there was a  
20 particular term in their contract that specified that  
21 501 account was part of their energy charge for the  
22 price of power that they paid. Do you have any  
23 recollection of that?

24 A. Yes. Yes.

10 Q. And how did you learn of this dispute?  
11 How'd you first learn of it while you were at TEP; do  
12 you remember?

13 A. Well, I believe that SRP came in and  
14 audited TEP annually under this power sale agreement.

18 Q. Number 10 is what's been previously  
19 marked as Deposition Exhibit No. 10, and it appears  
20 to be a memorandum from Karen Kissinger to various  
21 persons, including Ira Adler, Tom Dewalder and  
22 others.

23 Do you recognize this document,  
24 Mr. Franklin?

25 A. Yes. I'm sure I do.

0045

- 1 Q. Okay. You're sure you've seen it?
- 2 A. Yeah.
- 3 Q. If you look at the bottom there's a cc  
4 and a colon.
- 5 A. Yeah.
- 6 Q. And I see your name.
- 7 A. Right.
- 8 Q. And so you were probably copied on this?
- 9 A. Yes.

24 Q. Why don't we turn the page and go to the  
25 next page. It appears to be a memo and we're on

0047

1 what's been marked TDR -- it's Bates labeled  
2 TDR12530, and it appears to be a memorandum from you  
3 to Ms. Kissinger.

4 A. Yes.

5 Q. You recognize this document?

6 A. Yes.

7 Q. And did you prepare it --

8 A. Yes.

9 Q. -- the best you can recall?

10 And is that your handwriting? Is that  
11 your signature next to your name at the top?

12 A. Yes.

13 Q. And the subject matter is entitled FERC  
14 fuel accounting Springerville coal. You see that?

15 A. Um-hum. Yes.

16 Q. And it says, "A couple weeks ago you  
17 asked my group to do some research in the FERC  
18 accounting for the Springerville coal and handling  
19 costs if Valencia was folded back into TEP."

20 We're talking about the merger again?

21 A. Yes.

22 Q. Potential merger.

23 So the date of this document is May 25th,  
24 1994, correct?

25 A. Correct.

0048

1 Q. So TEP -- to the best of your knowledge,  
2 TEP was considering as early as 1994 the possibility  
3 of merging Valencia back into TEP; is that right?

4 A. Yes.

3 Q. So when it says here in your memo that  
4 you went and asked brief questions of EEI members in  
5 Philadelphia last week, you meant that you went to  
6 the plant accounting issue group at one of the EEI  
7 conferences; is that correct?

8 A. Yes.

9 Q. And who were some of the participants  
10 along with you, TEP? Who else was there? What other  
11 utilities? Can you remember generally?

12 A. Generally most of the IRUs belong to the  
13 EEI. Obviously people like Southern California  
14 Edison, Arizona Public Service, Mid-West utilities,  
15 East Coast utilities, from all over the country.

19 Q. Do you know approximately how many in  
20 numbers? Are we talking hundreds or --

21 A. Usually we had 100 to 150 members show up  
22 at each meeting.

23 Q.

6                   So my question to you is really: Was  
7 there more than one thing going on? Because on the  
8 previous page we see some talk about the SRP and  
9 Nevada Power billings, and on the next page we're  
10 talking about a possible merger of Valencia back into  
11 TEP, and I'm wondering how these issues related to  
12 each other.

13                   Were they interconnected or were they  
14 separate issues? What is your recollection at that  
15 time?

16           A.       My recollection is that the merger or the  
17 folding back of Valencia was a separate issue. Now,  
18 along with that issue Karen was concerned about the  
19 impact of that on the various power sale agreements.

20           Q.       Do you know why she was concerned about  
21 that?

22           A.       I think it's as simple as doing her job.

23           Q.       

24                   So part of Ms. Kissinger's job then was  
25 to consider how accounting changes might affect power

0052

1 sale contracts; is that your testimony?

2 A. As an executive --

3 Q. Okay.

4 A. -- I believe that's part of her

5 responsibility is to look at the overall impact of

6 anything that's done within the utility, to the

7 overall financial condition of the company.

5 Q.

Let me read to you  
9 from Ms. Kissinger's direct testimony in this docket.

10 She says on page 3, line 14, "During the  
11 course of the early '90s questions were raised within  
12 the company as to whether TEP's accounting for  
13 Valencia costs was consistent with the accounting at  
14 other public utilities with which TEP competed for  
15 economy sales to wholesale customers."

16 Do you agree with that statement? Do you  
17 recall in the early '90s questions being raised as to  
18 the costs -- Valencia related costs?

19 A. I remember TEP's management being  
20 concerned that we were competitive with other  
21 utilities.

22 Q. Okay.

23 A. So in that vein, I think that kind of  
24 ties into what Karen has said.

16 Q.

17 Do you remember  
18 anyone from any particular department at TEP raising  
19 the issue?

20 A. Tom Dewalder was concerned about  
21 comparable costs between Tucson Electric and other  
22 utilities within this region.

23 Q. Okay. And at the time you recall him  
24 being concerned about this, what was his title at  
25 TEP? Do you know what his position was?

0055

1       A.       I think he was vice president of power  
2 production.

14       Q.

24               Seems to me that's just simply saying  
25 what you've told me, is that right, that Tom Dewalder

0056

1 was concerned about how competitive the prices

2 were --

3 A. Yes.

4 Q. -- on the market?

5 A. Yes.

6 Q. And in particular, as to Valencia,

7 because Valencia's costs appeared to be a little bit

8 high? Is that your recollection, general

9 recollection of that?

10 A. Yes. Let me clarify that, though.

11 Q. Sure.

12 A. When you say Valencia appeared to be too  
13 high, well, if you only looked at fuel -- and I know  
14 this was an issue that Tom dealt with many times, is  
15 without Valencia the lease costs were being accounted  
16 for in rents.

17 And if you started doing comparisons  
18 between utilities, you find that the lease type costs  
19 for fuel facilities in other utilities are accounted  
20 for as FERC 507.

20 Q. So it's fair to say then that, if I  
21 understood you correctly, it was important to at  
22 least Tom Dewalder, who you said -- where did -- he  
23 was in power production?

24 A. Yes.

25 Q. In that department.

0058

1           It was important for him and his  
2 department that there be a correct understanding of  
3 the FERC account 501 costs at Valencia as compared to  
4 fuel costs at other plants; is that right?

5       A.     As compared to fuel demand costs in other  
6 plants.

9       Q.  
10           Not just with respect to TEP but with  
11 respect to other utilities; is that right?

12       A.     Yeah.

13       Q.     And what role at TEP does power  
14 production where Tom Dewalder works -- what do they  
15 do? What is their responsibility in the power  
16 production department, as far as you know, at least  
17 as of the time you worked there?

18       A.     They produced the -- they generated the  
19 power.

20       Q.     Okay.

21       A.     That is sold by Tucson Electric.

22       Q.     So it's in their interest to keep -- as  
23 in any other -- as anybody else at TEP, in their  
24 interest to keep as much power being sold as  
25 possible; is that correct?

0059

1

A. Yes.

18 Q. So Ms. Kissinger asked you to do some  
19 research on utilities accounting, and what was going  
20 on with Valencia's FERC 501 account?

21 A. Yes.

22 Q. Do you recall if this was before or after  
23 Tom Dewalder had figured out what was going on?

24 A. I think it's about the same time.

25 Q.

0060

1                   So it may have been then Ms. Kissinger  
2 was reacting to what Mr. Dewalder had figured out and  
3 asked you to do some research?

4       A.       It very well could be, but I don't know.

7       Q.       It says, "The manager," meaning you, I  
8 imagine, "attended an Edison Electric Institute plant  
9 accounting meeting and asked his peers at other  
10 companies how they accounted for the various parts of  
11 fuel expense."

12               Do you recall having done that at the  
13 meeting that you went to --

14       A.       Yes.

15       Q.       -- that you reference --

16       A.       Yes.

17       Q.       -- on TDR12530?

18       A.       Yes.

19       Q.

24               So I imagine that meeting would have  
25 taken place sometime about the third week of May of

0061

1 1994; is that correct?

2 A. Probably.

3 Q. Do you remember who these peers are that  
4 you may have talked about with -- would these be the  
5 same companies you talked -- where you mentioned  
6 earlier, APS, Southwest Cal Edison and the  
7 Mid-Western and Eastern power companies? Is that who  
8 you would have spoken to about the issue?

9 A. I'm not recalling exactly who, but they  
10 could be in that group.

13 Q. Do you recall what you did, what you  
14 asked them?

15 A. I believe the question was, how does your  
16 company account for fuel, and what do you do with any  
17 lease payments that you have associated with fuel.

18 Q. And what was the general answer to your  
19 question, if you can recall?

20 A. Boy, I think the general answer complied  
21 with FERC principles. It seemed to me that some  
22 companies were doing one thing, other companies were  
23 doing another. But the majority of the people or the  
24 utilities were complying with FERC accounting.

5 Q. So when you returned from your little  
6 stint there in Philadelphia at this EEI meeting, did  
7 you report your findings to anybody?

8 A. Through this memo.

13 Q. So you reported then to Ms. Kissinger?

14 A. Yes.

14 Q. In your conversation with these other  
15 utilities, you didn't find anyone who had a similar  
16 setup, where an affiliate was -- where the company  
17 was purchasing?

18 A. No, I didn't.

18 Q.

19 So this is my question to  
20 you. When you asked this question of your peers, did  
21 they say, if we had the same setup as TEP, we would  
22 be doing what TEP is doing, or did they say something  
23 different?

24 A. No. They did not say what TEP is doing  
25 because I didn't explain that. All I asked is, if

0066

1 you had this situation, what would you do, and their

2 answer was, we would comply with FERC accounting

3 procedures.

2 Q. So you didn't tell them how TEP was  
3 accounting?

4 A. No. No.

5 Q. And they didn't tell you how they would  
6 account for it, other than to say we would comply  
7 with FERC?

8 A. Correct.

7 Q.

8 From EEI you  
9 learned that none of your other peers has this  
10 situation, the relationship of Valencia to TEP,  
11 correct?

12 A. Correct.

13 Q. And they told you, hey, if we had your  
14 situation of TEP versus Valencia, what we'd do is  
15 comply with FERC, correct?

16 A. Right.

17 Q. And they also said, you know, we  
18 usually -- when we're recording our costs, we usually  
19 stop recording costs at the rotary dumper. And you  
20 testified earlier that that was something you learned  
21 from these particular individuals?

22 A. Yeah.

23 Q. And that complies with FERC?

24 A. Right.

25 Q. Now, after learning all of this

0070

1 information, at any time thereafter did you wonder,  
2 well, why aren't we billing fuel costs right -- are  
3 we stopping fuel costs or stopping recording fuel  
4 costs or costs as fuel expenses once they reach the  
5 rotary car dumper? Did you ever wonder that? Why  
6 aren't we doing that like the other utilities are  
7 doing?

8       A.       I didn't wonder that because of the  
9 ownership of Valencia of those facilities.

25       Q.       So in your mind all the costs were, in

0071

1 fact, fuel?

2 A. Yes.

3 Q. But there were, in fact, lease costs and  
4 other capital costs embedded in those costs?

5 A. Yes.

6 Q. Well, you mentioned earlier that it was  
7 important to you, being, as what you considered,  
8 practically an expert in FERC compliance, I think you  
9 said, from your experience?

10 A. Yes.

11 Q. That you considered yourself very  
12 experienced in FERC accounting; is that right?

13 A. Yes.

14 Q. And you said it was important to comply  
15 with FERC accounting, right?

16 A. Yes.

25 Q. In your opinion, would TEP have been in

0074

1 compliance with FERC guidelines, even if it had not  
2 embedded those lease costs and other capital related  
3 expenses in its FERC account 501 prior to the merger  
4 of Valencia?

5 A. I think they could have done that, yes.

6 Q. So they could have done it either way; is  
7 that your testimony?

8 A. I think so. I think so.

8 Q. So then the substance of the cost, the  
9 fact that it was a lease or a capital cost gave way  
10 to the concern that there was this other affiliate or  
11 a third party that was providing the cost; is that  
12 right?

13 A. Yes. Yes.

11                   So I guess because you noted that other  
12 people were cutting off their costs at the rotary car  
13 dumper and not including handling related charges --  
14 is that correct -- you decided or someone decided for  
15 you that you should research the issue for them?

16       A.       It's vague, but, yeah, I recall that  
17 vaguely.

18       Q.       And Ms. Kissinger says, line 2, "He  
19 informed me," meaning you, Rick," informed me that  
20 the staff researched through records of FERC audit  
21 filings made public by FERC and other available FERC  
22 sources, and that we could find no guidance beyond  
23 what appeared in the instructions to FERC account  
24 501." Does that sound correct?

25       A.       I remember doing that, yes.

16 Q. Did you make the actual decision -- did  
17 you participate in the decision of whether or not TEP  
18 should change the structure of how it was making the  
19 costs or booking the costs after Valencia was merged?

20 A. I researched the data.

21 Q. Okay.

22 A. Did I make the decision to do it? I  
23 don't think so.

24 Q. Who would have made that decision; do you  
25 know?

0079

1 A. I think that was more on the level of  
2 Karen Kissinger.

3 Q. And the results of your research then are  
4 this memo to Ms. Kissinger dated May 25th, 1994?

5 A. Yes.

13 Q. Looking back then, Mr. Franklin,  
14 beginning with your memo that's been marked as  
15 TDR12530, these are the results of your research,  
16 correct?

17 A. Yes.

18 Q. And what you concluded -- you listed  
19 current accounting on this page.

20 A. Yes.

21 Q. And all these accounts you listed, this  
22 all goes to 501, I imagine; is that correct? FERC  
23 account 501?

24 A. Yes.

25 Q. And then if you turn the page to what's

0080

1 been marked as TDR12531, it says, "Accounting change,  
2 Valencia folded to TEP." Number one, you have fuel  
3 inventory, FERC account 151.

4 A. Yes.

5 Q. What was the purpose of setting up a  
6 separate account 151, if you recall?

7 A. Oh, okay. The inventory pile at  
8 Springerville was previously owned by Valencia. So  
9 to properly account for the inventory of fuel at the  
10 site, FERC account 151 was necessary.

11 Q. Because TEP would now own fuel inventory;  
12 is that correct?

13 A. Yes.

14 Q. And it says under that about midway down,  
15 "These costs will be transferred to FERC account 501  
16 as the fuel is burned by Springerville units one and  
17 two."

18 Would you explain that to me, what that  
19 means?

20 A. Well, when TEP would purchase the fuel,  
21 the fuel would go into FERC account 151.

22 Q. Okay.

23 A. And as the fuel went into the silos and  
24 was burned, there was a transfer from 151 to 501 fuel  
25 expense.

0081

1 Q. Because it was no longer inventory?

2 A. No longer inventory.

3 Q. It actually became fuel?

4 A. Yes.

5 Q. And then number two, "Fuel stock expenses  
6 undistributed FERC account 152, separating and  
7 maintenance expenses associated with the fuel  
8 handling operation would be charged to FERC account  
9 152."

10 Could you explain that to me?

11 A. According to the FERC principles, any  
12 handling associated with the fuel, as it goes -- as  
13 it is being burned should be accounted for in FERC  
14 account 152.

15 Q. Okay.

16 A. And under the same scenario as 151, as  
17 the fuel is burned, then a pro rata share of those  
18 152 costs will be also charged to 501.

22 Q. If you turn the page to what's been  
23 marked as TDR12532. It's the next page. Lease costs  
24 FERC account 507. This is what we talked about  
25 earlier; is it not? It says, "FERC acquires the

0082

1 lease costs associated with non-transportation  
2 equipment for production plant be charged to FERC  
3 account 507, rents." We've previously discussed this  
4 issue, correct?

5 A. Yes.

6 Q. And number four, "Property tax,  
7 non-transportation equipment, FERC account 408."

8 Would you explain that to me.

9 A. This is the property tax associated with  
10 the -- actually the coal handling facilities,  
11 excluding the transportation equipment.

12 Q. Okay. And previously all of these were  
13 charged to FERC 501?

14 A. Yes. Under the Valencia/TEP scenario.

15 Q. But now they would go to FERC account  
16 408, correct?

17 A. Yes.

17 Q. And you mentioned earlier you were  
18 familiar with the SRP dispute, correct?

19 A. Yes.

8 Q. -- Mr. Franklin, I believe you actually  
9 submitted an affidavit as part of that court case --  
10 or not court case, but FERC case.

11 A. FERC case.

12 Q. Do you recall that?

13 A. Yes.

14 Q. And it appears in your affidavit that you  
15 basically testified to the fact that you believed TEP  
16 was properly accounting for FERC 501 costs the way it  
17 was, with Valencia existing the way it did, in  
18 relation to TEP at the time; is that correct?

19 A. Yes. I haven't read that in many, many  
20 years.

8 Q. Okay. That's fine.

9 Mr. Franklin, if you would turn to page 5  
10 of your affidavit. It's been marked TDR12759. Just  
11 above paragraph 18 there. It says, "Of the  
12 3.9 million dollar amount claimed by SRP, which  
13 includes lease payments and property taxes related to  
14 all of the coal handling facilities, 1.9 million  
15 dollars or 50 percent of such amount relates to the  
16 coal transportation equipment."

17 Is that a correct statement?

18 A. Yes.

19 Q. So I gather then there was another  
20 50 percent -- there must have been -- what was the  
21 other 50 percent? If 50 percent was transportation  
22 and equipment, was the other 50 percent the lease and  
23 handling related charges or --

24 A. Yes. The fuel handling facilities, the  
25 rotary car dump, all of the other handling

0088

1 facilities.

2 Q. Sir, are you familiar with the decision,  
3 the resolution of this particular case, the SRP case?  
4 Do you know how it turned out?

5 A. Yes, I do. In detail, no.

9 Q. Well, what is your understanding of what  
10 happened?

11 A. My understanding is FERC decided not to  
12 hear the case as not having merit.

13 Q. As not having merit?

14 A. Yeah.

17 Q. Sir, would you open up to tab 9 in your  
18 notebook there. It's what's been previously marked  
19 as Exhibit 9 to these depositions.

20 The first page will say Request Number  
21 Two of the Third Set, and if you turn the page, this  
22 is actually a copy of the SRP decision from the FERC.

23 A. Okay.

24 Q. You see that?

25 A. Yeah.

7 Q. If you'd turn to -- it looks like there's  
8 a fax page, number 4 at the bottom. It's TDR12578.  
9 A couple pages in there.

10 A. Okay.

11 Q. Okay. And if you'll look right below  
12 where it says 18CFR101.

13 A. Yeah.

14 Q. It says, "Tucson maintains that all of  
15 the costs of Valencia coal handling facilities,  
16 including capital lease and financing costs, fall  
17 within the account number 501 category of handling,  
18 thereof up to the point where the fuel enters the  
19 first boiler plant bunker. While Tucson interprets  
20 the accounting regulation in a manner which may not  
21 be inconsistent with its precise terms and  
22 instructions, we find, however, that such a reading  
23 would defeat the purpose of account number 501."

24 Do you see that?

25 A. Yeah, I do.

0090

1 Q. Well, in fact, Mr. Franklin, this  
2 decision goes on to decide that on a going-forward  
3 basis Tucson Electric Power Company, had it retained  
4 the Valencia relationship that it did, could not  
5 continue to account for those certain lease costs and  
6 other capital related costs the way TEP had done, as  
7 you stated earlier, in compliance with the FERC  
8 guidelines.

9 Are you familiar with that, that aspect  
10 of the decision?

11 A. No.

12 Q. So all you knew was that SRP's complaint  
13 was denied?

14 A. Yes.

2 Q. From your reading of that portion of the  
3 decision -- and do you want to specify for the record  
4 which portion that was?

5 A. I read starting with page 12578 -- starts  
6 with 18CFR, that piece that is talking about costs  
7 within 501.

8 Q. Okay. And in your opinion from reading  
9 this decision, did FERC agree with your  
10 interpretation, or TEP's interpretation, of the  
11 FERC 501 account and the way it was booking its costs  
12 at the time Valencia existed?

13 A. It doesn't look like they did.

0093

1 Q.

4           After you issued that memo, what  
5 happened? Did Karen come see you about it, or did  
6 she just say, thank you, Rick, I'll deal with it from  
7 here?

8       A.     Well, the Valencia merger -- I'm not  
9 really sure why, but it was postponed.

7 I'm having you look at what's been marked  
8 as Exhibit No. 77 to this deposition. It appears to  
9 be an electronic mail memorandum from Nancy Juarez.

10 Do you know who that is, Mr. Franklin?

11 A. Yes.

12 Q. Who is that?

13 A. Nancy is Karen Kissinger's secretary.

14 Q. And you appear to be one of the  
15 recipients of this letter; is that correct?

16 A. Yes.

17 Q. Along with a whole host of other people.

18 I see Todd Clark's name, Leonard Nehrmeyer. We know  
19 who those individuals are. Who is David Lamoreaux,  
20 L-A-M-O-R-E-A-U-X?

21 A. David is one of the attorneys that worked  
22 for Tucson Electric during that time.

23 Q.

25 And Dawn Sabers? Who was that?

0095

1 A. She was a financial accountant that  
2 worked for Karen Kissinger.

3 Q. And Dave Bennett? Do you know who he  
4 was?

5 A. He was the fuel manager.

6 Q. Fuel manager. If you know, what does the  
7 fuel manager do? What are his responsibilities?

8 A. He procures fuel for the company.

13 Q. And Theresa Mead?

14 A. Theresa worked with Dave in the fuel  
15 procurement area.

16 Q. And they were -- Karen Kissinger was  
17 copied on this. And then it says, "Subject:  
18 Valencia Energy Company." The date is Monday  
19 December 4th, 1995.

20 A. Yeah.

0096

1 Q.

3 It says here, "After reviewing everyone's  
4 schedules, it looks like Friday December the 8th will  
5 be a good time to have the above-referenced meeting."

6 Do you know what meeting this is  
7 referring to?

8 A. I really don't.

9 Q. Okay. You wouldn't know if --

10 A. It is says Valencia Energy meeting, but  
11 other than that I don't know the specifics of what  
12 happened.

14 Could I have you turn to Exhibit 73,  
15 what's been previously marked as Deposition Exhibit  
16 No. 73, and it appears to be an electronic mail  
17 memorandum from you to Jim Dickens, Leonard  
18 Nehrmeier, Harold Senske, and Karen Kissinger. Dave  
19 Bennett and Arie Hoekstra are copied on this. The  
20 date on the memo is Thursday, April 25th, 1996.

21 Do you recognize this document?

22 A. I think so.

25 Q.

3                   Why don't you tell me who those  
4 individuals are and what they do at TEP.

5           A.       Harold Senske was an accountant assigned  
6 at Springerville. He was actually physically located  
7 at Springerville.

8           Q.       Okay.

9           A.       Jim worked in Tucson, but he handled the  
10 coordination of the Springerville costs tied into the  
11 Tucson accounting system.

12          Q.       So he would have dealt with the merger  
13 issue then, the change, the accounting change?

14          A.       Yeah. He would have dealt with the -- he  
15 would have dealt with basically the transfer costs  
16 from the Springerville site --

17          Q.       Okay.

18          A.       -- to TEP's accounting system.

19          Q.       And it says here you had a meeting with  
20 them to discuss the following accounting items to be  
21 completed for the coal handling transfer to TEP.

22                   I imagine that means for the Valencia  
23 transfer; am I correct?

24          A.       Yes.

25          Q.       It says, "Jim and Leonard are currently

0098

1 working on the journal entries to transfer balances  
2 to TEP books," correct?

3 A. Correct.

4 Q. Okay. So Jim Dickens and Leonard

5 Nehrmeyer --

6 A. Yes.

7 Q. -- is that correct, were working on  
8 those?

9 A. Yes.

10 Q. And it says, "Yesterday we had a  
11 meeting"; so that must have been Wednesday,  
12 April 24th?

13 A. Must have been.

18 Q. But at that time, I assume, these various  
19 individuals were working on these accounting issues?

20 A. Right.

21 Q. So it appears that it was pretty well  
22 known, at least among these individuals, that there  
23 were going to be some accounting changes that would  
24 affect the FERC account 501 --

25 A. Yes.

0099

1 Q. -- at this particular time, which would  
2 be around late April 1996?  
3 A. Yes.  
4 Q.  
5 When you wrote your memorandum back in  
6 1994 --  
7 A. Yeah.  
8 Q. -- to Karen Kissinger, other than Karen  
9 Kissinger, at that time was there anyone else that  
10 was involved that you can recall who would have known  
11 about those issues in 1994 and the results of your  
12 conclusions in your memorandum?  
13 Do you know of anyone else who you would  
14 have shared that information with?  
15 A. Well, I don't quite understand.  
16 Q. I see there's a Bill Elias, Elias,  
17 E-L-I-A-S. Do you know that name?  
18 A. Yes.  
19 Q. Okay. What department did he work in?  
20 A. He was in the rate department.  
21 Q. He was in the rate department?  
22 A. Yeah.  
23 Q. Was Joe King also in the rate department?  
24 A. Yes.  
25 Q. Was Bill Elias Joe King's boss at the

0100

1 time, if you know?

2 A. Other way around.

3 Q. Other way around. So Bill worked for  
4 Joe King in 1994?

5 A. Yes.

6 Q. So as early as 1994 people in the rates  
7 department would have been familiar with the  
8 accounting changes that would take place in the FERC  
9 account if the Valencia merger took place?

10 MR. CARROLL: I object to the form.

11 Go ahead.

12 BY THE WITNESS:

13 A. That's fine. I believe so.

14 BY MR. ULREICH:

15 Q.

16 Let's move on and just go to the --  
17 return to Exhibit 73. Number 2 on your e-mail here  
18 says, "Inventory accounting after transfer to TEP  
19 will be done by Jim D." Is that Jim Dickens?

20 A. Yes.

21 Q. "Using the same methodology that is  
22 currently in place after Valencia."

23 A. Yes.

24 Q. All right. Then it continues there.

25 Item number 3 says, "Jim to set up meeting to discuss

0101

1 new accounts and activities for the Springerville  
2 coal facilities."

3 A. Yes.

4 Q. Do you know at the time if those new  
5 accounts are the same accounts that you referenced in  
6 your 1994 memo?

7 A. They were under the same theory, yes.

8 Q. So at that time it appeared, at least,  
9 they were going to adopt your recommendations?

10 A. Yes.

11 Q. And then there's a parenthesis and it  
12 says W. Fasel,

13 . Is that Wayne Fasel? Is

14 W. Fasel, Wayne Fasel?

15 A. Yes.

16 Q. Who was he, if you know?

17 A. He was an administrative person located  
18 at the Springerville plant.

19 Q. Okay.

20 A. I think he worked for Dave Bennett as  
21 part of the fuel group.

19 Q. We've heard testimony from Karen  
20 Kissinger, and I think from Leonard Nehrmeier, that  
21 there were some -- there was some confusion in  
22 accounting as to what the changes actually were in  
23 getting them implemented. Is that the same as your  
24 recollection?

25 That the accounting changes that took

0103

1 place as a result of the Valencia merger, that there  
2 was confusion in the accounting department as to how  
3 to implement those? Do you have any memory of that?

4 A. No, I don't.

5 Q. So there wasn't -- do you know -- did it  
6 seem to you that there wasn't any confusion?

7 A. It seemed like it was clear before I  
8 left.

3 Q. I'm reading from Karen Kissinger's direct  
4 testimony in this docket.

5 A. Okay.

6 Q. Page 4 beginning on line 15, the question  
7 is, "Well, when was Valencia merged into TEP?" And  
8 her response, "Valencia was merged into TEP on  
9 May 31, 1996, and TEP's books and records reflected  
10 that change effective June 1, 1996."

11 Do you understand that to mean that the  
12 accounting changes took effect June 1, 1996?

13 A. Yes.

14 Q. And do you have any reason to dispute  
15 that?

16 A. No. No, not at all.

17 Q. If you go down to number 6 on your  
18 e-mail -- we're on TDR13966, which is Exhibit No. 73.  
19 It says, "The following preliminary accounting for  
20 expenses was discussed." Under A it says, "o&M,  
21 lease costs, property tax." It says E-C-T. Is that  
22 supposed to be an et cetera, ECT; do you think?

23 A. Yes.

24 Q. "Associated with rail facilities will be  
25 a charge to account 152 and allocated to 501 based

0105

1 upon coal burn."

2                   Is that the same as what we discussed in  
3 your May --

4       A.       Yeah.

5       Q.       -- 1994 memo?

6       A.       Um-hum.

7       Q.       Okay. And B says, "Operation costs of  
8 coal inventory area will be charged to account 152  
9 and allocated to account 501 based on burn."

10                  Is that the same as what you discussed in  
11 your May '94 memo?

12       A.       Yes.

13       Q.       Under C it says, "Operation costs of  
14 transferring or moving coal from inventory to silo to  
15 be burned will be charged to account 501 directly."

16 Was that addressed at all in your --

17       A.       I don't believe so.

18       Q.       Under D it says, "Lease costs associated  
19 with coal handling facilities will be charged to  
20 account 507 rents. Also a pro rata portion of the  
21 deferred lease costs should be allocated to 507."

22                  That was addressed in your May '94 memo;  
23 was it not?

24       A.       Yes.

25       Q.       And after E it says, "Maintenance costs

0106

1 associated with coal handling facilities will be  
2 charged to account 512."

3 Do you recall if that was reflected in  
4 your memo?

5 A. I don't believe so.

9 Q. Do you have any recollection -- would  
10 that be the same accounting as it was under Valencia,  
11 or would that have changed?

12 A. That would change.

13 Q. So those costs, prior to the merger of  
14 Valencia, the maintenance costs associated with coal  
15 handling facilities would have been charged to  
16 account 501?

17 A. Yes.

18 Q. If you'll turn to Exhibit Number 63.  
19 It's marked TDR13159, and it's previously marked as  
20 Deposition Exhibit 63. It's a memorandum from  
21 Leonard Nehrmeyer to Jim Dickens.

22 Have you seen this memo before?

23 A. My name is on it. I don't specifically  
24 remember this one.

25 Q. Well, if you read along with me right at

0107

1 the top there it says, "As you are aware, we have met  
2 several times to discuss the accounting for  
3 collapsing Valencia."

4           Is that a correct statement to you, from  
5 your recollection?

6       A.     Yes.

7       Q.     So you had met on several occasions  
8 during the spring of 1996, I imagine?

9       A.     Yes.

16       Q.     And if you go down to the second to the  
17 last paragraph on that page it says, "I'm concerned  
18 that the Valencia collapse will be here before we  
19 know it, and we will have no time to think about the  
20 entries; so we need to be as prepared as possible  
21 before that day comes. I know that you are busy with  
22 other things, but I think, and I hope, that you will  
23 agree that the impending Valencia collapse is a high  
24 priority that we need to address immediately."

25       A.     Um-hum.

0108

1 Q. My question to you is: In your opinion  
2 was the collapse of Valencia a high priority at that  
3 time, May 14, 1996?

4 A. I think it was, yes.

5 Q. To you or to TEP?

6 A. To TEP.

7 Q. And were the accounting changes that went  
8 along with that merger -- were those also considered  
9 a high priority at TEP --

10 A. Yes.

11 Q. -- in May of 1996?

12 A. Yes, in order to make the transaction  
13 complete.

14 Q. If you'll turn to Exhibit 81.

15 A. Uh-huh.

16 Q.

18 What's been previously marked as  
19 Deposition Exhibit 81 is in front of you. It's a  
20 Tucson Electric Power Company meeting to discuss  
21 accounting issues, VEC merger with TEP, May 15th,  
22 1996 agenda. Do you recall having such a meeting?

23 A. Not specifically.

0109

1 Q. If you'd just take a minute and look at  
2 the agenda and tell me if there's anything you can  
3 remember from that meeting, I'd appreciate it.

4 Is there anything that stands out in your  
5 mind?

6 A. No. I mean the issues are typical, but  
7 specifically, no.

8 Q. I believe if you turn the page you'll see  
9 an e-mail. It's got your name at the top. We're  
10 looking at TDR13965. It says Franklin, Rick on top.

11 A. Um-hum.

12 Q. And it appears to be an e-mail printed  
13 off your printer, is that correct, off your computer?

14 A. Yes.

20 Q. Sure. And I imagine that "yesterday we  
21 had a meeting" probably refers to this May 15th  
22 meeting? Was that --

23 A. Yeah, it must.

0112

1 Q. If you'll turn quickly to Exhibit 78,  
2 what's been previously marked as Deposition Exhibit  
3 No. 78, and it appears to be an electronic mail  
4 memorandum from Jim Dickens to Leonard Nehrmeyer, but  
5 you're copied on this; is that correct?

6 A. Yes.

7 Q. "These items should be cleared up in  
8 today's meeting," and that's marked May 15th, 1996.  
9 So I imagine those are the same issues that we talked  
10 about that are on the agenda as well as referenced in  
11 this e-mail?

12 A. Yes.

16 Q.

23 Okay. In front of you you have what's  
24 been previously marked as Exhibit No. 61 and Exhibit  
25 No. 25. Do you recognize these documents,

0113

1 Mr. Franklin?

2 A. I think so.

3 Q. They appear to be a memo from Leonard  
4 Nehrmeier to you; is that correct?

5 A. Yes.

13 Q. Is that your handwriting?

14 A. Yes.

15 Q. Okay. Do you have any idea what the okay  
16 means, what it refers to?

17 A. I think Leonard is proposing a question,  
18 and I think his solution is correct.

19 Q. Okay. This would be similar to what we  
20 saw in your May 25th, 1994, memo; is that correct?

21 A. Yes.

22 Q. And if you move down, there's another  
23 notation. Is that your handwriting, too?

24 A. Yes.

25 Q. It says, "Not 502." Could you tell me

0114

1 what that's about. It's not a "not okay." It's a  
2 "not 502" with a question mark. Do you know what you  
3 meant to imply there?

5 A. I don't, other than I don't agree with  
6 this FERC account.

7 Q. You don't -- okay. You don't agree with  
8 what he's chosen --

9 A. Yeah.

15 Q. Okay. That's all right. If you'll turn  
16 the page on both of your exhibits, 25 and 61, there's  
17 a note that says "inside plant 502" and "disposal  
18 501." Is that your handwriting, too?

19 A. Yes.

8 Q.

11 But on Exhibit 61 we still have a  
12 couple of extra pages.

13 A. Yeah.

14 Q.

16 If you'll skip to the very last page,  
17 after the FERC definitions which is marked TDR13957,  
18 it says at the top, "Fuel Materials and Supplies."

19 Do you see that, Mr. Franklin?

20 A. Yes.

22 Q. It says, "The company used the wrong  
23 accounts to record the cost of removing ash from its  
24 generating station. The company recorded the cost of  
25 removing ash in units 4 and 5 in account 501 fuel."

0117

1 And later on it says, "The findings were that the  
2 company's accounting for ash handling expenses was  
3 not consistent with the following requirements." Is  
4 this referring to Tucson Electric Power Company?

5 A. I don't believe so.

6 Q. So this was never an issue for Tucson  
7 Electric Power Company, the ash handling, the  
8 accounting treatment of ash handling? I'm wondering  
9 why it would be attached to this memo to you.

10 Mr. Franklin, let me help you out here.  
11 If you'll turn back to the memo in Exhibit No. 61,  
12 the second page, TDR13953 --

13 A. Yes.

14 Q. -- and it says about a quarter of the way  
15 down, question, "Should the ash removal be charged to  
16 account 501 or account 502." And it says, "I  
17 reviewed" -- and I imagine this is Leonard Nehrmeyer  
18 speaking. It says, "I reviewed the FERC audit issues  
19 dated September 1994." Is that what you think this  
20 is?

21 A. Yes.

22 Q. "Which described a company recording cost  
23 of ash removal to account 501 fuel."

24 Okay. So this particular page is  
25 probably from that December '94 FERC compliance audit

0118

1 issues?

2 A. Probably.

3 Q. And this is probably that case study that  
4 he's referring to?

5 A. Yes.

6 Q. And it says, "The findings were that the  
7 company's accounting for ash handling expenses was  
8 not consistent with the following requirements." And  
9 then later on at the bottom of the page just before  
10 the carbon copy, the cc there --

11 A. Yeah.

12 Q.

16 So my question to you is: How did that  
17 relate to what was going on with TEP at the time, if  
18 you know? Was there not an issue about how to deal  
19 with ash handling?

20 A. I'm sure that in the merger of TEP and  
21 Valencia that was an issue of what to do with the ash  
22 handling.

23 Q. Okay.

24 A. Before, I don't think it was an issue.

25 Q. So before the merger it was not an issue?

0119

1 A. Yeah. Because Valencia took care of the  
2 ash disposal.

3 Q. Right.

4 A. After the merger, TEP would take care of  
5 the ash disposal.

6 Q. Okay. So it's your testimony then that  
7 TEP was correctly treating its ash handling expenses  
8 prior to the merger of Valencia into TEP?

9 A. Yes.

18 Q.

19 How about -- why don't we skip back to  
20 Deposition Exhibit No. 26. It's document number  
21 13 -- or TDR13629. It's an electronic mail  
22 memorandum from you, it appears, to Frank Cook, Jim  
23 Dickens and Leonard Nehrmeyer. Frank appears to be a  
24 new name. Who is Frank Cook?

25 A. Frank was an accountant that worked for

0120

1 me that worked on depreciation.

2 Q. With respect to the Valencia merger?

3 A. Well, it was with respect to TEP.

13 Q.

16 It says, "We are going to meet in my  
17 office on 6/3 at 8:30" -- I imagine that's a.m. --  
18 "to discuss the journals and other issues associated  
19 with the Valencia dissolution."

20 This is on June 2nd, and you're talking  
21 about a June 3rd meeting; is that correct?

22 A. Yes.

23 Q. Other than the journals, do you know what  
24 the other issues associated with Valencia dissolution  
25 were? Is it the same accounting issues?

0121

1 A. Well, with Frank being involved, it  
2 probably had to do with the transfer of any plant  
3 assets --

4 Q. Okay.

5 A. -- into TEP's books.

10 Q.

11 Could I have you turn to Exhibit 24.  
12 It's just a couple back. I'm having you look at  
13 what's been previously marked as Deposition  
14 Exhibit 24. It's TDR13271 through 272.

15 This is a memo. It says to you from  
16 Leonard Nehrmeier. It looks eerily familiar. It  
17 looks somewhat like what we've seen before.

18 A. Yes.

19 Q.

21 Can you tell from this whether this is  
22 Mr. Nehrmeier's updated memo to you based on your  
23 comments on what we saw in Exhibits, I believe, 25  
24 and 61?

25 A. I don't know if it is or not.

0122

1 Q. Do you have any recollection?

2 A. Yeah, it does look like he has  
3 incorporated some of these comments because there is  
4 a section over here called disposal.

5 Q. When you say here, do you mean TDR13272  
6 at the bottom there?

7 A. Yes. Yeah. Look at page 2, halfway  
8 down. There's an area called residual disposal  
9 through account 501. And if you look at my comments  
10 on TDR13952, that would be -- that would incorporate  
11 those comments.

12 Q. Great. And on that same page, TDR13272,  
13 I see some people received courtesy copies of this  
14 memo, Todd Clark, Dawn Sabers, Harold Senske and Jim  
15 Dickens and Wayne Fasel.

16 A. Yes.

20 Q. But obviously all these people knew what  
21 was going on in the way of accounting changes?

22 A. Yes. To my knowledge.

23 Q.

0123

2                   This is what's been previously marked as  
3 Deposition Exhibit No. 28, beginning with the number  
4 TDR12511, and it appears to be a memorandum or a  
5 letter from Karen Kissinger, I believe, to Mr. Paul  
6 Bullis. Have you seen this document before?

7           A.       I don't believe I have. But I'm not  
8 sure.

9           Q.       Would you turn to page 3, which is  
10 TDR12513, and about two-thirds of the way down you'll  
11 see where it says, "Impact on TEP's stand alone and  
12 consolidated income statement of the merger." Do you  
13 see that?

14          A.       Yes.

19 Q. Approximately one-half of the lease  
20 costs -- or "one-half of the lease and property tax  
21 costs will not qualify as fuel costs pursuant to the  
22 FERC Uniform System of Accounts."

23 That seems pretty consistent with your  
24 memorandum of May 25th, 1994, and your affidavit in  
25 the SRP case; is that correct?

0125

1 A. Yes; that is correct.

13 Q. Okay. If you turn a few more pages.

14 Let's go past the memo to -- there are some documents  
15 that are attached. Begins with TDR12517 and it has a  
16 schedule A up at the top. If you'll flip to the very  
17 next page marked TDR12518. Do you recognize this  
18 document?

19 A. No, I don't.

20 Q. You don't recognize it at all?

21 A. Hum-um. No.

22 Q. But it appears to itemize the various  
23 costs before Valencia was merged into TEP versus what  
24 happened after Valencia was merged. Is that a fair  
25 assessment of what this document reflects?

0126

- 1 A. Yes.  
2 Q. And you have not seen this before?  
3 A. No.

18 Q. That's fine if you don't know. Let me  
19 tell you what I'm trying to figure out here is why a  
20 June 18th, 1996, document was attached to a June 7th,  
21 1996, letter.

22 Do you have any idea how that could have  
23 happened from your experience in working with the  
24 accounting computer systems at TEP?

25 A. No.

16 Q. And turn to Exhibit No. 17, if you will.

17 You're looking at what's been previously

18 marked as Exhibit No. -- Deposition Exhibit No. 17.

19 It's TDR10067. And, Mr. Franklin, I can't find this

20 particular document I'm looking for, but in response

21 to some of the data requests we propounded on Tucson

22 Electric Power Company, the response we got was that

23 this particular document, TDR10067 was created under

24 your supervision or your direction.

25 Does that comport with your recollection?

4 I'm showing you what is entitled Tucson  
5 Electric Power Company's response to Cyprus Sierrita  
6 Corporation, Inc.'s third set of data requests in  
7 docket E00000A-99-0243. And it says here, "Data  
8 request number 1, identify by name, title and current  
9 position and duties and last address and telephone  
10 number the person or persons who prepared or authored  
11 the document Bates labeled TDR10067 that TEP produced  
12 in response to Cyprus' data request R1.9."

13 That is the same document, is it not, as  
14 Exhibit 17? They bear the same TDR number right  
15 here?

16 A. Yes.

17 Q. And in response to this, TEP says, "This  
18 document was prepared under the direction of Richard  
19 Franklin. Mr. Franklin is no longer employed by  
20 TEP."

21 Does that refresh your recollection any?

22 A. No.

23 Q. So this document probably was not  
24 prepared under your direction?

25 A. I can't say that, but I sure don't

0129

1 remember this document.

2 Q. But you think if you'd have been involved  
3 in the creation of the document, would that be  
4 something you'd remember?

5 A. Well, obviously the general data in  
6 here --

7 Q. Right.

8 A. -- came from all the meetings and the  
9 memos that we put together. But seriously, I don't  
10 remember that particular document.

11 Q.

16 Well, if you'll take Exhibit No. 17 or  
17 just compare it to TDR12518.

18 A. Okay.

19 Q. Do those look like the same documents to  
20 you? Do they look like different documents other  
21 than -- disregarding any of the confidential stamps  
22 or the Bates label stamps on there, the information  
23 that's conveyed, is there any information on TDR12518  
24 that isn't on TDR10067 or vice versa?

25 A. It doesn't appear to be. It's a little

0130

1 different format and things were consolidated over  
2 here, on 12518, but I think it's generally the same  
3 document.

6 Q. If you look at the bottom of TDR10067,  
7 which is Exhibit No. 17, that last row says -- in the  
8 first column it says, "Interest expense to TEP,  
9 interest on sales tax issue." And if you go over to  
10 the third column -- well, you go to the second  
11 column, it says, "Interest expense, short term debt,  
12 see above, total interest expense," and 431 is --  
13 account number 431 appears in the third column.

14 Do you see that information anywhere on  
15 TDR12518?

16 A. No, I do not.

19 Q. How about -- go five items up from the  
20 bottom. It says, "Maintenance costs from rotary car  
21 dumper to pulverizers."

22 A. Yes.

23 Q. And if you go over the next column it  
24 says, "Fuel expense account 501 old pre-VEC merger."  
25 And then the third column, "Maintenance of boiler

0131

1 plant, account 512." Do you see that anywhere on  
2 TDR12518?

3 A. No, I don't.

4 Q. If you look at the top of this document,  
5 Exhibit No. 17, it bears the same date, June 18th,  
6 1996; is that correct?

7 A. Yeah.

8 Q. Can you explain why there would be two  
9 different documents on the same date reflecting the  
10 expenses pre-VEC merger and post-VEC merger? Do you  
11 have any idea what that might be about?

12 A. I really do not know.

0135

25

Q.

0136

1                   Did Leonard Nehrmeyer play a pretty big  
2 role in these accounting changes, in implementing  
3 them?

4           A.       Yeah. There was a lot of conversation  
5 between Karen and Todd and Leonard.

17          Q.       Well, Mr. Franklin, you testified  
18 earlier, right, that this was a high priority in  
19 accounting, at least?

20          A.       Yes.

21          Q.       Are you aware of any conversations that  
22 accounting may have had with people outside of  
23 accounting with respect to these accounting changes  
24 that took place?

25                   For instance, we saw earlier on your May

0137

1 '94 memo -- or the May 1994 memo from Karen Kissinger  
2 that Bill Elias, who you said worked for Joe King,  
3 was involved to a certain extent or at least aware to  
4 your knowledge of these accounting changes; is that  
5 correct?

6 A. That's correct.

7 Q. Was he present at any of the meetings  
8 that you had?

9 A. No. His responsibility was mainly how it  
10 affected the rates.

11 Q. How it affected rates?

12 A. Yeah.

13 Q. Did Joe King participate in any of those  
14 meetings?

15 A. A little bit.

16 Q. A little bit?

17 A. A little bit.

18 Q. So he --

19 A. But mainly just to keep him -- you know,  
20 overall awareness of what was going on.

21 Q. So did you personally make an effort to  
22 keep Joe King aware of what was done?

23 A. We talked, yeah. Joe and I talked about  
24 the changes, you know.

0138

1 A. We sat next to each other. So . . .

2 Q. You and Joe King had at least one  
3 specific conversation in which you discussed the  
4 accounting changes?

5 A. Sure. How it affects the --

6 Q. FERC account 501?

7 A. -- rates.

8 Yeah. And the rate calculation.

9 Q. Did you and Joe discuss at all the SRP  
10 dispute?

11 A. Say that again. I'm sorry.

12 Q. Did you and Joe King discuss the SRP  
13 dispute, for instance?

14 A. Sure.

3 Q. And you stated that you wanted Joe King  
4 to be aware of the effects this accounting change on  
5 FERC 501 would have on rates. Did that include how  
6 that would affect contractual terms that included the  
7 account 501?

8 A. Yes.

9 Q. It did? And what is your recollection,  
10 what did you talk about with respect to that issue?

11 A. Specifically the SRP contract -- I think  
12 basically the SRP contract. That was one that was  
13 before FERC at that time.

14 Q. I'm trying to figure out what you would  
15 have discussed about that. My understanding of the  
16 SRP contract is that the energy charge formula  
17 included, as one of its elements, FERC account 501.

18 A. Right.

19 Q. And that was the origin of the dispute --

20 A. Correct.

21 Q. -- is that correct?

22 Okay. So you and Joe King discussed the  
23 effects these accounting changes would have on that  
24 particular term in the SRP contract; is that right?

25 A. Yes. And what would happen on an ongoing

0140

1 basis if Valencia was put back with TEP and the  
2 effect on SRP.

3 Q. To your knowledge were there other  
4 contracts that contained similar terms with the FERC  
5 account 501 at that time?

6 A. Yeah, there was specifically. We  
7 probably didn't talk about those.

8 Q. Probably didn't talk about those?

9 A. But I'm sure Joe used SRP in  
10 conversations with me to understand the impact.

11 Q. Okay. And did you, in fact, tell Joe  
12 that revenues under that contract would decrease by  
13 about a million dollars a year as a result of the 501  
14 changes after Valencia merged into TEP?

15 A. I'm not sure if I told him that. I  
16 believe Bill Elias calculated that.

17 Q. Okay. But the rates department was  
18 aware, though, of the contractual --

19 A. Yes.

20 Q. -- effects that an accounting change as a  
21 result of the Valencia merger would have on FERC  
22 account 501 to your knowledge?

23 A. Yes.

24 Q. Do you happen to know -- we heard some  
25 testimony from Bill Johnson. Do you know Bill

0141

1 Johnson?

2 A. Yes.

3 Q. He was in here on Monday, and he said  
4 that to his knowledge FERC account 501 appeared in a  
5 lot of the contracts or power sale contracts that TEP  
6 had with its large customers. Is that an accurate  
7 statement to your knowledge?

8 A. I think so, as long as it was a formula  
9 type contract instead of a fixed rate contract.

10 Q. And in your discussions with Joe King, do  
11 you recall that he was concerned in the general sense  
12 about how the accounting effects would affect other  
13 contractual terms similar to those of the SRP  
14 contract?

15 A. Yes.

0144

9 Q.

16 We're looking at what's been previously  
17 marked as Deposition Exhibit No. 33. The first page  
18 of the document is marked TEP0194. It's a faxed  
19 cover sheet and some attached materials. The fax  
20 cover sheet is dated September 30th, 1996, and it's  
21 from Leland Snook to Mike McElrath at Cyprus.

2 I'd like you to turn a few pages back  
3 to -- the page number is 33. It says TEP0197. At  
4 the top it says "Chart of Accounts." Do you see  
5 that?

6 A. Yeah.

7 Q. Have you seen a document like this  
8 before, Tucson Electric Power Company Chart of  
9 Accounts in your experience at TEP?

10 A. Yes.

11 Q. Where did this -- where would this come  
12 from? Was this a particular computer program? Was  
13 this something that was issued regularly? Why don't  
14 you tell me what --

15 A. Yeah. This is a generated computer  
16 program off of the accounting system that runs, you  
17 know, probably once a month.

18 Q. Probably once a month?

19 A. Yeah. It reflects all of the accounts in  
20 the system.

21 Q. Well, it appears to be two pages long,  
22 and at the bottom of page 33 -- well, the second half  
23 of page 33 it looks like fuel account 501, and on 34,  
24 the top part is fuel account 501; is that correct?

25 A. Yes.

0146

1 Q. Can you tell from this document when it  
2 would have been generated? Is there any way of  
3 telling?

4 A. I don't see any way to tell, no.

5 Q. Why don't we look at page 34, TEP0198 up  
6 at the top, and we're looking at the section applying  
7 to FERC account 501.

8 Would you take a look at those costs  
9 under the description column there and tell me if you  
10 think that this particular chart of accounts would  
11 have originated before or after the merger of  
12 Valencia into TEP. Or is there any way of telling?

13 A. I really -- I really can't tell the  
14 period of time. I don't know what TEP did after the  
15 merger. These look like the ones before.

16 Q. They look like the costs --

17 A. Yeah.

18 Q. -- before the merger?

19 A. Yeah. Whether they used the same  
20 accounts afterwards, I can't tell you that.

22 Q. Assume for a moment that, as you answered  
23 earlier, you think these are pre-merger costs. If  
24 they are pre-merger costs, as you believe them to be,  
25 would then this be an accurate chart of accounts --

0148

1 would this have been an accurate chart of accounts on  
2 September 30th, 1996, the date of this facsimile  
3 transmission to Cyprus?

4 A. It could be.

5 Q. How's that?

6 A. It could be that TEP retained the same  
7 chart of accounts for fuel before and after.

4 Q. Mr. Franklin, explain to me again what  
5 you mean when you say TEP could have maintained the  
6 same chart of accounts.

7 A. Well, what I'm saying is even though this  
8 says, "Springerville unit one fixed costs," the  
9 account number coal is still relevant.

10 Q. Okay. I understand that. Why don't we  
11 go -- we're on page 34. TEP0198. Why don't we go  
12 one, two, three, four, five, six, seven lines down  
13 from the top in the third column under description.

14 A. Okay.

15 Q. And it says under 501 coal, SP1REVL, it  
16 says, "Coal, Springer unit one, coal credit for  
17 reversal of VEC contingent liability." What does VEC  
18 refer to?

19 A. Valencia Energy Company.

20 Q. Okay. To your knowledge did Valencia  
21 Energy Company exist on September 30th, 1996?

22 A. According to what I've seen today, no.

23 Q. Okay. So would a chart of accounts,  
24 including a reference to Valencia Energy Company on  
25 September 30th, 1996 -- would that have been accurate

0150

1 at the time given the merger of Valencia in May 31,  
2 1996?

3 A. Not specifically, but remember companies  
4 do comparable statements.

5 Q. Okay.

6 A. So to be able to do comparisons between  
7 one year and another, these accounts have to stay  
8 open for 12 months.

15 Q. Let me understand if I'm following. What  
16 you're suggesting is this reference to VEC contingent  
17 liabilities on Page 34 here, Exhibit 33, that could  
18 be an open account in which TEP was no longer billing  
19 costs --

20 A. Yes.

21 Q. -- to FERC account 501?

22 A. Yes.

23 Q. Now I understand. Thank you.

24 Why don't you turn to Exhibit 56. This  
25 is what's been previously marked as Deposition

0151

1 Exhibit 56. At the top it's entitled Valencia Energy  
2 Fuel Transfer Costs 1996. Do you see that,  
3 Mr. Franklin?

4 A. Yes.

5 Q. Have you ever seen a document like this  
6 before?

7 A. Yes.

8 Q. Okay. And what would be the business  
9 purpose of producing this document to your  
10 recollection?

11 A. Well, I believe this is done for  
12 budgeting purposes at the end of each year. Valencia  
13 detailed its costs to come up with a transfer price  
14 or a purchase price of coal or fuel that it would  
15 sell TEP.

4 Q.

7 Do you have any idea from your experience  
8 at TEP -- you said this was generally created for  
9 budgeting purposes.

10 A. Right.

11 Q. When would a document entitled Valencia  
12 Energy Fuel Transfer costs 1996 -- would that have  
13 been created before or at the beginning of 1996 or  
14 sometime after, from your experience?

15 A. Probably at the beginning.

16 Q. Okay.

17 A. Although if costs changed for some  
18 reason --

19 Q. Okay.

20 A. -- they would print a new one of these.

21 Q. Okay. And who would print these?

22 A. I think they came from Theresa Mead,  
23 which was the fuel procurement area.

24 Q. Did she work for -- was it Dave Bennett?

25 A. Yes.

0158

1

C E R T I F I C A T E

2

2 STATE OF ARIZONA )

3 ) ss.

3 COUNTY OF COCONINO )

4 I, NAOLA C. THIMESCH, a Notary Public in  
5 and for the County of Coconino, State of Arizona,  
6 certify:

7 That the foregoing deposition of RICHARD R.  
8 FRANKLIN taken before me at the time and place  
9 therein set forth, at which time the witness was put  
10 under oath by me;

11 That the testimony of the witness and all  
12 objections made at the time of the examination were  
13 recorded stenographically by me and were thereafter  
14 transcribed;

15 That the foregoing transcript comprises a  
16 true record of the testimony and of all objections  
17 made at the time of the examination;

18 That I am in no way related to the parties  
19 in this action, nor interested in the outcome  
20 thereof.

21 IN WITNESS WHEREOF, I have subscribed my  
22 name and affixed my seal this 24th day of October,  
23 1999.

24

25 NAOLA C. THIMESCH, RPR/CSR

25 NOTARY PUBLIC



# TEP CURRENT GENERATIONS

News for  
The Energy People at  
Tucson Electric  
Power Company

June 4, 1996

## Book Worms Surface... And Pay Up!

After just the first day of the week-long annual TEP Book Sale, \$857.65 had been earned to benefit local domestic violence shelters. This included \$215 from the e-mail Encyclopedia pre-sale; \$566.65 from books sold Downtown and \$76 from the Downtown Cake Raffle, which was won by Susan Wallach. (Pictured: book sale volunteer Irma Robles.)



Photo by Alan Lee Bland

## Valencia Energy Company Merges Into TEP

**V**alencia Energy Company was merged into Tucson Electric Power Company effective May 31, 1996. Effective with the merger, TEP assumes all of the assets and liabilities of Valencia; the responsibilities for the procurement; coal transportation and coal handling services at Springerville Generating Station; and the responsibilities as the lessee of the coal handling facilities.

After the closing of TEP's financial restructuring in 1992, Valencia had only one customer, TEP, thus eliminating the need for a separate entity to administer the coal handling costs.

In addition, the Arizona Department of Revenue assessed transaction privilege taxes on gross income received by Valencia from coal sales, transportation, and coal-handling services to TEP.

While the merger of Valencia into TEP will not reduce the amounts of sales taxes already assessed for prior periods, the merger will prevent future assessments, thus saving TEP millions of dollars on an annual basis.

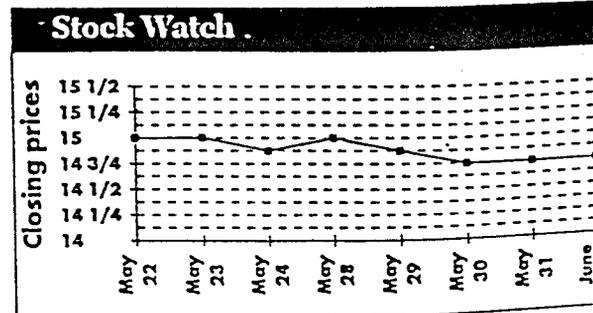
If the Arizona Department of Revenue prevails in its prior assessments, the annual savings from the sales tax assessments prevented by the

merger of Valencia and TEP average approximately \$3.4 million. Approximately \$2.2 million will be saved in June-December 1996.

Previously, Valencia could not be merged into TEP until certain provisions of the coal handling lease were modified and accepted by the debt and equity participants in the coal handling facilities leases. Such modifications were accepted on May 31, 1996.

— Karen Kissinger

TEP  
EXHIBIT NO. 6  
net 10-9-96





**Nehrmeyer, Leonard**

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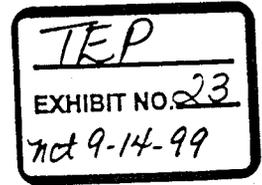
**From:** Kissinger, Karen  
**To:** Officers-OH; Officers-SC; Hansen, Tom; Officers-DT  
**Cc:** Kassamali, Abdul; Franklin, Rick; Clark, Todd; Nehrmeyer, Leonard; Nichols, Catherine; Sabers, Dawn; Dabelstein, Carl; Bennett, Dave  
**Subject:** Merger of Valencia into TEP  
**Date:** Friday, May 31, 1996 3:32PM  
**Priority:** High

Valencia filed its articles of merger at the ACC today. As of today, Valencia and Gallo Wash Development Co. no longer exist; they are a part of TEP. If the Arizona Department of Revenue prevails in its sales tax assessments, this saves the company approximately \$3.4 million annually going forward. The savings for the June - December '96 period would be approximately \$2.2 million.





MEMO TO: FILE  
FROM: LEONARD NEHRMEYER  
DATE: JUNE 18, 1996  
SUBJECT: 1/2 Lease Cost and 1/2 Property Tax Included in Fuel



The following will help clarify questions concerning why Springerville does include 1/2 lease cost and 1/2 property tax in fuel and why Irvington does not.

**Background:**

Rick Franklin originally researched this issue for the collapse of VEC, for the SRP, and for the Nevada Power billing.

SRP has taken the position that if TEP did not acquire coal from Valencia, certain costs would not be accounted for in Account 501-Fuel but in other accounts. Furthermore, SRP maintains that the following items should not appear in 501-Fuel:

- Shipper car lease
- Property tax
- Lease
- Return on investment
- AZ sales tax

TEP has taken the position that the property taxes and lease payments associated with the coal-handling facilities but not transportation cost would be removed from 501-Fuel. Coal-handling facilities that do represent transportation cost will continue to be included in 501-Fuel.

In Rick Franklin's analysis, he compared the original cost of the coal handling facilities to the railroad facilities and determined the percentage to be 50% to railroad facilities and 50% to coal and oil handling facilities (see attachment). It was determined that the railroad facilities ended at the rotary car dumper.

**Research:**

FERC Account 151, Fuel Stock, states:

*"Lease or rental cost of transportation equipment used to transport fuel from the point of acquisition to the unloading point including ad valorem taxes on transportation equipment"* can be included in Account 151 and transferred to Account 501 as fuel is burned. Attached are the FERC account descriptions.

**Conclusion:**

In view of this information, one half or 50% of the lease cost including the deferred lease and one half or 50% of property taxes will be charged to Account 151 and allocated based on burn to Account 501-Fuel for Springerville 1 and 2.

**Consistency between Irvington and Springerville**

Joe King, Corby Gardiner, and myself met with Rick Franklin on June 18 to discuss the above issues and any questions SRP might have in the future. The question came up concerning consistency between stations relating to property tax and lease cost at the Irvington plant vs. Springerville. Rick explained that the reason property tax and lease cost are not included at Irvington is the small amount of railroad facility cost at Irvington. He estimated that approximately 100 feet of railroad track is included in the Irvington lease.

**Tucson Electric Power Company  
Percentage of Railroad Facilities of Total Lease  
Based on Original Cost of Valencia Leased Facilities**

**Railroad Facilities:**

Land - Railroad	\$ 227,897
Right of Way - Railroad	2,048,972
Salt River Project Railroad Spur	41,173,686
Off Site Railroad	44,094,082
On Site Railroad	<u>6,720,827</u>
 Total Railroad Facilities	 94,265,464

**Coal and Oil Handling Facilities:**

On Site Coal Handling and Oil Facilities	<u>93,953,286</u>
 Total Valencia Leased Facilities	 <u>\$188,218,750</u>

Percentage of Railroad Facilities to Total Lease =  $\$94,265,464 / \$188,218,750 = 50.08\%$

ANNEX 1 TO SCHEDULE 1

DESCRIPTION OF "EQUIPMENT"

The Equipment consists of various facilities and systems, as generally depicted on Exhibit \_\_\_-1.1 hereto utilized to transport and convey coal and other fuels to the Springerville Project (all such facilities being located on a parcel of real property in Apache County, Arizona referred to as the "Springerville Plant Block" more particularly described on Exhibit \_\_\_-1.2 hereto) described as follows:

1. Railroad Facilities

The railroad facilities consist of all railroad track, ties, switches, communications equipment, cut, fill, bridges, culverts, trestles, crossings and all other facilities and equipment utilized by railroad locomotives and gondola cars to transport coal, fuel oil and other types of fuels for use at the Springerville Project.

2. Coal Handling Facilities

The coal handling facilities consist of various systems to convey coal from the coal car unloading area to the units and are described as follows:

(a) Train Unloading System

This system is designed to unload coal from incoming unit trains using a Rotary Car Dumper system. When a unit train arrives on the plant site, it enters the dumper system and is released to site personnel for unloading. Coal cars are indexed one at a time into the dumper by an automatic Car Positioner. Individual cars are restrained and rotated 170 degrees allowing coal to fall into hoppers located under the dumper assembly. The car then returns to an upright position and the next car is automatically moved into the dumper for unloading. When the final car has been unloaded the now empty train is released to its crew and exits the site.

(b) Stackout System

The Stackout System's function is to transport coal from the unloading hoppers at the car dumper to either the Active Storage or Emergency Storage Piles using a conveyor belt system. Coal from the dumper hoppers is fed onto one of a pair of belt conveyors using vibrating feeders to regulate flowrate. It moves to the Unloading Transfer Tower and there is diverted to either the Active or Emergency Stackout Conveyors using flop gates. The active pile is the primary coal storage during normal operation. It uses three lowering wells connected by conveyors to deposit coal, in an area where it can be readily reused, while controlling dusting during stackout. When filled, the active pile has a capacity of approximately 66,000 tons. The Emergency Stackout system is intended as a backup and as such is used to receive incoming coal whenever the active stackout or reclaim is out of service for

prolonged periods. It is also the deposit point for coal intended for long term storage in the 90 day Dead Storage Pile. A Radial Stacker and Telescopic Chute system is used to deposit coal while again controlling fugitive dust. Within the Stackout system, Belt Scales are used to monitor the weight of coal received and which area it is stored in. All conveyor belts and major structures are protected by fire monitoring and sprinkler systems and are enclosed for dust control. The entire Unloading and Stackout systems are operated from the Car Dumper Building control room using programmable control systems. The Stackout system operates in either automatic or manual mode.

### (c) Reclaim System

The Reclaim System is designed to feed coal from the Active or Emergency Storage Piles to the pulverizer silos on an intermittent basis to maintain preset silo coal volumes. While being transported the coal is first crushed to the desired pulverizer input size and then sampled to determine fuel characteristics for optimum unit performance. The Active Reclaim Pile is the normal coal supply source. One of two Rotary Plow Feeders located in a reclaim tunnel under the lowering wells feeds coal onto a reclaim conveyor for movement to the Crusher Tower surge bin. The coal is processed through a secondary crusher and fed by conveyor to the Sample Tower where samples are automatically taken for later analysis. The coal then moves into the boiler area to the Silo Transfer Tower surge bin for distribution to the Unit 1 and 2 coal silos as required. Each unit uses a tripper conveyor to feed coal to individual silos one at a time when the silo's weight falls below a preset level. All the conveyors from the Crusher Tower to the unit trippers consist of redundant paired belts to assure high system integrity. When the Active Reclaim pile is out of service, coal can be fed into the system from the Emergency Reclaim Hopper located adjacent to the Radial Stacker. Coal is moved by yard equipment from either the emergency or dead piles to the hoppers where vibrating feeders regulate flow onto a conveyor for movement to the Crusher Tower and into the main system. As with the stackout system, the reclaim system is enclosed and has fire protection throughout. It is controlled from either the panel located in the Car Dumper Building or a duplicate system in the plant's main control room and uses programmable controls. It functions in either automatic or manual modes using preset silo and surge bin weights to regulate feeder flowrates. Belt Scales monitor the weight of coal being fed to the Units and maintain a total count of tons consumed. Metal Detectors and Magnetic Separators are used to prevent metallic debris from entering the pulverizer silos.

### 3. Fuel Oil Handling Facilities

This system is designed to unload fuel oil from either rail cars or trucks into storage and deliver it to the main boiler ignitors and warmup guns and to the auxiliary boiler as necessary. The system includes a storage tank and all piping, pumps, valves, instrumentation and controls to off load fuel oil and deliver it to the boilers as needed.

SPRINGERVILLE PROJECT FUEL HANDLING FACILITIES

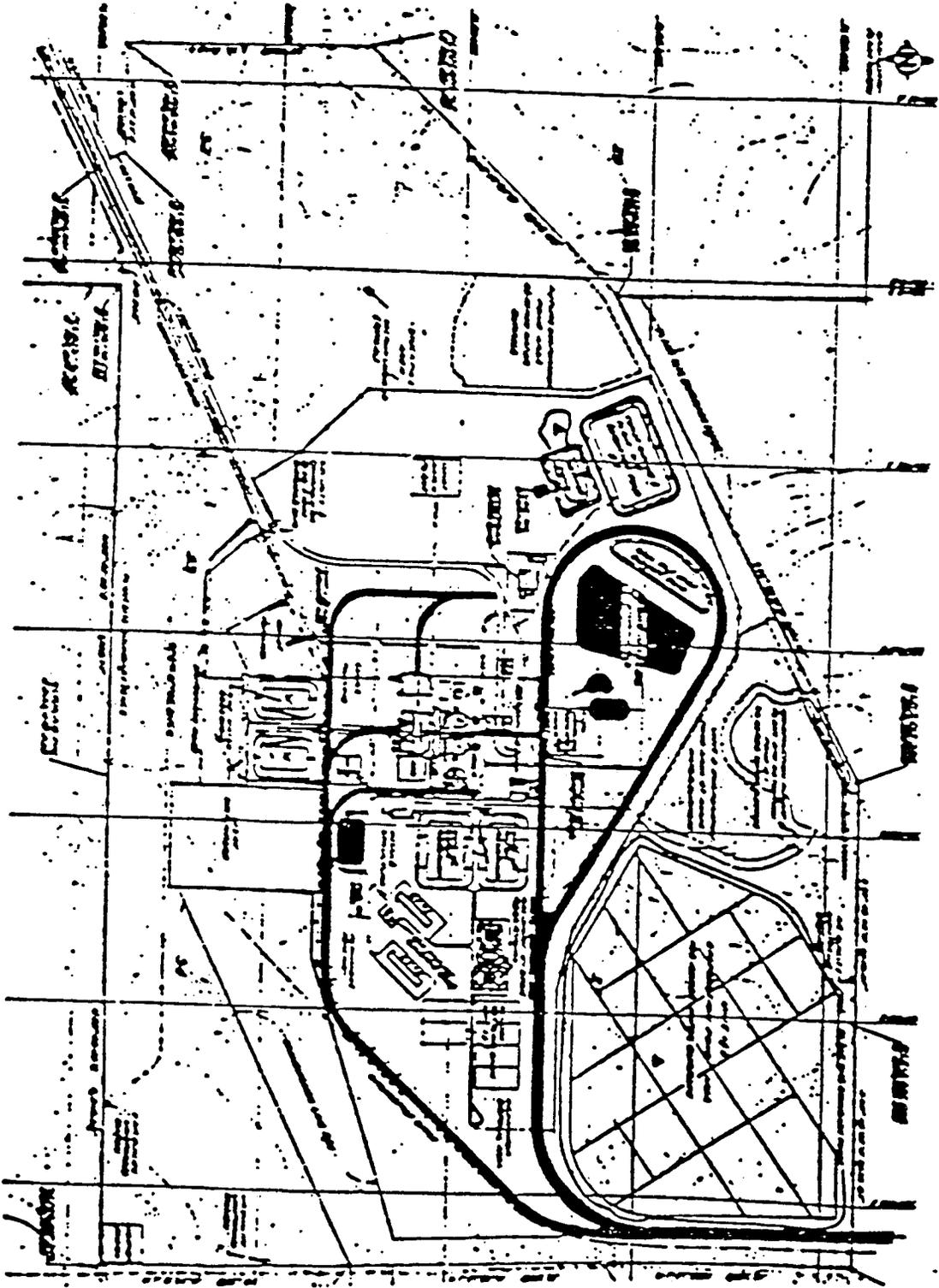


EXHIBIT - 1.1

OCT 475 PAGE 540

Exhibit -1.2  
(Fuel Handling Facilities)

Legal Description  
for the  
Springerville Plant Block

A parcel of real property, located in Apache County, Arizona more particularly described as follows:

That portion of Sections 27, 28, 29, 32, 33 and 34, Township 11 North, Range 30 East, Gila and Salt River Base and Meridian, Apache County, Arizona, described as follows:

Commencing at the Northeast corner of said Section 27 for the TRUE POINT OF BEGINNING;

THENCE South 89°48'22" West a distance of 5277.34 feet;

THENCE South 62°39'31" West a distance of 5881.12 feet;

THENCE South 44°17'01" West a distance of 3748.38 feet;

THENCE South 00°42'05" East a distance of 2665.05 feet;

THENCE North 89°41'23" East a distance of 2656.54 feet;

THENCE North 89°42'33" East a distance of 5308.77 feet;

THENCE North 89°42'46" East a distance of 5315.32 feet to the East quarter corner of Section 34;

THENCE North 01°15'54" West a distance of 2667.65 feet;

THENCE North 01°27'22" West a distance of 5335.57 feet to the TRUE POINT OF BEGINNING.

OKT 475 PAGE 541

TDR13280

ANNEX 2  
TO  
SCHEDULE 1

"Springerville Spur" shall mean the railroad facilities and equipment located within the boundaries of the Springerville Spur Real Property (as more specifically described in Annex 3 to Schedule 2) including, but not limited to, all railroad track, ties, switches, communications equipment, cut, fill, bridges, culverts, trestles, crossings and all other facilities and equipment utilized by railroad locomotives and gondola cars to transport coal, fuel oil and other types of fuels.

DKT 475 PAGE 542

TDR13281

ANNEX 3 TO SCHEDULE 1

CORONADO-SPRINGERVILLE LINE IMPROVEMENTS

FUEL TRANSPORTATION AND HANDLING FACILITY

All railroad track, ties, switches, communications equipment, cut, fill, bridges, culverts, trestles, crossings and other facilities and equipment constituting the Coronado-Springerville Line including but not limited to the following:

1. 4,492,377 cubic yards of roadbed (slope protection)
2. 13,492 linear feet of corrugated metal pipe
3. 39,564 cubic yards of rock slope protection
4. 467 linear feet of under crossing-ellipses
5. 627 linear feet bridge known as the "Carrizo Bridge"
6. 429 linear feet bridge known as the "Zuni Bridge"
7. 137,600 cubic yards of ballast
8. 152,000 railroad cross ties
9. 253,000 feet of rail - 119 lb. + OTM + special trackwork
10. 16 electrical signalization units.
11. 3 highway road crossing units
12. 1 ATSF base station
13. 264,000 linear feet of fencing
14. 65 cattleguards
15. 3 road crossings
16. 40 cattle crossings
17. 84,480 linear feet of roadway
18. 1 track supervisor metal garage
19. 1 radiophone AT-35302
20. 1 section track AT-34911

OKT 4/75 PAGE 543

## Regulations

11,614

associated companies. Items which do not bear a specified due date but which have been carried for more than twelve months and items which are not paid within twelve months from due date shall be transferred to account 123, Investment in Associated Companies.

NOTE A: On the balance sheet, accounts receivable from an associated company may be set off against accounts payable to the same company.

NOTE B: The face amount of notes receivable discounted, sold or transferred without releasing the utility from liability as endorser thereon, shall be credited to a separate subdivision of this account and appropriate disclosure shall be made in financial statements of any contingent liability arising from such transactions.

[ 15,161 ]

## 151 Fuel stock (Major only).

This account shall include the book cost of fuel on hand.

## Items

1. Invoice price of fuel less any cash or other discounts.
2. Freight, switching, demurrage and other transportation charges, not including, however, any charges for unloading from the shipping medium.
3. Excise taxes, purchasing agents' commissions, insurance and other expenses directly assignable to cost of fuel.
4. Operating, maintenance and depreciation expenses and ad valorem taxes on utility-owned transportation equipment used to transport fuel from the point of acquisition to the unloading point.
5. Lease or rental costs of transportation equipment used to transport fuel from the point of acquisition to the unloading point.

[ 15,162 ]

## 152 Fuel stock expenses undistributed (Major only).

A. This account may include the cost of labor and of supplies used and expenses incurred in unloading fuel from the shipping medium and in the handling thereof prior to its use, if such expenses are sufficiently significant in amount to warrant being treated as a part of the cost of fuel inventory rather than being charged direct to expense as incurred.

B. Amounts included herein shall be charged to expense as the fuel is used to the end that the balance herein shall not exceed the expenses attributable to the inventory of fuel on hand.

## ITEMS

## Labor:

1. Procuring and handling of fuel.
2. All routine fuel analyses.

## Regulations

4. Moving of fuel in storage and transferring from one station to another.
5. Handling from storage or shipping facility to first bunker, hopper, bucket, tank or holder of boiler house structure.
6. Operation of mechanical equipment, such as locomotives, trucks, cars, boats, barges, cranes, etc.

## Supplies and Expenses:

7. Tools, lubricants and other supplies.
8. Operating supplies for mechanical equipment.
9. Transportation and other expenses in moving fuel.
10. Stores expenses applicable to fuel.

[ 15,163 ]

## 153 Residuals (Major only).

This account shall include the book cost of any residuals produced in production or manufacturing processes.

[ 15,164 ]

## 154 Plant materials and operating supplies.

A. This account shall include the cost of materials purchased primarily for use in the utility business for construction, operation and maintenance purposes. For Nonmajor utilities, this account shall include the cost of fuel on hand and unapplied materials and supplies (except meters and house regulators). For both Major and Nonmajor utilities, it shall include also the book cost of materials recovered in connection with construction, maintenance or the retirement of property, such materials being credited to construction, maintenance or accumulated depreciation provision, respectively, and included herein as follows:

(1) Reusable materials consisting of large individual items shall be included in this account at original cost, estimated if not known. The cost of repairing such items shall be charged to the maintenance account appropriate for the previous use.

(2) Reusable materials consisting of relatively small items, the identity of which (from the date of original installation to the final abandonment or sale thereof) cannot be ascertained without undue refinement in accounting, shall be included in this account at current prices new for such items. The cost of repairing such items shall be charged to the appropriate expense account as indicated by previous use.

(3) Scrap and nonusable materials included in this account shall be carried at the estimated net amount realizable therefrom. The difference between the amounts realized for scrap and nonusable materials sold and the net amount at which the materials were carried in this account, as far as practicable, shall be adjusted to the accounts credited when the materials



file

Tucson Electric Power Company  
MEMORANDUM

TO: Ira Adler, Tom Delawder, Tom Hansen, Norm Johnsen, Susan Wallach  
Todd Clark, Steve Glaser, Joe King

FROM: Karen Kissinger *Kuen*

DATE: May 31, 1994

SUBJECT: Impact of Changes in Valencia on the Billings to SRP and Nev. Power

---

Over the last couple of months I have had meetings with several of you on separate occasions about the potential impact of having TEP take title to the Springerville Station coal directly, and acquire certain services, such as coal handling facility use and perhaps some other additional services, from Valencia. One initial benefit of this change would be that sales tax claims by the State of Arizona Dept. of Revenue for sales tax, as yet unresolved, would go down by about \$3.3 million per year, going forward. A cost of this change is that approximately \$1 million of certain costs will no longer be includable in account 501-fuel, and therefore, not billable to SRP and Nevada Power as fuel pursuant to their power purchase agreements.

SRP has taken the position that if TEP did not acquire the coal from Valencia, certain costs would be accounted for in accounts other than 501-fuel. Rick Franklin has analyzed the costs currently included in Valencia's fuel costs and compared them to the requirements of the FERC chart of accounts and the Company's current accounting policies for other generating stations. SRP is mistaken in the amount of cost which would be accounted for in accounts other than 501-fuel. SRP maintains that the following items would not appear in fuel:

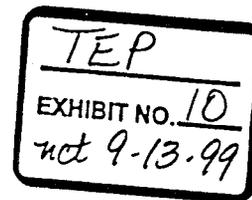
- shipper car lease
- npc rail car lease
- property tax
- lease
- return on investment
- AZ. sales tax

The property taxes and lease payments associated with the coal-handling facilities that do not represent transportation costs would be removed from the fuel accounts. This represents about 50% of such property tax and lease costs, not 100%. In addition, there would be no return calculation included in fuel. All of the remaining costs would continue to be accounted for as fuel expense in account 501. Having TEP take title to the coal directly, and incur these accounting reclassifications, would reduce the amounts billable to SRP and Nevada Power by approximately \$1 million per year. Excluding all of the amounts designated by SRP would reduce such billings by about \$2 million per year.

I have attached a copy of Rick's memo as well as a schedule from Bill Elias illustrating SRP's schedule of costs which SRP believes should be excluded, for your information.

Att.

cc: Rick Franklin, Bill Elias



TDR12529

TUCSON ELECTRIC POWER COMPANY

INTEROFFICE MEMORANDUM

TO: Karen Kissinger  
FROM: Rick Franklin *R. Franklin*  
DATE: May 25, 1994  
SUBJECT: FERC Fuel Accounting - Springerville Coal

A couple of weeks ago you asked my group to do some research into the FERC accounting for the Springerville Coal and handling costs if Valencia was folded back into TEP. Our research was obtained from review of the FERC Uniform Systems of Accounts and brief questions of EEI members in Philadelphia last week. Below is a summary of that research:

Current Accounting

A summary of Valencia cost categories as projected for year 1994 include:

1. Coal	67,638
2. Transportation	18,803
3. Oil Flame Stabilization	206
4. Operations and Maintenance (incl car lease)	2,941
5. Property Tax	4,339
6. Depreciation (owned facilities)	134
7. Track Maintenance	720
8. Other costs (including TEP support, property insurance, payroll and misc. costs)	786
9. Arizona Sales Tax	3,773
10. Lease Costs (including contingent liability, return on deferral, and return on investment)	<u>29,064</u>
Total 1994 Estimated Costs	<u>128,404</u>

Note: The above costs are based on 3 million tons

Under current accounting procedures the above costs are billed to TEP on a monthly basis for year 1994 by Valencia. TEP will charge account 501 - Fuel, for all of the above cost categories, based upon the monthly burn for Springerville Units 1&2 and as reflected in the monthly billings from Valencia. All fuel inventories are kept on the books of Valencia.

TDR12530

Accounting Change - Valencia Folded to TEP

1. Fuel Inventory FERC Account 151 - TEP would set up an inventory account 151 for the inventory cost of fuel similar to the current Valencia inventory account. Component items which would be included in this account would be as follows using 1994 estimated amounts as an example:

a). Coal	67,638
b). Transportation	18,803
c). Oil Flame Stabilization	206
* d). Property Tax (associated with RR. (approx. 50% of property tax)	2,169
e). Arizona Sales Tax	3,773
* f). 50% of Lease cost, associated with On-site, Off-site and SRP Railroad	14,532
e). O&M (rail car lease)	<u>273</u>
Total Account 151	<u>107,397</u>

*decrease by  
\$2.5 mm for  
return for  
Component*

These costs would be transferred to FERC account 501 as the fuel is burned by Springerville Units 1&2.

\* Per FERC Uniform Systems of Accounts, account 151, "Lease or rental costs of transportation equipment used to transport fuel from the point of acquisition to the unloading point" can be included in FERC account 151 and transferred to FERC account 501 as fuel is burned including ad valorem taxes on transportation equipment.

2. Fuel Stock Expenses Undistributed FERC Account 152 - Operating and Maintenance expenses associated with the fuel handling operation would be charged to FERC account 152. Component items which would be included in this account would be as follows using 1994 estimated amounts as an example:

a). Operations and Maintenance Costs (excluding car lease)	3,748
b). Other Costs (incl. survey, payroll, dust suppression, misc)	<u>558</u>
Total Account 152	<u>4,306</u>

These costs would be transferred to FERC account 501 as the fuel is burned by Springerville Units 1&2.

3. Lease Costs FERC Account 507 - FERC requires that the lease cost associated with non-transportation equipment for production plant be charged to FERC Account 507 Rents. The lease costs associated with fuel handling facilities from the point of fuel delivery to the hoppers would be charged to account 507. Component items which would be included in this account would be as follows using 1994 estimated amounts as an example:

- a). 50% of Lease cost associated with On-site Fuel Handling Facilities 14,532

*declassified by 12/2/00 in return component.*

4. Property Tax Non-Transportation Equip. FERC Account 408:

- a). Property Tax associated with non-transportation facilities to FERC Account 408.

2,169

attachments: copies of FERC account descriptions

*This accounting is the same as that currently applied by TED for costs at Navajo Generating Station. No other stations have similar transportation issues.*

FORECASTED 1994 VALENCIA FUEL COSTS  
AND RELATE EFFECT ON SRP & NPC CONTRACTS

1000'S	VALEN. COSTS	SRP RECOM'D EXCLUS.	SRP ADJ'D COSTS
	(A)	(B)	(C) = (A)-(B)
MINE COSTS	\$67,637		\$67,637
TRANSP. AGREE.	\$18,277		\$18,277
SHIPPER CAR LEASE	\$443	\$443	\$0
NPC RAIL CAR LEASE	\$83	\$83	\$0
OIL STABILIZATION	\$208		\$208
D & M	\$2,940		\$2,940
PROPERTY TAX	\$4,339	\$4,339	\$0
TRACK MAINT.	\$720		\$720
OTHER	\$1,013		\$1,013
LEASE	\$21,232	\$21,232	\$0
RETURN	\$4,991	\$4,991	\$0
NET SALES TAX	\$5,446	\$5,446	\$0
TOTAL	\$127,329	\$36,534	\$90,795
MWH OUTPUT 1993 12ME DEC			
DELIVERED TO SRP 1993	8,107,353		
DELIVERED TO NPC 1993	295,101		
TOTAL/MWH OUTPUT (¢/KWH)	1.571	0.451	1.12
¢/KWH *SRP DEL'D	\$4,636	\$1,331	\$3,305
¢/KWH *NPC DEL'D	\$2,783	\$799	\$1,984
DIFFERENCE:			
SRP VS. VALEN. COSTS	\$1,331		
NPC VS. VALEN. COSTS	\$799		
TOTAL	\$2,130		

TDR12533



REQUEST NO. 2 OF THE THIRD SET

<u>TRP</u>
EXHIBIT NO. <u>9</u>
<u>not 9-13-99</u>

TDR12575

FILED  
OFFICE OF THE SECRETARY  
97 JUN 13 PM 3:55  
FEDERAL ENERGY  
REGULATORY COMMISSION

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

832671

Before Commissioners: Elizabeth Anne Moler, Chair;  
Vicky A. Bailey, James J. Hoecker,  
William L. Massey, and Donald F. Santa, Jr.

The Salt River Project )  
Agricultural Improvement )  
and Power District )  
 )  
v. ) Docket No. EL96-22-000  
 )  
Tucson Electric Power Company )

ORDER DENYING COMPLAINT, DENYING REFUNDS,  
AND CLARIFYING ACCOUNTING REGULATION

(Issued June 13, 1997)

This order denies a complaint seeking refunds from a utility that included certain fuel handling costs incurred by an affiliate in Account No. 501, Fuel, and recovered them through its energy charge. We do so because of an ambiguity in the applicable regulation and the lack of Commission guidance on this precise issue. The order clarifies, however, that, in the future, utilities may not account for these costs in Account No. 501.

Background

Tucson Electric Power Company (Tucson) sells electricity to the Salt River Agricultural Improvement and Power District (Salt River) under an agreement the Commission accepted for filing in Tucson Electric Power Company, 46 FERC ¶ 61,053 (1989) (Tucson Electric). Among other things, the power sales agreement (which runs through May 31, 2001) obligates Salt River to pay a fixed demand charge and a formula energy charge (which recovers the actual cost of certain expenses related to fuel and purchased power, including Account No. 501, Fuel) for electric power that the customer schedules from Tucson.

On December 1, 1995, Salt River filed a complaint alleging that Tucson had overcharged it by improperly including in Account No. 501 and its energy billings certain costs related to the coal handling facilities at Tucson's Springerville generating station. Those facilities were leased to and are operated by Valencia Energy Company (Valencia), a subsidiary of Tucson. According to Salt River, the costs in question -- mainly capital lease costs and financing costs -- cannot be construed as "fuel costs" that may be included in Account No. 501 or passed through Tucson's

TDR12576

formula energy rate and must be recovered, if at all, only in the demand charge.

Salt River requests refunds, plus interest, as of the effective date of the agreement with Tucson, in addition to prospective adjustment of Tucson's billings.

#### Notice, Answer and Other Pleadings

Notice of the complaint was published in the Federal Register, 60 Fed. Reg. 66,962 (1995), with comments, protests, and interventions due on or before January 16, 1996.

On January 16, 1996, Tucson filed an answer to and a request for summary dismissal of the complaint. On January 31, 1996, Salt River filed a motion for leave to file a reply to Tucson's answer.

On February 27, 1996, Tucson filed a motion to dismiss. On March 13, 1996, Salt River filed its response. On March 29, 1996, Tucson filed a request for leave to reply to Salt River's answer to the motion to dismiss, and on April 11, 1996, Salt River filed an answer in opposition to Tucson's request. Finally, on September 19, 1996, Salt River filed a motion to lodge a report Tucson submitted to the Securities and Exchange Commission.

#### Discussion

##### 1. Procedural Matters

We will grant Salt River's January 31, 1996 request for leave to reply to Tucson's answer to the complaint. Tucson's answer requests summary disposition and, in effect, contains a motion to dismiss the complaint. The Commission's regulations permit parties to respond to such motions as Salt River did here, see 18 C.F.R. § 385.213(a)(3) (1996).

We will, however, deny Tucson's March 29, 1996 motion to reply to Salt River's answer to the motion to dismiss the complaint. Answers to answers are generally prohibited under our regulations, see 18 C.F.R. § 385.213(a)(2) (1996). Tucson, which has had ample opportunity to raise all of its arguments, has not shown good cause for us to waive this general rule.

We will grant Salt River's September 19, 1996 motion to lodge. The information contained in the submission, concerning Valencia's dissolution and the apparent effect of the dissolution on the fuel charges that Tucson subsequently passed through to Salt River, is relevant to our consideration of the complaint.

TDR12577

2. Tucson's Accounting for and Recovery of Capital Costs Associated with the Coal Handling Facilities

Salt River's complaint presents the Commission with a case of first impression. The applicable accounting regulation contains an ambiguity and Tucson arguably acted correctly. For these reasons, although we clarify that we will not permit public utilities to record the capital costs of fuel handling facilities in Account No. 501, prospectively from the date of this order, we will not order refunds in this proceeding.

The agreement at issue here defines the costs includable in Tucson's energy charge to include those properly recordable in Account No. 501.

The instructions to Account No. 501(A) state in pertinent part as follows:

This account shall include the cost of fuel used in the production of steam for the generation of electricity, including expenses in unloading fuel from the shipping media and handling thereof up to the point where the fuel enters the first boiler plant bunker, hopper, bucket, tank or holder of the boiler-house structure.

18 C.F.R. Part 101 (1996).

Tucson maintains that all of the costs of Valencia's coal handling facilities -- including capital lease and financing costs -- fall within the Account No. 501 category of "handling thereof up to the point where the fuel enters the first boiler plant bunker." While Tucson interprets the accounting regulation in a manner which may not be inconsistent with its precise terms and instructions, we find, however, that such a reading would defeat the purpose of Account No. 501.

The list of items appearing under the text of each account is intended to be representative (but not exhaustive) of the types of costs includable in that account. Since the costs here in question are not among those listed as includable in Account No. 501, we must determine whether they are the types of items contemplated for inclusion in that account.

Our examination discloses that all of the costs listed in Account No. 501 are operating costs associated with fuel handling rather than capital costs, 1/ such as those at issue here. 2/

---

1/ "Capital costs" refer to costs associated with completed plant, such as depreciation, interest, return and taxes. Costs associated with tools, labor, materials, supplies, and (continued...)

In addition, the Commission never has expressly allowed any capital costs associated with fuel handling facilities to be included in Account No. 501. In fact, the Uniform System of Accounts provides other accounts for the recording of capital costs associated with fuel handling facilities. For example, financing costs associated with plant and equipment are properly recorded in the interest expense accounts, and the costs of leased plant or equipment related to energy production properties are properly recorded in Account No. 506, Rents.

Therefore, we conclude that excluding the capital costs of fuel handling facilities, including lease and financing costs, is consistent with the purpose of Account No. 501.

We realize, however, that Tucson's interpretation of the Uniform System of Accounts arguably has linguistic merit. Therefore, we take this opportunity to clarify that, with the one exception for capital costs associated with fuel transportation equipment (see *supra* note 2), utilities may record in Account No. 501 only operating costs of "unloading fuel from the shipping media and handling thereof up to the point where the fuel enters the first boiler plant bunker, tank, or holder of the boiler-house structure."

### 3. Appropriate Relief

Salt River requests a refund of all of the questioned costs associated with the Springerville fuel handling facilities that Tucson recorded in Account No. 501 and collected through its energy charge, plus interest. We will deny that relief.

We find, for the reasons explained above, that Tucson's recording of the capital costs associated with fuel handling facilities in Account No. 501 resulted from an arguably appropriate interpretation of that account. Given this, we exercise our discretion not to order refunds.

Salt River acknowledges that Tucson recently stopped recording the disputed costs in Account No. 501 and stopped collecting these costs through its energy charge. Therefore, the

- 
- 1/ (...continued)  
the like fall under the category of "operating costs" in Account No. 501, even though they can be capitalized.
  - 2/ Account No. 501 includes capital costs, such as depreciation and lease costs, associated with specific fuel transportation (as opposed to fuel handling) equipment. Neither Salt River or Tucson asserts that the costs in question here are associated with fuel transportation equipment. Accordingly, that exception does not apply.

issue of prospective relief becomes moot and we will deny the complaint in its entirety.

The Commission orders:

(A) Salt River's complaint is hereby denied, as discussed in the body of this order.

(B) Salt River's January 31, 1996 motion to answer Tucson's answer is hereby granted.

(C) Tucson's March 29, 1996 motion to answer Salt River's answer to its motion to dismiss is hereby denied.

(D) Salt River's September 19, 1996 motion to lodge is hereby granted.

By the Commission.

( S E A L )



Lois D. Cashell,  
Secretary.

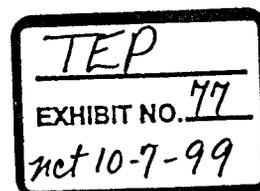


**Nehrmeyer, Leonard**

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**From:** Juarez, Nancy  
**To:** Franklin, Rick; Clark, Todd; Nehrmeyer, Leonard; Lamoreaux, David; Sabers, Dawn; Bennett, Dave; Mead, Theresa  
**Cc:** Kissinger, Karen  
**Subject:** Valencia Energy Company  
**Date:** Monday, December 04, 1995 1:24PM

After reviewing everyone's schedules, it looks like Friday, December 8th will be a good time to have the above-referenced meeting. It will be held in the conference room on the 5th floor of the downtown office beginning at 9:00 a.m. It should last approximately one hour.





## Nehrmeyer, Leonard

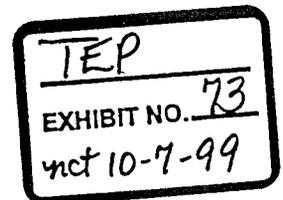
From: Franklin, Rick  
To: Dickens, Jim; Nehrmeyer, Leonard; Senske, Harold  
Cc: Kissinger, Karen; Bennett, Dave; Hoekstra, Arie  
Subject: Springerville Coal Handling  
Date: Thursday, April 25, 1996 10:39AM

Yesterday we had a meeting with Harold Senske and Jim Dickens to discuss the following accounting items to be completed for the Coal Handling transfer to TEP.

1. Jim and Leonard are currently working on the journal entries to transfer balances to TEP books.
2. Inventory accounting after transferred to TEP will be done by Jim D. using the same methology that is currently in place under Valencia. (average unit cost using annulized cost data) Note: annualized costs will need to be adjusted for change in accounting for various items,
3. Jim to set up meeting to discuss new accounts and activities for the Springerville coal facilities around the 1st 2 weeks of May (W. Fasel, Dave Bennett, Leonard N., Harold S., Jim D., Rick F.)
4. Harold will work with Wayne Fasel on the following items at Springerville
  - a). new work orders
  - b). key assignment changes to use TEP accounting
  - c). PO. changes needed at Springerville
5. Jim, Harold and Leonard will work on a 1 hour training program for the people at Springerville to be presented just before the transition from Valencia to TEP
6. The following preliminary accounting for expenses was discussed
  - a). O&M , lease cost, prop tax ect. associated with rail facilities will be charged to account 152 and allocated to account 501 based upon coal burn
  - b). Operations cost of coal inventory area will also be charged to account 152 and allocated to account 501 based upon burn
  - c). Operations cost of transferring or moving coal from inventory to silo to be burned will be charged to account 501 directly
  - d). Lease cost associated with coal handling facilities will be charged to account 507 rents also a pro-rata portion of the deferred lease cost cost should be allocated to account 507
  - e). Maintenance costs associated with coal handling facilities will be charged to account 512

Let me know if you have comments on the above issues or maybe I have left out something we need to cover .

Thanks, Rick





MEMO TO: JIM DICKENS  
FROM: LEONARD NEHRMEYER  
DATE: MAY 14, 1996  
SUBJECT: COLLAPSING VALENCIA

As you are aware, we have met several times to discuss the accounting for collapsing Valencia. The first few meetings were not very productive except for discussing items related to coal, such as questions about what the Fuel Department sends VEC relating to tons burned. Our most recent meetings were more productive after I prepared proforma entries which reflected the transferring of balances to TEP. I provided you with these schedules and asked you to review and/or provide accounts for TEP. Several weeks have passed and I have not received a response.

Unanswered questions I have so I can start training:

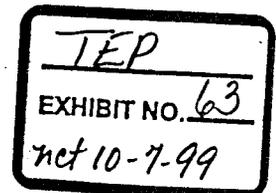
- 1) Will the equipment transfer to TEP follow the same subledger and activity as VEC?
- 2) Springerville will need separate accounting identification for materials transferred to them. Please find out what they want to use.
- 3) Who will record the lease, along with the timing differences?
- 4) Who will record the depreciation entries for equipment and capital lease?
- 5) Who will record the monthly entries such as AP (Coal, Brown & Root) accruals, property taxes, etc.?

I also asked you to start preparing diarized journals or at least to start thinking about them. Do you need any help?

I am concerned that the Valencia collapse will be here before we know it and we will have no time to think about the entries so we need to be as prepared as possible before that day comes. I know that you are busy with other things but I think, and I hope that you will agree, that the impending Valencia collapse is a high priority that we need to address immediately.

I hope that you view this as a friendly reminder. I look forward to working with you to complete this collapse of Valencia.

cc:Rick Franklin  
Dawn Sabers  
Todd Clark



TDR13959

Questions or areas which need to be address:

- 1) I will set up a repeat diarized for the amortization of the deferred lease balance.
- 2) I presume the deferred lease balance return will continue? If so, where will it be recorded?
- + 3) Who will record the transportation charged to TEP Springerville? What accounts will be involved? Currently entries are now made on JV 321, 322, 323, 319, 318 and 319.
- 4) Will I record the LRCS-monthly-activity?
- + 5) I am assuming that Jim will accrue the Coal and Rail payables and Harold will accrue other payables such as the Brown and Root, SRP, etc..
- + 6) I will set up a repeat diarized for the amortization of the capital gains tax.
- 7) After the prepaid insurance is transferred, Lou will record the monthly entries.
- ✓ 8) Will the A & G cost now charged to VEC be charged to TEP Springerville?
- ✓ 9) Payroll now charged to VEC will have to stop. I spoke to John about this.
- ✓ 10) If the sales tax issue is not resolved, interest will have to continue. Who will record this?
- ✓ 11) The railcar accrual will now be charged to Coal.
- 12)

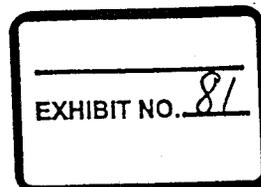
FRANK Dep - Equip  
-----  
Harold -

Teach Jim  
-----  
PROPERTY TAKEN



**Tucson Electric Power Company  
Meeting to Discuss Accounting Issues  
VEC Merger with TEP  
May 15, 1996 Agenda**

1. Discuss status of Valencia Merger with TEP  
Cut over Date? Concerns?
  
2. Cut over Issues (who is doing these tasks?)
  - a). PO's ✓
  - b). Lease Payments ✓
  - c). Inventory - coal, oil
  - d). M&S inventory
  - e). Plant assets ✓
  - f). Other
  
3. Inventory/ Burn accounting practice ✓
  
4. O&M accounting practice (see attached E-Mail)
  
5. New Accounts, Activities, RA's
  
6. Budget Issues
  
7. Training Classes
  
8. Other issues



**Franklin, Rick**

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**To:** Dickens, Jim; Senske, Harold; Nehmeyer, Leonard  
**Cc:** Bennett, Dave; Hoekstra, Arie; Kissinger, Karen  
**Subject:** Springerville Coal Handling

Yesterday we had a meeting with Harold Senske and Jim Dickens to discuss the following accounting items to be completed for the Coal Handling transfer to TEP.

1. Jim and Leonard are currently working on the journal entries to transfer balances to TEP books.
2. Inventory accounting after transferred to TEP will be done by Jim D. using the same methodology that is currently in place under Valencia. (average unit cost using annualized cost data) Note: annualized costs will need to be adjusted for change in accounting for various items,
3. Jim to set up meeting to discuss new accounts and activities for the Springerville coal facilities around the 1st 2 weeks of May (W. Fasel, Dave Bennett, Leonard N., Harold S., Jim D., Rick F.)
4. Harold will work with Wayne Fasel on the following items at Springerville
  - a). new work orders
  - b). key assignment changes to use TEP accounting
  - c). PO. changes needed at Springerville
5. Jim, Harold and Leonard will work on a 1 hour training program for the people at Springerville to be presented just before the transition from Valencia to TEP
6. The following preliminary accounting for expenses was discussed
  - a). O&M, ~~lease cost~~, prop tax ect. associated with rail facilities will be charged to account 152<sup>501</sup> and allocated to account 501 based upon coal burn <sup>up to RTC</sup>
  - b). Operations cost of coal inventory area will also be charged to account 152 and allocated to account 501 based upon burn
  - c). Operations cost of transferring or moving coal from inventory to silo to be burned will be charged to account 501 directly <sup>? 152</sup>
  - d). Lease cost associated with coal handling facilities will be charged to account 507 rents also a pro-rata portion of the deferred lease cost cost should be allocated to account 507
  - e). Maintenance costs associated with coal handling facilities will be charged to account 512

Let me know if you have comments on the above issues or maybe I have left out something we need to cover .

Thanks, Rick



**Nehrmeyer, Leonard**

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**From:** Dickens, Jim  
**To:** Nehrmeyer, Leonard  
**Cc:** Franklin, Rick; Clark, Todd; Sabers, Dawn  
**Subject:** RE: Collapsing Valencia  
**Date:** Wednesday, May 15, 1996 9:09AM

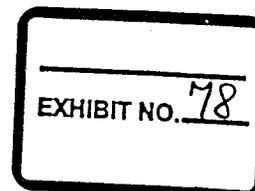
Leonard,

These items should be cleared up in today's meeting. There are several people involved in many of these and they will all have a chance for input into the the final decision.

Thanks, Jim

-----  
**From:** Nehrmeyer, Leonard  
**To:** Dickens, Jim  
**Cc:** Franklin, Rick; Clark, Todd; Sabers, Dawn  
**Subject:** Collapsing Valencia  
**Date:** Tuesday, May 14, 1996 2:07PM

<<File Attachment: COLAVEC1.DOC>>





MEMO TO: RICK FRANKLIN  
FROM: LEONARD NEHRMEYER  
DATE: MAY 17, 1996  
SUBJECT: FERC ACCOUNTS

The following will help clarify the FERC accounting questions brought up in our meeting May 16.

**Question:** Where should the cost of transferring or moving coal from inventory to silo to be burned be charged?

FERC account 152 provides for expenses incurred from the shipping medium and in the handling thereof prior to its use.

The instructions to Account 152, Fuel Stock Expenses, state in part:

OK  
"Handling from storage or shipping facility to first bunker, hopper, bucket, tank or holder of boiler house structure."

Answer: Under these instructions, cost from the coal reclaim pile or the emergency pile to the coal silo should be charged to Account 152.

→ **Question:** Where should operating costs associated with coal handling facilities be charged?

FERC account 502 provides for expenses incurred for handling and preparing fuel beginning at the point where the fuel enters the first boiler plant bunker, hopper, tank or holder of the boiler-house structure.

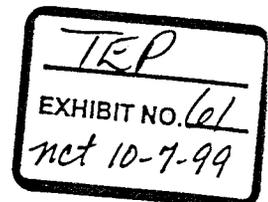
The instructions to Account 502, Steam Expenses, state in part:

"This account shall include the cost of labor, material used and expenses incurred in production of steam for electric generation. This includes all expenses of handling and preparing fuel beginning at the point where the fuel enters the first boiler plant bunker, hopper, tank or holder of the boiler-house structure."

7  
Box 502  
Answer: Under these instructions, operating costs from the coal silo, including the coal feeder to the pulverizer and the primary and forced draft fans, should be charged to Account 502.

**Question:** Where should maintenance costs associated with coal handling facilities be charged?

FERC account 512 provides for expenses incurred in the maintenance of steam plant.



The instructions to Account 512, Maintenance of boiler plant, state in part:

“This account shall include the cost of labor, material used and expenses incurred in the maintenance of steam plant, the book cost of which is includible in Account 312, Boiler Plant Equipment.”

**Answer:** Under these instructions maintenance costs from the coal silo, including the coal feeder to the pulverizer and the primary and forced draft fans, should be charged to Account 512

**Question:** Should the ash removal be charged to Account 501 or account 502?

I reviewed the FERC Compliance Audit Issues December 1994 which described a company recording the cost of ash removal to Account 501, Fuel.

The finding was that the company’s accounting for ash handling expenses was not consistent with the following requirements of the Uniform System of Accounts:

The instructions to Account 501, Fuel, state in part:

“This account shall include the cost of fuel used in the production of steam for the generation of electricity...(Emphasis added.)”

Account 501 provides for the expenses related to the handling of fuel from delivery to where the fuel enters the plant for burning.

The instructions to Account 502, Steam Expense, state in part:

“This account shall include the cost of labor, material used and expenses incurred in production of steam for electric generation. This includes all expenses of handling and preparing fuel beginning at the point where the fuel enters the first boiler plant, bunker, hopper, tank or holder of boiler-house structure.

...5. Operating ash-collection and disposal equipment located inside the plant.”

Under these instructions, the company should have charged the cost of labor and expenses for the removal of ash to Account 502, instead of Account 501.

cc: Karen Kissinger  
Dawn Sabers  
Todd Clark  
Harold Senske  
Jim Dickens; Wayne Fasel

INSIDE PLANT  
502  
DISPATCH  
EXPENSES  
501

## Regulations

11,614

associated companies. Items which do not bear a specified due date but which have been carried for more than twelve months and items which are not paid within twelve months from due date shall be transferred to account 123, Investment in Associated Companies.

NOTE A: On the balance sheet, accounts receivable from an associated company may be set off against accounts payable to the same company.

NOTE B: The face amount of notes receivable discounted, sold or transferred without releasing the utility from liability as endorser thereon, shall be credited to a separate subdivision of this account and appropriate disclosure shall be made in financial statements of any contingent liability arising from such transactions.

## [¶ 15,161]

## 151 Fuel stock (Major only).

This account shall include the book cost of fuel on hand.

## Items

1. Invoice price of fuel less any cash or other discounts.
2. Freight, switching, demurrage and other transportation charges, not including, however, any charges for unloading from the shipping medium.
3. Excise taxes, purchasing agents' commissions, insurance and other expenses directly assignable to cost of fuel.
4. Operating, maintenance and depreciation expenses and ad valorem taxes on utility-owned transportation equipment used to transport fuel from the point of acquisition to the unloading point.
5. Lease or rental costs of transportation equipment used to transport fuel from the point of acquisition to the unloading point.

## [¶ 15,162]

## 152 Fuel stock expenses undistributed (Major only).

A. This account may include the cost of labor and of supplies used and expenses incurred in unloading fuel from the shipping medium and in the handling thereof prior to its use, if such expenses are sufficiently significant in amount to warrant being treated as a part of the cost of fuel inventory rather than being charged direct to expense as incurred.

B. Amounts included herein shall be charged to expense as the fuel is used to the end that the balance herein shall not exceed the expenses attributable to the inventory of fuel on hand.

## ITEMS

Labor:

1. Procuring and handling of fuel.
2. All routine fuel analyses.
3. Unloading from shipping facility and putting in storage.

## Regulations

11,615

4. Moving of fuel in storage and transferring from one station to another.
5. Handling from storage or shipping facility to first bunker, hopper, bucket, tank or holder of boiler house structure.

6. Operation of mechanical equipment, such as locomotives, trucks, cars, boats, barges, cranes, etc.

Supplies and Expenses:

7. Tools, lubricants and other supplies.
8. Operating supplies for mechanical equipment.
9. Transportation and other expenses in moving fuel.
10. Stores expenses applicable to fuel.

## [¶ 15,163]

## 153 Residuals (Major only).

This account shall include the book cost of any residuals produced in production or manufacturing processes.

## [¶ 15,164]

## 154 Plant materials and operating supplies.

A. This account shall include the cost of materials purchased primarily for use in the utility business for construction, operation and maintenance purposes. For Nonmajor utilities, this account shall include the cost of fuel on hand and unapplied materials and supplies (except meters and house regulators). For both Major and Nonmajor utilities, it shall include also the book cost of materials recovered in connection with construction, maintenance or the retirement of property, such materials being credited to construction, maintenance or accumulated depreciation provision, respectively, and included herein as follows:

(1) Reusable materials consisting of large individual items shall be included in this account at original cost, estimated if not known. The cost of repairing such items shall be charged to the maintenance account appropriate for the previous use.

(2) Reusable materials consisting of relatively small items, the identity of which (from the date of original installation to the final abandonment or sale thereof) cannot be ascertained without undue refinement in accounting, shall be included in this account at current prices new for such items. The cost of repairing such items shall be charged to the appropriate expense account as indicated by previous use.

(3) Scrap and nonusable materials included in this account shall be carried at the estimated net amount realizable therefrom. The difference between the amounts realized for scrap and nonusable materials sold and the net amount at which the materials were carried in this account, as far as practicable, shall be adjusted to the accounts credited when the materials were charged to this account.

17. Operating switchboards, switch gear and electric control and protective equipment.
  18. Keeping electric plant log and records and preparing reports on electric plant operations.
  19. Testing, checking and adjusting meters, gauges, and other instruments, relays, controls and other equipment in electric plant.
  20. Cleaning electric plant equipment when not incidental to maintenance work.
  21. Repacking glands and replacing gauge glasses.
- Miscellaneous Labor:
22. General clerical and stenographic work at plant.
  23. Guarding and patrolling plant and yard.
  24. Building service.
  25. Care of grounds including snow removal, cutting grass, etc.
  26. Miscellaneous labor.

## [¶ 15,501]

## 501 Fuel.

A. This account shall include the cost of fuel used in the production of steam for the generation of electricity, including expenses in unloading fuel from the shipping media and handling thereof up to the point where the fuel enters the first boiler plant bunker, hopper, bucket, tank or holder of the boiler-house structure. Records shall be maintained to show the quantity, B.t.u. content and cost of each type of fuel used.

B. The cost of fuel shall be charged initially to account 151, Fuel Stock (for Nonmajor utilities, appropriate fuel accounts carried under account 154, Plant Materials and Operating Supplies), and cleared to this account on the basis of the fuel used. Fuel handling expenses may be charged to this account as incurred or charged initially to account 152, Fuel Stock Expenses Undistributed (for Nonmajor utilities, an appropriate subaccount of account 154, Plant Materials and Operating Supplies). In the latter event, they shall be cleared to this account on the basis of the fuel used. Respective amounts of fuel stock and fuel stock expenses shall be readily available.

## ITEMS

## Labor:

1. Supervising purchasing and handling of fuel.
2. All routine fuel analyses.
3. Unloading from shipping facility and putting in storage.
4. Moving of fuel in storage and transferring fuel from one station to another.
5. Handling from storage or shipping facility to first bunker, hopper, bucket tank or holder of boiler-house structure.

6. Operation of mechanical equipment, such as locomotives, trucks, cars, boats, barges, cranes, etc.

## Materials and Expenses:

7. Operating, maintenance and depreciation expenses and ad valorem taxes on utility-owned transportation equipment used to transport fuel from the point of acquisition to the unloading point (Major only).
8. Lease or rental costs of transportation equipment used to transport fuel from the point of acquisition to the unloading point (Major only).
9. Cost of fuel including freight, switching, demurrage and other transportation charges.
10. Excise taxes, insurance, purchasing commissions and similar items.
11. Stores expenses to extent applicable to fuel.
12. Transportation and other expenses in moving fuel in storage.
13. Tools, lubricants and other supplies.
14. Operating supplies for mechanical equipment.
15. Residual disposal expenses less any proceeds from sale of residuals.

NOTE: Abnormal fuel handling expenses occasioned by emergency conditions shall be charged to expense as incurred.

## [¶ 15,502]

## 502 Steam expenses (Major only).

This account shall include the cost of labor, materials used and expenses incurred in production of steam for electric generation. This includes all expenses of handling and preparing fuel beginning at the point where the fuel enters the first boiler plant bunker, hopper, tank or holder of the boiler-house structure.

## ITEMS

## Labor:

1. Supervising steam production.
2. Operating fuel conveying, storage weighing and processing equipment within boiler plant.
3. Operating boiler and boiler auxiliary equipment.
4. Operating boiler feed water purification and treatment equipment.
5. Operating ash-collecting and disposal equipment located inside the plant.
6. Operating boiler plant electrical equipment.
7. Keeping boiler plant log and records and preparing reports on boiler plant operation.
8. Testing boiler water.

- 3. Building service.
- 4. Care of grounds including snow removal, cutting grass, etc.
- 5. Miscellaneous labor.

Materials and Expenses:

- 6. General operating supplies, such as tools, gaskets, packing waste, gauge glasses, hose, indicating lamps, record and report forms, etc.
- 7. First-aid supplies and safety equipment.
- 8. Employees' service facilities expenses.
- 9. Building service supplies.
- 10. Communication service.
- 11. Miscellaneous office supplies and expenses, printing and stationery.
- 12. Transportation expenses.
- 13. Meals, traveling and incidental expenses.
- 14. Research, development, and demonstration expenses.

[¶ 15,507]

507 Rents.

This account shall include all rents of property of others used, occupied or operated in connection with steam power generation. (See operating expense instruction 3.)

508 Operation supplies and expenses (Nonmajor only).

This account shall include the cost of materials used and expenses incurred in the operation of steam power generating stations.

ITEMS

- 1. Chemicals and boiler inspection fees.
- 2. Lubricants and control system oils.
- 3. Boiler feed water purchased and pumping supplies.
- 4. Generator cooling gases.
- 5. Circulating water purification supplies.
- 6. Cooling water purchased.
- 7. Motor and generator brushes.
- 8. General operating supplies, such as tools, gaskets, packing waste, gauge glasses, hose, indicating lamps, record and report forms, etc.
- 9. First-aid supplies and safety equipment.
- 10. Employees' service facilities expenses.
- 11. Building service supplies.

¶ 15,506

- 12. Communication service.
- 13. Miscellaneous office supplies and expenses, printing and stationery.
- 14. Transportation expenses.
- 15. Meals, traveling and incidental expenses.

[¶ 15,510]

510 Maintenance supervision and engineering (Major only).

This account shall include the cost of labor and expenses incurred in the general supervision and direction of maintenance of steam generation facilities. Direct field supervision of specific jobs shall be charged to the appropriate maintenance account. (See operating expense instruction 1.)

[¶ 15,511]

511 Maintenance of structures (Major only).

This account shall include the cost of labor, materials used and expenses incurred in the maintenance of steam structures, the book cost of which is includible in account 311, Structures and Improvements. (See operating expense instruction 2.)

[¶ 15,512]

512 Maintenance of boiler plant (Major only).

A. This account shall include the cost of labor, materials used and expenses incurred in the maintenance of steam plant, the book cost of which is includible in account 312, Boiler Plant Equipment. (See operating expense instruction 2.)

B. For the purpose of making charges hereto and to account 513, Maintenance of Electric Plant, the point at which steam plant is distinguished from electric plant is defined as follows:

- 1. Inlet flange of throttle valve on prime mover.
- 2. Flange of all steam extraction lines on prime mover.
- 3. Hotwell pump outlet on condensate lines.
- 4. Inlet flange of all turbine-room auxiliaries.
- 5. Connection to line side of motor starter for all boiler-plant equipment.

[¶ 15,513]

513 Maintenance of electric plant (Major only).

This account shall include the cost of labor, materials used and expenses incurred in the maintenance of electric plant, the book cost of which is includible in account 313, Engines and Engine-Driven Generators, account 314, Turbogenerator Units, and account 315, Accessory Electric Equipment. (See operating expense instruction 2 and paragraph B of account 512.)

¶ 15,513

FUEL/MATERIALS AND  
SUPPLIES

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Fuel

Accounting Classification of Ash Handling Expenses

The Company used the wrong account to record the costs of removing ash from its generating station.

The Company recorded the cost for removing ash from Unit Nos. 4 and 5 in Account 501, Fuel. The ash removal cost included the salaries of plant employees, operation and maintenance of equipment, emissions monitoring, the cost of gravel and soil cement, and sweeping and watering driveways.

The Company's accounting for ash handling expenses was not consistent with the following requirements of the Uniform System of Accounts:

The instructions to Account 501, Fuel, state in part:

This account shall include the cost of fuel used in the production of steam for the generation of electricity. . . .  
(Emphasis added.)

Account 501 provides for expenses related to the handling of fuel from delivery to where the fuel enters the plant for burning.

The instructions to Account 502, Steam Expenses, state in part:

This account shall include the cost of labor, materials used and expenses incurred in production of steam for electric generation. This includes all expenses of handling and preparing fuel beginning at the point where the fuel enters the first boiler plant, bunker, hopper, tank or holder of the boiler-house structure.

Items

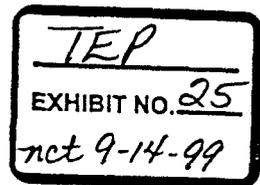
. . . 5. Operating ash-collecting and disposal equipment located inside the plant.

Under these instructions, the Company should have charged the cost of labor and expenses for the removing of ash to Account 502, instead of Account 501.

The Company was required to revise procedures to ensure that it records the cost of labor and expenses to remove ash from any generating station in Account 502.



MEMO TO: RICK FRANKLIN  
FROM: LEONARD NEHRMEYER  
DATE: MAY 17, 1996  
SUBJECT: FERC ACCOUNTS



The following will help clarify the FERC accounting questions brought up in our meeting May 16.

**Question:** Where should the cost of transferring or moving coal from inventory to silo to be burned be charged?

FERC account 152 provides for expenses incurred from the shipping medium and in the handling thereof prior to its use.

The instructions to Account 152, Fuel Stock Expenses, state in part:

OK  
"Handling from storage or shipping facility to first bunker, hopper, bucket, tank or holder of boiler house structure."

**Answer:** Under these instructions, cost from the coal reclaim pile or the emergency pile to the coal silo should be charged to Account 152.

→ **Question:** Where should operating costs associated with coal handling facilities be charged?

FERC account 502 provides for expenses incurred for handling and preparing fuel beginning at the point where the fuel enters the first boiler plant bunker, hopper, tank or holder of the boiler-house structure.

The instructions to Account 502, Steam Expenses, state in part:

"This account shall include the cost of labor, material used and expenses incurred in production of steam for electric generation. This includes all expenses of handling and preparing fuel beginning at the point where the fuel enters the first boiler plant bunker, hopper, tank or holder of the boiler-house structure."

16x 502  
↙ **Answer:** Under these instructions, operating costs from the coal silo, including the coal feeder to the pulverizer and the primary and forced draft fans, should be charged to Account 502.

**Question:** Where should maintenance costs associated with coal handling facilities be charged?

FERC account 512 provides for expenses incurred in the maintenance of steam plant.

The instructions to Account 512, Maintenance of boiler plant, state in part:

“This account shall include the cost of labor, material used and expenses incurred in the maintenance of steam plant, the book cost of which is includible in Account 312, Boiler Plant Equipment.”

**Answer:** Under these instructions maintenance costs from the coal silo, including the coal feeder to the pulverizer and the primary and forced draft fans, should be charged to Account 512

**Question:** Should the ash removal be charged to Account 501 or account 502?

I reviewed the FERC Compliance Audit Issues December 1994 which described a company recording the cost of ash removal to Account 501, Fuel.

The finding was that the company’s accounting for ash handling expenses was not consistent with the following requirements of the Uniform System of Accounts:

The instructions to Account 501, Fuel, state in part:

“This account shall include the cost of fuel used in the production of steam for the generation of electricity....(Emphasis added.)”

Account 501 provides for the expenses related to the handling of fuel from delivery to where the fuel enters the plant for burning.

The instructions to Account 502, Steam Expense, state in part:

“This account shall include the cost of labor, material used and expenses incurred in production of steam for electric generation. This includes all expenses of handling and preparing fuel beginning at the point where the fuel enters the first boiler plant, bunker, hopper, tank or holder of boiler-house structure.

...5. Operating ash-collection and disposal equipment located inside the plant.”

Under these instructions, the company should have charged the cost of labor and expenses for the removal of ash to Account 502, instead of Account 501.

cc:Karen Kissinger  
Dawn Sabers  
Todd Clark  
Harold Senske  
Jim Dickens; Wayne Fasel

1. INSIDE PLANT  
502  
2. DISPOSAL  
EXPENSES  
501



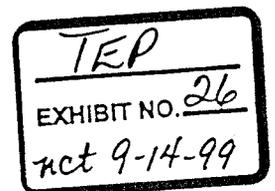
**Nehrmeyer, Leonard**

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**From:** Franklin, Rick  
**To:** Cook, Frank; Dickens, Jim; Nehrmeyer, Leonard  
**Subject:** Valencia  
**Date:** Sunday, June 02, 1996 11:27AM

We are going to meet in my office 6/3 at 8:30 to discuss the journals and other issues associated with the Valencia dissolution.

Thanks, Rick





MEMO TO: RICK FRANKLIN  
FROM: LEONARD NEHRMEYER  
DATE: JUNE 3, 1996  
SUBJECT: FERC ACCOUNTS

Rick Please  
Review  
Lron

The following will help clarify the FERC accounting questions brought up in our meeting May 16.

**Question:** Where should the cost of transferring or moving coal from inventory to silo to be burned be charged?

FERC account 152 provides for expenses incurred from the shipping medium and in the handling thereof prior to its use.

The instructions to Account 152, Fuel Stock Expenses, state in part:

“Handling from storage or shipping facility to first bunker, hopper, bucket, tank or holder of boiler house structure.”

**Answer:** Under these instructions, cost from the coal reclaim pile or the emergency pile to the coal silo should be charged to Account 152.

**Question:** Where should operating costs associated with the coal silo and pulverizer be charged?

FERC account 502 provides for expenses incurred for handling and preparing fuel beginning at the point where the fuel enters the first boiler plant bunker, hopper, tank or holder of the boiler-house structure.

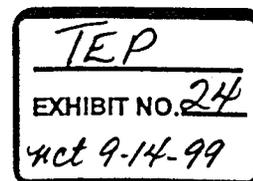
The instructions to Account 502, Steam Expenses, state in part:

“This account shall include the cost of labor, material used and expenses incurred in production of steam for electric generation. This includes all expenses of handling and preparing fuel beginning at the point where the fuel enters the first boiler plant bunker, hopper, tank or holder of the boiler-house structure.”

**Answer:** Under these instructions, operating costs from the coal silo, including the coal feeder to the pulverizer and the primary and forced draft fans, should be charged to Account 502.

**Question:** Where should maintenance costs associated with coal handling facilities be charged?

FERC account 512 provides for expenses incurred in the maintenance of steam plant.



TDR13271

The instructions to Account 512, Maintenance of boiler plant, state in part:

“This account shall include the cost of labor, material used and expenses incurred in the maintenance of steam plant, the book cost of which is includible in Account 312, Boiler Plant Equipment.”

**Answer:** Under these instructions maintenance costs from the coal silo, including the coal feeder to the pulverizer and the primary and forced draft fans, should be charged to Account 512

**Question:** Should the ash removal be charged to Account 501 or account 502?

FERC account 501 provides for residual disposal expense less any proceeds from sale of residuals.

The instructions to Account 501, Fuel, state in part:

“Residual disposal expense less any proceeds from sale of residuals.”

FERC account 502 provides for operating ash-collection and disposal equipment located inside the plant.

The instructions to Account 502, Fuel, state in part:

“Operating ash-collection and disposal equipment located inside the plant.”

**Answer:** Under the above instructions, disposal expenses outside the plant should be charged to Account 501 and disposal expenses located inside the plant should be charged to Accountt 502.

cc:Dawn Sabers  
Todd Clark  
Harold Senske  
Jim Dickens; Wayne Fasel

TDR13272

**CONFIDENTIAL EXHIBIT JUNE 7, 1996  
LETTER FROM KAREN KISSINGER  
TO PAUL BULLIS**



TUCSON ELECTRIC POWER COMPANY  
 ACCOUNTING MATRIX OF OPERATING AND MAINTENANCE COSTS  
 VALENCIA DISSOLUTION TO TEP

June 18, 1995

DESCRIPTION OF ACTIVITY	OLD (PRE VEC MERGER)	NEW (POST VEC MERGER)				
	F/S LINE ITEM	F/S LINE ITEM	ACCT	SUBLEDGER	LOC	ACCT CNTL
COAL PURCHASE			ACCT 151	COAL	SP	PURC
LRCS ADJUSTMENT						LRCS
ATSF FREIGHT COST						TRSP
RESIDCO CAR LEASE						TRSP
SRP RAIL CAR LEASE						TRSP
1/2 PROPERTY TAXES						TRSP
TOTAL	FUEL EXPENSE - ACCT 501	151	COAL	SP		
RAILROAD OPER & MAINT. TO ROTARY CAR DUMPER	FUEL EXPENSE - ACCT 501	151	COAL	SP		
OPERATING COST FROM ROTARY CAR DUMPER TO COAL SILO	FUEL EXPENSE - ACCT 501	152	COAL	SP	HNG	
OIL STABILIZATION	FUEL EXPENSE - ACCT 501	152	OIL	SP	HNG	
		THE ABOVE ITEMS ARE ALLOCATED TO ACCT 501 (SEE BELOW) BASED ON BURN.				
	OPERATING EXPENSES	OPERATING EXPENSES				
		501	COAL	SP1&2		
		501	OIL	SP1&2		
ASH HANDLING OUTSIDE OF PLANT	FUEL EXPENSE - ACCT 501	501	COAL	SP1&2	ASH	
ASH HANDLING INSIDE OF PLANT	FUEL EXPENSE - ACCT 501	502		SP1&2	ENV	
1/2 LEASE & DEFERRED LEASED EXPENSE	FUEL EXPENSE - ACCT 501	501	COAL	SP1&2	DEPR	
		501	COAL	SP1&2	INT&DEF	
1/2 PROPERTY TAXES	FUEL EXPENSE - ACCT 501	408	PROP	SPV		
1/2 LEASE EXPENSE	FUEL EXPENSE - ACCT 501	507		SPV		
1/2 DEFERRED LEASE EXPENSE	FUEL EXPENSE - ACCT 501	407		SPV		
DEPRECIATION ON EQUIPMENT	FUEL EXPENSE - ACCT 501	403				
DEFERRED TAX ALLOCATION	FUEL EXPENSE - ACCT 501	407		SPV		
OPERATING COST FROM SILO TO PULVERIZERS	FUEL EXPENSE - ACCT 501	502		SP1&2	HNG	
MAINTENANCE COST FROM ROTARY CAR DUMPER TO THE PULVERIZERS	FUEL EXPENSE - ACCT 501	512		SP1 & 2	HNG	
INCOME TAXES ABOVE THE LINE	INCOME TAXES					
INTEREST ON SALES TAX ISSUE	FUEL EXPENSE - ACCT 501					
	TOTAL OPERATING EXPENSES	TOTAL OPERATING EXPENSES				
	OTHER INCOME (DEDUCTIONS)	OTHER INCOME (DEDUCTIONS)				
INCOME TAXES BELOW THE LINE	INCOME TAXES	INCOME TAXES				
INTEREST INCOME FROM TEP	OTHER INCOME	ELIMINATED				
OTHER INCOME	OTHER	OTHER				
	TOTAL OTHER INCOME (DEDUCTIONS)	TOTAL OTHER INCOME (DEDUCTIONS)				
INTEREST EXPENSE TO TEP	INTEREST EXPENSE	INTEREST EXPENSE				
INTEREST ON SALES TAX ISSUE	SHORT TERM DEBT	ELIMINATED				
	SEE ABOVE	OTHER INTEREST EXPENSE - ACCT 431				
	TOTAL INTEREST EXPENSE	431				CSTX
		431				LEAS
		TOTAL INTEREST EXPENSE				

TEP  
 EXHIBIT NO. 17  
 net 9-14-99

TDR10067



Tucson Electric Power Company  
Telecopy Transmittal

Receiving Telecopy

Number: 1 (602) 929-4524

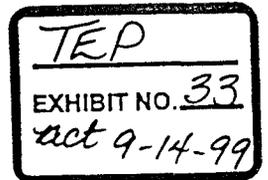
Date: September 30, 1996

Time: 9:11 AM

Deliver To: Mr. Michael D. McElrath

Manager, Power

Cyprus Climax Metals Company



From: Leland R. Snook

Phone: (520) 884-3763 Fax: (520) 770-2064

Comments: I have attached the profoma rate calculations we  
discussed. The savings in August would have been approx.  
\$310k; savings over the last twelve months approx. \$3.5MM.  
As well I have attached the FERC 501 Account information.  
If you have any questions please call.

Total number of pages including cover sheet: 5

If you do not receive all of the pages. please call Leland Snook at (520) 884-3763.

\*\*\*PRIVILEGE AND CONFIDENTIALITY NOTICE\*\*\*

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and is intended for the named recipient(s) only. If you have received  
this telecopy in error, please notify us immediately by telephone and  
return the original message to us via the U.S. Postal Service.

TRD11072

TEP 0194



## OPERATION AND MAINTENANCE EXPENSE ACCOUNTS

### 1. POWER PRODUCTION EXPENSES

#### A. STEAM POWER GENERATION

##### Operation

#### 500 Operation supervision and engineering.

This account shall include the cost of labor and expenses incurred in the general supervision and direction of the operation of steam power generating stations. Direct supervision of specific activities, such as fuel handling, boiler-room operations, generator operations, etc., shall be charged to the appropriate account. (See operating expense instruction 1.)

#### 501 Fuel.

A. This account shall include the cost of fuel used in the production of steam for the generation of electricity, including expenses in unloading fuel from the shipping media and handling thereof up to the point where the fuel enters the first boiler plant bunker, hopper, bucket, tank or holder of the boiler-house structure. Records shall be maintained to show the quantity, B.t.u. content and cost of each type of fuel used.

B. The cost of fuel shall be charged initially to account 151, Fuel Stock, and cleared to this account on the basis of the fuel used. Fuel handling expenses may be charged to this account as incurred or charged initially to account 152, Fuel Stock Expenses Undistributed. In the latter event, they shall be cleared to this account on the basis of the fuel used. Respective amounts of fuel stock and fuel stock expenses shall be readily available.

##### Items

##### Labor:

1. Supervising purchasing and handling of fuel.
2. All routine fuel analyses.
3. Unloading from shipping facility and putting in storage.
4. Moving of fuel in storage and transferring fuel from one station to another.
5. Handling from storage or shipping facility to first bunker, hopper, bucket, tank or holder of boiler-house structure.
6. Operation of mechanical equipment such as locomotives, trucks, cars, boats, barges, cranes, etc.

##### Materials and Expenses:

7. Operating, maintenance and depreciation expenses and ad valorem taxes on utility-owned transportation equipment used to

transport fuel from the point of acquisition to the unloading point.

8. Lease or rental costs of transportation equipment used to transport fuel from the point of acquisition to the unloading point.

9. Cost of fuel including freight, switching, demurrage and other transportation charges.

10. Excise taxes, insurance, purchasing commissions and similar items.

11. Stores expenses to extent applicable to fuel.

12. Transportation and other expenses in moving fuel in storage.

13. Tools, lubricants and other supplies.

14. Operating supplies for mechanical equipment.

15. Residual disposal expenses less any proceeds from sale of residuals.

Note: Abnormal fuel handling expenses occasioned by emergency conditions shall be charged to expense as incurred.

#### 502 Steam expenses.

This account shall include the cost of labor, materials used and expenses incurred in production of steam for electric generation. This includes all expenses of handling and preparing fuel beginning at the point where the fuel enters the first boiler plant bunker, hopper, tank or holder of the boiler-house structure.

##### Items

##### Labor:

1. Supervising steam production.
2. Operating fuel conveying, storage, weighing and processing equipment within boiler plant.
3. Operating boiler and boiler auxiliary equipment.
4. Operating boiler feed water purification and treatment equipment.
5. Operating ash-collecting and disposal equipment located inside the plant.
6. Operating boiler plant electrical equipment.
7. Keeping boiler plant log and records and preparing reports on boiler plant operation.
8. Testing boiler water.
9. Testing, checking, and adjusting meters, gauges, and other instruments and equipment in boiler plant.
10. Cleaning boiler plant equipment when not incidental to maintenance work.
11. Repacking glands and replacing gauge glasses where the work involved is of a minor nature and is performed by regular operating crews. Where the work is of a major character, such as that performed on high-pressure boilers, the item should be considered as maintenance.

##### Materials and Expenses:

12. Chemicals and boiler inspection fees.

**TUCSON ELECTRIC POWER COMPANY  
CHART OF ACCOUNTS**

ACCT	SUBLEDG	PL CL	LOC	ACCT CNTL	ACTV	SUB ACT	DESCRIPTION
<b>ELECTRIC OPERATION AND MAINTENANCE EXPENSE</b>							
<b>1. POWER PRODUCTION EXPENSES</b>							
<b>A. STEAM POWER GENERATION</b>							
<b>OPERATION</b>							
<b>OPERATION SUPERVISION AND ENGINEERING</b>							
500							OPERATION SUPERVISION & ENGINEERING - GENERAL
500		FC					OPERATION SUPERVISION & ENGINEERING - FOUR CORNERS
<del>500</del>	<del>COAL</del>	<del>FC</del>				<del>ENV</del>	<del>OPERATION SUPERVISION &amp; ENGINEERING - FOUR CORNERS - ENVIRONMENTAL</del>
500		FC		ENV			OPERATION SUPERVISION & ENGINEERING - FOUR CORNERS - ENVIRONMENTAL
500		IV					OPERATION SUPERVISION & ENGINEERING - IRVINGTON
<del>500</del>	<del>COAL</del>	<del>IV</del>				<del>ENV</del>	<del>OPERATION SUPERVISION &amp; ENGINEERING - IRVINGTON - ENVIRONMENTAL</del>
500		IV		ENV			OPERATION SUPERVISION & ENGINEERING - IRVINGTON - ENVIRONMENTAL
500		IVC					OPERATION SUPERVISION & ENGINEERING - IRVINGTON COMMON
500		IV1					OPERATION SUPERVISION & ENGINEERING - IRVINGTON UNIT #1
500		IV2					OPERATION SUPERVISION & ENGINEERING - IRVINGTON UNIT #2
500		IV3					OPERATION SUPERVISION & ENGINEERING - IRVINGTON UNIT #3
500		IV4					OPERATION SUPERVISION & ENGINEERING - IRVINGTON UNIT #4
500		NV					OPERATION SUPERVISION & ENGINEERING - NAVAJO
500		SC1					OPERATION SUPERVISION & ENGINEERING - SPRINGVILLE COMMON UNIT 1
<del>500</del>	<del>COAL</del>	<del>SC1</del>				<del>ENV</del>	<del>OPERATION SUPERVISION &amp; ENGINEERING - SPRINGVILLE COMMON UNIT 1 - ENVIRONMENTAL</del>
500		SC1		ENV			OPERATION SUPERVISION & ENGINEERING - SPRINGVILLE COMMON UNIT 1 ENVIRONMENTAL
<del>500</del>	<del>COAL</del>	<del>SC1</del>	<del>SO2</del>			<del>ENV</del>	<del>OPERATION SUPERVISION &amp; ENGINEERING - SPRINGVILLE COMMON UNIT 1 - ENVIRONMENTAL - SO2</del>
500		SC1	SO2				OPERATION SUPERVISION & ENGINEERING - SPRINGVILLE COMMON UNIT 1 ENVIRONMENTAL - SO2
500		SC2					OPERATION SUPERVISION & ENGINEERING - SPRINGVILLE COMMON UNIT 2
<del>500</del>	<del>COAL</del>	<del>SC2</del>				<del>ENV</del>	<del>OPERATION SUPERVISION &amp; ENGINEERING - SPRINGVILLE COMMON UNIT 2 - ENVIRONMENTAL</del>
500		SC2		ENV			OPERATION SUPERVISION & ENGINEERING - SPRINGVILLE COMMON UNIT 2 ENVIRONMENTAL
<del>500</del>	<del>COAL</del>	<del>SC2</del>	<del>SO2</del>			<del>ENV</del>	<del>OPERATION SUPERVISION &amp; ENGINEERING - SPRINGVILLE COMMON UNIT 2 - ENVIRONMENTAL - SO2</del>
500		SC2	SO2				OPERATION SUPERVISION & ENGINEERING - SPRINGVILLE COMMON UNIT 2 ENVIRONMENTAL - SO2
500		SJ					OPERATION SUPERVISION & ENGINEERING - SAN JUAN
500		SP1					OPERATION SUPERVISION & ENGINEERING - SPRINGVILLE - UNIT 1
<del>500</del>	<del>COAL</del>	<del>SP1</del>				<del>ENV</del>	<del>OPERATION SUPERVISION &amp; ENGINEERING - SPRINGVILLE - UNIT 1 - ENVIRONMENTAL</del>
500		SP1		ENV			OPERATION SUPERVISION & ENGINEERING - SPRINGVILLE - UNIT 1 ENVIRONMENTAL
<del>500</del>	<del>COAL</del>	<del>SP1</del>	<del>SO2</del>			<del>ENV</del>	<del>OPERATION SUPERVISION &amp; ENGINEERING - SPRINGVILLE - UNIT 1 - ENVIRONMENTAL - SO2</del>
500		SP1	SO2				OPERATION SUPERVISION & ENGINEERING - SPRINGVILLE - UNIT 1 ENVIRONMENTAL - SO2
500		SP2					OPERATION SUPERVISION & ENGINEERING - SPRINGVILLE UNIT 2
<del>500</del>	<del>COAL</del>	<del>SP2</del>				<del>ENV</del>	<del>OPERATION SUPERVISION &amp; ENGINEERING - SPRINGVILLE UNIT 2 - ENVIRONMENTAL</del>
500		SP2		ENV			OPERATION SUPERVISION & ENGINEERING - SPRINGVILLE UNIT 2 - ENVIRONMENTAL
<del>500</del>	<del>COAL</del>	<del>SP2</del>	<del>SO2</del>			<del>ENV</del>	<del>OPERATION SUPERVISION &amp; ENGINEERING - SPRINGVILLE UNIT 2 - ENVIRONMENTAL - SO2</del>
500		SP2	SO2				OPERATION SUPERVISION & ENGINEERING - SPRINGVILLE UNIT 2 - ENVIRONMENTAL - SO2
<b>FUEL</b>							
501	COAL	FC					COAL - FOUR CORNERS
<del>501</del>	<del>COAL</del>	<del>FC</del>				<del>ENV</del>	<del>FUEL EXPENSE - FOUR CORNERS - ENVIRONMENTAL</del>
501	COAL	FC		ENV			FUEL EXPENSE - FOUR CORNERS - ENVIRONMENTAL
501	COAL	FC		HNG			FUEL HANDLING EXPENSE - FOUR CORNERS
501	COAL	FC		WAST			RESIDUAL WASTE - FOUR CORNERS
501	COAL	IV					COAL - IRVINGTON UNIT 4
<del>501</del>	<del>COAL</del>	<del>IV</del>				<del>ENV</del>	<del>FUEL HANDLING EXPENSE - ENVIRONMENTAL</del>
501	COAL	IV		ENV			FUEL HANDLING EXPENSE - ENVIRONMENTAL
501	COAL	IV		ADJ			PHYSICAL INVENTORY ADJUSTMENT
501	COAL	IV		HNG			FUEL HANDLING EXPENSE - COAL
501	COAL	IV		STAB			GAS STABILIZATION - IRVINGTON COAL
501	COAL	IV		TORP			COAL - PITTSBURGH & MIDWAY - TAKE OR PAY COSTS
501	COAL	NV					COAL - NAVAJO
<del>501</del>	<del>COAL</del>	<del>NV</del>				<del>ENV</del>	<del>FUEL EXPENSE - NAVAJO - ENVIRONMENTAL</del>
501	COAL	NV		ENV			FUEL EXPENSE - NAVAJO - ENVIRONMENTAL
501	COAL	NV		HNG			FUEL HANDLING EXPENSE - NAVAJO
501	COAL	NV		WAST			RESIDUAL WASTE - NAVAJO
501	COAL	SJ					COAL - SAN JUAN
<del>501</del>	<del>COAL</del>	<del>SJ</del>				<del>ENV</del>	<del>FUEL EXPENSE - SAN JUAN - ENVIRONMENTAL</del>
501	COAL	SJ		ENV			FUEL EXPENSE - SAN JUAN - ENVIRONMENTAL
501	COAL	SJ		HNG			FUEL HANDLING EXPENSE - SAN JUAN
501	COAL	SJ		NEGO			SAN JUAN COAL - RENEGOTIATE SAN JUAN COAL CONTRACT
501	COAL	SJ		TORP			SAN JUAN COAL - SAN JUAN COAL CO. TAKE OR PAY COSTS
501	COAL	SJ		WAST			RESIDUAL WASTE - SAN JUAN
501	COAL	SP					COAL - SPRINGVILLE UNIT 2 STARTUP

TRD11075

TUCSON ELECTRIC POWER COMPANY  
CHART OF ACCOUNTS

ACCT	SUBLEDG	PL CL	LOC	ACCT CNTL	ACTV	SUB ACT	DESCRIPTION
501	COAL		SP1				COAL - SPRINGERVILLE UNIT 1
<del>501</del>	<del>COAL</del>		<del>SP1</del>		<del>FIXD</del>		<del>COAL - SPRINGERVILLE UNIT 1 - FIXED FUEL COSTS</del>
501	COAL		SP1	FIXD			COAL - SPRINGERVILLE UNIT 1 - FIXED FUEL COSTS
<del>501</del>	<del>COAL</del>		<del>SP1</del>			<del>ENV</del>	<del>COAL - SPRINGERVILLE UNIT 1 - ENVIRONMENTAL</del>
501	COAL		SP1	ENV			COAL - SPRINGERVILLE UNIT 1 - ENVIRONMENTAL
501	COAL		SP1	HNG			COAL - SPRINGERVILLE UNIT 1 - HANDLING EXPENSE
501	COAL		SP1	REVL			COAL - SPRINGERVILLE UNIT 1 - COAL CREDIT FOR REVERSAL OF VEC CONTINGENT LIABILITIES
501	COAL		SP1	WAST			COAL - SPRINGERVILLE UNIT 1 - RESIDUAL WASTE
501	COAL		SP2				COAL - SPRINGERVILLE UNIT 2
<del>501</del>	<del>COAL</del>		<del>SP2</del>		<del>FIXD</del>		<del>COAL - SPRINGERVILLE UNIT 2 - FIXED FUEL COSTS</del>
501	COAL		SP2	FIXD			COAL - SPRINGERVILLE UNIT 2 - FIXED FUEL COSTS
<del>501</del>	<del>COAL</del>		<del>SP2</del>			<del>ENV</del>	<del>COAL - SPRINGERVILLE UNIT 2 - ENVIRONMENTAL</del>
501	COAL		SP2	ENV			COAL - SPRINGERVILLE UNIT 2 - ENVIRONMENTAL
501	COAL		SP2	HNG			COAL - SPRINGERVILLE UNIT 2 - HANDLING EXPENSE
501	COAL		SP2	REVL			COAL - SPRINGERVILLE UNIT 2 - COAL CREDIT FOR REVERSAL OF VEC CONTINGENT LIABILITIES
501	COAL		SP2	WAST			COAL - SPRINGERVILLE UNIT 2 - RESIDUAL WASTE
501	GAS		FC				GAS - FOUR CORNERS
501	GAS		I12				GAS - IRVINGTON UNITS 1 & 2
501	GAS		IV				GAS - IRVINGTON UNITS 1 - 4
501	OIL		IV				OIL - IRVINGTON UNITS 1 - 4
501	OIL		IV	HNG			FUEL HANDLING EXPENSE - GAS AND OIL
501	OIL		NV				OIL - NAVAJO
501	OIL		SJ				OIL - SAN JUAN

STEAM EXPENSES

502			FC				STEAM EXPENSES - FOUR CORNERS
<del>502</del>			<del>FC</del>			<del>ENV</del>	<del>STEAM EXPENSES - FOUR CORNERS - ENVIRONMENTAL</del>
502			FC	ENV			STEAM EXPENSES - FOUR CORNERS - ENVIRONMENTAL
502			IV				STEAM EXPENSES - IRVINGTON
<del>502</del>			<del>IV</del>			<del>ENV</del>	<del>STEAM EXPENSES - IRVINGTON - ENVIRONMENTAL</del>
502			IV	ENV			STEAM EXPENSES - IRVINGTON - ENVIRONMENTAL
502			NV				STEAM EXPENSES - NAVAJO
<del>502</del>			<del>NV</del>			<del>ENV</del>	<del>STEAM EXPENSES - NAVAJO - ENVIRONMENTAL</del>
502			NV	ENV			STEAM EXPENSES - NAVAJO - ENVIRONMENTAL
<del>502</del>			<del>SC1</del>			<del>ENV</del>	<del>STEAM EXPENSES - SPRINGERVILLE COMMON UNIT 1 - ENVIRONMENTAL</del>
502			SC1	ENV			STEAM EXPENSES - SPRINGERVILLE COMMON UNIT 1 - ENVIRONMENTAL
<del>502</del>			<del>SC1</del>	<del>SO2</del>		<del>ENV</del>	<del>STEAM EXPENSES - SPRINGERVILLE COMMON UNIT 1 - ENVIRONMENTAL - SO2</del>
502			SC1	SO2			STEAM EXPENSES - SPRINGERVILLE COMMON UNIT 1 - ENVIRONMENTAL - SO2
502			SC1				STEAM EXPENSES - SPRINGERVILLE COMMON UNIT 1
502			SC2				STEAM EXPENSES - SPRINGERVILLE COMMON UNIT 2
<del>502</del>			<del>SC2</del>			<del>ENV</del>	<del>STEAM EXPENSES - SPRINGERVILLE COMMON UNIT 2 - ENVIRONMENTAL</del>
502			SC2	ENV			STEAM EXPENSES - SPRINGERVILLE COMMON UNIT 2 - ENVIRONMENTAL
<del>502</del>			<del>SC2</del>	<del>SO2</del>		<del>ENV</del>	<del>STEAM EXPENSES - SPRINGERVILLE COMMON UNIT 2 - ENVIRONMENTAL - SO2</del>
502			SC2	SO2			STEAM EXPENSES - SPRINGERVILLE COMMON UNIT 2 - ENVIRONMENTAL - SO2
502			SJ				STEAM EXPENSES - SAN JUAN
<del>502</del>			<del>SJ</del>			<del>ENV</del>	<del>STEAM EXPENSES - SAN JUAN - ENVIRONMENTAL</del>
502			SJ	ENV			STEAM EXPENSES - SAN JUAN - ENVIRONMENTAL
502			SP1				STEAM EXPENSES - SPRINGERVILLE UNIT 1
<del>502</del>			<del>SP1</del>			<del>ENV</del>	<del>STEAM EXPENSES - SPRINGERVILLE UNIT 1 - ENVIRONMENTAL</del>
502			SP1	ENV			STEAM EXPENSES - SPRINGERVILLE UNIT 1 - ENVIRONMENTAL
<del>502</del>			<del>SP1</del>	<del>SO2</del>		<del>ENV</del>	<del>STEAM EXPENSES - SPRINGERVILLE UNIT 1 - ENVIRONMENTAL - SO2</del>
502			SP1	SO2			STEAM EXPENSES - SPRINGERVILLE UNIT 1 - ENVIRONMENTAL - SO2
502			SP2				STEAM EXPENSES - SPRINGERVILLE UNIT 2
<del>502</del>			<del>SP2</del>			<del>ENV</del>	<del>STEAM EXPENSES - SPRINGERVILLE UNIT 2 - ENVIRONMENTAL</del>
502			SP2	ENV			STEAM EXPENSES - SPRINGERVILLE UNIT 2 - ENVIRONMENTAL
<del>502</del>			<del>SP2</del>	<del>SO2</del>		<del>ENV</del>	<del>STEAM EXPENSES - SPRINGERVILLE UNIT 2 - ENVIRONMENTAL - SO2</del>
502			SP2	SO2			STEAM EXPENSES - SPRINGERVILLE UNIT 2 - ENVIRONMENTAL - SO2

ELECTRIC EXPENSES

505			FC				ELECTRIC EXPENSES - FOUR CORNERS
<del>505</del>			<del>FC</del>			<del>ENV</del>	<del>ELECTRIC EXPENSES - FOUR CORNERS - ENVIRONMENTAL</del>
505			FC	ENV			ELECTRIC EXPENSES - FOUR CORNERS - ENVIRONMENTAL
505			IV				ELECTRIC EXPENSES - IRVINGTON
505			NV				ELECTRIC EXPENSES - NAVAJO
<del>505</del>			<del>NV</del>			<del>ENV</del>	<del>ELECTRIC EXPENSES - NAVAJO - ENVIRONMENTAL</del>
505			NV	ENV			ELECTRIC EXPENSES - NAVAJO - ENVIRONMENTAL
505			SC1				ELECTRIC EXPENSES - SPRINGERVILLE COMMON UNIT 1
<del>505</del>			<del>SC1</del>			<del>ENV</del>	<del>ELECTRIC EXPENSES - SPRINGERVILLE COMMON UNIT 1 - ENVIRONMENTAL</del>
505			SC1	ENV			ELECTRIC EXPENSES - SPRINGERVILLE COMMON UNIT 1 - ENVIRONMENTAL
<del>505</del>			<del>SC1</del>	<del>SO2</del>		<del>ENV</del>	<del>ELECTRIC EXPENSES - SPRINGERVILLE COMMON UNIT 1 - ENVIRONMENTAL - SO2</del>

TRD11076



VALENCIA ENERGY FUEL TRANSFER COSTS -- 1998

BASED ON ANNUAL TONNAGE OF 3,102,840		SOURCE	ANNUAL COST	\$/TON	CENTS/KWH @ \$200 BTU
<b>MINING COSTS</b>					
Mine - Lee Ranch		LRCC coal cost	\$66,388,957	\$21.396	\$1.147
LRCS		LRCS adjustment	<del>(\$425,000)</del>	<del>(\$0.137)</del>	<del>(\$0.01)</del>
<b>TOTAL MINE</b>			\$66,863,857	\$21.258	\$1.140
<b>TRANSPORTATION COSTS</b>					
Transportation Agreement		ATSF freight cost	\$18,864,866	\$6.080	\$0.326
Shipper Car Lease		Realdo rail car lease	\$463,608	\$0.149	\$0.008
		SRP/other rail car lease	<u>\$109,200</u>	<u>\$0.033</u>	<u>\$0.002</u>
<b>TOTAL TRANSPORTATION</b>			\$19,437,774	\$6.262	\$0.338
<b>OIL FLAME STABILIZATION</b>					
		Units fuel oil	\$198,882	\$0.064	\$0.003
<b>OTHER COSTS</b>					
Operation & Maintenance		BRIS maintenance services	\$510,928	\$0.165	\$0.009
		BRIS mechanic services	\$316,889	\$0.102	\$0.005
		TEP maintenance services	\$671,436	\$0.216	\$0.012
		TEP mechanical services	\$96,540	\$0.031	\$0.002
		Misc. main/mech. services	\$296,812	\$0.092	\$0.005
		Union Tank Car rail car services	\$155,280	\$0.050	\$0.003
		ATSF rail car services	\$31,800	\$0.010	\$0.001
		Rail car material	\$239,808	\$0.077	\$0.004
		Misc. equipment rentals	\$70,233	\$0.023	\$0.001
		Chemicals	\$187,704	\$0.060	\$0.003
		Equipment parts	\$318,848	\$0.103	\$0.006
		System parts	\$351,684	\$0.113	\$0.006
		All other stores issues	<u>\$3,696</u>	<u>\$0.001</u>	<u>\$0.000</u>
			\$3,241,458	\$1.043	\$0.058
Property Tax		Deferred tax allocation	\$193,200	\$0.062	\$0.003
		Property tax	<u>\$4,058,143</u>	<u>\$1.308</u>	<u>\$0.070</u>
			\$4,251,343	\$1.370	\$0.073
Track Maintenance		ATSF railroad maintenance	\$291,120	\$0.094	\$0.005
		SRP railroad maintenance	\$275,400	\$0.089	\$0.005
		VEC railway maintenance	<u>\$105,600</u>	<u>\$0.034</u>	<u>\$0.002</u>
			\$672,120	\$0.217	\$0.012
Other		Communication services	\$11,574	\$0.004	\$0.000
		Depreciation expense	\$177,360	\$0.057	\$0.003
		General liability/Property ins.	\$81,404	\$0.020	\$0.001
		Books & periodicals	\$715	\$0.000	\$0.000
		Misc. expenses	\$90,669	\$0.029	\$0.002
		Office/training equipment	\$5,484	\$0.002	\$0.000
		Permits & licenses	\$2,220	\$0.001	\$0.000
		Utilities expense	\$276	\$0.000	\$0.000
		Coal survey services	\$15,000	\$0.005	\$0.000
		TEP A&G	\$180,000	\$0.058	\$0.003
		Pension & benefits	\$0	\$0.000	\$0.000
		Payroll & Vehicle allocation	\$130,000	\$0.042	\$0.002
		Employee travel expense	<u>\$8,019</u>	<u>\$0.003</u>	<u>\$0.000</u>
			\$882,701	\$0.221	\$0.012
<b>ARIZONA SALES TAX @ 6.5%</b>					
			\$3,682,318	\$1.180	\$0.083
<b>subtotal</b>					
			\$98,104,250	\$31.818	\$1.694
<b>&lt;OVER&gt; UNDER COLLECTED</b>					
			\$2,182,000	\$0.894	\$0.037
<b>TOTAL VARIABLE COSTS</b>					
			\$100,256,280	\$32.310	\$1.731
<b>CONTINGENT LIABILITY</b>					
			\$1,270,771	\$0.410	\$0.022
<b>LEASE</b>					
		Interest expense	\$18,061,591	\$5.821	\$0.312
		Regulatory interest	<del>(\$258,973)</del>	<del>(\$0.08)</del>	<del>(\$0.00)</del>
		Depreciation	\$2,026,228	\$0.653	\$0.035
		Straight line amortization	<u>\$1,356,000</u>	<u>\$0.437</u>	<u>\$0.023</u>
<b>TOTAL LEASE COSTS</b>			\$21,184,848	\$6.828	\$0.366
<b>CONTINGENT LIABILITY</b>					
			\$897,178	\$0.289	\$0.016
<b>RETURN ON DEFERRAL</b>					
			\$3,296,361	\$1.062	\$0.057
<b>RETURN ON INVESTMENT</b>					
			\$1,500,000	\$0.483	\$0.028
<b>TOTAL LEASE COSTS</b>					
			\$28,149,168	\$9.072	\$0.488
<b>TOTAL FUEL COSTS</b>					
			\$128,405,408	\$41.382	\$2.217

PURCHASE BASED ON 3,102,840 MINIMUM COMMITMENT TO LRCC UNDER MOD. 10  
EST. BURN OF 3.3 MILLION BASED ON PROMOD RUN 1/18/98

TRNCO65A\_01561256 T. Mead/Nehtmeyer

TEP EXHIBIT 56  
 DATE 9-28-99  
 CECELIA BROOKMAN, RPR

Maint 6260

**E**



1 DEPOSITION OF MALCOLM ROSS SPILLER  
2 was taken on September 29, 1999, commencing at  
3 12:29 p.m., at the law offices of Roshka, Heyman &  
4 DeWulf, PLC, Two Arizona Center, 400 North Fifth  
5 Street, Suite 1000, Phoenix, Arizona, before CECELIA  
6 BROOKMAN, a Notary Public in and for the County of  
7 Maricopa, State of Arizona.

8

9 APPEARANCES:

10

For the Complainant:

11

ROSHKA HEYMAN & DEWULF, PLC  
By Mr. Raymond S. Heyman  
Two Arizona Center, Suite 1000  
400 North Fifth Street  
Phoenix, Arizona 85004-3902

14

15 For the Respondent:

16

FENNEMORE CRAIG, P.C.  
By Mr. Jay L. Shapiro  
3003 North Central Avenue, Suite 2600  
Phoenix, Arizona 85012-2913

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25

1 MALCOLM ROSS SPILLER,  
2 called as a witness herein, having been first duly  
3 sworn by the Notary Public to speak the truth and  
4 nothing but the truth, was examined and testified as  
5 follows:

6

7

EXAMINATION

8

9 Q. (BY MR. HEYMAN) Mr. Spiller, would you  
10 please state your full name for the record.

11 A. Full name is Malcolm Ross Spiller.

21 Q. Do you work out of the Cyprus Sierrita mine?

22 A. Correct.

23 Q. And you are employed by whom?

24 A. Cyprus Sierrita Corporation.

25 Q. What is your position?

1           A.    I believe my exact title is staff plant  
2 engineer.

3           Q.    How long have you worked for Cyprus Sierrita?

4           A.    This was actually my second tour of duty with  
5 Cyprus Sierrita itself.  I'm trying to think of that.  
6 I believe for Sierrita, it would be '86 to -- eight  
7 years.

15 Q. Then what happened in 1994?

16 A. In 1994, then I went back to the Sierrita  
17 property. I was re-employed by Cyprus Sierrita  
18 Corporation.

19 Q. Your position at that time is the same  
20 position that you hold currently, or was it a  
21 different position?

22 A. It's the same position. There may have been  
23 some name changes through the years, but basically the  
24 same duties, just a support engineer for the facility.

25 Q. What are those duties and responsibilities

1 that you have, then, currently?

2 A. Well, because we are reduced in force, when I  
3 went back there my primary duties are project  
4 management.

5 Q. When you say project management, what does  
6 that mean, exactly?

7 A. It would primarily be the focal point for  
8 Sierrita, I would be the focal point for either  
9 management of a maintenance effort or a special  
10 project by Sierrita personnel, or I would be the focal  
11 point for a Sierrita Corporation, as a manager  
12 overseeing engineering work done by an outside agency,  
13 if we hired a Fluor or Bechtel or something.

18           Q.    You indicated that you've negotiated with  
19 Mr. McElrath some power contracts.  What role does  
20 Mr. McElrath play in the negotiations of power  
21 contracts at Cyprus?

22           A.    You indicated that I negotiated with Mike,  
23 and that's not correct terminology.  Mike is, in his  
24 title, is the lead for any of this, as I understand it  
25 the lead for any of the Cyprus properties.  He is the

1 negotiator for power contracts. My duty is primarily  
2 an interface to those negotiations for the Sierrita  
3 property.

4 Q. What does that mean, interface?

5 A. To the point of liaison, a set of ears that's  
6 at the negotiations when I am available. I'm at the  
7 negotiations with Mike McElrath, and I do pass along  
8 comments to our management at the Sierrita property.

25 Q. You were involved in the negotiations for the

1 second amendment of the electric service agreement  
2 between Cyprus Sierrita and Tucson Electric Power  
3 Company; is that right?

4 A. I attended most of those, yes, in Tucson,  
5 yes.

14 Q. In addition to meetings with Tucson Electric  
15 Power in connection with the second amendment, did you  
16 perform any other role as a support for Mr. McElrath  
17 during the course of the negotiations?

18 A. I would say as a sounding board for his  
19 thoughts.

12 Q. You indicated that you received a document  
13 that contained the FERC Account 501 information; is  
14 that correct?

15 A. Correct.

16 Q. And you received that from Mr. McElrath?

17 A. Correct. Because when FERC 501 was brought  
18 up, I did not know what FERC 501 was. I had never  
19 heard of that before.

20 Q. So did you ask Mike for the FERC 501  
21 information?

22 A. Yes.

23 Q. And what was the purpose for you asking him  
24 for that information?

25 A. I asked him what it was, and he sent me the

1 document furnished to him, I believe, by TEP.

2 Q. And when you received that document, what did  
3 you do?

4 A. I looked at it.

5 Q. And you indicated that you were not aware of  
6 FERC Account 501 prior to it being mentioned in the  
7 context of the negotiations for the second amendment?

8 A. That's correct, I had never heard of that  
9 before.

10 Q. When you reviewed the information, did you  
11 review it to the extent that you were satisfied that  
12 you felt like you understood what was in FERC  
13 Account 501?

14 MR. SHAPIRO: Object to the form.

15 Q. (BY MR. HEYMAN) You can go ahead and answer.

16 A. No, I did not review it to the point that I  
17 understood it. I looked at the document to see what  
18 some of the line items were, but I still did not  
19 understand all that it contained.

20 Q. Which line items were you looking for?

21 A. Basically I was looking to see if fuel was  
22 mentioned in there, as I understood, for 501 was  
23 supposed to track fuel costs, which was our concern.

24 Q. Were you able to determine whether or not 501  
25 did track fuel costs?

1           A.     There were a lot of line items that mentioned  
2 fuel, yes.

19           Q.     What was the importance or what was the  
20 significance of making sure that fuel cost items were  
21 tracked in the Account 501?

22           A.     501 was the entity by which the fuel costs  
23 for the contract, I remember, would be tracked.

25 Q. Listen carefully what I'm asking you. Is it

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1 your understanding that the energy component of the  
2 rates to be charged pursuant to the second amendment  
3 were to be indexed to the costs in the FERC  
4 Account 501, and in the event that those costs  
5 increased, there would be a cap on the increase in the  
6 rates of 1 percent?

7 MR. SHAPIRO: Can I have that question read  
8 back, please.

9 (The record was read by the reporter as  
10 requested.)

11 MR. SHAPIRO: Go ahead, Malcolm, can you  
12 answer?

13 THE WITNESS: Well, I'm sorry, it's the same  
14 answer. I don't understand the question. Energy is  
15 in 501 account. 501 account was the index. If the  
16 price went up, their costs went up on the items in 501  
17 and our price went up with a limit of 1 percent per  
18 annum.

19 Q. (BY MR. HEYMAN) What if the prices went down  
20 for the components in the 501 account, what would then  
21 happen to the rates?

22 A. Then our rates would go down.

23 Q. Why was it important to you to check and see  
24 if the 501 account included fuel costs?

25 A. As I recall, the concerns by TEP were

1 fuel-related as far as unknowns in the future years.  
2 The proposal was made during the negotiations to use  
3 501 as an index for both parties to understand and be  
4 able to track the changes in our price, and it was a  
5 known quantity.

14 Q. (BY MR. HEYMAN) So what you're telling me is  
15 if an item that was a cost component of FERC  
16 Account 501 was reduced, that Cyprus Sierrita would be  
17 entitled to the benefit of that reduction in rates?

18

19 THE WITNESS: I would have to say yeah, if  
20 the total 501 account were reduced, yes, Cyprus  
21 Sierrita's rate would be reduced.

17           Q.    Let me be more specific.  Didn't Cyprus  
18   intend and desire to benefit from TEP's reduction in  
19   its fuel-related costs?

20           A.    Cyprus desired to reduce our costs any method  
21   we had.

4           Q.     And your testimony was that in looking at  
5 this information, you were able to determine that at  
6 least some of the items contained in that FERC  
7 Account 501 were fuel-related items?

8           A.     Correct. Fuel is listed as some of the line  
9 items on several pages.

14           Q.    Do you recall a meeting with Mr. McElrath and  
15 Mr. King in the corporate headquarters of Tucson  
16 Electric Power in which the subject of the FERC  
17 Account 501 and its costs were discussed?

18           A.    I remember being there when FERC 501 was  
19 discussed. I don't know that its costs were  
20 discussed. I can't recall that.

14 Q. Let me show you a document that's marked as  
15 TEP Deposition Exhibit No. 56. Have you ever seen a  
16 document like that before?

17 A. No, sir.

18 Q. You have no recollection of having anybody  
19 explain this document to you before?

22 THE WITNESS: I don't recall it, no.

23 Q. (BY MR. HEYMAN) Do you recall any meeting or  
24 discussion with Joe King in which he discussed with  
25 you the term Valencia-related costs?

1 A. No, sir.

2 Q. Do you know what Valencia-related costs are  
3 in the context of the dispute between Cyprus and TEP?

4 A. In detail, no.

5 Q. What's your general understanding?

6 A. My general understanding, after TEP brought  
7 it up to us, was Valencia had some fuel costs that had  
8 been in FERC 501 that were no longer in FERC 501.

15           Q.     There's also a component of the second  
16 amendment that provides a mechanism by which Cyprus  
17 Sierrita's rates could be reduced even farther based  
18 upon changes in the energy component; is that correct?

19           A.     Changes in the, yeah, in the FERC 501 account  
20 as our index.

21           Q.     My question was the energy component of the  
22 rates.

23           A.     Well, the energy component is FERC 501,  
24 according to the contract, so changes in 501 will  
25 change the rates, yes.

21           Q.     (BY MR. HEYMAN)  -- Cyprus is currently  
22     paying TEP for electric service under the second  
23     amendment is lower than what the base rate is in the  
24     second amendment?

25           A.     What we're now currently paying, yes, is

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Phoenix, AZ

1 lower than what we started at.

2 Q. In the second amendment?

3 A. Correct.

4 Q. What do you attribute that reduction in rates  
5 to?

6  
7 THE WITNESS: Our rates have been adjusted  
8 according to the way the contract was written, with  
9 adjustments occurring quarterly, based upon the FERC  
10 501 account, and with that, our rates change. That's  
11 how I know they've changed.

24           Q.    Let me ask you if you agree with another  
25 statement.  Would you agree that it is valid to

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1 assert, as TEP does now, that the cost components used  
2 to calculate the current period's costs should be  
3 directly comparable to the cost components used to  
4 calculate the base period costs unless new actual cost  
5 components arise or old ones truly disappear pursuant  
6 to the second amendment?

7 A. Do I agree or disagree with that is your  
8 question?

9 Q. That's correct.

10 A. I disagree with that.

11 Q. Why?

12 A. Our contract states that we track 501  
13 account, the FERC 501 account. TEP's allegations wish  
14 to change that.

10           Q.     (BY MR. HEYMAN)   So is it your testimony that  
11 if FERC were to require TEP to include new cost  
12 components into the FERC Account 501, that Cyprus  
13 would be required to pay the rates even if they are  
14 higher as a result of adding those new cost components  
15 into 501?

16           A.     Sierrita agreed to have FERC 501 as the  
17 index.   And if the government changes the rules  
18 regarding what's in the index, yes, we would have to  
19 abide by that.

20 Q. And you're not aware of any difference  
21 between or a calculation that demonstrated the  
22 difference between the rates of amendment number two  
23 and amendment number one?

24 A. In the negotiations TEP, as I recall, gave us  
25 some numbers of what they thought that reduction would

1 be, what they thought the rates might be. I can  
2 remember making a calculation. I don't remember the  
3 year. I believe the month was August. I made a  
4 calculation using the TEP numbers for energy  
5 consumption, and then compared it to what we actually  
6 consumed.

7 Q. What did you come up with?

8 A. As I recall, that calculation, the numbers  
9 TEP told us we would be saving was more than what we  
10 actually have saved.

9                   Do you recognize Paragraph F of Page 5 to be  
10 the formula in the second amendment that determines  
11 the energy component for the rates?

12           A.    Yes.

16           Q.    And you helped negotiate the second  
17 amendment, is that correct, by providing assistance to  
18 Mr. McElrath?

19           A.    I was a party to the negotiations.

23           Q.                                    You feel like you  
24 have an understanding how it is to work and operate?

25           A.    I believe so.

22           Q.    Is it your understanding that the same cost  
23 components that were used in the base rate would be  
24 used in the comparative period to calculate the energy  
25 components?

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2 THE WITNESS: FERC 501 was what was to be  
3 used.

5 My question was: Was it your understanding  
6 that the same cost components that were in the base  
7 rate would be used in the comparative period?

9 THE WITNESS: If FERC 501 remained the same,  
10 it would be the same.

13 My question was: Was it your understanding  
14 that the same cost components would be used in the  
15 base rate and in the comparative period?

17 THE WITNESS: No.

21 Q. What was your understanding of the cost  
22 components that would be in the base rate in the  
23 comparative period?

24 A. My understanding of the cost components would  
25 be those components contained in FERC 501.

1 Q. And your understanding is based upon what,  
2 specifically? And by that I mean conversations,  
3 documentation? What is the basis for that  
4 understanding?

5 A. We agreed that FERC 501 accounts would be the  
6 tracking mechanism. If FERC 501 numbers went up, our  
7 costs went up; if FERC 501 numbers went down, our  
8 costs went down.

9 Q. And I think you indicated that your  
10 understanding at the time was it was just based upon  
11 the 501 numbers, not related to any fuel cost savings;  
12 is that correct?

13 A. It's related to FERC 501 accounts, so you  
14 know, whatever makes FERC 501 change.

15 Q. And your understanding -- and I want to pin  
16 you down a little bit on time frame.

17 Your understanding, at the time that this  
18 contract was entered into, was that if the FERC 501  
19 account numbers went up or went down, that would be  
20 how the energy charge component would be calculated,  
21 completely independent of whether or not TEP actually  
22 incurred additional costs or reduced costs?

24 THE WITNESS: As I understand the question,  
25 as FERC 501 numbers changed, our rates changed, so

1 yes, I agree with that.

14 Q.

21 start with Line 2. Further, answering Paragraph 16:  
22 Cyprus specifically avers that at the time the parties  
23 entered into the second amendment, Cyprus had no  
24 particularized knowledge concerning the individual  
25 components of TEP's FERC 501 account.

1           Is that a true statement?

2           A.    I can't answer that.  You'd have to ask Mike  
3 McElrath.

4           Q.    I'm asking you based upon what you know.

5           A.    I did not.

6           Q.    Excuse me?

7           A.    If I am considered Cyprus, I did not.

8           Q.    As an employee of Cyprus, did you have a  
9 particularized knowledge concerning any of the  
10 individual components of TEP's FERC Account 501?

11          A.    No, sir.

12          Q.    Just so that I'm clear, and the record is  
13 clear, let's go back to Exhibit No. 2.  I want you to  
14 make sure that you understand the second amendment  
15 that was signed on November 8th, 1996.  See that?

16          A.    Okay.

17          Q.    Is it your testimony that as of November 8th,  
18 1996, you did not have a particularized knowledge  
19 concerning the individual components of TEP's FERC  
20 Account 501?

21          A.    No, sir.  I saw the document provided by TEP,  
22 but particularized knowledge of items in that  
23 document, I did not have.



1           Q.    I guess my question to you is:  Is this a  
2 true statement, the sentence that begins on Line 10  
3 through Line 13, on Page 8?

4           A.    Cyprus would have paid a lower cost where the  
5 cogeneration plants are, I would say that that's  
6 correct.

7           Q.    The question was:  Did Cyprus forfeit  
8 significant cost savings by foregoing its viable  
9 cogeneration option?

10          A.    Can we build that same plant now, no, so  
11 that's a correct statement.  We gave up the chance to  
12 build a plant at that time.

9           Q.     (BY MR. SHAPIRO) Mr. Spiller, Mr. Heyman  
10     asked you a bunch of questions regarding a reference  
11     in Cyprus' answer and counterclaim and/or statement in  
12     that answer and counterclaim. It included the words  
13     particularized knowledge. What does that term mean to  
14     you, particularized knowledge?

15           A.     The term particularized means to me in-depth  
16     knowledge.

22           Q.     Were you satisfied personally, you yourself  
23     satisfied, that you and Mr. McElrath had determined  
24     that the FERC 501 account of TEP's was the FERC  
25     account that tracked fuel-related costs?

1 A. That's correct.

2 Q. Did you make any effort to determine what  
3 those individual cost components were?

4 A. I did not, no.

5 Q. Did you believe that it was necessary to  
6 determine each and every cost component of TEP's FERC  
7 501 account to support Mr. McElrath's recommendation  
8 to the executive officers?

9 A. No, I did not.

10 Q. Were you aware, sir, whether or not TEP's  
11 FERC 501 account included, at anytime prior to the  
12 execution of amendment number two, costs related to  
13 Valencia Energy Corporation?

20 Q. (BY MR. HEYMAN) Why was it important to you  
21 that the FERC 501 account track fuel costs?

23 THE WITNESS: The parties had discussed the  
24 fuel costs could change. We wanted an independent  
25 verifiable means, nonambiguous, that related to fuel

1 costs. FERC 501 was brought to the table as that  
2 entity. Not having known what FERC 501 was before, I  
3 wanted to know what that was.

4 Does that answer the question?

5 MR. HEYMAN: It does.

15           Q.     (BY MR. HEYMAN) Is it your testimony that  
16 under the second amendment, if the cost components in  
17 the FERC 501 account change, whether they are greater  
18 or lesser, that Cyprus would be entitled to either a,  
19 after having to pay a greater rate or a lesser rate,  
20 even though that may not have been caused by an actual  
21 cost incurrence or cost reduction by TEP?

22                     MR. SHAPIRO: Object to form.

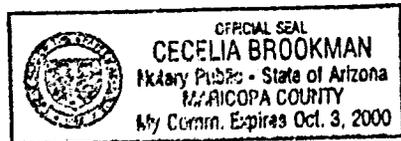
23                     THE WITNESS: In that we don't benefit from  
24 anything TEP does outside of FERC 501, I would say  
25 that's correct.



1 STATE OF ARIZONA )  
 ) ss.  
 2 COUNTY OF MARICOPA ) BE IT KNOWN that the  
 3 foregoing deposition was taken by me; that I was then  
 4 and there a Notary Public in and for the County of  
 5 Maricopa, State of Arizona, and by virtue thereof  
 6 authorized to administer an oath; that the witness  
 7 before testifying was duly sworn by me to testify to  
 8 the whole truth and nothing but the truth; that the  
 9 questions propounded by counsel and the answers of the  
 10 witness thereto were taken down by me in shorthand and  
 11 thereafter transcribed into typewriting under my  
 12 direction, and that the foregoing pages of typewritten  
 13 matter contain a full, true, and accurate transcript  
 14 of all proceedings and testimony had and adduced upon  
 15 the taking of said deposition, all to the best of my  
 16 skill and ability.

17 I FURTHER CERTIFY that I am not related to  
 18 nor employed by any of the parties hereto, and have no  
 19 interest in the outcome.

20 DATED at Phoenix, Arizona, this 12th day of  
 21 October, 1999.



*Cecelia Brookman*  
 CECELIA BROOKMAN, RPR  
 Notary Public

22  
 23  
 24  
 25



VALENCIA ENERGY FUEL TRANSFER COSTS - 1990

BASED ON ANNUAL TONNAGE OF 3,102,840		ANNUAL COST	\$/TON	CENTS/KWH @ \$200 BTU
	SOURCE			
<b>MINING COSTS</b>				
Mine - Lee Ranch	LRCC coal cost	\$65,388,957	\$21.396	\$1.147
LRCS	LRCS adjustment	<del>(\$425,000)</del>	<del>(\$0.137)</del>	<del>(\$0.01)</del>
<b>TOTAL MINE</b>		\$64,963,957	\$21.258	\$1.140
<b>TRANSPORTATION COSTS</b>				
Transportation Agreement	ATSF freight cost	\$18,864,966	\$6.080	\$0.326
Shipper Car Lease	Residco railcar lease	\$463,608	\$0.149	\$0.008
	SRP/other railcar leases	<u>\$109,200</u>	<u>\$0.033</u>	<u>\$0.002</u>
<b>TOTAL TRANSPORTATION</b>		\$19,437,774	\$6.262	\$0.334
<b>OIL FLAME STABILIZATION</b>				
	Units fuel oil	\$198,882	\$0.064	\$0.003
<b>OTHER COSTS</b>				
<b>Operation &amp; Maintenance</b>				
	BRIS maintenance services	\$510,928	\$0.165	\$0.009
	BRIS mechanic services	\$316,889	\$0.102	\$0.005
	TEP maintenance services	\$671,436	\$0.216	\$0.012
	TEP mechanical services	\$96,540	\$0.031	\$0.002
	Misc. maint./mech. services	\$296,812	\$0.092	\$0.005
	Union Tank Car rail car services	\$155,280	\$0.050	\$0.003
	ATSF rail car services	\$31,800	\$0.010	\$0.001
	Rail car material	\$239,808	\$0.077	\$0.004
	Misc. equipment rentals	\$70,233	\$0.023	\$0.001
	Chemicals	\$187,704	\$0.060	\$0.003
	Equipment parts	\$318,648	\$0.103	\$0.006
	System parts	\$351,684	\$0.113	\$0.006
	All other stores issues	<u>\$3,696</u>	<u>\$0.001</u>	<u>\$0.000</u>
		\$3,241,458	\$1.043	\$0.058
<b>Property Tax</b>				
	Deferred tax allocation	\$193,200	\$0.062	\$0.003
	Property tax	<u>\$4,058,143</u>	<u>\$1.308</u>	<u>\$0.070</u>
		\$4,251,343	\$1.370	\$0.073
<b>Track Maintenance</b>				
	ATSF railroad maintenance	\$291,120	\$0.094	\$0.005
	SRP railroad maintenance	\$275,400	\$0.089	\$0.005
	VEC railway maintenance	<u>\$105,600</u>	<u>\$0.034</u>	<u>\$0.002</u>
		\$672,120	\$0.217	\$0.012
<b>Other</b>				
	Communication services	\$11,574	\$0.004	\$0.000
	Depreciation expense	\$177,360	\$0.057	\$0.003
	General liability/Property ins.	\$81,404	\$0.026	\$0.001
	Books & periodicals	\$715	\$0.000	\$0.000
	Misc. expenses	\$90,669	\$0.029	\$0.002
	Office/training equipment	\$5,484	\$0.002	\$0.000
	Permits & licenses	\$2,220	\$0.001	\$0.000
	Utilities expense	\$276	\$0.000	\$0.000
	Coal survey services	\$15,000	\$0.005	\$0.000
	TEP A&G	\$180,000	\$0.058	\$0.003
	Pension & benefits	\$0	\$0.000	\$0.000
	Payroll & Vehicle allocation	\$130,000	\$0.042	\$0.002
	Employee travel expense	<u>\$8,019</u>	<u>\$0.003</u>	<u>\$0.000</u>
		\$882,701	\$0.221	\$0.012
<b>ARIZONA SALES TAX @ 5.5%</b>				
		\$3,662,316	\$1.180	\$0.063
<b>subtotal</b>				
		\$98,104,250	\$31.818	\$1.694
<b>&lt;OVER&gt; UNDER COLLECTED</b>				
		\$2,182,000	\$0.894	\$0.037
<b>TOTAL VARIABLE COSTS</b>				
		\$100,256,280	<u>\$32.310</u>	\$1.731
<b>CONTINGENT LIABILITY</b>				
		\$1,270,771	\$0.410	\$0.022
<b>LEASE</b>				
	Interest expense	\$18,061,591	\$5.821	\$0.312
	Regulatory Interest	<del>(\$258,973)</del>	<del>(\$0.08)</del>	<del>(\$0.00)</del>
	Depreciation	\$2,026,228	\$0.653	\$0.035
	Straight line amortization	<u>\$1,356,000</u>	<u>\$0.437</u>	<u>\$0.023</u>
<b>TOTAL LEASE COSTS</b>		\$21,184,846	\$6.828	\$0.366
<b>CONTINGENT LIABILITY</b>				
		\$897,178	\$0.289	\$0.016
<b>RETURN ON DEFERRAL</b>				
		\$3,296,361	\$1.062	\$0.057
<b>RETURN ON INVESTMENT</b>				
		\$1,500,000	\$0.483	\$0.028
<b>TOTAL LEASE COSTS</b>				
		\$28,149,158	\$9.072	\$0.488
<b>TOTAL FUEL COSTS</b>				
		\$128,405,408	\$41.382	\$2.217

TEP EXHIBIT 56  
DATE 9-28-99  
CECELIA BROOKMAN, RPR

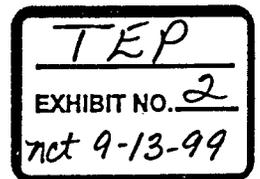
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PURCHASE BASED ON 3,102,840 MINIMUM COMMITMENT TO LRCC UNDER MOD. 10  
EST. BURN OF 3.3 MILLION BASED ON PROMOD RUN 1/8/98

TRNCO65AJLS6/12/98 T. Mead/Nehrmeyer



Amendment No. 2  
to the  
Electric Service Agreement  
between  
Tucson Electric Power Company  
&  
Cyprus Sierrita Corporation



CYP000065

**Amendment No. 2  
to the  
Electric Service Agreement**

**1. PARTIES AND RECITALS**

Dated this 8<sup>th</sup> day of November, 1996, between Tucson Electric Power Company (the "Company"), and Cyprus Sierrita Corporation (the "Customer"), (collectively "Parties"). The Company and the Customer are parties to an Electric Service Agreement dated February 6, 1991, as amended December 15, 1992, (the "Agreement"), pursuant to which electric utility service is purchased by and provided to the Customer for its Sierrita Mine Operations and related facilities. The Company and the Customer wish to amend the Agreement to provide (i) changes in the pricing for service to the Customer; (ii) interruptible service with respect to a portion of the Customer's load; and (iii) market access for a portion of the Customer's load. Accordingly, upon satisfaction of the conditions precedent set forth below, the Parties hereby amend the Agreement as specified herein.

**2. AGREEMENT**

The Parties amend the Agreement as follows:

2.1. The Agreement is hereby amended by deleting Exhibit C, which is not being replaced, and deleting Section VI of the Agreement in its entirety and substituting therefor the following:

“VI. PRICING

A. Firm Power. Firm power demand shall be 15 MW. The price for such firm power shall consist of a Demand Charge of \$5.25/kW-Mo. and an Energy Charge of \$0.03748/kWh.

B. Interruptible Power. Interruptible power demand shall be up to 82 MW. The Company shall provide Customer no less than ten (10) minutes notice of pending interruption of service. The price for such interruptible service shall consist of a Demand Charge of \$2.02/kW-Mo. and an Energy Charge of \$0.03748/kWh, provided that during any hours in which the Company's system incremental cost of producing energy exceeds the Energy Charge, the Customer shall be required to reduce its load to the point where the Company's incremental cost is equal to the Energy Charge. In the alternative, the Customer shall have the ability to pay for replacement energy. The sales price to the Customer for replacement energy purchases shall include, but not be limited to, the following as applicable:

1. demand charges,
2. energy charges,
3. unit startup costs,
4. minimum run time charges,

5. minimum quantity purchase obligation,

6. other expenses charged by suppliers,

7. Company's applicable transmission wheeling and ancillary services charges as ultimately approved by FERC and the ACC in the Company's Open Access Transmission and Distribution Tariffs, which upon regulatory approval shall be, subject to refund or increase,  $\$2.56/\text{kW-Mo.}$  ( $\$0.118/\text{kW-day}$ ,  $\$0.007385/\text{kWh}$ ) for EHV Point-to-Point Transmission Service,  $\$1.08/\text{kW-Mo.}$  ( $\$0.05/\text{kW-day}$ ,  $\$0.003116/\text{kWh}$ ) for 138kV Point-to-Point Distribution Service,  $\$0.05/\text{kW-Mo.}$  ( $\$0.002/\text{kW-day}$ ,  $\$0.001/\text{kWh}$ , subject to a minimum charge of \$200 per schedule) for Scheduling, System Control and Dispatch Service and  $\$0.547/\text{kW-Mo.}$  ( $\$0.025/\text{kW-day}$ ,  $\$0.002/\text{kWh}$ ) for Reactive Supply and Voltage Control from Generation Sources Service for a total charge of  $\$4.237/\text{kW-Mo.}$  ( $\$0.195/\text{kW-day}$ ). The following ancillary services, Regulation and Frequency Response Service, Energy Imbalance Service, Operating Reserve - Spinning Reserve Service and Operating Reserve - Supplemental Reserve Service are to be included in the firm energy product delivered to Company. For tariff purposes only, all of Customers' Delivery Points are considered to be at 138kV Distribution Service.

8. a handling charge of 10 % of the sum of the above charges 1 through 6. and

9. cost of transmission losses for delivery to the Company's system.

Capacity interruptions shall be limited to 128 hours in any calendar year. or 8 hours in any calendar day. Following an interruption, permitted capacity interruptions for the calendar year shall be reduced by the greater of the actual duration of the interruption or four (4) hours.

C. Market Pricing. The Customer shall have the ability to designate up to 5 MW of the first 102 MW of demand, and all demand in excess of 102 MW, for purchase by the Customer at market pricing. In the event the Customer elects to designate power for market pricing from Company, the Company shall wheel the power to the Customer at a price based on the Palo Verde Index, which price shall be trued-up in the following month's billing based on the actual daily Palo Verde Index prices during each previous calendar month. In addition, a 10% handling charge, as well as the applicable Transmission and Distribution charges specified in VI.B.7. above shall apply. The Palo Verde Index is defined as the daily quoted price in \$/MWh as published in the Wall Street Journal for prescheduled, firm on-peak and firm off-peak power. Off-peak hours shall be hours ending (HE) 2300 to 0600 Mountain Standard Time (MST) Monday-Sunday. On-peak hours shall be HE0700-2200 MST Monday-Sunday. Power delivered at market pricing shall be considered first through the meter.

D. Minimum Payment. The minimum payment obligation shall be \$434,000 per month until December 31, 1997, and thereafter shall be \$234,000 per month, through the expiration or termination of this Agreement.

E. Operating Procedure. Customer and Company shall develop and approve detailed operating procedures for scheduling replacement energy and market power from Company. Such procedures shall be consistent with the practical operation of Company's electrical system and Customer's mine operations, and necessary or convenient for the implementation of this Agreement.

F. Calculation of Energy Charges. Energy Charges shall be indexed to the Company's system average fuel cost (FERC Account 501 dollars per MWh of net

generation). Energy Charges shall be increased or decreased quarterly, but in no event shall they increase by more than 1% in any calendar year. Quarterly changes shall be computed using a twelve (12) month rolling period ending three months prior. The base period for the calculation of the index shall be twelve months from July 1995 through June 1996.

G. Billing Demand. Demand billing calculations hereunder shall be based on the average of the three highest 15-minute metered demands during the month.

H. Wire Transfer Notwithstanding Section V of this Agreement, the Customer's payments for service shall be wire transferred according to the Company's instructions within ten (10) calendar days of receipt of billing statements.

I. Retail Access. If, during the term of this Agreement, any regulatory or other governmental authority renders any decision or order or implements any legislation (other than a "pilot" or "experimental" program) which permits similarly situated copper mining customer(s) in Arizona (without limitation, Asarco Mission and Ray, BHP Pinto Valley and San Manuel, and Cyprus Bagdad and Miami are specifically considered similarly situated) to purchase electric energy produced by entities other than the electric utility serving such customers' service territory for use within such service territory ("Retail Access"), and the Customer would have the benefit of such Retail Access but for this Agreement, the Company shall in good faith with the Customer provide access to the competitive market comparable to that provided by Retail Access."

2.2. The Agreement is hereby amended by deleting Section VIII of the Agreement in its entirety and substituting therefor the following:

**"VIII. EFFECTIVE DATE AND TERM**

Subject to Section 2.6 below, this Amendment No. 2 shall be effective September 16, 1996, ("Effective Date") and shall expire at 12:00 a.m. on January 1, 2003, subject to earlier termination in the event the Customer elects to close its Sierrita Mine operations during the term of this Agreement, provided however, neither Party shall have any other early termination option."

2.3 Upon regulatory approval of this Amendment No. 2 to the Agreement, it is the intent of the Parties to re-invoice the Customer billing from the Effective Date forward and credit Customer's next monthly invoice any overpayment for electrical service.

2.4 The Agreement is hereby amended by deleting Section XVIII of the Agreement in its entirety and substituting therefor the following:  
For purposes of any notification contemplated to be given by or to either party under this Agreement, the following shall constitute the appropriate address for delivery for such notice:

To the Company:

Tucson Electric Power Company

c/o Secretary

P.O. Box 711

Tucson, Arizona 85702

To the Customer:

Cyprus Sierrita Corporation

Attention: Vice President/General Manager

P.O. Box 527

Green Valley, Arizona 85622

With copies to:

Cyprus Climax Metals Company

Attention: Legal Department

P.O. Box 22015

Tempe, Arizona 85285

and:

Cyprus Climax Metals Company

Attention: Manager, Power

P.O. Box 22015

Tempe, Arizona 85285

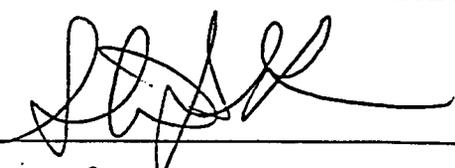
2.5 If the Commission orders any material changes to or modifications of this Amendment No. 2 which are unacceptable to either Party, the objecting Party shall notify

the other Party within five (5) days of receipt of the Commission order and this Amendment No. 2 shall be void and the Agreement without this Amendment No. 2 shall be in full force and effect.

2.6 Conditions Precedent. This Amendment No. 2 is subject to the receipt by the Parties of all necessary regulatory approvals.

IN WITNESS WHEREOF, the Parties have caused this Amendment No. 2 to the Agreement to be executed as of the 8<sup>th</sup> day of November, 1996.

TUCSON ELECTRIC POWER COMPANY

By 

Title VP

CYPRUS SIERRITA CORPORATION

By AR Edwards

Title: Vice President/General Manager

**Tucson Electric Power &  
Cyprus Sierrita Corporation  
Electric Service Agreement Amendment No. 2  
Operating Procedure**

Tucson Electric Power Company (the "Company") and Cyprus Sierrita Corporation (the "Customer"), herein referred to as ("Party") or collectively as ("Parties") hereby agree to the following Operating Procedure Pursuant to Section VI.E of Amendment No. 2 of the Electric Service Agreement:

I. REPLACEMENT ENERGY

A. During any hours in which the Company's system incremental cost of producing energy exceeds the Energy Charge (indexed quarterly), the Company shall have the right to require Customer to reduce its load to a point where the Company's incremental cost is equal to the Energy Charge, subject to the limitations in I.H below. When Company requires Customer to reduce load, the Customer shall alternatively have the ability to pay for replacement energy.

B. Company shall notify Customer when circumstances require either an interruption of some level of service, or alternatively, the purchase of replacement energy ("Qualifying Event"), as soon as practicable, but in no event shall notice be less than ten (10) minutes.

C. Notifications to Company or Customer will be made via telephone to the designated representative as follows:

Customer Primary:  
Mill Control Room (520) 648-8811

Customer Alternate #1:  
Mill Control Room (520) 648-8735

Customer Alternate #2:  
Secondary Control Room (520) 648-8812  
Remote Facsimile ("Fax") (520) 648-8730

Company Primary:  
Energy Trading Real Time (520) 745-3249  
Energy Trading Fax (520) 571-4065

Company Alternate #1:  
Energy Trading Backup (520) 745-3213

Company Alternate #2:  
Generation Dispatch & Control (520) 745-3312

For the purposes of this Operating Procedure, voice messaging shall not constitute notification.

D. Notwithstanding the notification requirements above, Customer authorizes Company to purchase replacement energy at prevailing market prices when Company's system incremental cost of producing energy exceeds the Energy Charge. This authorization applies to the initial two (2) hours of each Qualifying Event.

E. Normal notification procedure shall be:

1. Company gives Customer a courtesy call to warn of situations existing which may require either the purchase of replacement energy, or alternatively, an interruption of some level of service.

2. Should interruption or replacement energy be necessary, the Company shall provide Customer with the following:

- a. Quantity of energy that interruption or replacement purchases will require.
- b. Whether replacement energy is available or Sierrita will be required to shed load within 10 minutes.
- c. Cost of replacement energy for the first hour and anticipated cost of replacement energy for the second hour.
- d. Expected duration of the Qualifying Event and anticipated cost of replacement energy for the duration.

3. Within one (1) hour of receipt of the information in E.2 above, Customer shall notify Company of intent to continue to purchase replacement energy beyond the initial two (2) hours, reduce load or a combination of the two.

If Customer intends to purchase replacement energy, Customer shall send Company via fax a signed copy of Exhibit "A", or refer to the most recent Exhibit "A" on file with the Company, which lists the Customer's threshold price and duration for purchases.

If Customer intends to curtail load, and does not actually reduce its load by the appropriate amount, a penalty will be incurred. For the first occurrence the penalty will be an additional Firm Power Demand Charge for the month applied to the quantity of uncurtailed load as measured by the Company's metering equipment, plus the cost of all replacement energy provided, in accordance with Sections VI.A and B of Amendment No. 2 of the Electric Service Agreement. For

subsequent occurrences the penalty will include a three month ratchet applied to the additional Firm Power Demand Charge. This penalty shall also apply to any reductions required pursuant to I.E.2.b above.

4. Company shall notify Customer when the Qualifying Event has abated.
5. Company will notify Customer via fax by 12:00 noon within two business days of the actual MWh's and total price of replacement energy purchased on behalf of Customer.

F. In the event notification cannot be made by either party within the time constraints specified herein, Company will keep Customer in-service and purchase replacement energy, even if the replacement cost exceeds those set forth in the most recent Exhibit "A" on file with the Company.

G. Replacement energy shall be priced in accordance with section VI.B of Amendment No. 2 to the Electric Service Agreement and at terms as favorable as any economy energy sale that Company may enter into during, and for delivery in, the same hours as the replacement energy is delivered.

H. Interruptions or replacement energy purchases, up to 82 MW as necessary or available, shall be limited to 128 hours in any calendar year, or eight (8) hours in any calendar day. Following an interruption or replacement energy purchase, the calendar year hours shall be reduced by the greater of the actual duration of the interruption/replacement or four (4) hours. TEP's tracking of event hours will be reflected in attachments to the Customer's bill.

## II. MARKET POWER

Customer shall have the right to designate up to 5 MW of the first 102 MW of demand, and all demand in excess of 102 MW, for purchase by Customer at market pricing ("Market Power").

A. Current operating procedure shall be for Company to deliver the appropriate amount of Market Power, as determined by the monthly Billing Demand, at a market price determined by the Palo Verde Index price as published in the Wall Street Journal for pre-scheduled, firm on-peak and firm off-peak power. This Market Power procedure shall roll over from month-to-month unless customer notifies Company pursuant to Section II.D below.

B. Off-peak hours shall be hours ending (HE) 2300 to 0600 Mountain Standard Time (MST) Monday-Sunday. On-peak hours shall be HE0700-2200 MST Monday-Sunday.

C. Market Power shall be considered first through the meter.

D. In the event Customer desires to act as its own agent for purchasing Market Power, Customer must notify Company within ten (10) days of the first of the month. Customer shall be allowed to act as agent for a capacity amount determined by either the previous month's Billing Demand, or a mutually agreeable capacity amount. Customer must contact Company to determine the transmission paths available to Customer. The Company is not required to deliver any Market Power purchases to the Customer on paths not approved in advance by Company.

E. Market Power shall be priced in accordance with section VI.C of Amendment No. 2 to the Electric Service Agreement.

III. OPERATING COMMITTEE

Each Party shall designate up to three (3) persons as its Operating Committee Representatives. Such Representatives shall be authorized to act on behalf of the Party designating such Representative in carrying out the provisions of this Operating Procedure. Each Party shall notify the other Party within fifteen (15) calendar days after execution of this Procedure of the designation of its authorized Representatives and shall promptly notify the other Party of any subsequent changes in such designation. The Representatives will meet as required to provide coordination with respect to matters which affect the implementation of this Operating Procedure. However, such Representatives shall have no authority to modify any of the provisions of this Operating Procedure.

COMPANY

Electric Operations

Toby Voge

Supervisor, Short Term Power

Phone: 520-884-3976

Fax: 520-770-2064

Contract Administration

Mike DeConcini

Manager, Contracts & Wholesale Marketing

Phone: 520-884-3964

Fax: 520-770-2064

**CUSTOMER**

Electric Operations

Contract Administration

Malcolm Spiller

Mike McElrath

Supt. Engineering Services

Manager, Power

Phone: 520-648-8843

Phone: 602-929-4507

Fax: 520-648-8730

Fax: 602-929-4510

IN WITNESS WHEREOF, the Parties have caused this Operating Procedure for

Amendment No. 2 to the Agreement to be executed as of the 14<sup>th</sup> day of June,

1997.

TUCSON ELECTRIC POWER COMPANY

By [Signature]

Title VP

CYPRUS SIERRITA CORPORATION

By AK Edwards

Title VP-GM

Exhibit "A"

**Cyprus Sierrita Threshold Price- Replacement Energy**

**Fax to: Tucson Electric Power Company  
Energy Trading Real Time (520) 571-4065**

<u>Duration (Hrs)</u>	<u>Price ¢/kWh</u>
8	<u>15</u>
7	<u>15</u>
6	<u>15</u>
5	<u>20</u>
4	<u>20</u>
3	<u>20</u>

If the Threshold Price is the same for all time periods, only the eight (8) hour price is required to be filled-in. This Exhibit "A" to remain in effect until superseded by another Exhibit "A".

CYPRUS SIERRITA CORPORATION

By M.R. Phillips  
Title Staff Engineer Cyprus Sierrita  
Date 7-10-97