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RENZ D. JENNINGS  
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CARL J. KUNASEK  
COMMISSIONER



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JACK ROSE  
EXECUTIVE SECRETARY

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AZ CORP COMMISSION

ARIZONA CORPORATION COMMISSION  
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Mr. Jack Rose  
Executive Secretary  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, AZ 85007

Dear Jack,

I would like to take this opportunity to commend and thank Commission Staff for their hard work in reaching a proposed settlement with Arizona Public Service and Tucson Electric Power intended to help facilitate electric competition in Arizona at the beginning of next year. I understand that Staff negotiated on some nights and weekends for nearly four months in formulating this agreement, and each should be commended for his or her efforts. Although I realize the complexity of the issues surrounding deregulation, I remain strongly committed to the scheduled introduction of competition beginning next year.

As you are aware, the proposed settlement has been met with considerable opposition from business and consumer interests alike. I've recently met with representatives of industrial firms most affected by competition, and their questions surrounding the proposed settlement merit strong consideration. While I anticipate that much more information will be forthcoming as a result of the hearing process, Commission Staff must be ready to respond to the many outstanding questions which must be resolved prior to acceptance of the proposal. And, while the proposed settlement may resolve outstanding issues between the parties to the agreement, there needs to be full disclosure on the projected effects it will have on businesses, industrial firms and residential consumers throughout the state.

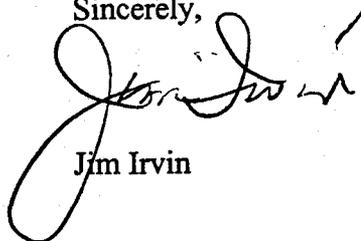
In remaining committed to the scheduled introduction of competition at the beginning of 1999, what options are available to the Commission should we find the proposed settlement unacceptable? What process must the Commission implement to allow for unbundled tariffs and adoption of an interim CTC recovery schedule? And, under existing rules, if generation assets are not divested, what sort of market generation adders would be needed to achieve a zero stranded cost recovery? Please respond to these concerns at your earliest convenience.

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As the time for competition draws close, we must prepare for the various outcomes which can result from either acceptance or rejection of the proposed settlement. Once again, we must call upon Staff for their expertise and effort to establish a solid foundation for competition.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Irvin". The signature is stylized with a large, looping initial "J" and a long, sweeping underline that extends to the right.

Jim Irvin

cc: Commissioner Renz Jennings  
Commissioner Carl Kunasek  
Commissioner-elect Tony West