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JUN 10 1999

LEGAL DIV  
ARIZ. CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF ) DOCKET NO. E-01933A-98-0471  
TUCSON ELECTRIC POWER COMPANY FOR )  
APPROVAL OF ITS STRANDED COST )  
RECOVERY AND FOR RELATED APPROVALS, )  
AUTHORIZATIONS AND WAIVERS. )

IN THE MATTER OF THE FILING OF TUCSON ) DOCKET NO. E-01933A-97-0772  
ELECTRIC POWER COMPANY OF )  
UNBUNDLED TARIFFS PURSUANT TO A.A.C. )  
R14-2-1602 *et seq.* )

IN THE MATTER OF THE COMPETITION IN ) DOCKET NO. RE-00000C-94-0165  
THE PROVISION OF ELECTRIC SERVICES )  
THROUGHOUT THE STATE OF ARIZONA. )

**TUCSON ELECTRIC POWER COMPANY'S NOTICE OF FILING,  
APPLICATION FOR APPROVAL OF SETTLEMENT AGREEMENT  
AND REQUEST FOR EXPEDITED PROCEDURAL ORDER**

Tucson Electric Power Company ("TEP" or Company") pursuant to Arizona Corporation Commission ("Commission") Decision No. 61677 ("Decision"), hereby files the attached Settlement Agreement dated June 9, 1999 ("Settlement Agreement") between TEP, Arizonans for Electric Choice and Competition ("AECC")<sup>1</sup>, the Residential Utility Consumer Office ("RUCO"), and Arizona Community Action Association ("ACAA") (collectively, the "Parties"). The provisions of the Settlement Agreement include:

<sup>1</sup> AECC consists of the following organizations: Arizonans for Electric Choice and Competition is a coalition of energy consumers in support of competition and includes Cable Systems International, BHP Copper, Motorola, Chemical Lime, Intel, Honeywell, Allied Signal, Cyprus Climax Metals, Asarco, Phelps Dodge, Homebuilders of Central Arizona, Arizona Mining Industry Gets Our Support, Arizona Food Marketing Alliance, Arizona Association of Industries, Arizona Multihousing Association, Arizona Rock Products Association, Arizona Restaurant Association, Arizona Retailers Association, Boeing, Arizona School Board Association, National Federation of Independent Business, Arizona Hospital Association, Lockheed Martin, Abbot Labs, and Raytheon.

- 1           2.    the establishment of an agreed upon stranded cost recovery methodology and recovery  
2                    plan for TEP which provides the Company a reasonable opportunity to recover its  
3                    stranded costs while providing competitive choices for generation and other retail  
4                    services to TEP's customers;
- 5           2.    TEP's unbundled distribution tariffs for both standard offer customers and customers  
6                    that choose Competitive Retail Access<sup>2</sup>;
- 7           3.    rate reductions for all customers;
- 8           4.    assurances for the continuation of programs for TEP's low-income customers;
- 9           5.    waivers of certain Commission Rules and Orders which will permit the Company to  
10                   properly transition from a regulated to a competitive marketplace;
- 11          6.    a provision for a Code of Conduct to govern transactions between TEP and its  
12                   competitive affiliates; and
- 13          7.    resolution of pending and proposed litigation which could potentially delay the  
14                   introduction of Competitive Retail Access in Arizona indefinitely.

15   The parties believe that this Settlement Agreement to be just and reasonable and in the public  
16   interest.

17           Pursuant to Sections 13.3 and 14.8 of the Settlement Agreement, TEP, on behalf of all parties  
18   thereto, respectfully requests that the Commission approve the Settlement Agreement as soon as  
19   practicable on or before August 1, 1999 in accordance with the following proposed procedural  
20   schedule which is designed to afford interested parties an opportunity to comment and be heard on  
21   the terms of the Settlement Agreement:

- 22           •   June 9, 1999       Filing of Settlement Agreement
- 23           •   June 15, 1999      Procedural Order and Schedule Issued
- 24           •   June 23, 1999      Filing Date for Testimony of Parties to the Settlement Agreement
- 25           •   July 14, 1999      Filing Date for Testimony of Staff and Intervenors
- 26           •   July 22, 1999      Filing Date for Rebuttal Testimony of Parties to the Settlement  
27                    Agreement
- 28           •   July 23, 1999      Procedural Conference
- 29           •   July 27, 1999      Public Hearing/Open Meeting Commences

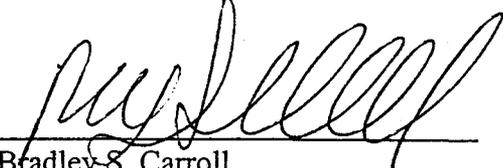
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31   <sup>2</sup> The Parties have agreed to the unbundled distribution tariffs and will file them as Exhibit B to the Settlement Agreement as a late filed exhibit on or before June 16, 1999.

1 This proposed procedural schedule is designed to permit TEP to commence Competitive  
2 Retail Access for its customers on or before October 1, 1999 pursuant to the terms of the Settlement  
3 Agreement. Moreover, as TEP has stated in previous filings with the Commission, because of Y2K  
4 concerns for the fourth quarter of 1999 and and first quarter of 2000, if competition is to commence  
5 in 1999, it should do so on or before October 1, 1999 or on or After April 1, 2000. This proposed  
6 procedural schedule would facilitate this concern.

7 RESPECTFULLY SUBMITTED this 9th day of June, 1999.

8 TUCSON ELECTRIC POWER COMPANY

9  
10  
11 By:   
12 Bradley S. Carroll  
13 Counsel, Regulatory Affairs  
14 Legal Department - DB203  
15 220 West Sixth Street - P.O. Box 711  
16 Tucson, Arizona 85702

17 **Original and ten copies of the foregoing**  
18 **filed this 9th day of June, 1999, with:**

19 Docket Control  
20 ARIZONA CORPORATION COMMISSION  
21 1200 West Washington Street  
22 Phoenix, Arizona 85007

23 **Copy of the foregoing hand-delivered**  
24 **this 9th day of June, 1999, to:**

25 Carl J. Kunasek, Chairman  
26 Jim Irvin, Commissioner  
27 Tony West, Commissioner  
28 ARIZONA CORPORATION COMMISSION  
29 1200 West Washington Street  
30 Phoenix, Arizona 85007

31 Jerry L. Rudibaugh, Chief Hearing Officer  
Hearing Division  
ARIZONA CORPORATION COMMISSION  
1200 West Washington Street  
Phoenix, Arizona 85007

1 Paul Bullis, Chief Counsel  
2 Legal Division  
3 ARIZONA CORPORATION COMMISSION  
4 1200 West Washington Street  
5 Phoenix, Arizona 85007

6 Ray Williamson, Acting Director  
7 Utilities Division  
8 ARIZONA CORPORATION COMMISSION  
9 1200 West Washington Street  
10 Phoenix, Arizona 85007

11 **Copy of the foregoing mailed**  
12 **this 10th day of June, 1999, to:**

13 Distribution list for:  
14 Docket Nos. E- 01933A-98-0471  
15 E-01933A-97-0772  
16 RE-00000C-94-0165

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## SETTLEMENT AGREEMENT

This Settlement Agreement is entered into this 9th day of June, 1999 by Tucson Electric Power Company ("TEP" or the "Company"), the Arizona Residential Utility Consumer Office ("RUCO"), members of the Arizonans For Electric Choice And Competition ("AECC")<sup>1</sup> and Arizona Community Action Association ("ACAA") (collectively the "Parties").

### BACKGROUND

A. TEP is a public service corporation that, along with its predecessors, has provided electric service in Arizona since 1892. TEP currently provides retail electric service to the City of Tucson and in the surrounding Pima County area, and to Fort Huachuca in Cochise County pursuant to Certificates of Convenience and Necessity ("CC&Ns"); these areas shall collectively be referred to as the "TEP CC&N Service Territory" that it has received from the Arizona Corporation Commission ("Commission").

B. On December 26, 1996, the Commission issued an Order approving A.A.C. R14-2-1601, *et seq.* (the "Electric Competition Rules") for the purpose of introducing competitive access to retail electric generation and certain other services that are deemed to be competitive (hereinafter referred to as "Competitive Retail Access"). Since then, the Electric Competition Rules have been the subject of multiple litigation and the

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<sup>1</sup> AECC consists of the following organizations: Arizonans for Electric Choice and Competition is a coalition of energy consumers in support of competition and includes Cable Systems International, BHP Copper, Motorola, Chemical Lime, Intel, Honeywell, Allied Signal, Cyprus Climax Metals, Asarco, Phelps Dodge, Homebuilders of Central Arizona, Arizona Mining Industry Gets Our Support, Arizona Food Marketing Alliance, Arizona Association of Industries, Arizona Multihousing Association, Arizona Rock Products Association, Arizona Restaurant Association, Arizona Retailers Association, Boeing, Arizona School Board Association, National Federation of Independent Business, Arizona Hospital Association, Lockheed Martin, Abbot Labs, and Raytheon.

implementation thereof has been stayed while additional amendments and revisions thereto are being considered.

C. TEP has worked with the Commission Staff and other interested parties towards finalization of the Electric Competition Rules and the implementation of Competitive Retail Access in Arizona.

D. The Parties acknowledge that in order to restructure the Arizona retail electric industry to provide for Competitive Retail Access and customer choice, this Settlement Agreement provides TEP's shareholders a reasonable opportunity to recover their prudently incurred investments and costs, including stranded costs.

E. The Parties also acknowledge that each Affected Utility (as defined in the Electric Competition Rules) has unique financial and other circumstances such that the Commission should review the provisions of this Settlement Agreement relating to TEP's recovery of stranded costs independently from the proposals of any other Affected Utility.

F. The Parties believe that this Settlement Agreement provides for the timely implementation of Competitive Retail Access in TEP's CC&N Service Territory and for TEP's shareholders to have a reasonable opportunity to recover their prudently incurred investments and costs. The Parties further believe that competition in the electric industry will benefit all customers in providing greater efficiencies and lower electric power costs. Accordingly, this Settlement Agreement is to be interpreted so as to bring about these consumer benefits as soon as possible.

G. The Parties further believe that the terms and conditions of this Settlement Agreement are just, reasonable and in the public interest in that they, among other things,

provide for Competitive Retail Access in TEP's Service Territory, establish rate reductions for all TEP customers, set a mechanism for stranded cost recovery and resolve contentious litigation.

H. The Parties desire that the Commission issue an Order: (a) finding that the terms and conditions of this Settlement Agreement are just and reasonable; (b) concluding that this Settlement Agreement is in the public interest; (c) approving this Settlement Agreement; and (d) implementing the terms and conditions set forth herein (the "Commission's Approval Order").

NOW, THEREFORE, in consideration of the mutual covenants and promises contained herein and for other good and valuable consideration, the Parties hereto agrees as follows:

**1. COMPETITIVE RETAIL ACCESS.**

1.1 Competitive Retail Access in TEP's CC&N Service Territory shall commence sixty (60) days after the issuance of the Commission's Approval Order ("Commencement Date"), and subject to: (a) the provisions of effective Electric Competition Rules; and (b) the terms and conditions herein.<sup>2</sup>

1.2 Upon the Commencement Date, TEP shall make available for Competitive Retail Access the amount of system peak load set forth in the currently proposed Electric Competition Rules, plus an additional fifty-four (54) megawatts of load which shall be made available to eligible non-residential customers. Unless subject to judicial or

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<sup>2</sup> The Parties recognize that Y2K issues will be of critical importance during the fourth quarter of 1999. Therefore, the Parties respectfully request approval of this Settlement Agreement on or before August 1, 1999 so that Competitive Retail Access may commence in TEP's service territory on or before October 1, 1999.

regulatory restraint, all TEP customers will be eligible to receive Competitive Retail Access on January 1, 2001.

1.3 The Parties shall urge the Commission to approve the Electric Competition Rules, at least on an emergency basis, so that meaningful Competitive Retail Access can begin in TEP's service territory subject to the provisions of Section 1.1 herein.

1.4 Electric Service Agreements ("ESAs"), in effect as of the Commencement Date, shall remain in effect, unless TEP and the respective parties thereto agree to a modification or a termination thereof. In the event that an ESA, in effect as of the Commencement Date, terminates by its terms prior to January 1, 2001, then the ESA customer shall have the option of choosing: (a) Competitive Retail Access; or (b) an extension of the ESA up to January 1, 2001 at the then-current contract price (with any applicable seasonal adjustment and continuing escalation that would have applied had the ESA not terminated).

## **2. STRANDED COST RECOVERY.**

2.1 TEP shall have a reasonable opportunity to recover its stranded costs, including its regulatory assets. TEP shall be authorized to recover its stranded costs in the following manner:

(a) The Commission shall authorize TEP to implement a competition transition charge ("CTC") in two components: (i) a "Fixed" CTC; and (ii) a "Floating" CTC.

(b) The Fixed CTC shall be set so as to equal a charge of 0.93 cents/kWh (average) ("Fixed CTC amount"), which shall include recovery of TEP's regulatory assets. The Fixed CTC component shall terminate when it has yielded a stranded cost

recovery of four hundred fifty million dollars (\$450 million), or on December 31, 2008, whichever occurs first. When the Fixed CTC terminates, unbundled service rates will be reduced by the same amount. The amortization schedule for the \$450 million of Fixed CTC is attached hereto as Exhibit A. The parties acknowledge that the actual collection of the Fixed CTC will vary with actual kWh sales.

(c) The Floating CTC shall be calculated using a Market Generation Credit ("MGC") methodology (as defined in subsection 2.1(d) below) and will terminate on December 31, 2008. The Floating CTC shall be determined on a quarterly basis. TEP shall set the Floating CTC amount forty-five (45) days prior to each calendar quarter. The Parties acknowledge that the Floating CTC amount may vary from month-to-month, as the MGC varies. The Floating CTC amount shall equal the difference between the customer's bundled rate and the sum of: (i) the MGC; (ii) the "Adder" (as defined in subsection 2.1(e) below); and (iii) the unbundled charges for: a) distribution; b) transmission; c) metering; d) billing; e) ancillary services; f) fixed must-run generation; g) system benefits; and h) the Fixed CTC. In a given quarter, the Floating CTC can have a negative value, in which case the negative value will be credited to the customers' monthly bill.

(d) The monthly MGC amount shall be calculated in advance and stated as both an on-peak value and an off-peak value. The monthly on-peak MGC component shall be equal to the Market Price multiplied by one plus the appropriate line loss (including unaccounted for energy ("UFE")) amount. The Market Price shall be equal to the Palo Verde NYMEX futures price, except when adjusted for the variable cost of TEP's must-run generation. The off-peak MGC component shall be determined in the

same manner as the on-peak component, except that the Palo Verde futures price will be adjusted by the ratio of off-peak to on-peak hourly prices from the California Power Exchange of the same month from the preceding year. The market price shall reflect the cost of serving a one hundred percent (100%) load factor customer.

(e) The Parties acknowledge that the purpose of the Adder is to estimate the cost of supplying power to a specific customer or customer group and stratum relative to the value of the NYMEX futures prices used in the calculation of the market price for a one hundred percent (100%) load factor. The Adder will be adjusted for each customer class and stratum, shall average 3.5 mills and shall be subject to the same line loss adjustment outlined in subsection (d) herein. However, the initial Adder for any customer shall not be less than 2.5 mills.

(f) The Parties acknowledge that the Adder is intended to estimate the difference between the flat load costs associated with the PV index and actual customer load characteristics plus an additional amount for costs that will not be readily quantifiable until the Arizona market more fully develops. After June 1, 2004, any Party to this Settlement Agreement may submit a request to the Commission to alter/amend the initial Adder based upon actual market conditions. Any such requests will be considered as part of the rate modifications contemplated pursuant to Section 5.2.

(g) The Commission shall authorize TEP to securitize any portion of the CTC, provided that TEP shall file with the Commission a financing application that provides that TEP will share the benefits of such securitization with its customers.

(h) The CTC for an ESA customer shall be calculated using the customer's ESA price as of May 1, 1999 (subject to any automatic escalation provisions contained in the ESA) as the customer's bundled rate.

(i) Self-generation and other reductions in purchases "off-the-grid" shall not be subject to the CTC (consistent with the Electric Competition Rules).

(j) During a month in which must-run generation is provided to meet retail load, the Market Price component used in calculating the on-peak MGC shall be a weighted average of the Palo Verde NYMEX futures price and the must-run variable cost charges that are levied on scheduling coordinators serving retail customers in the TEP load zone during that month, consistent with AISA protocols.

### **3. SEPARATION OF COMPETITIVE AND NON-COMPETITIVE SERVICES.**

3.1 On or before December 31, 2002, TEP shall transfer its generation and other assets deemed to be competitive (as defined in the Electric Competition Rules) to a subsidiary of TEP, at market value. Commission approval of this Settlement Agreement shall constitute any necessary approval or waiver under Title 40, Arizona Revised Statutes and the Commission's Affiliated Interest Rules (A.A.C. R14-2-801, *et seq.*) for the formations of the subsidiary and the transfer of the assets. At such time that TEP effectuates the transfer of its generation assets, it shall be required to procure generation for its standard offer customers in accordance with the Electric Competition Rules.

### **4. UNBUNDLED RATES.**

4.1 TEP's rates shall be fully unbundled into separate charges for: (a) distribution; (b) transmission; (c) metering; (d) billing; (e) ancillary services; (f) fixed must-run generation; (g) system benefits; and (h) standard offer generation, the sum of

which shall not exceed a customer's current bundled rates. For TEP's standard offer customers, the CTC shall be included in the cost of standard offer generation service, and shall be separately identified on the customers' bills.

4.2 TEP's cost for variable must-run generation shall be billed directly to scheduling coordinators in accordance with AISA protocols, and shall be included in the standard offer generation charge.

4.3 TEP shall take reasonable steps to minimize the "collapsing" of tariffs that are on file with the Commission as of the Commencement Date.

4.4 TEP shall charge rates for transmission and ancillary services based upon its FERC Open Access Transmission Tariff.

4.5 TEP's tariffs shall be unbundled for all customers, including those who are not initially eligible for Competitive Retail Access.

4.6 TEP shall defer for future recovery its cost to implement Competitive Retail Access. The Commission shall authorize TEP to recover its reasonable and prudently incurred Competitive Retail Access implementation costs as a plant cost and/or deferred debit subject to review in the TEP June 1, 2004 filing (as discussed in section 5.2 below.)

## **5. RATE REDUCTIONS.**

5.1 TEP shall reduce the rates charged to all non-ESA customers by two percent (2%) as follows: one percent (1%) on July 1, 1999 and one percent (1%) on July 1, 2000. Except for the non-ESA two percent (2%) rate reductions, TEP's rates shall be frozen until December 31, 2008, except for: (a) those adjustments that will result as a consequence of this Settlement Agreement; (b) changes in TEP's transmission tariffs due to AISA or Desert STAR; and (c) changes authorized hereinbelow.

5.2 TEP shall file a report with the Director of the Utilities Division by June 1, 2004 identifying any required modifications to the Fixed or Floating CTC, TEP's distribution tariffs and other unbundled components ("TEP June 1, 2004 filing"), that would have the effect of reducing standard offer and/or overall unbundled rates while providing for TEP's recovery of costs associated with provider of last resort service in standard offer rates. This report shall include a recommendation as to whether the Fixed CTC can be eliminated/reduced prior to December 31, 2008. Any changes in TEP's rates made pursuant to this section 5.2 shall be implemented no later than January 1, 2005.

5.3 TEP's rate reductions provided for herein shall constitute full compliance with provisions of the Electric Competition Rules requiring that Affected Utilities implement rate reductions.

## **6. TARIFF FILINGS.**

6.1 The Parties agree that the Unbundled Distribution Tariffs, attached hereto as Exhibit B, are just and reasonable. The Commission's Approval Order shall include such a finding and approve TEP's Unbundled Distribution Tariffs.

## **7. CODE OF CONDUCT.**

7.1 All transactions between TEP (the regulated Utility Distribution Company) and its affiliates engaged in Competitive Retail Access shall be governed by a Code of Conduct. Within thirty (30) days of the filing of this Settlement Agreement, TEP shall file with the Commission an Interim Code of Conduct. TEP will voluntarily comply with this Interim Code of Conduct until the Commission approves a final Code of Conduct for TEP in accordance with the Electric Competition Rules. TEP shall confer with the Parties prior to filing its Interim Code of Conduct.

**8. CERTIFICATE OF CONVENIENCE AND NECESSITY.**

8.1 TEP agrees to the amendment and modification of its CC&N in order to permit Competitive Retail Access consistent with the terms of this Settlement Agreement. The Commission's Approval Order shall contain the necessary findings and conclusions and constitute the necessary Commission Order amending and modifying TEP's CC&Ns to permit competitive Retail Access consistent with the terms of this Settlement Agreement.

**9. INDEPENDENT SCHEDULING ADMINISTRATOR/INDEPENDENT SYSTEM OPERATOR.**

9.1 TEP shall fully support the development of the Arizona Independent Scheduling Administrator ("AISA") and Desert STAR. TEP shall modify its FERC Open Access Transmission Tariff ("OATT") to be fully compatible with the AISA/ISO Bylaws and Protocols Manual. The Parties reserve their rights with respect to any AISA protocols, including the right to challenge or seek modifications to, or waivers from, such protocols. TEP shall file changes to its existing OATT consistent with this Section within ten (10) days of Commission approval of this Settlement Agreement pursuant to Section 13.3.

**10. RESOLUTION OF LITIGATION.**

10.1 Upon issuance by the Commission of the Commission's Approval Order that is no longer subject to judicial review, TEP shall move to dismiss with prejudice all pending litigation brought by TEP against the Commission and assist the Commission in any remaining litigation regarding implementation of the Electric Competition Rules.

## **11. LOW-INCOME PROGRAMS.**

11.1 To ensure that low-income customers and programs are not negatively impacted by the introduction and transition to Competitive Retail Access, TEP's System Benefits Charge as set forth in the tariffs filed herewith, shall include charges to maintain its existing low-income programs (which include weatherization, Life Fund, bill assistance and rate discounts) in an amount of at least current levels through December 31, 2004 when all such programs will be reviewed as part of TEP's June 1, 2004 filing. Additionally, the Parties agree to recommend to the Commission that TEP's low income rate discount program (with the exception of the medical discount which shall remain the same) be amended as follows: (a) to replace the current percentage discounts with a flat eight dollar (\$8.00) per month discount; (b) the applicant for the program must receive the bill in their name, be a residential customer and meet one-hundred fifty percent (150%) of the federal poverty income guidelines; and (c) the program would operate as follows: (i) the program would have an application which is self-declared/self-addressed and available in English and in Spanish; (ii) once TEP receives the application, it would be reviewed; (iii) once the customer has been determined to be eligible, the discount would become effective immediately; (iv) participants who move within TEP's service territory would have their eligibility transferred with them; and (v) the customers would be notified annually by TEP when it is time to reapply.

## **12. WAIVERS.**

12.1 The Parties agree that waivers for TEP of the Affiliated Interest Rules, Integrated Resource Planning Rules, certain conditions in Decision No. 60480, and

certain Commission decisions are in the public's interest. The Commission's Approval Order shall include and grant to TEP waivers from the following:

- (a) A.A.C. R14-2-701, *et seq.* - Integrated Resource Planning Rules.
- (b) A.A.C. R14-2-801 *et seq.* - Affiliated Interest Rules (to the extent necessary to comply with this Settlement Agreement and the Electric Competition Rules).
- (c) Decision No. 60480, Holding Company Order: Condition Nos. 2, 12, 13, 17, 19, 20, 21, 23, 25, 26, 27 and 28.
- (d) Decision No. 59594 - Mid-Year DSM and Renewables Report.
- (e) Decision No. 57586 - Director Transaction Report.
- (f) Decision No. 58316 - Investment Subsidiary Liquidation Report and Purchase Agreement Summary.
- (g) Decision No. 58497 - Avoided Cost Report.
- (h) Decision No. 57090 - Time of Use Letters.
- (i) Decision No. 56659 - Time of Use Report.
- (j) Decision No. 56526 - Fuel & Performance Filing (upon transfer of generation assets).
- (k) Decision No. 57924 - Interruptible Report Filing (upon transfer of generation assets).
- (l) Statistical Data on Generating Units Filing (upon transfer of generation assets).
- (m) Generating Unit Outage Report Filing (upon transfer of generation assets).

### 13. CONTINGENCIES TO THIS SETTLEMENT AGREEMENT.

13.1 Neither the Parties nor the Commission shall take any action that would diminish the recovery of TEP's stranded costs or regulatory assets provided for herein. In entering into this Settlement Agreement, TEP has relied upon the Commission's irrevocable promise to permit recovery of TEP's stranded costs and regulatory assets as provided herein. Such irrevocable promise by the Commission shall be evidenced by the issuance of the Commission's Approval Order, shall survive the expiration of the Settlement Agreement and shall be specifically enforceable against this and any future Commission.

13.2 The Parties acknowledge that TEP's ability to offer Competitive Retail Access is contingent upon conditions and circumstances, a number of which are not within the direct control of the Parties. Accordingly, the Parties agree that it may become necessary to modify the terms of retail access to account for such factors, and they further agree to address such matters in good faith and to cooperate in an effort to propose joint resolutions for any such matters.

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

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

13.4 TEP shall not be prevented from seeking a change in unbundled or Standard Offer rates prior to December 31, 2008, in the event of (a) conditions or circumstances which constitute an emergency, such as the inability to finance on reasonable terms; or (b) material changes in TEP's cost of service for Commission regulated services resulting from federal, tribal, state or local laws, regulatory requirements, judicial decisions, actions or orders. Except for the changes otherwise specifically contemplated by this Agreement, unbundled and Standard Offer rates shall remain unchanged until at least December 31, 2008.

13.5 Each provision of this Settlement Agreement is in consideration and support of all the other provisions, and expressly conditioned upon acceptance by the Commission without change. In the event that the Commission fails to adopt this Settlement Agreement according to its terms, this Settlement Agreement shall be deemed withdrawn and the parties shall be free to pursue their respective positions in these proceedings without prejudice.

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

conditions of service which are not inconsistent with its obligation under this Settlement Agreement.

#### **14. MISCELLANEOUS PROVISIONS.**

14.1 This Settlement Agreement represents an attempt to compromise and settle disputed claims in a manner consistent with the public interest. Nothing contained in this Settlement Agreement is an admission by any of the Parties that any of the positions taken, or that might be taken by each in a formal proceeding, is unreasonable. In addition, acceptance of this Settlement Agreement by the Parties is without prejudice to any position taken by any party in these proceedings.

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

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

14.4 The provisions of this Settlement Agreement shall be implemented and enforceable notwithstanding the pendency of a legal challenge to the Commission's approval of this Settlement Agreement, unless such implementation and enforcement is stayed or enjoined by a court having jurisdiction over this matter. If any portion of the Commission's Approval Order or any provision of this Settlement Agreement is declared by a court to be invalid or unlawful in any respect, then (a) TEP shall have no further obligations or liabilities under this Settlement Agreement, including, but not limited to, any obligation to implement any future rate reductions under Section 5.1 not then in effect; and (b) the modifications to TEP's CC&Ns referred to in Section 8.1 shall be automatically revoked, in which event TEP shall use its best efforts to continue to provide noncompetitive services (as defined in the proposed Electric Competition Rules) at then current rates with respect to customer contracts in effect for competitive generation (for the remainder of their term) to the extent not prohibited by law and subject to applicable regulatory requirements.

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

14.6 The filing of this Settlement Agreement with the Commission shall constitute TEP's compliance with the requirements of Decision No. 61677 that it file with

the Commission a plan for stranded cost recovery and unbundled tariffs on or before June 14, 1999.

14.7 The Parties agree and recommend that the Commission schedule public meetings and hearings for consideration of this Settlement Agreement. The filing of this Settlement Agreement with the Commission shall be deemed to be the filing of a formal request for the expeditious issuance of a procedural schedule that establishes such formal hearings and public meetings as may be necessary for the Commission to approve the Settlement Agreement and that afford interested parties adequate opportunity to comment and be heard on the terms of this Settlement Agreement consistent with applicable legal requirements.

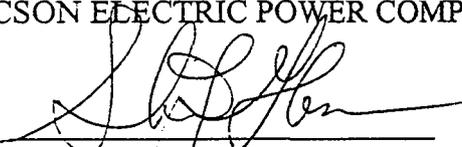
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15. Proposed Order.

15.1 Within thirty (30) days of the filing of this Settlement Agreement, TEP shall file with the Commission a Proposed Form of Order approving this Settlement Agreement. TEP shall confer with the Parties prior to filing the Proposed Form of Order.

DATED as of this 9<sup>th</sup> day of June, 1999.

TUCSON ELECTRIC POWER COMPANY

By: 

Title: VICE-PRESIDENT

**15. Proposed Order.**

15.1 Within thirty (30) days of the filing of this Settlement Agreement, TEP shall file with the Commission a Proposed Form of Order approving this Settlement Agreement. TEP shall confer with the Parties prior to filing the Proposed Form of Order.

DATED as of this 9<sup>th</sup> day of June, 1999.

RESIDENTIAL UTILITY CONSUMER  
OFFICE

By: Greg Patterson  
Title: Director

**15. Proposed Order.**

15.1 Within thirty (30) days of the filing of this Settlement Agreement, TEP shall file with the Commission a Proposed Form of Order approving this Settlement Agreement. TEP shall confer with the Parties prior to filing the Proposed Form of Order.

DATED as of this 9<sup>th</sup> day of June, 1999.

ARIZONANS FOR ELECTRIC  
CHOICE AND COMPETITION  
a coalition of energy consumers  
in support of competition and  
includes Cable Systems  
International, BHP Copper,  
Motorola, Chemical Lime, Intel,  
Honeywell, Allied Signal,  
Cyprus Climax Metals, Asarco,  
Phelps Dodge, Homebuilders of  
Central Arizona, Arizona Mining  
Industry Gets Our Support,  
Arizona Food Marketing  
Alliance, Arizona Association of  
Industries, Arizona Multihousing  
Association, Arizona Rock  
Products Association, Arizona  
Restaurant Association, Arizona  
Retailers Association, Boeing,  
Arizona School Board  
Association, National Federation  
of Independent Business,  
Arizona Hospital Association,  
Lockheed Martin, Abbot Labs,  
and Raytheon.

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

Title: \_\_\_\_\_

**15. Proposed Order.**

15.1 Within thirty (30) days of the filing of this Settlement Agreement, TEP shall file with the Commission a Proposed Form of Order approving this Settlement Agreement. TEP shall confer with the Parties prior to filing the Proposed Form of Order.

DATED as of this 9<sup>th</sup> day of June, 1999.

ARIZONA COMMUNITY ACTION  
ASSOCIATION

By: James R. Regan  
Title: Executive Director

*EXHIBIT A*

*FIXED CTC AMORTIZATION SCHEDULE*

FIXED CTC REVENUE REQUIREMENT - ANNUAL

YEAR	NBV OF STRANDED COST	AMORTIZATION	RETURN AND INCOME TAXES	REVENUE REQUIREMENT	PROJECTED RETAIL MWH	FIXED CTC PER MWH
4Q 1999	450,000,000	4,162,606	12,408,750	16,571,356	1,781,675	\$9.3010
2000	445,837,394	25,822,297	48,237,923	74,060,219	7,962,610	\$9.3010
2001	420,015,098	30,172,194	45,216,180	75,388,374	8,105,407	\$9.3010
2002	389,842,904	35,215,043	41,686,901	76,901,944	8,268,139	\$9.3010
2003	354,627,860	40,792,010	37,579,706	78,371,716	8,426,162	\$9.3010
2004	313,835,850	47,077,552	32,828,764	79,906,315	8,591,155	\$9.3010
2005	266,758,299	54,076,657	27,355,738	81,432,395	8,755,232	\$9.3010
2006	212,681,641	61,855,125	21,079,131	82,934,255	8,916,705	\$9.3010
2007	150,826,517	70,532,073	13,908,237	84,440,310	9,078,629	\$9.3010
2008	80,294,443	80,294,443	5,736,496	86,030,939	9,249,646	\$9.3010
		450,000,000	286,037,823	736,037,823		

AMORTIZATION EXPENSE NET OF EXCESS CAPACITY DEFERRALS

YEAR	TOTAL STRAND. COST AMORTIZATION	AMORT. OF EXCESS CAP. DEFERRALS	NET AMORT. EXPENSE PER GAAP
4Q 1999	4,162,606	0	4,162,606
2000	25,822,297	(9,075,000)	16,747,297
2001	30,172,194	(9,075,000)	21,097,194
2002	35,215,043	(9,075,000)	26,140,043
2003	40,792,010	(9,075,000)	31,717,010
2004	47,077,552	0	47,077,552
2005	54,076,657	0	54,076,657
2006	61,855,125	0	61,855,125
2007	70,532,073	0	70,532,073
2008	80,294,443	0	80,294,443
	450,000,000	(36,300,000)	413,700,000