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Arizona Corporation Commission

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CARL J. KUNASEK

Chairman

JIM IRVIN

Commissioner

WILLIAM A. MUNDELL

Commissioner

AZ CORP COMMISSION
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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.) **NOTICE OF FILING**

Pursuant to Section 15.1 of the Settlement Agreement dated June 9, 1999 ("Agreement"), Tucson Electric Power Company hereby submits a Proposed Form of Order ("Proposed Order"). The Proposed Order incorporates comments from the Residential Utility Consumer Office and Arizona Community Action Association. Arizonans for Electric Choice and Competition have chosen not to comment on the Proposed Order at this time. Additionally, Section 7.1 of the Agreement provides for the filing of an Interim Code of Conduct. TEP is still working with the other parties to the Agreement on the Interim Code of Conduct and will file it as soon as possible.

RESPECTFULLY SUBMITTED this 13th day of July, 1999.

TUCSON ELECTRIC POWER COMPANY

By:

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1 **Original and ten copies of the foregoing**
2 **filed this 13th day of July, 1999, with:**

3 Docket Control
4 ARIZONA CORPORATION COMMISSION
5 1200 West Washington Street
6 Phoenix, Arizona 85007

6 **Copy of the foregoing hand-delivered**
7 **this 13th day of July, 1999, to:**

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12 Paul Bullis, Chief Counsel
13 Legal Division
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16 Ray Williamson, Acting Director
17 Utilities Division
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20 **Copy of the foregoing mailed**
21 **this 13th day of July, 1999, to:**

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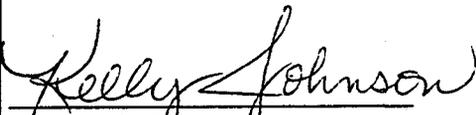
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By: Kelly Johnson
Secretary for Bradley S. Carroll

BEFORE THE ARIZONA CORPORATION COMMISSION

CARL J. KUNASEK

Chairman

JIM IRVIN

Commissioner

WILLIAM A. MUNDELL

Commissioner

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,)
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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.) DECISION NO. _____

ORDER

Open Meeting
August ___, 1999
Phoenix, Arizona

FINDINGS OF FACT

1. Tucson Electric Power Company ("TEP" or "Company") is an Arizona corporation engaged in providing electric service to the public within portions of Pima and Cochise Counties, pursuant to Certificates of Convenience and Necessity ("CC&Ns") granted by the Arizona Corporation Commission ("Commission").

2. On December 26, 1996, the Commission promulgated A.A.C. R14-2-1601, et seq. (the "Competition Rules"). See, Decision No. 59943. TEP is an Affected Utility within the meaning of the Competition Rules.

1 3. Following a hearing on generic issues related to stranded costs, on June 22, 1998, the
2 Commission issued Decision No. 60977 (the "Stranded Cost Decision"), outlining its policy for
3 stranded cost recovery by Affected Utilities in a competitive retail electric market in Arizona.

4 4. TEP and other Affected Utilities filed with the Arizona Superior Court various
5 appeals of Commission orders adopting the Competition Rules and regarding Stranded Cost (the
6 "Outstanding Litigation").

7 5. On August 21, 1998, pursuant to the Stranded Cost Decision, TEP filed with the
8 Commission a proposed plan for stranded cost recovery. TEP had previously filed its proposed
9 unbundled distribution tariffs on December 31, 1997.

10 6. Commencing in the fall of 1998, the Commission began holding hearings on various
11 companies' applications to receive competitive CC&Ns as electric service providers. The companies
12 receiving such conditional CC&Ns to date include PG&E Energy Services Corporation, APS Energy
13 Services, Inc. and NEV Southwest, L.L.C. Such CC&N's, however, are conditioned upon the
14 issuance of a final stranded cost order in the respective Affected Utilities stranded cost proceedings.

15 7. On April 14, 1999, the Commission approved Decision No. 61677, in which it
16 modified the Stranded Cost Decision. Under Decision No. 61677, each Affected Utility could
17 choose one of the following options: (a) Net Revenues Lost Methodology; and (b)
18 Divestiture/Auction Methodology; (c) Financial Integrity Methodology; (d) Settlement
19 Methodology; and (e) the Alternative Methodology. Decision No. 61677 was docketed by the
20 Commission on April 27, 1999.

21 8. On April 21, 1999, the Commission's Hearing Division issued a Procedural Order in
22 which it set schedules for stranded cost proceedings for each Affected Utility: Pursuant to the
23 Procedural Order, each Affected Utility was given an opportunity to amend their previously filed
24 stranded cost recovery plan and unbundled tariffs by June 14, 1999.

25 9. Pursuant to the amended Stranded Cost Decision, TEP, the Residential Utility
26 Consumer Office ("RUCO"), Arizonans for Electric Choice and Competition ("AECC")¹ and
27

28 ¹ AECC consists of the following organizations: Arizonans for Electric Choice and Competition is a coalition of energy
29 consumers in support of competition and includes Cable Systems International, BHP Copper, Motorola, Chemical Lime,
30 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

1 Arizona Community Action Association (“ACAA”) (the “Parties to the Settlement Agreement”)
2 have entered into a Settlement Agreement to resolve outstanding issues regarding Stranded Costs,
3 unbundled tariffs, the Electric Competition Rules, and the Outstanding Litigation. The Settlement
4 Agreement provides, among other things, that:

5 (i) Competitive retail access in TEP’s CC&N Service Territory shall commence
6 sixty (60) days after the issuance of the Commission’s order approving the
7 Settlement Agreement;

8 (ii) TEP shall have a reasonable opportunity to recover its its stranded costs,
9 including its regulatory assets. TEP shall be authorized to recover its stranded
10 costs in the following manner: (a) The Commission shall authorize TEP to
11 implement a competition transition charge (“CTC”) in two components: (a) a
12 “Fixed” CTC; and (b) a “Floating” CTC;

13 (iii) TEP’s rates shall be fully unbundled into separate charges for: (i) distribution;
14 (ii) transmission; (iii) metering; (iv) billing; (v) ancillary services; (vi) fixed
15 must-run generation; (vii) system benefits; and (vii) standard offer generation,
16 the sum of which shall not exceed a customer’s current bundled rates. For
17 TEP’s standard offer customers, the CTC shall be included in the cost of
18 standard offer generation service, and shall be separately identified on the
19 customers’ bills.

20 (iv) TEP shall reduce the rates charged to all non-Electric Service Agreement
21 customers by two percent (2%) as follows: one percent (1%) on July 1, 1999
22 and one percent (1%) on July 1, 2000. Except for the non-Electric Service
23 Agreement two percent (2%) rate reductions, TEP’s rates shall be frozen until
24 December 31, 2008, except for: 1) those adjustments that will result as a
25 consequence of this Settlement Agreement; 2) changes in TEP’s transmission
26 tariffs due to AISA or Desert STAR; and 3) changes authorized herein below.

27 (v) The unbundled tariffs that TEP has attached to the Settlement Agreement are
28

29 Retailers Association, Boeing, Arizona School Board Association, National Federation of Independent Business,
30 Arizona Hospital Association, Lockheed Martin, Abbot Labs, and Raytheon.

1 just and reasonable and shall be approved.

2 (vi) All transactions between TEP and its affiliates related to competitive retail
3 access shall be governed by an Interim Code of Conduct that was submitted in
4 conjunction with the Settlement Agreement.

5 (vii) TEP agrees to the amendment and modification of its CC&N in order to
6 permit competitive retail access consistent with the terms of the Settlement
7 Agreement.

8 (viii) TEP shall fully support the development of the AISA and Desert STAR.

9 (ix) Upon issuance by the Commission of an order approving the Settlement
10 Agreement that is no longer subject to judicial review, TEP shall move to
11 dismiss with prejudice the Outstanding Litigation brought by TEP against the
12 Commission and assist the Commission in any remaining litigation regarding
13 the Competition Rules.

14 (x) TEP shall be granted certain waivers from: (a) the Commission's Affiliated
15 Interest and Integrated Resource Planning Rules; and (b) Decision No. 60480
16 (TEP's Holding Company Order).

17 (xi) To ensure that low-income customers and programs are not adversely
18 impacted by the introduction and transition to competitive retail access, TEP's
19 System Benefits Charge as set forth in the tariffs filed with the Settlement
20 Agreement, include charges to maintain its existing low-income programs in
21 an amount of at least current levels through 2004. Additionally, TEP shall
22 continue its Life-Fund and Weatherization Programs.

23 10. Commencing on August 11, 1999, the Commission held a public hearing on the
24 Settlement Agreement. The following parties were granted intervention and participated in the
25 hearing: PG&E Energy Services Corporation; Enron Corp.; Enron Energy Services, Inc.; Arizona
26 Utility Investors Association; Commonwealth Energy Corporation; M-S-R Public Power Agency;
27 Southern California Power Agency; Arizona Public Service Company; New West Energy; Arizona
28 Consumers Council; the City of Tucson, the Department of Defense; Sulphur Springs Valley Electric
29 Cooperative, Inc., Illinova Energy Partners, Inc., APS Energy Services Co., Inc. and DFO
30 Partnership. Public comment was taken at the beginning of the hearing.

1 and A.R.S. § 40-203, § 40-250, § 40-251, § 40-285.

2 2. The Commission has jurisdiction over TEP and the subject matter of the Application.

3 3. The Commission is required to assure that all charges made for services rendered, or
4 to be rendered, shall be just and reasonable, and no discrimination in charges, service, or facilities
5 shall be made between persons or places for rendering a like and contemporaneous service.

6 4. The Commission has determined that it will be in the public interest to implement a
7 restructuring of the electric industry in this State whereby all retail customers will achieve direct
8 access to the provider of electricity of their choice and that electricity will be priced at market
9 rates.

10 5. The Parties have worked with the Commission Staff and other interested parties
11 towards finalization of the Electric Competition Rules and the implementation of competitive retail
12 access in Arizona.

13 6. TEP has fully complied with Decision Nos. 60977 and 61677.

14 7. The Settlement Agreement is just and reasonable and in the public interest and should
15 be approved.

16 8. The Settlement Agreement should be approved consistent with the Findings of Fact
17 contained herein.

18 9. TEP should be authorized to implement its Stranded Cost Recovery Plan as set forth
19 in the Settlement Agreement.

20 10. TEP's CC&N should be modified in order to permit competitive retail access in TEP's
21 CC&N Service Territory.

22 11. TEP should be granted the waivers that it has requested in the Settlement Agreement.

23 12. TEP's Interim Code of Conduct should be approved consistent with the terms of the
24 Settlement Agreement.

25 **ORDER**

26 IT IS THEREFORE ORDERED that the Settlement Agreement is hereby approved in its
27 entirety and all Commission findings, approvals and authorizations requested therein are hereby
28 granted.

29 IT IS FURTHER ORDERED that TEP's CC&N is hereby modified to permit competitive
30 retail access consistent with this Decision and the Competition Rules.

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IT IS FURTHER ORDERED that TEP's Interim Code of Conduct is hereby approved consistent with the terms of the Settlement Agreement.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this ___ day of August, 1999.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT _____