BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR APPROVAL OF ITS STRANDED COST RECOVERY AND FOR RELATED APPROVALS, AUTHORIZATIONS AND WAIVERS	Docket No. E-01933A-98-0471
IN THE MATTER OF THE FILING OF TUCSON ELECTRIC POWER COMPANY OF UNBUNDLED TARIFFS PURSUANT TO A.A.C. R14-2-1602 *et seq.*	Docket No. E-01933A-97-0772
TUCSON ELECTRIC POWER COMPANY APPLICATION FOR APPROVAL OF ITS PROPOSED DIRECT ACCESS SERVICE FEES AND ITS PROPOSED AMENDMENTS TO ITS RULES AND REGULATIONS.	Docket No. E-01933A-99-0729
IN THE MATTER OF THE COMPETITION IN THE PROVISION OF ELECTRIC SERVICES THROUGHOUT THE STATE OF ARIZONA.	Docket No. RE-00000C-94-0165 **MOTION FOR CLARIFICATION OF SETTLEMENT AGREEMENT**

Tucson Electric Power Company ("TEP"), Arizonans for Electric Choice and Competition ("AECC"), Arizona Community Action Association ("ACAA") and the Arizona Residential Utility Consumer Office ("RUCO") (sometimes collectively referred to as the "Parties"), hereby move the Commission for an order approving a clarification of the Settlement Agreement between the Parties approved in Decision No. 62103 (the

"Settlement Agreement"), as set forth below. In support hereof, the Parties state as follows:

On June 9, 1999, the Parties entered into the Settlement Agreement, which provided for resolution of issues necessary for implementing the Commission's Electric Competition Rules. The Settlement Agreement, with modifications, was subsequently approved by the Commission in Decision No 62103.The Settlement Agreement provided TEP the opportunity to recover its stranded costs through the implementation of a Competition Transition Charge ("CTC"). Since approval of the Settlement Agreement, the Parties have concluded that some clarification of the provisions relating to the calculation of the Market Generation Credit ("MGC") is required to insure complete and full implementation of the settlement as intended by the Parties. In particular, Paragraph 2.1(d) of the Settlement Agreement requires TEP, in calculating the MGC, to use off-peak to on-peak price ratios from the California Power Exchange and the Palo Verde NYMEX futures price. The California Power Exchange and the Palo Verde NYMEX futures price no longer exist, necessitating a clarification to this provision.

The Parties agree, in accordance with Paragraph 13.2 of the Settlement Agreement, that the clarification of the MGC calculation presented herein is consistent with the Parties' intent in entering into the Settlement Agreement and does not change the underlying logic of the MGC calculation. The parties have entered into a Memorandum of Understanding that sets forth the clarification of the Settlement Agreement. A "Red-Lined Version" of the Memorandum of Understanding is attached hereto as Exhibit 1, and by this

ROSHKA HEYMAN & DEWULF, PLC
ONE ARIZONA CENTER
400 EAST VAN BUREN STREET - SUITE 800
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

reference, incorporated herein. An executed copy of the revised Memorandum of Understanding is attached hereto as Exhibit 2, and by this reference incorporated herein.

The clarification is as follows:

(i) Paragraph 2.1(d) of the Settlement Agreement is clarified by the following:

a. The monthly MGC amount shall be calculated in advance and shall be comprised of 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 Platts Long-Term Forward Assessment for Palo Verde futures price, except when adjusted for the variable cost of TEP's must-run generation. The Market Price shall be determined thirty (30) days prior to each calendar month using the average of the most recent three (3) business days of Platts Long-Term Forward Assessment for Palo Verde settlement prices.

b. 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 the simple average of off-peak to on-peak hourly prices from the Dow Jones Palo Verde Index of the same month from the preceding year.

c. The MGC shall be equal to the hours-weighted average of the on-peak and off-peak pricing components and shall reflect the cost of serving a one hundred percent (100%) load factor customer.

(ii) Paragraph 2.1(e) of the Settlement Agreement is clarified by the following:

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 futures price 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 4.2 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 3.0 mills.

ROSHKA HEYMAN & DEWULF, PLC
ONE ARIZONA CENTER
400 EAST VAN BUREN STREET - SUITE 800
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

ROSHKA HEYMAN & DEWULF, PLC
ONE ARIZONA CENTER
400 EAST VAN BUREN STREET - SUITE 800
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

(iii) Paragraph 2.1(j) of the Settlement Agreement is clarified by the following:

> During a month 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 Platts Long-Term Forward Assessment for Palo Verde 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 or successor transmission organization protocols.

Wherefore, for all of the foregoing reasons, the Parties request that the Commission issue its Order approving the clarification as set forth herein.

RESPECTFULLY SUBMITTED this 14th day of March, 2002.

ROSHKA HEYMAN & DEWULF

By ______________________
Raymond S. Heyman
Michael W. Patten
400 N. 5th Street, Suite 1000
Phoenix, Arizona 85004-3906
(602) 256-6100

Attorneys for Tucson Electric Power Company

RUCO

By: ______________________
Scott Wakefield, Esq.
RESIDENTIAL UTILITY CONSUMER OFFICE
2828 North Central Avenue, Suite 1200
Phoenix, Arizona 85004

ARIZONANS FOR ELECTRIC CHOICE AND COMPETITION

By: ____________________
Stan Barnes, Executive Director
245 W. Roosevelt Street
Phoenix, AZ 85004

ARIZONA COMMUNITY ACTION ASSOCIATION

By: ____________________
Mary Ellen Kane
2627 N. 3rd Street, #2
Phoenix, AZ 85004

ROSHKA HEYMAN & DEWULF, PLC
ONE ARIZONA CENTER
400 EAST VAN BUREN STREET - SUITE 800
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

ORIGINAL + TEN (10) COPIES of the foregoing filed march 14, 2002 with:

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007

COPIES of the foregoing hand-delivered

March 14, 2002, to:
COMMISSIONER WILLIAM MUNDELL
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

COMMISSIONER JIM IRVIN
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

COMMISSIONER MARC SPITZER
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Lyn A. Farmer, Esq.
Chief ALJ, Hearing Division
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007

Christopher Kempley, Esq.
Chief Counsel, Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007

Ernest Johnson
Director, Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007

COPIES of the foregoing mailed
March 14, 2002, to:

Scott Wakefield, Esq.
RESIDENTIAL UTILITY CONSUMER OFFICE
2828 North Central Avenue, Suite 1200
Phoenix, Arizona 85004

C. Webb Crockett, Esq.
FENNEMORE CRAIG, PC
3003 North Central Avenue, Suite 2600
Phoenix, Arizona 85012-2913

Mary Ellen Kane
Arizona Community Action Association
2627 N. 3rd Street, #2
Phoenix, AZ 85004

ROSHKA HEYMAN & DEWULF, PLC
ONE ARIZONA CENTER
400 EAST VAN BUREN STREET - SUITE 800
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

1

Red-Lined Version

MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding is entered into this ___ day of November, 2001, between TUCSON ELECTRIC POWER COMPANY ("TEP"), ARIZONANS FOR ELECTRIC CHOICE AND COMPETITION ("AECC") and RESIDENTIAL UTILITY CONSUMER OFFICE ("RUCO") (also sometimes collectively referred to as the "Parties").

A. On June 9, 1999, the Parties entered into a Settlement Agreement, which provided for resolution of issues necessary for implementing the Arizona Corporation Commission's ("Commission") Electric Competition Rules.

B. The Settlement Agreement, with modifications, was subsequently approved by the Commission.

C. The Settlement Agreement authorized TEP the opportunity to recover its stranded costs through the implementation of a Competition Transition Charge ("CTC").

D. Since the commencement of the implementation of the Settlement Agreement, the Parties have concluded that some clarification of the provisions relating to the calculation of the Market Generation Credit ("MGC") is required to insure complete and full implementation of the settlement as intended by the Parties.

E. In particular, Paragraph 2.1(d) of the Settlement Agreement requires TEP, in calculating the MGC, to use off-peak to on-peak price ratios from the California Power Exchange and the Palo Verde NYMEX futures price. The California Power Exchange and the Palo Verde NYMEX futures price no longer exists, necessitating a clarification to this provision.

In accordance with Paragraph 13.2 of the Settlement Agreement, the following clarifications set forth the understanding of the Parties and the Parties agree are consistent with the Settlement Agreement and do not change the underlying logic of the MGC calculation.

1. Paragraph 2.1(d) of the Settlement Agreement is clarified by the following:

(a) The monthly MGC amount shall be calculated in advance and shall be comprised of 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~~Platts Long-Term Forward Assessment for Palo Verde futures price, except when adjusted for the variable cost of TEP's must-run generation.

The Market Price shall be determined thirty (30) days prior to each calendar month using the average of the most recent three (3) business days of ~~Palo Verde NYMEX~~<u>Platts Long-Term Forward Assessment for Palo Verde</u> settlement prices.

(b) 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 the simple average of off-peak to on-peak hourly prices from the <u>Dow Jones Palo Verde Index</u>~~California Power Exchange (AZ3)~~ of the same month from the preceding year<u>.</u>~~, through January 2002. Thereafter, the off-peak MGC component will be adjusted by the ratio of the simple average of off-peak to on-peak hourly prices from the Dow Jones Palo Verde Index of the same month from the preceding year.~~

(c) The MGC shall be equal to the hours-weighted average of the on-peak and off-peak pricing components and shall reflect the cost of serving a one hundred percent (100%) load factor customer.

2. <u>Paragraph 2.1(e) of the Settlement Agreement is clarified by the following:</u>

<u>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 futures price 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 4.2 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 3.0 mills.</u>

3. <u>Paragraph 2.1(j) of the Settlement Agreement is clarified by the following:</u>

<u>During a month 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 Platts Long-Term Forward Assessment for Palo Verde 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 or successor transmission organization protocols.</u>

It is not the intent of the Parties by entering into this Memorandum of Understanding to amend the Settlement Agreement, but only to make more clear certain provisions as set forth above.

EXECUTED ON ____________________, 2001.

TUCSON ELECTRIC POWER COMPANY

By ______________________________

Its ______________________________

ARIZONANS FOR ELECTRIC CHOICE AND COMPETITION

By ______________________________

Its ______________________________

RESIDENTIAL UTILITY CONSUMER OFFICE

By ______________________________

Its ______________________________

ARIZONA COMMUNITY ACTION ASSOCIATION

By ______________________________

Its ______________________________

2

MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding is entered into this ___ day of ___________, 2002, between TUCSON ELECTRIC POWER COMPANY ("TEP"), ARIZONANS FOR ELECTRIC CHOICE AND COMPETITION ("AECC") Arizona Community Action Association ("ACAA") and RESIDENTIAL UTILITY CONSUMER OFFICE ("RUCO") (also sometimes collectively referred to as the "Parties").

A. On June 9, 1999, the Parties entered into a Settlement Agreement, which provided for resolution of issues necessary for implementing A.A.C.R. 14-2-1601 et. seq. ("Electric Competition Rules").

B. The Settlement Agreement, with modifications, was subsequently approved by the Arizona Corporation Commission ("Commission") in Decision No. 62103.

C. The Settlement Agreement provided TEP the opportunity to recover its stranded costs through the implementation of a Competition Transition Charge ("CTC").

D. Since the commencement of the implementation of the Settlement Agreement, the Parties have concluded that some clarification of the provisions relating to the calculation of the Market Generation Credit ("MGC") is required to insure complete and full implementation of the Settlement Agreement as intended by the Parties.

E. In particular, Paragraph 2.1(d) of the Settlement Agreement requires TEP, in calculating the MGC, to use off-peak to on-peak price ratios from the California Power Exchange and the Palo Verde NYMEX futures price. The California Power Exchange and the Palo Verde NYMEX futures price no longer exist, necessitating a clarification to this provision.

The Parties agree in accordance with Paragraph 13.2 of the Settlement Agreement, that the following clarification is consistent with the Settlement Agreement and does not change the underlying logic of the MGC calculation:

1. Paragraph 2.1(d) of the Settlement Agreement is clarified by the following:

(a) The monthly MGC amount shall be calculated in advance and shall be comprised of 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 Platts Long-Term Forward Assessment for Palo Verde futures price, except when adjusted for the variable cost of TEP's must-run generation. The Market Price shall be determined thirty (30) days prior to each calendar month using the average of the most recent three (3) business days of Platts Long-Term Forward Assessment for Palo Verde settlement prices.

(b) 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 the simple average of off-peak to on-peak hourly prices from the Dow Jones Palo Verde Index of the same month from the preceding year.

(c) The MGC shall be equal to the hours-weighted average of the on-peak and off-peak pricing components and shall reflect the cost of serving a one hundred percent (100%) load factor customer.

2. Paragraph 2.1(e) of the Settlement Agreement is clarified by the following:

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 futures price 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 4.2 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 3.0 mills.

3. Paragraph 2.1(j) of the Settlement Agreement is clarified by the following:

During a month 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 Platts Long-Term Forward Assessment for Palo Verde 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 or successor transmission organization protocols.

It is not the intent of the Parties by entering into this Memorandum of Understanding to amend the Settlement Agreement, but only to make more clear certain provisions as contemplated by Paragraph 13.2 of the Settlement Agreement.

EXECUTED ON March 14, 2002.

TUCSON ELECTRIC POWER COMPANY

By ________________________

Its Attorney

ARIZONANS FOR ELECTRIC CHOICE AND COMPETITION

By ________________________

Its President

RESIDENTIAL UTILITY CONSUMER OFFICE

By ________________________

Its Director

ARIZONA COMMUNITY ACTION ASSOCIATION

By ________________________

Its Energy Program Manager