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BEFORE THE ARIZONA CORPORATION COMMISSION

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JIM IRVIN  
Commissioner - Chairman  
RENZ D. JENNINGS  
Commissioner  
CARL J. KUNASEK  
Commissioner

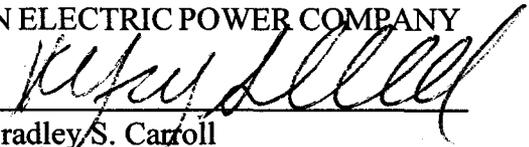
IN THE MATTER OF THE APPLICATION OF )  
TUCSON ELECTRIC POWER COMPANY FOR ) DOCKET NO. E-01933A-98-0471  
APPROVAL OF ITS PLAN FOR STRANDED )  
COST RECOVERY AND FOR RELATED ) NOTICE OF FILING  
APPROVALS, AUTHORIZATIONS AND )  
WAIVERS. )

On August 21, 1998, Tucson Electric Power Company ("TEP") filed its Application for Approval of its Plan for Stranded Cost Recovery and for Related Approvals, Authorizations and Waivers ("Application"). Schedule 3 of the Application was not included because it contains confidential information. TEP hereby files a redacted version of Schedule 3.

RESPECTFULLY SUBMITTED this 25th day of August, 1998.

TUCSON ELECTRIC POWER COMPANY

By:

  
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Original and ten copies of the foregoing  
filed this 25th day of August, 1998, with:

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

Arizona Corporation Commission

DOCKETED

AUG 25 1998

DOCKETED BY



1 **Copy of the foregoing hand-delivered**  
2 **this 25th day of August, 1998, to:**

3 Jim Irvin, Commissioner - Chairman  
4 Renz D. Jennings, Commissioner  
5 Carl J. Kunasek, Commissioner  
6 ARIZONA CORPORATION COMMISSION  
7 1200 West Washington Street  
8 Phoenix, Arizona 85007

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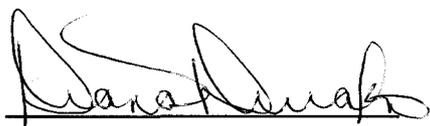
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**Schedule 3**

**Estimate of Unmitigated Stranded Costs**

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The following tables set forth a summary calculation of the Company's estimated range of stranded costs and a range of assumptions regarding plant value:

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***[THIS INFORMATION IS CONFIDENTIAL AND WILL BE PROVIDED, IF APPROPRIATE, PURSUANT TO THE TERMS OF A PROTECTIVE AGREEMENT]***

**MARKET ANALYSIS**

States and public utility commissions that have adopted regulations and/or legislation promoting retail electric competition have generally required some form of divestiture of generating assets as a prerequisite to stranded cost recovery. The two-step auction process has been the preferred method for utilities disaggregating generating assets. The Auction process is designed to attract a broad interest from entities interested in investing in generating assets as part of their long-term business strategy. Those entities include affiliates of U.S. and foreign utilities, independent power producers, and power marketing companies. There has also been an increase in joint ventures between fuel suppliers, power marketers and owners of unregulated generating plants to structure fuel supply, output and financing transactions to shift market risk to parties better equipped to accept and manage such risk. Entities typically seek to acquire generating assets: i) as part of a strategy to be a more significant generating company in new markets; ii) for use in power trading activities; and iii) as part of a marketing efforts in strategic locations. In emerging competitive markets, merchant plants that have flexibility to provide capacity and energy as well as the ability to unbundle various ancillary services to sell into the market are attractive to potential purchasers.

The value of the Company's generating assets will be determined by bidders based on expected future market prices for power, the operating characteristics of the assets and views as to the characteristics of a competitive marketplace. There is very little history to use as a guide to forecasting. As a result, bidders are likely to have divergent views as to the price of power and ancillary services, as well as the ultimate operation of the market. Therefore, the range of bids on the Assets may be significant, which is an incentive to encourage entrants into the auction in the hope of taking advantage of the potential variation in pricing.

The announced transactions to date are presented in Table 1. The transactions have primarily been in California and the Northeast, where restructuring initiatives were among the first to be introduced and adopted. The announced transactions have been followed by a number of auctions that are currently in progress or are scheduled to begin by the end of 1998 or early 1999. These are listed in Table 2.

**Table 1**

**Announced Utility Asset Sales**

(Dollars in millions, except price per kW)

<b>Date Ann.</b>	<b>Buyer</b>	<b>Seller</b>	<b>Plant</b>	<b>Type</b>	<b>Net MW</b>	<b>Total Price</b>	<b>Book Value</b>	<b>Price/kW</b>	<b>Premium to Book</b>
08/03/98	AES Corporation	NYSEG	Kintigh Station (675 MW), Milliken Station (300 MW), Greenidge Station (160 MW), Goudey Station (125 MW), Hickling Station (70 MW), and Jennison Station (70 MW)	Coal	1,400	\$950.0	\$886.3	\$678.6	1.07x
08/03/98	Edison Mission	GPU & NYSEG	1,884 MW Homer City Electric Generation Plant	Coal	1,884	1,800.0	524.0	955.4	3.44
07/07/98	WPS Resources	Maine Public Service	Wyman Unit 4 (20.7 MW share), several small diesel and hydro plants	Various	91.8	37.3	11.7	406.3	3.20
05/27/98	Southern Energy	Commonwealth Energy System	Canal Unit 1, Canal Unit 2 (50% interest), five diesel generators, Kendall Station, Kendall Jets, 1.4% interest in Wyman Unit 4	Various	984	462.0	79.0	469.5	5.85
03/25/98	Houston Industries	Southern California Edison	Ormond Beach	Gas	1,500	\$40.0	\$141.2	\$26.7	0.28
02/04/98	NRG/Destec	Southern California Edison	Long Beach	Gas	530	29.8	98.0	56.2	0.30
01/06/98	FPL Group	Central Maine Power	91 hydro units (373 MW), 31 MW of wood capacity and 781 MW of fossil-fueled (3 plants)	Various	1,185	846.0	240.0	713.9	3.53
12/10/97	Sithe Energies	Boston Edison	Mystic, New Boston, L Street, Edgar Framingham, West Medway, Wyman	Oil & Gas	1,987	536.0	450.0	269.8	1.19
11/24/97	AES	Southern California Edison	Alamitos, Huntington Beach, Redondo	Gas	3,956	781.0	228.3	197.4	3.42

<b>Date Ann.</b>	<b>Buyer</b>	<b>Seller</b>	<b>Plant</b>	<b>Type</b>	<b>Net MW</b>	<b>Total Price</b>	<b>Book Value</b>	<b>Price/kW</b>	<b>Premium to Book</b>
11/24/97	Houston Industries	Southern California Edison	Coolwater, Mandalay, Ellwood, Eriwanda	Gas	2,276	237.0	127.0	104.1	1.87
11/24/97	NRG/Destec	Southern California Edison	El Segundo	Gas	1,020	87.8	71.3	86.0	1.23
11/24/97	Thermo Ecotek	Southern California Edison	San Bernardino and Highgrove	Gas	280	9.5	(6.0)	33.9	NM
11/18/97	Duke Energy	PG&E	Morro Bay, Moss Landing	Gas	2,645	501.0	380	189.4	1.32
08/07/97	US Generating	NEES	3 thermal plants, 15 hydro-electric	Various	5,100	1,590.0	1,100	311.8	1.45
10/31/96	Allegheny Power	Duquesne Light & Power	Fort Martin (50% interest of one unit)	Coal	276	170.0	45	615.9	3.78

Low	\$26.7	0.28 x
Mean	341.0	2.27
Median	269.8	1.45
High	955.4	5.85

Table 2

**Current Status of Utility Divestiture Activity**

	<u>Estimated Timing</u>	<u>Total Capacity (MW)</u>	<u>Fuel Type(s)</u>	<u>Book Value (\$MM)</u>
PG&E	1998	4,718	Gas, Oil, Geothermal	\$770
Montana Power	Q1-Q4.98	1,543	Coal, Hydro	660
GPU	1998	4,408	Coal, Gas, Oil, Hydro	838
New York				
- NIMO	By Q4.98	4,217	Coal, Gas, Oil, Hydro	1,000
- NYSEG	Q1-Q3.98	1,335	Coal, Uranium	838
- Central Hudson	By Q2.01	972	Coal, Gas, Oil	NA
- O&R	By Q2.99	984	Coal, Gas, Oil, Hydro	269
- Con Edison	By Q4.98	3,665	Gas, Oil	NA
ENOVA	By Q4.98	2,805	Gas, Oil, Nuclear	2,150
United Illuminating	By Q4.98	1,337	Coal, Gas, Oil	220
PacifiCorp (Centralia)	By Q4.98	1,340	Coal	NA
Northeast Utilities	By Q4.98	553	Oil, Hydro	60

	<u>Estimated Timing</u>	<u>Total Capacity (MW)</u>	<u>Fuel Type(s)</u>	<u>Book Value (\$MM)</u>
Bangor Hydro Electric	By Q4.98	441	Oil, Hydro	40
Unicom	By Q3.99	5,600	Coal	1,100
Portland General Electric	By 1998	3,363	Coal, Gas, Oil, Hydro	NA

Nevada Power/Sierra Pacific Resources  
The companies have proposed selling their generating plants if the merger is completed

<sup>1</sup> Information from publicly available sources.