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MEMORANDUM

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TO: Jim E. Fisher
Senior Policy Advisor

FROM: Sheryl L. Hubbard

DATE: April 28, 1999

SUBJECT: Benefits of Settlements Agreements filed on November 19, 1999 for Arizona Public Service Company and Tucson Electric Power Company

Based upon your recent request for information relating to perceived benefits to be realized from the settlements that were filed in November of 1998, I have prepared this brief summary. (See attached e-mail of April 23, 1999).

Two expected benefits from the settlement agreements between both APS and Staff and TEP and Staff were a hastening of the commencement of competition and elimination of all pending litigation and potential future litigation.

Benefits which were expected to result from the APS settlement are as follows:

1) Benefit of lower rates to all Arizona electric customers from permanent minimum rate reductions of 1% annually for two years beyond the current rate reduction agreement which is effective through and including July 1, 1999 (Decision No. 59601, April 26, 1996).
2) Additional rate reductions of 1% annually for residential customers in years 3 and 4 resulting in a minimum of four percent reductions in total for residential customers.
3) Reduction in APS' potential ability to exercise vertical market power to thwart competition through divestiture of transmission assets at the 345 kV level and above to a Transco. Non-discriminatory transmission access to all competitors expected to result from the transfer of transmission assets.
4) Provided unbundling of existing rates identifying functional rates by customer class.
   a) Identified the embedded cost (not avoided cost as recommended by APS) of generation, metering and billing which are eligible to be competitively purchased,
5) Provided the mechanism for the collection of stranded costs providing the utility with assurance of a reasonable opportunity to recover its previous investments including regulatory assets.
6) Capped the recovery of regulatory assets by identifying a per kWh charge and tracking the recovery until assets are fully recovered.

7) Upon transfer of generation assets to a subsidiary, identified process of acquiring future generation for standard offer customers and acknowledged need for recovery mechanism to be established.
8) Set up a Solar Portfolio Standard with approval to defer any unrecoverable costs for future recovery.
9) Established a shopping generation credit that would encourage competition and that varied by customer class on the basis of line loss and load factor.

Benefits which were expected to result from the TEP settlement are as follows:

1) Rates to be reduced by three percent over three years. (This provision already approved by the Commission).
2) Reduction in TEP's potential ability to exercise market power to thwart competition by divesting generation assets.
3) Provided unbundling of existing rates identifying functional rates by customer class.
   a) Identified the embedded cost (versus avoided cost as originally proposed by the Company) of generation, metering and billing which are eligible to be competitively purchased.
4) Movement toward the formation of an Independent Scheduling Administrator/ Independent System Operator by combining the transmission function at 345 kV and above in a Transco (it was thought that the fewer owners that were involved in the formation of the ISA/ISO the sooner disagreements could be worked out).
5) Provided the mechanism for the collection of stranded costs quantified through auction process. Provided stopgaps in the auction process to limit or restrict the stranded costs to a level no greater than an administrative determination.
6) Provided for securitization of stranded costs to mitigate the effect on customers upon a determination by the Commission of the ability of securitization to lower TEP's customer costs.
7) Set up a Solar Portfolio Standard with approval to defer any unrecoverable costs for future recovery.
8) Established a shopping generation credit that would encourage competition and that varied by customer class on the basis of line loss and load factor.

Attachment

Cc: Ray T. Williamson,
Acting Director Utilities Division
David A. Motycka,
Acting Assistant Director Utilities Division

From: James E. Fisher
To: SLH, PAB, RTW
Date: 4/23/99 3:07pm
Subject: Request for Information Re: November '98 Staff Settlement

Dear Mr. Bullis, Mr. Williamson, Ms Hubbard:

Please consider this a request for an *informational* memorandum explaining the November '98 Staff Settlement proposal with APS and TEP; i.e. a thumbnail sketch quantifying the rate discounts, timing, level of stranded costs, methodology of recovery.

The above information is technical in nature and as such could qualify for the exemption from the ex parte rule. However, as a Procedural Order has been entered on Stranded Cost Hearings, and this office is committed to a public process, please docket the requested memorandum.

Thank you for your assistance.

Jim Fisher