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Arizona Corporation Commission
ARIZONA CORPORATION COMMISSION

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AUG 26 1999

DATE: AUGUST 26, 1999
DOCKET NOS E-01345A-98-0473, E-01345A-97-077B and RE-00000C-94-0165

DOCKETED BY [Signature]

TO ALL PARTIES:

Enclosed please find the recommendation of Hearing Officer Jerry Rudibaugh. The recommendation has been filed in the form of an Opinion and Order on:

ARIZONA PUBLIC SERVICE COMPANY
(STRANDED COST/ UNBUNDLED TARIFFS)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Hearing Officer by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

SEPTEMBER 7, 1999

The enclosed is NOT an order of the Commission, but a recommendation of the Hearing Officer to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

SEPTEMBER 14, 1999 and SEPTEMBER 15, 1999

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602)542-4250.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 CARL J. KUNASEK
CHAIRMAN

3 JIM IRVIN
COMMISSIONER

4 WILLIAM A. MUNDELL
COMMISSIONER

5
6 IN THE MATTER OF THE APPLICATION OF
7 ARIZONA PUBLIC SERVICE COMPANY FOR
8 APPROVAL OF ITS PLAN FOR STRANDED
9 COST RECOVERY.

DOCKET NO. E-01345A-98-0473

10 IN THE MATTER OF THE FILING OF ARIZONA
11 PUBLIC SERVICE COMPANY OF UNBUNDLED
12 TARIFFS PURSUANT TO A.A.C. R14-2-1601 *ET*
13 *SEQ.*

DOCKET NO. E-01345A-97-0773

14 IN THE MATTER OF COMPETITION IN THE
15 PROVISION OF ELECTRIC SERVICES
16 THROUGHOUT THE STATE OF ARIZONA.

DOCKET NO. RE-00000C-94-0165

17 DECISION NO. _____

18 **OPINION AND ORDER**

19 DATES OF HEARING:

July 12, 1999 (pre-hearing conference), July 14, 15, 16,
19, 20, and 21, 1999

20 PLACE OF HEARING:

Phoenix, Arizona

21 PRESIDING OFFICER:

Jerry L. Rudibaugh

22 IN ATTENDANCE:

Carl J. Kunasek, Chairman
Jim Irvin, Commissioner

23 APPEARANCES:

Mr. Steven M. Wheeler, Mr. Thomas Mumaw and Mr.
Jeffrey B. Guldner, SNELL & WILMER, LLP, on
behalf of Arizona Public Service Company;

Mr. C. Webb Crockett and Mr. Jay Shapiro,
FENNEMORE CRAIG, on behalf of Cyprus Climax
Metals, Co., ASARCO, Inc., and Arizonans for Electric
Choice & Competition;

Mr. Scott S. Wakefield, Chief Counsel, and Ms. Karen
Nally on behalf of the Residential Utility Consumer
Office;

Ms. Betty Pruitt on behalf of the Arizona Community
Action Association;

Mr. Timothy Hogan on behalf of the Arizona
Consumers Council;

1 Mr. Robert S. Lynch on behalf of the Arizona
Transmission Dependent Utility Group;

2 Mr. Walter W. Meek on behalf of the Arizona Utility
3 Investors Association;

4 Mr. Douglas C. Nelson, DOUGLAS C. NELSON, P.C.,
on behalf of Commonwealth Energy Corporation;

5 Mr. Lawrence V. Robertson, Jr., MUNGER &
6 CHADWICK, and Ms. Leslie Lawner, Director
Government Affairs on behalf of Enron Corporation,
7 and Mr. Robertson on behalf of PG&E Energy Services;

8 Mr. Lex J. Smith, BROWN & BAIN, P.A., on behalf of
Illinova Energy Partners and Sempra Energy Trading;

9 Mr. Randall H. Werner, ROSHKA, HEYMAN &
10 DeWULF, P.L.C., on behalf of NEV Southwest;

11 Mr. Norman Furuta on behalf of the Department of the
Navy;

12 Mr. Bradley S. Carroll on behalf of Tucson Electric
13 Power Company; and

14 Mr. Christopher C. Kempley, Assistant Chief Counsel
and Ms. Janet F. Wagner, Staff Attorney, Legal Division
15 on behalf of the Utilities Division of the Arizona
Corporation Commission.

16 **BY THE COMMISSION:**

17 On December 26, 1996, the Arizona Corporation Commission ("Commission") in Decision
18 No. 59943 enacted A.A.C. R14-2-1601 through R14-2-1616 ("Rules" or "Electric Competition
19 Rules").

20 On June 22, 1998, the Commission issued Decision No. 60977, the Stranded Cost Order
21 which required each Affected Utility to file a plan for stranded cost recovery.

22 On August 10, 1998, the Commission issued Decision No. 61071 which made modifications
23 to the Rules on an emergency basis.

24 On August 21, 1998, Arizona Public Service Company ("APS") filed its Stranded Costs plan.

25 On November 5, 1998, APS filed a Settlement Proposal that had been entered into with the
26 Commission's Utilities Division Staff ("Staff Settlement Proposal"). Our November 24, 1998
27 Procedural Order set the matter for hearing. On November 25, 1998, the Commission issued
28

1 Decision No. 61259 which established an expedited procedural schedule for evidentiary hearings on
2 the Staff Settlement Proposal.

3 On November 30, 1998, the Arizona Attorney General's Office, in association with numerous
4 other parties, filed a Verified Petition for Special Action and Writ of Mandamus with the Arizona
5 Supreme Court ("Court") regarding the Commission's November 25, 1998 Procedural Order,
6 Decision No. 61259. The Attorney General sought a Stay of the Commission's consideration of the
7 Staff Settlement Proposal with APS and Tucson Electric Power Company ("TEP").

8 On December 1, 1998, Vice Chief Justice Charles J. Jones granted a Motion for Immediate
9 Stay of the Procedural Order. On December 9, 1998, the Commission Staff filed a notice with the
10 Supreme Court that the Staff Settlement Proposal had been withdrawn from Commission
11 consideration.

12 On April 27, 1999, the Commission issued Decision No. 61677, which modified Decision No.
13 60977. On May 17, 1999, APS filed with the Commission a Notice of Filing, Application for
14 Approval of Settlement Agreement ("Settlement" or "Agreement")¹ and Request for Procedural
15 Order.

16 Our May 25, 1999 Procedural Order set the matter for hearing commencing on July 14, 1999.

17 This matter came before a duly authorized Hearing Officer of the Commission at its offices in
18 Phoenix, Arizona. APS, Cyprus Climax Metals, Co., ASARCO, Inc., Arizonans for Electric Choice
19 & Competition ("AECC"), Residential Utility Consumer Office ("RUCO"), the Arizona Community
20 Action Association ("ACAA"), the Arizona Consumers Council, the Arizona Transmission
21 Dependent Utility Group, the Arizona Utility Investors Association, Enron Corporation, PG&E
22 Energy Services, Illinova Energy Partners, Sempra Energy Trading, NEV Southwest, the Department
23 of the Navy, Tucson Electric Power Company, and Staff of the Commission appeared through
24

25 ¹ The Parties to the Proposed Settlement are as follows: the Residential Utility Consumer Office, Arizona Public
26 Service Company, Arizona Community Action Association and the Arizonans for Electric Choice and Competition which
27 is a coalition of companies and associations in support of competition that includes Cable Systems International, BHP
28 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 Multi-housing 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 counsel. Evidence was presented concerning the Settlement Agreement, and after a full public
2 hearing, this matter was adjourned pending submission of a Recommended Opinion and Order by the
3 Presiding Officer to the Commission. In addition, a post-hearing briefing schedule was established
4 with simultaneous briefs filed on August 5, 1999.

5 DISCUSSION

6 Introduction

7 The Settlement provides for rate reductions for residential and business customers; sets the
8 amount, method, and recovery period of stranded costs that APS can collect in customer charges;
9 establishes unbundled rates; and provides that APS will separate its generating facilities, which will
10 operate in the competitive market, from its distribution system, which will continue to be regulated.

11 According to APS, the Settlement was the product of months of hard negotiations with
12 various customer groups. APS opined that the Settlement provides many clear benefits to customers,
13 potential competitors, as well as to APS. Some of those benefits are as follows:

- 14
- 15 • Allowing competition to commence in APS' service territory months before otherwise
16 possible and expanding the initial eligible load by 140 MW;
- 17 • Establishing both Standard Offer and Direct Access rates, and providing for annual
18 rate reductions with a cumulative total of as much as \$475 million by 2004;
- 19 • Ensuring stability and certainty for both bundled and unbundled rates;
- 20 • Resolving the issue of APS' stranded costs and regulatory asset recovery in a fair and
21 equitable manner;
- 22 • Providing for the divestiture of generation and competitive services by APS in a cost-
23 effective manner;
- 24 • Removing the specter of years of litigation and appeals involving APS and
25 Commission over competition-related issues;
- 26 • Continuing support for a regional ISO and the AISA;
- 27 • Continuing support for low income programs; and
- 28 • Requiring APS to file an interim code of conduct to address affiliate relationships.

The Settlement was entered into by RUCO and the ACAA reflecting Agreement by

1 residential customers of APS to the Settlement's terms and conditions. In addition, the Settlement
2 was executed by the AECC, a coalition of commercial and industrial customers and trade
3 associations. AECC opined that since residential and non-residential customers have agreed to the
4 Settlement, the "public interest" has been served. AECC indicated the Settlement was not perfect but
5 was the result of "give and take" by each of the parties. Accordingly, AECC urged the Commission
6 to protect the "public interest" by approving the Settlement and not allow Energy Service Providers
7 ("ESPs") to delay the benefits that competition has to offer.

8 Legal Issues:

9 The Arizona Consumers Council ("Consumers Council") opined that the Agreement was not
10 legal because: (1) there was no full rate proceeding; (2) Section 2.8 of the Agreement violates A.R.S.
11 Section 40-246, regarding Commission initiated rate reductions; and (3) the Agreement illegally
12 binds future Commissions. According to the Consumers Council, the Commission does not have
13 evidence to support a finding that the rates proposed in the Agreement are just and reasonable; that
14 the rate base proposed is proper; and asserted the proposed adjustment clause can not be established
15 outside a general rate case.

16 Staff argued that the Commission in Decision No. 59601, dated April 26, 1996, has
17 previously determined just and reasonable rates for APS which must be charged until changed in a
18 rate proceeding. According to Staff, this case is not about changing existing rates, but instead
19 involves the introduction of a new service - direct access. The direct access rates have been designed
20 to replicate the revenue flow from existing rates. Staff opined that the Commission has routinely, and
21 lawfully, approved rates for new services outside of a rate case. Further, Staff asserted that the rates
22 proposed in the Settlement are directly related to a complete financial review. Staff indicated that the
23 Consumers Council has provided no contrary information and should not be allowed to collaterally
24 attack Decision No. 59601.

25 APS argued that no determination of fair value rate base ("FVRB"), fair value rate of return
26 ("FVROR"), or other financial analysis is legally necessary to justify current APS rate levels, allow
27 the introduction of a new service, or to evaluate a series of voluntary rate decreases. In spite of that,
28 APS did provide information to support a FVRB of \$5,195,675,000 and FVROR of 6.63 percent. No

1 other party presented evidence in support of a FVRB or FVROR. Staff supported APS.

2 We concur with Staff and APS. The Consumers Council has provided no legal authority that
3 a full rate proceeding is necessary in order to adopt a rate reduction or rates for new services.
4 Further, pursuant to the Arizona Constitution, the Commission has jurisdiction over ratemaking
5 matters. We also find that notice of the application and hearing was provided and that APS has
6 provided sufficient financial information to support a finding of FVRB and FVROR. Lastly, this
7 Commission can clearly bind future Commissions as a result of its Decision. However, as later
8 discussed, we agree there are limitations to such legal authority.

9 Shopping Credit

10 One of the most contentious issues in the hearing was the level of the "shopping credit." The
11 "shopping credit" is the difference between the customer's Standard Offer Rate and the Direct Access
12 Rate available to customers who take service from ESPs. The ESPs generally argued that the
13 Settlement's "shopping credits" were not sufficient to allow a new entrant to make a profit. AECC
14 opined that such an argument was nothing more than a request to increase ESP's profits.

15 Staff opined that the "shopping credit" was too low and recommended it be increased without
16 impacting the stranded cost recovery amount of \$350 million. Under Staff's proposal, the increased
17 "shopping credit" would be offset by reducing the competitive transition charge ("CTCs"). Further,
18 Staff recommended that any stranded costs not collected could simply be deferred and collected after
19 2004.

20 The AECC expert testified that the "shopping credit" under the Agreement was superior to the
21 "Shopping Credit" in the Staff Settlement Proposal as well as the one offered to SRP's customers.
22 APS argued that artificially high shopping credits will likely increase ESP profits without lowering
23 customer rates and will encourage inefficient firms to enter the market. Based on the analysis of the
24 40kW to 200 kW customer group², APS showed an average margin on the "shopping credit" of over
25 8 mils per kWh or a 23 percent markup over cost. APS asserted that the test for a reasonable
26 "shopping credit" "should not be whether all ESPs can profit on all APS customers all of the time".

27
28 ² Represents over 80 percent of the general service customers for competitive access in phase one.

1 Based on the evidence presented, the "shopping credits" appear to be reasonable to allow
2 ESPs to compete in an efficient manner. Further, we do not find customer rates should be increased
3 simply to have higher "shopping credits".

4 Metering and Billing Credits

5 The metering and billing credits resulting from the Agreement are based on decremental costs.
6 Several of the ESPs and Staff argued that these credits should be based upon embedded costs and not
7 decremental costs. APS responded that such a result could cause them to lose revenues since its costs
8 would only go down by the decremental amounts. Staff testified that the Company would not lose
9 significant income if it used embedded costs since it would free up resources to service new
10 customers.

11 We concur. The proposed credits for metering, meter reading and billing³ will result in a
12 direct access customer paying a portion of APS costs as well as a portion of the ESP's costs. We
13 believe this would stymie the competitive market for these services. As a result, we find the approval
14 of the Settlement should be conditioned upon the use of Staff's proposed credits for metering, meter
15 reading, and billing.

16 Proposed One-Year Advance Notice Requirement:

17 Section 2.3 provides that

18 "Customers greater than 3MW who chose a direct access supplier must give APS one
19 year's advance notice before being eligible to return to Standard Offer service."
[emphasis added]

20 Several parties expressed concerns that the one-year notice requirement to return to Standard
21 Offer service would create a deterrent to load switching by large industrial, institutional and
22 commercial customers. PG&E proposed that any increased cost could be charged directly to the
23 customer as a condition to its return.

24 We agree that APS needs to have some protection from customers leaving the system when
25 market prices are low and jumping back on Standard Offer rates when market prices go up. The
26 suggestion by PG&E that the customer be allowed to go back to the Standard Offer if the customer
27

28 ³ For example, the monthly credits for a direct access residential customers are \$1.30, \$0.30, and \$0.30 for
metering, meter reading and billing, respectively.

1 pays for additional costs it has caused is a reasonable resolution. Accordingly, we will order APS to
2 submit substitute language on this issue.

3 Section 2.8

4 Several of the parties expressed concern that Section 2.8 of the Agreement allows APS to seek
5 rate increases under specified conditions. Additionally, as previously discussed, the Consumers
6 Council opined that Section 2.8 violated A.R.S. Section 40-246. Staff recommended the Commission
7 condition approval of the Agreement on Section 2.8 being amended to include language that the
8 Commission or Staff may commence rate change proceedings under conditions paralleling those
9 provided to the utility, including response to petitions submitted under A.R.S. § 40-246.

10 We agree that Section 2.8 is too restrictive on the Commission's future action. Accordingly,
11 we will condition approval of the Agreement on inclusion of the following language in Section 2.8:

12 The Commission shall not be prevented from commencing rate change
13 proceedings, including responding to petitions submitted under A.R.S. §
14 40-246. However, any result from such proceeding shall not modify the
15 collection of stranded cost approved herein nor result in any reduction in
the rate decreases approved herein by customer class.

16 Section 7.1

17 The Consumers Council opined that there was language in the Agreement which would
18 illegally bind future Commissions. While Staff disagreed with the legal opinion of the Consumers
19 Council, Staff was concerned with some of the binding language in the Agreement and in particular
20 with the following language in Section 7.1:

21 7.1. To the extent any provision of this Agreement is inconsistent with any existing
22 or future Commission order, rule or regulation or is inconsistent with the Electric
23 Competition Rules as now existing or as may be amended in the future, the provisions of
24 this Agreement shall control and the approval of the Agreement by the Commission shall
be deemed to constitute a Commission-approved variation or exemption to any
conflicting provision of the Electric Competition Rules.

25 Staff recommended the Commission not approve Section 7.1.

26 We share Staff's concerns. We also recognize that the parties want to preserve their benefits
27 to their Agreement. We agree with the parties that to the extent any provision of the Agreement is
28 inconsistent with the Electric Competition Rules as finalized by the Commission in September 1999,

1 the provisions of the Agreement shall control. We want to make it clear that the Commission does
2 not intend to revisit the stranded cost portion of the Agreement. It is also not the Commission's
3 intent to undermine the benefits that parties have bargained for. With that said, the Commission must
4 be able to make rule changes/other future modifications that become necessary over time. As a
5 result, we will direct the parties to file a revised Section 7.1 consistent with the Commission's
6 discussions herein.

7 Generation Affiliate

8 Section 4.1 of the Agreement provides the following:

9 4.1 The Commission will approve the formation of an affiliate or affiliates of APS
10 to acquire at book value the competitive services assets as currently required by the
11 Electric Competition Rules. In order to facilitate the separation of such assets
12 efficiently and at the lowest possible cost, the Commission shall grant APS a two-year
extension of time until December 31, 2002, to accomplish such separation. A similar
two-year extension shall be authorized for compliance with A.A.C. R14-2-1606(B).

13 Related to Section 4.1 is Section 2.6(3) which allows APS to defer costs of forming the generation
14 affiliate, to be collected beginning July 1, 2004.

15 According to NEV Southwest, APS indicated that it intends to establish a generation affiliate
16 under Pinnacle West, not under APS. Further, that APS intends to procure generation for standard
17 offer customers from the wholesale generation market as provided for in the Electric Competition
18 Rules. Additionally, it was NEV Southwest's understanding that the affiliate generation company
19 could bid for the APS standard offer load under an affiliate FERC tariff, but there would be no
20 automatic privilege outside of the market bid. NEV Southwest supports the aforementioned concepts
21 and recommended they be explicitly stated in the Agreement.

22 We concur with NEV Southwest. To the extent that NEV Southwest has properly stated the
23 intent of APS, such language should be added to the Agreement. We generally support the request of
24 APS to defer those costs related to formation of a new generation affiliate pursuant to the Electric
25 Competition Rules. We also recognize the Company is making a business decision to transfer the
26 generation assets to an affiliate instead of an unrelated third party. As a result, we find the
27 Company's proposed mitigation of stranded costs⁴ in the Settlement should also apply to the costs of

28 ⁴ Agreement to not recover \$183 million out of a claimed \$533 million.

1 forming the new generation affiliate. Accordingly, Section 2.6(3) should be modified to reflect that
2 only 67 percent of those costs to transfer generation assets to an affiliate shall be allowed to be
3 deferred for future collection.

4 Some parties were concerned that Sections 4.1 and 4.2 provide in effect that the Commission
5 will have approved in advance any proposed financing arrangements associated with future transfers
6 of "competitive services" assets to an affiliate. As a result, there was a recommendation that the
7 Commission retain the right to review and approve or reject any proposed financing arrangements. In
8 addition, some parties expressed concern that APS has not definitively described the assets it will
9 retain and which it will transfer to an affiliate.

10 We share the concerns that the non-competitive portion of APS not subsidize the spun-off
11 competitive assets through an unfair financial arrangement. We want to make it clear that the
12 Commission will closely scrutinize the capital structure of APS at its 2004 rate case and make any
13 necessary adjustments. Further, while the Commission supports and approves the concept of
14 transferring generation assets and competitive services to an affiliate, the Commission reserves the
15 right to review and approve of the actual assets and services to be transferred.

16 Unbundled Rates

17 Several parties expressed concern that the Agreement's unbundled rates fail to provide the
18 necessary information to determine whether a competitor's price is lower than the Standard Offer
19 rate. Further, some of the parties asserted that APS has not performed a functional cost-of-service
20 study and as a result the Settlement's "shopping credit" is an artificial division of costs. In response,
21 APS indicated the Standard Offer rates can not be unbundled on a strict cost-of-service basis unless
22 the Standard Offer rates are redesigned to equal cost-of-service. APS opined that such a process
23 would result in significant rate increases for many customers.

24 AECC asserted that a full rate case would result in additional months/years of delay with
25 continued drain of resources by all interested entities.

26 The ESPs asserted that the bill format proposed by APS is misleading and too complex. In
27 general, the ESPs desired a bill format that would allow customers to easily compare Standard Offer
28 and Direct Access charges in order to make an informal decision. As a result, APS was directed to

1 circulate an Informational Unbundled Standard Offer Bill ("Bill") to the parties for comments.
2 Subsequent to the hearing, a Bill was circulated to the parties for comments to determine what
3 consensus could be reached on its format. In general, there was little dispute with the format of the
4 Bill. However, PG&E and Commonwealth disagreed with the underlying cost allocation
5 methodologies. Enron was concerned that the Bill portrayed the Standard Offer to be more simplistic
6 than the Direct Access portion of the Bill. Enron proposed a bill format that would clearly identify
7 those services which are available from an ESP. Based on comments from RUCO and Staff, APS
8 made general revisions to the proposed Bill.

9 We find the APS Attachment AP-1R, second revised dated 8/16/99 provides sufficient
10 information in a concise manner to enable customers to make an informed choice. (See Attachment
11 No. 2 herein). However, we find the Enron breakdown into a Part 1 versus Parts 2 and 3 will further
12 help educate customers as to choice. We will direct APS to further revise its Bill to have a Part 1 as
13 set forth by the Enron breakdown. We believe Parts 2 and 3 can be combined for simplicity.

14 We concur with APS that it is not necessary to file a revised cost-of-service study at this time.
15 The proposed Standard Offer rates contained in the Settlement are based on existing tariffs approved
16 by this Commission. Further, we concur with AECC that a full rate case with a revised cost-of-
17 service study would result in months/years of additional delay. Lastly, the Standard Offer rates as
18 proposed in the Settlement are consistent with the Commission's requirement that no customer shall
19 receive a rate increase. The following was extracted from Decision No. 61677:

20 "No customer or customer class shall receive a rate increase as a result of
21 stranded cost recovery by an Affected Utility under any of these options."

22 Code of Conduct

23 There were concerns expressed that APS would be writing its own Code of Conduct.
24 Subsequently, APS did provide a copy of its proposed Code of Conduct to the parties for comment.

25 Based on the above, we will direct APS to file with the Commission no later than 30 days of
26 the date of this Decision, its interim Code of Conduct. APS should indicate which parties are in
27 agreement with the proposed Code of Conduct. Subsequently, within 10 days of filing the Code of
28 Conduct, the Hearing Division shall establish a procedural schedule to hear the matter.

ANALYSIS/SUMMARY

Consistent with our determination in Decision No. 60977, the following primary objectives need to be taken into consideration in deciding the overall stranded cost issue:

- A. Provide the Affected Utilities a reasonable opportunity to collect 100 percent of their unmitigated stranded costs;
- B. Provide incentives for the Affected Utilities to maximize their mitigation effort;
- C. Accelerate the collection of stranded costs into as short of a transition period as possible consistent with other objectives;
- D. Minimize the stranded cost impact on customers remaining on the standard offer;
- E. Don't confuse customers as to the bottom line; and
- F. Have full generation competition as soon as possible.

The Commission also recognized in Decision No. 60977 that the aforementioned objectives were in conflict. Part of that conflict is reflected in the following language extracted from Decision No. 60977:

One of the main concerns expressed over and over by various consumer groups was that the small consumers would end up with higher costs during the transition phase and all the benefits would flow to the larger users. At the time of the hearing, there had been minimal participation in California by residential customers in the competitive electric market place. It is not the Commission's intent to have small consumers pay higher short-term costs in order to provide lower costs for the larger consumers. Accordingly, we will place limitations on stranded cost recovery that will minimize the impact on the standard offer.

Decision No. 61677 modified Decision No. 60977 and allowed each Affected Utility to chose from five options.

With the modifications contained herein, we find the overall Settlement satisfies the objectives set forth in Decision Nos. 60977 and 61677. We believe the Settlement will result in an orderly process that will have real rate reductions⁵ during the transition period to a competitive generation market. The Settlement allows every APS customer to have the immediate opportunity to

⁵ There have been instances in other states where customers were told they would receive rate decreases which were then offset by a stranded cost add-on.

1 benefit from the change in market structure while maintaining reliability and certainty of delivery.
 2 Further, the Settlement in conjunction with the Electric Rules will provide every APS customer with
 3 a choice in a reasonable timeframe and in an orderly manner. If anything, the Proposed Settlement
 4 favors customers over competitors in the short run since APS has agreed to reductions in rates
 5 totaling 7.5 percent. This Commission supports competition in the generation market because of
 6 increased benefits to customers, including lower rates and greater choice. While some of the
 7 potential competitors have argued that higher "shopping credits" will result in greater choice, we find
 8 that a higher shopping credit would also mean less of a rate reduction for APS customers. We find
 9 that the Settlement strikes the proper balance between competing objectives by allowing immediate
 10 rate reductions while maintaining a relatively short transition period for collection of stranded costs,
 11 followed shortly thereafter with a full rate case. At that point in time the collection of stranded costs
 12 will be completed and unbundled rates can be modified based upon an updated cost study.

13 * * * * *

14 Having considered the entire record herein and being fully advised in the premises, the
 15 Commission finds, concludes, and orders that:

16 **FINDINGS OF FACT**

- 17 1. APS is certificated to provide electric service as a public service corporation in the
 18 State of Arizona.
- 19 2. Decision No. 59943 enacted R14-2-1601 through -1616, the Retail Electric
 20 Competition Rules.
- 21 3. Following a hearing on generic issues related to stranded costs, the Commission issued
 22 Decision No. 60977, dated June 22, 1998.
- 23 4. Decision No. 61071 adopted the Emergency Rules on a permanent basis.
- 24 5. On August 21, 1998, APS filed its Stranded Costs plan.
- 25 6. On November 5, 1998, APS filed the Staff Settlement Proposal.
- 26 7. Our November 24, 1998 Procedural Order set the matter for hearing.
- 27 8. Decision No. 61259 established an expedited procedural schedule for evidentiary
 28 hearings on the Staff Settlement Proposal.

1 9. The Court issued a Stay of the Commission's consideration of the Staff Settlement
2 Proposal.

3 10. Staff withdrew the Staff Settlement Proposal from Commission consideration.

4 11. On May 17, 1999, APS filed its Settlement requesting Commission approval.

5 12. Our May 25, 1999 Procedural Order set the Settlement for hearing commencing on
6 July 14, 1999.

7 13. Decision No. 61311 (January 11, 1999) stayed the effectiveness of the Emergency
8 Rules and related Decisions, and ordered the Hearing Division to conduct further proceedings in this
9 Docket.

10 14. In Decision No. 61634 (April 23, 1999), the Commission adopted modifications to
11 R14-2-201 through-207, -210 and 212 and R14-2-1601 through -1617.

12 15. Pursuant to Decision No. 61677, dated April 27, 1999, the Commission modified
13 Decision No. 60977 whereby each Affected Utility could choose one of the following options: (a)
14 Net Revenues Lost Methodology; (b) Divestiture/Auction Methodology; (c) Financial Integrity
15 Methodology; (d) Settlement Methodology; and (e) the Alternative Methodology.

16 16. APS and other Affected Utilities filed with the Arizona Superior Court various appeals
17 of Commission Orders adopting the Competition Rules and related Stranded Cost Decisions (the
18 "Outstanding Litigation").

19 17. Pursuant to Decision No. 61677, APS, RUCO, AECC, and ACAA entered into the
20 Settlement to resolve numerous issues, including stranded costs and unbundled tariffs.

21 18. The difference between market based prices and the cost of regulated power has been
22 generally referred to as stranded costs.

23 19. Any stranded cost recovery methodology must balance the interests of the Affected
24 Utilities, ratepayers, and the move toward competition.

25 20. All current and future customers of the Affected Utilities should pay their fair share of
26 stranded costs.

27 21. Pursuant to the terms of the Settlement Agreement, APS has agreed to the
28 modification of its CC&N in order to implement competitive retail access in its Service Territory.

1 IT IS FURTHER ORDERED that within ten days of the date the proposed Code of Conduct
2 is filed, the Hearing Division shall issue a Procedural Order setting a procedural schedule for
3 consideration of the Code of Conduct.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSIONION.

6
7
8 CHAIRMAN COMMISSIONER COMMISSIONER

9
10 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
11 Secretary of the Arizona Corporation Commission, have
12 hereunto set my hand and caused the official seal of the
13 Commission to be affixed at the Capitol, in the City of Phoenix,
14 this ____ day of _____, 1999.

15 _____
BRIAN C. McNEIL
EXECUTIVE SECRETARY

16 DISSENT _____
17 JLR:dap

1 SERVICE LIST FOR: ARIZONA PUBLIC SERVICE COMPANY
2 DOCKET NOS.: E-01345A-98-0473, E-01345A-97-0773 and RE-
3 00000C-94-0165

4 Service List for RE-00000C-94-0165

5 Paul A. Bullis, Chief Counsel
6 LEGAL DIVISION
7 1200 W. Washington Street
8 Phoenix, Arizona 85007

9 Utilities Division Director
10 ARIZONA CORPORATION COMMISSION
11 1200 W. Washington Street
12 Phoenix, Arizona 85007

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ATTACHMENT 1

SETTLEMENT AGREEMENT

May 14, 1999

This settlement agreement ("Agreement") is entered into as of May 14, 1999, by Arizona Public Service Company ("APS" or the "Company") and the various signatories to this Agreement (collectively, the "Parties") for the purpose of establishing terms and conditions for the introduction of competition in generation and other competitive services that are just, reasonable and in the public interest.

INTRODUCTION

In Decision No. 59943, dated December 26, 1996, the Arizona Corporation Commission ("ACC" or the "Commission") established a "framework" for introduction of competitive electric services throughout the territories of public service corporations in Arizona in the rules adopted in A.A.C. R14-2-1601 *et seq.* (collectively, "Electric Competition Rules" as they may be amended from time to time). The Electric Competition Rules established by that order contemplated future changes to such rules and the possibility of waivers or amendments for particular companies under appropriate circumstances. Since their initial issuance, the Electric Competition Rules have been amended several times and are currently stayed pursuant to Decision No. 61311, dated January 5, 1999. During this time, APS, Commission Staff and other interested parties have participated in a number of proceedings, workshops, public comment sessions and individual negotiations in order to further refine and develop a restructured utility industry in Arizona that will provide meaningful customer choice in a manner that is just, reasonable and in the public interest.

This Agreement establishes the agreed upon transition for APS to a restructured entity and will provide customers with competitive choices for generation and certain other retail services. The Parties believe this Agreement will produce benefits for all customers through implementing customer choice and providing rate reductions so that the APS service territory may benefit from economic growth. The Parties also believe this Agreement will fairly treat APS and its shareholders by providing a reasonable opportunity to recover prudently incurred investments and costs, including stranded costs and regulatory assets.

Specifically, the Parties believe the Agreement is in the public interest for the following reasons. First, customers will receive substantial rate reductions. Second, competition will be promoted through the introduction of retail access faster than would have been possible without this Agreement and by the functional separation of APS' power production and delivery functions. Third, economic development and the environment will

benefit through guaranteed rate reductions and the continuation of renewable and energy efficiency programs. Fourth, universal service coverage will be maintained through APS' low income assistance programs and establishment of "provider of last resort" obligations on APS for customers who do not wish to participate in retail access. Fifth, APS will be able to recover its regulatory assets and stranded costs as provided for in this Agreement without the necessity of a general rate proceeding. Sixth, substantial litigation and associated costs will be avoided by amicably resolving a number of important and contentious issues that have already been raised in the courts and before the Commission. Absent approval by the Commission of the settlement reflected by this Agreement, APS would seek full stranded cost recovery and pursue other rate and competitive restructuring provisions different than provided for herein. The other Parties would challenge at least portions of APS' requested relief, including the recovery of all stranded costs. The resulting regulatory hearings and related court appeals would delay the start of competition and drain the resources of all Parties.

NOW, THEREFORE, APS and the Parties agree to the following provisions which they believe to be just, reasonable and in the public interest:

TERMS OF AGREEMENT

ARTICLE I IMPLEMENTATION OF RETAIL ACCESS

1.1. The APS distribution system shall be open for retail access on July 1, 1999; provided, however, that such retail access to electric generation and other competitive electric services suppliers will be phased in for customers in APS' service territory in accordance with the proposed Electric Competition Rules, as and when such rules become effective, with an additional 140 MW being made available to eligible non-residential customers. The Parties shall urge the Commission to approve Electric Competition Rules, at least on an emergency basis, so that meaningful retail access can begin by July 1, 1999. Unless subject to judicial or regulatory restraint, APS shall open its distribution system to retail access for all customers on January 1, 2001.

1.2. APS will make retail access available to residential customers pursuant to its December 21, 1998, filing with the Commission.

1.3. The Parties acknowledge that APS' ability to offer retail access is contingent upon numerous 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 of any such matters.

1.4. APS agrees to the amendment and modification of its Certificate(s) of Convenience and Necessity to permit retail access consistent with the terms of this Agreement. The Commission order adopting this Agreement shall constitute the necessary Commission Order amending and modifying APS' CC&Ns to permit retail access consistent with the terms of this Agreement.

ARTICLE II RATE MATTERS

2.1. The Company's unbundled rates and charges attached hereto as Exhibit A will be effective as of July 1, 1999. The Company's presently authorized rates and charges shall be deemed its standard offer ("Standard Offer") rates for purposes of this Agreement and the Electric Competition Rules. Bills for Standard Offer service shall indicate individual unbundled service components to the extent required by the Electric Competition Rules.

2.2. Future reductions of standard offer tariff rates of 1.5% for customers having loads of less than 3 MW shall be effective as of July 1, 1999, July 1, 2000, July 1, 2001, July 1, 2002, and July 1, 2003, upon the filing and Commission acceptance of revised tariff sheets reflecting such decreases. For customers having loads greater than 3 MW served on Rate Schedules E-34 and E-35, Standard Offer tariff rates will be reduced: 1.5%, effective July 1, 1999; 1.5% effective July 1, 2000; 1.25% effective July 1, 2001; and .75% effective July 1, 2002. The 1.5% Standard Offer rate reduction to be effective July 1, 1999, includes the rate reduction otherwise required by Decision No. 59601. Such decreases shall become effective by the filing with and acceptance by the Commission of revised tariff sheets reflecting each decrease.

2.3. Customers greater than 3 MW who choose a direct access supplier must give APS one year's advance notice before being eligible to return to Standard Offer service.

2.4. Unbundled rates shall be reduced in the amounts and at the dates set forth in Exhibit A attached hereto upon the filing and Commission acceptance of revised tariff sheets reflecting such decreases.

2.5. This Agreement shall not preclude APS 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 Agreement. Nothing contained in this Agreement shall preclude APS from filing changes to its tariffs or terms and conditions of service which are not inconsistent with its obligations under this Agreement.

2.6. Notwithstanding the rate reduction provisions stated above, the Commission shall, prior to December 31, 2002, approve an adjustment clause or clauses which

will provide full and timely recovery beginning July 1, 2004, of the reasonable and prudent costs of the following:

- (1) APS' "provider of last resort" and Standard Offer obligations for service after July 1, 2004, which costs shall be recovered only from Standard Offer and "provider of last resort" customers;
- (2) Standard Offer service to customers who have left Standard Offer service or a special contract rate for a competitive generation supplier but who desire to return to Standard Offer service, which costs shall be recovered only from Standard Offer and "provider of last resort" customers;
- (3) compliance with the Electric Competition Rules or Commission-ordered programs or directives related to the implementation of the Electric Competition Rules, as they may be amended from time to time, which costs shall be recovered from all customers receiving services from APS; and
- (4) Commission-approved system benefit programs or levels not included in Standard Offer rates as of June 30, 1999, which costs shall be recovered from all customers receiving services from APS.

By June 1, 2002, APS shall file an application for an adjustment clause or clauses, together with a proposed plan of administration, and supporting testimony. The Commission shall thereafter issue a procedural order setting such adjustment clause application for hearing and including reasonable provisions for participation by other parties. The Commission order approving the adjustment clauses shall also establish reasonable procedures pursuant to which the Commission, Commission Staff and interested parties may review the costs to be recovered. By June 30, 2003, APS will file its request for the specific adjustment clause factors which shall, after hearing and Commission approval, become effective July 1, 2004. APS shall be allowed to defer costs covered by this Section 2.6 when incurred for later full recovery pursuant to such adjustment clause or clauses, including a reasonable return.

2.7. By June 30, 2003, APS shall file a general rate case with prefiled testimony and supporting schedules and exhibits; provided, however, that any rate changes resulting therefrom shall not become effective prior to July 1, 2004.

2.8. APS shall not be prevented from seeking a change in unbundled or Standard Offer rates prior to July 1, 2004, 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 APS' cost of service for Commission regulated services resulting from federal, tribal,

state or local laws, regulatory requirements, judicial decision, actions or orders. Except for the changes otherwise specifically contemplated by this Agreement, unbundled and Standard Offer rates shall remain unchanged until at least July 1, 2004.

ARTICLE III **REGULATORY ASSETS AND STRANDED COSTS**

3.1. APS currently recovers regulatory assets through July 1, 2004, pursuant to Commission Decision No. 59601 in accordance with the provisions of this Agreement.

3.2. APS has demonstrated that its allowable stranded costs after mitigation (which result from the impact of retail access), exclusive of regulatory assets, are at least \$533 million net present value.

3.3. The Parties agree that APS should not be allowed to recover \$183 million net present value of the amounts included above. APS shall have a reasonable opportunity to recover \$350 million net present value through a competitive transition charge ("CTC") set forth in Exhibit A attached hereto. Such CTC shall remain in effect until December 31, 2004, at which time it will terminate. If by that date APS has recovered more or less than \$350 million net present value, as calculated in accordance with Exhibit B attached hereto, then the nominal dollars associated with any excess recovery/under recovery shall be credited/debited against the costs subject to recovery under the adjustment clause set forth in Section 2.6(3).

3.4. The regulatory assets to be recovered under this Agreement, after giving effect to the adjustments set forth in Section 3.3, shall be amortized in accordance with Schedule C of Exhibit A attached hereto.

3.5. Neither the Parties nor the Commission shall take any action that would diminish the recovery of APS' stranded costs or regulatory assets provided for herein. The Company's willingness to enter into this Agreement is based upon the Commission's irrevocable promise to permit recovery of the Company's regulatory assets and stranded costs as provided herein. Such promise by the Commission shall survive the expiration of the Agreement and shall be specifically enforceable against this and any future Commission.

ARTICLE IV **CORPORATE STRUCTURE**

4.1. The Commission will approve the formation of an affiliate or affiliates of APS to acquire at book value the competitive services assets as currently required by the Electric Competition Rules. In order to facilitate the separation of such assets efficiently and at the lowest possible cost, the Commission shall grant APS a two-year extension of time until

December 31, 2002, to accomplish such separation. A similar two-year extension shall be authorized for compliance with A.A.C. R14-2-1606(B).

4.2. Approval of this Agreement by the Commission shall be deemed to constitute all requisite Commission approvals for (1) the creation by APS or its parent of new corporate affiliates to provide competitive services including, but not limited to, generation sales and power marketing, and the transfer thereto of APS' generation assets and competitive services, and (2) the full and timely recovery through the adjustment clause referred to in Section 2.6 above for all of the reasonable and prudent costs so incurred in separating competitive generation assets and competitive services as required by proposed A.A.C. R14-2-1615, exclusive of the costs of transferring the APS power marketing function to an affiliate. The assets and services to be transferred shall include the items set forth on Exhibit C attached hereto. Such transfers may require various regulatory and third party approvals, consents or waivers from entities not subject to APS' control, including the FERC and the NRC. No Party to this Agreement (including the Commission) will oppose, or support opposition to, APS requests to obtain such approvals, consents or waivers.

4.3. Pursuant to A.R.S. § 40-202(L), the Commission's approval of this Agreement shall exempt any competitive service provided by APS or its affiliates from the application of various provisions of A.R.S. Title 40, including A.R.S. §§ 40-203, 40-204(A), 40-204(B), 40-248, 40-250, 40-251, 40-285, 40-301, 40-302, 40-303, 40-321, 40-322, 40-331, 40-332, 40-334, 40-365, 40-366, 40-367 and 40-401.

4.4. APS' subsidiaries and affiliates (including APS' parent) may take advantage of competitive business opportunities in both energy and non-energy related businesses by establishing such unregulated affiliates as they deem appropriate, which will be free to operate in such places as they may determine. The APS affiliate or affiliates acquiring APS' generating assets may be a participant in the energy supply market within and outside of Arizona. Approval of this Agreement by the Commission shall be deemed to include the following specific determinations required under Sections 32(c) and (k)(2) of the Public Utility Holding Company Act of 1935:

APS or an affiliate is authorized to establish a subsidiary company, which will seek exempt wholesale generator ("EWG") status from the Federal Energy Regulatory Commission, for the purposes of acquiring and owning Generation Assets.

The Commission has determined that allowing the Generation Assets to become "eligible facilities," within the meaning of Section 32 of the Public Utility Holding Company Act ("PUHCA"), and owned by an APS EWG affiliate (1) will benefit consumers, (2) is in the public interest, and (3) does not violate Arizona law.

The Commission has sufficient regulatory authority, resources and access to the books and records of APS and any relevant associate, affiliate, or subsidiary company to exercise its duties under Section 32(k) of PUHCA.

APS will purchase any electric energy from its EWG affiliate at market based rates. This Commission has determined that (1) the proposed transaction will benefit consumers and does not violate Arizona law; (2) the proposed transaction will not provide APS' EWG affiliate an unfair competitive advantage by virtue of its affiliation with APS; (3) the proposed transaction is in the public interest.

The APS affiliate or affiliates acquiring APS' generating assets will be subject to regulation by the Commission, to the extent otherwise permitted by law, to no greater manner or extent than that manner and extent of Commission regulation imposed upon other owners or operators of generating facilities.

4.5. The Commission's approval of this Agreement will constitute certain waivers to APS and its affiliates (including its parent) of the Commission's existing affiliate interest rules (A.A.C. R14-2-801, *et seq.*), and the rescission of all or portions of certain prior Commission decisions, all as set forth on Exhibit D attached hereto.

4.6. The Parties reserve their rights under Sections 205 and 206 of the Federal Power Act with respect to the rates of any APS affiliate formed under the provisions of this Article IV.

ARTICLE V **WITHDRAWAL OF LITIGATION**

5.1. Upon receipt of a final order of the Commission approving this Agreement that is no longer subject to judicial review, APS and the Parties shall withdraw with prejudice all of their various court appeals of the Commission's competition orders.

ARTICLE VI **APPROVAL BY THE COMMISSION**

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

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

6.2. The Parties agree that they shall make all reasonable and good faith efforts necessary to (1) obtain final approval of this Agreement by the Commission, and (2) ensure full implementation and enforcement of all the terms and conditions set forth in this Agreement. Neither the Parties nor the Commission shall take or propose any action which would be inconsistent with the provisions of this Agreement. All Parties shall actively defend this Agreement in the event of any challenge to its validity or implementation.

ARTICLE VII MISCELLANEOUS MATTERS

7.1. To the extent any provision of this 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 Agreement shall control and the approval of this Agreement by the Commission shall be deemed to constitute a Commission-approved variation or exemption to any conflicting provision of the Electric Competition Rules.

7.2. The provisions of this Agreement shall be implemented and enforceable notwithstanding the pendency of a legal challenge to the Commission's approval of this Agreement, unless such implementation and enforcement is stayed or enjoined by a court having jurisdiction over the matter. If any portion of the Commission order approving this Agreement or any provision of this Agreement is declared by a court to be invalid or unlawful in any respect, then (1) APS shall have no further obligations or liability under this Agreement, including, but not limited to, any obligation to implement any future rate reductions under Article II not then in effect, and (2) the modifications to APS' certificates of convenience and necessity referred to in Section 1.4 shall be automatically revoked, in which event APS 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 then in effect for competitive generation (for the remainder of their term) to the extent not prohibited by law and subject to applicable regulatory requirements.

7.3. The terms and provisions of this Agreement apply solely to and are binding only in the context of the purposes and results of this 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 Agreement.

7.4. This Agreement represents an attempt to compromise and settle disputed claims regarding the prospective just and reasonable rate levels, and the terms and conditions

of competitive retail access, for APS in a manner consistent with the public interest and applicable legal requirements. Nothing contained in this Agreement is an admission by APS that its current rate levels or rate design are unjust or unreasonable.

7.5. As part of this Agreement, APS commits that it will continue the APS Community Action Partnership (which includes weatherization, facility repair and replacement, bill assistance, health and safety programs and energy education) in an annual amount of at least \$500,000 through July 1, 2004. Additionally, the Company will, subject to Commission approval, continue low income rates E-3 and E-4 under their current terms and conditions.

7.6. APS shall actively support the Arizona Independent Scheduling Administrator ("AISA") and the formation of the Desert Star Independent System Operator. APS agrees to modify its OATT to be consistent with any FERC approved AISA protocols. 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. APS shall file changes to its existing OATT consistent with this section within ten (10) days of Commission approval of this Agreement pursuant to Section 6.1.

7.7. Within thirty (30) days of Commission approval of this Agreement pursuant to Section 6.1, APS shall serve on the Parties an Interim Code of Conduct to address inter-affiliate relationships involving APS as a utility distribution company. APS shall voluntarily comply with this Interim Code of Conduct until the Commission approves a code of conduct for APS in accordance with the Electric Competition Rules that is concurrently effective with codes of conduct for all other Affected Utilities (as defined in the Electric Competition Rules). APS shall meet and confer with the Parties prior to serving its Interim Code of Conduct.

7.8. In the event of any disagreement over the interpretation of this Agreement or the implementation of any of the provisions of this Agreement, the Parties shall promptly convene a conference and in good faith shall attempt to resolve such disagreement.

7.9. The obligations under this Agreement that apply for a specific term set forth herein shall expire automatically in accordance with the term specified and shall require no further action for their expiration.

7.10. The Parties agree and recommend that the Commission schedule public meetings and hearings for consideration of this Agreement. The filing of this 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 this Agreement in accordance with

Section 6.1 and that afford interested parties adequate opportunity to comment and be heard on the terms of this Agreement consistent with applicable legal requirements.

DATED at Phoenix, Arizona, as of this 14th day of May, 1999.

RESIDENTIAL UTILITY
CONSUMER OFFICE

By Greg Patterson
Title Director

ARIZONA PUBLIC SERVICE COMPANY

By Jack Davis
Title President Delivery & Sales

ARIZONA COMMUNITY ACTION
ASSOCIATION

By Janet K. Regan
Title Executive Director

(Party) _____

By _____

Title _____

ARIZONANS FOR ELECTRIC CHOICE
AND COMPETITION, a coalition of

companies and associations in support of competition that includes Cable Systems International, BHP Copper, Motorola, Chemical Lime, Intel, ~~Boeing~~, Honeywell, Allied Signal, Cyprus Climax Metals, Asarco, Phelps Dodge, ~~Boeing~~, Homebuilders of Central Arizona, Arizona Mining Industry Gets Our Support, Arizona Food Marketing Alliance, Arizona Association of Industries, Arizona Multi-housing Association, Arizona Rock Products Association, Arizona Restaurant Association, ~~Arizona Association of General Contractors~~, and Arizona Retailers Association. **

(Party) _____

By _____

Title _____

(Party) _____

By Steve A. Woog
Title CHAIRMAN

By _____

Title _____

* Enron is NOT a signatory to this Agreement ¹⁰

* Also included: Boeing Arizona School Board Association National Education

Exhibit A
5/10/99
DA-R1

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
 Phoenix, Arizona
 Filed by: Alan Propper
 Title: Director, Pricing and Regulation

A.C.C. No. XXXX
 Tariff or Schedule No. DA-R1
 Original Tariff
 Effective: XXX XX, 1999

DIRECT ACCESS
RESIDENTIAL SERVICE

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company and where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. This rate schedule is applicable only to electric delivery required for residential purposes in individual private dwellings and in individually metered apartments when such service is supplied at one point of delivery and measured through one meter. For those dwellings and apartments where electric service has historically been measured through two meters, when one of the meters was installed pursuant to a water heating or space heating rate schedule no longer in effect, the electric service measured by such meters shall be combined for billing purposes.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10.)

TYPE OF SERVICE

Service shall be single phase, 60 Hertz, at one standard voltage (120/240 or 120/208 as may be selected by customer subject to availability at the customer's premise). Three phase service is furnished under the Company's Conditions Governing Extensions of Electric Distribution Lines and Services (Schedule #3). Transformation equipment is included in cost of extension. Three phase service is required for motors of an individual rated capacity of 7-1/2 HP or more.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for load profiling or hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

May - October Billing Cycles (Summer):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
\$/month	\$10.00			
All kWh		\$0.04158	\$0.00115	\$0.00930

November - April Billing Cycles (Winter):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
\$/month	\$10.00			
All kWh		\$0.03518	\$0.00115	\$0.00930

B. MINIMUM \$ 10.00 per month

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	\$1.30 per month
Meter Reading	\$0.30 per month
Billing	\$0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customers served under this rate schedule are responsible for acquiring their own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

Customers served under this rate schedule who have on-site generation connected to the Company's electrical delivery grid shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to the Company's Terms and Conditions for Standard Offer and Direct Access Services (Schedule #1) and Schedule #10. These schedules have provisions that may affect customer's monthly bill.

Exhibit A
5/10/99
DA-GS1

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS1
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
GENERAL SERVICE

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. This rate schedule is applicable to all electric service required when such service is supplied at one point of delivery and measured through one meter. For those customers whose electricity is delivered through more than one meter, service for each meter shall be computed separately under this rate unless conditions in accordance with the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service) are met. For those service locations where electric service has historically been measured through two meters, when one of the meters was installed pursuant to a water heating rate schedule no longer in effect, the electric service measured by such meters shall be combined for billing purposes.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

This rate schedule is not applicable to residential service, resale service or direct access service which qualifies for Rate Schedule DA-GS10.

TYPE OF SERVICE

Service shall be single or three phase, 60 Hertz, at one standard voltage as may be selected by customer subject to availability at the customer's premise. Three phase service is furnished under the Company's Conditions Governing Extensions of Electric Distribution Lines and Services (Schedule #3). Transformation equipment is included in cost of extension. Three phase service is not furnished for motors of an individual rated capacity of less than 7-1/2 HP, except for existing facilities or where total aggregate HP of all connected three phase motors exceed 12 HP. Three phase service is required for motors of an individual rated capacity of more than 7-1/2 HP.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for load profiling or hourly metering specified in the Company's Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

June - October Billing Cycles (Summer):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
\$ month	\$12.50			
Per kW over 5		\$0.721		
Per kWh for the first 2,500 kWh		\$0.04255		
Per kWh for the next 100 kWh per kW over 5		\$0.04255		
Per kWh for the next 42,000 kWh		\$0.02901		
Per kWh for all additional kWh		\$0.01811		
Per all kWh			\$0.00115	
Per all kW				\$2.43

A. RATE (continued)

November - May Billing Cycles (Winter):

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
\$/month	\$12.50			
Per kW over 5		\$0.652		
Per kWh for the first 2,500 kWh		\$0.03827		
Per kWh for the next 100 kWh per kW over 5		\$0.03827		
Per kWh for the next 42,000 kWh		\$0.02600		
Per kWh for all additional kWh		\$0.01614		
Per all kWh			\$0.00115	
Per all kW				\$2.43

PRIMARY AND TRANSMISSION LEVEL SERVICE:

1. For customers served at primary voltage (12.5kV to below 69kV), the Distribution charge will be discounted by 11.6%.
2. For customers served at transmission voltage (69kV or higher), the Distribution charge will be discounted 32.6%.
3. Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the average kW supplied during the 15-minute period of maximum use during the month, as determined from readings of the delivery meter.

B. MINIMUM

\$12.50 plus \$1.74 for each kW in excess of five of either the highest kW established during the 12 months ending with the current month or the minimum kW specified in the agreement for service, whichever is the greater.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	\$4.00 per month
Meter Reading	\$0.30 per month
Billing	\$0.30 per month
2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customers served under this rate schedule are responsible for acquiring their own generation and any other required competitively supplied services from an ESP or under the Company's Open Access Transmission Tariff. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

(CONTINUED ON PAGE 3)

DECISION NO. _____

ON-SITE GENERATION TERMS AND CONDITIONS

Customers served under this rate schedule who have on-site generation connected to the Company's electrical delivery grid shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

CONTRACT PERIOD

0 - 1,999 kW:	As provided in Company's standard agreement for service.
2,000 kW and above:	Three (3) years, or longer, at Company's option for initial period when construction is required. One (1) year, or longer, at Company's option when construction is not required.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These Schedules have provisions that may affect customer's monthly bill.

Exhibit A
5/10/99
DA-GS10

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS10
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
EXTRA LARGE GENERAL SERVICE

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable to customers receiving electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. This rate schedule is applicable only to customers whose monthly maximum demand is 3,000 kW or more for three (3) consecutive months in any continuous twelve (12) month period ending with the current month. Service must be supplied at one point of delivery and measured through one meter unless otherwise specified by individual customer contract. For those customers whose electricity is delivered through more than one meter, service for each meter shall be computed separately under this rate unless conditions in accordance with the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service) are met.

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at Company's standard voltages that are available within the vicinity of customer's premise.

METERING REQUIREMENTS

All customers shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
\$/month	\$2,430.00			
per kW		\$3.53		\$2.82
per kWh		\$0.00999	\$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE:

1. For customers served at primary voltage (12.5kV to below 69kV), the Distribution charge will be discounted by 4.8%.
2. For customers served at transmission voltage (69kV or higher), the Distribution charge will be discounted 36.7%.
3. Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 15-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.
2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

\$2,430.00 per month plus \$1.74 per kW per month.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	\$55.00 per month
Meter Reading	\$ 0.30 per month
Billing	\$ 0.30 per month
2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customers served under this rate schedule are responsible for acquiring their own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

Customers served under this rate schedule who have on-site generation connected to the Company's electrical delivery grid shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

CONTRACT PERIOD

For service locations in:

- a) Isolated Areas: Ten (10) years, or longer, at Company's option, with standard seven (7) year termination period.
- b) Other Areas: Three (3) years, or longer, at Company's option.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

Exhibit A
5/13/99
DA-GS11

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS11
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
RALSTON PURINA

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to Ralston Purina (Site #863970289) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 12.5 kV.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
\$/month	\$2,430.00			
per kW		\$2.58		\$1.86
per kWh		\$0.00732	\$0.00115	

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 15-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.
2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

\$2,430.00 per month plus \$1.74 per kW per month.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	\$55.00 per month
Meter Reading	\$ 0.30 per month
Billing	\$ 0.30 per month
2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customer is responsible for acquiring its own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

If Customer has on-site generation connected to the Company's electrical delivery grid, it shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

Exhibit A
5/13/99
DA-GS12

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: Alan Propper
Title: Director, Pricing and Regulation

A.C.C. No. XXXX
Tariff or Schedule No. DA-GS12
Original Tariff
Effective: XXX XX, 1999

DIRECT ACCESS
BHP COPPER

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to BHP Copper (Site #774932285) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 12.5 kV or higher.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution at Primary Voltage	Distribution at Transmission Voltage	System Benefits	Competitive Transition Charge
\$/month	\$2,430.00				
per kW		\$2.35	\$1.22		\$1.54
per kWh		\$0.00665	\$0.00346	\$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE:

Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 30-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.
2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

\$2,430.00 per month plus \$1.74 per kW per month.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	\$55.00 per month
Meter Reading	\$ 0.30 per month
Billing	\$ 0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customer is responsible for acquiring its own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

If Customer has on-site generation connected to the Company's electrical delivery grid, it shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

Exhibit A
5/13/99
DA-GS13

ELECTRIC DELIVERY RATES

ARIZONA PUBLIC SERVICE COMPANY
 Phoenix, Arizona
 Filed by: Alan Propper
 Title: Director, Pricing and Regulation

A.C.C. No. XXXX
 Tariff or Schedule No. DA-GS13
 Original Tariff
 Effective: XXX XX, 1999

DIRECT ACCESS
CYPRUS BAGDAD

AVAILABILITY

This rate schedule is available in all certificated retail delivery service territory served by Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served.

APPLICATION

This rate schedule is applicable only to Cyprus Bagdad (Site #120932284) when it receives electric energy on a direct access basis from any certificated Electric Service Provider (ESP) as defined in A.A.C. R14-2-1603. Service must be supplied as specified by individual customer contract and the Company's Schedule #4 (Totalized Metering of Multiple Service Entrance Sections At a Single Premise for Standard Offer and Direct Access Service).

This rate schedule is not applicable to resale service.

This rate schedule shall become effective as defined in Company's Terms and Conditions for Direct Access (Schedule #10).

TYPE OF SERVICE

Service shall be three phase, 60 Hertz, at 115 kV or higher.

METERING REQUIREMENTS

Customer shall comply with the terms and conditions for hourly metering specified in Schedule #10.

MONTHLY BILL

The monthly bill shall be the greater of the amount computed under A. or B. below, including the applicable Adjustments.

A. RATE

	Basic Delivery Service	Distribution	System Benefits	Competitive Transition Charge
\$/month	\$2,430.00			
per kW		\$1.05		\$1.34
per kWh		\$0.00298	\$0.00115	

PRIMARY AND TRANSMISSION LEVEL SERVICE:

Pursuant to A.A.C. R14-2-1612.K.11, the Company shall retain ownership of Current Transformers (CT's) and Potential Transformers (PT's) for those customers taking service at voltage levels of more than 25 kV. For customers whose metering services are provided by an ESP, a monthly facilities charge will be billed, in addition to all other applicable charges shown above, as determined in the service contract based upon the Company's cost of CT and PT ownership, maintenance and operation.

DETERMINATION OF KW

The kW used for billing purposes shall be the greater of:

1. The kW used for billing purposes shall be the average kW supplied during the 30-minute period (or other period as specified by individual customer's contract) of maximum use during the month, as determined from readings of the delivery meter.
2. The minimum kW specified in the agreement for service or individual customer contract.

B. MINIMUM

\$2,430.00 per month plus \$1.74 per kW per month, until June 30, 2004 when this minimum will no longer be applicable.

ADJUSTMENTS

1. When Metering, Meter Reading or Consolidated Billing are provided by the Customer's ESP, the monthly bill will be credited as follows:

Meter	\$55.00 per month
Meter Reading	\$ 0.30 per month
Billing	\$ 0.30 per month

2. The monthly bill is also subject to the applicable proportionate part of any taxes, or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric service sold and/or the volume of energy delivered or purchased for sale and/or sold hereunder.

SERVICES ACQUIRED FROM CERTIFICATED ELECTRIC SERVICE PROVIDERS

Customer is responsible for acquiring its own generation and any other required competitively supplied services from an ESP. The Company will provide and bill its transmission and ancillary services on rates approved by the Federal Energy Regulatory Commission to the Scheduling Coordinator who provides transmission service to the Customer's ESP. The Customer's ESP must submit a Direct Access Service Request pursuant to the terms and conditions in Schedule #10.

ON-SITE GENERATION TERMS AND CONDITIONS

If Customer has on-site generation connected to the Company's electrical delivery grid, it shall enter into an Agreement for Interconnection with the Company which shall establish all pertinent details related to interconnection and other required service standards. The Customer does not have the option to sell power and energy to the Company under this tariff.

TERMS AND CONDITIONS

This rate schedule is subject to Company's Terms and Conditions for Standard Offer and Direct Access Service (Schedule #1) and the Company's Schedule #10. These schedules have provisions that may affect customer's monthly bill.

ARIZONA PUBLIC SERVICE COMPANY

Competitive Transition Charges
By Direct Access Rate Classes

Line #	Direct Access Rate Class	Competition Transition Charges Effective January 1 of					
		1999	2000	2001	2002	2003	2004
1	Residential, DA-R1 (per kWh)	\$ 0.0093	\$ 0.0084	\$ 0.0063	\$ 0.0056	\$ 0.0050	\$ 0.0036
2	Under 3 mW, DA-GS1, (per kW/mo.)	\$ 2.43	\$ 2.20	\$ 1.66	\$ 1.46	\$ 1.30	\$ 0.94
3	3 mW and Above, DA-GS10 (per kW/mo.)	\$ 2.82	\$ 2.55	\$ 1.89	\$ 1.72	\$ 1.51	\$ 1.09
4	BHP Copper (per kW/mo.)	\$ 1.54	\$ 1.53	\$ 1.06	\$ 0.95	\$ 0.83	\$ 0.61
5	Cyprus Copper (per kW/mo.)	\$ 1.34	\$ 1.46	\$ 1.05	\$ 0.94	\$ 0.82	\$ 0.61
6	Ralston Purina (per kW/mo.)	\$ 1.86	\$ 1.98	\$ 1.50	\$ 1.34	\$ 1.18	\$ 0.87
7	Average Retail (per kWh)	\$ 0.0067	\$ 0.0061	\$ 0.0054	\$ 0.0048	\$ 0.0043	\$ 0.0031

Charges are based upon recovery of \$350 million NPV derived from APS' Compliance Filing of 8/21/98 as adjusted to synchronize Direct Access and Standard Offer revenue decreases.

ARIZONA PUBLIC SERVICE COMPANY

Exhibit A
5/13/99
Schedule B

Distribution Charges
By Direct Access Rate Classes

Line #	Direct Access Rate Class	Distribution Charges Effective January 1 of					
		1999	2000	2001	2002	2003	2004 ^v
Residential, DA-R1.							
1	Summer per kWh	\$ 0.04158	\$ 0.04041	\$ 0.03934	\$ 0.03837	\$ 0.03748	\$ 0.03689
2	Winter per kWh	\$ 0.03518	\$ 0.03419	\$ 0.03329	\$ 0.03247	\$ 0.03172	\$ 0.03122
DA-GS1 (Under 3 mW)							
Summer Rates							
3	per kW for all kW over 5	\$ 0.721	\$ 0.691	\$ 0.663	\$ 0.638	\$ 0.615	\$ 0.600
4	per kWh for the first 2,500 kWh	\$ 0.04255	\$ 0.04075	\$ 0.03912	\$ 0.03763	\$ 0.03627	\$ 0.03537
5	per kWh for the next 100 kWh per kW over 5	\$ 0.04255	\$ 0.04075	\$ 0.03912	\$ 0.03763	\$ 0.03627	\$ 0.03537
6	per kWh for the next 42,000 kWh	\$ 0.02901	\$ 0.02779	\$ 0.02667	\$ 0.02565	\$ 0.02473	\$ 0.02411
7	per kWh for all additional kWh	\$ 0.01811	\$ 0.01735	\$ 0.01665	\$ 0.01602	\$ 0.01544	\$ 0.01506
Winter Rates							
8	per kW for all kW over 5	\$ 0.652	\$ 0.624	\$ 0.599	\$ 0.576	\$ 0.555	\$ 0.541
9	per kWh for the first 2,500 kWh	\$ 0.03827	\$ 0.03666	\$ 0.03519	\$ 0.03385	\$ 0.03263	\$ 0.03182
10	per kWh for the next 100 kWh per kW over 5	\$ 0.03827	\$ 0.03666	\$ 0.03519	\$ 0.03385	\$ 0.03263	\$ 0.03182
11	per kWh for the next 42,000 kWh	\$ 0.02600	\$ 0.02490	\$ 0.02390	\$ 0.02299	\$ 0.02216	\$ 0.02161
12	per kWh for all additional kWh	\$ 0.01614	\$ 0.01546	\$ 0.01484	\$ 0.01427	\$ 0.01376	\$ 0.01342
Voltage Discounts							
13	Primary Voltage	11.6%	12.1%	12.6%	13.1%	13.6%	13.9%
14	Transmission Voltage	52.6%	54.9%	57.2%	59.5%	61.7%	63.3%
DA-GS10 (3 mW and Above)							
15	per kW	\$ 3.53	\$ 3.33	\$ 3.15	\$ 2.98	\$ 2.83	\$ 2.73
16	per kWh	\$ 0.00999	\$ 0.00943	\$ 0.00892	\$ 0.00845	\$ 0.00802	\$ 0.00774
Voltage Discounts							
17	Primary Voltage Discount	4.8%	5.1%	5.3%	5.6%	5.9%	6.2%
18	Transmission Voltage Discount	36.7%	38.9%	41.1%	43.4%	45.8%	47.4%
DA-GS11 (Ralston Purina)							
19	per kW	\$ 2.58	\$ 2.71	\$ 2.57	\$ 2.44	\$ 2.32	\$ 2.25
20	per kWh	\$ 0.00732	\$ 0.00767	\$ 0.00727	\$ 0.00691	\$ 0.00657	\$ 0.00635
DA-GS12 (BHP Copper)							
21	Primary Voltage Delivery - per kW	\$ 2.35	\$ 2.30	\$ 2.16	\$ 2.07	\$ 1.99	\$ 1.93
22	per kWh	\$ 0.00665	\$ 0.00651	\$ 0.00611	\$ 0.00585	\$ 0.00561	\$ 0.00546
23	Transmission Voltage Delivery - per kW	\$ 1.22	\$ 1.17	\$ 1.03	\$ 0.94	\$ 0.85	\$ 0.80
24	per kWh	\$ 0.00346	\$ 0.00332	\$ 0.00292	\$ 0.00266	\$ 0.00242	\$ 0.00227
DA-GS13 (Cyprus Bagdad)							
25	per kW	\$ 1.05	\$ 1.21	\$ 1.03	\$ 0.94	\$ 0.85	\$ 0.80
26	per kWh	\$ 0.00297	\$ 0.00343	\$ 0.00292	\$ 0.00266	\$ 0.00242	\$ 0.00227

^v Transmission voltage customers will not pay Distribution Charges after June 30, 2004

Exhibit B

Annual ACC Jurisdictional Sales of Delivered kWh or kW¹ x % then Eligible for Access x Applicable CTC (¢/kWh or \$/kW²) = Annual Recovery³

1999	Residential	20	.93
	General Service less than 3MW	20	2.43
	General Service greater than 3MW	20	2.82
	BHP Copper	20	1.54
	Cyprus Copper	20	1.34
	Ralston Purina	20	1.86
2000	Residential	20	.84
	General Service less than 3MW	20	2.20
	General Service greater than 3MW	20	2.55
	BHP Copper	20	1.53
	Cyprus Copper	20	1.46
	Ralston Purina	20	1.98
2001	Residential	100	.63
	General Service less than 3MW	100	1.66
	General Service greater than 3MW	100	1.89
	BHP Copper	100	1.06
	Cyprus Copper	100	1.05
	Ralston Purina	100	1.50
2002	Residential	100	.56
	General Service less than 3MW	100	1.46
	General Service greater than 3MW	100	1.72
	BHP Copper	100	.95
	Cyprus Copper	100	.94
	Ralston Purina	100	1.34
2003	Residential	100	.50
	General Service less than 3MW	100	1.30
	General Service greater than 3MW	100	1.51
	BHP Copper	100	.83
	Cyprus Copper	100	.82
	Ralston Purina	100	1.18
2004	Residential	100	.36
	General Service less than 3MW	100	.94
	General Service greater than 3MW	100	1.09
	BHP Copper	100	.61
	Cyprus Copper	100	.61
	Ralston Purina	100	.87

¹ This formula assumes no change in APS' distribution service territory. In the event of any material change (e.g. by purchase, sale, expansion, condemnation, etc.) the formula will be adjusted such that APS receives the same opportunity to recover the agreed upon level of costs.

² General Service unmetered loads will have a demand calculated for CTC purposes based on contract energy.

³ At the end of 2004 the net present value will be calculated to compare to the \$350 million.

EXHIBIT D
Affiliate Rules Waivers

R14-2-801(5) and R14-2-803, such that the term "reorganization" does not include, and no Commission approval is required for, corporate restructuring that does not directly involve the utility distribution company ("UDC") in the holding company. For example, the holding company may reorganize, form, buy or sell non-UDC affiliates, acquire or divest interests in non-UDC affiliates, etc., without Commission approval.

R14-2-804(A)

R14-2-805(A) shall apply only to the UDC :

R14-2-805(A)(2)

R14-2-805(A)(6)

R14-2-805(A)(9), (10), and (11)

Recision of Prior Commission Orders

Section X.C of the "Cogeneration and Small Power Production Policy" attached to Decision No. 52345 (July 27, 1981) regarding reporting requirements for cogeneration information.

Decision No. 55118 (July 24, 1986) - Page 15, Lines 5-1/2 through 13-1/2; Finding of Fact No. 24 relating to reporting requirements under the abolished PPFAC.

Decision No. 55818 (December 14, 1987) in its entirety. This decision related to APS Schedule 9 (Industrial Development Rate) which was terminated by the Commission in Decision No. 59329 (October 11, 1995).

9th and 10th Ordering Paragraphs of Decision No. 56450 (April 13, 1989) regarding reporting requirements under the abolished PPFAC.

ATTACHMENT 2

ARIZONA PUBLIC SERVICE COMPANY

Informational Unbundling for Standard Offer
Proposed Standard Offer Bill

Sample Summer Bill on Rate E-12 at the Proposed 7/1/99 Rate Level
1.5% Overall Residential Class Decrease (1.68% decrease in energy charges from 9/1/98 Rate Level)

The following information is proposed to be shown on the customer's monthly bill:

Page 1, Standard Offer Bill Calculation:

Page 2, Informational Unbundling:

Your total energy usage this month is: 991 kWh

Your total energy usage for this month is: 991 kWh
You Standard Offer Bill is (see page 1): \$ 114.85

Basic Service Charge \$ 7.50
Charge for kWh used 100.09
Regulatory Assessment 0.20
Sales Tax 7.06
TOTAL \$ 114.85

If you choose to receive competitive services from an Electric Service Provider, your APS bill on Rate DA-R1 for delivery service would include:

Metering Service: \$ 1.30
Meter Reading Service: 0.30
Billing Service: 0.30
Distribution Service: 49.30
System Benefits: 1.14
Competitive Transition Charge: 9.22
Regulatory Assessment: 0.12
Sales Tax: 4.04

Total Charges for APS Delivery Service Only: \$ 65.72

Transmission and Ancillary Services billed to your Electric Service Provider: \$ 5.09
Generation Services: \$ 44.04

Shopping Credit to purchase competitively supplied Generation and Transmission Service, including any applicable taxes and regulatory assessments \$ 49.13 or, 4.96 ¢/kWh