

PINNACLE WEST CAPITAL CORP

FORM U-1/A

(Amended Application for Public Utility Holding Company)

Filed 04/27/01

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

AMENDMENT NO. 3 TO

FORM U-1

APPLICATION
UNDER

THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

PINNACLE WEST CAPITAL CORPORATION

400 East Van Buren Street, Suite 700
Phoenix, Arizona 85004

(Name of company filing this statement and address of
principal executive offices)

None

(Name of top registered holding company parent)

Herbert I. Zinn Pinnacle West Capital Corporation 400 North Fifth Street Mail Station 8695 Phoenix, Arizona 85004	Mary Ann K. Huntington Morgan, Lewis & Bockius LLP 1800 M Street, N.W. Washington, D.C. 20036
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(Name and address of agents for service)

The Commission is requested to send copies of all notices, orders, and communications in connection with this Application to:

Herbert I. Zinn Pinnacle West Capital Corporation 400 North Fifth Street Mail Station 8695 Phoenix, Arizona 85004	Mary Ann K. Huntington Morgan, Lewis & Bockius LLP 1800 M Street, N.W. Washington, D.C. 20036
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Pursuant to Sections 9(a)(2) and 10 of the Public Utility Holding Company Act of 1935 (the "Act"), Pinnacle West Capital Corporation, an Arizona corporation ("PNW"), hereby requests approval from the Securities and Exchange Commission (the "Commission") to establish a new public-utility company subsidiary in connection with the proposed corporate reorganization involving the relocation of certain generation assets from Arizona Public Service Company ("APS"), PNW's existing public-utility company subsidiary, to Pinnacle West Energy Corporation ("PWE"), another wholly-owned subsidiary of PNW, (the "Transfer Transaction"), and the operation of PWE's West Phoenix Unit No. 4 as a non-Exempt Wholesale Generator ("EWG") under the Act ("Development Activities"), (collectively, the "Reorganization"). As a result of the Reorganization, PWE will become an "electric utility company" and a "public-utility company" within the meaning of the Act, and, therefore, PNW will acquire an additional public-utility subsidiary. (However, PWE will not become a public service corporation under Arizona state law.) PNW will continue to meet the requirements for an intrastate exemption under Section 3(a)(1) of the Act and will continue to file annual exemption statements on Form U-3A-2 pursuant to Rule 2 of the Commission's regulations.

The purpose of the Reorganization is to comply with certain requirements set forth in rules adopted by the Arizona Corporation Commission ("ACC") that provide the framework for introduction of retail electric competition in Arizona (the "Competition Rules"), and in a final ACC order approving APS' settlement with various parties with respect to implementation of the Competition Rules (the "Settlement"). Pursuant to the Competition Rules and the Settlement, APS must separate its fossil and nuclear generating assets and competitive services, including the development, acquisition and operation of generating facilities not currently owned by APS, from its transmission and distribution functions no later than December 31, 2002. (On February

8, 2001, the ACC issued an order granting APS waiver of this requirement for "solar resources" and "environmentally friendly renewable electricity technologies.") PNW seeks Commission approval now, however, because APS intends to move a substantial portion of its generating assets to PWE during 2001, and PWE is currently involved in the development, acquisition, and operation of other generating facilities that are expected to come online during 2001. In particular, PWE has been developing West Phoenix No. 4, a 120 MW gas-fired combined cycle unit that is now ready to sell test power and go into operation.(1) There may be some delays in moving particular assets from APS to PWE, pending receipt by APS of certain consents or waivers from third parties with respect to such assets, but most of the non-nuclear generating assets are to be moved to PWE during 2001.

(1) As explained below, because West Phoenix No. 4 was prepared to go into operation sooner than previously anticipated, PWE filed an application for an EWG determination with the Federal Energy Regulatory Commission ("FERC") and intends to maintain EWG status only so long as necessary.

ITEM 1 DESCRIPTION OF PROPOSED TRANSACTION

A. DESCRIPTION OF THE PARTIES

1. **PINNACLE WEST CAPITAL CORPORATION:** PNW was incorporated in 1985 under the laws of the State of Arizona. Through its subsidiaries, PNW is engaged in the generation, transmission, and distribution of electricity and the sale of energy services. Also through subsidiaries, PNW is involved in real estate development and in venture capital investment. On December 31, 2000, PNW employed approximately 7,200 people, including the employees of its subsidiaries. Of these employees, 5,300 were employees of its existing public-utility subsidiary, APS, and employees assigned to joint projects of APS where APS serves as a project manager. PNW's principal executive offices are located at 400 East Van Buren, Phoenix Arizona 85004. PNW is currently a public-utility holding company exempt from the provisions of the Act, except Section 9(a)(2), by reason of its filing of annual exemption statements on Form U-3A-2 pursuant to Rule 2 of the Commission's regulations. 17 C.F.R. ss. 250.2(a). PNW's direct, wholly-owned subsidiaries are described below and a copy of PNW's most recent Form U-3A-2 is attached as Exhibit G-1.

2. **ARIZONA PUBLIC SERVICE COMPANY:** APS is a public-utility company incorporated in 1920 under the laws of the State of Arizona. APS is a wholly-owned subsidiary of PNW. APS' principal executive offices are located at 400 North Fifth Street, Phoenix, Arizona 85004. APS provides retail electric services principally in the State of Arizona and is actively engaged in the competitive wholesale electric markets. As of December 31, 2000, APS served approximately 850,000 retail electric customers in its service territory. APS is subject to regulation by the ACC with respect to retail rates, accounting, service standards, service territory, issuances of securities, siting of generation and transmission projects and various other matters.

APS is also subject to the jurisdiction of FERC under Parts I, II, and III of the Federal Power Act for certain phases of its business, including regulation of its rates relating to wholesale sales of energy and interstate transmission, licensing its hydroelectric stations, accounting, and certain other matters. APS' current business structure consists of three primary business units: generation; power marketing; and transmission/distribution. The following briefly describes these business units.

a. GENERATION - As of December 31, 2000, APS owned or leased generating facilities with a total accredited capacity of approximately 4,000 megawatts. The fuel mix of APS' generation capacity is 41.8% coal; 31.5% gas or oil; 26.5% nuclear; and less than 1% other. APS' sources of energy during 2000 were approximately 54% from its own generation resources and approximately 46% from purchased power. The Reorganization involves the relocation of the ownership interest of a substantial portion of APS' generating facilities and related facilities, as well as the transfer of certain of the employees of APS' generation business unit.(2) Attached, as Exhibit E-1, is a map showing the location of each of APS' generation facilities. As of December 31, 2000, the APS generating assets being moved to PWE during 2001 can be described as follows:(3)

(2) Because of anticipated decommissioning activities, APS intends to retain its interest in the Childs-Irving plant, a hydroelectric generating plant with a total accredited capacity of approximately 3 megawatts. In addition, the ACC's February 8, 2001 order contemplates that APS will retain ownership interests in its solar and environmentally friendly renewable resource generating plants. The total accredited capacity from these units is approximately 1 megawatt.

(3) In addition to the generating facilities to be moved during 2001, APS also owns or leases an interest in the Palo Verde Nuclear Generating Station ("PVNGS"), a three-unit nuclear generating facility located in Wintersburg, Arizona approximately 55 miles west of Phoenix, Arizona. The total accredited capacity of PVNGS is 3,733 megawatts, of which APS owns or leases 29.1%, or approximately 1,086 megawatts. APS is also the operator of the facility. There are six other co-owners of PVNGS, which collectively own or lease the remaining 70.9%. Ownership is in the form of a co-tenancy, and the co-owners are not affiliates of one another. APS operates PVNGS pursuant to an agreement in which each owner pays its proportionate share of the cost of operating the facility. While the Transfer Transaction involving APS' fossil generating facilities is contemplated to occur during 2001, APS does not plan to move its interest in PVNGS to PWE until 2002. The delay in moving the nuclear assets

FOUR CORNERS POWER PLANT ("FOUR CORNERS"):

Four Corners is a five-unit coal fired power plant located near Farmington, New Mexico on the Navajo Reservation. The property underlying the plant is held under easements granted by the federal government and under leases from the Navajo Nation. Units 1, 2 and 3 have an accredited capacity of 560 megawatts. These units are 100% owned and operated by APS. Units 4 and 5 have an accredited capacity of 1,480 megawatts; APS owns 15% of units 4 and 5, or 222 megawatts. The remaining interests in units 4 and 5 are co-owned by five other entities. Ownership of units 4 and 5 is through a co-tenancy arrangement, and the co-owners are not affiliates of one another. APS operates Four Corners units 4 and 5 pursuant to an agreement in which each owner pays its proportionate share of the operating cost.

CHOLLA POWER PLANT ("CHOLLA"):

Cholla is a four-unit coal-fired power plant located in Navajo County approximately 200 miles northeast of Phoenix, Arizona. Units 1, 2 and 3 have an accredited capacity of 615 megawatts. These units are 100% owned and operated by APS. Unit 4 has an accredited capacity of 380 megawatts; unit 4 is 100% owned by another unaffiliated entity. APS is also the operator for this unit.

is to ensure additional time to adequately address complicated contractual arrangements, such as sale and leaseback provisions between APS and certain owner trusts to which APS has sold and leased back a portion of its interest in PVNGS Unit 2 and the PVNGS common facilities. There are also certain financial and economic considerations that must be resolved before the nuclear assets can be moved to PWE.

NAVAJO POWER PLANT ("NAVAJO"):

Navajo is a three-unit coal-fired plant located south of Page, Arizona. The total accredited capacity for the plant is 2,250 megawatts. APS owns 14%, or 315 megawatts of this plant. The remaining interests in the plant are co-owned by five other entities which are not affiliated with APS. APS does not operate Navajo.

SAGUARO POWER PLANT ("SAGUARO"):

Saguaro is a four-unit power plant consisting of two gas/oil-fired steam units and two gas/oil-fired combustion turbine units and is located 30 miles north of Tucson, Arizona. The total accredited capacity for the plant is 319 megawatts. Steam units 1 and 2 have a combined capacity of 209 megawatts, and the two combustion turbines have a combined capacity of 110 megawatts. This plant is 100% owned and operated by APS.

OCOTILLO POWER PLANT ("OCOTILLO"):

Ocotillo is a multi-fueled generating plant located in Tempe, Arizona. Two units are gas/oil-fired steam units, and two units are gas/oil-fired combustion turbines.(4) The total accredited capacity for steam units 1 and 2 is 226 megawatts and for combustion turbine units 1 and 2, the accredited capacity is 110 megawatts. This plant is 100% owned and operated by APS.

YUCCA POWER PLANT ("YUCCA"):

Yucca is a five-unit gas/oil combustion turbine plant located near Yuma, Arizona. The accredited capacity of units 1, 2, 3 and 4 is 147 megawatts. These units are 100% owned and operated by APS. Unit 5 and a separate steam unit are owned by a separate, unaffiliated entity but operated by APS.

WEST PHOENIX POWER PLANT ("WEST PHOENIX"):

West Phoenix is an eight-unit gas/oil-fired steam, combustion turbine, and combined cycle generation plant located in Phoenix, Arizona. Combustion turbine units 1 and 2 have an accredited capacity of 110 megawatts; combined cycle units 1, 2 and 3 have an accredited capacity of 255 megawatts; and steam units 4, 5 and 6 have an accredited capacity of 108.3 megawatts. APS owns and operates 100% of West Phoenix and is entitled to 100% of the output.

DOUGLAS/FAIRVIEW POWER PLANT:

Douglas/Fairview is a single combustion turbine unit with a capacity rating of 16 megawatts located near Douglas, Arizona. Douglas/Fairview is 100% owned and operated by APS.

(4) There are also three solar units at Ocotillo; however, these units will remain with APS.

b. POWER MARKETING -- APS' Power Marketing and Trading division ("Power Marketing") primarily engages in the sale and purchase of electric capacity and energy in the wholesale market. Power Marketing sells excess power from APS' generation facilities and also purchases energy from other entities to meet APS' requirements to supply retail and wholesale customers. Power Marketing also engages in hedging transactions in forward markets for electricity and fuel and in the purchase and sale of emission allowances as part of APS' effort to manage risks associated with its generation and distribution activities. The ACC Competition Rules and Settlement contemplate that as a competitive asset, APS would also move its Power Marketing division to an affiliate. Accordingly, on October 1, 2000, Power Marketing became a division of PNW.⁽⁵⁾

c. TRANSMISSION/DISTRIBUTION -- APS owns and operates approximately 5,296 miles of transmission lines, of which all but 140 miles are located within the State of Arizona.⁽⁶⁾ APS' transmission was built primarily to bring generation from its power plants to its retail electric loads in Arizona. Ownership and operation of APS' transmission facilities is subject to regulation by FERC. Transmission rates are prescribed by FERC and the use of and

(5) PNW itself did not become an electric utility company when this occurred. The Commission and Staff have both recognized, on numerous occasions, that marketing activities are not utility activities under the Act. See, e.g., UNITIL, Holding Company Act Release No. 26650 (Jan. 21, 1997); SEI Holdings, Inc., Holding Company Act Release No. 26581 (Sept. 26, 1996); Sunoco Power Marketing, L.L.C., SEC No-Action Letter, 1997 SEC No-Act. LEXIS 785 (July 24, 1997); Enron Capital & Trade Resources Corp., SEC No-Action Letter, 1997 SEC No-Act. LEXIS 287 (Feb. 13, 1997); Eastex Power Marketing, Inc., SEC No-Action Letter, 1996 SEC No-Act. LEXIS 536 (Apr. 30, 1996); LG&E Power Marketing, Inc., SEC No-Action Letter, 1996 SEC No-Act. LEXIS 510 (Apr. 26, 1996); Coral Power, L.L.C., SEC No-Action Letter, 1996 SEC No-Act. LEXIS 314 (Feb. 22, 1996); AIG Trading Corp., SEC No-Action Letter, 1995 SEC No-Act. LEXIS 195 (Jan. 20, 1995); Inter-Coast Power Marketing Co., SEC No-Action Letter, 1994 SEC No-Act. LEXIS 886 (Dec. 6, 1994); Electric Clearinghouse, Inc., SEC No-Action Letter, 1994; SEC No-Act. LEXIS 452 (Apr. 13, 1994); CRSS Power Marketing, Inc., SEC No-Action Letter, 1994 SEC No-Act. LEXIS 431 (Mar. 31, 1994).

(6) Specifically, as of December 31, 2000, APS' transmission system included approximately 1,627 miles of 500 kV transmission, 578 miles of 345 kV transmission, 594 miles of 230 kV transmission, 176 miles of 115 kV transmission, and 2,321 miles of 69 kV transmission.

access to the transmission system is subject to FERC's open access requirements set forth in FERC Order No. 888. As of December 31, 2000, APS' distribution system included approximately 23,000 miles of distribution line and served approximately 850,000 electric retail customers in its service territory within the State of Arizona. APS provides distribution services in 11 of Arizona's 15 counties, including the metropolitan Phoenix area. Pursuant to the Settlement approved by the ACC in 1999, which is more fully discussed below, retail rates have been set until July 1, 2004, subject to conditions or circumstances which constitute an emergency. APS' transmission and distribution business will remain with APS under the Reorganization.

3. PINNACLE WEST ENERGY CORPORATION: PWE was incorporated in Arizona on September 27, 1999 under the laws of the State of Arizona. PWE is a wholly-owned subsidiary of PNW. PWE was organized primarily to engage in the business of developing, owning, and operating generation plants used for the production and sale of wholesale energy. As of December 31, 2000, PWE was engaged in the development of approximately 2,600 megawatts of generating capacity in the State of Arizona and operations in other states are contemplated, too; however, PWE is not currently an electric utility company or a public-utility company within the meaning of the Act.

Upon consummation of the Reorganization described herein and the subsequent relocation of APS' nuclear generating facilities, PWE will own or lease the generation facilities currently owned or leased by APS and will assume APS' responsibilities as operator of the facilities described above, with the exception of the Navajo Generating Station, which will continue to be operated by another, unaffiliated entity.

On March 28, 2001, PWE filed an application with FERC for EWG status. PWE's EWG application describes PWE's "eligible facility" as a 100% ownership and operating interest in West Phoenix Unit No. 4 ("West Phoenix No. 4"), a newly constructed natural gas-fired, combined cycle unit with a nominal power output of 120 MW located on the site of APS's West Phoenix Plant. At the time PNW filed its original Application for Commission approval under Section 9(a)(2), it was not anticipated that West Phoenix No. 4 would be completed and prepared to go into operation prior to completion of the Transfer Transaction involving APS' fossil generating facilities. However, due to the recent energy shortages in the West, PWE accelerated the development of West Phoenix No. 4, which is now ready to provide test power and go into operation, and filed its application for EWG status. PWE will limit its activities to EWG activities until the Commission issues its order authorizing PWE to become a public-utility company subsidiary of PNW. At that time, PWE plans to inform FERC that it no longer intends to operate as an EWG.(7)

PWE's principal place of business is 400 North Fifth Street, Phoenix, Arizona 85004.

4. APS ENERGY SERVICES COMPANY, INC. ("APSES"): APSES is an Arizona corporation formed in 1998. APSES is a wholly-owned subsidiary of PNW. APSES was organized as a retail power marketer to provide retail energy and related retail energy services to customers throughout Arizona, California, and other states that have instituted retail direct access. APSES does not own or control electric power generation, transmission, or distribution facilities.(8) APSES' principal place of business is 400 East Van Buren Street, Phoenix, Arizona.

(7) In addition, to the extent necessary for PNW to maintain its intrastate exemption, PWE may establish EWG subsidiaries to own and/or operate future assets that may be located out of state.

(8) APSES is not an "electric utility company" or a "public-utility company" as those terms are defined in the Act. See, e.g., Enron, SEC No-Action Letter (1997).

5. SUNCOR DEVELOPMENT COMPANY ("SUNCOR"): SunCor was incorporated in 1965 under the laws of the State of Arizona. SunCor is a wholly-owned subsidiary of PNW. SunCor is engaged in commercial and residential real estate development. SunCor is not engaged in generating, transmitting, distributing or selling electric energy and will not be affected by the Reorganization. SunCor's principal place of business is 3838 North Central, Suite 1500, Phoenix, Arizona 85012.

6. EL DORADO INVESTMENT COMPANY ("EL DORADO"): El Dorado was incorporated in 1983 under the laws of the State of Arizona. El Dorado is an investment company and wholly-owned subsidiary of PNW. El Dorado is not engaged in the business of generating, transmitting, distributing, or selling electric energy and will not be affected by the Reorganization. El Dorado's principal place of business is 400 East Van Buren Street, Suite 800, Phoenix, Arizona 85004.

B. REGULATORY BACKGROUND

The Reorganization is being undertaken in accordance with the Competition Rules and Settlement. Specifically, in Arizona, the ACC has adopted the Competition Rules to expedite the transition to retail electric competition. Among other things, the Competition Rules required that APS separate its fossil and nuclear generation assets and competitive business activities from its transmission and distribution functions and to develop, acquire and operate additional generation outside of APS. In 1999, the ACC approved the Settlement between APS and several customer groups and consumer advocates resolving retail electric competition-related issues and approving unbundled tariffs.⁽⁹⁾ The order found that the Settlement is in the public interest because it

⁽⁹⁾ The ACC order approving the Settlement is attached as Exhibit D-5.

provides "for competitive retail access in APS' Service Territory, establishes rate reductions for all APS customers, [and] sets a mechanism for stranded cost recovery."(10)

Under the terms of the Competition Rules and the Settlement, retail choice for APS' retail customers is being phased-in. As of January 1, 2001, all of APS' retail customers are entitled to choose their retail power supplier.(11) The retail rates of customers that continue to take fully bundled service from APS and do not choose an alternative supplier will be subject to planned rate reductions that will continue until July, 2004.(12) Under the Settlement, APS is entitled to apply for a change in the agreed upon rate reductions only in the event of an emergency or a material change in its cost of service as a result of specified extraordinary events. The Settlement also requires APS to complete separation of its fossil and nuclear generation assets by December 31, 2002.(13)

C. The Reorganization

As previously mentioned, APS and PWE are both currently direct, wholly-owned subsidiaries of PNW. APS and PWE will be the only two "public-utility company" (as defined in the Act) subsidiaries of PNW upon the completion of the activities described in this Application.

(10) See Exhibit D-5.

(11) See Exhibit D-5.

(12) See Exhibit D-4.

(13) See Exhibit D-4. As noted above, APS is not required to separate its solar resources and "environmentally friendly renewable electricity technologies" from its transmission/distribution functions.

PNW and APS propose to transfer APS' fossil generating facilities pursuant to the arrangements described in the Term Sheet,(14) attached as Exhibit B-1 hereto. In connection with the Transfer Transaction, it is contemplated that the following transactions will occur during 2001: First, APS will contribute all of its fossil generating facilities, assets and related operational agreements, to one or more of these newly-formed subsidiaries (hereafter "Transitory Subsidiaries") which will be wholly-owned by APS. This transaction is intended to qualify as a tax-deferred reorganization under Internal Revenue Code ("IRC") Section 368(a)(1)(D). Second, APS will distribute or cause to be distributed all of the stock of each Transitory Subsidiary to PNW in a transaction intended to qualify as a tax-deferred spin-off under IRC Section 355. Third, under state law, the Transitory Subsidiaries will then be merged into PWE (with PWE as the surviving entity) in a transaction intended to qualify as a tax-deferred statutory merger under IRC Section 368(a)(1)(A). It is contemplated that the three aforementioned transactions will occur simultaneously.

When the Reorganization is complete and APS' nuclear generating assets have been moved to PWE, APS' existing divisional structure in which its electric utility operations are divided along functional lines will be formalized, and separate corporate entities will own the transmission/distribution facilities and the fossil and nuclear generating assets. APS will become essentially a "wires" company and continue to own and operate its existing electric transmission/distribution system,(15) and PWE will become a "generating" company and will own or lease and operate the existing fossil and nuclear generation plants and other generation

(14) Although the term sheet indicates that the transfer of assets will take place "on or before January 1, 2001," it is now contemplated to occur during 2001.

(15) APS will also continue to own its solar and renewable resource generating assets.

facilities it develops, or acquires in the future, and sell the output from these plants and other facilities at wholesale to Power Marketing. Power Marketing, in turn, is expected then to sell power to APS and other non-affiliated power purchasers. APS will continue to provide transmission and distribution services at regulated rates, as well as provide energy to those retail customers in APS' existing service territory that do not elect to use an alternate retail power supplier. A diagram of PNW's corporate structure, after the Transfer Transaction is complete and the nuclear generating facilities have been moved to PWE, is shown on Appendix B to Exhibit D-1 attached hereto.

The Transfer Transaction is subject to certain conditions as stated in the Term Sheet attached as Exhibit B-1. Principally, these conditions include: (a) the approval of the Commission under Section 9(a)(2) of the Act; (b) approvals of FERC under Sections 203 and 205 of the Federal Power Act, 16 U.S.C. ss.ss.824b and d (1994); and (c) consents and waivers of certain third parties with respect to contracts associated with the generation assets. The approval of the ACC has already been granted.(16) No PNW shareholder approval is required in connection with the Transfer Transaction. Although APS does not believe that shareholder approval is required for the Transfer Transaction, the approval of its sole shareholder was obtained on November 15, 2000.(17) The approval of APS' Board of Directors was also obtained on November 15, 2000.

(16) Approval from the Nuclear Regulatory Commission ("NRC") will be obtained in connection with the movement of APS' interest in its nuclear generating assets, which will occur by year-end 2002. No NRC approval, however, is necessary in connection with the Transfer Transaction involving APS' fossil generating facilities. Approval of some plant participants may also be required.

(17) As a wholly-owned subsidiary of PNW, APS' only shareholder is PNW.

No approval, other than the approval of the Commission under Section 9(a)(2), is necessary in connection with the Development Activities.(18)

D. PURPOSE AND ANTICIPATED EFFECTS OF THE REORGANIZATION

The principal purpose of the Reorganization and the subsequent relocation of APS' nuclear generating facilities to PWE is to assure compliance with the provisions of the Competition Rules and the Settlement and provide PNW with increased financial, managerial, and organizational flexibility which will enable APS and PWE to effectively compete in a restructured utility industry.

After extensive investigation and analysis, PNW has determined that the proposed Reorganization offers the best means of positioning the PNW system for future changes and opportunities and will enable PNW to take advantage of emerging business opportunities and manage risks to the benefit of both shareholders and customers. The Reorganization is the first step in a clear functional and corporate separation between PNW's competitive generation business, and its distribution and transmission business, enabling each company to focus its resources on more clearly defined product markets and services. The intent of the Reorganization and subsequent relocation of APS' nuclear generating facilities is to create a financially sound and responsive utility system which can provide utility services effectively and efficiently. Additionally, the corporate division along functional lines will provide a better structure for regulators to assure that there is no cross-subsidization of costs or transfer of business risk from the competitive generation business to the fully-regulated

(18) As noted above, PWE has filed with FERC an application for EWG status in connection with its Development Activities. In addition, although PWE's Development Activities may involve various siting, environmental, or other approvals, all of the approvals in connection with PWE's operation of West Phoenix No. 4 have already been obtained.

transmission/distribution business. Moreover, this type of corporate division of utility assets and operations along functional lines is becoming a highly-desirable form of conducting both a regulated transmission/distribution business and a competitive generation business.

The Reorganization will have no adverse effect on APS' existing electric utility operations. The Reorganization will not cause substantive changes in PNW's ultimate interest in existing utility businesses and will not involve the transfer or acquisition of any additional utility assets beyond those currently held by APS or those which have been developed by PWE . The managers and employees in PNW's existing utility operations will continue to perform their existing functions -- either as employees of APS, the transmission/distribution company, or as employees of PWE, the generating company. Thus, even though day-to-day utility operations would not be affected, the benefits discussed above will accrue to PNW and its customers and shareholders as a result of the Reorganization and the subsequent relocation of APS' nuclear generating facilities to PWE.

E. ADDITIONAL INFORMATION

No associate company or affiliate of PNW or APS, or any affiliate of any associate company of PNW or APS, has any direct or indirect material interest in the proposed Reorganization except as stated herein.

ITEM 2 FEES, COMMISSIONS AND EXPENSES

The fees, commission and expenses to be paid or incurred by PNW and APS in connection with the federal regulatory approvals required in connection with the Reorganization and the establishment of PWE are estimated as follows:

Auditors' Fee	\$ 10,000.00
Legal Fees	\$400,000.00
Total	\$410,000.00

In addition, there will also be certain other costs associated with the transfer of APS' generating assets to PWE; these costs, which will include fees for financial consulting, asset valuation, and engineering reports, as well as additional legal fees, are estimated not to exceed \$1.5 million.

ITEM 3 APPLICABLE STATUTORY PROVISIONS

Sections 9(a)(2) and 10 of the Act are applicable to the proposed Reorganization. As a result of the proposed Reorganization,(19) PNW will have two wholly-owned, public-utility company subsidiaries, APS and PWE. Section 9(a)(2) of the Act requires Commission approval before a person may acquire more than 5% of the outstanding voting securities of more than one "public-utility company." The standards for approval of a transaction under Section 9(a)(2) of the Act are set forth in Section 10 of the Act. The relevant standards under Section 10 are set forth in Section 10(b), 10(c) and 10(f).

For the reasons explained below, the Commission should approve this Application pursuant to Section 9(a)(2) of the Act because it complies with the applicable standards of Section 10. PNW respectfully requests that the Commission issue an order approving the Reorganization by May 1, 2001. As noted above, PWE has already filed an application with FERC for EWG status and intends to limit its activities exclusively to the ownership and operation of eligible facilities and sale of power at wholesale in order to maintain EWG status

(19) At this time, it is not entirely clear whether it is the Transfer Transaction or the Development Activities that will cause PWE to become a public-utility company. As noted above, PWE has applied to FERC for EWG status because West Phoenix No. 4 will be prepared to sell test power prior to the date of a Commission order authorizing PWE to become a public-utility company. Once the Commission issues its order, however, PWE intends to inform FERC that it will no longer maintain EWG status. Thus, PNW seeks authorization for PWE to become a public-utility company the EARLIER of (1) the date PWE notifies FERC that it no longer intends to maintain EWG status or (2) the date the Transfer Transaction is consummated.

until the Commission issues an order approving this Application. Because EWG status limits PWE's activities to those "incidental" to the ownership and operation of eligible facilities, PWE is eager to become a public-utility company as soon as possible in order to have broader flexibility in addressing the needs of the electric power market.

A. APPROVAL OF THE REORGANIZATION UNDER SECTION 9(a)(2).

Section 9(a)(2) makes it unlawful, without approval of the Commission under Section 10, "for any person . . . to acquire, directly or indirectly, any security of any public-utility company, if such person is an affiliate . . . of such company and of any other public utility or holding company, or will by virtue of such acquisition become such an affiliate." By virtue of the proposed Reorganization, PNW will own more than 5% of the outstanding voting securities of two "public-utility companies" (APS and PWE) thus becoming an affiliate of both of these public-utility companies. Under Section 2(a)(5) of the Act, a "public-utility company" is an "electric utility company" or a "gas utility company." Under Section 2(a)(3) of the Act, an "electric utility company" is defined as "any company which owns or operates facilities used for the generation, transmission, or distribution of electric energy for sale . . ." Upon completion of the Reorganization, PWE will own and operate certain of APS' existing facilities for the generation of electric energy for sale, as well as West Phoenix No. 4 and other generating assets to be developed or acquired by PWE in the future, and APS will continue to own and operate its existing facilities for the transmission and distribution of electric energy for sale, as well as its nuclear, solar, and hydroelectric generating facilities. Therefore, both PWE and APS will be public-utility companies within the meaning of the Act.

1. SECTION 10(b)

Section 10(b) provides that the Commission shall approve an acquisition pursuant to Section 9(a)(2) unless the Commission finds that:

- (1) such acquisition will tend towards interlocking relations or the concentration of control of public-utility companies, of a kind or to an extent detrimental to the public interest or the interest of investors, or consumers;
- (2) in case of the acquisition of securities or utility assets, the consideration, including all fees, commissions, and other remuneration, to whomsoever paid, to be given, directly or indirectly, in connection with such acquisition is not reasonable or does not bear a fair relation to the sums invested in or the earning capacity of the utility assets to be acquired or the utility assets underlying the securities to be acquired; or
- (3) such acquisition will unduly complicate the capital structure of the holding-company system of the applicant or will be detrimental to the public interest or the interest of investors or consumers or the proper functioning of such holding-company system.

PNW respectfully submits that no adverse findings should be made under any of these provisions.

a. "DETRIMENTAL INTERLOCKING RELATIONS" OR "CONCENTRATION OF CONTROL" -- SECTION 10(b)(1)

Consistent with Section 10(b)(1) of the Act, PNW submits that the Reorganization will not tend towards interlocking relations or the concentration of control of public-utility companies, of a kind or to an extent detrimental to the public interest or the interest of investors or customers. The Reorganization involves the first step in the ultimate segregation of APS' existing utility assets and operations along functional lines into a generation company (PWE) and a transmission and distribution company (APS).

While there may be certain common directors and officers of PNW and the public-utility subsidiaries, these relations normally exist in public-utility holding company systems among affiliated and associated companies and should not be considered detrimental to the public interest or the interest of investors or consumers. See Central Maine Power Company, et al., Holding Co. Act Release No. 26903 (Aug. 7, 1998); CIPSCO, Inc., Holding Co. Act Release No. 25152, 47 SEC Docket 174 (Sept. 18, 1990).

Similarly, the Reorganization should not, within the meaning of Section 10(b)(1), be deemed to tend towards any "concentration of control of public-utility companies" that might be detrimental to the public interest, consumers or investors. The Reorganization will not involve the acquisition or control of any utility assets or operations which are not already owned or controlled by PNW or its existing public-utility subsidiary, APS, or being developed by PWE, and "will therefore have no effect on the concentration of control of public-utility companies." Central Maine Power Company, et al., Holding Co. Act Release No. 26903 (Aug. 7, 1998); accord BEC Energy, et al., Holding Co. Act Release No. 26874 (May 15, 1998); Energy East

b. FAIRNESS OF CONSIDERATION AND FEES -- SECTION 10(b)(2)

Section 10(b)(2) of the Act requires the Commission to determine whether the consideration paid in connection with a proposed acquisition of securities is reasonable and bears a fair relation to the investment in and earning capacity of the utility assets underlying the securities being acquired.

The generating assets being moved as part of the Transfer Transaction will be recorded on the books of PWE at net book value. In addition, PWE will assume certain outstanding debt associated with the generating assets being moved. However, in order to maintain APS' current debt to common stock equity ratio,

(20) PNW will not move all of the outstanding debt associated with the generating assets to PWE. The valuation of PNW's investment in the securities of PWE and APS will be adjusted accordingly to reflect the movement of these assets and the associated debt to PWE.(21)

(20) As of December 31, 2000, APS' debt to Common Stock equity ratio was 49%/51%. The Reorganization is being structured so that this ratio will remain the same after the Reorganization.

(21) Specifically, PWE will assume APS' rights and obligations with respect to approximately \$180 million in pollution control bonds issued by Navajo County, Arizona, Pollution Control Corporation and Coconino County, Arizona, Pollution Control Corporation. These two series of bonds were issued by the respective pollution control corporations under two separate Indentures of Trust dated as of August 1, 1993 between the issuer and an independent trustee. In each case, the issuer loaned the proceeds of the bonds to APS under a Loan Agreement dated as of August 1, 1993, and APS is responsible to repay the loan by making payments on the bonds when due. APS' obligations are secured by First Mortgage Bonds issued by APS and delivered to the Trustee for the pollution control bonds. At the time generating assets are moved to PWE, APS will assign its rights and obligations under the Loan Agreements to PWE, and PWE will assume such obligations. APS will remain primarily liable for such obligations and the First Mortgage Bonds will remain outstanding.

PWE will also assume APS' obligations under another approximately \$60 million of pollution control bond debt, releasing APS from such obligations. No bondholder consent is required in connection with PWE's assumption of this debt. However, APS must give advance notice to the bondholders and any bondholder who does not wish to continue to hold the bonds may tender its bonds for purchase. In addition, if the issuance of a new letter of credit in substitution for the existing letter of credit supporting the bonds causes the ratings on the bonds to be

Since the Transfer Transaction involves an entirely intra-company movement of existing assets from one wholly-owned subsidiary to another, PNW believes that the valuation established for purposes of this asset transition is reasonable and bears a fair relationship to the sums invested in the assets. PNW, as the sole owner of both APS and PWE, can expect to earn a fair return on its investment in APS and its investment in PWE.

An estimate of the fees and expenses to be paid in connection with the Reorganization is stated in Item 2 above. Such fees and expenses will be reasonable and customary for transactions of this kind and will not be material when measured against PNW's consolidated book value or the earning capacity of its assets. See, e.g., Madison Gas and Electric Co., Holding Co. Act Release No. 27326 (Dec. 28, 2000); WPS Resources Corp., Holding Co. Act Release No. 27330 (Dec. 28, 2000); Energy East Corp., Holding Co. Act Release No. 27128 (Feb. 2, 2000).

lower than the existing rating, the bonds will be subject to a mandatory tender on the substitution date, and all the bonds will be subject to mandatory repurchase and remarketing on that date.

c. COMPLICATION OF CAPITAL STRUCTURE -- SECTION 10(b)(3)

Section 10(b)(3) of the Act requires the Commission to determine whether the transaction will unduly complicate the capital structure of the PNW system, be detrimental to the public interest, the interest of the investors or consumers, or the proper functioning of the holding-company system. No such effect will result from the Reorganization.

The Reorganization will not involve the creation of any ownership interests other than those necessary to maintain the basic corporate relationships of the reorganized holding-company system. PNW will continue to be the only issuer of publicly owned equity securities in the system. PNW will continue to own all of the outstanding common stock of PWE, APS, and PNW's existing non-utility subsidiaries; there will be no minority equity interest in any of PNW's public-utility subsidiaries. As noted above, certain pollution control bonds issued by APS will be assumed by PWE, but this will in no way complicate the capital structure of PNW, APS, or PWE. This type of capital structure is typical of a contemporary holding company system and is within the traditional standards of the Act.

Moreover, the Reorganization is a significant step toward the ultimate goal of creating separate entities to perform PNW's transmission/distribution business and its generation business in compliance with the ACC's Competition Rules and the Settlement. Consequently, because the Reorganization does not complicate the capital structure of PNW, APS, or PWE, the standards of Section 10(b)(3) of the Act are satisfied.

2. SECTION 10(c)

The relevant provisions of Section 10(c) of the Act state that the Commission shall not approve:

- (1) an acquisition of securities or utility assets, or of any other interest, which is unlawful under the provisions of Section 8 or is detrimental to the carrying out of the provisions of Section 11; or
- (2) the acquisition of securities or utility assets of a public-utility or holding company unless the Commission finds that such acquisition will serve the public interest by tending towards the economical and the efficient development of an integrated public-utility system

APS and PNW respectfully submit that no adverse determination should be made under either of these provisions.

a. SIGNIFICANT BENEFITS -- SECTION 10(c)(1)

Section 10(c)(1) prohibits an acquisition of securities which is "unlawful under the provisions of Section 8" or "detrimental to the carrying out of the provisions of Section 11." By their express terms, Sections 8 and 11 apply only to registered holding companies and do not apply to exempt holding companies. After the Reorganization, PNW will continue to be exempt from all provisions of the Act, except Section 9(a)(2), pursuant to Section 3(a)(1) of the Act since PNW and its utility subsidiaries, APS and PWE, will each be predominantly intrastate in character, carry on their businesses substantially in Arizona, and be organized in Arizona. Accordingly, Section 8 of the Act is inapplicable to the Reorganization.

For the purposes of the Commission's review of the proposed reorganization of a holding company, the relevant provision of Section 11 is Section 11(b)(2), which requires the Commission to find that "the corporate structure . . . of any company in the holding-company system does not unduly or unnecessarily complicate the structure . . . of such holding-company system." In that connection, the Commission has construed this requirement, "to mean that the structural change must result in significant benefits to the holding-company system." CIPSCO Inc., Holding Co. Act Release No. 25152, 47 SEC Docket at 178 (Sept. 18, 1990); accord Central Maine Power Company, et al., Holding Co. Act Release No. 26903 (Aug. 7, 1998); BEC Energy, et al., Holding Co. Act Release No. 26874 (May 15, 1998); Energy East Corp., Holding Co. Act Release No. 26834 (March 4, 1998).

As discussed above in Section D of Item 1, the corporate structure resulting from the Reorganization will yield significant benefits. Most importantly, the Reorganization and subsequent movement of APS' nuclear generating facilities to PWE will enable APS to implement the requirements of ACC Competition Rules and Settlement. In particular, as the ACC noted in its order on the Settlement, the Settlement provides for competitive retail access in APS' service territory, establishes rate reductions for all APS customers, sets a mechanism for stranded cost recovery, and is in the public interest.⁽²²⁾ In addition, segregation of the separate utility functions into separate corporations dedicated solely to those functions will: (1) enable the executives, officers, and managers of APS and PWE to concentrate on the delivery of cost efficient and effective utility services responsive to the needs of customers; (2) allow PNW's subsidiaries and affiliates to be more competitive in their businesses; (3) segregate the financial and legal risks

(22) See Exhibit D-5.

associated with those businesses; (4) ensure that there is no cross-subsidization of costs or business risk; and (5) aid the investment community in analyzing and valuing individual lines of business. In cases involving corporate reorganizations or the formation of holding companies, the Commission has held that the existence of these kinds of potential benefits satisfies the statutory standard of Section 10(c)(1). See, e.g., Central Maine Power Company, Holding Co. Act Release No. 26903 (Aug. 7, 1998); Atlanta Gas Light Company, Holding Co. Act Release No. 26482, 61 SEC Docket 1057 (March 5, 1996); SIGCORP, Inc., Holding Co. Act Release No. 26431, 60 SEC Docket 90 (Dec. 14, 1995); PP&L Resources, Inc., Holding Co. Act Release No. 26248, 58 SEC Docket 2634 (March 10, 1995); CIPSCO Inc., Holding Co. Act Release No. 25152, 47 SEC Docket 174 (Sept. 18, 1990); Wisconsin Energy Corp., Holding Co. Act Release No. 24267 (Dec. 18, 1996).

b. ECONOMICS AND EFFICIENCIES OF AN INTEGRATED SYSTEM - SECTION 10(c)(2)

Under Section 10(c)(2), the Commission must find that the Reorganization tends towards the economical and efficient development of an integrated public utility system. PNW respectfully submits that this standard is met in this case.

(i) ECONOMICS AND EFFICIENCIES

A number of economies and efficiencies will result from the PNW structure. Some of these benefits are described in Section D of Item 1 and Section A.2.a of Item 3, above. Overall, the Reorganization will permit a more efficient way to take advantage of competitive opportunities in the electric utility industry. Separating the competitive generation business from the regulated transmission/distribution operations will increase the ability of the system to take advantage of market opportunities and enable each entity to focus its resources on more clearly defined product markets and services.

(ii) INTEGRATED PUBLIC UTILITY SYSTEM

The electric utility system of PNW is presently "integrated" within the meaning of Section 2(a)(29) of the Act and will remain so after the Reorganization.

The standards that must be met for an electric utility system to be integrated within the meaning of Section 2(a)(29) of the Act are:

- (1) the utility assets are to be physically interconnected or capable of physical interconnection and under normal conditions may be economically operated as a single interconnected and coordinated system;
- (2) the operations of the system are confined to a single area or region, that is not so large as to impair the advantages of localized management, efficient operation, and the effectiveness of regulation.

The Commission has previously taken notice of recent developments in the electric industry and has interpreted the Act and analyzed proposed transactions in light of these changed and changing circumstances. See, e.g., American Electric Power Co., Holding Co. Act Release No. 27186 (Jun. 14, 2000) ("AEP Order"); New Century Energies, Inc., Holding Co. Act Release No. 26748 (Aug. 1, 1997) (citing Hearing on Regulation of Public Utility Holding Companies Before Subcomm. on Telecommunications and Finance and Subcomm. on Energy and Power of

the House of Representatives Comm. on Commerce, 104th Cong., 1st Sess. (Aug 4, 1995) (testimony of Arthur Levitt, Chairman, SEC)). See also *Rust v. Sullivan*, 500 U.S. 173, 186-87 (1991) ("an agency is not required to `establish rules of conduct to last forever,'" "but rather must be given ample latitude to `adapt [its] rules and policies to the demands of changing circumstances.'") (citations omitted).

The Settlement and ACC Order introducing retail competition and requiring the separation of the regulated transmission/distribution business from the competitive generation and marketing businesses constitute the type of "changing circumstance" which the Commission should consider in evaluating the proposed Reorganization. In addition, FERC has recognized that in order to foster competitive electric markets, the operation of transmission facilities should be functionally unbundled from the generation business and/or transferred to an entirely separate corporate entity. The proposed Reorganization is consistent with these goals.

When the Reorganization is complete, and APS has moved its nuclear generating assets to PWE, APS will be in compliance with the ACC Order and Settlement. Yet, the Reorganization will not affect the physical interconnections or coordinated operations associated with PNW's existing utility system. All of APS' existing interconnections will remain intact. A continuous, geographically compact system, with the same physical interconnections as exist today, will be maintained.

Moreover, although the Reorganization, for the most part, will unbundle the transmission/distribution business from the generation business from a financial perspective, the Reorganization will not affect coordination from an operational perspective. The generation and/or flow of power within the system will continue to be centrally controlled and dispatched as need or economy dictates. See, e.g., *WPS Resources Corp., Holding Co.* Act Release No. 27330

(Dec. 28, 2000); UNITIL, Holding Co. Act Release No. 25524 (Apr. 24, 1992). Currently, economic dispatch of units is performed by Power Marketing and that responsibility will continue to reside with Power Marketing after the Reorganization is complete. Power Marketing will ensure that power needed to serve the wires company's obligations is supplied through a combination of resources consisting of PWE-owned generation, APS-owned generation, and purchased power. Economic dispatch will be performed on the basis of availability and cost. System reliability operations will continue to be performed within the transmission organization as it always has been.

The proposed Reorganization involves the relocation of APS' ownership interest in its fossil generating facilities to PWE. This change in ownership is not expected to have a significant impact on PNW's use and enjoyment of the relocated assets. Power Marketing will conduct marketing efforts, both as a buyer and seller, for the PNW system. The Commission has recently recognized joint marketing efforts as a means to coordinate system operations within the meaning of the Act.⁽²³⁾ System dispatchers in Power Marketing will continually monitor the generation needs and capacity of the PNW system. Moreover, the generating assets will be dedicated to serving APS' bundled load and provider-of-last-resort obligations, albeit through a series of intra-holding company sales (that is, sales from PWE to Power Marketing and then to APS), at least through 2002. Beginning in 2003, APS will be required to procure at least 50% of its requirements through an open market bidding process. It is likely that PWE generation will be bid in to that requirement through PNW. To the extent non-PWE generation is selected to supply the APS bundled load and provider-of-last-resort obligations, that generation would be

(23) American Electric Power Company, Inc., Holding Co. Act Release No. 27186 (June 14, 2000).

In addition, PWE and APS will enter into interconnection agreements containing terms and conditions governing the interconnection of each of PWE's generators with the APS transmission/distribution system.(24) The agreements will include provisions for maintenance, included in the purchased power portfolio of APS, and Power Marketing would simply include that purchased power in the generation dispatch queue, the same as it does for purchased power today. This method of operation will result in lower available energy costs for the APS distribution function. operating and metering standards, access to facilities, redispatch, the provision of ancillary services, and liability issues. Power Marketing will also enter into transmission service agreements with APS under APS' FERC open access transmission tariff so that Power Marketing can receive deliveries from PWE and deliver electric energy to APS for service to APS' retail and wholesale native load customers.

Finally, the area of operations of the system will not be affected by the Reorganization and will continue to be primarily confined to a single area (e.g., APS' existing service territory in Arizona) that is not so large as to impair the advantages of continuing localized management, efficient operation, and effective regulation. See CP&L Energy, Inc., Holding Co. Act Release No. 27188 (June 15, 2000); Central Maine Power Company, et al., Holding Co. Act Release No. 26903 (Aug. 7, 1998).

3. SECTION 10(f)

Section 10(f) provides that "[t]he Commission shall not approve any acquisition . . . under this Section unless it appears to the satisfaction of the Commission that such State laws as

(24) Interconnection agreements already exist for the generating units that are jointly owned or leased by APS; therefore, new interconnection agreements will be required only for those facilities that will be owned or leased in their entirety by PWE and for any new generating facilities developed or acquired by PWE.

may apply in respect of such acquisition have been complied with, except where the Commission finds that compliance with such State laws would be detrimental to the carrying out of the provisions of Section 11"

The Transfer Transaction is conditioned on full compliance with the laws of the Arizona. The Development Activities do not explicitly raise any questions of State law, other than siting and permitting issues; however, PNW fully complied with all applicable State laws when it initially formed PWE. APS is currently and will remain subject to the jurisdiction of the ACC with respect to the provision of retail electric service. APS and PNW have received the necessary approval from the ACC to proceed with the Transfer Transaction. A copy of this ACC approval is filed as Exhibit D-5 hereto.

For the reasons stated above, the proposed Reorganization meets the standards set forth in Sections 9(a)(2) and 10. The Reorganization involves the first step in the segregation of APS' existing utility assets and operations along functional lines into two companies - one company that is primarily in the wires business and a second in the generation business. The Reorganization will not unduly complicate the capital structure of the PNW system; nor will the Reorganization be detrimental to the public interest, the interests of investors or consumers, or the proper functioning of this system. Also, the Reorganization will yield significant benefits by allowing PNW's public-utility subsidiaries to more effectively compete in the electric utility industry. Therefore, the Commission should by order approve the Reorganization.

B. PNW WILL CONTINUE TO CLAIM A SECTION 3(a)(1) EXEMPTION AFTER THE REORGANIZATION.

Section 3(a)(1) of the Act makes an exemption from all of the provisions of the Act, except for Section 9(a)(2), available to a holding company, if "such holding company, and every subsidiary company thereof which is a public-utility company from which such holding company derives, directly or indirectly, any material part of its income, are predominately intrastate in character and carry on their business substantially in a single State in which such holding company and every such subsidiary company thereof are organized." After the Reorganization is complete, PNW and its two public-utility subsidiaries -- APS and PWE -- will be predominantly intrastate in character and will carry on their business substantially in Arizona, the state in which they are all organized.⁽²⁵⁾ In this regard, PNW will continue to claim an exemption pursuant to Section 3(a)(1) of the Act and Rule 2 of the Commission's regulations, by filing annual exemption statements on Form U-3A-2 following the Reorganization.

(25) While APS' existing power marketing division was moved to PNW, and continues to perform its power marketing activities on a nationwide basis, PNW's utility operations are still predominately intrastate in character and conducted primarily in Arizona. As noted above, the Commission Staff has indicated in a series of no-action letters that power marketers are not considered "electric utility companies" under Section 2(a)(3) of the Act and, therefore, are not "public-utility companies" under Section 2(a)(5) of the Act. See, e.g., Sunoco Power Marketing, L.L.C., SEC No-Action Letter, 1997 SEC No-Act. LEXIS 785 (July 24, 1997); Enron Capital & Trade Resources Corp., SEC No-Action Letter, 1997 SEC No-Act. LEXIS 287 (Feb. 13, 1997).

ITEM 4 REGULATORY APPROVAL

The Transfer Transaction requires the approval of the ACC and FERC. APS has received an order approving the Transfer Transaction from the ACC, a copy of which is attached hereto as Exhibit D-5. APS also filed an application for approval of the proposed Transfer Transaction with the FERC, a copy of which is attached as Exhibit D-1. A copy of the final FERC order pursuant thereto was filed by amendment on December 8, 2000, as Exhibit D-2. Other than such enumerated approvals and the approval of the Commission hereunder, no other approvals are required for the Transfer Transaction and the movement of APS' fossil generating assets to PWE.(26) No approvals, other than the approval of the Commission under Section 9(a)(2) of the Act, are necessary in connection with PWE's Development Activities.(27)

(26) As noted above, approval from the NRC will be obtained in connection with the relocation of APS' nuclear generating facilities to PWE. See Supra n. 10.

(27) As noted above, PWE has filed with FERC an application for EWG status in connection with its Development Activities. In addition, although PWE's Development Activities may involve various siting, environmental, and other approvals, all of the approvals in connection with PWE's operation of West Phoenix No. 4 have already been obtained.

ITEM 5 PROCEDURE

PNW respectfully requests that there be no 30-day waiting period between the issuance of the Commission's order and the date on which it is to become effective. PNW also requests that there be no hearing on this application and that the Commission issue its order as soon as practicable after the filing hereof. PNW respectfully requests that the Commission issue and publish the requisite notice under Rule 23 with respect to the filing of this application not later than January 22, 2001, such notice to specify a date not later than February 22, 2001, by which comments may be entered and a date not later than May 1, 2001, as the date after which an order of the Commission granting and permitting this application to become effective may be entered by the Commission. A form of Notice is filed herewith as Exhibit H-1.

Without prejudice to its right to modify the same if a hearing should be ordered on this application, PNW hereby makes the following specifications required by paragraph (b) of Item 5 of Form U-1:

- (1) There should not be a recommended decision by a hearing officer or any other responsible officer of the Commission.
- (2) There should not be a 30-day waiting period between issuance of the Commission's order and the date on which the order is to become effective.
- (3) PNW consents to the Division of Investment Management assisting in the preparation of the Commission's decision or order in this matter, unless such Division opposes this application.

ITEM 6 EXHIBITS AND FINANCIAL STATEMENTS

It is requested that the Commission send copies of all communications to PNW as follows:

Herbert I. Zinn
Pinnacle West Capital Corporation
400 North Fifth Street
Mail Station 8695
Phoenix, Arizona 85004

Mary Ann K. Huntington
Morgan, Lewis & Bockius LLP
1800 M Street, N.W.
Washington, D.C. 20036

A. EXHIBITS

EXHIBIT NO. -----	DESCRIPTION OF DOCUMENT -----	METHOD OF FILING -----
A-1	Restated Articles of Incorporation of PNW.	Incorporated by reference; File No. 1-8962, PNW Form 10-K for the year ended December 31, 1999.
A-2	Restated Articles of Incorporation of APS.	Incorporated by reference; File No. 1-4473, APS Form 8-K (Sept. 23, 1993).
A-3	Articles of Incorporation of PWE.	Filed herewith.
B-1	Form of Term Sheet.	Filed herewith.
D-1	Application of APS, PNW and PWE to FERC for Authorization to Transfer Jurisdictional Facilities.	Filed herewith.
D-2	Order of FERC.	Filed by amendment on December 8, 2000.
D-3	Retail Electric Competition Rules.	Incorporated by reference; file No. 1-4473, filed as Exhibit 10.2 to APS' Sept. 30, 1999

D-4	Comprehensive Settlement Agreement Related to the Implementation of Retail Electric Competition, filed with the Arizona Corporation Commission.	Filed by Amendment on April 27, 2001.
D-5	ACC Approval of the Settlement Agreement.	Filed by Amendment on April 27, 2001.
D-6	Amended Settlement Agreement.	Filed herewith.
D-7	ACC Order dated February 8, 2001 granting waiver for solar resources, and environmentally friendly renewable electricity technologies.	Filed by Amendment on April 27, 2001.
E-1	Map showing location of the generating facilities of APS that are being moved to PWE along with their related transmission facilities.	Filed herewith.
F-1	Signed initial opinion of counsel.	Filed by Amendment on April 27, 2001.
F-2	Past-tense opinion of counsel.	To be filed by amendment
G-1	PNW, Form U-3A-2, "Statement by Holding Company Claiming Exemption under Rule U-2 from the Provisions of the Public Utility Holding Company Act of 1935."	Incorporated by reference; File No. 69-306, dated Feb. 29, 2000.
H-1	Form of Notice.	Filed herewith.

B. FINANCIAL STATEMENTS

STATEMENT NO. -----	DESCRIPTION OF DOCUMENT -----	METHOD OF FILING -----
FS-1	Historical consolidated financial statements of PNW	Incorporated by reference to Annual Reports on Form 10-K for the years ended 1999, 1998 and 1997
FS-2	Historical consolidated financial statements of APS	Incorporated by reference to Annual Reports on Form 10-K for the years ended 1999, 1998 and 1997

Although separate financial statements for PWE have not been included, PWE's financial information is included in the consolidated financial statements of PNW.

ITEM 7 INFORMATION AS TO ENVIRONMENTAL EFFECTS

None of the matters that are the subject of this application and declaration involves a "major federal action" nor do any of them "significantly affect the quality of the human environment" as those terms are used in Section 102(2)(C) of the National Environmental Policy Act. The transaction that is the subject of this application will not result in changes in the operation of the company that will have an impact on the environment. Neither APS nor PNW are aware of any federal agency that has prepared or is preparing an environmental impact statement with respect to the transactions that are the subject of this application.

SIGNATURE

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the undersigned company has duly caused this Application to be signed on its behalf by the undersigned thereunto duly authorized.

PINNACLE WEST CAPITAL CORPORATION

By:

Its:

Date: April 27, 2001

Phoenix, Arizona

Exhibit D-4

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. ss. 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. ss.ss. 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 COMMUNITY ACTION
ASSOCIATION

By Janet Regner

Title Executive Director

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, 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, and Arizona Retailers
Association.**

By Peter A. Woog

Title Chairman

ARIZONA PUBLIC SERVICE COMPANY

By Jack E. Davis

Title President, Energy

Delivery & Sales

(Party)

By

Title

(Party)

By

Title

(Party)

By

Title

* Enron is not a signatory to this Agreement.

** Also included: Boeing, AZ School Board Association, National Federation of Independent Business (NFIB), AZ Hospital Association, Lockheed Martin, Abbot Labs, Raytheon

(Party) (Party)

By _____
Title _____

(Party)

By _____
Title _____

(Party)

By _____
Title _____

(Party)

By _____
Title _____

By _____
Title _____

(Party)

By _____
Title _____

(Party)

By _____
Title _____

(Party)

By _____
Title _____

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

(CONTINUED ON REVERSE SIDE)

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

(CONTINUED ON REVERSE SIDE)

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 52.6%.
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)

DA-GS1
A.C.C. No. XXXX

Page 3 of 3

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 15minute 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.

(CONTINUED ON REVERSE SIDE)

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 15minute 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.

(CONTINUED ON REVERSE SIDE)

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 30minute 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.

(CONTINUED ON REVERSE SIDE)

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 30minute 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.

(CONTINUED ON REVERSE SIDE)

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

Exhibit A
5/10/99
Schedule A

Line		Competition Transition Charges Effective January 1 of					
#	Direct Access Rate Class	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
Distribution Charges
By Direct Access Rate Classes

Exhibit A
5/13/99
Schedule B

Line #	Direct Access Rate Class	Distribution Charges Effective January 1 of					2004a/
		1999	2000	2001	2002	2003	
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

a/ Transmission voltage customers will not pay Distribution Charges after June 30, 2004

ARIZONA PUBLIC SERVICE COMPANY
Regulatory Asset Amortization Schedule
(Millions of Dollars)

1999	2000	2001	2002	2003	1/1 - 6/30 2004 1/	Total 2/
----	----	----	----	----	-----	-----
164	158	145	115	86	18	686

1/ Amortization ends 6/30/2004

2/ Includes the disallowance from Section 3.3

Exhibit B

1

Annual ACC Jurisdictional Sales of Delivered kWh or kW X % then eligible for access x Applicable CTC

		2	3
		(cents/kWh or \$/kW) = Annual Recovery	
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.

5/7/99

EXHIBIT C

Generation assets include, but are not limited to, APS' interest in the following generating stations:

Palo Verde
Four Corners
Navajo
Cholla
Saguaro
Ocotillo
West Phoenix
Yucca
Douglas
Childs
Irving

Including allocated common and general plant, support assets, associated land, fuel supplies and contracts, etc. Generation assets will not include facilities included in APS' FERC transmission rates.

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.

BEFORE THE ARIZONA CORPORATION COMMISSION

DOCKET NO. E-01345A-98-0473 ET AL.
DECISION NO. _____

CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR APPROVAL OF ITS PLAN FOR STRANDED COST RECOVERY. DOCKET NO. E-01345A-98-0473

IN THE MATTER OF THE FILING OF ARIZONA PUBLIC SERVICE COMPANY OF UNBUNDLED TARIFFS PURSUANT TO A.A.C. R14-2-1601 ET SEQ. DOCKET NO. E-01345A-97-0773

IN THE MATTER OF COMPETITION IN THE PROVISION OF ELECTRIC SERVICES THROUGHOUT THE STATE OF ARIZONA. DOCKET NO. RE-00000C-94-0165
DECISION NO. 61973

OPINION AND ORDER

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

PLACE OF HEARING: Phoenix, Arizona

PRESIDING OFFICER: Jerry L. Rudibaugh

IN ATTENDANCE: Carl J. Kunasek, Chairman
Jim Irvin, Commissioner

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;

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

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

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

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

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

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

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

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

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

BY THE COMMISSION:

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

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

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

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

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

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

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

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

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

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

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

1 The Parties to the Proposed Settlement are as follows: the Residential Utility Consumer Office, Arizona Public Service Company, Arizona Community Action Association and the Arizonans for Electric Choice and Competition which is a coalition of companies and associations in support of competition that includes Cable Systems International, BHP 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.

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("Commonwealth") and Staff of the Commission appeared through counsel. Evidence was presented concerning the Settlement Agreement, and after a full public hearing, this matter was adjourned pending submission of a Recommended Opinion and Order by the Presiding Officer to the Commission. In addition, a post-hearing briefing schedule was established with simultaneous briefs filed on August 5, 1999.

DISCUSSION

INTRODUCTION

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

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

- * Allowing competition to commence in APS' service territory months before otherwise possible and expanding the initial eligible load by 140 MW;
- * Establishing both Standard Offer and Direct Access rates, and providing for annual rate reductions with a cumulative total of as much as \$475 million by 2004;
- * Ensuring stability and certainty for both bundled and unbundled rates;
- * Resolving the issue of APS' stranded costs and regulatory asset recovery in a fair and equitable manner;
- * Providing for the divestiture of generation and competitive services by APS in a cost-effective manner;
- * Removing the specter of years of litigation and appeals involving APS and Commission over competition-related issues;
- * Continuing support for a regional ISO and the AISA;
- * Continuing support for low income programs; and
- * 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 residential customers of APS to the Settlement's terms and conditions. In addition, the Settlement was executed by the AECC, a coalition of commercial and industrial customers and trade associations. AECC opined that since residential and non-residential customers have agreed to the Settlement, the "public interest" has been served. AECC indicated the Settlement was not perfect but was the result of "give and take" by each of the parties. Accordingly, AECC urged the Commission to protect the "public interest" by approving the Settlement and not allow Energy Service Providers ("ESPs") to delay the benefits that competition has to offer.

LEGAL ISSUES:

The Arizona Consumers Council ("Consumers Council") opined that the Agreement was not legal because: (1) there was no full rate proceeding(2); (2)

Section 2.8 of the Agreement violates A.R.S. Section 40-246, regarding Commission initiated rate reductions; and (3) the Agreement illegally binds future Commissions. According to the Consumers Council, the Commission does not have evidence to support a finding that the rates proposed in the Agreement are just and reasonable; that the rate base proposed is proper; and asserted the proposed adjustment clause can not be established outside a general rate case.

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

APS argued that no determination of fair value rate base ("FVRB"), fair value rate of return

2 Although the Consumers Council indicated they did not believe a full rate proceeding was necessary, it is unclear as to the type of proceeding the Consumers Council believed was necessary.

("FVROR"), or other financial analysis is legally necessary to justify current APS rate levels, allow the introduction of a new service, or to evaluate a series of voluntary rate decreases. In spite of that, APS did provide information to support a FVRB of \$5,195,675,000 and FVROR of 6.63 percent. No other party presented evidence in support of a FVRB or FVROR. Staff supported APS.

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

SHOPPING CREDIT

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

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

The AECC expert testified that the "shopping credit" under the Agreement was superior to the "Shopping Credit" in the Staff Settlement Proposal as well as the one offered to SRP's customers. APS argued that artificially high shopping credits will likely increase ESP profits without lowering customer rates and will encourage inefficient firms to enter the market. Based on the analysis of the

40kW to 200 kW customer group(3), APS showed an average margin on the "shopping credit" of over 8 mils per kWh or a 23 percent markup over cost. APS asserted that the test for a reasonable "shopping credit" "should not be whether ALL ESPs can profit on all APS customers ALL of the time".

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

METERING AND BILLING CREDITS

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

We concur. The proposed credits for metering, meter reading and billing(4) will result in a direct access customer paying a portion of APS costs as well as a portion of the ESP's costs. We believe this would stymie the competitive market for these services. As a result, we find the approval of the Settlement should be conditioned upon the use of Staff's proposed credits for metering, meter reading, and billing.

PROPOSED ONE-YEAR ADVANCE NOTICE REQUIREMENT:

Section 2.3 provides that

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

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

3 Represents over 80 percent of the general service customers for competitive

access in phase one.

- 4 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.

customer as a condition to its return.

We agree that APS needs to have some protection from customers leaving the system when market prices are low and jumping back on Standard Offer rates when market prices go up. The suggestion by PG&E that the customer be allowed to go back to the Standard Offer if the customer pays for additional costs it has caused is a reasonable resolution. Accordingly, we will order APS to submit substitute language on this issue.

SECTION 2.8

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

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

Neither the Commission nor APS shall be prevented from seeking or authorizing 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 an 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 decisions, 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.

SECTION 7.1

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

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 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.

Staff recommended the Commission not approve Section 7.1.

We share Staff's concerns. We also recognize that the parties want to preserve their benefits to their Agreement. We agree with the parties that to the extent any provision of the Agreement is inconsistent with the Electric Competition Rules as finalized by the Commission in September 1999, the provisions of the Agreement shall control. We want to make it clear that the Commission does not intend to revisit the stranded cost portion of the Agreement. It is also not the Commission's intent to undermine the benefits that parties have bargained for. With that said, the Commission must be able to make rule changes/other future modifications that become necessary over time. As a result, we will direct the parties and Staff to file within 10 days, a revised Section 7.1 consistent with the Commission's discussions herein and subsequently approved by this Commission.

GENERATION AFFILIATE

Section 4.1 of the Agreement provides the following:

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).

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

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

We concur with NEV Southwest. We shall order APS to include language as requested by

NEV Southwest. Power for Standard Offer Service will be acquired in a manner consistent with the Commission's Electric Competition Rules. We generally support the request of APS to defer those costs related to formation of a new generation affiliate pursuant to the Electric Competition Rules. We also recognize the Company is making a business decision to transfer the generation assets to an affiliate instead of an unrelated third party. As a result, we find the Company's proposed mitigation of stranded costs⁽⁵⁾ in the Settlement should also apply to the costs of forming the new generation affiliate. Accordingly, Section 2.6(3) should be modified to reflect that only 67 percent of those costs to transfer generation assets to an affiliate shall be allowed to be deferred for future collection.

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

We share the concerns that the non-competitive portion of APS not subsidize the spun-off competitive assets through an unfair financial arrangement. We want to make it clear that the Commission will closely scrutinize the capital structure of APS at its 2004 rate case and make any necessary adjustments. The Commission supports and authorizes the transfer by APS to an affiliate or affiliates of all its generation and competitive electric service assets as set forth in the Agreement no later than December 31, 2002. However, we will require the Company to provide the Commission with a specific list of any assets to be so transferred, along with their net book values at the time of transfer, at least thirty days prior to the actual transfer. The Commission reserves the right to verify whether such specific assets are for the provision of generation and other competitive electric services or whether there are additional APS assets that should be so transferred.

UNBUNDLED RATES

Several parties expressed concern that the Agreement's unbundled rates fail to provide the

⁵ Agreement to not recover \$183 million out of a claimed \$533 million.

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

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

The ESPs asserted that the bill format proposed by APS is misleading and too complex. In general, the ESPs desired a bill format that would allow customers to easily compare Standard Offer and Direct Access charges in order to make an informed decision. As a result, APS was directed to circulate an Informational Unbundled Standard Offer Bill ("Bill") to the parties for comments. Subsequent to the hearing, a Bill was circulated to the parties for comments to determine what consensus could be reached on its format. In general, there was little dispute with the format of the Bill. However, PG&E and Commonwealth disagreed with the underlying cost allocation methodologies. Enron was concerned that the Bill portrayed the Standard Offer to be more simplistic than the Direct Access portion of the Bill. Enron proposed a bill format that would clearly identify those services which are available from an ESP. Based on comments from RUCO and Staff, APS made general revisions to the proposed Bill.

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

We concur with APS that it is not necessary to file a revised cost-of-service study at this time. The proposed Standard Offer rates contained in the Settlement are based on existing tariffs approved by this Commission. Further, we concur with AECC that a full rate case with a revised cost-of-service study would result in months/years of additional delay. Lastly, the Standard Offer rates as

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proposed in the Settlement are consistent with the Commission's requirement that no customer shall receive a rate increase. The following was extracted from Decision No. 61677:

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

CODE OF CONDUCT

There were concerns expressed that APS would be writing its own Code of Conduct. Subsequently, APS did provide a copy of its proposed Code of Conduct to the parties for comment. Several parties also expressed concern that any Code of Conduct would not cover the actions of a single company during the two-year delay for transferring generation assets.

Based on the above, we will direct APS to file with the Commission no later than 30 days of the date of this Decision, its interim Code of Conduct. We will direct APS to file its revised Code of Conduct within 30 days of the date of this Decision. Such Code of Conduct should also include provisions to govern the supply of generation during the two-year period of delay for the transfer of generation assets so that APS doesn't give itself an undue advantage over the ESPs. All parties shall have 60 days from the date of this Decision to provide their comments to APS regarding the revised Code of Conduct. APS shall file its final proposed Code of Conduct within 90 days of the date of this Decision. Subsequently, within 10 days of filing the Code of Conduct, the Hearing Division shall establish a procedural schedule to hear the matter.

SECTION 2.6(1)

Pursuant to the Agreement, the Commission shall approve an adjustment clause or clauses which among other things would provide for a purchased power adjustor ("PPA") for service after July 1, 2004 for Standard Offer obligations. Part of the justification for the PPA was the fact that these costs would be outside of the Company's control.

We concur that a PPA would result in less risk to the Company resulting in lower costs for the Standard Offer customers. As a result, we will approve the concept of the PPA as set forth in Section 2.6(1) with the understanding that the Commission can eliminate the PPA once the Commission has provided reasonable notice to the Company.

REQUESTED WAIVERS

Section 4.3 of the Agreement would automatically act to exempt APS and its affiliates from the application of a wide range of provisions under A.R.S. Title

40. In addition, under Section 4.5 of the Agreement, Commission approval without modification will act to grant certain waivers to APS and its affiliates of a variety of the provisions of the Commission's affiliate interest rules (A.A.C. R14-2-801, ET SEQ.), and the rescission of all or portions of certain prior Commission decisions.

Staff recommended that the Commission reserve its approval of the requested statute waivers until such time as their applicability can be evaluated on an industry-wide basis, rather than providing a blanket exemption for APS and its affiliates. Additionally, Staff recommended that the Commission not waive the applicability of A.A.C. R14-2-804(A), in order to preserve the regulatory authority needed by the Commission to justify approving Exempt Wholesale Generator ("EWG") status for APS' generation affiliate.

We concur with Staff. Accordingly, the requested statutory waivers shall not be granted by this Decision. Those waivers will be considered in an industry-wide proceeding to be scheduled at the Commission's earliest convenience. The requested waivers of affiliate interest rules and rescission of prior Commission decisions shall be granted, except that the provisions of A.A.C. R14-2-804(A) shall not be waived.

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 reductions⁽⁶⁾ during the transition period to a competitive generation market. The Settlement allows EVERY APS CUSTOMER to have the immediate opportunity to benefit from the change in market structure while maintaining reliability and certainty of delivery. Further, the Settlement in conjunction with the Electric Rules will provide every APS customer with a choice in a reasonable timeframe and in an orderly manner. If anything, the Proposed Settlement favors customers over competitors in the short run since APS has agreed to reductions in rates totaling 7.5 percent⁽⁷⁾. This Commission supports competition in the generation market because of increased benefits to customers, including lower rates and greater choice. While some of the potential competitors have argued that higher "shopping credits" will result in greater choice, we find that a higher shopping credit would also mean less of a rate reduction for APS customers. We find that the Settlement strikes the proper balance between competing objectives by allowing immediate

⁶ 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.

⁷ Pursuant to Decision No. 59601, dated April 24, 1996, 0.68 percent of that decrease would have occurred on July 1, 1999.

rate reductions while maintaining a relatively short transition period for collection of stranded costs, followed shortly thereafter with a full rate case. At that point in time the collection of stranded costs will be completed and unbundled rates can be modified based upon an updated cost study.

* * * * *

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

FINDINGS OF FACT

1. APS is certificated to provide electric service as a public service corporation in the State of Arizona.
2. Decision No. 59943 enacted R14-2-1601 through -1616, the Retail Electric Competition Rules.
3. Following a hearing on generic issues related to stranded costs, the Commission issued Decision No. 60977, dated June 22, 1998.
4. Decision No. 61071 adopted the Emergency Rules on a permanent basis.
5. On August 21, 1998, APS filed its Stranded Costs plan.
6. On November 5, 1998, APS filed the Staff Settlement Proposal.
7. Our November 24, 1998 Procedural Order set the matter for hearing.
8. Decision No. 61259 established an expedited procedural schedule for evidentiary hearings on the Staff Settlement Proposal.
9. The Court issued a Stay of the Commission's consideration of the Staff Settlement Proposal.
10. Staff withdrew the Staff Settlement Proposal from Commission consideration.
11. On May 17, 1999, APS filed its Settlement requesting Commission approval.
12. Our May 25, 1999 Procedural Order set the Settlement for hearing commencing on July 14, 1999.
13. Decision No. 61311 (January 11, 1999) stayed the effectiveness of the Emergency Rules and related Decisions, and ordered the Hearing Division to conduct further proceedings in this Docket.

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14. In Decision No. 61634 (April 23, 1999), the Commission adopted modifications to R14-2-201 through-207, -210 and 212 and R14-2-1601 through -1617.
15. Pursuant to Decision No. 61677, dated April 27, 1999, the Commission modified Decision No. 60977 whereby each Affected Utility could choose one of the following options: (a) Net Revenues Lost Methodology; (b) Divestiture/Auction Methodology; (c) Financial Integrity Methodology; (d) Settlement Methodology; and (e) the Alternative Methodology.
16. APS and other Affected Utilities filed with the Arizona Superior Court various appeals of Commission Orders adopting the Competition Rules and related Stranded Cost Decisions (the "Outstanding Litigation").
17. Pursuant to Decision No. 61677, APS, RUCO, AECC, and ACAA entered into the Settlement to resolve numerous issues, including stranded costs and unbundled tariffs.
18. The difference between market based prices and the cost of regulated power has been generally referred to as stranded costs.
19. Any stranded cost recovery methodology must balance the interests of the Affected Utilities, ratepayers, and the move toward competition.
20. All current and future customers of the Affected Utilities should pay their fair share of stranded costs.
21. Pursuant to the terms of the Settlement Agreement, APS has agreed to the modification of its CC&N in order to implement competitive retail access in its Service Territory.
22. The Settlement Agreement provides for competitive retail access in APS' Service Territory, establishes rate reductions for all APS customers, sets a mechanism for stranded cost recovery, resolves contentious litigation, and therefore, is in the public interest and should be approved.
23. The information and formula for rate reductions contained in Exhibit AP-3 Appended to APS Exhibit No. 2 provides current financial support for the proposed rates.
24. RUCO, ACAA, and AECC collectively, represent residential and non-residential customers.
25. According to AECC, the Agreement results in higher shopping credits than in the Staff

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Settlement Proposal as well as those offered by SRP.

26. The decremental approach for metering and billing will not provide sufficient credits for competitors to compete.
27. Pursuant to the Settlement, customers will receive substantial rate reductions without the necessity of a full rate case.
28. An APS rate case would take a minimum of one year to complete.
29. ESPs that have been certificated have shown more of an interest in serving larger business customers than residential customers.
30. It is not in the public or customers' interests to forego guaranteed Standard Offer rate reductions in order to have a higher shopping credit.
31. The Settlement will permit competition in a timely and efficient manner and insure all customers benefit during the transition period.
32. Based on the evidence presented, the FVRB and FVROR of APS is determined to be \$5,195,675,000 and 6.63 percent, respectively.
33. The terms and conditions of the Settlement Agreement as modified herein are just and reasonable and in the public interest.

CONCLUSIONS OF LAW

1. The Affected Utilities are public service corporations within the meaning of the Arizona Constitution, Article XV, under A.R.S. ss.ss. 40-202, -203, -250, -321, -322, -331, -336, -361, -365, -367, and under the Arizona Revised Statutes, Title 40, generally.
2. The Commission has jurisdiction over the Affected Utilities and of the subject matter contained herein.
3. Notice of the proceeding has been given in the manner prescribed by law.
4. The Settlement Agreement as modified herein is just and reasonable and in the public interest and should be approved.
5. APS should be authorized to implement its Stranded Cost Recovery Plan as set forth in the Settlement Agreement.
6. APS' CC&N should be modified in order to permit competitive retail access in APS'

CC&N service territory.

7. The requested statutory waivers should not be granted at this time. A

proceeding should be commenced to consider statutory waivers on an industry-wide basis. The other waivers requested by APS in the Settlement should be granted as modified herein, except that the provisions of A.A.C. R14-2-804(A) shall not be waived.

ORDER

IT IS THEREFORE ORDERED that the Settlement Agreement as modified herein is hereby approved and all Commission findings, approvals and authorizations requested therein are hereby granted.

IT IS FURTHER ORDERED that Arizona Public Service Company's CC&N is hereby modified to permit competitive retail access consistent with this Decision and the Competition Rules.

IT IS FURTHER ORDERED that within 30 days of the date of this Decision, Arizona Public Service Company shall file a proposed Code of Conduct for Commission approval.

IT IS FURTHER ORDERED that Arizona Public Service Company shall file a revised Settlement Agreement consistent with the modifications herein.

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

IT IS FURTHER ORDERED that this Decision shall become effective **immediately. BY ORDER OF THE ARIZONA CORPORATION COMMISSION.**

Carl J. Kunasek

CHAIRMAN

William A. Mundell

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL,

Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 6th day of October, 1999.

Brian C. McNeil
BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT _____
JLR:dap

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DOCKET NO. E-01345A-98-0473 ET AL.

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

Service List for RE-00000C-94-0165

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

Utilities Division Director
ARIZONA CORPORATION COMMISSION
1200 W. Washington Street
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20 DECISION NO. 61973

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. ss. 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. ss.ss. 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

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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 COMMUNITY ACTION
ASSOCIATION

By Janet Regner

Title Executive Director

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, 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, and Arizona Retailers
Association.**

By Peter A. Woog

Title Chairman

ARIZONA PUBLIC SERVICE COMPANY

By Jack E. Davis

Title President, Energy

Delivery & Sales

(Party)

By

Title

(Party)

By

Title

(Party)

By

Title

* Enron is not a signatory to this Agreement.

** Also included: Boeing, AZ School Board Association, National Federation of Independent Business (NFIB), AZ Hospital Association, Lockheed Martin, Abbot Labs, Raytheon

(Party)

By

Title

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

(CONTINUED ON REVERSE SIDE)

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

(CONTINUED ON REVERSE SIDE)

**DA-GS1
A.C.C. No. XXXX**

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 52.6%.
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)

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A.C.C. No. XXXX

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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 15minute 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.

(CONTINUED ON REVERSE SIDE)

DA-GS10
A.C.C. No. XXXX

Page 2 of 2

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 15minute 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.

(CONTINUED ON REVERSE SIDE)

DA-GS11
A.C.C. No. XXXX

Page 2 of 2

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 30minute 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.

(CONTINUED ON REVERSE SIDE)

DA-GS12
A.C.C. No. XXXX

Page 2 of 2

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 30minute 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.

(CONTINUED ON REVERSE SIDE)

DA-GS13
A.C.C. No. XXXX

Page 2 of 2

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.

DOCKET NO. E-01345A-98-0473 ET AL.

ARIZONA PUBLIC SERVICE COMPANY

Competitive Transition Charges 5/10/99 By Direct Access Rate Classes Schedule A

Line		Competition Transition Charges Effective January 1 of					
#	Direct Access Rate Class	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.

DOCKET NO. E-01345A-98-0473 ET AL.

ARIZONA PUBLIC SERVICE COMPANY
Distribution Charges
By Direct Access Rate Classes

Exhibit A
5/13/99
Schedule B

Line #	Direct Access Rate Class	Distribution Charges Effective January 1 of					
		1999	2000	2001	2002	2003	2004a/
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

a/ Transmission voltage customers will not pay Distribution Charges after June 30, 2004

DOCKET NO. E-01345A-98-0473 ET AL.

Exhibit A
5/14/99
Schedule C

ARIZONA PUBLIC SERVICE COMPANY
Regulatory Asset Amortization Schedule
(Millions of Dollars)

1999	2000	2001	2002	2003	1/1 - 6/30 2004 1/	Total 2/
----	----	----	----	----	-----	-----
164	158	145	115	86	18	686

1/ Amortization ends 6/30/2004

2/ Includes the disallowance from Section 3.3

Exhibit B

1

Annual ACC Jurisdictional Sales of Delivered kWh or kW X % then eligible for access x Applicable CTC

		2	3
		(cents/kWh or \$/kW) = Annual Recovery	
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.

5/7/99

EXHIBIT C

Generation assets include, but are not limited to, APS' interest in the following generating stations:

Palo Verde
Four Corners
Navajo
Cholla
Saguaro
Ocotillo
West Phoenix
Yucca
Douglas
Childs
Irving

Including allocated common and general plant, support assets, associated land, fuel supplies and contracts, etc. Generation assets will not include facilities included in APS' FERC transmission rates.

**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)

RECISSION 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:

Your total energy usage this month is:	991 kWh
Basic Service Charge	\$ 7.50
Charge for kWh used	100.09
Regulatory Assessment	0.20
Sales Tax	7.06

TOTAL	\$114.85

PAGE 2, INFORMATIONAL UNBUNDLING:

Your total energy usage for this month is:	991 kWh
Your Standard Offer Bill is (see page 1):	\$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	\$ 49.13 or, 4.96 cents/ kWh
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assessments

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
Chairman
JIM IRVIN
Commissioner
MARC SPITZER
Commissioner

IN THE MATTER OF ARIZONA PUBLIC) DOCKET NO. E-01345A-01-0034
SERVICE COMPANY - APPLICATION FOR)
APPROVAL OF ENVIRONMENTAL) DECISION NO. 63354
PORTFOLIO SURCHARGE EPS-1)
_____) **ORDER**

Open Meeting
January 30 and 31, 2001
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company (APS) is certificated to provide electric service as a public service corporation in the State of Arizona.
2. On January 10, 2001, APS filed an application for approval of a tariff, Environmental Portfolio Surcharge EPS-1. The proposed tariff would be dependent on the Commission's adoption of the proposed rules on the Environmental Portfolio Standard.
3. On August 2, 2000 (Decision No. 62762), the Commission issued a notice of proposed rulemaking for the Environmental Portfolio Standard. The proposed Environmental Portfolio Standard rules require a portion of electricity sold to be derived from solar resources or environmentally friendly renewable technologies. At least part of portfolio standard costs are to be recovered by an Environmental Portfolio Surcharge on customer bills. The surcharge is to be \$0.000875 per kWh of retail electricity purchased by the customer. There is to be a surcharge cap of \$0.35 per month for residential customers. The surcharge cap for nonresidential customers is to be \$13 per month per meter, or per service if no meter is used, except for those nonresidential customers with demands of 3,000 kW or more for three consecutive months who will have a surcharge of \$39.00 per month per meter. Customer bills are to have a line item entitled "Environmental Portfolio Surcharge, mandated by the Corporation Commission."

4. On January 2, 2001, a procedural order was issued in Docket Nos. RE-00000C-00-0377 and E-00000A-99-0205 that ordered Affected Utilities to file proposed surcharge tariffs on or before January 10, 2001. APS filed Environmental Portfolio Surcharge EPS-1 in response to the procedural order.

5. On January 17, 2001, the Hearing Officer issued a proposed order on RE-00000C-00-0377, suggesting certain modifications to the proposed Environmental Portfolio Standard rules.

6. Staff recommends the following:

a. The proposed tariff should be approved because its features conform to the surcharge requirements discussed above.

b. The surcharge should be applied to special contract service customers unless a previously approved special contract explicitly excluded any additional charges.

c. The proposed tariff should be approved on an interim basis, pending true-up in a rate review proceeding in which fair value findings are determined by the Commission. The reason Staff is recommending adoption of the surcharge on an interim basis is the urgent need for increased energy capacity in the western United States at this time. The proposed tariff would provide an incentive to the applicant to obtain solar resources and environmentally friendly generation capacity much sooner than would otherwise be possible. In a future rate review proceeding, the Commission could evaluate the actual costs of acquiring environmentally friendly generation capacity and whether the applicant used the surcharge funds appropriately.

d. If the applicant does not file an application for a rate review proceeding that would provide sufficient information for a fair value determination within 18 months of the date of implementation of this tariff, Staff recommends that the applicant file such information, including at minimum the following:

(i) A dollar amount representing its total revenue for the first twelve months after implementation of the surcharge.

(ii) Its total actual operating expenses for the first twelve months after implementation of the surcharge.

(iii) The value of all assets, listed by major category, used for the first twelve months after implementation of the surcharge to provide electric service to customers. The applicant should specifically identify the assets, and their value, acquired to comply with the Environmental Portfolio Standard.

With this information, the interim surcharge and its impact on the applicant's rates related to fair value can be reviewed

and appropriate findings and rate determinations made by the Commission, including true-up, refund, or the setting of permanent rates.

- e. The tariff should become effective with the first APS standard billing cycle no. 1 starting at least 45 days from the effective date of the Environmental Portfolio Standard rule.
- f. Within the electric competition rules, R14-2-1615(A) requires generation assets to be separated from an Affected Utility prior to January 1, 2001. Staff recommends that the applicant be granted a waiver of R14-2-1615(A) as needed to allow the applicant to own "solar resources" and "environmentally friendly renewable electricity technologies" as those terms are described in the Environmental Portfolio Standard rules. The waiver would apply only to solar resources and environmentally friendly renewable electricity technologies.
- g. The applicant should file annual reports within 60 days of the end of a calendar year. The reports should list the amount of funds collected through the surcharge during the year, the amount of surcharge funds spent during the year, and a brief description of the projects for which the funds were spent.
- h. The applicant should be allowed up to 45 days to implement the tariff as necessary to prepare its billing system to accommodate the surcharge.
- i. The tariff filed by the applicant should be modified to conform with the final Environmental Portfolio Standard rules adopted by the Commission.

CONCLUSIONS OF LAW

1. APS is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.
2. The Commission has jurisdiction over APS and over the subject matter of the application.
3. The Commission, having reviewed the application and Staff's Memorandum dated January 12, 2001, concludes that it is in the public interest to approve the application.

ORDER

THEREFORE, IT IS ORDERED that the proposed tariff be and hereby is approved.

IT IS FURTHER ORDERED that the surcharge shall be applied to special contract service customers unless a previously approved special contract explicitly excluded any additional charges.

IT IS FURTHER ORDERED that the tariff is approved on an interim basis.

IT IS FURTHER ORDERED that if the applicant does not file an application for a rate review proceeding that would provide sufficient information

for a fair value determination within 18 months of the date of implementation of this tariff, the applicant shall file the information described in Finding of Fact Nos. 5(c)(i) through 5(c)(iii).

IT IS FURTHER ORDERED that the tariff shall become effective with the first APS standard billing cycle no. 1 starting at least 45 days from the effective date of the Environmental Portfolio Standard rule.

IT IS FURTHER ORDERED that the applicant is granted a waiver of R14-2-1615(A) as needed to allow the applicant to own "solar resources" and "environmentally friendly renewable electricity technologies" as those terms are described in the Environmental Portfolio Standard rules.

IT IS FURTHER ORDERED that the applicant shall file annual reports as described in Finding of Fact No. 5(f).

IT IS FURTHER ORDERED that the applicant shall file tariff pages consistent with the terms of this Decision within 15 days from the effective date of the Decision.

IT IS FURTHER ORDERED that the applicant shall modify its tariff to conform to the Commission's final Environmental Portfolio Standard rules.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

William A. Mundell James M. Irvin Marc Spitzer
CHAIRMAN COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 8th day of February, 2001.

/s/ Brian C. McNeil

BRIAN C. McNEIL
Executive Secretary

DISSENT: _____

DRS:BEK:lhbm

SERVICE LIST FOR: Arizona Public Service Company
DOCKET NO. E-01345A-01-0034

Ms. Jana Van Ness
Manager, State Regulations
Arizona Public Service Company
Mail Station 9905
P. O. Box 53999
Phoenix, Arizona 85072-3999

Ms. Lyn Farmer
Chief Counsel
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Ms. Deborah Scott
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

46. "Universal Note Identifier" is a unique, permanent, identification number assigned to each service delivery point.

47. "Utility Distribution Company" (UDC) means the electric utility entity regulated by the Commission that operates, constructs, and maintains the distribution system for the delivery of power to the end user point of delivery on the distribution system.

48. "Utility Industry Group" (UIG) refers to a utility industry association that establishes national standards for data formats.

R14-2-1618. Environmental Portfolio Standard

A. Upon the effective implementation of a Commission-approved Environmental Portfolio Standard Surcharge tariff," any Load-Serving Entity selling electricity or aggregating customers for the purpose of selling electricity under the provisions of this Article must derive at least 0.2% of the total retail energy sold from new solar resources or environmentally-friendly renewable electricity technologies, whether that energy is purchased or generated by the seller. Solar resources include photovoltaic resources and solar thermal resources that generate electricity. New solar resources and environmentally-friendly renewable electricity technologies are those installed on or after January 1, 1997.

1. Electric Service Providers that are not UDCs are exempt from portfolio requirements until 2004, but could voluntarily elect to participate. ESPs choosing to participate would receive a pro rata share of funds collected from the Environmental Portfolio Surcharge delineated in R14-2-1618.A.2 for portfolio purposes to acquire eligible portfolio systems or electricity generated from such systems.

3. Utility Distribution Companies would recover part of the costs of the portfolio standard through current System Benefits Charges, if they exist, including a re-allocation of demand side management funding to portfolio uses. Additional portfolio standard costs will be recovered by a customer Environmental Portfolio Surcharge on the customers' monthly bill. The Environmental Portfolio Surcharge shall be assessed monthly to every metered and/or non-metered retail electric service. This monthly assessment will be the lesser of \$0.000875 per kWh or;

* Residential Customers: \$.35 per service

* Non-Residential Customers: \$13 per service

* Non-Residential Customers whose metered demand is 3,000 kW or more for 3 consecutive months \$39.00 per service.

In the case of unmetered services, the Load-Serving Entity shall for purposes of billing the

Environmental Portfolio Standard Surcharge and subject to the caps set forth above, use the lesser of (i) the load profile or otherwise estimated kWh required to provide the service in question; or (ii) the service's contract kWh.

3. Customer bills shall reflect a line item entitled "Environmental Portfolio Surcharge, mandated by the Corporation Commission."

4. Utility Distribution Companies or ESPs that do not currently have a renewables program may request a waiver or modification of this section due to extreme circumstances that may exist.

B. The portfolio percentage shall increase after December 31, 2000.

1. Starting January 1, 2001, the portfolio percentage shall increase annually and shall be set according to the following schedule:

YEAR	PORTFOLIO PERCENTAGE
2001	.2%
2002	.4%
2003	.6%
2004	.8%
2005	1.0%
2006	1.05%
2007-2012	1.1%

2. The Commission would continue the annual increase in the portfolio percentage after December 31, 2004 only if the cost of environmental portfolio electricity has declined to a Commission-approved cost benefit point. The Director, Utilities Division shall establish, not later than January 1, 2003, an Environmental Portfolio Cost Evaluation Working Group to make recommendations to the Commission of an acceptable portfolio electricity cost/benefit point or portfolio kWh cost impact maximum that the Commission could use as a criteria for the decision to continue the increase in the portfolio percentage. The recommendations of the Working Group shall be presented to the Commission not later than June 30, 2003. In no event, however, shall the Commission increase the surcharge caps as delineated in R14-2-1618.A.3 above.

3. The requirements for the phase-in of various technologies shall be:

a. In 2001, the Portfolio kWh makeup shall be at least 50 percent solar electric, and no more than 50 percent other environmentally-friendly renewable electricity technologies or solar hot water or R&D on solar electric resources, but with no more than 10 percent on R&D.

b. In 2002 and 2003, the Portfolio kWh makeup shall be at least 50 percent solar electric, and no more than 50 percent other environmentally-friendly renewable electricity technologies or solar hot water or R&D on solar electric resources, but with no more than 5 percent on R&D.

c. In 2004, through 2013, the portfolio kWh makeup shall be at least 60 percent solar electric with no more than 40 percent solar hot water or other environmentally-friendly renewable electricity technologies.

C. Load-Serving Entities shall be eligible to a number of extra credit multipliers that may be used to meet the portfolio standard requirements. Extra credits may be used to meet portfolio requirements and extra credits from solar electric technologies will also count toward the solar electric fraction requirements in R14-2-1618B.3. With the exception of the Early Installation Extra Credit Multiplier, which has a five-year life from operational start-up, all other extra credit multipliers are valid for the life of the generating equipment.

1. Early Installation Extra Credit Multiplier: For new solar electric systems installed and operating prior to December 31, 2003. Load-Serving Entities would qualify for multiple extra credits for kWh produced for 5 years following operational start-up of the solar electric system. The 5-year extra credit would vary depending upon the year in which the system started up as follows:

YEAR	EXTRA CREDIT MULTIPLIER
1997	.5
1998	.5
1999	.5
2000	.4
2001	.3
2002	.2
2003	.1

Eligibility to qualify for the Early Installation Extra Credit Multiplier would end in 2003. However, any eligible system that was operational in 2003 or before would still be allowed the applicable extra credit for the full five years after operational start-up.

2. Solar Economic Development Extra Credit Multipliers: There are 2 equal parts to this multiplier, an in-state installation credit and an in-state content multiplier.

a. In-State Power Plant Installation Extra Credit Multiplier: Solar electric power plants installed in Arizona shall receive a .5 extra credit multiplier.

b. In-State Manufacturing and Installation Content Extra Credit Multiplier: Solar electric power plants shall receive up to a .5 extra credit multiplier related to the manufacturing and installation content that comes from Arizona. The percentage of Arizona content of the total installed plant cost shall be multiplied by .5 to determine the appropriate extra credit multiplier. So, for instance, if a solar installation included 80% Arizona content, the resulting extra credit multiplier would be .4 (which is $.8 \times .5$).

3. Distributed Solar Electric Generator and Solar Incentive Program Extra Credit Multiplier: Any distributed solar electric generator that meets more than one of the eligibility conditions will be limited to only one .5 extra credit multiplier from this subsection. Appropriate meters will be attached to each solar electric generator and read at least once annually to verify solar performance.

a. Solar electric generators installed at or on the customer premises in Arizona. Eligible customer premises locations will include both grid-connected and remote, non-grid-connected locations. In order for Load-Serving Entities to claim an extra credit multiplier, the Load-Serving Entity must have contributed at least 10% of the total installed cost or have financed at least 80% of the total installed cost.

b. Solar electric generators located in Arizona that are included in any Load-Serving Entity's Green Pricing program.

c. Solar electric generators located in Arizona that are included in any Load-Serving Entity's Net Metering or Net Billing program.

d. Solar electric generators located in Arizona that are included in any Load-Serving Entity's solar leasing program.

e. All Green Pricing, Net Metering, Net Billing, and Solar Leasing programs must have been reviewed and approved by the Director, Utilities Division in order for the Load-Serving Entity to accrue extra credit multipliers from this subsection.

4. All multipliers are additive, allowing a maximum combined extra credit multiplier of 2.0 in years 1997-2003, for equipment installed and manufactured in Arizona and either installed at customer premises or

participating in approved solar incentive programs. So, if a Load-Serving Entity qualifies for a 2.0 extra credit multiplier and it produces 1 solar kWh, the Load-Serving Entity would get credit for 3 solar kWh (1 produced plus 2 extra credit).

D. Load-Serving Entities selling electricity under the provisions of this Article shall provide reports on sales and portfolio power as required in this Article, clearly demonstrating the output of portfolio resources, the installation date of portfolio resources, and the transmission of energy from those portfolio resources to Arizona consumers. The Commission may conduct necessary monitoring to ensure the accuracy of these data. Reports shall be made according to the Reporting Schedule in R14-2-1613.B

E. If a Load-Serving Entity selling electricity under the provisions of this Article fails to meet the requirements of this rule as modified by the Commission after consideration of the recommendations of the Environmental Portfolio Cost Evaluation Working Group, the Commission may impose a deficiency payment, beginning no earlier than January 1, 2004, on that Load-Serving Entity that the Load-Serving Entity pay an amount equal to 30 cents per kWh to the Solar Electric Fund for deficiencies in the provision of solar electricity. This deficiency payment, which is in lieu of any other monetary payment which may be imposed by the Commission, may not be imposed for any calendar year prior to 2004. This Solar Electric Fund will be established and utilized to purchase solar electric generators or solar electricity in the following calendar year for the use by public entities in Arizona such as schools, cities, counties, or state agencies. Title to any equipment purchased by the Solar Electric Fund will be transferred to the public entity. In addition, if the provision of solar energy is consistently deficient the Commission may void a Load-Serving Entity's contracts negotiated under this Article.

1. The Director, Utilities Division shall establish a Solar Electric Fund in 2004 to receive deficiency payments and finance solar electricity projects.

2. The Director, Utilities Division shall select an independent administrator for the selection of projects to be financed by the Solar Electric Fund. A portion of the Solar Electric Fund shall be used for administration of the Fund and a designated portion of the Fund will be set aside for ongoing operation and maintenance of projects financed by the Fund.

F. Photovoltaic or solar thermal electric resources that are located on the consumer's premises shall count toward the solar portfolio standard applicable to the current Load-Serving Entity serving that consumer.

G. Any solar electric generators installed by an Affected Utility to meet the environmental portfolio standard shall be counted toward meeting renewable resource goals for Affected Utilities established in Decision No. 58643.

H. Any Load-Serving Entity that produces or purchases any eligible kWh in excess of its annual portfolio requirements may save or bank those excess kWh for use or sale in future years. Any eligible kWh produced subject to this rule may be sold or traded to any Load-Serving Entity that is subject to this rule. Appropriate documentation, subject to Commission review, shall be given to the purchasing entity and shall be referenced in the reports of the Load-Serving Entity that is using the purchased kWh to meet its portfolio requirements.

I. Environmental Portfolio Standard requirements shall be calculated on an annual basis based upon electricity sold during the calendar year.

J. A Load-Serving Entity shall be entitled to receive a partial credit against the portfolio requirement if the Load-Serving Entity or its affiliate owns or makes a significant investment in any solar electric manufacturing plant that is located in Arizona. The credit will be equal to the amount of the nameplate capacity of the solar electric generators produced in Arizona and sold in a calendar year times 2.190 hours (approximating a 25% capacity factor).

1. The credit against the portfolio requirement shall be limited to the following percentages of the total portfolio requirement:

2001	Maximum of 50% of the portfolio requirement
2002	Maximum of 25% of the portfolio requirement
2003 and on	Maximum of 20% of the portfolio requirement

2. No extra credit multipliers will be allowed for this credit. In order to avoid double-counting of the same equipment, solar electric generators that are used by other Load-Serving Entities to meet their Arizona portfolio requirements will not be allowable for credits under this Section for the manufacturer/Electric Service Provider to meet its portfolio requirements.

K. The Director, Utilities Division shall develop appropriate safety, durability, reliability, and performance standards necessary for solar generating equipment and environmentally-friendly renewable electricity technologies and to qualify for the portfolio standard. Standards requirements will apply only to facilities constructed or acquired after the standards are publicly issued.

L. A Load-Serving Entity shall be entitled to meet up to 20% of the portfolio requirement with solar water heating systems or solar air conditioning systems purchased by the Load-Serving Entity for use by its customers, or purchased by its customers and paid for by the Load-Serving Entity through bill credits or other similar mechanisms. The solar water heaters must replace or supplement the use of electric water heaters for residential, commercial, or industrial water heating purposes. For the purposes of this rule, solar water heaters will be credited with 1 kWh of

electricity produced for each 3,415 British Thermal Units of heat produced by the solar water heater and solar air conditioners shall be credited with kWhs equivalent to those needed to produce a comparable cooling load reduction. Solar water heating systems and solar air conditioning systems shall be eligible for Early Installation Extra Credit Multipliers as defined in R14-2-1618 C.1 and Solar Economic Development Extra Credit Multipliers as defined in R14-2-1618 C.2.b.

M. A Load-Serving Entity shall be entitled to meet the portfolio requirement with electricity produced in Arizona by environmentally-friendly renewable electricity technologies that are defined as in-state landfill gas generators, wind generators, and biomass generators consistent with the phase-in schedule in R14-2-1618 B.3. Systems using such technologies shall be eligible for Early Installation Extra Credit Multipliers as defined in R14-2-1618 C.1 and Solar Economic Development Extra Credit Multipliers as

defined in R14-2-1618 C.2.b.

Exhibit F-1

[PRELIMINARY - TRANSFER TRANSACTION]

April 25, 2001

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Pinnacle West Capital Corporation Form U-1 Application / Declaration

(File No. 070-09745)

Ladies and Gentlemen:

We are Arizona counsel for Pinnacle West Capital Corporation, an Arizona corporation (the "Company"), and are familiar with the matters relating to the "Transfer Transaction," as such term is defined in the Form U-1 Application / Declaration (File No. 070-09745) under the Public Utility Holding Company Act of 1935, as amended (the "Act"), filed with the Securities and Exchange Commission (the "Commission") by the Company on September 12, 2000, as amended by filings made on December 8, 2000, January 17, 2001 and April, 2001 (the "Application"). Capitalized terms used herein and not otherwise defined will have the meanings given in the Application. The term "Assets," when used herein will mean those assets actually contributed to Transitory Subsidiary in the Transfer Transaction, as contemplated in the Application. The term "Assumed Debt," when used herein, will mean the indebtedness of APS actually assumed or agreed to be assumed by Transitory Subsidiary and ultimately by PWE in the Transfer Transaction, as contemplated in the Application. Insofar as the fossil assets of APS may be acquired by PWE at different times, it is understood that the term "Transfer Transaction," when used herein, will refer only to the first transaction described herein and in the Application whereby PWE acquires Assets of APS. As described in the Application, the Transfer Transaction involves the following:

1. The formation of Transitory Subsidiary as a wholly-owned subsidiary of APS (the "Formation");
2. The contribution of the Assets and the Assumed Debt by APS to Transitory Subsidiary in exchange for the common stock of Transitory Subsidiary and the assumption of or agreement to assume the Assumed Debt (the "Capitalization");

3. The distribution of the stock of Transitory Subsidiary by APS to the Company (the "Spin-off"); and
4. The merger of Transitory Subsidiary into PWE, with PWE surviving (the "Merger").

Among other things, we have examined:

(a) The Application;

(b) The parties' corporate proceedings and the proceedings before the Arizona Corporation Commission (the "ACC") relative to the Transfer Transaction and related matters; and

(c) Such other documents and certificates (including those being delivered to you concurrently herewith) and such statutes, rules, and regulations as we have deemed relevant.

In our examination of the documents referred to above, we have assumed (i) the genuineness of the signatures not witnessed, the authenticity of documents submitted to us as originals, and the conformity to originals of documents submitted to us as copies; (ii) the legal capacity of all natural persons executing such documents; (iii) that such documents accurately describe and contain the mutual understanding of the parties, and that there are no oral or written statements or agreements that modify, amend, or vary, or purport to modify, amend, or vary, any of the terms of such documents; (iv) with respect to the Assumed Debt, that each such entity (other than APS, PWE, and Transitory Subsidiary), and with respect to all such other documents, that each such entity, had the power to enter into and perform its obligations under such documents, and that such documents have been duly authorized, executed, and delivered by, and are valid, binding upon, and enforceable against, such entities; (v) that the parties to such documents will receive no interest, charges, fees, or other benefits or compensation in the nature of interest in connection with the transactions other than those that the Company has agreed in writing in such documents to pay; and (vi) that no fraud has occurred in connection with such transactions.

Based upon the foregoing, and subject to the assumptions and conditions set forth herein, we are of the opinion that, in the event that the Transfer Transaction is consummated in accordance with the Application:

1. All laws of the State of Arizona applicable to the Company's acquisition of PWE as a public utility company through the Transfer Transaction will have been complied with.

2. Following the Formation and the Capitalization, Transitory Subsidiary will be validly organized and duly existing.
3. The common stock of Transitory Subsidiary issued to APS in the Formation and the Capitalization will be validly issued, fully paid and non-assessable, and APS, as the holder of such stock following the Formation and the Capitalization, and the Company, as the holder of such stock immediately following the Spin-off, will be entitled to the rights and privileges appertaining thereto set forth in the articles of incorporation of Transitory Subsidiary.
4. PWE is validly organized and duly existing.
5. The common stock of PWE held by the Company is validly issued, fully paid and non-assessable, and the Company legally acquired such stock and is entitled to the rights and privileges appertaining thereto set forth in the articles of incorporation of PWE.
6. The common stock of PWE to be held by the Company following the Transfer Transaction will be validly issued, fully paid and non-assessable, and the Company, as the holder of such stock immediately following the Merger, will be entitled to the rights and privileges appertaining thereto set forth in the articles of incorporation of PWE.
7. Following the Capitalization, the Assumed Debt that is assumed effective as of the date of the Capitalization will be the valid and binding obligation of Transitory Subsidiary in accordance with its terms. Upon the effective time of the Merger, the Assumed Debt that is assumed effective as of the date of the Merger be the valid and binding obligation of PWE in accordance with its terms.
8. Upon the effective time of the Spin-off, the Company will legally acquire the common stock of Transitory Subsidiary issued in the Capitalization.
9. The consummation of the Transfer Transaction will not violate the legal rights of the holders of any securities issued by the Company or any "associate company," as defined in the Act, thereof.

The opinions expressed above are subject to the following assumptions and conditions:

- (a) The Transfer Transaction, as contemplated by the Application, will be authorized by the Commission. The Commission will duly enter an appropriate order or orders with respect to the Transfer Transaction, as described in the Application, granting and permitting the Application to become effective under the Act and the

rules and regulations thereunder and the Transfer Transaction will be consummated in accordance with the Application.

(b) The Transfer Transaction will be duly authorized and approved to the extent required by the governing documents and applicable federal and state laws, by the board of directors of each of APS, Transitory Subsidiary and PWE, and by the Company as the sole shareholder of APS, Transitory Subsidiary and PWE, and such authorizations and approvals remain in full force and effect.

(c) Without limitation of paragraph (b) above, the board of directors of Transitory Subsidiary will authorize the issuance of the common stock to APS in the Capitalization in accordance with Arizona law, and the number of shares so issued will be authorized in the articles of incorporation of Transitory Subsidiary.

(d) The Spin-off will be effected in accordance with Arizona law and the amount thereof will not exceed any limitation contained in APS' articles of incorporation.

(e) Instruments of merger will be duly and validly filed with the ACC, and such other corporate formalities as are required by the laws of the State of Arizona for the consummation of the Merger will be taken, and the Merger will become effective in accordance with the laws of the State of Arizona.

(f) None of the Capitalization, the Spin-off or the Merger will constitute a fraudulent conveyance and APS will not be rendered insolvent as a result of the Transfer Transaction.

(g) All required approvals, authorizations, consents, certificates, and orders of, and all filings and registrations with, all applicable federal and state commissions and regulatory authorities with respect to the Transfer Transaction will be obtained or made, as the case may be, and remain in effect (including the approval and authorization of the Commission under the Act, the Federal Energy Regulatory Commission under the Federal Power Act, as amended, and the rules and regulations thereunder, and the ACC under the applicable laws of the State of Arizona), and the Transfer Transaction will be accomplished in accordance with all such approvals, authorizations, consent, certificates, orders, filings and registrations. APS will not utilize utility funds to form Transitory Subsidiary or to divest itself of Transitory Subsidiary.

(h) The parties will comply with, or obtain all consents, waivers and releases, if any, required for the Transfer Transaction under all applicable governing corporate documents, contracts, agreements, debt instruments, indentures, franchises,

licenses, and permits to be listed on a schedule to be provided by the Company and/or any of its associate companies.

(i) Our opinions herein are given solely with respect to the actual effectuation of the Transfer Transaction, including with respect to consents, licenses, permits, filings with and approvals of governmental authorities that are required to effect the Transfer Transaction, and no opinion is given as to whether APS, the Company, Transitory Subsidiary, or PWE or their businesses or operations are currently in compliance with any laws or will be after the Transfer Transaction or as to any consents, licenses, permits, filings with or approvals of any governmental body or agency or other person required for the ownership or operation of the Assets before or following the Transfer Transaction.

(j) The opinions set forth in paragraph 7 herein are subject to, and limited by, the following:

(i) the effect of any applicable bankruptcy, insolvency, reorganization, arrangement, moratorium or other similar laws relating to or affecting creditors rights generally;

(ii) the effect of general principles of equity, including (without limitation) concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law);

(iii) the qualification that certain waivers, procedures, remedies, and other provisions of the documents governing the Assumed Debt may be unenforceable under or limited by the law of the State of Arizona; however, such law does not, in our opinion, substantially prevent the practical realization of the benefits intended by such documents; and

(iv) we express no opinion as to the effect of the law of any jurisdiction other than the State of Arizona wherein any creditor may be located or wherein enforcement of the Assumed Debt may be sought which limits the rates of interest legally chargeable or collectible.

(k) No act or event other than as described herein shall have occurred subsequent to the date hereof that would change the opinions expressed herein.

(l) The Transfer Transaction will be consummated as described in the Application or with such changes as we have approved, and all legal matters incident thereto will be satisfactory to us. With respect to required approvals of the ACC, we note that two parties have filed legal actions challenging the validity of the Settlement as

approved by the ACC. However, under Arizona law, an ACC order remains in effect pending appeal.

(m) In giving the final opinion required by the Commission in connection with the Transfer Transaction in the event that the Transfer Transaction occurs prior to the Development Activities and relinquishment by PWE of EWG status in connection therewith as described in the Application, we may rely exclusively upon opinions of other counsel to the Company as to certain matters, or such other counsel may provide certain of such opinions in separate opinion letters provided to the Commission concurrently with our final opinion.

The opinions expressed herein are limited to the laws of the State of Arizona and, except with respect to paragraphs 1, 2, and 4, the federal law of the United States of America and we express no opinion on the laws of any other jurisdiction. Without limiting the foregoing, opinions herein relating to labor/employment or employee benefit matters, environmental matters, tax matters, and real estate matters are limited to the laws of the State of Arizona. The opinions expressed herein are based upon the law in effect on the date hereof, and we assume no obligation to revise or supplement this opinion should such law be changed by legislative action, judicial decision, or in any other manner, or otherwise to notify you of any changes in law or fact relevant to the opinions expressed herein. This opinion letter is rendered solely for your benefit in connection with the transactions described above, and this opinion letter is not to be used, circulated, quoted, or otherwise referred to for any other purpose.

We hereby consent to the use of this opinion as an exhibit to the Application.

Very truly yours,

Snell & Wilmer LLP

[PRELIMINARY - DEVELOPMENT ACTIVITIES]

April 25, 2001

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Pinnacle West Capital Corporation Form U-1 Application / Declaration

(File No. 070-09745)

Ladies and Gentlemen:

We are Arizona counsel for Pinnacle West Capital Corporation, an Arizona corporation (the "Company"), and are familiar with the matters relating to the "Development Activities," as such term is defined in the Form U-1 Application / Declaration (File No. 070-09745) under the Public Utility Holding Company Act of 1935, as amended (the "Act"), filed with the Securities and Exchange Commission (the "Commission") by the Company on September 12, 2000, as amended by filings made on December 8, 2000, January 17, 2001 and April, 2001 (the "Application"). Capitalized terms used herein and not otherwise defined will have the meanings given in the Application.

Among other things, we have examined:

(a) The Application; and

(b) Such other documents and certificates (including those being delivered to you concurrently herewith) and such statutes, rules, and regulations as we have deemed relevant.

In our examination of the documents referred to above, we have assumed (i) the genuineness of the signatures not witnessed, the authenticity of documents submitted to us as originals, and the conformity to originals of documents submitted to us as copies; (ii) the legal capacity of all natural persons executing such documents; (iii) that such documents accurately describe and contain the mutual understanding of the parties, and that there are no oral or written statements or agreements that modify, amend, or vary, or purport to modify, amend, or vary, any of the terms of such documents; (iv) that each such party had the power to enter into and perform

its obligations under such documents, and that such documents have been duly authorized, executed, and delivered by, and are valid, binding upon, and enforceable against, such party; (v) that the parties to such documents will receive no interest, charges, fees, or other benefits or compensation in the nature of interest in connection with the transactions other than those that the Company has agreed in writing in such documents to pay; and (vi) that no fraud has occurred in connection with such transactions.

Based upon the foregoing, and subject to the assumptions and conditions set forth herein, we are of the opinion that, in the event that the Development Activities are consummated in accordance with the Application:

1. All laws of the State of Arizona applicable to the Company's acquisition of PWE as a public utility company through the Development Activities will have been complied with.
2. PWE is validly organized and duly existing.
3. The common stock of PWE held by the Company is validly issued, fully paid and non-assessable, and the Company legally acquired such stock and is entitled to the rights and privileges appertaining thereto set forth in the articles of incorporation of PWE.
4. The consummation of the Development Activities will not violate the legal rights of the holders of any securities issued by the Company or any "associate company," as defined in the Act, thereof.

The opinions expressed above are subject to the following assumptions and conditions:

- (a) The Development Activities, as contemplated by the Application, will be authorized by the Commission. The Commission will duly enter an appropriate order or orders with respect to the Development Activities, as described in the Application, granting and permitting the Application to become effective under the Act and the rules and regulations thereunder and the Development Activities will be consummated in accordance with the Application.
- (b) The Development Activities will be duly authorized and approved to the extent required by the governing documents and applicable federal and state laws, by the board of directors of PWE, and such authorizations and approvals remain in full force and effect.
- (c) All required approvals, authorizations, consents, certificates, and orders of, and all filings and registrations with, all applicable federal and state commissions and

regulatory authorities with respect to the Development Activities will be obtained or made, as the case may be, and remain in effect (including the approval and authorization of the Commission under the Act, and any required approvals of the Federal Energy Regulatory Commission under the Federal Power Act, as amended, and the rules and regulations thereunder, and the Arizona Corporation Commission under the applicable laws of the State of Arizona), and the Development Activities will be accomplished in accordance with all such approvals, authorizations, consent, certificates, orders, filings and registrations.

(d) The parties will comply with, or obtain all consents, waivers and releases, if any, required for the Development Activities under all applicable governing corporate documents, contracts, agreements, debt instruments, indentures, franchises, licenses, and permits to be listed on a schedule to be provided by the Company and/or any of its associate companies.

(e) Our opinions herein are given solely with respect to the actual effectuation of the Development Activities, including with respect to consents, licenses, permits, filings with and approvals of governmental authorities that are required to effect the Development Activities, and no opinion is given as to whether APS, the Company, or PWE or their businesses or operations are currently in compliance with any other laws or will be after the Development Activities.

(f) No act or event other than as described herein shall have occurred subsequent to the date hereof that would change the opinions expressed herein.

(g) The Development Activities will be consummated as described in the Application or with such changes as we have approved, and all legal matters incident thereto will be satisfactory to us.

(h) In giving the final opinion required by the Commission in connection with the Development Activities in the event that the Development Activities and the relinquishment by PWE of EWG status in connection therewith occurs prior to the Transfer Transaction as described in the Application, we may rely exclusively upon opinions of other counsel to the Company (including in-house counsel) as to certain matters, or such other counsel may provide certain of such opinions in separate opinion letters provided to the Commission concurrently with our final opinion.

The opinions expressed herein are limited to the laws of the State of Arizona and, with respect to paragraphs 3 and 4, the federal law of the United States of America and we express no opinion on the laws of any other jurisdiction. Without limiting the foregoing, opinions herein relating to labor/employment or employee benefit matters, environmental matters, tax matters,

and real estate matters are limited to the laws of the State of Arizona. The opinions expressed herein are based upon the law in effect on the date hereof, and we assume no obligation to revise or supplement this opinion should such law be changed by legislative action, judicial decision, or in any other manner, or otherwise to notify you of any changes in law or fact relevant to the opinions expressed herein. This opinion letter is rendered solely for your benefit in connection with the transactions described above, and this opinion letter is not to be used, circulated, quoted, or otherwise referred to for any other purpose.

We hereby consent to the use of this opinion as an exhibit to the Application.

Very truly yours,

Snell & Wilmer LLP

[PRELIMINARY]

April 26, 2001

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Pinnacle West Capital Corporation Form U-1 Application/Declaration

(File No. 070-09745)

Ladies and Gentlemen:

We are special New Mexico counsel for Pinnacle West Capital Corporation, an Arizona corporation (the "COMPANY"), in regard to certain matters relating to the "REORGANIZATION," as such term is defined in the Form U-1 Application/Declaration (File No. 070-09745) under the Public Utility Holding Company Act of 1935, as amended (the "ACT"), filed with the Securities and Exchange Commission (the "COMMISSION") by the Company on September 12, 2000, as amended by filings made on December 8, 2000, January 17, 2001 and April, 2001 (the "APPLICATION"). Capitalized terms used herein and not otherwise defined will have the meanings given in the Application, which we have examined. The term "FOUR CORNERS TRANSFER," when used herein, will mean the transfer of the Four Corners Power Plant from APS, an Arizona corporation, to PWE, an Arizona corporation, pursuant to the Reorganization, as contemplated in the Application.

We understand that the Company was formed in 1985 under the laws of Arizona as a holding company owning APS and certain other subsidiaries. We also understand that the Company formed PWE in 1999 under the laws of Arizona, as a wholly owned subsidiary of the Company.

We have relied upon the following representations made to us by the Company:

(A) The Company, itself, is not engaged in any business in the State of New Mexico, except that from October 1, 2000 to the present, the Company has been engaged in the purchase and sale of power and energy, at wholesale, from the switchyard of the Four Corners Power Plant, located within the boundaries of the Navajo Reservation; and

(B) Only two subsidiaries of the Company conduct business in the State of New Mexico: (1) SunCor Development Company, an Arizona corporation, which owns and operates certain residential or commercial real estate properties in New Mexico; and (2) APS.

APS has represented to us, and we have relied upon such representation, that the only business in which it is engaged in the State of New Mexico consists of and is limited to ownership and operation of electric generating units (or undivided interests therein) and electric transmission lines, sales of electricity at retail to BHP Navajo Coal Company ("BHP") solely for its conduct of coal mining operations on the Navajo Reservation which provides coal to the Four Corners Power Plant for the generation of electricity ("BHP CONTRACT"), transmission of electricity from Tucson Electric Power Company to the Navajo Tribal Utility Authority for resale, and wholesale transactions with other utilities.

APS and PWE have represented to us, and we have relied upon such representation, that the only asset located in the State of New Mexico that is being transferred from APS to PWE pursuant to the Reorganization is the Four Corners Power Plant.

PWE has represented to us, and we have relied upon such representation, that it is not currently engaged in any business in the State of New Mexico, and that the only business in which it will be engaged in the State of New Mexico immediately following the Reorganization consists of and is limited to ownership and operation of electric generating units (or undivided interests therein) at the Four Corners Power Plant and the sale of power and energy at wholesale from the Four Corners Power Plant.

Our opinions herein are given solely with respect to the actual effectuation of the Four Corners Transfer, and no opinion is given as to whether APS, the Company, Transitory Subsidiary or PWE, or their businesses or operations, are currently in compliance with any laws, or will be after the Reorganization, or as to any consents, licenses, permits, filings with or approvals of any governmental body or agency or other person required for the ownership or operation of the Four Corners Power Plant before or following the Reorganization.

Our opinions relate only to the Four Corners Transfer. In respect only of the laws of New Mexico, and subject to the qualifications and limitations with respect to this opinion letter set forth above, we are of the opinion that:

1. The activities of APS in the State of New Mexico to date do not constitute it a "public utility" as that term is defined in the relevant laws of the State of New Mexico, and accordingly, no approval, authorization, or consent of the New Mexico Public Regulation Commission is required by APS for the Four Corners Transfer contemplated in the Application. In addition, the rates and charges pursuant to the BHP Contract between APS and BHP are not subject to regulation by the New Mexico Public Regulation Commission.
2. The activities of PWE in the State of New Mexico to date do not, and immediately following the Reorganization will not, constitute it a "public utility" as that term is defined in the relevant laws of the State of New Mexico, and accordingly, no approval, authorization, or consent of the New Mexico Public Regulation Commission is required by PWE for the Four Corners Transfer contemplated in the Application.
3. The activities of the Company in the State of New Mexico to date do not constitute it a "public utility" as that term is defined in the relevant laws of the State of New Mexico, and accordingly, no approval authorization, or consent of the New Mexico Public Regulation Commission is required by the Company for the Four Corners Transfer contemplated in the Application.
4. All laws of the State of New Mexico applicable to PWE becoming, pursuant to the Reorganization, a "public utility company" under the Act and to the Company then holding, pursuant to the Reorganization, two such "public utility companies", APS and PWE, if any, have been complied with.

The opinions expressed herein are limited to the laws of the State of New Mexico and we express no opinion about the laws of any other jurisdiction. The opinions expressed herein are based upon the law in effect on the date hereof, and we assume no obligation to revise or supplement this opinion should such law be changed by legislative action, judicial decision, or in any other manner, or otherwise to notify you of any changes in law or fact relevant to the opinions expressed herein. Without limitation of the foregoing, we express no opinion on the requirements that might become applicable upon the implementation of open access in New Mexico, currently scheduled to begin January 1, 2007. This opinion letter is rendered solely for your benefit in connection with the Four Corners Transfer described above, and this opinion letter is not to be used, circulated, quoted, or otherwise referred to for any other purpose.

We hereby consent to the use of this opinion as an exhibit to the Application.

Yours truly,

KELEHER & MCLEOD, P.A.

By:

Susan M. McCormack

End of Filing

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