

SRP Board of Directors resolution on electric competition -- August 14, 1998

RESOLUTION OF THE BOARD OF DIRECTORS OF THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, SETTING FORTH A FINAL DECISION ADOPTING TERMS AND CONDITIONS FOR COMPETITIVE ELECTRIC SERVICES.

WHEREAS, on May 1, 1997, the Board of Directors ("Board") of the Salt River Project Agricultural Improvement and Power District ("SRP") established New West Energy Corporation ("New West Energy"), an Arizona corporation and an affiliate of SRP, for the purpose of providing competitive electric services outside SRP's distribution service territory;

WHEREAS, on June 1, 1998, the Board reconfirmed SRP's existing electric service area for retail customers;

WHEREAS, on May 29, 1998, the State of Arizona enacted the Electric Power Competitive Act ("Act"), with an effective date of August 21, 1998, to allow competition in the retail sale of electric generation and other specified electric services within the distribution service territories of public power entities, including SRP;

WHEREAS, the Board has begun compliance with the Act in advance of its effective date in order to complete the requirements contained therein in a timely manner and to allow sufficient time for consideration of public comments and input;

WHEREAS, under the Act competition is to begin no later than December 31, 1998 for at least 20 percent of SRP's 1995 retail load and no later than December 31, 2000 for all its distribution customers;

WHEREAS, the Act directs SRP and the Arizona Corporation Commission ("ACC") to coordinate with each other in developing terms and conditions for implementing competition to promote statewide uniformity;

WHEREAS, the ACC has determined that it will implement a certification process for the regulation of electric service providers ("ESPs") providing competitive electric generation and other related services within Arizona;

WHEREAS, the Act requires the Board to conduct a public process and to determine the terms and conditions for implementation of competition;

WHEREAS, on April 13, 1998, the Board established a special committee appointed from its members, the Customer Choice Committee, to investigate and solicit public comments and review proposals by SRP management and others;

WHEREAS, on April 10, 1998, the Board retained various consultants to assist it in the process of determining the terms and conditions for the implementation of competition;

WHEREAS, on May 15, 1998, the Board established an Information Room to facilitate public access to documents relating to the implementation of competition, including SRP management positions, public comments, consultant reports, and other relevant materials;

WHEREAS, the Board, through its Customer Choice Committee, held General Information Forums in several different locations in Maricopa County, on June 1, 3, 5, and 11, 1998, to discuss information and program proposals relating to the implementation of competition and to receive comments from customers and the general public;

WHEREAS, the Board, through its Customer Choice Committee, held Issues Forums on June 8, 10, 22, and 23, 1998 to accommodate an expanded and more technical discussion of the competition issues by individuals and groups with an active interest in competition matters;

WHEREAS, the Board met on June 29, July 6 and 20, and August 3, 10, and 14, 1998 to discuss competition matters and to receive public comments;

WHEREAS, through July 9, 1998, SRP accepted written comments on competition from interested persons, and through August 7, 1998, SRP accepted written comments on the revised position of SRP management and on the Final Report and Recommendations of the Customer Choice Committee to the Board;

WHEREAS, the Board has considered the record in the competition proceedings, including management's original and revised positions, analysis papers and presentations by the Board's consultants, oral and written comments from the public and its customers, documents in the Information Room, and the Customer Choice Committee's Report on the General Information Forums, Report on the Issues Forums, Final Report and Recommendations, and Revised Final Report and Recommendations;

WHEREAS, SRP management has had extensive meetings with customers and customer representatives concerning stranded costs;

WHEREAS, on August 3, 1998, the Board directed SRP management to continue to meet with the customers and customer representatives in order to reach agreement on a proposal for recovery of stranded costs;

WHEREAS, SRP management and customers and customer representatives agreed upon a new proposal for the recovery and calculation of stranded costs, which was presented to the Board on August 14, 1998;

WHEREAS, on August 14, 1998, the Board adopted the Customer Choice Committee's Revised Final Report and Recommendations, dated August 14, 1998, as amended by additional resolutions of the Board at that public meeting; and

WHEREAS, on August 14, 1998, the Board directed Ms. Burns to prepare a resolution reflecting its decisions at its meeting on August 14, 1998, and authorized President William Schrader and Vice President John Williams to execute the resolution on behalf of the Board.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT AS FOLLOWS:

Section 1. Recitation of Authority -- Pursuant to A.R.S. § 30-801, *et seq.*, and A.R.S. § 48-2301, *et seq.*, and based on review and careful consideration of the record compiled in the competition proceedings, the Board adopts this resolution to institute and govern the implementation of competitive electric services within SRP's distribution service territory.

Section 2. Competition -- The Board authorizes and approves the opening of SRP's distribution service territory to competition in the provision of electric generation and other related services in accordance with A.R.S. §30-801, *et seq.*, and with the terms and conditions for competition that are adopted in this resolution. SRP shall compete in the provision of generation and other related electric services within and without its distribution service territory to the fullest extent permitted by law and by its authority. SRP intends to compete as to the provision of generation service outside its distribution service territory through its affiliate, New West Energy, which shall apply to the ACC for certification as an ESP within the State. However, if the ACC does not certificate New West Energy as an ESP on the same basis as other ESPs, SRP may sell directly outside its distribution service territory.

Section 3. Reciprocity -- SRP shall allow access to its electric power transmission and distribution facilities, under rates and terms and conditions of service that are nondiscriminatory, cost-based, just and reasonable, and comparable to the rates charged for SRP's own use of the same facilities, to any Electricity Supplier, as defined in A.R.S. §30-801(14), so long as that Electricity Supplier is certificated as an ESP by the ACC and it allows SRP or its affiliate the opportunity to sell electric generation and other related competitive electric services to customers within the ESP's distribution territory (or the distribution territory of its affiliate within Arizona), including access to its (or its affiliate's) electric power transmission or distribution facilities in Arizona under rates and terms and conditions of service that are nondiscriminatory, cost-based, just and reasonable and comparable to the rates charged for use of the same facilities by the ESP.

Section 4. Competition Proceedings -- The Board agrees with and adopts the discussion, findings and recommendations of the Customer Choice Committee with respect to the conduct of the competition proceedings, as set forth in the Revised Final Report and Recommendations to the Board, dated August 14, 1998, as amended, and the Results of Customer Discussions dated August 13, 1998, which are attached to this resolution and incorporated by reference. The Board finds as follows:

- A.** The conduct of the General Information Forums, Issues Forums, and Board meetings, and the acceptance of written and oral comments on management's proposals and the Customer Choice Committee's reports provided an extensive opportunity for public participation in the competition proceedings and exceeded the requirements of A.R.S. §30-802(B)(3) and A.R.S. §§ 48-2301.
- B.** The public access SRP provided to information in its Information Room and on its web site is consistent with and exceeds the requirements of A.R.S. §30-802(B)(2) and A.R.S. §§ 48-2301.
- C.** The public notices SRP provided are consistent with and exceed the requirements of A.R.S. §30-802(B)(1) and A.R.S. §§ 48-2301.
- D.** The competition proceedings conducted by SRP were legislative in nature. The legislature in A.R.S. §30-802(B) prescribed the process to be followed. SRP's implementation of this process met or exceeded the requirements of that statute for public notice, public access to information, the acceptance of written comments, and the opportunity for oral presentations of views, comments, and questions. Accordingly, the Board finds the competition proceedings satisfied constitutional due process requirements.

Section 5. Terms and Conditions -- The Board agrees with and adopts the discussion, findings and recommendations of the Customer Choice Committee with respect to the terms and conditions for competition, as set forth in its Revised Final Report and Recommendations to the Board, dated August 14, 1998, as amended, and the Results of Customer Discussions dated August 13, 1998. The Board adopts and directs SRP management to implement the following terms and conditions for competition in SRP's distribution service territory:

A. Customer Selection

1. **Class Participation** -- SRP shall make 20% (814 MW) of its 1995 system retail peak demand (4,070 MW) available for choice of electricity supplier effective December 31, 1998 ("Phase I") and provide all SRP distribution customers choice of electricity suppliers (SRP, or ESPs certificated by the ACC) effective December 31, 2000 ("Phase II").

SRP shall give each customer class an opportunity to participate in Phase I in proportion to its contribution to the 1995 system peak.

2. **Residential Class Customer Selection** -- Since SRP does not meter coincident peak demands of residential customers, SRP shall determine residential participation in Phase I based on customer accounts. Since there were 547,696 active residential customer accounts at the time of its 1995 system peak, SRP shall offer choice of electricity supplier to 110,000 customer accounts (20% of 547,696, rounded up to the next highest thousand) effective December 31, 1998.

On or about November 10, 1998, SRP shall mail to its residential customers a solicitation of interest to be considered for participation in Phase I. SRP shall require customers interested in this opportunity to sign and return, by December 1, 1998, an enrollment form to authorize SRP to release the name, address, phone number, and energy consumption of that customer to ESPs. SRP shall provide an option to residential customers to request that SRP not disclose customer information to ESPs.

If more than 110,000 residential class customer accounts request enrollment, SRP shall select the customer accounts at random from the accounts submitted such that not more than 110,000 accounts are included in Phase I.

SRP shall consider the selected residential customers to be participants in Phase I whether or not they choose to continue to receive service from SRP or select an ESP. SRP shall allow the participating residential customers to select or reselect their electricity supplier at any point during Phase I, subject to the requirements of Section 5(G).

SRP shall not offer selection of ESPs to other (non-participating) residential customers during Phase I. However, a customer participating in Phase I and moving during Phase I from one premise to another, both within SRP's distribution service territory, shall continue to participate in Phase I.

On or about December 7, 1998, upon request by an ESP, SRP shall make available a list of residential customers who have been selected to participate in Phase I and who have authorized SRP to release their account information to certificated ESPs.

3. **General Service Class Customer Selection** -- Typically, SRP does not meter coincident peak demands of its general service class customers. Accordingly, SRP shall determine its general service participation in Phase I based on customer accounts. Since there were 56,030 active general service class customer accounts at time of its 1995 system peak, SRP shall offer 12,000 customer accounts (20% of 56,030, rounded to the next highest thousand) choice of electricity suppliers effective December 31, 1998.

In the interests of equity to insure participation by both large and small loads, SRP shall stratify the general service class into two groups based on usage in the August 1998 billing cycle. SRP shall rank accounts from highest usage to lowest usage and place the top one-half of these accounts in Stratum A and the bottom one-half of accounts in Stratum B. SRP shall offer in each stratum an opportunity for 6,000 customer accounts to choose electricity suppliers.

On or about November 10, 1998, SRP shall mail to all general service class customer accounts in each stratum that were active the entire August 1998 billing cycle a solicitation of interest to be considered for Phase I. SRP shall require customers interested in this opportunity to sign and return by December 1, 1998 an enrollment form to authorize SRP to release the account name, address, phone number, and energy consumption of the customer to ESPs. SRP shall provide an option for general service class customers to request that SRP not disclose their customer information to ESPs.

If submissions of interest by stratum exceed the allocation for that stratum, SRP shall select the customer accounts so submitted at random such that not more than 6,000 accounts from each stratum are included in Phase I.

SRP shall consider the selected general service class customers to be participants in Phase I whether or not they choose to continue to receive service from SRP or select an ESP. SRP shall allow the participating general service customers to select or reselect their electricity supplier at any point during Phase I, subject to the requirements of Section 5(G).

SRP will not offer selection of ESPs to other non-participating general service class customer accounts during Phase I. However, SRP will allow a customer account participating in Phase I and moving from one premise to another, both within SRP's distribution area, during Phase I to continue to participate in Phase I.

On or about December 7, 1998, upon request, SRP shall make available a list of general service class customers accounts that have been selected to participate in Phase I and that have authorized SRP to release their account information to certificated ESPs.

4. **Large General Service Class Customer Selection** -- SRP shall offer choice of electricity suppliers for at least 112 MW of large general service class firm load customers (20% of 560 MW). SRP shall allocate the 112 MW *pro rata* across its firm load calculated at system peak for 1998, for each large general service customer account, excluding load served under long-term contract and excluding load that is served under interruptible riders.

On or about November 10, 1998, SRP shall contact each large general service class customer with firm load not served under long-term contract to secure permission to release the name, address, contact person and phone number, and energy consumption of the customer to ESPs.

On or about December 7, 1998, upon request, SRP shall make available a list of large general service class customer accounts that have been selected to participate in Phase I and that have been authorized SRP to release account information to certificated ESPs.

5. **Top-off Provision** -- If the load available for choice is under-subscribed in any customer class, SRP shall continue to accept and process enrollment forms through March 1, 1999 for those classes. If customer requests for choice are greater than capacity, SRP shall use a lottery method to select eligible customers.
6. **Reallocation** -- If, on March 1, 1999, the load available for choice remains under-subscribed for any customer class, SRP shall release the remaining load that was available for that class selection pool.

On or about March 8, 1999, SRP shall make available to ESPs a list of additional customer accounts eligible for choice as a result of this reallocation, provided those customers have authorized SRP to release that information.

7. **Review of Mailings by Consumer Education Advisory Panel** -- SRP shall submit for review by its Consumer Education Advisory Panel materials on customer selection that SRP intends to mail to customers on November 10, 1998.
8. **Aggregation** -- During Phase I, SRP shall allow different customer accounts or the same customer with multiple accounts to aggregate accounts, but only within the twenty percent limit. All accounts to be aggregated must be selected within the twenty percent allowed to participate in Phase I.

B. FESR Customers

1. During March, 1999, as stated in part (A) above, SRP will reallocate to the industrial and Full Electric Service Rider ("FESR") customers capacity made available for competition to other customer classes, but not utilized because some customers did not elect to have customer choice.

2. SRP will permit directed purchase of electricity by FESR customers during the remaining term of the FESR contract. The directed purchase is structured in a manner that allows the end-use customer to control RFP issuance and select the winning bid. If SRP or its affiliate wishes to bid, they shall not have prior knowledge of other parties' bids, nor shall the end-use customer be required to offer SRP or its affiliate any preferential treatment in the selection process, such as first right of refusal.
3. On or before July 1, 1999, SRP will reexamine the allocation status to consider additional allocations to FESR customers.
4. SRP's brokerage fee will be three percent of the generation cost component of the directed purchase transaction (or an equivalent fixed charge based on 3% of 2.6 cents per kwh). This fee will be used to sponsor residential assistance programs and/or solar portfolio offerings.
5. A customer issuing an RFP for a directed purchase shall have the option of rejecting all proposals and continuing to take service under the customer's FESR contract. However the opportunity to engage in a directed purchase transaction shall be a one time election per customer and the election must be made no later than August 1, 1999.

C. Consumer Protection

1. **Confidentiality** -- SRP shall implement choice in such a way as to protect the confidentiality of customer information while at the same time encouraging competition.

SRP shall obtain written permission from each customer before SRP will release any customer information, including name, address, telephone number, account number, and account usage.

The Board directs management to establish reasonable rules and procedures to ensure customer confidentiality.

2. **Certification of ESPs** -- To qualify to do business within SRP's distribution service area, ESPs (subject to ACC jurisdiction) must meet requirements established by the ACC, including requirements for obtaining a Certificate of Convenience and Necessity or other form of registration.
3. **Unfair, Deceptive and Abusive Business, Marketing and Advertising Practices** -- The Board directs management to develop rules and procedures to protect the public against

unfair, deceptive and abusive business (including deposit requirements and reconnection fees), marketing and advertising practices, including those defined in A.R.S. Title 44 on consumer fraud.

The Board directs management to develop a telemarketing policy that includes limitations on hours for telephone solicitation, provides callback numbers, and ensures appropriate telemarketing service skills.

SRP shall give residential customers a three-day cooling-off period, during which they may cancel a contract with a new ESP and provide written notice to the involved ESP of the cancellation. SRP shall provide sufficient time for the customer to exercise the right of cancellation before SRP switches ESP for that customer.

Management shall coordinate with the ACC in developing consumer protection rules and requirements relating to ESPs authorized to sell in SRP's distribution service territory.

The Board directs management to develop a contract format for use with ESPs providing competitive electric services within SRP's distribution service territory to promote uniformity in terms and conditions of electric services to customers.

To prevent slamming, an ESP must obtain a written and dated authorization from SRP's distribution customer that confirms the change of supplier and certifies the authorization to SRP before SRP will process a switch in Electricity Supplier.

The customer authorization to change ESP shall:

- a) Not contain any inducements;
- b) Not state or suggest customer take action to retain the current Electricity Supplier;
- c) Be in legible print with clear and plain language confirming the rates, terms, conditions and nature of the service to be provided; and
- d) Be in the same language as any promotional or inducement materials previously provided to the customer.

Advertising, service agreements and bills must use plain language and uniform phrases to allow the customer to

accurately compare offers and services.

D. Code of Conduct

The Board directs Management to submit a proposed Code of Conduct, in compliance with A.R.S. § 30-803, no later than October 5, 1998 for review and public comment.

E. Complaint Resolution

1. **Complaint Resolution Process** -- Management shall establish a complaint resolution process to resolve issues, including billing, breach of confidentiality, or unfair, deceptive and abusive business, marketing and advertising practices, and other competitive issues directed against SRP.

The SRP Ombudsman may be the clearinghouse for non-transmission related complaints brought against SRP.

SRP shall refer customer complaints against ESPs to the ACC for resolution.

Upon request of any party to a dispute with SRP, SRP shall submit the dispute to third party mediation or nonbinding arbitration. The parties to the dispute shall share costs of the mediation or nonbinding arbitration.

Final decisions may be appealed to the SRP Board of Directors.

F. Consumer Education

The Board confirms SRP's commitment to adopting a comprehensive, impartial, and ongoing education program as contemplated in A.R.S. §30-807(A). The Board also directs management to include in the program the general and basic information customers have requested about competition and how it would impact their prices and service; to seek input on the program from the Consumer Education Advisory Panel; and to present its program proposal to the Board no later than October 5, 1998.

G. Unbundled Services and Obligation to Serve

1. **Distribution Services** -- SRP shall be the sole provider of distribution services, including service connections and disconnections; however, SRP shall not disconnect customers for monies owed to an ESP. SRP shall serve distribution customers in accordance with its existing rules and regulations.
2. **Revenue Cycle Functions** -- For customers with loads of one MW or more who have elected competitive generation service, SRP shall make the following revenue cycle functions competitive effective December 31, 1998:
 - a) Metering, which includes installation and maintenance expense,
 - b) Meter reading,
 - c) Billing for competitive electric generation service, and
 - d) Collecting for competitive electric generation service.

For all other customers who have elected competitive generation service, the foregoing revenue cycle functions shall be competitive effective January 1, 2001.

3. **Meters and Metering** -- All meters provided by ESPs or customers must meet SRP standards for safety, reliability, and accuracy. Meters meeting the applicable ANSI standards shall be deemed to meet SRP standards for safety, reliability, and accuracy.
4. SRP shall offer meter technologies to provide billing services to ESPs. The Board authorizes management to establish reasonable and non-discriminatory fees for the purchase, installation, maintenance and reading of a meter upgrade above the SRP standard, and to recover those costs, provided, however, that the fees shall not be included in the competitive transition charge ("CTC").

The party initiating the removal of an existing meter will pay the removal cost. To the extent of an existing SRP meter is made surplus by the offering of competitive metering service, the ESP or other party initiating the removal of an SRP meter, provided under previously non-competitive metering service, will pay the cost of the existing meter or purchase the meter.

During the next two years, when competitive meter reading service is elected, SRP must be provided with meter reads in accordance with its established meter reading cycle for the geographic region in which the customer's premise is located.

5. **Metering Options** -- So long as metering service remains non-competitive, SRP will offer, under the following terms, optional meter technologies necessary to bill the rates offered by ESPs:
 - a) Incremental cost (including cost of purchase, installation, maintenance, and meter reading), if any, of a meter upgrade beyond the SRP standard will be the responsibility of the ESP or customer,
 - b) To the extent that existing meters are made surplus by a meter upgrade request, the ESP requesting the upgrade will pay the cost for the existing meter. Stranded costs of meters will not otherwise be recovered through the competitive transition charge, and
 - c) Related equipment (switches, communications, etc.) required for ESPs to offer options such as interruptible service will be installed if feasible with incremental costs) being borne by the ESP.

SRP shall continue to work with the ACC to coordinate protocols for metering and billing within the requirements of the Act.

6. **Load Profiles** -- As an interim measure to assure that no customer is denied choice due to physical or economic limitations which prevent installation or reading of interval meters, SRP shall utilize load profiling, for all residential customers and for those commercial customers with loads of 100,000 kWh per year or less.

SRP management shall develop load profiles to impute to each hour of the month the estimated energy consumption of a customer, for purposes of settlement between SRP and a

Schedule Coordinator responsible for that customer's electricity supply.

SRP shall require that customers with loads in excess of 100,000 kWh per year who choose an ESP, have and pay for a meter capable of measuring loads in 15 minute intervals.

7. **Billing Options** -- SRP shall offer its current billing options to customers under contractual arrangements with an ESP, so long as billing remains non-competitive. Available options include:
 - a) Managed payment plan (i.e., levelized billing),
 - b) Summary bills,
 - c) Spanish bills,
 - d) Large print bills,
 - e) Customer selected due dates, and
 - f) SurePay (i.e., direct debit).

ESPs may offer certain inducements for participation in certain bill programs, such as early payment discounts for those who use SurePay. The ESP will bear the cost of these discounts or inducements.

If an ESP wishes to offer a particular non-standard service, it will be provided where feasible under terms agreed to by the ESP and SRP.

SRP will charge ESPs cost-based rates for non-competitive billing services provided on their behalf.

8. **Identity of Supplier** -- SRP shall include the name and telephone number of the ESP on all bills. SRP may make custom formats available at additional costs to ESPs.

9. **Credit, Collections, and Partial Payments** -- SRP shall apply its usual and customary credit and collection policies and practices to distribution service accounts regardless of which ESP a customer has chosen.

When SRP provides billing and collections services on behalf of an ESP, SRP shall apply partial payments by a customer first to SRP billings, and then to billings of the current ESP regardless of the age of the receivables.

SRP shall apply any payments made by customers in excess of receivables against future billings for services provided by SRP.

SRP shall not provide collection services for any ESP.

SRP shall not disconnect electric service for amounts owed to an ESP.

10. **Default Service for Non-Departing Customers** -- SRP shall continue to provide to existing and new customers, who do not elect an alternate ESP, bundled electric service according to its standard price schedules.

11. **Provider of Last Resort** -- SRP shall be the provider of last resort for electric power for residential customers and non-residential customers within SRP's distribution service territory whose annual usage is 100,000 kWh or less and whose electric generation service has been discontinued through no fault of their own. For these customers:

- a) SRP shall provide such service at its applicable standard price schedule,
- b) SRP may require a deposit as a condition of service,
- c) SRP may require the customer to be in good standing with SRP (i.e., no amounts owed to SRP may be past due),

- d) SRP must receive notice that the customer intends to select SRP as its ESP not later than 10 days prior to SRP's next scheduled meter read date, at which time SRP shall transfer generation service to SRP. SRP shall waive notification requirements if the ESP has filed for bankruptcy or for other extenuating circumstances.
- e) SRP shall recover above-market costs of serving as a provider of last resort (subject to the price cap during Phase I) to be paid by all retail electric customers with loads of 100,000 kWh per year or less.

For returning non-residential customers with loads greater than 100,000 kWh per year:

- a) Return to SRP as ESP will be effectuated within a reasonable time after SRP receives written notice of the change of suppliers,
 - b) Notice must be sufficient to permit SRP to obtain a final read for the prior ESP and to acquire power and energy to serve the customer under market terms and conditions prevailing at the time of return,
 - c) An appropriate deposit may be required as a condition of return,
 - d) The customer must be in good standing (i.e.; no amounts billed by SRP for distribution related-and-generation-related services may be past due), and
 - e) A cost-based switching fee will be levied on the ESP.
12. **Cost of Processing Switching Applications** -- SRP shall establish a cost-based charge to be paid to SRP by the ESP gaining the customer, for processing of switching applications for competitive service providers, except that during Phase I, SRP shall not assess the charge against the customer's first switch from SRP generation.
13. **Frequency and Timing of Switching** – SRP shall not process a customer request to switch ESPs more frequently than once each billing period.
14. **Energy Related Services** -- Energy related services will be provided competitively. These may include, but are not limited to:
- a) Energy efficiency audits,

- b) Heating, ventilation, air conditioning and miscellaneous appliance management,
 - c) Emergency backup equipment sales and installation, and
 - d) Home automation.
15. **Frequency and Timing of Switching** -- SRP must receive electronic notification from the ESP of a customer's intent to switch ESPs not later than 10 days prior to the scheduled meter read date, with the switch to be effective on the scheduled meter read date. (Additional lead-time may be necessary if upgraded meter equipment is required to be provided by SRP, or if competitive metering service is to be elected.)

H. **Electric System Reliability and Operations**

- 1. **Industry Standards** -- SRP and ESPs shall adhere to the North American Electric Reliability Council ("NERC") and Western Systems Coordinating Council ("WSCC") reliability standards for secure (no cascading outages) and reliable (minimize element outages) electric system operation.
- 2. **Regional Adequacy of Generation Supply** -- SRP and ESPs acting as Scheduling Coordinators shall participate with WSCC and others in forecasting the overall system energy demand within SRP's Control Area, calculating installed reserves, and reviewing options to remedy any deficiencies.
- 3. **Energy Imbalance** -- SRP shall calculate and charge each Scheduling Coordinator for energy imbalance after the fact on an hour-to-hour basis in accordance with protocols and fees established by management.

Energy Imbalance is the difference between the energy that a Scheduling Coordinator delivers to the SRP Control Area Operator (“CAO”) for use by a retail electric customer and the energy that customer actually consumes. Energy Imbalance is measured in megawatt-hours and is determined hourly after-the-fact.

The objectives of the SRP CAO for managing energy imbalance will be as follows:

- a) Ensure that an adequate hourly energy supply exists for all of the customers within the SRP control area, and
- b) Equitably distribute the costs associated with maintaining an adequate hourly energy supply.

The SRP CAO will calculate energy imbalance for each Scheduling Coordinator. The energy imbalance will be calculated after the fact on an hour-to-hour basis. The energy the Scheduling Coordinator supplied in a given hour will be determined by the hourly schedules that the SRP CAO receives from the Scheduling Coordinator. Customer consumption will be determined through the use of load profiles or, where possible, from hourly meter reads. The SRP CAO will use a true-up process to determine the amount of hourly imbalance energy that exists for each Schedule Coordinator. For those Schedule Coordinators delivering excess energy in an hour, the SRP CAO will pay credits based on prevailing market prices or avoided costs, to the extent not otherwise settled. For those Schedule Coordinators delivering less than their hourly load, the SRP CAO will assess a charge for the deficit based on prevailing market prices or lost opportunity costs plus a margin, to the extent not otherwise settled. The revenues or charges associated with these energy imbalances will be calculated for each Scheduling Coordinator and will be included in the invoices it receives from the SRP CAO.

The SRP CAO may collect the administrative costs associated with settling energy imbalances. Administrative costs will be linked to the amount of purchases or sales the SRP CAO executes and all Scheduling Coordinators will share the administrative costs.

The SRP CAO may impose a penalty of 10 percent against hourly sales/purchases made on behalf of an individual Scheduling Coordinator if that Scheduling Coordinator's hourly imbalances exceeded 10 percent on a consistent basis (more than 50 hours per month). The penalty would only apply in those hours the imbalance deviated by more than 10 percent.

All fixed and variable costs associated with energy imbalance service will be included in the SRP transmission tariff. The addition of energy imbalance costs to SRP's transmission tariff will be subject to a review to determine comparability by FERC. To the extent these costs are not determined to be comparable with FERC Orders 888 and 889, the costs will be included elsewhere in SRP's prices.

SRP may collect administrative costs associated with settling energy imbalances.

4. **Operating Reserves** -- SRP shall charge the Scheduling Coordinator for operating reserves provided by SRP unless the Scheduling Coordinator has made arrangements to satisfy this obligation.

SRP shall not require customers with loads greater than 1 MW who are being served by non-firm (interruptible) resources to purchase operating reserve service from SRP, provided that SRP can directly interrupt that customer when the resource serving that customer is interrupted.

As a CAO, SRP must continue to comply with the NERC/WSCC policies and definitions relative to operating reserves. The operating reserves available to the SRP CAO will be used to restore the balance of generation and customer load within the SRP Control Area following the interruption of any generation resource serving customer load. These resources include pre-scheduled energy deliveries from any Scheduling Coordinator serving load inside the SRP Control Area.

A Scheduling Coordinator may provide operating reserves for its firm load customers. The operating reserves must meet NERC/WSCC policies and be pre-approved by the SRP CAO based on SRP's established technical requirements. If a Scheduling Coordinator does not provide adequate operating reserves, the Scheduling Coordinator will be subject to operating reserve charges. The SRP CAO will charge the Scheduling Coordinator for this service to the extent the costs are not collected elsewhere. Charges for providing operating reserves will be based on market prices

or lost opportunity costs plus a margin. The SRP CAO may collect administrative costs associated with this service.

Customers with a load greater than 1 MW who are being served by non-firm (interruptible) resources will not be required to purchase operating reserve service from SRP provided that the SRP CAO has the ability to directly interrupt each customer if the resource serving that customer is interrupted. The SRP CAO's ability to interrupt these customers applies regardless of who the customer's Scheduling Coordinator is.

All fixed and variable costs associated with operating reserve service will be included in the SRP transmission tariff. The addition of operating reserve costs to SRP's transmission tariff will be subject to a review to determine comparability by FERC. To the extent these costs are not determined to be comparable with FERC Orders 888 and 889, the costs will be included elsewhere in SRP's prices.

5. **System Reliability** -- SRP shall schedule electric system planned outages to minimize the impact on commercial (merchant) power scheduling activities on a non-discriminatory basis.

SRP shall utilize available ancillary services, including ancillary services available from other suppliers or control areas, to maintain required voltage profiles and power transfer capabilities.

SRP shall respond to power outages caused by weather or local distribution problems without regard to which electricity supplier the customer has chosen.

It is the responsibility of the transmission system operators, working with other CAO's or Independent System Operators ("ISO") and the Security Coordinator for the WSCC, to ensure that the existing system is operated in a secure and reliable manner.

Future needs for transmission additions will be reviewed and coordinated with WSCC, Southwest Regional Transmission Association (“SWRTA”) and others as appropriate. If an ISO is established, it likely will coordinate transmission-planning activities.

6. **Distribution System Reliability** -- It is the responsibility of the distribution system owner and operator to ensure an adequate distribution system exists and that it is constructed and operated in a reliable manner.

Customers, regardless of their energy supplier, will be provided with appropriate distribution facilities in accordance with SRP construction standards.

Line extension policies, including imposition of facilities charges, will be applied consistently without regard to energy supplier.

SRP will provide distribution services that permit customers to install self-generation or demand side management programs in accordance with established practices, electrical standards, and State or Federal laws.

7. **Must-Run Generation** -- SRP shall use its established operating procedures to determine when must-run generation is required. SRP shall include all fixed and variable costs associated with must-run units in its transmission prices. To the extent the Federal Energy Regulatory Commission (“FERC”) determines that these costs are not appropriate transmission-related expenses, SRP shall include those costs in other prices.

8. **Interim Independent Auditor** -- SRP shall retain an independent auditor to oversee the application of protocols to maintain transmission reliability and to provide nondiscriminatory access by Scheduling Coordinators over transmission paths available to SRP retail customers.

SRP shall provide building space in its dispatch area for an independent auditor to oversee the overall operation. SRP shall make available to the independent auditor relevant schedules, generator operation, and transmission conditions. The independent auditor shall determine whether actions taken by SRP were appropriate for the existing conditions and shall document pertinent information for customers, Scheduling Coordinators and ESPs.

SRP shall include the cost of the audit function in its transmission prices. To the extent FERC determines that

these costs are not appropriate transmission-related expenses, SRP shall include those costs in other prices. The auditor shall assist in resolving disputes between Scheduling Coordinators and SRP.

9. **Independent Scheduling** -- SRP's CAO will receive all schedules directly from Scheduling Coordinators. The SRP CAO will act independently from other SRP bulk scheduling functions and will not provide others at SRP with access to these schedules.
10. **Scheduling Protocol** -- SRP will develop a scheduling protocol that will be used by system operators to allow ESPs nondiscriminatory access to the interconnection points on SRP's electric system. This protocol will take into account transmission import limitations, limitations in moving power from the bulk system to the distribution system and the use of must-run generation.
11. **Transmission Availability** -- SRP will allow pro-rata access to all SRP transmission paths, in accordance with page 13 of SRP management proposal of May 21, 1998 in order to serve retail load in SRP distribution territory. (This policy will remain in effect until replaced by Desert STAR, an ISA or other regional entity or in an appropriate protocol development process.) SRP commits to statewide ISA development for implementation on January 1, 1999 (or as soon as possible thereafter), provided that the ISA development and implementation is reasonable and cost-justified. SRP will actively participate in the development of a reasonable business plan and budget. SRP, along with interested stakeholders, will participate in a study during the next two years of Arizona transmission needs to be initiated by SRP. In the meantime SRP will develop an "independent auditor" process in order to insure that SRP can comply with the provisions of the Act.

SRP shall work with Scheduling Coordinators and others to explore ways to make power deliveries, including participation in resource displacement arrangements, and power exchanges, consistent with reliability operating standards.

12. **Emergency Operations** -- If, in any hour, insufficient generating resources exist to serve the overall system demand within SRP's distribution service area, SRP will shed interruptible loads and, if necessary, firm load, to maintain overall system reliability and integrity. SRP shall continue to utilize its existing load shedding program which opens 12 kV breakers on SRP's distribution system following

a pre-planned sequence, while maintaining service to critical loads such as hospitals.

I. Low Income Programs

The Board directs SRP management to develop a low income program which, at a minimum, shall accomplish the following objectives:

1. The program shall be similar in application to the current low-income seniors program, but shall be available to all low income customers, regardless of age.
2. SRP management is directed to survey and monitor low income programs of other regional utilities.
3. The low income assistance program shall result in prices to low income customers that are at least as low as those charged by other major utilities in Arizona.

J. System Benefits Charge

1. **Definition** -- The Board finds that, certain programs benefiting the general public which have been accepted as reasonable and prudent costs for regulated utilities and were funded through electric prices, should be continued, and should be funded by a non-bypassable surcharge on distribution prices, referred to as a System Benefits Charge. The Board directs management to include the following items in the System Benefits Charge:
 - a) The low income senior assistance program, medical life support, the Pay-As-You Go Program, credit counseling, and other customer assistance programs,
 - b) For residential and small commercial customers with loads of 100,000 kWh per year or less, costs above that provided by standard prices that are incurred as a result of serving as the provider of last resort,
 - c) Renewable energy programs not collected elsewhere,
 - d) Environmental mandates and remediations, and
 - e) Decommissioning costs of nuclear generating plants built before 1996, including costs of storing and disposing of nuclear fuel.

SRP shall not include in the System Benefits Charge the costs of participating in reliability and system regulation

organizations and decommissioning fossil generation.

2. **Method of Collection** - SRP shall collect the System Benefits Charge through a continuing non-bypassable surcharge on all retail energy delivered in the SRP distribution service territory.
 - a) SRP shall generally continue funds for individual programs for the life of the program.
 - b) SRP shall collect nuclear decommissioning and nuclear fuel disposal charges until the Palo Verde Nuclear Generating Station (“Palo Verde”) has been decommissioned or until the Board finds that the decommissioning funds are sufficient to cover costs.
 - c) SRP shall fund renewable energy programs through its system benefit charge, to the extent the costs of those programs have not otherwise been recovered in charges allocated exclusively to those customers who have elected to participate in distinct renewable program offerings (often referred to as ‘green programs’).
3. **Impact on Price (Rate) Cap** – During Phase I, SRP shall fund existing programs at current levels up to the price cap. The cost of any new eligible programs begun as a result of customer choice or expansion of existing programs shall not be subject to the price cap. SRP shall exclude from the cap new system benefit costs, “green” pricing programs, the costs associated with mandated renewables programs, the cost of decommissioning Palo Verde and disposing of nuclear fuel, and the incremental costs of implementing customer choice.
4. **Administration of System Benefits Programs** -- SRP shall administer its System Benefits Program in a way that does not discriminate among electricity suppliers using SRP’s distribution system.

Section 6. Recovery of Stranded Costs

A. **Consideration of the Twelve Factors** - A.R.S. §30-805(A)(3) requires that stranded cost recovery be determined based on consideration of 12 designated factors. In determining the stranded cost recovery authorized in this resolution, the Board considered those factors and finds that:

1. ***The impact of stranded cost recovery on the effectiveness of competition***

SRP will apply its stranded cost recovery methodology uniformly to all retail customers; therefore its recovery of stranded costs will be competitively neutral. SRP's stranded cost recovery methodology meets the requirements of HB 2663, particularly regarding the length of time the stranded cost charges are recovered and the level of the CTC surcharge. In determining the level of stranded costs to be recovered, SRP reduced and levelized its stranded costs. (Absent levelization, the CTC surcharge would decline over time.) The combined effect of these actions is to reduce stranded cost recovery, and to further promote competition.

2. ***The impact of stranded cost recovery on customers of a public power entity who do not participate in the competitive market.***

Customers who do not participate in competition will pay a stranded cost recovery surcharge included within bundled prices. These customers will continue to receive SRP's standard electric service at prices based on cost of service principles. Overall prices for customers who do not participate in competition will be capped at class average levels in effect as of December 30, 1998 during the term of the recovery period.

3. ***The impact, if any, on the public power entity's ability to meet debt obligations.***

The Board has carefully considered the impairment analysis performed as required by Financial Accounting Standard ("FAS") Nos. 71, 101, and 121 and verified by Arthur Andersen LLP, and has set stranded cost recovery at the lowest possible level consistent with the objective of avoiding unnecessary write downs of assets and significant reductions to future cash flows that would otherwise impair SRP's ability to meet fixed obligations and mitigation requirements.

4. ***The impact of stranded cost recovery on prices paid by consumers who participate in the competitive market.***

SRP's stranded cost recovery surcharge for customers who participate in the competitive market will be equivalent to that included in the bundled prices paid by other customers.

5. ***The degree to which the public power entity has mitigated or offset stranded costs and the costs associated with mitigating stranded costs.***

SRP's stranded cost calculations include net cost savings from generation-related mitigation which SRP has already achieved in the approximate amount of \$25 million as well as *projected* generation-related mitigation savings in the approximate amount of \$219 million (which, if achieved, will further reduce stranded costs as provided in part B below). These amounts represent a significant mitigation effort and consist of various initiatives including interest savings from accelerated debt repayment, and fuel and non-fuel cost reductions.

6. ***The degree to which some assets have values in excess of their book values.***

SRP's methodology for recovery of stranded costs offsets stranded costs by "stranded benefits", thus providing customers with the benefits of assets having values in excess of their book values. The \$795 million is below the overall level of SRP's stranded costs, net of stranded benefits.

7. *Appropriate treatment of negative stranded costs.*

The calculation of the nominal amount of stranded cost recovery, \$795 million, has already netted anticipated “stranded benefits”. (See consideration number 6 above.) In addition, the \$795 million is a cap, which can be reduced through the realization of incremental savings (see Section 6(B)(3) *infra*), which are by definition negative stranded costs.

8. *The time period during which these stranded cost charges may be recovered. The governing body of the public power entity shall limit the application of these charges to a specified time period.*

SRP will limit its recovery of stranded costs to the period from December 31, 1998 through December 31, 2004, consistent with the provisions of the Electric Power Competition Act.

9. *The ease of determining the amount of stranded costs.*

The stranded cost approach adopted in this resolution fixes stranded cost recovery at a cap which is below SRP’s estimated total stranded costs. Further, there will be a market price review and adjustment to the CTC, as appropriate, on December 31, 2001. The effect of any adjustment will be to reduce the level of stranded costs to be recovered. This approach is simple to calculate and communicate and is comparable to approaches approved in other regulatory proceedings.

10. *The applicability of stranded costs to interruptible customers.*

The allocation of stranded costs will adhere to the principle of proportionality. To this end, SRP will calculate both the base price and any credits related thereto, including interruptible credits if applicable, to include a properly proportionate share of stranded costs.

11. *The amount of electricity generated by renewable generating resources owned by the public power entity.*

SRP operates several solar, photovoltaic and other renewable energy sources that provide approximately 10,000 kW of capacity. SRP is developing additional solar programs and a landfill gas project that will provide 6,000 – 8,000 kW.

12. *Allowances that have been provided for the recovery of stranded costs to other electricity suppliers in this state including whether one hundred per cent of regulatory assets are recovered through the stranded cost surcharge.*

Stranded cost recovery has not been determined for other electric utilities in the state. SRP will reexamine recovery of stranded costs when this information becomes available. SRP understands that the ACC has authorized Arizona Public Service Company (“APS”) to recover approximately \$1 billion of regulatory assets as part of stranded costs, which APS is now collecting in its rates and will continue to collect until July 1, 2004.

The Board has previously approved 100% recovery of SRP’s existing generation-related regulatory assets, which total \$115 million over the next six years. These costs are associated with the buyout of the Kaiser Coal Contract and bond defeasance expenses. The Board has further allowed for recovery of regulatory assets created due to the reclassification of plant in accordance with FAS Nos. 71, 101, and 121.

In addition to the 12 factors listed above, the Board, in determining SRP’s recovery of stranded costs, has also considered the oral and written comments of SRP’s customers, consultants and management.

B. Methodology

1. Recovery Methodology. All customers participating in retail access or directed purchases will pay a fixed CTC based on the calculation discussed below.

- a) The fixed CTC assumes an initial 2.6 cent market price. The fixed CTC will be based on an equivalent total recovery of \$795 million (nominal dollars) from all customers, which yields an estimated present value recovery from customers subject to competition in the amounts of \$66 million in regulatory assets and \$361 million in other stranded costs, for a total of \$427 million. This amount will represent the maximum stranded cost recovery through the CTC. Subject to the adjustments described below, the CTC shall end at such time as SRP recovers the \$795 million through the CTC charge and standard offer rates, provided that the CTC shall not extend beyond December 31, 2004. SRP's stranded cost computations have been based on the methodology set forth in SRP's confidential spreadsheets, examples of which are the spreadsheets called "FP99 ALL PLANTS" dated July 28, 1997, and the untitled spreadsheet dated September 18, 1998. SRP's position is that its stranded costs are higher than \$795 million, and the \$795 million figure represents a compromise position.
- b) The CTC will be collected on a levelized basis over six years, computed at SRP's August 14, 1998, cost of debt capital. These rates will represent maximum CTC rates for customers.
- c) SRP pledges to pursue generation-related cost mitigation activities. These include \$219 million of savings previously identified by SRP, consisting of \$146 million attributable to Palo Verde debt redemptions, \$22 million in interest savings from debt redemptions for the Coronado Generating Station, \$12 million in sales of fly ash, and \$39 million of fuel generation operation and maintenance savings (the identified mitigation items).
- d) SRP and stakeholders will participate in a joint analysis of the relationship between the California Power Exchange, Palo Verde markets, and the average retail prices paid by Arizona customers during 2001.

- e) If market prices prevailing in the year 2001 are above the prices assumed in the stranded cost calculation referenced in (a), or if the analysis in (d) indicates that an adjustment is warranted, the CTC will be recalculated (downward only), prior to December 31, 2001 using the new price assumptions, but continuing to give effect to the deferrals created by the levelized CTC charges. The new CTC will apply prospectively only beginning December 31, 2001 (but shall not reduce the recovery of CTC deferred because of the levelized recovery plan). After the adjustment, the CTC will not exceed the \$427 million recovery set forth in paragraph (a), but the application of mitigation to reduce stranded costs, as provided in paragraph c above, may be reduced to the extent that the new price assumptions are lower than the previously assumed market price.

- f) At least fifty percent of all net generation-related mitigation cost savings in excess of \$168 million of the net mitigation savings will be used to reduce the CTC charge from the level determined under section (a). Annually, the SRP board will publish a statement of the level of mitigation cost savings achieved by SRP within the \$168 million contemplated in the SRP plan (which are the items specifically referenced in paragraph (c)) and the overall level of stranded cost collections to date. During the first five years SRP will only calculate the mitigation items specifically referenced in paragraph (c). Prior to December 31, 2003 SRP will provide a full report of all generation cost related mitigation efforts (which include the mitigation cost savings identified in part (c) above, to the extent not already credited), in order to reduce the CTC during the sixth year to account for additional mitigation made under part (c) above, and to account for the overall level of CTC recovery by SRP.

2. **Proportionality** – The allocation of stranded costs will adhere to the principles of proportionality such that the CTC is allocated in proportion to a customer's or a customer class's contribution under current rates to the recovery of the stranded portion of SRP's generation costs. To this end, the calculation of any FESR customer's stranded costs responsibility will be based on the effective rate the customer now pays for SRP generation, calculated by combining the customer's base rate and applicable riders (including interruptible credits).

3. **Impairment Accounting** - Consistent with generally accepted accounting principles and the requirements of FAS Nos. 71, 101 and 121, SRP shall conduct an accounting for generation impairment. The stranded cost recovery set forth herein may necessitate the recording of a current period loss, in August, 1998, of an estimated \$50 - \$70 million dollars, based on the differential in stranded cost revenues to be recovered in bundled and unbundled prices and system benefits and other charges, vis-a-vis impairment results.

In no event shall SRP structure the recovery of stranded costs in such a way as to result in non-compliance with SRP debt resolution and rating criteria, or to raise the issue of private use of assets financed with tax-exempt debt.

Section 7. Implementation of Terms and Conditions --The Board authorizes and directs management to establish, amend and supplement SRP's rules and regulations, reasonable and nondiscriminatory fees, electric rate schedules, and protocols consistent with this resolution, and to develop and execute contracts and to do all things necessary to implement terms and conditions of competition consistent with this resolution.

Section 8. Coordination with ACC -- A.R.S. §30-806(A) directs SRP and the ACC to coordinate their respective rules and procedures on consumer protection to promote consistent implementation statewide. A.R.S. §30-806(F) directs SRP and the ACC to coordinate their respective rules and procedures on billing and collection services to promote statewide uniformity. The Board finds that SRP has been coordinating with the ACC since 1994 when management began participating in ACC working groups on competition. Consistent with the statutory requirements, and its previous activities, the Board affirms SRP's willingness to continue to coordinate with the ACC.

Section 9. Rejection of Arguments -- The Board finds that the arguments and positions advanced by participants in the competition proceedings that are contrary to or inconsistent with the terms and conditions adopted in this resolution should not be adopted. The Board rejects those arguments and positions for the reasons stated in the Customer Choice Committee's Revised Final Report and Recommendations to the Board, dated August 14, 1998, as amended.

Section 10. Reservation of Consideration -- The Board notes that stranded costs have not yet been determined for other electric utilities in Arizona. The Board specifically reserves the right to reconsider the terms and conditions adopted in this resolution to govern competition as new information becomes available in light of experience during the transition period, based on action by the ACC, or for any other reason found appropriate by the Board. The Board agrees in principle with Management's revised proposal to enhance the features and funding of SRP's low income programs and assistance, but reserves consideration of the specifics of those enhancements until the rate phase of the competition proceedings.

Section 11. Record -- The Board hereby incorporates by reference all the material in the Information Room, management's proposals, the consultants' reports, the comments of customers and the public, the transcripts of the meetings, and the reports of the Customer Choice Committee.

Section 12. Effective Date -- The effective date of this resolution is August 14, 1998.

William P. Schrader, President

Date

John M. Williams, Vice President

Date