

**Final Resolution on Unbundled Electric Price Plans and Related Matters
December 7, 1998**

**RESOLUTION OF THE BOARD OF DIRECTORS OF
THE SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT
ADOPTING UNBUNDLED ELECTRIC PRICE
PLANS AND RELATED MATTERS.**

WHEREAS, on May 29, 1998, the State of Arizona enacted the Electric Power Competition 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 Salt River Project Agricultural Improvement and Power District ("SRP");

WHEREAS, the Act requires the Board of Directors of SRP ("Board") to establish unbundled ancillary electric transmission and distribution and other service prices and terms and conditions that are nondiscriminatory and that reflect the just and reasonable price for providing that service;

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

WHEREAS, the Board, on April 13, 1998, appointed a committee (the "Customer Choice Committee") to develop a recommendation to the Board on terms and conditions for implementation of competition in compliance with the Act;

WHEREAS, on August 14, 1998, following extensive public hearings and proceedings exceeding the requirements of the Act, and based on the recommendations of the Customer Choice Committee, the Board established terms and conditions for competitive electric services ("Terms and Conditions"), as set forth in its resolution dated August 14, 1998 ("August 14 Resolution");

WHEREAS; the Board directed that the Terms and Conditions be reconsidered in compliance with, and subsequent to the effective date of, the Act;

WHEREAS, on September 3, 1998, Tucson Electric Power Company, the Land and Water Fund, the Attorney General, and the Arizona Consumers Council (collectively "Applicants for Rehearing") each filed an application for rehearing (collectively "Applications for Rehearing") that requested reconsideration of certain

aspects of the August 14 Resolution;

WHEREAS, the Board accepted and considered the Applications for Rehearing even though the August 14 Resolution was adopted prior to the effective date of the Act and A.R.S. §30-810;

WHEREAS, the Board by resolution dated September 14, 1998 granted rehearing and directed that: (i) the issues raised in the Applications for Rehearing be determined in conjunction with the proceedings to reconsider the Terms and Conditions and to establish new bundled and unbundled prices; and (ii) the Customer Choice Committee conduct a public process to hear additional evidence and argument on the issues raised in the Applications for Rehearing and report to the Board with recommendations by November 9, 1998;

WHEREAS, as directed in the August 14 Resolution and as required by the Act, to prepare for competition beginning December 31, 1998, management of SRP proposed to the Board that new bundled and unbundled electric price plans applicable to all customer classes and a new late payment fee applicable to all customers be implemented effective December 31, 1998;

WHEREAS, A.R.S. §48-2334 mandates a procedure for participation by electric customers and other interested parties in the adoption of changes in SRP's standard electric price plans;

WHEREAS, the Board by resolution dated October 5, 1998, directed that: (i) special Board meetings be held on November 9 and 30, 1998 to consider the Applications for Rehearing, to reconsider the Terms and Conditions, to consider new bundled and unbundled prices, and to afford interested persons a reasonable opportunity to orally present their views, questions and comments and to pose questions to management and consultants on these matters; (ii) notice of the special Board meetings be provided; and (iii) an Information Room be established at SRP's administrative offices to allow public access to the information required by A.R.S. §30-802(B)(2);

WHEREAS, consistent with Board resolutions dated February 2, 1998, August 3, 1998, and October 5, 1998, public notice was given on October 2, 1998 of the special Board meetings to be held on November 9 and 30, 1998 to consider new bundled and unbundled prices and the establishment of terms and conditions of competition in the retail sale of electric generation, including customer selection, complaint resolution, consumer protection, stranded costs, distribution service rates and charges, system benefit charges and other related matters, including a review of the Terms and Conditions approved in the August 14 Resolution;

WHEREAS public notice of the special Board meetings to be held on November 9 and 30, 1998 was given by publication in a newspaper of general circulation within

SRP's electric service territory and by a mailing to standard electric rate schedule customers, the governing bodies of the cities, towns and counties within SRP's distribution service area and others;

WHEREAS, management additionally used a variety of means to notify customers of the consideration of new bundled and unbundled prices and the reconsideration of the Terms and Conditions, including, without limitation, direct contact, SRP's Home Page on the Internet, newspaper advertisements, direct mail, issues of Contact and Business Contact, personal meetings, and various customer meetings;

WHEREAS, on October 2, 1998, the Information Room was opened at the main office of SRP and has remained open through this date, and contains the record in the competition proceeding, the rehearing proceeding, the reconsideration of the Terms and Conditions, and the pricing proceeding in its entirety, including, without limitation, management's proposals, the consultants' reports, the comments of customers and the public, the reports of the Customer Choice Committee, and the transcripts of the proceedings and meetings;

WHEREAS, management conducted informational meetings for residential and small business customers at five different locations in Maricopa County on October 12, 13, 14, 15, and 19, 1998, and for medium and large business customers at SRP's corporate headquarters on October 20, 1998, to discuss the consideration of new bundled and unbundled prices and the reconsideration of the Terms and Conditions;

WHEREAS, on October 20 and 27, 1998, management provided interested parties the opportunity to interview members of management and SRP consultants on issues pertaining to the proposed bundled and unbundled prices and the reconsideration of the Terms and Conditions;

WHEREAS, on October 21, 1998, the Customer Choice Committee conducted the rehearing proceeding, following public notice, to hear the arguments and evidence of the Applicants for Rehearing and management on the issues raised in the Applications for Rehearing, and to receive public comments;

WHEREAS, the special Board meeting required by A.R.S. §48-2334 was held on November 9, 1998, at which time the Customer Choice Committee presented a report on the rehearing proceeding, management presented its proposed unbundled price plans and corrections entitled "Proposed Unbundled Price Plans Effective December 31, 1998" ("Bluebook") and "Proposed Adjustments to Bundled Price Plans Effective December 31, 1998," dated October 2, 1998, consultants presented reports on management's proposed unbundled price plans and corrections, and comments from customers and the public were received on the rehearing issues, the Terms and Conditions, and management's pricing proposal;

WHEREAS, on November 13, 1998, the Customer Choice Committee issued its Report and Recommendations to the Board of Directors on Rehearing ("Report and Recommendations on Rehearing") that recommended certain changes to the Terms and Conditions adopted in the August 14 Resolution;

WHEREAS, through November 19, 1998, SRP accepted written comments on the proposed bundled and unbundled prices and the reconsideration of the Terms and Conditions;

WHEREAS, a special Board meeting was held on November 30, 1998, at which time the Customer Choice Committee presented its Report and Recommendations on Rehearing, management discussed changes to its pricing proposal and responded to written and oral comments from customers and the public, and further comments from customers and the public were received on the rehearing issues, the Terms and Conditions, and management's pricing proposal;

WHEREAS, the Customer Choice Committee accepted written comments through November 30, 1998 on its Report and Recommendations on Rehearing and on the issues raised in the Applications for Rehearing;

WHEREAS, at the special Board meeting held this date, management presented a revised pricing proposal, comments were received from customers and the public, and the Board adopted (i) a "Resolution Of The Board Of Directors Of The Salt River Project Agricultural Improvement And Power District Setting Forth A Final Decision On Rehearing Of The August 14, 1998 Resolution Adopting Terms And Conditions For Competitive Electric Services" ("Resolution on Rehearing") that granted in part and denied in part the Applications for Rehearing and (ii) a "Resolution Of The Board Of Directors Of The Salt River Project Agricultural Improvement And Power District Setting Forth A Final Decision Adopting Revised Terms And Conditions For Competitive Electric Services" that approved revisions to the Terms and Conditions ("Resolution on Revised Terms and Conditions);

WHEREAS, A.R.S. §30-802(B) grants the Board "reasonable discretion" in determining the prices, terms and conditions for competition;

WHEREAS, the Board has considered the record in the competition proceeding, the rehearing proceeding, the reconsideration of the Terms and Conditions, and the pricing proceeding, including management's proposals, analysis papers and presentations by consultants, oral and written comments from customers and the public, documents in the Information Room, and the Customer Choice Committee's reports;

WHEREAS, the Board has taken into consideration the competing interests of various customer groups; and

WHEREAS, the Board has taken into consideration, and attempted to reconcile competing statutory directives including, without limitation, the requirements that SRP (i) "establish unbundled ancillary electric transmission and distribution and other service prices and terms and conditions that are nondiscriminatory and that reflect the just and reasonable price for providing the service" (A.R.S. §30-805(A)(1)), (ii) not impose a competitive transition charge that would "cause the rates for standard offer service to exceed the rates that were in effect on December 30, 1998" (A.R.S. §30-805(B)), (iii) allocate unmitigated stranded costs among customer classes "in a manner consistent with [SRP's] current rate treatment of the stranded asset, in order to effect a recovery of unmitigated stranded costs that is in substantially the same proportion as the recovery of similar costs from customers or customer classes under current rates" (A.R.S. §30-805(C)), and (iv) reduce prices for bundled service for customers unable to choose competitive electric generation by at least ten percent over a maximum of a ten-year period (A.R.S. §30-805(G)); and

WHEREAS The Board has taken into consideration the August 14 Resolution, the Resolution On Rehearing, and the Resolution on Revised Terms and Conditions.

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 upon review and careful consideration of the record compiled in the competition and pricing proceedings, the Board adopts this resolution to approve unbundled electric price plans and related matters.

Section 2. Proceedings -- The Board finds as follows:

- A.** The conduct of the general information meetings, the management and consultant interview meetings, and the Board meetings, and the acceptance of written and oral comments on management's proposals provided an extensive opportunity for public participation in the competition and price proceedings and exceeded the requirements of A.R.S. §§30-802(B)(3) and 48-2334.
- 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 48-2334.
- C.** The public notices SRP provided are consistent with and exceed the requirements of A.R.S. §§30-802(B)(1) and 48-2334.
- D.** The competition and price proceedings conducted by SRP were legislative in nature. The legislature, in A.R.S. §30-802(B) and A.R.S. §48-2334, prescribed the processes to be followed. SRP's implementation of these processes met or exceeded the requirements of those statutes 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 and price proceedings satisfied constitutional due process requirements.

Section 3. Prices and Related Matters

A. Specific Findings -- Having duly considered management's proposal and recommendations, SRP's proposed Revenue Requirements Budget for fiscal year 1999-2000, the consultants' reports and recommendations, the oral and written comments of customers and other interested parties, and the record in the competition proceeding, the rehearing proceeding, the reconsideration of the Terms and Conditions, and the pricing proceeding in its entirety, the Board finds as follows:

1. Approval of Ten Percent Price Reduction Period -- For purposes of determining the ten percent price reduction required by A.R.S. §30-805(G), the Board approves the ten-year period beginning January 1, 1991 and ending December 31, 2000.

2. Approval of Overall Reduction

a. Management's proposed price changes for all customer classes would reduce annual revenues by approximately \$63.3 million (\$26.1 million for the balance of fiscal year 1999), and result in an average overall reduction of 4.5 percent. Management's proposed price changes, together with all price changes subsequent to January 1, 1991, would bring SRP's overall reduction (since January 1, 1991) to 9.1 percent.

b. The Arizona Consumers Council, the Arizona Community Action Association, and a number of individual customers have requested that the Board adopt price changes that either reflect a larger reduction than proposed by Management or implement the full 10 percent price reduction required by A.R.S. §30-805(G).

c. The Board finds that prices should be changed to implement the full 10 percent price reduction required by A.R.S. §30-805(G), as set forth in management's proposal in the Bluebook, its revised proposals presented at the special Board meetings on November 9 and 30, 1998, and its December 7, 1998 revised proposal requested by the Board (collectively "Management's Revised Proposal").

d. The rate redesign contemplated in Management's Revised Proposal is warranted, will not adversely affect the financial integrity of SRP, and meets SRP's primary objectives of (a) complying with the Act and the Board's directives on

customer choice, (b) improving SRP's competitiveness, (c) improving relationships with SRP's customers, and (d) maintaining SRP's financial performance.

- e. A portion of electric system revenues should continue to be applied to reduce the costs of developing, storing, transporting and delivering water for the benefit of all water users within the Salt River Reservoir District, including the portions of cities and towns located therein.
- f. The revenue and income (including investment income) from operation of the electric system will be sufficient to provide all payments and meet all other requirements as specified in Paragraph Numbers 1 and 2 of Section 711 of the Resolution Concerning Revenue Bonds, dated as of November 1, 1972, as amended.

3. Approval of Competitive Transition Charge -- Consistent with the Board's determination in connection with the Revised Terms and Conditions, the Board approves a Competitive Transition Charge ("CTC") per kilowatt-hour, by class and time period as set forth in Management's Revised Proposal, to be levied on energy consumption of all retail customers. The specified charges shall be fixed until reviewed (on or before December 31, 2001) for changes based on market prices and specific cost savings effected by management. The CTC shall be recovered through a recovery period beginning on December 31, 1998, and ending upon collection of \$795 million or such lower amount as may be determined in accordance with the Revised Terms and Conditions, but in no event later than December 31, 2004.

4. Approval of System Benefits Charge -- Consistent with the Resolution on Revised Terms and Conditions, the Board approves the system benefits charge of 0.13 cents/kWh as set forth in Management's Revised Proposal until amended by subsequent adjustments to the pricing plans. The system benefits charge shall be levied on the energy consumption of all retail customers.

5. Elimination of Fuel Escalator -- The Board finds that the fuel cost adjustment factor ("Fuel Escalator"), used since 1953 to recover changes in fuel costs resulting from market forces or changes in generation unit availability, generally is inconsistent with its desire to price generation at market-based levels. The Board approves the elimination of the Fuel Escalator effective December 31, 1998, and directs that any under-collection at

December 31, 1998, be written off and that any over-collection be applied to fuel expense.

- 6. Approval of Proposed Unbundled Prices** -- The Board approves the Unbundled Prices, effective December 31, 1998, as set forth in Management's Revised Proposal; provided, however, that the Board freezes the availability of the Instantaneously Interruptible Rider Supplemental to General Service Price Plan E-65, the Interruptible Rider with 10 Minutes Notice Supplemental to General Service Price Plan E-61, E-63 and E-65, and the Interruptible Rider with 30 Minutes Notice Supplemental to General Service Price Plan E-61, E-63 and E-65, limiting their availability to customers currently receiving services under such riders to the extent they continue to receive service under SRP's Full Electric Service Requirements Rider, as and to the extent set forth in Management's Revised Proposal.
- 7. Late Payment Fees** -- The Board finds that the fees expected to be generated from the proposed Late Payment Fee approximate the actual costs to SRP of handling delinquent customers and their accounts and approves the Late Payment Fee set forth in Management's Revised Proposal to be instituted effective December 31, 1998.
- 8. Names for Marketing Purposes** -- The Board authorizes management to assign descriptive names to all price plans and riders for marketing purposes.

Section 4. Implementation -- The Board authorizes and directs management to do all things necessary to implement the unbundled electric price plans adopted in Management's Revised Proposal and related matters consistent with this resolution.

Section 5. Rejection of Arguments -- The Board finds that the arguments and positions advanced by participants in the competition proceeding, the rehearing proceeding, the reconsideration of the Terms and Conditions or the pricing proceeding that are contrary to or inconsistent with the findings or directives adopted in this resolution should be rejected. The Board rejects those arguments and positions for the reasons stated in Exhibit 1, attached to this resolution and incorporated by reference.

Section 6. Record -- The Board hereby incorporates by reference the record in the competition proceeding, the rehearing proceeding, the reconsideration of the Terms and Conditions, and the pricing proceeding in its entirety, including, without limitation, all of the material in the Information Room, management's proposals, the consultants' reports, the comments of customers and the public, the reports of the Customer Choice Committee, and the transcripts of the proceedings and meetings.

Section 7. Effective Date -- The effective date of this resolution is December 7, 1998.