

**Final Resolution on the Terms and Conditions for Electric Competition
December 7, 1998**

**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.**

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 the Salt River Project Agricultural Improvement and Power District ("SRP");

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

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 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 that exceeded the requirements of the Act, and based upon 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"), which is attached to this resolution and incorporated by reference;

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, pursuant to A.R.S. §30-810, 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, 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; and (ii) notice of the special Board meetings be provided;

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, 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, a special Board meeting was held on November 9, 1998, at which time the Customer Choice Committee presented a report on the rehearing proceeding, and public comments were received on rehearing issues and the Terms and Conditions;

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 and public comments were received on rehearing issues and the reconsideration of the Terms and Conditions;

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, the Act requires SRP, when determining stranded costs, to consider the level of stranded cost recovery allowed other Arizona electric utilities including whether 100 percent of regulatory assets are recovered through the stranded cost surcharge;

WHEREAS, stranded costs for other Arizona electric utilities have not been determined as of this date;

WHEREAS, at the special Board meeting held this date, public comments were received on the reconsideration of the Terms and Conditions, the Board adopted 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 that approved revisions to the Terms and Conditions, and the Board will adopt a "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, A.R.S. §30-802(B) grants the Board "reasonable discretion" in determining the prices, terms and conditions for competition; and

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

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 rehearing proceedings and the record pertinent to reconsideration of the Terms and Conditions, the Board adopts this resolution to set forth its final decision adopting Revised Terms and Conditions for competitive electric services.

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

- A.** The reconsideration of the Terms and Conditions, the conduct of the meetings with customers and the special Board meetings, and the acceptance of written and oral comments provided an extensive opportunity for public participation and input that exceeded the requirements of A.R.S. §30-810.
- B.** Public notices of the special Board meetings were duly provided.

Section 3. Revised Terms and Conditions -- The Board adopts the Terms and Conditions for competition in SRP's distribution service territory as set forth in the August 14 Resolution and including the revisions adopted in paragraphs A and B below ("Revised Terms and Conditions"). In support of adopting the Revised Terms and Conditions, the Board finds as follows:

- A.** The August 14 Resolution, Section 3, Reciprocity, should be revised to incorporate the change to the reciprocity provision that was approved by the Board in the Resolution on Rehearing. The reciprocity provision should accordingly be amended to read as follows:

"SRP shall participate in retail electric competition statewide directly, or indirectly through its subsidiary, and shall open its distribution service territory to competition in the sale of electric generation service, as set forth in this Resolution, to electricity suppliers certificated by the ACC pursuant to A.R.S. §40-207, and to providers of other competitive electric services, in accordance with the provisions of A.R.S. §805(E), which provides that:

Public power entities shall allow any provider of electric generation service access to the electric power transmission and distribution facilities of public power entities under rates and terms and conditions of service that are nondiscriminatory, cost based, just and reasonable and comparable to the rates charged for the public power entity's own use of the same facilities.

Pursuant to A.R.S. §30-803(A), SRP has the right to participate in competition statewide, and A.R.S. §40-202(E) provides that the ACC "shall order on a nondiscriminatory basis that public service corporations open their distribution territories to competition by public power entities to the same extent and under the same terms and conditions as authorized electricity suppliers are granted access through [ACC] rules or orders."

- B.** Section 6 of the August 14 Resolution sets forth the Board's discussion and consideration of the twelve stranded cost factors, as required by A.R.S. §30-805(a)(3). That discussion and consideration supports the Terms and Conditions the Board adopted for stranded cost recovery. In light of recent events at the Arizona Corporation Commission ("ACC"), the Board finds that the discussion in Section 6(A)(12) of the August 14 Resolution should be updated and amended to read as follows:

"The Act requires SRP, when determining stranded costs, to consider the level of stranded cost recovery allowed other Arizona electric utilities including whether 100 percent of regulatory assets are recovered through the stranded cost surcharge. Stranded costs for other Arizona electric

utilities have not been determined as of December 7, 1998. We base our decision on the best information available, which includes information pertinent to the agreements reached between Arizona Public Service Company ("APS"), Tucson Electric Power Company ("TEP"), and the ACC Staff, and the stay issued by the Arizona Supreme Court of the accelerated proceedings the ACC instituted to consider the agreements.

Under the agreement between APS and the ACC Staff, APS would recover, in nominal terms, \$995 million of regulatory assets, which are part of stranded costs, and an additional amount, in nominal terms, of between \$503 million and \$1.117 billion of stranded costs. The total stranded costs recovery for APS under the agreement would be between \$1.498 billion and \$2.112 billion. This compares to a total capped stranded cost recovery for SRP of \$795 million. The level of APS stranded cost recovery would, therefore be 1.9 to 2.7 times that of SRP's maximum recovery.

The level of TEP stranded costs has been claimed to be confidential in TEP's filings with the ACC. However, under the agreement with the ACC Staff, TEP would recover 100 percent of its stranded costs. This compares favorably to the capped maximum stranded cost recovery for SRP which is approximately 74 percent of SRP's estimated total stranded costs."

- C. The Board finds that the Terms and Conditions should not be revised to incorporate the Code of Conduct proposed by Enron Corp. ("Enron") in its written comments dated October 26, 1998. The Board adopted a Code of Conduct for SRP on November 9, 1998 and we find that the provisions set forth therein establish sufficient functional separation and safeguards to prevent the occurrence of anti-competitive activities and the sharing of competitively sensitive information between SRP and its competitive affiliate, New West Energy Corporation ("New West Energy"). Enron's proposal that SRP and New West Energy establish structural separation is unwarranted. The Board hereby rejects Enron's proposal.

Section 4. Implementation -- The Board authorizes and directs management to do all things necessary to implement the Revised Terms and Conditions adopted in this resolution.

Section 5. Rejection of Arguments -- The Board rejects any arguments and positions advanced by participants with respect to reconsideration of the Terms and Conditions that are contrary to or inconsistent with the findings or directives adopted in this resolution.

Section 6. Reservation Of Consideration -- The Board reserves the right to reconsider and amend the August 14 Resolution and the Revised Terms and Conditions adopted herein with respect to the issues of aggregation, DSM programs, buy-through service, and disclosure requirements which were granted rehearing in Section 3(a) of the Resolution on Rehearing and remain pending for further review.

Section 7. Record -- The Board hereby incorporates by reference the record in the competition proceeding, the rehearing proceeding, and the reconsideration of the Terms and Conditions 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 8. Effective Date -- The effective date of this resolution is December 7, 1998.