

Utility Competition

**PROPOSED DRAFT
DATED NOVEMBER 23, 1998**

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

December 7, 1998

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 May 29, 1998, the State of Arizona enacted the Electric Power Competition Act (the "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, on June 1, 1998, the Board reconfirmed SRP's existing electric service area for retail customers;

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 of Directors of SRP (the "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 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 (the "Terms and Conditions"), as set forth in its resolution dated August 14, 1998 (the "August 14 Resolution");

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

WHEREAS, Tucson Electric Power Company, the Land and Water Fund, the Office of the Arizona Attorney General and the Arizona Consumers Council (together the "Rehearing Participants") each filed applications with the Board for rehearing of certain aspects of the Terms and Conditions (the "Rehearing Applications");

WHEREAS, the Board, by resolution dated September 14, 1998, granted the Rehearing Applications and directed that (i) the issues raised in the Rehearing Applications 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 Rehearing Applications 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 has 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 (the "Price Proceedings Statute") mandates a procedure for participation by electric customers and other interested parties in the adoption of changes in standard electric price plans;

WHEREAS, the Board, in compliance with the Act and the Price Proceedings Statute, and recognizing its obligations to maintain the financial integrity of SRP, to serve its customers, to honor its covenants to its bondholders, to establish prices at levels sufficient to meet operating expenses and reserves therefor and debt service requirements, and to prepare for deregulation and competition in the electric industry, and further recognizing the interest of its electric customers and other interested parties in participating in proposed changes in electric prices, by resolutions adopted February 2, August 3 and October 5, 1998, caused the following steps to be taken:

1. Public notice provided on October 2, 1998, of proposed changes to standard electric price plans (bundled prices), the establishment of 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) as determined in the reasonable discretion of the Board (collectively, the "Proposed Prices, Terms and Conditions");
2. Retention of National Economic Research Associates, Inc. ("NERA") as the Board's consultant to review management's studies and recommendation for proposed changes to standard electric rate schedules, and to present its findings, conclusions and recommendations thereon;
3. Establishment of November 9, 1998, as the special Board meeting required by the Act and the Price Proceedings Statute, at which the Board would:
 - a. Afford management an opportunity to explain the Proposed Prices, Terms and Conditions and the criteria for such prices, terms and conditions and to answer questions;
 - b. Afford the Board's consultants an opportunity to comment upon the Proposed Prices, Terms and Conditions; and
 - c. Afford interested persons a reasonable opportunity to orally present their views, questions and comments and to pose questions to management and consultants; and
4. Establishment of an Information Room, during the period October 2, 1998, through December 31, 1998, at SRP's main office, and the deposit therein of management's recommendations for Proposed Prices, Terms and Conditions; relevant financial and other information as may be pertinent and upon which the management proposal is based, including data from

long rang plans and budgets; current prices, terms and conditions, including the Terms and Conditions adopted by the Board pursuant to the August 14 Resolution; copies of transmission tariffs, reports by consultants to the Board; and any proposals and comments submitted by interested persons, with copies of all such documents having been filed with the Secretary and incorporated herein by reference; and

5. Establishment of November 30, 1998, as a Board meeting at which interested parties could have an additional opportunity to pose questions to management and present comments and proposals to the Board with respect to the Proposed Prices, Terms and Conditions; and

WHEREAS, management has used a variety of means to notify customers of the Proposed Prices, Terms and Conditions including, without limitation, direct contact, SRP's Home Page on the Internet, newspaper advertisements, direct mail, issues of both Contact and Business Contact, personal meetings, and various customer meetings;

WHEREAS, on October 2, 1998, public notice of the Proposed Prices, Terms and Conditions, opening of an Information Room at SRP's main office, the special Board meeting to be held on November 9, 1998, and the additional Board meeting to be held on November 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, copies of such public notices being on file in the Secretary's Office and incorporated herein by reference;

WHEREAS, on October 2, 1998, the Information Room was opened at the main office of SRP and has remained open through this date;

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 Proposed Prices, Terms and Conditions;

WHEREAS, management provided interested parties the opportunity on October 20 and 27, 1998, to interview members of management and SRP consultants on issues pertaining to the Proposed Prices, Terms and Conditions;

WHEREAS, the Customer Choice Committee conducted a public hearing on October 22, 1998, following public notice, to hear additional evidence and argument on the issues raised in the Rehearing Applications;

WHEREAS, a special Board meeting was held on November 9, 1998, in the Mohave Conference Room at the Project Administration Building, at which time the Board formally considered the following:

1. Management's recommendation, copies of which had been previously furnished, for proposed changes in standard electric price plans (bundled prices), changes to the late payment fee (the "Proposed Late Payment Fee") and the establishment of unbundled prices, entitled "Proposed Unbundled Price Plans Effective December 31, 1998 and Proposed Adjustments to Bundled Price Plans Effective December 31, 1998," dated October 2, 1998 (the "Bluebook"), which report is on file in the Secretary's Office and incorporated herein by reference, and which stated in part that:
 - a. SRP has been preparing for a competitive environment for almost ten years, evidenced by cost-cutting measures SRP has undertaken, including a reduction of 30 percent in staffing that has occurred since 1988; the introduction of new prices and price plans in 1995 that offered SRP's large general service customers an overall price reduction of 4.5 percent; the 1996 price adjustment for residential, commercial, pumping and lighting customers with an overall decrease of 3.4 percent; and the introduction of new services and products that customers value and desire, such as customer-selected due dates, summary billing, and ExpressChex telephone and Internet bill payment capabilities;
 - b. Offering lower prices, more price plans, and customer-oriented services has improved SRP's competitive position and strengthened its relationship with its customers;
 - c. The recommended prices are designed to (i) better track costs of service, to share savings in operating costs effected by SRP, and to reduce or eliminate intra-class subsidies, (ii) increase customer perceptions of value received from SRP service and to better position SRP competitively, and (iii) preserve SRP's financial integrity, while providing for a smooth transition to customer choice for both customers and SRP;
 - d. The proposed reductions, together with price adjustments subsequent to January 1, 1991, would bring SRP's overall reduction since that date to 9.1 percent, leaving an additional overall price decrease of 0.9 percent required on or before December 31, 2000 to meet the 10 percent reduction mandated by the Act;

- e. Cost recoveries, with the exception of cost recovery for the lighting class, are reasonably similar (within 10 percent of the mean recovery of 100 percent), as measured by the historical cost allocation study for fiscal year 1997; and
 - f. Rather than recommending nominal differences between classes in the allocation of the proposed price plan decrease, management nominated the same percentage decrease for all customer classes, helping to move each customer class toward the 10 percent cumulative price plan decrease, even though the target would be achieved when the system as an average has received a cumulative 10 percent decrease, in an attempt to spread the economic benefits of a competitive electric market to all customer classes;
2. Management's November 4, 1998 corrections to certain parts of the Bluebook, copies of which were distributed at the meeting and placed in the information room with an explanatory memo dated November 5, 1998 (collectively the "Corrections"), copies of which Corrections were filed with the Secretary and are incorporated herein by reference (the proposed price plans and riders reflected in the Bluebook, as modified by the Corrections, are hereinafter referred to as the "Proposed Bundled and Unbundled Prices") (the Bluebook, as modified by the Corrections is referred to as the "Revised Bluebook");
 3. The Terms and Conditions;
 4. The Customer Choice Committee's report on the Rehearing Applications;
 5. NERA's independent report on management's recommendation, copies of which were previously furnished, which stated in part that "Management's proposed prices are reasonably designed to achieve the stated objectives, with the possible exception of (1) the price reduction for the lighting class (which is far from covering its cost of service even under current prices), (2) the lack of unbundled prices corresponding to each bundled price, (3) the inflated shopping credits for industrial customers choosing another supplier, and (4) the average cost basis for the revenue cycle service unbundled prices";
 6. A report by SRP's financial consultant, Lazard Freres & Co., on SRP's excellent financial condition, particularly in terms of cash, debt ratio and bond ratings from Moody's and Standard & Poor's, and concurrence with management's recommendations relative to the proposed price changes; and

7. The oral and written statements of customers and other interested parties; the written statements have been filed with the Secretary and are incorporated herein by reference;

WHEREAS, through November 19, 1998, SRP accepted written comments on the Proposed Prices, Terms and Conditions from all interested persons;

WHEREAS, the Customer Choice Committee recommended certain changes to the Terms and Conditions adopted in the August 14 Resolution, as reflected in its Report and Recommendations to the Board of Directors on Rehearing dated November 13, 1998 (the Terms and Conditions, as so revised, are hereinafter referred to as the "Revised Terms and Conditions");

WHEREAS, a special Board meeting was held on November 30, 1998, in the Mohave Conference Room at the Project Administration Building, at which time the Board formally considered the following:

1. _____;
2. _____; and
3. _____;

WHEREAS, the Board has considered the record in the competition and price 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 reports;

WHEREAS, SRP management has had extensive meetings with customers and customer representatives concerning the Proposed Prices, Terms and Conditions;

WHEREAS, after considering the recommendations of the Customer Choice Committee and management, and taking into consideration the arguments presented by the Rehearing Participants, the Board adopted a resolution on this date approving the Revised Terms and Conditions and rejecting the arguments presented by the Rehearing Participants;

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

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.);

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. § 48-2334, and based on review and careful consideration of the record compiled in the competition and pricing proceedings, the Board adopts this resolution to approve bundled and 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 and the Customer Choice Committee's reports 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 report and its recommendations; the proposed Revenue Requirements Budget for fiscal year 1999-2000; NERA's report and its recommendations; Lazard Freres & Co.'s statement; oral and written statements of electric customers and other interested parties; and the responses to questions of management and NERA; the Board finds as follows:
1. The proposed price changes for all customer classes will 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.
 2. The proposed price changes, together with all price changes subsequent to January 1, 1991, will bring SRP's overall reduction (since January 1, 1991) to 9.1 percent.
 3. The proposed rate redesign 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.
 4. 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.
 5. 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.
- B. 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.

- C. 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 the Revised Bluebook, 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.
- D. Approval of Systems Benefits Charge** -- Consistent with the Board's determination in connection with the Revised Terms and Conditions, the Board approves the Systems Benefits Charge ("SBC") of 0.13 cents/kWh as set forth in the Revised Bluebook until amended by subsequent adjustments to the pricing plans. The SBC shall be levied on the energy consumption of all retail customers.
- E. 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.
- F. Approval of Proposed Bundled and Unbundled Prices** -- The Board approves the Proposed Bundled and Unbundled Prices, effective December 31, 1998; 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 the Revised Bluebook.

- G. 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 Proposed Late Payment Fee, to be instituted effective December 31, 1998.

- H. 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 bundled and unbundled electric price plans 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 and pricing proceedings that are contrary to or inconsistent with the prices, terms and conditions adopted in this resolution should not be adopted. The Board rejects those arguments and positions for the reasons stated in its [_____ Report] dated December 7, 1998.

Section 6. 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, and the transcripts of the meetings.

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