

SETTLEMENT AGREEMENT

May 14, 1999

This settlement agreement ("Agreement") is entered into as of May 14, 1999, by Arizona Public Service Company ("APS" or the "Company") and the various signatories to this Agreement (collectively, the "Parties") for the purpose of establishing terms and conditions for the introduction of competition in generation and other competitive services that are just, reasonable and in the public interest.

INTRODUCTION

In Decision No. 59943, dated December 26, 1996, the Arizona Corporation Commission ("ACC" or the "Commission") established a "framework" for introduction of competitive electric services throughout the territories of public service corporations in Arizona in the rules adopted in A.A.C. R14-2-1601 *et seq.* (collectively, "Electric Competition Rules" as they may be amended from time to time). The Electric Competition Rules established by that order contemplated future changes to such rules and the possibility of waivers or amendments for particular companies under appropriate circumstances. Since their initial issuance, the Electric Competition Rules have been amended several times and are currently stayed pursuant to Decision No. 61311, dated January 5, 1999. During this time, APS, Commission Staff and other interested parties have participated in a number of proceedings, workshops, public comment sessions and individual negotiations in order to further refine and develop a restructured utility industry in Arizona that will provide meaningful customer choice in a manner that is just, reasonable and in the public interest.

This Agreement establishes the agreed upon transition for APS to a restructured entity and will provide customers with competitive choices for generation and certain other retail services. The Parties believe this Agreement will produce benefits for all customers through implementing customer choice and providing rate reductions so that the APS service territory may benefit from economic growth. The Parties also believe this Agreement will fairly treat APS and its shareholders by providing a reasonable opportunity to recover prudently incurred investments and costs, including stranded costs and regulatory assets.

Specifically, the Parties believe the Agreement is in the public interest for the following reasons. First, customers will receive substantial rate reductions. Second, competition will be promoted through the introduction of retail access faster than would have been possible without this Agreement and by the functional separation of APS' power production and delivery functions. Third, economic development and the environment will

benefit through guaranteed rate reductions and the continuation of renewable and energy efficiency programs. Fourth, universal service coverage will be maintained through APS' low income assistance programs and establishment of "provider of last resort" obligations on APS for customers who do not wish to participate in retail access. Fifth, APS will be able to recover its regulatory assets and stranded costs as provided for in this Agreement without the necessity of a general rate proceeding. Sixth, substantial litigation and associated costs will be avoided by amicably resolving a number of important and contentious issues that have already been raised in the courts and before the Commission. Absent approval by the Commission of the settlement reflected by this Agreement, APS would seek full stranded cost recovery and pursue other rate and competitive restructuring provisions different than provided for herein. The other Parties would challenge at least portions of APS' requested relief, including the recovery of all stranded costs. The resulting regulatory hearings and related court appeals would delay the start of competition and drain the resources of all Parties.

NOW, THEREFORE, APS and the Parties agree to the following provisions which they believe to be just, reasonable and in the public interest:

TERMS OF AGREEMENT

ARTICLE I

IMPLEMENTATION OF RETAIL ACCESS

1.1. The APS distribution system shall be open for retail access on July 1, 1999; provided, however, that such retail access to electric generation and other competitive electric services suppliers will be phased in for customers in APS' service territory in accordance with the proposed Electric Competition Rules, as and when such rules become effective, with an additional 140 MW being made available to eligible non-residential customers. The Parties shall urge the Commission to approve Electric Competition Rules, at least on an emergency basis, so that meaningful retail access can begin by July 1, 1999. Unless subject to judicial or regulatory restraint, APS shall open its distribution system to retail access for all customers on January 1, 2001.

1.2. APS will make retail access available to residential customers pursuant to its December 21, 1998, filing with the Commission.

1.3. The Parties acknowledge that APS' ability to offer retail access is contingent upon numerous conditions and circumstances, a number of which are not within the direct control of the Parties. Accordingly, the Parties agree that it may become necessary to modify the terms of retail access to account for such factors, and they further agree to address such matters in good faith and to cooperate in an effort to propose joint resolutions of any such matters.

1.4. APS agrees to the amendment and modification of its Certificate(s) of

Convenience and Necessity to permit retail access consistent with the terms of this Agreement. The Commission order adopting this Agreement shall constitute the necessary Commission Order amending and modifying APS' CC&Ns to permit retail access consistent with the terms of this Agreement.

ARTICLE II **RATE MATTERS**

2.1. The Company's unbundled rates and charges attached hereto as Exhibit A will be effective as of July 1, 1999. The Company's presently authorized rates and charges shall be deemed its standard offer ("Standard Offer") rates for purposes of this Agreement and the Electric Competition Rules. Bills for Standard Offer service shall indicate individual unbundled service components to the extent required by the Electric Competition Rules.

2.2. Future reductions of standard offer tariff rates of 1.5% for customers having loads of less than 3 MW shall be effective as of July 1, 1999, July 1, 2000, July 1, 2001, July 1, 2002, and July 1, 2003, upon the filing and Commission acceptance of revised tariff sheets reflecting such decreases. For customers having loads greater than 3 MW served on Rate Schedules E-34 and E-35, Standard Offer tariff rates will be reduced: 1.5%, effective July 1, 1999; 1.5% effective July 1, 2000; 1.25% effective July 1, 2001; and .75% effective July 1, 2002. The 1.5% Standard Offer rate reduction to be effective July 1, 1999, includes the rate reduction otherwise required by Decision No. 59601. Such decreases shall become effective by the filing with and acceptance by the Commission of revised tariff sheets reflecting each decrease.

2.3. Customers greater than 3 MW who choose a direct access supplier must give APS one year's advance notice before being eligible to return to Standard Offer service.

2.4. Unbundled rates shall be reduced in the amounts and at the dates set forth in Exhibit A attached hereto upon the filing and Commission acceptance of revised tariff sheets reflecting such decreases.

2.5. This Agreement shall not preclude APS from requesting, or the Commission from approving, changes to specific rate schedules or terms and conditions of service, or the approval of new rates or terms and conditions of service, that do not significantly affect the overall earnings of the Company or materially modify the tariffs or increase the rates approved in this Agreement. Nothing contained in this Agreement shall preclude APS from filing changes to its tariffs or terms and conditions of service which are not inconsistent with its obligations under this Agreement.

2.6. Notwithstanding the rate reduction provisions stated above, the Commission shall, prior to December 31, 2002, approve an adjustment clause or clauses which will provide full and timely recovery beginning July 1, 2004, of the reasonable and prudent costs of the following:

- (1) APS' "provider of last resort" and Standard Offer obligations for

service after July 1, 2004, which costs shall be recovered only from Standard Offer and “provider of last resort” customers;

- (2) Standard Offer service to customers who have left Standard Offer service or a special contract rate for a competitive generation supplier but who desire to return to Standard Offer service, which costs shall be recovered only from Standard Offer and “provider of last resort” customers;
- (3) compliance with the Electric Competition Rules or Commission-ordered programs or directives related to the implementation of the Electric Competition Rules, as they may be amended from time to time, which costs shall be recovered from all customers receiving services from APS; and
- (4) Commission-approved system benefit programs or levels not included in Standard Offer rates as of June 30, 1999, which costs shall be recovered from all customers receiving services from APS.

By June 1, 2002, APS shall file an application for an adjustment clause or clauses, together with a proposed plan of administration, and supporting testimony. The Commission shall thereafter issue a procedural order setting such adjustment clause application for hearing and including reasonable provisions for participation by other parties. The Commission order approving the adjustment clauses shall also establish reasonable procedures pursuant to which the Commission, Commission Staff and interested parties may review the costs to be recovered. By June 30, 2003, APS will file its request for the specific adjustment clause factors which shall, after hearing and Commission approval, become effective July 1, 2004. APS shall be allowed to defer costs covered by this Section 2.6 when incurred for later full recovery pursuant to such adjustment clause or clauses, including a reasonable return.

2.7. By June 30, 2003, APS shall file a general rate case with prefiled testimony and supporting schedules and exhibits; provided, however, that any rate changes resulting therefrom shall not become effective prior to July 1, 2004.

2.8. APS shall not be prevented from seeking a change in unbundled or Standard Offer rates prior to July 1, 2004, in the event of (a) conditions or circumstances which constitute an emergency, such as the inability to finance on reasonable terms, or (b) material changes in APS’ cost of service for Commission regulated services resulting from federal, tribal, state or local laws, regulatory requirements, judicial decision, actions or orders. Except for the changes otherwise specifically contemplated by this Agreement, unbundled and Standard Offer rates shall remain unchanged until at least July 1, 2004.

ARTICLE III

REGULATORY ASSETS AND STRANDED COSTS

3.1. APS currently recovers regulatory assets through July 1, 2004, pursuant to Commission Decision No. 59601 in accordance with the provisions of this Agreement.

3.2. APS has demonstrated that its allowable stranded costs after mitigation (which result from the impact of retail access), exclusive of regulatory assets, are at least \$533 million net present value.

3.3. The Parties agree that APS should not be allowed to recover \$183 million net present value of the amounts included above. APS shall have a reasonable opportunity to recover \$350 million net present value through a competitive transition charge ("CTC") set forth in Exhibit A attached hereto. Such CTC shall remain in effect until December 31, 2004, at which time it will terminate. If by that date APS has recovered more or less than \$350 million net present value, as calculated in accordance with Exhibit B attached hereto, then the nominal dollars associated with any excess recovery/under recovery shall be credited/debited against the costs subject to recovery under the adjustment clause set forth in Section 2.6(3).

3.4. The regulatory assets to be recovered under this Agreement, after giving effect to the adjustments set forth in Section 3.3, shall be amortized in accordance with Schedule C of Exhibit A attached hereto.

3.5. Neither the Parties nor the Commission shall take any action that would diminish the recovery of APS' stranded costs or regulatory assets provided for herein. The Company's willingness to enter into this Agreement is based upon the Commission's irrevocable promise to permit recovery of the Company's regulatory assets and stranded costs as provided herein. Such promise by the Commission shall survive the expiration of the Agreement and shall be specifically enforceable against this and any future Commission.

ARTICLE IV CORPORATE STRUCTURE

4.1. The Commission will approve the formation of an affiliate or affiliates of APS to acquire at book value the competitive services assets as currently required by the Electric Competition Rules. In order to facilitate the separation of such assets efficiently and at the lowest possible cost, the Commission shall grant APS a two-year extension of time until

December 31, 2002, to accomplish such separation. A similar two-year extension shall be authorized for compliance with A.A.C. R14-2-1606(B).

4.2. Approval of this Agreement by the Commission shall be deemed to constitute all requisite Commission approvals for (1) the creation by APS or its parent of new corporate affiliates to provide competitive services including, but not limited to, generation sales and power marketing, and the transfer thereto of APS' generation assets and competitive services, and (2) the full and timely recovery through the adjustment clause referred to in Section 2.6 above for all of the reasonable and prudent costs so incurred in separating competitive generation assets and competitive services as required by proposed A.A.C. R14-2-1615, exclusive of the costs of transferring the APS power marketing function to an affiliate. The assets and services to be transferred shall include the items set forth on Exhibit C attached hereto. Such transfers may require various regulatory and third party approvals, consents or waivers from entities not subject to APS' control, including the FERC and the NRC. No Party to this Agreement (including the Commission) will oppose, or support opposition to, APS requests to obtain such approvals, consents or waivers.

4.3. Pursuant to A.R.S. § 40-202(L), the Commission's approval of this Agreement shall exempt any competitive service provided by APS or its affiliates from the application of various provisions of A.R.S. Title 40, including A.R.S. §§ 40-203, 40-204(A), 40-204(B), 40-248, 40-250, 40-251, 40-285, 40-301, 40-302, 40-303, 40-321, 40-322, 40-331, 40-332, 40-334, 40-365, 40-366, 40-367 and 40-401.

4.4. APS' subsidiaries and affiliates (including APS' parent) may take advantage of competitive business opportunities in both energy and non-energy related businesses by establishing such unregulated affiliates as they deem appropriate, which will be free to operate in such places as they may determine. The APS affiliate or affiliates acquiring APS' generating assets may be a participant in the energy supply market within and outside of Arizona. Approval of this Agreement by the Commission shall be deemed to include the following specific determinations required under Sections 32(c) and (k)(2) of the Public Utility Holding Company Act of 1935:

APS or an affiliate is authorized to establish a subsidiary company, which will seek exempt wholesale generator ("EWG") status from the Federal Energy Regulatory Commission, for the purposes of acquiring and owning Generation Assets.

The Commission has determined that allowing the Generation Assets to become "eligible facilities," within the meaning of Section 32 of the Public Utility Holding Company Act ("PUHCA"), and owned by an APS EWG affiliate (1) will benefit consumers, (2) is in the public interest, and (3) does not violate Arizona law.

The Commission has sufficient regulatory authority, resources and access to the books and records of APS and any relevant associate, affiliate, or subsidiary company to

exercise its duties under Section 32(k) of PUHCA.

APS will purchase any electric energy from its EWG affiliate at market based rates. This Commission has determined that (1) the proposed transaction will benefit consumers and does not violate Arizona law; (2) the proposed transaction will not provide APS' EWG affiliate an unfair competitive advantage by virtue of its affiliation with APS; (3) the proposed transaction is in the public interest.

The APS affiliate or affiliates acquiring APS' generating assets will be subject to regulation by the Commission, to the extent otherwise permitted by law, to no greater manner or extent than that manner and extent of Commission regulation imposed upon other owners or operators of generating facilities.

4.5. The Commission's approval of this Agreement will constitute certain waivers to APS and its affiliates (including its parent) of the Commission's existing affiliate interest rules (A.A.C. R14-2-801, *et seq.*), and the rescission of all or portions of certain prior Commission decisions, all as set forth on Exhibit D attached hereto.

4.6. The Parties reserve their rights under Sections 205 and 206 of the Federal Power Act with respect to the rates of any APS affiliate formed under the provisions of this Article IV.

ARTICLE V **WITHDRAWAL OF LITIGATION**

V.1. Upon receipt of a final order of the Commission approving this Agreement that is no longer subject to judicial review, APS and the Parties shall withdraw with prejudice all of their various court appeals of the Commission's competition orders.

ARTICLE VI **APPROVAL BY THE COMMISSION**

6.1. This Agreement shall not become effective until the issuance of a final Commission order approving this Agreement without modification on or before August 1, 1999. In the event that the Commission fails to approve this Agreement without modification according to its terms on or before August 1, 1999, any Party to this Agreement may withdraw from this Agreement and shall thereafter not be bound by its provisions; provided, however, that if APS withdraws from this Agreement, the Agreement shall be null and void and of no further force and effect. In any event, the rate reduction provisions of this Agreement shall not take effect until this Agreement is approved. Parties so withdrawing shall be free to pursue their respective positions without prejudice. Approval of this Agreement by the Commission shall make the Commission a Party to this Agreement and fully bound by its provisions.

6.2. The Parties agree that they shall make all reasonable and good faith efforts

necessary to (1) obtain final approval of this Agreement by the Commission, and (2) ensure full implementation and enforcement of all the terms and conditions set forth in this Agreement. Neither the Parties nor the Commission shall take or propose any action which would be inconsistent with the provisions of this Agreement. All Parties shall actively defend this Agreement in the event of any challenge to its validity or implementation.

ARTICLE VII

MISCELLANEOUS MATTERS

7.1. To the extent any provision of this Agreement is inconsistent with any existing or future Commission order, rule or regulation or is inconsistent with the Electric Competition Rules as now existing or as may be amended in the future, the provisions of this Agreement shall control and the approval of this Agreement by the Commission shall be deemed to constitute a Commission-approved variation or exemption to any conflicting provision of the Electric Competition Rules.

7.2. The provisions of this Agreement shall be implemented and enforceable notwithstanding the pendency of a legal challenge to the Commission's approval of this Agreement, unless such implementation and enforcement is stayed or enjoined by a court having jurisdiction over the matter. If any portion of the Commission order approving this Agreement or any provision of this Agreement is declared by a court to be invalid or unlawful in any respect, then (1) APS shall have no further obligations or liability under this Agreement, including, but not limited to, any obligation to implement any future rate reductions under Article II not then in effect, and (2) the modifications to APS' certificates of convenience and necessity referred to in Section 1.4 shall be automatically revoked, in which event APS shall use its best efforts to continue to provide noncompetitive services (as defined in the proposed Electric Competition Rules) at then current rates with respect to customer contracts then in effect for competitive generation (for the remainder of their term) to the extent not prohibited by law and subject to applicable regulatory requirements.

7.3. The terms and provisions of this Agreement apply solely to and are binding only in the context of the purposes and results of this Agreement and none of the positions taken herein by any Party may be referred to, cited or relied upon by any other Party in any fashion as precedent or otherwise in any other proceeding before this Commission or any other regulatory agency or before any court of law for any purpose except in furtherance of the purposes and results of this Agreement.

7.4. This Agreement represents an attempt to compromise and settle disputed claims regarding the prospective just and reasonable rate levels, and the terms and conditions

of competitive retail access, for APS in a manner consistent with the public interest and applicable legal requirements. Nothing contained in this Agreement is an admission by APS that its current rate levels or rate design are unjust or unreasonable.

7.5. As part of this Agreement, APS commits that it will continue the APS

Community Action Partnership (which includes weatherization, facility repair and replacement, bill assistance, health and safety programs and energy education) in an annual amount of at least \$500,000 through July 1, 2004. Additionally, the Company will, subject to Commission approval, continue low income rates E-3 and E-4 under their current terms and conditions.

7.6. APS shall actively support the Arizona Independent Scheduling Administrator (“AISA”) and the formation of the Desert Star Independent System Operator. APS agrees to modify its OATT to be consistent with any FERC approved AISA protocols. The Parties reserve their rights with respect to any AISA protocols, including the right to challenge or seek modifications to, or waivers from, such protocols. APS shall file changes to its existing OATT consistent with this section within ten (10) days of Commission approval of this Agreement pursuant to Section 6.1.

7.7. Within thirty (30) days of Commission approval of this Agreement pursuant to Section 6.1, APS shall serve on the Parties an Interim Code of Conduct to address inter-affiliate relationships involving APS as a utility distribution company. APS shall voluntarily comply with this Interim Code of Conduct until the Commission approves a code of conduct for APS in accordance with the Electric Competition Rules that is concurrently effective with codes of conduct for all other Affected Utilities (as defined in the Electric Competition Rules). APS shall meet and confer with the Parties prior to serving its Interim Code of Conduct.

7.8. In the event of any disagreement over the interpretation of this Agreement or the implementation of any of the provisions of this Agreement, the Parties shall promptly convene a conference and in good faith shall attempt to resolve such disagreement.

7.9. The obligations under this Agreement that apply for a specific term set forth herein shall expire automatically in accordance with the term specified and shall require no further action for their expiration.

7.10. The Parties agree and recommend that the Commission schedule public meetings and hearings for consideration of this Agreement. The filing of this Agreement with the Commission shall be deemed to be the filing of a formal request for the expeditious issuance of a procedural schedule that establishes such formal hearings and public meetings as may be necessary for the Commission to approve this Agreement in accordance with

Section 6.1 and that afford interested parties adequate opportunity to comment and be heard on the terms of this Agreement consistent with applicable legal requirements.

DATED at Phoenix, Arizona, as of this 14th day of May, 1999.

RESIDENTIAL UTILITY
CONSUMER OFFICE

By _____

Title _____

ARIZONA PUBLIC SERVICE COMPANY

By _____

Title _____

ARIZONA COMMUNITY ACTION
ASSOCIATION

By _____

Title _____

(Party) _____

By _____

Title _____

ARIZONANS FOR ELECTRIC CHOICE
AND COMPETITION, a coalition of

companies and associations in support of
competition that includes Cable Systems

International, BHP Copper, Motorola,
Chemical Lime, Intel, Hughes, Honeywell,

Allied Signal, Cyprus Climax Metals, Asarco,
Phelps Dodge, Enron, Homebuilders of
Central Arizona, Arizona Mining Industry
Gets Our Support, Arizona Food Marketing
Alliance, Arizona Association of Industries,
Arizona Multi-housing Association, Arizona

Rock Products Association, Arizona Restaurant
Association, Arizona Association of General
Contractors, and Arizona Retailers Association.

By _____

Title _____

(Party) _____

By _____

Title _____

(Party) _____

By _____

Title _____

ARIZONA PUBLIC SERVICE COMPANY

Exhibit A
5/13/99
Schedule A

Competitive Transition Charges
 By Direct Access Rate Classes

Line #	Direct Access Rate Class	Competition Transition Charges Effective January 1 of					
		1999	2000	2001	2002	2003	2004
1	Residential, DA-R1 (per kWh)	\$ 0.0093	\$ 0.0084	\$ 0.0063	\$ 0.0056	\$ 0.0050	\$ 0.0036
2	Under 3 mW, DA-GS1, (per kW/mo.)	\$ 2.43	\$ 2.20	\$ 1.66	\$ 1.46	\$ 1.30	\$ 0.94
3	3 mW and Above, DA-GS10 (per kW/mo.)	\$ 2.82	\$ 2.55	\$ 1.89	\$ 1.72	\$ 1.51	\$ 1.09
4	BHP Copper (per kW/mo.)	\$ 1.54	\$ 1.53	\$ 1.06	\$ 0.95	\$ 0.83	\$ 0.61
5	Cyprus Copper (per kW/mo.)	\$ 1.34	\$ 1.46	\$ 1.05	\$ 0.94	\$ 0.82	\$ 0.61
6	Ralston Purina (per kW/mo.)	\$ 1.86	\$ 1.98	\$ 1.50	\$ 1.34	\$ 1.18	\$ 0.87
7	Average Retail (per kWh)	\$ 0.0067	\$ 0.0061	\$ 0.0054	\$ 0.0048	\$ 0.0043	\$ 0.0031

Charges are based upon recovery of \$350 million NPV derived from APS' Compliance Filing of 8/21/98 as adjusted to synchronize Direct Access and Standard Offer revenue decreases.

ARIZONA PUBLIC SERVICE COMPANY

Exhibit A
5/13/99
Schedule B

Distribution Charges
By Direct Access Rate Classes

Line #	Direct Access Rate Class	Distribution Charges Effective January 1 of					
		1999	2000	2001	2002	2003	2004 ^{a/}
<u>Residential, DA-R1</u>							
1	Summer per kWh	\$ 0.04158	\$ 0.04041	\$ 0.03934	\$ 0.03837	\$ 0.03748	\$ 0.03689
2	Winter per kWh	\$ 0.03518	\$ 0.03419	\$ 0.03329	\$ 0.03247	\$ 0.03172	\$ 0.03122
<u>DA-GS1 (Under 3 mW)</u>							
Summer Rates							
3	per kW for all kW over 5	\$ 0.721	\$ 0.691	\$ 0.663	\$ 0.638	\$ 0.615	\$ 0.600
4	per kWh for the first 2,500 kWh	\$ 0.04255	\$ 0.04075	\$ 0.03912	\$ 0.03763	\$ 0.03627	\$ 0.03537
5	per kWh for the next 100 kWh per kW over 5	\$ 0.04255	\$ 0.04075	\$ 0.03912	\$ 0.03763	\$ 0.03627	\$ 0.03537
6	per kWh for the next 42,000 kWh	\$ 0.02901	\$ 0.02779	\$ 0.02667	\$ 0.02565	\$ 0.02473	\$ 0.02411
7	per kWh for all additional kWh	\$ 0.01811	\$ 0.01735	\$ 0.01665	\$ 0.01602	\$ 0.01544	\$ 0.01506
Winter Rates							
8	per kW for all kW over 5	\$ 0.652	\$ 0.624	\$ 0.599	\$ 0.576	\$ 0.555	\$ 0.541
9	per kWh for the first 2,500 kWh	\$ 0.03827	\$ 0.03666	\$ 0.03519	\$ 0.03385	\$ 0.03263	\$ 0.03182
10	per kWh for the next 100 kWh per kW over 5	\$ 0.03827	\$ 0.03666	\$ 0.03519	\$ 0.03385	\$ 0.03263	\$ 0.03182
11	per kWh for the next 42,000 kWh	\$ 0.02600	\$ 0.02490	\$ 0.02390	\$ 0.02299	\$ 0.02216	\$ 0.02161
12	per kWh for all additional kWh	\$ 0.01614	\$ 0.01546	\$ 0.01484	\$ 0.01427	\$ 0.01376	\$ 0.01342
Voltage Discounts							
13	Primary Voltage	11.6%	12.1%	12.6%	13.1%	13.6%	13.9%
14	Transmission Voltage	52.6%	54.9%	57.2%	59.5%	61.7%	63.3%
<u>DA-GS10 (3 mW and Above)</u>							
15	per kW	\$ 3.53	\$ 3.33	\$ 3.15	\$ 2.98	\$ 2.83	\$ 2.73
16	per kWh	\$ 0.00999	\$ 0.00943	\$ 0.00892	\$ 0.00845	\$ 0.00802	\$ 0.00774
Voltage Discounts							
17	Primary Voltage Discount	4.8%	5.1%	5.3%	5.6%	5.9%	6.2%
18	Transmission Voltage Discount	36.7%	38.9%	41.1%	43.4%	45.8%	47.4%
<u>DA-GS11 (Ralston Purina)</u>							
19	per kW	\$ 2.58	\$ 2.71	\$ 2.57	\$ 2.44	\$ 2.32	\$ 2.25
20	per kWh	\$ 0.00732	\$ 0.00767	\$ 0.00727	\$ 0.00691	\$ 0.00657	\$ 0.00635
<u>DA-GS12 (BHP Copper)</u>							
21	Primary Voltage Delivery - per kW	\$ 2.35	\$ 2.30	\$ 2.16	\$ 2.07	\$ 1.99	\$ 1.93
22	per kWh	\$ 0.00665	\$ 0.00651	\$ 0.00611	\$ 0.00585	\$ 0.00561	\$ 0.00546
23	Transmission Voltage Delivery - per kW	\$ 1.22	\$ 1.17	\$ 1.03	\$ 0.94	\$ 0.85	\$ 0.80
24	per kWh	\$ 0.00346	\$ 0.00332	\$ 0.00292	\$ 0.00266	\$ 0.00242	\$ 0.00227
<u>DA-GS13 (Cyprus Bagdad)</u>							
25	per kW	\$ 1.05	\$ 1.21	\$ 1.03	\$ 0.94	\$ 0.85	\$ 0.80
26	per kWh	\$ 0.00297	\$ 0.00343	\$ 0.00292	\$ 0.00266	\$ 0.00242	\$ 0.00227

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

ARIZONA PUBLIC SERVICE COMPANY

Regulatory Asset Amortization Schedule
(Millions of Dollars)

<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>1/1 - 6/30 2004^{1/}</u>	<u>Total^{2/}</u>
164	158	145	115	86	18	686

^{1/} Amortization ends 6/30/2004

^{2/} Includes the disallowance from Section 3.3

Exhibit B

Annual ACC Jurisdictional Sales of Delivered kWh or kW¹ x % then Eligible for Access x Applicable CTC (¢/kWh or \$/kW²) = Annual Recovery³

1999	Residential	20	.93
	General Service less than 3MW	20	2.43
	General Service greater than 3MW	20	2.82
	BHP Copper	20	1.54
	Cyprus Copper	20	1.34
	Ralston Purina	20	1.86
2000	Residential	20	.84
	General Service less than 3MW	20	2.20
	General Service greater than 3MW	20	2.55
	BHP Copper	20	1.53
	Cyprus Copper	20	1.46
	Ralston Purina	20	1.98
2001	Residential	100	.63
	General Service less than 3MW	100	1.66
	General Service greater than 3MW	100	1.89
	BHP Copper	100	1.06
	Cyprus Copper	100	1.05
	Ralston Purina	100	1.50
2002	Residential	100	.56
	General Service less than 3MW	100	1.46
	General Service greater than 3MW	100	1.72
	BHP Copper	100	.95
	Cyprus Copper	100	.94
	Ralston Purina	100	1.34
2003	Residential	100	.50
	General Service less than 3MW	100	1.30
	General Service greater than 3MW	100	1.51
	BHP Copper	100	.83
	Cyprus Copper	100	.82
	Ralston Purina	100	1.18
2004	Residential	100	.36
	General Service less than 3MW	100	.94
	General Service greater than 3MW	100	1.09
	BHP Copper	100	.61
	Cyprus Copper	100	.61
	Ralston Purina	100	.87

¹ This formula assumes no change in APS' distribution service territory. In the event of any material change (e.g. by purchase, sale, expansion, condemnation, etc.) the formula will be adjusted such that APS receives the same opportunity to recover the agreed upon level of costs.

² General Service unmetered loads will have a demand calculated for CTC purposes based on contract energy.

³ At the end of 2004 the net present value will be calculated to compare to the \$350 million.

EXHIBIT C

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

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

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

EXHIBIT D
Affiliate Rules Waivers

R14-2-801(5) and R14-2-803, such that the term Reorganization does not include, and no Commission approval is required for, corporate restructuring that does not directly involve the utility distribution company (AUDC) in the holding company. For example, the holding company may reorganize, form, buy or sell non-UDC affiliates, acquire or divest interests in non-UDC affiliates, etc., without Commission approval.

R14-2-804(A)

R14-2-805(A) shall apply only to the UDC

R14-2-805(A)(2)

R14-2-805(A)(6)

R14-2-805(A)(9), (10), and (11)

Recision of Prior Commission Orders

Section X.C of the ACogeneration and Small Power Production Policy attached to Decision No. 52345 (July 27, 1981) regarding reporting requirements for cogeneration information.

Decision No. 55118 (July 24, 1986) - Page 15, Lines 5-1/2 through 13-1/2; Finding of Fact No. 24 relating to reporting requirements under the abolished PPFAC.

Decision No. 55818 (December 14, 1987) in its entirety. This decision related to APS Schedule 9 (Industrial Development Rate) which was terminated by the Commission in Decision No. 59329 (October 11, 1995).

9th and 10th Ordering Paragraphs of Decision No. 56450 (April 13, 1989) regarding reporting requirements under the abolished PPFAC.