

~~[FOR CONSIDERATION AT JULY 17, 2000 BOARD MEETING]~~For
Consideration At August 21, 2000 Board Meeting

Az ISA LETTER HEAD

LETTER AGREEMENT REGARDING Az ISA START-UP

BETWEEN ~~THE PARTICIPATING UTILITIES~~ [TRANSMISSION PROVIDER'S

NAME]

AND THE Az ISA

Dear ~~Mr./Ms.~~ _____:

~~This letter agreement (hereinafter referred to as this "Agreement") is made as of the ___ day of _____, 2000, by and among Arizona Electric Power Cooperative, Inc. ("AEPSCO"), Arizona Public Service Company ("APS"), Citizens Utilities Company ("Citizens"), and Tucson Electric Power Company ("TEP") (the "Participating Utilities") and the Arizona Independent Scheduling Administrator Association (the "Az ISA"). Each Participating Utility and the Az ISA are herein referred to individually as a "Party" and collectively as the "Parties."~~

~~Each of the Participating Utilities has individually executed an agreement with the Az ISA (the "ISA-TP Agreement") which establishes the rights and obligations of each of the parties with respect to operation and funding of the Az ISA. Each of the Participating Utilities has individually executed, or will execute, an agreement with the Az ISA and each Scheduling Coordinator ("SC") serving customers pursuant to the Participating Utility's retail access requirements (the "ISA-SC-TP Agreement").~~

~~In furtherance of the development of the Az ISA, and to facilitate conversion to a competitive retail market in Arizona, the Participating Utilities have loaned monies to the Az ISA. Each Participating Utility's loan is memorialized in a promissory note between it and the Az ISA, and is attached to this Agreement (the "Promissory Notes").~~

~~Pursuant to Az ISA Rate Schedule 1 filed with FERC, as amended from time to time ("Rate Schedule 1"), and the applicable ISA-TP Agreement, each Participating Utility shall pay monthly charges to the Az ISA, and, shall bill and collect monthly charges from each SC. The Az ISA will remit, to each Participating Utility, payment it receives to repay its debt obligations to each Participating Utility pursuant to the applicable Promissory Note(s).~~

~~Each Participating Utility and the Az ISA recognize that the Az ISA will require additional funds above and beyond those already lent by the Participating Utilities to successfully commence and sustain Az ISA operation for the first few months after the Az ISA commences operation.~~

~~Each Participating Utility and the Az ISA hereby amend their Promissory Note(s) so that the Az ISA's monthly repayment of said Promissory Note (the "Repayment Obligation") shall not commence until the 20th day of the billing month following the Az ISA's receipt of each Participating Utility's fourth monthly payment made pursuant to their ISA-TP Agreement and Rate Schedule 1; and said payments shall continue for the duration and be in the amounts specified in the ISA-TP Agreement and Rate Schedule 1. Any inconsistency between the Promissory Notes and the applicable ISA-TP Agreement shall be resolved in favor of the ISA-TP Agreement.~~

~~The Protocols Manual provides for the allocation of retail network transmission rights. The Parties agree that the Temporary Mechanism for Allocation of ARNT described in Protocol V, Section 4 of the Protocols Manual shall be effective on the date that the Az ISA commences operation.~~

~~This letter agreement (hereinafter referred to as this "Agreement") is made as of the __ day of _____, 2000, by and between [TRANSMISSION PROVIDER'S NAME] (the "Participating Utility") and the Arizona Independent Scheduling Administrator Association (the "Az ISA"). The Participating Utility and the Az ISA are herein referred to individually as a "Party" and collectively as the "Parties."~~

~~The Participating Utility executed, or will execute, an agreement with the Az ISA (the "ISA-TP Agreement") which establishes the rights and obligations of each of the parties with respect to operation and funding of the Az ISA. The Participating Utility executed, or will execute,~~

an agreement with the Az ISA and each Scheduling Coordinator ("SC") serving customers pursuant to the Participating Utility's retail access requirements (the "ISA-SC-TP Agreement").

In furtherance of the development of the Az ISA, and to facilitate conversion to a competitive retail market in Arizona, the Participating Utility has loaned money as set forth in a promissory note between it and the Az ISA that is attached to this Agreement (the "Promissory Note").

Pursuant to Az ISA Rate Schedule 1 filed with FERC, as amended from time to time ("Rate Schedule 1"), and the ISA-TP Agreement, the Participating Utility shall pay monthly charges to the Az ISA, and, shall bill and collect monthly charges from each SC. The Promissory Note requires the Az ISA to repay its debt obligations from the revenue it receives from the Participating Utility.

The Participating Utility and the Az ISA recognize that the Az ISA will require additional funds above and beyond those already loaned to it by the Participating Utility to successfully commence and sustain Az ISA operation for the first few months after the Az ISA commences operation and begins to receive revenue.

Therefore, the Participating Utility and the Az ISA hereby amend the Promissory Note so that the Az ISA's monthly repayment of said Promissory Note (the "Repayment Obligation") shall not commence until the 20th day of the fifth billing month after the Az ISA commences operation and begins to receive revenues from the Participating Utility pursuant to section 4 of the ISA-TP Agreement and Rate Schedule 1. Furthermore, said payments to satisfy the Repayment Obligation shall continue for the duration and be in the amounts specified in the ISA-TP Agreement and Rate Schedule 1. Any inconsistency between the Promissory Note and the ISA-TP Agreement shall be resolved in favor of the ISA-TP Agreement.

As a separate matter, the Protocols Manual provides for the allocation of retail network transmission rights. The Parties agree that the Temporary Mechanism for Allocation of ARNT described in Protocol V, Section 4 of the Protocols Manual shall be effective on the effective date of the Az ISA's FERC filing.

IN WITNESS WHEREOF, ~~each of the Parties hereto does hereby agree with each other, for themselves, and their successors, that this Agreement is valid and binding, and has duly executed this Agreement~~the Parties hereby agree with each other, for themselves, and their successors, that this Agreement is valid and binding, and that each has been duly executed in its corporate name.

Arizona Independent Scheduling Administrator Association

By: _____
Title: _____

~~Arizona Electric Power Cooperative, Inc.~~TRANSMISSION PROVIDER'S NAME

By: _____
Title: _____

~~Arizona Public Service Company~~

By: _____
Title: _____

~~Citizens Utilities Company~~

By: _____
Title: _____

~~Tucson Electric Power Company~~

By: _____
Title: _____

~~END OF DOCUMENT~~