

**ARIZONA INDEPENDENT SCHEDULING
ADMINISTRATOR ASSOCIATION**

Thirty-Third Special Meeting of Board of Directors
February 21, 2001, at 9:00 A.M. MST and
February 26, 9:00 A.M. MST Teleconference

Arizona Independent Scheduling Administrator Association
615 South 43rd Avenue, APO Building (WAPA Complex)
Phoenix, Arizona

APPROVED MINUTES

I. Call to Order

Acting Executive Director Patrick J. Sanderson called the meeting to order at 9:20 a.m, February 21, 2001, at the Az ISA offices.

II. Establish Quorum

The presence of a quorum was ascertained.

Directors Present: Dennis Delaney, Lindy Funkhouser, Kevin Higgins, Mike McElrath, Marcie Otondo, Vann E. Prater, Elizabeth Story, and Patrick J. Sanderson (Chair). Ed Beck, Larry D. Huff, and Martin B. Ochotorena via teleconference.

Others Present: Stuart Caplan (via teleconference), Peggy Drumm, Asher Emerson, Steven R. Henry, Barbara S. Jost, Robert S. Lynch, Alan Propper, Jerry Smith (APS), Joel Spitzkoff, and Janet Wagner.

III. Welcome and Introductions

All present, including those present via teleconference, were introduced and welcomed.

IV. Appoint Corporate Secretary

Peggy Drumm was appointed as Corporate Secretary for the meeting.

V. New Board Member -- Aggregator Class

Pat Sanderson explained that one of the Aggregator Class positions on the Board had been vacant since the September Annual Members meeting. Prior to any nomination, Mr. Delaney made the following statement: "I will not support adding an additional Board Member at this time for the following reasons: I believe Board approval would

undermine the stakeholder process – Phelps Dodge Energy Services appears to be a new Member of the Aggregator Class; please note that the February 6th Az ISA MEMBER RENEWAL LIST – 2001 does not include Phelps Dodge Energy Services. Yesterday I contacted a number of the AZ ISA Members in the Aggregator Class, none of which has received any information regarding filling the Board vacancy or information that Phelps Dodge Energy Services is seeking the Board seat. At a minimum, those Board Members who are supporting filling the Board position should call for a Class Meeting in accordance with Section 3.4.2 of the By-Laws. The Aggregator Class should forward a nomination to fill the vacant Board seat. Lastly, Phelps Dodge is an additional party to the stranded costs settlements. Their addition to the AZ ISA Board will further the conflicting interests between the AZ ISA Members who are not a party to those settlements and those who are. I believe those settlement agreements have jeopardized the independence of the AZ ISA.”

Kevin Higgins introduced and nominated Mike McElrath, Phelps Dodge Energy Services, to fill the position. Mr. McElrath reviewed his qualifications for the position. Upon request, Steven Henry clarified Board eligibility requirements and election procedures based upon the Az ISA By-Laws, followed by a discussion of same by the Board. Dennis Delaney and Elizabeth Story expressed their disagreement with adding a new Board member at this time. Mr. Delaney stated he could not support the addition of Mr. McElrath based upon his prior statements. Ms. Story indicated that she would have voted for Mr. McElrath if he had been proposed to fill the aggregator seat right after the Annual Meeting but under the current circumstances she could not vote for him now. Marcie Otondo explained the process that occurred when she was elected to the Board as a representative of the Aggregator Class. After further discussion by the Board, a vote was taken, with seven votes to approve, two votes to not approve, and one abstention. Steven Henry noted that 2/3 of the attending Board members can populate the Board when there is a vacancy. With seven votes for approval, the Chairman found that Mr. McElrath was duly appointed to the Board.

Mr. Delaney requested that his objections to the vote be noted in the minutes. Mr. Delaney stated that he did not believe that the motion was approved because the Board did not fulfill the voting requirements in Section 4.5.3 that requires an affirmative vote of two-thirds of the Board. Section 4.3 specifically states the Board will consist of eleven voting members and this Board has consistently adhered to an interpretation that eight affirmative votes are required.

Mr. Henry and Ms. Jost explained the voting requirements are based in Arizona law and the Az ISA By-laws. Mr. Sanderson duly noted Mr. Delaney’s objection. Vann Prater requested that it be noted in the minutes that Section 4.5.3 of the Az ISA By-Laws state: “A decision of the Board or Board committee shall require an affirmative vote of two-thirds of the Board members or two-thirds of Board committee members present, whichever is applicable.” Also, he noted that there were ten Board members present at the start of the meeting.

Bob Lynch stated that the Statute allowing less than a normal number to elect a replacement Board Member only applied if there were less than a quorum of Board Members remaining.

Mr. Delaney also wanted it noted that he felt the Board had previously effectively revised the By-Laws, in particular, with regard to the requirement of eight votes for affirmative action.

VI. Approve Agenda

Pat Sanderson reviewed the agenda. Kevin Higgins moved to approve the agenda. Larry Huff moved to place “XI. SRP Update” before “X. Az ISA FERC Filing,” and Mr. Higgins amended his motion to incorporate the agenda change. Joel Spitzkoff requested an amendment to include a discussion regarding SIC with item “X. (d) 205 Filing.” It was agreed to amend the motion to also incorporate that agenda change. Marcie Otondo seconded the amended motion. Dennis Delaney and Elizabeth Story abstained, each indicating that on advice of council they would abstain from all votes at the meeting due to the questioned election of Mr. McElrath and hence the questionable validity of any action taken which may include his vote. The motion was approved by affirmative vote of the remaining nine Board members.

VII. Approval of Minutes

Pat Sanderson referred to copies of minutes of the February 1 Special Board meeting that were included in the Board packet. It was duly moved and seconded by Lindy Funkhouser and Marcie Otondo, respectively, to approve the February 1 minutes. Dennis Delaney and Elizabeth Story abstained. The motion was approved by affirmative vote of the remaining nine Board members.

(Robert Lynch left the meeting, and Stuart Caplan joined the meeting via teleconference, at 10:00 a.m.)

VIII. Confidentiality of Information

Steven Henry explained the proposed resolution, which is based on Article V of the Az ISA Articles of Incorporation, (contained in the Board package) addressing confidentiality of certain discussions by the Board. The resolution was presented based on discussion and direction by the Board at the February 1 Board meeting. Barbara Jost noted that results of any action taken in an executive session become part of the regular meeting minutes; however, the deliberations do not – they remain privileged. The following discussion included requests for clarification as to how the confidentiality requirements would be applied to specific entities, especially public entities, as well as, the enforceability of the requirements. Specific concerns and possible solutions were presented. Vann Prater moved to table the issue pending rewriting of the resolution by counsel to reflect the Board discussion. Kevin Higgins seconded the motion, which passed with nine affirmative votes and two abstentions.

IX. ACC Meeting Update

Pat Sanderson and Barbara Jost advised the Board that they had each communicated the Board's request to meet with the ACC Commissioners to Brian McNeil, and to Hercules Dellas, Executive Assistant to Chairman Mundell, but they were advised that there was no interest on the Commissioners' part for a meeting with the Board. After some discussion by the Board, Asher Emerson noted that the Commissioners have not taken opportunities, that have been availed, to speak out against the moving forward of the Az ISA and that they had previously expressed their support for the Competition Rules, as recently as December. Ms. Wagner explained that the rules, including R14-2-1609, are clear and in place, and the Commissioners expect them to be followed.

Kevin Higgins added that the ACC has filed comments in support of the Az ISA, and the record is clear where they stand on the issue. Joel Spitzkoff pointed out that that was when the ACC thought FERC would accept the protocols as filed, but that the FERC modified the Protocols and there are issues for which rehearing has been requested.

Ed Beck requested that it be noted that he hopes the ACC understands the costs of the Az ISA and, even though there is a sunset provision, and that he believes that once it is filed with FERC it doesn't go away.

There was a brief discussion as to whether the Az ISA should continue to try to meet with the Commissioners or whether the Board's directive from the February 1 meeting had been met. Several agreed that it had been met and no further action was requested.

The Board recessed for a break at 10:45 a.m. and reconvened at 10:55 a.m.

X. SRP Update

Pat Sanderson reviewed the February 1 Board discussion regarding the SRP loans. A letter to respond to SRP's counsel had been drafted and was provided to the Board. A copy of the letter was faxed to the Board members attending via teleconference. Steven Henry reviewed the letter and provided an update regarding the Board's February 1 directive for Mr. Sanderson to request a meeting with Mr. Silverman. The Board discussed the draft letter and suggested some revisions, which will be made by Mr. Henry. Based on the discussion counsel for the AISA stated that he would send the revised letter to SRP counsel.

XI. AZ ISA FERC Filing

There was a discussion regarding some aspects of the proposed FERC Compliance Filing, including the date of filing and the date for implementation, which were addressed by Barbara Jost. Discussion also ensued regarding further funding of operating costs by AEPCO and Citizens upon Az ISA implementation, as well as, the ramifications if they do not contribute to such costs and leave only APS and TEP as participating TPs. Joel

Spitzkoff and Ed Beck indicated that APS and TEP do not intend for their customers to bear costs associated with Citizens and AEPCO; no cost shifting should occur. Ms. Jost pointed out that the costs in question would total approximately \$1,500 per month, a de minimus amount. APS and TEP also stated that they could not support moving forward with the FERC Filing if there were just two participating members of the Az ISA. Stu Caplan reminded the TPs that during the negotiations of the contracts and Protocols, the issue of immediate participation of all four TPs had come up and the financial impact if all four did not immediately participate. The compromise that had been reached was that Phase I activities were substantially scaled back to reduce Phase I costs. This had been a major concession on the part of the potential new market entrants in response to TP concerns. Pat Sanderson and Ms. Jost explained that there were various ways the accounts could be kept separate and how the billing would work in order to prevent any cost shifting.

Larry Huff reiterated that AEPCO still has to get ACC approval before they can add a surcharge, and he reiterated AEPCO's position as stated in their December 14, 2000, letter to the Az ISA regarding the FERC Filing and AEPCO's financial contribution to the Az ISA. For clarification, Janet Wagner pointed out that until AEPCO actually makes a filing to the ACC for a surcharge, there is no way for the ACC to approve such a surcharge. She reiterated that Rule 1609 is still in effect, and does not believe it gives AEPCO an "if – then" option. Mr. Huff stated that once the FERC filing was made by the Az ISA, AEPCO would make an ACC filing to recover the Az ISA costs. Mr. Huff further stated that he anticipated the stranded cost settlements could be addressed by the ACC in the next two months. Ed Beck questioned whether there should be a FERC Filing when there are many unanswered questions. He pointed out that when the surcharge goes into effect under FERC, it is an adjustment to their bills to their customers. This is the reason, specifically, that TEP wanted a face-to-face meeting with the ACC.

The Board recessed for lunch at 12:45 p.m. and reconvened at 1:45 p.m. Since Lindy Funkhouser had left for another meeting during lunch, it was agreed to move the Contingency Budget and Staff Report items ahead to this point in the meeting. Discussion on the Az ISA FERC Filing would be continued after his return.

XII. Az ISA Contingency Budget (Plan)

Pat Sanderson noted that all of the \$110,000 funds have been advanced by the Funding Utilities, referring to the table contained in the Board package. There was no discussion. Mr. Sanderson then reviewed the cash flow spreadsheet "Az ISA Corporate Dissolution – January-March 2001" provided in the Board package. He noted that it showed that the need for the TP Agreements to be put into effect in order to establish a revenue/cash flow situation. Although based on high-end projections, approximately \$9,000 remains after "shut down." There was no discussion.

XIII. Az ISA Staff Report

- a. **Financial Report.** Pat Sanderson advised the Board that the down payment and the first payment had been made for the D&O insurance; with the final total cost being \$28,000/year. The coverage is the same as last year's policy. It can be converted to a tail insurance policy. Mr. Sanderson referred to the financial statements for January 31, 2001. The debt forgiveness by AEPCO and Citizens is included.
- b. **Startup Agreements.** Mr. Sanderson referred to the table showing the status of the Funding Utilities' loans. Copies of the signed Start-Up Agreements (APS and TEP) are included, as well as, the letter from Citizens forgiving the loan.
- c. **Membership Update.** A current membership renewal list was included. Mr. Sanderson said reminder notices would be sent to those who had not yet paid, if the Board was in agreement. There was no disagreement.
- d. **Office Space Utilization.** Mr. Sanderson explained that ON Semiconductor had offered to provide some used office furniture in lieu of their membership payments for the remainder of the Az ISA's existence which, based on the sunset limit of the organization, is no more than three years. Dues are \$250 per year, which would set a limit of no more than \$750. The point was made that this is not establishing precedence, but based on a case-by-case situation and usefulness to the organization.

Since all Board members were again present, either in person or via teleconference, the discussion of agenda item "XI. Az ISA FERC Filing" was resumed

Joel Spitzkoff provided APS' proposed definition of System Incremental Cost (SIC) and stated that APS would request that the Az ISA include in its Section 205 filing a modified definition of SIC for the Protocols Manual that would be identical to the definition that APS currently uses in its Open Access Transmission Tariff (OATT). A copy of the definitions was provided to all present and faxed to those present via teleconference. The current Az ISA PM definition and the proposed APS definition are as follows:

(Az ISA Protocols Manual)

System Incremental Cost (SIC) – the cost (\$/MWh) incurred or avoided by the TP as a result of providing Energy Imbalance Service under these Protocols, through the dispatch of generation or through purchases/sales with Third Party Suppliers.

(Proposed APS Language for SIC)

Any increase in cost incurred by a TP as a result of performing Energy Imbalance Service requiring the utilization of dispatchable generation or purchases from third-parties. SIC shall be computed as the weighted average price of the highest-cost dispatchable generation resource and/or third-party purchase made by the TP's real-time operators up to an amount of energy equal to the system net energy imbalance. The cost of SIC for both the generation and purchased power components shall be determined by the TP's real-

time operator on an hourly basis at the time the real-time operator makes a decision on the source of the energy supply.

Kevin Higgins read the proposed definition aloud for the benefit of those on the teleconference, who had not yet received the fax. Ms. Jost obtained APS' clarification that the words "energy imbalance" at the end of the second sentence should be capitalized. She further obtained TEP's clarification that they would agree to modify their OATT to also include it in their OATT. Mr. Beck stated that he did not see any real issues with it and that they would include it in their 205 filing.

Kevin Higgins made the following motion:

To approve for submittal to FERC, the Compliance Filing, TP Agreements, and the 205 Filing with the 205 Filing amended to include the proposed APS language for System Incremental Cost, and including the services under the Protocols Manual, to be filed anytime between now and February 28 and to take effect March 1.

It was noted that there were eleven Board members present, and it requires eight affirmative votes to pass the motion. It was agreed that a roll-call vote would be taken. The vote was as follows:

Ed Beck	Abstain
Dennis Delaney	Abstain
Lindy Funkhouser	Yes
Kevin Higgins	Yes
Larry Huff	No (see Attachment A for comments)
Mike McElrath	Yes
Martin Ochotorena	Yes
Marcie Otondo	Yes
Vann E. Prater	Yes
Elizabeth Story	Abstain
Patrick Sanderson	Yes

Ed Beck stated that he was currently abstaining but requested the meeting be recessed to permit a teleconference next week to continue the vote on this matter, because he needed to discuss issues with his company and the other TPs. When asked what his specific concerns were that required additional internal discussion, he indicated that they include the matter of the potential debt to SRP and the ACC's unwillingness to clarify that it supports the Az ISA. He stated that has heard the ACC staff, but when the ACC Commissioners refuse to meet with this Board, it does not bode well. In addition, the person who would have to approve signing the Agreements on TEP's behalf is on vacation until Monday.

A motion was duly made and seconded by Ed Beck and Marcie Otondo, respectively, to temporarily recess and then resume the meeting next Monday (February 26) at 1:00 p.m. by teleconference. At that time, the vote on the pending motion would be completed. Mr. Beck indicated that the Monday meeting should not take very much time. The motion was approved with nine affirmative votes and two abstentions.

Accordingly, the meeting was recessed until 1:00 p.m. Monday, February 26, 2001.

Respectfully submitted,
Peggy A. Drumm, Acting Corporate Secretary

ATTACHMENT A – Comments of Director Larry Huff Regarding Vote

I'm voting No for the following reasons:

1. Please recall from the December meeting that, as a Director, I have been very concerned about the AISA Capitalization debt and its ability to repay these debts. AEPCO has forgiven repayment of these loans made to the AISA, as has Citizens. I believe that with Board approval and acceptance of this filing by the FERC it will trigger the collection and repayment requirements of the debt from the remaining funding parties, i.e. APS, TEP and SRP. I understand the collection and revenue flow for repayment of the TEP and APS debt, however, I don't see any revenue stream for the SRP debt. Without this clear revenue stream, I believe that voting to go forward and allowing the AISA to acquire this debt without a revenue stream to repay it, is a knowingly and willful act and that I could potentially be held personally liable. Also, another possibility here is that the rate payers of AEPCO's Member Systems as would those of TEP, APS and Citizens, could be required to repay the AISA SRP debt.
2. Due to current market conditions, we have every indication that for the foreseeable future market conditions along with the rate freezes through 2008 for TEP and 2004 for APS, electric competition does not appear to occur until well into the future. In the interim, the rate payers, the bulk of which are residential and small business/commercial will be paying for something in which they receive no value.

I want my NO vote recorded

**ARIZONA INDEPENDENT SCHEDULING
ADMINISTRATOR ASSOCIATION**

Thirty-Third Special Meeting of Board of Directors
February 21, 2000, at 9:00 A.M. MST
Arizona Independent Scheduling Administrator Association
615 South 43rd Avenue, APO Building (WAPA Complex)
Phoenix, Arizona

REVISED AGENDA

- | | | |
|--------------|---|--------------------------------|
| I. | Call to Order | |
| II. | Establish Quorum | |
| III. | Welcome and Introductions | |
| IV. | Appoint Corporate Secretary | |
| V. | New Board Member – Aggregator Class | Approval Item |
| VI. | Approve Agenda | Approval Item |
| VII. | Approve Minutes from 2/1/01 Meeting | Approval Item |
| VIII. | Confidentiality of Information – Draft Resolution | Approval Item |
| IX. | ACC Meeting Update | |
| X. | SRP Update | Executive Session |
| XI. | Az ISA FERC Filing | Approval Item/Executive |
| | a. Compliance Filings | Session if Necessary |
| | b. TP Agreements | |
| | c. Rehearing Request | |
| | d. 205 Filing and SIC | |
| XII. | Az ISA Contingency Budget (Plan) | |
| XIII. | Az ISA Staff Report | |
| | a. Financial Report | |
| | b. Startup Agreements | |
| | c. Membership Update | |
| | d. Office Space Utilization | |
| XIV. | Other Business | |
| XV. | Next Board Meeting | |
| XVI. | Adjourn | |

Conference Call for 33rd Special Board Meeting, as follows:

- 9:00 a.m. – 5:00 p.m. (Arizona time/MST)
- 10 lines available
- Call-in Number: (303) 633-5533
- Reservation #: 17908364
- US West 1-800-263-3863 (in case of problems)

**ARIZONA INDEPENDENT SCHEDULING
ADMINISTRATOR ASSOCIATION**

Thirty-Third Special Meeting of Board of Directors

RESUMED

February 26, 2001, at 9:00 A.M. MST

Teleconference

APPROVED MINUTES

Acting Executive Director Patrick J. Sanderson called the meeting to order at 1:05 p.m., February 26, 2001, thus resuming the Thirty-Third Special Board Meeting, which had been recessed February 21, 2001.

The presence of a quorum was ascertained.

Directors Present via Teleconference: Ed Beck, Dennis Delaney, Lindy Funkhouser, Kevin Higgins, Larry D. Huff, Mike McElrath, Martin B. Ochotorena, Marcie Otondo, Vann E. Prater, Elizabeth Story, and Patrick J. Sanderson (Chair).

Others Present via Teleconference: Stuart Caplan, Pat Cooper, Peggy Drumm, Asher Emerson, Steven R. Henry, Barbara S. Jost, Christopher Kempley, Robert S. Lynch, Alan Propper, Jerry Smith (ACC), and Janet Wagner

Pat Sanderson noted that everyone should have received a copy of the draft minutes and the revised resolution regarding confidentiality of information from the February 21 meeting.

XI. AZ ISA FERC Filing (Resumed)

Pat Sanderson reminded the Board that the vote on the following motion had not been finalized by the Chairman, and the meeting had been recessed in order to reconvene today for a final vote.

MOTION: To approve for submittal to FERC, the Compliance Filing, TP Agreements, and the 205 Filing with the 205 Filing amended to include the proposed APS language for System Incremental Cost, and including the services under the Protocols Manual, to be filed anytime between now and February 28 and to take effect March 1.

Mr. Sanderson offered to conduct a roll call vote, beginning with Ed Beck, and requested other suggestions, as well. Steven Henry reviewed the basis for the vote and procedures to finalize the vote. He noted that the Chairman had not declared the vote final, and the February 21 meeting was adjourned to continue the same meeting in a different forum. As a result, anyone can change his or her vote. He stated that the only thing being

reconsidered is the motion from last meeting. There was a question by Lindy Funkhouser and discussion as to whether he could offer a substitute motion. It was decided to move forward with a roll call vote. The vote tally and comments follow:

Ed Beck voted yes and explained that he had previously abstained based on his comments from the February 21 meeting. He wanted to be sure the ACC understood the implications, and he has gotten that input.

Dennis Delaney abstained, based on his same comments from the February 21 meeting.

Lindy Funkhouser voted no. He stated that he had wanted to make a substitute motion in lieu of his vote; a vote he felt could be supported. He suggested continuing funding for the Az ISA for six months in order to determine if it is the right strategy, given what is happening in the western power industry, and gathering data on what will be happening this summer. He expressed that he has some real concerns regarding whether this move is in the best interest of the public and concerns about what he is seeing elsewhere now. He requested a vote on his substitute motion.

Kevin Higgins voted yes. He stated that the Az ISA proposal does not import the California problems into Arizona, and that great pains were taken to avoid those kinds of problems. The Az ISA proposal is very modest in nature, and he does not see anything to be gained by not going forward.

Larry Huff abstained. He stated that, in addition to his comments of last week, in view of the ACC letter, he wants to make clear that his vote is based on the following: "That as a director of the AISA with a fiduciary duty, I cannot vote yes and trigger the repayment of the SRP debt, unless (1) we at the same time provide for any required repayment as part of the Az ISA monthly expenses, or (2) we have a written termination of the debt by SRP in hand. Failing either of these, as a director of the AISA with a fiduciary duty, and not as an employee of AEPCO, I change my vote to an abstention."

Mike McElrath voted yes. He stated that he sees nothing in the Az ISA format that is detrimental to what they believe should be in place.

Martin Ochotorena voted yes.

Marcie Otondo voted yes.

Vann Prater voted yes.

Elizabeth Story abstained. She requested that the minutes show that her continued abstention was on advice of counsel and related to the questioned seating of the new Board Member.

Pat Sanderson voted yes.

Mr. Sanderson declared that the motion did not pass, with seven votes for the motion, one vote against the motion, and three abstentions.

A motion was duly made and seconded by Lindy Funkhouser and Larry Huff, respectively, as follows:

MOTION: To delay the FERC filing for six months; during which time the Board shall determine whether the public interest would be better served through a different filing or strategy based upon fundamental changes in the western power market and data we will obtain from those markets this summer. The funding for the Az ISA would continue as appropriate for the appropriate costs and expenditures to be incurred during that time.

Mr. Funkhouser included an additional comment – he knows the motion implies the Az ISA will have funding, and he would stress there should be enough to do what needs to be done but not more than needed.

A lengthy discussion of the motion followed. It was questioned and discussed whether the funding would be a loan or not an additional loan obligation. Mr. Funkhouser assumed it would be a loan. It was pointed out that the action would continue to increase debt without adopting a mechanism to recover costs. Ed Beck noted that although it may be called a loan, that would only be the case if the Az ISA gets up and running. Otherwise, to TEP and APS, it must be written off.

Kevin Higgins noted that the additional debt becomes part of another argument not to move forward, and does not see how simply observing for six months would have substantive bearing on what has been a painstaking compromise.

When asked what information could be provided in six months that would guide what should be done in Arizona, Mr. Funkhouser pointed out that the public has taken a “go-slow” approach and that the citizen should not be put at risk. He suggested waiting to see what happens with power demand and possible problems this summer, and seeing what the public’s reaction is. He noted that several other western states are backing out or looking at different approaches.

Vann Prater noted that the Az ISA is already taking an extreme step in its minimalist approach.

Steve Henry and Stuart Caplan pointed out that December 2001 is the limit of the Az ISA, and it has taken a very minimalist approach, including much bargaining so risk to customers would be very small. In addition, Phase 2 would not be implemented without further steps that would have to be taken by the Board.

Marcie Otondo expressed the importance of the oversight role of the Az ISA regarding such issues as transmission access and energy imbalance. Ms. Otondo, further, expressed

concerns regarding Mr. Funkhouser’s motion – 1) there is no commitment that there is funding; there would need to be a firm commitment or would have to shut the doors in one week or ten days; 2) is unsure what information Mr. Funkhouser is looking for to make a better decision; Arizona does not have the same issues as California; and 3) does not know how the Az ISA would stand with FERC if the motion were passed.

Larry Huff stated that he would like to support the motion, and AEPCO would probably fund its share. He agreed with Mr. Funkhouser, but was concerned the motion would not meet the ACC requirements.

Ed Beck stated that TEP commits and believes APS would continue to fund on a month-to-month basis. Alan Propper noted that APS would continue to fund, as long it was a very careful budget. Marcie Otondo stated that she would change her vote to yes, based on the TP’s comments.

A roll-call vote was taken on Mr. Funkhouser’s motion. The motion did not pass, with four voting to approve and seven abstaining, as follows:

Ed Beck	Yes
Dennis Delaney	Abstain
Lindy Funkhouser	Yes
Kevin Higgins	Abstain
Larry Huff	Abstain
Mike McElrath	Abstain
Martin Ochotorena	Yes
Marcie Otondo	Yes
Vann E. Prater	Abstain
Elizabeth Story	Abstain
Patrick Sanderson	Abstain

There was further discussion regarding a shorter extension of the Az ISA and possible approaches to resolving the SRP loan commitment. Kevin Higgins made a motion relating to seeking resolution to the SRP loan issue, month-to-month funding of the Az ISA by the four affected utilities, and reconvening as a Board. After discussion and several amendments, it was seconded by Marcie Otondo and adopted by roll-call vote in the following form:

MOTION: To adopt the policy of attempting to resolve the SRP loan money issue; to seek month-to-month funding from the four affected utilities; and to reconvene as a Board to consider further action in consideration of SRP’s reasons for its legal position.

The roll-call vote for the preceding motion was recorded as follows, with nine voting for approval and two abstaining:

Ed Beck	Yes
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Dennis Delaney	Abstain
Lindy Funkhouser	Yes
Kevin Higgins	Yes
Larry Huff	Yes
Mike McElrath	Yes
Martin Ochotorena	Yes
Marcie Otondo	Yes
Vann E. Prater	Yes
Elizabeth Story	Abstain
Patrick Sanderson	Yes

Mr. Funkhouser noted that “time is of the essence” in regard to this motion. Mr. Higgins requested that the minutes reflect that the motion is not intended to limit the Board’s ability to reconvene in any way.

A subcommittee was created to resolve the SRP issue. The members are: Kevin Higgins, Larry Huff (if available), Ed Beck, Lindy Funkhouser, and Pat Sanderson. It was later agreed that the subcommittee would be meet via teleconference on Tuesday, February 27, at 8:30 a.m.

There was discussion to set the next Board meeting dates. Barbara Jost pointed out that the FERC extension requires the Az ISA to provide a status report by March 22, 2001. It was decided that a special Board meeting would be scheduled for Wednesday, March 21, 2001, at 9:00 a.m., unless meeting notice waivers cannot be obtained, in which case a meeting will be held March 30, 9:00 a.m.

Pat Sanderson asked if there were something the Board could put together to address Mr. Funkhouser’s concerns. After some discussion, Mr. Funkhouser stated that he would give it some consideration and come back to discuss it further at the March 30 Board meeting.

(Mike McElrath left the meeting at 2:55 p.m.)

Pat Sanderson advised the Board that there was one unfinished business item from the February 21 Board meeting – the confidentiality motion. A revised version had been provided previously via e-mail, and follows:

Resolved, consistent with Article V of the Company’s Articles of Incorporation, at any duly noticed Board of Directors meeting, any discussions, communications, or consultations between the Board of Directors of the Company and the Company’s legal counsel concerning regulatory filings at the Federal Energy Regulatory Commission of interest to the Company, shall be conducted during Executive Session. No one other than Board Members, the designated Company Secretary and the Company’s legal counsel may attend. Discussions, communication or consultation during the Executive Session shall not be used to invalidate

or contest any claims of the Company in federal or state regulatory filings that have been, or will be, made by the Company.

After some discussion and suggested revisions, Larry Huff moved for the resolution to be redrafted and brought back to the March 21 meeting. Lindy Funkhouser seconded the motion, which passed with eight voting to approve and two abstaining.

Pat Sanderson noted the need for additional funding and requested confirmation from the Board that he has been directed to request additional funding from the TPs. He suggested sending a letter similar to the last time. Alan Propper noted that APS would need some indication of projected expenses, especially legal expenses. Mr. Propper confirmed that the spreadsheet format is acceptable. Larry Huff indicated AEPCO would expect more detail if the budget is beyond salaries and office expenses, in particular, more explanation as to what the legal counsel would be doing and whether they need to be doing it. Ed Beck agreed. Barbara Jost explained that no one could have foreseen the developments of the last two months, but will try to provide a better projection. Pat Sanderson offered to provide a legal budget “guesstimate” for April.

Alan Propper asked to confirm that it was the Board’s intention not to file the Compliance Filing with the FERC at this time, since TEP and APS have their filings ready to go. Ed Beck agreed. Barbara Jost stated that the FERC does not expect anything until March 22. She confirmed that the report that is due to the FERC is only due from the Az ISA, and not APS or TEP.

The meeting was adjourned at 3:15 p.m.

Respectfully submitted,

Peggy A. Drumm, Acting Corporate Secretary