# AMENDMENT NO. 7

# TO THE

# NAVAJO PROJECT

# SOUTHERN TRANSMISSION SYSTEM

# OPERATING AGREEMENT

By FERC order/notice of acceptance dated ______________ in FERC Docket No. ____________, this Amendment No. 7 was accepted for filing and the rate schedules became effective on _______________.

Execution Original
Dated: March __, 2015

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TO THE
NAVAJO PROJECT
SOUTHERN TRANSMISSION SYSTEM
OPERATING AGREEMENT

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1. **PARTIES:** The parties to this AMENDMENT NO. 7 to the NAVAJO PROJECT SOUTHERN TRANSMISSION SYSTEM OPERATING AGREEMENT ("Amendment No. 7") are: THE UNITED STATES OF AMERICA, hereinafter referred to as the "United States," acting through the Secretary of the Interior, a duly appointed successor or a duly authorized representative; ARIZONA PUBLIC SERVICE COMPANY, hereinafter referred to as "Arizona," an Arizona corporation; THE CITY OF LOS ANGELES by and through the Department of Water and Power, hereinafter referred to as "Los Angeles," a department organized and existing under the Charter of the City of Los Angeles, a municipal corporation of the State of California; NEVADA POWER COMPANY, hereinafter referred to as "Nevada," a Nevada corporation; SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, hereinafter referred to as "Salt River Project" or "SRP," an agricultural improvement district organized and existing under the laws of the State of Arizona; and TUCSON ELECTRIC POWER COMPANY, hereinafter referred to as "Tucson," formerly known as Tucson Gas & Electric Company, an Arizona corporation; all of the foregoing are sometimes individually referred to as "Participant" and collectively as "Participants."

2. **RECITALS:** This Amendment No. 7 is made with reference to the following facts, among others:

   2.1 On July 23, 1979, the Participants entered into the NAVAJO PROJECT SOUTHERN TRANSMISSION SYSTEM OPERATING AGREEMENT ("Operating Agreement"), as supplemented by Supplement No. 1 and amended by Amendments Nos. 1, 2, 3, 4, 5, and 6 and as may be further supplemented and/or amended, which established certain terms and conditions relating to the operation and maintenance of the Southern Transmission System.

2.2 On April 28, 1998, the Transmission Engineering and Operating Committee approved the technical feasibility of the first Westwing 230/69 kV Interconnection at the Westwing 230 kV Switchyard. This approval was based on the results of technical studies performed by Arizona and presented by Arizona to the Transmission Engineering and Operating Committee on April 28, 1998.

2.3 On September 29, 1998, the Transmission Engineering and Operating Committee approved the technical feasibility of the addition of a second 500/230 kV transformer at the Yavapai Switchyard. This approval was based on the results of technical studies performed by Arizona and presented by Arizona to the Transmission Engineering and Operating Committee on September 29, 1998.

2.4 On April 17, 2001, the Transmission Engineering and Operating Committee approved the technical feasibility of a second Westwing 230/69 kV Interconnection at the Westwing 230 kV Switchyard. This approval was based on the results of technical studies performed by Arizona and presented by Arizona to the Transmission Engineering and Operating Committee on April 28, 1998 and a discussion update on April 17, 2001.

2.5 On April 24, 2012, the Transmission Engineering and Operating Committee approved revisions to the table in Section 5.2 of Exhibit K to more accurately reflect the Participants' current Responsibility for Costs for the Southern Transmission Communication System.

2.6 On January 20, 2013, the Participants entered into Amendment 6 to reflect: (i) the addition of two (2) Westwing 230/69 kV Interconnections at the Westwing 230 kV Switchyard; (ii) the addition of the second 500/230 kV transformer at the Yavapai 500 kV Switchyard; (iii) the interconnection of the new Dugas Switchyard to the Navajo-Westwing 500 kV transmission line; (iv) the interconnection of the new Cedar Mountain Switchyard to the Moenkopi-Yavapai 500 kV transmission line; (v) a name change for the Waddell 230 kV Interconnection to the Raceway 230 kV Interconnection; (vi) the addition of two (2) 500 kV bus reactors in the Westwing 500 kV Switchyard; (vii) the removal of a TEP 500/345 kV transformer from the Westwing Substation; (viii) the removal of Project Series Capacitors from the Navajo 500 kV Switchyard end of the Navajo-Moenkopi 500 kV transmission line; (ix) the addition of two (2) 230 kV bus sectionalizing circuit breakers in the Westwing 230 kV Switchyard; (x) the addition of designated points of delivery for certain Participants; (xi) changes to the descriptions of certain Components of the Transmission System in Exhibit B to reflect the above modifications; (xii) changes to the one-line diagrams in Exhibit B-1 to reflect the above modifications; (xiii) modifications to Exhibit K to reflect name changes within the document, changes to the table in Section 5.2 of Exhibit K, and the deletion of the K-1 diagram, to accurately reflect the current Southern Transmission Communications System.

2.7 The Participants desire to enter into this Amendment No. 7 to reflect: (i) revisions to Section 5.13 and associated references relating to FPC Accounts; (ii) revisions to Section 12.1.8 relating to load dispatching expenses; and, (iii) revisions to Exhibit 1 - Load Dispatching Allocation Ratio Calculation relating to the allocation of load dispatching expenses.

3. **AGREEMENT:** In consideration of the mutual covenants and benefits to be derived from this Amendment No. 7, the Participants agree as follows:

4. **AGREEMENT MODIFICATIONS:**

4.1 Section 5.1 of the Agreement shall be deleted in its entirety and a new Section 5.1 shall be added to read as follows:

"5.1 ACCOUNTING PRACTICE: Generally accepted accounting principles, in accordance with FERC Accounts."

4.2 Section 5.13 of the Agreement shall be deleted in its entirety and a new Section 5.13 shall be added to read as follows:

"5.13 FERC ACCOUNTS: The Federal Energy Regulatory Commission's "Uniform System of Accounts Prescribed for Public Utilities and Licensees (Class A and Class B)," in effect on January 1, 2015, and as such system of accounts may be in effect from time to time. References in the Operating Agreement to specific FERC Account Number(s) shall mean the FERC Account number(s) in effect as of the effective date of the Operating Agreement or any successor FERC Account number(s)."

All references to FPC Accounts and/or FPC Account numbers in this Amended Operating Agreement will be changed to reference FERC Accounts and/or FERC Account numbers in support of this definition change.

4.3 Section 12.1.1 of the Agreement shall be deleted in its entirety and a new Section 12.1.1 shall be added to read as follows:

"12.1.1 The operation expenses chargeable to FERC Accounts 560 through 567, inclusive."

4.4 Section 12.1.2 of the Agreement shall be deleted in its entirety and a new Section 12.1.2 shall be added to read as follows:

"12.1.2 The maintenance expenses chargeable to FERC Accounts 568 through 573, inclusive."

4.5 Section 12.1.5 of the Agreement shall be deleted in its entirety and a new Section 12.1.5 shall be added to read as follows:

"12.1.5 Applicable labor loading charges for Operating Agent's direct labor charged to operation and maintenance accounts, and applicable labor loading charges on the portion of labor included in overhead expenses loaded on such direct labor charges. Such labor loading charges shall include but not be limited to time-off allowances, employee payroll taxes chargeable to FERC Account 408 and employee benefits chargeable to FERC Account 926 and workmen's compensation chargeable to FERC Account 925."

4.6 Section 12.1.7 of the Agreement shall be deleted in its entirety and a new Section 12.1.7 shall be added to read as follows:

"12.1.7 All costs incurred by the Operating Agent which are chargeable to FERC Accounts 408 (excluding payroll and ad valorem taxes), 924, and 925 (excluding workmen's compensation expenses)."

4.7 Section 12.1.8 of the Agreement shall be deleted in its entirety and a new Section 12.1.8 shall be added to read as follows:

"12.1.8 A portion of the load dispatching salaries and expenses as defined by FERC Account 561 and incurred by the Operating Agent shall be charged to the Participants. Such allocation shall be determined using three steps.

Step 1 multiplies the total FERC Account 561 salaries and expenses incurred for load dispatching on the Arizona transmission systems above 69 kV by an activity based allocation percentage as follows:

$A = Out% X $T

$B = Etag% X $T

Where:

$A = load dispatch dollars associated with planned and unplanned outages

$B = load dispatch dollars associated with Electronic Tags (Etag)

Out% = Percentage of load dispatch dollars allocated to planned and unplanned outages

Etag% = Percentage of load dispatch dollars allocated to Etags

$T = Total load dispatch dollars as defined by FERC Account 561

Step 2 determines the proportional share of the load dispatch dollars associated with planned and unplanned outages ($A above) charged to the Participants. This allocation shall be determined by multiplying the associated load dispatch dollars by a ratio which is based on the number of planned and unplanned outages at the Participant owned Southern Transmission System substations and/or switching stations being dispatched having power circuit breakers and/or circuit switchers above 69 kV in accordance with the following formula:

$a = C/D X $A

Where:

$a = Total Outage allocation to Participants

C = Number of planned and unplanned outages at Participant owned Southern Transmission System substations and/or switching stations being dispatched having power circuit breakers and/or circuit switchers above 69 kV

D = Number of planned and unplanned outages on the APS transmission system above 69 kV

\$A = load dispatch dollars associated with planned and unplanned outages

Step 3 determines the proportional share of the load dispatch dollars associated with Etags (\$B above) charged to the Participants. This allocation shall be determined by multiplying the associated load dispatch dollars by a ratio which is based on the number of Etags at the Participant owned substations in accordance with the following formula:

\$b = E/F X \$B

Where:

\$b = Total Etag allocation to Participants

E = Number of Etags associated with Participant owned Southern Transmission System substations and/or switching stations being dispatched having power circuit breakers and/or circuit switchers above 69 kV

F = Number of Etags associated with Arizona transmission system above 69 kV

\$B = load dispatch dollars associated with Electronic Tags (Etag)

The total load dispatch amount charged to the Participants is the sum of \$a and \$b. Exhibit 1, is attached hereto and incorporated by reference, provides the activity based load dispatching allocation ratios. Annual calculations consistent with the calculatios provided in Exhibit 1 shall be submitted to the E&O for approval. At the end of every two year period of the Agreement, the load dispatching allocations shall be reevauluated and applied as applicable by the Operating Agent."

4.8 Section 17.6.1 of the Agreement shall be deleted in its entirety and a new Section 17.6.1 shall be added to read as follows:

"17.6.1 All costs incurred by the Operating Agent (other than obligations for interest during construction) which conform to the provisions of Electric Plant Instruction 3 of the FERC Accounts entitled, "Components of Construction Cost;" provided, however, that (i) charges pursuant to Items (8) (injuries and damages) and (14) (insurance) of said Instruction 3 shall not include any costs shared by the Participants pursuant to Section 18 hereof, and (ii) charges pursuant to Item (16) (taxes) of said Instruction 3 shall not include any taxes shared by the Participants pursuant to Section 15 hereof. However, such charges shall include costs of any injuries or damages arising out of and occurring during the course of construction of Capital Improvements and the cost of any additional insurance which, upon the Operating Agent's recommendation, the Transmission Engineering and Operating Committee deems necessary to protect the interests of the Participants during the effectuation of such Capital Improvements prior to the time the coverage provided in Section 18 hereof becomes applicable thereto."

4.9 Section 17.6.2 of the Agreement shall be deleted in its entirety and a new Section 17.6.2 shall be added to read as follows:

"17.6.2 All applicable overhead costs incurred by the Operating Agent which conform to the provisions of Electric Plant Instruction 4 of the FERC Accounts entitled "Overhead Construction Costs."

4.10 Exhibit C, Section 1 of the Agreement shall be deleted in its entirety and a new Exhibit C Section 1 shall be added to read as follows:

"1. A portion of the overhead expenses of the Operating Agent's System Electric Equipment Department. Such portion shall be determined by multiplying the total department maintenance overhead expenses of the Operating Agent's System Electric Equipment Department as defined in FERC Account 568 by a ratio, the numerator of which is the total maintenance payroll charged to the Southern Transmission System by the Operating Agent's System Electric Equipment personnel and the denominator of which is the total department direct payroll expenses."

4.11 Exhibit C, Section 2 of the Agreement shall be deleted in its entirety and a new Exhibit C Section 2 shall be added to read as follows:

"2. A portion of the overhead expenses of the Operating Agent's System Overhead Lines Department. Such portion shall be determined by multiplying the total department maintenance overhead expenses of the Operating Agent's System Overhead Lines Department as defined in FERC Account 568 by a ratio, the numerator of which is the total maintenance payroll charged to the Southern Transmission System by the Operating Agent's System Overhead Lines Department and the denominator of which is the total department direct payroll expenses."

4.12 Exhibit C, Section 3 of the Agreement shall be deleted in its entirety and a new Exhibit C Section 3 shall be added to read as follows:

"3. A portion of the overhead expenses of the Operating Agent's System Electric Operations Department. Such portion shall be determined by multiplying the total department overhead expenses of the Operating Agent's System Electric Operations Department as defined in FERC Account 560 by a ratio, the numerator of which is the total payroll charged to the Southern Transmission System by the Operating Agent's System Electric Operation Department personnel and the denominator of which is the total department direct payroll expenses."

4.13 The first paragraph of Exhibit E to the Agreement shall be deleted in its entirety and a new first paragraph of Exhibit E shall be added to read as follows:

"The Benefits Ratio set forth below shall be applied to the labor expense portion of the Southern Transmission System operations and maintenance expenses, to the Operating Agent's direct labor charges incurred in effecting Capital Improvements, and to the labor expenses included in the Operating Agent's supervisory and administrative and general expense accounts. Estimated and actual

Benefits Ratios shall be determined, adjusted and used in the manner set forth as follows:

Benefits Ratio = B/L

Where: B = The Operating Agent's total system employee pensions and benefits (as defined in FERC Account 926), including payroll taxes and Workmen's Compensation expense on labor charged to employee pensions and benefits.

L = The Operating Agent's total labor distributed including accruals less labor charged to employee pensions and benefits."

4.14 The definition for I in the Workers Compensation Ratio in Exhibit F to the Agreement shall be deleted in its entirety and a new definition of I in the Workers Compensation Ratio in Exhibit F shall be added to read as follows:

"Where: I = The Operating Agent's total system compensation insurance premiums and accruals for self-insurance charges to FERC Account 925."

4.15 The decription of the first set of numbers in the Workers Compensation Ratio Example Computation in Exhibit F to the Agreement shall be deleted in its entirety and a new description in the Workers Compensation Ratio Example Calculation in Exhibit F shall be added to read as follows:

"Workmen's Compensation premiums, payments and accruals as defined in FERC Account 925"

4.16 Exhibit G of the Agreement shall be deleted in its entirety and replaced by the attached Exhibit G. In addition to revising references to FPC Accounts, all references to FPC Account 932 were changed to FERC Account 935 within Exhibit G to correct a account reference error.

4.17 Exhibit H of the Agreement shall be deleted in its entirety and replaced by the attached Exhibit H.

4.18 Exhibit I of the Agreement shall be deleted in its entirety and replaced by the attached Exhibit I.

4.19 EXHIBIT 1 - EXAMPLE OF DISPATCHING ALLOCATION RATIO CALCULATION, to the Operating Agreement is hereby deleted in its entirety and replaced by the attached Exhibit 1.

5. **EFFECT:** Except for the changes set forth in this Amendment No. 7, all provisions of the Operating Agreement as amended by Amendment Nos. 1, 2, 3, 4, 5 and 6 shall remain in full force and effect to the extent that such provisions are not in conflict or inconsistent with this Amendment No. 7. In the event of any conflict between the provisions of this Amendment No. 7 and the Operating Agreement as amended by Amendment Nos. 1, 2, 3, 4, 5 and 6, the provisions of this Amendment No. 7 shall govern.

6. **EXECUTION AND EFFECTIVE DATE:**

6.1 This Amendment No. 7 may be executed in any number of counterparts and, upon execution and delivery by each Participant, the executed and delivered counterparts together shall have the same force and effect as an original instrument as if all the Participants had signed the same instrument. Any signature page of this Amendment No. 7 may be detached from any counterpart of this Amendment No. 7 without impairing the legal effect of any signatures thereon, and may be attached to another counterpart of this Amendment No. 7 identical in form thereto, but having attached to it one or more signature pages.

6.2 When this Amendment No. 7 to the Operating Agreement has been delivered to, and executed by, the duly authorized representative of each Participant, Arizona shall promptly file a copy of the

Agreement incorporating this Amendment No. 7 with the Federal Energy Regulatory Commission ("FERC") and, if such filing is accepted by FERC without condition or modification, this Amendment No. 7 shall be effective as of the date specified by FERC in the order accepting the filing.

6.3 In the event FERC conditions or modifies any of the provisions addressed by this Amendment No. 7, Arizona shall promptly notify all the other Participants. Upon written notice given within thirty (30) days from the date of Arizona's notice to all other Participants by any Participant that such condition or modification is objectionable, this Amendment No. 7 shall terminate and be of no further force or effect. If no written notice is given by any Participant that such condition or modification is objectionable within such thirty (30) day period, this Amendment No. 7 as conditioned or modified by FERC shall become effective the day after such thirty (30) day period. Arizona shall set forth such conditions or modifications in an appendix which shall be attached hereto. Such appendix shall constitute an amendment to this Amendment No. 7 which amendment shall not require signature by the Participants.

7. **SIGNATURE CLAUSE:** Each Participant hereto represents and warrants that the person executing this Amendment No. 7 to the Navajo Project Southern Transmission System Operating Agreement has been duly authorized to act on its behalf. This Amendment No. 7 to the Navajo Project Southern Transmission System Operating Agreement is hereby executed as of the _____ day of ____________, 2015.

UNITED STATES OF AMERICA

Signature_______________________

Name__________________________

Title ~~~~ Regional Director
Lower Colorado Region
U.S. Bureau of Reclamation

Date Signed ____________________

ARIZONA PUBLIC SERVICE COMPANY

Signature ____________________

Name ____________________

Title ____________________

Date Signed ____________________

APPROVED AS TO FORM AND LEGALITY
MICHAEL N. FEUER, CITY ATTORNEY

DEC 15 2016

BY ____________________
SYNDI DRISCOLL
DEPUTY CITY ATTORNEY

DEPARTMENT OF WATER AND POWER
OF THE CITY OF LOS ANGELES

by

BOARD OF WATER AND POWER COMMISSIONERS
OF THE CITY OF LOS ANGELES

By____________________
David H. Wright, General Manager

and____________________
Secretary, Barbara Moschos

Date Signed____________________

NEVADA POWER COMPANY

Signature____________________

Name____________________

Title____________________

Date Signed____________________

SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT

Signature____________________

Name____________________

Title____________________

Date Signed____________________

TUCSON ELECTRIC POWER COMPANY

Signature____________________

Name____________________

Title____________________

Date Signed____________________

# EXHIBIT G

## OPERATION AND MAINTENANCE A & G RATIO

The Operation and Maintenance A & G Ratio shall be the percentage computed by dividing (i) the sum of (a) the total amounts charged to FERC Accounts 920 and 921 multiplied by the O & M Ratio computed in accordance with Exhibit I hereto, (b) the total amounts charged to FERC Accounts 923 and 935 (excluding maintenance costs of the Microwave System), (c) the product of the portion of labor charged included within (a) and (b) above multiplied by the Payroll Tax Ratio computed in accordance with Exhibit D hereto, (d) the product of the labor charges included within (a) and (b) above multiplied by the Benefits Ratio computed in accordance with Exhibit E hereto, and (e) the product of the labor charges included within (a) and (b) above multiplied by the Workmen's Compensation Ratio computed in accordance with Exhibit F hereto, less (f) that portion of the administrative and general expense charged to FERC Accounts 920 and 921 allocable to contract operations and maintenance for the Southern Transmission System by (ii) the total labor charged to the Operating Agent's system operations and maintenance less the labor charged to administrative and general expenses (excluding maintenance costs of the Microwave System). The following example sets forth the method to be employed by the Operating Agent to determine the Operation and Maintenance A & G Ratio:

EXAMPLE COMPUTATION

(Based on Operating Agent's 1972 Expenses)

| | Labor | Total |
|---|---|---|
| Administrative and General Salaries charged to FERC Account 920 | $ 2,522,177 | $ 2,522,177 |
| Office Supplies and Expenses charged to FERC Account 921 | | 936,388 |
| Total | $ 2,522,177 | $ 3,458,565 |
| Line 7, multiplied by O & M Ratio @ 41.421% (See Example in Exhibit "I") | $ 1,044,711 | $ 1,432,572 |
| FERC Account 923 | | 431,901 |
| FERC Account 935 (Excluding maintenance costs of the Microwave System) | 297,340 | 631,645 |
| Subtotal | $ 1,342,051 | $ 2,496,118 |
| Payroll Taxes @ 3.746% (See Example in Exhibit "D") on labor charges shown between lines 10 and 11 above | | 50,273 |
| Pensions and Benefits @ 12.811% (See Example in Exhibit "E") on labor charges shown between lines 10 and 11 above | | 171,930 |
| Workmen's Compensation @ 1.204% (See Example in Exhibit "F") on labor charges shown between lines 10 and 11 above | | 16,158 |

| | |
|---|---|
| Less that portion of A & G allocable to Contract Operation and Maintenance for the Southern Transmission System | 0 |
| Total administrative and general expense allocable to operations and maintenance | $ 2,734,479 |
| Labor Base | |
| Labor charged to system operations and maintenance | $15,696,110 |
| Less Labor charged to administrative and general expense (excluding maintenance labor costs of the Microwave System) | 2,479,223 |
| Labor Base | $13,216,887 |
| Operation and Maintenance A & G Ratio for 1972: | |
| $2,734,479 ÷ $13,216,887 = | 20.689% |

EXHIBIT H

CAPITAL IMPROVEMENTS A & G RATIO

The Capital Improvements A & G Ratio shall be the percentage computed by dividing (i) the amount equal to (A) the sum of (a) the total amounts charged to FERC Accounts 920 and 921 multiplied by the Construction Ratio computed in accordance with Exhibit I hereto, (b) the product of the portion of labor charges included in (a) above multiplied by the sum of the Payroll Tax Ratio, the Benefits Ratio and the Workmen's Compensation Ratio less (B) the portion of administrative and general expenses charged to FERC Accounts 920 and 921 allocable to contract construction for the Southern Transmission System by (ii) the total labor in construction accounts (exclusive of overheads).

The following example sets forth the method to be employed by the Operating Agent to determine the Capital Improvements A & G Ratio:

CAPITAL IMPROVEMENTS A & G RATIO

EXAMPLE COMPUTATION

(Based on the Operating Agent's 1972 Expenses)

| | Labor | Total |
|---|---|---|
| Administrative and General Salaries charged to FERC Account 920 | $2,522,177 | $2,522,177 |
| Office Supplies and Expenses charged to FERC Account 921 | | 936,388 |
| Total | $2,522,177 | $3,458,565 |
| Line 7 multiplied by Construction Ratio @ 45.165% (See Example in Exhibit I) | $1,139,141 | $1,562,061 |
| Payroll Taxes @ 3.746% (See Example in Exhibit D) on labor charges shown above | | 42,672 |
| Pensions and Benefits @ 12.811% (See Example in Exhibit E) on labor charges shown above | | 145,935 |
| Workmen's Compensation @ 1.204% (See Example in Exhibit F) on labor charges shown above | | 13,715 |
| Total administrative and general expense allocable to construction | | $1,764,383 |
| Less that portion allocable to contract construction for the Southern Transmission System | | 0 |
| Total A & G Expense plus pensions and benefits allocable to construction | | $1,764,383 |
| Construction labor base | | $14,200,724 |
| Capital Improvements A & G Ratio for 1972: $1,764,383 ÷ $14,200,724 = | | 12.425% |

# EXHIBIT I

## O & M RATIO AND CONSTRUCTION RATIO

The O & M Ratio shall be applied to the amounts chargeable to FERC Accounts 920 and 921 for the purpose of determining one component in the computation of the Operations and Maintenance A & G Ratio as provided in Exhibit G hereto.

O & M Ratio = O/L

Where: O = The Operating Agent's total labor charged to operation and maintenance accounts, less labor chargeable to FERC Accounts 920 through 932.

L = The Operating Agent's total labor distributed, including accruals, less labor charged to FERC Accounts 920 through 932.

The Construction Ratio set forth below shall be applied to the amounts chargeable to FERC Accounts 920 and 921 for the purpose of determining one component in the computation of the Capital A & G Ratio as provided in Exhibit H hereto.

Construction Ratio = C/L

Where: C = The Operating Agent's total labor in construction accounts.

L = The Operating Agent's total labor distributed, including accruals, less labor chargeable to FERC Accounts 920 through 932.

The following example sets forth the method to be employed by the Operating Agent to determine the O & M Ratio and the Construction Ratio:

## O & M RATIO AND CONSTRUCTION RATIO

### EXAMPLE COMPUTATION

(Based on the Operating Agent's 1972 Electric Expenses)

| | |
|---|---|
| Total Labor in Operation and Maintenance Accounts | $15,696,110 |
| Less: Labor charged to A & G FERC Accounts 920 through 932, inclusive | 2,672,578 |
| Net Labor in O & M Accounts | $13,023,532 |
| Total Labor charged to General Ledger Accounts | 4,217,335 |
| Total Labor in Construction Accounts | 14,200,724 |
| Total Labor Base | $31,441,591 |

Ratio of Net O & M Labor to Total Labor: $\frac{\$13,023,532}{\$31,441,591} = 41.421\%$

Ratio of Construction Labor to Total Labor: $\frac{\$14,200,724}{\$31,441,591} = 45.165\%$

Note: All labor figures include loading for allowed time.

**EXHIBIT 1**

**EXAMPLE OF DISPATCHING ALLOCATION RATIO CALCULATION**

**FERC Accounts 561.1 through 561.8 - Load Dispatch**

Total Load Dispatching Costs from FERC Account 561 = $T

**Step 1 - Allocation of Total Load Dispatch Dollars to Activity**

| | |
|---|---|
| **Planned & Unplanned Outages** | 69.4% x $T = $A |
| **Electronic Tags** | 30.6% x $T = $B |

**Step 2 - Allocation of planned and unplanned related dollars to Participants**

| | | Sub | Arizona System | Percent |
|---|---|---|---|---|
| # Outages | Sub Navajo | 44 | 610 | 7.21% |
| | Sub Westwing 230 (62%) | 12 | 610 | 1.22% |
| | Sub Westwing 500 (65%) | 10 | 610 | 1.06% |
| | Sub Cedar Mountain | 6 | 610 | .98% |
| | Sub Moenkopi(50%) | 34 | 610 | 2.79% |
| | Total Outage Percentage | | | 13.26% |

13.26% times $A = **Total Outage Cost ($a)**

**Step 3 - Allocation of Electronic Tag related dollars to Participants**

| | | Sub | Arizona System | Percent |
|---|---|---|---|---|
| # etags | Sub Navajo | 1,269 | 213,447 | .59% |
| | Sub Westwing 230 (62%) | 11,161 | 213,447 | 3.23% |
| | Sub Westwing 500 (65%) | 28,114 | 213,447 | 8.52% |
| | Sub Cedar Mountain | 274 | 213,447 | .13% |
| | Sub Moenkopi(50%) | 259 | 213,447 | .06% |
| | Total Etag Percentage | | | 12.53% |

12.53% times $B = **Total Etag Cost ($b)**

**Total Participant Allocation** = $a + $b