

RESOLUTION NO. 1995-28

**RESOLUTION OF THE SOUTHERN CALIFORNIA PUBLIC POWER
AUTHORITY WITH RESPECT TO THE SAN JUAN UNIT 3 PROJECT
APPROVING THE 1996 INTERIM INVOICING AGREEMENT**

WHEREAS, the Public Service Company of New Mexico and the Tucson Electric Power Company have entered into the 1996 Invoicing Agreement for San Juan Generating Station (the 1996 Interim Invoicing Agreement) with the San Juan Coal Company; and

WHEREAS, such agreement is effective January 1, 1996; and


WHEREAS, the goal of such agreement is to reduce fuel costs and encourage higher utilization of the San Juan Generating Station; and

WHEREAS, the effectiveness of such agreement is contingent upon written notice being given to the San Juan Coal Company by Public Service Company of New Mexico and Tucson Electric Power company confirming approval of the 1996 Interim Invoicing Agreement by the owners of the San Juan Generating Station by December 31, 1995.

BE IT RESOLVED BY THE BOARD OF DIRECTORS AS FOLLOWS:

1. The 1996 Interim Invoicing Agreement is hereby approved.
2. The Executive Director is hereby authorized to execute a Letter Agreement indicating SCPA's approval of the 1996 Interim Invoicing Agreement.
3. This Resolution shall become effective immediately.

THE FOREGOING RESOLUTION is approved and adopted by the Authority this 21st day of December, 1995.



PRESIDENT
Southern California Public Power Authority

ATTEST:



ASSISTANT SECRETARY
Southern California Public Power Authority

November 17, 1995



Mr. Thomas N. Hansen
Tucson Electric Power Company

Mr. John Van Egmond
Century Power Company

Mr. Lloyd H. Harvego
M-S-R Public Power Agency

Mr. Douglas O. Hunter
Utah Associated Municipal Power Systems

Mr. William T. Statton
City of Farmington, New Mexico

Mr. Henryk Olstowski
Southern California Public Power Authority

Mr. Edward K. Aghjayan
City of Anaheim, California

Mr. Chris Ortega
The Incorporated County of Los Alamos,
New Mexico

Re: Interim Invoicing Agreement for San Juan Generating Station

Gentlemen:

As you are aware from discussions between representatives of Public Service Company of New Mexico (PNM) and each of your respective organizations, PNM and Tucson Electric Power Company (TEP) have negotiated and executed with San Juan Coal Company (SJCC) a 1996 Invoicing Agreement (Invoicing Agreement) for the San Juan Generating Station (San Juan). A copy of the Invoicing Agreement is attached to this letter agreement (Attachment No. 1).

The Invoicing Agreement sets out certain invoicing procedures to be applied from January 1, 1996 through December 31, 1996, with a base price and incremental price based on currently forecasted tonnage levels of coal deliveries. The Invoicing Agreement offers an opportunity for benefits to San Juan participants and unit participants in the form of lower coal prices. A condition for the effectiveness of the Invoicing Agreement, however, is that all San Juan participants, PNM and TEP, and the unit participants, Century Power Corporation, Southern California Public Power Authority, the City of Farmington, New Mexico, M-S-R Public Power Agency, the County of Los Alamos, New Mexico, the City of Anaheim, California, and Utah Associated Municipal Power Systems (Owners), shall have approved invoicing under the San Juan Project Operating Agreement (Operating Agreement), as amended, that reflects the terms of the Invoicing Agreement.

With the implementation of the Invoicing Agreement and the commencement of billings thereunder by SJCC, PNM, as San Juan operating agent, will make certain changes in its coal expense invoicing to the Owners. Currently, cost responsibility for coal usage in 1996 is governed by Modification No. 8 (Modification No. 8) to the Operating Agreement, which has been accepted for filing by the Federal Energy Regulatory Commission (FERC). Upon implementation of the Invoicing Agreement, the Owners agree that purchases of coal from SJCC will be invoiced to the Owners based on two discrete consumption bands, as described below.

The Base Price (Base Price) band will be based on the first 5.6 million tons of coal delivered to San Juan on an annualized basis. Such Base Price band will be invoiced by SJCC at a delivered price of \$1.799 per MMBtu. The total cost of monthly deliveries in the Base Price band will be allocated among the Owners on the basis of station common ownership as listed in Exhibit III(g) of the Operating Agreement. The Base Price band will be considered a fixed cost by the Owners for purposes of cost allocation.

The Incremental (Incremental) band will be based on coal delivered in excess of the annualized 5.6 million tons. Coal delivered as Incremental price band coal shall be invoiced by SJCC at a delivered price of \$0.675 per MMBtu. The Incremental price band shall be considered a variable cost by the Owners for purposes of cost allocation. Owners shall only be eligible for allocation of Incremental band coal pricing if their monthly coal consumption exceeds their pro rata share of a 5.6 million ton annualized coal burn.

It is understood that the Invoicing Agreement provides for a reconciliation of the Invoicing Agreement invoices to invoices prepared pursuant to the Coal Sales Agreement dated August 18, 1980 between SJCC, PNM, and TEP, as amended (CSA). Any resulting adjustment will be allocated among the Owners on the basis of station common expenses as listed in Exhibit III(g) of the Operating Agreement.

Monthly Invoices, Allocations, Nominations

Following the end of each calendar month beginning January, 1996, SJCC will provide PNM, as operating agent for San Juan, an invoice that prices scheduled delivery of Base Price tons at a rate of \$1.799 per MMBtu and will also provide invoices that price incremental tons at the rate of \$0.675 per MMBtu.

Attachment No. 2 details the pro-rata share of the Base Price band tonnage for each individual Owner on a monthly basis (Minimum Coal Delivery).

Each Owner will notify PNM in writing of its authorized representative who shall advise PNM monthly of such Owner's nomination of Incremental entitlements. Each Owner is free to nominate coal in excess of its Minimum Coal Delivery as either additional Base Price or Incremental Coal. An Owner may elect to nominate coal in excess of such Owner's Minimum Coal Delivery as Base Price to bank such excess Base Price consumption in anticipation of future consumption deficiencies (e.g., due to unit outages). An Owner may elect not to nominate Incremental Price band coal in order to make up Base Price consumption shortfalls from a previous month or months.

Individual Owner True Up

At the end of 1996, PNM will produce a true up that will reconcile each individual Owner's fuel expense to a properly allocable share of the total SJCC invoices for the term of this letter agreement. Such true up will be exclusive of any year end true up required between San Juan Project and SJCC per the terms of the CSA.

If an Owner has neither nominated nor burned Incremental band coal, such Owner will not have an adjustment made to its fuel expense account.

If an Owner has nominated Incremental price band coal, but did not burn the Owner's Minimum Coal Delivery, such Owner will be refunded an amount reflecting such unachieved Incremental price band coal at a rate of \$0.675 per MMBtu.

If an Owner has nominated Base Price coal in excess of the Owner's Minimum Coal Delivery, such Owner shall be refunded the difference between \$1.799 and \$0.675 per MMBtu on such tonnage.

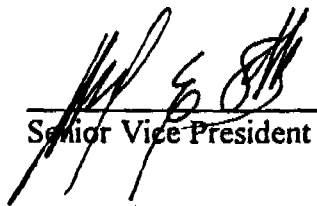
FERC Filing

The parties to this letter agreement recognize that it may be deemed to amend and supplement Modification No. 8, and acknowledge that this letter agreement must, therefore, be tendered to the FERC for filing under the Federal Power Act. It is agreed that PNM, as San Juan operating agent, shall promptly after the execution of this letter agreement submit to the FERC an appropriate filing which shall: (i) provide to the FERC an explanation of the reasons for the execution of Invoicing Agreement and of this letter agreement; and (ii) request that FERC waive its notice requirements, as authorized by the FERC's regulations, in order to permit PNM to implement, on and after January 1, 1996, the above-described new invoicing procedures with respect to the San Juan participants and unit participants. The parties to this letter agreement further agree that in the event the FERC should, for any reason, decline to approve this letter agreement, appropriate supplemental invoices shall be issued by PNM to rebill the Owners in accordance with the provisions of Modification No. 8. The parties acknowledge that any termination of this letter agreement will result in the true up mechanisms described herein being implemented at the conclusion of 1996.

The parties to this letter agreement recognize that in the future it may be appropriate that there be a further amendment to the Operating Agreement to reflect the provisions of this letter agreement, but agree that time is of the essence in the execution of this letter agreement, and that such an amendment to the Operating Agreement will not be prepared at this time. If, in the future, such an amendment is executed it shall likewise be filed with the FERC.


If you concur with the terms and conditions of this letter agreement and the new participant and unit participant invoicing procedures described herein, please have an authorized representative of your organization sign in the space indicated below and return a signed copy to me.

PUBLIC SERVICE COMPANY
OF NEW MEXICO



Senior Vice President

**AGREED TO AND
ACCEPTED BY:**



Public Service Company of New Mexico


Tucson Electric Power Company

Century Power Corporation

The Incorporated County of Los Alamos,
New Mexico

City of Farmington, New Mexico

M-S-R Public Power Agency



Southern California Public Power Authority

City of Anaheim, California

Utah Associated Municipal Power Systems