

August 15, 2000

M E M O R A N D U M

TO: Board of Directors
FROM: Stuart A. Caplan and Barbara S. Jost
RE: August 21, 2000 Board Meeting – FERC Filing Documents

In accordance with your instructions at the July 17 Board meeting, Pat Sanderson, several Board members or their representatives and we participated in further discussions of the FERC Filing Documents with the following objectives:

- To clarify the schedule for implementation of the Az ISA Protocols Manual (“PM”) and to make six documents consistent with the clarified schedule. Those documents are: (1) the PM, (2) the Az ISA Implementation Plan, (3) the Az ISA-TP Agreement (4) the Az ISA-SC-TP Agreement-, (5) the FERC filing letter, and (6) the supporting affidavit (excluding the Implementation Plan -- the “FERC Filing Documents”); and
- To resolve open issues raised by AEPCO representatives concerning the ISA-TP Agreement and the ISA-SC-TP Agreement.

We believe the draft FERC Filing Documents attached to this transmittal, as well as the Az ISA Implementation Plan circulated separately by Pat Sanderson, satisfy these objectives. Az ISA Rate Schedule 1 to the ISA-TP and ISA-SC-TP Agreements is also attached and was modified to be consistent with the changes made to the agreements.

Additionally, attached is a revised draft “Letter Agreement Regarding Az ISA Start-Up Between The Participating Utilities and the Az ISA.” As explained in our memorandum accompanying the Board’s July 17 meeting package, this letter agreement would amend each Participating Utility’s Promissory Note with the Az ISA to defer for three billing months the Az ISA’s obligation to commence repayment of monies owed so that the Az ISA can accumulate the needed working capital. In accordance with AEPCO’s request, this agreement was revised from a single agreement between the Az ISA and the four Participating Utilities to four separate agreements between the Az ISA and each Participating Utility. The changes to this agreement were not controversial.

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We recommend Board approval of the attached documents for purposes of finalizing the documents for FERC filing and for eventual execution.

Pat Sanderson will separately circulate the Az ISA Implementation Plan.

All documents are provided in both clean and redlined form. The redlining reflects the changes made from the versions provided for the July 17, 2000 Board meeting.

We are both available this week to respond to any questions you may have concerning the attached documents. Although Barbara Jost will be on vacation next week, Stu Caplan will be attending the August 21, 2000 Board meeting in order to address any questions that may arise during the Board's discussion of these items.

Attachments

cc: Pat Sanderson