

50.75(f)(1)



A subsidiary of Pinnacle West Capital Corporation

Palo Verde Nuclear
Generating Station

Dwight C. Mims
Vice President
Regulatory Affairs and Plant Improvement

Tel. 623-393-5403
Fax 623-393-6077

Mail Station 7605
P. O. Box 52034
Phoenix, Arizona 85072-2034

102-05677-DCM/TNW/RJR
March 30, 2007

Attn: Document Control Desk
U. S. Nuclear Regulatory Commission
Washington, DC 20555-0001

Dear Sirs:

**Subject: Palo Verde Nuclear Generating Station (PVNGS)
Units 1, 2, and 3
Docket Nos. STN 50-528/529/530
Decommissioning Funding Status Report - 2006**

Pursuant to the requirements of 10 CFR 50.75(f)(1) and in accordance with the guidance in NRC Regulatory Issue Summary 2001-07, "10 CFR 50.75(f)(1) Reports on the Status of Decommissioning Funds (Due March 31, 2001)," dated February 23, 2001, Arizona Public Service Company (APS) is submitting the status of the decommissioning funding for PVNGS Units 1, 2, and 3, as of December 31, 2006. APS is relying upon the 2006 Annual Funding Status Report from each Participant Owner as well as the "2004 Decommissioning Cost Study for the Palo Verde Nuclear Generating Station," issued in May 2005, in providing the information in this report.

The report provided in the enclosure to this letter contains the information requested in NRC Regulatory Issue Summary 2001-07 as well as the status of decommissioning funding for each PVNGS unit and for each of the owners.

This letter does not make any commitments to the NRC.

If you have any questions, please contact Thomas N. Weber at (623) 393-5764.

Sincerely,

DCM/TNW/RJR/gt

A member of the **STARS** (Strategic Teaming and Resource Sharing) Alliance

Callaway • Comanche Peak • Diablo Canyon • Palo Verde • South Texas Project • Wolf Creek

A001

NRC Document Control Desk
Decommissioning Funding Status Report-2006
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Enclosure: 2006 Decommissioning Funding Status Report for Palo Verde Nuclear
Generating Station Units 1, 2 & 3

cc: B. S. Mallett NRC Region IV Regional Administrator
M. B. Fields NRC NRR Project Manager
M. T. Markley NRC NRR Project Manager
G. G. Warnick NRC Senior Resident Inspector for PVNGS
A. V. Godwin [ARRA]

Enclosure

**2006 Decommissioning Funding Status Report for Palo Verde Nuclear
Generating Station Units 1, 2 & 3**

2006 Decommissioning Funding Status Report

The Decommissioning Funding Status Report for the year ending December 31, 2006, is being submitted pursuant to 10 CFR 50.75(f)(1) by Arizona Public Service Company (APS) as the operator of Palo Verde Nuclear Generating Station (PVNGS), Units 1, 2 and 3. The information contained in this report is based on the best available information as provided by the Palo Verde Participants updated to the current revision of NUREG -1307, "Report on Waste Burial Charge, Revision 12, dated February 2007.

Unit 1, APS is authorized to operate the facility at reactor core power levels not in excess of 3876 megawatts thermal (100% power) through operating cycle 12, and 3990 megawatts thermal (100% power) after operating cycle 12. This license is effective as of the date of issuance and shall expire at midnight on June 01, 2025.

Unit 2, APS is authorized to operate the facility at reactor core power levels not in excess of 3990 megawatts thermal (100% power). This license is effective as of the date of issuance and shall expire at midnight on April 24, 2026.

Unit 3, APS is authorized to operate the facility at reactor core power levels not in excess of 3876 megawatts thermal (100% power) through operating cycle 13, and 3990 megawatts thermal (100% power) after operating cycle 13. This license is effective as of the date of issuance and shall expire at midnight on November 25, 2027.

APS is submitting this report on behalf of the seven Palo Verde Participants identified below.

	Participant	% Share of Each Unit
1.	Arizona Public Service Company (APS)	29.10
2.	Salt River Project Agricultural Improvement and Power District (SRP)	17.49
3.	El Paso Electric Company (EPE)	15.80
4.	Southern California Edison Company (SCE)	15.80
5.	Public Service Company of New Mexico (PNM)	10.20
6.	Southern California Public Power Authority (SCPPA)	5.91
7.	Los Angeles Department of Water and Power (LADWP)	5.70

Attached to this enclosure are the portions from the individual participant reports which contain the information used to provided the responses to the 10 CFR 50.75(f)(1) requested information.

10 CFR 50.75(f)(1) and Regulatory Issue Summary 2001-07 require the following information be provided:

20004 Decommissioning Funding Status Report

1. The amount of decommissioning funds estimated to be required pursuant to 10 CFR 50.75 (b) and (c).
2. The amount accumulated to the end of the calendar year preceding the date of the report (This report is for the year ending December 31, 2006).
3. A schedule of the annual amounts remaining to be collected.
4. The assumptions used in determining rates of escalation in decommissioning costs, rates of earnings on decommissioning funds, and rates of other factors used in funding projections.
5. Any contracts upon which the licensee is relying pursuant to 10 CFR 50.75(e)(1)(v).
6. Any modifications occurring to a licensee's current method of providing financial assurance since the last submitted report.
7. Any material changes to trust agreements.

Item 1

The amount of decommissioning funds estimated to be required pursuant to 10 CFR 50.75 (b) and (c).

APS Response

NUREG -1307, "Report on Waste Burial Charge, Revision 12, dated February 2007 provides the following information.

Using the information provided in Example 1, Low-Level Waste Direct Disposal,

Scenario Description

Reactor Type:	PWR
Thermal Power Rating:	3400 MW _{th}
Location of Plant:	Western Region of the U.S.
LLW Disposition Preference:	Direct Disposal
LLW Burial Location:	Washington
Base Cost (1986 Dollars) =	\$105 million [from 10 CFR 50.75(c)(1)]

x L = 2.11 [from Table 3.2]

x E = 2.152 [from Section 3.2]

x B = 6.829 [from Table 2.1]

Decommissioning Cost (2006 dollars)

= (\$105 million)*[(0.65)*(2.11)+(0.13)*(2.152)+(0.22)*(6.829)]

= \$331 million

20004 Decommissioning Funding Status Report

APS has reviewed the assumptions in this example as applicable to Palo Verde. APS uses a site-specific estimate of decommissioning costs. A comparison of the two costs is shown below:

PVNGS Unit	10 CFR 50.75 (b) and (c) Required	Site Specific Basic Radiological Decommissioning¹	Total Decommissioning Costs²
Unit 1	\$331 Million	\$518,825	\$656,910
Unit 2	\$331 Million	\$562,855	\$699,750
Unit 3	\$331 Million	\$615,325	\$768,047

Each participant is entitled to exercise its own judgment regarding additional contingency factors and scope of work beyond the scope of work assumed in the site specific study. In addition, assumptions regarding decommissioning cost escalation and trust fund earnings may affect funding levels. Therefore, Participants may accumulate funds based upon a Basic Radiological Decommissioning Cost Estimate and Total Decommissioning Cost Estimate that exceed the amounts noted above. Regardless of such independent judgments, each Participant meets NRC requirements for purposes of estimating the decommissioning funds to be required, because the site specific estimates of costs noted above for the Basic Radiological Decommissioning of each PVNGS unit exceed the NRC minimum formula amount calculated in accordance with 10 CFR 50.75(c), NUREG-1307, Rev. 12, "Report on Waste Burial Charges" and Regulatory Guide 1.159, "Assuring the Availability of Funds for Decommissioning Nuclear Reactors."

Item 2

The amount accumulated to the end of the calendar year preceding the date of the report (This report is for the year ending December 31, 2006).

APS Response

The following table shows the actual accumulated funds by participant at the end of the reporting year 2006.

¹ Taken from 2004 Decommissioning Cost Study page xviii of xx and includes SG Storage Facility and Evaporation Ponds

² Taken from 2004 Decommissioning Cost Study page xix of xx and includes Independent Spent Fuel Storage Facility and non-nuclear costs

2004 Decommissioning Funding Status Report

Actual Accumulations at End of Reporting Period (In Thousands)

Participant	Unit 1 Accumulation	Unit 2 Accumulation	Unit 3 Accumulation
APS	\$104,768	\$117,369	\$103,443
SRP	\$62,638	\$61,539	\$63,771
EPE	\$38,384	\$38,995	\$35,077
SCE	\$215,720	\$219,420	\$233,546
PNM	\$41,018	\$42,433	\$32,758
SCPPA	\$44,385	\$45,381	\$49,684
LADWP	\$34,179	\$33,829	\$33,964
Total	\$541,092	\$558,966	\$552,243

Item 3

A schedule of the annual amounts remaining to be collected.

APS Response

Pursuant to the Participation Agreement, as amended and reformed, the Participants agreed that each Participant would commit to minimum levels of accumulation of funds, regardless of fund investment performance, pursuant to a pre-established percentage funded commitment or "Funding Curve" for each year through the end of plant life. Each Participant's percentage funding commitment was based upon an analysis which incorporated the Participant's individual business judgments (subject to regulatory approvals, as applicable) with respect to expected rates of fund investment earnings and escalation in total decommissioning costs. Every three years a site-specific decommissioning cost estimate is performed, and each participant applies the new cost estimate to its pre-established Funding Curve. The Decommissioning Cost Estimate prepared for 2004 was used. Each Participant is committed to minimum levels of accumulations, which cannot drop below a Funding Floor (which is never less than eighty percent of the Participant's Funding Curve and was established to take into account market fluctuations in the early years of fund accumulation).

The attacheds contain a schedule of annual amounts remaining to be collected.

Item 4

The assumptions used in determining rates of escalation in decommissioning costs, rates of earnings on decommissioning funds, and rates of other factors used in funding projections.

20004 Decommissioning Funding Status Report

APS Response

The attachments contain the assumptions each participant used in determining rates of escalation in decommissioning costs, rates of earnings on decommissioning funds, and rates of other factors used in funding projections.

Item 5

Any contracts upon which the licensee is relying pursuant to 10 CFR 50.75(e)(1)(v).

APS Response

No PVNGS Participant is relying upon a contract for purposes of providing decommissioning funding within the meaning of 10 CFR 50.75(e)(1)(v).

Item 6

Any modifications occurring to a licensee's current method of providing financial assurance since the last submitted report.

APS Response

There have been no modifications to the licensees' methods of providing financial assurance.

Item 7

Any material changes to trust agreements.

APS Response

Material modifications such as changes to trustees; changes to any key provision of the trust, particularly including the investment provisions; changes of the provisions related to withdrawals from the trust; changes related to the beneficiary; changes related to the duration or term of the trust; changes that could affect the ability of the trust agreement to provide reasonable assurance of decommissioning funds; and changes to the terms of providing information to the NRC are identified in Attachments 1 – 7.

Only one material change is reported:

20004 Decommissioning Funding Status Report

On May 1, 2006, Wells Fargo Bank, N.A. replaced Bank of America, N. A. as Trustee for the El Paso Electric Company.

Attachments

Attachments 1 through 7 contain the 2006 decommissioning funding status information for the Palo Verde participants as follows:

1. Arizona Public Service Company
2. Salt River Project Agricultural Improvement and Power District
3. El Paso Electric Company
4. Southern California Edison Company
5. Public Service Company of New Mexico
6. Southern California Public Power Authority
7. Los Angeles Department of Water and Power

Attachment 1

Annual Funding Status Report for the Year Ending December 2006

Arizona Public Service Company

Arizona Public Service Company

Annual Funding Status Report
For The Year Ending December 31, 2006

ARIZONA PUBLIC SERVICE COMPANY
ANNUAL FUNDING STATUS REPORT
FOR THE YEAR ENDING DECEMBER 31, 2006

Part 1. General Information

1.1 Description of Funds:

1.1.1 Fund No. 1 Palo Verde Unit 1

Tax Status:

- A. Decommissioning income is taxable for both qualified and non qualified trusts.
- B. Assumes stand alone basis for computation of non qualified taxes.

Independent Trustee:

- A. Mellon Bank, Pittsburgh

Investment Manager:

- A. NISA Investment Advisors, St. Louis
- B. Mellon Capital, San Francisco
- C. Delaware Investment Advisors, Philadelphia

Basic Documents:

- A. Trust Agreement with Mellon dated as of 7/1/91. Amendment to Mellon Agreement dated as of 12/1/94. Amendment to the Mellon Agreement dated as of 12/16/96. Amendment to the Mellon Agreement dated 3/18/02. Amendment to the Mellon Agreement dated 12/19/03.
- B. Investment Management Agreement with NISA Investment Advisors dated 4/1/02.
- C. Investment Management Agreement with Delaware Investment Advisers dated 6/24/99. Amendment to Delaware Investment Advisers Agreement dated 8/20/04.

Changes since prior AFSR:

- A. None

1.1.2 Fund No. 2 Palo Verde Unit 2

Tax and Trustee data are the same as for Unit 1.

Investment Manager:

- A. NISA Investment Advisors, St. Louis
- B. Mellon Capital, San Francisco
- C. Delaware Investment Advisors, Philadelphia

Basic Documents:

- A. Palo Verde Unit 2 Sale Leaseback Participation Agreements dated as of 8/1/86 and 12/15/86.
- B. Trust agreement for Palo Verde Unit 2 Sale Leaseback dated as of 1/31/92.
 Amendment to Trust Agreement dated 12/1/94. Amendment to Trust Agreement dated 6/2/96.
 Amendment to Trust Agreement dated 12/16/96. Amendment to Trust Agreement dated 6/30/00.
 Amendment to Trust Agreement dated 3/18/02. Amendment to Trust Agreement dated 12/19/03.
- C. Investment Management Agreement with Delaware Investment Advisers dated 3/27/97. Amendment to Delaware Investment Advisers Agreement dated 8/20/04.
- D. Investment Management Agreement with NISA Investment Advisors dated 4/1/02.

Changes since prior AFSR:

- A. None

1.1.3 Fund No. 3 Palo Verde Unit 3

Tax, Trustee, Investment Manager and Basic Documents data are the same as for Unit 1.

Changes since prior AFSR:

- A. Same as for Unit 1.

1.2 Pro-rata Share

Generation Entitlement Share	29.10%
Section 23.5.1 Obligations (from Participation Agreement)	0.00
Pro Rata Share	29.10%

1.3 Sale Leaseback Transactions

	Lessor/Trustee	Lessor Ownership	Termination Funding Required	Date Full Funding Required	Funding Basis	Funding Compliance Status
Unit 1	None	n/a	n/a	n/a	n/a	n/a
Unit 2	US Bank	42.28%				
	Equity Participants					
	a. Chase		yes	end of license	decom costs	compliance
	b. Emerson Finance		yes	end of lease	decom costs	compliance
	c. BofA Leasing		yes	end of lease	decom costs	compliance
Unit 3	None	n/a	n/a	n/a	n/a	n/a

1.4 Summary of Regulatory Requirements Respecting Electric Rates and Termination Funding

A. Related Arizona Corporation Commission Decisions:

1. April 1988, No. 55931 & 55939, authorized decommissioning funding, and specified amounts included in rates.
2. July 1988, No. 56047, approved Harris Trust as Trustee.
3. March 1989, No. 56384, approved RCM as Investment Manager.
4. June 1991, No. 57426, approved Mellon as Trustee replacing Harris.
5. December 1991, No. 57649, specified decommissioning funding amounts included in rates.
6. June 1994, No. 58644, specified decommissioning funding amounts included in rates.
7. June 1994, No. 58675, approved Mellon Capital as Investment Manager.
8. March 1997, No. 60098, approves DIA as Investment Manager; approves long-term asset allocation strategy of 60% equities, 40% fixed income; approves Mellon Capital market value limit of \$150 million; approved ability to transfer among existing investment managers.
9. January 2002, No. 64393, approves Mellon Capital market value limit of \$200 million; approves RCM and Delaware market value limits of \$75 million; approval to invest in Mellon Capital Market Completion Fund (Wilshire 4500); approval of reapportionment of the annual decommissioning fund contribution to each of the three Palo Verde units.
10. March 2002, No. 64646, approved NISA as investment manager replacing RCM Capital.
11. April 2005, No. 67744, specified decommissioning funding amounts included in rates.

B. Related Federal Electric Regulatory Commission Decisions:

1. July 1989, Docket No. ER89-265, authorized decommissioning costs in rates.

C. To be included in rates, the Arizona Corporation Commission and/or the Federal Energy Regulatory Commission must approve decommissioning costs (which inherently include assumed inflation rate and assumed earnings rate).

D. Mandatory deposits are those termination amounts approved by the ACC and by the FERC and currently in rates.

1.5 Statement of Investment Policies and Restrictions

A. Attached as Exhibit A. [Not Attached]

B. Changes since prior AFSR:

None.

PART 2 Summary of Status of Termination Funds at End of the Reporting Period

2.1 Committed Accumulations at End of Reporting Period:

		<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>
2.1.1	Latest Estimated Termination Costs (In Thousands) (2004 TLG)	\$656,910	\$699,750	\$768,047	\$2,124,707
2.1.2	Generation Entitlement Share of Estimated Termination Costs (In Thousands)	\$191,161	\$203,627	\$223,502	\$618,290
2.1.3	Cumulative Escalation Adjustment Factor	1.102500	1.102500	1.102500	1.102500
2.1.4	Adjusted Share of Estimated Termination Costs as of End of Reporting Period (In Thousands) (2.1.2) x (2.1.3)	\$210,755	\$224,499	\$246,411	\$681,664
2.1.5	Percent Funding Requirement at End of Reporting Period from Percent Funded Curve	50.12%	48.11%	45.99%	47.97%
2.1.6	Committed Accumulations at End of Reporting Period (In Thousands) (2.1.4) x (2.1.5)	\$105,630	\$108,006	\$113,324	\$326,961
2.1.7	Summary of Model Assumptions:				
	Decommissioning Costs	2004 TLG Study escalated for two years			
	Assumed Rate of Earnings	6.7500%			
	Assumed Rate of Cost Escalation	5.0000%			
	Contributions	Quarterly			

2.2

Actual Accumulations at End of the Reporting Period:

(Calculated pursuant to Section 5.5 of Termination Funding Manual)

<u>Fund</u>	<u>Unit 1</u>		<u>Unit 2</u>		<u>Unit 3</u>		<u>Total</u>
				(In Thousands)			
#1 - Qualified	\$ 98,937						\$ 98,937
#2 - Non-Qualified	5,831						5,831
#3 - Qualified			106,368				106,368
#4 - Non-Qualified			11,002				11,002
#5 - Qualified					70,908		70,908
#6 - Non-Qualified					32,205		32,205
Total	\$ 104,768		\$ 117,369		\$ 103,113		\$ 325,250
Calculations:	<u>Fund #1</u>	<u>Fund #2</u>	<u>Fund #3</u>	<u>Fund #4</u>	<u>Fund #5</u>	<u>Fund #6</u>	<u>Total</u>
Sum of (A):							
(i) Cash	\$ 885,718	\$ 4,512	\$ 3,695,789	\$ 11,755	\$ 622,480	\$ 25,047	\$ 5,245,301
(ii) Fair Market Value	105,323,309	6,229,703	103,693,801	12,363,762	74,020,921	34,583,171	336,214,667
(iii) Accrued Interest	378,817	90,107	973,692	101,997	266,231	500,213	2,311,056
	<u>\$106,587,844</u>	<u>\$ 6,324,322</u>	<u>\$108,363,281</u>	<u>\$12,477,515</u>	<u>\$74,909,633</u>	<u>\$35,108,431</u>	<u>\$ 343,771,024</u>
Less sum of (B):							
(i) Current tax	\$ 0	\$ 9,135	\$ 0	\$ 14,348	\$ 0	\$ 50,713	\$ 74,196
(ii) Accrued tax on income	0	59,984	0	111,756	0	354,330	526,070
(iii) Taxes associated with unrealized gains	7,650,508	424,410	1,995,481	1,349,780	4,001,632	2,498,821	17,920,632
(iv) Accrued expenses	61,306	6,508	134,111	12,653	43,309	32,714	290,599
	<u>\$ 7,650,508</u>	<u>\$ 493,529</u>	<u>\$ 1,995,481</u>	<u>\$ 1,475,884</u>	<u>\$ 4,001,632</u>	<u>\$ 2,903,864</u>	<u>\$ 18,520,898</u>
Value	<u>\$ 98,937,336</u>	<u>\$ 5,830,792</u>	<u>\$106,367,800</u>	<u>\$11,001,630</u>	<u>\$70,908,001</u>	<u>\$32,204,567</u>	<u>\$ 325,250,126</u>
Value (In Thousands)	<u>\$ 98,937</u>	<u>\$ 5,831</u>	<u>\$ 106,368</u>	<u>\$ 11,002</u>	<u>\$ 70,908</u>	<u>\$ 32,205</u>	<u>\$ 325,250</u>

2.3 <u>Funded Floor Amount at End of Reporting Period:</u>		<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>
2.3.1 Percentage of Committed Accumulations		82.00%	81.00%	80.00%	81.00%
2.3.2 Funded Floor Amount (In Thousands)		\$ 86,617	\$ 87,485	\$ 90,659	\$ 264,762
	(2.1.4 x 2.3.1)				

2.4 <u>Deposits Made During Reporting Period (All Termination Funds):</u>		<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>
NRC Required Deposits		-	-	-	-
Normal Annual Deposits		\$ 5,606,000	\$ 8,675,000	\$ 6,461,000	\$ 20,742,000
Recovery Deposits		0	0	0	0
Correcting Deposits		0	0	0	0
Total		<u>\$ 5,606,000</u>	<u>\$ 8,675,000</u>	<u>\$ 6,461,000</u>	<u>\$ 20,742,000</u>

2.5 <u>Mandatory Deposits During Reporting Period:</u>		<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>
Arizona		\$ 5,505,000	\$ 8,583,000	\$ 6,364,000	\$ 20,452,000
FERC		101,000	92,000	97,000	290,000
Total		<u>\$ 5,606,000</u>	<u>\$ 8,675,000</u>	<u>\$ 6,461,000</u>	<u>\$ 20,742,000</u>

2.6 Estimated Outstanding Balance of Recovery Deposits and Correction Deposits:

	Recovery Deposits		Correction Deposits	
	Amount Outstanding	Due Date	Amount Outstanding	Due Date
Unit 1	\$ 0	N/A	\$ 0	N/A
Unit 2	0	N/A	0	N/A
Unit 3	0	N/A	0	N/A
Total	<u>\$ 0</u>		<u>\$ 0</u>	

2.7 Annual Net Income (Loss) During Reporting Period (Each Funds; All Units):

Fund	Amount	Rate	(Based upon average ending fund balances)
#1	\$ 10,872,629	11.05%	
#2	402,533	6.63%	
#3	6,695,056	6.65%	
#4	1,165,772	9.84%	
#5	7,641,252	11.26%	
#6	2,234,595	6.58%	
Total	<u>\$ 29,011,837</u>	<u>9.10%</u>	

Calculations:	Fund #1	Fund #2	Fund #3	Fund #4	Fund #5	Fund #6	Total
Sum of (A):							
(i) realized income (loss)	\$ 2,664,677	\$ 253,985	\$ 12,369,428	\$ 377,325	\$ 1,872,728	\$ 1,409,955	\$ 18,948,097
(ii) unrealized income (loss)	8,954,429	170,339	(4,794,312)	851,127	6,293,147	945,610	12,420,341
Less sum of (B):							
(i) taxes paid & accrued	597,840	9,135	651,122	14,348	420,160	50,713	1,743,318
(ii) expenses paid & accrued	148,638	12,656	228,938	48,332	104,463	70,256	613,283
	<u>\$ 10,872,629</u>	<u>\$ 402,533</u>	<u>\$ 6,695,056</u>	<u>\$ 1,165,772</u>	<u>\$ 7,641,252</u>	<u>\$ 2,234,595</u>	<u>\$ 29,011,837</u>

2.8 Summary of Market Values of Permitted Investments at End of the Reporting Period:

<u>Category</u>	<u>Fund #1</u>	<u>Fund #2</u>	<u>Fund #3</u>	<u>Fund #4</u>	<u>Fund #5</u>	<u>Fund #6</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 1,264,535	\$ 94,619	\$ 4,669,480	\$ 113,752	\$ 888,711	\$ 525,260	\$ 7,556,357
Acceptable Debt Securities	28,334,494	4,308,589	91,539,863	4,741,395	19,913,401	23,918,421	172,756,162
Acceptable Equity Securities	76,988,815	1,921,114	12,153,938	7,622,368	54,107,520	10,664,750	163,458,505
Acceptable Life Insurance	0	0	0	0	0	0	0
Acceptable Property Interests	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 106,587,844</u>	<u>\$ 6,324,322</u>	<u>\$ 108,363,281</u>	<u>\$ 12,477,515</u>	<u>\$ 74,909,633</u>	<u>\$ 35,108,431</u>	<u>\$ 343,771,024</u>

2.9 Inventory and Values of Permitted Investments at End of the Reporting Period:

See Exhibit B [Not Attached]

2.10 Fund Liabilities at End of the Reporting Period:

Other than accrued taxes and administrative expenses, no liabilities exist against the Funds.

2.11 Defaults, if any, Experienced on Investments:

None.

2.12 Summary of Investment Ratings:

	Unit 1 - NISA Qualified		Unit 1 - NISA Non-qualified		Unit 1 - DIA Qualified	
	S&P	Moody's	S&P	Moody's	S&P	Moody's
AAA/Aaa	88.74%	88.74%	88.37%	81.71%	72.11%	72.35%
AA/Aa	4.42%	5.07%	10.08%	17.30%	6.08%	8.73%
A/A	6.84%	6.19%	0.99%	0.99%	15.68%	14.98%
Other			0.57%		6.13%	3.94%

	Unit 2 - NISA Qualified		Unit 2 - NISA Non-qualified		Unit 2 - DIA Qualified	
	S&P	Moody's	S&P	Moody's	S&P	Moody's
AAA/Aaa	87.56%	87.56%	87.41%	80.82%	68.94%	70.54%
AA/Aa	4.85%	5.86%	9.87%	18.28%	5.68%	10.93%
A/A	7.59%	6.39%	0.90%	0.90%	15.64%	15.17%
Other		0.19%	1.81%		9.74%	3.36%

	Unit 3 - NISA Qualified		Unit 3 - NISA Non-qualified		Unit 3 - DIA Qualified	
	S&P	Moody's	S&P	Moody's	S&P	Moody's
AAA/Aaa	88.74%	88.74%	88.37%	81.71%	72.11%	72.35%
AA/Aa	4.42%	5.07%	10.08%	17.30%	6.08%	8.73%
A/A	6.84%	6.19%	0.99%	0.99%	15.68%	14.98%

Part 3. Tables and Curves

3.1 Table of Estimated Deposits, Income and Committed Accumulations to End of Funding Period for Each Unit

Attached as Exhibit C

3.2 Percent Funding Curve and Funding Floor Curve for Each Unit

Attached as Exhibit C

3.3 Table of Estimated Deposits, Income and Committed Accumulations to End of Funding Period for All Units

Attached as Exhibit C

3.4 Composite Percent Funding Curve and Funding Floor Curve for All Units

Attached as Exhibit C

EXHIBIT C

Funding Tables and Curves

**ARIZONA PUBLIC SERVICE COMPANY
NUCLEAR DECOMMISSIONING FUNDING REQUIREMENT
UNIT ONE**

Based on 2004 Cost Study
Rate of Return 6.7500% Annual Period Rate of Return
1.6875% Quarter Period Rate of Return
5.0000% Annual Escalation

Year	First Quarter			Second Quarter			Third Quarter			Fourth Quarter			ANNUAL CONTRIBS
	Contrib	Quarter Earnings	Contrib Earnings to Date	Contrib	Quarter Earnings	Contrib Earnings to Date	Contrib	Quarter Earnings	Contrib Earnings to Date	Contrib	Quarter Earnings	Contrib Earnings to Date	
2006													104,768,129
2007	927,609	1,767,962	107,463,700	927,609	1,813,450	110,204,759	927,609	1,859,705	112,992,073	927,609	1,906,741	115,826,424	3,710,436
2008	927,609	1,954,571	118,708,604	927,609	2,003,208	121,639,420	927,609	2,052,665	124,619,695	927,609	2,102,957	127,650,261	3,710,436
2009	927,609	2,154,098	130,731,968	927,609	2,206,102	133,865,679	927,609	2,258,983	137,052,272	927,609	2,312,757	140,292,638	3,710,436
2010	927,609	2,367,438	143,587,685	927,609	2,423,042	146,938,336	927,609	2,479,584	150,345,530	927,609	2,537,081	153,810,220	3,710,436
2011	927,609	2,595,547	157,333,376	927,609	2,655,001	160,915,986	927,609	2,715,457	164,559,052	927,609	2,776,934	168,263,595	3,710,436
2012	927,609	2,839,448	172,030,653	927,609	2,903,017	175,861,279	927,609	2,967,659	179,756,547	927,609	3,033,392	183,717,548	3,710,436
2013	927,609	3,100,234	187,745,391	927,609	3,168,203	191,841,203	927,609	3,237,320	196,006,132	927,609	3,307,603	200,241,345	3,710,436
2014	927,609	3,379,073	204,548,027	927,609	3,451,748	208,927,384	927,609	3,525,650	213,380,642	927,609	3,600,798	217,909,050	3,710,436
2015	927,609	3,677,215	222,513,874	927,609	3,754,922	227,196,405	927,609	3,833,939	231,957,953	927,609	3,914,290	236,799,853	3,710,436
2016	927,609	3,995,998	241,723,459	927,609	4,079,083	246,730,152	927,609	4,163,571	251,821,332	927,609	4,249,485	256,998,426	3,710,436
2017	927,609	4,336,848	262,262,884	927,609	4,425,686	267,616,179	927,609	4,516,023	273,059,811	927,609	4,607,884	278,595,304	3,710,436
2018	927,609	4,701,296	284,224,209	927,609	4,796,284	289,948,102	927,609	4,892,874	295,768,585	927,609	4,991,095	301,687,289	3,710,436
2019	927,609	5,090,973	307,705,871	927,609	5,192,537	313,826,017	927,609	5,295,814	320,049,440	927,609	5,400,834	326,377,883	3,710,436
2020	927,609	5,507,627	332,813,119	927,609	5,616,221	339,356,949	927,609	5,726,649	346,011,207	714,812	5,838,939	352,564,958	3,710,436
2021	927,609	5,949,534	359,442,100	927,609	6,065,585	366,435,295	927,609	6,183,596	373,546,500	546,098	6,303,597	380,396,195	3,710,436
2022	927,609	6,419,186	387,742,990	927,609	6,543,163	395,213,762	927,609	6,669,232	402,810,603	527,022	6,797,429	410,135,054	3,710,436
2023	927,609	6,921,029	417,983,692	927,609	7,053,475	425,964,776	927,609	7,188,156	434,080,541	(1,362,983)	7,325,109	440,042,667	3,710,436
2024	927,609	7,425,720	448,395,996	927,609	7,566,682	456,890,288	927,609	7,710,024	465,527,921	(2,873,487)	7,855,784	470,510,218	3,710,436
2025	927,609	7,939,860	479,377,686	927,609	8,089,498	488,394,794	927,609	8,241,662	497,564,065	(23,737,047)	8,396,394	482,223,412	3,710,436
2026										(77,783,616)	32,550,080	436,989,876	0
2027										(100,038,874)	29,496,817	366,447,818	0
2028										(85,617,851)	24,735,228	305,565,196	0
2029										(72,078,240)	20,625,651	254,112,607	0
2030										(76,517,845)	17,152,601	194,747,362	0
2031										(63,274,020)	13,145,447	144,618,789	0
2032										(17,756,652)	9,761,768	136,623,905	0
2033										(16,007,738)		120,616,167	0
2034										(20,608,430)		100,007,737	0
2035										(29,971,205)		70,036,532	0
2036										(28,844,935)		41,191,597	0
2037										(41,191,596)		0	0

**ARIZONA PUBLIC SERVICE COMPANY
NUCLEAR DECOMMISSIONING FUNDING REQUIREMENT
UNIT ONE**

ESTIMATED ANNUAL COSTS

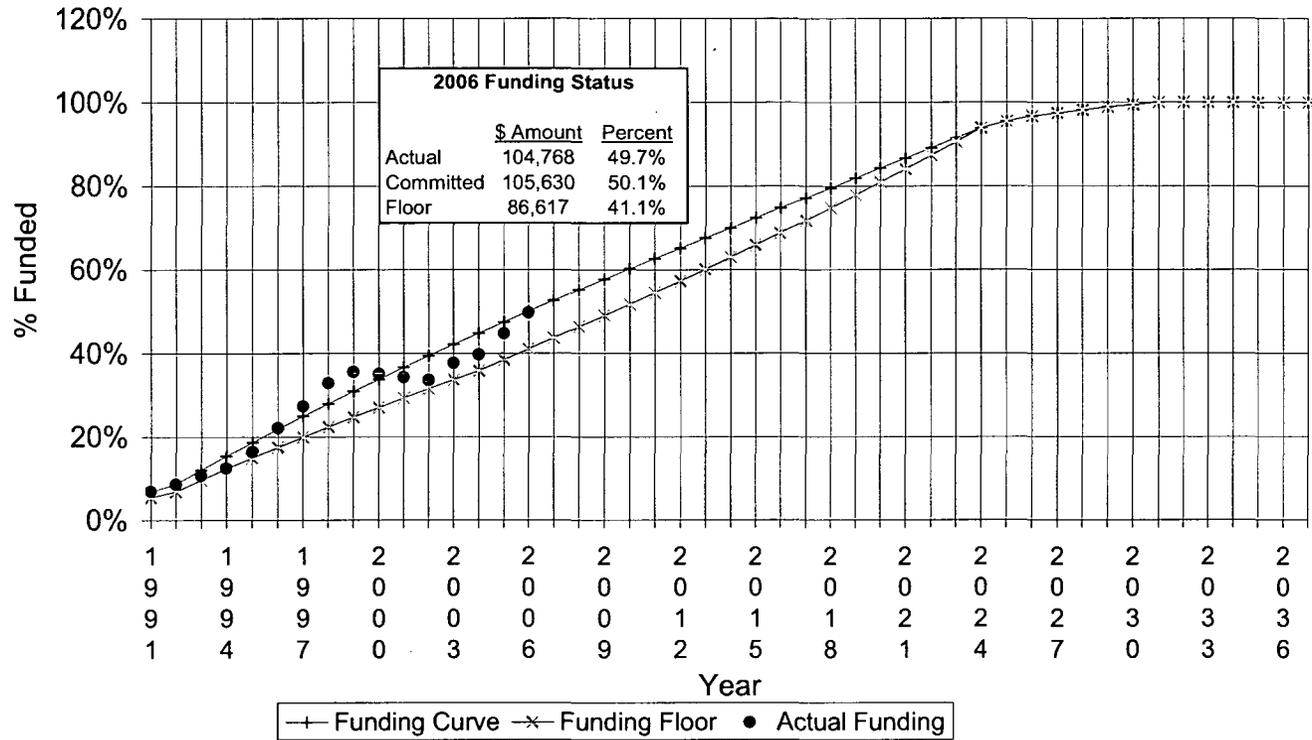
2025	Target \$'s	PV Dollars	Year	FV Dollars	Sum PV Liab	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
			2004	0	191,160,810	97,485	166,452	166,452	906,465	1,432,583	8,853,190	26,590,319	32,569,787	26,547,348	21,284,904	21,519,935	16,947,840	4,529,609	3,689,021	4,768,326	6,604,439	8,053,576	8,233,069
			2005	1	200,718,851	102,359	174,775	174,775	951,788	1,504,223	9,295,849	27,819,835	34,198,276	27,874,715	22,349,149	22,595,932	17,795,232	4,756,089	4,083,472	5,006,742	6,934,661	8,356,255	8,644,722
			2006	2	210,754,793	107,477	183,513	183,513	999,378	1,578,434	9,760,842	29,315,827	35,908,190	29,288,451	23,466,607	23,725,728	18,684,994	4,903,894	4,287,646	5,257,079	7,281,384	8,674,008	9,076,909
			2007	3	221,292,533	112,851	192,689	192,689	1,049,347	1,658,405	10,248,674	30,781,618	37,703,600	30,731,874	24,639,937	24,912,015	19,619,243	5,243,589	4,502,028	5,519,833	7,645,464	9,077,771	9,530,800
			2008	4	232,357,159	118,494	202,323	202,323	1,101,814	1,741,326	10,761,108	32,320,699	39,589,790	32,268,467	25,871,934	26,157,615	20,600,205	5,505,768	4,727,129	5,795,930	8,027,737	9,584,159	10,007,347
			2009	5	243,975,017	124,418	212,440	212,440	1,156,905	1,828,392	11,299,163	33,936,734	41,568,219	33,861,891	27,165,531	27,465,496	21,630,216	5,781,056	4,963,488	6,065,727	8,429,124	9,726,067	10,507,714
			2010	6	256,173,768	130,639	223,062	223,062	1,214,750	1,919,812	11,864,121	35,633,571	43,646,630	35,575,985	28,523,807	28,838,771	22,711,727	6,070,109	5,211,660	6,390,013	8,850,580	10,112,371	11,033,100
			2011	7	268,962,457	137,171	234,215	234,215	1,275,487	2,016,802	12,457,327	37,415,249	45,828,961	37,354,785	29,849,997	30,280,710	23,847,313	6,373,615	5,472,243	6,709,514	9,293,109	10,517,989	11,584,755
			2012	8	282,431,579	144,030	245,825	245,825	1,339,262	2,116,562	13,080,194	39,286,012	48,120,409	39,222,524	31,447,497	31,794,745	25,039,678	6,692,295	5,745,855	7,044,989	9,757,764	10,943,889	12,163,893
			2013	9	296,553,158	151,231	258,222	258,222	1,406,225	2,222,422	13,734,203	41,250,312	50,526,430	41,183,650	33,019,872	33,384,482	26,291,602	7,026,910	6,033,148	7,397,239	10,245,653	11,477,192	12,772,190
			2014	10	311,380,816	158,793	271,133	271,133	1,476,536	2,333,543	14,420,914	43,312,828	53,052,751	43,242,833	34,670,866	35,053,706	27,606,346	7,378,258	6,334,805	7,767,101	10,757,835	12,000,637	13,410,802
			2015	11	326,949,857	166,732	284,689	284,689	1,550,363	2,450,220	15,141,959	45,478,469	55,705,389	45,404,974	36,404,409	36,806,332	28,986,558	7,747,169	6,651,546	8,155,456	11,295,832	12,553,669	14,081,342
			2016	12	343,297,350	175,069	298,924	298,924	1,627,881	2,572,731	15,899,057	47,752,393	58,490,658	47,675,223	38,224,629	38,646,711	30,435,886	8,134,527	6,984,123	8,563,228	11,860,824	13,157,533	14,785,409
			2017	13	360,462,217	183,823	313,870	313,870	1,709,275	2,701,368	16,694,010	50,140,012	61,415,181	50,058,984	40,135,861	40,579,047	31,957,680	8,541,253	7,333,329	8,991,390	12,453,655	14,141,920	15,824,679
			2018	14	378,485,328	193,014	329,564	329,564	1,794,739	2,836,436	17,528,711	52,647,013	64,485,950	52,561,933	42,142,654	42,607,999	33,555,564	8,968,316	7,699,896	9,440,959	13,076,337	14,985,666	16,800,913
			2019	15	397,400,595	202,664	346,042	346,042	1,884,476	2,978,258	18,405,146	55,279,362	67,710,248	55,190,030	44,249,843	44,738,399	35,233,342	9,416,732	8,084,995	9,913,007	13,730,154	15,684,950	17,515,959
		294,989	2020	16	417,280,074	212,798	363,344	363,344	1,978,699	3,127,171	19,325,403	58,043,332	71,095,760	57,949,531	46,462,276	46,975,319	36,995,008	9,897,568	8,489,245	10,408,656	14,416,662	16,324,197	18,271,345
		495,426	2021	17	437,820,641		381,511	381,511	2,077,634	3,283,529	20,291,674	60,945,498	74,650,548	60,847,008	48,783,290	49,324,065	38,844,760	10,381,947	8,913,707	10,929,091	15,137,495	17,184,907	19,270,345
		487,304	2022	18	459,416,086		400,587	400,587	2,181,516	3,447,706	21,306,237	63,962,773	78,383,076	63,880,358	51,224,659	51,790,289	40,786,998	10,901,044	9,369,393	11,475,545	15,894,370	18,058,652	20,251,862
		2,610,258	2023	19	481,966,275		2,290,592	2,290,592	2,290,592	3,620,091	22,371,570	67,192,412	82,302,230	67,083,826	53,785,892	54,379,804	42,628,348	11,446,086	9,827,362	12,049,322	16,689,088	19,297,065	21,500,555
		4,057,670	2024	20	503,659,467		3,801,096	3,801,096	3,801,096	5,421,187	23,492,667	70,552,032	86,417,341	70,438,018	56,475,187	57,098,794	44,967,665	12,618,401	10,318,730	12,651,788	17,523,543	20,184,873	22,547,843
		24,664,656	2025	21	524,851,290		24,664,656	24,664,656	24,664,656	32,490,149	24,664,656	74,078,634	90,738,208	73,859,918	59,298,946	59,863,734	47,216,048	12,619,321	10,634,667	13,284,378	18,399,720	21,065,636	23,623,022
		72,865,214	2026	22	545,195,965		72,865,214	72,865,214	72,865,214	95,275,119	26,590,319	85,275,119	100,838,874	85,275,119	65,377,088	66,098,992	52,050,693	13,512,802	11,845,220	14,646,027	20,265,601	23,000,702	25,388,067
		87,787,570	2027	23	566,812,967		87,787,570	87,787,570	87,787,570	111,111,111	30,000,000	111,111,111	130,000,000	111,111,111	85,000,000	86,000,000	68,000,000	14,608,442	12,542,481	15,378,328	21,299,978	24,552,470	27,000,000
		70,381,849	2028	24	589,412,919		70,381,849	70,381,849	70,381,849	130,000,000	35,000,000	130,000,000	150,000,000	130,000,000	100,000,000	101,000,000	78,000,000	15,338,864	13,169,605	16,147,244	22,364,975	25,499,557	28,000,000
		55,505,068	2029	25	613,000,000		55,505,068	55,505,068	55,505,068	150,000,000	40,000,000	150,000,000	170,000,000	150,000,000	120,000,000	121,000,000	95,000,000	16,147,244	14,000,000	17,000,000	23,400,000	26,500,000	29,000,000
		55,197,996	2030	26	637,600,000		55,197,996	55,197,996	55,197,996	170,000,000	45,000,000	170,000,000	190,000,000	170,000,000	140,000,000	141,000,000	110,000,000	16,954,607	14,800,000	18,000,000	24,500,000	27,600,000	30,000,000
		42,758,073	2031	27	663,200,000		42,758,073	42,758,073	42,758,073	190,000,000	50,000,000	190,000,000	210,000,000	190,000,000	160,000,000	161,000,000	130,000,000	16,954,607	15,600,000	19,000,000	25,600,000	28,700,000	31,000,000
		11,240,507	2032	28	689,800,000		11,240,507	11,240,507	11,240,507	210,000,000	55,000,000	210,000,000	230,000,000	210,000,000	180,000,000	181,000,000	140,000,000	16,954,607	16,400,000	20,000,000	26,700,000	29,800,000	32,000,000
		10,133,390	2033	29	717,400,000		10,133,390	10,133,390	10,133,390	230,000,000	60,000,000	230,000,000	250,000,000	230,000,000	200,000,000	201,000,000	150,000,000	16,954,607	17,200,000	21,000,000	27,800,000	30,900,000	33,000,000
		13,045,770	2034	30	746,000,000		13,045,770	13,045,770	13,045,770	250,000,000	65,000,000	250,000,000	270,000,000	250,000,000	220,000,000	221,000,000	160,000,000	16,954,607	18,000,000	22,000,000	28,900,000	31,900,000	34,000,000
		18,972,695	2035	31	775,600,000		18,972,695	18,972,695	18,972,695	270,000,000	70,000,000	270,000,000	290,000,000	270,000,000	240,000,000	241,000,000	170,000,000	16,954,607	18,800,000	23,000,000	29,900,000	32,800,000	35,000,000
		18,250,731	2036	32	806,200,000		18,250,731	18,250,731	18,250,731	290,000,000	75,000,000	290,000,000	310,000,000	290,000,000	260,000,000	261,000,000	180,000,000	16,954,607	19,600,000	24,000,000	30,900,000	33,700,000	36,000,000
		26,075,544	2037	33	837,800,000		26,075,544	26,075,544	26,075,544	310,000,000	80,000,000	310,000,000	330,000,000	310,000,000	280,000,000	281,000,000	190,000,000	16,954,607	20,400,000	25,000,000	31,800,000	34,600,000	37,000,000
		514,833,715			191,160,810		514,833,715	514,833,715	514,833,715	661,442,242													41,191,596
																							601,442,242
																							29.1% of
																							656,910,000

**ARIZONA PUBLIC SERVICE COMPANY
NUCLEAR DECOMMISSIONING FUNDING REQUIREMENT
UNIT ONE**

Based on 2004 Cost Study	
Rate of Return	6.7500%
Escalation Factor	5.0000%

Year	Funding Curve			Funding Floor			Actual Funding		
	Fund \$	Est. Cost	% Funded	% Band	% Floor	\$ Floor	\$ In Fund	Est. Cost	% Funded
1991	8,358,799	122,538,465	6.82%	80%	5.46%	6,687,023	8,531,336	122,538,465	6.96%
1992	11,132,220	128,655,388	8.65%	80%	6.92%	8,905,776	11,159,326	128,655,388	8.67%
1993	16,329,125	135,098,658	12.09%	80%	9.67%	13,063,300	14,474,516	135,098,658	10.71%
1994	21,885,801	141,853,590	15.43%	80%	12.34%	17,508,641	17,781,769	141,853,590	12.54%
1995	27,827,153	148,946,270	18.68%	80%	14.94%	22,261,723	24,469,181	148,946,270	16.43%
1996	30,081,526	137,672,886	21.85%	80%	17.48%	24,065,220	30,491,630	137,672,886	22.15%
1997	36,066,854	144,556,530	24.95%	80%	19.96%	28,853,483	39,491,919	144,556,530	27.32%
1998	42,454,084	151,784,356	27.97%	80%	22.38%	33,963,267	49,972,041	151,784,356	32.92%
1999	52,694,980	170,368,508	30.93%	80%	24.74%	42,155,984	60,615,123	170,368,508	35.58%
2000	60,517,449	178,886,933	33.83%	80%	27.06%	48,413,960	62,792,455	178,886,933	35.10%
2001	68,858,947	187,831,280	36.66%	80%	29.33%	55,087,158	64,409,937	187,831,280	34.29%
2002	74,245,928	188,202,606	39.45%	80%	31.56%	59,396,742	63,343,559	188,202,606	33.66%
2003	83,353,052	197,612,736	42.18%	80%	33.74%	66,682,442	74,582,453	197,612,736	37.74%
2004	93,102,276	207,493,373	44.87%	80%	35.90%	74,481,821	82,378,934	207,493,373	39.70%
2005	95,361,526	200,718,851	47.51%	81%	38.48%	77,242,836	89,926,645	200,718,851	44.80%
2006	105,630,302	210,754,793	50.12%	82%	41.10%	86,616,848	104,768,129	210,754,793	49.71%
2007	116,599,035	221,292,533	52.69%	83%	43.73%	96,777,199			
2008	128,354,095	232,357,159	55.24%	84%	46.40%	107,817,440			
2009	140,895,572	243,975,017	57.75%	85%	49.09%	119,761,237			
2010	154,319,078	256,173,768	60.24%	86%	51.81%	132,714,407			
2011	168,652,000	268,982,457	62.70%	87%	54.55%	146,727,240			
2012	183,975,931	282,431,579	65.14%	88%	57.32%	161,898,819			
2013	200,380,969	296,553,158	67.57%	89%	60.14%	178,339,062			
2014	217,935,433	311,380,816	69.99%	90%	62.99%	196,141,890			
2015	236,679,002	326,949,857	72.39%	91%	65.87%	215,377,891			
2016	256,717,758	343,297,350	74.78%	92%	68.80%	236,180,338			
2017	278,132,647	360,462,217	77.16%	93%	71.76%	258,663,362			
2018	301,085,079	378,485,328	79.55%	94%	74.78%	283,019,974			
2019	325,557,940	397,409,595	81.92%	95%	77.82%	309,280,043			
2020	351,767,103	417,280,074	84.30%	96%	80.93%	337,696,419			
2021	379,589,611	437,920,641	86.68%	97%	84.08%	368,201,923			
2022	409,155,966	459,416,086	89.06%	98%	87.28%	400,972,847			
2023	440,758,158	481,966,275	91.45%	99%	90.54%	436,350,577			
2024	472,583,678	503,659,467	93.83%	100%	93.83%	472,583,678			
2025	500,498,190	524,851,290	95.36%	100%	95.36%	500,498,190			
2026	507,601,900	525,195,965	96.65%	100%	96.65%	507,601,900			
2027	457,615,588	469,782,967	97.41%	100%	97.41%	457,615,588			
2028	381,126,664	388,231,297	98.17%	100%	98.17%	381,126,664			
2029	314,217,159	317,744,119	98.89%	100%	98.89%	314,217,159			
2030	256,478,863	257,949,173	99.43%	100%	99.43%	256,478,863			
2031	190,502,894	190,502,894	100.00%	100%	100.00%	190,502,894			
2032	133,590,318	133,590,318	100.00%	100%	100.00%	133,590,318			
2033	121,625,349	121,625,349	100.00%	100%	100.00%	121,625,349			
2034	110,898,491	110,898,491	100.00%	100%	100.00%	110,898,491			
2035	94,804,564	94,804,564	100.00%	100%	100.00%	94,804,564			
2036	68,075,027	68,075,027	100.00%	100%	100.00%	68,075,027			
2037	41,191,596	41,191,596	100.00%	100%	100.00%	41,191,596			

**ARIZONA PUBLIC SERVICE COMPANY
NUCLEAR DECOMMISSIONING FUNDING REQUIREMENT
UNIT ONE**



**ARIZONA PUBLIC SERVICE COMPANY
NUCLEAR DECOMMISSIONING FUNDING REQUIREMENT
UNIT TWO**

Based on 2004 Cost Study
Rate of Return 6.7500% Annual Period Rate of Return
1.6875% Quarter Period Rate of Return
5.0000% Annual Escalation

Year	First Quarter			Second Quarter			Third Quarter			Fourth Quarter			ANNUAL CONTRIBS	
	Contrib	Quarter Earnings	Contrib Earnings to Date	Contrib	Quarter Earnings	Contrib Earnings to Date	Contrib	Quarter Earnings	Contrib Earnings to Date	Contrib	Quarter Earnings	Contrib Earnings to Date		
2006												117,369,430		
2007	767,759	1,980,609	120,117,798	767,759	2,026,988	122,912,544	767,759	2,074,149	125,754,452	767,759	2,122,106	128,644,317	3,071,035	
2008	767,759	2,170,873	131,582,949	767,759	2,220,462	134,571,170	767,759	2,270,888	137,609,817	767,759	2,322,166	140,699,741	3,071,035	
2009	767,759	2,374,308	143,841,808	767,759	2,427,331	147,036,897	767,759	2,481,248	150,285,904	767,759	2,536,075	153,589,737	3,071,035	
2010	767,759	2,591,827	156,949,323	767,759	2,648,520	160,365,601	767,759	2,706,170	163,839,529	767,759	2,764,792	167,372,080	3,071,035	
2011	767,759	2,824,404	170,964,243	767,759	2,885,022	174,617,023	767,759	2,946,662	178,331,444	767,759	3,009,343	182,108,546	3,071,035	
2012	767,759	3,073,082	185,949,386	767,759	3,137,896	189,855,041	767,759	3,203,804	193,826,603	767,759	3,270,824	197,865,186	3,071,035	
2013	767,759	3,338,975	201,971,919	767,759	3,408,276	206,147,954	767,759	3,478,747	210,394,460	767,759	3,550,407	214,712,625	3,071,035	
2014	767,759	3,623,276	219,103,659	767,759	3,697,374	223,568,792	767,759	3,772,723	228,109,274	767,759	3,849,344	232,726,377	3,071,035	
2015	767,759	3,927,258	237,421,393	767,759	4,006,486	242,195,638	767,759	4,087,051	247,050,448	767,759	4,168,976	251,987,183	3,071,035	
2016	767,759	4,252,284	257,007,225	767,759	4,336,997	262,111,981	767,759	4,423,140	267,302,879	767,759	4,510,736	272,581,374	3,071,035	
2017	767,759	4,599,811	277,948,943	767,759	4,690,388	283,407,090	767,759	4,782,495	288,957,344	767,759	4,876,155	294,601,258	3,071,035	
2018	767,759	4,971,396	300,340,412	767,759	5,068,244	306,176,416	767,759	5,166,727	312,110,901	767,759	5,266,871	318,145,531	3,071,035	
2019	767,759	5,368,706	324,281,996	767,759	5,472,259	330,522,013	767,759	5,577,559	336,867,331	767,759	5,684,636	343,319,726	3,071,035	
2020	767,759	5,793,520	349,881,005	767,759	5,904,242	356,553,006	767,759	6,016,832	363,337,596	767,759	6,131,322	370,236,677	3,071,035	
2021	767,759	6,247,744	377,252,179	767,759	6,366,131	384,386,069	767,759	6,486,515	391,640,342	767,759	6,608,931	399,017,032	3,071,035	
2022	767,759	6,733,412	406,518,203	767,759	6,859,995	414,145,956	767,759	6,988,713	421,902,428	767,759	7,119,603	429,789,790	3,071,035	
2023	767,759	7,252,703	437,810,251	767,759	7,388,048	445,966,058	767,759	7,525,677	454,259,494	767,759	7,665,629	462,692,882	3,071,035	
2024	767,759	7,807,942	471,268,583	767,759	7,952,657	479,988,999	767,759	8,099,814	488,856,572	767,759	8,249,455	497,873,785	3,071,035	
2025	767,759	8,401,620	507,043,164	767,759	8,556,353	516,367,276	767,759	8,713,698	525,848,733		301,327	8,873,697	535,023,757	3,071,035
2026	767,759	9,028,526	544,820,042	767,759	9,193,838	554,781,639	767,759	9,361,940	564,911,338	(91,258,135)	9,532,879	483,186,081	3,071,035	
2027										(107,275,188)	32,615,060	408,525,954	0	
2028										(108,762,300)	27,575,502	327,339,156	0	
2029										(66,600,238)	22,095,393	282,834,310	0	
2030										(70,765,944)	19,091,316	231,159,683	0	
2031										(72,130,645)	15,603,279	174,632,316	0	
2032										(58,462,305)	11,787,681	127,957,693	0	
2033										(16,164,649)	8,637,144	120,430,188	0	
2034										(20,690,180)		99,740,008	0	
2035										(29,869,521)		69,870,487	0	
2036										(28,700,729)		41,169,758	0	
2037										(41,169,758)		0	0	

**ARIZONA PUBLIC SERVICE COMPANY
NUCLEAR DECOMMISSIONING FUNDING REQUIREMENT
UNIT TWO**

ESTIMATED ANNUAL COSTS

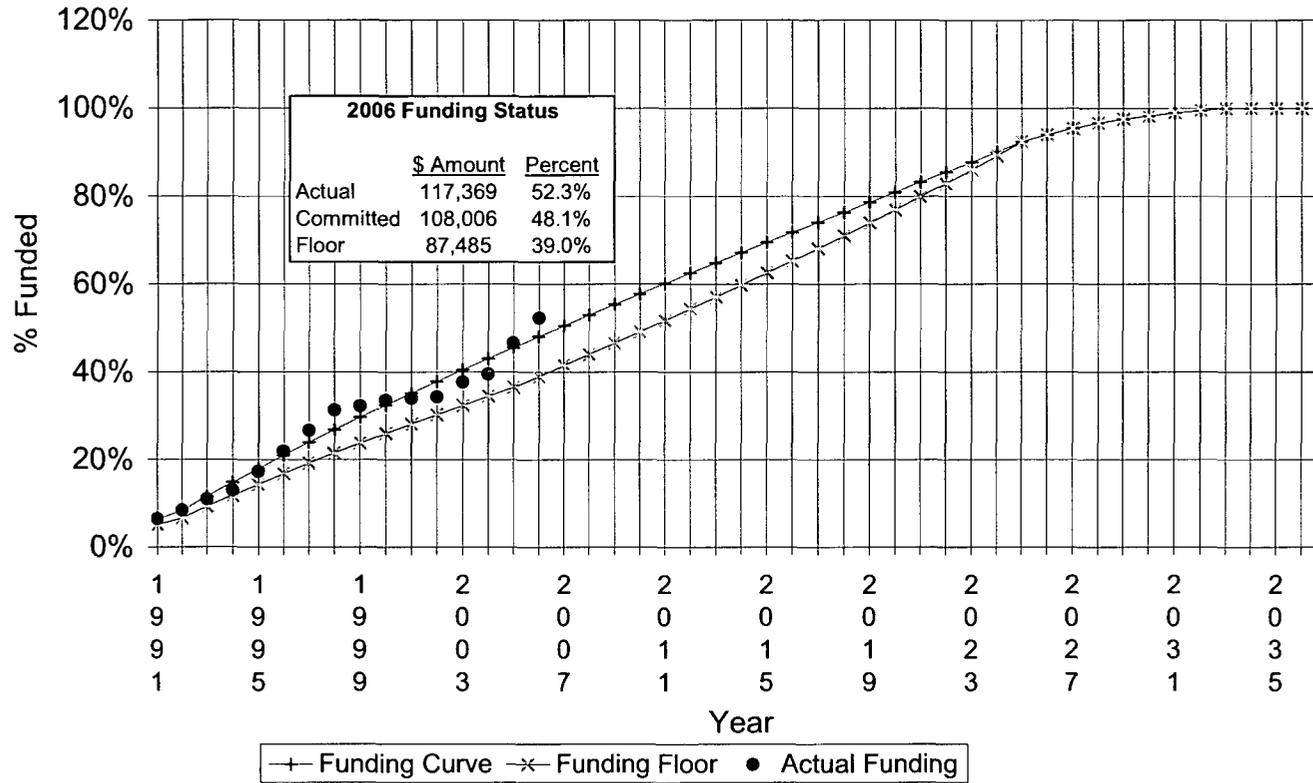
2026		Year	FV Dollars	Sum PV Liab	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037		
Target \$'s	PV Dollars				2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037		
		2004	0	203,627,250	167,422	31,459,040	34,925,723	33,723,699	19,667,235	19,902,266	19,320,072	14,913,362	3,927,142	4,787,241	6,582,032	6,023,312	8,228,704		
		2005	1	213,808,613	175,793	33,031,992	36,672,009	35,409,884	20,650,597	20,897,379	20,286,076	15,659,030	4,123,499	5,026,603	6,911,134	6,324,478	8,640,139		
		2006	2	224,499,043	184,583	34,683,592	38,505,610	37,180,378	21,683,127	21,942,248	21,300,379	16,441,982	4,329,674	5,277,933	7,256,690	6,640,701	9,072,146		
		2007	3	235,723,995	193,812	36,417,771	40,430,890	39,039,397	22,767,283	23,039,361	22,365,398	17,264,081	4,546,158	5,541,830	7,619,525	6,972,737	9,525,753		
		2008	4	247,510,195	203,502	38,238,660	42,452,435	40,991,367	23,905,647	24,191,329	23,483,668	18,127,285	4,773,466	5,818,921	8,000,501	7,321,373	10,002,041		
		2009	5	259,885,705	213,678	40,150,593	44,575,056	43,040,935	25,100,929	25,400,895	24,657,852	19,033,649	5,012,139	6,109,867	8,400,526	7,687,442	10,502,143		
		2010	6	272,879,990	224,361	42,158,122	46,803,809	45,192,982	26,355,976	26,670,940	25,890,744	19,985,331	5,262,746	6,415,361	8,820,552	8,071,814	11,027,250		
		2011	7	286,523,990	235,580	44,266,028	49,144,000	47,452,631	27,673,775	28,004,487	27,185,281	20,984,598	5,525,883	6,736,129	9,261,580	8,475,405	11,578,613		
		2012	8	300,850,189	247,359	46,479,330	51,601,200	49,825,263	29,057,463	29,404,711	28,544,546	22,033,828	5,802,177	7,072,935	9,724,659	8,899,175	12,157,544		
		2013	9	315,892,698	259,726	48,803,296	54,181,260	52,316,526	30,510,337	30,874,947	29,971,773	23,135,519	6,092,286	7,426,582	10,210,892	9,344,134	12,765,421		
		2014	10	331,687,333	272,713	51,243,461	56,890,323	54,932,352	32,035,853	32,418,694	31,470,361	24,292,295	6,396,901	7,797,911	10,721,437	9,811,341	13,403,692		
		2015	11	348,271,700	286,348	53,805,634	59,734,839	57,678,970	33,637,646	34,039,629	33,043,880	25,506,910	6,716,746	8,187,807	11,257,508	10,301,908	14,073,876		
		2016	12	365,685,285	300,666	56,495,916	62,721,581	60,562,918	35,319,528	35,741,610	34,696,074	26,782,255	7,052,583	8,597,197	11,820,384	10,817,003	14,777,570		
		2017	13	383,969,549	315,699	59,320,712	65,857,660	63,591,064	37,085,505	37,528,691	36,430,877	28,121,368	7,405,212	9,027,057	12,411,403	11,357,853	15,516,449		
		2018	14	403,168,027	331,484	62,286,747	69,150,543	66,770,617	38,939,780	39,405,125	38,252,421	29,527,437	7,775,473	9,478,410	13,031,973	11,925,746	16,292,271		
		2019	15	423,326,428	348,058	65,401,085	72,608,070	70,109,148	40,886,769	41,375,382	40,165,042	31,003,809	8,164,248	9,952,330	13,683,572	12,522,033	17,106,885		
		2020	16	444,482,750	365,461	68,671,139	76,238,473	73,614,606	42,931,108	43,444,151	42,173,294	32,553,999	8,572,458	10,449,947	14,367,750	13,148,135	17,962,229		
		2021	17	466,717,387	383,734	72,104,696	80,050,397	77,295,336	45,077,663	45,616,358	44,281,959	34,181,699	9,001,081	10,972,444	15,086,138	13,805,541	18,860,340		
		2022	18	490,053,256	402,921	75,709,931	84,052,917	81,160,103	47,331,546	47,897,176	46,496,057	35,890,784	9,451,135	11,521,066	15,840,445	14,495,819	19,803,325		
		2023	19	514,555,919	423,067	79,495,427	88,255,563	85,218,108	49,698,123	50,292,035	48,820,860	37,685,323	9,923,692	12,097,120	16,632,467	15,220,609	20,793,526		
		2024	20	540,283,715	444,220	83,470,199	92,668,341	89,479,013	52,183,029	52,806,637	51,261,903	39,569,589	10,419,877	12,701,976	17,464,090	15,981,640	21,833,201		
	497,916	167,422	2025	21	466,431	567,297,901	466,431	87,643,709	97,301,758	93,952,964	54,792,181	55,448,969	53,824,998	41,548,069	10,940,871	13,337,074	18,337,295	16,780,722	22,924,862
	92,025,894	31,459,040	2026	22	92,025,894	595,173,043	595,173,043	92,025,894	102,166,846	98,650,612	57,531,790	58,219,317	56,516,248	43,625,472	11,487,914	14,003,928	19,254,160	17,619,758	24,071,105
	100,491,979	34,925,723	2027	23	107,275,188	528,304,506	528,304,506	107,275,188	103,583,143	60,408,380	61,130,283	59,342,060	45,806,746	12,062,310	14,704,124	20,216,868	18,500,746	25,274,660	
	95,442,678	33,723,659	2028	24	108,762,300	442,080,784	442,080,784	108,762,300	63,428,798	64,186,797	62,309,163	48,097,083	12,665,425	15,439,331	21,227,711	19,425,783	26,538,393		
	54,748,488	19,667,235	2029	25	66,600,238	349,984,409	349,984,409	66,600,238	66,600,238	67,396,137	65,424,621	50,501,937	13,298,697	16,211,297	22,289,097	20,397,072	27,665,312		
	54,494,512	19,902,266	2030	26	70,765,944	297,553,379	297,553,379	70,765,944	70,765,944	70,765,944	68,695,852	53,027,034	13,963,632	17,021,862	23,403,551	21,416,926	29,258,578		
	52,033,183	19,320,072	2031	27	72,130,645	238,126,807	238,126,807	72,130,645	72,130,645	72,130,645	64,186,797	55,678,386	14,661,813	17,872,955	24,573,729	22,487,772	30,721,507		
	39,506,507	14,913,362	2032	28	58,462,305	174,295,970	174,295,970	58,462,305	58,462,305	58,462,305	58,462,305	58,462,305	15,394,904	18,766,603	25,802,415	23,612,161	32,257,582		
	10,232,720	3,927,142	2033	29	16,164,649	121,625,349	121,625,349	16,164,649	16,164,649	16,164,649	16,164,649	16,164,649	16,164,649	19,704,933	27,092,536	24,792,769	33,870,461		
	13,097,520	4,787,241	2034	30	20,690,180	110,733,735	110,733,735	20,690,180	20,690,180	20,690,180	20,690,180	20,690,180	20,690,180	20,690,180	28,447,163	26,032,407	35,563,985		
	18,908,326	6,582,032	2035	31	29,869,521	94,545,733	94,545,733	29,869,521	29,869,521	29,869,521	29,869,521	29,869,521	29,869,521	29,869,521	29,869,521	27,334,028	37,342,184		
	18,168,444	6,023,312	2036	32	28,700,729	67,910,022	67,910,022	28,700,729	28,700,729	28,700,729	28,700,729	28,700,729	28,700,729	28,700,729	28,700,729	28,700,729	39,209,293		
	26,061,723	8,228,704	2037	33	41,169,758	41,169,758	41,169,758	41,169,758	41,169,758	41,169,758	41,169,758	41,169,758	41,169,758	41,169,758	41,169,758	41,169,758	41,169,758		
	575,709,890	203,627,250			713,083,782														
		29.1% of																	
		699,750,000																	

**ARIZONA PUBLIC SERVICE COMPANY
NUCLEAR DECOMMISSIONING FUNDING REQUIREMENT
UNIT TWO**

Based on 2004 Cost Study
Rate of Return 6.7500%
Escalation Factor 5.0000%

Year	Funding Curve			Funding Floor			Actual Funding		
	Fund \$	Est. Cost	% Funded	% Band	% Floor	\$ Floor	\$ In Fund	Est. Cost	% Funded
1991	7,589,283	120,570,113	6.29%	80%	5.04%	6,071,426	7,786,931	120,570,113	6.46%
1992	10,494,062	126,598,619	8.29%	80%	6.63%	8,395,249	10,625,997	126,598,619	8.39%
1993	15,402,712	132,928,550	11.59%	80%	9.27%	12,322,170	14,545,580	132,928,550	10.94%
1994	20,651,178	139,574,977	14.80%	80%	11.84%	16,520,943	18,150,013	139,574,977	13.00%
1995	26,262,984	146,553,726	17.92%	80%	14.34%	21,010,388	25,307,510	146,553,726	17.27%
1996	29,965,846	142,898,646	20.97%	80%	16.78%	23,972,677	31,299,677	142,898,646	21.90%
1997	35,920,433	150,043,579	23.94%	80%	19.15%	28,736,346	40,007,265	150,043,579	26.66%
1998	42,285,281	157,545,757	26.84%	80%	21.47%	33,828,225	49,309,948	157,545,757	31.30%
1999	53,228,685	179,341,931	29.68%	80%	23.74%	42,582,948	57,744,504	179,341,931	32.20%
2000	61,125,110	188,309,027	32.46%	80%	25.97%	48,900,088	63,153,205	188,309,027	33.54%
2001	69,559,472	197,724,479	35.18%	80%	28.14%	55,647,577	67,204,619	197,724,479	33.99%
2002	77,883,429	205,714,287	37.86%	80%	30.29%	62,306,743	70,594,925	205,714,287	34.32%
2003	87,436,801	216,000,002	40.48%	80%	32.38%	69,949,441	81,381,233	216,000,002	37.68%
2004	97,660,081	226,800,002	43.06%	80%	34.45%	78,128,065	89,653,081	226,800,002	39.53%
2005	97,496,727	213,808,613	45.60%	80%	36.48%	77,997,382	99,694,767	213,808,613	46.63%
2006	108,006,490	224,499,043	48.11%	81%	38.97%	87,485,257	117,369,430	224,499,043	52.28%
2007	119,229,197	235,723,995	50.58%	82%	41.48%	97,767,941			
2008	131,229,905	247,510,195	53.02%	83%	44.01%	108,920,821			
2009	144,054,646	259,885,705	55.43%	84%	46.56%	121,005,903			
2010	157,779,210	272,879,990	57.82%	85%	49.15%	134,112,329			
2011	172,430,137	286,523,990	60.18%	86%	51.75%	148,289,918			
2012	188,121,623	300,850,189	62.53%	87%	54.40%	163,665,812			
2013	204,888,004	315,892,698	64.86%	88%	57.08%	180,301,444			
2014	222,827,551	331,687,333	67.18%	89%	59.79%	198,316,520			
2015	241,979,177	348,271,700	69.48%	90%	62.53%	217,781,259			
2016	262,488,898	365,685,285	71.78%	91%	65.32%	238,864,897			
2017	284,406,245	383,969,549	74.07%	92%	68.14%	261,653,746			
2018	307,818,788	403,168,027	76.35%	93%	71.01%	286,271,473			
2019	332,903,903	423,326,428	78.64%	94%	73.92%	312,929,669			
2020	359,683,533	444,492,750	80.92%	95%	76.87%	341,699,356			
2021	388,355,538	466,717,387	83.21%	96%	79.88%	372,821,316			
2022	418,946,529	490,053,256	85.49%	97%	82.93%	406,378,133			
2023	451,728,641	514,555,919	87.79%	98%	86.03%	442,694,069			
2024	486,741,599	540,283,715	90.09%	99%	89.19%	481,874,183			
2025	524,183,260	567,297,901	92.40%	100%	92.40%	524,183,260			
2026	559,046,039	595,173,043	93.93%	100%	93.93%	559,046,039			
2027	504,266,651	528,304,506	95.45%	100%	95.45%	504,266,651			
2028	427,580,535	442,080,784	96.72%	100%	96.72%	427,580,535			
2029	341,234,799	349,984,409	97.50%	100%	97.50%	341,234,799			
2030	292,346,195	297,553,379	98.25%	100%	98.25%	292,346,195			
2031	235,650,288	238,126,807	98.96%	100%	98.96%	235,650,288			
2032	173,319,913	174,295,970	99.44%	100%	99.44%	173,319,913			
2033	121,625,349	121,625,349	100.00%	100%	100.00%	121,625,349			
2034	110,733,735	110,733,735	100.00%	100%	100.00%	110,733,735			
2035	94,545,733	94,545,733	100.00%	100%	100.00%	94,545,733			
2036	67,910,022	67,910,022	100.00%	100%	100.00%	67,910,022			
2037	41,169,758	41,169,758	100.00%	100%	100.00%	41,169,758			

**ARIZONA PUBLIC SERVICE COMPANY
NUCLEAR DECOMMISSIONING FUNDING REQUIREMENT
UNIT TWO**



**ARIZONA PUBLIC SERVICE COMPANY
NUCLEAR DECOMMISSIONING FUNDING REQUIREMENT
UNIT THREE**

Based on 2004 Cost Study
Rate of Return 6.7500% Annual Period Rate of Return
1.6875% Quarter Period Rate of Return
5.0000% Annual Escalation

Year	First Quarter			Second Quarter			Third Quarter			Fourth Quarter			ANNUAL CONTRIBS
	Contrib	Quarter Earnings	Contrib Earnings to Date	Contrib	Quarter Earnings	Contrib Earnings to Date	Contrib	Quarter Earnings	Contrib Earnings to Date	Contrib	Quarter Earnings	Contrib Earnings to Date	
2006													103,112,568
2007	1,281,295	1,740,025	106,133,888	1,281,295	1,791,009	109,206,192	1,281,295	1,842,854	112,330,342	1,281,295	1,895,575	115,507,212	5,125,182
2008	1,281,295	1,949,184	118,737,692	1,281,295	2,003,699	122,022,686	1,281,295	2,059,133	125,363,114	1,281,295	2,115,503	128,759,912	5,125,182
2009	1,281,295	2,172,824	132,214,031	1,281,295	2,231,112	135,726,438	1,281,295	2,290,384	139,298,117	1,281,295	2,350,656	142,930,068	5,125,182
2010	1,281,295	2,411,945	146,623,309	1,281,295	2,474,268	150,378,872	1,281,295	2,537,643	154,197,811	1,281,295	2,602,088	158,081,195	5,125,182
2011	1,281,295	2,667,620	162,030,110	1,281,295	2,734,258	166,045,664	1,281,295	2,802,021	170,128,980	1,281,295	2,870,927	174,281,202	5,125,182
2012	1,281,295	2,940,995	178,503,492	1,281,295	3,012,246	182,797,034	1,281,295	3,084,700	187,163,030	1,281,295	3,158,376	191,602,701	5,125,182
2013	1,281,295	3,233,296	196,117,292	1,281,295	3,309,479	200,708,067	1,281,295	3,386,949	205,376,311	1,281,295	3,465,725	210,123,331	5,125,182
2014	1,281,295	3,545,831	214,950,458	1,281,295	3,627,289	219,859,042	1,281,295	3,710,121	224,850,459	1,281,295	3,794,351	229,926,106	5,125,182
2015	1,281,295	3,880,003	235,087,405	1,281,295	3,967,100	240,335,800	1,281,295	4,055,667	245,672,762	1,281,295	4,145,728	251,099,785	5,125,182
2016	1,281,295	4,237,309	256,618,389	1,281,295	4,330,435	262,230,120	1,281,295	4,425,133	267,936,549	1,281,295	4,521,429	273,739,274	5,125,182
2017	1,281,295	4,619,350	279,639,919	1,281,295	4,718,924	285,640,138	1,281,295	4,820,177	291,741,611	1,281,295	4,923,140	297,946,046	5,125,182
2018	1,281,295	5,027,840	304,255,181	1,281,295	5,134,306	310,670,783	1,281,295	5,242,569	317,194,647	1,281,295	5,352,660	323,828,603	5,125,182
2019	1,281,295	5,464,608	330,574,506	1,281,295	5,578,445	337,434,246	1,281,295	5,694,203	344,409,744	1,281,295	5,811,914	351,502,954	5,125,182
2020	1,281,295	5,931,612	358,715,862	1,281,295	6,053,330	366,050,487	1,281,295	6,177,102	373,508,885	1,281,295	6,302,962	381,093,142	5,125,182
2021	1,281,295	6,430,947	388,805,385	1,281,295	6,561,091	396,647,771	1,281,295	6,693,431	404,622,497	1,281,295	6,828,005	412,731,797	5,125,182
2022	1,281,295	6,964,849	420,977,942	1,281,295	7,104,003	429,363,240	1,281,295	7,245,505	437,890,040	1,281,295	7,389,394	446,560,730	5,125,182
2023	1,281,295	7,535,712	455,377,738	1,281,295	7,684,499	464,343,533	1,281,295	7,835,797	473,460,625	1,281,295	7,989,648	482,731,568	5,125,182
2024	1,281,295	8,146,095	492,158,959	1,281,295	8,305,182	501,745,437	1,281,295	8,466,954	511,493,687	1,281,295	8,631,456	521,406,438	5,125,182
2025	1,281,295	8,798,734	531,486,467	1,281,295	8,968,834	541,736,597	1,281,295	9,141,805	552,159,697	814,864	9,317,695	562,292,256	5,125,182
2026	1,281,295	9,488,682	573,062,233	1,281,295	9,670,425	584,013,954	1,281,295	9,855,235	595,150,485	(10,215,415)	10,043,164	594,978,234	5,125,182
2027	1,281,295	10,040,258	606,299,787	1,281,295	10,231,309	617,812,391	1,281,295	10,425,584	629,519,271	(22,521,552)	10,623,138	617,620,857	5,125,182
2028										(116,348,228)	41,689,408	542,962,036	0
2029										(121,625,624)	36,649,937	457,986,349	0
2030										(110,873,014)	30,914,079	378,027,414	0
2031										(88,243,574)	25,516,850	315,300,690	0
2032										(92,098,683)	21,282,797	244,484,804	0
2033										(91,842,564)	16,502,724	169,144,964	0
2034										(52,787,565)	11,417,285	127,774,685	0
2035										(42,136,291)		85,638,394	0
2036										(42,353,173)		43,285,221	0
2037										(43,285,221)		0	0

**ARIZONA PUBLIC SERVICE COMPANY
NUCLEAR DECOMMISSIONING FUNDING REQUIREMENT
UNIT THREE**

ESTIMATED ANNUAL COSTS

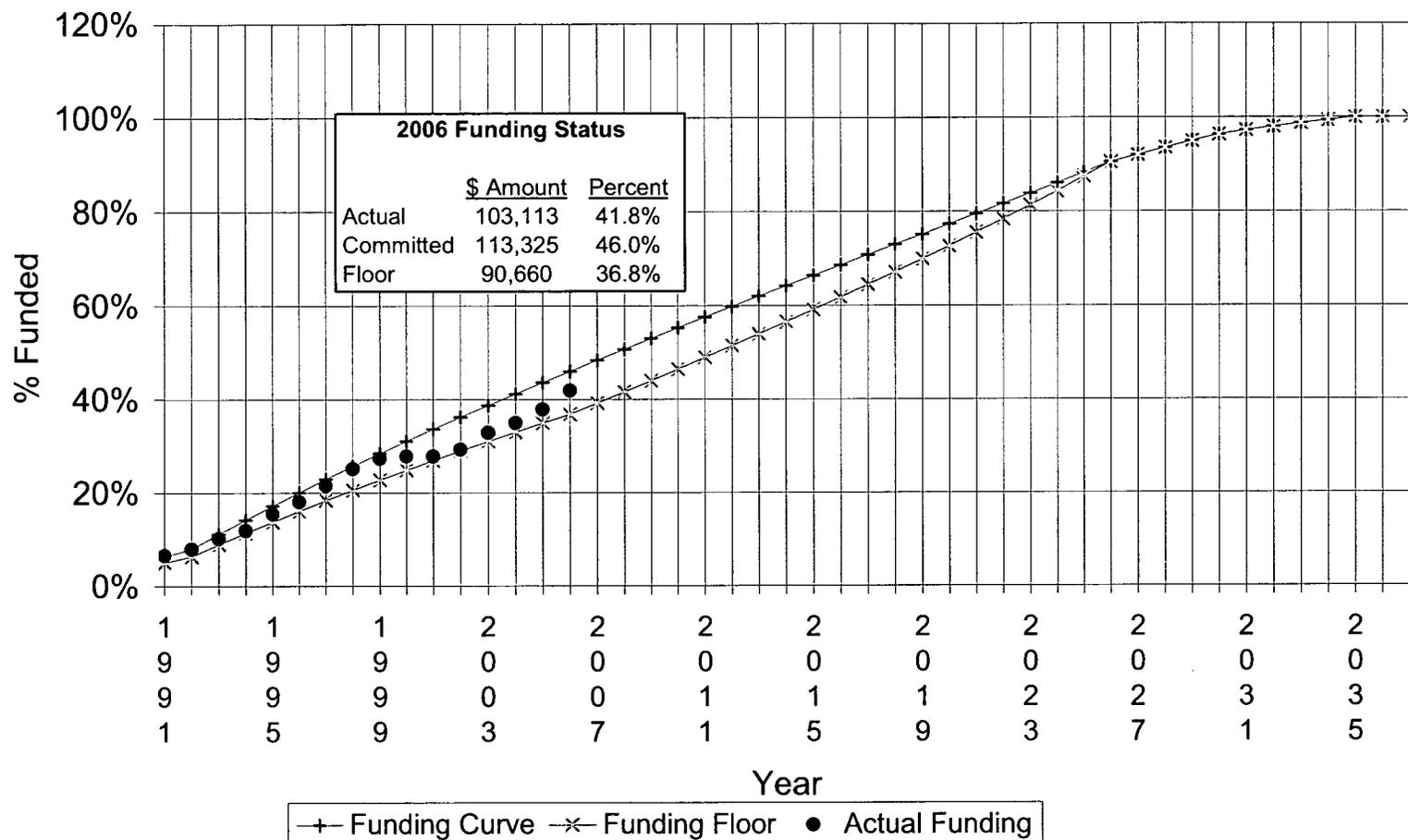
2027 Target \$'s	PV Dollars	Year	FV Dollars	Sum PV Liab	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	
		2004	0	223,502,841	167,422	3,930,149	7,749,524	36,075,852	35,916,384	31,182,008	23,635,893	23,493,788	22,312,813	12,213,852	9,285,131	8,888,498	8,651,527	
		2005	1	234,677,983	175,793	4,126,656	8,137,000	37,879,645	37,712,203	32,741,108	24,817,688	24,668,477	23,428,454	12,824,545	9,749,388	9,332,923	9,084,103	
		2006	2	246,411,882	184,583	4,332,989	8,543,850	39,773,627	39,597,813	34,378,164	26,058,572	25,901,901	24,599,876	13,465,772	10,236,857	9,799,569	9,538,309	
		2007	3	258,732,476	193,812	4,549,639	8,971,043	41,762,308	41,577,704	36,097,072	27,361,501	27,196,996	25,829,870	14,139,060	10,748,700	10,289,547	10,015,224	
		2008	4	271,669,100	203,502	4,777,121	9,419,595	43,850,424	43,656,589	37,901,926	28,729,576	28,556,846	27,121,364	14,846,013	11,286,135	10,804,025	10,515,985	
		2009	5	285,252,555	213,678	5,015,977	9,890,575	46,042,945	45,839,419	39,797,022	30,166,054	29,984,688	28,477,432	15,588,314	11,850,442	11,344,226	11,041,784	
		2010	6	299,515,183	224,361	5,266,776	10,385,103	48,345,092	48,131,390	41,786,873	31,674,357	31,483,923	29,901,303	16,367,730	12,442,964	11,911,437	11,593,874	
		2011	7	314,490,942	235,580	5,530,114	10,904,358	50,762,347	50,537,959	43,876,217	33,258,075	33,058,119	31,396,369	17,186,116	13,065,112	12,507,009	12,173,567	
		2012	8	330,215,489	247,359	5,806,620	11,449,576	53,300,464	53,064,857	46,070,027	34,920,979	34,711,025	32,966,187	18,045,422	13,718,367	13,132,360	12,782,246	
		2013	9	346,726,264	259,726	6,096,951	12,022,055	55,965,487	55,718,100	48,373,529	36,667,028	36,446,576	34,614,496	18,947,693	14,404,286	13,788,978	13,421,358	
		2014	10	364,062,577	272,713	6,401,799	12,623,158	58,763,761	58,504,005	50,792,205	38,500,379	38,268,905	36,345,221	19,895,078	15,124,500	14,478,427	14,092,426	
		2015	11	382,265,706	286,348	6,721,889	13,254,316	61,701,950	61,429,205	53,331,816	40,425,398	40,182,350	38,162,482	20,889,832	15,880,725	15,202,348	14,797,047	
		2016	12	401,378,991	300,666	7,057,983	13,917,032	64,787,047	64,500,665	55,998,406	42,446,668	42,191,468	40,070,606	21,934,323	16,674,761	15,962,465	15,536,899	
		2017	13	421,447,940	315,699	7,410,882	14,612,883	68,026,399	67,725,699	58,798,327	44,569,001	44,301,041	42,074,137	23,031,040	17,508,499	16,760,589	16,313,744	
		2018	14	442,520,337	331,484	7,781,426	15,343,527	71,427,719	71,111,984	61,738,243	46,797,451	46,516,093	44,177,844	24,182,592	18,383,924	17,598,618	17,129,432	
		2019	15	464,646,354	348,058	8,170,498	16,110,704	74,999,105	74,667,583	64,825,155	49,137,324	48,841,898	46,386,736	25,391,721	19,303,120	18,478,549	17,985,903	
		0	2020	16	487,878,672	365,461	8,579,022	16,916,239	78,749,061	78,400,962	68,066,413	51,594,190	51,283,993	48,708,072	26,661,307	20,268,277	19,402,476	18,885,198
		0	2021	17	512,272,606	383,734	9,007,973	17,762,051	82,686,514	82,321,010	71,469,734	54,173,900	53,848,192	51,141,376	27,994,373	21,281,690	20,372,600	19,829,458
		0	2022	18	537,886,236	402,921	9,458,372	18,650,154	86,820,839	86,437,061	75,043,220	56,882,595	56,540,602	53,698,445	29,394,091	22,345,775	21,391,230	20,820,931
		0	2023	19	564,780,548	423,067	9,931,291	19,582,661	91,161,881	90,758,914	78,795,381	59,726,724	59,367,632	56,383,367	30,863,796	23,463,064	22,460,792	21,861,978
		0	2024	20	593,019,575	444,220	10,427,855	20,561,794	95,719,975	95,296,859	82,735,150	62,713,061	62,336,014	59,202,536	32,406,985	24,636,217	23,583,831	22,955,077
531,525	167,422		2025	21	622,670,554	466,431	10,949,248	21,589,884	100,505,974	100,061,702	86,871,908	65,848,714	65,452,814	62,162,662	34,027,335	25,868,028	24,763,023	24,102,831
12,272,738	3,930,149		2026	22	653,314,329		11,496,710	22,669,378	105,531,273	105,064,787	91,215,503	69,141,149	68,725,455	65,270,795	35,728,701	27,161,429	26,001,174	25,307,972
23,802,847	7,749,524		2027	23	673,908,499			23,802,847	110,807,836	110,318,027	95,776,278	72,598,207	72,161,728	68,534,335	37,515,137	28,519,500	27,301,233	26,573,371
108,991,315	36,075,852		2028	24	716,348,228				116,348,228	115,833,928	100,565,092	76,228,117	75,769,814	71,961,052	39,390,893	29,945,475	28,666,294	27,902,039
106,730,690	35,916,384		2029	25	759,264,624					121,625,624	105,593,347	80,039,523	79,558,305	75,559,105	41,360,438	31,442,749	30,099,609	29,297,141
91,142,766	31,182,008		2030	26	800,346,632						110,873,014	84,041,499	83,536,220	79,337,060	43,428,460	33,014,887	31,604,590	30,761,998
67,953,457	23,635,893		2031	27	846,410,949							88,243,574	87,713,031	83,303,913	45,599,883	34,665,631	33,184,819	32,300,098
66,437,610	23,493,788		2032	28	892,904,683								92,098,683	87,469,108	47,879,877	36,398,913	34,844,060	33,915,103
62,063,562	22,312,813		2033	29	940,417,146									91,842,564	50,273,871	38,218,858	36,586,263	35,610,858
33,416,152	12,213,852		2034	30	993,630,343										52,787,565	40,129,801	38,415,576	37,391,401
26,673,568	9,285,131		2035	31	1,047,333,617											42,136,291	40,336,355	39,260,971
26,810,861	8,888,498		2036	32	1,102,577,192												42,353,173	41,224,020
27,400,876	8,651,527		2037	33	1,159,221,719													43,285,221
654,227,967	223,502,841				837,359,926													
	29.1% of																	
	768,051,000																	

**ARIZONA PUBLIC SERVICE COMPANY
NUCLEAR DECOMMISSIONING FUNDING REQUIREMENT
UNIT THREE**

Based on 2004 Cost Study
Rate of Return 6.7500%
Escalation Factor 5.0000%

Funding Curve				Funding Floor			Actual Funding		
Year	Fund \$	Est. Cost	% Funded	% Band	% Floor	\$ Floor	\$ In Fund	Est. Cost	% Funded
1991	8,006,475	127,342,404	6.29%	80.00%	5.03%	6,405,180	8,425,913	127,342,404	6.62%
1992	10,665,274	133,709,524	7.98%	80.00%	6.38%	8,532,219	10,625,686	133,709,524	7.95%
1993	15,618,562	140,395,000	11.12%	80.00%	8.90%	12,494,850	14,358,300	140,395,000	10.23%
1994	20,914,756	147,414,750	14.19%	80.00%	11.35%	16,731,805	17,548,946	147,414,750	11.90%
1995	26,577,594	154,785,488	17.17%	80.00%	13.74%	21,262,075	23,923,294	154,785,488	15.46%
1996	32,399,151	161,350,352	20.08%	80.00%	16.06%	25,919,321	29,189,706	161,350,352	18.09%
1997	38,830,576	169,417,870	22.92%	80.00%	18.34%	31,064,461	36,502,075	169,417,870	21.55%
1998	45,699,623	177,888,764	25.69%	80.00%	20.55%	36,559,699	44,699,986	177,888,764	25.13%
1999	54,764,199	192,831,688	28.40%	80.00%	22.72%	43,811,360	52,706,435	192,831,688	27.33%
2000	62,867,951	202,473,273	31.05%	80.00%	24.84%	50,294,361	56,260,185	202,473,273	27.79%
2001	71,538,869	212,596,936	33.65%	80.00%	26.92%	57,231,095	59,074,016	212,596,936	27.79%
2002	75,541,923	208,679,345	36.20%	80.00%	28.96%	60,433,538	61,165,704	208,679,345	29.31%
2003	84,818,763	219,113,312	38.71%	80.00%	30.97%	67,855,010	72,048,542	219,113,312	32.88%
2004	94,719,398	230,068,977	41.17%	80.00%	32.94%	75,775,518	80,413,842	230,068,977	34.95%
2005	102,319,601	234,677,983	43.60%	80.00%	34.88%	81,855,680	88,781,344	234,677,983	37.83%
2006	113,324,825	246,411,882	45.99%	80.00%	36.79%	90,659,860	103,112,568	246,411,882	41.85%
2007	125,097,152	258,732,476	48.35%	81.00%	39.16%	101,328,693			
2008	137,681,900	271,669,100	50.68%	82.00%	41.56%	112,899,158			
2009	151,126,804	285,252,555	52.98%	83.00%	43.97%	125,435,247			
2010	165,512,090	299,515,183	55.26%	84.00%	46.42%	139,030,156			
2011	180,895,190	314,490,942	57.52%	85.00%	48.89%	153,760,911			
2012	197,336,776	330,215,489	59.76%	86.00%	51.39%	169,709,628			
2013	214,935,611	346,726,264	61.99%	87.00%	53.93%	186,993,981			
2014	233,728,174	364,062,577	64.20%	88.00%	56.50%	205,680,793			
2015	253,824,429	382,265,706	66.40%	89.00%	59.10%	225,903,741			
2016	275,345,988	401,378,991	68.60%	90.00%	61.74%	247,811,389			
2017	298,300,852	421,447,940	70.78%	91.00%	64.41%	271,453,776			
2018	322,907,090	442,520,337	72.97%	92.00%	67.13%	297,074,523			
2019	349,181,735	464,646,354	75.15%	93.00%	69.89%	324,739,014			
2020	377,276,577	487,878,672	77.33%	94.00%	72.69%	354,639,982			
2021	407,307,949	512,272,606	79.51%	95.00%	75.53%	386,942,551			
2022	439,453,055	537,886,236	81.70%	96.00%	78.43%	421,874,933			
2023	473,794,401	564,780,548	83.89%	97.00%	81.37%	459,580,569			
2024	510,471,250	593,019,575	86.08%	98.00%	84.36%	500,261,825			
2025	549,755,832	622,670,554	88.29%	99.00%	87.41%	544,258,274			
2026	591,314,799	653,314,329	90.51%	100.00%	90.51%	591,314,799			
2027	620,130,601	673,908,499	92.02%	100.00%	92.02%	620,130,601			
2028	638,241,224	682,610,935	93.50%	100.00%	93.50%	638,241,224			
2029	564,965,965	594,575,842	95.02%	100.00%	95.02%	564,965,965			
2030	478,372,591	496,597,728	96.33%	100.00%	96.33%	478,372,591			
2031	393,751,645	405,010,949	97.22%	100.00%	97.22%	393,751,645			
2032	325,887,108	332,605,744	97.98%	100.00%	97.98%	325,887,108			
2033	249,299,999	252,532,414	98.72%	100.00%	98.72%	249,299,999			
2034	167,644,507	168,724,343	99.36%	100.00%	99.36%	167,644,507			
2035	121,733,617	121,733,617	100.00%	100.00%	100.00%	121,733,617			
2036	83,577,192	83,577,192	100.00%	100.00%	100.00%	83,577,192			
2037	43,285,221	43,285,221	100.00%	100.00%	100.00%	43,285,221			

**ARIZONA PUBLIC SERVICE COMPANY
NUCLEAR DECOMMISSIONING FUNDING REQUIREMENT
UNIT THREE**



**ARIZONA PUBLIC SERVICE COMPANY
NUCLEAR DECOMMISSIONING FUNDING REQUIREMENT
UNIT THREE**

Based on 2004 Cost Study
Rate of Return 6.7500% Annual Period Rate of Return
1.6875% Quarter Period Rate of Return
5.0000% Annual Escalation

Year	First Quarter			Second Quarter			Third Quarter			Fourth Quarter			ANNUAL CONTRIBS
	Contrib	Quarter Earnings	Contrib Earnings to Date	Contrib	Quarter Earnings	Contrib Earnings to Date	Contrib	Quarter Earnings	Contrib Earnings to Date	Contrib	Quarter Earnings	Contrib Earnings to Date	
2006												103,112,568	
2007	1,281,295	1,740,025	106,133,888	1,281,295	1,791,009	109,206,192	1,281,295	1,842,854	112,330,342	1,281,295	1,895,575	115,507,212	5,125,182
2008	1,281,295	1,949,184	118,737,692	1,281,295	2,003,699	122,022,686	1,281,295	2,059,133	125,363,114	1,281,295	2,115,503	128,759,912	5,125,182
2009	1,281,295	2,172,824	132,214,031	1,281,295	2,231,112	135,726,438	1,281,295	2,290,384	139,298,117	1,281,295	2,350,656	142,930,068	5,125,182
2010	1,281,295	2,411,945	146,623,309	1,281,295	2,474,268	150,378,872	1,281,295	2,537,643	154,197,811	1,281,295	2,602,088	158,081,195	5,125,182
2011	1,281,295	2,667,620	162,030,110	1,281,295	2,734,258	166,045,664	1,281,295	2,802,021	170,128,980	1,281,295	2,870,927	174,281,202	5,125,182
2012	1,281,295	2,940,995	178,503,492	1,281,295	3,012,246	182,797,034	1,281,295	3,084,700	187,163,030	1,281,295	3,158,376	191,602,701	5,125,182
2013	1,281,295	3,233,296	196,117,292	1,281,295	3,309,479	200,708,067	1,281,295	3,386,949	205,376,311	1,281,295	3,465,725	210,123,331	5,125,182
2014	1,281,295	3,545,831	214,950,458	1,281,295	3,627,289	219,859,042	1,281,295	3,710,121	224,850,459	1,281,295	3,794,351	229,926,106	5,125,182
2015	1,281,295	3,880,003	235,087,405	1,281,295	3,967,100	240,335,800	1,281,295	4,055,667	245,672,762	1,281,295	4,145,728	251,099,785	5,125,182
2016	1,281,295	4,237,309	256,618,389	1,281,295	4,330,435	262,230,120	1,281,295	4,425,133	267,936,549	1,281,295	4,521,429	273,739,274	5,125,182
2017	1,281,295	4,619,350	279,639,919	1,281,295	4,718,924	285,640,138	1,281,295	4,820,177	291,741,611	1,281,295	4,923,140	297,946,046	5,125,182
2018	1,281,295	5,027,840	304,255,181	1,281,295	5,134,306	310,670,783	1,281,295	5,242,569	317,194,647	1,281,295	5,352,660	323,828,603	5,125,182
2019	1,281,295	5,464,608	330,574,506	1,281,295	5,578,445	337,434,246	1,281,295	5,694,203	344,409,744	1,281,295	5,811,914	351,502,954	5,125,182
2020	1,281,295	5,931,612	358,715,862	1,281,295	6,053,330	366,050,487	1,281,295	6,177,102	373,508,885	1,281,295	6,302,962	381,093,142	5,125,182
2021	1,281,295	6,430,947	388,805,385	1,281,295	6,561,091	396,647,771	1,281,295	6,693,431	404,622,497	1,281,295	6,828,005	412,731,797	5,125,182
2022	1,281,295	6,964,849	420,977,942	1,281,295	7,104,003	429,363,240	1,281,295	7,245,505	437,890,040	1,281,295	7,389,394	446,560,730	5,125,182
2023	1,281,295	7,535,712	455,377,738	1,281,295	7,684,499	464,343,533	1,281,295	7,835,797	473,460,625	1,281,295	7,989,648	482,731,568	5,125,182
2024	1,281,295	8,146,095	492,158,959	1,281,295	8,305,182	501,745,437	1,281,295	8,466,954	511,493,687	1,281,295	8,631,456	521,406,438	5,125,182
2025	1,281,295	8,798,734	531,486,467	1,281,295	8,968,834	541,736,597	1,281,295	9,141,805	552,159,697	814,864	9,317,695	562,292,256	5,125,182
2026	1,281,295	9,488,682	573,062,233	1,281,295	9,670,425	584,013,954	1,281,295	9,855,235	595,150,485	(10,215,415)	10,043,164	594,978,234	5,125,182
2027	1,281,295	10,040,258	606,299,787	1,281,295	10,231,309	617,812,391	1,281,295	10,425,584	629,519,271	(22,521,552)	10,623,138	617,620,857	5,125,182
2028										(116,348,228)	41,689,408	542,962,036	0
2029										(121,625,624)	36,649,937	457,986,349	0
2030										(110,873,014)	30,914,079	378,027,414	0
2031										(88,243,574)	25,516,850	315,300,690	0
2032										(92,098,683)	21,282,797	244,484,804	0
2033										(91,842,564)	16,502,724	169,144,964	0
2034										(52,787,565)	11,417,285	127,774,685	0
2035										(42,136,291)		85,638,394	0
2036										(42,353,173)		43,285,221	0
2037										(43,285,221)		0	0

**ARIZONA PUBLIC SERVICE COMPANY
NUCLEAR DECOMMISSIONING FUNDING REQUIREMENT
UNIT THREE**

ESTIMATED ANNUAL COSTS

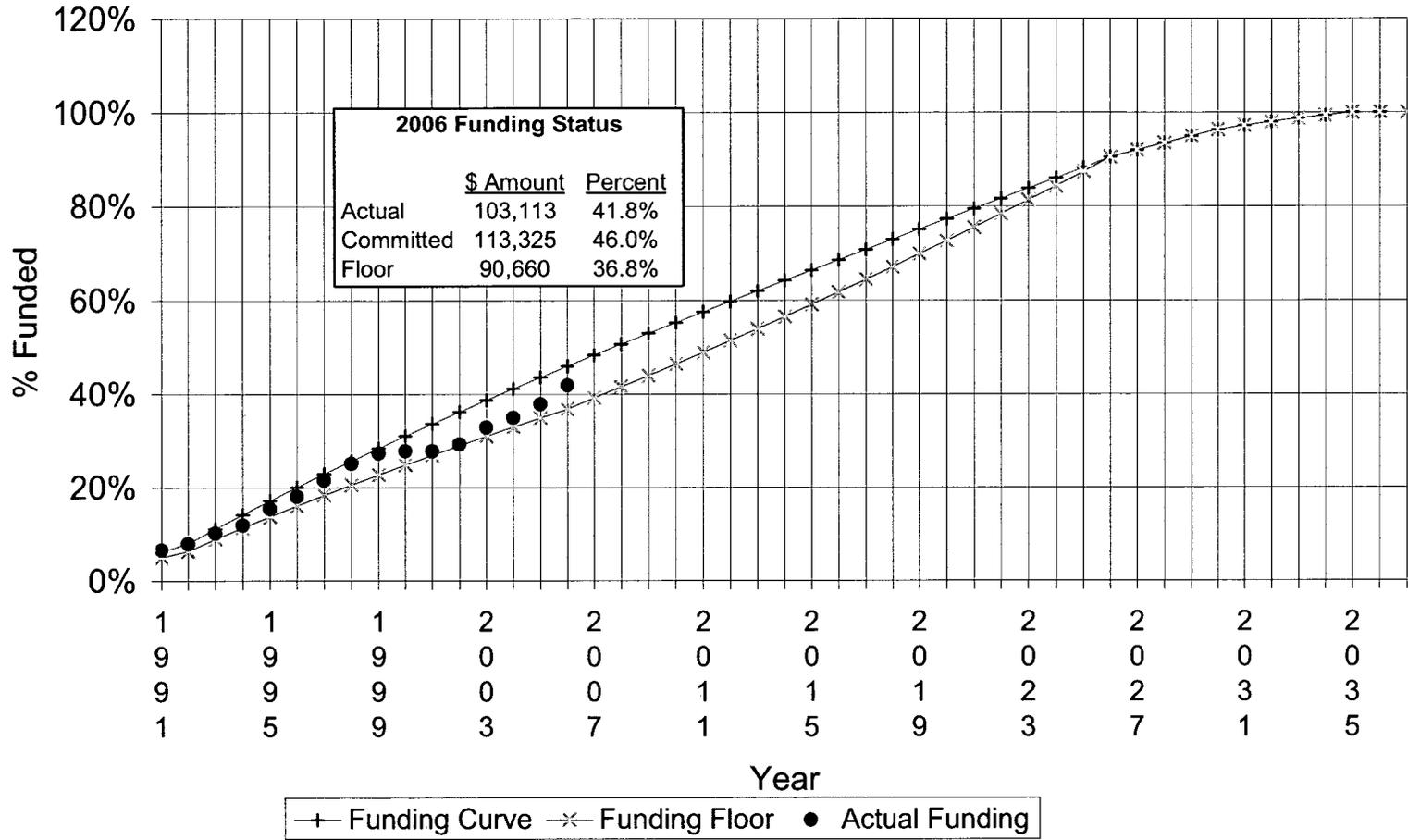
2027 Target \$'s	PV Dollars	Year	FV Dollars	Sum PV Liab	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
		2004	0	223,502,841	167,422	3,930,149	7,749,524	36,075,852	35,916,384	31,182,008	23,635,893	23,493,788	22,312,813	12,213,852	9,285,131	8,888,498	8,651,527
		2005	1	234,677,983	175,793	4,126,656	8,137,000	37,879,645	37,712,203	32,741,108	24,817,688	24,668,477	23,428,454	12,824,545	9,749,388	9,332,923	9,084,103
		2006	2	246,411,882	184,583	4,332,989	8,543,850	39,773,627	39,597,813	34,378,164	26,058,572	25,901,901	24,599,876	13,465,772	10,236,857	9,799,569	9,538,309
		2007	3	258,732,476	193,812	4,549,639	8,971,043	41,762,308	41,577,704	36,097,072	27,361,501	27,196,996	25,829,870	14,139,060	10,748,700	10,289,547	10,015,224
		2008	4	271,669,100	203,502	4,777,121	9,419,595	43,850,424	43,656,589	37,901,926	28,729,576	28,556,846	27,121,364	14,846,013	11,286,135	10,804,025	10,515,985
		2009	5	285,252,555	213,678	5,015,977	9,890,575	46,042,945	45,839,419	39,797,022	30,166,054	29,984,688	28,477,432	15,588,314	11,850,442	11,344,226	11,041,784
		2010	6	299,515,183	224,361	5,266,776	10,385,103	48,345,092	48,131,390	41,786,873	31,674,357	31,483,923	29,901,303	16,367,730	12,442,964	11,911,437	11,593,874
		2011	7	314,490,942	235,580	5,530,114	10,904,358	50,762,347	50,537,959	43,876,217	33,258,075	33,058,119	31,396,369	17,186,116	13,065,112	12,507,009	12,173,567
		2012	8	330,215,489	247,359	5,806,620	11,449,576	53,300,464	53,064,857	46,070,027	34,920,979	34,711,025	32,966,187	18,045,422	13,718,367	13,132,360	12,782,246
		2013	9	346,726,264	259,726	6,096,951	12,022,055	55,965,487	55,718,100	48,373,529	36,667,028	36,446,576	34,614,496	18,947,693	14,404,286	13,788,978	13,421,358
		2014	10	364,062,577	272,713	6,401,799	12,623,158	58,763,761	58,504,005	50,792,205	38,500,379	38,268,905	36,345,221	19,895,078	15,124,500	14,478,427	14,092,426
		2015	11	382,265,706	286,348	6,721,889	13,254,316	61,701,950	61,429,205	53,331,816	40,425,398	40,182,350	38,162,482	20,889,832	15,880,725	15,202,348	14,797,047
		2016	12	401,378,991	300,656	7,057,983	13,917,032	64,787,047	64,500,665	55,998,406	42,446,668	42,191,468	40,070,606	21,934,323	16,674,761	15,962,465	15,536,899
		2017	13	421,447,940	315,699	7,410,882	14,612,883	68,026,399	67,725,699	58,798,327	44,569,001	44,301,041	42,074,137	23,031,040	17,508,499	16,760,589	16,313,744
		2018	14	442,520,337	331,484	7,781,426	15,343,527	71,427,719	71,111,984	61,738,243	46,797,451	46,516,093	44,177,844	24,182,592	18,383,924	17,598,618	17,129,432
		2019	15	464,646,354	348,058	8,170,498	16,110,704	74,999,105	74,667,583	64,825,155	49,137,324	48,841,898	46,386,736	25,391,721	19,303,120	18,478,549	17,985,903
	0	2020	16	487,878,672	365,461	8,579,022	16,916,239	78,749,061	78,400,962	68,066,413	51,594,190	51,283,993	48,706,072	26,661,307	20,268,277	19,402,476	18,885,198
	0	2021	17	512,272,606	383,734	9,007,973	17,762,051	82,686,514	82,321,010	71,469,734	54,173,900	53,848,192	51,141,376	27,994,373	21,281,690	20,372,600	19,829,458
	0	2022	18	537,886,236	402,921	9,458,372	18,650,154	86,820,839	86,437,061	75,043,220	56,882,595	56,540,602	53,698,445	29,394,091	22,345,775	21,391,230	20,820,931
	0	2023	19	564,780,548	423,067	9,931,291	19,582,661	91,161,881	90,758,914	78,795,381	59,726,724	59,367,632	56,383,367	30,863,796	23,463,064	22,460,792	21,861,978
	0	2024	20	593,019,575	444,220	10,427,855	20,561,794	95,719,975	95,296,859	82,735,150	62,713,061	62,336,014	59,202,536	32,406,985	24,636,217	23,583,831	22,955,077
531,525	167,422	2025	21	622,670,554	466,431	10,949,248	21,589,884	100,505,974	100,061,702	86,871,908	65,848,714	65,452,814	62,162,662	34,027,335	25,868,028	24,763,023	24,102,831
12,272,738	3,930,149	2026	22	11,496,710	653,314,329	11,496,710	22,669,378	105,531,273	105,064,787	91,215,503	69,141,149	68,725,455	65,270,785	35,728,701	27,161,429	26,001,174	25,307,972
23,802,847	7,749,524	2027	23	23,802,847	673,908,499		23,802,847	110,807,836	110,318,027	95,776,278	72,598,207	72,161,728	68,534,335	37,515,137	28,519,500	27,301,233	26,573,371
108,991,315	36,075,852	2028	24	116,348,228	682,610,935			116,348,228	115,833,928	100,565,092	76,228,117	75,769,814	71,961,052	39,390,893	29,945,475	28,666,294	27,902,039
106,730,890	35,916,384	2029	25	121,625,624	594,575,842				121,625,624	105,593,347	80,039,523	79,558,305	75,559,105	41,360,438	30,099,609	29,297,141	
91,142,766	31,182,008	2030	26	110,873,014	496,597,728					110,873,014	84,041,499	83,536,220	79,337,060	43,428,460	33,014,887	31,604,590	30,761,998
67,953,457	23,635,893	2031	27	88,243,574	405,010,949						88,243,574			45,599,883	34,665,631	33,184,819	32,300,098
66,437,610	23,493,788	2032	28	92,098,683	332,605,744							92,098,683		47,879,877	36,398,913	34,844,060	33,915,103
62,063,562	22,312,813	2033	29	91,842,564	252,532,414								91,842,564	50,273,871	38,218,858	36,586,263	35,610,858
33,416,152	12,213,852	2034	30	52,787,565	168,724,343									52,787,565	40,129,801	38,415,576	37,391,401
26,673,568	9,285,131	2035	31	42,136,291	121,733,617										42,136,291	40,336,355	39,260,971
26,810,861	8,888,498	2036	32	42,353,173	83,577,192											42,353,173	41,224,020
27,400,876	8,651,527	2037	33	43,285,221	43,285,221												43,285,221
654,227,967	223,502,841			837,359,926													
	29.1% of																
	768,051,000																

**ARIZONA PUBLIC SERVICE COMPANY
NUCLEAR DECOMMISSIONING FUNDING REQUIREMENT
UNIT THREE**

Based on 2004 Cost Study
Rate of Return 6.7500%
Escalation Factor 5.0000%

Year	Funding Curve			Funding Floor			Actual Funding		
	Fund \$	Est. Cost	% Funded	% Band	% Floor	\$ Floor	\$ In Fund	Est. Cost	% Funded
1991	8,006,475	127,342,404	6.29%	80.00%	5.03%	6,405,180	8,425,913	127,342,404	6.62%
1992	10,665,274	133,709,524	7.98%	80.00%	6.38%	8,532,219	10,625,686	133,709,524	7.95%
1993	15,618,562	140,395,000	11.12%	80.00%	8.90%	12,494,850	14,358,300	140,395,000	10.23%
1994	20,914,756	147,414,750	14.19%	80.00%	11.35%	16,731,805	17,548,946	147,414,750	11.90%
1995	26,577,594	154,785,488	17.17%	80.00%	13.74%	21,262,075	23,923,294	154,785,488	15.46%
1996	32,399,151	161,350,352	20.08%	80.00%	16.06%	25,919,321	29,189,706	161,350,352	18.09%
1997	38,830,576	169,417,870	22.92%	80.00%	18.34%	31,064,461	36,502,075	169,417,870	21.55%
1998	45,699,623	177,888,764	25.69%	80.00%	20.55%	36,559,699	44,699,986	177,888,764	25.13%
1999	54,764,199	192,831,688	28.40%	80.00%	22.72%	43,811,360	52,706,435	192,831,688	27.33%
2000	62,867,951	202,473,273	31.05%	80.00%	24.84%	50,294,361	56,260,185	202,473,273	27.79%
2001	71,538,869	212,596,936	33.65%	80.00%	26.92%	57,231,095	59,074,016	212,596,936	27.79%
2002	75,541,923	208,679,345	36.20%	80.00%	28.96%	60,433,538	61,165,704	208,679,345	29.31%
2003	84,818,763	219,113,312	38.71%	80.00%	30.97%	67,855,010	72,048,542	219,113,312	32.88%
2004	94,719,398	230,068,977	41.17%	80.00%	32.94%	75,775,518	80,413,842	230,068,977	34.95%
2005	102,319,601	234,677,983	43.60%	80.00%	34.88%	81,855,680	88,781,344	234,677,983	37.83%
2006	113,324,825	246,411,882	45.99%	80.00%	36.79%	90,659,860	103,112,568	246,411,882	41.85%
2007	125,097,152	258,732,476	48.35%	81.00%	39.16%	101,328,693			
2008	137,681,900	271,669,100	50.68%	82.00%	41.56%	112,899,158			
2009	151,126,804	285,252,555	52.98%	83.00%	43.97%	125,435,247			
2010	165,512,090	299,515,183	55.26%	84.00%	46.42%	139,030,156			
2011	180,895,190	314,490,942	57.52%	85.00%	48.89%	153,760,911			
2012	197,336,776	330,215,489	59.76%	86.00%	51.39%	169,709,628			
2013	214,935,611	346,726,264	61.99%	87.00%	53.93%	186,993,981			
2014	233,728,174	364,062,577	64.20%	88.00%	56.50%	205,680,793			
2015	253,824,429	382,265,706	66.40%	89.00%	59.10%	225,903,741			
2016	275,345,988	401,378,991	68.60%	90.00%	61.74%	247,811,389			
2017	298,300,852	421,447,940	70.78%	91.00%	64.41%	271,453,776			
2018	322,907,090	442,520,337	72.97%	92.00%	67.13%	297,074,523			
2019	349,181,735	464,646,354	75.15%	93.00%	69.89%	324,739,014			
2020	377,276,577	487,878,672	77.33%	94.00%	72.69%	354,639,982			
2021	407,307,949	512,272,606	79.51%	95.00%	75.53%	386,942,551			
2022	439,453,055	537,886,236	81.70%	96.00%	78.43%	421,874,933			
2023	473,794,401	564,780,548	83.89%	97.00%	81.37%	459,580,569			
2024	510,471,250	593,019,575	86.08%	98.00%	84.36%	500,261,825			
2025	549,755,832	622,670,554	88.29%	99.00%	87.41%	544,258,274			
2026	591,314,799	653,314,329	90.51%	100.00%	90.51%	591,314,799			
2027	620,130,601	673,908,499	92.02%	100.00%	92.02%	620,130,601			
2028	638,241,224	682,610,935	93.50%	100.00%	93.50%	638,241,224			
2029	564,965,965	594,575,842	95.02%	100.00%	95.02%	564,965,965			
2030	478,372,591	496,597,728	96.33%	100.00%	96.33%	478,372,591			
2031	393,751,645	405,010,949	97.22%	100.00%	97.22%	393,751,645			
2032	325,887,108	332,605,744	97.98%	100.00%	97.98%	325,887,108			
2033	249,299,999	252,532,414	98.72%	100.00%	98.72%	249,299,999			
2034	167,644,507	168,724,343	99.36%	100.00%	99.36%	167,644,507			
2035	121,733,617	121,733,617	100.00%	100.00%	100.00%	121,733,617			
2036	83,577,192	83,577,192	100.00%	100.00%	100.00%	83,577,192			
2037	43,285,221	43,285,221	100.00%	100.00%	100.00%	43,285,221			

**ARIZONA PUBLIC SERVICE COMPANY
NUCLEAR DECOMMISSIONING FUNDING REQUIREMENT
UNIT THREE**



**ARIZONA PUBLIC SERVICE COMPANY
NUCLEAR DECOMMISSIONING FUNDING REQUIREMENT
ALL UNITS**

Based on 2004 Cost Study
Rate of Return 6.7500% Annual Period Rate of Return
1.6875% Quarter Period Rate of Return
5.0000% Annual Escalation

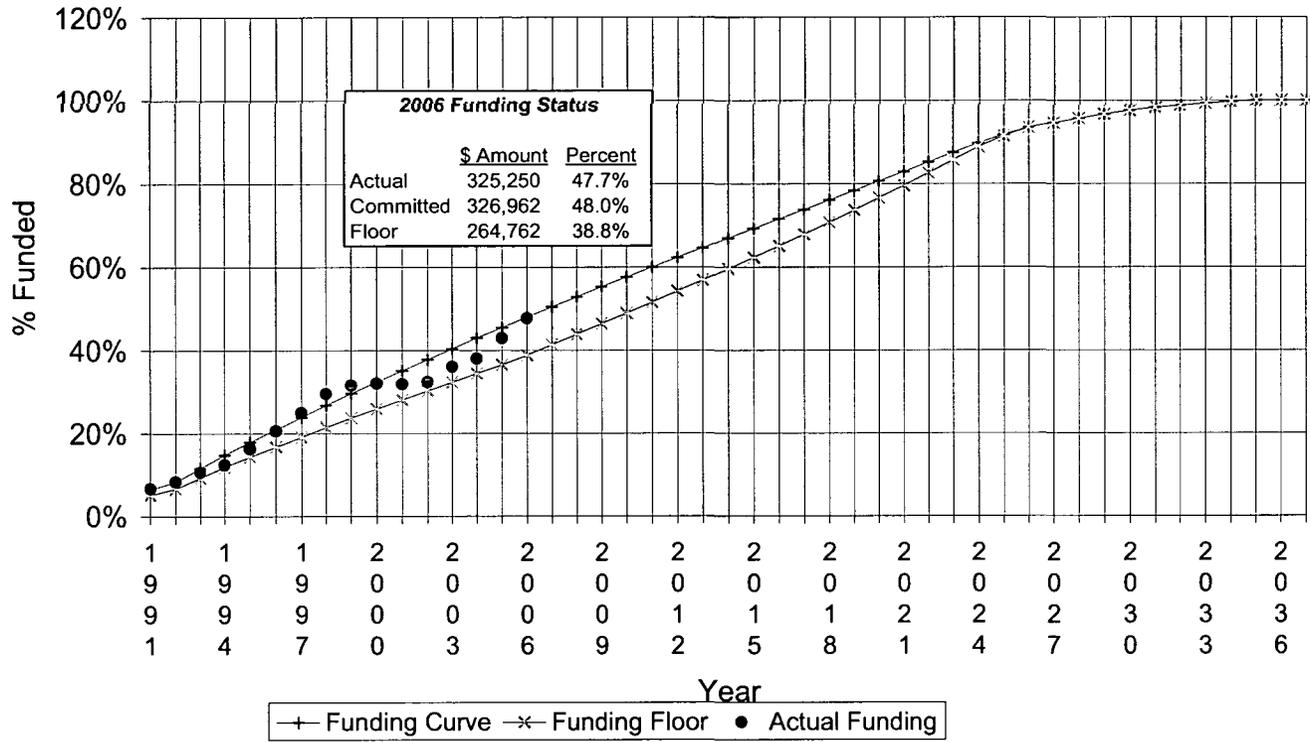
Year	First Quarter			Second Quarter			Third Quarter			Fourth Quarter			ANNUAL CONTRIBS
	Contrib	Quarter Earnings	Contrib Earnings to Date	Contrib	Quarter Earnings	Contrib Earnings to Date	Contrib	Quarter Earnings	Contrib Earnings to Date	Contrib	Quarter Earnings	Contrib Earnings to Date	
2006													325,250,126
2007	2,976,663	5,488,596	333,715,385	2,976,663	5,631,447	342,323,496	2,976,663	5,776,709	351,076,868	2,976,663	5,924,422	359,977,953	11,906,653
2008	2,976,663	6,074,628	369,029,244	2,976,663	6,227,368	378,233,276	2,976,663	6,382,687	387,592,626	2,976,663	6,540,626	397,109,914	11,906,653
2009	2,976,663	6,701,230	406,787,807	2,976,663	6,864,544	416,629,015	2,976,663	7,030,615	426,636,293	2,976,663	7,199,487	436,812,443	11,906,653
2010	2,976,663	7,371,210	447,160,316	2,976,663	7,545,830	457,682,810	2,976,663	7,723,397	468,382,870	2,976,663	7,903,961	479,263,494	11,906,653
2011	2,976,663	8,087,571	490,327,729	2,976,663	8,274,280	501,578,673	2,976,663	8,464,140	513,019,476	2,976,663	8,657,204	524,653,343	11,906,653
2012	2,976,663	8,853,525	536,483,531	2,976,663	9,053,160	548,513,354	2,976,663	9,256,163	560,746,180	2,976,663	9,462,592	573,185,435	11,906,653
2013	2,976,663	9,672,504	585,834,602	2,976,663	9,885,959	598,697,224	2,976,663	10,103,016	611,776,903	2,976,663	10,323,735	625,077,301	11,906,653
2014	2,976,663	10,548,179	638,602,144	2,976,663	10,776,411	652,355,218	2,976,663	11,008,494	666,340,376	2,976,663	11,244,494	680,561,533	11,906,653
2015	2,976,663	11,484,476	695,022,672	2,976,663	11,728,508	709,727,842	2,976,663	11,976,657	724,681,163	2,976,663	12,228,995	739,886,821	11,906,653
2016	2,976,663	12,485,590	755,349,074	2,976,663	12,746,516	771,072,253	2,976,663	13,011,844	787,060,760	2,976,663	13,281,650	803,319,074	11,906,653
2017	2,976,663	13,556,009	819,851,746	2,976,663	13,834,998	836,663,407	2,976,663	14,118,695	853,758,766	2,976,663	14,407,179	871,142,608	11,906,653
2018	2,976,663	14,700,532	888,819,803	2,976,663	14,998,834	906,795,300	2,976,663	15,302,171	925,074,134	2,976,663	15,610,626	943,661,423	11,906,653
2019	2,976,663	15,924,287	962,562,373	2,976,663	16,243,240	981,782,276	2,976,663	16,567,576	1,001,326,515	2,976,663	16,897,385	1,021,200,563	11,906,653
2020	2,976,663	17,232,759	1,041,409,986	2,976,663	17,573,794	1,061,960,442	2,976,663	17,920,582	1,082,857,688	2,763,866	18,273,223	1,103,894,777	11,906,653
2021	2,976,663	18,628,224	1,125,499,665	2,976,663	18,992,807	1,147,469,135	2,976,663	19,363,542	1,169,809,339	2,595,152	19,740,533	1,192,145,024	11,906,653
2022	2,976,663	20,117,447	1,215,239,134	2,976,663	20,507,160	1,238,722,958	2,976,663	20,903,450	1,262,603,071	2,576,077	21,306,427	1,286,485,574	11,906,653
2023	2,976,663	21,709,444	1,311,171,682	2,976,663	22,126,022	1,336,274,367	2,976,663	22,549,630	1,361,800,660	686,071	22,980,386	1,385,467,117	11,906,653
2024	2,976,663	23,379,758	1,411,823,538	2,976,663	23,824,522	1,438,624,724	2,976,663	24,276,792	1,465,878,179	(824,433)	24,736,694	1,489,790,441	11,906,653
2025	2,976,663	25,140,214	1,517,907,317	2,976,663	25,614,686	1,546,498,667	2,976,663	26,097,165	1,575,572,495	(22,620,856)	26,587,786	1,579,539,425	11,906,653
2026	2,049,054	18,517,208	1,117,882,275	2,049,054	18,864,263	1,138,795,592	2,049,054	19,217,176	1,160,061,822	(179,257,166)	52,126,124	1,515,154,191	8,196,216
2027	1,281,295	10,040,258	606,299,787	1,281,295	10,231,309	617,812,391	1,281,295	10,425,584	629,519,271	(229,835,614)	72,735,015	1,392,594,629	5,125,182
2028	0	0	0	0	0	0	0	0	0	(310,728,379)	94,000,137	1,175,866,388	0
2029	0	0	0	0	0	0	0	0	0	(260,304,103)	79,370,981	994,933,266	0
2030	0	0	0	0	0	0	0	0	0	(258,156,803)	67,157,995	803,934,459	0
2031	0	0	0	0	0	0	0	0	0	(223,648,240)	54,265,576	634,551,795	0
2032	0	0	0	0	0	0	0	0	0	(168,317,640)	42,832,246	509,066,401	0
2033	0	0	0	0	0	0	0	0	0	(124,014,951)	25,139,869	410,191,319	0
2034	0	0	0	0	0	0	0	0	0	(94,086,174)	11,417,285	327,522,430	0
2035	0	0	0	0	0	0	0	0	0	(101,977,017)	0	225,545,413	0
2036	0	0	0	0	0	0	0	0	0	(99,898,837)	0	125,646,575	0
2037	0	0	0	0	0	0	0	0	0	(125,646,575)	0	1	0

**ARIZONA PUBLIC SERVICE COMPANY
NUCLEAR DECOMMISSIONING FUNDING REQUIREMENT
ALL UNITS**

Based on 2004 Cost Study	
Rate of Return	6.7500%
Escalation Factor	5.0000%

Year	Funding Curve			Funding Floor			Actual Funding		
	Fund \$	Est. Cost	% Funded	% Band	% Floor	\$ Floor	\$ in Fund	Est. Cost	% Funded
1991	23,954,557	370,450,982	6.47%	80%	5.17%	19,163,629	24,744,180	370,450,982	6.68%
1992	32,291,556	388,963,531	8.30%	80%	6.64%	25,833,244	32,411,009	388,963,531	8.33%
1993	47,350,399	408,422,208	11.59%	80%	9.27%	37,880,319	43,378,396	408,422,208	10.62%
1994	63,451,735	428,843,317	14.80%	80%	11.84%	50,761,389	53,480,728	428,843,317	12.47%
1995	80,667,731	450,285,484	17.91%	80%	14.33%	64,534,186	73,699,985	450,285,484	16.37%
1996	92,446,522	441,921,884	20.92%	80%	16.74%	73,957,218	90,981,013	441,921,884	20.59%
1997	110,817,863	464,017,979	23.88%	80%	19.11%	88,654,290	116,001,259	464,017,979	25.00%
1998	130,438,989	487,218,877	26.77%	80%	21.42%	104,351,191	143,981,975	487,218,877	29.55%
1999	160,687,864	542,542,127	29.62%	80%	23.69%	128,550,291	171,066,062	542,542,127	31.53%
2000	184,510,511	569,669,233	32.39%	80%	25.91%	147,608,409	182,205,845	569,669,233	31.98%
2001	209,957,288	598,152,695	35.10%	80%	28.08%	167,965,830	190,688,572	598,152,695	31.88%
2002	227,671,280	602,596,238	37.78%	80%	30.23%	182,137,024	195,104,188	602,596,238	32.38%
2003	255,608,616	632,726,050	40.40%	80%	32.32%	204,486,893	228,012,228	632,726,050	36.04%
2004	285,481,755	664,362,352	42.97%	80%	34.38%	228,385,404	252,445,857	664,362,352	38.00%
2005	295,177,854	649,205,446	45.47%	80%	36.52%	237,095,898	278,402,755	649,205,446	42.88%
2006	326,961,617	681,665,718	47.97%	81%	38.84%	264,761,964	325,250,126	681,665,718	47.71%
2007	360,925,385	715,749,004	50.43%	82%	41.34%	295,873,834			
2008	397,265,900	751,536,454	52.86%	83%	43.86%	329,637,419			
2009	436,077,022	789,113,277	55.26%	84%	46.41%	366,202,386			
2010	477,610,378	828,568,941	57.64%	85%	48.98%	405,856,891			
2011	521,977,327	869,997,388	60.00%	86%	51.58%	448,778,069			
2012	569,434,330	913,497,258	62.34%	87%	54.22%	495,274,259			
2013	620,204,584	959,172,120	64.66%	88%	56.89%	545,634,488			
2014	674,491,158	1,007,130,726	66.97%	89%	59.59%	600,139,203			
2015	732,482,607	1,057,487,263	69.27%	90%	62.32%	659,062,892			
2016	794,552,644	1,110,361,626	71.56%	91%	65.10%	722,856,623			
2017	860,839,744	1,165,879,707	73.84%	92%	67.91%	791,770,883			
2018	931,810,957	1,224,173,693	76.12%	93%	70.77%	866,365,970			
2019	1,007,643,578	1,285,382,377	78.39%	94%	73.67%	946,948,726			
2020	1,088,727,213	1,349,651,496	80.67%	95%	76.62%	1,034,035,757			
2021	1,175,253,098	1,416,910,633	82.94%	96%	79.61%	1,127,965,791			
2022	1,267,555,550	1,487,355,579	85.22%	97%	82.65%	1,229,225,913			
2023	1,366,281,201	1,561,302,742	87.51%	98%	85.74%	1,338,625,215			
2024	1,469,796,527	1,636,962,757	89.79%	99%	88.87%	1,454,719,686			
2025	1,574,437,282	1,714,819,744	91.81%	100%	91.49%	1,568,939,724			
2026	1,657,962,738	1,773,683,337	93.48%	100%	93.48%	1,657,962,738			
2027	1,582,012,840	1,673,995,972	94.62%	100%	94.62%	1,582,012,840			
2028	1,446,948,423	1,512,923,016	95.64%	100%	95.64%	1,446,948,423			
2029	1,220,417,923	1,262,304,369	96.68%	100%	96.68%	1,220,417,923			
2030	1,027,197,649	1,052,100,280	97.63%	100%	97.63%	1,027,197,649			
2031	819,904,828	833,640,651	98.35%	100%	98.35%	819,904,828			
2032	632,797,339	640,492,032	98.80%	100%	98.80%	632,797,339			
2033	492,550,697	495,783,112	99.35%	100%	99.35%	492,550,697			
2034	389,276,733	390,356,569	99.72%	100%	99.72%	389,276,733			
2035	311,083,914	311,083,914	100.00%	100%	100.00%	311,083,914			
2036	219,562,242	219,562,242	100.00%	100%	100.00%	219,562,242			
2037	125,646,575	125,646,575	100.00%	100%	100.00%	125,646,575			

**ARIZONA PUBLIC SERVICE COMPANY
NUCLEAR DECOMMISSIONING FUNDING REQUIREMENT
ALL UNITS**



Attachment 2

Annual Funding Status Report for the Year Ending December 2006

Salt River Project Agricultural Improvement and Power District

**SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT
AND POWER DISTRICT**

**ANNUAL FUNDING STATUS REPORT
FOR THE YEAR ENDING DECEMBER 31, 2006**

**PART 1
GENERAL INFORMATION**

1.1 Description of Funds

1.1.1 Fund #1 - Salt River Project Agricultural Improvement and Power District Decommissioning Trust

Units:	Palo Verde Units 1, 2 and 3
Tax Status:	Tax Exempt
Trustee:	Marshall & Ilsley Trust Company of Arizona
Investment Managers:	PIMCO Capital Management, hired January 1993 Russell Investments, hired December 2005 Hotchkis & Wiley, hired December 2005 Smith Asset, hired December 2005 Julius Baer, hired December 2005 Western Asset, hired December 2005 INTECH, hired May 2006
Basic Document:	Salt River Project Agricultural Improvement and Power District Decommissioning Trust Fund Agreement, last amended 11/19/03. IMA's with managers hired in December 2005 are available upon request.
Change since Prior AFSR:	Russell Investments, terminated May 2006 INTECH, hired May 2006

1.2 Pro Rata Share (for each unit)

Generation Entitlement Share	17.49%
Section 23.5.1 Obligations	0.00%
	<hr/>
	17.49%

1.3 Sale and Leaseback Transactions

None

1.4 Summary of Regulatory Requirements Respecting Electric Rates and Terminating Funding

Salt River Project Agricultural Improvement and Power District (SRP) is a political subdivision and agricultural improvement district formed by the Arizona Legislature in 1937 to supply power to SRP customers. As a political subdivision, SRP is not required to pay federal and state income tax. SRP's electric prices are set by a publicly elected Board [of Directors], much like a city council. The Board approves amounts deposited to the Decommissioning Trust.

SRP electric price plans are designed to cover SRP revenue requirements as outlined in our projected budgets. The nuclear decommissioning fund is a component of the revenue requirements in the Plan and as such is provided for in the electric price plan projections. Specifically, revenues associated with the nuclear decommissioning fund are collected through the System Benefits Charge which is levied on the energy consumption of all retail customers. The Board retains an independent consultant to review SRP's pricing philosophy, design and revenue requirements prior to and during each price plan adjustment process.

SRP's mandatory deposits, as defined in Section 5.12.3 of the Manual of the Termination Funding Committee, are determined through the use of a model which calculates the annual contribution and earnings on the fund balance.

The Arizona Corporation Commission has regulatory oversight over three areas of SRP operations: approval to issue electric system revenue bonds; siting of high-voltage transmission lines; and siting of larger generating stations.

1.5 Statement of Investment Policies and Restrictions

The objective of the Trust Fund is to provide for sufficient funds to decommission the SRP's ownership interest in Palo Verde Units 1, 2 and 3. This objective is to be accomplished with a 60%/40% asset allocation among equities and fixed income securities and a real rate of return commensurate with the historical rates of these classes. The policy statement has been updated to reflect the addition of the new managers outlined in section 1.1.1.

Investment policy restrictions mirror those outlined in Section 5.4 of the TFC Manual.

**SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT
AND POWER DISTRICT**

**PART 2
STATUS OF TERMINATION FUNDS AS OF 12/31/06**

2.1 Committed Accumulations at the End of Reporting Period

2.1.1 Latest Estimated Termination Costs (\$000) 2004 Study

<u>Unit #1</u>	<u>Unit #2</u>	<u>Unit #3</u>	<u>Total or Composite</u>
\$656,910	\$699,750	\$768,051	\$2,124,711

2.1.2 Generation Entitlement Share of Estimated Termination Costs (\$000) (2.1.1 Amount) x (.1749)

<u>Unit #1</u>	<u>Unit #2</u>	<u>Unit #3</u>	<u>Total or Composite</u>
\$114,894	\$122,386	\$134,332	\$371,612

2.1.3 Escalation Adjustment Factor

<u>Unit #1</u>	<u>Unit #2</u>	<u>Unit #3</u>	<u>Total or Composite</u>
1.1219	1.1219	1.1219	1.1219

2.1.4 Adjusted Share of Estimated Termination (\$000) Costs (2.1.2 Amount) x (2.1.3 %)

<u>Unit #1</u>	<u>Unit #2</u>	<u>Unit #3</u>	<u>Total or Composite</u>
\$128,900	\$137,306	\$150,708	\$416,913

2.1.5 Percent Funding Requirement at End of Reporting Period from Percent Funded Curve

<u>Unit #1</u>	<u>Unit #2</u>	<u>Unit #3</u>	<u>Total or Composite</u>
41.19%	39.58%	38.50%	39.69%

2.1.6 Committed Accumulations at End of Reporting (\$000) Period (2.1.4 Amount) x (2.1.5 %)

<u>Unit #1</u>	<u>Unit #2</u>	<u>Unit #3</u>	<u>Total or Composite</u>
\$53,094	\$54,346	\$58,023	\$165,462

2.1.7 Summary of Assumptions

Investment Return Assumption:	7.65%
Inflation/Escalation Assumption:	5.92%
2004 Cost Study	

2.2 Actual Accumulation at end of Reporting Period (\$000)

2.2.1 Actual accumulations include accrued income and expenses and contributions receivable (\$000)

<u>Unit #1</u>	<u>Unit #2</u>	<u>Unit #3</u>	<u>Total or Composite</u>
\$62,638	\$61,539	\$63,771	\$187,948

2.2.2 Computation of Actual Accumulations:

Calculations

	<u>Unit #1</u>	<u>Unit #2</u>	<u>Unit #3</u>	<u>Total</u>
(i) Cash	-	-	-	-
(ii) Market Value	62,638,030	61,539,018	63,770,979	187,948,027
(iii) Accrued Interest	-	-	-	-
(iv) Cont. Receivable	-	-	-	-
	<u>\$62,638,030</u>	<u>\$61,539,018</u>	<u>\$63,770,979</u>	<u>\$187,948,027</u>
Less:				
(i) Current Tax	N/A	N/A	N/A	N/A
(ii) Accrued Tax	N/A	N/A	N/A	N/A
(iii) Taxes Associated - Unrealized Gains	N/A	N/A	N/A	N/A
(iv) Accrued Expenses	0	0	0	-
	<u>\$62,638,030</u>	<u>\$61,539,018</u>	<u>\$63,770,979</u>	<u>\$187,948,027</u>
VALUE				
in (\$000)	\$62,638	\$61,539	\$63,771	\$187,948

2.3 Funded Floor Amount at End of Reporting Period

2.3.1 Percentage of committed Accumulations

<u>Unit #1</u>	<u>Unit #2</u>	<u>Unit #3</u>	<u>Total or Composite</u>
33.77%	32.06%	30.80%	31.75%

2.3.2 Funded Floor Amount (\$000)

<u>Unit #1</u>	<u>Unit #2</u>	<u>Unit #3</u>	<u>Total or Composite</u>
\$43,532	\$44,025	\$46,422	\$132,374

2.4 Deposits made during Reporting Period

	<u>Unit #1</u>	<u>Unit #2</u>	<u>Unit #3</u>	<u>Total</u>
Normal Annual Deposits	1,997,820	1,997,820	2,058,360	6,054,000
NRC Required Deposits	-	-	-	-
Recovery Deposits	-	-	-	-
Correcting Deposits	-	-	-	-
Total	\$1,997,820	\$1,997,820	\$2,058,360	\$6,054,000

Explanation of Deposits Made During Reporting Period:

Section 5.12.3 of the Manual of the Termination Funding Committee requires each Participant to make Mandatory Deposits each year equal to the amount that has been authorized in its cost of service, revenue requirements or operating budget analyses. SRP's practice has been to budget for both annual contributions to its decommissioning trust and earnings on the fund balance. Absent any changes in SRP's budgeting practice, SRP's future annual contributions to the decommissioning trust will consist of a contribution component and an earnings component. The actual fund balance exceeded the NRC minimum required funding levels so no NRC deposits were required.

No recovery or correcting deposits were required.

2.5 Mandatory Deposits During Reporting

<u>Unit #1</u>	<u>Unit #2</u>	<u>Unit #3</u>	<u>Total</u>
\$1,997,820	\$1,997,820	\$2,058,360	\$6,054,000

2.6 Estimated Outstanding Balance of Recovery Deposits and Correction Deposits Outstanding at End of Reporting Period

None

2.7 Annual Net Income (Loss) During Reporting Period

	<u>Unit #1</u>	<u>Unit #2</u>	<u>Unit #3</u>	<u>Total</u>
Income (received & accrued) + contributions	3,073,026	3,053,716	3,152,704	9,279,446
Realized Gains/Losses	577,813	566,086	587,155	1,731,055
Unrealized Gains/Losses	4,041,377	3,969,647	4,113,904	12,124,928
Taxes Paid and Accrued	N/A	N/A	N/A	N/A
Expenses Paid and Accrued	(141,940)	(141,778)	(146,128)	(429,845)
Net Income	\$7,550,276	\$7,447,672	\$7,707,636	\$22,705,584
Average Net Asset Value	\$53,213,463	\$52,234,521	\$54,008,498	\$159,456,481
Rate	14.19%	14.26%	14.27%	14.24%

Average Net Asset Value = (Net Assets, beginning of period + Net Assets, end of period) / 2

2.8 Summary of Market Values of Permitted Investments at End of Reporting Period

	<u>Unit #1</u>	<u>Unit #2</u>	<u>Unit #3</u>	<u>Total</u>
Cash & Cash Equivalent	-	-	-	-
Acceptable Debt Securities	25,240,802	24,797,940	25,697,337	75,736,079
Acceptable Equity Securities	37,397,199	36,741,048	38,073,610	112,211,857
Total	\$62,638,000	\$61,538,988	\$63,770,948	\$187,947,936

2.9 Inventory and Values of Permitted Investments at End of Reporting Period

See Appendix A for Marshall & Ilsley Schedule A-Assets and Liabilities. [Not Attached]
 Explanation of Basis for Determining Market Values:
 The Trustee's pricing service, which includes mutual funds, is Muller Invest Data Services.

2.10 Fund Liabilities at End of Reporting Period

None

2.11 Defaults, If Any, Experienced on Investments

None

2.12 Summary of Investment Ratings

The fixed income portion of trust assets are currently invested in mutual or commingled funds. The following are the ratings applicable to those portions invested in the fund as of 12/31/05:

	<u>Average Credit Quality</u>
PIMCO Total Return Institutional Fund	AAA
Western Asset Core Plus LLC	AA / Aa2
M&I Money Market Fund	A1 / P1

**SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT
AND POWER DISTRICT**

**PART 3
TABLES AND CURVES**

3.1 Table of Estimated Deposits, Income, and Committed Accumulations to End of Funding Period for Each Unit:

See Attached.

3.2 Percent Funding Curve and Funding Floor Curve For Each Unit:

See Attached.

3.3 Composite Percent Funding Curve and Funding Floor Curve for All Units:

See Attached.

Funding Percentages
UNIT 1
2004 Decommissioning
Cost Study



**SALT RIVER PROJECT
NUCLEAR DECOMMISSIONING TRUST**

UNIT 1

All Participants Decom Costs in 2004\$ \$656,910
 SRP Share in 2004\$ \$114,894
 Plan Balance as of 12/31/04 in 2004\$ \$51,338

SRP Share 17.49%
 Projected return on investments 7.65%
 Projected Inflation 5.92%
 Years To Start of Decom (Funding Yrs Left) 18

FV of Total Decom. Charges Discounted to 2024 \$362,738
 FV of 12/31/04 Plan Balance in 18 years \$144,558

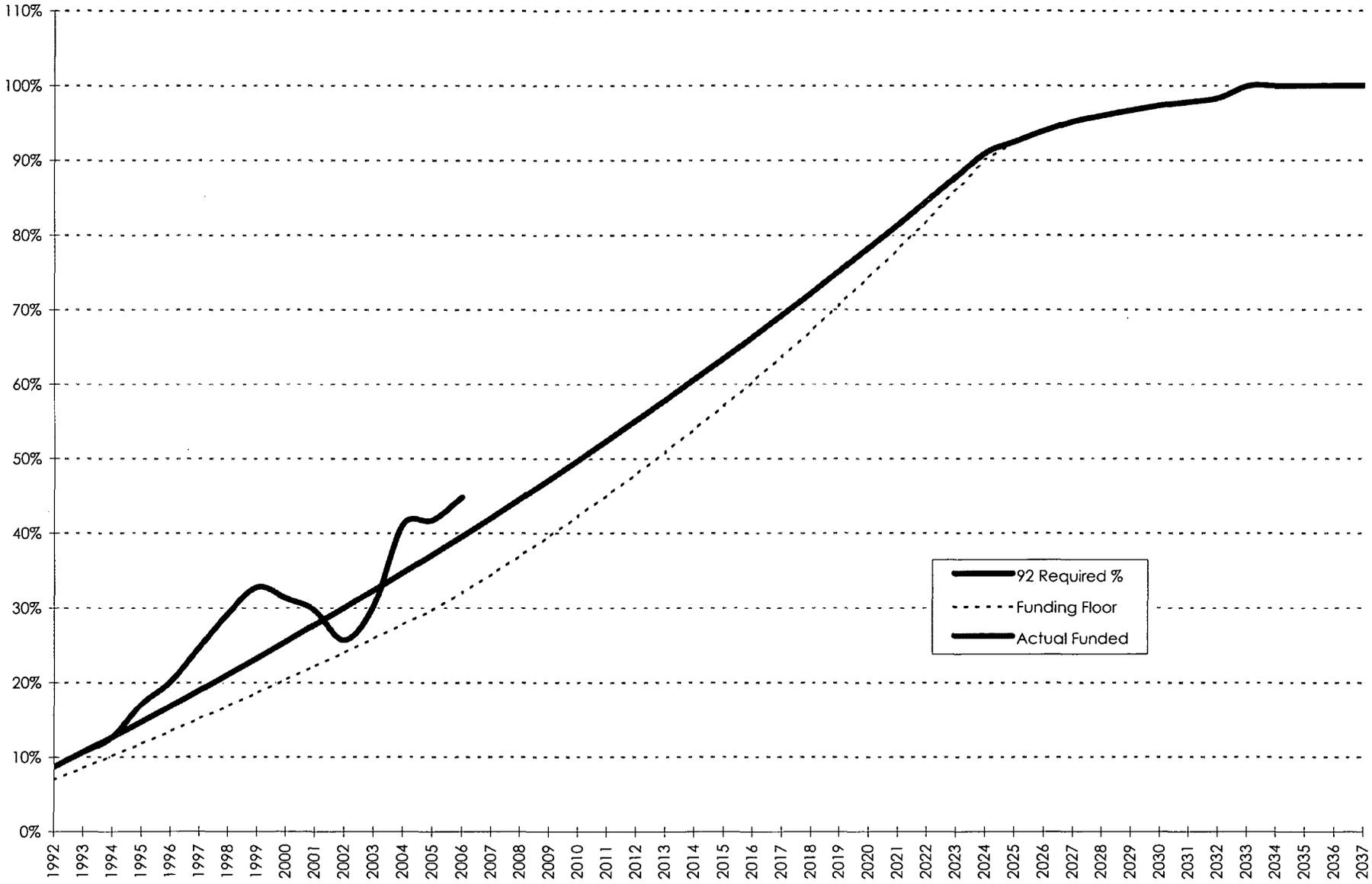
FV of Balance Owed to be Funded by Contributions and Earnings \$218,180

ACTUAL

FORECAST

Calendar Year End	Current		Balance		Decom Charges (Inflat Adj.)	Ending Balance	Termination Costs (Inflat Adj.)	Funded Ratio
	Annual Payment (Inflat Adj.)	Earnings (Inflat Adj.)	Before Decom Charges	Decom Charges				
1987	721	26	747	0.00	747			
1988	960	31	1,738	0.00	1,738			
1989	805	135	2,678	0.00	2,678	43,630	6.14%	
1990	841	499	4,018	0.00	4,018	44,983	8.93%	
1991	1,746	280	6,044	0.00	6,044	47,646	12.68%	
1992	1,107	462	7,617	0.00	7,617	79,718	9.56%	
1993	1842	313	9,772	0.00	9,772	84,438	11.57%	
1994	2,360	69	12,201	0.00	12,201	89,436	13.64%	
1995	1,775	3,317	17,292	0.00	17,292	94,731	18.25%	
1996	1,292	2,752	21,336	0.00	21,336	100,339	21.26%	
1997	1,369	4,881	27,586	0.00	27,586	106,279	25.96%	
1998	1,450	5,318	34,354	0.00	34,354	112,571	30.52%	
1999	1,267	4,915	40,536	0.00	40,536	119,235	34.00%	
2000	1,223	(1,019)	40,740	0.00	40,740	126,294	32.26%	
2001	1,517	(1,633)	40,624	0.00	40,624	133,770	30.37%	
2002	309	(3,759)	37,174	0.00	37,174	141,690	26.24%	
2003	2,163	6,551	45,888	0.00	45,888	150,078	30.58%	
2004	2,069	3,381	51,338	0.00	51,338	114,894	44.68%	
2005	1,602	2,147	55,087	0.00	55,087	121,695	45.27%	
2006	1,998	5,553	62,638	0.00	62,638	128,900	48.59%	
2007	1,814	4,792	69,244	0.00	69,244	136,530	50.72%	
2008	1,921	5,297	76,462	0.00	76,462	144,613	52.87%	
2009	2,035	5,849	84,346	0.00	84,346	153,174	55.07%	
2010	2,155	6,452	92,954	0.00	92,954	162,242	57.29%	
2011	2,283	7,111	102,348	0.00	102,348	171,847	59.56%	
2012	2,418	7,830	112,596	0.00	112,596	182,020	61.86%	
2013	2,561	8,614	123,771	0.00	123,771	192,796	64.20%	
2014	2,713	9,468	135,952	0.00	135,952	204,209	66.57%	
2015	2,874	10,400	149,226	0.00	149,226	216,298	68.99%	
2016	3,044	11,416	163,685	0.00	163,685	229,103	71.45%	
2017	3,224	12,522	179,431	0.00	179,431	242,666	73.94%	
2018	3,415	13,726	196,572	0.00	196,572	257,032	76.48%	
2019	3,617	15,038	215,226	0	215,226	272,248	79.06%	
2020	3,831	16,465	235,522	147	235,375	288,365	81.62%	
2021	4,058	18,006	257,586	266	257,320	305,437	84.25%	
2022	4,298	19,685	281,569	282	281,287	323,519	86.95%	
2023	4,552	21,518	307,640	1,625	306,015	342,671	89.30%	
2024	4,822	23,410	334,247	2,720	331,527	360,237	92.03%	
2025	0.00	25,362	356,889	17,805	339,084	363,758	93.22%	
2026	0.00	25,940	365,024	56,642	308,382	328,651	93.83%	
2027	0.00	23,591	331,973	73,486	258,487	274,621	94.13%	
2028	0.00	19,774	278,262	63,444	214,818	227,435	94.45%	
2029	0.00	16,434	231,251	53,879	177,373	187,020	94.84%	
2030	0.00	13,569	190,942	57,699	133,243	140,393	94.91%	
2031	0.00	10,193	143,436	48,130	95,306	100,575	94.76%	
2032	0.00	7,291	102,597	13,625	88,972	92,903	95.77%	
2033	0.00	6,806	95,778	12,391	83,387	86,013	96.95%	
2034	0.00	6,379	89,767	16,092	73,675	75,013	98.22%	
2035	0.00	5,636	79,311	23,607	55,703	55,846	99.74%	
2036	0.00	4,261	59,965	22,919	37,045	36,233	102.24%	
2037	0.00	2,834	39,879	38,378	0.00	0.00	100.00%	
	<u>84,049</u>	<u>419,890</u>	<u>503,939</u>	<u>500,812</u>	<u>0.00</u>	<u>0.00</u>		

Funding Percentages
UNIT 2
2004 Decommissioning
Cost Study



**SALT RIVER PROJECT
NUCLEAR DECOMMISSIONING TRUST**

UNIT 2

All Participants Decom Costs in 2004\$ \$699,750.0
 SRP Share in 2004\$ \$122,386.3
 Plan Balance as of 12/31/04 in 2004\$ \$50,377.0

SRP Share 17.49%
 Projected return on investments 7.65%
 Projected Inflation 5.92%
 Years To Start of Decom (Funding Yrs Left) 19

FV of Total Decom. Charges Discounted to 2025 \$409,515.3
 FV of 12/31/04 Plan Balance in 19 years \$150,249.8

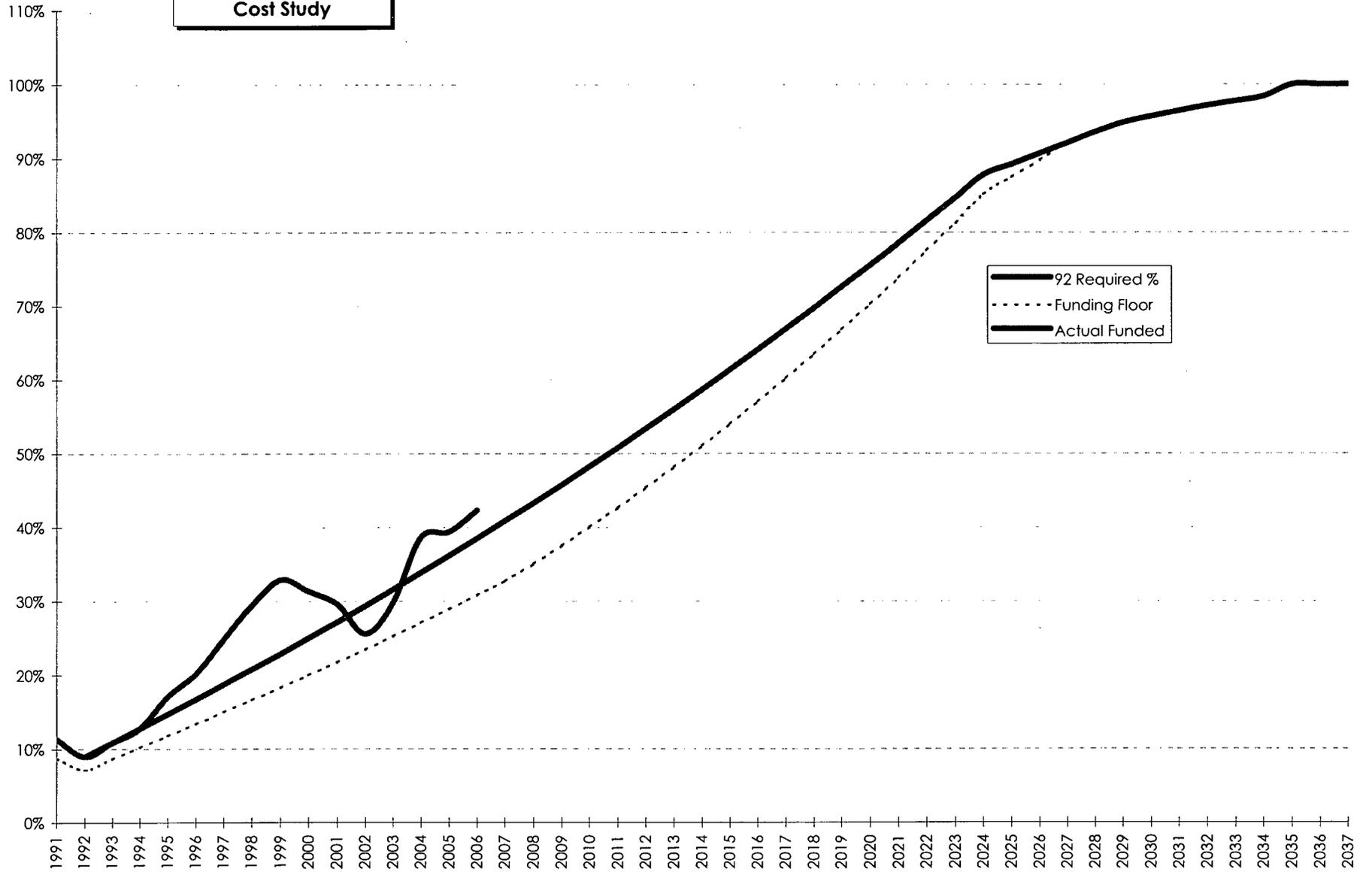
FV of Balance Owed to be Funded by Contributions and Earnings \$259,265.5

ACTUAL

FORECAST

Calender Year End	Current Annual Payment	Earnings	Balance Before Decom Charges	Decom Charges	Ending Balance	Termination Costs	Funded Ratio
31-Dec	(Inflat Adj.)	(Inflat Adj.)	Charges	(Inflat Adj.)	Balance	(Inflat Adj.)	Ratio
1988	960	0.00	960	0.00	960		
1989	805	74	1,839	0.00	1,839	43,256	4.25%
1990	841	343	3,023	0.00	3,023	44,597	6.78%
1991	1,909	218	5,150	0.00	5,150	47,237	10.90%
1992	1,292	394	6,839	0.00	6,839	78,467	8.72%
1993	1,761	281	8,881	0.00	8,881	83,112	10.69%
1994	2,241	63	11,185	0.00	11,185	88,032	12.71%
1995	1,714	3,042	15,940	0.00	15,940	93,244	17.10%
1996	1,379	2,537	19,856	0.00	19,856	98,764	20.10%
1997	1,460	4,545	25,860	0.00	25,860	104,611	24.72%
1998	1,546	4,991	32,398	0.00	32,398	110,804	29.24%
1999	1,452	4,635	38,485	0.00	38,485	117,363	32.79%
2000	1,430	(966)	38,949	0.00	38,949	124,311	31.33%
2001	1,717	(1,561)	39,105	0.00	39,105	131,670	29.70%
2002	350	(3,620)	35,835	0.00	35,835	139,465	25.69%
2003	2,487	6,329	44,651	0.00	44,651	147,722	30.23%
2004	2,427	3,299	50,377	0.00	50,377	122,386	41.16%
2005	1,607	2,107	54,091	0.00	54,091	129,632	41.73%
2006	1,998	5,450	61,539	0.00	61,539	137,306	44.82%
2007	2,134	4,708	68,380	0.00	68,380	145,434	47.02%
2008	2,260	5,231	75,872	0.00	75,872	154,044	49.25%
2009	2,394	5,804	84,070	0.00	84,070	163,163	51.52%
2010	2,536	6,431	93,037	0.00	93,037	172,823	53.83%
2011	2,686	7,117	102,840	0.00	102,840	183,054	56.18%
2012	2,845	7,867	113,551	0.00	113,551	193,890	58.56%
2013	3,013	8,687	125,251	0.00	125,251	205,369	60.99%
2014	3,191	9,582	138,024	0.00	138,024	217,527	63.45%
2015	3,380	10,559	151,964	0.00	151,964	230,404	65.96%
2016	3,580	11,625	167,169	0.00	167,169	244,044	68.50%
2017	3,792	12,788	183,750	0.00	183,750	258,492	71.09%
2018	4,017	14,057	201,824	0.00	201,824	273,794	73.71%
2019	4,255	15,440	221,518	0.00	221,518	290,003	76.38%
2020	4,507	16,946	242,971	0.00	242,971	307,171	79.10%
2021	4,773	18,587	266,332	0.00	266,332	325,356	81.86%
2022	5,056	20,374	291,762	0.00	291,762	344,617	84.66%
2023	5,355	22,320	319,438	0.00	319,438	365,018	87.51%
2024	5,672	24,437	349,547	0	349,547	386,627	90.41%
2025	6,008	26,740	382,295	337	381,959	409,179	93.35%
2026	0.00	29,220	411,179	67,013	344,166	366,389	93.93%
2027	0.00	26,329	370,494	78,802	291,693	309,278	94.31%
2028	0.00	22,314	314,007	80,594	233,413	246,993	94.50%
2029	0.00	17,856	251,269	49,784	201,485	211,831	95.12%
2030	0.00	15,414	216,899	53,361	163,538	171,010	95.63%
2031	0.00	12,511	176,048	54,867	121,181	126,267	95.97%
2032	0.00	9,270	130,452	44,860	85,592	88,882	96.30%
2033	0.00	6,548	92,140	12,512	79,628	81,632	97.54%
2034	0.00	6,092	85,719	16,156	69,564	70,309	98.94%
2035	0.00	5,322	74,885	23,527	51,358	50,944	100.81%
2036	0.00	3,929	55,287	22,805	32,482	31,155	104.26%
2037	0.00	2,485	34,967	32,999	0.00	0.00	100.00%
	<u>100,831</u>	<u>438,750</u>	<u>539,581</u>	<u>537,613</u>	<u>0.00</u>	<u>0.00</u>	

**Funding Percentages
UNIT 3
2004 Decommissioning
Cost Study**



**SALT RIVER PROJECT
NUCLEAR DECOMMISSIONING TRUST**

UNIT 3

All Participants Decom Costs in 2004\$ \$768,051.0
 SRP Share in 2004\$ \$134,332.1
 Plan Balance as of 12/31/04 in 2004\$ \$51,953.0

SRP Share 17.49%
 Projected return on investments 7.65%
 Projected Inflation 5.92%
 Years To Start of Decom (Funding Yrs Left) 21

FV of Total Decom. Charges Discounted to 2027 \$503,745.1
 FV of 12/31/04 Plan Balance in 21 years \$173,839.3

FV of Balance Owed to be Funded by Contributions and Earnings \$329,905.7

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Calendar Year End	Current Annual Payment	Earnings	Balance Before Decom Charges	Decom Charges	Ending Balance	Termination Costs	Funded Ratio
31-Dec	(Inflat Adj.)	(Inflat Adj.)	Charges	(Inflat Adj.)	Balance	(Inflat Adj.)	Ratio
1988	960	0.00	960	0.00	960		
1989	805	74	1,839	0.00	1,839	45,998	4.00%
1990	841	343	3,023	0.00	3,023	47,424	6.37%
1991	2,154	218	5,395	0.00	5,395	50,232	10.74%
1992	1,590	413	7,401	0.00	7,401	82,736	8.95%
1993	1,787	304	9,493	0.00	9,493	87,634	10.83%
1994	2,290	67	11,849	0.00	11,849	92,822	12.77%
1995	1,721	3,221	16,791	0.00	16,791	98,317	17.08%
1996	1,517	2,672	20,980	0.00	20,980	104,138	20.15%
1997	1,606	4,802	27,388	0.00	27,388	110,303	24.83%
1998	1,702	5,289	34,380	0.00	34,380	116,833	29.43%
1999	1,416	4,918	40,714	0.00	40,714	123,749	32.90%
2000	1,391	(1,022)	41,083	0.00	41,083	131,075	31.34%
2001	1,675	(1,647)	41,111	0.00	41,111	138,835	29.61%
2002	341	(3,805)	37,647	0.00	37,647	147,054	25.60%
2003	2,162	6,634	46,443	0.00	46,443	155,759	29.82%
2004	2,088	3,422	51,953	0.00	51,953	134,332	38.68%
2005	1,935	2,175	56,063	0.00	56,063	142,285	39.40%
2006	2,058	5,649	63,771	0.00	63,771	150,708	42.31%
2007	2,205	4,878	70,855	0.00	70,855	159,630	44.39%
2008	2,336	5,420	78,611	0.00	78,611	169,080	46.49%
2009	2,474	6,014	87,099	0.00	87,099	179,089	48.63%
2010	2,620	6,663	96,382	0.00	96,382	189,691	50.81%
2011	2,776	7,373	106,531	0.00	106,531	200,921	53.02%
2012	2,940	8,150	117,621	0.00	117,621	212,816	55.27%
2013	3,114	8,998	129,733	0.00	129,733	225,414	57.55%
2014	3,298	9,925	142,955	0.00	142,955	238,759	59.87%
2015	3,494	10,936	157,385	0.00	157,385	252,893	62.23%
2016	3,700	12,040	173,126	0.00	173,126	267,865	64.63%
2017	3,919	13,244	190,289	0.00	190,289	283,722	67.07%
2018	4,152	14,557	208,998	0.00	208,998	300,519	69.55%
2019	4,397	15,988	229,383	0.00	229,383	318,309	72.06%
2020	4,658	17,548	251,589	0.00	251,589	337,153	74.62%
2021	4,933	19,247	275,769	0.00	275,769	357,113	77.22%
2022	5,225	21,096	302,090	0.00	302,090	378,254	79.86%
2023	5,535	23,110	330,735	0.00	330,735	400,646	82.55%
2024	5,862	25,301	361,899	0.00	361,899	424,365	85.28%
2025	6,209	27,685	395,793	0.00	395,793	449,487	88.05%
2026	6,577	30,278	432,649	0.00	432,649	476,097	90.87%
2027	6,966	33,098	472,713	17,485	455,228	486,797	93.51%
2028	0.00	34,825	490,053	86,215	403,837	429,400	94.05%
2029	0.00	30,894	434,731	90,916	343,815	363,905	94.48%
2030	0.00	26,302	370,117	83,604	286,513	301,843	94.92%
2031	0.00	21,918	308,431	67,123	241,308	252,589	95.53%
2032	0.00	18,460	259,768	70,670	189,098	196,873	96.05%
2033	0.00	14,466	203,564	71,091	132,473	137,437	96.39%
2034	0.00	10,134	142,608	41,218	101,389	104,355	97.16%
2035	0.00	7,756	109,146	33,190	75,956	77,343	98.21%
2036	0.00	5,811	81,767	33,653	48,114	48,269	99.68%
2037	<u>0.00</u>	<u>3,681</u>	<u>51,795</u>	<u>51,127</u>	<u>0.00</u>	<u>0.00</u>	100.00%
	<u>117,431</u>	<u>529,523</u>	<u>646,954</u>	<u>646,288</u>	<u>0.00</u>	<u>0.00</u>	

Funding Percentages
ALL UNITS COMBINED
 2004 Decommissioning
 Cost Study



**SALT RIVER PROJECT
NUCLEAR DECOMMISSIONING TRUST (000's)**

ALL UNITS

Aggregate Decom Costs in 2004\$	\$2,124,711	SRP Share	17.49%
SRP Share in 2004\$	\$371,612	Projected return on investments	7.65%
Ending Balance as of 12/31/04 in 2004\$	\$153,668	Projected Inflation	5.92%

FV of Total Decom. Charges Discounted to Start of Decom	\$1,275,999
FV of 12/31/04 Fund Balance value at Start of Decom	<u>\$468,647</u>
FV of Balance Owed to be Funded by Contributions and Earnings	<u>\$807,351</u>

Years To Start of Decom (Funding Yrs Left)		
Unit 1	Unit 2	Unit 3
18	19	21

ACTUAL

FORECAST

Calendar Year End	Current Annual		Balance Before Decom		Decom Charges (Inflat Adj.)	Ending Balance	Termination Costs (Inflat Adj.)	Funded Ratio
	Payment (Inflat Adj.)	Earnings (Inflat Adj.)	Decom	Charges				
31-Dec			<u>Charges</u>					
1987	721	26	747	0.00	747			
1988	2,880	31	3,658	0.00	3,658			
1989	2,415	283	6,356	0.00	6,356	132,884	4.78%	
1990	2,523	1,185	10,064	0.00	10,064	137,004	7.35%	
1991	5,809	716	16,589	0.00	16,589	145,115	11.43%	
1992	3,989	1,269	21,857	0.00	21,857	240,921	9.07%	
1993	5,390	899	28,147	0.00	28,147	255,184	11.03%	
1994	6,890	198	35,234	0.00	35,234	270,291	13.04%	
1995	5,210	9,579	50,024	0.00	50,024	286,292	17.47%	
1996	4,188	7,961	62,172	0.00	62,172	303,241	20.50%	
1997	4,435	14,228	80,834	0.00	80,834	321,193	25.17%	
1998	4,698	15,598	101,132	0.00	101,132	340,207	29.73%	
1999	4,135	14,468	119,735	0.00	119,735	360,347	33.23%	
2000	4,044	(3,007)	120,772	0.00	120,772	381,680	31.64%	
2001	4,909	(4,841)	120,840	0.00	120,840	404,275	29.89%	
2002	1,000	-11,184	110,656	0.00	110,656	428,208	25.84%	
2003	6,812	19,514	136,982	0.00	136,982	453,558	30.20%	
2004	6,584	10,102	153,668	0.00	153,668	371,612	41.35%	
2005	5,144	6,429	165,241	0.00	165,241	393,611	41.98%	
2006	6,054	16,652	187,948	0.00	187,948	416,913	45.08%	
2007	6,153	14,378	208,479	0.00	208,479	441,594	47.21%	
2008	6,517	15,949	230,944	0.00	230,944	467,737	49.37%	
2009	6,903	17,667	255,514	0.00	255,514	495,427	51.57%	
2010	7,311	19,547	282,373	0.00	282,373	524,756	53.81%	
2011	7,744	21,602	311,718	0.00	311,718	555,822	56.08%	
2012	8,203	23,846	343,768	0.00	343,768	588,726	58.39%	
2013	8,688	26,298	378,754	0.00	378,754	623,579	60.74%	
2014	9,203	28,975	416,932	0.00	416,932	660,495	63.12%	
2015	9,747	31,895	458,574	0.00	458,574	699,596	65.55%	
2016	10,325	35,081	503,980	0.00	503,980	741,012	68.01%	
2017	10,936	38,554	553,470	0.00	553,470	784,880	70.52%	
2018	11,583	42,340	607,394	0.00	607,394	831,345	73.06%	
2019	12,269	46,466	666,128	0.00	666,128	880,561	75.65%	
2020	12,995	50,959	730,082	147.06	729,935	932,690	78.26%	
2021	13,764	55,840	799,687	265.96	799,421	987,905	80.92%	
2022	14,579	61,156	875,422	281.70	875,140	1,046,389	83.63%	
2023	15,442	66,948	957,812	1,624.91	956,187	1,108,335	86.27%	
2024	16,357	73,148	1,045,692	2,720	1,042,972	1,171,229	89.05%	
2025	12,218	79,787	1,134,977	18,141	1,116,836	1,222,424	91.36%	
2026	6,577	85,438	1,208,851	123,654	1,085,197	1,171,137	92.66%	
2027	6,966	83,018	1,175,181	169,773	1,005,408	1,070,696	93.90%	
2028	0.00	76,914	1,082,322	230,253	852,068	903,827	94.27%	
2029	0.00	65,183	917,251	194,578	722,673	762,756	94.75%	
2030	0.00	55,284	777,957	194,664	583,293	613,247	95.12%	
2031	0.00	44,622	627,915	170,120	457,795	479,430	95.49%	
2032	0.00	35,021	492,816	129,154	363,662	378,658	96.04%	
2033	0.00	27,820	391,482	95,994	295,488	305,081	96.86%	
2034	0.00	22,605	318,093	73,465	244,628	249,677	97.98%	
2035	0.00	18,714	263,342	80,324	183,017	184,133	99.39%	
2036	0.00	14,001	197,018	79,377	117,641	115,657	101.72%	
2037	0.00	<u>9,000</u>	<u>126,641</u>	<u>122,504</u>	<u>0</u>	<u>0</u>	100.00%	
	<u>302,311</u>	<u>1,388,163</u>	<u>1,690,474</u>	<u>1,684,713</u>	<u>0.00</u>	<u>0.00</u>		

Attachment 3

Annual Funding Status Report for the Year Ending December 2006

El Paso Electric Company

EL PASO ELECTRIC COMPANY
Annual Funding Status Report
For the Year Ended December 31, 2006

Part 1.

General Information

1.1 Description of Funds:

El Paso Electric Company ("the Company") has established six external trust funds ("Funds") for the accumulation of assets to meet its share of future decommissioning and termination cost expenditures. The Funds are irrevocable in that payments out of the Funds are limited to actual decommissioning expenditures or payments related to the operation of the fund - - i.e., trustee fees, Internal Revenue Service ("IRS") payments.

For each unit of the Palo Verde Nuclear Generating Station ("Palo Verde"), two funds have been established. One fund receives IRS approved contributions, therefore it is referred to as tax "qualified". The other fund receives all other contributions and is referred to as "non qualified". At December 31, 2006, the funds were governed by three trust agreements, one for each unit.

Pursuant to an order of the Public Utility Commission of Texas ("Texas Commission"), the Company funds future decommissioning costs with an inflation adjusted payment stream rather than with a straight line payment stream. The philosophy behind an inflation adjusted payment stream is to ensure that each year's customer contribution is the economic equivalent of the previous year. Therefore, the model of future contributions produces a gradually increasing payment stream.

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1.1.1 Fund #1:

* Unit for which accumulation Unit 1
occurs:

* Tax Status: Established and maintained to qualify as a "Nuclear Decommissioning Reserve Fund" under applicable tax law ("Qualified"). Private Ruling Letter dated September 10, 1996, June 22, 1999, February 8, 2001, February 13, 2003 and April 21, 2005.

* Independent Trustee(s): Wells Fargo Bank, N. A., Trustee

* Investment Manager(s): Duff & Phelps Investment Management Co.

* Basic Document(s): (1) Decommissioning Trust Agreement, dated April 1, 2006, between the Company and Wells Fargo Bank, N.A. as Decommissioning Trustee for Palo Verde Unit 1;
(2) Investment Management Contract with Duff & Phelps Investment Management Co., dated March 19, 1998, amended June 30, 2004.

* Changes Since Prior AFSR: On May 01, 2006, Wells Fargo Bank, N.A. replaced Bank of America, N.A. as Trustee.

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1.1.2 Fund #2:

* Unit for which accumulation occurs: Unit 1

* Tax Status: Established and maintained not to qualify as a "Nuclear Decommissioning Reserve Fund" under applicable tax law ("Non-Qualified").

* Independent Trustee(s): Wells Fargo Bank, N. A., Trustee

* Investment Manager(s): Duff & Phelps Investment Management Co.
Vanguard.

* Basic Document(s): (1) Decommissioning Trust Agreement, dated April 1, 2006, between the Company and Wells Fargo Bank, N.A. as Decommissioning Trustee for Palo Verde Unit 1;
(2) Investment Management Contract with Duff & Phelps Investment Management Co., dated March 19, 1998, amended June 30, 2004.

* Changes Since Prior AFSR: On May 01, 2006, Wells Fargo Bank, N.A. replaced Bank of America, N.A. as Trustee.

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1.1.3 Fund #3:

* Unit for which accumulation occurs: Unit 2

* Tax Status: Established and maintained to qualify as a "Nuclear Decommissioning Reserve Fund" under applicable tax law ("Qualified"). Private Ruling Letter dated September 9, 1996, June 22, 1999, February 8, 2001, February 13, 2003 and April 21, 2005.

* Independent Trustee(s): Wells Fargo Bank, N. A., Trustee

* Investment Manager(s): Duff & Phelps Investment Management Co.

* Basic Document(s): (1) Decommissioning Trust Agreement, dated April 1, 2006, between the Company and Wells Fargo Bank, N.A. as Decommissioning Trustee for Palo Verde Unit 2;
(2) Investment Management Contract with Duff & Phelps Investment Management Co., dated March 19, 1998, amended June 30, 2004.

* Changes Since Prior AFSR: On May 01, 2006, Wells Fargo Bank, N.A. replaced Bank of America, N.A. as Trustee.

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1.1.4 Fund #4:

* Unit for which accumulation occurs: Unit 2

* Tax Status: Established and maintained not to qualify as a "Nuclear Decommissioning Reserve Fund" under applicable tax law ("Non-Qualified").

* Independent Trustee(s): Wells Fargo Bank, N. A., Trustee

* Investment Manager(s): Duff & Phelps Investment Management Co.
Vanguard.

* Basic Document(s): (1) Decommissioning Trust Agreement, dated April 1, 2006, between the Company and Wells Fargo Bank, N.A. as Decommissioning Trustee for Palo Verde Unit 2;
(2) Investment Management Contract with Duff & Phelps Investment Management Co., dated March 19, 1998, amended June 30, 2004.

* Changes Since Prior AFSR: On May 01, 2006, Wells Fargo Bank, N.A. replaced Bank of America, N.A. as Trustee.

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1.1.5 Fund #5:

* Unit for which accumulation occurs: Unit 3

* Tax Status: Established and maintained to qualify as a "Nuclear Decommissioning Reserve Fund" under applicable tax law ("Qualified"). Private Ruling Letter dated September 11, 1996, February 8, 2001 and February 13, 2003.

* Independent Trustee(s): Wells Fargo Bank, N. A., Trustee

* Investment Manager(s): Duff & Phelps Investment Management Co.

* Basic Document(s): (1) Decommissioning Trust Agreement, dated April 1, 2006, between the Company and Wells Fargo Bank, N.A. as Decommissioning Trustee for Palo Verde Unit 3;
(2) Investment Management Contract with Duff & Phelps Investment Management Co., dated March 19, 1998, amended June 30, 2004.

* Changes Since Prior AFSR: On May 01, 2006, Wells Fargo Bank, N.A. replaced Bank of America, N.A. as Trustee.

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1.1.6 Fund #6:

* Unit for which accumulation occurs: Unit 3

* Tax Status: Established and maintained not to qualify as a "Nuclear Decommissioning Reserve Fund" under applicable tax law ("Non-Qualified").

* Independent Trustee(s): Wells Fargo Bank, N. A., Trustee

* Investment Manager(s): Duff & Phelps Investment Management Co.
Vanguard.

* Basic Document(s): (1) Decommissioning Trust Agreement, dated April 1, 2006, between the Company and Wells Fargo Bank, N.A. as Decommissioning Trustee for Palo Verde Unit 3;
(2) Investment Management Contract with Duff & Phelps Investment Management Co., dated March 19, 1998, amended June 30, 2004.

* Changes Since Prior AFSR: On May 01, 2006, Wells Fargo Bank, N.A. replaced Bank of America, N.A. as Trustee.

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1.2 Pro Rata Share:

* Generation Entitlement Share	15.8%
* Section 23.5.1 Obligations	0.0%
* Pro Rata Share	15.8%

1.3 Sale and Leaseback Transactions:

The Company has no Palo Verde sale and leaseback transactions in effect.

1.4 Summary of Regulatory Requirements Respecting Electric Rates and Termination Funding:

*** Citations of applicable laws:**

The Company is regulated by the Federal Energy Regulatory Commission (the "FERC"), the Public Utility Commission of Texas (the "Texas Commission") and the New Mexico Public Regulation Commission (the "New Mexico Commission"). The three commissions have issued the following orders and rules related to decommissioning funding, investment criteria, and/or fund operations:

<u>FERC:</u>	<u>Texas:</u>	<u>New Mexico:</u>
Order No. ER86-368	Order Docket No. 7460	Order Case No. 1833
Order No. ER86-638	Order Docket No. 8363	Order Case No. 2092
Order No. ER86-709	Order Docket No. 9165	Order Case No. 2162
Order No. ER88-246	Order Docket No. 9945	Order Case No. 2279
	Order Docket No. 12700	Order Case No. 2722
	Substantive Rules 25.231 & 25.301	Order Case No. 03-00302-UT

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*** Summary explanation of ratemaking process:**

In the Texas jurisdiction, the ratemaking process as it relates to decommissioning is established in Substantive Rule 25.231 (b)(1)(F), "The level of the annual cost of decommissioning for ratemaking purposes will be determined in each rate case based on an allowance for contingencies of 10 percent of the cost of decommissioning, the most current information reasonably available regarding the cost of decommissioning, the balance of funds in the decommissioning trust, the anticipated escalation rate, the anticipated return on the funds in the decommissioning trust, and other relevant factors. The annual amount for the cost of decommissioning determined pursuant to the preceding sentence shall be expressly included in the cost of service established by the Commission's order." In the New Mexico and FERC jurisdictions, the ratemaking process relies on a similar procedure, but no guidelines have been formalized in substantive rules.

*** Explanation of Mandatory Deposit determination:**

In the Texas jurisdiction, Mandatory Deposits are determined by calculating an inflation adjusted payment stream designed to earn sufficient income to accumulate, over the license term or lease term, the estimated future amount of decommissioning expenditures. Current deposits are authorized by the Texas Commission in the Final Order of Docket No. 12700. The New Mexico jurisdiction employs a straight line methodology to determine the annual decommissioning collections. Current collections are authorized in the Final Order of Case No. 03-00302 UT. Previous collections in the FERC jurisdiction were established by the Settlement Agreements of the Company's cost of service requests in various dockets.

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1.5 Statement of Investment Policies and Restrictions:

The Company oversees the investment of decommissioning fund assets in a prudent manner in accordance with the criteria established in Section 5.3 and 5.4 of the Termination Funding Manual, as well as with the criteria established by the following:

1.5.1 Nuclear Regulatory Commission Regulatory Guide 1.159 Section 2.2.4:

Any trust investments complying with IRS Code Section 468A or with approval of or guidance from a utility's state PUC, or other state agency, or from FERC would be acceptable to the NRC staff. Licensees not eligible or willing to use decommissioning trusts established under IRS Code Section 468A or not subject to PUC or FERC jurisdiction should limit trust investments to "investment grade" securities. Investment grade bonds and preferred stocks are those rated at least "BBB" or equivalent by a national rating service. Speculative issues of common stock should be avoided.

1.5.2 New Mexico Commission Case No. 2722, Stipulation and Settlement Agreement Section 14:

With respect to investment limitations, the decommissioning funds' investment manager must exercise the standard of care, whether in investing or otherwise, that a prudent investor would use in the same circumstances. The term "prudent investor" means a prudent investor as described in Restatement (Third) of Trusts, Section 227 (1992).

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1.5.3 Texas Commission Substantive Rule 25.301 (c) (3) (A)-(C) (effective as of December 10, 1997):

A. Fixed-income investments.

A decommissioning trust shall not invest trust funds in corporate or municipal debt securities that have a bond rating below investment grade (below "BBB-" by Standard and Poor's Corporation or "Baa3" by Moody's Investor's Service) at the time that the securities are purchased and shall reexamine the appropriateness of continuing to hold a particular debt security if the debt rating of the company in question falls below investment grade at some time after the debt security has been purchased. Commingled funds may contain some below investment grade bonds; however, the overall portfolio of debt instruments shall have a quality level, measured quarterly, not below a "AA" grade by Standard and Poor's Corporation or "Aa2" by Moody's Investor's Service. In calculating the quality of the overall portfolio, debt securities issued by the Federal government shall be considered as having a "AAA" rating.

B. Equity investments.

(i)

At least 70% of the aggregate market value of the equity portfolio, including the individual securities in commingled funds, shall have a quality ranking from a major rating service such as the earnings and dividend ranking for common stock by Standard and Poor's Corporation or the quality rating of Ford Investor Services. Further, the overall portfolio of ranked equities shall have a weighted average quality rating equivalent to the composite rating of the Standard and Poor's Corporation 500 Index assuming equal weighting of each ranked security in the Index. If the quality rating, measured quarterly, falls below the minimum quality standard, the utility shall as soon as practicable and prudent to do so, increase the quality level of the equity portfolio to the required level.

(ii)

A decommissioning trust shall not invest in equity securities where the issuer has a capitalization of less than \$100 million.

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- C. Commingled funds.
The following guidelines shall apply to the investments made through commingled funds. Examples of commingled funds appropriate for investment by nuclear decommissioning trust funds include United States equity-indexed funds, actively managed United States equity funds, balanced funds, bond funds, real estate investment trusts, and international funds.
- (i) The commingled funds should be selected consistent with the goals specified in paragraph (1) and the requirements in paragraph (2) of this subsection.
 - (ii) In evaluating the appropriateness of a particular commingled fund, the utility has the following duties, which shall be of a continuing nature:
 - I. A duty to determine whether the fund manager's fee schedule for managing the fund is reasonable, when compared to fee schedules of other such managers;
 - II. A duty to investigate and determine whether the past performance of the investment manager in managing the commingled fund has been reasonable relative to prudent investment and utility decommissioning trust practices and standards; and
 - III. A duty to investigate the reasonableness of the net after-tax return and risk of the fund relative to similar funds, and the appropriateness of the fund within the entire decommissioning trust investment portfolio.
 - (iii) The payment of load fees shall be avoided.
 - (iv) Commingled funds focused on specific market sectors or concentrated in a few holdings shall be used only as necessary to balance the trust's overall investment portfolio mix.

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1.5.4 Trust Agreements:

1. Each of the three trust agreements requires that any Decommissioning Trustee or Fiduciary Investment Manager shall comply with the following:
 - A. it shall add all income, including interest, earned on the corpus of each Fund to such corpus as a part thereof, and shall owe the same duties with regard to such income as it owes with regard to such corpus;
 - B. it shall have a continuing duty to review the assets of each Fund to determine the appropriateness of the investments consistent with all terms, provisions and limitations of the Decommissioning Trust Agreement, including without limitation to ensure compliance with the provisions of the investment guidelines of Section 7, and any order of a state or regulatory agency limiting investments that the Company has delivered and certified to Decommissioning Trustee as provided in the Decommissioning Trust Agreement, and any other applicable governing regulations;
 - C. it shall not lend all or any part of either Fund to itself or to any of its officers or directors or permit any act of "self-dealing" prohibited by Applicable Tax Law;
 - D. it shall not invest or reinvest amounts in either Fund with, or in any instrument or security issued by, itself or any of its officers, directors, except that, if the Company directs it to do so in writing, it may invest or reinvest amounts in the Funds in time deposits, demand deposits or money market accounts of Decommissioning Trustee, and except that, if the Company directs it to do so in writing, it may invest amounts in the Funds in mutual funds that contain securities issued by Decommissioning Trustee provided such securities constitute no more than five percent of the fair market value of the assets of such mutual funds at the time of the investment; and

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- E. it shall not invest or reinvest amounts in either Fund with, or in any instrument or security issued by the Company, its subsidiaries or affiliates, or their successors or assigns, except that, if the Company approves so in writing, it may invest or reinvest amounts in the Funds in mutual funds that contain securities issued by the Company provided such securities constitute no more than five percent of the fair market value of the assets of such mutual funds at the time of the investment.

- 2. Each of the three trust agreements requires that any Decommissioning Trustee or Fiduciary Investment Manager shall comply with the following provisions:
 - A. The Funds should be invested with a goal of earning a reasonable return commensurate with the need to preserve the value of the assets of the Funds;

 - B. A decommissioning trust shall not invest trust funds in corporate or municipal debt securities that have a bond rating below investment grade ("BBB-" by Standard & Poor's Corporation or "Baa3" by Moody's Investor's Service) at the time that the securities are purchased. If the debt rating of a company or municipality issuing the particular debt security falls below investment grade at sometime after the security was purchased, the appropriateness of continuing to hold such security shall be reexamined. The overall portfolio of debt instruments shall have a quality level, measured quarterly, not below a "AA" grade by Standard & Poor's Corporation or "Aa2" by Moody's Investor's Service. In calculating the quality of the overall portfolio, debt securities issued by the Federal Government shall be considered as having a "AAA" rating;

 - C. At least 70% of the aggregate market value of the equity assets of the Funds, including the individual securities in commingled funds, shall have a quality ranking from a major rating service such as the earnings and dividend ranking for common stock by Standard & Poor's Corporation or the quality rating of Ford Investor Services. Further, the overall portfolio of ranked equities shall have a weighted average quality rating equivalent to the composite rating of the Standard and Poor's Corporation 500 Index assuming equal weighting of each ranked security in the Index. If the quality rating, measured quarterly, falls below the minimum quality standard, the quality level of the equity assets of the Funds shall be increased to the required level as soon as is practicable and prudent. The assets of the Funds shall not be invested in equity securities if the issuer has a capitalization of less than \$100 million;

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- D. A decommissioning trust shall not invest in securities issued by the electric utility collecting the funds or any of its affiliates; *provided, however, that investments of a decommissioning trust may include mutual funds that contain securities issued by the electric utility if the securities of the utility constitute no more than five percent of the fair market value of the assets of such mutual funds at the time of the investment;*

- E. In keeping with prudent investment practices, the portfolio of securities held in the decommissioning trust shall be diversified to the extent reasonably feasible given the size of the trust. No more than 60% of the trust's fair market value shall be invested in equity securities; municipal securities and real estate investments shall be diversified as to geographic region. Where a utility has multiple trusts for a single generating unit, the restrictions contained in this subsection apply to *all trusts in the aggregate for that generating unit. The portfolio of securities held in the decommissioning trust(s) that contain securities with an aggregate value in excess of \$20 million shall be diversified in accordance with the following additional restrictions: no more than five percent of the securities held may be issued by one entity, with the exception of the Federal government, its agencies and instrumentalities; and there shall be at least 20 different issues of securities in the portfolio.*

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Part 2. Summary of Status of Termination Funds at End of the Reporting Period

2.1 Committed Accumulations at End of Reporting Period:

	<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>
2.1.1 Latest Estimated Termination Costs (In Thousands) (2004) TLG)	\$ 656,910	\$ 699,750	\$ 768,047	\$ 2,124,707
2.1.2 Generation Entitlement Share of Estimated Termination Costs (In Thousands)	103,792	110,561	121,351	335,704
2.1.3 Cumulative Escalation Adjustment Factor	1.108651	1.108651	1.108651	1.108651
2.1.4 Adjusted Share of Estimated Termination Costs as of End of Reporting Period (In Thousands) (2.1.2) x (2.1.3)	115,069	122,573	134,536	372,178
2.1.5 Percent Funding Requirement at End of Reporting Period from Percent Funded Curve	<u>35.72%</u>	<u>34.41%</u>	<u>29.84%</u>	<u>33.16%</u>
2.1.6 Committed Accumulations at End of Reporting Period (In Thousands) (2.1.4) x (2.1.5)	<u>\$ 41,103</u>	<u>\$ 42,177</u>	<u>\$ 40,146</u>	<u>\$ 123,426</u>
2.1.7 Summary of Model Assumptions:				
Assumed Rate of Earnings		7.3310%		
Assumed Rate of Cost Escalation		5.2925%		
Assumed Rate of Inflation		3.9031%		
Treatment of Water Reclamation Facility		Included		
Contingency Factor		25.0000%		

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2.2 Actual Accumulations at End of the Reporting Period (In Thousands):

(Calculated pursuant to Section 5.5 of Termination Funding Manual)

<u>Fund</u>	<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>
#1	\$ 32,587			\$ 32,587
#2	5,797			5,797
#3		\$ 30,411		30,411
#4		8,584		8,584
#5			\$ 23,510	23,510
#6			11,567	11,567
Total	\$ 38,384	\$ 38,995	\$ 35,077	\$ 112,456

<u>Calculations:</u>	<u>Fund #1</u>	<u>Fund #2</u>	<u>Fund #3</u>	<u>Fund #4</u>	<u>Fund #5</u>	<u>Fund #6</u>
Sum of (A):						
(i) Cash	\$ 276,208	\$ 853,332	\$ 263,552	\$ 1,473,549	\$ 182,896	\$ 2,336,444
(ii) Surrender Value	0	0	0	0	0	0
(iii) Fair Market Value	32,975,853	5,003,070	30,810,367	7,205,805	23,887,543	9,364,379
(iv) Accrued Interest	159,447	47,739	126,537	80,105	76,522	115,330
	<u>\$ 33,411,508</u>	<u>\$ 5,904,141</u>	<u>\$ 31,200,456</u>	<u>\$ 8,759,459</u>	<u>\$ 24,146,961</u>	<u>\$ 11,816,153</u>
Less sum of (B):						
(i) Current tax	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
(ii) Accrued tax on income (1)	33,000	0	35,000	0	32,000	0
(iii) Taxes associated unrealized gains	786,421	0	750,279	0	600,944	0
(iv) Accrued expenses	4,717	107,142	4,677	175,205	4,277	248,629
	<u>\$ 824,138</u>	<u>\$ 107,142</u>	<u>\$ 789,956</u>	<u>\$ 175,205</u>	<u>\$ 637,221</u>	<u>\$ 248,629</u>
Value	<u>\$ 32,587,370</u>	<u>\$ 5,796,999</u>	<u>\$ 30,410,500</u>	<u>\$ 8,584,254</u>	<u>\$ 23,509,740</u>	<u>\$ 11,567,524</u>
Value (In Thousands)	<u>\$ 32,587</u>	<u>\$ 5,797</u>	<u>\$ 30,411</u>	<u>\$ 8,584</u>	<u>\$ 23,510</u>	<u>\$ 11,567</u>

(1) For non-qualified funds, the trust income is taxable to the grantor, El Paso Electric. No taxes are paid from these funds.

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2.3 Funded Floor Amount at End of Reporting Period:

	<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>
2.3.1 Percentage of Committed Accumulations	29.29%	27.87%	23.87%	26.86%
2.3.2 Funded Floor Amount (In Thousands) (2.1.4 x 2.3.1)	\$ 33,704	\$ 34,161	\$ 32,114	\$ 99,979

2.4 Deposits Made During Reporting Period (All Termination Funds):

	<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>
NRC Required Deposits	\$ -	\$ -	\$ -	\$ -
Normal Annual Deposits	2,321,329	2,070,670	2,293,851	6,685,850
Recovery Deposits	-	-	-	-
Correcting Deposits	-	-	-	-
Total	\$ 2,321,329	\$ 2,070,670	\$ 2,293,851	\$ 6,685,850

2.5 Mandatory Deposits During Reporting Period:

	<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>
Texas	\$ 1,589,695	\$ 1,407,969	\$ 1,665,867	\$ 4,663,531
New Mexico	761,186	836,527	-	1,597,713
FERC	-	-	-	-
Total	\$ 2,350,881	\$ 2,244,496	\$ 1,665,867	\$ 6,261,244

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2.6 Estimated Outstanding Balance of Recovery Deposits and Correction Deposits:

None

2.7 Annual Net Income During Reporting Period (Each Funds; All Units):

Fund	Amount	Rate	(Based upon average ending fund balances)			
# 1	\$ 3,450,724	11.32%				
# 2	688,759	12.59%				
# 3	3,176,220	11.16%				
# 4	975,577	11.92%				
# 5	2,428,686	11.00%				
# 6	1,200,246	11.26%				
Total	\$ 11,920,213	11.31%				

	Fund #1	Fund #2	Fund #3	Fund #4	Fund #5	Fund #6
Calculations:						
Sum of (A):						
(i) realized income	\$ 734,247	\$ 218,052	\$ 689,484	\$ 295,542	\$ 577,621	\$ 450,915
(ii) unrealized income	2,986,940	492,477	2,754,790	706,185	2,075,618	781,046
Less sum of (B):						
(i) taxes paid & accrued expenses paid &	174,000	-	174,000	-	145,000	-
(ii) accrued	96,463	21,770	94,054	26,150	79,553	31,715
	\$ 3,450,724	\$ 688,759	\$ 3,176,220	\$ 975,577	\$ 2,428,686	\$ 1,200,246

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2.8 Summary of Market Values of Permitted Investments at End of the Reporting Period:

<u>Category</u>	<u>Fund #1</u>	<u>Fund #2</u>	<u>Fund #3</u>	<u>Fund #4</u>	<u>Fund #5</u>	<u>Fund #6</u>
Cash and Cash Equivalents	\$ 435,655	\$ 796,532	\$ 390,089	\$ 1,381,164	\$ 259,418	\$ 2,206,107
Acceptable Debt Securities	11,107,790	3,164,601	8,624,073	5,337,165	4,209,537	7,695,375
Acceptable Equity Securities	21,868,063	1,838,469	22,186,294	1,868,640	19,678,006	1,669,004
Acceptable Life Insurance	-	-	-	-	-	-
Acceptable Property Interests	-	-	-	-	-	-
Total	<u>\$ 33,411,508</u>	<u>\$ 5,799,602</u>	<u>\$ 31,200,456</u>	<u>\$ 8,586,969</u>	<u>\$ 24,146,961</u>	<u>\$ 11,570,486</u>

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2.9 Inventory and Values of Permitted Investments at End of the Reporting Period:

See Exhibit 1. [Not Attached]

2.10 Fund Liabilities at End of the Reporting Period:

Other than accrued administrative expenses and potential taxes on unrealized gains, no liabilities exist against the Funds.

2.11 Defaults, If any, Experienced on Investments:

None

2.12 Summary of Investment Ratings:

See Exhibit 1 for current rating on each municipal bond held.

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Part 3.

Tables and Curves

3.1

Table of Estimated Deposits, Income And Committed Accumulations to End of Funding Period for Each Unit:

(Curves presented are those most recently approved by the Termination Funding Committee)

3.1.1

Table For Unit 1 (In Thousands)

Year	Estimated Deposits	Estimated Income	Estimated Accumulation	Estimated Costs	Percent Funded	Funding Floor
1991			3,065.044	43,696.922	7.01%	5.61%
1992	1,274.596	266.134	4,605.774	72,015.436	6.40%	5.12%
1993	1,284.594	327.887	6,135.622	73,556.865	8.34%	6.67%
1994	1,335.472	499.183	7,970.276	77,449.852	10.29%	8.23%
1995	1,388.364	638.884	9,997.525	81,548.874	12.26%	9.81%
1996	1,443.352	793.156	12,234.033	85,864.837	14.25%	11.40%
1997	1,500.517	963.255	14,697.806	90,409.222	16.26%	13.01%
1998	1,559.947	1,150.542	17,408.294	95,194.117	18.29%	14.63%
1999	1,621.730	1,356.483	20,386.507	100,232.252	20.34%	16.27%
2000	1,685.960	1,582.665	23,655.133	105,537.030	22.41%	17.93%
2001	1,752.734	1,830.800	27,238.667	111,122.563	24.51%	19.61%
2002	1,822.153	2,102.737	31,163.557	117,003.709	26.63%	21.31%
2003	1,971.475	2,402.600	35,537.632	123,196.114	28.85%	23.08%
2004	2,049.557	2,734.343	40,321.532	129,716.251	31.08%	24.87%
2005	2,130.732	3,097.052	45,549.315	136,581.465	33.35%	27.01%
2006	2,321.329	3,496.227	51,366.871	143,810.020	35.72%	29.29%
2007	2,413.268	3,937.120	57,717.259	151,421.146	38.12%	31.64%
2008	2,508.848	4,418.261	64,644.367	159,435.089	40.55%	34.06%
2009	2,758.042	4,947.099	72,349.508	167,873.168	43.10%	36.63%
2010	2,867.277	5,530.699	80,747.484	176,757.832	45.68%	39.29%

EL PASO ELECTRIC COMPANY
Annual Funding Status Report
For the Year Ended December 31, 2006

3.1.1

Table For Unit 1 (In Thousands) - continued:

<u>Year</u>	<u>Estimated Deposits</u>	<u>Estimated Income</u>	<u>Estimated Accumulation</u>	<u>Estimated Costs</u>	<u>Percent Funded</u>	<u>Funding Floor</u>
2011	2,980.838	6,166.623	89,894.946	186,112.716	48.30%	42.02%
2012	3,317.760	6,865.187	100,077.893	195,962.705	51.07%	44.94%
2013	3,449.163	7,636.102	111,163.158	206,334.004	53.88%	47.95%
2014	3,585.771	8,475.150	123,224.079	217,254.202	56.72%	51.05%
2015	4,065.222	9,397.178	136,686.478	228,752.350	59.75%	54.38%
2016	4,226.229	10,416.018	151,328.725	240,859.036	62.83%	57.80%
2017	4,393.613	11,523.935	167,246.272	253,606.467	65.95%	61.33%
2018	5,138.776	12,743.895	185,128.943	267,028.554	69.33%	65.17%
2019	5,342.302	14,096.977	204,568.222	281,161.003	72.76%	69.12%
2020	5,553.889	15,567.572	225,689.683	296,041.410	76.24%	73.19%
2021	6,957.220	17,197.815	249,844.719	311,709.360	80.15%	77.75%
2022	7,232.768	19,025.510	276,102.996	328,206.534	84.12%	82.44%
2023	7,519.229	21,011.985	304,634.210	345,576.819	88.15%	87.27%
2024	7,817.036	23,106.171	334,709.788	362,973.935	92.21%	92.21%
2025		25,087.342	358,030.257	380,323.895	94.14%	94.14%
2026		25,233.305	360,113.346	376,077.046	95.76%	95.76%
2027		21,501.537	306,855.984	317,265.368	96.72%	96.72%
2028		17,190.449	245,330.930	251,175.083	97.67%	97.67%
2029		12,240.609	174,690.029	177,200.486	98.58%	98.58%
2030		6,587.274	94,009.301	94,692.148	99.28%	99.28%
2031		2,415.824	34,477.067	34,477.067	100.00%	100.00%

EL PASO ELECTRIC COMPANY
Annual Funding Status Report
For the Year Ended December 31, 2006

3.1.2

Table For Unit 2 (In Thousands)

Year	Estimated Deposits	Estimated Income	Estimated Accumulation	Estimated Costs	Percent Funded	Funding Floor
1991			3,619.007	43,321.662	8.35%	6.68%
1992	1,148.211	304.386	5,071.604	70,884.836	7.15%	5.72%
1993	1,156.671	403.387	6,489.839	72,375.311	8.97%	7.17%
1994	1,202.482	522.202	8,214.523	76,205.765	10.78%	8.62%
1995	1,250.107	653.472	10,118.102	80,238.944	12.61%	10.09%
1996	1,299.619	798.274	12,215.996	84,485.579	14.46%	11.57%
1997	1,351.092	957.772	14,524.859	88,956.966	16.33%	13.06%
1998	1,404.603	1,133.222	17,062.684	93,665.001	18.22%	14.57%
1999	1,460.234	1,325.984	19,848.902	98,622.208	20.13%	16.10%
2000	1,518.068	1,537.522	22,904.492	103,841.775	22.06%	17.65%
2001	1,578.192	1,769.421	26,252.106	109,337.586	24.01%	19.21%
2002	1,640.698	2,023.390	29,916.194	115,124.263	25.99%	20.79%
2003	1,767.574	2,302.983	33,986.751	121,217.198	28.04%	22.43%
2004	1,837.581	2,611.632	38,435.964	127,632.602	30.11%	24.09%
2005	1,910.360	2,948.891	43,295.215	134,387.539	32.22%	25.77%
2006	2,070.670	3,319.462	48,685.347	141,499.981	34.41%	27.87%
2007	2,152.681	3,727.873	54,565.901	148,988.848	36.62%	30.03%
2008	2,237.940	4,173.328	60,977.170	156,874.061	38.87%	32.26%
2009	2,444.911	4,662.132	68,084.212	165,176.599	41.22%	34.62%
2010	2,541.744	5,200.322	75,826.278	173,918.548	43.60%	37.06%
2011	2,642.412	5,786.468	84,255.157	183,123.162	46.01%	39.57%
2012	2,917.665	6,429.184	93,602.006	192,814.930	48.54%	42.23%
2013	3,033.222	7,136.661	103,771.890	203,019.633	51.11%	44.98%
2014	3,153.356	7,906.280	114,831.526	213,764.419	53.72%	47.81%

EL PASO ELECTRIC COMPANY
Annual Funding Status Report
For the Year Ended December 31, 2006

3.1.2

Table For Unit 2 (In Thousands) - continued:

Year	Estimated Deposits	Estimated Income	Estimated Accumulation	Estimated Costs	Percent Funded	Funding Floor
2015	3,535.811	8,750.184	127,117.521	225,077.871	56.48%	50.83%
2016	3,675.850	9,679.802	140,473.173	236,990.086	59.27%	53.94%
2017	3,821.436	10,690.173	154,984.782	249,532.753	62.11%	57.14%
2018	4,392.538	11,799.390	171,176.710	262,739.239	65.15%	60.59%
2019	4,566.509	13,024.259	188,767.478	276,644.676	68.23%	64.14%
2020	4,747.370	14,354.720	207,869.568	291,286.057	71.36%	67.79%
2021	5,730.719	15,821.210	229,421.497	306,702.331	74.80%	71.81%
2022	5,957.690	17,451.419	252,830.607	322,934.509	78.29%	75.94%
2023	6,193.650	19,221.815	278,246.072	340,025.772	81.83%	80.19%
2024	8,791.549	21,208.585	308,246.207	358,021.589	86.10%	85.24%
2025	9,139.748	23,478.715	340,864.670	376,969.831	90.42%	90.42%
2026		25,671.399	366,365.540	396,741.353	92.34%	92.34%
2027		27,381.115	390,765.507	414,599.909	94.25%	94.25%
2028		27,376.844	390,704.542	407,652.600	95.84%	95.84%
2029		23,348.142	333,209.534	344,105.794	96.83%	96.83%
2030		18,467.306	263,553.410	269,530.194	97.78%	97.78%
2031		12,867.270	183,633.329	186,096.933	98.68%	98.68%
2032		6,475.243	92,410.462	93,077.319	99.28%	99.28%
2033		2,359.251	33,669.696	33,669.696	100.00%	100.00%

EL PASO ELECTRIC COMPANY
Annual Funding Status Report
For the Year Ended December 31, 2006

3.1.3

Table for Unit 3 (In Thousands):

<u>Year</u>	<u>Estimated Deposits</u>	<u>Estimated Income</u>	<u>Estimated Accumulation</u>	<u>Estimated Costs</u>	<u>Percent Funded</u>	<u>Funding Floor</u>
1991			652.302	46,068.418	1.42%	1.13%
1992	1,282.171	84.542	2,019.015	74,741.789	2.70%	2.16%
1993	1,294.243	183.753	3,442.544	76,440.553	4.50%	3.60%
1994	1,345.503	296.535	5,084.582	80,486.159	6.32%	5.05%
1995	1,398.793	421.734	6,905.110	84,745.877	8.15%	6.52%
1996	1,454.194	560.441	8,919.745	89,231.041	10.00%	8.00%
1997	1,511.789	713.834	11,145.367	93,953.581	11.86%	9.49%
1998	1,571.665	883.188	13,600.220	98,926.061	13.75%	11.00%
1999	1,633.912	1,069.880	16,304.012	104,161.709	15.65%	12.52%
2000	1,698.625	1,275.398	19,278.034	109,674.453	17.58%	14.06%
2001	1,765.900	1,501.348	22,545.282	115,478.958	19.52%	15.62%
2002	1,835.841	1,749.467	26,130.589	121,590.666	21.49%	17.19%
2003	1,968.776	2,023.290	30,122.655	128,025.835	23.53%	18.82%
2004	2,046.751	2,326.245	34,495.652	134,801.584	25.59%	20.47%
2005	2,127.815	2,657.989	39,281.456	141,935.939	27.68%	22.14%
2006	2,293.851	3,023.184	44,598.491	149,447.879	29.84%	23.87%
2007	2,384.702	3,426.332	50,409.524	157,357.387	32.04%	25.63%
2008	2,479.150	3,866.802	56,755.476	165,685.505	34.25%	27.75%
2009	2,690.503	4,350.805	63,796.785	174,454.387	36.57%	29.99%
2010	2,797.064	4,884.311	71,478.159	183,687.361	38.91%	32.30%
2011	2,907.844	5,466.162	79,852.165	193,408.989	41.29%	34.68%
2012	3,183.853	6,104.764	89,140.783	203,645.132	43.77%	37.21%
2013	3,309.953	6,808.145	99,258.881	214,423.023	46.29%	39.81%
2014	3,441.047	7,574.165	110,274.093	225,771.331	48.84%	42.49%

EL PASO ELECTRIC COMPANY
Annual Funding Status Report
For the Year Ended December 31, 2006

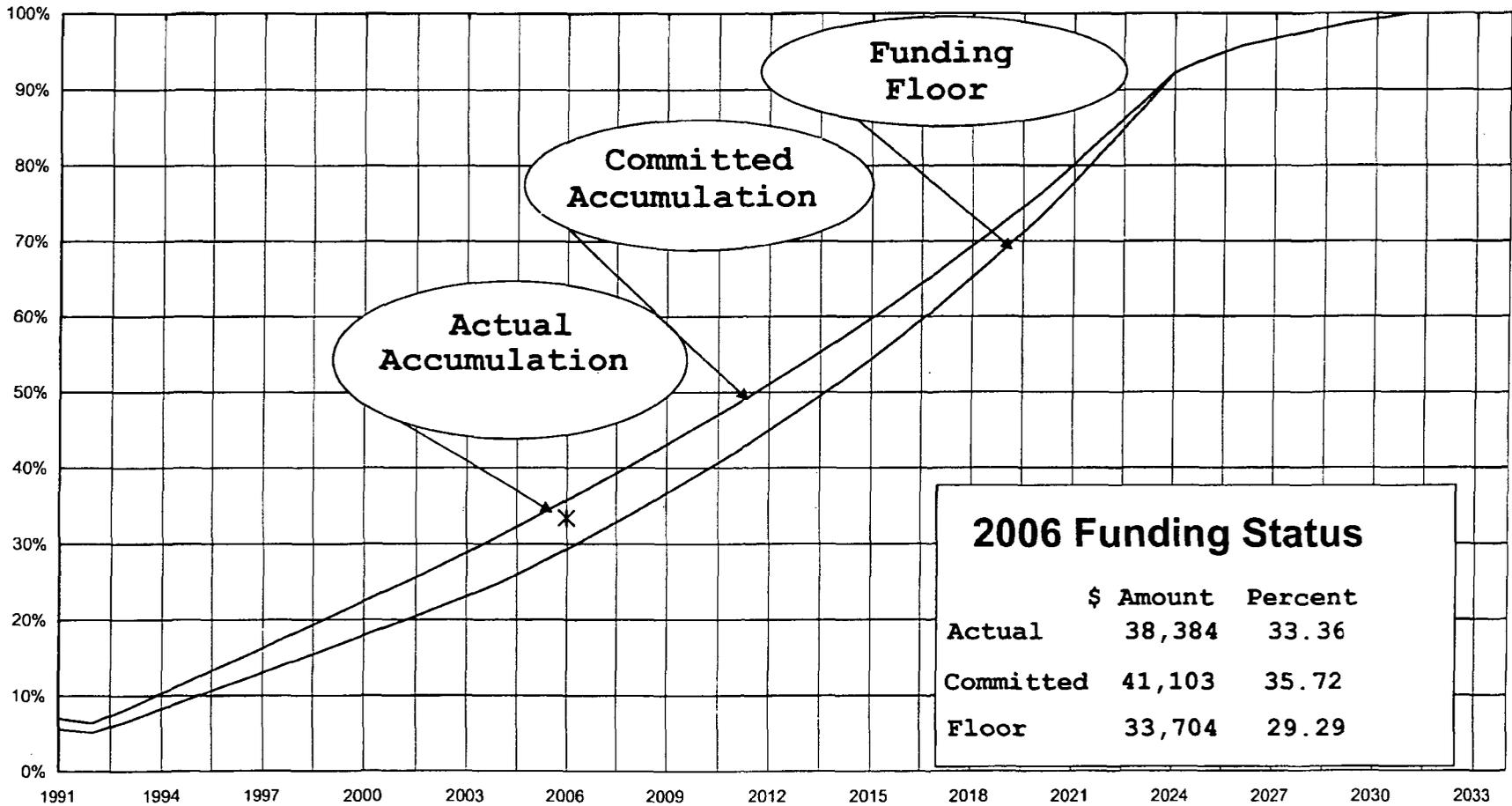
3.1.3

Table for Unit 3 (In Thousands) - continued:

Year	Estimated Deposits	Estimated Income	Estimated Accumulation	Estimated Costs	Percent Funded	Funding Floor
2015	3,814.940	8,414.484	122,503.517	237,720.247	51.53%	45.35%
2016	3,966.035	9,340.145	135,809.697	250,301.558	54.26%	48.29%
2017	4,123.113	10,347.106	150,279.916	263,548.733	57.02%	51.32%
2018	4,659.502	11,452.246	166,391.665	277,497.013	59.96%	54.57%
2019	4,844.046	12,671.365	183,907.075	292,183.503	62.94%	57.91%
2020	5,035.900	13,996.451	202,939.426	307,647.274	65.96%	61.35%
2021	5,889.479	15,454.105	224,283.010	323,929.463	69.24%	65.08%
2022	6,122.738	17,068.788	247,474.536	341,073.385	72.56%	68.93%
2023	6,365.235	18,822.970	272,662.741	359,124.646	75.92%	72.89%
2024	8,106.273	20,768.965	301,537.978	378,131.267	79.74%	77.35%
2025	8,427.330	22,953.584	332,918.891	398,143.812	83.62%	81.95%
2026	8,761.103	25,327.357	367,007.351	419,215.517	87.55%	86.67%
2027	2,243.965	27,779.761	397,031.077	441,402.440	89.95%	89.95%
2028		29,734.433	424,350.531	462,220.811	91.81%	91.81%
2029		31,725.894	452,771.373	483,203.810	93.70%	93.70%
2030		32,272.786	460,576.256	483,014.441	95.35%	95.35%
2031		28,835.010	411,514.545	426,558.518	96.47%	96.47%
2032		23,533.147	335,849.805	344,686.147	97.44%	97.44%
2033		17,436.197	248,838.081	252,952.800	98.37%	98.37%
2034		10,463.311	149,325.578	150,544.024	99.19%	99.19%
2035		4,310.701	61,519.522	61,519.522	100.00%	100.00%

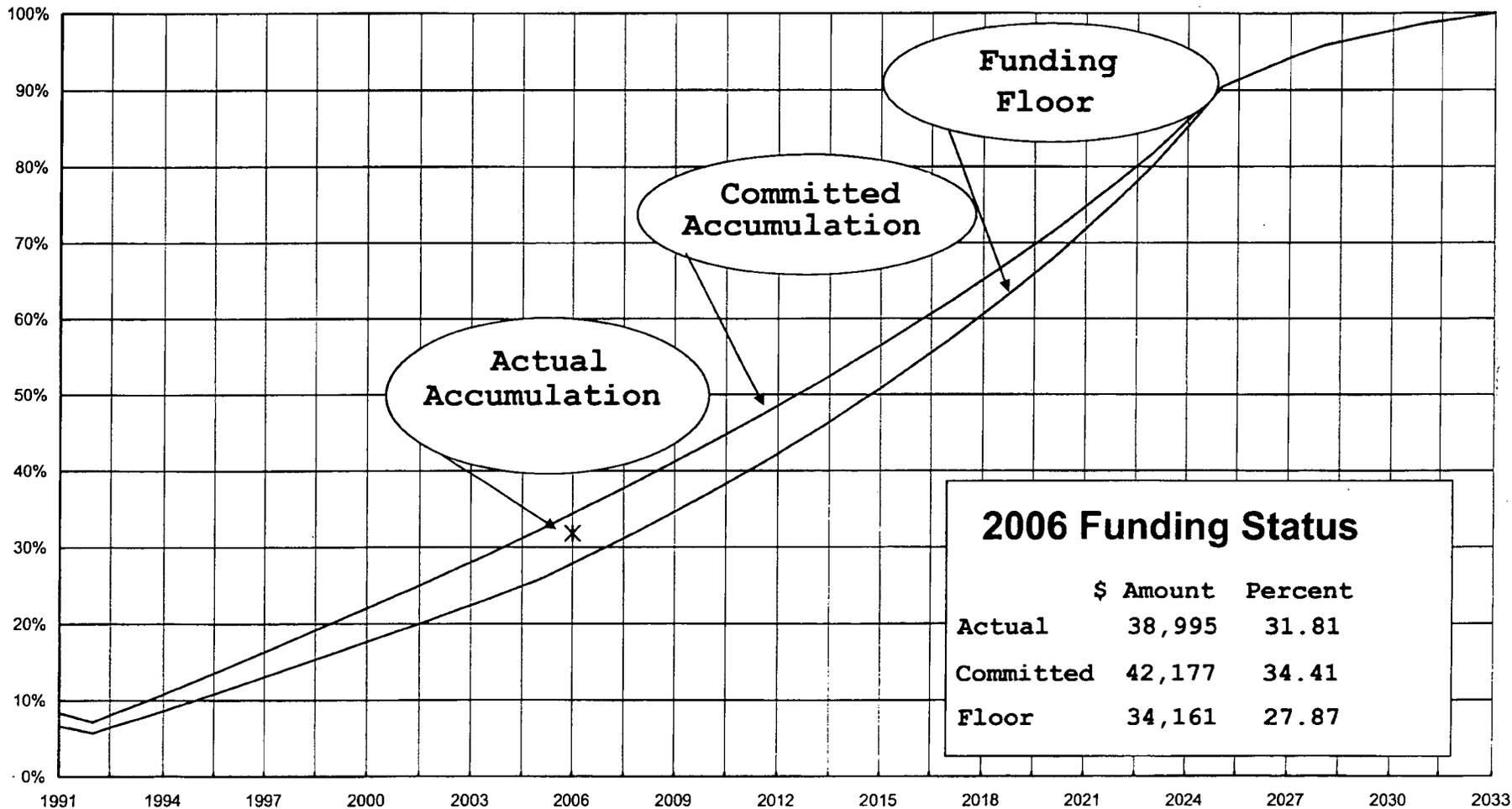
EL PASO ELECTRIC COMPANY
Annual Funding Status Report
For the Year Ended December 31, 2006

3.2.1 Unit 1 Curve:



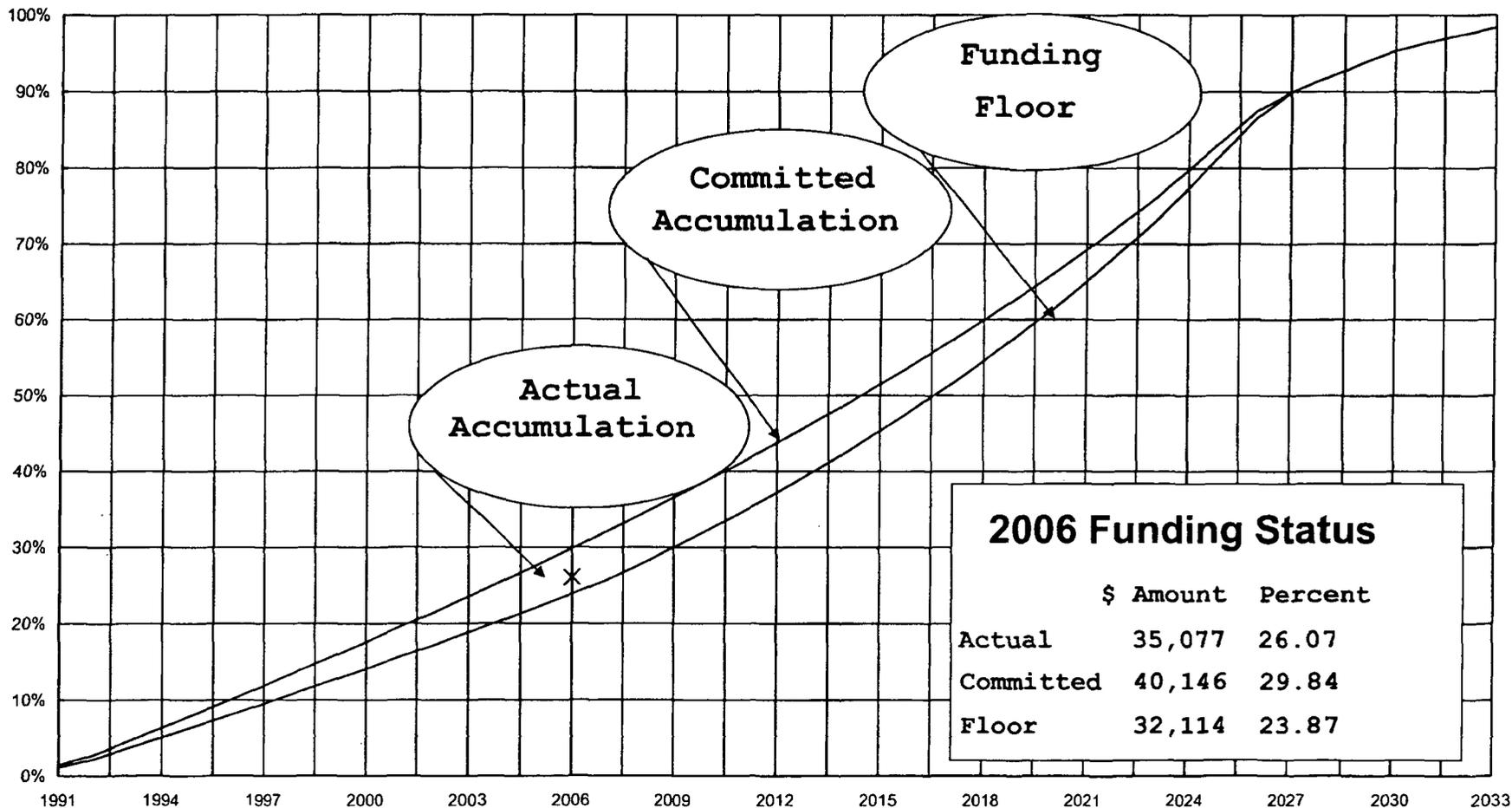
EL PASO ELECTRIC COMPANY
Annual Funding Status Report
For the Year Ended December 31, 2006

3.2.2 Unit 2 Curve



EL PASO ELECTRIC COMPANY
Annual Funding Status Report
For the Year Ended December 31, 2006

3.2.3 Unit 3 Curve



Attachment 4

Annual Funding Status Report for the Year Ending December 2006

Southern California Edison Company

**SOUTHERN CALIFORNIA EDISON
2006 ANNUAL FUNDING STATUS REPORT
FOR THE YEAR ENDED DECEMBER 31, 2006**

**Southern California Edison Company
ANPP Termination Funding Committee
2006 Annual Funding Status Report**

March-07

**PART 1
GENERAL INFORMATION**

1.1 Description of Funds

Units: Palo Verde Units 1, 2 and 3

Tax Status: IRS Qualified Trusts (tax deductible contributions, earnings taxed at rates of 20% Federal, 8.84% California.

Trustee: Mellon Financial

Investment Managers:

STW Fixed Income Management ("STW"), Santa Barbara, CA
PanAgora Asset Management, Boston, MA
BlackRock Financial Management, Inc., New York, NY
Alliance Bernstein (Sanford Bernstein), New York, NY
PIMCO, Newport Beach, CA
State Street Global Advisors (SSgA), Boston, MA

Basic Documents:

Southern California Edison Company Nuclear Facilities Qualified CPUC
Decommissioning Master Trust Agreement For San Onofre and Palo Verde Nuclear
Generating Stations ("Trust Agreement")

Investment Management Agreement Between STW Fixed Income Management and
the Nuclear Facilities Decommissioning Master Trust Committee for the CPUC
Qualified Master Trust

SOUTHERN CALIFORNIA EDISON
2006 ANNUAL FUNDING STATUS REPORT
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Investment Management Agreement Between PanAgora Asset Management and
the Nuclear Facilities Decommissioning Master Trust Committee for the CPUC
Qualified Master Trust

Investment Management Agreement Between BlackRock Financial Management, Inc.
and the Nuclear Facilities Decommissioning Master Trust Committee for the CPUC
Qualified Master Trust

Investment Management Agreement Between Sanford C. Bernstein & Co., Inc. and
the Nuclear Facilities Decommissioning Master Trust Committee for the CPUC
Qualified Master Trust

Investment Management Agreement Between Pacific Investment Management Co (PIMCO)
and the Nuclear Facilities Decommissioning Master Trust Committee for the CPUC
Qualified Master Trust

Investment Management Agreement Between Alliance Capital Management
and the Nuclear Facilities Decommissioning Master Trust Committee for the CPUC
Qualified Master Trust

Investment Management Agreement Between State Street Global Advisors (SSgA)
and the Nuclear Facilities Decommissioning Master Trust Committee for the CPUC
Qualified Master Trust

Changes Since Prior AFSR:

No changes

SOUTHERN CALIFORNIA EDISON
2006 ANNUAL FUNDING STATUS REPORT
FOR THE YEAR ENDED DECEMBER 31, 2006

1.2 Pro Rata Share (each Palo Verde Unit):

Generation Entitlement Share	15.80%
Section 23.5.1 Obligation	0%
Pro Rata Share	15.80%

1.3 Sale and Leaseback Transactions:

None

1.4 Summary of Regulatory Requirements:

The CPUC regulates almost all (over 99%) of Edison's decommissioning rate recovery. In the 1980's, the CPUC conducted an investigation into decommissioning funding mechanisms and determined that external funding was appropriate. In 1987, the CPUC authorized the information necessary for Edison to file for Schedule of Ruling Amounts ("SRA's") with the Internal Revenue Service so that Qualified Trusts could be established and funded.

The CPUC also authorized rate recovery for decommissioning. The IRS approved Edison's SRA's in December 1987, and the Trusts were funded initially on February 2, 1988.

Edison's current rate recovery for the Palo Verde Units was authorized by the CPUC in Decision 03-10-015, October 2, 2003. It is based on the 2001 TLG Study for Palo Verde (using a 35% contingency factor).

The annual contributions are:

	<u>2006</u>
Unit 1	\$ 3,851,159.04
Unit 2	\$ 4,390,209.72
Unit 3	\$ 3,315,294.12
Total	<u>\$ 11,556,662.88</u>

Decommissioning rate recovery is evaluated every three years by the CPUC.

**SOUTHERN CALIFORNIA EDISON
2006 ANNUAL FUNDING STATUS REPORT
FOR THE YEAR ENDED DECEMBER 31, 2006**

2006 amounts reflect a full year of contributions authorized in D. 03-10-015

SOUTHERN CALIFORNIA EDISON
2006 ANNUAL FUNDING STATUS REPORT
FOR THE YEAR ENDED DECEMBER 31, 2006

Beginning in 2007, contributions will be made in accordance with CPUC D. 07-01-003 (January 11, 2007)

The annual contributions will be:

	<u>2007</u>
Unit 1	\$ 5,066,719.80
Unit 2	\$ 5,662,665.00
Unit 3	\$ 3,728,388.96
Total	<u>\$ 14,457,773.76</u>

The Tax Reform Act of 1992 removed the Black Lung investment restrictions for Qualified Trusts. In October 1993, the CPUC authorized (in D.93-10-076) the California utilities to invest up to 30% of decommissioning fund market values in equity securities and up to 100% of the funds in investment-grade fixed income securities. In November 1994, the Commission authorized (in D.94-11-038) investment in equity securities of up to 50% of the trust fund balance of which 40% (of the 50%) could be invested in international equity securities. In July 1995, the Commission (in D. 95-07-055) authorized (1) investment of up to 50% of Qualified Trust assets and up to 60% of Nonqualified Trust assets in equity securities; (2) use of international equities up to a maximum of 20% of Trust assets; (3) use of passive management for at least 50% of equity investments; and (4) investment of up to 100% of trust assets in investment grade fixed income securities. In January 11, 2007, CPUC D. 07-01-003 authorized investment of up to 60% equities in the Qualified Trust.

1.5 Statement of Investment Policies and Restrictions

Under the terms of the Trust Agreement, the Southern California Edison Company Nuclear Facilities Decommissioning Trust Committee entered into investment management agreements with STW, Bankers Trust, PanAgora Asset Management, Sanford C. Bernstein & Co., BlackRock Financial Management, Pacific Investment Management Company, Alliance Capital and State Street Global Advisors. The Committee also established Investment Guidelines for these accounts. The STW investment management agreements are included in Appendix A to the 1991 AFSR. (The revised investment management guidelines, which were adopted at Edison's December 10, 1993 Decommissioning Trust Committee meeting, are included in Appendix A to the 1993 AFSR). Bankers Trust Company's investment management agreement, approved by the CPUC in June, 1994, is located in Appendix A to the 1994 AFSR. The PanAgora investment management agreement is located in Appendix A to the 1995 AFSR. The Sanford Bernstein & Co. and the BlackRock Financial Management agreements and investment guidelines are located in Appendix A to the 1997 AFSR. The PIMCO management agreement and investment guidelines for the Qualified Trust are located in Appendix A of the 2001 report. The Master Trust Agreement for the Qualified Trust as amended and restated November 1, 2002 (hiring Mellon Bank as the new Trustee) was located in Appendix A of the 2002 report. The Alliance Capital and State Street Global Advisors agreements and investment guidelines are located in Appendix A of the 2003 report.

SOUTHERN CALIFORNIA EDISON
2006 ANNUAL FUNDING STATUS REPORT
FOR THE YEAR ENDED DECEMBER 31, 2006

PART 2
SUMMARY OF STATUS OF TERMINATION FUNDS AT END OF THE REPORTING PERIOD

2.1 Committed Accumulations at End of Reporting Period (\$ Thousands):

	<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>
2.1.1 Latest Estimated Termination Costs (2004 TLG Study + ISFSI+Other Facilities)	\$656,910	\$699,750	\$768,047	\$2,124,707
2.1.2 Generation Entitlement Share of Estimated Termination Costs	\$103,792	\$110,561	\$121,351	\$335,704
2.1.3 Escalation Adjustment Factor	1.1496	1.1496	1.1496	1.1496
2.1.4 Adjusted share of Estimated Termination Costs (2.1.2 Amount x (2.1.3%))	\$119,324	\$127,105	\$139,511	\$385,940
2.1.5 Percent Funding Requirement at End of Reporting Period from Percent Funded Curve	107%	107%	116%	110%
2.1.6 Committed Accumulations at end of Reporting Period (2.1.4 amount x (2.1.5%)) Note: 2.1.5% is rounded	\$127,363	\$136,587	\$161,933	\$424,880

SOUTHERN CALIFORNIA EDISON
2006 ANNUAL FUNDING STATUS REPORT
FOR THE YEAR ENDED DECEMBER 31, 2006

2.1.7 Assumptions Used in Developing Committed Accumulations:

Cost Study: 2004 TLG study, see Appendix M

Contingency Factors: 2004 TLG Study

Annual Escalation Assumption: Approximately 7.2% over the funding period.

Rate of Return Assumption: 5.25% per year (after tax)

2.2.1 Actual Accumulations at End of Reporting Period (in \$ Thousands):*

<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>
\$215,720	\$219,420	\$233,546	\$668,686

*Excludes securities rated below Single A-

SOUTHERN CALIFORNIA EDISON
2006 ANNUAL FUNDING STATUS REPORT
FOR THE YEAR ENDED DECEMBER 31, 2006

2.2.2 Computation of Actual Accumulations (in \$ Thousands):

		<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>
(i)	Cash and Cash Equivalents	\$3,096	\$3,145	\$3,353	\$9,594
(ii)	Life Insurance Policies	\$0	\$0	\$0	\$0
(iii)	Market Value of Investments	\$230,047	\$233,701	\$249,150	\$712,898
(iv)	Accrued Income				
	Total	\$233,143	\$236,846	\$252,503	\$722,492
 LESS:					
(i)	Current Taxes	\$0	\$0	\$0	\$0
(ii)	Taxes payable	\$0	\$0	\$0	\$0
(iii)	Deferred Taxes Associated with Unrealized Gains (estimated)	\$17,423	\$17,426	\$18,957	\$53,806
(iv)	Accrued Expenses	\$0	\$0	\$0	\$0
	Total	\$17,423	\$17,426	\$18,957	\$53,806
	Value of Actual Accumulations	\$215,720	\$219,420	\$233,546	\$668,686

SOUTHERN CALIFORNIA EDISON
2006 ANNUAL FUNDING STATUS REPORT
FOR THE YEAR ENDED DECEMBER 31, 2006

2.3 Funded Floor Amount at End of Reporting Period (in \$ Thousands):

		<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>
2.3.1	Percentage of Committed Accumulations	82%	81%	80%	81%
2.3.2	Funded Floor Amount	\$104,438	\$110,636	\$129,546	\$344,619

2.4 Deposits made During Reporting period (in \$ Thousands):

		<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>
	NRC Required Deposits	None	None	None	None
	Normal Annual Deposits	\$3,851	\$4,390	\$3,315	\$11,557
	Recovery Deposits	None	None	None	None
	Correcting Deposits	None	None	None	None
	Total	\$3,851	\$4,390	\$3,315	\$11,557

2.5 Mandatory Deposits During Reporting Period:

	<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>
	\$3,851	\$4,390	\$3,315	\$11,557

SOUTHERN CALIFORNIA EDISON
2006 ANNUAL FUNDING STATUS REPORT
FOR THE YEAR ENDED DECEMBER 31, 2006

**2.6 Estimated Outstanding Balance of Recovery Deposits and Correction Deposits
Outstanding at End of the Reporting Period**

	Recovery Deposits		Correction Deposits	
	Amt. Outstanding	Due Date	Amt. Outstanding	Due Date
Unit #1				
Unit #2	NONE		NONE	
Unit #3				

2.7 Annual Net Income (Loss) During Reporting Period (in \$ Thousands):

	<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>
Income (received and accrued)	\$7,255	\$7,362	\$7,872	\$22,489
Realized Gains	5,455	5,535	5,921	16,911
Change in Unrealized Gains	10,150	10,304	11,004	31,458
Total Additions	22,860	23,201	24,796	70,857
Less: Expenses (including accrued) and Taxes (current and deferred*)	(360) (5,178)	(365) (5,253)	(390) (5,613)	(1,115) (16,044)
Net Income	17,322	17,583	18,793	53,698
Average Net Asset Value	\$205,054	\$208,355	\$222,403	\$635,811
Rate	8.45%	8.44%	8.45%	8.45%

*Average Net Asset Value = (Net Assets (Liquidation value), beginning of period
+ Net Assets (Liquidation Value), end of period)/2*

* Equals Change in Unrealized Gains times combined tax rate

SOUTHERN CALIFORNIA EDISON
2006 ANNUAL FUNDING STATUS REPORT
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**2.8 Summary of Values of Permitted Investments at End of the Reporting Period
(market value excluding accrued income):**

Category	<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>
Cash and Cash Equivalents	\$3,096	\$3,145	\$3,353	\$9,594
Acceptable Debt Securities				
U.S. Treasuries/Agencies	\$56,151	\$57,043	\$60,814	\$174,007
Municipal Bonds	\$49,076	\$49,855	\$53,151	\$152,083
Corporate Bonds/Misc.	\$6,453	\$6,555	\$6,989	\$19,997
Total Debt Securities	\$114,776	\$116,599	\$124,307	\$355,681
Acceptable Equity Securities	\$117,618	\$119,486	\$127,385	\$364,489
Acceptable Life Ins. Contracts				
Acceptable Property Interests				
Grand Total	\$232,394	\$236,085	\$251,692	\$720,170
*Asset Backed				

2.9 Inventory and Values of Permitted Investments at End of the Reporting Period:

See Appendix B. For U. S. equity investments (40% of market value), the securities held have the Russell 3000 Index as a benchmark. For international equities, which comprise 10% of market value, the securities held have an index of 90% MSCI EAFE Index, 10% MSCI Emerging Markets Index as a benchmark.

The amounts allocated to the Palo Verde units are based on the Trustee's calculations at December 31, 2006. The allocation percentages were 7.71% for Unit 1, 7.84% for Unit 2, 8.35% for Unit 3, and 23.90% for all units.

SOUTHERN CALIFORNIA EDISON
2006 ANNUAL FUNDING STATUS REPORT
FOR THE YEAR ENDED DECEMBER 31, 2006

Basis of Valuation:

Investments are stated at fair market value, as determined by the Trustee.
Please see the attached list of sources used by Mellon Bank for pricing information.

2.10 Fund Liabilities at End of the Reporting Period

None

2.11 Defaults, If Any, Experienced on investments

None

2.12 Summary of Investment Ratings

<u>Rating</u>	<u>Total Percent</u>
AAA	94%
AA	4%
A	1%
BBB*	1%
Total	100%

*These assets have been excluded from the Acceptable Debt Securities summarized on page 11

Edison's investment guidelines with the investment managers specify that securities shall be rated BBB- or higher by Standard and Poor's, Moody's or a widely recognized rating service.

**PART 3
TABLES AND CURVES**

3.1 Table of Estimated Deposits, Income and Committed Accumulations to End of Funding Period for Each Unit

See Attached Tables

3.2 Percent Funding Curve and Funding Floor Curve for Each Unit

See Attached Tables and Graphs. The calculations for the Tables are described below:

Columns (1)-(3) contain forecasts of Committed Accumulations (year end fund balance), estimated cost, and the resulting percent funded curve (Column (1)/(2)) reported in Section 2.1.5.

Columns (4)-(6) contain funding floor curve information:

Column (4) shows the TFC's funding floor criteria contained in Section 5.9.3 of the TFC Manual.

Column (5) shows the floor percent funding based on the criteria (Column (3) X Column (4)).

Column (6) shows the dollar value of the floor funding based on the criteria (Section 2.1.4 amount X Column (5)).

Columns (7)-(9) present actual funding information for comparison with the forecast and floor information:

Column (7) contains the market value of the fund (Section 2.2.1 amount).

Column (8) has the actual estimated cost (Section 2.1.4 amount).

Column (9) shows the resulting actual percentage funding (Column (7)/(8)).

3.3 Table of Estimated Deposits, Income and Committed Accumulations to End of Funding Period for All Units

See Attached Table. The calculations for the Table are described in section 3.2 above

3.4 Composite Percent Funding Curve and Funding Floor Curve for All Units

See Attached Graph.

SOUTHERN CALIFORNIA EDISON
2006 ANNUAL FUNDING STATUS REPORT
FOR THE YEAR ENDED DECEMBER 31, 2006

Appendix A

2006 EIX 10-K Report (EIX Annual Report not yet available)

Note: Please use the following weblink http://www.edison.com/investors/sec_filings.asp

**SOUTHERN CALIFORNIA EDISON
2006 ANNUAL FUNDING STATUS REPORT
FOR THE YEAR ENDED DECEMBER 31, 2006**

Appendix B

Inventory and Values of Permitted Investments at December 31, 2005

Mellon Trust Market Values for Qualified Trust by Investment Manager

Palo Verde percentages are 7.63% for Unit 1, 7.74% for Unit 2, 8.30% for Unit 3, and 23.67% for all units

SOUTHERN CALIFORNIA EDISON COMPANY
 2006 PALO VERDE UNIT 3 FUNDING STATUS
 (\$ THOUSANDS)

YEAR	(1) FUNDING PLAN			(4) FUNDING FLOOR CURVE			(7) ACTUAL FUNDING		
	FUND \$	EST. COST	% FUNDED	CRITERIA	PERCENT	\$ AMOUNT	FUND \$	EST. COST	% FUNDED
1991	26,087	48,798	53%	80%	43%	20,870	27,730	48,798	57%
1992	34,110	73,450	46%	80%	37%	27,288	35,578	73,450	48%
1993	41,562	74,905	55%	80%	44%	33,250	44,473	74,905	59%
1994	49,405	80,314	62%	80%	49%	39,524	49,825	80,314	62%
1995	59,673	86,114	69%	80%	55%	46,253	69,421	83,434	83%
1996	70,480	92,333	76%	80%	61%	54,390	85,640	89,458	96%
1997	81,854	99,000	83%	80%	66%	58,318	107,775	95,917	112%
1998	93,826	106,150	88%	80%	71%	72,401	131,789	102,842	128%
1999	106,426	113,815	94%	80%	75%	80,398	147,469	106,913	138%
2000	119,688	122,034	98%	80%	78%	89,871	153,445	114,632	134%
2001	133,646	130,847	102%	80%	82%	100,293	149,226	122,908	121%
2002	148,336	140,296	106%	80%	85%	98,120	149,306	115,708	129%
2003	163,798	150,427	109%	80%	87%	108,182	176,507	124,062	142%
2004	180,072	161,290	112%	80%	89%	119,185	197,625	133,019	149%
2005	197,200	172,937	114%	80%	91%	118,696	211,259	130,115	162%
2006	215,227	185,426	116%	80%	93%	129,546	233,546	139,511	167%
2007	234,201	198,816	118%	81%	95%				
2008	254,171	213,174	119%	82%	98%				
2009	275,189	228,568	120%	83%	100%				
2010	297,311	245,074	121%	84%	102%				
2011	320,594	262,772	122%	85%	104%				
2012	345,099	281,747	122%	86%	105%				
2013	370,891	302,094	123%	87%	107%				
2014	398,037	323,909	123%	88%	108%				
2015	426,609	347,300	123%	89%	109%				
2016	456,680	372,380	123%	90%	110%				
2017	488,330	399,271	122%	91%	111%				
2018	521,641	428,104	122%	92%	112%				
2019	556,702	459,019	121%	93%	113%				
2020	593,603	492,167	121%	94%	113%				
2021	632,442	527,709	120%	95%	114%				
2022	673,319	565,817	119%	96%	114%				
2023	716,343	606,677	118%	97%	115%				
2024	761,625	650,487	117%	98%	115%				
2025	809,284	700,291	116%	99%	114%				
2026	859,446	753,907	114%	100%	114%				
2027	912,241	811,628	112%	100%	112%				
2028	960,134	873,769	110%	100%	110%				
2029	951,127	881,253	108%	100%	108%				
2030	845,825	793,489	107%	100%	107%				
2031	700,015	664,025	105%	100%	105%				
2032	532,660	510,759	104%	100%	104%				
2033	341,615	330,855	103%	100%	103%				
2034	150,456	147,093	102%	100%	102%				
2035	0	(0)	100%	100%	100%				

SOUTHERN CALIFORNIA EDISON COMPANY
2006 ANPP FUNDING PLAN--ALL UNITS
(\$ THOUSANDS)

YEAR	(1) FUNDING PLAN			(4) FUNDING FLOOR CURVE			(7) ACTUAL FUNDING		
	FUND \$	EST. COST	% FUNDED	CRITERIA	PERCENT	\$ AMOUNT	FUND \$	EST. COST	% FUNDED
1991	76,082	136,843	56%	80%	44%	60,866	80,674	136,843	59%
1992	98,049	212,047	46%	80%	37%	78,439	102,234	212,047	48%
1993	118,451	224,715	53%	80%	42%	94,761	126,875	224,715	56%
1994	139,923	240,942	58%	80%	46%	111,938	141,113	240,942	59%
1995	169,179	258,342	65%	80%	52%	120,045	197,024	228,518	86%
1996	199,972	276,998	72%	80%	58%	141,504	243,378	245,017	99%
1997	232,381	297,001	78%	80%	63%	159,726	306,343	262,707	117%
1998	266,493	318,449	84%	80%	67%	188,284	374,776	281,675	133%
1999	302,395	341,445	89%	80%	71%	214,173	419,061	300,804	139%
2000	340,182	366,102	93%	80%	74%	239,957	435,605	322,522	135%
2001	379,953	392,540	97%	80%	77%	268,347	423,138	345,808	122%
2002	421,811	420,887	100%	80%	80%	268,504	422,803	334,100	127%
2003	465,867	451,281	103%	80%	83%	296,488	499,955	358,222	140%
2004	512,236	483,870	106%	80%	85%	326,064	562,003	384,086	146%
2005	561,039	518,812	108%	80%	87%	313,297	602,936	359,947	168%
2006	612,405	556,278	110%	81%	89%	344,619	668,686	385,940	173%
2007	666,467	596,449	112%	82%	92%	0			
2008	723,368	639,521	113%	83%	94%	0			
2009	783,256	685,704	114%	84%	96%	0			
2010	846,288	735,221	115%	85%	98%	0			
2011	912,629	788,315	116%	86%	100%	0			
2012	982,453	845,242	116%	87%	101%	0			
2013	1,055,943	906,281	117%	88%	103%	0			
2014	1,133,290	971,727	117%	89%	104%	0			
2015	1,214,699	1,041,900	117%	90%	105%	0			
2016	1,300,382	1,117,140	116%	91%	106%	0			
2017	1,390,564	1,197,813	116%	92%	107%	0			
2018	1,485,478	1,284,312	116%	93%	108%	0			
2019	1,585,378	1,377,058	115%	94%	108%	0			
2020	1,690,521	1,476,501	114%	95%	109%	0			
2021	1,801,185	1,583,126	114%	96%	109%	0			
2022	1,917,658	1,697,450	113%	97%	110%	0			
2023	2,040,246	1,820,030	112%	98%	110%	0			
2024	2,169,270	1,951,462	111%	99%	110%	0			
2025	2,257,424	2,052,870	110%	100%	110%	0			
2026	2,244,391	2,063,070	109%	100%	109%	0			
2027	2,167,156	2,010,597	108%	100%	108%	0			
2028	1,962,316	1,838,717	107%	100%	107%	0			
2029	1,664,149	1,572,415	106%	100%	106%	0			
2030	1,280,103	1,217,033	105%	100%	105%	0			
2031	886,227	846,336	105%	100%	105%	0			
2032	595,600	572,698	104%	100%	104%	0			
2033	341,615	330,855	103%	100%	103%	0			
2034	150,456	147,093	102%	100%	102%	0			
2035	0	(0)	0%	100%	0%	0			

Decision 07-01-003 January 11, 2007

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Joint Application of Southern California Edison Company and San Diego Gas & Electric Company for the 2005 Nuclear Decommissioning Cost Triennial Proceeding to Set Contribution Levels for the Companies' Nuclear Decommissioning Trust Funds and Address Other Related Decommissioning Issues.

Application 05-11-008
(Filed November 10, 2005)

Application of Pacific Gas and Electric Company in Its 2005 Nuclear Decommissioning Cost Triennial Proceeding.

Application 05-11-009
(Filed November 10, 2005)

(See Appendix A (Service List) for Appearances.)

**FINAL OPINION
ON THE TRIENNIAL REVIEW OF NUCLEAR DECOMMISSIONING TRUSTS AND
RELATED DECOMMISSIONING ACTIVITIES FOR SOUTHERN CALIFORNIA
EDISON COMPANY, SAN DIEGO GAS & ELECTRIC COMPANY,
AND PACIFIC GAS AND ELECTRIC COMPANY**

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APPENDIX B: SETTLEMENTS FOR NUCLEAR DECOMMISSIONING

**FINAL OPINION
ON THE TRIENNIAL REVIEW OF NUCLEAR DECOMMISSIONING TRUSTS
AND RELATED DECOMMISSIONING ACTIVITIES FOR SOUTHERN
CALIFORNIA EDISON COMPANY, SAN DIEGO GAS & ELECTRIC
COMPANY, AND PACIFIC GAS AND ELECTRIC COMPANY**

I. Summary

This decision adopts an all-party settlement for Southern California Edison Company (Edison) and San Diego Gas & Electric Company (SDG&E) which resolves all issues in a Joint Application (A.) 05-11-008. We also adopt a separate settlement for Pacific Gas and Electric Company (PG&E) in A.05-11-009 which resolves all ratemaking issues exclusive of the issues litigated by PG&E and a customer-intervenor, Scott Fielder. We decline to create an Independent Board of Consultants to oversee or advise on the decommissioning of Humboldt Unit 3. We do, however, provide guidelines applicable to all three applicants concerning the necessity to ensure that the utilities employ sufficient well-trained and experienced personnel to plan and direct the complex task of decommissioning a retired nuclear generating facility. We do not adopt Fielder's proposals concerning the storage costs of radioactive waste materials or contingency factors. We do, however, direct the parties to perform in-depth analyses of storage costs and contingencies for the next triennial proceedings for all three utilities.

II. Requests

A. Edison and SDG&E

In A.05-11-008, Edison & SDG&E request the Commission:

- (1) find the \$298 million (100% share, 2004\$) cost of San Onofre Nuclear Generating Station (SONGS) Unit 1 decommissioning work completed between January 1, 2002 and June 30, 2005 is reasonable;

- (2) find the updated \$309 million (100% share, 2004\$) SONGS Unit 1 decommissioning cost estimate for the remaining work is reasonable;
- (3) find the updated \$3,131 million (100% share, 2004\$) SONGS Units 2 & 3 decommissioning cost estimate is reasonable;
- (4) raise the Qualified Trust maximum equity percentage to 60%;
- (5) raise the cap on investment management fees to 30 basis points;
- (6) raise annual compensation retainer for non-company members of the Nuclear Decommissioning Trust Committee to \$12,000; and
- (7) allow a maximum 20% allocation of the total fixed income portfolio in the Qualified Trust to high yield bonds rated B or higher by Standard and Poors or B2 or higher by Moodys.

In addition, Edison requests the Commission:

- (1) find the updated \$739 million (Edison's share, 2004\$) Palo Verde decommissioning cost estimate is reasonable;
- (2) authorize rate recovery of its increased contribution of \$57.8 million to its Nuclear Decommissioning Trust Funds for SONGS Units 2 & 3 and for Palo Verde Nuclear Generating Station Units 1, 2, & 3 (Palo Verde) through the Nuclear Decommissioning Cost Charge;
- (3) authorize Edison to amend its Decommissioning Trust Agreements (Trust Agreements) to clarify that transfers of nonqualified nuclear decommissioning trust (Nonqualified Trust) assets to the qualified nuclear decommissioning trust (Qualified Trust), pursuant to Internal Revenue Code Section 468A(f), as amended by the Energy Policy Act of 2005, are permissible under the Trust Agreements, and to submit such amendments as may be required for Commission approval via advice letter filing;
- (4) approve the transfer of funds from Edison's SONGS and Palo Verde Nonqualified Trusts to the corresponding SONGS and Palo Verde Qualified Trusts, pursuant to Internal Revenue

Code Section 468A(f), as amended by the Energy Policy Act of 2005; and

- (5) authorize Edison to continue to use the tax benefits associated with deducting SONGS Unit 1 Nonqualified Trust amounts consistent with Ordering Paragraph 9 of Decision (D.) 03-10-015, including the tax benefits that may arise in connection with any transfer of funds from Edison's SONGS Unit 1 Nonqualified Trust to Edison's SONGS Unit 1 Qualified Trust as provided for in Internal Revenue Code Section 468A(f), to continue SONGS Unit 1 decommissioning work.

SDG&E requests the Commission authorize or approve:

- (1) rate recovery of SDG&E's increased contributions of \$12.05 million, excluding franchise fees and uncollectibles, to its nuclear decommissioning trust funds for SONGS Units 2 & 3;
- (2) the use of \$5.523 million of the over collection in SDG&E's Nuclear Decommissioning Adjustment Mechanism as a 12-month amortization to the nuclear decommissioning rate effective January 1, 2007;
- (3) amending SDG&E's Trust Agreements to clarify that transfers of Nonqualified Trust assets to the Qualified Trusts pursuant to Internal Revenue Code Section 468A(f), as amended by the Energy Policy Act of 2005, are permissible under the Trust Agreements, and to submit such amendments as may be required for Commission approval via advice letter filing;
- (4) transferring funds from SDG&E's SONGS Nonqualified Trust to the corresponding SONGS Qualified Trust; and
- (5) SDG&E to continue to use the tax benefits associated with deducting SONGS Unit 1 Nonqualified Trust amounts consistent with Ordering Paragraph 9 of Commission D.03-10-015, including any tax benefits that may arise in connection with any transfer of funds from SDG&E's SONGS Unit 1 Nonqualified Trust to SDG&E's SONGS Unit 1 Qualified Trust as provided for in Internal Revenue

Code Section 468A(f) to continue SONGS Unit 1 decommissioning work.

B. PG&E

In a separate application, A.05-11-009, PG&E requests the Commission to authorize the collection, through Commission-jurisdictional electric rates, of the following amounts in 2007 through 2009 for decommissioning of Diablo Canyon and Humboldt Unit 3:

- (1) \$9.491 million and \$0 for the Diablo Canyon Nuclear Decommissioning Trusts for Units 1 and 2, respectively (the 2005 revenue requirement is \$0);
- (2) \$14.621 million for the Humboldt Unit 3 Nuclear Decommissioning Trust (the 2005 revenue requirement is \$18.443 million);
- (3) increase revenue requirements to cover the costs of operating and maintaining (O&M) the Humboldt Unit 3 site in a safe condition (SAFSTOR). Specifically, PG&E is requesting SAFSTOR revenue requirements of \$13.232 million in 2007 from the authorized amounts of \$10.836 million for 2005. PG&E is also requesting attrition for SAFSTOR expenses for 2008 and 2009;
- (4) continue overall decommissioning revenue requirement levels currently in effect for 2005 through 2006, but to apply \$12.376 million as revenue requirements attributable to SAFSTOR expenses, while contributing the remainder (after any applicable taxes) to the decommissioning trusts; and
- (5) find that PG&E's activities with respect to two completed decommissioning projects – involving asbestos removal and plant systems and structures radiological characterization – were reasonable and prudent.

III. Procedural History

Notice of these two applications appeared in the Commission's Daily Calendar on November 16, 2005. The Commission preliminarily categorized

them as ratesetting in Resolution ALJ 176-3162, dated November 18, 2005. The January 18, 2006 scoping ruling confirmed the categorization as ratesetting, and the need for hearings. The scoping ruling also consolidated the applications. Testimony was served by the Division of Ratepayer Advocates (DRA), the Federal Executive Agency (FEA), The Utility Reform Network (TURN), and Scott Fielder, a customer-intervenor, (Fielder). All parties served timely rebuttal and other supplemental testimony as allowed or required by the assigned Administrative Law Judge (ALJ). The two settlements were admitted as Exhibits 18 and 19 at evidentiary hearings.¹ These settlements resolved all issues for Edison and SDG&E in A.05-11-008 and resolved all issues except those litigated by PG&E and Fielder in A.05-11-009. This decision adopts the proposed transcript corrections requested in PG&E's June 5, 2006 Motion to Propose Transcript Corrections. Parties filed Opening Briefs or Comments on the Settlements on June 23, 2006, and Replies on July 14, 2006. The record is composed of all documents that were filed and served on parties. It also includes all testimony and exhibits² received at hearing.

IV. Scope and Issues

The first purpose of these proceedings is to establish just and reasonable rates to adequately fund the nuclear decommissioning trusts in place for the

¹ Exs. 18 and 19 have been updated and replaced in the formal files to include signature attachments and other minor edits or corrections. As no party objected to these changes, the exhibits are received in the record as modified. Edison filed a further correction and clarification on August 31, 2006 which we used in this decision.

² There were 110 exhibits received into evidence – many were large multi-chaptered documents sponsored by several witnesses.

benefit and protection of ratepayers. Secondly, we verify that Edison, SDG&E, and PG&E are in compliance with all prior decisions applicable to decommissioning. Finally, these proceedings determine whether the costs expended to-date to decommission SONGS Unit 1 and Humboldt Unit 3 were reasonable and prudent. To the extent necessary, these proceedings examined all underlying forecasts and assumptions to estimate the future costs of decommissioning the various nuclear generating stations; the costs and earnings associated with the decommissioning trust funds; the rate impacts of the Energy Policy Act of 2005, including all relevant changes to Internal Revenue Code Section 468A; and other relevant data, policies or laws and regulations. These proceedings included the standard reasonableness review of managerial decisions and actions by PG&E, Edison, and SDG&E as they have pursued decommissioning either Humboldt Unit 3 or SONGS Unit 1. PG&E supplemented its application and explicitly addressed consideration of an Independent Board of Consultants to oversee the decommissioning of Humboldt Unit 3. Finally, we considered whether or not to grant the request by Edison and SDG&E to pre-approve the cost forecast for the remaining work to decommission SONGS Unit 1.

V. Standard of Review

The applicants alone bear the burden of proof to show that the rates they request are just and reasonable and the related ratemaking mechanisms are fair.

For the purposes of these proceedings and as used in the scope above, we define reasonableness for decommissioning expenditures consistent with prior Commission findings, i.e., that the reasonableness of a particular management

action depends on what the utility knew or should have known at the time that the managerial decision was made.³ However, with respect to Phase 1 SONGS 1 decommissioning work, the Commission in D.99-06-007 adopted a ratemaking settlement that included a presumption that the utilities' conduct is reasonable in performing Phase 1 SONGS 1 decommissioning work if the scope of the work completed and the most recently approved SONGS 1 decommissioning cost estimate bound the costs incurred. (Settlement § 4.2.2.2.c., at 86 CPUC2d 604, 620.)

In order for the Commission to consider the proposed settlements in these proceedings as being in the public interest, the Commission must be convinced that the parties had a sound and thorough understanding of the applications and all of the underlying assumptions and data included in the record. This level of understanding of the applications and development of an adequate record is necessary to meet our requirements for considering any settlement, as discussed below. The disputed issues for PG&E are resolved in this decision based on the evidence in the record.

VI. Discussion of Settlements

A. Standard for Approval of a Settlement

Rule 51.1(a)⁴ provides:

Parties to a Commission proceeding may stipulate to the resolution of any issue of law or fact material to the proceeding, or may settle

³ See for example, D.02-08-064, dated August 22, 2002, *mimeo.*, pp. 5-8.

⁴ The Commission adopted a revised Rule 51, as Rule 12, effective September 13, 2006, which does not materially differ from the substance of the old rule. Parties settled under then-applicable Rule 51, which we cite herein.

on a mutually acceptable outcome to the proceeding, with or without resolving material issues. Resolution shall be limited to the issues in that proceeding and shall not extend to substantive issues which may come before the Commission in other or future proceedings.

Rule 51.1(e) has, as a further requirement:

The Commission will not approve stipulations or settlements, whether contested or uncontested, unless the stipulation or settlement is reasonable in light of the whole record, consistent with law, and in the public interest. (Emphasis added.)

In short, we must find the settlement comports with Rule 51.1(e) which requires a settlement to be “reasonable in light of the whole record, consistent with law, and in the public interest.” We address below whether the settlements meet these three requirements.

B. Reasonable in Light of the Whole Record

We have reviewed the evidence in the record, considered the scope and thoroughness of the review by all active parties, especially DRA, TURN, and FEA (for SDG&E’s interests). In particular, DRA, TURN, and FEA conducted detailed examinations. Having reviewed the prepared testimony of all parties, we find that the proposed settlements are both within the range of reasonable findings if the applications had been fully litigated. Therefore we can find the settlements to be reasonable in light of the whole record. The items contested between PG&E and Fielder are considered separately in this decision: however, absent Fielder’s objections, the settlement by PG&E with DRA and TURN is otherwise reasonable in light of the whole record.

C. Consistent With Law

Nothing in either settlement is inconsistent with the law, and the settlement process was consistent with Rules 51 *et seq.* Therefore we can find the settlements to be consistent with applicable law.

D. In the Public Interest

There was no guarantee that litigation of the issues raised by the parties would have resulted in any adjustment to the decommissioning revenue requirements as significant as proposed in the two settlements which are acceptable to all parties. The settlements saved time and resources, and achieved results within the range of reasonable litigation outcomes. The need for decommissioning funding was not at issue in this proceeding – that was determined when the funds were established in compliance with state and federal requirements. Therefore, since there is an uncontested need for funding future decommissioning costs and the funding in the settlements is consistent with the record, we find the settlements for decommissioning funding to be in the public interest. Similarly, the need for actual decommissioning activities for SONGS Unit 1 and Humboldt Unit 3 were uncontested. The settlements on the reasonableness of actual costs are consistent with the record; therefore we find the settlements for decommissioning funding to be in the public interest.

E. Uncontested Settlement

A further standard is articulated in *San Diego Gas & Electric* 46 CPUC 2d 538 (1992), and applies to all-party settlements. As a precondition to approving such a settlement, the Commission must be satisfied that:

1. The proposed all-party settlement commands the unanimous sponsorship of all active parties to the proceeding.

2. The sponsoring parties are fairly representative of the affected interests.
3. No settlement term contravenes statutory provisions or prior Commission decisions.
4. Settlement documentation provides the Commission with sufficient information to permit it to discharge its future regulatory obligations with respect to the parties and their interests.

We can answer all four requirements in the affirmative for Edison and SDG&E's ratemaking settlement. Questions 2 through 4 are true for PG&E's contested settlement.

VII. Settlement Provisions

A. Edison and SDG&E

Pursuant to the proposed Settlement Agreement, Appendix B and Appendix C, Edison and SDG&E filed on July 14, 2006 an update to the settlement contributions and the overall revenue requirements, using May 31, 2006, Decommissioning Trust Fund liquidation values (rather than March 31, 2006), because the May 31, 2006 values were not yet available when the parties entered into the Settlement. The settling parties had an opportunity to review this update and have made no objection. We will therefore rely on this and later updates in evaluating the proposed settlement. In the July 14, 2006 update, Edison and SDG&E provided new contributions and revenue requirements.⁵ Edison subsequently discovered certain errors in its July 14, 2006 calculations of the settlement amounts. First, the settling parties agreed to a 21% contingency

⁵ The contribution is the amount placed into the trust fund. The revenue requirement includes other related costs as well as the contribution.

factor, in lieu of the requested 35% contingency factor, which was not used in the calculation of the settlement amounts. Second, the settlement amounts needed to correctly reflect the pro-ration of the 2006 contribution for Palo Verde Nuclear Generating Station Unit 3 at May 31, 2006, rather than March 31, 2006, as a result of updating the Decommissioning Trust Fund liquidation values. Third, the settlement amounts need to correctly reflect the correct SONGS escalation factors, which were not updated to the escalation factor update agreed to in the settlement. We commend the settling parties for diligently reviewing the settlements and for recognizing the need for corrections. On August 31, 2006, Edison and SDG&E filed a motion requesting the Commission accept further corrections and clarifications to the settlements. We grant the motion and receive the corrections. The other settling parties have agreed with the following corrections to the settlement:

<i>Edison's Qualified Nuclear Decommissioning Trust Funds</i> <i>Allocation of Contributions and Revenue Requirement</i> Updated Appendix B (\$000)						
	SONGS 2	SONGS 3	Palo Verde 1	Palo Verde 2	Palo Verde 3	Total
Contribution	\$16,984	\$10,797	\$5,067	\$5,663	\$3,728	\$42,239
Revenue Requirement	\$17,185	\$10,925	\$5,127	\$5,773	\$3,773	\$42,739

<i>SDG&E's Qualified Nuclear Decommissioning Trust Funds</i> <i>Allocation of Contributions and Revenue Requirement</i> Updated Appendix C (\$000)			
	SONGS 2 ⁶	SONGS 3	Total
Contribution	\$5,290	\$4,060	\$9,350
Revenue Requirement	\$5,364	\$4,117	\$9,481

⁶ This includes qualified and non-qualified trust amounts.

The key terms of the Settlement Agreement were summarized in the June 23, 2006 Joint Statement for Edison and SDG&E⁷ as follows:

- (A) the March 2006 25-year Global Insight forecast for projected pre-tax rate of returns for the years 2007 through 2029 to be assumed for the equity and bond portions of the decommissioning trust assets,
- (B) the March 2006 25-year Global Insight forecast to be assumed for escalation rates,
- (C) May 31, 2006, Decommissioning Trust Fund liquidation values,
- (D) a 60% holding in equities in the Qualified Trusts as of the presumed date of January 1, 2007, provided that the Commission approves a maximum allocation of 60% equities, and [Edison] SCE's/SDG&E's Nuclear Decommissioning Trust Investment Committee approves an allocation of 60% equities, for the Qualified Trusts, and
- (E) for SCE, a 21% contingency factor on all components of the Palo Verde decommissioning cost estimate, except estimated low-level radioactive waste ("LLRW") burial costs, to which no contingency factor is applied.

Appendix B and C of the Settlement Agreement contain an exemplar table identifying the allocation of the Revenue Requirement and trust contribution for SCE and SDG&E for SONGS 2&3, and, for SCE, Palo Verde with the modifications described in subsections (A), (B), (D) and (E) above, ... SCE and SDG&E agreed in the Settlement Agreement to file an update of Appendix B and C with their reply brief on July 14, 2006 in this docket that reflects the May 31, 2006 Decommissioning Trust Fund liquidation values (and a reduced percentage of equities for the Qualified Trusts if the 60% allocation is

⁷ Joint Statement of Southern California Edison Company (U 338-E), San Diego Gas & Electric Company (U 902-E), Division of Ratepayer Advocates, Federal Executive Agencies and The Utility Reform Network in support of Settlement (Joint Statement for Edison and SDG&E).

not approved by the Nuclear Decommissioning Trust Committee). The Settlement Agreement requests that the Commission find the allocations exemplified in Appendices B and C and the corresponding update to be submitted on July 14, 2006 to reflect May 31, 2006 Decommissioning Trust Fund liquidation values (and a reduced percentage of equities for the Qualified Trusts if the 60% allocation is not approved by the Nuclear Decommissioning Trust Committee), to be reasonable.

- SCE and SDG&E should be authorized to:
 - Raise the Qualified Trust's maximum equity percentage to 60%,
 - Raise the cap on investment management fees to 30 basis points, and
 - Raise the annual compensation retainer for non-company members of the Nuclear Decommissioning Trust Committee to \$12,000.
- SCE and SDG&E should be authorized to amend their respective Decommissioning Trust Agreements to clarify that transfers of assets to the Qualified Trusts (including transfers from the Nonqualified Trusts), pursuant to Internal Revenue Code Section 468A(f), as amended by the Energy Policy Act of 2005, are permissible under the Trust Agreements, and to submit such amendments as may be required for Commission approval via advice letter filing.
- The Commission should approve the transfer of funds to the corresponding SONGS and Palo Verde Qualified Trusts (including transfers from the Nonqualified Trusts), as may be permitted pursuant to Internal Revenue Code Section 468A(f), as amended by the Energy Policy Act of 2005, as authorized by the Internal Revenue Service.
- SCE and SDG&E should be authorized to continue to use the tax benefits associated with deducting SONGS 1 Nonqualified Trust amounts consistent with Ordering Paragraph No. 9 of D.03-10-015, including the tax benefits that may arise in connection with any transfer of funds from SCE's/SDG&E's SONGS 1 Nonqualified

Trusts to SCE's/SDG&E's SONGS 1 Qualified Trusts as provided for in Internal Revenue Code Section 468A(f), to continue SONGS 1 decommissioning work.

- SDG&E should be authorized to apply \$2.79 million of the overcollection in its Nuclear Decommissioning Adjustment Mechanism as a 12-month amortization to the nuclear decommissioning rate effective January 1, 2007, to offset the impact of the increase in the Nuclear Decommissioning revenue requirement in 2007.
- As part of the next NDCTP, SCE and SDG&E will evaluate and address in their application and opening testimony: (1) whether any SONGS 1 decommissioning trust funds are not anticipated to be needed at that time for remaining SONGS 1 Decommissioning Work; and (2) whether any such funds can and should be transferred to SONGS 2&3 Decommissioning Trusts for use to fund SONGS 2&3 decommissioning, contingent upon a favorable ruling from the IRS allowing the transfer, if necessary, and any necessary approvals by the Nuclear Regulatory Commission or other agencies.
- SCE and SDG&E agree that if SCE and SDG&E, respectively, receive money from the DOE in settlement of their DOE spent fuel litigation within three years of the effective date of this Agreement, SCE and SDG&E will seek a favorable ruling from the IRS to deposit certain monies received from the DOE into their respective decommissioning trust accounts. After receiving a favorable ruling from the IRS, SCE and SDG&E will deposit the money received from the DOE (less external litigation costs) that is associated with funds required for work included in the decommissioning cost estimates (but not money associated with current SONGS 2&3 operations or off-site storage of SONGS 1 used fuel at Morris, Illinois) into their respective appropriate decommissioning trust accounts. SCE and SDG&E will each file an Advice Letter within 120 days of the date of deposit of the funds into the decommissioning trusts to update their respective annual contributions accordingly.
- The Commission should adopt as reasonable: (i) the \$298 million (100% share, 2004\$) cost of SONGS 1 Decommissioning Work completed between January 1, 2002 and June 30, 2005, and (ii) the

updated \$309 million (100% share, 2004\$) SONGS 1 decommissioning cost estimate for Remaining Work.

- The Commission should adopt as reasonable the updated decommissioning cost estimates for SONGS 2&3 and Palo Verde set forth by SCE and SDG&E in the Joint Application (other than the revision to the Palo Verde decommissioning cost estimate, reflecting a reduction in the contingency factor for non-LLRW burial components of the cost estimate from 35% to 21%).
- SCE will provide, as part of its tax testimony in the next NDCTP, a memorandum account that would track the time value of money associated with any net overpayment of estimated income tax payments of its Nuclear Decommissioning Trusts. This memorandum account will compare the estimated tax payments actually made with the amounts required to be paid in each quarterly period based upon the tax returns as filed. An interest rate equal to the assumed after-tax rate-of-return underlying the annual contribution authorized for each trust account will be applied to this difference for the period outstanding. These interest amounts will be cumulated and constitute the balance in this memorandum account. It will be subject to review and reduce the revenue requirement to be authorized in the next proceeding. (June 23, 2006 Joint Statement, pp. 4-8, footnotes omitted.)

The parties assert that in reaching this settlement, they “compromised strongly held views”; and that in all other respects, the settlement comports with the Commission’s requirements for adoption of a settlement.

<i>Key Comparisons of Settlement with Applications</i>			
	Application	Settlement	Difference
Edison’s Trust Contributions	\$57.8 million	\$42.2 million	\$15.6 million -27%
SDG&E’s Trust Contribution	\$12.05 million	\$9.35 million	\$2.7 million -22.4%
SONGS 1 Costs	\$298 million (100%)	\$298 million (100%)	0
SONGS 1 Forecast	\$309 million (100%)	\$309 million (100%)	0
Palo Verde Forecast	\$738.852 million	\$696,003 million	\$42.849 million -5.8%

Qualified Trust Equity Percentage	60% max.	60% max.	0
Investment management Fee	30 Basis points max.	30 Basis points max.	0
Committee Retainer	\$12,000 p.a.	\$12,000 p.a.	0

The Commission does not unravel a settlement unless there is significant problem with the outcome as a whole—in which case the settlement would fail the public interest test discussed elsewhere. This settled outcome is within the range of plausible litigation outcomes. Except for SONGS Unit 1, these plants are not in active decommissioning: in fact, they are operational and are even subject to proceedings which may extend the service life by replacing the steam generators. (See D.05-12-040.) We are therefore less concerned now about under-funding than we will be as these plants approach retirement. Our overriding concern with decommissioning is to ensure that the trust funds are sufficient to retire the plants pursuant to a reasonable plan and that the funds are recovered equitably from customers throughout the plants’ service lives. We find the settlement applicable to Edison and SDG&E to be reasonable.

B. PG&E

The key terms of PG&E’s Settlement Agreement were summarized as follows:

- a. \$13.234 million in 2007 for Humboldt Unit 3 SAFSTOR, an additional amount for attrition of \$155,000 beginning January 1, 2008 and, an additional \$16,000 beginning January 1, 2009.
- b. Beginning in 2007, for a 3-year period, \$1.827 million for Diablo Unit 1 trust fund and \$0 for the Diablo Unit 2, annually.
- c. Beginning in 2007, for a 3-year period, \$11.915 million for Humboldt Unit 3 trust fund.
- d. Requests that the CPUC approve a transfer of funds from the Diablo Unit 2 Trust to the Diablo Unit 1 Trust. The transfer will

be calculated based on and/or subject to a) the authorized trust contribution revenue for Diablo Unit 1; b) PG&E's 2007 Ruling Amount Update; c) the amount of excess funds in the Diablo Unit 2 Trust; and d) the approval of the CPUC, Nuclear Regulatory Commission and the Internal Revenue Service.

- e. Additional safeguards for the decommissioning trusts (Settlement, para. 12).
- f. Additionally, the following modeling assumptions were used in the settlement:
 - 1. Low level radioactive waste Class A Burial Rate: \$248 per cubic foot (In 2004 dollars)
 - 2. Diablo Unit 2 Decommissioning Start Date: 2024
 - 3. Humboldt Unit 3 Decommissioning Start Date: 2009
 - 4. Diablo Contingency Factor: 35%
 - 5. Humboldt Unit 3 Contingency Factor: 25%
 - 6. Burial Escalation: 7.5%
 - 7. Non-Burial Escalation: As presented in PG&E's A.05-11-009 Prepared Testimony filed November 10, 2005, including calculation methodology
 - 8. Trust fund balance: Update as of December 31, 2005
 - 9. Equity Turnover Rate (Qualified): 23.65%
 - 10. Equity Turnover Rate (Non-Qualified): 24.49%
 - 11. Pre-Tax, Before Fees Return on Equity: 8.5%
 - 12. Pre-Tax, Before Fees Return on Fixed Assets: 5.8%
 - 13. DCPPEquity/Bond Allocation: 57%/43% (Subject to Commission approval)
 - 14. DCPPEquity Ramp Down: 1-Year Delay, Begin in 2020
 - 15. Transfer of Humboldt Non-Qualified trust balance and associated tax benefits to Humboldt Qualified

Key Comparisons of Settlement with Applications

	Application	Settlement	Difference
PG&E's Diablo 1 & 2 Trust Contributions	\$9.491 million	\$1.827 million	\$7.664 million -80.75 %
Humboldt 3 Trust Contribution	\$14.621 million	\$11.915 million	\$2.706 million -18.5%
Humboldt 3 forecast SAFSTOR 2007	\$13.232 million	\$13.234 million	\$0.002 million

VIII. Independent Board of Consultants

The scoping ruling required PG&E to supplement its application to address Ordering Paragraph 7 in D.00-02-046,⁸ for the consideration of an “Independent Board of Consultants” to oversee the decommissioning of Humboldt Unit 3:

At least six months before the date that full scale decommissioning of Humboldt Bay Unit 3 begins, and no later than 30 days after any order of the Nuclear Regulatory Commission authorizing an on-site dry cask storage plan, PG&E shall file an application before this Commission to initiate consideration of the establishment of an Independent Board of Consultants to oversee the decommissioning of Humboldt Bay Unit 3. Until such time as an Independent Board of Consultants is established, PG&E shall continue outreach efforts to ensure that the Redwood Alliance and the Eureka community are kept informed about the status of the plant and decommissioning of it.” (*Mimeo.*, D.00-02-046, p. 543.)

The issue was in the scoping ruling and PG&E was required to supplement its prepared testimony, as a result of Fielder’s timely protest. PG&E proposed in its supplemental testimony that no committee was necessary. Fielder formerly represented the Redwood Alliance, which he asserts is

⁸ D.00-02-046 in PG&E’s test year 1999 general rate case, A.97-12-020.

essentially defunct at this time. He pursued the issue of an Independent Board of Consultants as an interested customer.

A. PG&E's Position

PG&E opposes an Independent Board of Consultants. PG&E argues first that it plans to contract for the decommissioning of Humboldt Unit 3 with established firms that have appropriate experience in decommissioning work. Second, PG&E asserts that subsequent decommissioning activities for Humboldt Unit 3 are "rather straight forward . . . with little room for deviation."⁹ PG&E suggests that the Nuclear Regulatory Commission determines all requirements for radioactive material disposal and site release for other use. Therefore, there is only limited discretion for PG&E and its contractors.

PG&E argues it applies economical and efficient methods to ensure prudent decisionmaking and oversight of decommissioning expenditures. PG&E's current practice is to maintain separate accounting orders to record the costs of the dry cask storage activities and related transactions with the decommissioning trusts. This separate accounting facilitates monitoring by the Commission staff. PG&E also proposes community outreach on the decommissioning effort.

PG&E points out that it must submit an updated decommissioning cost estimate for any remaining decommissioning activities in subsequent triennial reviews. In addition, PG&E must submit a comparison of the most recently completed Humboldt Unit 3 decommissioning work, and the costs incurred, to the previous forecast of Humboldt Unit 3 decommissioning cost estimate. PG&E

⁹ Ex. 6, p. 7-3.

must persuasively demonstrate that material variances are reasonable. PG&E is therefore opposed to an Independent Board of Consultants that it believes would not be cost effective and would add to decommissioning expenses payable by the trusts. (See Ex. 6, pp. 7-2 – 7-4.)

B. Fielder’s Position

Fielder cites to Pub. Util. Code §§ 1091 – 1102 which provides for a construction project board of consultants and argues that decommissioning is very similar to large-scale construction in that decommissioning is also a complex project. (Fielder Reply Brief, p. 2, and footnote 1.) Fielder suggests the Diablo Canyon Independent Safety Committee (Diablo Safety Committee) also serves as a model, at least for budgetary purposes.¹⁰ Fielder argues that PG&E’s estimates for Humboldt’s decommissioning are inflated and that without an independent board, PG&E will be deemed prudent while spending too much. Additionally, Fielder argues that intervenors, including DRA, lack the expertise to effectively challenge PG&E’s cost estimates or actual decommissioning costs in the triennial reviews.

C. Discussion

We agree in principle with Fielder on the necessity to ensure that PG&E uses sufficient well-trained and experienced personnel to plan and direct the complex task of decommissioning a retired nuclear generating facility. PG&E is primarily an operating gas and electric distribution utility and not primarily an architect-engineer continuously engaged in complex construction and removal

¹⁰ Created as part of the ratemaking settlement for Diablo Canyon in D.88-12-083. (30 CPUC 2d, 189.)

projects. This is also true for Edison and SDG&E; therefore our findings, below, are applicable to them as well, on the need for engaging and using sufficient well-trained and experienced personnel suitable to decommissioning a retired nuclear generating facility.

The Diablo Safety Committee is not an appropriate model: it is an after-the-fact investigative body that may be an incentive for safe operations (or deterrent to unsafe operations) but it does not immediately affect or control operating decisions.

The Diablo Canyon Independent Safety Committee ("DCISC") was established as a part of a settlement agreement entered into in June 1988 between the Division of Ratepayer Advocates of the California Public Utilities Commission ("PUC"), the Attorney General for the State of California, and Pacific Gas and Electric Company ("PG&E") concerning the operation of the two units of PG&E's Diablo Canyon Nuclear Power Plant ("Diablo Canyon"). The agreement provided that:

An Independent Safety Committee shall be established consisting of three members, one each appointed by the Governor of the State of California, the Attorney General and the Chairperson of the California Energy Commission, respectively, serving staggered three-year terms. The Committee shall review Diablo Canyon operations for the purpose of assessing the safety of operations and suggesting any recommendations for safe operations. Neither the Committee nor its members shall have any responsibility or authority for plant operations, and they shall have no authority to direct PG&E personnel. The Committee shall conform in all respects to applicable federal laws, regulations and Nuclear Regulatory Commission ("NRC") policies.

(http://www.dcisc.org/general_information/general_information.html - the Diablo Safety Committee's website, emphasis added.)

There is an inherent conflict between the roles of consultants authorized by a regulator and managers who must account for their actions to a regulator. A

consultant is “a person who provides expert advice professionally” whereas, a manager is “a person who manages an organization, group of staff.”¹¹ A manager may get conflicting advice from various sources and must make a decision on which advice is best for the circumstances.

If the Commission were to authorize an Independent Board of Consultants, we would have to very clearly delineate: the selection criteria; role and obligations of the board; the mechanical operations of the board; the process to quickly resolve disagreements between PG&E and the board; and, no doubt, numerous other details. Fielder does not provide us with any of these details, and under cross-examination, the sponsoring witness could not suggest any of the details for a viable Independent Board of Consultants framework for us to consider.¹² We do not consider §§ 1091 *et seq.* to be sufficient detailed operating guidelines to integrate a board with PG&E’s management. Section 1098, for example, describes an after-the-fact review, including quarterly reports comparing actual to forecast results. These provisions suggest that such a board advises the Commission and does not control or advise PG&E prior to actual activities (for either new construction or dismantling major structures).

In order to satisfy the Commission, the utility must demonstrate that its actions can be deemed “reasonable and prudent.” The Commission has found:

The term ‘reasonable and prudent’ means that at a particular time any of the practices, methods, and acts engaged in by a utility follows the exercise of reasonable judgment in light of facts known

¹¹ Compact Oxford English Dictionary, online, <http://www.askoxford.com/?view=uk>.

¹² The Reply Brief however relies extensively on the analogy of a construction project board as cited to §§ 1091 *et seq.*

or which should have been known at the time the decision was made. The act or decision is expected by the utility to accomplish the desired result at the lowest reasonable cost consistent with good utility practices. Good utility practices are based upon cost effectiveness, reliability, safety, and expedition.

A 'reasonable and prudent' act is not limited to the optimum practice, method, or act to the exclusion of all others, but rather encompasses a spectrum of possible practices, methods, or acts consistent with the utility system needs, the interest of the ratepayers and the requirements of governmental agencies of competent jurisdiction. (24 CPUC 2d, 486.) (Emphasis added.)

Defining reasonable and prudent as good utility practices is a tautology.

To properly manage the decommissioning process, to be reasonable and prudent, by using good utility practices, as required by this Commission, a utility must show (in this narrow instance) that it sought and used personnel who possessed the available and necessary skills, experience and knowledge to perform the task. So to reasonably undertake decommissioning a nuclear generating plant, PG&E (as well as Edison and SDG&E) must employ properly trained experts who have experience relevant to decommissioning a nuclear plant to plan and perform the decommissioning. People with this skill set and experience may or may not be on the typical electric utility's staff. Therefore we expect PG&E to demonstrate in all subsequent decommissioning-related proceedings that throughout the decommissioning of Humboldt (and later for Diablo) it sought out and acquired the services of well-trained and experienced personnel appropriate to the tasks. We expect PG&E to identify, and aggressively pursue employing, the right people for the job. We need not care whether these people are employees of PG&E or contractors: that is an operating decision best resolved by the utility. Edison and SDG&E are also obliged as an integral part of good utility practices

to demonstrate that in decommissioning SONGS Unit 1 that they engaged the right people for the job.¹³

D. Conclusion

An Independent Board of Consultants would obscure PG&E's overriding obligation to properly manage its decommissioning obligations. We are not competent, nor are our processes timely, to referee complex technical disagreements between PG&E's staff and an outside board on decommissioning issues. By contradistinction, the Nuclear Decommissioning Trust Funds' management committees are composed of utility officers and Commission-approved outside experts that explicitly have the responsibility to manage the trust funds' investments. Further, The Diablo Safety Committee does not operate the plant or consult on its management and therefore it is not a good model to justify the Independent Board of Consultants.

The proposed Board of Independent Consultants would not supplant and assume PG&E's responsibilities for decommissioning Humboldt Unit 3. Therefore, it is far preferable that PG&E must demonstrate in subsequent triennial reviews that it engaged as either employees, contractors, or consultants, people trained to plan and perform a decommissioning, and who have experience applicable to decommissioning a nuclear plant. We also find that this obligation applies to Edison and SDG&E in subsequent triennial reviews of decommissioning activities.

¹³ This discussion focuses narrowly on the desired skills and experience of certain necessary decommissioning personnel and is not an all-encompassing discussion of the total obligations that comprise reasonable and prudent managerial actions for decommissioning a nuclear power plant.

IX. Waste Storage Facilities and Cost

PG&E forecast its decommissioning costs for low level radioactive waste disposal and storage relying on facilities currently in use, but which may be closed to it when PG&E requires actual storage service. Fielder proposes that costs are likely to be much higher for any new storage facility. For low level radioactive waste, PG&E projected the cost of burial disposal at \$248 per cubic foot (c.f.) but Fielder argued it should be set at \$509 per c.f. as previously approved by the Commission (D.00-02-046 at p. 379, and cited in Fielder's Opening Brief, p. 1). Fielder estimates this would increase overall decommissioning cost for each plant by approximately \$50,000,000 to \$1,000,000,000. (Opening Brief, p. 1, and pp. 5-7.)

A. Discussion

There is little certainty about low level waste disposal, except we know in July 2008 the Barnwell facility will no longer accept waste from Non-Atlantic Compact states, which excludes the California utilities. (Ex. 11, pp. 24-27; and Ex. 21, pp. 14-18.) PG&E proposes \$248 per c.f., escalated based on prior triennial reviews. Fielder argues that it is much more likely in the future the waste storage rates will be higher than Barnwell's cost, rather than lower, therefore the allowance should at least be set at \$509 per c.f. Fielder believes that a potential Southwestern Compact facility would have costs even higher than \$509 per c.f. (Opening Brief, p. 5.)

The settling parties, PG&E, DRA, and TURN, offer no compelling counter-argument in their joint reply brief, except to point out firstly that DRA proposed a composite rate of \$140 per c.f., which we find, the settlement notwithstanding, to be without merit considering the closure of Barnwell and the uncertainty of the future. The settling parties' second reason to oppose Fielder's

recommendation is the uncertainty of his estimate. This argument is two-edged and the perhaps sharper edge cuts against PG&E's proposed use of the unavailable but lower Barnwell costs: PG&E's proposal is lower than previous Southwestern Compact facility estimates for a now more uncertain future.

We know DRA's rate is too low. We know PG&E's rate is for a service that will not be available. Fielder's proposed rates are also speculative. Our obligation is to equitably collect sufficient money over the plants' service lives to adequately fund competently managed trust funds for reasonably managed and a well-planned decommissioning of nuclear generating plants when they are retired from service.

One option would be to split the difference: modify the settlement and substitute a mid-point of \$378.50 between PG&E's estimate of \$248 and Fielder's \$509 proposal. A second more conservative approach would be to adopt Fielder's estimate for the most assurance that we do not under-fund the trusts. The ratepayers are ill served by any expedient but inaccurate estimate. We cannot isolate a storage cost component within the settlement – and if we try, we would thereby abrogate the parties' other trade-offs within the settlement. We can, however, accept the settlement for now, and look to the future to impress on PG&E, DRA, and all parties, including Edison and SDG&E, that no one's forecast was very persuasive. We have the benefit of some time before we need the trusts' proceeds for most of the plants and therefore we can rely on the current settlements until the next triennial review. For the next proceeding, we direct all parties to conduct a thorough and complete research and analysis, and then err on the conservative (high estimate) side, when forecasting waste storage costs. This finding is applicable to all three utilities. If there is no more certainty regarding western utilities' storage options during the next triennial review, then

we expect parties to conservatively estimate low level waste storage costs. The parties may also make any additional recommendations on the appropriate allowance for waste storage costs.

X. Contingency

The proposed settlement incorporates a 35% contingency factor for Diablo Canyon and 25% for Humboldt Unit 3.¹⁴ Fielder proposes that we should modify the settlement and use a 40% factor relying primarily on two issues: (1) the adopted contingency has been declining from a high of 50% in 1987 (24 CPUC 2d 15, 20) to 40% in 1995 (63 CPUC 2d 571, 613-614) and now the settling parties propose 35%; and (2) because of the Barnwell closure, waste storage costs are much more uncertain. (It is not clear whether Fielder would trade-off his storage estimate for his increased contingency, but there is a “belt and suspenders” element to the cautious recommendation of both.) A declining contingency, if properly determined, could reflect the improved accuracy of the decommissioning estimates based on more industry experience and being closer to the need for decommissioning. A contingency has an effect in early years of acting like an accelerated funding by over-accruing contributions in addition to its intended purpose of protecting against errors and unforeseen costs in the decommissioning estimate.

Again we are faced with a choice of whether or not to piecemeal the settlement. We will accept the settlement but in the next proceeding we direct all parties to conduct a thorough and complete research and analysis, and then err

¹⁴ Contingency: (1) A future event or circumstance which is possible but cannot be predicted with certainty. (2) A provision for such an event or circumstance. (3) The absence of certainty in events. (Compact Oxford English Dictionary, online.)

on the conservative (high estimate) side, when forecasting a contingency factor. The parties may also make any additional recommendations on the appropriate allowance for contingencies. This finding is applicable to all three utilities.

XI. PG&E's Settlement is Reasonable

The Commission does not unravel a settlement unless there is significant problem with the outcome as a whole—in which case the settlement would fail the public interest test discussed elsewhere. This settled outcome is within the range of plausible litigation outcomes. Except for Humboldt Unit 3, these plants are not in active decommissioning. We are therefore less concerned now about under-funding than we will be as Diablo Units 1 and 2 approach retirement. Our overriding concern with decommissioning is to ensure the trust funds are sufficient to retire the plants pursuant to a reasonable plan and that the funds are recovered equitably from customers throughout the plants' service lives. We find the settlement applicable to PG&E to be reasonable.

XII. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Pub. Util. Code § 311 and Rule 14.2(a) of the Commission's Rules of Practice and Procedure (Rules). Comments were filed on November 20, 2006, by Edison and SDG&E, and separately by SDG&E, PG&E, DRA, and Fielder. Replies were filed by Edison and SDG&E, PG&E, and DRA on November 27, 2006. We have reviewed the comments and have made changes to the decision as appropriate.

XIII. Assignment of the Proceedings

Michael R. Peevey is the assigned Commissioner and Douglas M. Long is the assigned ALJ in these proceedings.

Findings of Fact

1. The Edison and SDG&E settlement is uncontested and resolves all disputed issues.
2. The PG&E settlement is uncontested except for the issues litigated by PG&E and Fielder.
3. The settlements resolve all of the disputed issues among the settling parties.
4. The active parties in the proceeding are representative of the stakeholders, and each has ably and vigorously pursued the interests of its constituency.
5. The proposed settlements' results are within the range of reasonable findings if the applications had been fully litigated on the parties' testimony.
6. An Independent Board of Consultants would interfere with PG&E exercising its obligations to efficiently and reasonably manage the decommissioning process.
7. Good utility practices would require a utility to engage a sufficient staff with appropriate expert training and experience to decommission a nuclear generation plant. This expert staff could be permanent staff, contractors or consultant staff.
8. Further detailed analysis and study is needed before the Commission can adopt reasonable future estimates for low level radiation waste storage.
9. Further detailed analysis and study is needed before the Commission can adopt reasonable future estimates for contingency factors in the decommissioning cost forecasts.

Conclusions of Law

1. Rules 51 *et seq.*, applicable during the pendency of this proceeding, should be used to review the settlement agreement.

2. The settlements for Edison and SDG&E meet the criteria of an uncontested settlement under Rule 51(f) and *San Diego Gas & Electric* 46 CPUC 2d 538 (1992).

3. The settlement for PG&E met the criteria for settlements under Rules 51 *et seq.* Rule 51.6 was satisfied by conducting an evidentiary hearing and the filing of briefs on the contested issues.

4. The settlements are reasonable in light of the whole record.

5. The settlements are in the public interest.

6. The costs incurred by Edison and SDG&E towards the decommissioning of SONGS Unit 1 were reasonable.

7. The costs incurred by PG&E towards the decommissioning of Humboldt Unit 3 were reasonable.

8. Under Rule 51.8, the adoption of the proposed settlements creates no precedent for subsequent triennial reviews of the nuclear decommissioning trust funds or the decommissioning activities of Edison, SDG&E, or PG&E.

9. The Settlements do not contravene or compromise any statutory provision or Commission decision, and are consistent with law.

10. It is reasonable to direct the parties to conduct and include detailed studies in subsequent triennial decommissioning review proceedings.

11. A.05-11-008 and A.05-11-009 should be closed.

FINAL ORDER

IT IS ORDERED that:

1. The attached settlement in Appendix B for Application (A.) 05-11-008 is adopted.
2. The attached settlement with updates in Appendix B for A.05-11-009 is adopted.
3. Southern California Edison Company (Edison) shall file a compliance advice letter with the Commission's Energy Division within 10 days of the effective date of this decision. It shall be served on the service list for this proceeding. The advice letter shall describe how Edison will implement the settlement as adopted in this decision, subject to Energy Division determining that the filing is in compliance with this order. Edison may consolidate the rate changes authorized in this decision with its Energy Resource Recovery Account forecast compliance filing in early 2007.
4. San Diego Gas & Electric Company (SDG&E) shall file a compliance advice letter with the Commission's Energy Division within 10 days of the effective date of this decision. It shall be served on the service list for this proceeding. The advice letter shall describe how SDG&E will implement the settlement as adopted in this decision and the tariffs will be effective on January 1, 2007, or the first day of the month following the effective date of this order, subject to Energy Division determining that the revised tariffs are in compliance with this order. SDG&E is authorized to apply \$2.79 million of the overcollection in its Nuclear Decommissioning Adjustment Mechanism as a 12-month amortization to the nuclear decommissioning rate effective January 1, 2007, to offset the impact of the increase in the Nuclear Decommissioning revenue requirement in 2007.

5. Within 10 days of the effective date of this Decision, Pacific Gas and Electric Company (PG&E) shall file a separate compliance advice letter with the Commission's Energy Division, which shall include the revenue requirement described in the Settlement Agreement. Any resulting rate change shall be incorporated with the next available consolidated rate change following the effective date of this order, subject to Energy Division determining that the revised tariffs are in compliance with this order. The compliance advice letter shall be served on the service list for this proceeding. The compliance advice letter shall describe how PG&E will implement the settlement as adopted in this decision. In accordance with Item 6 of the Settlement Agreement, PG&E shall file a second compliance advice letter in the first quarter of 2007 to update the 2007-2009 revenue requirements that incorporate the December 31, 2006 nuclear decommissioning trust fund balances. The update will serve as the basis for the required IRS Schedule of Ruling Amounts for years 2007-2009. An adjustment to the Nuclear Decommissioning Adjustment Mechanism (NDAM) balancing account shall be made to address any difference in the revenue collected in rates and the annual revenue requirements, as described and updated in the compliance advice letters.

6. Edison, SDG&E, and PG&E shall serve testimony in their next triennial review of nuclear decommissioning trusts and related decommissioning activities that demonstrates they have made all reasonable efforts to retain and utilize sufficient qualified and experienced personnel to effectively, safely, and efficiently pursue any physical decommissioning related activities for the nuclear generation facilities under their control.

7. Edison, SDG&E, and PG&E shall serve testimony in their next triennial review of nuclear decommissioning trusts and related decommissioning

activities that demonstrates they have made all reasonable efforts to conservatively forecast the costs of low level radioactive waste storage.

8. Edison, SDG&E, and PG&E shall serve testimony in their next triennial review of nuclear decommissioning trusts and related decommissioning activities that demonstrates they have made all reasonable efforts to conservatively establish an appropriate contingency factor for inclusion in the decommissioning revenue requirements.

9. A.05-11-008 and A.05-11-009 are closed.

This order is effective today.

Dated January 11, 2007, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
Commissioners

A.05-11-008, A.05-11-009 ALJ/DUG/hkr
APPENDIX A: SERVICE LIST

******* APPEARANCES *******

Norman J. Furuta
FEDERAL EXECUTIVE AGENCIES
333 MARKET STREET, 10TH FLOOR, MS 1021A
SAN FRANCISCO CA 94105-2195
(415) 977-8808
norman.furuta@navy.mil
For: Federal Executive Agencies

Scott L. Fielder
Attorney At Law
FIELDER, FIELDER & FIELDER
419 SPRING STREET, SUITE A
NEVADA CITY CA 95959
(530) 478-1600
fieldersl@theunion.net
For: Self

Joy A. Warren
Attorney At Law
MODESTO IRRIGATION DISTRICT
PO BOX 4060
MODESTO CA 95352
(209) 526-7389
joyw@mid.org
For: Modesto Irrigation District

Craig M. Buchsbaum
Attorney At Law
PACIFIC GAS AND ELECTRIC COMPANY
77 BEALE STREET, B30A
SAN FRANCISCO CA 94105
(415) 973-4844
cmb3@pge.com
For: Pacific Gas and Electric

Rashid A. Rashid
Legal Division
RM. 4107
505 VAN NESS AVE
San Francisco CA 94102 3298
(415) 703-2705
rhd@cpuc.ca.gov
For: DRA

James F. Walsh
Attorney At Law
SAN DIEGO GAS & ELECTRIC COMPANY
101 ASH STREET, HQ12C
SAN DIEGO CA 92101-3017
(619) 696-5022
jwalsh@sempra.com
For: San Diego Gas & Electric

Carol A. Schmid-Fraze
Attorney At Law
SOUTHERN CALIFORNIA EDISON COMPANY
PO BOX 800
ROSEMEAD CA 91770
(626) 302-1337
carol.schmidfrazee@sce.com
For: Southern California Edison Company

Jennifer Shigekawa
Attorney At Law
SOUTHERN CALIFORNIA EDISON COMPANY
2244 WALNUT GROVE AVENUE
ROSEMEAD CA 91770
(626) 302-6819
Jennifer.Shigekawa@sce.com

Matthew Freedman
Attorney At Law
THE UTILITY REFORM NETWORK
711 VAN NESS AVENUE, SUITE 350
SAN FRANCISCO CA 94102
(415) 929-8876
freedman@turn.org
For: TURN

Bernardo R. Garcia
Region 5 Director
UTILITY WORKERS UNION OF AMERICA
215 AVENIDA DEL MAR, SUITE M
SAN CLEMENTE CA 92674-0037
(949) 369-9936
uwua@redhabanero.com

******* STATE EMPLOYEE *******

Truman L. Burns
Division of Ratepayer Advocates
RM. 4102
505 VAN NESS AVE
San Francisco CA 94102 3298
(415) 703-2932
txb@cpuc.ca.gov
For: DRA

Sandra Fromm
Energy Specialist
CALIFORNIA ENERGY COMMISSION
1516 9TH STREET
SACRAMENTO CA 95814
(916) 654-4651
sfromm@energy.state.ca.us

Douglas M. Long
Administrative Law Judge Division
RM. 5023
505 VAN NESS AVE
San Francisco CA 94102 3298
(415) 703-3200
dug@cpuc.ca.gov

Mark R. Loy
Division of Ratepayer Advocates
RM. 4205
505 VAN NESS AVE
San Francisco CA 94102 3298
(415) 703-2268
mrl@cpuc.ca.gov
For: DRA

Anne W. Premo
Energy Division
770 L STREET, SUITE 1050
Sacramento CA 95814
(916) 324-8683
awp@cpuc.ca.gov

***** INFORMATION ONLY *****

James S. Adams
9394 MIRA DEL RIO DRIVE
SACRAMENTO CA 95827
(916) 361-0606
jsadams49@sbcglobal.net

Sean Anderson
915 25ST., NO.1
SAN DIEGO CA 92102-2744
(619) 236-1079
sda219@nyu.edu

J.A. Savage
CALIFORNIA ENERGY CIRCUIT
3006 SHEFFIELD AVE
OAKLAND CA 94602
(510) 534-9109
editorial@californiaenergycircuit.net
For: CALIFORNIA ENERGY CIRCUIT

Melanie Gillette
DUKE ENERGY NORTH AMERICA
980 NINTH STREET, SUITE 1420
SACRAMENTO CA 95814
(916) 441-6233
mlgillette@duke-energy.com

Bill Marcus
JBS ENERGY
311 D STREET
WEST SACRAMENTO CA 95605
(916) 372-0534
bill@jbsenergy.com

Donna Deronne
LARKIN & ASSOCIATES, INC.
15728 FARMINGTON ROAD
LIVONIA MI 48154
(734) 522-3420
DDeRonne@aol.com

Lynne Mackey
LS POWER DEVELOPMENT
400 CHESTERFIELD CTR., SUITE 110
ST. LOUIS MO 63017
lmackey@lspower.com

Audra Hartmann
LS POWER GENERATION
980 NINTH STREET, SUITE 1420
SACRAMENTO CA 95814
(916) 441-6242
ahartmann@lspower.com

Christopher J. Mayer
MODESTO IRRIGATION DISTRICT
PO BOX 4060
MODESTO CA 95352-4060
(209) 526-7430
chrism@mid.org

MRW & ASSOCIATES, INC.
1999 HARRISON STREET, SUITE 1440
OAKLAND CA 94612
(510) 834-1999
mrw@mrwassoc.com

Bonnie W. Tam
PACIFIC GAS AND ELECTRIC COMPANY
77 BEALE STREET, B8R
SAN FRANCISCO CA 94105
(415) 972-5509
bwt4@pge.com

Chenoa Thomas
PACIFIC GAS AND ELECTRIC COMPANY
77 BEALE STREET, B10A
SAN FRANCISCO CA 94105
(415) 973-5965
cath@pge.com

Maybelline Dizon
PACIFIC GAS AND ELECTRIC COMPANY
77 BEALE STREET, MC B10A
SAN FRANCISCO CA 94105
(415) 973-1670
M1D1@pge.com

Lisa Browy
Regulatory Case Administrator
SAN DIEGO GAS & ELECTRIC COMPANY
101 ASH STREET, CP32D
SAN DIEGO CA 92123
(858) 654-1566
lbrowy@semprautilities.com

Case Administration
SOUTHERN CALIFORNIA EDISON COMPANY
ROOM 370
2244 WALNUT GROVE AVENUE
ROSEMEAD CA 91770
(626) 302-4875
case.admin@sce.com

Walker A. Matthews, Iii
Attorney At Law
SOUTHERN CALIFORNIA EDISON COMPANY
2244 WALNUT GROVE AVENUE
ROSEMEAD CA 91770
(626) 302-6879
walker.matthews@sce.com
For: Southern California Edison

Chris Vaeth
Attorney At Law
THE GREENLINING INSTITUTE
1918 UNIVERSITY AVE., 2ND FLOOR
BERKELEY CA 94704
(510) 926-4026
chrisv@greenlining.org
For: THE GREENLINING INSTITUTE

Robert Gnaizda
Policy Director/General Counsel
THE GREENLINING INSTITUTE
1918 UNIVERSITY AVENUE, SECOND FLOOR
BERKELEY CA 94704
(510) 926-4006
robertg@greenlining.org
For: THE GREENLINING INSTITUTE

Michael Shames
Attorney At Law
UTILITY CONSUMERS' ACTION NETWORK
3100 FIFTH AVENUE, SUITE B
SAN DIEGO CA 92103
(619) 696-6966
mshames@ucan.org
For: UTILITY CONSUMERS' ACTION NETWORK

(END OF APPENDIX A)

Attachment 5

Annual Funding Status Report for the Year Ending December 2006

Public Service Company of New Mexico



PUBLIC SERVICE COMPANY OF NEW MEXICO

TERMINATION FUNDING COMMITTEE

2006 ANNUAL FUNDING STATUS REPORT

For The Year Ending December 31, 2006

February 2007

*Public Service Company of New Mexico
Annual Funding Status Report
For Year Ending December 31, 2006
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Annual Funding Status Report
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Part 1 – General Information*

1.1 Description of Funds

1.1.1 Fund: Master Trust – Non-Qualified Equity Funds

- A. Units Funded: PVNGS Units 1, 2, and 3
- B. Tax Status: Non-qualified external trust established March 15, 1996
- C. Independent Trustee: Mellon Bank, N. A.
- D. Investment Manager: Wells Capital Management, First Quadrant, LP
- E. Basic Documents:
 - a. Master Decommissioning Trust Agreement for Palo Verde Nuclear Generating Station
 - b. Amendment Number One to the Master Decommissioning Trust Agreement for Palo Verde Nuclear Generating Station
 - c. Amendment Number Two to the Master Decommissioning Trust Agreement for Palo Verde Nuclear Generating Station
 - d. Investment Advisory Agreement Between Public Service Company of New Mexico and Wells Capital Management, Inc.
 - e. Investment Advisory Agreement Between Public Service Company of New Mexico and First Quadrant, LP
 - f. Investment Advisory Agreement Between Public Service Company of New Mexico and Philadelphia International Advisors.
- F. Changes since last report: None

1.1.2 Fund: Master Trust – Qualified Equity Funds

- A. Units Funded: PVNGS Units 1 and 2
- B. Tax Status: Qualified external trust established March 15, 1996
- C. Independent Trustee: Mellon Bank, N. A.
- D. Investment Manager: Wells Capital Management, First Quadrant, LP, Philadelphia International Advisors
- E. Basic Documents:
 - a. Master Decommissioning Trust Agreement for Palo Verde Nuclear Generating Station
 - b. Amendment Number One to the Master Decommissioning Trust Agreement for Palo Verde Nuclear Generating Station
 - c. Amendment Number Two to the Master Decommissioning Trust Agreement for Palo Verde Nuclear Generating Station
 - d. Investment Advisory Agreement Between Public Service Company of New Mexico and Wells Capital Management, Inc.
 - e. Investment Advisory Agreement Between Public Service Company of New Mexico and First Quadrant, LP
 - f. Investment Advisory Agreement Between Public Service Company of New Mexico and Philadelphia International Advisors.
- F. Changes since last report: Addition of Wells Capital Management as an Investment for the Qualified Trust.

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1.1.3 Fund: Master Trust – Non-Qualified Fixed Income Funds

- A. Units Funded: PVNGS Units 1, 2, and 3
- B. Tax Status: Non-qualified external trust established March 15, 1996
- C. Independent Trustee: Mellon Bank, N. A.
- D. Investment Manager: T. Rowe Price Associates, Inc.
- E. Basic Documents:
 - a. Master Decommissioning Trust Agreement for Palo Verde Nuclear Generating Station
 - b. Amendment Number One to the Master Decommissioning Trust Agreement for Palo Verde Nuclear Generating Station
 - c. Amendment Number Two to the Master Decommissioning Trust Agreement for Palo Verde Nuclear Generating Station
 - d. Investment Advisory Agreement Between Public Service Company of New Mexico and T. Rowe Price Associates, Inc.
- F. Changes since last report: None

1.1.4 Fund: Master Trust – Qualified Fixed Income Funds

- A. Units Funded: PVNGS Units 1 and 2
- B. Tax Status: Qualified external trust established March 15, 1996
- C. Independent Trustee: Mellon Bank, N. A.
- D. Investment Manager: T. Rowe Price Associates, Inc.
- E. Basic Documents:
 - a. Master Decommissioning Trust Agreement for Palo Verde Nuclear Generating Station
 - b. Amendment Number One to the Master Decommissioning Trust Agreement for Palo Verde Nuclear Generating Station
 - c. Amendment Number Two to the Master Decommissioning Trust Agreement for Palo Verde Nuclear Generating Station
 - d. Investment Advisory Agreement Between Public Service Company of New Mexico and T. Rowe Price Associates, Inc.
- F. Changes since last report: None

Public Service Company of New Mexico
 Annual Funding Status Report
 For Year Ending December 31, 2006
 Part 1 – General Information

1.2 **Pro Rata Share**

Generation Entitlement Share	10.20%
Section 23.5 Obligation	0 %
Total Pro Rata Share	10.20%

1.3 **Sale and Leaseback Transactions**

<u>Unit</u>	<u>Lessor/Trustee</u>	<u>Lessor Ownership</u>	<u>Decommissioning Fund Required</u>	<u>Funding Basis</u>	<u>Date Funding is Required</u>	<u>Funding Compliance Status</u>
1	U. S.Bank, N.A.	78% *	Yes	**	**	**
2	U. S.Bank, N.A.	78% *	Yes	**	**	**
3	N/A	0%	N/A	N/A	N/A	N/A

* PNM purchased beneficial interests in 22% of the leases, and the relevant leases were subsequently collapsed so that PNM now owns those interests directly.

** The Sale and Leaseback agreements between PNM and the various Lessors are silent to these requirements other than to require compliance with applicable law.

1.4 **Summary of Regulatory Requirements Respecting Electric Rates and Termination Funding**

- 1.4.1 The New Mexico Public Regulation Commission ("NMPRC") regulates the recovery of decommissioning costs through rates and other matters related to decommissioning for Units 1 and 2 of PVNGS.
- 1.4.2 The NMPRC, in Case No. 2004, approved the use of an external non-qualified investment plan known as the Cost of Money Reduction Plan ("COMReP") for Units 1 and 2 and permitted, but did not require, the use of the same plan for Unit 3.
- 1.4.3 The NMPRC approved the use of external qualified trust in Case No. 2674.
- 1.4.4 On September 16, 1997, the NMPRC determined in Case No. 2742 that PNM, as required, had presented and explained its proposed method to remain fully funded whenever a revised decommissioning cost study shows that PNM needs to increase the contribution to remain fully funded.
- 1.4.5 In July 1998, in Case No. 2830 the NMPRC issued a final order relieving PNM of the obligation of investing in COMReP.

*Public Service Company of New Mexico
Annual Funding Status Report
For Year Ending December 31, 2006
Part 1 – General Information*

- 1.4.6 In 1998, PNM and the Trustee of the Master Nuclear Decommissioning Trust filed a civil complaint and an amended complaint, respectively, against several companies and individuals for the under-performance of COMReP. The parties reached a settlement agreement on September 5, 2000 under which all complaints were dismissed. After deducting expenses and taxes from the settlement, the net proceeds were contributed to the decommissioning trust.
- 1.4.7 There are no decommissioning costs included in FERC jurisdictional rates being collected for any of the PVNGS units. Therefore, PNM's decommissioning trust funds are not currently subject to FERC regulation.
- 1.4.8 In January 2003, an electric Stipulated Agreement was approved by the NMPRC in Case No. 3137. The Stipulated Agreement provides for a fixed rate path, which is effective for services rendered September 1, 2003 through December 31, 2007. In addition, the signatories to the Stipulated Agreement have acknowledged that the stipulated rates shall be deemed to provide for full recovery of nuclear decommissioning costs accrued in accordance with the estimates in the most current decommissioning cost study prepared by TLG Services, Inc. during the period the rates are in effect for PNM's interests in PVNGS Units 1 and 2. Annual decommissioning expenses approved by the NMPRC in Case No. 3137 for PVNGS Units 1 and 2 are shown below. Unit 3 is excluded from NMPRC rates. The decommissioning expense for PVNGS Unit 3 is also shown below:

Unit 1	\$ 2,404,373
Unit 2	\$ 2,491,835
Unit 3	<u>\$ 2,756,346</u>
	\$ 7,652,554

1.5 Statement of Investment Policies and Restrictions

- 1.5.1 Trust Agreement restrictions: Same as Chapter 5.4 of the Manual of the TFC.

1.6 PVNGS Unit 3 Financial Assurance

- 1.6.1 As reflected in this report, PNM continues to rely on the external sinking fund mechanism for financial assurance for its decommissioning obligations with respect to its interest in PVNGS Unit 3. Costs associated with PNM's interest in Unit 3 have never been in retail rates and such costs were permanently excluded from New Mexico retail rates by an NMPRC order issued in 1989. Excluding revenues from power-marketing operations (a substantial portion of which involved the purchase and sale of wholesale power), PNM in the year 2006 collected about 94% of its gas and electric utility revenues from cost of service based rates. PNM is continuing to collect the vast majority of its Unit 3 decommissioning costs through cost of service based revenues within the meaning of 10 CFR 50.75(e)(1)(ii)(A). PNM's electric revenues from its interest in Unit 3 represented less than 5% of PNM's electric revenues in the year 2006.

It should be noted that the total revenues recovered by PNM through traditional cost of service rates are greatly in excess of its decommissioning funding requirements for Unit 3. For 2006, PNM had retail electric cost of service revenues of \$592.1 million, as contrasted with the approximately \$2.3 million annual required contribution to PNM's Unit 3 decommissioning trust fund. Notably, at the end of 2006, PNM had accumulated \$35.3 million (market value) in its Unit 3 decommissioning trust fund.

Public Service Company of New Mexico
 Annual Funding Status Report
 For Year Ending December 31, 2006
 Part 2 –Status of Termination Fund at 12/31/06

2.1 Committed Accumulations at 12/31/06 (000's)

	<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>
2.1.1 Latest Estimated Termination Costs (2004)	656,912	699,755	768,049	2,124,716
2.1.2 Generation Entitlement Share of Estimated Termination Costs	67,005	71,375	78,341	216,721
2.1.3 Escalation Adjustment Factor	1.1025	1.1025	1.1025	1.1025
2.1.4 Adjusted Share of Estimated Termination Costs (2.1.2 amount) X (2.1.3)	73,873	78,691	86,371	238,935
2.1.5 Percent Funding Requirement at End of Reporting Period from Percent Funded	39.89%	40.24%	37.84%	39.26%
2.1.6 Committed Accumulations at End of Reporting Period (2.1.4 amount) X (2.1.5)	29,468	31,665	32,683	93,816
2.1.7 Summary of Major Assumptions in Developing Accumulations Curves				
Portfolio Yield		9.50%		
Mortality		1983 Group Annuity Mortality		
Policy Loan Interest Rate		8.50%		
Inflation Rate		5.00%		
Side Fund Interest Rate		5% After Tax		
2.1.8 Decommissioning Cost Assumptions Used in the Annual Funding Status Report Cost Study		2004TLG		
Water Reclamation Facility		Included		
Water Reclamation Supply System Pipeline & Structures		Included		
Make-up Water Reservoir		Included		
ISFSI		Included		
Stored Steam Generators & Storage Facility		Included		

Public Service Company of New Mexico
 Annual Funding Status Report
 For Year Ending December 31, 2006
 Part 2 –Status of Termination Fund at 12/31/06

2.2.1 Market Value of Actual Accumulations at 12/31/06	<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>	
	43,238,911	44,776,769	35,127,560	123,143,240	
2.2.2 Computation of Actual Accumulations:	<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>	
2.2.2.a. Master Decommissioning Trust - Qualified Funds					
Account Balances as of 12/31/06	30,869,804	29,952,969		60,822,773	
2.2.2.b. Master Decommissioning Trust - Non Qualified Funds					
Account Balances as of 12/31/06	12,369,107	14,823,800	35,127,560	62,320,467	
2.2.2.c Total All Trusts	43,238,911	44,776,769	35,127,560	123,143,240	(A) Market Value
2.2.2.d Estimated Taxes and Fees					
Trustee	36,409	36,409	36,409	109,227	
Non-Qualified Taxes	849,640	1,009,626	2,333,069	4,192,335	
Qualified Taxes	1,335,235	1,298,156		2,633,391	
Total Estimated Taxes and Fees	2,221,284	2,344,191	2,369,478	6,934,953	(B) Estimated Taxes & Expenses
Total Liquidated After-Tax value	41,017,627	42,432,578	32,758,082	116,208,287	(A)-(B)

Public Service Company of New Mexico
 Annual Funding Status Report
 For Year Ending December 31, 2006
 Part 2 – Status of Termination Fund at 12/31/06

2.3 Funded Floor Amount at 12/31/06 (000's)

	<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>
2.3.1 Percentage of Committed Accumulations	81%	81%	81%	81%
2.3.2 Funded Floor Amount	23,869	25,649	26,473	75,991

2.4 Deposits Made During 2006 (All Termination Funds)

	<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>
NRC Required Deposit	0	0	0	0
Normal Annual Deposit			750,000	0
Mandatory Deposit	1,823,708	1,751,777	0	3,575,485
Recovery Deposits	0	0	0	0
Correcting Deposits	0	0	0	0
Total Deposits	1,823,708	1,751,777	750,000	4,325,485

2.5 Mandatory Deposits During 2006

The mandatory deposit amount was equal to the following:	<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>
	1,823,708	1,751,777	0	3,575,485

2.6 Estimated Outstanding Balance of Recovery Deposits and Correcting Deposits Outstanding at 12/31/06

	<u>Recovery Deposits:</u>	<u>Correcting Deposits:</u>
	Amount Outstanding	Amount Outstanding
	_____ (\$000)	_____ (\$000)
All Units	0	0

Public Service Company of New Mexico
 Annual Funding Status Report
 For Year Ending December 31, 2006
 Part 2 – Status of Termination Fund at 12/31/06

2.7 Annual Net Income (Loss) During 2006 (All Funds: All Units)

2.7.1 Qualified Funds

	<u>Unit 1</u>	<u>Unit 2</u>
Income	676,393	657,177
Realized Gains/Losses	2,303,422	2,335,302
Other Income	845	821
Transfer unto Account	1,823,708	1,751,777
Expenses (Includes Taxes)	(572,602)	(580,322)
Change In Unrealized Appreciation Or Depreciation of Assets	1,431,323	1,385,086
Beginning Market Value	25,206,716	24,503,128
Ending Net Asset Market Value	30,869,804	29,952,969

2.7.2 Non-Qualified Funds

	<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>
Income	300,293	359,886	836,154
Realized Gains/Losses	391,198	468,830	1,087,706
Other Income	46	55	127
Transfer unto Account	0	0	0
Expenses (Includes Taxes)	(72,893)	(87,259)	(202,349)
Change In Unrealized Appreciation Or Depreciation of Assets	506,090	606,254	1,403,390
Beginning Market Value	11,244,374	13,475,765	31,252,533
Ending Net Asset Market Value	12,369,107	14,823,800	35,127,560

Public Service Company of New Mexico
 Annual Funding Status Report
 For Year Ending December 31, 2006
 Part 2 –Status of Termination Fund at 12/31/06

2.8 Summary of Market Values of Permitted Investments at 12/31/2006

	<u>Qualified</u>	<u>Non-Qualified</u>	<u>Total</u>
2.8.1 Cash and Cash equivalents	7,493,130	937,016	8,430,147
2.8.2 Acceptable Debt Securities	9,505,133	24,466,021	33,971,154
2.8.3 Acceptable Equity Securities	43,824,499	36,917,429	80,741,928
2.8.4 Acceptable Life Insurance	0	0	0
2.8.5 Acceptable Property Interests	0	0	0
	60,822,762	62,320,466	123,143,228

2.9 Inventory and Values of Permitted Investments at 12/31/2006

Attached as Exhibit 3.1 [Not Attached]

2.10 Fund Liabilities at 12/31/2006

None, except those estimated taxes and accrued expenses listed in 2.2.2.d

2.11 Defaults, If Any, Experienced on Investments

None

2.12 Summary of Investments Ratings

Attached as Exhibit 3.2

*Public Service Company of New Mexico
Annual Funding Status Report
For Year Ending December 31, 2006
Part 3-Exhibits*

- 3.1** *Inventory and Values of Permitted Investments at 12/31/2006* [Not Attached]
- 3.2** *Summary of Investments Ratings*
- 3.3** *Table of Estimated Deposits*
- 3.4** *Committed Accumulations to End of Funding Period for Each Unit and Percent Funding Curve and Funding Floor Curve for Each Unit*

Exhibit 3.2

Summary of Investment Ratings

Public Service of New Mexico Qualified Taxable Fixed Income Portfolio as of 12/31/06

Moody's		S&P	
<u>Rating Range</u>	<u>% of Market Value</u>	<u>Rating Range</u>	<u>% of Market Value</u>
Aaa	73.41	AAA	73.51
Aa1-3	11.93	AA+, AA, AA-	6.79
A1-A3	14.08	A+, A, A-	19.38
Nonrated	0.26	Nonrated	0.00
Cash	<u>0.32</u>	Cash	<u>0.32</u>
	100.00		100.00

Note: All bonds that are nonrated by one of the nationally recognized statistical ratings organizations (NRSRO) are rated A or higher by either a different NRSRO or by T. Rowe Price's internal rating system.

Public Service of New Mexico Non-Qualified Taxable Fixed Income Portfolio as of 12/31/06

Moody's		S&P	
<u>Rating Range</u>	<u>% of Market Value</u>	<u>Rating Range</u>	<u>% of Market Value</u>
Aaa	50.07	AAA	51.19
Aa1-3	30.15	AA+, AA, AA-	29.69
A1-A3	14.56	A+, A, A-	9.66
Baa	0.00	BBB	1.06
Nonrated	2.99	Nonrated	6.17
Cash	<u>2.23</u>	Cash	<u>2.23</u>
	100.00		100.00

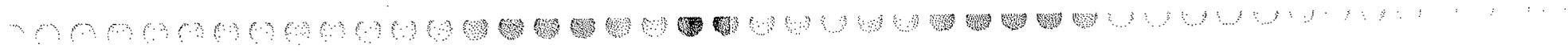


Exhibit 3.3
Table of Estimated Deposits

Estimated Decommissioning Contributions
 PVNGS Units 1, 2, and 3
 (\$000)

TOTAL	UNIT 1	UNIT 2	UNIT 3	TOTAL CONTRIBUTIONS
2006	1,842	1,842	2,284	5,968
2007	1,842	1,842	2,284	5,968
2008	1,842	1,842	2,284	5,968
2009	1,842	1,842	2,284	5,968
2010	1,842	1,842	2,284	5,968
2011	1,842	1,842	2,284	5,968
2012	1,842	1,842	2,284	5,968
2013	1,842	1,842	2,284	5,968
2014	1,842	1,842	2,284	5,968
2015	1,842	1,842	2,284	5,968
2016	1,842	1,842	2,284	5,968
2017	1,842	1,842	2,284	5,968
2018	1,842	1,842	2,284	5,968
2019	1,842	1,842	2,284	5,968
2020	1,842	1,842	2,284	5,968
2021	1,842	1,842	5,305	8,988
2022	1,842	1,842	5,305	8,988
2023	1,842	1,842	5,305	8,988
2024	1,842	1,842	5,305	8,988
2025	-	1,842	2,284	4,126
2026	-	-	2,284	2,284



Exhibit 3.4

*Committed Accumulations to End of Funding Period for Each Unit and
Percent Funding Curve and Funding Floor Curve for Each Unit*

PUBLIC SERVICE COMPANY OF NEW MEXICO
PALO VERDE UNIT 1
(\$000)

Year	Funding Plan			Funding Floor Curve			Actual Funding		
	Fund \$	Est. Costs	% Funded	Criteria	Percent	\$ Amount	Fund \$	Est. Cost	% Funded
1991	1,095	28,746	3.81%	80%	3.05%	876	1,096	28,746	3.81%
1992	3,450	45,099	7.65%	80%	6.12%	2,760	2,334	45,099	5.18%
1993	5,981	47,354	12.63%	80%	10.10%	4,785	3,691	47,354	7.79%
1994	6,807	49,722	13.69%	80%	10.95%	5,446	4,117	49,722	8.28%
1995	7,018	45,959	15.27%	80%	12.22%	5,614	4,235	45,959	9.21%
1996	8,107	48,257	16.80%	80%	13.44%	6,486	8,094	48,257	16.77%
1997	9,212	50,670	18.18%	80%	14.54%	7,369	9,999	50,670	19.73%
1998	11,170	56,873	19.64%	80%	15.71%	8,936	14,095	56,873	24.78%
1999	12,953	59,717	21.69%	80%	17.35%	10,362	16,354	59,717	27.39%
2000	15,193	62,703	24.23%	80%	19.38%	12,154	17,447	62,703	27.82%
2001	16,828	62,816	26.79%	80%	21.43%	13,463	17,673	62,816	28.13%
2002	19,371	65,956	29.37%	80%	23.50%	15,497	20,057	65,956	30.41%
2003	22,147	69,254	31.98%	80%	25.58%	17,718	24,991	69,254	36.09%
2004	23,177	67,005	34.59%	80%	27.67%	18,542	29,313	67,005	43.75%
2005	26,193	70,355	37.23%	80%	29.78%	20,955	34,723	70,355	49.35%
2006	29,468	73,873	39.89%	81%	32.31%	23,869	41,018	73,873	55.53%
2007	33,005	77,566	42.55%	82%	34.89%	27,064			
2008	36,821	81,445	45.21%	83%	37.52%	30,562			
2009	41,040	85,517	47.99%	84%	40.31%	34,473			
2010	45,516	89,793	50.69%	85%	43.09%	38,689			
2011	50,300	94,283	53.35%	86%	45.88%	43,258			
2012	55,646	98,997	56.21%	87%	48.90%	48,412			
2013	61,370	103,947	59.04%	88%	51.96%	54,006			
2014	67,505	109,144	61.85%	89%	55.05%	60,080			
2015	74,067	114,601	64.63%	90%	58.17%	66,660			
2016	81,079	120,331	67.38%	91%	61.32%	73,782			
2017	88,911	126,348	70.37%	92%	64.74%	81,798			
2018	97,270	132,665	73.32%	93%	68.19%	90,461			
2019	106,187	139,298	76.23%	94%	71.66%	99,816			
2020	115,694	146,263	79.10%	95%	75.15%	109,909			
2021	125,761	153,498	81.93%	96%	78.65%	120,731			
2022	136,668	161,033	84.87%	97%	82.32%	132,568			
2023	148,631	168,937	87.98%	98%	86.22%	145,658			
2024	161,129	176,541	91.27%	99%	90.36%	159,517			
2025	170,208	183,969	92.52%	100%	92.52%	170,208			
2026	172,713	184,208	93.76%	100%	93.76%	172,713			
2027	158,159	166,466	95.01%	100%	95.01%	158,159			
2028	134,512	139,738	96.26%	100%	96.26%	134,512			
2029	114,887	117,820	97.51%	100%	97.51%	114,887			
2030	99,811	101,074	98.75%	100%	98.75%	99,811			
2031	82,052	82,052	100.00%	100%	100.00%	82,052			
2032	67,156	67,156	100.00%	100%	100.00%	67,156			
2033	68,495	68,495	100.00%	100%	100.00%	68,495			
2034	70,352	70,352	100.00%	100%	100.00%	70,352			
2035	68,212	68,212	100.00%	100%	100.00%	68,212			
2036	62,161	62,161	100.00%	100%	100.00%	62,161			
2037	55,688	55,688	100.00%	100%	100.00%	55,688			

**Public Service Company Of New Mexico
Palo Verde Unit 1**

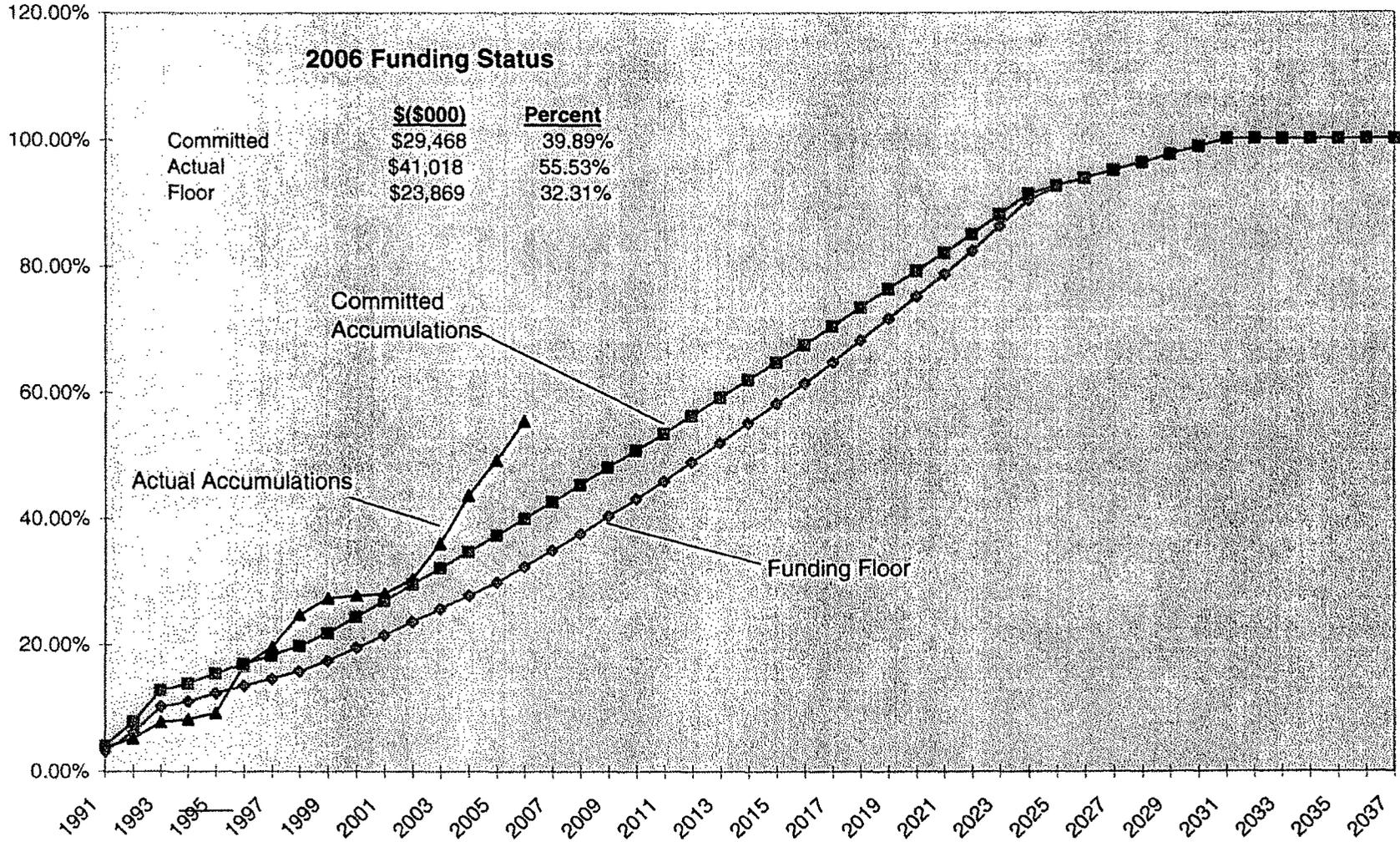


Exhibit 3.4

PUBLIC SERVICE COMPANY OF NEW MEXICO
PALO VERDE UNIT 2
(\$000)

Year	Funding Plan			Funding Floor Curve			Actual Funding		
	Fund \$	Est. Costs	% Funded	Criteria	Percent	\$ Amount	Fund \$	Est. Cost	% Funded
1991	1,096	28,499	3.85%	80%	3.08%	877	1,096	28,499	3.85%
1992	3,426	44,375	7.72%	80%	6.18%	2,741	2,334	44,375	5.26%
1993	5,936	46,594	12.74%	80%	10.19%	4,749	3,691	46,594	7.92%
1994	6,756	48,923	13.81%	80%	11.05%	5,405	4,117	48,923	8.42%
1995	7,346	47,703	15.40%	80%	12.32%	5,877	4,235	47,703	8.88%
1996	8,485	50,088	16.94%	80%	13.55%	6,788	8,479	50,088	16.93%
1997	9,645	52,593	18.34%	80%	14.67%	7,716	10,368	52,593	19.71%
1998	11,860	59,869	19.81%	80%	15.85%	9,488	14,528	59,869	24.27%
1999	13,754	62,862	21.88%	80%	17.50%	11,003	16,931	62,862	26.93%
2000	16,132	66,005	24.44%	80%	19.55%	12,905	18,040	66,005	27.33%
2001	18,557	68,678	27.02%	80%	21.62%	14,845	18,765	68,678	27.32%
2002	21,359	72,112	29.62%	80%	23.70%	17,088	21,329	72,112	29.58%
2003	24,419	75,717	32.25%	80%	25.80%	19,535	26,333	75,717	34.78%
2004	24,903	71,375	34.89%	80%	27.91%	19,922	30,794	71,375	43.14%
2005	28,141	74,943	37.55%	80%	30.04%	22,513	36,159	74,943	48.25%
2006	31,665	78,690	40.24%	81%	32.59%	25,649	42,433	78,690	53.92%
2007	35,463	82,625	42.92%	82%	35.19%	29,079			
2008	39,561	86,756	45.60%	83%	37.85%	32,835			
2009	44,089	91,094	48.40%	84%	40.66%	37,035			
2010	48,905	95,649	51.13%	85%	43.46%	41,569			
2011	54,042	100,431	53.81%	86%	46.28%	46,476			
2012	59,781	105,453	56.69%	87%	49.32%	52,010			
2013	65,937	110,725	59.55%	88%	52.40%	58,025			
2014	72,524	116,262	62.38%	89%	55.52%	64,546			
2015	79,580	122,075	65.19%	90%	58.67%	71,622			
2016	87,123	128,178	67.97%	91%	61.85%	79,282			
2017	95,530	134,587	70.98%	92%	65.30%	87,888			
2018	104,518	141,317	73.96%	93%	68.78%	97,202			
2019	114,091	148,383	76.89%	94%	72.28%	107,246			
2020	124,299	155,802	79.78%	95%	75.79%	118,084			
2021	135,192	163,592	82.64%	96%	79.33%	129,785			
2022	147,036	171,771	85.60%	97%	83.03%	142,625			
2023	159,456	180,360	88.41%	98%	86.64%	156,267			
2024	172,391	189,378	91.03%	99%	90.12%	170,667			
2025	182,541	198,847	91.80%	100%	91.80%	182,541			
2026	193,748	208,736	92.82%	100%	92.82%	193,748			
2027	175,479	186,978	93.85%	100%	93.85%	175,479			
2028	150,476	158,613	94.87%	100%	94.87%	150,476			
2029	123,827	129,121	95.90%	100%	95.90%	123,827			
2030	111,416	114,956	96.92%	100%	96.92%	111,416			
2031	96,720	98,745	97.95%	100%	97.95%	96,720			
2032	80,586	81,424	98.97%	100%	98.97%	80,586			
2033	68,495	68,495	100.00%	100%	100.00%	68,495			
2034	70,294	70,294	100.00%	100%	100.00%	70,294			
2035	68,121	68,121	100.00%	100%	100.00%	68,121			
2036	62,103	62,103	100.00%	100%	100.00%	62,103			
2037	55,680	55,680	100.00%	100%	100.00%	55,680			

**Public Service Comany of New Mexico
Palo Verde Unit 2**

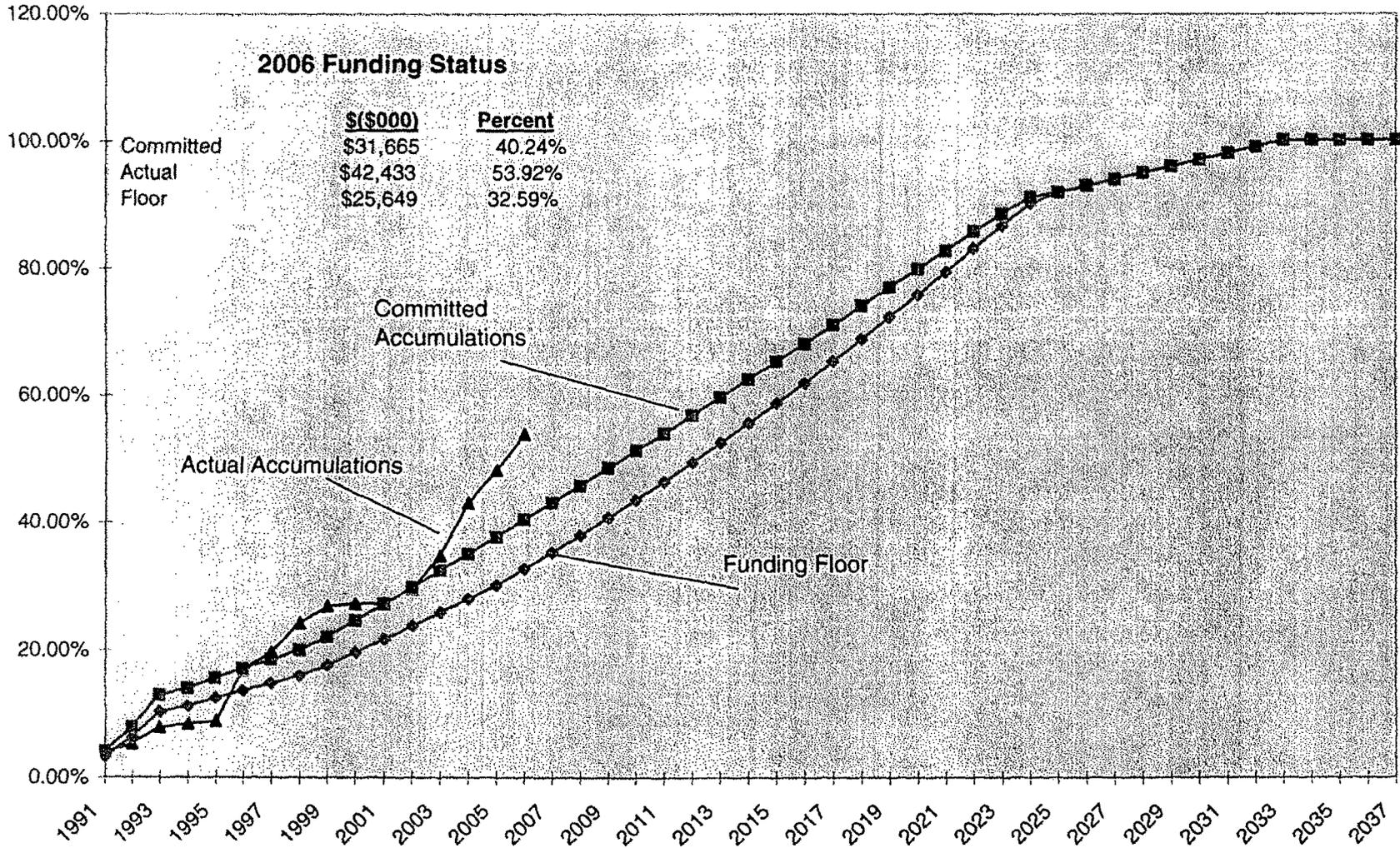


Exhibit 3.4

PUBLIC SERVICE COMPANY OF NEW MEXICO
PALO VERDE UNIT 3
(\$000)

Funding Plan				Funding Floor Curve			Actual Funding		
Year	Fund \$	Est. Costs	% Funded	Criteria	Percent	\$ Amount	Fund \$	Est. Cost	% Funded
1991	1,097	30,306	3.62%	80%	2.90%	878	1,097	30,306	3.62%
1992	3,403	46,867	7.62%	80%	6.10%	2,722	2,335	46,867	4.98%
1993	5,895	49,211	11.98%	80%	9.58%	4,716	3,692	49,211	7.50%
1994	6,712	51,671	12.99%	80%	10.39%	5,370	4,117	51,671	7.97%
1995	7,799	53,863	14.48%	80%	11.58%	6,239	4,235	53,863	7.86%
1996	9,009	56,556	15.93%	80%	12.74%	7,208	9,007	56,556	15.93%
1997	10,238	59,384	17.24%	80%	13.79%	8,190	10,228	59,384	17.22%
1998	11,992	64,372	18.63%	80%	14.90%	9,594	11,689	64,372	18.16%
1999	13,903	67,590	20.57%	80%	16.46%	11,123	16,377	67,590	24.23%
2000	16,309	70,970	22.98%	80%	18.38%	13,047	18,332	70,970	25.83%
2001	17,703	69,668	25.41%	80%	20.33%	14,162	18,985	69,668	27.25%
2002	20,380	73,151	27.86%	80%	22.29%	16,304	20,579	73,151	28.13%
2003	23,296	76,808	30.33%	80%	24.26%	18,637	23,094	76,808	30.07%
2004	25,704	78,341	32.81%	80%	26.25%	20,563	27,665	78,341	35.31%
2005	29,053	82,258	35.32%	80%	28.26%	23,243	29,446	82,258	35.80%
2006	32,683	86,371	37.84%	81%	30.65%	26,473	32,758	86,371	37.93%
2007	36,602	90,689	40.36%	82%	33.10%	30,014			
2008	40,832	95,224	42.88%	83%	35.59%	33,891			
2009	45,513	99,985	45.52%	84%	38.24%	38,231			
2010	50,476	104,984	48.08%	85%	40.87%	42,905			
2011	55,778	110,233	50.60%	86%	43.52%	47,969			
2012	61,704	115,745	53.31%	87%	46.38%	53,682			
2013	68,058	121,532	56.00%	88%	49.28%	59,891			
2014	74,855	127,609	58.66%	89%	52.21%	66,621			
2015	82,136	133,989	61.30%	90%	55.17%	73,922			
2016	89,914	140,689	63.91%	91%	58.16%	81,822			
2017	98,605	147,723	66.75%	92%	61.41%	90,717			
2018	107,879	155,109	69.55%	93%	64.68%	100,327			
2019	117,768	162,865	72.31%	94%	67.97%	110,702			
2020	128,307	171,008	75.03%	95%	71.28%	121,892			
2021	139,535	179,559	77.71%	96%	74.60%	133,954			
2022	151,772	188,537	80.50%	97%	78.09%	147,219			
2023	164,567	197,963	83.13%	98%	81.47%	161,276			
2024	177,950	207,862	85.61%	99%	84.75%	176,171			
2025	188,288	218,255	86.27%	100%	86.27%	188,288			
2026	200,795	229,114	87.64%	100%	87.64%	200,795			
2027	211,856	238,014	89.01%	100%	89.01%	211,856			
2028	219,577	242,922	90.39%	100%	90.39%	219,577			
2029	197,149	214,853	91.76%	100%	91.76%	197,149			
2030	172,032	184,723	93.13%	100%	93.13%	172,032			
2031	148,606	157,239	94.51%	100%	94.51%	148,606			
2032	131,272	136,913	95.88%	100%	95.88%	131,272			
2033	111,233	114,379	97.25%	100%	97.25%	111,233			
2034	89,377	90,619	98.63%	100%	98.63%	89,377			
2035	77,649	77,649	100.00%	100%	100.00%	77,649			
2036	67,592	67,592	100.00%	100%	100.00%	67,592			
2037	56,420	56,420	100.00%	100%	100.00%	56,420			

**Public Service Company of New Mexico
Palo Verde Unit 3**

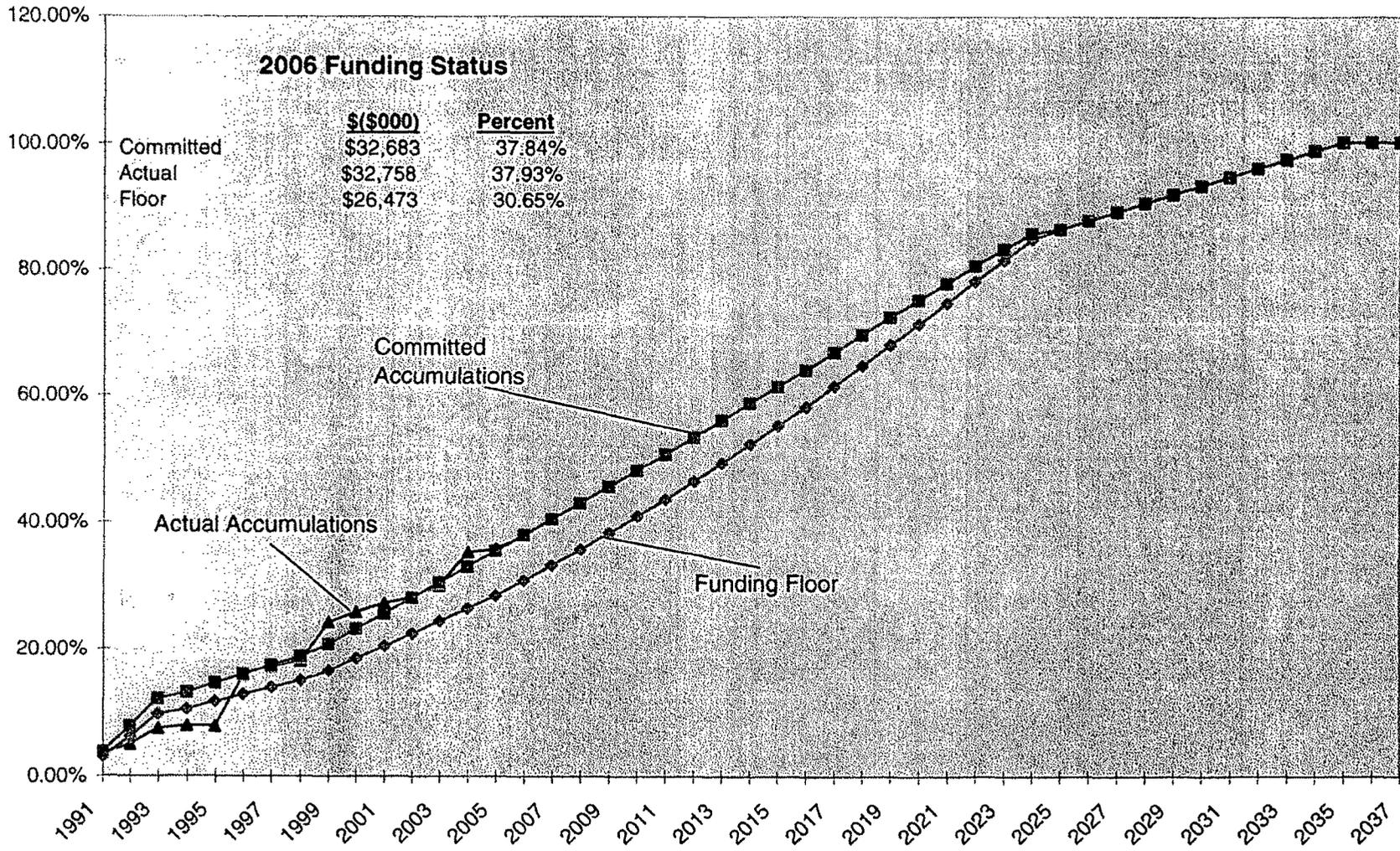


Exhibit 3.4

PUBLIC SERVICE COMPANY OF NEW MEXICO
PALO VERDE UNITS 1, 2, 3
(\$Thousands)

2004 TLG Cost study									
Funding Plan			Funding Floor Curve				Actual Funding		
Year	Fund \$	Est. Costs	% Funded	Criteria	Percent	\$ Amount	Fund \$	Est. Cost	% Funded
1991	3,288	87,551	3.76%	80%	3.00%	2,630	3,289	87,551	3.76%
1992	10,279	136,341	7.54%	80%	6.03%	8,223	7,003	136,341	5.14%
1993	17,812	143,159	12.44%	80%	9.95%	14,250	11,074	143,159	7.74%
1994	20,275	150,316	13.49%	80%	10.79%	16,220	12,351	150,316	8.22%
1995	22,164	147,525	15.02%	80%	12.02%	17,731	12,705	147,525	8.61%
1996	25,601	154,901	16.53%	80%	13.22%	20,481	25,581	154,901	16.51%
1997	29,095	162,646	17.89%	80%	14.31%	23,276	30,594	162,646	18.81%
1998	35,022	181,114	19.34%	80%	15.47%	28,018	40,312	181,114	22.26%
1999	40,610	190,169	21.35%	80%	17.08%	32,488	51,773	190,169	27.22%
2000	47,633	199,678	23.86%	80%	19.08%	38,107	55,901	199,678	28.00%
2001	53,088	201,161	26.39%	80%	21.11%	42,470	57,284	201,161	28.48%
2002	61,111	211,219	28.93%	80%	23.15%	48,889	61,965	211,219	29.34%
2003	69,862	221,780	31.50%	80%	25.20%	55,890	74,418	221,780	33.55%
2004	73,783	216,720	34.05%	80%	27.24%	59,027	87,772	216,720	40.50%
2005	83,388	227,556	36.64%	80%	29.32%	66,710	100,328	227,556	44.09%
2006	93,816	238,934	39.26%	81%	31.80%	75,991	116,209	238,934	48.64%
2007	105,069	250,881	41.88%	82%	34.34%	86,157	0		
2008	117,214	263,425	44.50%	83%	36.93%	97,288	0		
2009	130,642	276,596	47.23%	84%	39.68%	109,740	0		
2010	144,898	290,426	49.89%	85%	42.41%	123,163	0		
2011	160,120	304,947	52.51%	86%	45.16%	137,703	0		
2012	177,131	320,194	55.32%	87%	48.13%	154,104	0		
2013	195,365	336,204	58.11%	88%	51.14%	171,921	0		
2014	214,885	353,014	60.87%	89%	54.18%	191,248	0		
2015	235,783	370,665	63.61%	90%	57.25%	212,204	0		
2016	258,116	389,198	66.32%	91%	60.35%	234,886	0		
2017	283,046	408,658	69.26%	92%	63.72%	260,403	0		
2018	309,666	429,091	72.17%	93%	67.12%	287,990	0		
2019	338,046	450,546	75.03%	94%	70.53%	317,763	0		
2020	368,300	473,073	77.85%	95%	73.96%	349,885	0		
2021	400,488	496,648	80.64%	96%	77.41%	384,469	0		
2022	435,476	521,340	83.53%	97%	81.02%	422,412	0		
2023	472,654	547,260	86.37%	98%	84.64%	463,201	0		
2024	511,469	573,780	89.14%	99%	88.25%	506,355	0		
2025	541,037	601,070	90.01%	100%	90.01%	541,037	0		
2026	567,257	622,057	91.19%	100%	91.19%	567,257	0		
2027	545,494	591,458	92.23%	100%	92.23%	545,494	0		
2028	504,565	541,273	93.22%	100%	93.22%	504,565	0		
2029	435,862	461,794	94.38%	100%	94.38%	435,862	0		
2030	383,259	400,753	95.63%	100%	95.63%	383,259	0		
2031	327,378	338,035	96.85%	100%	96.85%	327,378	0		
2032	279,014	285,494	97.73%	100%	97.73%	279,014	0		
2033	248,224	251,370	98.75%	100%	98.75%	248,224	0		
2034	230,023	231,265	99.46%	100%	99.46%	230,023	0		
2035	213,982	213,982	100.00%	100%	100.00%	213,982	0		
2036	191,856	191,856	100.00%	100%	100.00%	191,856	0		
2037	167,788	167,788	100.00%	100%	100.00%	167,788	0		

**Public Service Company of New Mexico
Palo Verde Units 1, 2, and 3**

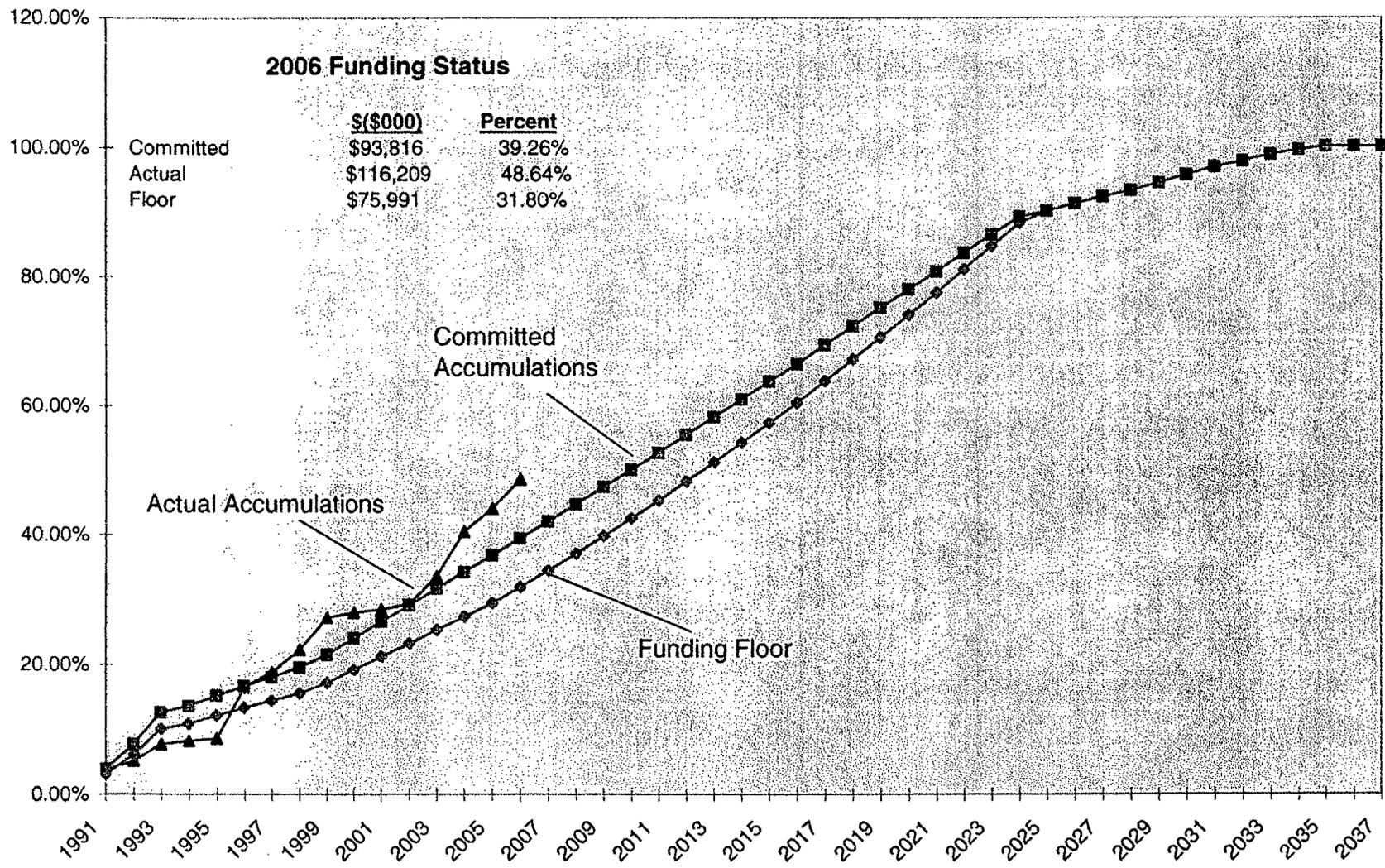


Exhibit 3.4

Exhibit 3.5

Amendment to the Investment Advisory Agreement between PNM and Wells Capital Management, Inc.

AMENDMENT

This AMENDMENT to the Investment Advisory Agreement between Public Service Company of New Mexico ("Client") and Wells Capital Management Incorporated [formerly known as Strong Capital Management] ("Advisor"), dated December 30, 1996 (the "Agreement"), with respect to the Non-Qualified separate account, is effective as of December 7, 2006.

WHEREAS, the Client and the Adviser desire to clarify in the Agreement an additional assignment to act as investment manager of the assets specified in writing by the Client (and attached hereto as Amended Exhibit A) that are currently or subsequently placed in the account of the Client (the "Account #2). Attached hereto and made a part hereof as Exhibit B is a statement of the investment objectives and guidelines of the Client, together with a statement of any and all specific investment restrictions applicable to the management of the Account #2. Adviser will be paid fees for the advisory services provided by this Agreement for the Account #2 according to the Valuation Procedures attached hereto as Exhibit C and Fee Schedule attached hereto as Exhibit D.

NOW, THEREFORE, the Client and the Adviser agree that Amended Exhibit A, Exhibit B, Exhibit C, and Exhibit D to the Agreement are stated in their entirety to read as the Amended Exhibit A, Exhibit B, Exhibit C, and Exhibit D attached hereto which are hereby made a part of the Agreement.

PUBLIC SERVICE COMPANY OF
NEW MEXICO

WELLS CAPITAL MANAGEMENT
INC.

BY: 
NAME: *Wendy Carlson*
TITLE: *V.P. + Treasurer*
DATE: *12-11-06*

BY: 
NAME: *Matt Mavrotz*
TITLE: *Client Service Manager*
DATE: *12/12/06*

INVESTMENT ADVISORY AGREEMENT

Between

**WELLS CAPITAL MANAGEMENT INCORPORATED
and
PUBLIC SERVICE COMPANY OF NEW MEXICO**

AMENDED EXHIBIT A

SCHEDULE OF ASSETS

Mellon Bank, N.A.

Account #1 Non-Qualified- #PSMF0926082

Account #2 Qualified- #PSMF0925932

INVESTMENT ADVISORY AGREEMENT

Between

STRONG CAPITAL MANAGEMENT, INC.
and
PUBLIC SERVICE COMPANY OF NEW MEXICO

EXHIBIT B

INVESTMENT OBJECTIVE AND CRITERION

Investment Objectives

PNM's primary investment objective is to achieve a long term after-tax rate of return on invested assets that is greater than that available from a portfolio of government and high quality corporate bonds. To achieve this objective, a diversified portfolio of investments which, in aggregate, contains an acceptable level of risk will be created. Investments should be made by the Advisor which consider the interests of PNM, its shareholders and customers, the NMPUC, and the overall goal of the Client which is to provide for adequate funding of the nuclear decommissioning liability.

Investment Guidelines

Equity Portfolio Guidelines - The account shall consist of the following portfolio: Non-Qualified for Palo Verde Nuclear Generating Station ("PVNGS") Unit 3. The equity portfolio will be broadly diversified so that aggregate risk of all equity investments, when considered as a portfolio, shall generally have a variance no greater than 100 basis points from the benchmark Russell 3000 Growth Index (the "Benchmark"). The Advisor will select stocks in accordance with its Capital Appreciation Equity A style. The portfolio shall be constructed to resemble the sector breakdown representative of this investment style. The portfolio will be managed to maximize after-tax return consistent with the tax characteristics of a non-qualified nuclear decommissioning trust. The risk level of the portfolio relative to the Benchmark as measured in terms of standard deviation returns and other appropriate measures shall be continually monitored by the Advisor and reported on a regular basis to the Client. The market value of the aggregate amount invested in the securities of any one issuer shall not exceed five percent of the market value of the account's total assets at the time of purchase.

Permitted Investments

The Account shall be maintained and invested only in Permitted Investments. Permitted investments for equity portfolios are those investments that are permitted by applicable law, including any of the following:

Cash and Cash Equivalents. Cash and Cash Equivalents shall include (i) legal tender of the United States of America and (ii) deposits in Federally insured national or state banks that are payable on demand.

Acceptable Equity Securities. Acceptable Equity Securities are high-quality equity securities (i.e., common, preferred, or preference stock, or American Depository Receipts for such securities) listed on a major U.S. stock exchange or traded on a nationally recognized U.S. trading network.

Acceptable Pooled Funds. Acceptable Pooled Funds are funds that are invested in what are otherwise considered Permitted Investments and that are bank commingled funds.

Other Acceptable Investments. Other Acceptable Investments are those investments not included in the foregoing sections, which shall have been approved by the Termination Funding Committee or the NMPUC.

Excluded Investments

Investments in the following securities shall be excluded from allowable investments by the Advisor:

- 1) Securities of any nature issued by any PVNGS participant and any parent or affiliated company of any participant as listed in Attachment 1 to this Exhibit A to the Agreement as amended by the Client in writing from time to time, or any parent or affiliated company of any participant;
- 2) Securities issued by New Mexico utilities or utilities operating in New Mexico as listed in Attachment 2 to this Exhibit A to the Agreement as amended by the Client in writing from time to time;
- 3) Margin purchases;
- 4) Commodity speculation;
- 5) Fixed income securities;
- 6) Commercial paper;
- 7) Debt securities of any nature issued by any government agency or public or private corporation;
- 8) Securities of any nature issued by any government agency or public or private corporation, which has been declared bankrupt or which is the subject of a petition for bankruptcy pending in court;
- 9) Private placements;
- 10) Lettered stock;
- 11) Loans of portfolio securities;
- 12) Short sales;
- 13) Stock options;

14) Unregistered or restricted securities; and

15) Real or personal property.

INVESTMENT ADVISORY AGREEMENT

Between

**STRONG CAPITAL MANAGEMENT, INC.
and
PUBLIC SERVICE COMPANY OF NEW MEXICO**

ATTACHMENT I TO EXHIBIT B

PVNGS PARTICIPANTS

Arizona Public Service Company

Salt River Project Agricultural Improvement and Power District

Southern California Edison Company

Public Service Company of New Mexico

Southern California Public Power Authority

El Paso Electric Company

Department of Water and Power of the City of Los Angeles

INVESTMENT ADVISORY AGREEMENT

Between

**STRONG CAPITAL MANAGEMENT, INC.
and
PUBLIC SERVICE COMPANY OF NEW MEXICO**

ATTACHMENT 2 TO EXHIBIT B

**NEW MEXICO ELECTRIC UTILITIES OR ELECTRIC UTILITIES
OPERATING IN NEW MEXICO**

**Public Service Company of New Mexico
Southwestern Public Service Company
Texas-New Mexico Power Company
El Paso Electric Company
Plains Electric Generation and Transmission Cooperative, Inc.
Socorro Electric Cooperative, Inc.
Central New Mexico Electric Cooperative, Inc.
Continental Divide Electric Cooperative, Inc.
Jemez Mountains Electric Cooperative, Inc.
Mora-San Miguel Electric Cooperative, Inc.
Northern Rio Arriba Electric Cooperative, Inc.
Columbus Electric Cooperative, Inc.
Springer Electric Cooperative, Inc.
Southwestern Electric Cooperative, Inc.
Otero Electric Cooperative, Inc.
Sierra Electric Cooperative, Inc.
Navopache Electric Cooperative, Inc.
Kit Carson Electric Cooperative, Inc.
Duncan Valley Electric Cooperative, Inc.
Farmers' Electric Cooperative, Inc.
Lea County Electric Cooperative, Inc.
Rio Grande Electric Cooperative, Inc.
Roosevelt Electric Cooperative, Inc.
Central Valley Electric Cooperative, Inc.**

INVESTMENT ADVISORY AGREEMENT

Between

**STRONG CAPITAL MANAGEMENT
and
PUBLIC SERVICE COMPANY OF NEW MEXICO**

EXHIBIT C

VALUATION PROCEDURES

The assets held in the Account shall be valued as determined in the absolute and sole discretion of the Trustee for purposes of calculating compensation. For general accounting information, the Adviser may value any investment in a manner determined in good faith by the Adviser to reflect its fair market value.

INVESTMENT ADVISOR AGREEMENT

Between

WELLS CAPITAL MANAGEMENT INCORPORATED
and
PUBLIC SERVICE COMPANY OF NEW MEXICO

EXHIBIT D

SCHEDULE OF FEES

Advisory fees will be calculated at the end of each billing period on the basis of the total market value of Account assets at the close of business on the date preceding the Effective Date and each Billing Date. The Billing Dates shall be January 1, April 1, July 1, and October 1 for each year this agreement is in effect. Fees will be calculated at the following annual rates, and the appropriate portion thereof will be payable as of each Billing Date:

<u>Market Value of Assets</u>	<u>Annual Fee</u>
Up to \$5 million	.85%
Next \$5 million	.80%
Next \$10 million	.75%
Next \$15 million	.70%
Next \$15 million	.60%
Next \$25 million	.50%
Next \$25 million	.40%
\$100 million or more	.30%

Attachment 6

Annual Funding Status Report for the Year Ending December 2006

Southern California Public Power Authority

**SOUTHERN CALIFORNIA
PUBLIC POWER AUTHORITY**



**PALO VERDE PROJECT
TERMINATION FUNDING COMMITTEE
2006 ANNUAL FUNDING STATUS REPORT**

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SECTION II FUNDING TABLES AND CURVES	10-19
SECTION III CERTIFICATE	20

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

ANNUAL FUNDING STATUS REPORT FOR THE YEAR ENDING DECEMBER 31, 2006

PART 1. GENERAL INFORMATION

1.1 Description of Funds

1.1.1 FUND #1 – DECOMMISSIONING TRUST FUND I

- Units 1, 2 and 3
- Tax Status: Exempt from Federal and State Taxes
- Independent Trustee: U.S. Bank Trust, National Association
633 W. Fifth Street, 24th Floor
Los Angeles, California 90071
- Investment Manager: None
- Basic Documents:
 - Decommissioning Trust Fund Agreement I, dated July 13, 1990,
by and between the Southern California Public Power Authority (SCPPA)
and U.S. Bank Trust, National Association (Trustee).
 - Amendment No. 1 to the Decommissioning Trust Fund Agreement 1, dated
October 27, 1992.
 - Amendment No. 2 to the Decommissioning Trust Fund Agreement 1, dated
November 20, 2003.
- Changes since prior AFSR: None

1.1.2 FUND #2 - DECOMMISSIONING TRUST FUND II

- Units 1, 2 and 3
- Tax Status: Exempt from State and Federal Taxes
- Independent Trustee: U.S. Bank Trust, National Association
633 W. Fifth Street, 24th Floor
Los Angeles, California 90071
- Investment Manager: None
- Basic Documents:
 - Decommissioning Trust Fund Agreement I, dated July 13, 1990,
by and between the Southern California Public Power Authority (SCPPA)
and U.S. Bank Trust, National Association (Trustee).
 - Amendment No. 1 to the Decommissioning Trust Fund Agreement 1, dated
October 27, 1992.
 - Amendment No. 2 to the Decommissioning Trust Fund Agreement 1, dated
November 20, 2003.
- Changes since prior AFSR: None

1.2 Pro Rata Share

• Generation Entitlement Share	5.91%
• Section 23.5.1 Obligations	0%
• Pro Rata Share	5.91%
Palo Verde Project SCPPA Participants	<u>Participation %</u>
City of Los Angeles	67.0%
City of Riverside	5.4

Imperial Irrigation District	6.5
City of Vernon	4.9
City of Azusa	1.0
City of Banning	1.0
City of Colton	1.0
City of Burbank	4.4
City of Glendale	4.4
City of Pasadena	4.4
Total	<u>100.0%</u>

1.3 Sale and Leaseback Transactions

Unit	Lessor/ Trustee	Lessor Ownership	Termination Funding Required	Date Full Funding Required	Funding Basis	Funding Compliance Status
1						
2						
3		NONE				

1.4 Summary of Regulatory Requirements with Respects to Electric Rates and Termination Funding

- SCPPA is a joint agency and public entity organized under the laws of the State of California and a Joint Powers Sales Agreement.
- As a public entity, SCPPA's revenues from participants' billings and investment earnings are exempt from federal and state taxes.
- SCPPA issues tax-exempt and taxable debt that is secured by project participants' take-or-pay contracts to accomplish its purpose.

1.5 Statement of Investment Policies and Restrictions

Investment Policies

Objectives

- Safety of Principal
- Achievement of Maximum Allowable (6.83%) Yield
- Diversification of Risk

Restrictions

SCPPA's investments are governed by the State of California Government Code, Section 53601 et seq., and are limited to:

- United States Treasury Obligations
- Federal Agencies Obligations & Government Sponsored Enterprises
- State and Local Government Securities (SLGS)
- Repurchase Agreements
- Commercial Paper
- Bankers Acceptances
- Medium Term Notes
- Money Market Funds
- Negotiable Certificate of Deposits
- Tax-exempt and/or taxable debt of the State of California or any of its political subdivisions.

PART 2. SUMMARY OF STATUS OF TERMINATION FUNDS AT THE END OF THE REPORTING PERIOD

2.1 Committed Accumulations at End of Reporting Period

	Unit 1	Unit 2	Unit 3	Total
2.1.1 Latest Estimated Termination Costs (2004TLG)	\$656,910,000	\$699,750,000	\$768,047,000	\$2,124,707,000
2.1.2 Generation Entitlement Share of Estimated Termination Costs	\$38,823,000	\$41,355,000	\$45,392,000	\$125,570,000
2.1.3 Cumulative Adjustment Factor (1.06)	112%	112%	112%	112%
2.1.4 Adjusted Share of Estimated Termination Costs (2.1.2 amount) x (2.1.3)	\$43,622,000	\$46,467,000	\$51,002,000	\$141,091,000
2.1.5 Percent Funding Requirement at End of Reporting Period from Percent Funded Curve	66%	68%	64%	66%
2.1.6 Committed Accumulations at End of Reporting Period (2.1.4 amount) x (2.1.5)	\$28,791,000	\$31,597,000	\$32,641,000	\$93,029,000
2.1.7 Summary of Major Assumptions				
Escalation Factor	6.00%			
Rate of Return	6.83%			
Participation Ratio	5.91%			
Funding Period	35 years for each unit			
Funding Level	Includes Independent Spent Fuel Storage Installation and Non-Nuclear Demolition Costs.			

2.2.1 Actual Accumulations at End of the Reporting Period

	Unit 1	Unit 2	Unit 3	Total
Fund I	\$18,323,683	\$17,764,374	\$17,290,802	\$53,378,859
Fund II	26,061,452	27,616,852	32,393,354	86,071,658
Total	\$44,385,135	\$45,381,226	\$49,684,156	\$139,450,517

2.2.2 Computation of Actual Accumulations:

Fund	Unit 1	Unit 2	Unit 3	Total
Cash	\$147,934	\$113,586	\$134,677	\$396,197
Market Value	43,819,053	44,961,401	49,257,261	138,037,716
Accrued Interest	418,148	306,239	292,217	1,016,604
Total	\$44,385,135	\$45,381,226	\$49,684,156	\$139,450,517

2.3 Funded Floor Amount at End of Reporting Period

	Unit 1	Unit 2	Unit 3	Total
Percentage of Committed Accumulations	54%	55%	52%	54%
Funded Floor Amount	\$23,608,000	\$25,594,000	\$26,113,000	\$75,315,000

2.4 Deposits Made During Reporting Period (All Termination Funds)

	Unit 1	Unit 2	Unit 3	Total
NRC Required Deposits	\$0	\$0	\$0	\$0
Normal Annual Deposits	0	0	0	0
Recovery Deposits	0	0	0	0
Correcting Deposits	0	0	0	0
Total	\$0	\$0	\$0	\$0

2.5	Mandatory Deposits During Reporting Period	<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>
		\$0	\$0	\$0	\$0

2.6 Estimated Outstanding Balance of Recovery Deposits and Correction Deposits Outstanding at End of Reporting Period

	<u>Recovery Deposits</u>		<u>Correction Deposits</u>	
	Amt Outstanding	Due Date	Amt Outstanding	Due Date
Unit 1	\$0	-	\$0	-
Unit 2	\$0	-	\$0	-
Unit 3	\$0	-	\$0	-
Total	<u>\$0</u>		<u>\$0</u>	

2.7 Annual Net Income (Loss) During Reporting Period (All Funds, All Units)

	<u>Amount</u>	<u>Rate</u>
Fund I - Unit 1	652,340	4.07%
Fund I - Unit 2	412,578	2.65%
Fund I - Unit 3	591,716	3.91%
Fund II - Unit 1	1,054,489	3.91%
Fund II - Unit 2	1,375,627	4.84%
Fund II - Unit 3	902,485	2.72%
Total	<u>\$4,989,235</u>	<u>3.69%</u>

Calculations:	Fund 1			Fund 2			TOTAL
	Unit 1	Unit 2	Unit 3	Unit 1	Unit 2	Unit 3	
Realized Income	652,340.15	412,577.78	591,716.06	1,054,488.73	1,375,627.38	902,485.39	\$4,989,235
Unrealized Income (Loss)	(307,243)	(176,996)	(291,053)	(559,355)	(422,764)	(362,292)	(2,119,701)
	\$345,098	\$235,582	\$300,663	\$495,134	\$952,864	\$540,194	\$2,869,534
Less:							
Taxes Paid & Accrued	0	0	0	0	0	0	0
Expenses Paid & Accrd	0	0	0	0	0	0	0
Net Income	\$345,098	\$235,582	\$300,663	\$495,134	\$952,864	\$540,194	\$2,869,534

2.8 Summary of Values of Permitted Investments at End of the Reporting Period

Category	Fund I	Fund II	Total
Cash & Cash Equivalents	\$102,338	\$295,279	\$397,617
Acceptable Debt Securities	53,276,521	85,776,378	139,052,900
Acceptable Equity Securities			
Acceptable Life Insurance			
Acceptable Property Interest			
Total	\$53,378,859	\$86,071,658	\$139,450,517

2.9 Inventory and Values of Permitted Investments at End of the Reporting Period

Permitted Investments	Value	Basis of Valuation
U.S. Federal Agencies	\$139,052,900	Market value provided by Trustee Bank
U.S. Treasury Bills	0	Market value provided by Trustee Bank
U.S. Treasury Notes	0	Market value provided by Trustee Bank
Medium Term Notes	0	Market value provided by Trustee Bank
U.S. Money Market Fund	397,617	Market value provided by Trustee Bank
Total	\$139,450,517	

2.10	Fund Liabilities at End of Reporting Period	NONE
2.11	Defaults, If Any, Experienced on Investments	NONE
2.12	Summary of Investment Ratings	
	U.S. Federal Agencies	AAA
	U.S. Treasury Bills	AAA
	U.S. Treasury Notes	AAA

PART 3. TABLES AND CURVES

3.1 Table of Estimated Deposits, Income and Committed Accumulations to End of Funding Period for Each Unit

(See Attached Schedules)

3.2 Percent Funding Curve and Fund Floor Curve for Each Unit

(See Attached Graphs)

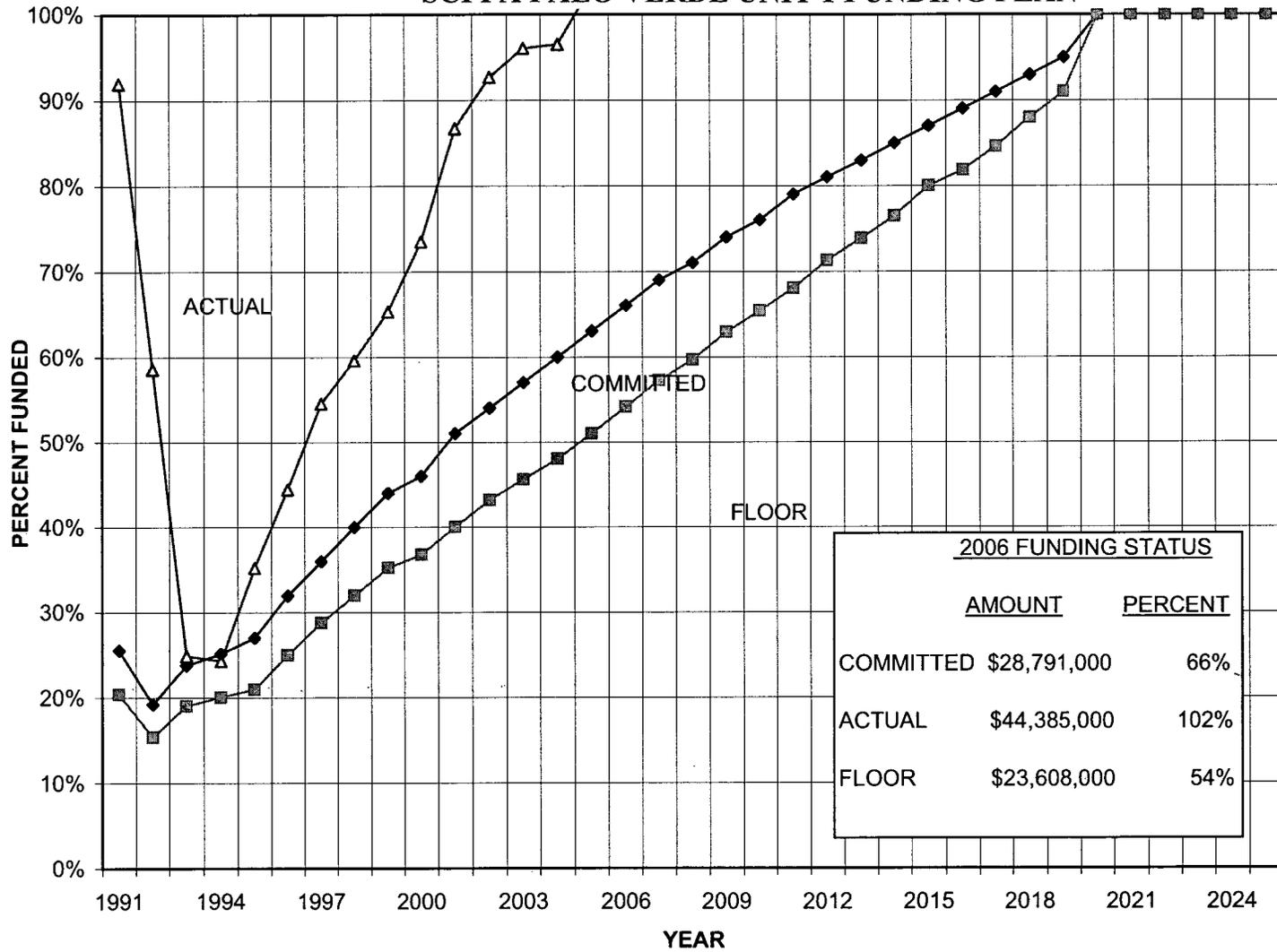
SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
Palo Verde Project - Termination Cost Funding

UNIT 1				UNIT 2				UNIT 3				GRAND TOTAL		
PERIOD	CONTRIBUTION	INTEREST	BALANCE	PERIOD	CONTRIBUTION	INTEREST	BALANCE	PERIOD	CONTRIBUTION	INTEREST	BALANCE	CONTRIBUTION	INTEREST	TOTAL
DEC 31, 1990	10		14,237,604	8			14,387,900	6			15,396,791			44,022,295
JUN 30, 1991	11	0	625,326	9	0	1,117,240	15,505,140	7	0	1,440,621	16,837,412	0	3,183,187	47,205,482
DEC 31, 1991	12	0	363,880	10	0	443,094	15,948,234	8	0	385,474	17,222,886	0	1,192,448	48,397,930
JUN 30, 1992	13	0	(29,039)	11	0	147,301	16,095,535	9	0	297,481	17,520,367	0	415,743	48,813,673
DEC 31, 1992	14	0	563,854	12	0	623,452	16,718,987	10	0	933,298	18,453,665	0	2,120,604	50,934,277
JUN 30, 1993	15	0	791,974	13	0	711,934	17,430,921	11	0	1,081,178	19,534,843	0	2,585,086	53,519,363
DEC 31, 1993	16	0	264,949	14	0	593,006	7,962,403	12	0	168,679	7,830,305	0	1,026,634	22,896,055
JUN 30, 1994	17	0	229,682	15	0	(345,413)	7,616,990	13	0	(153,556)	7,676,749	0	(269,287)	22,626,768
DEC 31, 1994	18	0	16,871	16	0	9,010	7,626,000	14	0	(12,449)	7,664,300	0	13,432	22,640,200
JUN 30, 1995	19	0	486,265	17	0	609,810	8,235,810	15	0	578,102	8,242,402	0	1,674,177	24,314,377
DEC 31, 1995	20	1,240,620	302,795	18	1,280,640	233,314	9,749,764	16	1,480,740	261,846	9,984,988	4,002,000	797,955	29,114,332
JUN 30, 1996	21	1,240,620	244,149	19	1,280,640	132,669	11,163,073	17	1,480,740	(19,451)	11,446,277	4,002,000	357,367	33,473,699
DEC 31, 1996	22	1,239,380	440,971	20	1,279,360	453,967	12,896,400	18	1,479,260	411,663	13,337,200	3,998,000	1,306,601	38,778,300
JUN 30, 1997	23	1,240,620	670,975	21	1,276,640	686,710	14,859,750	19	1,480,740	682,114	15,500,054	3,998,000	2,039,799	44,816,099
DEC 31, 1997	24	1,654,160	206,445	22	1,703,520	191,930	16,755,200	20	1,974,320	142,126	17,616,500	5,332,000	540,501	50,688,600
JUN 30, 1998	25	827,080	587,713	23	853,760	540,181	18,149,141	21	987,160	726,204	19,329,864	2,668,000	1,854,098	55,210,698
DEC 31, 1998	26	1,240,620	657,875	24	1,276,640	594,163	20,019,944	22	1,480,740	593,888	21,404,492	3,998,000	1,845,926	61,054,624
JUN 30, 1999	27	1,239,380	216,183	25	1,283,360	390,702	21,694,006	23	1,479,260	366,650	23,250,402	4,002,000	973,535	66,030,159
DEC 31, 1999	28	1,239,380	475,616	26	1,319,340	264,784	23,278,130	24	1,439,280	471,854	25,161,536	3,998,000	1,212,254	71,240,413
JUN 30, 2000	29	1,241,860	663,212	27	1,321,980	689,334	25,289,444	25	1,442,160	731,960	27,335,656	4,006,000	2,084,506	77,330,919
DEC 31, 2000	30	1,240,620	1,274,719	28	1,320,660	1,173,453	27,783,557	26	1,440,720	1,340,511	30,116,887	4,002,000	3,788,683	85,121,602
JUN 30, 2001	31	1,240,620	693,350	29	1,320,660	872,649	29,976,866	27	1,440,720	800,274	32,357,881	4,002,000	2,366,273	91,489,875
DEC 31, 2001	32	1,240,620	1,156,378	30	1,320,660	1,103,203	32,400,729	28	1,440,720	1,419,469	35,218,070	4,002,000	3,679,051	99,170,925
JUN 30, 2002	33	1,240,620	713,427	31	1,320,660	580,967	34,302,356	29	1,440,720	821,429	37,480,219	4,002,000	2,115,822	105,288,748
DEC 31, 2002	34	1,240,620	1,006,809	32	1,320,660	892,072	36,515,088	30	1,440,720	1,110,978	40,031,917	4,002,000	3,009,859	112,300,607
JUN 30, 2003	35	1,240,620	520,171	33	1,320,660	539,457	38,375,205	31	1,440,720	656,148	42,128,785	4,002,000	1,715,776	118,018,383
DEC 31, 2003	36	1,240,620	524,746	34	1,320,660	514,822	40,210,687	32	1,440,720	602,307	44,171,813	4,002,000	1,641,876	123,662,258
JUN 30, 2004	37	1,240,620	184,493	35	1,320,660	96,351	41,627,698	33	1,440,720	-199,394	45,811,926	4,002,000	480,238	128,144,497
DEC 31, 2004	38	0	1,126,700	36	0	970,310	42,598,008	34	0	1,172,874	46,984,800	0	3,269,884	131,414,381
JUN 30, 2005	39	0	581,134	37	0	481,193	43,079,201	35	0	648,089	47,632,889	0	1,710,416	133,124,796
DEC 31, 2005	40	0	87,100	38	0	132,554	43,211,755	36	0	104,493	47,737,382	0	324,147	133,448,943
JUN 30, 2006	41	0	351,626	39	0	406,412	43,618,167	37	0	436,978	48,174,360	0	1,195,016	134,643,959
DEC 31, 2006	42	0	1,533,703	40	0	1,763,059	45,381,226	38	0	1,509,795	49,684,155	0	4,806,557	139,450,517
JUN 30, 2007	43	(328,851)	1,515,752	41	(253,700)	1,549,769	46,677,295	39	(282,332)	1,696,714	51,098,537	(864,882)	4,762,235	143,347,870
DEC 31, 2007	44	(328,851)	1,556,285	42	(253,700)	1,594,030	48,017,626	40	(282,332)	1,745,015	52,561,220	(864,882)	4,895,330	147,378,317
JUN 30, 2008	45	(328,851)	1,598,202	43	(253,700)	1,639,802	49,403,728	41	(282,332)	1,794,966	54,073,854	(864,882)	5,032,970	151,546,405
DEC 31, 2008	46	(328,851)	1,641,550	44	(253,700)	1,687,137	50,837,166	42	(282,332)	1,846,622	55,638,144	(864,882)	5,175,310	155,856,832
JUN 30, 2009	47	(328,851)	1,686,379	45	(253,700)	1,736,089	52,319,555	43	(282,332)	1,900,043	57,255,855	(864,882)	5,322,511	160,314,461
DEC 31, 2009	48	(328,851)	1,732,739	46	(253,700)	1,786,713	53,852,568	44	(282,332)	1,955,287	58,928,810	(864,882)	5,474,739	164,924,318

Palo Verde Project - Termination Cost Funding

UNIT 1						UNIT2				UNIT 3				GRAND TOTAL		
PERIOD	CONTRIBUTION	INTEREST	BALANCE	PERIOD	CONTRIBUTION	INTEREST	BALANCE	PERIOD	CONTRIBUTION	INTEREST	BALANCE	CONTRIBUTION	INTEREST	TOTAL		
JUN 30, 2010	49	(328,851)	1,780,681	53,594,770	47	(253,700)	1,839,065	55,437,934	45	(282,332)	2,012,419	60,658,897	(864,882)	5,632,165	169,691,601	
DEC 31, 2010	50	(328,851)	1,830,261	55,096,180	48	(253,700)	1,893,205	57,077,440	46	(282,332)	2,071,501	62,448,067	(864,882)	5,794,968	174,621,687	
JUN 30, 2011	51	(328,851)	1,881,535	56,648,864	49	(253,700)	1,949,195	58,772,935	47	(282,332)	2,132,601	64,298,336	(864,882)	5,963,331	179,720,136	
DEC 31, 2011	52	(328,851)	1,934,559	58,254,573	50	(253,700)	2,007,096	60,526,331	48	(282,332)	2,195,788	66,211,793	(864,882)	6,137,443	184,992,696	
JUN 30, 2012	53	(328,851)	1,989,394	59,915,116	51	(253,700)	2,066,974	62,339,605	49	(282,332)	2,261,133	68,190,594	(864,882)	6,317,501	190,445,315	
DEC 31, 2012	54	(328,851)	2,046,101	61,632,366	52	(253,700)	2,128,898	64,214,803	50	(282,332)	2,328,709	70,236,970	(864,882)	6,503,707	196,084,140	
JUN 30, 2013	55	(328,851)	2,104,745	63,408,261	53	(253,700)	2,192,936	66,154,039	51	(282,332)	2,398,593	72,353,231	(864,882)	6,696,273	201,915,531	
DEC 31, 2013	56	(328,851)	2,165,392	65,244,802	54	(253,700)	2,259,160	68,159,500	52	(282,332)	2,470,863	74,541,762	(864,882)	6,895,415	207,946,065	
JUN 30, 2014	57	(328,851)	2,228,110	67,144,062	55	(253,700)	2,327,647	70,233,448	53	(282,332)	2,545,601	76,805,031	(864,882)	7,101,358	214,182,541	
DEC 31, 2014	58	(328,851)	2,292,970	69,108,181	56	(253,700)	2,398,472	72,378,220	54	(282,332)	2,622,892	79,145,591	(864,882)	7,314,334	220,631,992	
JUN 30, 2015	59	(328,851)	2,360,044	71,139,375	57	(253,700)	2,471,716	74,596,237	55	(282,332)	2,702,822	81,566,081	(864,882)	7,534,583	227,301,693	
DEC 31, 2015	60	(328,851)	2,429,410	73,239,934	58	(253,700)	2,547,461	76,889,999	56	(282,332)	2,785,482	84,069,231	(864,882)	7,762,353	234,199,163	
JUN 30, 2016	61	(328,851)	2,501,144	75,412,227	59	(253,700)	2,625,793	79,262,093	57	(282,332)	2,870,964	86,657,863	(864,882)	7,997,901	241,332,183	
DEC 31, 2016	62	(328,851)	2,575,328	77,658,704	60	(253,700)	2,706,800	81,715,193	58	(282,332)	2,959,366	89,334,898	(864,882)	8,241,494	248,708,795	
JUN 30, 2017	63	(328,851)	2,652,045	79,981,898	61	(253,700)	2,790,574	84,252,068	59	(282,332)	3,050,787	92,103,352	(864,882)	8,493,405	256,337,318	
DEC 31, 2017	64	(328,851)	2,731,382	82,384,429	62	(253,700)	2,877,208	86,875,576	60	(282,332)	3,145,329	94,966,350	(864,882)	8,753,919	264,226,355	
JUN 30, 2018	65	(328,851)	2,813,428	84,869,007	63	(253,700)	2,966,801	89,588,677	61	(282,332)	3,243,101	97,927,119	(864,882)	9,023,330	272,384,803	
DEC 31, 2018	66	(328,851)	2,898,277	87,438,433	64	(253,700)	3,059,453	92,394,431	62	(282,332)	3,344,211	100,988,998	(864,882)	9,301,941	280,821,862	
JUN 30, 2019	67	(328,851)	2,986,022	90,095,605	65	(253,700)	3,155,270	95,296,001	63	(282,332)	3,448,774	104,155,441	(864,882)	9,590,067	289,547,047	
DEC 31, 2019	68	(328,851)	3,076,765	92,843,519	66	(253,700)	3,254,358	98,296,660	64	(282,332)	3,556,908	107,430,017	(864,882)	9,888,032	298,570,196	
JUN 30, 2020	69	(328,851)	3,170,606	95,685,275	67	(253,700)	3,356,831	101,399,792	65	(282,332)	3,668,735	110,816,420	(864,882)	10,196,172	307,901,486	
DEC 31, 2020	70	(328,855)	3,267,652	98,624,072	68	(253,700)	3,462,803	104,608,895	66	(282,332)	3,784,381	114,318,469	(864,886)	10,514,836	317,551,436	
JUN 30, 2021					69	(253,700)	3,572,394	107,927,589	67	(282,332)	3,903,976	117,940,113	(536,032)	7,476,369	225,867,702	
DEC 31, 2021					70	(253,698)	3,685,727	111,359,619	68	(282,332)	4,027,655	121,685,436	(536,030)	7,713,382	233,045,054	
JUN 30, 2022									69	(282,332)	4,155,558	125,558,661	(282,332)	4,155,558	125,558,661	
DEC 31, 2022									70	(282,328)	4,287,828	129,564,162	(282,328)	4,287,828	129,564,162	

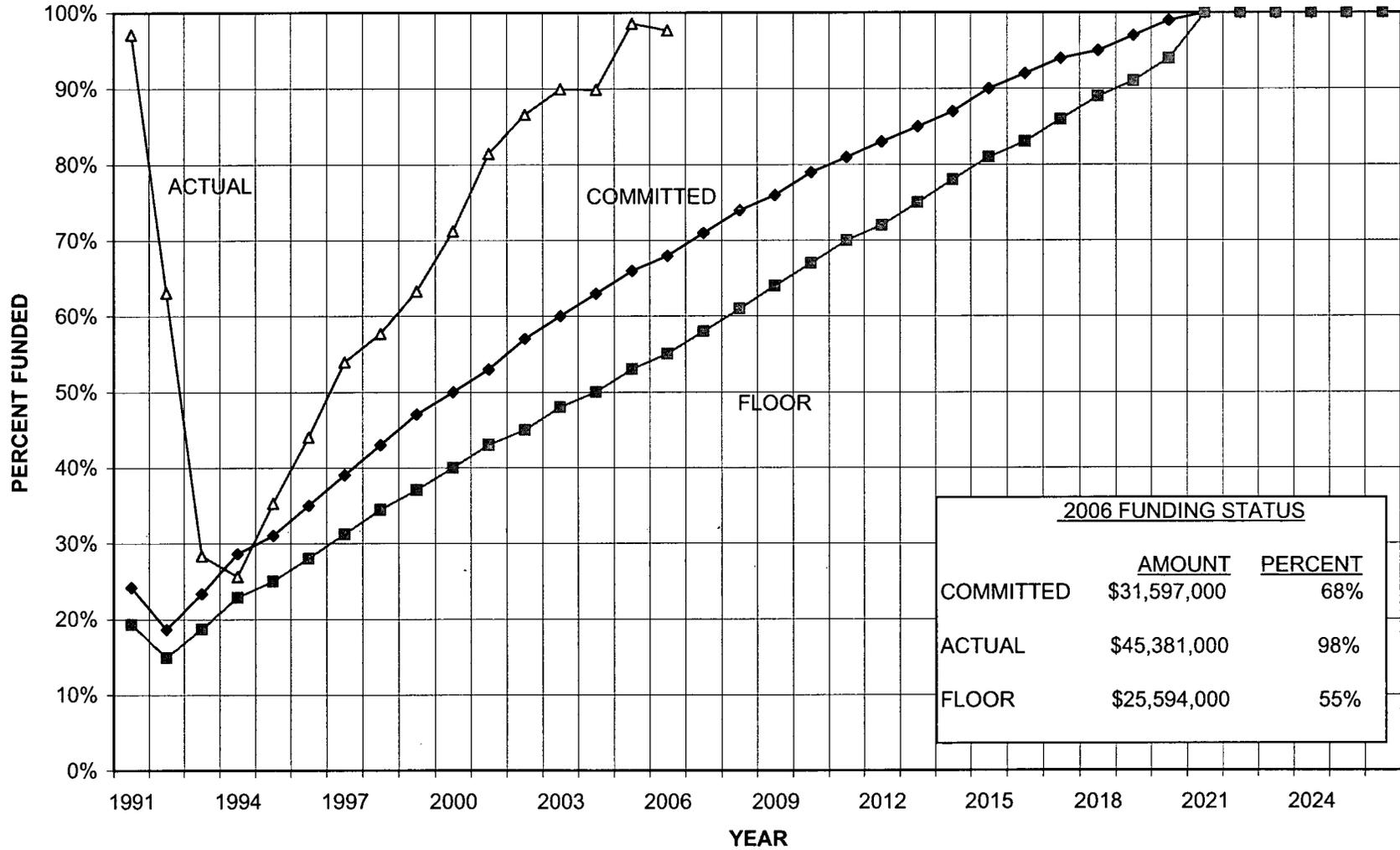
SCPPA PALO VERDE UNIT 1 FUNDING PLAN



SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
2006 PALO VERDE UNIT - 1 FUNDING STATUS
TERMINATION COST FUNDING
(\$ THOUSAND)

YEAR	(1) = (2 x 3)	(2)	(3)	(4)	(5) = (3 x 4)	(6) = (1 x 4)	(7)	(8) = (2)	(9) = (7 / 8)
	AUTHORIZED FUNDING PLAN			FUNDING FLOOR CURVE			ACTUAL FUNDING		
	FUND	EST. COST	%FUNDED	CRITERIA	PERCENT	AMOUNT	FUND	EST. COST	%FUNDED
DEC 1991	\$4,225	\$16,565	26%	80%	20%	\$3,380	\$15,227	\$16,565	92%
DEC 1992	5,176	26,915	19%	80%	15%	4,141	15,762	26,915	59%
DEC 1993	6,782	28,530	24%	80%	19%	5,426	7,103	28,530	25%
DEC 1994	7,597	30,242	25%	80%	20%	6,078	7,350	30,242	24%
DEC 1995	7,190	26,629	27%	80%	21%	5,752	9,380	26,629	35%
DEC 1996	9,033	28,227	32%	80%	25%	7,226	12,545	28,227	44%
DEC 1997	10,771	29,920	36%	80%	29%	8,617	16,317	29,920	55%
DEC 1998	13,181	32,953	40%	80%	32%	10,545	19,630	32,953	60%
DEC 1999	15,369	34,930	44%	80%	35%	12,295	22,801	34,930	65%
DEC 2000	17,032	37,026	46%	80%	37%	13,626	27,221	37,026	74%
DEC 2001	18,562	36,396	51%	80%	40%	14,850	31,552	36,396	87%
DEC 2002	20,833	38,580	54%	80%	43%	16,666	35,754	38,580	93%
DEC 2003	23,310	40,895	57%	80%	46%	18,648	39,280	40,895	96%
DEC 2004	26,009	43,348	60%	80%	48%	20,807	41,832	43,348	97%
DEC 2005	25,926	41,153	63%	81%	51%	21,000	42,500	41,153	103%
DEC 2006	28,791	43,622	66%	82%	54%	23,608	44,385	43,622	102%
DEC 2007	31,905	46,239	69%	83%	57%	26,481			
DEC 2008	34,800	49,014	71%	84%	60%	29,232			
DEC 2009	38,446	51,954	74%	85%	63%	32,679			
DEC 2010	41,855	55,072	76%	86%	65%	35,995			
DEC 2011	46,117	58,376	79%	87%	68%	40,122			
DEC 2012	50,122	61,879	81%	88%	71%	44,107			
DEC 2013	54,441	65,591	83%	89%	74%	48,452			
DEC 2014	59,098	69,527	85%	90%	77%	53,188			
DEC 2015	64,118	73,698	87%	91%	80%	58,347			
DEC 2016	69,527	78,120	89%	92%	82%	63,965			
DEC 2017	80,431	82,808	91%	93%	85%	74,801			
DEC 2018	86,826	87,776	93%	94%	88%	81,616			
DEC 2019	93,665	93,043	95%	95%	91%	88,982			
DEC 2020	114,288	98,625	100%	100%	100%	114,288			
DEC 2021	120,002	103,556	100%	100%	100%	120,002			
DEC 2022	126,003	108,734	100%	100%	100%	126,003			
DEC 2023	132,303	114,171	100%	100%	100%	132,303			
DEC 2024	138,918	119,879	100%	100%	100%	138,918			
DEC 2025	145,864	125,873	100%	100%	100%	145,864			

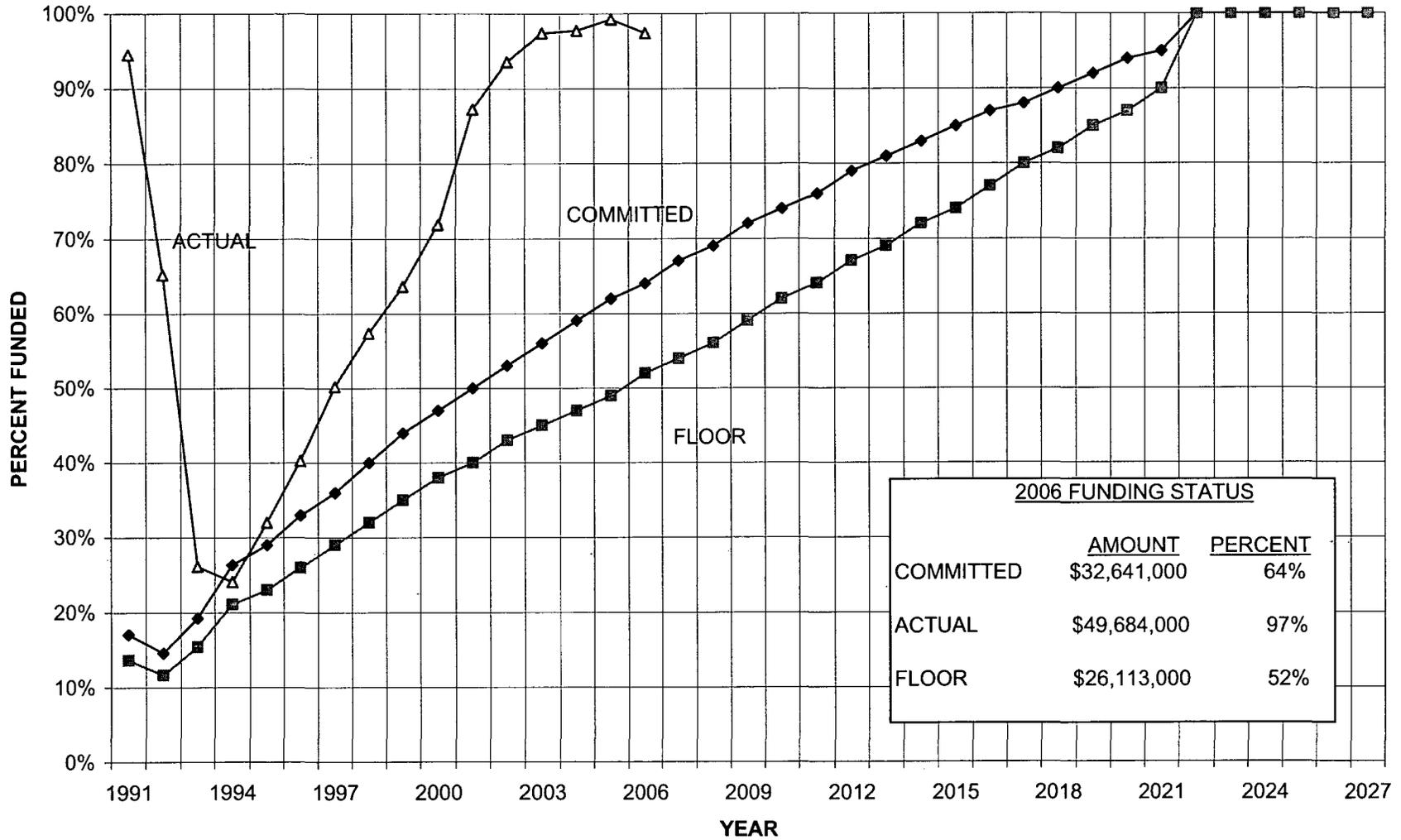
SCPPA PALO VERDE UNIT 2 FUNDING PLAN



**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
2006 PALO VERDE UNIT - 2 FUNDING STATUS
TERMINATION COST FUNDING
(\$ THOUSAND)**

YEAR	(1) = (2 x 3) FUND	(2) EST. COST	(3) %FUNDED	(4) = (3 x 4) FUNDING FLOOR CURVE			(7) FUND	(8) = (2) ACTUAL FUNDING		(9) = (7 / 8)
				CRITERIA	PERCENT	AMOUNT		EST. COST	%FUNDED	
DEC 1991	\$3,966	\$16,423	24%	80%	19%	\$3,173	\$15,948	\$16,423	97%	
DEC 1992	4,932	26,483	19%	80%	15%	3,946	16,719	26,483	63%	
DEC 1993	6,548	28,072	23%	80%	19%	5,238	7,962	28,072	28%	
DEC 1994	8,515	29,756	29%	80%	23%	6,812	7,626	29,756	26%	
DEC 1995	8,568	27,640	31%	80%	25%	6,855	9,750	27,640	35%	
DEC 1996	10,254	29,298	35%	80%	28%	8,204	12,896	29,298	44%	
DEC 1997	12,112	31,056	39%	80%	31%	9,690	16,755	31,056	54%	
DEC 1998	14,916	34,689	43%	80%	34%	11,933	20,020	34,689	58%	
DEC 1999	17,282	36,770	47%	80%	37%	13,825	23,278	36,770	63%	
DEC 2000	19,488	38,976	50%	80%	40%	15,590	27,784	38,976	71%	
DEC 2001	21,090	39,793	53%	80%	43%	16,872	32,401	39,793	81%	
DEC 2002	24,043	42,180	57%	80%	45%	19,234	36,515	42,180	87%	
DEC 2003	26,827	44,711	60%	80%	48%	21,461	40,211	44,711	90%	
DEC 2004	29,858	47,394	63%	80%	50%	23,886	42,598	47,394	90%	
DEC 2005	28,932	43,837	66%	80%	53%	23,146	43,212	43,837	99%	
DEC 2006	31,597	46,467	68%	81%	55%	25,594	45,381	46,467	98%	
DEC 2007	34,971	49,255	71%	82%	58%	28,676				
DEC 2008	38,635	52,210	74%	83%	61%	32,067				
DEC 2009	42,060	55,343	76%	84%	64%	35,331				
DEC 2010	46,344	58,663	79%	85%	67%	39,392				
DEC 2011	50,368	62,183	81%	86%	70%	43,317				
DEC 2012	54,709	65,914	83%	87%	72%	47,596				
DEC 2013	59,388	69,869	85%	88%	75%	52,262				
DEC 2014	64,433	74,061	87%	89%	78%	57,345				
DEC 2015	70,654	78,505	90%	90%	81%	63,589				
DEC 2016	76,558	83,215	92%	91%	83%	69,667				
DEC 2017	82,915	88,208	94%	92%	86%	76,282				
DEC 2018	88,825	93,500	95%	93%	89%	82,607				
DEC 2019	96,137	99,110	97%	94%	91%	90,369				
DEC 2020	104,006	105,057	99%	95%	94%	98,806				
DEC 2021	111,360	111,360	100%	100%	100%	111,360				
DEC 2022	116,928	116,928	100%	100%	100%	116,928				
DEC 2023	122,775	122,775	100%	100%	100%	122,775				
DEC 2024	128,913	128,913	100%	100%	100%	128,913				
DEC 2025	135,359	135,359	100%	100%	100%	135,359				
DEC 2026	142,127	142,127	100%	100%	100%	142,127				

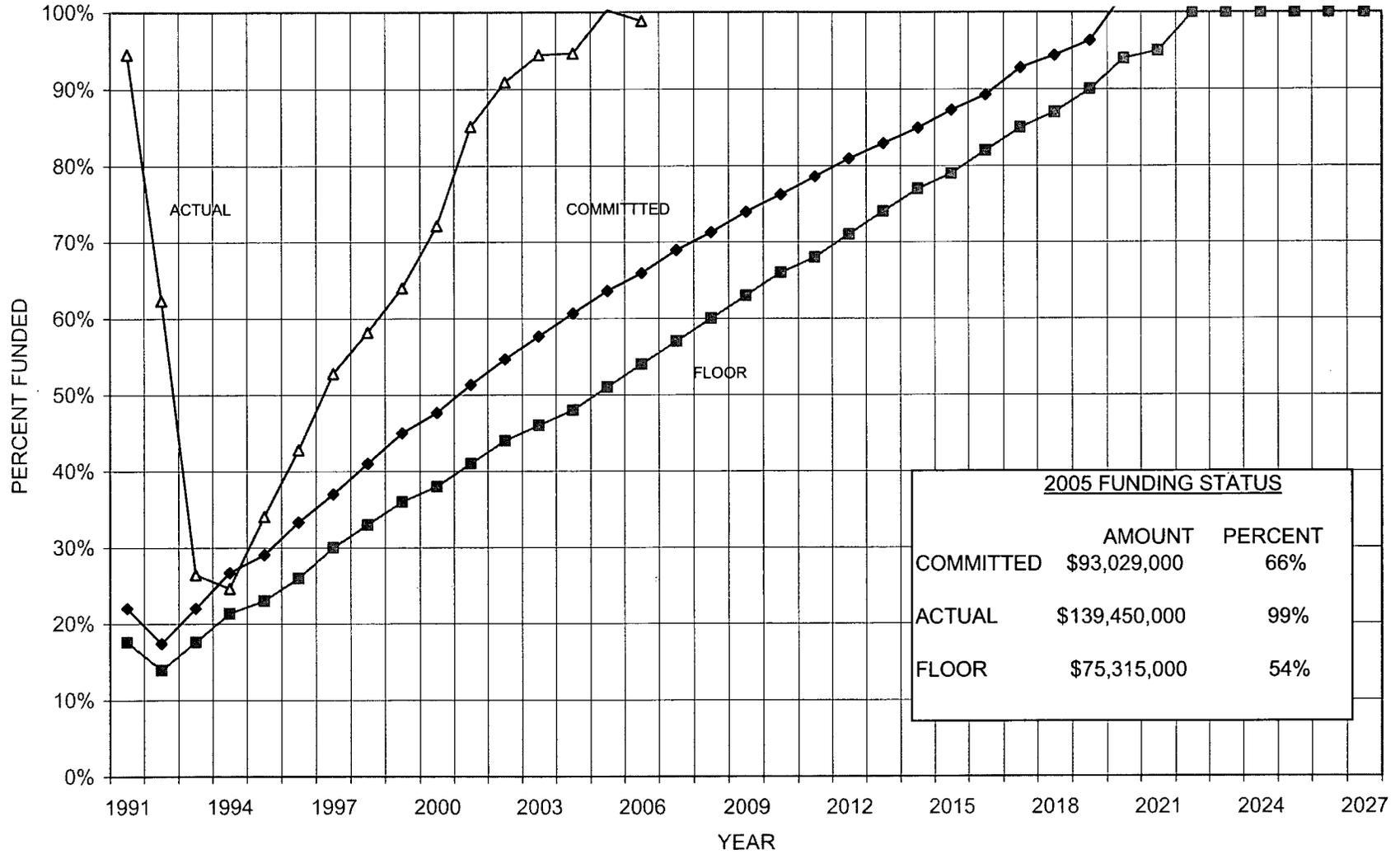
SCPPA PALO VERDE UNIT 3 FUNDING PLAN



SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
2006 PALO VERDE UNIT - 3 FUNDING STATUS
TERMINATION COST FUNDING
(\$ THOUSAND)

YEAR	(1) = (2 x 3) AUTHORIZED FUNDING PLAN			(4) (5) = (3 x 4) (6) = (1 x 4) FUNDING FLOOR CURVE			(7) (8) = (2) (9) = (7 / 8) ACTUAL FUNDING		
	FUND	EST. COST	%FUNDED	CRITERIA	PERCENT	AMOUNT	FUND	EST. COST	%FUNDED
DEC 1991	\$3,098	\$18,225	17%	80%	14%	\$2,478	\$17,223	\$18,225	95%
DEC 1992	4,125	28,298	15%	80%	12%	3,300	18,454	28,298	65%
DEC 1993	5,769	29,996	19%	80%	15%	4,615	7,830	29,996	26%
DEC 1994	8,375	31,796	26%	80%	21%	6,700	7,664	31,796	24%
DEC 1995	9,051	31,209	29%	80%	23%	7,240	9,985	31,209	32%
DEC 1996	10,917	33,082	33%	80%	26%	8,734	13,337	33,082	40%
DEC 1997	12,624	35,066	36%	80%	29%	10,099	17,617	35,066	50%
DEC 1998	14,919	37,298	40%	80%	32%	11,935	21,404	37,298	57%
DEC 1999	17,396	39,536	44%	80%	35%	13,917	25,162	39,536	64%
DEC 2000	19,697	41,908	47%	80%	38%	15,757	30,117	41,908	72%
DEC 2001	20,183	40,366	50%	80%	40%	16,146	35,218	40,366	87%
DEC 2002	22,678	42,788	53%	80%	43%	18,142	40,032	42,788	94%
DEC 2003	25,399	45,355	56%	80%	45%	20,319	44,172	45,355	97%
DEC 2004	28,365	48,077	59%	80%	47%	22,692	46,985	48,077	98%
DEC 2005	29,831	48,115	62%	80%	49%	23,865	47,737	48,115	99%
DEC 2006	32,641	51,002	64%	80%	52%	26,113	49,684	51,002	97%
DEC 2007	36,222	54,062	67%	80%	54%	28,977			
DEC 2008	39,541	57,306	69%	81%	56%	32,028			
DEC 2009	43,736	60,744	72%	82%	59%	35,863			
DEC 2010	47,648	64,389	74%	83%	62%	39,548			
DEC 2011	51,872	68,252	76%	84%	64%	43,572			
DEC 2012	57,154	72,347	79%	85%	67%	48,581			
DEC 2013	62,117	76,688	81%	86%	69%	53,421			
DEC 2014	67,470	81,289	83%	87%	72%	58,699			
DEC 2015	73,242	86,167	85%	88%	74%	64,453			
DEC 2016	79,463	91,337	87%	89%	77%	70,722			
DEC 2017	85,199	96,817	88%	90%	80%	76,679			
DEC 2018	92,363	102,626	90%	91%	82%	84,051			
DEC 2019	100,081	108,784	92%	92%	85%	92,074			
DEC 2020	108,392	115,311	94%	93%	87%	100,805			
DEC 2021	116,118	122,229	95%	94%	90%	109,151			
DEC 2022	129,563	129,563	100%	100%	100%	129,563			
DEC 2023	136,041	136,041	100%	100%	100%	136,041			
DEC 2024	142,843	142,843	100%	100%	100%	142,843			
DEC 2025	149,985	149,985	100%	100%	100%	149,985			
DEC 2026	157,485	157,485	100%	100%	100%	157,485			
DEC 2027	165,359	165,359	100%	100%	100%	165,359			

SCPPA PALO VERDE ALL UNITS FUNDING PLAN



**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
2006 PALO VERDE ALL UNITS FUNDING STATUS
TERMINATION COST FUNDING
(IN THOUSANDS)**

YEAR	(1) = (2 x 3)	(2)	(3)	(4)	(5) = (3 x 4)	(6) = (1 x 4)	(7)	(8) = (2)	(9) = (7 / 8)
	AUTHORIZED FUNDING PLAN			FUNDING FLOOR CURVE			ACTUAL FUNDING		
	FUND	EST. COST	%FUNDED	CRITERIA	PERCENT	AMOUNT	FUND	EST. COST	%FUNDED
DEC 1991	\$11,289	\$51,213	22%	80%	18%	\$9,031	\$48,398	\$51,213	95%
DEC 1992	14,233	81,696	17%	80%	14%	11,386	50,935	81,696	62%
DEC 1993	19,099	86,598	22%	80%	18%	15,279	22,895	86,598	26%
DEC 1994	24,487	91,794	27%	80%	21%	19,590	22,640	91,794	25%
DEC 1995	24,809	85,478	29%	80%	23%	19,847	29,115	85,478	34%
DEC 1996	30,204	90,607	33%	80%	26%	24,163	38,778	90,607	43%
DEC 1997	35,507	96,043	37%	80%	30%	28,406	50,689	96,043	53%
DEC 1998	43,016	104,939	41%	80%	33%	34,413	61,054	104,939	58%
DEC 1999	50,047	111,236	45%	80%	36%	40,037	71,240	111,236	64%
DEC 2000	56,217	117,910	48%	80%	38%	44,973	85,122	117,910	72%
DEC 2001	59,835	116,555	51%	80%	41%	47,868	99,171	116,555	85%
DEC 2002	67,554	123,548	55%	80%	44%	54,043	112,301	123,548	91%
DEC 2003	75,536	130,961	58%	80%	46%	60,429	123,663	130,961	94%
DEC 2004	84,232	138,819	61%	80%	48%	67,386	131,414	138,819	95%
DEC 2005	84,689	133,105	64%	81%	51%	68,011	133,449	133,105	100%
DEC 2006	93,029	141,091	66%	82%	54%	75,315	139,450	141,091	99%
DEC 2007	103,098	149,556	69%	83%	57%	84,135			
DEC 2008	112,976	158,530	71%	84%	60%	93,327			
DEC 2009	124,243	168,041	74%	85%	63%	103,873			
DEC 2010	135,846	178,124	76%	86%	66%	114,935			
DEC 2011	148,357	188,811	79%	87%	68%	127,011			
DEC 2012	161,985	200,140	81%	88%	71%	140,285			
DEC 2013	175,947	212,148	83%	89%	74%	154,135			
DEC 2014	191,001	224,877	85%	90%	77%	169,232			
DEC 2015	208,014	238,370	87%	91%	79%	186,389			
DEC 2016	225,548	252,672	89%	92%	82%	204,354			
DEC 2017	248,545	267,832	93%	93%	85%	227,762			
DEC 2018	268,015	283,902	94%	94%	87%	248,275			
DEC 2019	289,883	300,936	96%	95%	90%	271,425			
DEC 2020	326,686	318,993	102%	96%	94%	313,899			
DEC 2021	347,480	337,146	103%	97%	95%	340,513			
DEC 2022	372,494	355,225	105%	100%	100%	372,494			
DEC 2023	391,119	372,987	105%	100%	100%	391,119			
DEC 2024	410,674	391,636	105%	100%	100%	410,674			
DEC 2025	431,208	411,218	105%	100%	100%	431,208			
DEC 2026	299,612	299,612	100%	100%	100%	299,612			
DEC 2027	165,359	165,359	100%	100%	100%	165,359			

SCPPA

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
225 South Lake Avenue, Suite 1410
Pasadena, CA 91101
(626) 793-9364 • Fax: (626) 793-9461
www.scppa.org

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SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
CERTIFICATE FOR ANNUAL FUNDING STATUS REPORT
FOR THE PERIOD ENDING DECEMBER 31, 2006

Bill D. Carnahan, Executive Director of Southern California Public Power Authority certifies on behalf of Southern California Public Power Authority that all other instruments providing for investment management of the Termination Funds of Southern California Public Power Authority, taken together, comply with Section 8A.7.2.2 and all other provisions of the Arizona Nuclear Project Participation Agreement dated as of August 23, 1973, as amended by Amendment Nos. 1 through 13 establishing requirements for such agreements and instruments; and further certifies that, to the best of the knowledge of Bill D. Carnahan, the information contained in the report to which this certificate is attached is true and correct and accurately sets forth the status of the Termination Fund of Southern California Public Power Authority as of the date stated.

Dated: February 26, 2007



BILL D. CARNAHAN
Executive Director of
Southern California Public Power
Authority

Attachment 7

Annual Funding Status Report for the Year Ending December 2006

Los Angeles Department of Water and Power

DEPARTMENT OF WATER & POWER
CITY OF LOS ANGELES

PALO VERDE PROJECT

TERMINATION FUNDING COMMITTEE
2006 ANNUAL FUNDING STATUS REPORT



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LOS ANGELES DEPARTMENT OF WATER & POWER

**Annual Funding Status Report
For the Year Ending December 31, 2006**

PART 1. GENERAL INFORMATION

1.1 Description of Funds

1.1.1 FUND #1 - DECOMMISSIONING TRUST FUND I

* Units 1, 2 and 3

* Tax Status: Exempt from Federal and State Taxes

* Independent Trustee: U.S. Bank Trust, National Association
633 W. Fifth Street, 24th Floor
Los Angeles, California 90071

* Investment Manager: None

* Basic Documents:

- Decommissioning Trust Fund Agreement I, dated July 17, 1990,
by and between the Los Angeles Department of Water & Power (LA DWP)
and U.S. Bank Trust, National Association (Trustee)
- Amendment No. 1 to the Decommissioning Trust Fund Agreement I,
dated February 20, 1991.
- Amendment No. 2 to the Decommissioning Trust Fund Agreement I,
dated December 2, 2003.

* Changes since prior AFSR: None

1.1.2 FUND #2 - DECOMMISSIONING TRUST FUND II

* Units 1, 2 and 3

* Tax Status: Exempt from Federal and State taxes

* Independent Trustee: U.S. Bank Trust, National Association
633 W. Fifth Street, 24th Floor
Los Angeles, California 90071

* Investment Manager: None

* Basic Documents:

- Decommissioning Trust Fund Agreement II, dated July 17, 1990
by and between the Los Angeles Department of Water & Power (LA DWP)
and U.S. Bank Trust, National Association (Trustee)
- Amendment No. 1 to the Decommissioning Trust Fund Agreement II,
dated February 20, 1991.
- Amendment No. 2 to the Decommissioning Trust Fund Agreement II,
dated December 2, 2003.

* Changes since prior AFSR: None

1.2 Pro Rata Share

* Generation Entitlement Share	5.7%
* Section 23.5.1 Obligations	0.0%
* Pro Rata Share	5.7%

1.3 Sales & Leaseback Transactions

<u>Unit</u>	<u>Lessor/ Trustee</u>	<u>Lessor Ownership</u>	<u>Termination Funding Required</u>	<u>Date Full Funding Required</u>	<u>Funding Basis</u>	<u>Status</u>
1						
2	NONE					
3						

1.4 Summary of Regulatory Requirements with Respect to Electricity Rates and Termination Funding

- * The LA DWP is a municipally owned utility whose rates are subject to the approval of the Los Angeles City Council by ordinance
- * The LA DWP is not regulated by the California Public Utilities Commission (CPUC) or any other state agency.
- * Decommissioning Trust Fund I was established to meet the funding guidelines of the Nuclear Regulatory Commission (NRC)
- * Decommissioning Trust Fund II was established to meet the difference in funding requirements between the NRC and the Arizona Nuclear Power Project Participation Agreement.

1.5 Statement of Investment Policies and Restrictions

Investment Policies

- * Objectives
 - Safety of Principal
 - Achieve Target Rate of Return
 - Diversification of Risk

* Restrictions

Investments are governed by the California Government Code Sections 53601 et seq and are restricted to securities that are indicated in the Department's Investment Policy, as listed below.

- United States Treasury Obligations
- Federal Agencies Obligations & Government Sponsored Enterprises
- Commercial Paper
- Bankers Acceptances
- Negotiable Certificate of Deposits
- Repurchase & Reverse Repurchase Agreements
- Medium Term Corporate Notes
- Mortgage and Asset Backed Obligations
- Money Market Funds
- Tax-exempt and/or taxable debt of the State of California or any of its political subdivisions.

PART 2. SUMMARY OF STATUS OF TERMINATION FUNDS AT END OF THE REPORTING PERIOD

2.1 Committed Accumulations at End of Reporting Period

	<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>
2.1.1 Latest Estimated Termination Costs (2004 TLG)	\$656,910,000	\$699,750,000	\$768,047,000	\$2,124,707,000
2.1.2 Generation Entitlement Share of Estimated Termination Costs	\$37,444,000	\$39,886,000	\$43,779,000	\$121,109,000
2.1.3 Cumulative Adjustment Factor	110%	110%	110%	110%
2.1.4 Adjusted Share of Estimated Termination Costs (2.1.2 X 2.1.3)	\$41,282,000	\$43,974,000	\$48,266,000	\$133,522,000
2.1.5 Percent Funding Requirement at End of Reporting Period from Percent Funded Curve	61%	59%	56%	59%
2.1.6 Committed Accumulations at End of Reporting Period (2.1.4 X 2.1.5)	\$25,182,000	\$25,945,000	\$27,029,000	\$78,156,000
2.1.7 Summary of Major Assumptions				
Escalation Factor	5.0%			
Rate of Return	7.0%			
Participation Ratio	5.7%			
Funding Period	35 years for each unit			
Funding Level	Includes Independent Spent Fuel Storage Installation and Other Facilities.			

2.2.1 Actual Accumulations at End of Reporting Period

Fund	Unit 1	Unit 2	Unit 3	Total
1	\$17,759,600	\$17,265,400	\$16,643,800	\$51,668,800
2	\$16,419,400	\$16,563,100	\$17,320,300	\$50,302,800
Total	\$34,179,000	\$33,828,500	\$33,964,100	\$101,971,600

2.2.2 Computation of Actual Accumulations

Fund	Unit 1	Unit 2	Unit 3	Total
Cash	\$131,100	\$54,656	\$61,965	\$247,721
Market Value	\$33,643,600	\$33,275,144	\$33,449,735	\$100,368,479
Accrued Interest	\$404,300	\$498,700	\$452,300	\$1,355,300
Total	\$34,179,000	\$33,828,500	\$33,964,100	\$101,971,600

2.3 Funded Floor Amount at End of Reporting Period

2.3.1 Percentage of Committed Accumulations	50%	48%	45%	47%
---	-----	-----	-----	-----

2.3.2 Funded Floor Amount

	\$20,649,000	\$21,015,000	\$21,623,000	\$63,306,000
--	--------------	--------------	--------------	--------------

2.4 Deposits Made During the Reporting Period (All Termination Funds)

	Unit 1	Unit 2	Unit 3	Total
NRC Required Deposits	\$0	\$0	\$0	\$0
Normal Annual Deposits	\$0	\$0	\$0	\$0
Recovery Deposits	\$0	\$0	\$0	\$0
Correcting Deposits	\$0	\$0	\$0	\$0
Total	\$0	\$0	\$0	\$0

	<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Total</u>
2.5 Mandatory Deposits During Reporting Period	\$0	\$0	\$0	\$0

2.6 Estimated Outstanding Balance of Recovery Deposits and Correction Deposits
Outstanding at End of Reporting Period

	Recovery Deposits		Correction Deposits	
	<u>Amt. Outst.</u>	<u>Due Date</u>	<u>Amt. Outst.</u>	<u>Due Date</u>
Unit 1	\$ -	-	\$ -	-
Unit 2	\$ -	-	\$ -	-
Unit 3	\$ -	-	\$ -	-

2.7 Annual Net Income (Loss) During Reporting Period (All Funds, All Units)

FUND	AMOUNT	RATE	(based on ave. market values)
Fund I - Unit 1	\$945,293	5.98%	
Fund I - Unit 2	\$748,153	4.87%	
Fund I - Unit 3	\$714,665	4.83%	
Fund II - Unit 1	\$1,063,684	6.18%	
Fund II - Unit 2	\$975,154	5.65%	
Fund II - Unit 3	\$745,888	4.15%	
TOTAL	\$5,192,837	5.28%	

CALCULATIONS:

	Fund 1			Fund 2			
Sum of (A)	<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Totals</u>
(i) Realized Income	\$945,293	\$748,153	\$714,665	\$1,063,684	\$975,154	\$745,888	\$5,192,837
(ii) Unrealized Income (Loss)	(\$397,448)	(\$260,143)	(\$316,517)	(\$278,390)	(\$245,323)	(\$454,765)	(\$1,952,586)
Less: Sum of (B)							
(i) Taxes Paid & Accrued							\$0
(ii) Expenses Paid & Accrued							\$0
	\$547,844	\$488,010	\$398,147	\$785,295	\$729,831	\$291,124	\$3,240,250

2.8 Summary of Values of Permitted Investments at End of Reporting Period

Category	<u>Fund 1</u>	<u>Fund 2</u>	<u>Total</u>
Cash & Cash Equivalents	\$3,753,347	\$603,548	\$4,356,895
Acceptable Debt Securities	\$47,915,453	\$49,699,252	\$97,614,705
Acceptable Equity Securities	\$0	\$0	\$0
Acceptable Life Insurance	\$0	\$0	\$0
Acceptable Property Interests	\$0	\$0	\$0
Total	\$51,668,800	\$50,302,800	\$101,971,600

2.9 Inventory and Values of Permitted Investments at End of Reporting Period

Permitted Investments	Value	Basis of Valuation
Medium Term Corporate Notes	\$21,498,621	Trustee Bank
Commercial Paper	\$0	Trustee Bank
US Treasuries/Agencies	\$80,225,258	Trustee Bank
Negotiable Certificate of Deposits	\$0	Trustee Bank
US Money Market Fund	\$247,721	Trustee Bank
Total	\$101,971,600	

2.10 Fund Liabilities at End of Reporting Period

NONE

2.11 Defaults, if any, Experienced on Investments

NONE

2.12 Summary of Investment Ratings

Medium Term Corporate Notes

"A"

Commercial Paper

"A1/P1"

LOS ANGELES DEPARTMENT OF WATER & POWER

**Annual Funding Status Report
For the Year Ending December 31, 2006**

PART 3. TABLES AND CURVES

- 3.1 Table of Estimated Deposits, Income and Committed Accumulations to End of Funding Period for each Unit
(See Attached Schedules)

- 3.2 Percent Funding Curve and Funding Floor Curve for Each Unit
(See Attached Graphs)

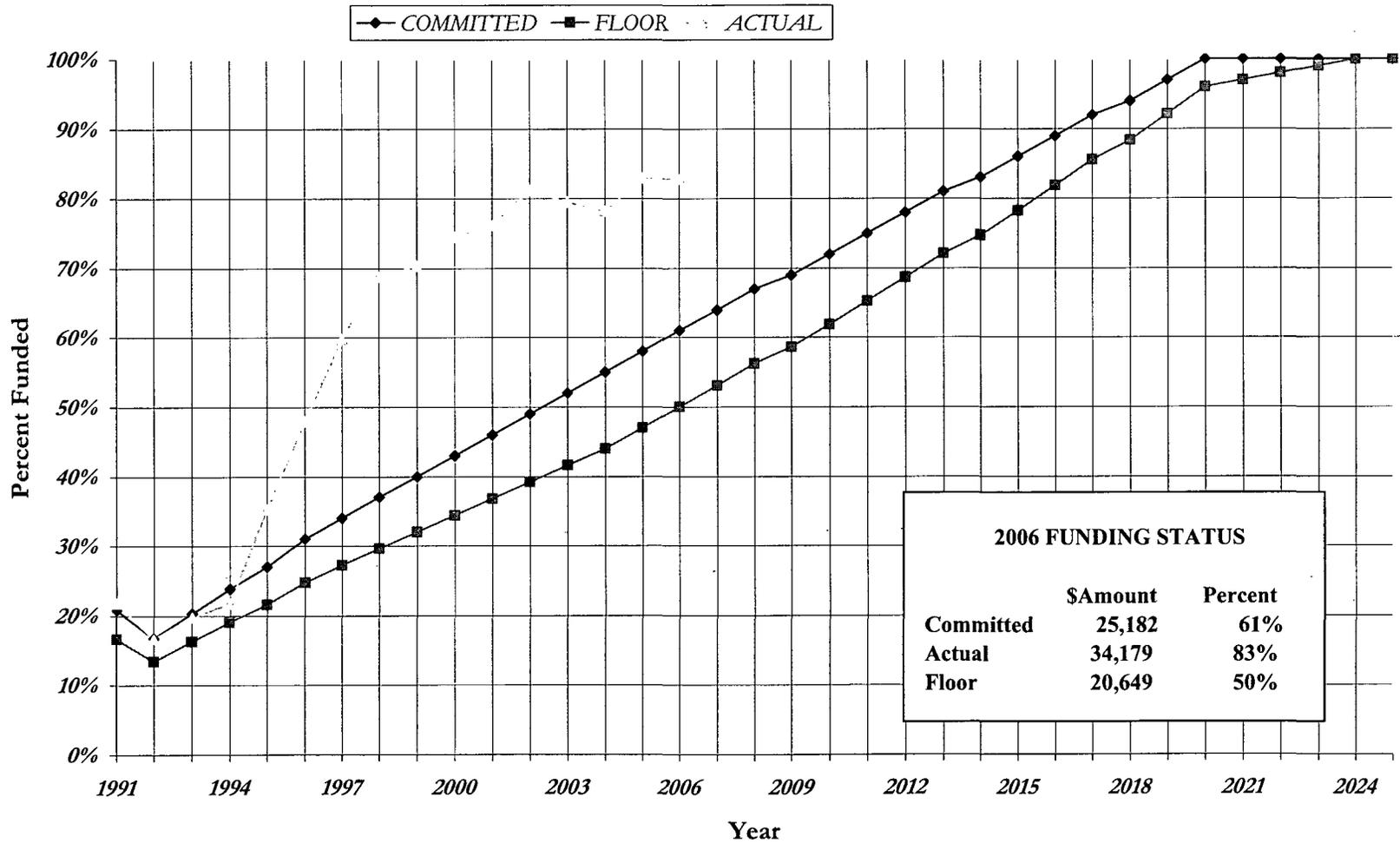
**Department of Water & Power
Palo Verde Project
Termination Cost Funding**

Date	Unit 1				Unit 2				Unit 3				Grand Total		
	Period	Contribution	Interest	Balance	Period	Contribution	Interest	Balance	Period	Contribution	Interest	Balance	Contribution	Interest	Totals
12/31/1990	10			2,444,200	8			2,159,244	6			1,493,407	0	0	6,096,851
6/30/1991	11	223,326	106,706	2,774,232	9	232,478	105,780	2,497,502	7	270,890	71,900	1,836,197	726,694	284,386	7,107,931
12/31/1991	12	223,326	428,941	3,426,499	10	232,478	490,438	3,220,418	8	270,890	432,437	2,539,524	726,694	1,351,816	9,186,441
6/30/1992	13	223,326	116,869	3,766,694	11	232,478	111,934	3,564,830	9	270,890	77,462	2,887,876	726,694	306,265	10,219,400
12/31/1992	14	434,027	104,872	4,305,593	12	423,694	129,716	4,118,240	10	464,724	84,937	3,437,537	1,322,445	319,525	11,861,370
6/30/1993	15	445,545	90,854	4,841,992	13	421,072	173,551	4,712,863	11	477,502	111,010	4,026,049	1,344,119	375,415	13,580,904
12/31/1993	16	431,919	87,753	5,361,664	14	414,884	93,888	5,221,635	12	462,987	52,475	4,541,511	1,309,790	234,116	15,124,810
6/30/1994	17	431,919	111,532	5,905,115	15	414,884	10,343	5,646,862	13	462,987	47,978	5,052,476	1,309,790	169,853	16,604,453
12/31/1994	18	431,919	(131,334)	6,205,700	16	414,884	(120,146)	5,941,600	14	462,987	(159,863)	5,355,600	1,309,790	(411,343)	17,502,900
6/30/1995	19	431,919	404,898	7,042,517	17	414,884	339,916	6,696,400	15	462,987	295,915	6,114,502	1,309,790	1,040,729	19,853,419
12/31/1995	20	1,755,562	262,538	9,060,617	18	1,669,739	235,585	8,601,724	16	1,884,499	181,886	8,180,887	5,309,800	680,009	25,843,228
6/30/1996	21	1,755,562	260,302	11,076,481	19	1,669,739	197,615	10,469,078	17	1,884,499	152,131	10,217,517	5,309,800	610,048	31,763,076
12/31/1996	22	1,593,396	258,223	12,928,100	20	1,753,112	211,610	12,433,800	18	1,963,492	150,991	12,332,000	5,310,000	620,824	37,693,900
6/30/1997	23	1,593,396	247,064	14,768,560	21	1,753,112	238,202	14,425,114	19	1,963,492	184,812	14,480,304	5,310,000	670,078	43,673,978
12/31/1997	24	1,593,396	565,873	16,927,829	22	1,753,112	583,850	16,762,076	20	1,963,492	399,527	16,843,323	5,310,000	1,549,250	50,533,228
6/30/1998	25	1,593,396	738,933	19,260,158	23	1,753,112	794,564	19,309,752	21	1,963,492	549,326	19,356,141	5,310,000	2,082,823	57,926,051
12/31/1998	26	1,593,396	996,208	21,849,762	24	1,753,112	653,844	21,716,708	22	1,963,492	511,371	21,831,004	5,310,000	2,161,423	65,397,474
6/30/1999	27	1,629,218	(214,470)	23,264,510	25	1,750,953	113,871	23,581,532	23	1,929,829	(245,280)	23,515,553	5,310,000	(345,879)	70,361,595
12/31/1999	28	0	211,345	23,475,855	26	0	346,764	23,928,296	24	0	316,063	23,831,616	0	874,172	71,235,767
6/30/2000	29	0	852,897	24,328,752	27	0	804,598	24,732,894	25	0	778,362	24,609,978	0	2,435,856	73,671,623
12/31/2000	30	0	1,765,642	26,094,394	28	0	1,536,294	26,269,187	26	0	1,623,514	26,233,492	0	4,925,450	78,597,074
6/30/2001	31	0	1,044,753	27,139,147	29	0	951,085	27,220,272	27	0	1,117,369	27,350,861	0	3,113,207	81,710,280
12/31/2001	32	0	875,812	28,014,959	30	0	971,149	28,191,422	28	0	1,069,950	28,420,811	0	2,916,911	84,627,192
6/30/2002	33	0	766,833	28,781,792	31	0	764,694	28,956,116	29	0	687,677	29,108,488	0	2,219,205	86,846,396
12/31/2002	34	0	1,140,274	29,922,067	32	0	1,152,070	30,108,186	30	0	832,779	29,941,267	0	3,125,123	89,971,520
6/30/2003	35	0	538,487	30,460,554	33	0	697,317	30,805,503	31	0	600,265	30,541,532	0	1,836,069	91,807,589
12/31/2003	36	0	300,726	30,761,280	34	0	133,416	30,938,919	32	0	159,788	30,701,320	0	593,930	92,401,519
6/30/2004	37	0	64,765	30,826,045	35	0	44,503	30,983,422	33	0	69,003	30,770,323	0	178,271	92,579,789
12/31/2004	38	0	941,281	31,767,326	36	0	696,407	31,679,829	34	0	963,229	31,733,552	0	2,600,917	95,180,707
6/30/2005	39	0	660,528	32,427,854	37	0	384,407	32,064,236	35	0	620,956	32,354,508	0	1,665,891	96,846,598
12/31/2005	40	0	169,685	32,597,539	38	0	202,378	32,266,614	36	0	104,808	32,459,316	0	476,871	97,323,469
6/30/2006	41	0	196,457	32,793,995	39	0	390,900	32,657,514	37	0	210,581	32,669,897	0	797,937	98,121,406
12/31/2006	42	0	1,385,014	34,179,009	40	0	1,170,993	33,828,507	38	0	1,294,138	33,964,035	0	3,850,145	101,971,551
6/30/2007	43	(168,918)	1,196,265	35,206,357	41	(68,385)	1,183,998	34,944,120	39	56,500	1,188,741	35,209,276	(180,803)	3,569,004	105,359,753
12/31/2007	44	(168,918)	1,232,222	36,269,662	42	(68,385)	1,223,044	36,098,779	40	56,500	1,232,325	36,498,101	(180,803)	3,687,591	108,866,542
6/30/2008	45	(168,918)	1,269,438	37,370,183	43	(68,385)	1,263,457	37,293,851	41	56,500	1,277,434	37,832,034	(180,803)	3,810,329	112,496,068

**Department of Water & Power
Palo Verde Project
Termination Cost Funding**

Date	Unit 1				Unit 2				Unit 3				Grand Total		
	Period	Contribution	Interest	Balance	Period	Contribution	Interest	Balance	Period	Contribution	Interest	Balance	Contribution	Interest	Totals
12/31/2008	46	(168,918)	1,307,956	38,509,222	44	(68,385)	1,305,285	38,530,751	42	56,500	1,324,121	39,212,655	(180,803)	3,937,362	116,252,628
6/30/2009	47	(168,918)	1,347,823	39,688,127	45	(68,385)	1,348,576	39,810,942	43	56,500	1,372,443	40,641,598	(180,803)	4,068,842	120,140,668
12/31/2009	48	(168,918)	1,389,084	40,908,294	46	(68,385)	1,393,383	41,135,940	44	56,500	1,422,456	42,120,554	(180,803)	4,204,923	124,164,789
6/30/2010	49	(168,918)	1,431,790	42,171,167	47	(68,385)	1,439,758	42,507,313	45	56,500	1,474,219	43,651,274	(180,803)	4,345,768	128,329,754
12/31/2010	50	(168,918)	1,475,991	43,478,240	48	(68,385)	1,487,756	43,926,684	46	56,500	1,527,795	45,235,568	(180,803)	4,491,541	132,640,493
6/30/2011	51	(168,918)	1,521,738	44,831,061	49	(68,385)	1,537,434	45,395,733	47	56,500	1,583,245	46,875,313	(180,803)	4,642,417	137,102,107
12/31/2011	52	(168,918)	1,569,087	46,231,230	50	(68,385)	1,588,851	46,916,199	48	56,500	1,640,636	48,572,449	(180,803)	4,798,574	141,719,879
6/30/2012	53	(168,918)	1,618,093	47,680,406	51	(68,385)	1,642,067	48,489,881	49	56,500	1,700,036	50,328,985	(180,803)	4,960,196	146,499,272
12/31/2012	54	(168,918)	1,668,814	49,180,303	52	(68,385)	1,697,146	50,118,642	50	56,500	1,761,514	52,146,999	(180,803)	5,127,475	151,445,944
6/30/2013	55	(168,918)	1,721,311	50,732,696	53	(68,385)	1,754,152	51,804,409	51	56,500	1,825,145	54,028,644	(180,803)	5,300,608	156,565,749
12/31/2013	56	(168,918)	1,775,644	52,339,423	54	(68,385)	1,813,154	53,549,178	52	56,500	1,891,003	55,976,147	(180,803)	5,479,801	161,864,748
6/30/2014	57	(168,918)	1,831,880	54,002,385	55	(68,385)	1,874,221	55,355,015	53	56,500	1,959,165	57,991,812	(180,803)	5,665,266	167,349,212
12/31/2014	58	(168,918)	1,890,083	55,723,551	56	(68,385)	1,937,426	57,224,055	54	56,500	2,029,713	60,078,025	(180,803)	5,857,222	173,025,632
6/30/2015	59	(168,918)	1,950,324	57,504,958	57	(68,385)	2,002,842	59,158,512	55	56,500	2,102,731	62,237,256	(180,803)	6,055,897	178,900,726
12/31/2015	60	(168,918)	2,012,674	59,348,714	58	(68,385)	2,070,548	61,160,675	56	56,500	2,178,304	64,472,060	(180,803)	6,261,525	184,981,449
6/30/2016	61	(168,918)	2,077,205	61,257,001	59	(68,385)	2,140,624	63,232,914	57	56,500	2,256,522	66,785,082	(180,803)	6,474,351	191,274,997
12/31/2016	62	(168,918)	2,143,995	63,232,079	60	(68,385)	2,213,152	65,377,681	58	56,500	2,337,478	69,179,060	(180,803)	6,694,625	197,788,820
6/30/2017	63	(168,918)	2,213,123	65,276,284	61	(68,385)	2,288,219	67,597,515	59	56,500	2,421,267	71,656,827	(180,803)	6,922,609	204,530,626
12/31/2017	64	(168,918)	2,284,670	67,392,036	62	(68,385)	2,365,913	69,895,043	60	56,500	2,507,989	74,221,316	(180,803)	7,158,572	211,508,395
6/30/2018	65	(168,918)	2,358,721	69,581,840	63	(68,385)	2,446,326	72,272,984	61	56,500	2,597,746	76,875,562	(180,803)	7,402,794	218,730,387
12/31/2018	66	(168,918)	2,435,364	71,848,287	64	(68,385)	2,529,554	74,734,153	62	56,500	2,690,645	79,622,707	(180,803)	7,655,564	226,205,148
6/30/2019	67	(168,918)	2,514,690	74,194,060	65	(68,385)	2,615,695	77,281,464	63	56,500	2,786,795	82,466,002	(180,803)	7,917,180	233,941,525
12/31/2019	68	(168,918)	2,596,792	76,621,934	66	(68,385)	2,704,851	79,917,930	64	56,500	2,886,310	85,408,812	(180,803)	8,187,953	241,948,676
6/30/2020	69	(168,918)	2,681,768	79,134,785	67	(68,385)	2,797,128	82,646,673	65	56,500	2,989,308	88,454,620	(180,803)	8,468,204	250,236,078
12/31/2020	70	(168,918)	2,769,717	81,735,556	68	(68,385)	2,892,634	85,470,921	66	56,500	3,095,912	91,607,032	(180,803)	8,758,263	258,813,509
6/30/2021					69	(68,385)	2,991,482	88,394,018	67	56,500	3,206,246	94,869,778	(11,885)	6,197,728	183,263,797
12/31/2021					70	(68,385)	3,093,791	91,419,443	68	56,500	3,320,442	98,246,720	(11,885)	6,414,233	189,666,163
6/30/2022									69	56,500	3,438,635	101,741,856	56,500	3,438,635	101,741,856
12/31/2022									70	56,500	3,560,965	105,359,383	56,500	3,560,965	105,359,383

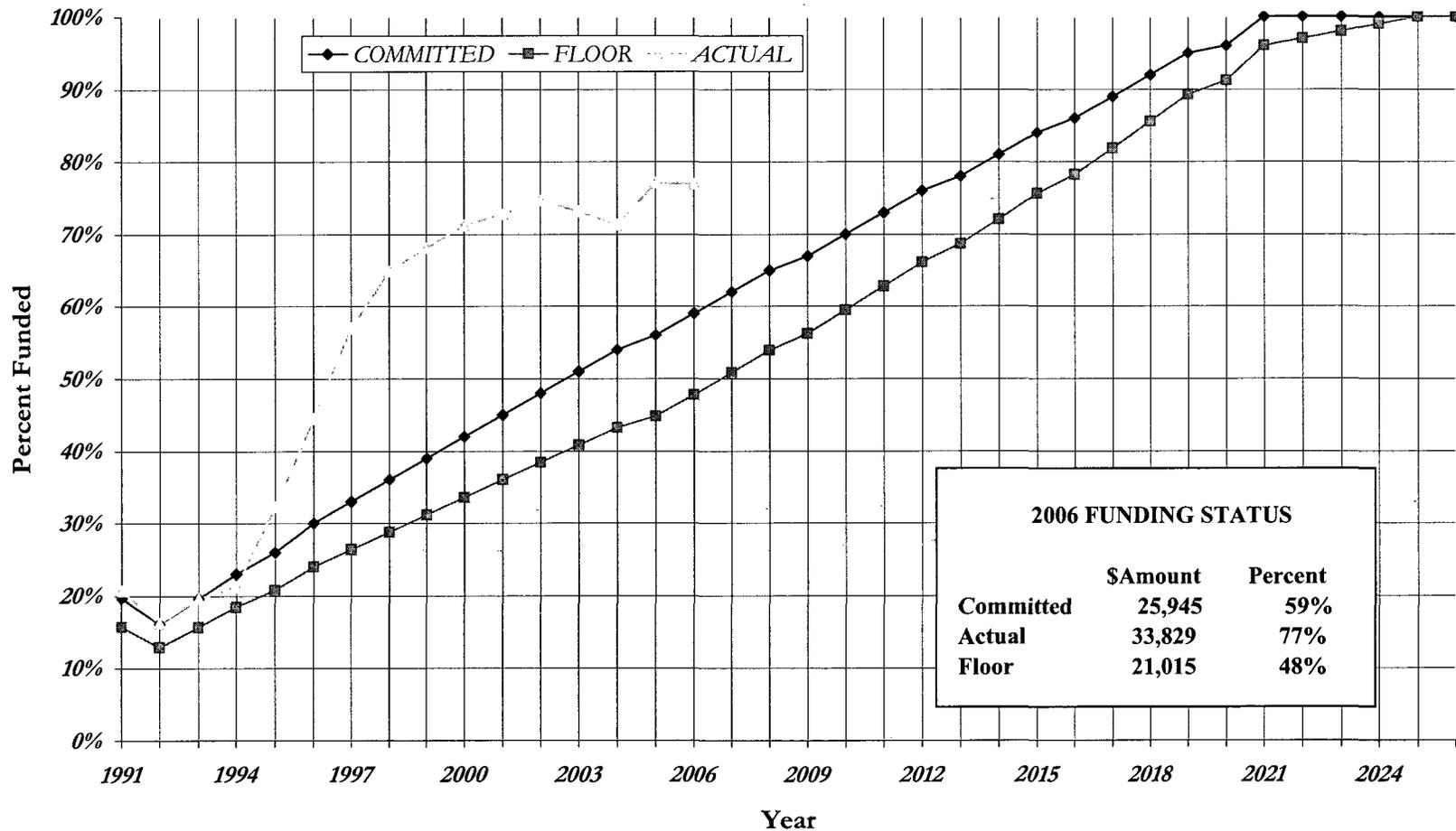
DWP PALO VERDE UNIT 1 FUNDING PLAN



DEPARTMENT OF WATER & POWER
2006 PALO VERDE UNIT 1 FUNDING STATUS
TERMINATION COST FUNDING
(In Thousand \$)

Month	Year	(1) (2) (3) Authorized Funding Plan			(4) (5) (6) Funding Floor Curve			(7) (8) (9) Actual Funding		
		Fund (2) X (3)	Est. Cost	% Funded	Criteria	Percent (3) X (4)	\$ Amount (1) X (4)	Fund	Est. Cost	% Funded (7)/(8)
DEC	1991	3,261	15,677	21%	80%	17%	2,609	3,426	15,677	22%
DEC	1992	4,330	25,832	17%	80%	13%	3,464	4,306	25,832	17%
DEC	1993	5,513	27,124	20%	80%	16%	4,410	5,362	27,124	20%
DEC	1994	6,780	28,480	24%	80%	19%	5,424	6,206	28,480	22%
DEC	1995	6,934	25,682	27%	80%	22%	5,547	9,061	25,682	35%
DEC	1996	8,359	26,966	31%	80%	25%	6,688	12,928	26,966	48%
DEC	1997	9,627	28,314	34%	80%	27%	7,702	16,928	28,314	60%
DEC	1998	11,759	31,782	37%	80%	30%	9,407	21,850	31,782	69%
DEC	1999	13,348	33,371	40%	80%	32%	10,679	23,476	33,371	70%
DEC	2000	15,067	35,040	43%	80%	34%	12,054	26,094	35,040	74%
DEC	2001	16,924	36,792	46%	80%	37%	13,539	28,015	36,792	76%
DEC	2002	18,060	36,858	49%	80%	39%	14,448	29,922	36,858	81%
DEC	2003	20,124	38,701	52%	80%	42%	16,100	30,761	38,701	79%
DEC	2004	22,350	40,636	55%	80%	44%	17,880	31,767	40,636	78%
DEC	2005	22,803	39,316	58%	81%	47%	18,471	32,598	39,316	83%
DEC	2006	25,182	41,282	61%	82%	50%	20,649	34,179	41,282	83%
DEC	2007	27,741	43,346	64%	83%	53%	23,025			
DEC	2008	30,494	45,513	67%	84%	56%	25,615			
DEC	2009	32,974	47,789	69%	85%	59%	28,028			
DEC	2010	36,128	50,178	72%	86%	62%	31,070			
DEC	2011	39,515	52,687	75%	87%	65%	34,378			
DEC	2012	43,151	55,322	78%	88%	69%	37,973			
DEC	2013	47,051	58,088	81%	89%	72%	41,875			
DEC	2014	50,623	60,992	83%	90%	75%	45,561			
DEC	2015	55,076	64,042	86%	91%	78%	50,119			
DEC	2016	59,847	67,244	89%	92%	82%	55,059			
DEC	2017	64,957	70,606	92%	93%	86%	60,410			
DEC	2018	69,688	74,136	94%	94%	88%	65,507			
DEC	2019	75,508	77,843	97%	95%	92%	71,732			
DEC	2020	81,735	81,735	100%	96%	96%	78,466			
DEC	2021	85,822	85,822	100%	97%	97%	83,247			
DEC	2022	90,113	90,113	100%	98%	98%	88,311			
DEC	2023	94,619	94,619	100%	99%	99%	93,672			
DEC	2024	99,350	99,350	100%	100%	100%	99,350			
DEC	2025	104,317	104,317	100%	100%	100%	104,317			

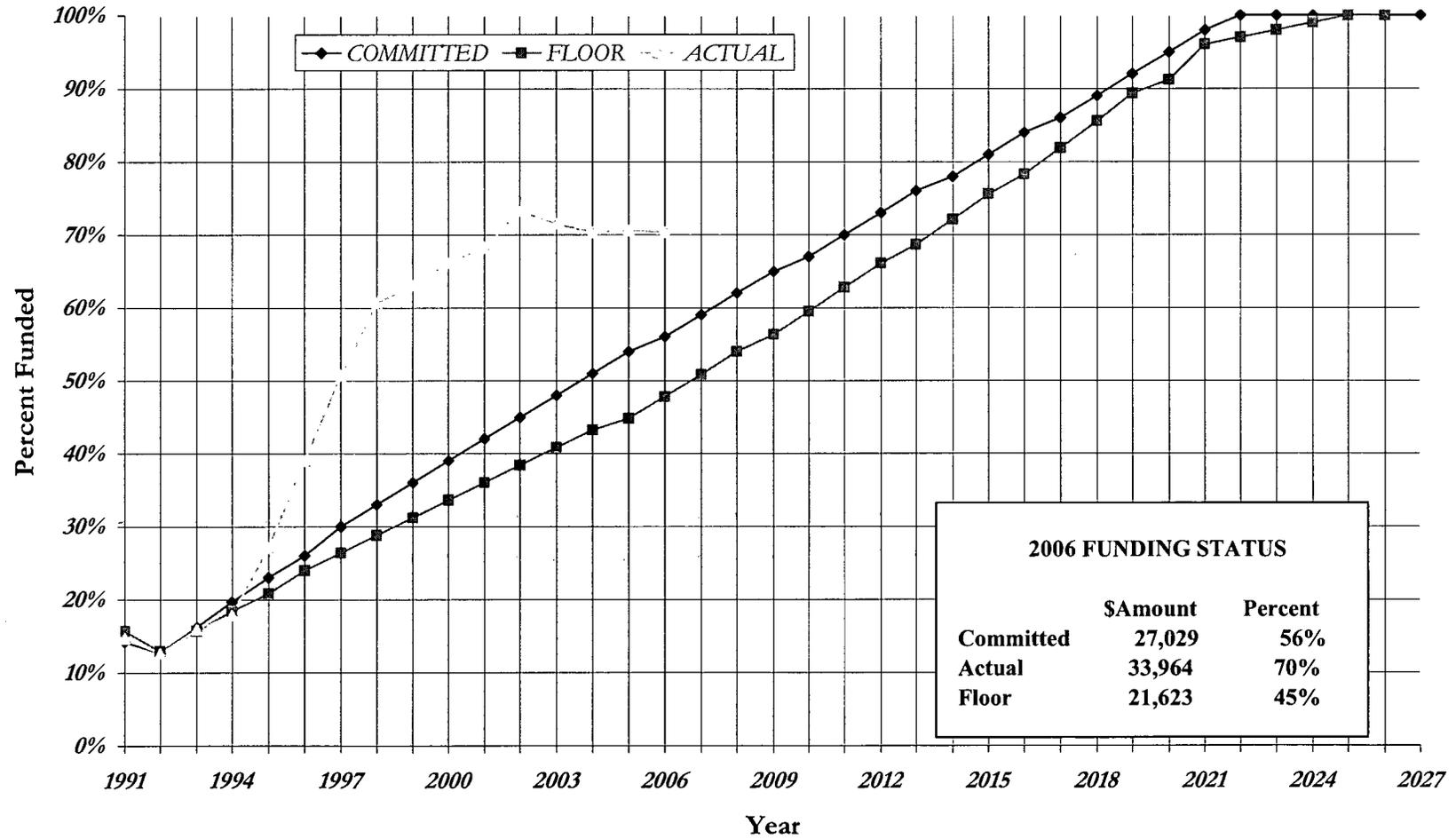
DWP PALO VERDE UNIT 2 FUNDING PLAN



DEPARTMENT OF WATER & POWER
2006 PALO VERDE UNIT 2 FUNDING STATUS
TERMINATION COST FUNDING
(In Thousand \$)

Month	Year	(1) (2) (3) Authorized Funding Plan			(4) (5) (6) Funding Floor Curve			(7) (8) (9) Actual Funding		
		Fund (2) X (3)	Est. Cost	% Funded	Criteria	Percent (3) X (4)	\$ Amount (1) X (4)	Fund	Est. Cost	% Funded (7)/(8)
DEC	1991	3,055	15,542	20%	80%	16%	2,444	3,220	15,542	21%
DEC	1992	4,104	25,418	16%	80%	13%	3,283	4,118	25,418	16%
DEC	1993	5,237	26,689	20%	80%	16%	4,190	5,222	26,689	20%
DEC	1994	6,449	28,023	23%	80%	18%	5,159	5,942	28,023	21%
DEC	1995	6,931	26,658	26%	80%	21%	5,545	8,602	26,658	32%
DEC	1996	8,397	27,991	30%	80%	24%	6,718	12,434	27,991	44%
DEC	1997	9,699	29,390	33%	80%	26%	7,759	16,762	29,390	57%
DEC	1998	12,044	33,456	36%	80%	29%	9,635	21,717	33,456	65%
DEC	1999	13,700	35,129	39%	80%	31%	10,960	23,928	35,129	68%
DEC	2000	15,492	36,885	42%	80%	34%	12,393	26,269	36,885	71%
DEC	2001	17,428	38,730	45%	80%	36%	13,943	28,191	38,730	73%
DEC	2002	19,343	40,298	48%	80%	38%	15,474	30,108	40,298	75%
DEC	2003	21,580	42,313	51%	80%	41%	17,264	30,939	42,313	73%
DEC	2004	23,991	44,429	54%	80%	43%	19,193	31,680	44,429	71%
DEC	2005	23,453	41,880	56%	80%	45%	18,762	32,267	41,880	77%
DEC	2006	25,945	43,974	59%	81%	48%	21,015	33,829	43,974	77%
DEC	2007	28,627	46,173	62%	82%	51%	23,474			
DEC	2008	31,513	48,481	65%	83%	54%	26,156			
DEC	2009	34,107	50,905	67%	84%	56%	28,650			
DEC	2010	37,415	53,451	70%	85%	60%	31,803			
DEC	2011	40,970	56,123	73%	86%	63%	35,234			
DEC	2012	44,786	58,929	76%	87%	66%	38,964			
DEC	2013	48,263	61,876	78%	88%	69%	42,472			
DEC	2014	52,625	64,970	81%	89%	72%	46,837			
DEC	2015	57,303	68,218	84%	90%	76%	51,573			
DEC	2016	61,601	71,629	86%	91%	78%	56,057			
DEC	2017	66,937	75,210	89%	92%	82%	61,582			
DEC	2018	72,653	78,971	92%	93%	86%	67,568			
DEC	2019	78,774	82,920	95%	94%	89%	74,047			
DEC	2020	83,583	87,066	96%	95%	91%	79,404			
DEC	2021	91,419	91,419	100%	96%	96%	87,762			
DEC	2022	95,990	95,990	100%	97%	97%	93,110			
DEC	2023	100,789	100,789	100%	98%	98%	98,773			
DEC	2024	105,829	105,829	100%	99%	99%	104,770			
DEC	2025	111,120	111,120	100%	100%	100%	111,120			
DEC	2026	116,676	116,676	100%	100%	100%	116,676			

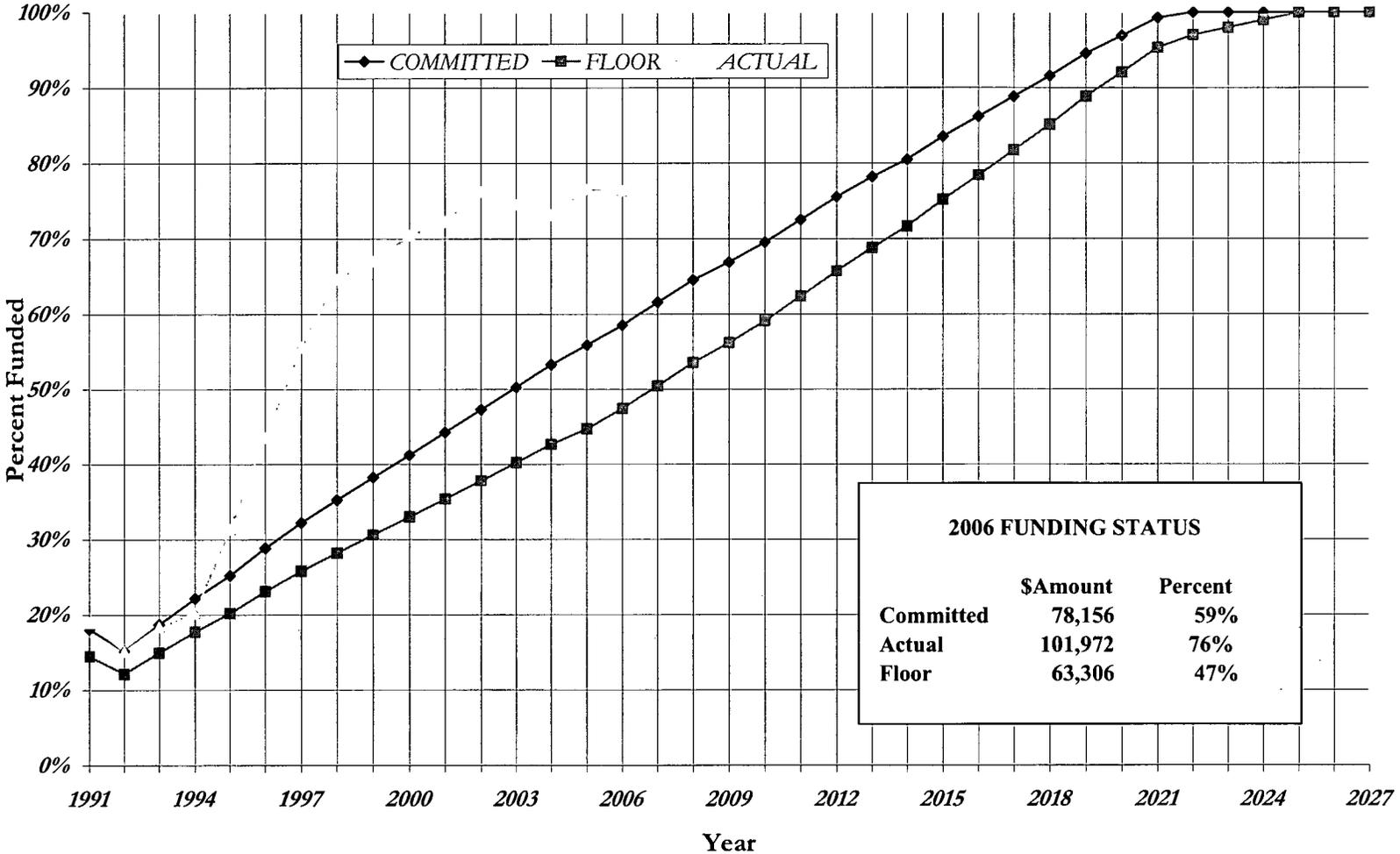
DWP PALO VERDE UNIT 3 FUNDING PLAN



DEPARTMENT OF WATER & POWER
2006 PALO VERDE UNIT 3 FUNDING STATUS
TERMINATION COST FUNDING
(In Thousand \$)

Month	Year	(1) Authorized Funding Plan			(4) Funding Floor Curve			(7) Actual Funding		
		Fund (2) X (3)	Est. Cost	% Funded	Criteria	Percent (5) X (4)	\$ Amount (6) X (4)	Fund	Est. Cost	% Funded (8) X (7)
DEC	1991	2,452	17,248	14%	80%	11%	1,962	2,540	17,248	15%
DEC	1992	3,452	27,160	13%	80%	10%	2,762	3,438	27,160	13%
DEC	1993	4,636	28,518	16%	80%	13%	3,709	4,542	28,518	16%
DEC	1994	5,905	29,944	20%	80%	16%	4,724	5,356	29,944	18%
DEC	1995	6,923	30,100	23%	80%	18%	5,538	8,181	30,100	27%
DEC	1996	8,217	31,605	26%	80%	21%	6,574	12,332	31,605	39%
DEC	1997	9,956	33,185	30%	80%	24%	7,964	16,843	33,185	51%
DEC	1998	11,871	35,973	33%	80%	26%	9,497	21,831	35,973	61%
DEC	1999	13,598	37,772	36%	80%	29%	10,878	23,832	37,772	63%
DEC	2000	15,467	39,660	39%	80%	31%	12,374	26,233	39,660	66%
DEC	2001	17,490	41,643	42%	80%	34%	13,992	28,421	41,643	68%
DEC	2002	18,396	40,879	45%	80%	36%	14,716	29,941	40,879	73%
DEC	2003	20,603	42,923	48%	80%	38%	16,482	30,701	42,923	72%
DEC	2004	22,985	45,069	51%	80%	41%	18,388	31,734	45,069	70%
DEC	2005	24,823	45,968	54%	80%	43%	19,858	32,459	45,968	71%
DEC	2006	27,029	48,266	56%	80%	45%	21,623	33,964	48,266	70%
DEC	2007	29,901	50,680	59%	80%	47%	23,921			
DEC	2008	32,992	53,214	62%	81%	50%	26,724			
DEC	2009	36,318	55,874	65%	82%	53%	29,781			
DEC	2010	39,308	58,668	67%	83%	56%	32,625			
DEC	2011	43,121	61,602	70%	84%	59%	36,222			
DEC	2012	47,218	64,682	73%	85%	62%	40,135			
DEC	2013	51,616	67,916	76%	86%	65%	44,390			
DEC	2014	55,623	71,311	78%	87%	68%	48,392			
DEC	2015	60,650	74,877	81%	88%	71%	53,372			
DEC	2016	66,042	78,621	84%	89%	75%	58,777			
DEC	2017	70,995	82,552	86%	90%	77%	63,895			
DEC	2018	77,145	86,680	89%	91%	81%	70,202			
DEC	2019	83,732	91,013	92%	92%	85%	77,034			
DEC	2020	90,786	95,564	95%	93%	88%	84,431			
DEC	2021	98,336	100,342	98%	94%	92%	92,435			
DEC	2022	105,359	105,359	100%	95%	95%	100,092			
DEC	2023	110,627	110,627	100%	96%	96%	106,202			
DEC	2024	116,159	116,159	100%	97%	97%	112,674			
DEC	2025	121,967	121,967	100%	98%	98%	119,527			
DEC	2026	128,065	128,065	100%	99%	99%	126,784			
DEC	2027	134,468	134,468	100%	100%	100%	134,468			

DWP PALO VERDE ALL UNITS FUNDING PLAN



2006 FUNDING STATUS		
	\$Amount	Percent
Committed	78,156	59%
Actual	101,972	76%
Floor	63,306	47%

DEPARTMENT OF WATER & POWER
2006 PALO VERDE ALL UNITS FUNDING STATUS
TERMINATION COST FUNDING
(In Thousand \$)

Month	Year	(1) Authorized Funding Plan			(4) Funding Floor Curve			(7) Actual Funding		
		Fund (2) X (3)	Est. Cost	% Funded	Criteria	Percent (3) X (4)	\$ Amount (1) X (4)	Fund	Est. Cost	% Funded (7)/(8)
DEC	1991	8,768	48,467	18%	80%	14%	7,014	9,186	48,467	19%
DEC	1992	11,886	78,410	15%	80%	12%	9,509	11,862	78,410	15%
DEC	1993	15,386	82,331	19%	80%	15%	12,309	15,126	82,331	18%
DEC	1994	19,134	86,447	22%	80%	18%	15,307	17,504	86,447	20%
DEC	1995	20,788	82,440	25%	80%	20%	16,631	25,844	82,440	31%
DEC	1996	24,974	86,562	29%	80%	23%	19,979	37,694	86,562	44%
DEC	1997	29,281	90,890	32%	80%	26%	23,425	50,533	90,890	56%
DEC	1998	35,675	101,211	35%	80%	28%	28,540	65,398	101,211	65%
DEC	1999	40,646	106,272	38%	80%	31%	32,517	71,236	106,272	67%
DEC	2000	46,026	111,585	41%	80%	33%	36,821	78,596	111,585	70%
DEC	2001	51,843	117,164	44%	80%	35%	41,474	84,627	117,164	72%
DEC	2002	55,799	118,035	47%	80%	38%	44,639	89,971	118,035	76%
DEC	2003	62,307	123,937	50%	80%	40%	49,846	92,401	123,937	75%
DEC	2004	69,326	130,134	53%	80%	43%	55,461	95,181	130,134	73%
DEC	2005	71,079	127,164	56%	80%	45%	56,863	97,324	127,164	77%
DEC	2006	78,156	133,522	59%	81%	47%	63,306	101,972	133,522	76%
DEC	2007	86,269	140,198	62%	82%	50%	70,741			
DEC	2008	94,999	147,208	65%	83%	54%	78,849			
DEC	2009	103,399	154,569	67%	84%	56%	86,855			
DEC	2010	112,851	162,297	70%	85%	59%	95,924			
DEC	2011	123,606	170,412	73%	86%	62%	106,302			
DEC	2012	135,155	178,933	76%	87%	66%	117,585			
DEC	2013	146,930	187,879	78%	88%	69%	129,298			
DEC	2014	158,872	197,273	81%	89%	72%	141,396			
DEC	2015	173,029	207,137	84%	90%	75%	155,726			
DEC	2016	187,489	217,494	86%	91%	78%	170,615			
DEC	2017	202,889	228,368	89%	92%	82%	186,658			
DEC	2018	219,486	239,787	92%	93%	85%	204,122			
DEC	2019	238,014	251,776	95%	94%	89%	223,733			
DEC	2020	256,104	264,365	97%	95%	92%	243,299			
DEC	2021	275,576	277,583	99%	96%	95%	264,553			
DEC	2022	291,462	291,462	100%	97%	97%	282,718			
DEC	2023	306,035	306,035	100%	98%	98%	299,915			
DEC	2024	321,337	321,337	100%	99%	99%	318,124			
DEC	2025	337,404	337,404	100%	100%	100%	337,404			
DEC	2026	244,741	244,741	100%	100%	100%	244,741			
DEC	2027	134,468	134,468	100%	100%	100%	134,468			



ANTONIO R. VILLARAIGOSA
Mayor

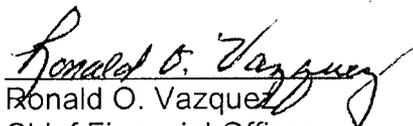
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H. DAVID NAHAI, *President*
EDITH RAMIREZ, *Vice President*
MARY D. NICHOLS
NICK PATSAOURAS
FORESCEE HOGAN-ROWLES
BARBARA E. MOSCHOS, *Secretary*

RONALD F. DEATON, *General Manager*

**LOS ANGELES DEPARTMENT OF WATER & POWER
CERTIFICATE FOR ANNUAL FUNDING STATUS REPORT
FOR THE PERIOD ENDING DECEMBER 31, 2006**

Ronald O. Vazquez, Chief Financial Officer of Los Angeles Department of Water and Power certifies on behalf of Los Angeles Department of Water and Power that all other instruments providing for investment management of the Termination Funds of Los Angeles Department of Water and Power, taken together, comply with Section 8A.7.2.2 and all other provisions of the Arizona Nuclear Project Participants agreement, dated August 23, 1973, as amended by Amendments Nos. 1 through 13, establishing requirements for such agreements and instruments; and further certifies that, to the best of his knowledge, the information contained in the report to which this certificate is attached is true and correct and accurately sets forth the status of the Termination Funds of Los Angeles Department of Water and Power as of the date stated.

Dated: February 26, 2007


Ronald O. Vazquez
Chief Financial Officer

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