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**ARIZONA CORPORATION COMMISSION**

May 20, 2008

The Honorable Janet Napolitano  
Office of the Governor  
1700 W. Washington Street  
Phoenix, Arizona 85007

**Re: Economic Analysis of WCI Proposals in Arizona**

Dear Governor Napolitano:

Thank you for responding to our April 8, 2008 letter regarding the Western Climate Initiative (WCI). We appreciate your stated commitment to a transparent stakeholder process. As we discussed in our previous correspondence, some Arizona stakeholders have expressed concern about not being allowed to provide input or to even be present during the deliberations of the WCI subcommittees. We would certainly be interested in knowing whether there has been any response to, or positive development regarding, their concerns.

In this letter, we wish to reiterate and amplify our concern about the rate impact that will necessarily flow from the policies being discussed by the WCI. Clearly, any meaningful reduction in carbon emissions will result in dramatic rate increases for Arizona ratepayers. Electric Power Research Institute (EPRI) estimates rate increases from 45% to 260%, and EPRI's analysis did not take into consideration the unique challenges faced by Arizona, such as our explosive growth rate, our heavy reliance on coal-burning generation plants, and our special needs associated with desert living.<sup>1</sup>

To be clear, we do not fault you for joining the bi-partisan group of Governors who have agreed to discuss ways of reducing greenhouse gas emissions. To the contrary, we too are looking for ways to reduce emissions of air pollutants and greenhouse gases. This Commission has led the charge in this area by adopting renewable energy rules and energy efficiency orders as one means of addressing the issues.<sup>2</sup>

While we share your goals for reducing air pollutants and greenhouse gases, the final economic analysis must loudly and clearly articulate the kind of financial sacrifice that will be involved in addressing climate change on a regional basis.

<sup>1</sup> EPRI (Hank Courtney, Senior VP). Power to Reduce CO2 Emissions. Presentation to the ACC. March 27, 2008.

<sup>2</sup> On October 31, 2006, the Commission passed the new Renewable Energy Standard, requiring the state's utilities to produce 15 percent of their retail energy sales from renewable resources. It is estimated that these rules will result in the reduction of 95 billion pounds of carbon dioxide by the year 2025. The Commission has also required most of the state's electric and natural gas utilities to spend millions each year on DSM programs. In 2006, for example, the DSM programs for APS, TEP, SW Gas and UNS Electric produced reductions of over 114 million pounds (> \$7,000 tons) of CO<sub>2</sub> emissions.

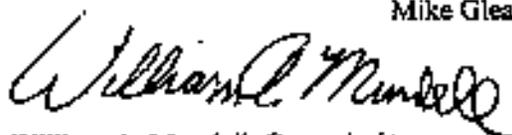
Toward this end, the Commission urges you to ensure a thorough and vetted economic analysis by ICF International of all facets of WCI recommendations. It is crucial that Arizona's unique electric load-serving characteristics be taken into account so that the costs resulting from all WCI proposals are fully vetted. As a Commission, we would look forward to a meaningful opportunity to review and comment on ICF International's economic analysis before the WCI recommendations are finalized. Our review and comments would neither be a prejudgment of any possible rate application nor a statement on the merits of WCI proposals. Instead, it would be a means for the Commission to understand what the WCI analysis is, comment on the analytical methods and be in a better and timelier position to understand the concerns that will likely be expressed later by the regulated community and Arizona ratepayers.

Thank you for the opportunity to have an on-going dialogue about such important public policy matters.

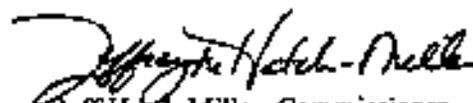
Sincerely,



Mike Gleason, Chairman



William A. Mundell, Commissioner



Jeff Hatch-Miller, Commissioner



Kristin K. Mayes, Commissioner



Gary Pierce, Commissioner

cc: The Honorable Tim Bee, President of the Arizona State Senate  
The Honorable Jim Weiers, Speaker of the Arizona House of Representatives  
Lori Faeth, Policy Advisor to the Governor  
Steve Owens, Director, Arizona Department of Environmental Quality  
Jessica Youle, Arizona Department of Commerce