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June 2, 2008

Via Facsimile 202-228-2862 and U.S. Mail

The Honorable John McCain
United States Senator
5353 North 16th Street, Suite 105
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Re: Extension of the Solar Tax Credit

Dear Senator McCain:

As you know, the Arizona Corporation Commission ("ACC") is responsible for setting the retail electric rates of public service corporations such as Arizona Public Service ("APS"). More often than not, setting rates means raising them. APS customers have endured a number of rate increases over the last few years, most of which have been driven by the rising cost of natural gas. As our state continues to grow, natural gas fired plants are providing more and more of Arizona's electricity, especially peak power, which is the most expensive.

The ACC has been working diligently to promote the use of renewable energy. In October 2006, the Commission approved the Renewable Energy Standard ("RES"), which will require the state's regulated electric utilities, like APS, to generate 15 percent of their power from renewable energy sources by 2025, up from a requirement of 1.1 percent for 2007. The RES allows utilities to use solar, wind, biomass, biogas, geothermal and other similar technologies to generate "clean" energy to power Arizona's future. The rules package outlines what technologies qualify and allows for new and emerging technologies to be added as they become feasible. By 2012, at least 30 percent of this energy must be from distributed renewable energy. Distributed generation ("DG") includes solar panels on homes and businesses, solar hot water heating, solar air conditioning, and small wind generation.

As rising natural gas prices drive the cost of electricity upward, it is vital that Arizona look to alternative sources of energy. With more than 300 days of sunshine a year, solar power is the logical choice for our state. APS has announced its participation in two major solar power projects: (1) the Solana generating station, a 280-megawatt concentrated solar power plant to be built near Gila Bend, Arizona, and (2) a multi-state consortium of ten southwestern utilities that

have an interest in contracting for a separate 250-megawatt concentrated solar power plant. These projects, if constructed, will play a key role in APS' ability to meet the RES requirements, particularly Solana which will provide enough electricity to power 70,000 homes. As APS' largest source of renewable energy, Solana will more than triple the company's renewable portfolio, which also includes wind and geothermal energy. In addition to the amount of energy that Solana will produce, the plant will have an economic impact on our state in excess of a billion dollars. Construction of the plant will create between 1,500 to 2,000 jobs and operation of the facility will require 85 full-time positions.

Unless Congress acts soon to extend the 30 percent investment tax credit ("ITC") for solar energy past its December 31, 2008 expiration date, neither of these projects will come to fruition. Repeal of the solar ITC will not only terminate both of these central plant projects, but it will also have a chilling effect on the installation of roof-top solar panels. Without a tax-credit extension, it is highly likely that business and residential customers will delay investing in DG systems.

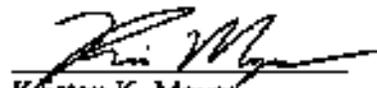
This Commission is doing what it can to promote the development of renewable energy in Arizona. In order for our state to take its rightful place as the solar energy capital of the world, we need Congress to pass legislation to extend the solar ITC. We understand that there are tax consequences associated with such legislation that need to be resolved. We ask that you move quickly to a solution in order for our state to meet its renewable energy goals.

The benefits of cultivating renewable energy in Arizona are many – cleaner air, increased reliability, lower electric bills, decreased dependence on fossil fuels, and economic development. Thank you for your attention to this matter.

Sincerely,



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