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ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Commissioner

Direct Line: (602) 542-4143
Fax: (602) 542-0765
E-mail: kmayes@azcc.gov

June 18, 2008

Re: Arizona Public Service Company Motion for Approval of Interim Rate and Preliminary Order; Docket No. E-01345A-08-0172

Dear Parties to the Docket:

On June 6, 2008, Arizona Public Service Company ("APS" or "Company") filed a motion for approval of an Interim Base Rate Surcharge of $.003987 pkWh around the time the 2007 Power Supply Adjustor ("PSA") charge is expected to terminate. I would like Staff, RUCO, APS and any other interested Party to answer the following questions regarding this Motion:

First, what is the bill impact of the proposed interim Base Rate Surcharge? Clearly, it was the intent of the Commission that when the existing 2007 PSA charge had collected the then-existing $46 million in backlogged fuel and purchased power costs, the charge would "roll off", providing ratepayers relief from higher electricity rates. What fairness issues are implicated in APS' request to now extend the surcharge beyond the point of the Commission's original intent, and what would be the time value of money lost to consumers if the Base Rate Surcharge were granted?

Second, APS appears to want the Commission to address this matter without first holding a full evidentiary hearing. However, I am not aware of any time when the Commission approved a base rate increase without at least first holding a hearing, and requiring that evidence be presented in support of or opposition to the request. I would like the Parties to address the question of whether any utility has ever been granted a base rate increase without a hearing, and whether APS' request is better addressed by formal application followed by a hearing. Additionally, the Company claims in its Motion for interim rates, that such an action could be taken by this Commission even absent the finding of an emergency. I would like the Parties – in particular the Company, RUCO and Staff – to state whether they believe any precedent exists for interim base rate increases to be instituted on a non-emergency basis.

Third, how has APS mitigated its infrastructure burdens through specific, targeted investment? How has the recent downturn in the economy and growth affected APS' infrastructure requirements? Does this slowed growth ease APS' future infrastructure burden and need to construct? Please be specific, with particular reference to any changes in the Company's Capital Expenditure budget that have occurred since the close of the last APS rate case. What is the amount APS has raised through the recent changes to Schedule 3 and to what extent have these funds mitigated the need for additional rate relief?

Fourth, what non-rate related measures is APS pursuing to generate revenue, save money, minimize costs and mitigate ratepayer fatigue, in light of the fact that this Commission has already approved Transmission Cost Adjustment revisions, a forward-looking PSA, and two base rate increases since 2004?

Fifth, the Company discuses in its Motion the need for additional funding to help support the implementation of programs such as Advanced Metering Infrastructure and Distribution Outage Management Systems, but does not discuss whether there have been any corresponding financial benefits associated with them. Please describe how these benefits or savings have mitigated the need for rate increases.

Finally, to what extent do Pinnacle West Capital Corporation's prior and planned equity investments in APS reflect its confidence in APS' operations and future prospects, notwithstanding the Company's dire predictions of future bond downgrades and poor financial condition? In its Motion, APS also references several statements by bond rating agencies, including Standard and Poor's that, according to the Company, suggest the need for immediate action by the Commission on APS' Motion. However, in prior reports and public statements, S&P has stated that positive regulatory actions – most importantly the creation of a flow-through adjustor mechanism – would place the Company on much better footing with the ratings agencies. Please tell the Commission how the adoption of changes to the Company's adjustor mechanism, were received by the ratings agencies, and whether those changes improved the agencies' views of APS' financial condition. If the changes were not well received by the ratings agencies, please explain why they were not.

Thank you for your attention to these questions.

Sincerely,

Kris Mayes
Commissioner

Cc: Chairman Mike Gleason
Commissioner William A. Mundell
Commissioner Jeff Hatch-Miller
Commissioner Gary Pierce
Ernest Johnson
Janice Alward
Lyn Farmer
Brian McNeil
Rebecca Wilder