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August 30, 2005

Chairman Jeff Hatch-Miller
Commissioner William A. Mundell
Commissioner Marc Spitzer
Commissioner Kristin K. Mayes

RE: Plan of Administration for APS' Power Supply Adjustor
Docket No. E-01345A-03-0437

Dear Colleagues:

As required by Commission Decision No. 67744, a Plan of Administration ("Plan") for the Arizona Public Service Company ("APS") Power Supply Adjustor ("PSA") was filed on June 6, 2005. In preparation for the Commission's consideration of the Plan at an Open Meeting, Staff's July 25 memorandum identified unresolved issues regarding wheeling costs, brokers fees, and the timing of the $100 million cap, offered Staff's preferred resolutions to those issues, and recommended approval of the Plan with the understanding the that APS would file a revised Plan reflecting the recommended changes. The Plan was placed on the agenda for consideration at our August 9 regular Open Meeting, but was pulled to allow more time for Staff to prepare information in support of its recommendations.

Since then, APS has filed a request that the Commission approve a PSA surcharge. That request, which is inextricably related to the method by which the PSA is to be implemented, prompted Commissioner Mayes to ask a number of questions in her August 4 letter to the docket. In the ensuing correspondence among APS, RUCO and Commissioner Mayes, terms such as "PSA," "PSA adjustor," "PSA adjustment," "annual adjustment factor," "PSA surcharge," "balancing account" and "account balance" are used with various meanings. Confusion resulting from the use of these terms, whose meaning is neither clearly defined nor shared by all of the parties, is a serious obstacle to identifying and resolving different interpretations of how the PSA is to be implemented in a manner that is consistent with the Commission's intent.

APS' proposed method for calculating monthly under/over collection through the PSA (as illustrated in the example given in Schedule 1 attached to the Plan) relies on the ratio of retail energy sales to total native load energy sales (including native load wholesale kWh) to obtain monthly retail power supply costs. For this method to properly allocate energy costs to APS' wholesale contract customers, however, one must assume that the ratio of kWh sold at retail to total kWh sold to meet native load is the

same as the ratio of the dollar cost of the former to the dollar cost of the latter. The validity of this important assumption remains to be established.

Staff's July 25 memorandum proposes that APS would file a revised Plan after the Commission approves the Plan subject to Staff's recommendations. However, the degree of uncertainty surrounding the unresolved issues I have mentioned here and others suggests that an evidentiary hearing on the Plan is warranted before it is brought before the Commission for approval. Such a hearing would provide a venue in which the record bearing on the issues identified in Staff's memo could be furthered developed, the meaning of key terms could be defined, APS could provide evidence supporting its proposed method for calculating monthly energy sales and costs, and all parties to the docket would have an opportunity to establish the basis for their respective interpretations of how the PSA is to be administered according to Decision No. 67744.

I agree with the suggestion Commissioner Mayes made in her August 4 letter that APS' surcharge application needs "evidentiary support." Therefore, an evidentiary hearing on the Plan of Administration for the Power Supply Adjustor and subsequent approval of the Plan are perquisite to considerations of APS' surcharge application.

Sincerely,

Mike

Mike Gleason
Commissioner

c: Parties to Docket E-01345A-03-0437