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ARIZONA CORPORATION COMMISSION

BRIAN C. McNEIL
Executive Director

January 17, 2006

Commissioner Marc Spitzer
Commissioner William A. Mundell
Commissioner Mike Gleason
Commissioner Kristin K. Mayes
Parties to the Dockets

Re: **Arizona Public Service Company; Plan of Administration and Surcharge Application Docket Nos. E-01345A-03-0437 and E-01345A-05-0526**

Dear Colleagues and Parties to the Dockets:

The purpose of my proposed amendment is to modify the January 4, 2006 Recommended Order and Opinion (ROO) on APS' Plan of Administration and Surcharge Application by changing the effective date for resetting the Adjustor Rate each year.

My proposed amendment provides APS with an opportunity to commence recovery faster, which will benefit both the Company and ratepayers. Timely relief in this instance not only serves to ameliorate the adjustor's rate impact on customers prior to the summer, but also lowers interest on the under-recovered amount. Reducing interest payments means ratepayers will not have the burden of paying higher costs when Adjustor Rate is reset in the future.

The amendment makes two specific changes. First, it removes the requirement that APS make a prefiling of the new Adjustor Rate one month prior to its effective date. Second, it implements the new Adjustor Rate at an earlier time. Under the amendment, APS' Adjustor Rate would be set at the maximum level of $0.004 per kilowatt hour effective February 1, 2006. In subsequent years, the Adjustor Rate would be reset on February 1 of each year.

As reflected in my proposed amendment, the record in this matter supports the changes related to the timing of relief for APS' under-recovered fuel and purchased power costs. During the evidentiary hearing on the Plan and Surcharge Application, no party contested that APS' fuel and purchased power costs were under-recovered by more than $100 million. Moreover, no party objected to the merits of the surcharge. In essence, the timing of relief through the adjustor and surcharge is what was at issue, not whether APS was *entitled* to relief.

Since the evidentiary hearings, APS has filed for emergency rate relief based upon escalating fuel costs and a December 2005 downgrade of its credit rating by Standard and Poor's. Although the merits of APS' emergency rate case filing will be determined in a separate proceeding, it further supports my amendment to move up the timing for recovery to February 1.

In effect, my proposed amendment uses the January 4, 2006 ROO as the vehicle to modify the approved APS Rate Case Settlement (Decision No. 67744). As a result, a proceeding with notice and opportunity to be heard pursuant to ARS § 40-252 may be required. To the extent that ARS § 40-252 applies, this letter shall serve as notice to the parties in Decision No. 67744 that it is my intent to modify the Decision for the narrow purpose of changing the timing of relief for APS' under-recovery of fuel and purchased power costs (as described in the attached proposed amendment). I have asked that this item on the January 24 Open Meeting agenda be also noticed as an ARS § 40-252 proceeding so that Commissioners may consider modifying Decision No. 67744.

I understand that it is unusual to hold an ARS § 40-252 proceeding at an Open Meeting. However, I think that unique circumstances exist in this case that warrant taking this step. As to how these matters may unfold before the Commission at the Open Meeting, I envision that the Commission will first vote on whether it wishes to consider amending Decision No. 67744 to alter the timing of relief for the under-recovery. If so, the merits of my proposed amendment could be considered, with notice and opportunity to be heard by APS and the parties. If an amendment is approved by the Commission, the actual language would be inserted into the January 4, 2006 ROO on APS' Plan of Administration and Surcharge Application.

Under the circumstances presented in this case, the sooner we provide APS an opportunity to begin recovery of debts it has already incurred, the better the public interest will be served.

Sincerely,

Jeff Hatch-Miller
Chairman

Attachment

Cc: Brian McNeil
Ernest Johnson
Lyn Farmer
Chris Kempley
Heather Murphy

THIS AMENDMENT:		
_____ Passed	_____ Passed as amended by	_____
_____ Failed	_____ Not Offered	_____ Withdrawn

HATCH-MILLER PROPOSED AMENDMENT #1

TIME/DATE PREPARED: **8:00am/January 17, 2006**

COMPANY: **Arizona Public Service Company** AGENDA ITEM NO. **U-1**

DOCKET NO. **E-01345A-03-0437**
E-01345A-05-0526

OPEN MEETING DATE: **1-24-06**

Page 20, Line 2, INSERT New Paragraph:

"During the proceeding held pursuant to Arizona Revised Statutes § 40-252 on January 24, 2006, the Commission took testimony regarding the amendment proposed Chairman Jeff Hatch-Miller. Fuel and purchased power costs incurred by APS during the latter part of 2005 have escalated faster than the company than anticipated. As a result, APS has accrued a significant undercollection for its fuel and purchase power costs. It is generally accepted that these costs will continue to mount in 2006. Under the current circumstances and for at least the near future, the Commission agrees with Staff that APS' undercollection should be addressed as soon as possible instead of later. The most expeditious way to begin recovery is to change the timing of the reset for the adjustor. Therefore, we will allow APS to implement the annual Adjustor Rate on February 1 of each year."

Page 20, Line 5

DELETE "Once APS calculates .... for 2005"

INSERT "Once APS calculates the amount the positive adjustor of $0.004 per kilowatt hour will collect using projected sales and compares that amount to the actual costs for 2005"

Page 24, Line 1

DELETE Finding of Fact 36

INSERT New Finding of Fact 36:

"The Adjustor Rate shall be reset to a positive $0.004 per kilowatt hour effective February 1, 2006."

Page 25, Line 12, INSERT New Ordering Paragraphs:

"IT IS FURTHER ORDERED that the Adjustor Rate shall be reset to a positive $0.004 per kilowatt hour effective February 1, 2006."

"IT IS FURTHER ORDERED that the annual Adjustor Rate in subsequent years shall be reset on February 1 of each year."

MAKE ALL CONFORMING CHANGES AS NECESSARY