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ARIZONA CORPORATION COMMISSION

July 26, 2006

Commissioner William A. Mundell
Commissioner Mike Gleason
Commission Kristin Mayes

Re: Possible Special Open Meeting Regarding APS' Financial Condition
Docket No. E-01345A-05-0816

Dear Colleagues:

I have read Commissioner Mayes' letter requesting a Special Open Meeting to discuss APS' improved financial condition. I agree that we should have a full airing of the facts and conditions underlying the increase in APS' second quarter earnings over last year. This Special Open Meeting should occur prior to the hearings for APS General Rate Case.

Providing a public forum for APS to explain its current financial picture and projected net income for the remainder of 2006 is fair, reasonable and appropriate. By the way, I learned of this information from a newspaper reporter rather than from the company directly.

As you know, the Commission has a constitutional mandate to balance the interests of the company and its ratepayers. The financial health of APS – via improved credit ratings, stronger returns on capital investment and timely recovery of prudently-incurred fuel and purchased power costs – is critical to ensuring the reliability, adequacy and quality of electric service to its customers. Moreover, we have the responsibility to set rates that are just and reasonable for APS customers.

If appropriate, the relevant information gleaned at this Special Open Meeting could be then vetted in the APS General Rate Case, subject to sworn testimony and cross-examination by the parties. This scrutinized information will be valuable to us as we evaluate APS' pending rate case.

Sincerely,

Jeff Hatch-Miller
Chairman