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Chairman Jeff Hatch-Miller
Commissioner William A. Mundell
Commissioner Mike Gleason
Commissioner Gary Pierce

Re: The Nuclear Regulatory Commission's "White Flag" Finding at APS' Palo Verde Nuclear Generating Station; Docket Nos. E-01345A-05-0816, E-01345A-05-0826, E-01345A-05-0827

Dear Colleagues:

As you know, today the Nuclear Regulatory Commission ("NRC") issued a white flag finding regarding the emergency diesel generators at Arizona Public Service Company's Palo Verde Nuclear Generating Station ("PVNGS") Unit 3. Subsequent to the white flag finding by the NRC, all three units at PVNGS were downgraded to Category Four.[1] In light of this development, I believe the Commission should extend the on-going prudence review of PVNGS outage costs through 2007 and that the prudence review should be expanded to include any additional costs incurred by APS as a result of the downgrade.

In Decision No. 69184, the Commission allowed APS to collect costs related to unplanned outages during 2006 at PVNGS, but made them subject to refund once the Commission issued a decision on Staff's prudence review. I believe it is appropriate to continue the policy of requiring APS to identify within the Power Supply Adjustor Mechanism any costs associated with the downgrade for potential refund once the Commission has issued a decision on their appropriateness based upon Staff's prudence review.

Additionally, I would like to request that the Commission schedule a Special Open Meeting to discuss the implications of the downgrade for APS' operations, and to determine what steps the Company is taking to both stave off a further downgrade and achieve an upgrade with the NRC. This meeting could include a briefing from APS' new Chief Nuclear Officer, Randy Edington, regarding his plans for boosting the plant's performance. It is particularly important that APS provide these answers as the state heads into the summer months and as the utility confronts what will undoubtedly be another season of record electricity demand. The Special Open Meeting could be scheduled the same day as the summer preparedness meeting, but I would request that it be separate from that meeting.

[1] This downgrade places Palo Verde alongside the Perry nuclear plant in Ohio as the only two nuclear plants in the Country in Category Four (Multiple/Repetitive Degraded Cornerstone Column). Category Four is the second lowest category in the NRC's regulatory regime.

With APS receiving more than 1100 Megawatts ("MW") from PVNGS, representing in excess of 18 percent of its generating resources, PVNGS obviously plays a pivotal role in meeting Arizona's electrical needs. PVNGS also supplies more than 650 MW of power to the Salt River Project, and approximately 2250 MW of power to utilities in Texas, New Mexico and California. The operational health of PVNGS is paramount to meeting the electrical needs not only of Arizona, but of the entire Southwest.

I welcome your thoughts on this very important issue.

Sincerely,

Kris Mayes
Commissioner

Cc: Ernest Johnson
Brian McNeil
Chris Kempley
Heather Murphy
Parties to the Docket