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November 19, 2008

Mr. Don Brandt
President and CEO
Arizona Public Service
400 No. Fifth Street
M.S. 9042
Phoenix, AZ 85004

Re: Request for information regarding efforts by APS to cut costs, including consideration of a hiring freeze, cuts to or elimination of management bonuses, potential for a dividend freeze; Docket No. E-01345A-08-0172.

Dear Mr. Brandt:

As you know, in recent years Arizona Public Service Company ("APS") has come before the Commission multiple times requesting rate relief for various reasons. Most recently, the Company has requested an interim rate increase of approximately $115 million and a permanent rate increase of $278.2 million. APS has pointed to a variety of factors as the basis for these needed increases, including increased capital expenditures, fuel costs and operation and management expenses.

Without question, the current economic climate is difficult, for both consumers and companies alike. In light of this challenging environment, and the numerous demands APS has placed on its customers, I would like the Company to specifically identify all cost control measures it has undertaken or is planning to implement in order to mitigate the impact and need for additional rate increases. I am aware that APS has announced its intention to cut its capital expenditure budget by $500 million over the next four years, and has stated in recent press reports that it has cut its operations and maintenance budget by $50 million.[1] I am also aware that in the past, APS has examined and reduced its budget, citing a need to keep rates at a reasonable level.[2]

Both industry and government have been dramatically affected by the current economic downturn. To illustrate, the State of Arizona has been forced to implement a hiring freeze; elsewhere, private companies have minimized pay increases or instituted salary freezes. Therefore, I would like to know whether APS has considered any similar measures, including the possibility of instituting a hiring freeze, the potential for halting or decreasing management bonuses, and whether the Company could temporarily suspend increases to its dividend. I would like the Company to provide this information to the Commission prior to our forthcoming vote

[1] See "Energy in Arizona at crossroads", Arizona Republic, November 16, 2008.
[2] See "Arizona Utility Plans Job Cuts", Associated Press, September 15, 1990.

on the Company's Interim Base Rate Increase Request, or no later than November 25.[3] At the same time, please provide the following information to the Commission:

- The Company's 2008 lobbying and public affairs budget, at both the state and federal level.
- The amount of funding the Company will expend in 2008 for management bonuses.
- The Company's 2008 advertising and sports sponsorship budget
- The number of management positions that have been either frozen or eliminated in 2008.
- The amount of funding that has been paid out in the form of dividends between APS and its parent Company Pinnacle West Capital Corporation in 2008.

The role of the Commission is to stand in the place of market forces and scrutinize the costs and management of public service companies to ensure their efficient operation. With this in mind, it is important that APS closely scrutinize its own operations in search of operational efficiencies and cost savings as part of good management practice. Please highlight the cost savings and efficiency efforts APS has undertaken in 2008, detail the extent of the Company's cost savings achieved in 2008, as well as any planned initiatives not identified in this letter.

I believe that all of the information requested in this letter would be helpful in my future full consideration of APS' requests for increases in its rates.

Thank you for your prompt consideration of these matters.

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

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[3] As you know, the proposed Recommended Opinion and Order in this case calls upon APS to analyze several of these measures prior to the conclusion of the Company's General Rate Case. See ROO at pg. 36.