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April 23, 2004

Commissioner William Mundell
Commissioner Jeff Hatch-Miller
Commissioner Mike Gleason
Commissioner Kris Mayes
Arizona Corporation Commission
1200 W. Washington
Phoenix, Arizona 85007

Arizona Corporation Commission

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Re: APS Rate Case / Docket No. E-01345A-03-0437

Dear Colleagues:

There has been discussion of whether this case is amenable to settlement. It is my view that settlement **discussions** can be beneficial to the parties even if the case ultimately goes to Hearing.

Aspects of the public interest in a general rate case demand settlement discussions, if for no other reason than to propound innovative solutions not likely to result from an unagreed order. For example:

1. The idea of phased-in rates, to mitigate volatility to ratepayers, is conceivable via settlement but not likely to result from a Hearing nor practical in a ROO;
2. A structured settlement could address the rate-basing of assets without an "all or nothing" approach;
3. A negotiated settlement could resolve the adjuster mechanisms in a novel way, again reducing consumers' exposure to price volatility.

Innovative solutions to difficult problems are not unheard of at trial. However, settlement discussions may produce "win-win" solutions between utility and ratepayers interests even if the case does not settle. And we have learned from the intervenors' filings that the positions of consumers and companies are not monolithic.

Given the vast potential benefits and limited detriments, if any, settlement discussions in my view are entirely appropriate in this most complex and important case.

Very truly yours,

Marc Spitzer
Chairman

cc: All Parties on Record