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06MC

May 10, 2004

Re: **Settlement Discussions in the APS Rate Case**
Docket No. E-01345A-03-0437

AZ CORP COMMISSION
DOCUMENT CONTROL

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Dear Parties to the Docket:

As I stated in my April 15 letter to my colleagues, resolution of this rate case will impact many important policy considerations. While I am sure that the parties are engaging their best efforts to cover every detail during the settlement talks, I ask the parties to discuss the following topics at future meetings:

1. Wholesale and Retail Competition

What principles should the parties include in any settlement that would promote wholesale and retail electric competition and would provide APS customers meaningful choice of suppliers of competitive services?

2. Shopping Credits

How should the APS "shopping credit" for competitive services such as generation and metering be recalculated to better promote electric competition? I ask the parties to address an alternative method for calculation of the "shopping credit" for generation and other competitive services as compared to the method approved in Decision No. 61973 approving the APS stranded cost settlement.

3. Ring Fencing

Some rating agencies consolidate the credit ratings for regulated utilities and their non-regulated affiliate or parent, making the credit of one company linked to the credit of the other. Thus, the less risky regulated utility may be penalized with a lower credit rating for the risks associated with the non-regulated company. What structural and legal "ring fencing" mechanisms should the Commission consider to maintain APS' separate corporate identity? Would additional oversight

Arizona Corporation Commission

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of affiliated transactions, dividend policies, securities issuances,
ownership changes, diversification investments and asset
transfers be in the public interest?

Thank you.

Sincerely,

A handwritten signature in black ink that reads "mike". The letters are lowercase and written in a cursive, slightly slanted style.

Mike Gleason
Commissioner

c: Docket Control
Chairman Marc Spitzer
Commissioner Bill Mundell
Commissioner Jeff Hatch-Miller
Commissioner Kristin Mayes