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March 7, 2005

RE: Arizona Public Service Company; Request for Rate Adjustment
Docket No. E-01345A-03-0437

Dear Parties to the Docket:

On page 15 of the Settlement Agreement, Paragraph 69(g) stipulates that:

“Renewable resources must be no more costly, on a levelized cost per MWh basis, than 125% of the *reasonably estimated market price of conventional resource alternatives.*” (emphasis added)

This provision of the Agreement is critical to calculating eligibility of renewable energy, but the key term “reasonably estimated market price of conventional resource alternatives” is not defined. Because of its broad implications for renewable energy costs, the meaning of this term needs to be clarified. A definition that specifies at least 1) the conventional resources to be considered, 2) the basis on which the market price of those resources will be estimated, and 3) the party or parties who will be responsible for making the estimate is essential.

The parties to the docket should anticipate that I will ask for a definition of “reasonably estimated market price of conventional resource alternatives” when this matter is before the Commission in Open Meeting. Accordingly, I encourage the parties to develop a consensus response to this question and file it in the docket by March 18, 2005.

Sincerely,

Mike Gleason
Commissioner

Arizona Corporation Commission

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