

# NEW APPLICATION



0000023726

BEFORE THE ARIZONA CORPORATION COMMISSION

## COMMISSIONERS

JEFF HATCH-MILLER, Chairman  
WILLIAM A. MUNDELL  
MARC SPITZER  
MIKE GLEASON  
KRISTIN K. MAYES

2005 JUL 22 P 3: 16

# ORIGINAL

AZ CORP COMMISSION  
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION OF  
ARIZONA PUBLIC SERVICE COMPANY FOR  
APPROVAL OF A POWER SUPPLY ADJUSTOR  
SURCHARGE.

DOCKET NO. E-01345A-05-\_\_\_\_\_

**APPLICATION FOR SURCHARGE**

E-01345A-05-0526

## I. INTRODUCTION

Pursuant to Decision No. 67744 (April 7, 2005), Arizona Public Service Company ("APS" or "Company") hereby requests that the Arizona Corporation Commission ("Commission") approve a Power Supply Adjustor ("PSA") surcharge of \$.001770 per kWh, such surcharge to be effective beginning with billing cycle one of November 2005.<sup>1</sup> This PSA surcharge is necessary in order to allow recovery of \$100 million of unrecovered fuel and purchased power costs<sup>2</sup> over a two-year period and would represent a temporary increase in Company revenues of approximately 2.2%. That amount is still some \$35 million less than the approximate under-collected PSA bank balance projected to exist as of the end of October. It also does not reflect the 10% of these higher costs (some \$15 million through October) that have or will be written off by APS and effectively absorbed by shareholders, as required by the terms of the PSA. APS also requests that the above amount (\$100 million) be eliminated from future calculations of the PSA bank balance for purposes of determining when APS is required by Decision No. 67744 to seek an additional PSA surcharge. The calculation of the proposed surcharge itself is set forth in Exhibit A, attached to the Application.

<sup>1</sup> A.R.S. Section 40-367(A) requires that APS give the Commission at least thirty days notice prior to a change in any "rate, fare, toll, rental, charge, or classification . . ." However, APS may request a longer period prior to the change becoming effective. See A.R.S. Section 40-367(B). This has been done in the present Application, and thus it is not necessary for the Commission to suspend the effectiveness of the proposed PSA surcharge within thirty days.

<sup>2</sup> These are out-of-pocket costs paid to suppliers of fuel and purchased power plus some very minor interest expense. There is no element of shareholder profit included.

1 **II. THE APS PSA**

2 The Commission approved the PSA in Decision No. 67744, effective April 1, 2005. The PSA  
3 is intended to ameliorate the impact of highly variable fuel and purchased power costs for both APS  
4 and its customers. More specifically, it provides a mechanism allowing APS to recover/refund a large  
5 portion (but not all) of its higher/lower fuel and purchased power costs in a timely fashion, thus  
6 preserving its financial integrity and corresponding ability to properly serve its customers. It also  
7 sends appropriate price signals to customers about the cost of energy and mitigates the need for much  
8 larger price adjustments during repeated general rate proceedings.

9 In addition to annual PSA adjustments beginning in April 2006, the PSA also requires APS to  
10 seek a PSA surcharge prior to the PSA bank balance reaching \$100 million. *See* Decision No. 67744  
11 at 17. By this filing, the Company has met that requirement, and having done so, amounts subject to  
12 such a timely request for a PSA surcharge are effectively eliminated from calculations of the  
13 Company's PSA bank balance for purposes of determining when the next \$100 million PSA  
14 surcharge "trigger" is reached.<sup>3</sup>

15 **III. THE PROPOSED PSA SURCHARGE**

16 *A. Reasons for the Proposed PSA Surcharge and Steps Taken to Lessen Customer*  
17 *Impacts*

18 The continued high cost of natural gas (\$6.65 per MMBTU delivered for April through June  
19 of 2005 compared to the \$5.44 per MMBTU reflected in the base fuel and purchased power cost  
20 incorporated in the rates authorized by Decision No. 67744 – over a 22% increase) and of purchased  
21 power (\$60.01 per MWH delivered for April through June of 2005 compared to the \$38.04 per MWH  
22 reflected in the base fuel and purchased power cost incorporated in the rates authorized by Decision  
23 No. 67744 – nearly a 58% increase) has resulted in a significant under-collection by APS of power  
24 supply costs since April 1, 2005. Despite a hedging program by the Company (which effectively  
25 reduced the net cost of gas to APS for that same three-month period to \$5.75 per MMBTU and the  
26 net cost of power to \$55.85 per MWH, and which will have approximately \$30 million in fuel and

27 <sup>3</sup> The likelihood of this and other PSA surcharge applications was discussed both at the March 28, 2005 Open Meeting to  
28 consider the PSA and in the evidentiary hearing to consider the 2004 APS Settlement. APS clearly indicated that a  
surcharge filing would occur sometime in 2005, although no specific date was given, or for that matter, could have been  
known at that time.

1 purchased power costs through the end of August)<sup>4</sup>, this large under-collection occurred because the  
 2 base fuel cost figure adopted by Decision No. 67744 (\$.020743 per kWh) was premised on 2003 fuel  
 3 and purchased power prices. The comparable total cost per kWh for fuel and purchased power has  
 4 increased to approximately \$.027 for the three months of April through June of 2005, and is expected  
 5 to be some \$.02578 per kWh for the balance of 2005 (more than a 24% increase). See Figures 1 and 2  
 6 below.

7 Figure 1

	2003 Base Rate	Apr – Jun 2005	% Increase
Natural Gas \$/MMBTU	5.44	6.65	22%
Purchased Power \$/kWh	38.04	60.01	58%

12 Figure 2

	2003 Base Rate	Projected 2005	% Increase
Total Cost ¢/kWh	2.0743	2.578	24%

16 The Company's negative PSA bank balance reached \$38.5 million by the end of June 2005 and is  
 17 presently estimated to be more than \$50 million as of the date of this Application. It is projected to  
 18 reach \$100 million by mid-August. Although the accumulation of PSA cost deferrals will slow down  
 19 somewhat after that,<sup>5</sup> the deferred bank balance is still projected to be approximately \$135 million by  
 20 the end of October 2005. Thus, the requested surcharge of 1.770 mils per kWh is necessary both to  
 21 recover this under-collection and to prevent the bank balance from even more significantly exceeding  
 22 the \$100 million figure discussed in Decision No. 67744.

24 <sup>4</sup> Although the APS hedging program has resulted in lower fuel and purchased power costs during 2005 to date, the  
 25 primary goal of hedging is to reduce risk and price volatility, and thus even hedge positions that are "out of the money" at  
 26 the time of delivery will have served a valuable risk management function when it comes to reducing commodity price  
 volatility.

27 <sup>5</sup> Purchased power prices tend to decline once the summer season is over in the West. Gas prices will likely remain high,  
 28 but APS uses progressively less gas once the summer is over. As a result of these two factors, fuel and purchased power  
 costs per kWh will be closer to the \$.020743 per kWh included in the Company's base rates and deferrals  
 correspondingly lower.

1 APS proposes to recover \$100 million of the PSA bank balance over a 24-month period, thus  
2 allowing for a reduced customer bill impact as compared to the more standard 12-month period used  
3 by the Commission. APS also is proposing that the PSA surcharge become effective beginning with  
4 cycle one of November 2005. This is outside the highest use period for APS customers and also  
5 coincides with the switchover to winter rates, which for residential customers are lower than the  
6 Company's non-winter rates by an average of approximately 8%. Moreover, APS is not requesting a  
7 surcharge sufficient to "zero out" its PSA bank balance at the conclusion of the 24-month  
8 amortization period, as is also usually the case in adjustor surcharge proceedings. In fact, under-  
9 recoveries of fuel and purchased power costs will exist in the bank balance on November 1, 2005 and  
10 will continue to increase even after implementation of the requested PSA surcharge. This is because  
11 even assuming a maximum regular PSA adjustment of 4 mils per kWh (approximately 5%) in April  
12 2006 (which given present and anticipated 2005 fuel and purchased power cost levels would appear  
13 likely), fuel and purchased power cost recovery would not be at the level of 2005 fuel and purchased  
14 power costs, let alone projected 2006 levels of \$.02902 per kWh. Thus, APS anticipates that it will  
15 again reach \$100 million in PSA cost deferrals during the summer of 2006, which per the terms of  
16 Decision No. 67744 would necessitate another surcharge filing by the Company.

17 For these reasons, the proposed PSA surcharge is reasonable, consistent with the provisions of  
18 Decision No. 67744, and should be approved for bills rendered beginning with cycle one of  
19 November 2005. A copy of the proposed PSA surcharge tariff schedule is attached to the Company's  
20 Application as Exhibit B.

21 *B. The Impact of the PSA Surcharge on Customer Rates*

22 The requested PSA surcharge represents an approximate 2.2% temporary increase in overall  
23 Company retail revenues. It will raise the average price of a kWh from \$.08103 to \$.08280. The  
24 increase in average monthly bills on an annual basis is \$2.74 (2.1 %) for residential customers and  
25 \$14.93 (1.8 %) for a typical (Rate Schedule E-32) non-residential customer. Customers, both  
26 residential and non-residential, using higher/lower amounts of energy would face greater/lesser  
27 increases, thus making the overall monthly average of this temporary increase for the year the 2.2%  
28 figure cited above.

1 Prior to filing this Application, APS provided Staff with a proposed bill insert concerning the  
2 requested PSA surcharge. This insert will be sent to all APS customers and will both describe and  
3 explain the surcharge and suggest ways to minimize its impact. It also urges them to contact the  
4 Commission or the Company for further information concerning the requested PSA surcharge. A  
5 copy of such insert is attached as Exhibit C. In addition to the billing insert notice, APS will be  
6 issuing a press release to the media to further inform its customers as to the proposed PSA surcharge.  
7 See Exhibit D, attached.

#### 8 **IV. SUPPORTING DATA FOR THE REQUESTED PSA SURCHARGE**

9 Prior to the filing of this Application, APS also provided Staff with its actual fuel and  
10 purchased power costs through June of 2005. The Company has further provided Staff with its  
11 projected costs, by month, through year-end 2006 as well as its monthly bank balances both with and  
12 without the requested PSA surcharge. This data indicates that even if future fuel and purchased power  
13 costs were to ameliorate significantly, the requested PSA surcharge would not "zero out" the PSA  
14 bank balance, as is usually the goal of an adjustor surcharge. Indeed, as noted above, such balance  
15 would continue to increase through the end of 2006.

16 As the Commission is well aware, natural gas is an increasingly important part of the APS  
17 fuel mix and is the marginal fuel for setting market prices for purchased power. The repeated filings  
18 (56 in the past 12 months alone) by natural gas utilities subject to the Commission's jurisdiction for  
19 rate adjustments, many significantly in excess of that requested in this Application, is brute testimony  
20 to the prevailing high price of natural gas. Illustratively, Southwest Gas Corporation's most recent  
21 informational filing for its purchased gas adjustment mechanism indicates a delivered price of natural  
22 gas for May of \$6.6353 per MMBTU, which is comparable to the prices being paid by APS through  
23 June of this year.

24 Purchased power costs have risen commensurately with gas prices. Attached as Exhibit E is a  
25 comparison of natural gas prices and purchased power prices over the past 42 months. Exhibit E is  
26 indicative of the national trend toward higher basic energy costs from which APS is not immune.  
27 This is demonstrated by Exhibit F, which shows APS' actual fuel and purchased power costs per  
28 kWh for the same 42-month period.

1 As further illustration of such trend, Salt River Project ("SRP") has implemented three fuel  
2 and purchased power rate adjustments since 2003, which is the year used to establish the Company's  
3 base fuel and purchased power costs in Decision No. 67744. These have increased rates to SRP  
4 residential customers by 8.4%. And even that percentage increase is not directly comparable to that  
5 sought by APS. Because SRP can implement fuel and purchased power adjustments more efficiently  
6 at a time of its choosing, it can make smaller adjustments sooner and more often than is contemplated  
7 under the Company's PSA mechanism.

#### 8 V. TIMING OF COMMISSION DECISION ON SURCHARGE

9 As discussed earlier in its Application, the timing of a Commission decision in this matter is  
10 largely driven by the expressed desire of the Commission to address PSA cost deferrals before they  
11 hit \$100 million. That figure will be reached in August 2005. If the Commission approves the  
12 proposed PSA surcharge prior to November 1, 2005, and thus effectively removes the requested  
13 amount to be recovered by such surcharge (in this instance, \$100 million) from the deferral balances  
14 used to determine when the next PSA surcharge application must be filed, APS will not prospectively  
15 reach \$100 million of additional PSA cost deferrals until the summer of 2006.

#### 16 VI. CONCLUSION

17 APS believes the requested PSA surcharge of \$.001770 per kWh is in the public interest.  
18 Unless the Commission moves expeditiously to grant such a surcharge prior to November 1, 2005,  
19 the Company's PSA bank balance will continue to increase well beyond the \$100 million figure  
20 established by this Commission in Decision No. 67744 for the express purposes of triggering a  
21 mandatory filing by APS for a PSA surcharge. Thus, APS requests that the Commission approve at  
22 an Open Meeting (similar to the procedure used for other rate adjustment mechanisms) the requested  
23 PSA surcharge beginning with billing cycle one of November 2005.

24 RESPECTFULLY SUBMITTED this 22nd day of July, 2005.

25 

26 Thomas L. Mumaw  
27 Karilee S. Ramaley

28 Attorneys for Arizona Public Service Company

1 The original and 13 copies of the foregoing were  
2 filed this 22nd day of July, 2005 with:

3 Docket Control  
4 Arizona Corporation Commission  
5 1200 West Washington  
6 Phoenix, AZ 85007.

7 Vicki DiCola  
8 Vicki DiCola

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**ARIZONA PUBLIC SERVICE COMPANY**  
**Calculation of the November 2005 PSA Surcharge**

Line No.	Mth	Projected	Less E-3/E-4 <sup>1</sup>	Less E-36 <sup>2</sup>	Total
		Retail Calendar MWhs	Projected MWhs	Projected MWhs	
1	Nov 05	1,921,888	(17,765)	(5,090)	1,899,033
2	Dec 05	2,062,795	(20,996)	(5,090)	2,036,709
3	Jan 06	2,109,012	(23,186)	(5,090)	2,080,736
4	Feb 06	1,821,752	(19,440)	(5,090)	1,797,222
5	Mar 06	1,929,711	(16,764)	(5,090)	1,907,857
6	Apr 06	2,025,386	(15,933)	(5,090)	2,004,363
7	May 06	2,374,205	(17,161)	(5,090)	2,351,954
8	Jun 06	2,704,478	(23,573)	(5,090)	2,675,815
9	Jul 06	3,041,028	(29,271)	(5,090)	3,006,667
10	Aug 06	3,253,145	(34,101)	(5,090)	3,213,954
11	Sep 06	2,670,087	(32,227)	(5,090)	2,632,770
12	Oct 06	2,096,903	(23,721)	(5,090)	2,068,092
13	Nov 06	1,998,967	(18,476)	(5,090)	1,975,401
14	Dec 06	2,146,316	(21,836)	(5,090)	2,119,390
15	Jan 07	2,192,234	(24,113)	(5,090)	2,163,031
16	Feb 07	1,893,694	(20,218)	(5,090)	1,868,386
17	Mar 07	2,006,883	(17,435)	(5,090)	1,984,358
18	Apr 07	2,105,708	(16,570)	(5,090)	2,084,048
19	May 07	2,469,635	(17,848)	(5,090)	2,446,697
20	Jun 07	2,818,195	(24,516)	(5,090)	2,788,589
21	Jul 07	3,169,580	(30,442)	(5,090)	3,134,048
22	Aug 07	3,390,383	(35,465)	(5,090)	3,349,828
23	Sep 07	2,781,625	(33,516)	(5,090)	2,743,019
24	Oct 07	2,182,782	(24,670)	(5,090)	2,153,022
		<u>57,166,392</u>	<u>(559,241)</u>	<u>(122,160)</u>	<u>56,484,991</u>

Amortized Amount \$ 100,000,000

Total kWhs 56,484,991,000

PSA Surcharge per kWh **\$ 0.001770**

<sup>1</sup> E-3 and E-4 customers will not have to pay PSA charges per Decision No. 67744.

<sup>2</sup> E-36 customer are directly assigned incremental fuel and purchased power per the terms of the rate schedule. Therefore, both the incremental cost and the associated MWh usage are excluded from the PSA calculations. The PWEC Units are excluded from the E-36 projections because they are being transferred to APS.

Note: The PSA Surcharge will expire at the end of the 24 month period. Any over/under collection remaining at the end of the period will be credited/debited to the PSA balancing account.



**ADJUSTMENT SCHEDULE PSA-1  
POWER SUPPLY ADJUSTMENT**

APPLICATION

The Power Supply Adjustment (“PSA”) shall apply to all retail electric schedules with the exception of Solar-1, Solar-2, SP-1, E-3, E-4, E-36 and Direct Access service. All provisions of the customer’s current applicable rate schedule will apply in addition to this charge.

PSA ADJUSTOR RATE ANNUAL ADJUSTMENT

The main components of the PSA are: 1) a risk sharing mechanism whereby APS and its customers share in the costs/savings on a 90% customer, 10% APS basis; 2) a bandwidth that limits the amount the PSA Adjustor Rate (“Adjustor Rate”) can change over the entire term of the PSA to plus or minus \$0.004 per kWh; 3) a balancing account; 4) a balancing account surcharge mechanism, separate from the Adjustor Rate, to clear the balancing account under circumstances described below; and 5) the inclusion of off-system sales. The monthly PSA calculations shall be adjusted for the calculated net savings from the methodology approved in Decision No. 67504 from the PPL Sundance docket. The calculation method is set forth in the filed Power Supply Adjustment Plan for Administration (the “Plan”). Standard Offer services covered by this charge include a Base Rate Power Supply Cost of \$0.020743 per kilowatt-hour. An annual adjustment to the Base Rate Power Supply Cost will be made through a change in the Adjustor Rate that is based upon the annual total of PSA retail energy sales (less E-3, E-4 and E-36 sales) and power supply costs. The annual costs are compared to the base rate costs to determine the year’s total over/under collection after the 90%/10% sharing incentive. The annual amount of PSA Retail Power Supply Costs that can be used to calculate the annual Adjustor Rate cannot exceed \$776,200,000.

The Adjustor Rate is calculated annually and the total (credit)/charge collection amount is recovered over twelve months. The Adjustor Rate is applied to the customer’s bill as a monthly kilowatt-hour charge and is the same for all affected customer classes. The Adjustor Rate will change in billing cycle 1 of the April revenue month and it will not be prorated. The Adjustor Rate must remain within the Bandwidth that limits the amount it can increase or decrease each year.

RATES

The charges shall be calculated at the following rates:

PSA Adjustor Rate

All kWh	\$0.000000	per kWh
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Amortization Surcharge

All kWh	\$0.001770	per kWh
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AMORTIZATION SURCHARGE

If the size of the Balancing Account reaches plus or minus \$50 million, the Company has forty-five days to either file a request for Commission approval of an Amortization Surcharge, or an explanation of why such a surcharge isn’t necessary. Should the Company seek to recover or refund an amount from the Balancing Account, the timing and manner of recovery, or refund, will be addressed at that time. In no event shall the Company allow the Balancing Account to reach \$100 million prior to seeking recovery or refund. Following a proceeding authorizing recovery or refund of a bank balance between \$50 million and \$100 million, the balance considered in the proceeding shall be reset to zero unless otherwise ordered by the Commission.



**ADJUSTMENT SCHEDULE PSA-1  
POWER SUPPLY ADJUSTMENT**

BALANCING ACCOUNT

APS shall establish a PSA Balancing Account. Entries to the Balancing Account shall be made each month as follows:

1. A debit or credit entry equal to the difference between the Post-Sharing (Over)/Under Collection and the sum of the amounts recovered by the Applicable Adjustor Rate. The Post-Sharing (Over)/Under Collection is calculated by taking amount recovered through the Base Rate Power Supply Cost of \$0.020743 and subtracting it from the PSA Retail Power Supply Cost. The product of that subtraction is then multiplied by 90% to reduce the recoverable costs in accordance with the 90%/10% sharing incentive.
2. A debit or credit entry equal to the kilowatthours billed for the month under the rate schedules subject to the Adjustor Rate multiplied by the effective Amortization Surcharge. If an Amortization Surcharge is not in effect, then no entry will be made.
3. A monthly debit or credit entry for interest to be applied to the account balance based on effective one-year Nominal Treasury Constant Maturities rate that is contained in the Federal Reserve Statistical Release, H-15, or its successor publication. This is called the Monthly Interest and is used above in the Adjustor Rate calculations. The interest rate will be adjusted annually on the first business day of the calendar year in the same manner as the APS customer deposit rate.
4. A debit or credit entry for refunds or payments authorized by the Commission.

COMPLIANCE REPORTS

The Adjustor Rate and Balancing Account calculations and supporting information will be provided to the Commission monthly as specified in Decision No. 67744. Workpapers and other documents supporting the calculations that contain proprietary or confidential information will be provided to the Commission Staff under an appropriate confidentiality agreement. APS will keep fuel and purchased power invoices and contracts available for Commission review. All of the information is available during the year, upon Commission request. The Commission has the right to review the prudence of fuel and power purchases and any calculations associated with the PSA at any time. Any costs flowed through the PSA are subject to refund, if those costs are found to be imprudently incurred.

DIRECTLY ASSIGNED POWER SUPPLY COSTS EXCLUDED

In cases when power supply costs are incurred for a specific customer or group of customers, the customer or group of customers will be directly charged the identified costs in accordance with the Plan. Power supply costs and related energy sales recovered through direct assignments for both existing and returning customers as described on rate schedule RCDAC -1 will be excluded from the computation of the above charges applied to other Standard Offer service customers.

**PLEASE READ: AN IMPORTANT NOTICE ABOUT POSSIBLE INCREASES  
TO YOUR BILL**

Arizona Public Service Company (APS) has asked the Arizona Corporation Commission (ACC) to approve a \$.001770 per kWh Power Supply Adjustment (PSA) Surcharge on customer's bills to recover a portion of the increased fuel and purchased power costs. If approved as requested, the surcharge would be applied to customers' bills beginning with billing cycle 1 of November 2005 and would be removed in 24 months. It would add an estimated \$2.74, or about 2.1 percent to the average monthly residential bill. The average non-residential customer's monthly bill will increase an estimated \$14.93 or about 1.8 percent.<sup>1</sup> The actual increase each customer will have depends on their individual usage and rate schedule.

Customers can minimize the impact of the surcharge by using electricity efficiently and wisely, thus reducing their overall energy usage. Tips on how to reduce your energy usage are available on our website [www.aps.com](http://www.aps.com) under APS Services or on the bill inserts that accompany your monthly bill. Customers who are on the Company's Residential Energy Support Program (E-3) or Medical Care Equipment Program (E-4) will not have to pay the surcharge.

The surcharge will recover a portion of the increased fuel and purchased power costs already incurred to provide electricity for customers. Due to the current market conditions, fuel and purchased power costs have increased to the point where the Company was required to file the surcharge request with the ACC. While APS regrets any increase in our customer's costs, the under-collected PSA balance needs to be reduced. The proposed PSA surcharge is different from and in addition to the annual PSA adjustment (if any) in April 2006. For more information on current natural gas prices and a description of the PSA, visit our website at [www.aps.com](http://www.aps.com) under Power Supply Adjustment (PSA). For more information about the Company's request you can visit the website above or call either 1-800-253-9405 or 602-371-7171 (in metro Phoenix).

The Company is requesting that the ACC schedule an Open Meeting to discuss and vote upon this matter prior to November 1, 2005. To find out when this Open Meeting will be scheduled or how to comment on the proposed surcharge you can contact the ACC at [www.cc.state.az.us](http://www.cc.state.az.us) or call 1-800-222-7000. Additionally, you can contact the Company at the numbers specified above.

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<sup>1</sup> The stated non-residential increase is based on an E-32 customer with Summer usage of 9,504 kWhs and 33 kW and Winter usage of 7,812 kWhs and 30 kW.



**FOR IMMEDIATE RELEASE**

**July 22, 2005**

Media Contacts: Alan Bunnell, (602) 250-3376  
Jim McDonald, (602) 250-3704 or 321-3738  
Analyst Contacts: Rebecca Hickman, (602) 250-5668  
Lisa Malagon, (602) 250-5671  
Web sites: [www.aps.com](http://www.aps.com)

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**APS SEEKS APPROVAL OF POWER SUPPLY ADJUSTOR SURCHARGE**  
*Increase in Natural Gas and Purchased Power Costs Spur Request*

Responding to dramatically higher natural gas prices, APS today asked approval of the Arizona Corporation Commission (ACC) to implement a temporary power supply adjustor surcharge to recover the higher costs of fuel and purchased power that are not included in current rates. If approved, the surcharge would begin this fall, and conclude two years later. The surcharge of \$0.001770 per kilowatt-hour would add about \$2.74, or 2.1 percent, to the average monthly residential bill.

“Just as gasoline prices have soared at the pumps, the cost of natural gas and other fuels we buy to run APS’ power plants have increased and remain stubbornly high,” said Steve Wheeler, APS executive vice president, customer service and regulation. “Despite our cost control and risk management efforts, our fuel and purchased power expenses have exceeded what is currently being collected in rates, and we need timely recovery of these costs to continue providing quality service to our customers.”

Wheeler noted that current power supply costs exceed those included in present APS rates by about 24 percent. By August, the Company could see a shortfall in its fuel-costs collection of about \$100 million.

“Fuel is the largest single cost of providing electricity to our customers,” he said. “And, since we only charge our customers for what the fuel costs us, our rates need to reflect the true prices we pay.”

If the surcharge is approved, APS’ prices will still be lower than they were in 1991. APS rates now average 8.1 cents per kilowatt-hour; after the surcharge, the average rate will be 8.3 cents. In 1991, the rate was 8.75 cents per kilowatt-hour. By comparison, the Consumer Price Index has increased by 43 percent over the same period.

However, Wheeler added that “if our fuel and purchased power costs continue to increase, we could expect to see further price adjustments.”

Under an ACC decision issued this past spring, APS is required to request a surcharge before the under-collection of fuel costs reaches a predetermined level. A power supply

**APS SEEKS POWER SUPPLY ADJUSTOR SURCHARGE**

**July 22, 2005**

**Page 2 of 2**

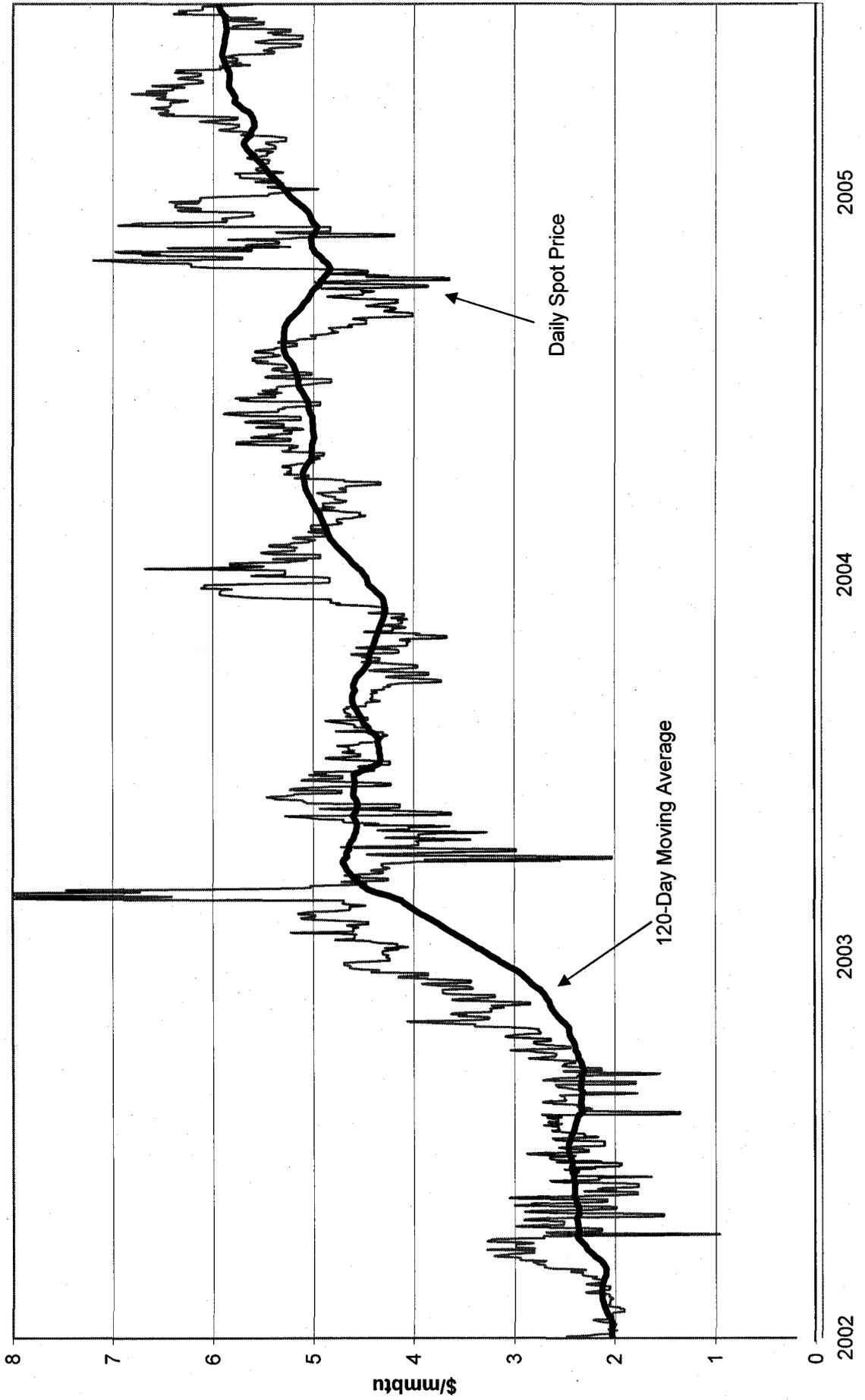
adjustor is a commonly-used regulatory mechanism to send timely price signals, and to ensure customers pay only for the actual and reasonable costs of power supplies by allowing upward or downward revisions to the fuel portion of customers' bills.

"Using energy wisely makes good sense for all of us," Wheeler stressed. "So we encourage our customers to adopt energy-efficient practices. Conservation helps keep our fuel costs down, and helps customers lower their power bills."

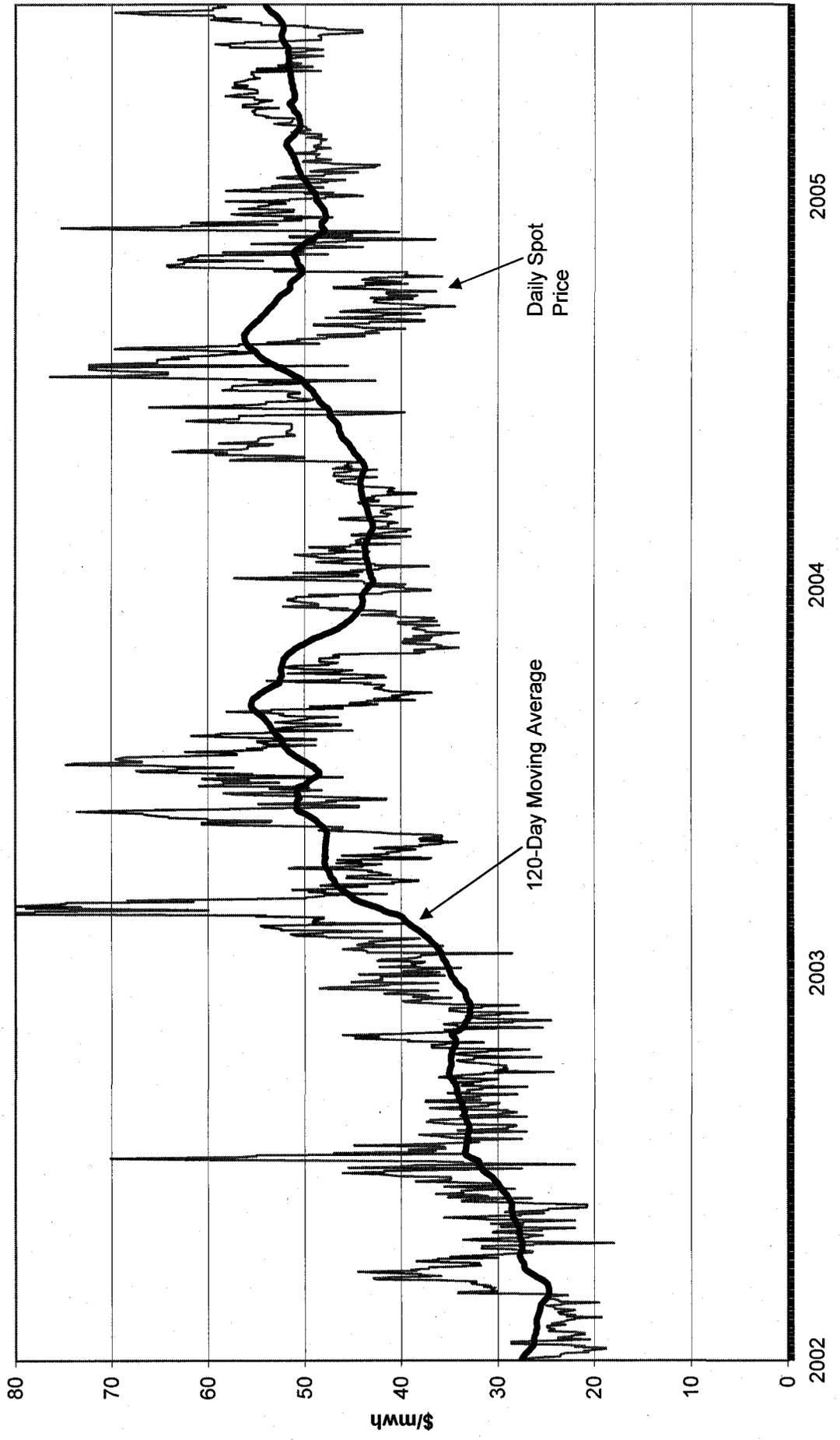
To learn more about conservation tips or the power supply adjuster, log on to APS' web site at [www.aps.com](http://www.aps.com). Once at the site, customers will find various tools to help reduce energy usage and lower their electricity bills.

APS, Arizona's largest and longest-serving electric utility, serves more than 989,500 customers in 11 of the state's 15 counties. With headquarters in Phoenix, APS is the largest subsidiary of Pinnacle West Capital Corporation (NYSE: PNW).

### Daily Spot Market Natural Gas Prices San Juan Basin 2002-2005



**Daily Spot Market Power Prices  
Palo Verde On Peak  
2002-2005**



### Arizona Public Service Net Retail Load Fuel & Purchased Power Costs (Net of Hedging and Off-System Margins) 12-Month Moving Average

