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ARIZONA CORPORATION COMMISSION

Executive Director

Direct Phone No.: 602-542-3933  
Fax No.: 602-542-5560  
e-mail: mspitzer@azcc.gov

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March 24, 2006

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RE: Arizona Public Service Co. (Emergency Rates)  
Docket No. ~~E-01345A-06-0009~~

E-01345A-05-0816

Dear Colleagues and Parties:

I have listened intently to the testimony in this case, particularly the questions posed to witnesses by my colleagues. I am intrigued by Chairman Hatch-Miller's March 23, 2006 letter. I appreciate all of the Commissioners' hard work on this case and their willingness to explore every alternative to prepare to make a determination in this matter.

While I remain undecided as to what remedy, if any, will be determined to be in the public interest, I am still interested in modifying APS' current time-of-use programs as part of a long-term solution to this matter. Pricing that sends proper signals enables customers to manage their electricity bills and APS to reduce the amount of peak gas-fired generation it must use, thereby reducing APS' exposure to the natural gas markets.

In this docket, APS stated that any change to its time-of-use tariffs should be made incrementally to assess customers' interest. APS takes this position even though it touts the fact that it already has one of the highest participation rates in the nation regarding the number of customers on a time-of-use program. APS further states that any change to those tariffs should take place in the form of a "pilot program," again to appropriately gauge customer interest. I believe the events at Westwing in 2004 provide compelling evidence that APS consumers have adjusted their electrical usage in a "pilot program." During that summer, customers of APS, for purely non-financial reasons, quickly reduced their usage during peak hours in response to a request from APS. Imagine the customers' response if such a change in their behavior actually saved them money.

I now raise a second issue. Due to the short-time frame of this review and since the general rate case will be resolved soon, I have withheld some questions about APS' management of assets. If the result of this proceeding is to allow APS to accelerate its cost recovery, that decision will probably be made under the assumption that APS is managing its plants and assets appropriately. Therefore, I am putting the parties on notice that I will be asking about the operational efficiencies and capacity factors of the various APS' generational units in the general rate case. I want to see evidence in the record that shows the operational history of APS' generation fleet

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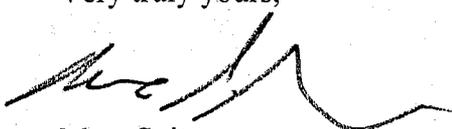
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over the past 10 years and evidence that compares the operational efficiencies and capacity factors to other utilities' similarly situated assets.

If the Commission decides to accelerate the recovery of costs for APS, I will be looking at those costs during the prudence review of the general rate case to ensure that the ratepayers are not paying too much, and, if so, to ensure they will ultimately receive a refund. Further, I will be reviewing the operational history of APS' generation facilities to ensure that the management of those facilities is not a contributing factor in APS' request to increase rates.

Very truly yours,



Marc Spitzer  
Commissioner

cc: Docket Control  
Parties on the Record  
Brian McNeil  
Heather Murphy