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AZ CORP COMMISSION
DOCUMENT CONTROL

February 9, 2006

Re: APS emergency rate increase request; determination of actual costs incurred as of April 1, 2006; review of precedent surrounding prior emergency rate cases in Arizona; rate impact estimates from April 1, 2005 to April 1, 2006; Docket No. E-01345A-06-0009.

Dear Parties to the Docket:

I have reviewed Arizona Public Service's direct filed testimony and affidavits in support of the Company's request for a 14 percent emergency rate increase. As I prepare for the hearing in this case, I would like the Parties to the docket to address the following issues and questions.

First, the Company's application was prepared at a time when natural gas costs and futures prices for natural gas were higher than they are today. For instance, the Company's emergency filing proposes a .031904 per kWh base fuel cost, up from the current base case of .020743, which was established when gas costs were \$5.80 per MMBtu. The filing then compares that cost with a \$10.74 per MMBtu cost during 2006. Since the time of the Company's filing, however, the NYMEX futures price has declined to \$8.175 for April 2006 and \$8.548 for July 2006, and the price of gas on the spot market as of the date of this writing was \$6.895 at the Permian Basin. I would like the Company to recalibrate its cost estimates in light of these changes. I would also like the Company to state what its *actual* un-recovered gas costs were as of the date of this writing and what the Company anticipates they will be on April 1.

Second, the Company's emergency rate case filing is replete with references to the fact that – at that time – the Commission had not yet acted to approve its adjustor mechanism and had not lifted the \$776 million annual “cap” on the Company's fuel costs. However, both have been passed by the Commission.¹ In light of the passage of these two provisions, certain analyses by the Parties would be helpful in my consideration of these matters. I would like the Parties to analyze whether the 4 mil adjustor, and the deferral of costs in excess of the \$776 million cap, in combination with the possibility of Commission approval of the Company's February 2, 2006 Application for Surcharges would serve as an adequate financial bridge to the Company's next general rate case, (without the emergency rate case), which has been filed and is under review. If not, the analyses should explain why.

¹ Decision No. 68437 in relevant part: (1) resets the Adjustor Rate to a positive \$0.004 per kilowatt hour effective February 1, 2006; and (2) permits APS to continue to defer fuel and purchase power costs in excess of the \$776 million cap until the issue is addressed in Docket No. E-01345A-06-0009.

Third, having reviewed a number of emergency rate cases addressed by the Commission over the past 30 years, it appears that as a general matter this Commission approves emergency rate increase requests when the three part test laid out in *Rio Verde* is satisfied. Moreover, in most if not all of these cases, funds were approved for expenditures that had *already been made* by the utility, which was seeking means of paying those already encumbered expenses. In the Matter of the Application of Far West Sewer and Water, Inc. For a Rate Increase, the Company sought an emergency increase to pay for a new source of water the utility had commenced building but could not finish. Similarly, In the Matter of the Application of Naco Water Company, LLC, the utility proposed a rate increase after it had been forced to expend \$60,000 to move a water main as required by Cochise County. And In the Matter of the Application of Mount Tipton Water Company, Inc. for an Emergency Rate Increase, the Company sought a rate increase when it fell behind in the repayment of a loan it had secured through the Water Infrastructure Finance Authority of Arizona.²

I would like the Parties to brief their views on whether these cases demonstrate a precedent or tradition in which emergency rate cases are used to help a distressed utility pay for plant or other expenses that have been incurred in the past. I am particularly interested in understanding the Parties' views on how this line of cases should be applied when the Commission is considering whether to allow APS to recover *prospective* fuel costs in an emergency rate case, as appears to be the situation in the request before us. In other words, the Parties' briefs should address whether the Commission should limit our consideration of only those fuel costs that have already been incurred by APS as of April 1, 2006.

Finally, I would like the Parties – in particular RUCO, Staff and APS – to docket estimates of the impact of APS' proposed emergency rate increase on the average customer's bill. Please then add to that the estimated impact of the Company's rate increase approved in April 2005, combined with the impact of the 2006 adjustor mechanism at 4 mills, combined with the estimate of the impact of the Company's proposed surcharges, combined with an estimate of the impact of the proposed general 2006 rate case.³ Please provide these estimates both as percentage increases and the total dollar amounts associated with the increases, for both the summer and winter average bills.

Thank you for your prompt attention to these questions. Your timely docketed responses will aid in my full consideration of the issues reflected in this case.

² The emergency rate cases I have reviewed include: 49er Water Company, Decision No. 65352; Far West Water, Decision No. 61833; Mount Tipton Water Co., Decision No. 66732; Naco Water Co., Decision 67984; Sabrosa Water Co., Decision No. 67990; APS Emergency Rate Case, Decision No. 53909.

³ This question calls for two separate computations – first the emergency rate impact alone, then an analysis of the rate impact of all the Company's rate increases or proposed rate increases between April 1, 2005 and April 1, 2006.

Parties to the Docket
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Sincerely,

A handwritten signature in black ink, appearing to read "Kris Mayes", with a long horizontal flourish extending to the right.

Kris Mayes
Commissioner

Cc: Chairman Jeff Hatch-Miller
Commissioner William A. Mundell
Commissioner Marc Spitzer
Commissioner Mike Gleason
Ernest Johnson
Brian McNeil
Heather Murphy
Docket Control
Parties to the Docket