

ORIGINAL



PINNACLE WEST
CAPITAL CORPORATION
LAW DEPARTMENT



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Thomas L. Mumaw
Senior Attorney
(602) 250-2052
Direct Line

March 24, 2006

Chairman Jeff Hatch-Miller
Commissioner William Mundell
Commissioner Marc Spitzer
Commissioner Mike Gleason
Commissioner Kristin K. Mayes
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007-2996

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Re: Application for Emergency Interim Rate Increase and Interim Amendment to Decision
No. 67744; Docket No. E-01345A-06-0009

Dear Commissioners:

In response to your requests during the hearing in this matter, please find summaries of response to the survey referenced in my letter dated March 17, 2006, as broken down between APS customers and non-customers for both business and residential. Additionally, attached are APS responses to question posed by survey respondents to which a response was requested.

You also requested copies of the portions of the minutes for the Pinnacle West Capital Corporation ("PWCC") Board of Directors (the "Board") meeting of the Human Resources Committee of the Board (the "Committee") meeting that reflect, among other things, deliberations related to the incentive awards under the 2005 Officer Incentive Plan and the 2005 Chairman and Chief Executive Officer Plan. The customary and previously accepted practice with respect to the production of Board and Board Committee minutes in rate case proceedings has been to make those documents requested available for Staff's review on a confidential basis at PWCC's offices. Because of the need for expediency in this emergency rate docket, as an exception to the customary practice, these minutes are being provided on a confidential basis to Staff, pursuant to a protective agreement, as they include non-public compensation information about a number of Pinnacle West and APS employees.

APS • APS Energy Services • Pinnacle West Energy • SunCor • El Dorado

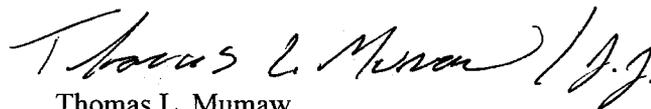
Law Department, 400 North Fifth Street, Mail Station 8695, Phoenix, AZ 85004-3992
Phone: (602) 250-2052 • Facsimile (602) 250-3393
E-mail: Thomas.Mumaw@pinnaclewest.com

There are no board minutes addressing the level of APS advertising expenses or sports sponsorships. Similarly, there is no written correspondence between APS and any rating agency relative to the scheduled Palo Verde outage this summer.

You also requested information on the compensation of officers and management studies. APS is still preparing its response and will file such response as soon as it is available.

APS witnesses Peter Ewen, David Rumolo and/or Donald Robinson have responded or will respond to the other outstanding Commissioner questions posed to date during their testimony before the Commission.

Sincerely,

A handwritten signature in cursive script, appearing to read "Thomas L. Mumaw / J.J.", written in dark ink.

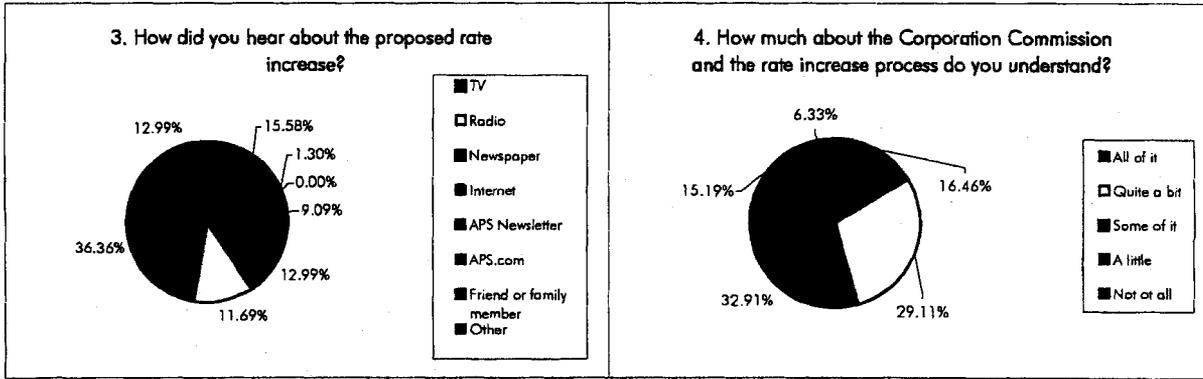
Thomas L. Mumaw
Attorney for Arizona Public Service Company

TLM/na
Enclosures

cc: Parties to the Docket
Original and 13 copies to Docket Control



APS Business Survey Results - Customer
03.22.06



5. How would you rate the following issues in relationship to the future of business growth and economic development in Arizona?

	1 - Not at all important	2	3	4	5	6	7 - Extremely important	Response Average
Reliability of Arizona's electric supply	4%	0%	0%	13%	12%	12%	14%	6.49
Energy costs for residents	0%	17%	18%	4%	9%	4%	14%	6.44
Fuel costs and their impact	4%	0%	9%	13%	12%	10%	12%	6.37
Plans to meet the future demand as Arizona grows	8%	8%	18%	0%	9%	10%	14%	6.36
The outlook for renewable resources	4%	8%	0%	17%	6%	12%	12%	6.35
Energy saving programs and incentives for businesses	8%	8%	0%	8%	15%	10%	8%	6.03
Plans to manage energy production costs	15%	0%	9%	17%	9%	16%	8%	5.77
Energy costs for businesses	12%	33%	9%	8%	6%	10%	7%	5.58
Legislative and regulatory activity affecting utility companies such as APS	35%	0%	9%	8%	9%	8%	7%	5.24
The price businesses pay for electricity	12%	25%	27%	13%	12%	6%	5%	5.09

Thank you for completing the survey on BrightArizonaFuture.com.

In order to meet Arizona's rapid growth and healthy economy with reliable and affordable power, we're using a combination of nuclear energy, coal and natural gas and purchased power. The Palo Verde Nuclear Generating Station is the largest nuclear electric generating plant in the country, and traditionally is our lowest-cost energy source. Meeting Arizona's growth in the short term will certainly depend on these traditional generating resources.

You are correct that renewable energy tends to be relatively expensive at this time. But there is a bright future in renewable energy in Arizona, and we are working to make those costs more competitive in the future. For instance, our solar research center, the STAR Center, is working on solar research and developing technology to bring the cost of solar power down as a significant part of our generation fuel mix. We are also investing in and researching other renewable resources such as biomass and wind.

Thank you again for taking the time to visit BrightArizonaFuture.com.

Wouldn't money be better spent on reliable, low cost generation resources rather than expensive, unreliable, low-output renewable resources?

Thank you for completing the survey on BrightArizonaFuture.com.

The biggest reason for our recent rate increase request is higher fuel costs. APS must buy natural gas (which is used to generate electricity) on the wholesale market like any other business. Our rates are based, in part, on how much it costs us to generate electricity. The wholesale price of natural gas has gone up dramatically in the past several years, and during 2005 and 2006 APS will spend hundreds of millions of dollars more for fuel than it receives in existing rates. Over the past 10 years, we've reduced our actual operating costs -- minus fuel -- by 12 percent, or 31 percent, adjusted for inflation. Unfortunately, over that same period fuel and purchased power costs (the market prices of which we have no control over) have increased 85 percent. Please keep in mind that the amount we're asking for with regard to fuel and purchased power is pure cost: APS makes no profit.

This rate case is an open process during which the Arizona Corporation Commission examines our costs and prices and interested parties share their points of view. We believe that the applications we have filed with the ACC demonstrate that the rate increase requests are justified.

Thank you again for taking the time to visit BrightArizonaFuture.com

I remember working for a marketing company in New Jersey about 25 years ago and the Utilities company contacting us asking us to create a promotional product for them that they spent over \$200M on so that they could show a loss to "justify" a rate increase!!! The company I worked for got the order, but I will never forget it! I now always wonder what the utilities companies do to create a loss and to "Justify" another rate increase. That was 30 years ago...and I still think about that all the time. What a way to mislead the average customer who doesn't know better. Does APS do the same in order to "Justify" another rate hike???

Thank you for completing the survey on BrightArizonaFuture.com.

Please keep in mind that APS, unlike non-regulated businesses, is a regulated utility that must request approval for any changes in our rates from the Arizona Corporation Commission.

APS is very mindful of our efficiency as a company, and our performance shows it. Because of streamlined processes, new technology and our productive workforce, each APS employee serves about 220 customers, compared to 199 customer per employee just six years ago. Over the past 10 years, we've reduced our actual operating costs -- minus fuel -- by 12 percent, or 31 percent, adjusted for inflation. Unfortunately, over that same period fuel and purchased power costs (the market prices of which we have no control over) have increased 85 percent.

Right now, the rates that we are charging customers are based, in part, on dramatically lower fuel prices from 2002 and 2003. Our fuel and purchased power expenses have substantially exceeded the amount currently being collected in rates. APS needs to recover these and other costs to continue providing quality service to our customers.

Thank you again for taking the time to visit BrightArizonaFuture.com

Why is APS allowed to just pass on cost increases to the public? It is an incredibly inefficient utility. They have zero regard for the efficiency of their operation.

Thank you for completing the survey on BrightArizonaFuture.com.

If you would like to contact your legislator, I would recommend visiting the Legislature's Web site at www.azleg.state.az.us/.

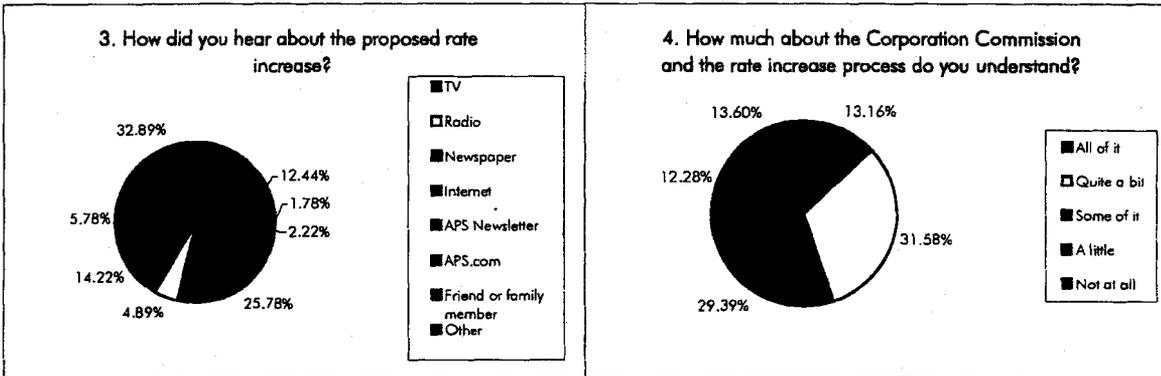
Arizona Public Service is regulated by the Arizona Corporation Commission. You can contact them through their Web site at www.cc.state.az.us/

I hope this information is helpful. Thank you again for visiting BrightArizonaFuture.com

What can we do as consumers to educate legislators about the benefits of free markets



APS Consumer Survey Results - Customer
03.22.06



5. How would you rate the following issues in relationship to the future of business growth and economic development in Arizona?

	1- Not at all important	2	3	4	5	6	7- Extremely important	Response Average
The price you pay for electricity	4%	2%	0%	3%	3%	8%	16%	6.64
How to reduce your energy bills	7%	11%	6%	5%	8%	10%	14%	6.25
What APS has done to manage its costs	10%	9%	13%	6%	9%	11%	12%	6.06
Plans to manage energy production costs	7%	4%	7%	17%	10%	13%	11%	6.02
Reliability of Arizona's electric supply	9%	6%	24%	10%	12%	12%	10%	5.85
Fuel costs and their impact	10%	9%	13%	17%	11%	12%	10%	5.82
The outlook for renewable resources	16%	13%	9%	10%	14%	11%	10%	5.75
Plans to meet the future demand as Arizona grows	14%	17%	10%	14%	15%	13%	9%	5.63
Legislative and regulatory activity affecting companies such as APS	23%	30%	16%	17%	17%	10%	7%	5.14

Thank you for taking the time to visit BrightArizonaFuture.com.

At APS, we've worked hard to increase our efficiency as a company and use new technologies to keep our prices as low as possible without sacrificing reliability or safety.

We greatly appreciate your comments and support and for taking the time to let us know.

I have no questions. I have several relatives who live back east. Monthly Electric bills average '\$250.. and fuel oil is about \$275 in the winter. My bill with APS is seldom over \$100 Love APS and Arizona.

Thank you for completing the survey on BrightArizonaFuture.com.

Prior to the rate increases approved by the Arizona Corporation Commission in 2005 and 2006, we *lowered* our rates nine times between 1994 and 2003.

The biggest reason for the current rate request is that fuel and purchased power costs have increased significantly as has our reliance on natural gas-fired generation. More than 60 percent of this requested increase will go to cover the high cost of fuel APS uses to generate electricity, and purchased power costs. The balance will allow APS to continue building necessary infrastructure to meet the demands of our rapidly growing state.

It is difficult to predict how the price of natural gas and purchased power will change in the future. Please keep in mind, however, that the price we pay for natural gas only reflects our costs. There is no markup.

Thank you again for taking the time to visit BrightArizonaFuture.com.

Electric rates continuously increasing??

Thank you for your question.

As part of our rate request, APS is asking the Arizona Corporation Commission (ACC) to approve an Environmental Improvement Charge that will allow us to fund the installation of additional pollution control equipment at our power plants. We are also adding two voluntary "green power" rate plans that will be comprised of a mix of different renewable energy sources, including solar, wind and biomass. Revenue from these new green-power rate plans will be used to further develop renewable energy resources.

In addition, we are proposing (though it is still in the planning stage) to build a large capacity transmission line from here to Wyoming to bring their vast amounts of wind energy to Arizona.

Thank you again.

Will APS partner to construct an purchase rural renewable energy capacity and production?

Thank you for your question.

Unprecedented fuel and purchased power costs have necessitated that APS request an increase in rates of approximately 21 percent. Under the proposed increase, an average residential bill would increase from \$102 to \$125 per month based on an average consumption of about 1,160 kilowatt-hours of energy. For business customers, the average increase would be approximately 21.4 percent.

However, the bill impact for individual customers would vary based on usage patterns. For example, a residential customer who uses low amounts of energy would experience an increase of less than 10 percent, while large energy users would experience increases of up to 25 percent. Similarly, the range of potential increase for most businesses is 10 percent to 30 percent. Customer bills would also be impacted by any surcharge or adjustor allowed under the Arizona Corporation Commission-approved Power Supply Adjustor mechanism.

To learn more, please visit BrightArizonaFuture.com.

How much more is APS planning to raise the cost of electricity?

Thank you for completing the survey on BrightArizonaFuture.com.

APS already has several solar power plants located throughout the state. Unfortunately, the technology for converting the sun into solar energy is very expensive at this time. At APS, we realize solar and other renewable technologies are important to our collective future and support their research and expanded use through the APS STAR (Solar Test and Research) Center and other renewable energy projects.

However, solar technology is not very cost effective and its widespread use would actually raise customer bills significantly. For example, every kilowatt-hour (the equivalent of the amount of electricity used by 1,000 watts for an hour) of solar energy costs between 20 to 35 cents to generate. This compares with 6 to 7 cents per kilowatt-hour for natural gas generation (which is also very expensive at this time), between 1 and 2 cents per kilowatt-hour for coal generation and less than 1 cent per kilowatt-hour for nuclear generation.

I hope this information is helpful. Thank you again for taking the time to visit BrightArizonaFuture.com.

How soon will we go on solar energy?

Thank you for completing the survey on BrightArizonaFuture.com.

For more than 25 years, APS is a national leader in solar research and development for the generation of electricity. Our STAR (Solar Test and Research) Center in Tempe is working to harness that energy and develop technologies that can make solar power a more viable and affordable energy resource. Unfortunately, solar technology is not very cost effective at this time and its widespread use would actually raise customer bills significantly. For example, every kilowatt-hour (the equivalent of the amount of electricity used by 1,000 watts for an hour) of solar energy costs between 20 to 35 cents to generate. This compares with 6 to 7 cents per kilowatt-hour for natural gas generation (which is also very expensive at this time), between 1 and 2 cents per kilowatt-hour for coal generation and less than 1 cent per kilowatt-hour for nuclear generation.

Additionally, APS has a number of renewable energy projects, including the use of biomass, landfill gases, geothermal energy and we're taking steps to bring wind-generated power to our customers.

If you'd like to see more about our renewable energy efforts, please visit our Web site:
http://www.aps.com/my_community/Solar/Solar_53.html

I hope this information is helpful. Thank you again for taking the time to visit BrightArizonaFuture.com.

Renewable energy runs a very close second to energy costs. I personally am not adverse to Nuclear power generation as long as a safe, effective method is found for disposing of nuclear waste! However I believe a concerted effort must be made to reduce the dependence on fossil fuels; it is of the utmost importance!! We are rapidly distroying whats left of America's natural resources and environment in order to feed the maw of rampant energy consumption.

Thank you for completing the survey on BrightArizonaFuture.com.

Unfortunately, the technology for converting the sun into solar energy is very expensive at this time. At APS, we realize solar and other renewable technologies are important to our collective future and support their research and expanded use through the APS STAR (Solar Test and Research) Center and other renewable programs.

However, solar technology is not very cost effective and its widespread use would actually raise customer bills significantly. For example, every kilowatt-hour (the equivalent of the amount of electricity used by 1,000 watts for an hour) of solar energy costs between 20 to 35 cents to generate. This compares with 6 to 7 cents per kilowatt-hour for natural gas generation (which is also very expensive at this time), between 1 and 2 cents per kilowatt-hour for coal generation and less than 1 cent per kilowatt-hour for nuclear generation.

If you'd like to see more about our solar projects and programs, please visit our Web site:

http://www.aps.com/my_community/Solar/Solar_53.html

I hope this information is helpful. Thank you again for taking the time to visit BrightArizonaFuture.com.

With such a high percentage of sunny days in Arizona, WHY do you not use much more solar power to generate electricity? It would reduce our dependence on all other sources of expensive energy generation by using the seemingly endless supply from the sun. It seems more logical to me than spending money to bring energy here from neighboring states.

Thank you for completing the survey on BrightArizonaFuture.com.

As a leader in solar technology, APS is proud to offer the Environmental Portfolio Standard (EPS) Credit Purchase Program for customers who purchase and install solar generating systems. The program, which is under the APS Solar Partner® program, gives customers an opportunity to install solar products and then sell back the EPS certificates of credit to APS.

For more information about the EPS Credit Purchase Program, please visit our Web site here:

http://www.aps.com/my_community/Solar/eps.html

I hope this answers your question. Thank you again for taking the time to visit BrightArizonaFuture.com.

solar application to residential usage - discounts from APS for this installation

Thank you for completing the survey on BrightArizonaFuture.com.

You can see the history of our rates, including the nine decreases in our rates between 1994 and 2003, on the BrightArizonaFuture Web site here: <http://www.aps.com/aps/BrightArizonaFuture/increases/history/default.html>

It's also important to note that traditionally, the Palo Verde Nuclear Generating Station represents the lowest-cost part of our electric generation fuel mix, on average costing less than one cent per kilowatt hour.

I hope this answers your question. Thank you again for taking the time to visit BrightArizonaFuture.com.

I feel that you are sticking it to us on this price increase so I would like to know how many increases and what percentages they were when you built Palo Verde nuclear generating plant.

Thank you for completing the survey on BrightArizonaFuture.com.

APS is very mindful of our efficiency as a company. Because of streamlined processes, new technology and our productive workforce, each APS employee serves about 220 customers, compared to 199 customers per employee just six years ago. Over the past 10 years, we've reduced our actual operating costs -- minus fuel -- by 12 percent, or 31 percent, adjusted for inflation. Unfortunately, over that same period fuel and purchased power costs have increased 85 percent. Our rates are based, in part, on how much it costs us to generate electricity. The wholesale price of natural gas has gone up dramatically in the past several years, and during 2005 and 2006 APS will spend hundreds of millions of dollars more for fuel than it receives in existing rates. Please keep in mind that the amount we're asking for with regard to fuel and purchased power is pure cost: APS makes no profit.

Conserving electricity helps everyone- you'll save on your monthly electric bill, and the lower demand on the system helps reduce overall costs. We provide ways to conserve on our Web site that you may find helpful at aps.com under "Use Energy Wisely."

Thank you again for taking the time to visit BrightArizonaFuture.com.

What are YOU doing to control your expenses? What salary does your CEO draw, and what perks are given to your Board? Your rate increase is insane. I am cold in my home now, trying to reduce expenses and keep my bill down. I never have a light on in a room I am not in.

Thank you for completing the survey on BrightArizonaFuture.com.

Filing a rate increase application with the Arizona Corporation Commission (ACC) is not something we take lightly, given the impact it has on our customers and the comprehensive analysis of our costs and prices that is required.

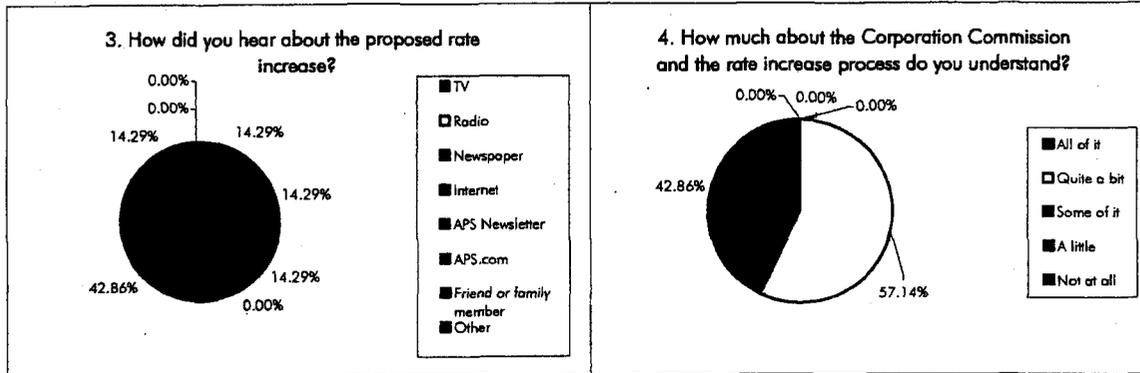
Our costs for the fuel and purchased power needed to meet Arizona's growing needs had been mounting, but this situation was exacerbated by hurricanes Katrina and Rita which caused natural gas prices to spike last September. After careful consideration and calculations of costs and what will be needed to continue to meet Arizona's growing energy needs, we then filed our initial rate request with the ACC in November of 2005.

I hope this information is helpful. Thank you again for taking the time to visit BrightArizonaFuture.com.

Why is APS requesting a rate increase now, when gas prices have been rising for over a year?



APS Consumer Survey Results - Non-Customer
03.22.06

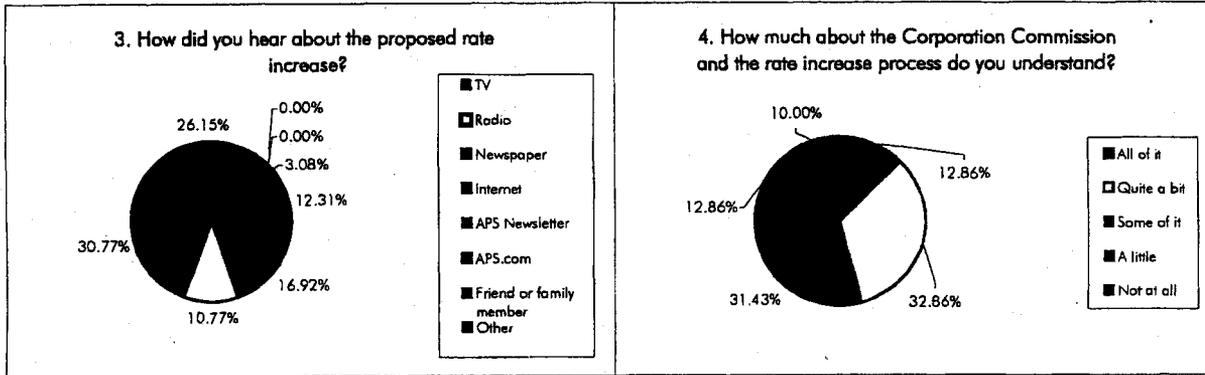


5. How would you rate the following issues in relationship to the future of business growth and economic development in Arizona?

	1 - Not at all important	2	3	4	5	6	7 - Extremely important	Response Average
Reliability of Arizona's electric supply	11%	0%	0%	0%	0%	0%	14%	5.80
Fuel costs and their impact	11%	0%	0%	0%	0%	0%	14%	5.80
Plans to manage energy production costs	11%	0%	0%	0%	0%	20%	10%	5.60
Legislative and regulatory activity affecting companies such as APS	11%	0%	0%	33%	0%	0%	14%	5.50
How to reduce your energy bills	11%	0%	0%	33%	0%	0%	14%	5.50
Plans to meet the future demand as Arizona grows	11%	0%	0%	0%	50%	0%	10%	5.40
The price you pay for electricity	11%	0%	0%	0%	0%	40%	7%	5.40
The outlook for renewable resources	11%	0%	0%	0%	50%	0%	10%	5.40
What APS has done to manage its costs	11%	0%	0%	33%	0%	40%	7%	5.17



APS Business Survey Results - Non-Customers
03.22.06



5. How would you rate the following issues in relationship to the future of business growth and economic development in Arizona?

	1- Not at all important	2	3	4	5	6	7- Extremely important	Response Average
Reliability of Arizona's electric supply	0%	0%	0%	2%	3%	12%	14%	6.60
Plans to meet the future demand as Arizona grows	0%	0%	0%	4%	6%	11%	13%	6.47
Energy costs for residents	0%	0%	0%	13%	13%	8%	11%	6.15
Fuel costs and their impact	0%	0%	9%	4%	14%	11%	9%	6.14
Energy saving programs and incentives for businesses	0%	0%	36%	4%	11%	7%	11%	6.12
The outlook for renewable resources	0%	100%	18%	16%	6%	7%	12%	6.06
The price businesses pay for electricity	0%	0%	9%	9%	14%	10%	8%	6.04
Plans to manage energy production costs	0%	0%	9%	13%	8%	13%	8%	6.02
Energy costs for businesses	0%	0%	0%	20%	10%	10%	8%	5.94
Legislative and regulatory activity affecting utility companies such as APS	0%	0%	18%	13%	14%	10%	7%	5.84

Thank you for completing the survey on BrightArizonaFuture.com.

This rate case is an open process during which the Arizona Corporation Commission will examine our costs and prices and interested parties share their points of view. We don't take lightly the impact that rate increases have on our customers. In fact, we have a recent history of *lowering* our rates each year. Unfortunately, the price of fuel to generate electricity has skyrocketed in recent years and APS will spend billions of dollars to build infrastructure to keep up with the population growth in the state.

In order to remain a viable business able to attract investment capital at a reasonable cost, we need to recover these costs of doing business. Standard and Poor's, which assigns our company's credit rating, has indicated that unless the company is able to recover our fuel costs, our credit rating could be further downgraded. If this happens, APS (and its customers) could pay much more in borrowing costs to finance these infrastructure projects.

We believe that a healthy and growing economy like Arizona needs a healthy utility company to power its future.

Thank you again for your support and visiting BrightArizonaFuture.com.

Will the Arizona Corporation Commission work with APS to ensure there is a balance between fair rates for customers and the opportunity for APS to earn a fair rate of return? Leaning too much toward protecting consumers at the expense of starving APS for needed capital improvement funds is penny wise and pound foolish.

Thank you for completing the survey on BrightArizonaFuture.com.

Over the last decade, APS has made significant investments in electric infrastructure. We have invested \$1.8 billion on transmission and distribution infrastructure just to keep up with the rapid increase in number of customers. Over the next three years, APS plans to invest another \$1 billion in the energy delivery infrastructure, which includes generation, distribution and transmission projects.

APS also has an extensive security program that pertains not only to protecting its facilities but to employee and public safety. We routinely participate in security drills to ensure our readiness and that our systems and procedures are prepared if needed.

I hope this information is helpful. Thank you again for taking the time to visit BrightArizonaFuture.com.

What measures are in place to prevent a another massive, cascading power outage in the Western region and AZ and how well do you protect your energy producing infrastructure against any possible terrorists attacks? (ok this is a twofer... but both are very important)