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ARIZONA CORPORATION COMMISSION

October 18, 2002

AZ CORP COMMISSION  
DOCUMENT CONTROL

Commissioner Marc Spitzer  
Commissioner Jim Irvin  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, Arizona 85007

Re: Procedural Schedule; APS Financing Approval Application,  
Docket No. E-01345A-02-0707;  
Reply to Commissioner Spitzer's October 11, 2002 Letter

Dear Colleagues:

I have reviewed and considered Commissioner Spitzer's letter dated October 11, 2002. The references he made to my comments during the Open Meeting which produced the Track A Decision are accurate, but need to be put in the proper context. To clarify the record, the date of that Open Meeting was, however, August 27, 2002 and not September 10, 2002.

I appreciate the concerns expressed in APS's Motion to Modify the October 9, 2002, Procedural Order which established an expected hearing date of January 8, 2003. The motion recommends/petitions having the hearing on the APS financing application held on December 6, 2001 and also seeks to have the parties submit proposed forms of opinion and order by the same date. I have also read the responses filed by Staff and by RUCO.

I believe that the matter should be treated consistent with the Commission's treatment of other utility financing applications. Accordingly, I would strongly oppose APS's suggestion that this matter be heard directly by the Commissioners. The Hearing Division has served us well in its orderly and thorough presentation of other matters as evidenced by the quality effort put forth by the Chief Administrative Law Judge in managing the Track A proceeding.

Other parties to this proceeding, particularly Commission Staff, have the obligation to complete their due diligence review of the application in order to make their assessment and recommendations. The attached October 11, 2002 report first published in *Standard & Poor's RatingsDirect*, has the headline "Halt in Arizona Electric Deregulation Appears Neutral for Pinnacle West". The article has made me more comfortable in supporting the timeline established by the October 9, 2002 Procedural Order. Based on the magnitude of this financing application, I believe the timeframes set forth in the Administrative Law Judge's Procedural Order are already bordering on the unrealistic. Therefore, I oppose any significant acceleration of the schedule.

Sincerely,

William A. Mundell  
Chairman

Attachment

cc: All parties of record

Arizona Corporation Commission  
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methodology analyzes all subsidiaries and divisions of a company to determine the consolidated corporate credit quality of the entire organization. Standard & Poor's believes that the ACC provides a greater degree of regulatory insulation to APS than is evident in other states, which Standard & Poor's recognizes by assigning separate corporate credit ratings to Pinnacle West Capital and APS. In other words, the regulatory insulation evident in Arizona allows Standard & Poor's to rate the utility and its debt on more of a stand-alone basis.

The rating review will also consider the ACC decision's effect on Pinnacle West Energy, which appears to represent the biggest change in the company's overall credit quality. According to the ACC, APS will still have to purchase the remaining amount of power that cannot be supplied through existing APS assets through a competitive bid process. This amount, including reserve capacity, could be as high as 1,900 MW during the peak summer load. Pinnacle West Energy will have to competitively bid its five units to serve APS' load. About 700 MW of the 1,700 MW of generation owned by Pinnacle West Energy (not including Silverhawk; 427 MW projected to be complete in 2004) is in the transmission-constrained Phoenix area, and if the power is not successfully bid to APS, there are limited marketing opportunities for the power because of current transmission constraints. Standard & Poor's will evaluate the overall business risk of Pinnacle West Energy as part of its consolidated rating on the company and will focus on wholesale price assumptions and competitive position of the plants.

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