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BEFORE THE ARIZONA CORPORATION COMMISSION RECEIVED

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WILLIAM A. MUNDELL  
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JIM IRVIN  
Commissioner  
MARC SPITZER  
Commissioner

Arizona Corporation Commission

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AZ CORP COMMISSION  
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IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR AN ORDER OR ORDERS AUTHORIZING IT TO ISSUE, INCUR, OR ASSUME EVIDENCES OF LONG-TERM INDEBTEDNESS; TO ACQUIRE A FINANCIAL INTEREST OR INTERESTS IN AN AFFILIATE OR AFFILIATES; TO LEND MONEY TO AN AFFILIATE OR AFFILIATES; AND TO GUARNATEE THE OBLIGATIONS OF AN AFFILIATE OR AFFILIATES

Docket No. E-01345A-02-0707

NOTICE OF FILING

Staff hereby provides notice of filing for the summary of Staff Witness John S. Thornton's direct testimony.

RESPECTFULLY SUBMITTED this 6<sup>th</sup> day of January, 2003.

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Original and thirteen copies of the foregoing filed this 6<sup>th</sup> day of January, 2003, with:

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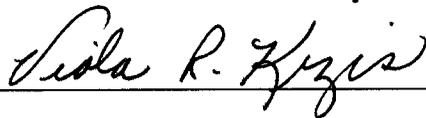
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**EXECUTIVE SUMMARY**  
**ARIZONA PUBLIC SERVICE COMPANY**  
**DOCKET NO. E-01345A-02-0707**

On September 11, 2002, Arizona Public Service Co. ("APS") filed an application pursuant to Arizona Revised Statutes ("ARS") §§ 40-285, 40-301, *et seq.* and Arizona Administrative Code ("AAC") R-14-2-804 for authority to borrow \$500,000,000 of debt and lend it to Pinnacle West Capital Corp. ("PWCC") or Pinnacle West Energy Corp ("PWEC"). The application also requests authority to guarantee PWCC or PWEC obligations in the same amount, or a combination of loans and guarantees. On October 11, 2002, APS filed testimony by Mr. Arthur H. Tildesley and Ms. Barbara M. Gomez in support of the application.

The primary goal of the loan or guarantee is to refinance or facilitate the refinancing of Bridge Debt incurred by PWCC to construction finance PWEC assets. That Bridge Debt must be largely refinanced in 2003. APS asserts that neither PWCC nor PWEC is in a position to issue public debt to refinance the maturing Bridge Debt without an APS guarantee, or otherwise by simply borrowing from APS who would issue debt publicly.

APS asserts that the application was filed to address the "serious and unique financial harm faced by APS, PWEC, and Pinnacle West as a result of the Commission's 'reversal of course' on the issue of APS generation and divestiture." Staff does not view the Commission's actions as the cause of PWEC's near-term capital requirements and this application. PWEC faces problems endemic in the merchant energy sector.

Staff finds that APS should be authorized to issue and sell \$500,000,000 of debt and to loan the proceeds to PWEC pursuant to seven conditions. Staff does not recommend that APS be authorized to loan proceeds to PWCC. Nor does Staff recommend a guarantee of either PWEC or PWCC debt.