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**BEFORE THE ARIZONA CORPORATION COMMISSION**

8 JEFF HATCH-MILLER, CHARIMAN  
9 WILLIAM A. MUNDELL  
10 MARC SPITZER  
11 MIKE GLEASON  
12 KRISTIN K. MAYES

13 IN THE MATTER OF THE APPLICATION OF  
14 ARIZONA PUBLIC SERVICE COMPANY FOR  
15 AN EMERGENCY INTERIM RATE INCREASE  
16 AND FOR AN INTERIM AMENDMENT TO  
17 DECISION NO. 67744

Docket No. E-01345A-06-0009

**WESTERN RESOURCE  
ADVOCATES' CLOSING BRIEF**

18 This case is concerned with short run solutions to Arizona Public Service Company's  
19 (APS') financial predicament. APS has incurred high fossil fuel costs that it is unable to recover  
20 in a timely manner under the cost recovery mechanism established in Decision No. 67744.

21 APS' fossil fuel cost exposure stems from high natural gas costs and increasing coal costs  
22 incurred to serve increasing load (Ewen Direct, Attachment PME-1, and Ewen Rebuttal, p. 3,  
23 lines 15-16). APS employs short term hedging techniques to cap its exposure to high gas costs  
24 (Ewen Rebuttal, page 3, lines 7-11), but financial hedges do not eliminate high prices paid by  
25 APS if market prices are generally high; they only dampen price spikes that APS would

1 otherwise pay. And they lock in prices that may exceed market prices in periods of falling gas  
2 prices.

3 Numerous ideas have been proposed by the parties to address the mismatch between  
4 APS' revenues and fuel costs, but they are all short term solutions. They do nothing to reduce  
5 APS' and ratepayers' continuing exposure to high fossil fuel costs.

6 Western Resource Advocates (WRA) believes that, when deciding on a short term  
7 solution, the Commission should state in its Order that it also plans to take future action to  
8 reduce APS' long term exposure to high fossil fuel costs. Long term solutions cannot be  
9 addressed in this emergency rate case, but they can and should be addressed in APS' permanent  
10 rate case (Docket No. E-01345A-05-0816) and in other proceedings.

11 The long term stretches out 20 years or more. Over such a long period, fossil fuel prices  
12 are highly uncertain and should not be assumed to follow any specific projection. Long term  
13 price forecasts are fraught with error. Given this uncertainty, it is prudent to proactively reduce  
14 APS' exposure to expensive events by diversifying its resources. Thus, APS can reduce its need  
15 to obtain electricity from fossil fuels instead of just coping with whatever happens. These long  
16 term solutions include:

- 17 a. Significantly reducing the demand for electricity through large scale, sustained  
18 energy efficiency programs, thereby avoiding generation and associated fuel  
19 purchases, and
- 20 b. Using hundreds of MW of stably priced, low cost renewable energy resources as a  
21 hedge against high fossil fuel costs. Renewable energy from wind, geothermal, and  
22 various biomass resources would displace fossil fuel generation.

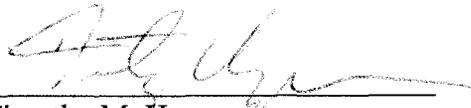
23 The Commission has started to pursue long term solutions through APS' acquisition of  
24 145 MW of renewable energy (Decision Nos. 67744 and 68296), through new energy efficiency  
25 programs (Decision Nos. 67744 and 68488), and through the proposed Renewable Energy

1 Standard and Tariff (Decision No. 68566). However, given the magnitude of APS' fossil fuel  
2 costs (about \$787 million in 2006),<sup>1</sup> the Commission should continue to search for additional  
3 long term means to get these costs under control.

4 In conclusion, WRA recommends that the Commission include in its Order in this Docket  
5 a commitment to continue limiting long term fuel and purchased power cost exposure with  
6 energy efficiency and renewable energy. This commitment should be pursued in APS'  
7 permanent rate case and other forums, as appropriate.

8 RESPECTFULLY SUBMITTED this 10<sup>th</sup> day of April, 2006.

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11 By 

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17 ORIGINAL and 13 COPIES of  
18 the foregoing filed this 10<sup>th</sup> day  
19 of April, 2006, with:

20 Docketing Supervisor  
21 Docket Control  
22 Arizona Corporation Commission  
23 1200 W. Washington  
24 Phoenix, AZ 85007

25 COPIES of the foregoing  
Electronically mailed this  
10<sup>th</sup> day of April, 2006 to:

Attached Service List

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<sup>1</sup> Ewen Direct, Attachment PME-1 shows base fuel expenses for 2006 as \$853.7 million. Ewen Rebuttal, p. 2, line 14, adjusts this cost downward by \$67 million, for a revised 2006 cost estimate of \$853.7 million minus \$67 million = \$786.7 million.

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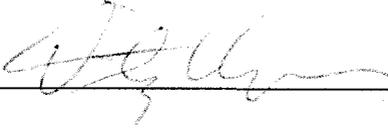
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