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PINNACLE WEST
CAPITAL CORPORATION
LAW DEPARTMENT

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April 27, 2006

HAND DELIVERED

Jeff Hatch-Miller, Chairman
William A. Mundell, Commissioner
Marc Spitzer, Commissioner
Mike Gleason, Commissioner
Kristin K. Mayes, Commissioner
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Re: *APS' Application for Emergency Interim Rate Increase and Interim Amendment to Decision No. 67744 Docket No. E-01345A-06-0009--Moody's Downgrade*

Dear Commissioners:

Attached please find a release issued today by Moody's Investors Service ("Moody's"). Among other actions, Moody's downgraded Arizona Public Service Company ("APS") from Baa1 to Baa2 and assigned APS a "negative outlook" for possible further downgrades.

Sincerely,

Thomas L. Mumaw

TLM/na
Enclosure

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

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

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Rating Action: Arizona Public Service Company

MOODY'S DOWNGRADES PINNACLE WEST (ISSUER RATING TO Baa3) AND ARIZONA PUBLIC SERVICE (SR. UNS. TO Baa2); RATINGS OF PINNACLE WEST REMAIN UNDER REVIEW

Approximately \$2.5 Billion of Debt Securities Affected

New York, April 27, 2006 – Moody's Investors Service downgraded the long-term ratings of Pinnacle West Capital Corporation (Pinnacle: Issuer Rating to Baa3 from Baa2) and its subsidiaries Arizona Public Service Company (APS: senior unsecured to Baa2 from Baa1) and PVNGS II Funding Corp. Inc. (PVNGS II: senior secured lease obligation bonds to Baa2 from Baa1), concluding the review for possible downgrade that was initiated on January 10, 2006. The short term rating of Pinnacle was downgraded to Prime-3 from Prime-2. The long and short term ratings of Pinnacle remain under review for possible downgrade. The rating outlook is negative for APS and PVNGS II. The Prime-2 and VMIG-2 short term ratings for APS have been affirmed.

The downgrades follow the recommendation of an Arizona Administrative Law Judge (ALJ) in conjunction with APS's application for an emergency interim rate increase to authorize an increase that is approximately half the amount that the company requested.

The rating downgrades reflect deterioration in key financial metrics as a result of increased fuel and purchased power costs that APS is unable to recover on a timely basis. Unplanned outages at the Palo Verde Nuclear Generating Station have also increased the company's need to purchase replacement power. We expect that the ratio of funds from operations (FFO) to adjusted total debt (incorporating Moody's standard analytic adjustments) for Pinnacle and APS will be in the mid-teens in 2006. Unless regulatory treatment is supportive, the company's financial performance could be weaker than expected beyond 2006. APS also has significant needs for capital investment to serve a growing service territory.

The negative outlook for APS reflects the potential for downward pressure on the ratings of APS if regulatory outcomes result in rate increases that do not provide for relatively timely recovery of increased costs for fuel and purchased power, or if Palo Verde does not return to normal operating performance by early in the third quarter as is expected.

In January, APS filed a request for an emergency interim rate increase of approximately 14% to recover its additional fuel and purchased power costs to be incurred in 2006. An ALJ recently recommended that APS be allowed an approximate 6% increase beginning in May. An open meeting of the Arizona Corporation Commission (ACC) has been set for May 2. APS's ability to recover costs incurred for replacement power costs relating to the Palo Verde outages is also the subject of a special ongoing regulatory review. In its pending general rate case, APS has requested an increase of approximately 21% (inclusive of the 14% increase for fuel costs) for rates beginning in 2007. Hearings are scheduled to begin in October.

The ratings of Pinnacle remain under review for downgrade due to concerns about the Federal Energy Regulatory Commission's (FERC) suspension of Pinnacle's authority to incur long term debt or issue equity securities. On April 17, 2006, as part of an Order revoking market-based rate authority in the APS control area, the FERC revoked its previously granted order allowing Pinnacle to incur long term debt or issue equity securities without FERC approval. Reinstatement of FERC authorization to issue long term debt and equity securities is considered likely during the month of May. Pinnacle's ratings would be likely to be further downgraded in the event of an unexpectedly adverse outcome.

Headquartered in Phoenix Arizona, Pinnacle West Capital Corporation provides electric service to a substantial portion of the state of Arizona, sells energy-related products and services, and develops residential, commercial and industrial real estate. Pinnacle conducts its business through subsidiaries. Wholly owned subsidiary Arizona Public Service Company is its principal subsidiary.

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