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RICHARD H. SILVERMAN
GENERAL MANAGER

June 9, 2006

Commissioner Kristin K. Mayes
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007-2996

Re: Proposed Devers – Palo Verde No. 2 Power Line;
Docket No. L-00000A- 06-0295-00130

Dear Commissioner Mayes:

In your letter dated May 11th, 2006, you asked SRP to provide information as to when it is anticipated Arizona, and in particular SRP, will need the excess power generated out of the Palo Verde Hub. You also asked what SRP believes will be required to make up for any potential shortfall.

SRP will require additional resources to meet its retail load, including reserves, by 2012. SRP is pursuing options to meet this growing need. Clearly one option is the purchase of energy and capacity from the market. SRP's other option is the construction of additional peaking capacity.

The current surplus of generation in the Southwest permits SRP to purchase from ample operating reserves in the short term market. We also routinely purchase energy on the wholesale market and restrict SRP owned resources whenever the market price of electricity is below our marginal cost to generate. As the supply of generation available to Arizona utilities decreases, we will be required to accelerate construction of additional plant capacity, or develop mechanisms to reach other markets.

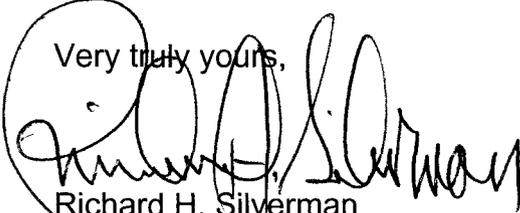
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Among other things, you asked that we address environmental, operational, economic and reliability information with regard to the Palo Verde Devers II line. SRP has not analyzed the CEC application and, therefore, is unable to provide detailed comments regarding these issues. Nevertheless, we offer the following general observations. Clearly, this line will enhance inter-regional transfer capability, and thus wholesale transactions will be increased. Southern California prices have generally been higher than Palo Verde prices, and with increased inter-regional transfer capability, we expect those prices will move closer. In addition, generally speaking, increased transfer capability between regions improves reliability, assuming each region has similar reserves to begin with.

Very truly yours,

Richard H. Silverman
General Manager

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cc: Chairman Jeff Hatch-Miller
Commissioner William A. Mundell
Commissioner Marc Spitzer
Commissioner Mike Gleason
Laurie Woodall, Chairman, Arizona Power Plant and Line Siting
Committee
Ernest Johnson
Brian McNeil
Heather Murphy
Docket