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**ARIZONA CORPORATION COMMISSION**

Direct Line: 602-542-3682  
Fax: 602-542-3708  
E-mail: [MGLEASON@AZCC.GOV](mailto:MGLEASON@AZCC.GOV)

*Deme*

October 4, 2006

RE: Arizona Public Service Company  
Permanent Rates (Docket No. E-01345A-05-0816)  
PVNGS Outages (Docket No. E-01345A-05-0826)  
Fuel and Purchased Power Practices (Docket No. E-01345A-05-0827)

Dear Parties to the Docket:

I have been considering the potential advantages and disadvantages of the various power supply adjustor (PSA) mechanisms that have been proposed in pre-filed testimony in these proceedings. Although I have not reached any conclusions about the relative merits of these proposals, I would like to broaden the range of PSA mechanisms for consideration in this case to include one that:

- Uses a monthly PSA rate based on the rolling average of the Company's fuel and purchased power costs during the previous 24 months.
- Applies the PSA rate to the base cost of fuel and purchased power each month.
- Tracks the monthly amount the Company's collection is above or below its fuel and purchased power expense.
- Does not impose any limit on the amount by which the PSA rate may vary.
- Does not impose any cap on the PSA.

I am asking APS, Commission Staff, and RUCO, to each file a proposed PSA that meets these characteristics. In addition, I encourage Arizonans for Electric Choice and Competition, and any other party who is qualified and willing to contribute, to do likewise.

Sincerely,

*Mike Gleason*  
Mike Gleason  
Commissioner

Arizona Corporation Commission  
**DOCKETED**

OCT - 4 2006

DOCKETED BY *NR*

c: Chairman Jeff Hatch-Miller  
Commissioner William A. Mundell  
Commissioner Kristin K. Mayes  
Commissioner Barry Wong

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