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October 9, 2006
Arizona Corporation Commission
DOCKETED

OCT 10 2006

HAND-DELIVERED

Kristin K. Mayes, Commissioner
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007-2996

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RE: APS Rate Case: Docket Nos. E-01345A-05-0816; E-01345A-05-0826; and E-01345A-05-0827

Dear Commissioner Mayes:

Arizona Public Service Company ("APS" or "Company") hereby responds to the questions posed in your letter of October 2, 2006. I will address them in the order presented.

Palo Verde Unit 1 Outage Costs

As indicated in your letter, Palo Verde Unit 1 ("PV-1") was shut down September 19, 2006 for problems with its pressurizer heaters. APS has estimated that this outage has increased fuel and purchased power costs by some \$250,000 to \$300,000 per day, or \$1.75 million to \$2.1 million per outage week. This should be compared to a normalized or budgeted outage cost for PV of approximately \$2 million per month. Some portion of these increased costs has been expensed through base rates and thus will not be deferred for later recovery, while another 10% will be absorbed by APS via the 90/10 sharing mechanism. Coal plant performance during this same time period has been very good, thus further offsetting this amount. If you have further questions on this calculation, Pete Ewen is the appropriate APS witness.

APS anticipates that any unrecovered 2006 fuel costs, including those referenced above, will be recorded in the appropriate PSA account as required by this Commission and utilized in establishing the 2007 Annual PSA Adjustor. Whereas APS presently anticipates that such adjustor will be able to recover all such costs within the four mill cap, there should be no need for a PSA surcharge request to recover these or any other 2006 fuel costs. And if the

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Commission later finds that any portion of the Company's 2006 fuel costs were imprudently incurred, the PSA account would then be credited by the amount determined by the Commission to be appropriate.

APS would be opposed to any automatic "set aside" of PV-1's outage costs, as referenced above, from the PSA mechanism. We believe this creates a presumption of imprudence that is counter to the Commission's own rules and applicable regulatory principles. And although APS has disputed any findings of imprudence with regard to 2005 PV outages, the Commission Staff's review of such 2005 outage costs found two-thirds of such costs to have been prudently incurred, including ALL those associated with problems with the pressurizer heaters.

Any time an APS unit is out of service, it reduces the overall supply of APS-owned power for its system. However, other APS generation and purchases from the competitive wholesale power market are more than sufficient to meet APS customer needs. Because PV is outside the Phoenix "load pocket," it does not directly impact the supply of local power available for metro-Phoenix. Finally, since PV is at the bottom of the Company's system dispatch order, whenever it is out of service, APS necessarily has to increase utilization of its other units and purchase additional amounts of power, depending on which is most economical at the time.

Rate Stabilization Fund

Although your letter did not pose any questions concerning this issue, I would add that the pending Company rate filing uses items referenced in your letter, e.g., property tax reductions, off system sales margins, any O&M reductions, and interest savings from debt refinancings, to reduce the present asking. Others mentions, such as officer incentives, sports sponsorships and "branding" advertising were not included in that asking, thus further moderating its potential impact. Thus, to place these items aside for future use in a "rate stabilization fund" could result in an increased revenue requirement in this proceeding with no offsetting improvement in the Company's financial metrics. For that reason, APS continues to believe that such a fund is not in the interests of either APS or its customers. On the other hand, APS has proposed certain ratemaking adjustments, specifically the inclusion of CWIP in rate base and the use of accelerated depreciation, which will have the effect of ameliorating future rate impacts if adopted by the Commission.

Rate Impact of APS Recommendations

Please see attached Appendix A. APS has calculated this impact for both winter and summer rates using the 800 kWh referenced in your letter. This is somewhat below average usage for the summer and well above average usage for the winter.

Please also note that this calculation does not attempt to factor in the impact of each party's recommendation on the 2008 annual PSA adjustor. However, I can say without qualification that such 2008 adjustor would be lower under the Company's proposal than under either the Staff or RUCO proposals. This is because the Company proposes to recover most of

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2007 fuel costs through the base fuel rate. David Rumolo is the creator of this document and the APS witness to whom questions concerning it should be addressed.

Sincerely,



Thomas L. Mumaw
Attorney for Arizona Public Service Company

Cc: Docket Control
Parties of Record

**Arizona Public Service Company
Commissioner Mayes' Nov. 2005 Rate Case Impact Request
Summer E-12 Customers' Monthly Bill with Increase and Adjustors**

	(a) July 2003 Summer E-12 Rates Pre-Decision No. 67744	(b) Feb. 2006 Summer E-12 Rates and 4 Mill PSA Post-Decision No. 67744	(c) Current (May 06) Summer E-12 Rates and PSA Adjustors Post-Decision No. 68685	(d) APS Proposed Rate Case Summer E-12 Rates and PSA Adjustors
1. Customer kWh ¹	800	800	800	800
2. Monthly Base Bill ²	\$ 78.12	\$ 80.34	\$ 80.34	\$ 94.21
3. Plus EPS Charge ³	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.56
4. Plus CRCC	\$ -	\$ 0.27	\$ 0.27	\$ 0.27
5. Plus PSA Adjustor Rate ⁴	\$ -	\$ 3.20	\$ 3.20	\$ 2.39
6. Plus PSA Interim Adjustor ⁵	\$ -	\$ -	\$ 5.60	\$ -
7. Plus PSA Surcharge (May 06) ⁶	\$ -	\$ -	\$ 0.44	\$ 0.44
8. Plus DSMAC	\$ -	\$ -	\$ -	\$ -
9. Plus TCA	\$ -	\$ -	\$ -	\$ -
10. Plus EIC ⁷	\$ -	\$ -	\$ -	\$ 0.13
11. Plus Franchise Fee ⁸	\$ -	\$ 1.21	\$ 1.30	\$ 1.39
Total Monthly Bill	\$ 78.47	\$ 85.37	\$ 91.50	\$ 99.40

Total Monthly Bill After 2nd Surcharge

12. Plus PSA 2nd Surcharge ⁹	\$ -	\$ 6.90	\$ 13.03	\$ 22.23
13. Plus Franchise Fee ⁸	\$ -	\$ 8.8%	\$ 16.6%	\$ 28.3%
14. Overall Increase from July 2003 Rates ¹⁰				\$ 15.33
15. Overall Percent Increase from July 2003 Rates ¹⁰				18.0%
16. Overall Increase from Feb. 2006 Rates ¹⁰				\$ 9.20
17. Overall Percent Increase from Feb. 2006 Rates ¹⁰				10.1%
18. Overall Increase from Current (May 2006) Rates ¹⁰				
19. Overall Percent Increase from Current (May 2006) Rates ¹⁰				

¹ Per Commissioner Mayes' request.
² Taxes and Reg. Assessment are not included.
³ The APS Proposed column d uses the EPS charges proposed in APS Witness Delizio's Rebuttal Testimony.
⁴ The PSA Adjustor rate used for columns a, b and c is \$.004/kWh. The APS Proposed column d uses projected PSA Adjustor rate of .002993/kWh. This is based on data used for the Oct. 4, 2006 Rejoinder testimony.
⁵ The PSA Interim Adjustor rate is not included in the APS Proposed column d calculations.
⁶ PSA Surcharge of .000554/kWh that was effective on May 1, 2006 and is effective for approximately 12 months.
⁷ The APS Proposed rate column d uses the EIC charge of .00016/kWh proposed in APS Witness Delizio's Rebuttal Testimony.
⁸ The Average Test Year Franchise Fee of 1.44% was used for all but the APS Proposed Column. The Avg. Franchise Fee for the Sep. 05 TY was 1.41% and this was used for the APS Proposed column.
⁹ PSA Surcharge of .001611/kWh as requested by APS in Docket No. E-01345A-06-0063 is used for APS Proposed column d. The actual rate will change slightly due to accumulated interest if it is approved.
¹⁰ Actual impact will vary depending on factors such as gas and coal prices, transportation costs, customer growth, customer usage, fuel mix, off-system sales and other factors.

**Arizona Public Service Company
Commissioner Mayes' Nov. 2005 Rate Case Impact Request
Winter E-12 Customers' Monthly Bill with Increase and Adjustors**

	(a) July 2003 Winter E-12 Rates Pre-Decision No. 67744	(b) Feb. 2006 Winter E-12 Rates and 4 Mill PSA Post-Decision No. 67744	(c) Current (May 06) Winter E-12 Rates and PSA Adjustors Post-Decision No. 68685	(d) APS Proposed Rate Case Winter E-12 Rates and PSA Adjustors
1. Customer kWh ¹	800	800	800	800
2. Monthly Base Bill ²	\$ 66.65	\$ 66.73	\$ 66.73	\$ 77.21
3. Plus EPS Charge ³	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.56
4. Plus CRCC	\$ -	\$ 0.27	\$ 0.27	\$ 0.27
5. Plus PSA Adjustor Rate ⁴	\$ -	\$ 3.20	\$ 3.20	\$ 2.39
6. Plus PSA Interim Adjustor ⁵	\$ -	\$ -	\$ 5.60	\$ -
7. Plus PSA Surcharge (May 06) ⁶	\$ -	\$ -	\$ 0.44	\$ 0.44
8. Plus DSMAC	\$ -	\$ -	\$ -	\$ -
9. Plus TCA	\$ -	\$ -	\$ -	\$ -
10. Plus EIC ⁷	\$ -	\$ -	\$ -	\$ 0.13
11. Plus Franchise Fee ⁸	\$ -	\$ 1.02	\$ 1.11	\$ 1.15
Total Monthly Bill	\$ 67.00	\$ 71.57	\$ 77.70	\$ 82.16
12. Plus PSA 2nd Surcharge ⁹				\$ 1.29
13. Plus Franchise Fee ⁸				\$ 0.02
Total Monthly Bill After 2nd Surcharge				\$ 83.46
14. Overall Increase from July 2003 Rates ¹⁰		\$ 4.57	\$ 10.70	\$ 16.46
15. Overall Percent Increase from July 2003 Rates ¹⁰		6.8%	16.0%	24.6%
16. Overall Increase from Feb. 2006 Rates ¹⁰			\$ 6.13	\$ 11.89
17. Overall Percent Increase from Feb. 2006 Rates ¹⁰			8.6%	16.6%
18. Overall Increase from Current (May 2006) Rates ¹⁰				\$ 5.76
19. Overall Percent Increase from Current (May 2006) Rates ¹⁰				7.4%

¹ Per Commissioner Mayes' request.
² Taxes and Reg. Assessment are not included.
³ The APS Proposed column d uses the EPS charges proposed in APS Witness Delizio's Rebuttal Testimony.
⁴ The PSA Adjustor rate used for columns a, b and c is \$.004/kWh. The APS Proposed column d uses projected PSA Adjustor rate of .002993/kWh. This is based on data used for the Oct. 4, 2006 Rejoinder testimony.
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