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October 26, 2006

AZ CORP COMMISSION  
DOCUMENT CONTROL

Docket Control  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ 85007

RE: APS' RESPONSE TO COMMISSIONER REQUESTS IN THE APS RATE CASE  
HEARING (DOCKET NOS. E-01345A-05-0816, E-01345A-05-0826 AND E-01345A-  
05-0827)

Dear Sir or Madam:

Commissioner Mundell requested that APS file in Docket certain information concerning Incentives paid to Palo Verde Senior Management, and also the presentation made by Pinnacle West to Standard & Poor's from September 12, 2006. Additionally, Commissioner Mayes requested that the Company Docket a slide provided by Lehman Brothers and referenced by Mr. Brandt.

The Lehman Brothers slide is attached. Both of the documents requested by Commissioner Mundell contain confidential information, and therefore are being provided to the Commission, Staff and interested parties under seal pursuant to the executed Protective Agreement.

Sincerely,

Brian Brumfield  
Supervisor  
Regulatory Affairs

BB/dst

cc: Parties of Record

Arizona Corporation Commission  
DOCKETED  
OCT 26 2006

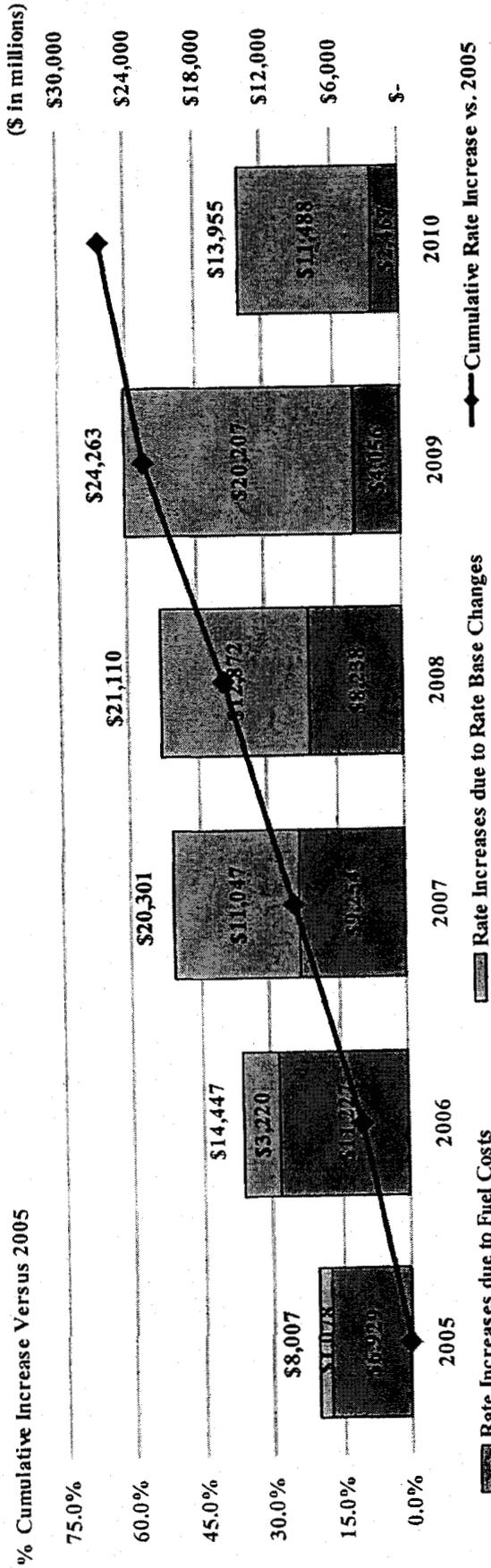
DOCKETED BY  
MR

# Capex Pressures

## Rate Increases Expected

- ◆ Many states now face the prospect of double digit increases in utility rates
- ◆ Equity research estimates rate increases of close to 66% in total by 2010 or about 10% per year
- ◆ A very difficult pill to swallow for regulators given both political concerns as well as the potential impact on businesses and industry

### Projected Rate Increases<sup>(1)</sup>



**Cumulative rate increases through 2010 of close to 66% are expected due to rate base additions and fuel cost increases; a CAGR of more than 10%**

*1. Per Lehman Brothers estimates.*

LEHMAN BROTHERS



PINNACLEWEST  
CORPORATION