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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
BARRY WONG

AZ CORP COMMISSION
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Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY FOR AN
EMERGENCY INTERIM RATE INCREASE AND
FOR AN INTERIM AMENDMENT TO DECISION
NO. 67744.

DOCKET NO. E-01345A-06-0009

**AUIA'S RESPONSE IN SUPPORT
OF APS' MOTION TO AMEND
DECISION NO. 68685**

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The Arizona Utility Investors Association ("AUIA") supports the Motion to Amend Decision No. 68685 filed by Arizona Public Service ("APS" or the "Company") on November 9, 2006 (the "Motion"). AUIA urges the Commission to approve the request prior to year's end by extending the interim adjustor of 7 mills authorized in Decision No. 68685 until new permanent rates take effect in APS' General Rate Case, which is currently pending in Docket No. E-01345A-05-0816.

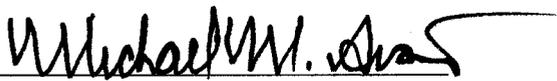
Continuation of the Surcharge is in the public interest for several reasons. Maintaining the Surcharge allows APS to collect a portion of its already incurred fuel and purchased power expenses and, correspondingly, to continue to reduce interest expense which otherwise would be incurred by and collected from customers in subsequent adjustments. It also averts what APS appropriately refers to as the "yo-yo" effect—avoiding the customer confusion and incoherent price signals associated with a 7-mill drop in rates as of January 1, 2007, only to be replaced by a higher increase in permanent rates a few months later. All General Rate Case parties with a position on the new base fuel rate (APS, Staff, RUCO and AECC/PD) agree it should be higher than the current base plus surcharge of 2.7743 cents per kWh.

1 As importantly, Surcharge continuation effectively finishes the job which the
2 Commission commenced in May of this year. The Commission authorized the interim adjustor
3 six months ago, because it, Staff, RUCO, AUIA and other parties recognized that a downgrade
4 of APS' bond ratings to "junk" status was quite likely and the consequences were clearly not in
5 the public's interest. While the 7-mill adjustor has somewhat improved that peril and its
6 estimated \$1.3 billion dollar consequence to customers,¹ the key FFO to Debt metric is still
7 estimated at only 17.6% by year's end.² That figure remains below investment grade and in
8 "junk" territory. Expiration of the Surcharge at year's end would obviously cause further
9 deterioration. With each of the ratings agencies having taken abrupt downgrade actions in the
10 past year, continuing the 7-mill adjustor reinforces the supportive and positive regulatory
11 message which the Commission sent last spring and avoids the risk that any might act
12 precipitously if the Surcharge expires.

13 AUIA requests that the Commission enter its Order prior to year's end amending
14 Decision No. 68685 and extending the 7-mill adjustor until new permanent rates take effect in
15 APS' General Rate Case.

16 RESPECTFULLY SUBMITTED this 17th day of November, 2006.

17 GALLAGHER & KENNEDY, P.A.

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23 ¹ Direct Testimony of Donald Brandt, APS-4, p. 4, ll. 12-20.

24 ² APS Exhibit 54.

1 **Original and thirteen copies** filed
this 17th day of November, 2006, with:

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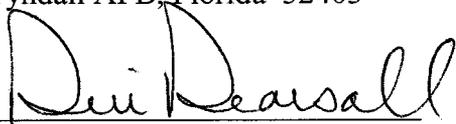
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