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AZ CORP COMMISSION
DOCUMENT CONTROL

February 13, 2007

Arizona Corporation Commission

DOCKETED

FEB 13 2007

Arizona Corporation Commission

Attn: Docket Control

1200 W. Washington Street

Phoenix, Arizona 85007

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Re: In the Matter of Arizona Public Service Company – Application for Authorization to Acquire Power Plant, Docket No. E-01345A-06-0464; Memorandum of Understanding and Equipment Purchase Agreement with GE Packaged Power, Inc.

Dear Sir or Madam:

In its original filing in July of 2006, Arizona Public Service Company (“APS” or “Company”) requested the Arizona Corporation Commission’s (“Commission”) approval by October of 2006. In subsequent filings, as well as during the January 2007 hearing, APS communicated the urgency of the matter, indicating that equipment availability was a major concern. Both the Company and the developer indicated that a decision was needed by the end of January to ensure the availability of equipment. We have now reached the point where APS must make commitments to purchase the final two remaining combustion turbines and other long lead time items from GE Packaged Power, Inc. (“GE”) if it is going to have a chance to meet the intended schedule. This letter serves to inform all parties to this docket that APS has signed a Memorandum of Understanding (“MOU”) with GE to hold turbines and certain other major equipment for the new generation facility to be constructed in Yuma. The MOU has no associated financial commitment, but does stipulate key financial terms that will be included in the Equipment Purchase Agreement.

The MOU between APS and GE sets out the pricing and delivery schedule for such major equipment as gas turbines, selective catalytic reduction systems, and generator step-up transformers, and provides that GE will hold the equipment for APS until February 22, 2007. In order to secure the equipment beyond February 22, GE and APS intend to negotiate and sign a binding Equipment Purchase Agreement by that date, which will require both a cash payment and subject APS to binding terms and conditions. The MOU also indicates that the anticipated Equipment Purchase Agreement will be assignable to a third party, which will allow a developer or a contractor hired by APS to pursue the construction of the new facility if that is the most economic option. APS has been in

APS • APS Energy Services • SunCor • El Dorado • Pinnacle West Marketing & Trading, Co., LLC

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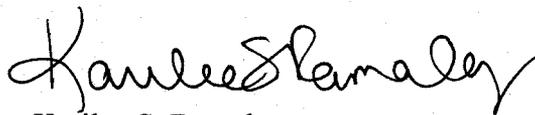
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communications with the developer and the contractor responsible for APS's direct build alternative, and will work with them so that the Equipment Purchase Agreement effectively facilitates the alternatives for construction discussed in this proceeding. The Equipment Purchase Agreement will set forth detailed terms and conditions and will include binding pricing, delivery schedules, and cancellation fees.

Although it has been the Company's intent to avoid making commitments to self build, including purchasing major equipment, prior to receiving a Commission decision in this matter, the window of opportunity to secure the necessary equipment is closing. Throughout this process, APS has worked in good faith and pro-actively to negotiate non-binding commitments from GE to maintain a position in the equipment delivery queue for the Yuma project. These commitments contemplated that the ultimate equipment order will be placed by either APS or a third party developer retained by APS. In order to meet customer needs, and accommodate the potential outcome of the Yuma proceeding, APS is working with GE to include as much flexibility as possible in the Equipment Purchase Agreement.

Sincerely,



Karilee S. Ramaley

KSR/na

cc: Teena Wolfe, Administrative Law Judge
Matt Rowell
Barbara Keene
Christopher Kempsey
Parties of Record