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OPEN MEETING AGENDA ITEM

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May 12, 2007

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Arizona Corporation Commission
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AZ CORP COMMISSION
DOCUMENT CONTROL

Mr. M. Gleason, Chairman
Ms. K Mayes
Mr. W. Mundell
Mr. J. Hatch-Miller
Mr. G. Pierce

Dear Commissioners,

I am an Arizona resident and have followed the actions of APS carefully since arriving in Arizona.

I am a stockholder in Exelon Corporation, the second largest utility in the United States with a nuclear fleet of seventeen units.

Commonwealth Edison Corp. was a stand alone corporation and was having financial troubles, poor nuclear station performance and had grown to a 17,000 employe base. This had gone on for years and finally the Board of Directors pensioned off the CEO-Pres. and replaced him with a Mr. John Rowe.

Rowe Immediately started to clean out upper management, cut excess employes and implemented groups to review and update all procedures. He brought in a nuclear expert from TVA by the name of Oliver Kinsley, the greatest move ever made in ComEd history. He inturn immediately cleaned out the station managers, and set a tone of excellence in the nuclear fleet.

About the same time the State of Illinois enacted deregulation which forced ComEd to lower their rates 20% and froze those same rates for ten years, made them sell off their fossil generating stations and put their nuclear fleet into a separate company.

Mr. Rowe was an aggressive executive and forged out a merger with Philadelphia Electric and put the three entities under a newly formed corporation named Exelon. The share price of ComEd stock at the time was $26.79.

The turn around of the company and straightening out of the nuclear units drove the share price up to $65.90 at which time it split with a new market price of $32.95. Today Exelon stock closed at $76.53.

I tell you this scenario because it shows what can be accomplished when a Board of Directors takes action, gets new blood running the company and when nuclear units are run right, they become a cash cow, in lay men terms. Exhibit 1 shows how PECO lowered their gas rates when APS said they were paying a high price, plus the fact that their nuclear plants ran at 95.5 percent capacity factor in the second quarter of 2006. **Exhibit 1.**
Exhibit 2 shows their world ranking with three units in the top ten performers worldwide.

APS -- APS has a track record of unrelialibility at Palo Verde according to the attached headlines on the **Exhibit 3** sheets.

WHEN IS GOING TO END AND GIVE THE RATE PAYERS SOME RETURN ON THEIR INVESTMENT IN PALO VERDE?

They have the ability to have a cash cow in their three units, but I am sorry to say, changing one person, which they did, will not straighten out the whole company.

If Palo Verde was run like Exelon's nuclear units, APS probably would not need a rate increase to cover for their inefficiences.

THE BOARD OF DIRECTORS Exhibit 4.

They should have taken action by now and at least replaced the head of APS and Pinnacle West to get out of this mess. Instead they give Mr. Post $7,500,000, Mr. Davis $6,600,000, Mr, Brandt $1,600,000, Mr. Levine $3,000,000 and Mr. Flores $2,300,000 for a total of $21,000,000.

This shows they are on good financial footing and do not need a raise in rates if they can hand out that kind of money to five individuals. It boils down to their worry of having junk bond status when in fact they are running a junk status company.

They should recind those raises, freeze all management raises, stop dividends and most importantly, stop all of these sponsorships until they prove they can run a top notch company.

How can they come to you looking for a rate increase when their profits were up 320%?

INEXCUSEABLE

Years ago, ComEd had one of their newer nukes at Zion, Illinois develop tube problems and the cost of repairs was so great they had to shut the station down for good.

If Palo Verde reached that point of a permanent shut down it would mean economic disaster for the company and the state of Arizona.

It is inexcusable that they have been running the wrong chemicals through the pipes at Palo Verde since 1994 -- 13 years.

It is a sad state of affairs when your station has the lowest rating in the USA per the NRC.

PALO VERDE SOFTWARE BREACHED Exhibit 5.

D What more can be said? Just a complete lack of attention in the handling of critical security information.

TRANSMISSION LINE TO SOUTHERN CALIFORNIA **Exhibit 6.**

Any -- Any transmission line built to give Californians access to cheaper electricity from APS should be paid for by Southern California Edison and if necessary from monies set aside for dividends for APS stockholders.

The Arizona rate payers would not benefit from the transmission line. Profits would go to higher executive raises and the stock holders. APS would never come to you and say "we re making a lot of money from sales to California, we want a rate decrease.

With the increase of people building homes in Arizona, new businesses sprouting up all over the state, etc., It would be prudent to disallow the building of any transmission line until APS is running Palo Verde at a 96% capacity factor and then analyze the current and future needs of electricity for the State of Arizona.

Sincerely,

August H. Jacobs
14930 W. Buttonwood Drive
Sun City West, AZ 85375-5746

Tel. # 623-544-1609

augiejac

From: "Exelon Corporation" <TF-CCBN-Alert@thomson.com>
To: <augiejac@cox.net>
Sent: Monday, July 31, 2006 5:31 AM
Subject: Exelon Announces Strong Second Quarter Results; Nuclear Fleet Achieves Superior Operating Performance; ComEd Receives Disappointing Order in Rate Case

Exelon.

Exelon Corporation has added a news release to its Investor Relations website.

Title: Exelon Announces Strong Second Quarter Results; Nuclear Fleet Achieves Superior Operating Performance; ComEd Receives Disappointing Order in Rate Case

Date: 7/31/2006 8:29:00 AM

For a complete listing of our news releases, please click here

CHICAGO--(BUSINESS WIRE)--July 31, 2006--Exelon Corporation's (Exelon) (NYSE:EXC) second quarter 2006 consolidated earnings prepared in accordance with GAAP were $644 million, or $0.95 per diluted share, compared with earnings of $514 million, or $0.76 per diluted share, in the second quarter of 2005.

Exelon's adjusted (non-GAAP) operating earnings for the second quarter of 2006 were $577 million, or $0.85 per diluted share, compared with $506 million, or $0.75 per diluted share, for the same period in 2005. The 13 percent increase in adjusted (non-GAAP) operating earnings per share was primarily the result of higher margins on wholesale market sales, increased output due to strong nuclear performance at Exelon Generation Company, LLC (Generation) and higher electric revenues associated with certain authorized rate increases at PECO Energy Company (PECO). These positive factors were partially offset by the effects of unfavorable weather conditions in the Commonwealth Edison Company (ComEd) and PECO service territories, increased depreciation and amortization, including the higher competitive transition charge (CTC) amortization scheduled at PECO, and increased operating and maintenance expense.

The Exelon Nuclear-operated plants achieved a 95.5 percent capacity factor for the second quarter of 2006, compared with 95.4 percent for the second quarter of 2005. In June alone, the Exelon fleet achieved a capacity factor of 99.1 percent, its highest ever for the June-August summer period. Year to date, Nuclear completed five refueling outages, continuing to lead the industry with a 23-day average duration per outage.

"We had a solid first half. Our strong performance in the second quarter more than offset a lackluster first quarter," said John W. Rowe, Exelon's chairman, president and CEO. "Our second quarter operating performance was first rate as shown by both a consistently high nuclear capacity factor and the availability of our fossil fleet. Generation margins continued to improve over last year, as did core growth in our delivery service business." Rowe continued, "Our agreement with DOJ last month was a major milestone in our efforts to complete our proposed merger with PSEG. We are working hard to obtain our last remaining regulatory approval from the New Jersey Board of Public Utilities. We are hopeful that we can reach a resolution in New

Jersey soon and must do so if we are to be able to complete this transaction."

2

Limerick Unit 2 was third most productive unit in the world

Three Exelon Nuclear reactors among world's best in 2006

Three Exelon Nuclear generating units were among the top 10 performers worldwide in 2006 as measured by capacity factor, a new report shows. Exelon Nuclear was the only operator in the world with more than one unit on the list. Limerick Unit 2 led all Exelon units on the list with a gross capacity factor of 101.67 percent.

The three were Byron Unit 2 in Byron, Ill.; LaSalle Unit 2 in Brookfield Township, Ill.; and Limerick Unit 2 near Pottstown, Pa. All had capacity factors greater than 100 percent, which means the generators produced more electricity than they are theoretically rated to produce by their manufacturers (this is unrelated to reactor power). Worldwide, there are 435 operating reactors in 30 countries.

"Our performance in 2006 can be attributed to our commitment to continuous improvemen and safe, reliable operations," said Exelon Chief Nuclear Officer **Chris Crane**. "That commitment last year kept the plants online and running straight through the peak season, which also contributed to this commendable performance. I am proud of the efforts of the teams at all the Exelon sites for earning this honor."

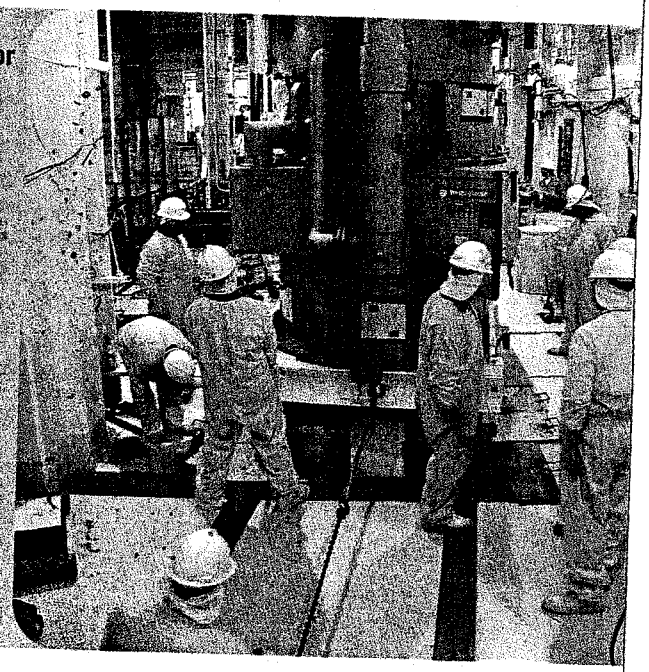
BY **Beth Rapczynski**, EXELON NUCLEAR COMMUNICATIONS

Top 10 units based on gross capacity factor
(Exelon Nuclear reactors in bold)

1. St. Lucie Unit 1: 102.78%
2. Vermont Yankee: 102.16%
3. **Limerick Unit 2: 101.67 %**
4. **Byron Unit 2: 101. 23%**
5. Kashiwazaki-Kariwa Unit 2 (Japan): 101.08%
6. Farley Unit 2: 100.98%
7. South Texas Unit 2: 100.75%
8. LaSalle Unit 2: 100.40%
9. Point Beach Unit 1: 100.40%
10. Wolsong Unit 4: 100.39 % (South Korea)

Other Exelon Nuclear units in the top 50 were:

25. **Peach Bottom Unit 3: 98.27%**
29. **Three Mile Island Unit 1: 97.80%**
48. **Dresden Unit 2: 95.99%**



Preventive maintenance ensures equipment will work reliably for the long-term, which helps Exelon Nuclear reactors perform at world-class levels. Above, Byron Station personnel move one of the reactor coolant pump motors during a refueling outage as part of its 20-year preventive maintenance program. There are four motors in each unit and the station replaces one per outage. The old motor is sent to a vendor for refurbishment and it is used as a new replacement for the next motor in the series. The project started in 2005 and is set to complete in 2011.

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Nuclear plant may face closer scrutiny

PALO VERDE

Continued from A1

the nation's 103 nuclear reactors have poorer ratings.

According to commission documents, the agency already has preliminarily issued a "greater than green" finding about the problems, meaning the problems could be classified as either moderate or significant safety violations. Federal investigators had found 24 minor violations at Palo Verde in relation to worker performance earlier this year.

However, a spokesman for Arizona Public Service Co., which operates Palo Verde, said he believes that the needed repairs already have been made and that the fixes will pass muster with the commission.

Victor Dricks, a commission spokesman in Arlington, Texas, said, "The plant is operating safely, but there are a number of areas we have concerns about in human performance and the identification and resolution of problems."

With the cooling system, Dricks said that Palo Verde began a chemistry-control program in 1994 to try to solve problems of corrosion and other erosion of safety components in pipes in emergency spray ponds.

"But the materials they added to reduce corrosion on the metal tubes instead created chemical deposits on the tubes, which added greatly to the insulation and altered significantly the heat exchange," Dricks said.

Commission officials found that excess amounts of zinc and phosphate had been mixed into the water.

"The chemistry personnel implementing the program did not fully understand how the spray pond chemistry-control program was supposed to work," according to the commission report.

With the emergency diesel generators, investigators found elevated temperatures in the intake air of one generator, "indicative of inadequate cooling in the intercoolers."

The problem did not affect operation of the generator, but the agency's preliminary report said the intercoolers had been fouled "by a white slimy substance which was apparently reducing the ability to transfer heat."

The commission is expected to rule by early next year whether to issue a safety violation to Palo Verde concerning the generators and spray ponds. If the violation is issued, the power plant would sink to the level of the two most heavily monitored nuclear power plants in the country: Perry in Ohio and Point Beach in Wisconsin.

Commission officials said that another rating downgrade for Palo Verde would take the plant years to recover from, likely would involve spending millions of dollars for fixes, and would require developing a comprehensive improvement plan for plant operations.

Jim McDonald, a spokesman for APS, said that money already has been spent and repairs already have been made in valves, the generators and in the chemical mix of the pools. Each of the issues has been resolved, he said.

Palo Verde may face intensified scrutiny

Issues at nuclear plant concern U.S. regulators

By Mark Shaffer
THE ARIZONA REPUBLIC

The already troubled Palo Verde Nuclear Generating Station soon could become one of the country's most scrutinized nuclear power plants by federal regulators, with repair issues involving millions of dollars.

Nuclear Regulatory Commission officials said Thursday that they will begin a special inspection of Palo Verde's core safety injection valves next week and have scheduled a Nov. 20 meeting with the power plant's executives to discuss ongoing repair issues.

That meeting is expected to have big implications for Palo Verde's future.

The nuclear plant already is under heightened scrutiny from federal regulators, primarily because of a 2004 safety violation for a "dry pipe" that had the potential to disrupt the flow of water to the core's emergency cooling system.

Findings from recent investigations into Palo Verde's emergency diesel generators and an improper chemical mix in pipes in the emergency cooling system could have further implications, including even closer scrutiny for the nation's largest nuclear power plant. Palo Verde now is listed by federal regulators as a "degraded cornerstone," and only two of

See PALO VERDE Page A20

3

)fficials: 'alo Verde iolations egregious'

By Mark Shaffer
THE ARIZONA REPUBLIC

The Nuclear Regulatory mmission on Tuesday chased Palo Verde Nuclear Genting Station for having an regious" amount of deterioion in key backup safety mponents at the plant, but cided against increasing ersight at the facility.

The nation's largest nuclear nt has been in limbo in reot weeks while the federal ency decides whether Palo rde will fall into the lowest tegory of nuclear plants nanwide.

If that happens, the ineased regulation could cost izona Public Service Co. tepayers millions of dollars r repairs at Palo Verde, loted 50 miles west of downwn Phoenix.

But Tuesday's report, which amined five violations inlving errors in mixing of emicals in emergency spray nds for more than a decade, d not go that extra step. All of e violations were deterined to have low-risk significnce.

See PALO VERDE Page D2

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n a conversation at the bottom the online version of this story. oney.azcentral.com.

Agency: Plant violations 'egregious'

PALO VERDE
Continued from D1

The federal agency's language, however, was sharp.

"The large amount of degradation of these key safety systems for a long period of time is particularly egregious," the report noted, adding that they are "the same types of performance problems we have identified at Palo Verde Nuclear Generating Station since 2004."

Those problems, according to the agency, include not using "technical rigor" in assessing problems, not reporting problems and taking corrective actions, and not identifying and correcting problems before the federal agency finds them during investigations.

Palo Verde has been classified by the agency as a "degraded cornerstone" and has had increased scrutiny by federal regulators in the past year.

"There's no question that Palo Verde's performance has not been up to our standards and we need to get back to that."

Jim McDonald
Arizona Public Service Co. spokesman

Two weeks ago, Jim Levine, an APS vice president who oversees Palo Verde's day-to-day operations, announced his retirement, effective Jan. 1.

"There's no question that Palo Verde's performance has not been up to our standards and we need to get back to that," said Jim McDonald, an APS spokesman.

Palo Verde workers mixed excessive amounts of phosphate and zinc into spray ponds to try to control erosion of safety components in pipes for 12 years, until earlier this year.

That led to deposits on tubes, increased insulation and incorrect heat transfer between emergency units.

A meeting is scheduled for Jan. 16 between Nuclear Regulatory Commission and APS officials to discuss an inoperable emergency diesel generator found at Unit 3 during a September inspection at Palo Verde.

If federal regulators determine that violation is more serious than low-safety, or "green" significance, Palo Verde will fall to the lowest level of nuclear plants.

Reach the reporter at mark.shaffer@arizonarepublic.com or (602) 444-8057.

INSPECTION REPORT

More trouble for Palo Verde

Already in hot water with nuclear agency, plant officials must explain generator ills

By Mark Shaffer
THE ARIZONA REPUBLIC

Palo Verde Nuclear Generating Station could be in a deeper hole with the Nuclear Regulatory Commission after preliminary inspection findings that the plant had an inoperable emergency diesel generator for much of September.

The commission and Palo Verde officials will meet Jan. 16 in Arlington, Texas, to discuss the agency's report on the then-faulty Unit 3 generator, which was released Thursday.

The stakes are expected to be high for the nation's largest nuclear power plant, 50 miles west of downtown Phoenix.

If the NRC finds that the violation is anything more serious than that of low-safety, or "green," significance, Palo Verde will sink to the level of the most heavily monitored nuclear power plant in the country, along with Perry in Ohio.

That likely would cost Arizona Public Service Co. and ratepayers millions of dollars because of repairs the increased scrutiny would mandate.

The nuclear plant also could end up at a higher level of regulation if the NRC finds anything more than a low-safety violation because of a bad chemical mix that plant workers placed in emergency spray cooling ponds from 1994 to earlier this year.

Excessive amounts of zinc and

See PALO VERDE Page D2

Problem with generator found at Palo Verde

PALO VERDE
Continued from D1

phosphate had been mixed into the water to try to control erosion of safety components in pipes. But the chemical mix led to deposits on the tubes, increased insulation and incorrect heat transfer.

A final report on the chemicals in the cooling ponds is expected before the end of the year, said Victor Dricks, an NRC spokesman.

"Each of the findings of these inspections will be assessed independently," Dricks said. "But one more finding of anything but green will change the landscape for Palo Verde."

Jim McDonald, a spokesman for APS, the largest stakeholder in Palo Verde, acknowledged that performance at the plant "hasn't been up to our high standards of the past, and we're committed to changing that."

'Degraded cornerstone'

Palo Verde already is one of the most-monitored plants in the country by federal regulators.

It is classified as a "degraded cornerstone" because of a "dry pipe" that was found during a 2004 inspection that had the potential to disrupt the flow of water to the core's emergency cooling system.

> *"One more finding of anything but green will change the landscape for Palo Verde."*
>
> **Victor Dricks**
> *Spokesman, Nuclear Regulatory Commission*

According to the NRC's report, a federal investigations team was sent to the plant in early October to look into failures in the emergency diesel generator on July 25 and Sept. 22 that interrupted electrical transfers.

Each of the three units at Palo Verde has two of the 5,500-kilowatt generators to provide standby power if the normal power supply is lost.

The NRC report noted that the generator was inoperable from Sept. 4 to Sept. 22 and that incorrect maintenance had been conducted on an electrical relay in the unit.

"The licensee (Palo Verde) determined the root cause ... could be attributed to either plastic debris or oxide film buildup," the report said.

Reach the reporter at mark.shaffer@arizonarepublic.com.

3

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Palo Verde joins ranks of the most-regulated

APS risking junk status without hike, officer says

APS risks junk bond status without rate hike, CFO says

Utility: Finances remain guarded

By Max Jarman

APS outlines financial woes for utility panel

Regulators push for cut in APS rate hike

Audit says 4 outages were avoidable

APS is handed setback

Regulators: APS should get less

Palo Verde

Unit 3 but says problem is not a safety issue

ARIZONA REPUBLIC

azcentral.com FRIDAY, FEBRUARY 23, 2007

Palo Verde safety grade slips

Palo Verde keeps its rating

Palo Verde keeps its rating because of ongoing problems

Palo Verde unit expected to be running today after repairs made

Palo Verde unit is shut down again

3

Utility chief gets $7.5 mil

Less than $2 mil in cash

By Ken Alltucker
THE ARIZONA REPUBLIC

Pinnacle West Capital Corp. reported that Chairman Bill Post was paid $7.5 million in total compensation in 2006, according to papers filed Friday with the Securities and Exchange Commission.

Bill Post

Post's pay package included his salary, incentive pay and pension and stock awards that the utility expensed last year but did not cash out. Excluding the non-cash stock awards and estimated pension contributions, Post received less than $2 million in actual cash pay, which consisted of a base salary of

See PINNACLE WEST Page D1

Pension, stock awards big portion of APS chair's pay package in 2006

PINNACLE WEST

Continued from D1

$950,004 and incentive-based cash pay of $985,000.

He received stock awards valued at $3.1 million, option awards valued at $52,644 and pension earnings of $2.4 million, according to the company's SEC filing.

One year ago, Post and other executives of the Phoenix-based utility decided to forgo bonus pay at a time when it sought Arizona Corporation Commission approval of an emergency rate increase. The executives said they wanted to help ease the company's cash crunch, which was triggered by high natural-gas prices.

According to Friday's securities filing, Pinnacle West paid four other high-ranking executives compensation packages ranging from nearly $1.6 million for Chief Financial Officer Donald Brandt to nearly $6.6 million for Arizona Public Service CEO Jack Davis. Those pay packages also included a combination of salary, bonus, stock awards, pension and other pay.

Pinnacle West representatives said new reporting rules about pay details affected the amount that the utility was required to report. Post and Davis are 34-year veterans of the utility and, at least on paper, have accumulated more pension pay than others.

Ray Gonzales, Pinnacle West's vice president of human resources, said that the amount the Phoenix-based utility traditionally has paid its executives is less than similar-size utilities.

"Our goal here is to attract and retain the best talent," Gonzales said. "What we try to do is pay an amount that is based on company performance."

Pinnacle West pay

Pinnacle West Capital, parent company of Arizona Public Service Co., reported 2006 executive pay * for the following officers:

Chairman Bill Post, $7.5 million.

Chief Financial Officer and APS President Donald Brandt, $1.6 million.

President and COO and APS CEO Jack Davis, $6.6 million.

Executive Vice President, Generation James Levine, $3 million (now retired).

Executive Vice President, Corporate Business Services Armando Flores, $2.3 million.

* Figures are rounded and consist of salary, bonus, incentives, stock awards, pension and other compensation.

Source: Pinnacle West Capital Corp.'s Securities and Exchange Commission filing

The share price of the APS parent company rebounded from a low of near $38 last spring to more than $50 in late January and early February. Pinnacle West's share price closed Friday at $49.35, up 62 cents. The utility reported net income of $327 million in 2006, an increase of 86 percent from the year before.

The company has reported substantial earnings increase, but it grapples with issues such as worker performance at Palo Verde Nuclear Generating Station, located about 50 miles west of Phoenix. The Nuclear Regulatory Commission has downgraded Palo Verde to the rank of country's most monitored nuclear power plant.

APS execs exercise stock-award options

UTILITY

Continued from D1

7.6 percent emergency bill increase in May to lift APS out of its financial jam, and the utility will return this fall to ask for a double-digit rate increase.

APS Chairman Bill Post, Chief Executive Officer Jack Davis and five other high-level executives exercised the options over several days from July 25 through Aug. 1. The executives struck the deals just days after the utility reported a surge in quarterly profits because of customer growth and hot weather, in addition to one-time items such as tax credits and a power plant sale.

The strong quarterly profit, the recent bill increase, improved performance at the Palo Verde Nuclear Generating Station and other factors have buoyed investors' confidence in the stock.

The utility's share price rebounded from a yearly low of nearly $38 this spring to Thursday's close of $43.87.

The higher share price gave executives an opportunity to exercise the options, but utility representatives stressed that the executives reinvested in the company instead of cashing out.

"There was no cash benefit to any of these officers," said Alan Bunnell, an APS spokesman. "Any cash benefit was reinvested to (purchase) shares."

Each executive each took a similar strategy in exercising the options, purchasing company-issued options with money gained from stock sales.

Companies typically issue stock options as an incentive to executives who increase a company's share price.

In the case of APS parent company Pinnacle West, the seven executives had a "strike" price ranging from $31.44 to $39.75. That's the amount they had to pay for each share. The profit comes if a share's market price exceeds the option's strike price.

CEO Davis acquired for

Securities and Exchange Commission documents show that Davis's cash difference, the amount from the stock sales minus the amount paid to acquire the options, was about $187,000.

That money was used to pay brokers' fees, taxes and other expenses associated with the deals, according to Bunnell.

Through the deals, Davis added 6,066 shares of Pinnacle West stock to his portfolio. Those shares were worth more than $266,000 as of Thursday.

Davis exercised his options because the "stock's market value is more today than when the options were granted. He had the opportunity to exercise them in this non-blackout period and chose to do so," Bunnell said.

Several other executives did so, too. Pinnacle West executives who exercised smaller option awards included Don Brandt, Steve Wheeler, Donald Robinson, Chris Froggatt and Barbara Gomez.

In all, the seven spent $4.1 million to acquire the options and sold shares for $4.5 million. Those executives also gained 11,820 shares, worth more than $500,000.

Stock options have drawn heightened attention among corporate watchdogs who see the awards as a way some executives enrich themselves at the expense of shareholders.

US Airways Chairman and Chief Executive Officer Doug Parker recently was criticized by some airline employees for selling more than 270,000 shares for a pre-tax gain of $9 million.

Bill Meek, president of the Arizona Utility Investors Association, said Pinnacle West's recent stock sales shouldn't raise a red flag because Davis and other executives didn't take huge cash awards.

"You can't fault him for exercising an option if there is a gain to be made," said Meek, whose group represents many Pinnacle West shareholders. "Considering the turmoil the company faces, it's kind of encouraging that Jack thinks he ought to own all that stock."

Corporation commissioners may have a different view.

Regulators have scrutinized a wide range of company expenses, including travel budgets, advertising, sports sponsorships, executive perks and other costs.

They want to pressure the company to cut as many expenses and perks as possible to alleviate its financial jam and shield customers from unnecessary bill increases.

The company halted executive bonuses in 2005 as one of several measures to improve cash flow and avoid a corporate junk-bond rating.

All the options exercised by executives in recent weeks were awarded in 2004 or earlier, Bunnell said.

Corporation commissioners say executive compensation will be a key issue examined in this fall's rate case.

"This would be added to the list of questions we were going to ask," Corporation Commissioner Kris Mayes said. "The question going forward is how much should executives be making at a time of rising energy prices?"

SATURDAY, JULY 22, 2006

Parent of APS posts 320% rise in profits

Utility still seeks OK to boost bills

By Ken Alltucker
THE ARIZONA REPUBLIC

Sweltering heat and an influx of new residents produced a 320 percent increase in quarterly profits for the parent company of Arizona Public Service Co. But that doesn't change the utility's plans to ask for significant increases in customers' monthly bills.

The strong financial report comes just two months after state regulators approved APS' emergency request for a 7.6 percent electricity bill increase.

APS was in a cash crunch and Wall Street ratings agencies threatened to downgrade the utility's bond rating unless state regulators approved the measure. Such a downgrade would have piled on millions of dollars in extra borrowing costs for APS.

The question on customers' minds is: How did parent company Pinnacle West Capi-

See PINNACLE WEST Page A22

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Profit rises for APS parent

PINNACLE WEST
Continued from A1

tal Corp. spin such strong profits from a dire situation?

Pinnacle West on Friday reported consolidated net income of $112.2 million from April through June, up from $26.7 million during the same period one year earlier. Electricity sales hit an all-time high because of above-average temperatures in June and strong population growth.

Customers who monitored the earnings report wondered why the utility needs more electricity bill increases. Some say APS and its shareholders should be required to absorb more costs rather than passing them along to customers.

"It doesn't look good," Phoenix resident Carole Bartholomeaux said. "As a small business owner, I can tell you I don't bill my clients for everything. That is part of a cost of doing business."

Arizona Corporation Commission Chairman Jeff Hatch-Miller said APS' improving profit picture is good news for customers.

"APS was sitting on a cliff and facing a devastating downgrade," he said. "This is a good thing. If APS continues to show a reasonable profit, it could mean lower rates for individual customers."

On May 2, the Corporation Commission approved a special fuel charge that raised the average residential customer's monthly bill 7.6 percent. The state passed the measure to allow APS to collect its costs for fuel and for purchased power from a year earlier.

Still pending are two cases that could raise electricity bills even more. APS wants to recover $45 million in fuel and purchased-power costs it paid as a result of numerous outages at the Palo Verde Nuclear Generating Station, about 50 miles west of downtown Phoenix. The Corporation Commission is auditing those outages to determine whether ratepayers should pick up the tab.

In November, APS will seek a 21 percent general rate increase. The Corporation Commission likely will not decide that case before 2007.

Pinnacle West's second-quarter profits were a marked improvement over the first quarter, when it recorded a $5.5 million loss. It was the first quarterly loss since 1999.

The company said that profits rebounded because its customer base grew 4.6 percent and that those new customers cranked up the air-conditioners during June. Average temperatures were nearly 5 degrees higher than normal.

Pinnacle West's quarterly revenue jumped to $925 million, up from $755 million a year earlier. In addition to improved sales from APS, Pinnacle West's real estate arm, Sun-Cor Development, and marketing and trading divisions also posted higher revenue.

Even with the higher revenue, Chief Financial Officer Don Brandt said a few one-time items stretched the profit.

Tax credits stemming from cases in the mid-1990s added about $10 million to the company's second-quarter profit. Also, last year's second-quarter profit was squeezed by a $59 million after-tax loss from the sale of the Silverhawk Power Station in Nevada.

The company's second-quarter profit report assumes that it will collect $47 million in fuel and purchased-power costs. Although this amount is listed as profit, the company hasn't actually collected the cash yet.

Pinnacle West Chairman Bill Post said APS will need "continuing cooperation from state regulators" to allow it to secure energy for Arizona's growing population. But regulators say the company's improving profit picture must be taken into account before approving any general rate increase.

"I think it is probably very aggravating to consumers, and rightfully so," Corporation Commissioner Kris Mayes said. "Clearly, this will be an issue in the upcoming rate case."

Reach the reporter at ken.alltucker@arizonarepublic.com.

Palo Verde cranking

Perhaps one of the most important developments for Pinnacle West Capital Corp. has been performance improvements at the Palo Verde Nuclear Generating Station.

All three reactors at the nation's largest nuclear power plant are operating at capacity. In the second quarter, the plant operated at less than 50 percent capacity.

APS shut down Unit 3 as part of a scheduled refueling, and Unit 1 was closed to fix a vibrating pipe that had sapped the reactor's output all year.

In response to a question during an earnings conference call, Pinnacle West Chairman Bill Post said APS will not consider selling Palo Verde to another utility that specializes in nuclear plants.

"Palo Verde is critical to the resources we have in Arizona," Post said. "We are going to see the need for significant new capacity."

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Palo Verde software is breached

SATURDAY, APRIL 21, 2007

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Palo Verde plans accessed from Iran, authorities say

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Ex-worker accessed plans for Palo Verde, officials say

Ariz.-Calif. power line mulled

alo Verde plan could raise prices here

By Ken Alltucker
THE ARIZONA REPUBLIC

State regulators worry that a pro-sed high-voltage electricity line from lo Verde Nuclear Generating Station California could significantly raise ctricity costs for Arizonans and di-rt needed power away from Arizona. One study estimates that Southern lifornia Edison Co.'s 230-mile trans-ission line from Palo Verde to the Palm Springs, Calif., area would cost Arizona consumers more than $230 million from 2009 through 2014.

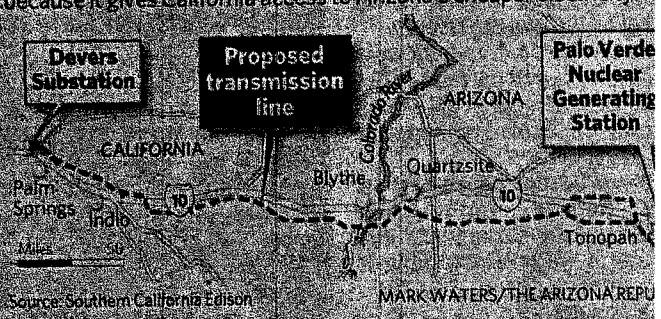
The reason: The transmission line would give Californians access to Arizona's less-expensive electricity.

"The consumer impact is a real concern," Arizona Corporation Commissioner Kris Mayes said. "Is this going to drain Arizona of much-needed energy,

See PALO VERDE Page D2

Cost of power

State regulators question how much the power line will cost Arizona because it gives California access to Arizona's cheaper electricity.



Source: Southern California Edison

MARK WATERS/THE ARIZONA REPU

Proposed power line could raise Ariz. prices

PALO VERDE
Continued from D1

and is this going to drain the pocketbooks of consumers?"

Southern California Edison needs the Corporation Commission's approval to build the $581 million transmission line, which would link an electrical switchyard near Palo Verde to the Devers substation near Palm Springs.

The proposed line would run parallel to an existing transmission line that already is full of electricity zapped from Palo Verde to southern California.

Southern California Edison wants to build the second line to get Arizona's excess electricity, including power from several independently owned natural-gas plants ringing the Palo Verde nuclear plant.

Southern California Edison representatives say the line would be a boon for Arizona because it would bolster the reliability of the state's electricity supply, generate nearly 500 construction jobs over two years and provide about $2 million in annual property taxes for Maricopa and La Paz counties.

But Arizona regulators say they will scrutinize the project's impact on Arizona ratepayers, the state's electricity grid and the environment. The project also needs approval from the California Public Utilities Commission and the Bureau of Land Management.

Both Mayes and Corporation Commission Chairman Jeff Hatch-Miller have written letters questioning the project's costs, benefits and impact.

"There is no doubt that California wants the cheaper power," Hatch-Miller said. "California is not building (many new power plants) inside their state."

Southern California Edison representatives said they soon will answer specific questions raised by Mayes and Hatch-Miller.

In a written statement, SCE said the line would be paid for by California consumers and would benefit Arizona's electrical grid.

SCE declined to discuss its economic report submitted last year to the California Independent System Operator, which oversees California's electricity grid. The report shows the transmission line would cost Arizona consumers more than $230 million from 2009 through 2014.

The same report shows that Arizona power plants would get a $164 million boost through sales to California customers. The plants around Palo Verde have struggled, being unable to sell excess power due to a lack of demand in Arizona and insufficient transmission capability to send the power to California.

that Californians would greatly benefit from access to Arizona's cheaper electricity. The report estimated that California consumers would get a net benefit of nearly $970 million from 2009 though 2014.

There are other factors, however, that state regulators must consider.

Arizona Public Service could use the line to sell its excess electricity.

During the company's annual meeting on Wednesday, Chairman Bill Post said the line has the potential to "expand our wholesale power markets."

"I believe California's electric prices will always exceed ours and, therefore, the California market offers important business opportunities," Post said.

"Greater access to those markets will give us the opportunity to reduce our customers' costs with additional sales while increasing our own profitability."