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November 28, 2007

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**Re: Arizona Public Service Company Revised Line Extension Tariff Schedule 3; Docket Nos. E-01345A-05-0816, E-01345A-05-0826, E-01345A-05-0827**

Dear Parties to the Docket:

On October 24, 2007, Arizona Public Service Company ("APS" or "Company") filed revised changes to Schedule 3, pursuant to Decision No. 69663. In this filing, APS proposed to treat Schedule 3 proceeds as miscellaneous service revenues rather than Contributions In Aid of Construction ("CIAC"), as most Schedule 3 proceeds have historically been recognized. In its Report on the Schedule 3 changes, Commission Staff recommended that these payments continue to be treated as CIAC.

No Party to this case has filed an analysis on APS' proposal to treat Schedule 3 proceeds as revenues rather than CIAC and it's my view that this matter requires further inquiry prior to a vote. In particular, I would like to know, with a high degree of specificity, what tangible benefits would result from treating these monies as revenue or CIAC. Therefore, I would like Staff, RUCO, APS and any other interested Party to answer the following questions:

First, I would like the Parties to file a comprehensive analysis of APS' proposal for treating the Schedule 3 proceeds as revenue.

Second, how will APS and its customers be affected by treating Schedule 3 proceeds as revenue versus CIAC? What are the positive and negative impacts to APS and its customers associated with these two options?

Third, for each option, will the money that APS receives from Schedule 3 be sufficient to mitigate the need for future rate relief, and if so, to what degree?

Fourth, over what time period will customers experience benefits from treating Schedule 3 proceeds as CIAC and revenue? Will this be a short-term benefit, or will customers continue to see benefits as long as growth is sustained?

Finally, one Wall Street firm has estimated APS would receive between \$50 million and \$150 million in proceeds annually from the removal of the free-footage allowance, apparently based on comments made by APS President and Chief Financial Officer Don Brandt at a recent investor conference. I would like APS to provide, for public discussion, an estimate of how the Schedule 3 changes will impact the Company's revenue each year over the next three years.

Parties to the Docket

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Thank you for your attention to these questions, and I look forward to addressing these very important issues at a future Commission Open Meeting.

Sincerely,

A handwritten signature in black ink, appearing to read "Kris Mayes", written in a cursive style.

Kris Mayes  
Commissioner

Cc: Chairman Mike Gleason  
Commissioner William A. Mundell  
Commissioner Jeff Hatch-Miller  
Commissioner Gary Pierce  
Dean Miller  
Ernest Johnson  
Lyn Farmer  
Chris Kempley  
Rebecca Wilder