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ARIZONA CORPORATION COMMISSION
Customer Services Section
1200 West Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

AUG 25 2008

ATTN: Chairman, Arizona Corporation Commission

DOCKETED BY

RE: DOCKET No: E-01345A-08-0172
ARIZONA PUBLIC SERVICE Interim Rate Surcharge
Evidentary Meeting: September 15, 2008; 10:00 AM

TO WHOM IT MAY CONCERN:

Residents of Arizona are currently burdened with the fallout of the financial recession, the on-going industry ills caused by the fraudulent practices of the mortgage companies, employment practices, wide-spread health care issues and upcoming local and national political agendas. In the midst of an unhealthy economy, Arizona Public Service has presented numerous programs they desire to implement in an effort to maintain technological superiority while ensuring increased revenues. These desired programs threaten to bankrupt State of Arizona resources through mandates of increased rate surcharges and taxes. This letter is written to lodge a complaint against the following Arizona Public Service goals and proposed agendas:

(1) ARIZONA PUBLIC SERVICE REQUEST FOR AN INTERIM RATE INCREASE:

Public Notice of the Hearing Process appeared on several different dates in The Arizona Republic. While approved monies (approximately \$115 Million annually) which has been temporarily awarded would be subject to refund, the June 6, 2008 APS Motion for Approval threatens to set a precedent for potential "pie-in-the-sky" APS programs and expectations despite an acknowledged weakening economy in the State of Arizona.

As a long-time APS customer and as a native resident of the State of Arizona, I urge the Arizona Corporation Commission to look at the "big picture" impacting quality of life for all citizens of the State before approving the requested APS rate increase. Such approval will set an unfortunate precedent which may lead to much bigger problems.

(2) ARIZONA PUBLIC SERVICE PROPOSAL OF A NEW 40-MILE LINE IN OPPOSITION TO THE CONCERNS OF PEORIA RESIDENTS IMPACTED BY THE HIGH-VOLTAGE LINE:

In The Arizona Republic on Tuesday, August 19, 2008, Ron Aames, Peoria City Councilman was quoted as follows: "Citizens in my District are concerned and very angered that APS has taken the stand it has". APS claims

a 40-mile line from Peoria to Buckeye along the Carefree Highway is needed to enhance the reliability of the system and increase the transfer capacity of power from remote sources to the Phoenix area. Residents fear that such a high-voltage line would be a potential health hazard of electromagnetic radiation from overhead electrical lines. It is unfortunate that APS leadership has failed to respond to resident concerns by proposing a viable compromise benefiting all parties: Establish new, improved APS growth policies and procedures by sharing expenses with builders, business communities and residents to place high voltage lines underground, thereby significantly reducing potential health hazards and maintenance requirements impacting fearful residents in the surrounding communities.

(3) ARIZONA PUBLIC SERVICE SPONSORSHIP OF SOLANA: One of the World's Largest Solar Power Plants:

I concur and support the humanitarian concerns and opinions of Arizona Republic columnist, E. J. Montini, who expressed concern in his August 17, 2008 article entitled "Solar Plant's Future Clouded by Gridlock". Even though Arizona Public Service President Dan Brandt was quoted as saying, "This is a turning point for APS and the future of the State of Arizona as we move to become the solar capital of the world", it is an extremely timely point that the United States Senate denied financing (quoted as "billions of dollars") in July 2008. While the proposal embraces the ideal philosophy of world-wide technological advances, i.e., partnering with Abengod Solar, Inc., a Spanish company, solar power technology should not take precedence over State of Arizona funding of such essential troublesome issues as education of our children, health care for all citizens and/or the immigration issues impacting the State everyday. Citizens are struggling financially and would have real challenges facing costly tax increases to fund Solana and other APS programs.

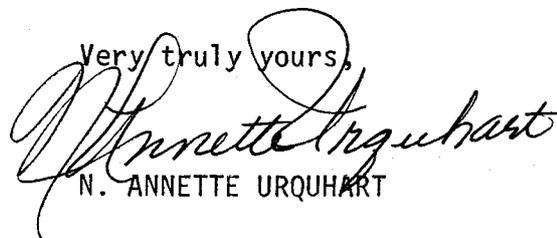
(4) IMPACT OF FINANCIAL COMPENSATION MANDATED FOR ARIZONA PUBLIC SERVICE EXECUTIVES UNACCEPTABLE REASON FOR RATE INCREASES:

In the Thursday, July 31, 2008 Business Section of The Arizona Republic, columnist Ryan Randazzo writes: "APS Continues Push to Increase its Rate", and quotes Pinnacle West Corporation Chairman Bill Post as follows: "We cannot invest in the infrastructure needed to reliably meet customer needs without consistent financial help". However, revelation of executive pay raise of \$252,000 -- upping the annual base salary of Randall Edington, Vice President in charge of Palo Verde Nuclear Generating Station, APS -- and \$1 Million a year in deferred compensation for four years -- makes the reader and consumer of APS services question whether these self-serving, arrogant expectations are appropriate while customers struggle to meet already high utility bills common due to the Arizona heat during the summer months.

ARIZONA CORPORATION COMMISSION
RE: Docket E-01345A-08-0172
APS Interim Rate Surcharge
August 25, 2008
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Thank you for your individual and collective commitment to State of Arizona quality of life issues. Members of the Arizona Corporation Commission are to be commended for the time, expertise and energy they expend, and the wisdom required to analyze customer vs. commercial needs, future requirements and technological advances while also being aware of inappropriate and arrogant expectations and demands currently on the agenda of Arizona Public Service leadership.

Very truly yours,



N. ANNETTE URQUHART

cc: Arizona Corporation Commission
Customer Service Section: 13 copies

Bill Post, Chairman of the Board
Arizona Public Service/Pinnacle West

Family attorney

ENCLOSURES:

- (1) The Arizona Republic (No to Peoria Power Line), dated Aug 19, 2008;
- (2) The Arizona Republic (APS Continues Push to Increase its Rates), dated July 31, 2008.



PHOTOS BY ROB SCHUMACHER/THE ARIZONA REPUBLIC

Amenda Swanson (foreground) and her red-shirted colleagues express support for an alternative route for an APS power line. Swanson is building a home near APS' preferred site. Others who spoke at a hearing live near the site.

No to Peoria power line

Residents of affected area speak out against proposed alignment

By Cecilia Chan

THE ARIZONA REPUBLIC

Ivan Rodriguez ticked off reasons why a high-voltage line proposed near his Vistancia home in northern Peoria is out of the question.

"I live a quarter-mile from where they would start the power lines," Rodriguez said. "It's going to affect all the views that we have and they are going to affect all the values of the homes."

Not to mention, he added, the potential health hazard of electromagnetic radiation from the overhead electrical lines, which would be near a proposed elementary school where his two children would attend.



Monica King addresses the Arizona Power Plant and Transmission Line Siting Committee on Monday.

Rodriguez and nearly 200 of his neighbors attended a public hearing Monday before the Arizona Power Plant and Transmission Line Siting Committee to protest Arizona Public Service's proposal to run a 40-mile line from Peoria to Buckeye along the Carefree Highway alignment.

The project is needed to enhance reliability of APS' system and increase the transfer capacity of power from remote sources to the Phoenix area, according to APS attorney Tom Campbell.

The standing-room-only crowd, many clad in red T-shirts, said it wants the steel poles placed farther

See **POWER LINE** Page B3

Peoria residents speak out against power-line site

POWER LINE Continued from B1

north to Arizona 74, a two-lane road that eventually is to become a four-lane divided highway. Entities such as Maricopa County and the Arizona State Land Department opposed siting an electrical line on SR 74, a designated scenic corridor.

APS is pitching its preferred route and three alternatives to the committee, which will make its recommendation to the Arizona Corporation Commission. Peoria Vice Mayor Cathy Carlat, whose Mesquite District includes Vistancia, said the Carefree Highway route is not in sync with the city's land use plans, because it is unspoiled desert land the city wants to preserve.

"APS' transmission lines would violate, violate these plans," Carlat said. "There is another viable option in the Mesquite District."

Carlat said if APS went with alternative route Arizona 74, the utility company would earn the full backing of municipalities, including Peoria and Surprise and builders of high-end Vistancia and the future Saddleback Heights development, all of whom now oppose APS' preferred route.

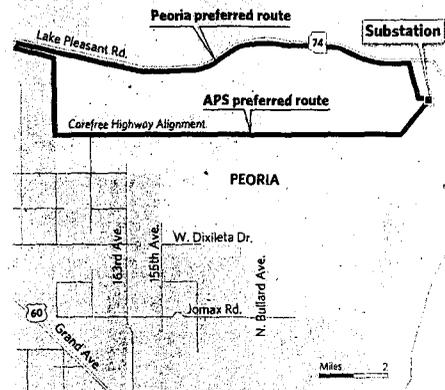
Pete Swanson said he was not informed of the potential of power lines when he purchased a lot in Blackstone at Vistancia, a private country club community.

"We are building our dream home out there," Swanson said. "We don't want to live under power lines."

The public comments capped off a day-long, quasi-judicial hearing with testimonies before the committee from 17 attorneys representing various stakeholders such as Peoria, Surprise, Buckeye and

APS proposes transmission-line routes

APS has drawn criticism from Peoria residents whose homes are near a proposed electrical transmission-line route.



Source: Arizona Power Service MARK WATERS/THE ARIZONA REPUBLIC

“I can tell you that citizens in my district are concerned and very angered that APS has taken the stand it has.”

Ron Aames
Peoria city councilman

home developers, who voiced their support or opposition of the proposed routes.

Peoria City Councilman Ron Aames took APS to task for sticking to its preferred route.

"I can tell you that citizens in my district are concerned and very angered that APS has taken the stand it has," Aames said. "Without citizens there would be no APS."

Stephen Burg, Peoria chief assistant city attorney, said Peoria has shouldered its fair share, already having more than 20 miles of high-transmission lines in its boundary.

"This is the first time Peoria

has appeared before the committee to argue for a different route than APS' preferred," he said.

He said the city has told APS that Arizona 74 was the only route that conforms to the city's land-use plans. He said the portion of SR 74 that runs through the city is not designated as a scenic corridor.

He said the city has spent years developing its land-use plans, set aside land for growth and preservation.

"APS came to the area late after Peoria planned for its growth and preservation," he added.

Hearing continues

Cross-examination of Arizona Public Service Project Manager Mike DeWitt is expected to continue today. The hearing will run from 9:30 a.m. to 5 p.m. at the Renaissance Hotel, 9495 W. Coyotes Blvd., Glendale.

APS continues push to increase its rates

Utility says finances remain weak, will cut \$500 mil in improvements

By Ryan Randazzo
THE ARIZONA REPUBLIC

Pinnacle West Capital Corp. will slash \$500 million from planned investments in Arizona Public Service Co.'s electrical infrastructure in the next three years to improve the company's "deteriorated" finances, officials said Wednesday.

They announced the cuts while discussing the company's \$133.9 million profit earned from April to June.



Bill Post

Those profits were boosted by unusual circumstances, including a \$30 million tax benefit and big sale in its real-estate division.

Officials downplayed the profits, emphasizing that APS is earning about an 8.5 percent return on its investments, less than the 10.75 percent it is legally allowed to earn.

They said that without a rate increase, they have little choice but to cut infrastructure spending.

In the past year, APS has raised its base rates, fuel rates and twice increased transmission rates, but officials say it is not enough.

They are asking the Arizona Corporation Commission for another base-rate increase, and said the company's ability to meet growing energy demands in Arizona is jeopardized by its rate structure.

"Ongoing earnings are flat for the year with inflation offsetting our efficiency savings and revenue growth," Chairman Bill Post said.

See **UTILITY** Page D2

BY THE NUMBERS

Pinnacle West Capital Corp., APS' parent, announced second-quarter earnings Wednesday and said that it will slash funding for capital improvements. The company said the cuts reflect the need for a rate increase.

\$133.9 million

Quarterly profit.

\$500 million

Cuts to capital budget over three years.

9.4 percent

Proposed rate increase for residential customers.

\$11 per month

Average dollar increase for residential customers.

-14 percent

Company's stock price compared with one year earlier.

Source: Republic research.

PHOTO BY MICHAEL CHOW/THE ARIZONA REPUBLIC

APS says weak finances may delay some projects

UTILITY

Continued from D1

Getting higher rates approved is critical to maintaining the company's credit ratings, officials said. If its credit slips, funding new power plants will be even more difficult.

"Sustaining superior, reliable customer service requires a financially strong company," Post said. "We cannot invest in the infrastructure needed to reliably meet customer needs without consistent financial help."

In addition to the 9.4 percent rate increase that would bring the monthly average household electric bill up about \$11, APS has asked the Corporation Commission to grant the utility an interim increase that would raise bills about \$4.66 in the meantime while the lengthy rate hearings take place.

The full rate hearing likely won't be finished until fall 2009, but the interim request could be enacted by November.

The utility has an obligation to provide power to new customers, but top executives will review every capital-expenditure project for a power-plant upgrade, transmission lines and customer programs that they can, President David Brandt said.

"They will look at each project to assess the overall business and deferring or eliminating a project," Brandt said.

Profits increased

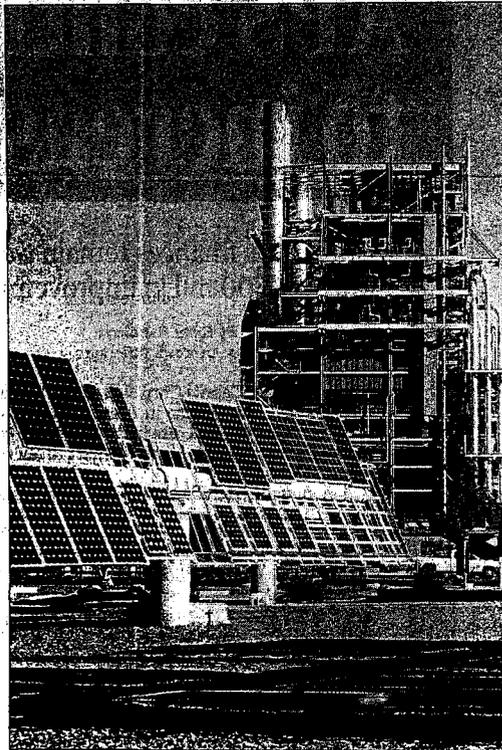
A one-time tax benefit and selling its Hayden Ferry Lakeside development in Tempe helped Pinnacle West's profits by \$10 million and \$19 million, respectively.

Pinnacle West, which also owns SunCor Development Co., reported profit of \$135.9 million, or \$1.33 a share, compared with \$79 million, or 78 cents a share, in the same quarter last year.

Excluding the tax benefit and the office-building sale, Pinnacle West still earned \$84.9 million, \$5.9 million more for the quarter than a year ago, a 7.4 percent increase.

Revenue rose 7.3 percent to \$926 million for the quarter.

Analysts polled by Thomson Financial Network estimated earnings of 80 cents a share, which the company topped even excluding the one-time items.



GRAYSON STEINBERG/CRONKITE NEWS SERVICE

The Arizona Public Service Solar Technology and Research Center in Tempe produces enough energy to power about 100 homes.

“We cannot invest in the infrastructure needed to reliably meet customer needs without consistent financial help.”

Bill Post
Pinnacle West Capital Corp. chairman

Wall Street analysts for the most part characterize the relationship between the company and regulators as poor.

"Fundamentally, (Pinnacle West) has a great market, with customer growth about twice the national average and reliably hot summers," analyst Philip Adams of Gimme Credit research said. "But (Pinnacle West) has historically had a problem getting timely regulatory relief to meet rising costs and a return on invested capital to support the growth." Company shares rose Wednesday 94 cents, about 3 percent, to \$32.52.

Executive pay raise

Earlier this month, APS gave the vice president in charge of Palo Verde Nuclear Generating Station a \$252,000 raise — upping his annual base salary to \$800,000 — and \$1 million a

year in deferred compensation for four years.

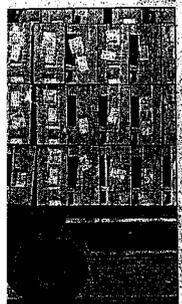
Brandt said the increase was justified even amid the company's financial problems because that official, Randall Edington, is well regarded in the industry and critical to helping the nuclear station get out of regulatory trouble.

"There are a small number of people in the world that can do what Randy can do," Brandt said.

He added that Edington won't get the \$4 million in deferred compensation if he leaves before 2012, which gives him a strong incentive to stick around and see the plant through its current troubles.

"He and his team are doing a great job," Brandt said.

Reach the reporter at ryan.randazzo@arizonarepublic.com or 602-444-4331.



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