0000088631

COMMISSIONERS
MIKE GLEASON - Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

ARIZONA CORPORATION COMMISSION

Direct Line: (602) 542-4143
Fax: (602) 542-0765
E-mail: kmayes@azcc.gov

RECEIVED
2008 SEP 12 P 2:41
AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED
SEP 12 2008
DOCKETED BY

ORIGINAL

September 12, 2008

Re: Questions regarding APS' decision to cut $500 million from its capital expenditure budget and possibly not issue $400 million in equity; implications of the recent decline in natural gas prices for APS' request for an increase in gas costs in base rates; management salary increases prior to Palo Verde improvements; DSM and low-income assistance programs; Docket No. E-01345A-08-0172

Dear Parties to the Docket:

During its July 30, 2008 second quarter earnings call, Arizona Public Service Company ("APS") and Pinnacle West Capitol Corporation ("PNW") executives stated their intent to reduce APS' capital expenditure budget by at least $500 million over the next three years, and indicated that they may not make the $400 million equity infusion into APS that was recently approved by the Commission.

First, I would like the Parties to explain in testimony presented in the interim and permanent rate cases, why APS has placed on hold its requested equity infusion, and what implication that decision has for the Commission's deliberations in these cases. As you know, the Commission approved the $400 million equity issuance by PNW to APS in Decision No. 70454. I voted for that equity issuance in part because I believed it would be an important part of APS' effort to bolster the Company's FFO/debt ratio and strengthen its credit ratings. However, just a few weeks after we cast that vote, APS CEO Don Brandt announced during the July 30 earnings call that the Company may not in fact undertake the equity issuance, either in 2008 or in 2009. I would like the Parties to be prepared to answer questions regarding whether the Commission should require PNW to make the equity infusion, as approved in Decision 70454.

Second, recently the price of natural gas has declined significantly, apparently precipitated by rising supplies of gas and the construction of a new pipeline in the Rocky Mountains. In light of the recent decline in the price of natural gas, I am interested in the appropriate treatment of the price of gas in base rates. APS has proposed to increase the base fuel rate from 3.25 ¢/kWh to 3.88 ¢/kWh. Could APS receive an unwarranted benefit to the detriment of ratepayers associated with increasing the base cost of gas, when the price of gas appears to be declining and leveling off?

Third, APS announced during its most recent earnings call that it has decided to slash $500 million in capital expenditure spending. According to Company officials, the decision was caused by the recent deceleration in growth, as well as uncertainty surrounding cost recovery of infrastructure investment that may or may not result from the Company's rate cases. The decision to cut $500 million in capital expenditures does not appear to be reflected in the Company's permanent and interim rate requests, and I would like the Parties to tell the Commission how this decision to eliminate or delay certain infrastructure projects should be factored into APS' current rate increase requests. Is the Company's need for additional revenue diminished as a result of its decision to eliminate these projects? Additionally, I would like APS to delineate which projects will be delayed or eliminated as a result of the Company's decision to cut $500 million in spending. Are these projects discretionary, or will their elimination negatively impact the ability of APS to serve its customers? I would be particularly concerned if such a deep cut were to impair APS' willingness to engage in transmission projects, given the state's need to build such projects in order to facilitate renewable energy transmission. Please explain whether any transmission projects have been placed on the cutting board, and if so why, given the fact that APS currently has a Transmission Cost Adjustor Mechanism, designed to recover all costs associated with building high voltage transmission power lines. Please also tell the Commission what percentage of the $500 million expenditure reduction will come from cuts to transmission.

Fourth, APS recently announced that it was increasing the base salary for Randall Edington, the chief nuclear officer for the Company, from $548,000 to $800,000. Additionally, Mr. Edington received a deferred-compensation agreement of $1,000,000 a year for four years vesting in June 2012. My office has received numerous complaints and questions from APS customers regarding this decision to significantly amplify an APS executive's salary in light of the fact that Palo Verde has not been lifted from of its status as the worst performing nuclear power plant in the nation, and given the fact that APS is before the Commission asking its customers to sacrifice once again in the form of a rate increase. I would like APS to tell the Commission why it chose to increase Mr. Edington's compensation package at this time, and whether it has increased the salary, stock options, or monetary benefits of any other member of its executive management team since the Company's last rate increase. If such salary increases have been granted, please be prepared to explain why, in each instance, the Company decided to increase such compensation.

Fifth, I am concerned with the impact of APS' proposed rate increases on low-income residential customers particularly in light of today's difficult economic climate. I would like the Parties to consider an exemption for qualified low-income ratepayers which would limit or prevent any increases in their bills.

Sixth, I would like the Parties to be prepared to offer average residential and commercial bill impact analyses for all of the various rate increase proposals, including APS' request, Staff's alternative proposal, and the proposal offered by Mr. Higgins on behalf of Arizonans for Electric Choice and Competition ("AECC").

Finally, I would like the Parties to address the question of whether, prior to or as a part of a decision in this matter, the Commission should approve additional Demand Side Management programs for APS customers so that they may be in a better position to shield themselves from these proposed rate increases. For instance, it is my understanding that APS' most recent DSM filings have not yet been presented to the Commission for our final approval. Please be prepared to address whether these programs should be included as part of the interim rate case, as well as whether additional programs should be proposed for APS.

Thank you for your attention to these questions.

Sincerely,

Kris Mayes
Commissioner

Cc: Chairman Mike Gleason
Commissioner William A. Mundell
Commissioner Jeff Hatch-Miller
Commissioner Gary Pierce
Ernest Johnson
Janice Alward
Lyn Farmer
Brian McNeil
Rebecca Wilder