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October 14, 2008

Arizona Corporation Commission
DOCKETED
OCT 14 2008
DOCKETED BY

Hon. Lyn Farmer
Chief Administrative Law Judge
Hearing Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Re: Docket No. E-01345A-08-0172 (APS Interim Rate Request)
APS Late-Filed Exhibit 23

Dear Judge Farmer:

As stated in my letter to you dated September 26, 2008, this is the second part of Arizona Public Service Company's ("APS" or "Company") response to the outstanding requests for certain information in the above proceeding. Per your instructions, this letter and its attachments have been designated as APS Exhibit 23.

Attachment 1 to this letter provides a more detailed breakdown of reduction in the anticipated capital expenditures ("CAPX") for the years 2009-2011. It does so by first beginning with the CAPX forecast presented in Exhibit DEB-3, which is an attachment to Donald E. Brandt's Direct Testimony in the pending general rate case, but with 2011 added using the same assumptions that had been used for the years 2009 and 2010 in Exhibit DEB-3.[1] The net changes to the CAPX forecast as of October 2008 are set forth separately. As you can see, anticipated CAPX reductions in distribution, transmission and general plant actually exceed $500 million[2] APS has provided the CAPX forecast changes in the same format and to the same level of granularity as in Exhibit DEB-3 for ease of

[1] The rate case testimony attachment had not addressed 2011 because it was 2010 that formed the basis for the Company's proposed attrition adjustment. However, to start everyone off on the same page with an "apples to apples" comparison; APS added what would have been the 2011 forecast using the same assumptions as for 2009 and 2010 in DEB-3.

[2] As the Commission is aware, Palo Verde is operating under a separate Performance Improvement Plan and is not included in the general Company efficiency/cost reduction program that will produce the reduction in future CAPX. Therefore, and although Palo Verde CAPX may change for reasons unrelated to the more general CAPX reduction program, it is held constant at DEB-3 levels for purposes of this analysis.

comparison. This means, for example, that while the major transmission projects that will be delayed are specifically identified to the extent they were in the prior CAPX forecast, smaller projects (and even larger projects that were not included in the earlier 2008 DEB-3 forecast) are shown collectively at line 22. Please also note that these represent preliminary estimates that may change materially, either up or down, depending on future events and more specifically, depending on the needs of our customers.

Although not specifically requested, APS believes there was some confusion during the recent hearing over the CAPX forecast submitted in August of 2007 and that subsequent CAPX forecast attached to Mr. Brandt's general rate case testimony. *See* Brandt Testimony at 602:7 – 603:10. A great deal, if not all, of the differences between the two forecasts is a result of the differing vintages of the forecasts. Although provided in August of 2007, what was then requested was a breakdown of the capital items identified back in late 2006 as Exhibit 27 in the Company's last general rate case. As can be seen on Attachment 2, the actual vintage of the forecast that resulted in both Exhibit 27 and the August 2007 filing was August of 2006 – some 21 or 22 months earlier than the forecast used for DEB-3 (rather than the six or seven months referenced at the time of the hearing) and well prior to the Company's announcement of $200 million CAPX reductions in late 2007 and early 2008 (which, of course, have recently been significantly expanded). Attachment 2 provides a reconciliation between the two vintages of CAPX forecast. APS would add that although the actual time between the two forecasts is considerably longer than what may have been thought during the recent interim rate hearing, even if there had been "only" a six month difference, it is still very possible that a CAPX forecast could materially change in such a relatively short period of time.

APS believes this letter has been responsive to the issues discussed above and would request admission of the letter and its attachments as APS Exhibit 23 in accordance with the procedure outlined by your honor on September 19.

Sincerely,

Thomas L. Mumaw

Thomas L. Mumaw

Attorney for Arizona Public Service Company

TLM/Attachments

Original and 13 copies of the foregoing filed this 14th day of October 2008 with:

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Attachment 1

Arizona Public Service Company
Cost Efficiency Program Impact on Construction Expenditures Projection 2009 - 2011
$Millions

line		2009	2010	2011	3 - yr Total
1	**2008 Rate Case Forecast per note below**	**1,085**	**993**	**964**	**3,042**
	Changes as a result of the Cost Efficiency Program:				
	Production				
	Nuclear (APS Share)				
2	Nuclear Fuel	-	-	-	-
3	Reactor Vessel Head, Units 1, 2, 3	-	-	-	-
4	Evap Pond & Reservoir Liner Replacement	-	-	-	-
5	Cooling Tower Replacement, Unit 1	-	-	-	-
6	Rapid Refueling Package	-	-	-	-
7	Other Nuclear Power Plant Improvements - Includes regulatory, safety, reliability, or efficiency projects not listed above	-	-	-	-
8	**Total Nuclear**	-	-	-	-
	Fossil (APS Share)				
9	Cholla Environmental- Includes Baghouse, Scrubber, and other Environmental projects	(24)	(47)	18	(53)
10	Four Corners Environmental - Includes NOX abatement, particulate control, and other Environmental projects	1	-	19	20
11	Navajo Environmental - Includes NOX abatement and other Environmental projects	1	-	-	1
12	Other Coal Plant projects - Includes regulatory, safety, reliability, and efficiency projects at coal plants	(9)	(24)	(8)	(41)
13	Environmental Projects at Gas Plants	(2)	1	3	2
14	Long-Term Service Agreement Costs at Redhawk, West Phoenix	(29)	25	(1)	(5)
15	Other Plant projects - Includes capital costs for regulatory, safety, reliability, and efficiency projects at gas plants, and Childs/Irving Decommissioning	(3)	(14)	7	(10)
16	**Total Fossil**	**(65)**	**(59)**	**38**	**(86)**
17	**Total Production**	**(65)**	**(59)**	**38**	**(86)**

Note: This forecast is included in the Direct Testimony of Donald E. Brandt (Docket No. E-01345A-08-0172) as Attachment DEB-3. The forecast provided here differs from that provided in Attachment DEB-3 only in terms of years shown. Attachment DEB-3 shows the Company's forecast for 2008-2010 as of June 2008, consistent with the Company's asking in that case. The projections shown here are for years 2009-2011, to give the background necessary to show the impact of the recent Cost Efficiency Program (which will be seen in that timeframe) on the Company's overall forecast at the time of the rate case.

$Millions

line		2009	2010	2011	3 - yr Total
	Transmission & Distribution				
	Transmission				
	Selected Major Transmission Projects				
18	Palo Verde - TS5 - TS9 TS5 to be located northwest of White Tanks; TS9 to be located near existing Raceway substation	(47)	(30)	(86)	(163)
19	TS5 - TS1 - Palm Valley TS1 to be located southwest of 195th Av & Deer Valley	(10)	(3)	4	(9)
20	TS9 - Pinnacle Peak 500kV	46	(18)	-	28
21	Palo Verde - North Gila 500kV	(30)	(37)	22	(45)
22	All Other Transmission Infrastructure Additions & Upgrades - includes Line & Substation additions & upgrades for 69kV and above voltage not listed above	(28)	(104)	(115)	(247)
23	Transmission Reliability Projects - Includes Breaker, Capacitor, and Reactor projects, and other major reliability projects	7	(3)	-	4
24	Transmission relocations & emergency projects	-	-	-	-
25	**Total Transmission**	**(62)**	**(195)**	**(175)**	**(432)**
	Distribution				
26	Distribution Infrastructure projects - includes line & substations additions & upgrades	(29)	(39)	(28)	(96)
27	Distribution Reliability Projects - includes projects for substation, overhead, and underground equipment	-	2	(4)	(2)
28	Other Distribution Projects - Safety, Relocation / Conversion, Emergency, and other projects	13	15	10	38
29	**Subtotal, Distribution excluding Customer Construction**	**(16)**	**(22)**	**(22)**	**(60)**
	New Customer Construction (excl Schedule 3 CIAC)				
30	Meters (primarily AMI project)	19	28	20	67
31	Transformers	(6)	(14)	(23)	(43)
32	Service & Line Extensions	(19)	(32)	(91)	(142)
33	Street Light / Dusk-to-Dawn	1	1	-	2
34	**Total New Customer Construction excl Schedule 3 CIAC**	**(5)**	**(17)**	**(94)**	**(116)**
35	**Total Distribution excluding Schedule 3 CIAC**	**(21)**	**(39)**	**(116)**	**(176)**
36	**Total Transmission & Distribution**	**(83)**	**(234)**	**(291)**	**(608)**

$Millions

line	General Plant	2009	2010	2011	3 - yr Total
37	Customer Service information systems	6	7	7	20
38	Distribution operations & work-management systems	23	9	8	40
39	All Other Info Sys Projects - includes infrastructure additions, equipment replacement, and all other Generation, T&D, and Shared Services systems & telecom	3	1	12	16
40	Deer Valley Operations Hub	(63)	(14)	86	9
41	Facilities - includes new service centers, upgrades of existing facilities, and replacements of mechanical equipment, plumbing, etc. at APS facilities.	(44)	(45)	(27)	(116)
42	Other General Plant	2	-	4	6
43	**Total General Plant**	**(73)**	**(42)**	**90**	**(25)**
44	**Total Change excluding Schedule 3 CIAC**	**(221)**	**(335)**	**(163)**	**(719)**
45	Schedule 3 CIAC	30	50	116	196
46	**Total Change including Schedule 3 CIAC**	**(191)**	**(285)**	**(47)**	**(523)**
47	**Construction Expenditure Projection as of October 2008**	**894**	**708**	**917**	**2,519**

Attachment 2

Attachment 2
Page 1 of 1

APS Construction Expenditure Projections
2005 Rate Case Forecast vs 2008 Rate Case Forecast
$Millions

line		2005 Rate Case Forecast [A]				2008 Rate Case Forecast [B]				Change				Notes
		(1) 2008	(2) 2009	(3) 2010	(4) 3-yr Total	(5) 2008	(6) 2009	(7) 2010	(8) 3-yr Total	(5)-(1) 2008	(6)-(2) 2009	(7)-(3) 2010	(8)-(4) 3-yr Total	
1	Nuclear Fuel (APS Share)	41	59	55	155	93	117	110	320	52	58	55	165	C
2	Nuclear Plant Improvements (APS Share)	42	39	21	102	55	78	79	212	13	39	58	110	D
3	Fossil Plant Improvements (APS Share)	179	191	138	508	231	190	181	602	52	(1)	43	94	E
4	Transmission	222	283	182	687	208	317	288	813	(14)	34	106	126	F
5	Distribution, excluding Schedule 3 CIAC	307	317	326	950	299	248	260	807	(8)	(69)	(66)	(143)	G
6	General Plant - Information Systems, Facilities, Other	133	134	123	390	162	194	154	510	29	60	31	120	H
7	**Total APS excluding Schedule 3 CIAC**	924	1,023	845	2,792	1,048	1,144	1,072	3,264	124	121	227	472	
8	Schedule 3 CIAC	-	-	-	-	(25)	(59)	(79)	(163)	(25)	(59)	(79)	(163)	
9	**Total APS**	**924**	**1,023**	**845**	**2,792**	**1,023**	**1,085**	**993**	**3,101**	**99**	**62**	**148**	**309**	

A The forecast provided in the 2005 Rate Case (Docket Nos. E-01345A-05-0816, E-01345A-05-0826 and E-01345A-05-0827) as Exhibit 27 was based upon August 26, 2006 projections. This forecast information was subsequently provided in the Financing Hearing (Docket No. E-01345A-06-0779), as Exhibit 4.

B The forecast provided in the 2008 Rate Case (Docket No. E-01345A-08-0172) as Attachment DEB-3 to Donald E. Brandt General Rate Case Testimony, was based on June 2008 projections.

C Changes principally due to increases in the cost of nuclear fuel.

D Changes principally due to changes in timing & scope of various plant improvement projects

E Changes principally due to changes in timing & scope of various plant improvement projects and increases to material prices

F Changes principally due to changes in timing & scope of various transmission projects and increases to material prices and right-of-way costs

G Changes principally due to recognized slower customer growth and efficiency initiative reductions, partially offset by changes in timing & scope of various distribution projects and increases in material prices

H Changes principally due to the addition of the Deer Valley Operations hub and changes in timing & scope of various facilities and information systems projects