



0000100026

Leland R. Snook
Director
State Regulation & Pricing

Tel. 602-250-3730
Fax 602-250-3003
e-mail Leland.Snook@aps.com

Mail Station 9708
PO Box 53999
Phoenix, Arizona 85072-3999

ORIGINAL

Arizona Corporation Commission
DOCKETED

JUN 26 2009

DOCKETED BY 

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

2009 JUN 26 A 9:53

RECEIVED

June 26, 2009

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

RE: APS COMPLIANCE WITH DECISION NO. 70667 – APS/PINNACLE WEST COMMUNICATIONS WITH CREDIT RATING AGENCIES
Docket No. E-01345A-08-0172

Attached please find copies of Arizona Public Service Company (APS) and Pinnacle West's available past communications with credit rating agencies as instructed per Decision No. 70667 (December 24th, 2008):

"Arizona Public Service Company shall file all currently existing communications within 10 days of the effective date of this Decision and shall file future communication on a monthly basis. The first such monthly report shall be due on February 1, 2009, and the monthly filing shall continue until the conclusion of Arizona Public Service Company's general rate case. Thereafter, Arizona Public Service Company shall make such filings on a six month basis, with the first filing due by January 1, 2010."

This monthly filing covers the communications with rating agencies from May 23, 2009 through June 24, 2009. If you have any questions or concerns please contact David Rumolo at (602)-250-3933.

Sincerely,



Leland R. Snook

LS/dst

Attachments

CC: Ernest Johnson (unredacted)
Brain Bozzo (unredacted)
Barbara Keene (unredacted)
Terri Ford (unredacted)

Rating Agency Communication Log

Date	Person	APS/PNW Personnel	Subject	Comment
5/26/2009	Laura Schumacher, Moodys	Jim McGill	Message from Moody's regarding shelf registration	
6/2/2009	Tony Bettinelli, S&P	Jim McGill	Left message regarding mgmt meeting w/S&P and ratings letter from Maricopa bonds	
6/2/2009	Tony Bettinelli, S&P	Jim McGill	Message from S&P regarding mgmt meeting	
6/2/2009	Tony Bettinelli, S&P	Jim McGill	Message from S&P requesting info for annual review	
6/4/2009	Laura Schumacher, Moodys	Jim McGill	E-mail to Moody's regarding ratings letter for Maricopa bonds	
6/4/2009	Phil Smyth, Fitch	Jim McGill	E-mail to Fitch regarding ratings letter for Maricopa bonds	
6/4/2009	Tony Bettinelli, S&P	Jim McGill	E-mail to S&P regarding info for annual review	
6/5/2009	Laura Schumacher, Moodys	Jim McGill	E-mail from Moody's regarding ratings letter for Maricopa bonds	
6/5/2009	Tony Bettinelli, S&P	Jim McGill	E-mail from S&P regarding info for annual review	
6/9/2009	Tony Bettinelli, S&P	Jim McGill	E-mail to S&P regarding mgmt meeting	
6/9/2009	Tony Bettinelli, S&P	Jim McGill	E-mail from S&P regarding mgmt meeting	
6/10/2009	Tony Bettinelli, S&P	Jim McGill	E-mail to S&P regarding info for annual review	Confidential Attachment
6/12/2009	Phil Smyth, Fitch	Jim McGill	E-mail to Fitch regarding ratings letter for Maricopa bonds	
6/12/2009	Tony Bettinelli, S&P	Jim McGill	E-mail from S&P regarding ratings for Maricopa bonds	
6/12/2009	Phil Smyth, Fitch	Jim McGill	E-mail to Fitch regarding ratings letter for Maricopa bonds	
6/12/2009	Tony Bettinelli, S&P	Jim McGill	E-mail from S&P regarding mgmt meeting	
6/12/2009	Tony Bettinelli, S&P	Jim McGill	E-mail to S&P regarding mgmt meeting	
6/12/2009	Phil Smyth, Fitch	Jim McGill	E-mail from Fitch regarding ratings letter for Maricopa bonds	
6/12/2009	Laura Schumacher, Moodys	Jim McGill	E-mail to Moody's regarding ratings letter for Maricopa bonds	
6/12/2009	Laura Schumacher, Moodys	Jim McGill	E-mail from Moody's regarding ratings letter for Maricopa bonds	
6/12/2009	Mitchell Moss, Moodys	Jim McGill	E-mail from Moody's regarding ratings letter for Maricopa bonds	
6/12/2009	Phil Smyth, Fitch	Jim McGill	E-mail from Fitch regarding ratings letter for Maricopa bonds	
6/12/2009	Mitchell Moss, Moodys	Jim McGill	E-mail to Moody's regarding ratings letter for Maricopa bonds	
6/15/2009	Laura Schumacher, Moodys	Investor Relations	E-mail regarding GRC Settlement	
6/15/2009	Phil Smyth, Fitch	Investor Relations	E-mail regarding GRC Settlement	

6/15/2009	Tony Bettinelli, S&P	Investor Relations	E-mail regarding GRC Settlement	
6/17/2009	Tony Bettinelli, S&P	Jim McGill	E-mail to S&P with requested info regarding mark-to-market positions	Confidential Attachment
6/17/2009	Laura Schumacher, Moodys	Investor Relations	E-mail regarding hiring of new PNW General Counsel	
6/17/2009	Phil Smyth, Fitch	Investor Relations	E-mail regarding hiring of new PNW General Counsel	
6/17/2009	Tony Bettinelli, S&P	Investor Relations	E-mail regarding hiring of new PNW General Counsel	
6/17/2009	Tony Bettinelli, S&P	Jim McGill	E-mail to S&P with requested info regarding liquidity	Confidential Attachment
6/18/2009	Tony Bettinelli, S&P	Jim McGill	E-mail from S&P with requested info regarding enterprise risk management	
6/19/2009	Tony Bettinelli, S&P	Jim McGill	E-mail from S&P regarding revised risk matrix	
6/22/2009	Tony Bettinelli, S&P	Chris Froggat, Jim Wilde, and Jim McGill	Call w/S&P regarding enterprise risk management	
6/22/2009	Tony Bettinelli, S&P	Karen Dolyniuk	E-mail to S&P with documents from Maricopa bond refunding	
6/23/2009	Tony Bettinelli, S&P	Karen Dolyniuk	E-mail from S&P with ratings letter for Maricopa bonds	
6/23/2009	Laura Schumacher, Moodys	Karen Dolyniuk	E-mail to Moody's with documents from Maricopa bond refunding	
6/23/2009	Phil Smyth, Fitch	Karen Dolyniuk	E-mail to Fitch with documents from Maricopa bond refunding	
6/24/2009	Tony Bettinelli, S&P	Jim McGill	E-mail from S&P regarding metrics	

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Thursday, June 04, 2009 4:42 PM
To: 'Schumacher, Laura'
Subject: Ratings letter for Maricopa refunding

Laura,
Could we get a letter from you by next Friday (6/12) for the Maricopa bonds. We're mailing out the POS on Monday 6/15. The documents are essentially the same as what I sent you for the Nav/Coco bonds we refunded last month. I'll send you the Maricopa documents early next week.

Jim

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Thursday, June 04, 2009 4:43 PM
To: 'Philip.Smyth@fitchratings.com'
Subject: Ratings letter for Maricopa refunding.

Phil,
Could we get a letter from you by next Friday (6/12) for the Maricopa bonds. We're mailing out the POS on Monday 6/15. The documents are essentially the same as what I sent you for the Nav/Coco bonds we refunded last month. I'll send you the Maricopa documents early next week.

Jim

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Thursday, June 04, 2009 4:56 PM
To: 'Bettinelli, Antonio'
Subject: Request for info

Tony,
Would you please send me an e-mail listing the information you asked me for yesterday on the phone. Just want to make sure I get you everything you need.

Jim

McGill, James T(Z71171)

From: Schumacher, Laura [Laura.Schumacher@moodys.com]
Sent: Friday, June 05, 2009 4:21 AM
To: McGill, James T(Z71171)
Subject: RE: Ratings letter for Maricopa refunding

Jim,

That should be fine.

Thanks,
Laura

-----Original Message-----

From: James.McGill@pinnaclewest.com [mailto:James.McGill@pinnaclewest.com]
Sent: Thursday, June 04, 2009 7:42 PM
To: Schumacher, Laura
Subject: Ratings letter for Maricopa refunding

Laura,
Could we get a letter from you by next Friday (6/12) for the Maricopa bonds. We're mailing out the POS on Monday 6/15. The documents are essentially the same as what I sent you for the Nav/Coco bonds we refunded last month. I'll send you the Maricopa documents early next week.

Jim

Email Firewall made the following annotations

--- NOTICE ---

This message is for the designated recipient only and may contain confidential, privileged or proprietary information. If you have received it in error, please notify the sender immediately and delete the original and any copy or printout. Unintended recipients are prohibited from making any other use of this e-mail. Although we have taken reasonable precautions to ensure no viruses are present in this e-mail, we accept no liability for any loss or damage arising from the use of this e-mail or attachments, or for any delay or errors or omissions in the contents which result from e-mail transmission.

The information contained in this e-mail message, and any attachment thereto, is confidential and may not be disclosed without our express permission. If you are not the intended recipient or an employee or agent responsible for delivering this message to the intended recipient, you are hereby notified that you have received this message in error and that any review, dissemination, distribution or copying of this message, or any attachment thereto, in whole or in part, is strictly prohibited. If you have received this message in error, please immediately notify us by telephone, fax or e-mail and delete the message and all of its attachments. Thank you. Every effort is made to keep our network free from viruses. You should, however, review this e-mail message, as well as any attachment thereto, for viruses. We take no responsibility and have no liability for any computer virus which may be transferred via this e-mail message.

McGill, James T(Z71171)

From: Bettinelli, Antonio [Antonio_Bettinelli@standardandpoors.com]
Sent: Friday, June 05, 2009 9:02 AM
To: McGill, James T(Z71171)
Subject: RE: Request for info

Jim,

We'll need your updated liquidity survey (you may have mentioned that your most recent was March), your most recent MTM positions by counterparty, updated metro statistics with past due accounts and bad debts (the template you populated for me before). Thanks.

Tony

From: James.McGill@pinnaclewest.com
[mailto:James.McGill@pinnaclewest.com]
Sent: Thursday, June 04, 2009 4:56 PM
To: Bettinelli, Antonio
Subject: Request for info

Tony,
Would you please send me an e-mail listing the information you asked me for yesterday on the phone. Just want to make sure I get you everything you need.

Jim

Email Firewall made the following annotations

--- NOTICE ---

This message is for the designated recipient only and may contain confidential, privileged or proprietary information. If you have received it in error, please notify the sender immediately and delete the original and any copy or printout. Unintended recipients are prohibited from making any other use of this e-mail. Although we have taken reasonable precautions to ensure no viruses are present in this e-mail, we accept no liability for any loss or damage arising from the use of this e-mail or attachments, or for any delay or errors or omissions in the contents which result from e-mail transmission.

The information contained in this message is intended only for the recipient, and may be a confidential attorney-client communication or may otherwise be privileged and confidential and protected from disclosure. If the reader of this message is not the intended recipient, or an employee or agent responsible for delivering this message to the intended recipient, please be aware that any dissemination or copying of this communication is strictly prohibited. If you have received this communication in error, please immediately notify us by replying to the message and deleting it from your computer. The McGraw-Hill Companies, Inc. reserves the right, subject to applicable local law, to monitor and review the content of any electronic message or information sent to or from McGraw-Hill employee e-mail addresses without informing the sender or recipient of the message.

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Tuesday, June 09, 2009 10:35 AM
To: 'Bettinelli, Antonio'
Subject: Mgmt. Meeting

Tony,
July is now not going to work. Would you and your team be available 8/25 or 8/26?

Jim

McGill, James T(Z71171)

From: Bettinelli, Antonio [Antonio_Bettinelli@standardandpoors.com]
Sent: Tuesday, June 09, 2009 10:57 AM
To: McGill, James T(Z71171)
Subject: RE: Mgmt. Meeting

No problem. I'll check.

From: James.McGill@pinnaclewest.com [mailto:James.McGill@pinnaclewest.com]
Sent: Tuesday, June 09, 2009 10:35 AM
To: Bettinelli, Antonio
Subject: Mgmt. Meeting

Tony,
July is now not going to work. Would you and your team be available 8/25 or 8/26?

Jim

Email Firewall made the following annotations

--- NOTICE ---

This message is for the designated recipient only and may contain confidential, privileged or proprietary information. If you have received it in error, please notify the sender immediately and delete the original and any copy or printout. Unintended recipients are prohibited from making any other use of this e-mail. Although we have taken reasonable precautions to ensure no viruses are present in this e-mail, we accept no liability for any loss or damage arising from the use of this e-mail or attachments, or for any delay or errors or omissions in the contents which result from e-mail transmission.

The information contained in this message is intended only for the recipient, and may be a confidential attorney-client communication or may otherwise be privileged and confidential and protected from disclosure. If the reader of this message is not the intended recipient, or an employee or agent responsible for delivering this message to the intended recipient, please be aware that any dissemination or copying of this communication is strictly prohibited. If you have received this communication in error, please immediately notify us by replying to the message and deleting it from your computer. The McGraw-Hill Companies, Inc. reserves the right, subject to applicable local law, to monitor and review the content of any electronic message or information sent to or from McGraw-Hill employee e-mail addresses without informing the sender or recipient of the message.

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Wednesday, June 10, 2009 8:35 AM
To: 'Bettinelli, Antonio'
Subject: Metro info

Attachments: Book1.xls

Tony,
Here is the info you requested.

Jim



Book1.xls (16 KB)

Arizona Public Service Company

	2007	2008	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09
Company Data									
Customers									
Residential									
Commercial (Non-Residential)									
Past Due Accounts									
Residential (\$m)									
Commercial									
Inactive (Residential & Non Residential \$m)									
Inactive (Residential & Non Residential accounts)									
Bad Debt/Write-off (\$m)									
Bad Debt/Write-off (\$m) cumulative									
Employment Data⁽¹⁾									
Employment (000's)									
YY % Change									
Unemployment Rate									

(1) Employment Data provided by The Bureau of Labor Statistics for the Phoenix-Mesa-Scottsdale MSA. May data is not available as of 6/10/2009 and April 2009 Employment Data is preliminary.

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Friday, June 12, 2009 7:36 AM
To: 'Philip.Smyth@fitchratings.com'
Subject: FW: Ratings letter for Maricopa refunding.

Phil,
Will we be getting a ratings letter today?

Jim

From: McGill, James T(Z71171)
Sent: Thursday, June 04, 2009 4:43 PM
To: 'Philip.Smyth@fitchratings.com'
Subject: Ratings letter for Maricopa refunding.

Phil,
Could we get a letter from you by next Friday (6/12) for the Maricopa bonds. We're mailing out the POS on Monday 6/15. The documents are essentially the same as what I sent you for the Nav/Coco bonds we refunded last month. I'll send you the Maricopa documents early next week.

Jim

McGill, James T(Z71171)

From: Bettinelli, Antonio [Antonio_Bettinelli@standardandpoors.com]
Sent: Friday, June 12, 2009 9:22 AM
To: ivan.l.naguit@jpmorgan.com
Cc: McGill, James T(Z71171); Dolyniuk, Karen E(J97440)
Subject: Tax-exempt refunding – S&P's Ratings on APS

Ivan,

Standard & Poor's unsecured credit rating and issue level ratings on Arizona Public Service Co. is BBB- with a stable Outlook.

Regards,

Tony Bettinelli
Associate
U.S. Utilities & Infrastructure
Standard & Poor's Corporate Ratings
San Francisco, CA
(415) 371-5067
tony_bettinelli@sandp.com

The information contained in this message is intended only for the recipient, and may be a confidential attorney-client communication or may otherwise be privileged and confidential and protected from disclosure. If the reader of this message is not the intended recipient, or an employee or agent responsible for delivering this message to the intended recipient, please be aware that any dissemination or copying of this communication is strictly prohibited. If you have received this communication in error, please immediately notify us by replying to the message and deleting it from your computer. The McGraw-Hill Companies, Inc. reserves the right, subject to applicable local law, to monitor and review the content of any electronic message or information sent to or from McGraw-Hill employee e-mail addresses without informing the sender or recipient of the message.

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Friday, June 12, 2009 7:59 AM
To: 'Philip.Smyth@fitchratings.com'
Subject: FW: APS Maricopa Refinancing - Preliminary Official Statement and Underwriting Agreement Drafts
Attachments: US_NE_500348560_1.DOC; DVComparison_APS - Navajo & Coconino POS-US_NE_500348560_1.pdf

Phil,
Included redline so you can see changes from Nav/Coco that you already reviewed.

Jim

McGill, James T(Z71171)

From: Bettinelli, Antonio [Antonio_Bettinelli@standardandpoors.com]
Sent: Friday, June 12, 2009 9:27 AM
To: McGill, James T(Z71171)
Subject: RE: Mgmt. Meeting

Jim,

August 25th looks good. Shall we say 9am pacific? Let me know when it's finalized. Thanks.

Regards,
Tony

From: James.McGill@pinnaclewest.com [mailto:James.McGill@pinnaclewest.com]
Sent: Tuesday, June 09, 2009 10:35 AM
To: Bettinelli, Antonio
Subject: Mgmt. Meeting

Tony,
July is now not going to work. Would you and your team be available 8/25 or 8/26?

Jim

Email Firewall made the following annotations

--- NOTICE ---

This message is for the designated recipient only and may contain confidential, privileged or proprietary information. If you have received it in error, please notify the sender immediately and delete the original and any copy or printout. Unintended recipients are prohibited from making any other use of this e-mail. Although we have taken reasonable precautions to ensure no viruses are present in this e-mail, we accept no liability for any loss or damage arising from the use of this e-mail or attachments, or for any delay or errors or omissions in the contents which result from e-mail transmission.

The information contained in this message is intended only for the recipient, and may be a confidential attorney-client communication or may otherwise be privileged and confidential and protected from disclosure. If the reader of this message is not the intended recipient, or an employee or agent responsible for delivering this message to the intended recipient, please be aware that any dissemination or copying of this communication is strictly prohibited. If you have received this communication in error, please immediately notify us by replying to the message and deleting it from your computer. The McGraw-Hill Companies, Inc. reserves the right, subject to applicable local law, to monitor and review the content of any electronic message or information sent to or from McGraw-Hill employee e-mail addresses without informing the sender or recipient of the message.

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Friday, June 12, 2009 11:25 AM
To: 'Bettinelli, Antonio'
Subject: RE: Mgmt. Meeting

Tony - I've got it on our calendars. We'll see you at 9 a.m. in your office.

Jim

From: Bettinelli, Antonio [mailto:Antonio_Bettinelli@standardandpoors.com]
Sent: Friday, June 12, 2009 9:27 AM
To: McGill, James T(Z71171)
Subject: RE: Mgmt. Meeting

Jim,

August 25th looks good. Shall we say 9am pacific? Let me know when it's finalized. Thanks.

Regards,
Tony

From: James.McGill@pinnaclewest.com [mailto:James.McGill@pinnaclewest.com]
Sent: Tuesday, June 09, 2009 10:35 AM
To: Bettinelli, Antonio
Subject: Mgmt. Meeting

Tony,
July is now not going to work. Would you and your team be available 8/25 or 8/26?

Jim

Email Firewall made the following annotations

--- NOTICE ---

This message is for the designated recipient only and may contain confidential, privileged or proprietary information. If you have received it in error, please notify the sender immediately and delete the original and any copy or printout. Unintended recipients are prohibited from making any other use of this e-mail. Although we have taken reasonable precautions to ensure no viruses are present in this e-mail, we accept no liability for any loss or damage arising from the use of this e-mail or attachments, or for any delay or errors or omissions in the contents which result from e-mail transmission.

The information contained in this message is intended only for the recipient, and may be a confidential attorney-client communication or may otherwise be privileged and confidential and protected from disclosure. If the reader of this message is not the intended recipient, or an employee or agent responsible for delivering this message to the intended recipient, please be aware that any dissemination or copying of this communication is strictly prohibited. If you have received this communication in error, please immediately notify us by replying to the message and deleting it from your computer. The McGraw-Hill Companies, Inc. reserves the right, subject to applicable local law, to monitor and review the content of any electronic message or

information sent to or from McGraw-Hill employee e-mail addresses without informing the sender or recipient of the message.

McGill, James T(Z71171)

From: Philip.Smyth@fitchratings.com
Sent: Friday, June 12, 2009 11:51 AM
To: McGill, James T(Z71171)
Subject: Rating letter...

Attachments: PNW_APS PCRB_Rating Letter_6.12.2009_P.pdf



PNW_APS
PCRB_Rating Letter_6.

Jim,

Here is the rating letter as requested. Please let me know if you need anything further.

Sincerely,

Phil

Philip W. Smyth, CFA
Senior Director
Fitch Ratings
212 908 0531

(See attached file: PNW_APS PCRB_Rating Letter_6.12.2009_P.pdf)

Confidentiality Notice: The information in this e-mail and any attachment(s) is confidential and for the use of the addressee(s) only. If you have received this e-mail in error, please delete this e-mail. Unauthorized use, reliance, disclosure or copying of the contents of this e-mail, or any similar action, is prohibited.

This email has been scanned by the MessageLabs Email Security System.
For more information please visit <http://www.messagelabs.com/email>

FitchRatings

One State Street Plaza
New York, NY 10004

T 212 908 0500 / 800 75 FITCH
www.fitchratings.com

June 12, 2009

Mr. Christopher Froggatt
Vice President and Treasurer
Pinnacle West Capital Corp.
400 N. 5th Street, 20th floor
Phoenix, AZ 85004

Re: \$163.975 Million Maricopa County, Arizona Pollution Control Corporation Pollution Control Revenue Refunding Bonds (Arizona Public Service Company Palo Verde Project) 2009 Series A, 2009 Series B, 2009 Series C, 2009 Series D, and 2009 Series E.

Dear Mr. Froggatt,

Fitch Ratings ("Fitch") has assigned a 'BBB' rating to the above referenced securities. The Rating Outlook is Stable.

Ratings assigned by Fitch are based on the information and documents provided to us by you and other parties and are subject to receipt of the final closing documents. Fitch relies on all these parties for the accuracy of such information and documents. Fitch did not audit or verify the truth or accuracy of such information.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer. Ratings do not comment on the adequacy of market price, the suitability of any investment, loan or security for a particular investor (including without limitation, any accounting and/or regulatory treatment), or the tax-exempt nature or taxability of payments made in respect of any investment, loan or security. Fitch is not your advisor, nor is Fitch providing to you or any other party any financial advice, or any legal, auditing, accounting, appraisal, valuation or actuarial services. A rating should not be viewed as a replacement for such advice or services.

The assignment of a rating by Fitch does not constitute consent by Fitch to the use of its name as an expert in connection with any registration statement or other filings under US, UK or any other relevant securities laws.

It is important that you promptly provide us with all information that may be material to the ratings so that our ratings continue to be appropriate. Ratings may be raised, lowered, withdrawn, or placed on Rating Watch due to changes in, additions to, accuracy of or the inadequacy of information or for any other reason Fitch deems sufficient.

FitchRatings

Nothing in this letter is intended to or should be construed as creating a fiduciary relationship between Fitch and you or between us and any user of the ratings. Nothing in this letter shall limit our right to publish, disseminate or license others to publish or otherwise to disseminate the ratings or the rationale for the ratings.

In this letter, "**Fitch**" means Fitch, Inc. and Fitch Ratings Ltd and any subsidiary of either of them together with any successor in interest to any such person.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please contact me at 212 908 0531.

Sincerely,



Fitch
Philip W. Smyth, CFA
Senior Director
Global Power

McGill, James T(Z71171)

From: McGill, James T(Z71171)

Sent: Friday, June 12, 2009 11:54 AM

To: 'Schumacher, Laura'

Subject: FW: APS Maricopa Refinancing - Preliminary Official Statement and Underwriting Agreement Drafts

Attachments: US_NE_500348560_1.DOC; DVComparison_APS - Navajo & Coconino POS-US_NE_500348560_1.pdf

Laura ,
included redline so you can see changes from Nav/Coco that you already reviewed.

Jim

McGill, James T(Z71171)

From: Schumacher, Laura [Laura.Schumacher@moodys.com]
Sent: Friday, June 12, 2009 1:23 PM
To: McGill, James T(Z71171)
Subject: Re: APS Maricopa Refinancing - Preliminary Official Statement and Underwriting Agreement Drafts

Jim, lucky you caught me, without the POS the need for the letter slipped my mind. Mitchell should be e-mailing it to you shortly. Have a nice weekend. Laura

-----Original Message-----

From: James.McGill@pinnaclewest.com <James.McGill@pinnaclewest.com>
To: Schumacher, Laura
Sent: Fri Jun 12 14:54:03 2009
Subject: FW: APS Maricopa Refinancing - Preliminary Official Statement and Underwriting Agreement Drafts

Laura ,
Included redline so you can see changes from Nav/Coco that you already reviewed.

Jim

Email Firewall made the following annotations

--- NOTICE ---

This message is for the designated recipient only and may contain confidential, privileged or proprietary information. If you have received it in error, please notify the sender immediately and delete the original and any copy or printout. Unintended recipients are prohibited from making any other use of this e-mail. Although we have taken reasonable precautions to ensure no viruses are present in this e-mail, we accept no liability for any loss or damage arising from the use of this e-mail or attachments, or for any delay or errors or omissions in the contents which result from e-mail transmission.

The information contained in this e-mail message, and any attachment thereto, is confidential and may not be disclosed without our express permission. If you are not the intended recipient or an employee or agent responsible for delivering this message to the intended recipient, you are hereby notified that you have received this message in error and that any review, dissemination, distribution or copying of this message, or any attachment thereto, in whole or in part, is strictly prohibited. If you have received this message in error, please immediately notify us by telephone, fax or e-mail and delete the message and all of its attachments. Thank you. Every effort is made to keep our network free from viruses. You should, however, review this e-mail message, as well as any attachment thereto, for viruses. We take no responsibility and have no liability for any computer virus which may be transferred via this e-mail message.

McGill, James T(Z71171)

From: Moss, Mitchell [Mitchell.Moss@moodys.com]
Sent: Friday, June 12, 2009 1:30 PM
To: McGill, James T(Z71171)
Cc: Schumacher, Laura
Subject: Rating Letter
Attachments: Pinnacle West - RL - 6.12.09.pdf

Jim

Attached is the rating letter for the APS Maricopa Refinancing.

Let me know if you need anything else.

Mitchell

<<Pinnacle West - RL - 6.12.09.pdf>>

Mitchell Moss, CFA
Moody's Investors Service
7 World Trade Center, At 250 Greenwich Street
New York, NY 10007
212-553-4478, 212-298-6478 fax
mitchell.moss@moodys.com

The information contained in this e-mail message, and any attachment thereto, is confidential and may not be disclosed without our express permission. If you are not the intended recipient or an employee or agent responsible for delivering this message to the intended recipient, you are hereby notified that you have received this message in error and that any review, dissemination, distribution or copying of this message, or any attachment thereto, in whole or in part, is strictly prohibited. If you have received this message in error, please immediately notify us by telephone, fax or e-mail and delete the message and all of its attachments. Thank you. Every effort is made to keep our network free from viruses. You should, however, review this e-mail message, as well as any attachment thereto, for viruses. We take no responsibility and have no liability for any computer virus which may be transferred via this e-mail message.



Moody's Investors Service

June 12, 2009

Mr. Chris Froggatt
Vice President and Treasurer
Pinnacle West Capital Corporation
400 North 5th Street, 19th Fl
Mail Station 9996
Phoenix, AZ 85004

7 World Trade Center at 250 Greenwich Street
New York, New York 10007

Dear Chris:

Per your request, Moody's Investors Service Rating Committee has reviewed a draft copy of the Preliminary Official Statement Dated June 2009 relating to the followings Bonds:

\$163,975,000
Maricopa County, Arizona
Pollution Control Corporation
Pollution Control Revenue Refunding Bonds
(Arizona Public Service Company Palo Verde Project)

2009 Series A \$35,975,000
2009 Series B \$32,000,000
2009 Series C \$32,000,000
2009 Series D \$32,000,000
2009 Series E \$32,000,000
(collectively the "Bonds")

Based upon our review and subject to final documentation, it is Moody's opinion that the Bonds, which represent senior unsecured obligations of Arizona Public Service Company, be assigned the same rating as Arizona Public Service Company's other senior unsecured long-term debt obligations, which is currently Baa2.

Moody's ratings are subject to revision or withdrawal at any time without prior notice. The ratings and any revisions and withdrawals thereof will be publicly disseminated by Moody's through normal print and electronic media and in response to oral requests to Moody's rating desk.

If I may be of further assistance, please call me at (212) 553-3853.

Sincerely,

Laura Schumacher
Vice President - Senior Analyst

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Friday, June 12, 2009 2:35 PM
To: 'Philip.Smyth@fitchratings.com'
Subject: RE: Rating letter...

Got it Phil - thanks.

-----Original Message-----

From: Philip.Smyth@fitchratings.com [mailto:Philip.Smyth@fitchratings.com]
Sent: Friday, June 12, 2009 11:51 AM
To: McGill, James T(Z71171)
Subject: Rating letter...

Jim,

Here is the rating letter as requested. Please let me know if you need anything further.

Sincerely,

Phil

Philip W. Smyth, CFA
Senior Director
Fitch Ratings
212 908 0531

(See attached file: PNW_APS PCRB_Rating Letter_6.12.2009_P.pdf)

Confidentiality Notice: The information in this e-mail and any attachment(s) is confidential and for the use of the addressee(s) only. If you have received this e-mail in error, please delete this e-mail. Unauthorized use, reliance, disclosure or copying of the contents of this e-mail, or any similar action, is prohibited.

This email has been scanned by the MessageLabs Email Security System.
For more information please visit <http://www.messagelabs.com/email>

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Friday, June 12, 2009 2:36 PM
To: 'Moss, Mitchell'
Cc: Schumacher, Laura
Subject: RE: Rating Letter

Thanks.

From: Moss, Mitchell [mailto:Mitchell.Moss@moodys.com]
Sent: Friday, June 12, 2009 1:30 PM
To: McGill, James T(Z71171)
Cc: Schumacher, Laura
Subject: Rating Letter

Jim

Attached is the rating letter for the APS Maricopa Refinancing.

Let me know if you need anything else.

Mitchell

<<Pinnacle West - RL - 6.12.09.pdf>>

Mitchell Moss, CFA
Moody's Investors Service
7 World Trade Center, At 250 Greenwich Street
New York, NY 10007
212-553-4478, 212-298-6478 fax
mitchell.moss@moodys.com

The information contained in this e-mail message, and any attachment thereto, is confidential and may not be disclosed without our express permission. If you are not the intended recipient or an employee or agent responsible for delivering this message to the intended recipient, you are hereby notified that you have received this message in error and that any review, dissemination, distribution or copying of this message, or any attachment thereto, in whole or in part, is strictly prohibited. If you have received this message in error, please immediately notify us by telephone, fax or e-mail and delete the message and all of its attachments. Thank you. Every effort is made to keep our network free from viruses. You should, however, review this e-mail message, as well as any attachment thereto, for viruses. We take no responsibility and have no liability for any computer virus which may be transferred via this e-mail message.

McGill, James T(Z71171)

From: Higuchi, Dene C(Z05435) on behalf of Hickman, Rebecca (Z46875)
Sent: Monday, June 15, 2009 6:07 AM
Subject: PNW/APS: Definitive Settlement Agreement in APS' Pending Retail Rate Case

Attachments: APS Definitive Settlement Agreement 06-12-09.pdf

On June 12th, Arizona Public Service Company (APS) and other parties to its pending retail rate case filed a definitive settlement agreement with the Arizona Corporation Commission. A summary of the principal terms of this agreement were filed in a Form 8-K this morning, and are included in the text below. For your convenience, we've also attached a PDF of the agreement.

As always, if you have questions about this development or need other information, please contact me or Lisa Malagon (602-250-5671).

Becky

Rebecca L. Hickman
Director of Investor Relations | Pinnacle West Capital Corporation
400 North 5th Street | Station 9998 | Phoenix, AZ 85004
Office 602-250-5668 | Fax 602-250-2789 | E-mail rhickman@pinnaclewest.com

TEXT OF FORM 8-K

Item 1.01. Entry into a Material Definitive Agreement

On June 12, 2009, Arizona Public Service Company ("APS") and other parties to APS' pending general retail rate case entered into an agreement (the "Settlement Agreement") detailing the terms upon which the parties have agreed to settle the rate case. The Settlement Agreement is conditioned upon approval of the Arizona Corporation Commission (the "ACC"). The ACC has scheduled an evidentiary hearing on the matter commencing on August 19, 2009. A copy of the Settlement Agreement is attached hereto as Exhibit 99.1.

The Settlement Agreement includes a net retail rate increase of \$207.5 million, which represents a base rate increase of \$344.7 million less the reclassification of \$137.2 million of fuel and purchased power revenues from the existing power supply adjustor ("PSA") to base rates.

The parties also agreed to a rate case filing plan in which APS is prohibited from filing its next two general rate cases until on or after June 1, 2011 and June 1, 2013, respectively, unless certain extraordinary events occur. Subject to the foregoing, APS may not request its next general retail rate increase to be effective prior to July 1, 2012. In addition, the parties will use good faith efforts to process these subsequent rate cases within twelve months of sufficiency findings from the ACC staff, which generally occur within 30 days after the filing of a rate case.

Other key provisions of the Settlement Agreement include the following:

- A non-fuel base rate increase in annual pretax revenues of \$196.3 million, which would replace the \$65.2 million interim base rate surcharge approved by the ACC on December 18, 2008;
- A net increase in annual pretax revenues of \$11.2 million for fuel and purchased power costs reflected in base rates that would not otherwise have been recoverable under the PSA;
- A base fuel rate of \$0.0376 per kWh (compared to the current base fuel rate of \$0.0325 per kWh);
- Revenue accounting treatment for line extension payments received for new or upgraded service from January 1, 2010 through year end 2012 (or until new rates are established in APS' next general rate case, if that is before the end of 2012), resulting in present estimates of increased revenues of \$23 million, \$25 million and \$49 million, respectively;
- An authorized return on common equity of 11.0%;

- A capital structure comprised of 46.2% debt and 53.8% common equity;
- A commitment from APS to reduce average annual operational expenses by at least \$30 million from 2010 through 2014 (an increase of \$10 million above the \$20 million required reductions for 2009 pursuant to the ACC's interim rate decision in this matter);
- Equity infusions into APS of at least \$700 million during the period beginning June 1, 2009 through December 31, 2014; and
- Various modifications to the existing energy efficiency, demand-side management and renewable energy programs that would require APS to, among other things, expand its conservation and demand-side management programs and its use of renewable energy, as well as allow for concurrent recovery of renewable energy expenses and provide for more concurrent recovery of demand-side management costs and incentives.

If the Settlement Agreement is approved by the ACC, APS expects that its provisions, including the new rates, would become effective on or about January 1, 2010.

For additional information regarding the rate case, see "2008 General Retail Rate Case" in Note 5 of the Notes to Condensed Consolidated Financial Statements in the Pinnacle West Capital Corporation/APS Report on Form 10-Q for the fiscal quarter ended March 31, 2009.



APS Definitive
Settlement Agre...

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Wednesday, June 17, 2009 8:20 AM
To: 'Bettinelli, Antonio'
Subject: 2009 APS MT Collateral 6-12-09.xls

Attachments: 2009 APS MT Collateral 6-12-09.xls

Tony,
Here is info on our mark-to-markets as of Friday 6/12. Let me know if you have any questions.

Jim



2009 APS MT
Collateral 6-12-09...

Attachment Intentionally Omitted -- Contains Confidential Information

McGill, James T(Z71171)

From: Higuchi, Dene C(Z05435) on behalf of Hickman, Rebecca (Z46875)
Sent: Wednesday, June 17, 2009 9:03 AM
Subject: PNW/APS: DAVID FALCK NAMED GENERAL COUNSEL

Today, we announced that David P. Falck has been named Executive Vice President, General Counsel and Secretary of Pinnacle West and Arizona Public Service, replacing Nancy Loftin who has announced her retirement later this year. The text of the press release is included below in this message.

As always, if you have any questions about this announcement or need other information about our company, please contact me or Lisa Malagon (602-250-5671).

Sincerely,
Becky

Rebecca L. Hickman
Director of Investor Relations | Pinnacle West Capital Corporation
400 North 5th Street | Station 9998 | Phoenix, AZ 85004
Office 602-250-5668 | Fax 602-250-2789 | E-mail rhickman@pinnaclewest.com

PINNACLE WEST CAPITAL NAMES NEW GENERAL COUNSEL

PHOENIX – Pinnacle West Capital Corporation (NYSE: PNW) today announced the appointment of David P. Falck as Executive Vice President, General Counsel and Secretary of Pinnacle West and Arizona Public Service Company.

With more than 20 years of experience as a legal advisor to the energy industry, Falck comes to Pinnacle West from New Jersey-based Public Service Enterprise Group Inc. (PSEG), a diversified energy company that owns one of the nation's largest electric utilities. While at PSEG, Falck held the position of Senior Vice President – Law, with responsibilities for the Law Department and the Office of the Corporate Secretary.

Falck will succeed retiring Senior Vice President, General Counsel and Secretary Nancy Loftin, who joined the company in 1985. The changes will take effect late-July 2009.

"Nancy has helped steer Pinnacle West and APS through a variety of challenges for more than two decades, and I know I speak for everyone at the Company and on the Board when I say she will be missed as a professional, a peer, a counselor and a friend," said Chairman and Chief Executive Officer Don Brandt.

Prior to joining the senior management team at PSEG, Falck was a partner and member of the Managing Board of Pillsbury Winthrop Shaw Pittman LLP, New York, an 800-lawyer firm with offices in the U.S. and abroad. He joined Winthrop, Stimson, Putnam & Roberts, a predecessor firm, in 1978.

"David brings experience from a diversified energy company that rivals ours in setting benchmarks in many areas of performance," said Brandt. "Additionally, he has a well-earned reputation as a real expert in energy and utility law developed over the course of decades of intensive, first-tier practice."

Falck holds a Doctor of Laws degree from Washington & Lee University School of Law in Virginia, and an undergraduate degree from Colgate University in New York.

Pinnacle West is a Phoenix-based company with consolidated assets of about \$11 billion. Through its subsidiaries, the Company generates, sells and delivers electricity and sells energy-related products and services to retail and wholesale customers in the western United States. It also develops residential, commercial, and industrial real estate projects.

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Wednesday, June 17, 2009 4:13 PM
To: 'Bettinelli, Antonio'
Subject: 200903 S&P-Liquidity Survey_modified.xls

Attachments: 200903 S&P-Liquidity Survey_modified.xls

Here's the liquidity survey for 3/31/09



200903
S&P-Liquidity Survey_r

ARIZONA PUBLIC SERVICE COMPANY

Primary and Secondary Liquidity Calculations

March 31, 2009

(\$000)

Bank Balance	\$		Cash on Hand	\$	
Cash Collateral Held			Available Credit Lines		
Cash on Hand			Cash / L/Cs Posted for MTM		
RLC			Cash / L/Cs Posted for Static Margin		
Outstanding Balance			Market Value of Discretionary Inventory		
Outstanding L/Cs			Primary Liquidity		
Available Credit Lines					
Market Value of Discretionary Inventory					
Cash Posted for MTM					
Cash Posted for Static Margin					
L/Cs Posted for MTM					
L/Cs Posted for Static Margin					

PINNACLE WEST CAPITAL CORPORATION

Primary and Secondary Liquidity Calculations

March 31, 2009

(\$000)

Bank Balance	\$	
Cash Collateral Held		
Cash on Hand		
RLC		
Outstanding Balance		
Outstanding L/Cs		
Available Credit Lines		
Market Value of Discretionary Inventory		
Cash Posted for MTM		
Cash Posted for Static Margin		
L/Cs Posted for MTM		
L/Cs Posted for Static Margin		

Bank Balance	\$	
Cash Collateral Held		
Cash on Hand		
RLC		
Outstanding Balance		
Outstanding L/Cs		
Available Credit Lines		
Market Value of Discretionary Inventory		
Cash Posted for MTM		
Cash Posted for Static Margin		
L/Cs Posted for MTM		
L/Cs Posted for Static Margin		

Cash on Hand	\$	
Available Credit Lines		
Cash / L/Cs Posted for MTM		
Cash / L/Cs Posted for Static Margin		
Market Value of Discretionary Inventory		
Primary Liquidity	\$	

S&P CELA CALCULATIONS
Credit Event Liquidity Adequacy
(Downgrade to Non-Investment Grade)
March 31, 2009
(\$000)

	APS		PWCC	
Cash on Hand	\$	[REDACTED]	\$	[REDACTED]
Available Credit Lines		[REDACTED]		[REDACTED]
Cash / LCs Posted for MTM		[REDACTED]		[REDACTED]
Cash / LCs Posted for Static Margin		-		-
Market Value of Discretionary Inventory		-		-
Primary Liquidity	\$	[REDACTED]		[REDACTED]
Negative MTM Exposure	\$	[REDACTED]		[REDACTED]
JPM Futures Negative MTM Exposure		[REDACTED]		[REDACTED]
30-Day Exposure		[REDACTED]		[REDACTED]
Prepay Exposure		[REDACTED]		[REDACTED]
Increase in Static Margin		-		-
Triggers in Loans and Contracts		[REDACTED]		[REDACTED]
Commercial Paper		-		-
Total Liquidity Demands	\$	[REDACTED]		[REDACTED]
	CELA			[REDACTED]
S&P Recommended Minimum		[REDACTED]		[REDACTED]

S&P MCELA CALCULATIONS
Market and Credit Event Liquidity Adequacy
(Downgrade to Non-Investment Grade and Market Stress)
March 31, 2009
(\$000)

		APS		PWCC
Cash on Hand	\$			
Available Credit Lines				
Cash / L/Cs Posted for MTM				
Cash / L/Cs Posted for Static Margin		-		-
Market Value of Discretionary Inventory		-		-
Primary Liquidity	\$			
Negative MTM Exposure	\$			
JPM Futures Negative MTM Exposure				
30-Day Exposure				
Prepay Exposure				
Increase in Static Margin		-		-
Triggers in Loans and Contracts				
Commercial Paper		-		-
Total Liquidity Demands	\$			
MCELA				
S&P Recommended Minimum				
Price Increase by 15% in 1st yr and 20% thereafter				
MTM				
JPMF				
Price decrease by 15% in 1st yr and 20% thereafter				
MTM				
JPMF				

S&P LIQUIDITY SURVEY

Arizona Public Service Pinnacle West Capital Corp.
March 31, 2009 March 31, 2009

Line	Description	Amount (millions \$)	Amount (millions \$)
9	Section I - Sources of Primary Liquidity		
10	Question A1 Total Unrestricted Cash		
11	Question A2 Availability under committed bank lines		
12	Question A3 Collateral posted		
13	Question A4 Market Value of Discretionary Inventory		
14	Question A Total Primary Liquidity (A1+A2+A3+A4)		
15			
16	Question A7 Collateral received from counterparties (cash only)		
17			
18			
19	Section II - Credit Event Liquidity Calls		
20	Question B1 Negative MTM related to credit thresholds		
21	Question B2 Negative MTM related to adequate assurance		
22	Question B3 Estimated 60-Day Exposure		
23	Question B Net Exposure (net as allowed by contractual terms)		
24			
25	Question C Static Margin		
26	Question D Triggers in loans & contracts		
27	Question E Commercial Paper outstanding (including PC Bonds)		
28	Total Credit Event Exposure (B+C+D+E)		
29			
30	CELA Ratio Credit Event Liquidity Adequacy (A/(B+C+D+E))		
31			
32	Section III - Credit and Market Event Liquidity Calls		
34	Question F1 Neg MTM given a Credit Event + 15% price increase in 1st yr and 20% thereafter		
35	Question F2 Neg MTM given a Credit Event + 15% price decrease in 1st yr and 20% thereafter		
36	Question F Take larger of the two above (F1 or F2)		
37			
38	MCELA Ratio Market & Credit Event Liquidity Adeq (A/F)		
39			
40	Section IV - Monthly Volume (realized physical sales and purchases)		
41	Question G1 Natural Gas (mmbtu) Purchases		
42	Question G2 Natural Gas (mmbtu) Sales		
43			
44	Question G3 Power (MWh) Purchases		
45	Question G4 Power (MWh) Sales		
46			
47	Question G5 Crude Oil (bbl) Purchases		
48	Question G6 Crude Oil (bbl) Sales		
49			
50	Question H Baseine Henry Hub Average One-Year Forward Price of Gas used for this survey (\$/MMBtu)?		
51			
52	Question I Absent a credit event and assuming a parallel shift of the entire forward curve, how highlow must the average one-year forward price of gas (Henry Hub) move before your company exhausts all sources of primary liquidity reported in Question A7? Please consider both the effect of additional margin calls as well as other working capital items.		

Notes:

- (a) Exclude cash collateral posted to back LCs.
- (b) Gas inventory used for arbitrage trading will be considered a source of primary liquidity as long as the inventory is not pledged as security under the terms of an existing bank line.
- (c) Assume that power and oil prices move in proportion to gas prices. Cash collateral from counterparties should NOT be counted as a source of primary liquidity.
- (d) Available threshold \$76M on 3/31/09

McGill, James T(Z71171)

From: Bettinelli, Antonio [Antonio_Bettinelli@standardandpoors.com]
Sent: Thursday, June 18, 2009 1:00 PM
To: McGill, James T(Z71171)
Subject: ERM Questions
Attachments: ERM for Non-Financial Companies 5 7 08.pdf; ERM.doc

Jim,

Thanks. I have one more item that I need regarding ERM. Here are the materials. We can run through them in a quick call. Tomorrow or Monday look best for me. Alternatively, you can just send me a document with your responses. Thanks.

Tony

From: James.McGill@pinnaclewest.com [mailto:James.McGill@pinnaclewest.com]
Sent: Wednesday, June 17, 2009 4:13 PM
To: Bettinelli, Antonio
Subject: 200903 S&P-Liquidity Survey_modified.xls

Here's the liquidity survey for 3/31/09

Email Firewall made the following annotations

--- NOTICE ---

This message is for the designated recipient only and may contain confidential, privileged or proprietary information. If you have received it in error, please notify the sender immediately and delete the original and any copy or printout. Unintended recipients are prohibited from making any other use of this e-mail. Although we have taken reasonable precautions to ensure no viruses are present in this e-mail, we accept no liability for any loss or damage arising from the use of this e-mail or attachments, or for any delay or errors or omissions in the contents which result from e-mail transmission.

The information contained in this message is intended only for the recipient, and may be a confidential attorney-client communication or may otherwise be privileged and confidential and protected from disclosure. If the reader of this message is not the intended recipient, or an employee or agent responsible for delivering this message to the intended recipient, please be aware that any dissemination or copying of this communication is strictly prohibited. If you have received this communication in error, please immediately notify us by replying to the message and deleting it from your computer. The McGraw-Hill Companies, Inc. reserves the right, subject to applicable local law, to monitor and review the content of any electronic message or information sent to or from McGraw-Hill employee e-mail addresses without informing the sender or recipient of the message.

- a. What are the company's top 5 risks, how big are they, and how often are they likely to occur? How often is the list of top risks updated?
- b. What is management doing about top risks?
- c. What size quarterly operating or cash loss has management and the board agreed is tolerable?
- d. Describe the staff responsible for risk management programs and their place in the organization chart. How do you measure success of risk management activities?
- e. How would a loss from a key risk impact incentive compensation of top management and on planning/budgeting?
- f. Tell us about discussions about risk management that have taken place at the board level or among top management when making strategic decisions.
- g. Give an example of how your company responded to a recent "surprise" in your industry and describe whether the surprise affected your company and others differently.

**STANDARD
& POOR'S**

RATINGSDIRECT®

May 7, 2008

**Enterprise Risk Management:
Standard & Poor's To Apply
Enterprise Risk Analysis To
Corporate Ratings**

Primary Credit Analysts:

Steven J Dreyer, New York (1) 212-438-7187; steven_dreyer@standardandpoors.com
David Ingram, New York (1) 212-438-7104; david_ingram@standardandpoors.com

Table Of Contents

How We Define ERM

Effect On Ratings

Responses To Our Request For Comment

Next Steps In Our Implementation Of ERM Analysis

www.standardandpoors.com/ratingsdirect

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page.

1

Page 40 of 74

Enterprise Risk Management:

Standard & Poor's To Apply Enterprise Risk Analysis To Corporate Ratings

Standard & Poor's Ratings Services today announced that after considering replies to our "Request For Comment: Enterprise Risk Management Analysis For Credit Ratings Of Nonfinancial Companies" published Nov. 15, 2007, we will enhance our ratings process for nonfinancial companies through an enterprise risk management (ERM) review. ERM will add an additional dimension to our analysis of management and corporate governance, creating a more systematic framework for an inherently subjective topic.

Ultimately, we will enhance transparency by providing investors and issuers our views of a management team's ability to understand, articulate, and successfully manage risk. The benefits of the ERM enhancement will be to make the process of forming our rating opinions more forward looking, achieve finer differentiation among ratings, and facilitate construction of "what if" forecast scenarios.

We will begin to incorporate ERM into discussions with rated companies in the third quarter and begin to include commentary in our reports in the fourth quarter. The reviews will focus predominantly on risk-management culture and strategic risk management, two universally applicable aspects of ERM. We will defer formal scoring of companies' ERM capabilities (e.g., "strong," "adequate," "weak," etc.) until we have conducted a sufficient number of reviews to permit reliable benchmarking and published evaluation criteria, which is unlikely to occur before 2009. Credit ratings and rating outlooks would be affected in the meantime only if we observe extraordinary conditions that change our existing perception of a company's business profile. We are also deferring incorporating analysis of emerging risk management and risk-control processes, except as noted below.

How We Define ERM

We will recognize companies' adoption of generally accepted risk-management standards such as COSO (promulgated by The Committee of Sponsoring Organizations of the Treadway Commission) or AS/NZS 4360 (created by the Joint Standards Australia/Standards of New Zealand Committee OB/7) or others, but consider them neither a prerequisite for nor sufficient evidence of effective risk management. Moreover, we will note common and exceptional practices across peer companies and ultimately judge the effectiveness of whatever risk-management processes are in use. While open-minded about the form of risk-management structure, we begin with certain expectations.

We see ERM as:

- An approach to assure the firm is attending to all risks;
- A set of expectations among management, shareholders, and the board about which risks the firm will and will not take;
- A set of methods for avoiding situations that might result in losses that would be outside the firm's tolerance;
- A method to shift focus from "cost/benefit" to "risk/reward";
- A way to help fulfill a fundamental responsibility of a company's board and senior management;
- A toolkit for trimming excess risks and a system for intelligently selecting which risks need trimming; and

- A language for communicating the firm's efforts to maintain a manageable risk profile.

Alternatively, we feel ERM is not:

- A method to eliminate all risks;
- A guarantee that the firm will avoid losses;
- A crammed-together collection of longstanding and disparate practices;
- A rigid set of rules that must be followed under all circumstances;
- Limited to compliance and disclosure requirements;
- A replacement for internal controls of fraud and malfeasance;
- Exactly the same for all firms in all sectors;
- Exactly the same from year to year; nor
- A passing fad.

Effect On Ratings

The potential effect of ERM on ratings will significantly depend on the type of the enterprise we are assessing. For larger, multinational corporations, highly developed and well-resourced ERM efforts will be standard. We expect to have very different interaction about risk management with those companies compared with less-diversified companies and those with fewer resources that are at an earlier stage, such as those in certain emerging markets.

The ERM-related discussions we will have with rated companies will build on our existing analysis of management's operating and financial track record; credibility of strategies, projections, and execution; response to competitive threats; and risk governance bodies and structures.

Our industry-focused rating analysts will incorporate an ERM discussion into the regular credit reviews on each company, emphasizing risk-management culture and strategic risk management, which are the most broadly comparable and critical of the four areas outlined in our original proposal. In the risk-management culture analysis, discussion topics will include:

- Risk-management frameworks or structures currently in use;
- The roles of staff responsible for risk management and reporting lines;
- Internal and external risk-management communications;
- Broad risk-management policies and metrics for successful risk management; and
- The influence of risk management on budgeting and management compensation.

In addition, we will incorporate our existing review of governance, accounting policies and issues, and derivatives into this much broader analysis of a company's risk-management culture.

Under strategic risk management, our analysts will explore:

- Management's view of the most consequential risks the firm faces, their likelihood, and potential effect on credit;
- The frequency and nature of updating the identification of these top risks;
- The influence of risk sensitivity on liability management and financing decisions; and
- The role of risk management in strategic decision making.

For now, we have decided to exclude additional analysis of the other two areas cited in our original proposal,

risk-control processes and emerging risk management, beyond what is included in our current process. The additional effort required for us to scrutinize these company- and sector-specific areas may be of limited value at this time. An important exception to this is our ongoing review of risk-control processes that is already in place and that we can logically and consistently apply in new sectors.

Specifically, we have already conducted risk-control analyses using the Policies, Infrastructure, and Methodology (PIM) approach for electric power marketers and agribusiness companies with sizable trading operations. Building on that experience, we intend to examine the application of the PIM approach for oil and gas issuers with meaningful trading operations. What characterizes these exceptions is that unlike other corporate sectors with operational risks that are difficult to quantify, trading risks can be measured, modeled, and hedged. That allows us to apply a consistent approach that is within the realm of credit analysis tools we now use.

While we cannot audit assertions by company managers about their ERM procedures, we will closely examine the consistency between their statements and historical performance. We will specifically inquire about how they handled actual risks in the past. A discussion of ERM will become a regular part of our follow-up after significant drops in earnings or losses, significant restatements of past financial results, or material impairment losses and write-downs. Our discussions with managers about ERM will be to understand how consciously they have taken and retained risks and why they are comfortable with their net risk positions.

Responses To Our Request For Comment

We received written comments on our proposal to introduce ERM analysis from more than 60 respondents, including six from associations representing hundreds of rated companies. In addition, we received about 30 informal responses by telephone or in-person conversations. The respondents represented virtually all industries and global regions, with the majority from Europe and the U.S. About 60% of the responses came from rated nonfinancial companies, with the remainder from interested unrated companies, consultants, accounting firms, and financial institutions. Comments generally supported our proposal to introduce ERM analysis, with some reservations and recommendations.

Among the responses were some doubts that we could successfully integrate a meaningful ERM analysis into our process. Recent record losses at financial institutions that were previously subject to ERM analysis raised questions about the value of applying a similar analysis to nonfinancial companies. Others voiced concerns about our ability to apply ERM analysis equitably across diverse industries and regions. And some respondents were wary about the large investment that we and the companies we rate might have to make to process the new information.

The capital markets turmoil of recent months has managers and boards of financial institutions fundamentally rethinking their risk-management functions. That will translate into new insights and concomitant updates to our own risk-management analysis. The focus of these updates will be on the probabilities, magnitudes, and types of losses that institutions may experience. However, the fundamental structure of our analysis will remain intact. While the assumptions underlying our ERM analysis will evolve, recent events have reconfirmed the importance of focusing on risk management as part of the ratings analysis. Clearly, the downturn in the financial sector will provide new insights into these processes, which will guide our future analysis of institutions' ERM capabilities. Since mid-2007, we have changed ratings or outlooks on some financial institutions as a result of our view of their risk appetite, risk management, or both.

Applying ERM equitably across companies is important, but no less so than accounting for differences among sectors. We will approach risk culture and strategic risk management consistently to provide a common foundation for comparability and benchmarking of basic ERM capabilities and performance. We will reflect differences between sectors by weighting ERM's importance by sector and by diving more deeply on certain risks.

We will make judgments on a sector-by-sector basis about the overall importance of risk management to the future ability of companies to repay debt obligations. While all types of firms may experience extraordinary volatility by making poor risk-management decisions, our ratings process will take into account sector-specific risk management. For example, risk management for companies in the auto sector would be weighed more heavily than for transmission and distribution utilities. Automakers and suppliers are exposed to intense global competition, volatile production costs, and the challenge of constantly adapting to evolving customer preferences and regulatory mandates. Even moderately flawed risk management for these companies can result in devastating losses and bankruptcy. At the other end of the spectrum, transmission and distribution utilities generally enjoy a supportive regulatory environment; have monopolistic service territories; serve stable markets; and have relatively predictable long-term capital spending and financing needs. Faulty risk management for a utility could impact its allowed return on equity, but is less likely to appreciably denigrate its ability to repay debt.

For companies exposed to a single risk type that could cause material credit deterioration (e.g., commodity price risk for an agribusiness), we will perform a more in-depth review of how the companies manage that particular risk. In those cases, we will apply our PIM review to address that risk in a structured way.

Common recommendations expressed by a majority of respondents included: avoiding a "check-the-box" exercise, looking at the upside as well as the downside of risk, and giving credit for existing disclosures and frameworks. We agree with these sentiments and will incorporate them into the design of our methodology. A questionnaire approach might overemphasize controls of historical risks and underemphasize forward-looking analysis of risks that have not yet occurred. We also doubt that a form-filling exercise will provide greater understanding of management's intent and capability.

Concerning the "upside," we expect the ERM benchmarking process to result in a range of risk-management performance and ultimately deviations from "standard" performance, both positive and negative, which could influence ratings. Existing disclosures and frameworks will be the starting point of our discussions, but the discussions themselves will provide the greatest insights for our analysis.

Overall, the comments we received affirmed the value of ERM and its relevance to the credit ratings process, as well as numerous considered recommendations that we have incorporated and will continue to incorporate. While the formal comment period has ended, we continue to welcome views on the effectiveness of our ERM analysis enhancements.

Next Steps In Our Implementation Of ERM Analysis

While we are introducing this initiative globally, practical considerations will result in a staggered implementation. We expect ERM discussions with companies to begin to be incorporated into regularly scheduled review meetings in the third quarter of this year. Within a year from commencement, we expect all companies will have had at least an initial ERM discussion with our analysts.

Findings from these discussions will be examined first for particular analytic sectors in a particular region to develop preliminary benchmarks, then compared with larger groups of companies for more context. For example, after we complete a sufficient number of reviews, we will compare ERM results for U.S. medical supply companies first with each other, then with U.S. health care companies, then with health care companies globally, and then with all companies globally. Through this comparison, we will develop benchmarks that will form the basis of scoring at some future date and will help us identify both positive and negative outliers suggesting rating or outlook actions in the near term.

We will include ERM analysis in our reports across all sectors when we feel that we can assess relative performance levels, which we expect to begin to occur in the fourth quarter of 2008. Our analysis is likely to focus on significant gaps when a company is compared with industry peers.

Just as the introduction of ERM for a company is unlikely to radically change extant decision-making processes, we do not see ERM analysis radically altering our existing credit rating opinions. Its value will be incremental in most cases, negligible in a few, and eye-opening in some others. We expect that ERM analysis will drive some rating and outlook changes, but not before we have been able to benchmark companies against each other and over time.

The following contributed to this article: Amra Balic, Keith Bevan, Richard Cortright, Evan Gunter, Laurence Hazell, Raam Ratnam, Terry Pratt, Trevor Pritchard, Ivana Recalde, Jayne Ross, Lisa Wang, Jeanette Ward, and Arthur Wong.

Copyright © 2008, Standard & Poors, a division of The McGraw-Hill Companies, Inc. S&P and/or its third party licensors have exclusive proprietary rights in the data or information provided herein. This data/information may only be used internally for business purposes and shall not be used for any unlawful or unauthorized purposes. Dissemination, distribution or reproduction of this data/information in any form is strictly prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P, its affiliates or its third party licensors, S&P, its affiliates and its third party licensors do not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates and its third party licensors be liable for any direct, indirect, special or consequential damages in connection with subscriber's or others' use of the data/information contained herein. Access to the data or information contained herein is subject to termination in the event any agreement with a third-party of information or software is terminated.

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact Client Services, 55 Water Street, New York, NY 10041; (1)212.438.9823 or by e-mail to: research_request@standardandpoors.com.

McGill, James T(Z71171)

From: Bettinelli, Antonio [Antonio_Bettinelli@standardandpoors.com]
Sent: Friday, June 19, 2009 11:57 AM
Subject: S&P's Revised Risk Matrix
Attachments: 2009 Revised Profiles.pdf, 2009 BP FP Matrix.pdf

I'm sending you our revised risk matrix, in case you were not aware. An alert does not appear to have been sent by My Credit Profile (MCP). However, it was mentioned in the opening paragraph of the latest electric utility ranking table sent via MCP alert on June 8th. I have attached this as well. If you have any questions about our profile changes, as a result of the expanded matrix, please call me.

If you would like to sign up for MCP (free), let me know. If you are signed up and did not receive the June 8th alert, please contact the Helpdesk at mycreditprofile@standardandpoors.com or 1-212-438-2400. We have had instances where the alerts were filtered by a client's spam filter.

Regards,

Tony Bettinelli
Associate
U.S. Utilities & Infrastructure
Standard & Poor's Corporate Ratings
San Francisco, CA
(415) 371-5067
tony_bettinelli@sandp.com

The message is ready to be sent with the following file or link attachments:

2009 Revised Profiles.pdf
2009 BP FP Matrix.pdf

Note: To protect against computer viruses, e-mail programs may prevent sending or receiving certain types of file attachments. Check your e-mail security settings to determine how attachments are handled.

The information contained in this message is intended only for the recipient, and may be a confidential attorney-client communication or may otherwise be privileged and confidential and protected from disclosure. If the reader of this message is not the intended recipient, or an employee or agent responsible for delivering this message to the intended recipient, please be aware that any dissemination or copying of this communication is strictly prohibited. If you have received this communication in error, please immediately notify us by replying to the message and deleting it from your computer. The McGraw-Hill Companies, Inc. reserves the right, subject to applicable local law, to monitor and review the content of any electronic message or information sent to or from McGraw-Hill employee e-mail addresses without informing the sender or recipient of the message.

STANDARD
& POOR'S

RATINGS DIRECT®

June 8, 2009

Issuer Ranking:
U.S. Regulated Electric Utilities,
Strongest To Weakest

Primary Credit Analyst:

John W Whitlock, New York (1) 212-438-7678; john_whitlock@standardandpoors.com

www.standardandpoors.com/ratingsdirect

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page.

1

Page 48 of 74

Issuer Ranking:

U.S. Regulated Electric Utilities, Strongest To Weakest

Standard & Poor's Ratings Services recently expanded its business risk/financial matrix to better communicate our analytic opinions to the global credit market. Please see the May 27, 2009 article published on RatingsDirect titled "Criteria /Methodology: Business Risk/Financial Risk Matrix Expanded."

The following list contains Standard & Poor's ratings, outlooks, and business and financial profiles for companies with a primary regulated electric utility focus. This list reflects the current ratings and outlooks as of June 8, 2009. The rankings in each rating/outlook grouping (e.g., BBB+/Stable/--) are based on relative business risk. We have incorporated the new corporate ratings matrix into the electric utility ranking list; changes to the ranking list have been identified by an asterisk (*).

A Standard & Poor's rating outlook assesses the potential direction of an issuer's long-term debt rating over the intermediate to longer term. In determining a rating outlook, we consider any changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a rating change or future CreditWatch action. "Positive" indicates that we may raise a rating; "negative" means we may lower a rating; "stable" indicates that ratings will not likely change; and "developing" means we may raise or lower ratings.

We characterize utility business profiles as "Excellent," "Strong," "Satisfactory," "Fair," "Weak," or "Vulnerable" under the credit ratings methodology applied to all rated corporate entities at Standard & Poor's. To determine a utility's business profile, Standard & Poor's analyzes the following qualitative business or operating characteristics: markets and service area economy; competitive position; fuel and power supply; operations; asset concentration; regulation; and management. Issuer credit ratings, shown as long-term rating/outlook or CreditWatch/short-term rating, are local and foreign currency unless otherwise noted. A dash (--) indicates not rated.

For the related industry report card, please see "Industry Report Card: U.S. Electric Utility Sector Performed Well In First Quarter Of 2009," published March 30, 2009.

U.S. Regulated Electric Utilities

Company	Corporate credit rating*	Business profile	Financial profile
Madison Gas & Electric Co.	AA-/Stable/A-1+	Excellent	Intermediate
American Transmission Co.	A+/Stable/A-1	Excellent	Intermediate
Midwest Independent Transmission System Operator Inc.	A+/Stable/--	Excellent	Intermediate
NSTAR Electric Co.	A+/Stable/A-1	Excellent	Intermediate
NSTAR Gas Co.	A+/Stable/--	Excellent	Intermediate
NSTAR	A+/Stable/A-1	Excellent	Intermediate
Florida Power & Light Co.	A/Stable/A-1	Excellent	Intermediate
KeySpan Energy Delivery Long Island	A/Stable/--	Excellent	Intermediate
KeySpan Energy Delivery New York	A/Stable/--	Excellent	Intermediate
Northern Natural Gas Co.	A/Stable/--	Excellent	Intermediate

Issuer Ranking: U.S. Regulated Electric Utilities, Strongest To Weakest

U.S. Regulated Electric Utilities (cont.)			
Alabama Power Co.	A/Stable/A-1	Excellent	Intermediate
Georgia Power Co.	A/Stable/A-1	Excellent	Intermediate
Mississippi Power Co.	A/Stable/A-1	Excellent	Intermediate
Gulf Power Co.	A/Stable/--	Excellent	Intermediate
FPL Group Inc.	A/Stable/--	Excellent	Intermediate
Southern Co.	A/Stable/A-1	Excellent	Intermediate
Central Hudson Gas & Electric Corp.	A/Stable/--	Excellent	Intermediate
-			
San Diego Gas & Electric Co.	A/Negative/A-1	Excellent	Intermediate
-			
Duke Energy Indiana Inc.	A-/Positive/A-2	Excellent	Intermediate
Duke Energy Carolinas LLC	A-/Positive/A-2	Excellent	Intermediate
Duke Energy Ohio Inc.	A-/Positive/A-2	Excellent	Intermediate
Duke Energy Kentucky Inc.	A-/Positive/--	Excellent	Intermediate
Wisconsin Gas LLC	A-/Positive/A-2	Excellent	Intermediate
Wisconsin Electric Power Co.	A-/Positive/A-2	Excellent	Intermediate
Cinergy Corp.	A-/Positive/A-2	Excellent	Intermediate
Duke Energy Corp.	A-/Positive/A-2	Excellent	Intermediate
-			
California Independent System Operator Corp.	A-/Stable/--	Excellent	Intermediate
Massachusetts Electric Co.	A-/Stable/A-2	Excellent	Significant*
Narragansett Electric Co.	A-/Stable/A-2	Excellent	Significant*
New England Power Co.	A-/Stable/A-2	Excellent	Significant*
Connecticut Natural Gas Corp.	A-/Stable/--	Excellent	Intermediate
Southern Connecticut Gas Co.	A-/Stable/--	Excellent	Intermediate
Consolidated Edison Co. of New York Inc.	A-/Stable/A-2	Excellent	Significant*
Orange and Rockland Utilities Inc.	A-/Stable/A-2	Excellent	Significant*
Rockland Electric Co.	A-/Stable/--	Excellent	Significant*
Consolidated Edison Inc.	A-/Stable/A-2	Excellent	Significant*
Virginia Electric & Power Co.	A-/Stable/A-2	Excellent	Significant*
Dayton Power & Light Co.	A-/Stable/--	Excellent	Intermediate
Northern States Power Wisconsin	A-/Stable/--	Excellent	Intermediate
Wisconsin Power & Light Co.	A-/Stable/A-2	Excellent	Intermediate
Southern Indiana Gas & Electric Co.	A-/Stable/--	Excellent	Intermediate
Niagara Mohawk Power Corp.	A-/Stable/A-2	Excellent	Significant*
National Grid USA	A-/Stable/A-2	Excellent	Aggressive
PacifiCorp	A-/Stable/A-2	Excellent	Significant*
DPL Inc.	A-/Stable/--	Excellent	Intermediate
MidAmerican Energy Co.	A-/Stable/A-2	Excellent	Significant*
Dominion Resources Inc.	A-/Stable/A-2	Excellent	Significant*
Energy East Corp.	A-/Stable/A-2	Excellent	Aggressive

Issuer Ranking: U.S. Regulated Electric Utilities, Strongest To Weakest

U.S. Regulated Electric Utilities (cont.)

Wisconsin Public Service Corp.	A-/Negative/A-2	Excellent	Aggressive
PPL Electric Utilities Corp.	A-/Negative/A-2	Excellent	Significant*
Wisconsin Energy Corp.	BBB+/Positive/A-2	Excellent	Aggressive
Oncor Electric Delivery Co. LLC	BBB+/Stable/--	Excellent	Significant*
Public Service Co. of North Carolina Inc.	BBB+/Stable/A-2	Excellent	Aggressive
Southern California Edison Co.	BBB+/Stable/A-2	Excellent	Significant*
Pacific Gas & Electric Co.	BBB+/Stable/A-2	Excellent	Significant*
The Berkshire Gas Co.	BBB+/Stable/--	Excellent	Aggressive
Central Maine Power Co.	BBB+/Stable/--	Excellent	Aggressive
South Carolina Electric & Gas Co.	BBB+/Stable/A-2	Excellent	Aggressive
Florida Power Corp. d/b/a Progress Energy Florida Inc.	BBB+/Stable/A-2	Excellent	Aggressive
Carolina Power & Light Co. d/b/a Progress Energy Carolinas Inc.	BBB+/Stable/A-2	Excellent	Aggressive
Kentucky Utilities Co.	BBB+/Stable/A-2	Excellent	Aggressive
Louisville Gas & Electric Co.	BBB+/Stable/--	Excellent	Aggressive
Oklahoma Gas & Electric Co.	BBB+/Stable/A-2	Excellent	Significant*
Public Service Co. of Colorado	BBB+/Stable/A-2	Excellent	Significant*
Northern States Power Co.	BBB+/Stable/A-2	Excellent	Significant*
Southwestern Public Service Co.	BBB+/Stable/A-2	Excellent	Significant*
Interstate Power & Light Co.	BBB+/Stable/A-2	Excellent	Significant*
New York State Electric & Gas Corp.	BBB+/Stable/A-2	Excellent	Aggressive
Xcel Energy Inc.	BBB+/Stable/A-2	Excellent	Significant*
Progress Energy Inc.	BBB+/Stable/A-2	Excellent	Aggressive
MidAmerican Energy Holdings Co.	BBB+/Stable/--	Excellent	Aggressive
SCANA Corp.	BBB+/Stable/--	Excellent	Aggressive
Alliant Energy Corp.	BBB+/Stable/A-2	Excellent	Significant*
PG&E Corp.	BBB+/Stable/--	Excellent	Significant*
E.ON U.S. LLC	BBB+/Stable/--	Excellent	Aggressive
OGE Energy Corp.	BBB+/Stable/A-2	Strong	Significant*
Montana-Dakota Utilities Co.	BBB+/Stable/--	Strong	Intermediate
Enogex LLC	BBB+/Stable/--	Satisfactory	Significant*
Peoples Gas Light & Coke Co. (The)	BBB+/Negative/A-2	Excellent	Aggressive
North Shore Gas Co.	BBB+/Negative/--	Excellent	Aggressive
Peoples Energy Corp.	BBB+/Negative/A-2	Excellent	Aggressive
Integrus Energy Group Inc.	BBB+/Negative/A-2	Excellent	Aggressive
ALLETE Inc.	BBB+/Negative/A-2	Strong	Significant*
Portland General Electric Co.	BBB+/Negative/A-2	Strong	Significant*
International Transmission Co.	BBB/Stable/--	Excellent	Aggressive

Issuer Ranking: U.S. Regulated Electric Utilities, Strongest To Weakest

U.S. Regulated Electric Utilities (cont.)			
ITC Holdings Corp.	BBB/Stable/--	Excellent	Aggressive
ITC Midwest LLC	BBB/Stable/--	Excellent	Aggressive
Michigan Electric Transmission Co.	BBB/Stable/--	Excellent	Aggressive
Yankee Gas Services Co.	BBB/Stable/--	Excellent	Aggressive
Michigan Consolidated Gas Co.	BBB/Stable/A-2	Excellent	Aggressive
Tampa Electric Co.	BBB/Stable/A-2	Excellent	Aggressive
Public Service Electric & Gas Co.	BBB/Stable/A-2	Excellent	Aggressive
AEP Texas Central Co	BBB/Stable/--	Excellent	Aggressive
AEP Texas North Co	BBB/Stable/--	Excellent	Aggressive
Connecticut Light & Power Co.	BBB/Stable/--	Excellent	Aggressive
Public Service Co. of New Hampshire	BBB/Stable/--	Excellent	Aggressive
Jersey Central Power & Light Co.	BBB/Stable/--	Excellent	Aggressive
Columbus Southern Power Co.	BBB/Stable/--	Excellent	Aggressive
Ohio Power Co.	BBB/Stable/--	Excellent	Aggressive
Appalachian Power Co.	BBB/Stable/--	Excellent	Aggressive
NorthWestern Corp.	BBB/Stable/--	Excellent	Aggressive
Western Massachusetts Electric Co.	BBB/Stable/--	Excellent	Aggressive
Atlantic City Electric Co.	BBB/Stable/A-2	Excellent	Significant*
Potomac Electric Power Co.	BBB/Stable/A-2	Excellent	Significant*
Delmarva Power & Light Co.	BBB/Stable/A-2	Excellent	Significant*
Green Mountain Power Corp.	BBB/Stable/--	Excellent	Aggressive
Kentucky Power Co.	BBB/Stable/--	Excellent	Aggressive
Public Service Co. of Oklahoma	BBB/Stable/--	Excellent	Aggressive
Southwestern Electric Power Co.	BBB/Stable/--	Excellent	Aggressive
Metropolitan Edison Co.	BBB/Stable/--	Excellent	Aggressive
Pennsylvania Electric Co.	BBB/Stable/--	Excellent	Aggressive
Cleveland Electric Illuminating Co.	BBB/Stable/--	Excellent	Aggressive
Ohio Edison Co.	BBB/Stable/A-2	Excellent	Aggressive
Pennsylvania Power Co.	BBB/Stable/--	Excellent	Aggressive
Toledo Edison Co.	BBB/Stable/--	Excellent	Aggressive
Rochester Gas & Electric Corp.	BBB/Stable/--	Excellent	Aggressive
TECO Energy Inc.	BBB/Stable/--	Excellent	Aggressive
Puget Sound Energy Inc.	BBB/Stable/A-2	Excellent	Aggressive
American Electric Power Co. Inc.	BBB/Stable/A-2	Excellent	Aggressive
Northeast Utilities	BBB/Stable/--	Excellent	Aggressive
FirstEnergy Corp.	BBB/Stable/--	Excellent	Aggressive
Cleco Power LLC	BBB/Stable/--	Excellent*	Aggressive
Cleco Corp.	BBB/Stable/--	Excellent*	Aggressive
Idaho Power Co.	BBB/Stable/A-2	Excellent*	Aggressive
IDACORP Inc.	BBB/Stable/A-2	Excellent*	Aggressive
El Paso Electric Co.	BBB/Stable/--	Excellent*	Aggressive
Indiana Michigan Power Co.	BBB/Stable/--	Strong	Aggressive
PEPCO Holdings Inc.	BBB/Stable/A-2	Strong	Significant*

Issuer Ranking: U.S. Regulated Electric Utilities, Strongest To Weakest

U.S. Regulated Electric Utilities (cont.)

CenterPoint Energy Houston Electric LLC	BBB/Negative/--	Excellent	Aggressive
Kansas City Power & Light Co.	BBB/Negative/A-3	Excellent	Aggressive
KCP&L Greater Missouri Operations Co.	BBB/Negative/--	Excellent	Aggressive
Great Plains Energy Inc.	BBB/Negative/--	Excellent	Aggressive
CenterPoint Energy Inc.	BBB/Negative/A-3	Excellent	Aggressive
CenterPoint Energy Resources Corp.	BBB/Negative/A-3	Excellent	Aggressive
Entergy Arkansas Inc.	BBB/Negative/--	Excellent*	Aggressive
Entergy Louisiana LLC	BBB/Negative/--	Excellent*	Aggressive
Entergy Mississippi Inc.	BBB/Negative/--	Excellent*	Aggressive
Entergy Gulf States Louisiana LLC	BBB/Negative/--	Excellent*	Aggressive
Entergy Texas Inc.	BBB/Negative/--	Excellent*	Aggressive
Entergy Corp.	BBB/Negative/--	Excellent*	Aggressive
System Energy Resources Inc.	BBB/Negative/--	Excellent*	Aggressive
Hawaiian Electric Co. Inc.	BBB/Negative/A-3	Strong	Significant*
Hawaiian Electric Industries Inc.	BBB/Negative/A-3	Strong	Significant*
Detroit Edison Co.	BBB/Negative/A-3	Strong	Significant*
DTE Energy Co.	BBB/Negative/A-3	Strong	Significant*
PECO Energy Co.	BBB/Watch Neg/A-2	Excellent	Aggressive
Baltimore Gas & Electric Co.	BBB/Watch Neg/A-2	Strong	Intermediate
Westar Energy Inc.	BBB-/Positive/--	Excellent	Aggressive
Kansas Gas & Electric Co.	BBB-/Positive/--	Excellent	Aggressive
Potomac Edison Co.	BBB-/Stable/--	Excellent	Aggressive
West Penn Power Co.	BBB-/Stable/--	Excellent	Aggressive
Monongahela Power Co.	BBB-/Stable/--	Excellent	Aggressive
Consumers Energy Co.	BBB-/Stable/--	Excellent	Aggressive
CMS Energy Corp.	BBB-/Stable/A-3	Excellent	Aggressive
Union Electric Co. d/b/a AmerenUE	BBB-/Stable/A-3	Excellent	Significant*
Empire District Electric Co.	BBB-/Stable/A-3	Excellent*	Aggressive
Avista Corp.	BBB-/Stable/A-3	Excellent*	Aggressive
Edison International	BBB-/Stable/--	Strong	Aggressive
Black Hills Power Inc.	BBB-/Stable/--	Strong	Significant*
Arizona Public Service Co.	BBB-/Stable/A-3	Strong	Significant*
Pinnacle West Capital Corp.	BBB-/Stable/A-3	Strong	Significant*
Allegheny Energy Inc.	BBB-/Stable/A-3	Strong	Aggressive
Central Illinois Public Service Co.	BBB-/Stable/--	Strong	Significant*
Illinois Power Co.	BBB-/Stable/--	Strong	Significant*
Ohio Valley Electric Corp.	BBB-/Stable/--	Strong	Aggressive
Central Illinois Light Co.	BBB-/Stable/--	Satisfactory	Significant*

Issuer Ranking: U.S. Regulated Electric Utilities, Strongest To Weakest

U.S. Regulated Electric Utilities (cont.)			
CILCORP Inc.	BBB-/Stable/--	Satisfactory	Significant*
Ameren Corp.	BBB-/Stable/A-3	Satisfactory	Significant*
Black Hills Corp.	BBB-/Stable/--	Satisfactory	Significant*
Otter Tail Corp.	BBB-/Stable/--	Satisfactory	Significant*
-			
Duquesne Light Co.	BBB-/Negative/--	Excellent	Highly leveraged
Northern Indiana Public Service Co.	BBB-/Negative/--	Excellent	Aggressive
Duquesne Light Holdings Inc.	BBB-/Negative/--	Excellent	Highly leveraged
Entergy New Orleans Inc.	BBB-/Negative/--	Strong*	Aggressive
-			
Commonwealth Edison Co.	BBB-/Watch Neg/A-3	Strong	Aggressive
-			
Central Vermont Public Service Corp.	BB+/Stable/--	Excellent	Highly leveraged
Indianapolis Power & Light Co.	BB+/Stable/--	Excellent	Highly leveraged
IPALCO Enterprises Inc.	BB+/Stable/--	Excellent	Highly leveraged
Puget Energy Inc.	BB+/Stable/--	Excellent	Aggressive
Tucson Electric Power Co.	BB+/Stable/B-2	Strong	Highly leveraged
-			
Nevada Power Co.	BB/Stable/--	Excellent	Highly leveraged
Sierra Pacific Power Co.	BB/Stable/--	Excellent	Highly leveraged
NV Energy Inc.	BB/Stable/B-2	Excellent	Highly leveraged
-			
Texas-New Mexico Power Co.	BB-/Negative/--	Satisfactory	Highly leveraged
Public Service Co. of New Mexico	BB-/Negative/B-2	Satisfactory	Highly leveraged
PNM Resources Inc.	BB-/Negative/B-2	Satisfactory	Highly leveraged

*As of June 8, 2009.

Copyright © 2009, Standard & Poors, a division of The McGraw-Hill Companies, Inc. (S&P). S&P and/or its third party licensors have exclusive proprietary rights in the data or information provided herein. This data/information may only be used internally for business purposes and shall not be used for any unlawful or unauthorized purposes. Dissemination, distribution or reproduction of this data/information in any form is strictly prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P, its affiliates or its third party licensors, S&P, its affiliates and its third party licensors do not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates and its third party licensors be liable for any direct, indirect, special or consequential damages in connection with subscribers or others use of the data/information contained herein. Access to the data or information contained herein is subject to termination in the event any agreement with a third-party of information or software is terminated.

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact Client Services, 55 Water Street, New York, NY 10041; (1)212.438.7280 or by e-mail to: research_request@standardandpoors.com.

May 27, 2009

Criteria | Corporates | General:

Criteria Methodology: Business Risk/Financial Risk Matrix Expanded

Primary Credit Analysts:

Solomon B Samson, New York (1) 212-438-7653; sol_samson@standardandpoors.com

Emmanuel Dubois-Peterin, Paris (33) 1-4420-6673; emmanuel_dubois-peterin@standardandpoors.com

Table Of Contents

Business Risk/Financial Risk Framework

Updated Matrix

Financial Benchmarks

How To Use The Matrix--And Its Limitations

Related Articles

Criteria | Corporates | General:

Criteria Methodology: Business Risk/Financial Risk Matrix Expanded

(Editor's Note: In the previous version of this article published on May 26, certain of the rating outcomes in the table 1 matrix were misspelled. A corrected version follows.)

Standard & Poor's Ratings Services is refining its methodology for corporate ratings related to its business risk/financial risk matrix, which we published as part of 2008 Corporate Ratings Criteria on April 15, 2008, on RatingsDirect at www.ratingsdirect.com and Standard & Poor's Web site at www.standardandpoors.com.

This article amends and supersedes the criteria as published in Corporate Ratings Criteria, page 21, and the articles listed in the "Related Articles" section at the end of this report.

This article is part of a broad series of measures announced last year to enhance our governance, analytics, dissemination of information, and investor education initiatives. These initiatives are aimed at augmenting our independence, strengthening the rating process, and increasing our transparency to better serve the global markets.

We introduced the business risk/financial risk matrix four years ago. The relationships depicted in the matrix represent an essential element of our corporate analytical methodology.

We are now expanding the matrix, by adding one category to both business and financial risks (see table 1). As a result, the matrix allows for greater differentiation regarding companies rated lower than investment grade (i.e., 'BB' and below).

Table 1

Business And Financial Risk Profile Matrix						
Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	CCC+

These rating outcomes are shown for guidance purposes only. Actual rating should be within one notch of indicated rating outcomes.

The rating outcomes refer to issuer credit ratings. The ratings indicated in each cell of the matrix are the midpoints of a range of likely rating possibilities. This range would ordinarily span one notch above and below the indicated rating.

Business Risk/Financial Risk Framework

Our corporate analytical methodology organizes the analytical process according to a common framework, and it divides the task into several categories so that all salient issues are considered. The first categories involve fundamental business analysis; the financial analysis categories follow.

Our ratings analysis starts with the assessment of the business and competitive profile of the company. Two companies with identical financial metrics can be rated very differently, to the extent that their business challenges and prospects differ. The categories underlying our business and financial risk assessments are:

Business risk

- Country risk
- Industry risk
- Competitive position
- Profitability/Peer group comparisons

Financial risk

- Accounting
- Financial governance and policies/risk tolerance
- Cash flow adequacy
- Capital structure/asset protection
- Liquidity/short-term factors

We do not have any predetermined weights for these categories. The significance of specific factors varies from situation to situation.

Updated Matrix

We developed the matrix to make explicit the rating outcomes that are typical for various business risk/financial risk combinations. It illustrates the relationship of business and financial risk profiles to the issuer credit rating.

We tend to weight business risk slightly more than financial risk when differentiating among investment-grade ratings. Conversely, we place slightly more weight on financial risk for speculative-grade issuers (see table 1, again). There also is a subtle compounding effect when both business risk and financial risk are aligned at extremes (i.e., excellent/minimal and vulnerable/highly leveraged.)

The new, more granular version of the matrix represents a refinement—not any change in rating criteria or standards—and, consequently, holds no implications for any changes to existing ratings. However, the expanded matrix should enhance the transparency of the analytical process.

Financial Benchmarks

Table 2

Financial Risk Indicative Ratios (Corporates)			
	FFO/Debt (%)	Debt/EBITDA (x)	Debt/Capital (%)
Minimal	greater than 60	less than 1.5	less than 25
Modest	45-60	1.5-2	25-35
Intermediate	30-45	2-3	35-45
Significant	20-30	3-4	45-50
Aggressive	12-20	4-5	50-60
Highly Leveraged	less than 12	greater than 5	greater than 60

How To Use The Matrix--And Its Limitations

The rating matrix indicative outcomes are what we typically observe--but are not meant to be precise indications or guarantees of future rating opinions. Positive and negative nuances in our analysis may lead to a notch higher or lower than the outcomes indicated in the various cells of the matrix.

In certain situations there may be specific, overarching risks that are outside the standard framework, e.g., a liquidity crisis, major litigation, or large acquisition. This often is the case regarding credits at the lowest end of the credit spectrum--i.e., the 'CCC' category and lower. These ratings, by definition, reflect some impending crisis or acute vulnerability, and the balanced approach that underlies the matrix framework just does not lend itself to such situations.

Similarly, some matrix cells are blank because the underlying combinations are highly unusual--and presumably would involve complicated factors and analysis.

The following hypothetical example illustrates how the tables can be used to better understand our rating process (see tables 1 and 2).

We believe that Company ABC has a satisfactory business risk profile, typical of a low investment-grade industrial issuer. If we believed its financial risk were intermediate, the expected rating outcome should be within one notch of 'BBB'. ABC's ratios of cash flow to debt (35%) and debt leverage (total debt to EBITDA of 2.5x) are indeed characteristic of intermediate financial risk.

It might be possible for Company ABC to be upgraded to the 'A' category by, for example, reducing its debt burden to the point that financial risk is viewed as minimal. Funds from operations (FFO) to debt of more than 60% and debt to EBITDA of only 1.5x would, in most cases, indicate minimal.

Conversely, ABC may choose to become more financially aggressive--perhaps it decides to reward shareholders by borrowing to repurchase its stock. It is possible that the company may fall into the 'BB' category if we view its financial risk as significant. FFO to debt of 20% and debt to EBITDA 4x would, in our view, typify the significant financial risk category.

Still, it is essential to realize that the financial benchmarks are guidelines, neither gospel nor guarantees. They can vary in nonstandard cases: For example, if a company's financial measures exhibit very little volatility, benchmarks may be somewhat more relaxed.

Moreover, our assessment of financial risk is not as simplistic as looking at a few ratios. It encompasses:

- a view of accounting and disclosure practices;
- a view of corporate governance, financial policies, and risk tolerance;
- the degree of capital intensity, flexibility regarding capital expenditures and other cash needs, including acquisitions and shareholder distributions; and
- various aspects of liquidity—including the risk of refinancing near-term maturities.

The matrix addresses a company's standalone credit profile, and does not take account of external influences, which would pertain in the case of government-related entities or subsidiaries that in our view may benefit or suffer from affiliation with a stronger or weaker group. The matrix refers only to local-currency ratings, rather than foreign-currency ratings, which incorporate additional transfer and convertibility risks. Finally, the matrix does not apply to project finance or corporate securitizations.

Related Articles

Industrials' Business Risk/Financial Risk Matrix--A Fundamental Perspective On Corporate Ratings, published April 7, 2005, on [RatingsDirect](#).

Copyright © 2009, Standard & Poors, a division of The McGraw-Hill Companies, Inc. (S&P). S&P and/or its third party licensors have exclusive proprietary rights in the data or information provided herein. This data/information may only be used internally for business purposes and shall not be used for any unlawful or unauthorized purposes. Dissemination, distribution or reproduction of this data/information in any form is strictly prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P, its affiliates or its third party licensors, S&P, its affiliates and its third party licensors do not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates and its third party licensors be liable for any direct, indirect, special or consequential damages in connection with subscribers or others use of the data/information contained herein. Access to the data or information contained herein is subject to termination in the event any agreement with a third-party of information or software is terminated.

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact Client Services, 55 Water Street, New York, NY 10041; (1)212.438.7280 or by e-mail to: research_request@standardandpoors.com.

McGill, James T(Z71171)

From: Dolyniuk, Karen E(J97440)
Sent: Monday, June 22, 2009 1:55 PM
To: 'Bettinelli, Antonio'
Cc: McGill, James T(Z71171)
Subject: Maricopa Term Sheet and Final OS

Attachments: APS Maricopa Series 2009A-E Term Sheet.pdf; APS - Maricopa Official Statement.pdf

Hi Tony! I believe this is what you need to finalize the ratings for APS. If you need anything else, please let me or Jim know.



APS Maricopa
Series 2009A-E Te...



APS - Maricopa
Official Statem...

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

McGill, James T(Z71171)

From: Bettinelli, Antonio [Antonio_Bettinelli@standardandpoors.com]
Sent: Tuesday, June 23, 2009 11:03 AM
To: Dolyniuk, Karen E(J97440)
Cc: McGill, James T(Z71171)
Subject: RE: Maricopa Term Sheet and Final OS
Attachments: Arizona Public Service _RL_2009June23.PDF

Karen,

Here is your signed copy of our ratings letter.

Tony Bettinelli
Associate
U.S. Utilities & Infrastructure
Standard & Poor's Corporate Ratings
San Francisco, CA
(415) 371-5067
tony_bettinelli@sandp.com

From: Karen.Dolyniuk@aps.com [mailto:Karen.Dolyniuk@aps.com]
Sent: Tuesday, June 23, 2009 8:32 AM
To: Bettinelli, Antonio
Subject: RE: Maricopa Term Sheet and Final OS

Thank you!

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

From: Bettinelli, Antonio [mailto:Antonio_Bettinelli@standardandpoors.com]
Sent: Monday, June 22, 2009 6:42 PM
To: Dolyniuk, Karen E(J97440)
Subject: RE: Maricopa Term Sheet and Final OS

Working on this.

From: Karen.Dolyniuk@aps.com [mailto:Karen.Dolyniuk@aps.com]
Sent: Monday, June 22, 2009 1:55 PM
To: Bettinelli, Antonio
Cc: James.McGill@pinnaclewest.com

Subject: Maricopa Term Sheet and Final OS

Hi Tony! I believe this is what you need to finalize the ratings for APS. If you need anything else, please let me or Jim know.

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

Email Firewall made the following annotations

--- NOTICE ---

This message is for the designated recipient only and may contain confidential, privileged or proprietary information. If you have received it in error, please notify the sender immediately and delete the original and any copy or printout. Unintended recipients are prohibited from making any other use of this e-mail. Although we have taken reasonable precautions to ensure no viruses are present in this e-mail, we accept no liability for any loss or damage arising from the use of this e-mail or attachments, or for any delay or errors or omissions in the contents which result from e-mail transmission.

The information contained in this message is intended only for the recipient, and may be a confidential attorney-client communication or may otherwise be privileged and confidential and protected from disclosure. If the reader of this message is not the intended recipient, or an employee or agent responsible for delivering this message to the intended recipient, please be aware that any dissemination or copying of this communication is strictly prohibited. If you have received this communication in error, please immediately notify us by replying to the message and deleting it from your computer. The McGraw-Hill Companies, Inc. reserves the right, subject to applicable local law, to monitor and review the content of any electronic message or information sent to or from McGraw-Hill employee e-mail addresses without informing the sender or recipient of the message.

**STANDARD
& POOR'S**

Corporate & Government Ratings

55 Water Street
New York, NY 10041-0003

June 23, 2009

Mr. James T. McGill
Director of Corporate Finance & Treasury
Arizona Public Service Co.
400 5th Street
MS-9996
Phoenix, AZ 85004

Re: **ARIZONA PUBLIC SERVICE COMPANY**
Maricopa County Arizona Pollution Control Revenue Bonds
\$35,975,000 Series A 6.00% due May 1, 2029
\$32,000,000 Series B 5.50% due May 1, 2029
\$32,000,000 Series C 5.75% due May 1, 2029
\$32,000,000 Series D 6.00% due May 1, 2029
\$32,000,000 Series E 6.00% due May 1, 2029

Dear Mr. McGill:

Pursuant to your request for a Standard & Poor's rating on the above-referenced obligations, we have reviewed the information submitted to us and, subject to the enclosed *Terms and Conditions*, have assigned a rating of "BBB-".

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the U.S. Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any

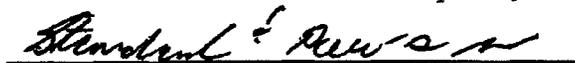
subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information, if necessary, to maintain the rating. Please send all information to Antonio Bettinelli at Standard & Poor's Corporate Ratings, 55 Water Street, New York, NY 10041.

Standard & Poor's is pleased to have the opportunity to be of service to you. For more information please visit our website at www.standardandpoors.com. If we can be of help in any other way, please contact us. Thank you for choosing Standard & Poor's and we look forward to working with you again.

Very truly yours,

Standard & Poor's Ratings Services,
a division of The McGraw-Hill Companies, Inc.



Analytical Contact: Antonio Bettinelli
Phone: 415-371-5067

STANDARD & POOR'S

Standard & Poor's Ratings Services Terms and Conditions Applicable To U.S. Corporate Ratings

Scope of Rating. The Company understands and agrees that (i) an issuer rating reflects Standard & Poor's current opinion of the Company's overall financial capacity to pay its financial obligations as they come due, (ii) an issue rating reflects Standard & Poor's current opinion of the likelihood that the Company will make payments of principal and interest on a timely basis in accordance with the terms of the obligation, (iii) a rating is an opinion and is not a verifiable statement of fact, (iv) ratings are based on information supplied to Standard & Poor's by the Company or by its agents and upon other information obtained by Standard & Poor's from other sources it considers reliable, (v) Standard & Poor's does not perform an audit in connection with any rating and a rating does not represent an audit by Standard & Poor's, (vi) Standard & Poor's relies on the Company, its accountants, counsel, and other experts for the accuracy and completeness of the information submitted in connection with the rating and surveillance process, (vii) Standard & Poor's undertakes no duty of due diligence or independent verification of any information, (viii) Standard & Poor's does not and cannot guarantee the accuracy, completeness, or timeliness of the information relied on in connection with a rating or the results obtained from the use of such information, (ix) Standard & Poor's may raise, lower, suspend, place on CreditWatch, or withdraw a rating at any time, in Standard & Poor's sole discretion, and (x) a rating is not a "market" rating nor a recommendation to buy, hold, or sell any financial obligation.

Publication. Standard & Poor's reserves the right to publish, disseminate, or license others to publish or disseminate the rating and the rationale for the rating unless the Company specifically requests that the rating be assigned and maintained on a confidential basis. If a confidential rating subsequently becomes public through disclosure by the Company or a third party other than Standard & Poor's, Standard & Poor's reserves the right to publish it. As a matter of policy, Standard & Poor's publishes ratings for all public issues in the U.S. market and 144A issues with registration rights. Standard & Poor's may publish explanations of Standard & Poor's ratings criteria from time to time and nothing in this Agreement shall be construed as limiting Standard & Poor's ability to modify or refine Standard & Poor's criteria at any time as Standard & Poor's deems appropriate.

Information to be Provided by the Company. The Company shall meet with Standard & Poor's for an analytic review at any reasonable time Standard & Poor's requests. The Company also agrees to provide Standard & Poor's promptly with all information relevant to the rating and surveillance of the rating including information on material changes to information previously supplied to Standard & Poor's. The rating may be affected by Standard & Poor's opinion of the accuracy, completeness, timeliness, and reliability of information received from the Company or its agents. Standard & Poor's undertakes no duty of due diligence or independent verification of information provided by the Company or its agents. Standard & Poor's reserves the right to withdraw the rating if the Company or its agents fails to provide Standard & Poor's with accurate, complete, timely, or reliable information.

Confidential Information. For purposes of this Agreement, "Confidential Information" shall mean information received by Standard & Poor's from the Company which has been marked "Proprietary and Confidential" or in respect of which Standard & Poor's has received from the Company specific written notice of its proprietary and confidential nature. Notwithstanding the foregoing, information disclosed by the Company shall not be deemed to be Confidential Information, and Standard & Poor's shall have no obligation to treat such information as Confidential Information, if such information (i) was substantially known by Standard & Poor's at the time of such disclosure, (ii) was known to the public at the time of such disclosure, (iii) becomes known to the public (other than by Standard & Poor's act) subsequent to such disclosure, (iv) is disclosed lawfully to Standard & Poor's by a third party subsequent to such disclosure, (v) is developed independently by Standard & Poor's without reference to the Confidential Information, (vi) is approved in

writing by the Company for public disclosure, or (vii) is required by law to be disclosed by the Company or Standard & Poor's provided that notice of such required disclosure is given to the Company. Commencing on the date hereof, Standard & Poor's will use Confidential Information only in connection with the assignment and monitoring of ratings and will not directly disclose any Confidential Information to any third party. Standard & Poor's may also use Confidential Information for research and modeling purposes provided that the Confidential Information is not presented in a way that can be directly tied to the Company. The Company agrees that the Confidential Information may be used to raise, lower, suspend, withdraw, place on CreditWatch, and change the Outlook assigned to any rating if the Confidential Information is not directly disclosed.

Standard & Poor's Not an Advisor, Fiduciary, or Expert. The Company understands and agrees that Standard & Poor's is not acting as an investment, financial, or other advisor to the Company and that the Company should not and cannot rely upon the rating or any other information provided by Standard & Poor's as investment or financial advice. Nothing in this Agreement is intended to or should be construed as creating a fiduciary relationship between Standard & Poor's and the Company or between Standard & Poor's and recipients of the rating. The Company understands and agrees that Standard & Poor's has not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the U.S. Securities Act of 1933.

Limitation on Damages. The Company agrees that Standard & Poor's, its officers, directors, shareholders, and employees shall not be liable to the Company or any other person for any actions, damages, claims, liabilities, costs, expenses, or losses in any way arising out of or relating to the rating or the related analytic services provided for in an aggregate amount in excess of the aggregate fees paid to Standard & Poor's for the rating, except for Standard & Poor's gross negligence or willful misconduct. In no event shall Standard & Poor's, its officers, directors, shareholders, or employees be liable for consequential, special, indirect, incidental, punitive or exemplary damages, costs, expenses, legal fees, or losses (including, without limitation, lost profits and opportunity costs). In furtherance and not in limitation of the foregoing, Standard & Poor's will not be liable in respect of any decisions made by the Company or any other person as a result of the issuance of the rating or the related analytic services provided by Standard & Poor's hereunder or based on anything that appears to be advice or recommendations. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss, whether in contract, statute, tort (including, without limitation, negligence), or otherwise. The Company acknowledges and agrees that Standard & Poor's does not waive any protections, privileges, or defenses it may have under law, including but not limited to, the First Amendment of the Constitution of the United States of America.

Term. This Agreement shall terminate when the ratings are withdrawn. Notwithstanding the foregoing, the paragraphs above, "Confidential Information", "Standard & Poor's Not an Advisor, Fiduciary, or Expert", and "Limitation on Damages", shall survive the termination of this Agreement or any withdrawal of a rating.

Third Parties. Nothing in this Agreement, or the rating when issued, is intended or should be construed as creating any rights on behalf of any third parties, including, without limitation, any recipient of the rating. No person is intended as a third party beneficiary to this Agreement or to the rating when issued.

Binding Effect. This Agreement shall be binding on, and inure to the benefit of, the parties hereto and their successors and assigns.

Severability. In the event that any term or provision of this Agreement shall be held to be invalid, void, or unenforceable, then the remainder of this Agreement shall not be affected, impaired, or invalidated, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

Complete Agreement. This Agreement constitutes the complete agreement between the parties with respect to its subject matter. This Agreement may not be modified except in a writing signed by authorized representatives of both parties.

Governing Law. This Agreement and the rating letter shall be governed by the internal laws of the State of New York. The parties agree that the state and federal courts of New York shall be the exclusive forums for any dispute arising out of this Agreement and the parties hereby consent to the personal jurisdiction of such courts.

McGill, James T(Z71171)

From: Dolyniuk, Karen E(J97440)
Sent: Tuesday, June 23, 2009 12:41 PM
To: McGill, James T(Z71171)
Subject: FW: Maricopa Term Sheet and Final OS

Attachments: APS Maricopa Series 2009A-E Term Sheet.pdf; APS - Maricopa Official Statement.pdf

From: Dolyniuk, Karen E(J97440)
Sent: Monday, June 22, 2009 1:56 PM
To: 'laura.schumacher@moodys.com'
Cc: McGill, James T(Z71171)
Subject: Maricopa Term Sheet and Final OS

Hi Laura! Attached is the term sheet and final offering statement for the Maricopa bonds. If you need anything else, please let Jim or me know.

Thanks.



APS Maricopa
Series 2009A-E Te...



APS - Maricopa
Official Statem...

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

McGill, James T(Z71171)

From: Dolyniuk, Karen E(J97440)
Sent: Tuesday, June 23, 2009 1:49 PM
To: 'philip.smyth@fitchratings.com'
Cc: McGill, James T(Z71171)
Subject: FW: Maricopa Final Official Statement and Term Sheet

Attachments: APS - Maricopa Official Statement.pdf; APS Maricopa Series 2009A-E Term Sheet.pdf

Phil, attached are final documents for the Maricopa refunding we will be closing on this Friday. If you have any questions, please give Jim or me a call. Thanks.



APS - Maricopa APS Maricopa
Official Statem... Series 2009A-E Te...

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

McGill, James T(Z71171)

From: Bettinelli, Antonio [Antonio_Bettinelli@standardandpoors.com]
Sent: Wednesday, June 24, 2009 5:00 PM
To: McGill, James T(Z71171)
Subject: S&P Financial Ratios follow up
Attachments: PNW 2008 Ratios.xls

Jim,

First quarter financial metrics are based on 2008 year end numbers (since Q1 metrics are TTM). Before reviewing our Q1 metric I'd like you to take a look at our 2008 YE calculations.

Tony Bettinelli
Associate
U.S. Utilities & Infrastructure
Standard & Poor's Corporate Ratings
San Francisco, CA
(415) 371-5067
tony_bettinelli@sandp.com

The information contained in this message is intended only for the recipient, and may be a confidential attorney-client communication or may otherwise be privileged and confidential and protected from disclosure. If the reader of this message is not the intended recipient, or an employee or agent responsible for delivering this message to the intended recipient, please be aware that any dissemination or copying of this communication is strictly prohibited. If you have received this communication in error, please immediately notify us by replying to the message and deleting it from your computer. The McGraw-Hill Companies, Inc. reserves the right, subject to applicable local law, to monitor and review the content of any electronic message or information sent to or from McGraw-Hill employee e-mail addresses without informing the sender or recipient of the message.

Pinnacle West Capital Corp.
Industry Sector: Electric

December 2008

(Mil. \$)

Revenues	624.2
Net income from continuing operations	(46.7)
Funds from operations (FFO)	117.3
Capital expenditures	233.5
Cash and short-term investments	105.2
Debt	5,043.0
Preferred stock	0.0
Equity	3,446.0
Debt and equity	8,489.0
Adjusted ratios	
EBIT interest coverage (x)	2.2
FFO int. cov. (x)	4.3
FFO/debt (%)	18.0
Discretionary cash flow/debt (%)	(6.8)
Net Cash Flow / Capex (%)	73.4
Debt/debt and equity (%)	59.4
Return on common equity (%)	5.0
Common dividend payout ratio (un-adj.) (%)	95.6

*Fully adjusted (including postretirement obligations).

OPERATING ACTIVITIES**2008**

Income from continuing operations	213.6
D&A	424.0
Deferred taxes	158.0
Sale of PP&E and investments - gain/(loss)	18.2
AFUDCEQ (cash flow)	18.6
Funds from operations - other	80.4
Funds from operations, reported	875.5
Accounts receivable - decrease (increase)	80.8
Inventory - decrease (increase)	22.6
Accounts payable and accrued liabilities - increase (decrease)	(69.4)
Income taxes - accrued - increase (decrease)	@NA
Current assets and liabilities - other - net change	(124.5)
Working capital changes, reported	(90.5)
Cash flow from operating activities	785.0

Reported

Table 3.

Reconciliation Of Pinnacle West Capital Corp. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. \$)*
 -Fiscal year ended Dec. 31, 2008--

Pinnacle West Capital Corp. reported amounts

	Debt	Interest expense	Cash flow from operations	Cash flow from operations
Reported	3,879.7	197.5	785.0	785.0
Standard & Poor's adjustments				
Operating leases	398.6	23.9	56.6	56.6
Postretirement benefit obligations	442.2	--	(3.9)	(3.9)
Accrued interest not included in reported debt	40.7	--	--	--
Capitalized interest	--	18.8	(18.8)	(18.8)
Power purchase agreements	282.4	16.3	18.8	18.8
Reclassification of working-capital cash flow changes	--	--	--	90.5
US decommissioning fund contributions	--	--	(20.7)	(20.7)
Total adjustments	1,163.9	59.0	31.9	122.4
Standard & Poor's adjusted amounts				
Adjusted	5,043.60	256.5	816.9	907.4