



ORIGINAL



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Leland R. Snook  
Director  
State Regulation & Pricing

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RECEIVED

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

2009 DEC 23 10:42

AZ CORP COMMISSION  
DOCKET CONTROL

December 23, 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 24<sup>th</sup>, 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 November 24, 2009 through December 23, 2009. If you have any questions or concerns please contact Susan Casady at (602)250-2709.

Sincerely,

  
Leland R. Snook

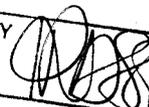
LS/sl

Attachments

cc: Steve Olea  
Brian Bozzo  
Barbara Keene  
Terri Ford

Arizona Corporation Commission  
DOCKETED

DEC 23 2009

DOCKETED BY 

**Rating Agency Communication Log**

<b>Date</b>	<b>Person</b>	<b>APS/PNW Personnel</b>	<b>Subject</b>	<b>Comment</b>
12/2/2009	Phil Smyth, Fitch	Jim McGill	Call from Fitch regarding APS debt maturities	
12/2/2009	Phil Smyth, Fitch	Jim McGill	E-mail to Fitch regarding APS debt maturities	
12/2/2009	Phil Smyth, Fitch	Jim McGill	E-mail from Fitch regarding APS debt maturities	
12/9/2009	Laura Schumacher, Moodys	Investor Relations	E-mail regarding ACC open meeting	
12/9/2009	Phil Smyth, Fitch	Investor Relations	E-mail regarding ACC open meeting	
12/9/2009	Tony Bettinelli, S&P	Investor Relations	E-mail regarding ACC open meeting	
12/9/2009	Laura Schumacher, Moodys	Investor Relations	E-mail regarding ACC open meeting	
12/9/2009	Phil Smyth, Fitch	Investor Relations	E-mail regarding ACC open meeting	
12/9/2009	Tony Bettinelli, S&P	Investor Relations	E-mail regarding ACC open meeting	
12/14/2009	Laura Schumacher, Moodys	Jim McGill	E-mail from Moody's re: open meeting	
12/14/2009	Laura Schumacher, Moodys	Jim McGill	Call with Moody's re: open meeting	
12/15/2009	Tony Bettinelli, S&P	Jim McGill	E-mail from S&P re: open meeting	
12/15/2009	Tony Bettinelli, S&P	Jim McGill	E-mail to S&P re: open meeting	
12/15/2009	Laura Schumacher, Moodys	Investor Relations	E-mail regarding ACC vote on settlement	
12/15/2009	Phil Smyth, Fitch	Investor Relations	E-mail regarding ACC vote on settlement	
12/15/2009	Tony Bettinelli, S&P	Investor Relations	E-mail regarding ACC vote on settlement	
12/17/2009	Janette Curtis, Fitch	Jim McGill	E-mail from Fitch re: credit update article	
12/17/2009	Phil Smyth, Fitch	Jim McGill	Voice-mail from Fitch re: credit update article	
12/17/2009	Phil Smyth, Fitch	Jim McGill	Phone call with Fitch re: credit update article	

**McGill, James T(Z71171)**

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**From:** McGill, James T(Z71171)  
**Sent:** Wednesday, December 02, 2009 8:44 AM  
**To:** 'Philip.Smyth@fitchratings.com'

**Attachments:** APS Debt Maturities 2009-2013.xls

Phil,  
Here's a schedule of 2009-2013 APS maturities.

Jim



APS Debt Maturities  
2009-2013....

**Arizona Public Service**  
**2009 - 2013 Debt Maturities**  
(\$ in Millions)

	Principal	Maturity	2009	2010	2011	2012	2013	Total
Unsecured Note	400.0	10/15/2011			400.0			400.0
Unsecured Note	375.0	3/1/2012				375.0		375.0
			\$ -	\$ -	\$ 400.0	\$ 375.0	\$ -	\$ 775.0

**McGill, James T(Z71171)**

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**From:** Philip.Smyth@fitchratings.com  
**Sent:** Wednesday, December 02, 2009 8:57 AM  
**To:** McGill, James T(Z71171)  
**Subject:** Re:

**Attachments:** APS Debt Maturities 2009-2013.xls



APS Debt Maturities  
2009-2013....

Thanks Jim.

James.McGill@pinn  
aclewest.com

12/02/2009 10:44  
AM

Philip.Smyth@fitchratings.com

To

cc

Subject

Phil,  
Here's a schedule of 2009-2013 APS maturities.

Jim

Email Firewall made the following annotations

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(See

attached file: APS Debt Maturities 2009-2013.xls)

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**McGill, James T(Z71171)**

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**From:** Higuchi, Dene C(Z05435) on behalf of Hickman, Rebecca (Z46875)  
**Sent:** Wednesday, December 09, 2009 4:38 PM  
**Subject:** PNW/APS: Regulatory Update

On December 7-9, the Arizona Corporation Commission (ACC) held a special open meeting during which it deliberated the pending Arizona Public Service Company (APS) regulatory settlement. At the end of the special open meeting, ACC Chairman Kristin Mayes indicated that the ACC has docketed the APS settlement matter for final consideration at its regular open meeting on Tuesday, December 15, 2009.

As always, if you need information about our company, please contact me.

Sincerely ~

*Becky*

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

**McGill, James T(Z71171)**

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**From:** Hickman, Rebecca (Z46875)  
**Sent:** Wednesday, December 09, 2009 5:42 PM  
**Subject:** PNW/APS: Regulatory Update Addendum

The Arizona Corporation Commission (ACC) has docketed the pending Arizona Public Service Company (APS) regulatory settlement for final consideration and vote at its regular open meeting on Tuesday, December 15, 2009, to coincide with the ACC's consideration of certain energy efficiency programs that were included in the settlement. The connection to the energy efficiency programs was inadvertently excluded from the message I sent to you earlier about the ACC's consideration of the APS settlement.

As always, please contact me if you need any information about our company.

Sincerely ~

*Becky*

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

**McGill, James T(Z71171)**

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**From:** Schumacher, Laura [Laura.Schumacher@moodys.com]  
**Sent:** Monday, December 14, 2009 7:39 AM  
**To:** McGill, James T(Z71171)  
**Subject:** Update

Hi Jim, would you be able to give me a call sometime today? I wanted to get your sense of how the hearings in the APS case went.

Thanks,  
Laura

**Laura J.K. Schumacher**  
Vice President / Senior Analyst  
Global Infrastructure Finance  
Power / Utilities - Americas  
212.553.3853 tel  
212.298 6316 fax  
[laura.schumacher@moodys.com](mailto:laura.schumacher@moodys.com)

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**McGill, James T(Z71171)**

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**From:** Bettinelli, Antonio [Antonio\_Bettinelli@standardandpoors.com]

**Sent:** Tuesday, December 15, 2009 1:34 PM

**To:** McGill, James T(Z71171)

**Subject:** ACC

Jim,

Please let me know if the ACC makes a decision today.

**Tony Bettinelli**

Associate

U.S. Utilities & Infrastructure

Standard & Poor's Corporate Ratings

San Francisco, CA

(415) 371-5067

[tony\\_bettinelli@sandp.com](mailto:tony_bettinelli@sandp.com)

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12/23/2009

**McGill, James T(Z71171)**

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**From:** McGill, James T(Z71171)  
**Sent:** Tuesday, December 15, 2009 1:39 PM  
**To:** 'Bettinelli, Antonio'  
**Subject:** RE: ACC

I will let you know.

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**From:** Bettinelli, Antonio [mailto:Antonio\_Bettinelli@standardandpoors.com]  
**Sent:** Tuesday, December 15, 2009 1:34 PM  
**To:** McGill, James T(Z71171)  
**Subject:** ACC

Jim,

Please let me know if the ACC makes a decision today.

**Tony Bettinelli**  
Associate  
U.S. Utilities & Infrastructure  
Standard & Poor's Corporate Ratings  
San Francisco, CA  
(415) 371-5067  
[tony\\_bettinelli@sandp.com](mailto:tony_bettinelli@sandp.com)

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## McGill, James T(Z71171)

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**From:** Hickman, Rebecca (Z46875)  
**Sent:** Wednesday, December 16, 2009 9:21 PM  
**Subject:** PNW/APS: Press Release Regarding APS Settlement Approval

Today, the Arizona Corporation Commission approved by a 4-1 vote the APS regulatory settlement with some modifications. Please see our press release below for information regarding the ACC's approval.

Please contact me if you have any questions or need other information about our company.

Happy holidays to you and yours ~

*Becky*

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

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### **APS REGULATORY SETTLEMENT APPROVED**

*Provides financial stability for clean energy, reliability investments;  
Net base-rate increase of one-half percent for average residential bill*

PHOENIX – Today, the Arizona Corporation Commission approved a comprehensive and broadly supported settlement agreement signed by Arizona Public Service Company and 21 other parties to the Company's retail rate case. Collectively, the parties represent a wide range of interests, including residential, commercial and industrial customers, low-income customers, public schools, federal agencies, union workers, merchant generators and advocates for renewable energy and energy efficiency investments.

The Commissioners approved the agreement with modifications and obligations for APS that will not materially affect the overall economic terms of the settlement. Additionally, in related activity today, the Commission approved new energy efficiency programs for APS that will allow customers more opportunities to manage their electric bills.

The agreement brings broad benefits to Arizona with only a modest price increase for the average residential customer. When combined with the annual change to the company's fuel adjustment rate – a reduction this year – the net impact on current residential bills beginning Jan. 1, 2010 will be approximately one-half of one percent.

Specifically, today's order:

- Provides rate stability through an agreement by APS not to increase base rates for the next two-and-a-half years.
- Reinforces the Company's commitment to renewable energy through initiatives by APS to build a photovoltaic solar plant, install solar rooftop panels on schools and seek an Arizona wind generation project.
- Sets aggressive energy efficiency measures and programs that will enable customers to save on their electric bills.
- Fosters conditions conducive to the creation of clean and green jobs for Arizona.

"We are very pleased that the Corporation Commissioners, after careful consideration, approved this agreement, which is good for all of Arizona," said APS Chairman and Chief Executive Officer Don Brandt. "APS and the other parties to the case worked with the Commissioners to address a wide range of customer needs and to secure a clean, sustainable energy future for Arizona. As a result of this agreement, 10 percent of APS's resources will come from renewable energy by the year 2015."

APS President and Chief Operating Officer Don Robinson echoed Mr. Brandt's support: "This agreement should provide APS a level of financial stability that allows the Company to make smart investments in renewable resources and electric infrastructure, while also helping customers manage their bills with strong energy efficiency programs."

Parties to the agreement were mindful of the difficult economy and structured provisions to provide these benefits in a manner that results in the nominal bill increase to customers. Average monthly residential bills for 1170 kilowatt-hours will increase by 64 cents, from \$132.87 to \$133.51, after the first of the year. The agreement insulates certain limited-income customers from the rate increase and augments the Company's existing low-income bill assistance program by up to as much as \$8 million.

APS, Arizona's largest and longest-serving electric utility, serves more than a million customers throughout the state. With headquarters in Phoenix, APS is the principal subsidiary of Pinnacle West Capital Corp. (NYSE: PNW).

# # #

**McGill, James T(Z71171)**

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**From:** Janette.Curtis@fitchratings.com  
**Sent:** Thursday, December 17, 2009 10:40 AM  
**To:** McGill, James T(Z71171)  
**Subject:** APSC Report

**Attachments:** APSC\_Credit Update\_12.17.2009.pdf



APSC\_Credit  
pdate\_12.17.2009..

Mr. McGill,

As per Philip Smyth's instructions, I am forwarding the attached Credit Update for Arizona Public Service Company. Please review for factual accuracy.

Should you have problems viewing this attachment, please respond to this email or call me.

(See attached file: APSC\_Credit Update\_12.17.2009.pdf)

Thanks,

Janette Curtis  
Assistant to Philip Smyth  
Fitch Ratings  
212 908 0500 ext 1439

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Global Power  
U.S. & Canada  
Credit Update

**Arizona Public Service Company**  
(Subsidiary of Pinnacle West Capital Corporation)

**Ratings**

Security Class	Current Rating
Long-Term IDR	BBB-
Senior Unsecured Notes	BBB
Short-Term IDR	F3
Commercial Paper	F3

**Outlook**

Stable

**Financial Data**

Arizona Public Service Co.  
(\$ Mil.)

	LTM 9/30/09	2008
Revenues	3,134	3,133
Gross Margin	1,946	1,843
Cash Flow From Operations	705	784
Operating EBITDA	1,011	957
Total Debt	3,774	3,769
Total Capitalization	7,271	7,108
ROE (%)	7.14	7.83
Capex/Depreciation (%)	203.0	243.1

**Analysts**

Philip W. Smyth, CFA  
+1 212 908-0531  
philip.smyth@fitchratings.com

Robert Hornick  
+1 212 908-0523  
robert.hornick@fitchratings.com

**Related Research**

- *Press Release, "Fitch: Proposed Arizona Public Service Co. Settlement Would Support 'BBB-' IDR & Stable Outlook," dated Nov. 18, 2009.*
- *Credit Analysis, Arizona Public Service Co., dated May 13, 2009.*
- *Credit Analysis, Pinnacle West Capital Corp., dated May 13, 2009.*
- *Press Release, "Fitch Affirms PNW and APS' IDR at 'BBB-'; Outlook Negative for PNW; Stable for APS," dated April 9, 2009.*

**Rating Rationale**

- The Arizona Corporation Commission's (ACC) December 16, 2009 vote approving the proposed settlement agreement in Arizona Public Service Company's (APS) pending general rate case (GRC) with modifications is, in Fitch's view, supportive of APS' current credit ratings and a constructive development for APS fixed income investors.
- In affirming APS' ratings in April 2009, Fitch assumed a final order generally consistent with the proposed settlement agreement.
- Under the terms of the stipulation, APS' rates will increase \$208 million effective January 2010. In addition, APS' has agreed, among other things not to file for a rate change in its next two GRCs before June 1, 2011 and June 1, 2013.
- Regulatory lag remains a primary factor that could trigger future credit rating downgrades. Importantly, the parties to the ACC-approved settlement intend to process future GRCs within 12-months of a sufficiency finding, potentially mitigating regulatory lag in the future.

**Key Rating Drivers**

- APS's capex program to meet system growth and reliability will require on-going rate increases to maintain creditworthiness.
- In the long-term, regulatory lag is a primary concern and could lead to future rating downgrades.
- Adoption of regulatory mechanisms that effectively mitigate regulatory lag such as attrition filings and forward test year utilization in GRC proceedings could lead to positive rating actions.

**Recent Events**

The ACC-approved settlement agreement includes a \$207 million base rate increase that is expected to be effective January 1, 2010, predicated on an 11.0% authorized return on equity (ROE). Under the terms of the commission-approved stipulation, line extension fees will be recorded as revenue instead of contribution-in-aid-of-construction. Importantly, the parties to the agreement, which exclude the ALJ and ACC, intend to process future rate cases within 12 months of sufficiency findings, which may reduce regulatory lag and provide the opportunity for improved utility earned returns on a secular basis. The ACC's GRC order is based on a 2007 test year and APS' earned return on equity for the 12-months ended September 30, 2009 was just under 7%, as calculated by Fitch Ratings.

**Liquidity and Debt Structure**

APS has a \$250 million commercial paper program in place, backed by its \$377 million revolving credit facility that matures in December 2010. To provide additional liquidity to meet its power supply related funding requirements, including collateral outlays, the company also has a \$489 million revolver in place that matures September 2011. At September 30, 2009, APS had cash and cash equivalents totaling \$86 million and total on-balance sheet debt of \$3.378 billion. Scheduled long-term 2009 -

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2013 APS debt maturities are manageable with \$400 million of 6.375% senior notes due in October 2011. On an adjusted basis, debt-to-FFO at APS was 3.7x as of September 30, 2009 and debt as a percent of total capitalization stood at 51.9%. Fitch expects APS' reduced, albeit large capital investment program to require significant new money financing, which Fitch assumes will be provided through a balanced mix of equity and debt offerings.