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November 5, 2009

Arizona Corporation Commission

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

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**Re: Arizona Republic Article Regarding Rate Increase;  
Docket No. E-01345A-08-0172.**

Dear Parties to the Docket:

On October 29, 2009, an article entitled "Rate Increase Helps APS Boost Profits 23%" appeared in the *Arizona Republic*, containing some potentially confusing statements. With the tentative open meeting dates in this matter quickly approaching, we thought it best to clarify now for the record that: (1) our earned return on equity ("ROE") in 2009 is still far below our authorized return; (2) many factors, including cost reductions, helped earnings increase compared to what they were last year; and (3) the average customer bill impact of the settlement, overstated in the article, is in the range of a 1% increase over what customers are paying today.

First, the article's opening assertion that "an emergency rate increase and the hottest month ever in the state helped Arizona Public Service Co.'s parent company boost profits 23 percent from July to September" does not mean that the Company has earned higher than its authorized 10.75% ROE. The article's author appears to have calculated the reported increase by comparing Pinnacle West's third quarter consolidated net income in 2008 (\$151.6 million) to what it was third quarter in 2009 (\$186.7 million). While that year-over-year comparison shows a 23% earnings increase, **APS's ROE for the 12 months ending September 30, 2009 was 7.3%** - a full 345 basis points *below* the ROE found reasonable by the Commission in the Company's last rate proceeding. This equates to an earnings shortfall of \$114 million.

APS's net income in the third quarter of this year is higher than what it was at this same time last year for several reasons, most of which are alluded to in the article. Significantly, the Commission authorized a \$65 million interim rate increase in December of last year, thus allowing APS to charge higher rates in 2009 than it could in 2008. In addition, the third quarter covers the hot summer period

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of July through September. This year, Arizona saw warmer weather than it did in 2008, including the hottest summer month on record (July). Because customers use more energy to cool their homes when the weather is warmer, the higher temperatures in 2009 resulted in increased revenue compared to 2008. We have also cut costs over the past year – another factor that improved earnings.

The article highlighted that both business and residential customers reduced their energy use significantly during the third quarter of this year, in large part because of APS's and the Commission's commitment to energy efficiency programs. Although our customers' decreased energy usage lowered earnings compared to what they otherwise would have been, the interim rate increase helped mitigate that impact on the Company's financial condition.

Finally, the article's suggestion that the proposed settlement would increase average customer bills by "about \$9 a month" does not reflect the totality of the Agreement. Although the full revenue requirement provided in the Agreement would, standing alone, have a higher bill impact on the average residential customer, when put in the context of the rest of the Agreement – including the formal adoption of the interim rate increase already part of APS rates and the reduction achieved by simultaneously resetting the PSA – residential customers will pay only \$1.22 more per month on average after the Agreement takes effect.<sup>1</sup> As explained at the hearing, **this is a net annual increase of less than 1% compared to what they are paying today.**

We hope this letter clarifies the information presented in the article.

Sincerely,



Meghan H. Grabel

cc: Kristin K. Mayes, Chairman  
Commissioner Gary Pierce  
Commissioner Paul Newman  
Commissioner Sandra Kennedy  
Commissioner Bob Stump  
Ernest Johnson  
Lyn Farmer  
Janice Alward  
Rebecca Wilder  
Parties of Record

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<sup>1</sup> These bill impacts do not include any increased charges resulting from the expanding energy efficiency programs or renewable energy projects as required in the Agreement.

Copies of the foregoing emailed or mailed  
This 5<sup>th</sup> day of November 2009 to:

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