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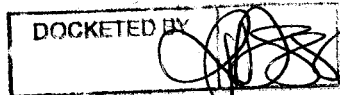
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AZ CORP COMMISSION  
DOCKET CONTROL

Rates & Regulation

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January 9, 2012

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

RE: Arizona Public Service Company 2011 Rate Case Settlement Agreement  
E-01345A-11-0224

To whom it may concern:

The Signatories to the Arizona Public Service Company ("APS") Rate Case Settlement Agreement ("Settlement") filed in the above-captioned docket agreed that APS should file this letter to inform the Commission and the public about the customer bill impacts potentially associated with the Settlement, both on the rate effective date and afterwards. As described in greater detail below, several factors associated with the Settlement may impact customer bills, and several factors that are independent of the Settlement may also impact bills:

- First and most immediately, the Settlement results in a modest rate reduction across customer classes, generally around one percent, on the assumed rate effective date (July 1, 2012) and for the remainder of 2012.
- Second, the Settlement will defer resetting the existing Power Supply Adjustor ("PSA") to reflect the new base fuel rates established in the Settlement until early 2013. This will allow customers to continue to receive a credit for the PSA for the rest of this year, and the PSA bill will be reset as it normally is in February 2013.
- Third, the Settlement would allow APS to seek an adjustment rider related to its potential acquisition of Southern California Edison's ("SCE") interest in Four Corners Power Plant Units 4 and 5 and retirement of Units 1-3 (the "proposed Four Corners transaction"), if the Commission authorizes APS to pursue the acquisition and if the transaction closes. The "Four Corners" adjustment is itself composed of two parts, each dependent upon several contingencies. The first part is the impact of the Four Corners transaction on the 2013 PSA reset should the transaction close prior to December 31, 2012. The second part, which is subject to yet further contingencies, would largely center on the non-fuel costs associated with the Four Corners transaction and would take effect no earlier than July 1, 2013.

The potential customer bill impact associated with each of these changes is explained below and illustrated in detail in the attachment.

### **1. Bill Impact on the Rate Effective Date.**

If the Commission approves the Settlement so that rates take effect on July 1, 2012 as requested, APS customers will see on average a slight bill *decrease* during the remainder of 2012. The average residential customer's monthly bill, for example, will go down by about 1.0%. This customer benefit is caused by (1) APS receiving less rate relief than it had originally requested; (2) a decline in fuel costs; and (3) the Company's agreement to delay the reset of the PSA rate until February 2013, thus continuing the current PSA credit as described below.

### **2. Bill Impact Resulting from Existing Adjustment Mechanisms.**

Of the existing Commission-approved adjustors that affect customer bills between rate cases, only the PSA has a bill impact that is directly affected by the Settlement. There are two components to the PSA: a forward component that will reflect anticipated 2013 fuel costs and a historical component that will collect any under-collected 2012 fuel costs (or refund any over-collection). Although both the forward and historical components may be affected by changes in fuel costs, weather or economic conditions between now and February 2013, APS estimates that average residential customer bills will increase by 2.5% above what they had been just before Settlement rates took effect when the PSA rate is reset in February of 2013.<sup>1</sup> Importantly, although the PSA Plan of Administration would allow the PSA rate to be reset at the same time when new rates take effect, an annual reset occurs each February regardless of whether a rate case has been filed.

### **3. Bill Impact Resulting from Potential Four Corners Acquisition.**

Finally, the Settlement contains a provision that would allow APS to seek an *adjustment rider related to its proposed Four Corners transaction, if the Commission authorizes APS to pursue the transaction and if the transaction closes*. Under the terms of the Settlement, such a rider, if implemented, may not become effective any earlier than July 1, 2013. Any bill impact associated with this adjustment is contingent on subsequent Commission actions and other future events that may or may not occur. The bill impact reflecting the Four Corners rider presented in the attached assumes, for example, that the Commission and other regulators (including the California Public Utilities Commission and the Federal Energy Regulatory Commission) allow the transaction to proceed, that all other conditions to closing are satisfied, and that the transaction is consummated in the fourth quarter of 2012. It further assumes that the Commission will grant the Company's request that it be allowed to operate Four Corners Units 1-3 through 2013 and recover the associated Operations and Maintenance expense through the PSA only and for so long as off-system sales from that additional capacity benefit customers more than the continued cost of operating those Units. None of these issues is specifically resolved in this Agreement.

Completing the Four Corners transaction as described above could result in average residential customer bills increasing by slightly more than 3% after July 2013. Importantly, however, the rate treatment of Four Corners was not part of the bill impact analysis related to the Company's original rate case application. The

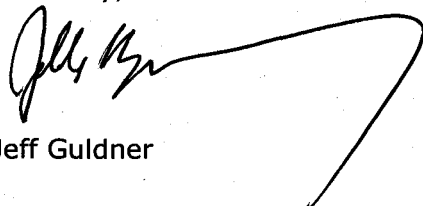
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<sup>1</sup> Again, this analysis assumes that the Commission authorizes APS to pursue the proposed Four Corners transaction, the transaction closes prior to December 31, 2012, and also that Four Corners Units 1-3 continue to operate through the balance of 2013, which results in lower PSA costs.

opportunity for APS to pursue the Four Corners transaction resulted from a combination of California environmental regulations that prompted SCE to withdraw as a participant in the Four Corners plant and from federal environmental regulations that would require significant costs for APS to continue to operate its own Four Corners units. In the separate Four Corners docket, APS has shown that the Four Corners transaction is a far less expensive option for customers over the long term than any other alternative. The Settlement proposal would facilitate the timely closing of the transaction. It would also lower the balance of the cost deferral that APS has requested in the Four Corners docket, which would be significantly higher were it carried over to the Company's next rate case, causing a higher customer bill impact.

I hope this letter provides additional information regarding the potential customer bill impacts associated with this Settlement, and look forward to discussing this in more detail at the hearing. If you have any questions, or would like additional clarification or information, please let me know by way of a letter in this rate case docket, to which APS will promptly respond.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jeff Guldner', with a long, sweeping horizontal line extending to the right.

Jeff Guldner

JBG/dk

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this 9<sup>th</sup> day of January, 2012 to:

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**ARIZONA PUBLIC SERVICE COMPANY**  
**Estimated Annual Bill Impacts of Proposed and Settlement Rates**  
**Includes PSA and RES Impacts**

	Application	Rates on 6/30/2012	Settlement 7/1/2012
	Annual Average Monthly Bill (1,2)	Annual Average Monthly Bill (2)	Annual Average Monthly Bill (3)
<b>Residential (Rate E-12)</b>			
Average kWh per Month	691	691	691
Base Rates	\$ 89.31	\$ 86.40	\$ 86.44
PSA- Forward Component	(0.01)	(3.19)	(3.19)
PSA - Historical Component	(0.32)	0.30	0.30
4 Corners	-	-	-
TCA	1.48	2.91	2.91
EIS	-	0.11	-
RES	1.99	3.84	2.78
DSMAC	1.88	1.88	1.88
Total	\$ 94.33	\$ 92.25	\$ 91.12
<b>Bill Impact</b>	<b>\$ 4.33</b>		<b>\$ (1.13)</b>
Percent Bill Impact	4.81%		-1.22%

	Annual Average Monthly Bill (1,2)	Annual Average Monthly Bill (2)	Annual Average Monthly Bill (3)
<b>Residential (Average - All Rates)</b>			
Average kWh per Month	1,100	1,100	1,100
Base Rates	\$ 128.80	\$ 123.90	\$ 123.83
PSA- Forward Component	(0.02)	(5.08)	(5.08)
PSA - Historical Component	(0.51)	0.49	0.49
4 Corners	-	-	-
TCA	2.36	4.63	4.63
EIS	-	0.18	-
RES	1.99	3.84	2.78
DSMAC	2.99	2.99	2.99
Total	\$ 135.61	\$ 130.95	\$ 129.64
<b>Bill Impact</b>	<b>\$ 8.36</b>		<b>\$ (1.31)</b>
Percent Bill Impact	6.57%		-1.00%

	Annual Average Monthly Bill (1,2)	Annual Average Monthly Bill (2)	Annual Average Monthly Bill (3)
<b>Commercial (Rate E-32, 0-20 kW)</b>			
Average kWh per Month	1,430	1,430	1,430
Base Rates	\$ 206.85	\$ 202.30	\$ 206.23
PSA- Forward Component	(0.02)	(6.60)	(6.60)
PSA - Historical Component	(0.66)	0.63	0.63
4 Corners	-	-	-
TCA	2.29	3.53	3.53
EIS	-	0.23	-
RES	7.12	13.71	9.96
DSMAC	3.89	3.89	3.89
Total	\$ 219.47	\$ 217.69	\$ 217.64
<b>Bill Impact</b>	<b>\$ 4.37</b>		<b>\$ (0.05)</b>
Percent Bill Impact	2.03%		-0.02%

**ARIZONA PUBLIC SERVICE COMPANY**  
**Estimated Annual Bill Impacts of Proposed and Settlement Rates**  
**Includes PSA and RES Impacts**

	Application	Rates on 6/30/2012	Settlement
	Annual Average Monthly Bill (1,2)	Annual Average Monthly Bill (2)	7/1/2012 Annual Average Monthly Bill (3)
<b>Commercial (Rate E-32, &gt; 20 kW)</b>			
Average kWh per Month	62,238	62,238	62,238
Base Rates	\$ 6,142.98	\$ 5,977.26	\$ 5,986.64
PSA- Forward Component	(0.88)	(287.36)	(287.36)
PSA - Historical Component	(28.69)	27.33	27.33
4 Corners	-	-	-
TCA	144.81	163.78	163.78
EIS	-	9.96	-
RES	73.92	142.44	103.44
DSMAC	189.52	189.52	189.52
Total	\$ 6,521.66	\$ 6,222.93	\$ 6,183.35
<b>Bill Impact</b>	<b>\$ 401.72</b>		<b>\$ (39.58)</b>
Percent Bill Impact	6.56%		-0.64%

	Annual Average Monthly Bill (1,2)	Annual Average Monthly Bill (2)	Annual Average Monthly Bill (3)
<b>Industrial (Rate E34/35)</b>			
Average kWh per Month	3,581,412	3,581,412	3,581,412
Base Rates	\$ 257,184.98	\$ 249,125.86	\$ 244,035.16
PSA- Forward Component	(50.14)	(16,535.38)	(16,535.38)
PSA - Historical Component	(1,651.03)	1,572.24	1,572.24
4 Corners	-	-	-
TCA	1,710.44	4,061.46	4,061.46
EIS	-	573.03	-
RES	221.77	427.33	310.33
DSMAC	6,395.98	6,395.98	6,395.98
Total	\$ 263,812.00	\$ 245,620.52	\$ 239,839.79
<b>Bill Impact</b>	<b>\$ 25,818.72</b>		<b>\$ (5,780.73)</b>
Percent Bill Impact	10.85%		-2.35%

Notes:

- (1) From CAM-14 in Application
- (2) Bill includes impact of proposed revised General Rate Case charges, and PSA and RES surcharges reset with implementation of new rates  
 Bill excludes regulatory assessment charge, taxes and fees. Adjustor levels in effect as of March 1, 2011
- (3) 7/1/2012 - Includes settlement rates, transfer from RES to base rates, and EIS set to zero. PSA based on 2/1/2012 rate



**ARIZONA PUBLIC SERVICE COMPANY**  
**Estimated Annual Bill Impacts of Proposed and Settlement Rates**  
**Includes PSA and RES Impacts**

**NOTE: PSA RESET OCCURS EACH FEBRUARY REGARDLESS OF WHETHER A RATE CASE HAS BEEN FILED**

	Rates on 7/1/2012	Potential Impact of PSA Reset in 2013
	Annual Average Monthly Bill (4,5)	Annual Average Monthly Bill (4,6)
<b>Residential (Rate E-12)</b>		
Average kWh per Month	691	691
Base Rates	\$ 86.44	\$ 86.44
PSA- Forward Component	(3.19)	(2.12)
PSA - Historical Component	0.30	2.10
4 Corners	-	-
TCA	2.91	2.91
EIS	-	-
RES	2.78	2.78
DSMAC	1.88	1.88
Total	\$ 91.12	\$ 93.99
<b>Bill Impact</b>		\$ 2.87
Percent Bill Impact		3.15%

Equates to a 1.9% bill impact compared to 6/30/2012 rates
---

	Annual Average Monthly Bill (4,5)	Annual Average Monthly Bill (4,6)
<b>Residential (Average - All Rates)</b>		
Average kWh per Month	1,100	1,100
Base Rates	\$ 123.83	\$ 123.83
PSA- Forward Component	(5.08)	(3.37)
PSA - Historical Component	0.49	3.34
4 Corners	-	-
TCA	4.63	4.63
EIS	-	-
RES	2.78	2.78
DSMAC	2.99	2.99
Total	\$ 129.64	\$ 134.20
<b>Bill Impact</b>		\$ 4.56
Percent Bill Impact		3.52%

Equates to a 2.5% bill impact compared to 6/30/2012 rates
---

	Annual Average Monthly Bill (4,5)	Annual Average Monthly Bill (4,6)
<b>Commercial (Rate E-32, 0-20 kW)</b>		
Average kWh per Month	1,430	1,430
Base Rates	\$ 206.23	\$ 206.23
PSA- Forward Component	(6.60)	(4.38)
PSA - Historical Component	0.63	4.34
4 Corners	-	-
TCA	3.53	3.53
EIS	-	-
RES	9.96	9.96
DSMAC	3.89	3.89
Total	\$ 217.64	\$ 223.57
<b>Bill Impact</b>		\$ 5.93
Percent Bill Impact		2.72%

**ARIZONA PUBLIC SERVICE COMPANY**  
**Estimated Annual Bill Impacts of Proposed and Settlement Rates**  
**Includes PSA and RES Impacts**

**NOTE: PSA RESET OCCURS EACH FEBRUARY REGARDLESS OF WHETHER A RATE CASE HAS BEEN FILED**

	Rates on 7/1/2012	Potential Impact of PSA Reset in 2013
	Annual Average Monthly Bill (4,5)	Annual Average Monthly Bill (4,6)
<b>Commercial (Rate E-32, &gt; 20 kW)</b>		
Average kWh per Month	62,238	62,238
Base Rates	\$ 5,986.64	\$ 5,986.64
PSA- Forward Component	(287.36)	(190.39)
PSA - Historical Component	27.33	188.77
4 Corners	-	-
TCA	163.78	163.78
EIS	-	-
RES	103.44	103.44
DSMAC	189.52	189.52
Total	\$ 6,183.35	\$ 6,441.76
<b>Bill Impact</b>		<b>\$ 258.41</b>
Percent Bill Impact		<b>4.18%</b>

	Annual Average Monthly Bill (4,5)	Annual Average Monthly Bill (4,6)
<b>Industrial (Rate E34/35)</b>		
Average kWh per Month	3,581,412	3,581,412
Base Rates	\$ 244,035.16	\$ 244,035.16
PSA- Forward Component	(16,535.38)	(10,955.54)
PSA - Historical Component	1,572.24	10,862.43
4 Corners	-	-
TCA	4,061.46	4,061.46
EIS	-	-
RES	310.33	310.33
DSMAC	6,395.98	6,395.98
Total	\$ 239,839.79	\$ 254,709.82
<b>Bill Impact</b>		<b>\$ 14,870.03</b>
Percent Bill Impact		<b>6.20%</b>

**Notes:**

- (4) Bill excludes regulatory assessment charge, taxes and fees
- (5) 7/1/2012 - Includes settlement rates, transfer from RES to base rates, and EIS set to zero. PSA based on 2/1/2012 rate
- (6) 2/1/2013 - APS would have reset the PSA adjustor regardless of the current rate case. Projected PSA reset, under-collection in 2012 due to base fuel rate change in 7/1/12, FC 1-3 Off-system sales margin, and FC 4-5 base fuel rate change due to acquisition

**ARIZONA PUBLIC SERVICE COMPANY**  
**Estimated Annual Bill Impacts of Proposed and Settlement Rates**  
**Includes PSA and RES Impacts**

	<b>Bill Impact of PSA Reset in 2013</b>	<b>Potential Impact of ACC Approval of FC</b>
	<b>Annual Average Monthly Bill (7,8)</b>	<b>Annual Average Monthly Bill (7,9)</b>
<b>Residential (Rate E-12)</b>		
Average kWh per Month	691	691
Base Rates	\$ 86.44	\$ 86.44
PSA- Forward Component	(2.12)	(1.31)
PSA - Historical Component	2.10	2.10
4 Corners	-	2.08
TCA	2.91	2.91
EIS	-	-
RES	2.78	2.78
DSMAC	1.88	1.88
Total	\$ 93.99	\$ 96.88
<b>Bill Impact</b>		\$ 2.89
Percent Bill Impact		3.07%

	<b>Annual Average Monthly Bill (7,8)</b>	<b>Annual Average Monthly Bill (7,9)</b>
<b>Residential (Average - All Rates)</b>		
Average kWh per Month	1,100	1,100
Base Rates	\$ 123.83	\$ 123.83
PSA- Forward Component	(3.37)	(2.09)
PSA - Historical Component	3.34	3.34
4 Corners	-	2.97
TCA	4.63	4.63
EIS	-	-
RES	2.78	2.78
DSMAC	2.99	2.99
Total	\$ 134.20	\$ 138.45
<b>Bill Impact</b>		\$ 4.25
Percent Bill Impact		3.17%

	<b>Annual Average Monthly Bill (7,8)</b>	<b>Annual Average Monthly Bill (7,9)</b>
<b>Commercial (Rate E-32, 0-20 kW)</b>		
Average kWh per Month	1,430	1,430
Base Rates	\$ 206.23	\$ 206.23
PSA- Forward Component	(4.38)	(2.71)
PSA - Historical Component	4.34	4.34
4 Corners	-	4.95
TCA	3.53	3.53
EIS	-	-
RES	9.96	9.96
DSMAC	3.89	3.89
Total	\$ 223.57	\$ 230.19
<b>Bill Impact</b>		\$ 6.62
Percent Bill Impact		2.96%

**ARIZONA PUBLIC SERVICE COMPANY**  
**Estimated Annual Bill Impacts of Proposed and Settlement Rates**  
**Includes PSA and RES Impacts**

<b>Commercial (Rate E-32, &gt; 20 kW)</b>	<b>Bill Impact of PSA Reset in 2013 Annual Average Monthly Bill (7,8)</b>	<b>Potential Impact of ACC Approval of FC Annual Average Monthly Bill (7,9)</b>
Average kWh per Month	62,238	62,238
Base Rates	\$ 5,986.64	\$ 5,986.64
PSA- Forward Component	(190.39)	(117.94)
PSA - Historical Component	188.77	188.77
4 Corners	-	143.68
TCA	163.78	163.78
EIS	-	-
RES	103.44	103.44
DSMAC	189.52	189.52
Total	\$ 6,441.76	\$ 6,657.89
<b>Bill Impact</b>		<b>\$ 216.13</b>
Percent Bill Impact		<b>3.36%</b>

<b>Industrial (Rate E34/35)</b>	<b>Annual Average Monthly Bill (7,8)</b>	<b>Annual Average Monthly Bill (7,9)</b>
Average kWh per Month	3,581,412	3,581,412
Base Rates	\$ 244,035.16	\$ 244,035.16
PSA- Forward Component	(10,955.54)	(6,786.78)
PSA - Historical Component	10,862.43	10,862.43
4 Corners	-	5,856.85
TCA	4,061.46	4,061.46
EIS	-	-
RES	310.33	310.33
DSMAC	6,395.98	6,395.98
Total	\$ 254,709.82	\$ 264,735.43
<b>Bill Impact</b>		<b>\$ 10,025.61</b>
Percent Bill Impact		<b>3.94%</b>

Notes:

- (7) Bill excludes regulatory assessment charge, taxes and fees. Adjustor levels in effect as of March 1, 2011
- (8) 2/1/2013 - APS would have reset the PSA adjustor regardless of the current rate case. Projected PSA reset, under-collection in 2012 due to base fuel rate change in 7/1/12, FC 1-3 Off-system sales margin, and FC 4-5 base fuel rate change due to acquisition
- (9) 7/1/2013 - FC 1-3 O&M base fuel rate transfer to PSA, and FC 4-5 non-fuel rate increase