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AZ CORP COMMISSION  
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

MAR - 7 2012

March 7, 2012

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

DOCKETED BY 

RE: Arizona Public Service Company's Long-Term Debt Reporting  
Docket No. E-01345A-08-0172

Commission Decision No. 71448, Section 13.4(b) "Financial Reporting" orders Arizona Public Service Company ("APS") to report:

v. Information regarding any long-term debt issuances and their impact upon APS' capital structure and FFO/Debt ratio within 60 days of such infusion.

Further, APS was also ordered in Decision No. 69947, at page 18, line 21 to report:

...on each occasion when Arizona Public Service Company enters into a long-term debt agreement, Arizona Public Service Company shall file with Docket Control as a compliance item in this docket, a description of the transaction and a demonstration that the rates and terms are consistent with those generally available to comparable entities at the time...

Pursuant to these requirements, on January 10 2012, APS priced \$325,000,000 of senior unsecured 30-year bonds. The bonds priced at a yield of 4.557% based on a 30-year U.S. Treasury bond yield of 3.007% and a credit spread of 155 basis points. The proceeds from this issue, along with other cash resources of the Company, was used to pay off \$375,000,000 in long term debt that matured March 1, 2012.

In compliance with the reporting obligations contained in Decision No. 71448, Section 13.4(b), APS submits the following information:

- The long-term debt issuance, combined with the debt retirement such issuance made possible, had the following impact on APS's capital structure under both the S&P and traditional rate making methodology:

**S&P Capital Structure Methodology**

	<b>Pre-Long-Term Debt Issuance (12/31/2011 as adjusted)</b>		<b>Post- Long-Term Debt Issuance</b>	
	\$ in M	%	\$ in M	%
Debt	\$4,694	54.3%	\$4,694	54.3% <sup>1</sup>
Common Equity	\$3,943	45.7%	\$3,943	45.7%
Total	\$8,637	100.0%	\$8,637	100.0%

**Traditional Ratemaking Methodology**

	<b>Pre-Long-Term Debt Issuance (12/31/2011 as adjusted)</b>		<b>Post- Long-Term Debt Issuance</b>	
	\$ in M	%	\$ in M	%
Debt	\$3,281	44.6%	\$3,231	44.3%
Common Equity	\$4,069	55.4%	\$4,069	55.7%
Total	\$7,350	100.0%	\$7,300	100.0%

- The estimated impact on FFO/Debt was 0.0% remaining unchanged at 20.3%.

In compliance with the reporting obligations contained in Decision No. 69947, APS submits Attachment A to this letter which demonstrates that these rates and terms are consistent with those generally available to comparable entities on January 10, 2012.

To determine the interest rates that comparable entities would have been able to obtain on 30-year bonds issued on January 10, 2012, APS presents recently issued bonds rated in the range of Baa1/BBB+ to Baa3/BBB-.

Note that the average credit spread for the selected group was 172 basis points. These credit spreads represent the additional interest above rates that could be earned on comparable maturity U.S. Treasury bonds that investors were requiring on January 10, 2012. Also note that the average maturity of the bonds in the group was 26.76 years. Shorter maturities usually have lower spreads.

The "Comparisons" section of Attachment A shows how this information is used to demonstrate that the yield on the \$325,000,000 of bonds issued by APS is consistent with what was available to comparable entities on January 10, 2012. To complete the comparison, APS adjusts each of the credit spreads for maturity (since the 30 year maturity of the APS bonds is longer than the average maturities selected bonds). This adjustment results in an "Indicative New Issue Equivalent" credit spread of 177 basis points. Comparing this spread to the 155 basis point credit spread that APS paid on its issue demonstrates that the APS rates and terms were consistent with those generally available to comparable entities on January 10, 2012.

<sup>1</sup> On an S&P basis, the \$50 million difference between the January 10<sup>th</sup> issuance and the March 1<sup>st</sup> retirement was reflected in short-term debt, thus leaving both total debt and the debt ratio the same post-Long Term debt issuance. This Short Term debt is similarly not reflected in the traditional rate making methodology.

Letter to Docket Control  
March 7, 2012  
Page 3 of 3

If you have any questions regarding this report please call Zachary Fryer at 602-250-4167.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Johnson", with a stylized flourish at the end.

Jeff Johnson

JJ/sl

cc: Brian Bozzo  
Steve Olea  
Terri Ford  
Barbara Keene  
Parties of Record

**Barclays Capital 10-year Baa2 and Baa3 Unsecured  
Utility Indices**

**Attachment A**

Issuer	Ratings		Amt (\$mm)	Coupon	As of 1/10/2012		
	Moody's	S&P			Maturity	Spread (bp)	
Cleco Power LLC	Baa2	BBB	250	6.000%	12/01/40	+172	
Southwestern Electric Power	Baa3	BBB	350	6.200%	03/15/40	+180	
Pennsylvania Electric	Baa2	BBB-	250	6.150%	10/01/38	+190	
Appalachian Power	Baa2	BBB	500	7.000%	04/01/38	+175	
Appalachian Power	Baa2	BBB	250	6.700%	08/15/37	+185	
Jersey Central Power & Light	Baa2	BBB-	275	6.150%	06/01/37	+165	
Tampa Electric	Baa1	BBB+	250	6.150%	05/15/37	+165	
Kansas City Power & Light	Baa2	BBB	400	5.300%	10/01/41	+170	
Baltimore Gas & Electric	Baa2	BBB+	400	6.350%	10/01/36	+150	
<b>Average</b>						<b>26.76 years</b>	<b>+172</b>

**Comparisons**

**30-year Baa2- Utility Index**

	Average Maturity (yrs)	Spread
30-year Baa2- Utility Index	26.76	172 bps
Adjusted for Maturity <sup>(1)</sup>	30.00	5 bps
<b>Indicative New Issue Equivalent</b>		<b>177 bps</b>

Issuer	Ratings		Amt (\$mm)	Coupon	Maturity	Spread
	Moody's	S&P				
Arizona Public Service	Baa2	BBB	325	4.500%	04/01/42	+155

Notes:

(1) The adjustment reflects the additional spread investors would require to extend the maturity to 30 years

Source: TRACE, Barclays Capital

Copies of the foregoing delivered  
this 7<sup>th</sup> day of March, 2012 to:

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