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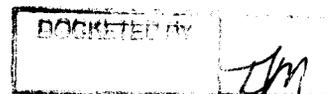
Chief Financial Officer

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AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED

APR 30 2013



April 30, 2013

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007-2996

Re: Compliance Filing of Arizona Public Service Company Regarding APS
Expense Reduction Commitment, Docket No. E-01345A-08-0172
(2009 APS Settlement Agreement).

Dear Sir or Madam:

As part of its 2009 rate case settlement (the "2009 Settlement")¹, APS agreed to sustain \$20 million worth of expense savings reported to the Commission in 2009, and to continue to reduce expenses by an annual average amount of \$30 million each year through 2014, for a cumulative total reduction of \$150 million.

APS is acutely focused on cost management, not only to comply with its 2009 Settlement obligation, but also to show customers, stakeholders, investors, credit rating agencies, and the Commission that APS is a company that is committed to fiscal responsibility. That focus is critical both for APS to meet its expense reduction commitment and to strengthen the Company's credit quality and financial metrics during both the 2009 Settlement term and the 2012-2016 term of APS's more recent Settlement Agreement, filed in Docket No. E-01345A-11-0224. Towards those ends, APS has continued to implement a comprehensive, strategic cost management initiative in an effort to continue to make operations more efficient and further drive costs down where appropriate.

In 2012, APS removed at least \$37,200,000 in expenses from its cost structure. These savings include the following:

Area	Action Taken	2012 Expense Savings
Treasury, Tax and Audit Depts savings	Further reduced staffing, labor related costs, contract labor costs and outside services fees.	\$1,100,000

¹ Approved by the Commission in Decision No. 71448 (December 30, 2009). The expense reduction commitment is located in Section VII of the Settlement Agreement.

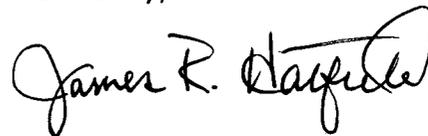
Area	Action Taken	2012 Expense Savings
Supply Chain Savings	Improved cost effectiveness from the re-negotiation of the Long Term Services Agreement (LTSA) associated with the Redhawk power plant, and reduced departmental costs from headcount savings.	\$900,000
Fossil Generation Dept savings	Continued to implement operating efficiencies that allowed for additional reductions in staffing levels, improved identification and resolution of equipment condition deficiencies and improved efficiencies related to chemical costs.	\$2,600,000
Energy Delivery Dept savings	On-going implementation of the "SOAR" (Standardize, Organize, Automate, Review) initiative enabled further reductions in staffing levels, related labor costs and related training costs.	\$1,000,000
Information Technology Dept Savings	Further reduced staffing, labor related costs and utilized contract employees to reduce costs.	\$700,000
Medical Benefit Costs	Further reduced medical benefit program costs by improved management of and lower costs for medical claims, and more focus on health and wellness management offerings to employees.	\$900,000
Human Resources Dept savings	Further reduced headcount, personnel related programs and greater use of contract employees.	\$1,600,000
Customer Service and Marketing Depts savings	Further reduced headcount, labor related expenses and utilized contract employees to gain cost efficiencies.	\$900,000
APS share of Palo Verde on-going efficiencies	Continued to increase the efficiency of plant processes and operations, which allowed for additional headcount reductions and greater utilization of contract employees to reduce costs.	\$2,300,000
Accounting and Finance Depts savings	Further reduced staffing and labor related costs, and reduced outside services costs.	\$2,800,000
Power Marketing and Resource Planning Depts savings	Further reduced costs associated with headcount savings and lower consultant/contractor fees.	\$1,400,000
Law Department and Government Affairs Depts savings	Further reduced staffing, labor related costs and performed more work in-house thereby reducing outside legal counsel costs.	\$1,800,000

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Area	Action Taken	2012 Expense Savings
Environmental Health and Safety Dept savings	Reduced staffing, labor related costs and outside services/consulting contract costs.	\$1,700,000
Regulatory Dept savings	Reduced staffing, labor related costs and outside services costs.	\$600,000
Energy Innovations Dept savings	Reduced staffing and labor related costs.	\$800,000
Communications Dept savings	Reduced staffing, labor related costs and lowered advertising costs.	\$1,900,000
Interest Savings	Saved interest costs in 2012 related to the accumulated reduced expenditures from 2010 to present.	\$7,100,000
Management and Employee Compensation	Maintained 2008 base compensation levels in 2009 for all management employees and many non-union front line employees, resulting in continued savings in 2012.	\$6,200,000
Contractor Wage Freeze	Maintained 2008 wage or salary levels in 2009 for APS contractors, resulting in continued savings in 2012.	\$900,000
TOTAL		\$37,200,000

As discussed above, APS has been and remains committed to a Company-wide emphasis on efficiency and cost management, both during the 2009 Settlement term and beyond. This letter reports a savings of over \$37 million in 2012 and satisfies the Company's compliance obligations for 2012 under Section VII of the 2009 Settlement Agreement.

Sincerely,



James R. Hatfield

cc: Parties to the Docket;
Original and 13 copies to Docket Control

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