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July 12, 2013

Chairman Bob Stump
Commissioner Gary Pierce
Commissioner Brenda Burns
Commissioner Bob Burns
Commissioner Susan Bitter Smith
Arizona Corporation Commission
1200 West Washington – 2nd Floor
Phoenix, Arizona 85007

Re: Initial Comments of the Navajo Transitional Energy Company, L.L.C. in Docket No. E-00000W-13-0135: ***In The Matter of the Commission's Inquiry into Retail Electric Competition***

Dear Honorable Commissioners:

The Navajo Transitional Energy Company, L.L.C. ("NTEC"), an economic arm of the Navajo Nation ("Nation"), has a critical stake in this proceeding, and hereby provides its comments to the May 23, 2013 Letter to Stakeholders regarding Docket No. E-00000W-13-0135: *In the Matter of the Commission's Inquiry into Retail Electric Competition.*

I. SUMMARY

The uncertainty that would be caused for the owners of the Four Corners Power Plant ("FCPP") by continuing this inquiry beyond 90 days would have a catastrophic economic impact on the Navajo Nation, impair the Nation's energy policies, and would end the promise and potential of NTEC as a forward looking energy company created to cleanly develop the Nation's resources, including coal. Not ending this inquiry quickly, or not exempting FCPP from retail electric competition, would force closure of the FCPP and the BHP Navajo Mine ("Navajo Mine) and cause the loss of a $40 million annual income stream to the Nation; it would cause the Nation and NTEC to lose a singular and unique opportunity for the Nation to purchase the Navajo Mine and participate in the electrical energy market as a coal supplier; and it would prevent NTEC and the Nation from helping evolve the electric market on the Nation and in Arizona into new and cleaner electrical energy technologies for the benefit of the Navajo people and Arizona ratepayers. The economic damage from the Commission taking steps toward deregulation of the retail electric market would not be limited to the Navajo Nation, but would be felt across Arizona and the region for years to come.

Deregulation will hurt Arizona ratepayers and service providers alike by "killing coal," thereby diminishing Arizona's energy portfolio and *decreasing* competition that now exists between alternate fossil fuel resources such as coal and natural gas, the latter which cannot be substituted for coal because of its price volatility. Critically, as a legal matter, competitive rate setting simply *cannot work* in Arizona because under the Arizona Constitution the Commission is prohibited from delegating its rate setting responsibility to the marketplace.

The Commissioners should therefore end this inquiry as quickly as possible—within 90 days—and should not proceed with any further steps toward retail electric competition in Arizona. Alternatively, the Commission should decide within 90 days to exempt the FCPP from retail electric competition.

II. BACKGROUND OF NTEC

The Navajo Nation, which wholly owns NTEC, is a sovereign Indian tribe located in the states of Arizona, New Mexico and Utah. With more than 300,000 members, the majority of which live on the reservation, the Nation is the largest Native Nation in terms of population and land area in the United States. Economically depressed for many generations, the Nation is one of the two poorest areas in the United States, with an unemployment rate that increased from 42.16% in 2001 to 50.52% in 2007.[1] Since the recession in late 2008, the Nation has suffered even more unemployment, particularly for younger Navajo people, who are often forced to move elsewhere. According to information from the American Community Survey (ACS) of the U.S. Census Bureau, 36.76% of the population of the Navajo Nation lives below the poverty level.[2]

In a vital gesture of the Nation's sovereignty, right to self-determination, and desire for economic self-sufficiency, the Navajo Nation Council created NTEC in May of 2013 for the initial purpose of purchasing and operating the Navajo Mine located on the Navajo Nation south of Farmington, New Mexico. This transaction has been in process for over nine months. The Navajo Mine supplies coal to the FCPP, also located on the Navajo Nation near the Arizona border. If NTEC is able to proceed with the purchase, *which is at dire risk because of this inquiry*, NTEC will protect Navajo jobs, create economic opportunity, and ensure continued royalty and tax income to the Navajo government. It will also allow the Navajo Nation through NTEC to manage its own energy and environmental resources and to transition to cleaner fossil fuel technologies and alternative energy resources that will enhance the Nation's stewardship of its land, air, water, and natural and economic resources.

Under its Operating Agreement, NTEC is required to "invest and re-invest no less-than ten-percent (10%) of its available Net Income in a given year into the research and development of renewable and alternative sources of energy, storage, and transmission technologies and facilities." This unique approach and mandate from the Navajo Nation Council will allow NTEC, with an income stream from the Navajo Mine, to transition the Navajo Nation from a source of conventional coal-fired electrical generation to a provider of electrical energy by emerging technologies.

[1] *See* the 2009-2010 Comprehensive Economic Development Strategy of the Navajo Nation ("2009-2010 CEDS"), 20, *available at http://www.navajobusiness.com/pdf/CEDS/CED_NN_Final_09_10.pdf.*
[2] *Id.* at 37.

FCPP is owned by a consortium of public utilities and operated by Arizona Public Service ("APS"). Navajo Mine is operated by BHP Billiton Navajo Coal Company on a lease of Navajo Nation lands and has provided coal to the FCPP for 50 years. APS owns 100% of Units 1, 2, and 3 of FCPP, while Units 4 and 5 are operated by APS but owned by six companies, with APS owning 15%, Southern California Edison ("SCE") 48%, Public Service Company of New Mexico 13%, Salt River Project 10%, Tucson Electric Power 7%, and El Paso Electric 7%. FCPP delivers power through its switchyard to utilities in Arizona, California, New Mexico and Texas.[3] In November 2010, APS announced that it would purchase SCE's 48% share in Units 4 and 5 and bring those two units to required emission standards by retrofitting selective catalytic reduction ("SCR") technology imposed by the Environmental Protection Agency as Best Available Retrofit Technology ("BART"), while shutting down units 1, 2 and 3. All of these changes will lead to FCPP being a cleaner, more efficient power plant for the Southwest region.

As the transaction is structured, once NTEC has purchased the Navajo Mine, BHP Billiton will continue as the Mine Manager through 2016, keeping on the mine employees for that time period. NTEC will select a new Mine Manager to begin managing the mine in 2017. If the transactions are completed as currently planned, NTEC will have coal supply agreements in place with FCPP through 2031.

III. IF THIS INQUIRY IS NOT ENDED WITHIN 90 DAYS IT WILL CAUSE THE CLOSURE OF NAVAJO MINE AND FOUR CORNERS POWER PLANT AND CAUSE SEVERE ECONOMIC HARM TO THE NAVAJO NATION, ARIZONA AND THE REGION.

The transactions described above will only close if there is an expedited decision from the Commission in this inquiry. If this inquiry goes past 90 days, or if the Commission decides to take further steps toward deregulation, the Navajo Nation will suffer catastrophic economic harm that will be felt in Arizona and across the region for years to come.

The Navajo Nation and Arizona ratepayers share economic interests and energy resources. Almost all of the mineral-based energy resources within Arizona, particularly coal, are on tribal lands. There are also numerous natural gas pipeline segments, transmissions lines for electricity, and hydroelectric dams on tribal lands within the state. Coal is the Nation's most valuable and plentiful natural resource. Of the internal revenue sources for the Nation in 2006, revenue from natural resources associated with energy (excluding taxes) comprised about 52% of the gross revenue available for the entire General Fund Budget.[4] Approximately 35% of the total gross revenue was from coal.[5]

Over $40 million in royalties and taxes are paid to the Nation annually by FCPP and the Navajo Mine combined. By acquiring the Navajo Mine and entering into the coal supply agreements with FCPP, NTEC will secure the jobs of over 800 employees at the mine and power plant, most of whom are Navajos, and the jobs of many more involved in support industries. Ten percent of its net profits would be used for the research and development of renewable and

[3] 2009-2010 CEDS, 35.
[4] 2009-2010 CEDS at 98 Table 11 (($36,776 + $80,643)/$228,019 = 51.5%).
[5] *Id.* ($80,643/$228.019 = 35.3%).

alternative sources of energy, storage, and transmission technologies and facilities, for the benefit of the Nation, Arizona and the region. Additional distributions will also become available to the Nation to complement the current royalty and tax income, bringing the positive cash flow to the Nation over the term of the agreements to over $1 billion.

Although FCPP and the Navajo Mine are not located directly in Arizona, the economic multiplier effects of a $1 billion income stream from FCPP, Navajo Mine, and NTEC will benefit the State of Arizona. This income stream would go directly into the Nation's general fund, which is distributed widely across the Navajo Nation to pay for central and local government services, including Navajo Nation employee salaries and benefits. Fifty seven of the 110 Navajo Nation chapters are located in Arizona,[6] as is the Nation's capital and governmental hub in Window Rock. Thus, these funds would have a direct multiplier effect within the State of Arizona.

Additionally, the Arizona State University Carey School of Business has conducted an analysis of the economic impacts to New Mexico from the Navajo Mine and FCPP. These results demonstrate a total labor income impact of $2.5 billion and a gross state product impact of $6.5 billion from operation of the FCPP and Navajo Mine for the period 2016 to 2031.[7] These substantial economic benefits for Arizona's neighboring state will likely have significant ripple effects in Arizona as well,[8] as would the closure of FCPP and the Navajo Mine.

Disappointingly, as a direct result of the Commission's inquiry in this proceeding, NTEC's purchase of the Navajo Mine from BHP, APS's purchase of SCE, and the coal supply agreement between NTEC and FCPP have now all been put on hold,[9] and the tremendous benefits to the Nation and the region from the transaction may now never be realized. Because of the significant uncertainties for the FCPP owners, a proceeding in this docket that goes longer than 90 days, and/or a decision to take further steps toward deregulation of the electricity market in Arizona, will cause FCPP and APS to withdraw from the proposed agreements. According to APS, it "currently expects that it will not be in a position to close the Four Corners purchase transaction with SCE until the ACC's intentions with regard to pursuing deregulation in Arizona become clearer."[10] As a result of the Commission's inquiry, and to keep the transaction alive, APS has negotiated successfully with the EPA for an extension until December 31, 2013 to choose one of two emissions alternatives to apply to Four Corners under the recent BART.[11] With the extension, by December 31, 2013 FCPP must choose either to proceed with the costly retrofitting of all five units with SCRs, only retrofitting units 4 and 5 with SCRs and closing

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[6] *See* http://navajochapters.org/ (link for "Chapter Information").
[7] *See* Fact Sheet: the Economic Impacts of Navajo Mine and the Four Corners Power Plant, attached hereto as Exhibit "B".
[8] *See, e.g.*, CROUCHER, EVANS AND JAMES, ASU: CAREY SCHOOL OF BUSINESS, NAVAJO GENERATING STATION AND KAYENTA MINE: AN ECONOMIC IMPACT STUDY, 2 (2012) ("NGS Study"), *http://ngspower.com/pdfx/SRPASUNGS.pdf* (noting the inter-linked nature of the Arizona economy to other states in discussing the economic multiplier effects of Navajo Generating Station and Kayenta Mine).
[9] The intended closing date was July 1, 2013.
[10] *See, e.g.*, APS's June 17, 2013 Form 8-K Report to the United States Securities and Exchange Commission, attached as Exhibit "A".
[11] *See id.* On June 25, 2013, in Docket No. EPA-R09-OAR-2013-0489, the EPA issued a proposed rule extending the deadline for FCPP's BART compliance decision to December 31, 2013.

units 1, 2, and 3 (the "better than BART" alternative that FCPP prefers), *or shutting the plant down completely by 2016.* If FCPP does not have certainty from this Commission that its costly investment in SCR technology will be recoverable, then it will be unable to select either BART alternative and will shut down forever in just 2 1/2 years, removing 2,040 MW of stable base-load electricity from the Arizona grid.

There is thus still a window of opportunity for these transactions to close, and for the substantial economic benefits to the Nation, Arizona and the region to be realized, but only if the Commission decides quickly to end this inquiry, or to exempt FCPP from retail electric competition.

Alarmingly, should the Commission decide to take further steps toward deregulation, there will be a domino effect that will shutter every coal fired power plant and mine in Arizona, including the Navajo Generating Station ("NGS"), located in Page, Arizona, and the Kayenta Mine, because of the uncertainty that service providers will have for investing in aging coal plants. NGS and the Kayenta Mine are located on the Navajo Nation in Arizona and also provide a critical income stream to the Navajo government as well as to the Hopi Tribe. But the harm would not be limited to the tribes. Based on the NGS Study, for the years 2011-2044, NGS and Kayenta Mine will provide in Arizona a total of 112,720 job years, nearly *$20.5 billion* (2011 dollars) in real GSP, approximately *$11.2 billion* (2011 dollars) in real disposable income, and just under *$680 million* (2011 dollars) in adjusted state tax revenues.[12] Loss of these revenues to the State of Arizona would be severe.

The bottom line is that if this Commission does not end its inquiry within 90 days, or decide within 90 days to exempt the Four Corners Power Plant from any retail electric competition, the Commission will effectively have (1) forced the immediate closure of the Navajo Mine and FCPP, a critical provider of base load generation for Arizona, (2) caused a $40 million annual loss of direct revenues for the Nation, (3) caused the loss of substantial tribal, state and regional economic multiplier benefits, (4) caused the loss of a singular opportunity for the Nation to participate in the electric market as a coal supplier, and (5) caused NTEC to lose the critical income it needs to fund research and development of new and cleaner electrical energy technologies for the Arizona electric market and the benefit of Arizona ratepayers.

If the Commission does not end this inquiry and proceeds with deregulation it will also cause a domino effect that will shutter every coal fired power plant and coal mine on Arizona's grid, wipe out coal completely from Arizona's energy portfolio, and cut yet another critical income stream to the Nation, and to the Hopi tribe, through the closure of NGS.

The right policy decision by the Commission is therefore to end this inquiry as quickly as possible—within 90 days—and to not proceed with any further steps toward deregulation of the retail electric market in Arizona. In the alternative, should the Commission decide to take any further steps toward deregulation, it should decide within 90 days to exempt FCPP from retail electric competition.[13]

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[12] *See* NGS Study, 23 Table 16.

[13] If the Commission makes a decision to take further steps toward deregulation, it should also exempt NGS and other coal fired power plants from retail electric competition.

IV. DEREGULATION WOULD RAISE RATES AND IS UNNECESSARY TO DRIVE INNOVATION IN CLEAN COAL TECHNOLOGIES.

Instituting retail electric competition would eliminate the stable-priced resource of coal forever. Arizona ratepayers will lose 2,040 MW of coal-fired generation alone from the FCPP. Replacing that power will cost millions of dollars and result in significant rate increases to Arizona ratepayers.

The only energy resource available to replace such capacity quickly, *i.e.*, in as soon as two and a half years, is natural gas. Renewable resources will not meet this need, cannot provide base load generation, and are not available on such a large scale or integrated fully into the electric grid. Renewable resources have also not reached grid parity with natural gas or coal prices. In contrast, coal, including from the Nation, is a critical component of Arizona's energy portfolio that provides for long term price stability. The only way to achieve lower prices is to maintain the diversity of Arizona's energy portfolio and not eliminate existing valuable resources such as coal, especially when they are in such plentiful supply in Arizona, including on the Navajo Nation.

Natural gas is no substitute for coal as a stable-priced resource where the price of natural gas is historically volatile.[14] In the last year, the price of natural gas doubled from around \$2.00/mmbtu to \$4.00/mmbtu. The price dipped slightly to average between \$3.30/mmbtu and \$3.50/mmbtu in June, 2013, but the Energy Information Administration ("EIA") forecasts that this dip will not last for long. In fact, EIA forecasts that natural gas prices will rise in the next two years, causing the demand for coal-fired generation to increase.[15] Arizona ratepayers should continue to enjoy a diversified portfolio of generating sources, including coal, that will avoid the volatility from any one resource like natural gas. Arizona ratepayers, the hardest hit of which will be the residential ratepayers,[16] should not be forced to suffer higher rates because of reduced competition in resources. Moreover, that outcome is entirely contrary to the Commission's purposes in considering deregulation.[17]

Additionally, competition is *not* necessary to drive innovation in clean coal technologies. NTEC, and other coal companies and utilities with coal in their portfolio, understand that "the writing is on the wall" in regard to environmental regulation of coal including for greenhouse gas emissions. With its vast coal resources, including in Arizona, the Nation and NTEC have a tremendous interest in keeping coal a viable resource for production of electricity in the region, and understand that can only be accomplished by developing new and emerging technologies to address environmental regulation. By effectively eliminating coal in Arizona through proceeding with deregulation, the Commission would end that tremendous promise. The Navajo Nation should be a partner with Arizona in providing energy and electricity to Arizona consumers, both from clean coal technologies and from alternative energy sources.

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[14] US Energy Information Administration, Short Term Energy Outlook report, March 2013; *see e.g., California Energy Markets,* Issue 1239, July 5, 2013, p. 3.
[15] US Energy Information Administration, Short Term Energy Outlook report, March 2013.
[16] http://www.aarp.org/politics-society/government-elections/info-03-2012/video-energy-deregulation-inside-estreet.html
[17] See May 23, 2013 ACC Deregulation Inquiry Letter.

NTEC therefore urges the Commission to recognize that stable-priced coal is a critical and necessary component of Arizona's electricity portfolio, to quickly end this inquiry, and to not proceed with deregulation of the Arizona retail electric market.

V. REGARDLESS, COMPETITIVE RATE SETTING IS UNCONSTITUTIONAL AND RETAIL ELECTRIC COMPETITION IS THEREFORE NOT LEGALLY VIABLE OR PRACTICABLE IN ARIZONA.

As discussed above, the Commission should not pursue deregulation of the retail electric market in Arizona because it would not achieve the goals that the Commission wants, it would harm ratepayers, particularly residential ratepayers, and it would cause catastrophic harm to the Navajo Nation and considerable economic harm to Arizona and the region. Regardless, as a legal matter, competitive rate setting simply *cannot work* in Arizona because under Article 15, Section 3 of the Arizona Constitution and the Court of Appeal's holding in *Phelps Dodge Corp. v. Arizona Elec. Power Coop.*, 83 P.3d 573 (Ariz. Ct. App. 2004), the Commission is constitutionally prohibited from delegating its rate setting authority to the marketplace. As a result, retail electric competition is simply not legally feasible or practicable in Arizona and should not be further pursued.

The Arizona Constitution provides that the Commission "shall . . . prescribe . . . just and reasonable rates and charges to be made and collected, by public service corporations within the state for service rendered therein . . . ."[18] In *Phelps*, the Court struck down a rule of this Commission that left such a determination to the marketplace.[19] The Court explained that Article 15, Section 3 of the Arizona Constitution requires *the Commission* to set just and reasonable rates, a duty that the Commission *cannot* delegate to the marketplace.[20]

A "reasonable rate is one which is as fair as possible to all whose interests are involved."[21] Thus, the Commission cannot set a "broad range of rates within which the competitive marketplace can operate" to satisfy its duty to set rates, because any particular rate within that range may not have been established with regard to consumer fairness, or a fair return to the company, both of which are constitutionally required for rate setting.[22] The expectation in a competitive market structure that consumers would be required to monitor overreaching by public utilities is also constitutionally prohibited, as that is also a non-delegable duty of the Commission under the Arizona Constitution.[23] In sum, the Court held that the rule "violates

[18] Ariz. Const. art. 15, § 3.
[19] *Phelps*, 83 P.3d at 584.
[20] *Id.* at 585; *compare Grand Canyon Trust v. Arizona Corp. Comm'n*, 107 P3d 356, 365 n. 12 (Ariz. Ct. App. 2005) (noting that under *Phelps* "the determination of just and reasonable rates need not be *totally* separated from market forces") (emphasis added).
[21] *Arizona Cmty. Action Ass'n v. Arizona Corp. Comm'n*, 599 P.2d 184, 187 (1979) (citations omitted).
[22] *Phelps*, 83 P.3d at 585-86. The Court also stated that "[b]y exclusively allowing the market to set the [service provider's] rates, the Commission also abdicates its responsibility to ensure that such rates are fair to the [service providers]. [A service provider] may set its rates low in order to attract customers, possibly denying itself a fair return and causing it to cut costs or raise charges elsewhere to compensate. Such measures could potentially affect service to the detriment of the consuming public." *Id.* at 586.
[23] *Id.*

Article 15, Section 3, of the Arizona Constitution by improperly delegating to the competitive marketplace the Commission's duty to set just and reasonable rates that provide for the needs of all whose interests are involved, including public service corporations and the consuming public."[24]

Given the constitutional constraints on this Commission that prevent the marketplace from determining retail electrical rates, that require this Commission to set rates in the best interests of all involved, and that require this Commission, not the marketplace, to police the retail electric market, deregulation of the Arizona electric market is simply not legally feasible or practicable and the current inquiry should be closed.

CONCLUSION

For the reasons stated above, NTEC urges the Commissioners to end this inquiry as quickly as possible—within 90 days—and to not proceed with any further steps toward deregulation of the retail electric market in Arizona. In the alternative, should the Commissioners not make such a decision within 90 days, or should the Commission decide to proceed with further steps toward deregulation, it is crucial that the Commissioners exempt FCPP from retail electric competition within 90 days.

NTEC appreciates the opportunity to provide these comments and your serious consideration of our concerns. If you have any questions about NTEC's comments, please contact me at (505) 296-9400, wgk@fryelaw.us, or Steven Gundersen, Chairman, NTEC Management Committee, at (480) 433-9760, steve.gundersen@tallsalt.com. Mr. Gundersen and other Members of NTEC's Management Committee (Board of Directors) would also look forward to speaking with Commissioners and staff about these important issues and the vital interests of the Navajo Nation, NTEC and Arizona that are at stake in this proceeding, and will contact your staff to make meeting arrangements.

Respectfully,
FRYE LAW FIRM, P.C.

William Gregory Kelly
AZ Bar No. 026843
Counsel to Navajo Transitional Energy Company, L.L.C.

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[24] *Id.* at 586.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of report (Date of earliest event reported): **June 17, 2013**

Commission File Number	Exact Name of Registrant as Specified in Charter; State of Incorporation; Address and Telephone Number	IRS Employer Identification Number
1-8962	**Pinnacle West Capital Corporation** (an Arizona corporation) 400 North Fifth Street, P.O. Box 53999 Phoenix, AZ 85072-3999 (602) 250-1000	86-0512431
1-4473	**Arizona Public Service Company** (an Arizona corporation) 400 North Fifth Street, P.O. Box 53999 Phoenix, AZ 85072-3999 (602) 250-1000	86-0011170

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

This combined Form 8-K is separately filed or furnished by Pinnacle West Capital Corporation and Arizona Public Service Company. Each registrant is filing or furnishing on its own behalf all of the information contained in this Form 8-K that relates to such registrant and, where required, its subsidiaries. Except as stated in the preceding sentence, neither registrant is filing or furnishing any information that does not relate to such registrant, and therefore makes no representation as to any such information.

Exhibit A

Item 8.01 Other Events.

As we have previously disclosed, Arizona Public Service Company ("APS") and Southern California Edison Company ("SCE") have an agreement whereby APS has agreed to purchase SCE's 48% interest in each of Units 4 and 5 of the Four Corners Power Plant ("Four Corners"). The principal remaining condition to closing of this transaction set forth in the agreement is the negotiation and execution of a new coal supply contract for Four Corners on terms reasonably acceptable to APS. These negotiations, and the related transaction whereby ownership of the coal supplier that operates the mine that serves Four Corners would be transferred to the Navajo Nation, are proceeding. Because all of the conditions to closing were not satisfied by December 31, 2012, either APS or SCE currently may elect to terminate the agreement at any time, unless the party seeking to terminate is then in breach of the agreement.

In our Form 8-K dated May 21, 2013, we disclosed that on May 9, 2013, the Arizona Corporation Commission (the "ACC") voted to re-examine the facilitation of a deregulated retail electric market in Arizona. The Commission has opened a docket for this matter and set a procedural schedule whereby comments from interested parties on the pros and cons of retail electric deregulation will be filed in July and August 2013. The Commission stated that after it has had an opportunity to review the written comments, it plans to convene an open meeting to discuss the issues and information filed in the docket.

In light of this development, APS currently expects that it will not be in a position to close the Four Corners purchase transaction with SCE until the ACC's intentions with regard to pursuing deregulation in Arizona become clearer. While the process set by the ACC to consider this issue proceeds, APS intends to take action to maintain all necessary regulatory and other approvals required on its behalf to complete the transaction.

As we disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012, the Environmental Protection Agency ("EPA"), in its final regional haze rule for Four Corners, set a date of July 1, 2013 for the Four Corners' owners to elect one of two emissions alternatives to apply to Four Corners. Either alternative would involve substantial investment by the owners in additional post-combustion pollution controls, and accordingly contemplates the continued operation of Four Corners for a substantial period of time. In light of the docket opened by the ACC concerning deregulation, APS is in discussions with the EPA for a potential extension of the July 1 deadline.

APS cannot predict whether the closing of its planned purchase of SCE's interest in Four Corners will occur, or the effect that the ACC's re-examination of a possible deregulated retail electric market in Arizona may have on the future operation of the plant.

Exhibit A

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PINNACLE WEST CAPITAL CORPORATION
(Registrant)

Dated: June 17, 2013

By: /s/ James R. Hatfield
James R. Hatfield
Executive Vice President and Chief Financial Officer

ARIZONA PUBLIC SERVICE COMPANY
(Registrant)

Dated: June 17, 2013

By: /s/ James R. Hatfield
James R. Hatfield
Executive Vice President and Chief Financial Officer

Exhibit A

Fact Sheet

The Economic Impacts of Navajo Mine and The Four Corners Power Plant

- The W.P. Carey School of Business at the Arizona State University (ASU) recently conducted an economic impact analysis of Navajo Mine and the Four Corners Power Plant.
- The ASU study provides information for the socio-economic section of the Environmental Impact Statement that the U.S. Office of Surface Mining is currently developing.
- The study examined the direct and indirect impacts that both operations have on the regional and state economic base.
- The study analysed the impacts for the lease term 2016-2041. This fact sheet considers the proposed Navajo Mine ownership transfer to the Navajo Nation, the shutdown of Units 1-3 at the Four Corners Power Plant, and the extension of the operations for 15 years from 2016 to 2031.

Exhibit B

These figures represent the economic impacts at risk if Navajo Mine and the Four Corners Power Plant close in 2016.

Direct and Indirect Jobs		Annual Labor Income Impact		Annual GSP Impact	
STATE OF NEW MEXICO	SAN JUAN COUNTY	STATE OF NEW MEXICO	SAN JUAN COUNTY	STATE OF NEW MEXICO	SAN JUAN COUNTY
2,334	2,069	165 million	153 million	431 million	372 million

Gross State Product (GSP): this is synonymous with value added. It represents the dollar value of all goods and services produced for final demand in the state or county. It excludes the value of intermediate goods and services purchased as inputs to final production. It can also be defined as the sum of employee compensation (wages, salaries and benefits, including employer contributions to health insurance and retirement pensions), proprietor income, property income, and indirect business taxes.

— ASU Study

Exhibit B

The scenario with Navajo Mine transfer of ownership to the Navajo Nation and operating Units 4 & 5 from 2016-2031, the study found the following impacts:

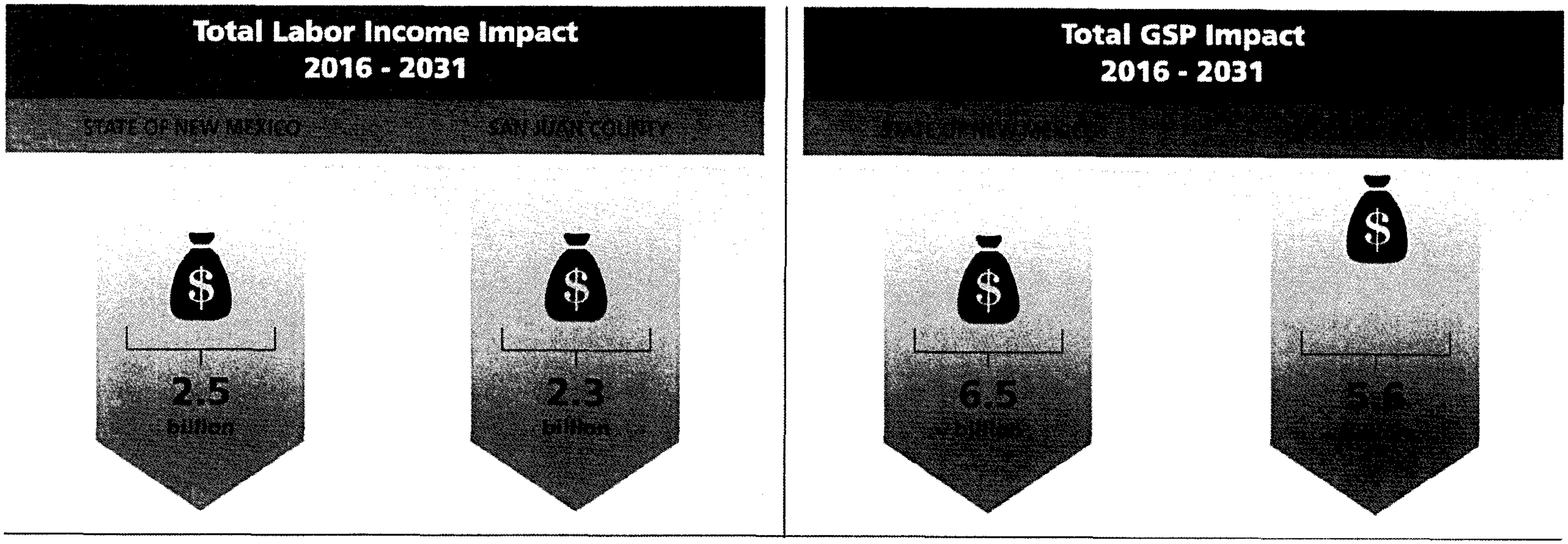

Exhibit B

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served on all parties of record by placing the same in the United States mail, postage prepaid and addressed as follows, this 12th day of July, 2013:

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