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February 1, 2006

Mr. Jack Davis
President and CEO
Arizona Public Service
400 East Van Buren
Phoenix, AZ 85004

Re: Cost-cutting measures at APS in light of the Company's rate increase requests; Data requests on advertising, travel expenses, sporting event sponsorships, Docket No. E-01345A-06-0009.

Dear Mr. Davis:

I have had the opportunity to review your response to my January 11 letter requesting information on APS' plans to tighten its belt in the midst of the Company's current financial straights.

While I appreciate your recitation of past efforts taken by the Company to cut costs, my letter – as well as questions put to you during the PSA/ surcharge Open Meeting – specifically called for a description of measures the Company *is taking* or *will take* in the near future to help address the Company's financial concerns.[1]

Moreover, in your response you declared that my questioning of APS' advertising budget and travel expenses was "not germane" to the Company's pending request for a 14 percent rate increase.[2] You also note that items such as executive bonuses, travel or advertising amount to "only .2% of our costs". This statement – and the underlying implication that cut-backs in these areas are unnecessary – stands in direct contravention to the Company's recent decision to forego executive bonuses for 2006. In fact, you told one local newspaper that such cutbacks were helpful as a means of providing additional cash-flow to the Company.[3] It would appear to me that, like the elimination of executive bonuses, the reduction of unnecessary advertising and travel expense could help off-set at least some of the need for future rate increases.

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[1] At least three Commissioners publicly expressed an interest in seeing the Company make an effort at reducing unnecessary expenses in light of the kind of sacrifices the Company has been asking of its customers.

[2] You correctly point out that the Company has asked for slightly more than $3 million in advertising costs to be recovered from ratepayers in its general rate case. In the rate case filing, the APS witness testified that these costs are stated to be for conservation and safety messages. The filing did not detail how much money the Company spent overall on advertising expense during the test year.

[3] You told the *East Valley Tribune*, "We're in for an emergency filing. It's a cash issue. We think it's the right thing to do."

Therefore, please treat this letter as a data request for the following information, which I believe important for my consideration of the Company's emergency rate case.

1. Please provide a summary of the Company's advertising budget for 2005 and projected for 2006, itemized by purchase. For instance, if the Company advertised on television, please specify the media outlet and the amount spent, along with a brief description of what the advertisement was for. Please indicate whether the advertisement was believed to be related to company branding, or a conservation or safety message.
2. Please provide an itemization of the Company's travel budget, including all out-of-state travel by company employees for 2005 and 2006.
3. Please itemize the Company's non-charitable contributions to all outside organizations in 2005 and 2006.
4. Please itemize the Company's sponsorships of sporting events, including but not limited to sponsorships at stadiums or sporting venues, and Company-owned tickets or luxury boxes at local sporting venues in 2005 and 2006.

Finally, you stated that the Company does not plan to cut its dividend at either the Pinnacle West level or the $170 million dividend "up" from APS to Pinnacle West, pointing out that cutting the dividend would not address what you have characterized as the structural revenue deficiency faced by the Company. You do not, however, address whether such a cut of the dividend between APS and its parent Company is possible, whether the Company has explored this as an option, and whether it could be done on a one-time basis in order to bridge the gap until the Commission is able to process the Company's general rate case. Please do so as part of your response to this data request.

Thank you for your prompt attention to these questions.

Sincerely,

Kris Mayes
Commissioner

cc: Chairman Jeff Hatch-Miller
Commissioner William A. Mundell
Commissioner Marc Spitzer
Commissioner Mike Gleason
Ernest Johnson
Brian McNeil
Heather Murphy
Docket