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August 2, 2006

Mr. Jack Davis
President and CEO
Arizona Public Service Company
Mail Station 9080
P.O. Box 53999
Phoenix, AZ 85072-3999

Re: Possible Special Open Meeting to address APS' improved financial condition; Docket No. E-01345A-05-0816.

Dear Mr. Davis:

Yesterday, your counsel docketed a letter expressing Arizona Public Service's objection to the proposal by three Commissioners that we hold a public meeting to examine the Company's improved financial condition as indicated by the Company's strong second quarter earnings report.[1]

According to your attorney, the Company believes that it could be prejudiced in the upcoming general rate case should the Commission proceed with a public meeting designed to discuss APS' current financial condition.

I certainly understand your desire to express any due process concerns you may have with regard to the Company's pending rate case. However, I am not sure that I agree that the public meeting supported by three Commissioners inherently poses any of the due process issues you ascribe to it. As I suggested in my first letter on this subject, the meeting would be designed to allow both the public and the Commission an opportunity to gain a better picture of the Company's financial footing.[2] It is my view that possessing an accurate, quarterly understanding of the financial condition of the Companies the Commission regulates, and ensuring that the public is given the

[1] Pinnacle West reported consolidated net income of $112 million between April and June. Income from the same quarter last year was $26.7 million.

[2] In your letter you suggest that I and perhaps other Commissioners called for this public meeting based on news accounts that you deemed to be misleading and lacking in context. My decision to ask for a public meeting was not based on news accounts, but rather was made after listening to APS' second quarter earnings call with shareholders. And while I do not agree that the news accounts themselves were inaccurate, it would seem to me that the very confusion you believe was spawned by the news accounts could be cleared up with a public meeting.

opportunity to analyze that same information, is fundamental to my job as a Corporation Commissioner. Given the fact that APS has been before the Commission with one rate case or another for more than two years now, it would stifle our ability to scrutinize the utility's finances if we limited ourselves to doing so only outside of rate cases.

That said I am willing to consider APS' proposed public report on its financial condition if such a report clearly and adequately spells out for both the public and the Commissioners APS' current and projected financial condition. The underlying objective of either a comprehensive financial report or a public meeting is providing an opportunity for the public to timely analyze APS' financial position.

Among the key questions that must be answered before I would consider accepting the report in lieu of a public meeting on APS' financial prognosis is whether the Company's current earnings have surpassed the Company's original projections, and where the Company expects its earnings to be at the end of the year. I am particularly interested in knowing APS' response to a question posed by an analyst for SAC Capital during the July 21, 2006 second quarter earnings call, in which Mr. Brandt was asked whether the surprising second quarter earnings meant that the Company was "on track" or whether the strong second quarter results put the Company ahead of its projected earnings pace for the year. That question was not answered during the earnings call and I would like the Company to provide the answer as part of its proposed report to the Commission. Specifically, I would like to know whether the Company is on track to meet its original earnings projections, whether it is ahead of those projections or whether it is behind those projections.

Finally, under separate cover, you wrote to the Commissioners providing an update on several regulatory matters pertaining to the Company. While I appreciate the direction APS appears to be taking with regard to its advertising by moving away from branding related advertising and toward messages geared toward conservation, safety and renewable energy,[3] I was troubled to read that you still have made no progress toward establishing a Rate Stabilization Fund. The position of the Company appears to be that such a fund represents a confiscation of shareholder money by consumers. Please tell the Commission as part of your report on the financial condition of the Company whether it is your ultimate intention not to establish a Rate Stabilization Fund in 2006. Please also state whether consumers will benefit from the Company's tax credit savings announced during the second quarter earnings call, or whether those savings will redound to the benefit of shareholders.

My perspective on whether to proceed with a public meeting will be based on the thoroughness of the report filed by the Company. Please ensure that counsel dockets the report no later than the date offered by counsel—August 18th. If an earlier submission is possible, I would certainly appreciate that.

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[3] It would be helpful if you would please docket with the Commission scripts of the conservation, renewables and safety advertisements.

Thank you for your attention to this matter.

Sincerely,

Kris Mayes
Commissioner

Cc: Chairman Jeff Hatch-Miller
Commissioner William A. Mundell
Commissioner Mike Gleason
Commissioner Barry Wong
Brian McNeil
Ernest Johnson
Heather Murphy
Docket