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September 17, 2009

Re: Request for Information from APS – rate case Docket E-01345A-08-0172

Dear Colleagues and Parties:

I am writing this to respectfully request that APS answer the following questions, which are from APS' testimony, the Settlement Agreement dated May 4, 2009, and the ongoing hearings during August and September 2009.

The cost of coal and natural gas is important to both APS and ratepayers, and is particularly critical for ratepayers since fuel costs are generally passed through to APS customers. I appreciate your answering the following questions about APS' estimated v. actual fuel costs, estimated future fuel costs, and yearly estimated fuel cost escalation rates.

Actual v. Estimated Fuel Costs and the Power Supply Adjustor (PSA)

1) Mr. Rumolo testified on Wednesday, September 16th in the a.m. that in this case APS would like to put "some" of its fuel costs into rate base.

   a) Does APS want to put "some" fuel costs that are *currently* in the Power Supply Adjustor (PSA) into rate base? In other words, will fuel costs that were formerly in the PSA now be put into rate base?
   b) Am I correct in understanding that APS will replace the current PSA with a NEW surcharge that would collect $115 million in base rates?
   c) Please explain the relationship between the PSA and the requested $115 million. Does the $115 million include fossil fuel costs?
   d) If so, how much of APS' fuel costs will be in rate base v. in the PSA? Please give as an absolute number and as a percentage of total fuel costs.
   e) Please break out these numbers in terms of coal costs, natural gas costs, and uranium fuel costs.

2) Mr. Higgins says that this increase is NOT for fuel costs, (p. 14 of Decision 70667), yet the increase is related to ending the current PSA. Please explain.

3) Why does APS want to put a fuel supply adjustor in rate base?[1]

[1] Decision 70667, page 4; note that Commission Decision 69663 approved the continuation of the PSA so APS could collect $46 million it required for fuel and purchased power.

4) How much does APS anticipate fuel costs will increase over the next 20-30 years, both as a percentage and in absolute dollars? (Please explain if the percentage increase accounts for inflation.) For example, has APS modeled coal costs increasing at 2% per year, 3% per year, 4% per year, etc.; while the Energy Information Administration increased 14% from 2007 to 2008.[2]

5) Please fill out the following tables re: APS' estimated v. actual costs for coal and natural gas and PSA overage/underage:

TABLE A
MMBTUs FOR COAL AND NATURAL GAS
POWER SUPPLY ADJUSTOR FOR COAL AND NATURAL GAS

	2005	2006	2007	2008	2009	Est. 2010	Est. 2011	Est. 2012	Please add est. costs 2013-2020
MMBTU of Coal Used									
Ave. Cost Coal/MMBTU									
Coal Costs for the Year									
MMBTU of Natural Gas Used									
Ave. Cost Natural Gas/MMBTU									
Natural Gas Costs for the Year									
kWh Covered by the PSA (Power Supply Adjustor)									
Ave. Cost/kWh for the PSA									
Other Items in PSA? Please define; and list as absolute dollars and %									
Fuel costs NOT included in PSA in absolute dollars									
Fuel costs NOT included in PSA as a percentage of total fuel costs									

[2] From the EIA website: According to preliminary data for 2008, coal prices at electric utilities (a subset of the electric power sector) increased for an eighth consecutive year, to $41.23 per short ton, an increase of 14.3 percent over the 2007 price. Coal prices at independent power producers for 2008 increased to $39.31 per short ton, an increase of 18.7 percent. The average delivered price of coal to the other industrial sector increased by 16.6 percent to an average price of $63.44 per short ton in 2008. http://www.eia.doe.gov/cneaf/coal/page/special/coal_prices.html

Total PSA for the Year									

TABLE B
APS UNDERAGE-OVERAGE FOR THE POWER SUPPLY ADJUSTOR
IN ABSOLUTE DOLLARS AND AS PERCENTAGE OF ESTIMATED COST

APS' Underage/Overage for the Power Supply Adjustor	Total Dollar Amount	% of estimated cost	Coal	Natural Gas
2005				
2006				
2007				
2008				
2009				

6) Has APS accounted for a possible rapid increase in the cost of coal and natural gas?
   a) What if natural gas costs increase to the high natural gas prices from September 2005 (post-Katrina) and July 2008?
   b) When does APS believe that natural gas prices will again be that high?

APS' Growth: Customers and Retail Sales

7) Staff Regulatory Consultant Ralph Smith submitted testimony that APS' cash flow problems are from low customer growth. (p. 17 of Decision 70667).
   a) Please provide APS' growth, in terms of both customers and retail sales, as both a percentage and an absolute dollar amount per year for the years 2008-2001; and projections up to 2020.
   b) Has APS modeled what its cash flow would look like in a no-growth or declining sales scenario?

Questions From the Settlement Agreement Dated May 4, 2009

8) On page 5 of the Settlement Agreement dated May 4, 2009, there is a table showing a comparison of APS, Staff, RUCO and the Settlement agreement.
   a) The table is very hard to read; can you please provide a table in at least 10 point font, perhaps as a landscape-oriented page to allow larger font in all filings from now on?
   b) On line 6 of the table, titled "Fuel Related Increase in Base Rates," the Settlement amount is listed as $11.2 million. Is this the amount of fuel cost included in base rates?
   c) How does the $11.2 million above relate to the $137.2 million listed in line 8 of the table, titled "Adjusted Base Cost of Fuel Related Increase"?

d) Under the section in the table "Percentage Increase Over Current Rates," please explain the difference between "Percentage Increase – Net of PSA" and "Percentage Increase – Total."
e) The table includes a note that states "the Parties are looking at transitioning DSM [Demand Side Management] costs currently recovered in base rates into the DSM Adjustor Mechanism that all DSM costs would be recovered via that Adjustor (similar to the TEP mechanism as discussed in Section II-G." Can you please explain what this means? Do the parties want to roll DSM costs into rate base as well?
f) If so, do you believe that including DSM costs into rate base serves ratepayers? Shouldn't DSM costs be broken out to more accurately track them? Why or why not?

Natural Gas, Coal and Coal Transportation Under Contract

Please also fill in this table:

TABLE C
PERCENTAGE OF COAL SUPPLY AND COAL TRANSPORTATION, AND NATURAL GAS UNDER CONTRACT

% Supply Under Contract by Year	Coal	% Coal Transportation Under Contract	Natural Gas
2009			
2010			
2011			
2012			
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			

APS' Cost of Power per MWH

Top 10 hours	Top 100 hours	Top 200 hours
April		
May		
June		
July		
August		
September		
October		

APS' Coal Ash Ponds

9) The EPA has listed a number of coal ash ponds as "high" or "hazardous" recently. Can you please answer the following questions re: APS' coal ash ponds at:
   a) Cholla bottom ash pond in Joseph City
   b) Cholla fly ash pond in Joseph City
   c) Four Corners Lined Water Impoundment
   d) Found Corners Lined Ash Impoundment

10) Please also provide answers to the letter recently sent to APS by the EPA regarding its ash ponds. Please provide copies of these letters to the Commission on an ongoing basis.

11) Does APS have money set aside to safely dispose of its coal ash?

12) What kind of groundwater monitoring does APS do at all its coal ash sites?

Thank you kindly for taking the time to answer these important issues and I look forward to working with APS and all parties in this rate case.

Sincerely,

Paul Newman

Paul Newman
Commissioner

cc: Chairman Kristin K. Mayes
Commissioner Gary Pierce
Commissioner Sandra Kennedy
Commissioner Bob Stump
Steve Olea
Ernest G. Johnson
Janice Alward
Rebecca Wilder