



# Arizona Lifestyle

State – January / February 2006

**APS**  
THE POWER TO MAKE IT HAPPEN®

## Open letter to customers from Jack Davis

Dear APS customer:

On November 3, we published a letter to you regarding potential price increases to our customers totaling approximately 27 percent over the next year. We would like to thank all of our customers who have gotten back to us as a result of that letter. We appreciate the effort and the thought that went into what you had to tell us and we intend to continue the exchange of ideas throughout this process and beyond.

You probably have read recently of the need for APS to ask the Arizona Corporation Commission (Commission) for emergency rate relief. We, in fact, did that on January 6. If this request is granted, and coupled with the anticipated annual fuel adjustment of 5 percent, the price you pay for electricity will increase by 19 percent beginning in early April. Let me assure you of a couple of things upfront:

1) **This is not a new request**, but rather represents an acceleration of the updated fuel and purchased power portion of the rate case filing. The emergency increase would be subject to refund pending the ACC's final decision

on the Company's original rate case. The urgency of this request comes from the ongoing nature of increases in natural gas prices, the company's declining credit rating as a result of these issues and the time-consuming nature of the normal regulatory process in Arizona.

Last month, a major credit agency downgraded our credit rating to near "junk" status. Other agencies may soon follow, and without clear progress on these issues, we almost certainly will face additional credit downgrades. If our debt is downgraded, it ultimately will cost our customers millions of dollars in additional borrowing costs in the form of higher interest rates to pay for the ongoing additions and upgrades to our state's infrastructure for electricity supply and delivery.

2) **The sole issue in this emergency rate filing is fuel and fuel alone.** Simply put, because of the dramatic increase in natural gas prices over the last two years, we are paying substantially more for fuel than we collect from customers. For 2005 and 2006 combined, APS will spend nearly \$500 million more for fuel than we receive in existing rates. And keep in mind, this is pure cost: exactly what we

pay for this fuel and purchased power, no more and no less. No profit is added. Clearly, no business can remain viable for long under such circumstances. The situation looms as a half-billion dollar crisis for our company and for the Arizona economy, similar in some respects to the energy crisis experienced in California in 2000 and 2001.

3) **Time is of the essence.** The normal rate-making process can take a year or longer to fully resolve. Action is needed sooner in the best interests of both our company and our customers. All issues will be fully heard and considered by the Commission even if our emergency request is granted. If the Commission then determines that the emergency rates included costs that should not be recovered, it has the power to order a full refund of such amounts. The intent of our emergency rate request is simply to make the process work more quickly and efficiently to the benefit of all of Arizona.

As I mentioned in the beginning of this letter, we'll be talking to you throughout the year on these and other issues, including energy conservation and ways for you to best use electricity to save money and resources and to help protect the environment. In that regard, we also are working hard in cooperation with the Commission to develop substantial renewable sources of energy (including wind and solar) that along with our fleet of coal-fired and nuclear energy plants can help insulate us from the shock and volatility of natural gas prices. We have a Web site to help keep you informed on these and other issues at [www.brightarizonafuture.com](http://www.brightarizonafuture.com).

We do understand that nobody likes price increases. We worked hard at APS to reduce rates 16 percent in the 10 years between 1992 and 2003 even as the Consumer Price Index increased more than 30 percent. We still are working hard to keep prices to our customers as low as possible, but increased energy costs — especially for natural gas, oil and gasoline — are for now an unfortunate fact of life across our nation. Your thoughts remain important in this process.

Sincerely,

A handwritten signature in black ink that reads "Jack Davis". The signature is written in a cursive, flowing style.

Jack Davis  
President & CEO