



Arizona Lifestyle

State – February / March 2006

APS
THE POWER TO MAKE IT HAPPEN®

ELECTRICITY BILLS ARE GOING UP THIS MONTH

Dear APS customer:

It's never easy for us to raise the prices you pay for electricity, but that is what we have had to do because of dramatically increasing prices we must pay for the fuel we use to generate electricity.

On January 25 the Arizona Corporation Commission approved our annual fuel rate adjustment, allowing an increase of about 5 percent to go into effect on February 1. For the typical APS residential customer, this means that monthly bills will increase from \$102 to \$107. Low income customers on our energy support service plans are exempt from this increase.

On January 6th, we asked the Arizona Corporation Commission for an emergency price increase, in the amount of 14%, to pay the soaring costs of fuel, primarily natural gas. Let me assure you of a couple of things upfront:

1) **This emergency fuel filing is not a new request**, but rather represents an acceleration of the updated fuel and purchased power portion of the general rate case filing we originally filed in November. 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 and the company's declining credit rating as a result of these issues.

Last month, a major credit rating 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. Even with the fuel adjustment allowed by the Commission, for 2005 and 2006 combined, APS will

spend nearly \$400 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.

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.

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.

Sincerely,

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

Jack Davis
President and CEO