

APS FILES FOR 2009 RATE CHANGES Q&A

What is happening?

On March 24, 2008, APS filed with the Arizona Corporation Commission (ACC) to make changes to its rates, effective July 1, 2009. APS primarily is asking the ACC to approve:

- **8.1 percent average net increase in retail electricity rates in 2009.** The increase plus impact fees discussed below are intended to recover \$265 million per year primarily to help the Company fund the large electricity infrastructure investments that are needed to meet Arizona's increasing demand for energy and to maintain its existing electric system. These costs are exacerbated by ongoing increases in the cost of materials needed to build such infrastructure. A small portion of the increase reflects increases in fuel and purchased power costs.
- **Impact fee for new customers to connect to the system.** The impact fee for new interconnections to APS' system results in a lower rate increase for existing customers, and, in tandem with the Company's line extension policy, requires growth to pay for a reasonable cost of growth.
- **New conservation rate options.** New time of use rates, including a "super peak" period, offer customers an opportunity to save money by shifting the time of their energy usage and conserving energy at times when it's in the greatest demand.

Why is APS proposing a rate increase?

APS is asking for a rate increase to recover costs associated with continued construction of needed power supply facilities, which are exacerbated by dramatic increases in the basic commodities to build them. A small portion will recover higher costs for fuel and purchased power.

How much would the average residential bill increase?

If the Company's full request is approved by the ACC, an average monthly residential bill would increase by \$11.51 – or, a little less than one cent per kilowatt hour – from \$123.90 to \$135.41 based on an average year-round usage of 1,175 kilowatt hours.

What is the total dollar amount the company seeks to recover?

If approved as proposed, the request is intended to raise additional net revenues of \$265.5 million annually that the APS would not receive without the increase.

When would the new rates go into effect?

APS has requested that the new rates go into effect no later than July 1, 2009.

Didn't the Arizona Corporation Commission recently approve a rate increase?

Yes. In 2005, APS requested a rate increase primarily to address ongoing increases in fuel prices. The ACC approved new APS retail rates from that request in June 2007, again primarily focusing on ongoing increases the price of fuel. The current proposal requests a rate increase to recover construction costs for needed power supply facilities

and dramatic increases in basic commodity costs. The new rates are not expected to go into effect until at least July 2009.

How will APS help to alleviate the added financial strain on customers?

APS has several programs and tips for residential, commercial, industrial and low income customers to help manage or reduce their electric bills. APS offers a number of free or low cost programs that help customers conserve energy and save money. In addition, customers can also contact us to ensure that they are in the most efficient rate program, including Time of Use rates, which offer customers the opportunity to save energy and money. These can all be found at aps.com. APS will offer new Time of Use and “super peak” rate programs, which will provide an opportunity for customers to save money by conserving energy when it’s needed most.

Who approves rates?

The Arizona Corporation Commission (ACC) approves any changes to retail electricity rates.

Will this be the last price increase?

Probably not. Given Arizona’s continued growth today – even during this temporary slowdown – and the ongoing inflation in basic commodity costs, rate increases are necessary in order to ensure that APS is able to continue to reliably serve its customers. APS is also aggressively planning for future power generation needs as well as implementing new conservation programs and technologies that help improve system reliability and the environment.

If Arizona’s growth is slowing, why increase prices now?

Arizona’s growth has slowed but has not stopped. It still outpaces almost every other state in the country. The state is expected to return to typical growth levels within a couple of years or so. While other businesses can simply limit their consumption or choose not to expand, APS does not have the option. Electricity is an essential part of modern life. Our job, in fact our responsibility, is to stay ahead of the curve and build the necessary infrastructure so customers can have reliable service. In fact, APS is investing nearly \$1 billion annually in its system. What customers pay through their rates help equitably recover these costs, and sometimes increases need to occur.

Impact Fees

Should existing customers have to pay for the growing population of Arizona?

Earlier this year, the ACC approved changes to APS’ policies to extend power lines to new developments. Our filing addresses this further: APS has proposed an impact fee to connect new customers. This is another way to have growth pay for a reasonable portion of growth, rather than passing those costs through to existing customers in the form of higher rates. However, growth is just one component of the company’s higher costs, which also result from our obligation to provide our customers with reliable electric service.

What is an impact fee?

An impact fee is a charge paid by new customers connecting to the system. Impact fees are common with municipalities around the country to pay for costs of new infrastructure. The fee will enable growth to pay more of the cost of the infrastructure required by growth instead of existing customers through base rates.

How much is the impact fee for new customers?

The specific fee would have to be set in the rate case, but impact fees will be scaled to the size of the electrical service requested by the residence or business. As proposed by APS, a typical residential new service connection (200 amp) would have an impact fee of \$1,150; since some new customers are smaller or larger, the average impact fee will be around \$1,500.

If I move into APS service territory, will I have to pay an impact fee?

APS does not propose that impact fees should be charged for customers moving into existing buildings. Under APS' proposal, the only customers who would pay an impact fee are those who require new service connections (i.e. for new buildings).

If I need distribution lines extended to my new residence/business in APS service territory, do I still pay an impact fee?

Yes. Under APS' existing line extension policy, the customer pays the costs related to the line extension. Those costs, however, do not pay for all of the costs that the Company is required to incur in hooking up new customers. Under APS' current impact fee proposal, in order to cover a greater portion of the costs of growth, new customers would also pay an impact fee when the new service connection is established.