

**ARIZONA PUBLIC SERVICE COMPANY
RESOURCE ALTERNATIVE PLANNING
STAKEHOLDER MEETING REPORT
Docket No. E-01345A-08-0010**

DATE: February 15, 2008
TIME: 1:00 p.m.
PLACE: Arizona Public Service Learning Center
455 North 3rd Street, Suite #333, Phoenix, Arizona 85004

ATTENDANCE: See attached attendance list.

TOPICS: --Resource Planning Goals
--APS Peak Demand and Energy Forecasts
--Existing Resources and Gap Analysis
--Transmission and Resource Planning

The following provides a summary of the Company's first stakeholder meeting. While Company representatives have attempted to capture all of the discussion, this report is not based on a transcript of the meeting. Copies of the presentations and attendee list are attached.

DISCUSSION:

- **Don Robinson**, APS Senior Vice President, Planning and Administration, provided the introduction. Mr. Robinson explained that APS is facing a tremendous need for additional generation. APS has numerous options for resources and each has different benefits and different risks. The purpose of the stakeholder meetings is for APS to receive input from all stakeholders. Going forward, APS will file the plan that results from this process with the Arizona Corporation Commission ("ACC").
- **Dr. Marty Rozelle** of the Rozelle Group Ltd., who will serve as the facilitator for the stakeholder meetings, explained the process and ground rules for the stakeholder meetings. Dr. Rozelle reiterated that the purpose of the stakeholder meetings, which are intended to be interactive, is for everyone to exchange information and for stakeholders to provide input, feedback, and ideas. Future stakeholder meeting agendas will be based on input from stakeholders.
- **Brad Albert**, APS Director of Resource Planning, presented "APS Resource Planning Goals."

Mr. Albert first notified the stakeholders that there is a webpage that will include reports summarizing each stakeholder meeting and copies of presentations. This information is also available on the website (www.aps.com/resources). There also is an email address available for questions related to the workshop process (ResourceAlternatives@aps.com).

Mr. Albert then discussed APS's objectives for its resource planning, which include providing reliable service at a reasonable cost, while balancing risks and complying with applicable regulations. The resource plan should also incorporate elements of flexibility and ensure that APS has the financial strength to implement the outcomes of the resource planning process.

Finally, Mr. Albert provided an overview of the context within which this planning is occurring. This includes expected high load growth, significant future resource needs, and great challenges, such as climate change issues (including potential legislation and carbon taxes) and rising costs. APS is seeking a resource balance and will consider all resources in the process.

The primary guidelines and considerations for resource planning include:

- Reliability (includes the need to respond to intermittency of solar and wind power);
- Environmental Issues;
- Economic Issues (cost to serve customers; price impacts; capital requirements);
- Risks (evaluated through several analysis methods); and
- Standard to be Used (balance economic and risk impacts; "least cost" analysis alone could ignore critical factors).

A preferred resource plan will ensure that APS meets reliability needs, will provide a balanced and diversified portfolio and will incorporate flexibility that allows APS to adjust to changes.

Additional details are set forth in the attached presentation.

Presentation Discussion:

A discussion transpired regarding the ACC's role in this process. Further discussion occurred regarding specific issues from the presentation, including the source of the reserve margins used by APS and APS's involvement in the certain initiatives, such as the Western Climate Initiative.

- **Pete Ewen**, APS Financial Services Group Leader, Forecasts, presented "APS Peak Demand and Energy Forecasts."

Mr. Ewen described the forecast trends facing APS. These include substantial growth in peak demand and energy over the next 20 years. The largest single source of growth is net migration, which is the sum of people leaving and people coming to the state. Naturally occurring efficiency gains offset some of the growth. The forecasts are set forth in detail in the attached presentation.

The residential sector is responsible for the largest share of the increase in peak demand that APS faces over the next 20 years. Energy consumption is forecasted to grow from 31,000 GWh in 2007 to 55,000 GWh in 2027. Retail customers are forecasted to grow from 1.1 million in 2007 to 1.85 million in 2027.

Arizona population growth is the most important factor in customer growth. The number of persons per household is also a critical component, which continues to decline as the population ages. Net migration remains significant, but is slowing.

Usage per customer also continues to grow. This is driven by increased home sizes for new customers, more household electronics, and an increased service to desert areas. Increases in efficiency partially offset these. Commercial and industrial (“C&I”) use per customer remains relatively flat (very slight decline). APS does forecasts of small C&I customers based on building types or “segments.” Usage within these segments is observed to be stable, but the mixture of building types is the primary cause of C&I usage changes. Large C&I customers and wholesale accounts are forecasted individually.

Presentation Discussion:

Mr. Ewen addressed specific questions from his presentation, such as the reason for reduced growth, the relationship between business growth and residential growth and the impact of the “heat island” effect on weather forecasts. Finally, a discussion ensued regarding the consequences of over- and under-forecasting and whether and how forecasts address DSM and distributed generation.

- **Brad Albert** presented “Existing Resources and Gap Analysis.”

Future APS needs for additional resources are substantial. Mr. Albert discussed APS’s existing resources, which are outlined in detail in the attached presentation. These include company-owned generation and purchased power agreements (“PPAs”) (which include some renewable resources). 1862 MW represent gas combined cycle units and 1518 MW represent peaking capacity (some of these are older resources). The 6 MW listed for solar renewable resources are the nameplate capacity. The peaking resources are a very small amount of the energy mix, even in the summer.

The chart that shows future capacity needs (page 11 of the presentation) is the starting point for raw customer needs. It is based on existing resources and does not show any resources coming off line (*i.e.*, no plant retirements are shown).

Summary:

- Future needs are significant—5200 MWs of capacity resources needed by 2020 (summer season peaking resources are the main need and expiration of existing PPAs is a major factor)
- 14,000 GWh of energy growth by 2020 (20,000 GWh by 2025)

Presentation Discussion:

Following Mr. Albert's presentation, a discussion ensued regarding the differences in reserve margins for the summer and winter; the impact of incorrect forecasts on planning; and APS's use of "backcasting" to examine the accuracy of historical forecasts. Finally, a discussion occurred regarding the impact of weather variations and climate change on forecasting and regarding the use of additional reserves for wind resources.

- **Bob Smith**, APS Director of Transportation and Engineering, and **Peter Krzykos**, APS Engineering Supervisor, presented "Transmission and Resource Planning."

Mr. Smith explained that the vast majority of 500 kV and 345 kV transmission is jointly owned. He then described the various transmission lines, which are set forth in detail in the presentation. First, there was a discussion of the Palo Verde area transmission paths, which have an availability of 628 MW after long-term resource commitments. APS believes that future utilization of these paths could include existing commitments, long-term and short-term market purchases, and renewables acquired in western Arizona.

The second path discussed was the Mead-Phoenix path. Currently, market purchases utilize this path. After long-term commitments, there are 11 MW available on this path in 2008. APS believes that future utilization of this path could include market purchases and renewables.

The third path discussed was the Navajo-Phoenix path. Currently, Navajo generation utilizes this path; 244MW remains available in 2008. APS believes that the future use of this path could include Navajo generation, renewables from central and northern Arizona, and market purchases.

The last path Mr. Smith discussed was the Four Corners/Cholla-Phoenix path. Currently, this path is utilized for Four Corners, Cholla, and Saguaro generation; the PacifiCorp seasonal exchange; wind and biomass PPAs; and market purchases. There is no existing availability on this path. APS believes that this path could be used in the future for existing commitments and renewables.

Mr. Smith then discussed projects that are part of APS's ten year plan, which include the Palo Verde to Sun Valley 500 kV lines, the Sun Valley to TS9 500 kV lines, the Palo Verde to North Gila 500 kV line, the Navajo to Westwing upgrade, and the Mead to Westwing Upgrade.

APS hopes to better understand as part of this workshop process where future transmission should be located.

Mr. Krzykos discussed various regional transmission projects. These include: the TransWest Express project; Northern Lights project; Frontier Line; the SunZia project; the High Plains project; and the PAC gateway. Details on the proposed routes for these

projects are set forth in the attached presentation. These projects are not competing projects, but are viewed as complementary. Ultimately, however, certain of these projects may not be constructed.

Further discussion occurred regarding the work of the Renewable Energy Task Force, which was a requirement of the Biennial Transmission Assessment. This process involved the development of resource zones as shown in the attached presentation. The next step will be a regional assessment.

FUTURE MEETINGS AND AGENDAS:

The next stakeholder meeting will be held in the morning of March 7, 2008, and will be held at the APS corporate headquarters. The presentation by Paul Smith, APS General Marketing Analysis and Plan Manager, on “Regional Capacity and New Projects” will be discussed at the March 7 meeting. Also discussed will be Hedging; Drivers and Trends; and Planning Assumptions.

Discussion occurred regarding the need to include certain business groups in the meetings. A proposal was made that perhaps certain milestone meetings could be held to address more refined issues affecting certain customer segments.

Suggestions for future agenda topics included renewables and nuclear generation.