



A subsidiary of Pinnacle West Capital Corporation

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CERTIFIED MAIL, RETURN RECEIPT

September 17, 2004

Mr. Tyler Carlson
Regional Manager
Department of Energy
Western Area Power Administration
Desert Southwest Customer Service Region
PO Box 6457
Phoenix, AZ 85005-6457

RE: Proposed Multiple System Transmission Rate (MSTR)

Dear Mr. Carlson,

First, I would like to thank you along with Jack Murray for both of your work in this process. I believe that the MSTR is a noble endeavor and Western has conducted itself throughout the process in a very professional manner. APS has attended and participated in the informal customer meetings that Western has conducted as well as the formal Public Information Forum and the Public Comment Forum.

APS has evaluated the alternatives throughout the process and was hopeful that Western would be able to design the MSTR in such a way that it would not adversely impact APS and its customers. However, as the proposal stands now, the proposed MSTR rate would not be acceptable to APS and its customers. This is true both from a financial standpoint as well as a discriminatory standpoint.

From a financial standpoint, this proposed change results in an increase of over \$278,000 to APS and its customers according to your latest mailing on the 2nd of September. Since this transmission service is used to serve our customers, APS' rates to our customers would have to increase to account for this difference. Additionally, APS would realize no additional benefit from the proposed MSTR.

In addition to the financial aspects, APS feels that Western has created a discriminatory process by "exempting" some customers from the MSTR implementation. According to your Public Information Forum on July 14, 2004, you are exempting your Full Electric Service (FES) customers from the MSTR as well as exempting (or "crediting") UNS and CACWD for other reasons. Western has maintained throughout this process that one part of the drive behind this proposed change is that it eliminates the

“pancaked” rates for their customers. It has been noted by Western throughout this process that the MSTR concept is similar to one of the FERC’s overall goals of eliminating pancaking. While APS applauds Westerns attempt to make these changes, it fails to implement the new MSTR on a non-discriminatory basis.

Throughout the informal process, up until April of 2004, the FES customers were not “exempted” from the MSTR rate. At the April 15, 2004 informal meeting, it was introduced to the group that the FES customers were going to have a choice of whether to remain on the Parker-Davis rate or to convert to the MSTR rate. As discussed at that informal meeting, this “option” essentially results in a further cost shift to the remaining MSTR customers from the FES customers. It is APS’ opinion that, in order for this proposal to be considered, the MSTR rate and process must be non-discriminatory. FERC's open access initiative is based on the elimination of discriminatory pricing to ensure a "level playing field" for all transmission users. APS adheres to the FERC’s non-discriminatory policy and Western, through their reciprocity Tariff, should also. APS, for example, charges our OATT rates to our own native load/retail customers in the same manner as we would charge an Energy Service Provider. Exempting the FES customers, as well as the UNS and CACWD “credits” that were discussed and included in the July 14th Public Information Forum, results in a discriminatory, “pick your winners” process and is unacceptable to APS.

In summary, APS cannot support Western’s proposal to create a MSTR in its present form due to the above-mentioned reasons. Western should ensure that the MSTR process is non-discriminatory by including all of your transmission customers. By including all customers in the process, further cost mitigation is also achieved. If you have any questions, please feel free to contact me at (602) 250-1782.

Sincerely,



Brian W. Cole
Arizona Public Service Company
Transmission Interconnection Development

Cc: Jack Murray, Western