

**ARIZONA PUBLIC INTEREST RESEARCH GROUP•CENTER FOR ENERGY  
EFFICIENCY AND RENEWABLE TECHNOLOGIES•COALITION FOR  
CLEAN AFFORDABLE ENERGY•ENVIRONMENT  
COLORADO•ENVIRONMENTAL DEFENSE•  
GRAND CANYON TRUST•NATURAL RESOURCES DEFENSE  
COUNCIL•SAN JUAN CITIZENS ALLIANCE•SIERRA CLUB, GRAND  
CANYON CHAPTER•SIERRA CLUB, UTAH CHAPTER•SOUTHERN UTAH  
WILDERNESS ALLIANCE•SOUTHWEST ENERGY EFFICIENCY  
PROJECT•UTAH CLEAN ENERGY•WEST WIND WIRES•WESTERN  
ORGANIZATION OF RESOURCE COUNCILS•WESTERN RESOURCE  
ADVOCATES•THE WILDERNESS SOCIETY**

November 28, 2006

William J. Post  
Chairman of the Board & Chief Executive Officer  
Pinnacle West Capital Corporation  
400 N. 5th Street  
Phoenix, AZ 85004 (delivered by Federal Express)

Dear Mr. Post:

We are writing regarding Arizona Public Service Company's potential investment in the TransWest Express (TWE) transmission project and associated generating resources. Our organizations are active across the West and have a common interest in promoting more efficient use of energy and developing a more sustainable and diversified resource mix while protecting the region's environment. We have been following developments on the TWE project and want to express our appreciation to Ed Fox, Bob Smith and others at the company who have openly and forthrightly shared information about the project. While we do not yet have enough information to formally take a position either in support of or in opposition to the TWE project, based on the information we have seen, we have some serious concerns.

First, we are concerned that APS is moving rapidly ahead on the TWE project before completing a comprehensive, objective analysis of alternative strategies for meeting its customers' energy needs. At the recent Salt Lake City meeting of the Western Regional Transmission Expansion Partnership, APS indicated that it fully supports the TWE project and announced that by December 31 it anticipates concluding a multi-party contract to design and acquire right-of-way options for the proposed transmission lines. This decision by APS appears to be a commitment to a huge new generation and transmission project prior to fully evaluating and carefully considering alternative strategies. Such alternatives would include energy efficiency and renewable energy resources that could save APS ratepayers money and create lesser impact on the region's air, land, and water. **We believe that a comprehensive alternatives analysis with**

**public input and review is needed before APS commits to the multi-billion dollar TWE transmission project.**

Second, all indications are that pulverized coal power plants without carbon capture and sequestration are intended to anchor the TWE project. We are gravely concerned that acquiring large amounts of new coal capacity without carbon capture and sequestration will foreclose Arizona's ability to slow and reverse its greenhouse gas emissions for decades to come. Although there are currently no federal regulatory limits on greenhouse gas emissions, the prospect of a market-based system that will require emissions reductions and increase the cost of electricity from pulverized coal plants is growing. Additionally, Arizona's Climate Change Advisory Group, comprising 35 diverse stakeholders, has recommended strategies that would enhance opportunities for energy efficiency and renewable energy development, which would sharply reduce the need for pulverized coal generation. Over the years, APS has consistently been a leader on clean air issues. The company supported efforts in the 1990's to install pollution equipment at the Navajo Generating Station. It has provided leadership in regional partnerships to reduce haze and protect the West's spectacular vistas. More recently it has worked to reduce emission at the Four Corners and Cholla power plants. **We need APS to deploy this same tradition of leadership in tackling the pressing issue of global warming and would welcome the opportunity to work with company to develop alternatives to TransWest, as currently envisioned, that will result in lowering the company's overall emissions of carbon dioxide, while still ensuring that APS is able to reliably and affordably satisfy its customer's energy needs.**

Third, our organizations have significant concerns about any transmission and generation proposal that would affect sensitive public lands or other sensitive natural areas. In the transmission corridors that appear to have been suggested in Utah and Colorado, for instance, there are sensitive animal populations, important view corridors and critical wildlife habitat that could be significantly impacted, causing fundamental concern among western conservation organizations. **We are interested in gaining a better understanding of how this major interstate proposal will affect public lands, wildlife habitat, communities, water resources, and protected and ecologically sensitive areas.**

In addition to the above concerns, the TWE project raises other important issues and potential risks for APS and its customers that we expect will be the focus of future public deliberations. We are interested in understanding the company's perspectives on these issues, including:

- The risk to APS's reliability of having so much of its generation subject to outages along the TWE line, especially if an outage occurs during the summer.
- APS's ability to obtain financing for the project in light of APS' financial concerns expressed in the current rate case.
- The risk of higher coal prices in the future.

- The risk of incurring additional costs to comply with greenhouse gas regulations.
- The risk of investment in conventional coal generation becoming stranded under future greenhouse gas regulations.
- The prospect of higher-than-necessary costs to APS and its customers due to the above issues.

We recognize the challenges Arizona and the West face in meeting our energy and infrastructure needs and would like to thank you in advance for your attention to the concerns and issues raised in this letter. A representative group from our organizations would like to meet with you and your senior staff to discuss these issues further in the near future. We will contact you soon to see if we can arrange such a meeting.

Sincerely,

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