



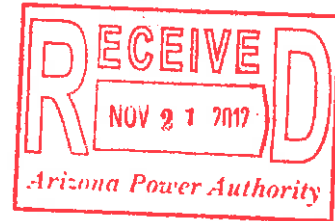
ENERGY MANAGEMENT

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CHARLES B. DUCKWORTH
SENIOR DIRECTOR

November 15, 2012

Mr. Joseph W. Mulholland
Executive Director
Arizona Power Authority
1810 W. Adams Street
Phoenix, Arizona 85007-2697



Dear Mr. Mulholland:

On October 9, 2012, Salt River Project (SRP) attended a Special Commission Meeting related to the Post-2017 Hoover Power Allocation Process and provided a presentation in response to the Arizona Power Authority's (Authority) request for presentations from entities that intend to submit an application for a post-2017 Hoover power allocation. In follow-up to our presentation, SRP would like to restate our thoughts presented on the Post-2017 Hoover Allocation Process.

The Authority first requested input on the Post-2017 Hoover Allocation Process in a letter to its customers on June 8, 2011. We are concerned that now, nearly a year and a half later, a definitive process has not yet been communicated. Western's process for allocating Schedule D-1 power essentially began with their October 23, 2012 Federal Register Notice entitled "Notice of proposed marketing criteria" with respect to the Boulder Canyon Project-Post 2017 Resource Pool. At this point, existing Authority customers still do not know if they will be reallocated capacity and energy from the Authority, or if they will need to seek a new allocation through the Western process. To further complicate this, it remains unclear whether existing Authority customers are eligible to participate in the Western allocation process.

I believe we can all agree that to move forward, it is essential that the Authority develop an open and transparent Post-2017 Hoover Allocation Process and communicate the process with all interested parties, as soon as possible. In developing this process, it needs to give recognition of where we, the Authority and your customers, collectively, have come from.

Hoover has been a valuable resource to SRP and other Authority customers dating back to the mid-1900s. Authority customers stepped up in the beginning and committed to support the Authority, even though the Hoover resource has not always been the most economical resource alternative available to them. Those same customers have borne the burden of paying for the dam, the generating facilities, the uprates, and the maintenance and replacement of the facilities for the past 50 years. Depriving these customers of the resource they built and paid for would be inequitable and inappropriate.

We believe that the appropriate principles for the Authority to allocate Hoover Post-2017 are those principles previously presented and endorsed by a majority of your customers. These principles are also consistent with the proposal set forth by Commissioner Brophy. Briefly, these principles can be summarized as follows:

- Renew existing Authority customer allocations of Hoover A and B capacity and associated energy, adjusted proportionately to recognize the Authority's Post-2017 allocation pursuant to the Hoover

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Power Plant Act of 2011. This would take into account the additional capacity allocated through the federal legislation to reflect improvements in the capacity of the Hoover generators and the 5% reductions made to create the resource pool for new entities.

- Allocate Hoover D-2 to new entities in Arizona. Allocations to new allottees should be made in compliance with all applicable Arizona Administrative Code and Arizona Revised Statutes, as amended.
- New allottees must be required to pay their pro rata share of the Authority's Multi-Species Conservation Program (MSCP) contribution and the repayable advances for equipment at Hoover Dam paid for by the Authority customers prior to October 1, 2017.
- The term of the Post-2017 allocation contract with the Authority needs to be 50-years. This term is consistent with the allocations made through the federal legislation and is consistent with the expectations of Authority customers who, during the development of the federal legislation, advocated and supported the creation of a sizeable new resource pool for the benefit of new entrants. These customers, in exchange for long-term resource stability and certainty, agreed to the development of the resource pool through a 5% reduction in existing customer allocations.

When applied to SRP, this methodology would result in an allocation of roughly 39 MW of capacity and 126 GWh of associated energy that when integrated into our resource portfolio, will be used to provide lower cost electric service to our nearly 1,000,000 residential, commercial, industrial and agricultural power users located in parts of Maricopa, Gila and Pinal Counties.

SRP looks forward to working with the Authority in Post-2017 Hoover Allocation Process. If you have any specific questions or would like to discuss any of the information provided in more detail, please feel free to contact me.

Sincerely,



Charles B. Duckworth
Senior Director, Energy Management

xc: APA Commissioners:
John I. Hudson
Stephen M. Brophy
Joe A. Albo
Dalton H. Cole
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