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Christopher A. Lawrence
Management and Program Analyst
Transmission Permitting and Technical Assistance Division
Office of Electricity
U.S. Department of Energy
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RE: Informational Notice of Assignment of Enabling Contract for the Purchase and Sale of Electric Power under Emergency Conditions (the “Enabling Contract”) Between Arizona Public Service Company (“APS”) and Comisión Federal de Electricidad (“CFE”); Request for Confirmation of Continued Applicability of Authorizations

Dear Mr. Lawrence:

Reference is made to Presidential Permit PP-108 and Electricity Export Authorization EA-108, both issued to APS on December 5, 1995 by the U.S. Department of Energy (“DOE”), as well as that certain Enabling Contract, executed by and between APS and CFE on December 29, 2008 pursuant to those authorizations. The Enabling Contract provides for reciprocal energy transactions between APS and CFE in emergency conditions via the 34.5 kV San Luis-Canal transmission line, which extends from the San Luis Substation in Yuma County, Arizona to the U.S.-Mexico border adjacent to San Luis, Sonora, Mexico. These transactions are of critical importance to both parties, especially during peak hours of summer months, as they facilitate the supply of energy during times when constraints might otherwise lead to service interruptions for customers.

As a result of legal and regulatory energy reforms in Mexico, CFE is no longer responsible for requesting energy for emergency assistance as contemplated by the Enabling Agreement. Rather, the Centro Nacional de Control de Energía (“CENACE”) now operates the wholesale electricity market, has operational control of the national electric system, and establishes energy imports and exports for reliability and emergency situations. Under Mexico’s current legal and regulatory scheme, CFE no longer has the legal capacity to establish energy imports or exports for reliability or emergency situations. For CENACE to exercise its responsibility in connection with the Enabling Contract, it is essential that CFE assign the Enabling Contract to CENACE. APS is agreeable to this assignment.

As issued, Presidential Permit PP-108 and Electricity Export Authorization EA-108 contemplate the export of electric energy specifically to CFE. As above, CFE now operates as a market

participant in the wholesale electricity market in Mexico, while CENACE is now the entity responsible for scheduling and receiving energy for the purposes contemplated by APS's DOE authorizations. As a result, APS's interaction with Mexico pursuant to the Enabling Contract will be with CENACE rather than CFE, and this change will be documented through a formal consent to assignment between the parties. As such, APS respectfully requests confirmation from DOE that Presidential Permit PP-108 and Electricity Export Authorization EA-108 will remain applicable to the Enabling Contract once it has been assigned to CENACE. If certain actions must be taken by APS to facilitate continued applicability of these authorizations, APS requests specific guidance from DOE regarding such actions.

APS appreciates your attention to this matter. Please respond to Stefanie Zebelman at (602) 250-2010 or Stefanie.Zebelman@pinnaclewest.com with questions or to discuss further.

Sincerely,



Philip G. McLaughlin
General Manager, Resource Management

cc: Stefanie Zebelman, Attorney (APS)
David Hain, Term Trader (APS)