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A subsidiary of Pinnacle West Capital Corporation

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October 19, 2005

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

RE: DOCKET NO. E-01345A-03-0437

Dear Sir/Madam:

Pursuant to Decision No. 67744, Section VI (Order), page 42, and Paragraph 135 of the Settlement approved in that Decision, Arizona Public Service Company ("APS") submitted its Demand Side Management Adjustment Charge ("DSMAC") Plan for Administration on June 6, 2005. Staff has reviewed the DSMAC Plan for Administration and requested that it be revised to remove the interest component from the balancing account. APS has made this change and is resubmitting the revised DSMAC Plan for Administration. Both a plain and red-lined copy of the Plan for Administration are attached.

If you should have any questions regarding the information contained herein, please call me at 602-250-3933.

Sincerely,

David J. Rumolo
Manager
Regulation and Pricing

Attachment

DJR/jah

Cc: Mr. Brian Bozzo (Compliance and Enforcement)
Mr. Ernest Johnson (Director, Utilities Division)

AZ CORP COMMISSION
DOCUMENT CONTROL

2005 OCT 19 P 4: 48

RECEIVED

Demand Side Management Adjustment Charge Plan for Administration

Demand Side Management Adjustment Charge Plan for Administration

General Description

Section VII of the Settlement Agreement approved by the Arizona Corporation Commission ("Commission") Decision No. 67744 provides for the establishment of a Demand-Side Management Adjustment Charge ("DSMAC"). The Arizona Public Service Company ("Company") is obligated under the Settlement Agreement to spend \$30 million (\$10 million annually) in base rates and at least another \$18 million (an average of \$6 million annually) during calendar years 2005 - 2007, with the latter amounts to be recovered by the DSMAC, on approved eligible Demand Side Management ("DSM") related items.

For purposes of implementing the Settlement Agreement, eligible DSM-related items include energy-efficiency DSM programs; a performance incentive; and low income bill assistance. These terms are defined in the Settlement Agreement. Energy-efficiency DSM is defined as the planning, implementation, and evaluation of programs that reduce the use of electricity by means of energy-efficiency products, services, or practices. The DSMAC charge is applied to Standard Offer or Direct Access customer's bills as a monthly kilowatt-hour or kilowatt demand charge. The charge is initially set at zero and will be reset annually, on March 1st, beginning in 2006. The change to the charge will be effective in billing cycle 1 of the March revenue month and will not be prorated.

All DSM programs must be approved before the Company may include their costs in any determination of the total DSM costs incurred. The Company may apply the program costs incurred after December 31, 2004 but prior to the effective date of Decision No. 67744 to the annual \$10 million base rate DSM allowance and to the additional spending on eligible DSM-related items provided for in the Settlement Agreement. These costs must be from programs already approved by Staff, or the Commission.

The Company may request Commission approval for DSM program costs and performance incentives that exceed the \$16 million (\$48 million over three years) level. Such additional DSM programs may include demand-side response and additional energy efficiency programs and the costs and incentives that will be recovered through the DSMAC.

Base Rate DSM Description

The Company may phase in its DSM spending from the base rate allowance funding. However, the Company is required to expend at least \$30 million on approved energy-efficiency DSM programs over the initial three years after a Commission order authorizing this program. After the initial three-year period, the Company is required to spend at least \$10 million of the base rate DSM funds annually on approved energy-efficiency DSM programs. If the Company does not expend during calendar years 2005 through 2007 at least \$30 million (in total) of the base rate allowance for approved and

eligible DSM-related items, the unspent amount of the \$30 million will be credited to the balance for the DSMAC. The Company is obligated to spend at least \$13 million on approved and eligible DSM-related items during 2005 with the spending obligation to be pro-rated to the date that the Commission approves the Final 2005 DSM Plan. In no event will such pro-ration reduce the Company's 2005 obligation below the annual \$10 million base rate DSM allowance.

Performance Incentives

The Company will be permitted to earn, and recover, performance incentives based on a share of the net economic benefits (benefits minus costs) from the energy-efficiency DSM programs approved in accordance with the Settlement Agreement. Such performance incentives will be capped at 10% of the total amount of DSM spending, inclusive of the program incentives, provided for in the Settlement Agreement (e.g., \$1.6 million out of the \$16 million average annual spending or \$4.8 million over the initial three-year period). Any such performance incentive collected by the Company during a test year will be considered as a credit against the Company's test year base revenue requirement.

DSMAC Billing

For residential billing purposes, the DSMAC and the EPS Surcharge adjustor are combined and will appear on customer bills as the "Environmental Benefits Surcharge." For the billing of general service and other non-residential customers, the Company may, but is not required to, provide for such combined billing of the EPS and DSM adjustment mechanisms. In any event, each such adjustor shall have separate rate schedules and will be kept separate in the Company's books, records, and reports to the Commission.

Allowable Costs

The DSMAC will recover: (1) all costs (whether capitalized or expensed) associated with pre-approved energy-efficient DSM programs in excess of the \$10 million built into base rates; and (2) performance incentives as described above. The DSMAC may also recover approved DSM program costs and performance incentives that exceed \$16 million annually (\$48 million over three years). Such additional DSM programs may include demand-side response and additional energy-efficiency programs. The types of allowable costs are as follows:

A. Program Costs

Allowable expenses will include: program development, implementation, promotion, administrative and general, monitoring/metering costs, advertising, educational expenditures, incentives, research and development, data collection (such as end-use), tracking systems, demonstration facilities and all other activities required to design and implement cost effective energy efficient DSM for DSM Programs that are pre-approved and are not in base rates. For those

DSM programs that generate revenue, the revenue will be credited back to the DSMAC.

- B. Performance Incentives Represents a share of the net economic benefits (benefits minus costs). Performance Incentives cannot exceed 10% of the total amount of DSM spending inclusive of the program incentive.

Customer Participation

Direct access customers shall be eligible to participate in the Company DSM programs. Any customer who can demonstrate an active DSM program and whose single site usage is twenty MW or greater may file a petition with the Commission for exemption from the DSM adjustor. The public shall have 20 days to comment on such petition. In considering any petition pursuant to this paragraph, the Commission may consider the comments received and any other information that is relevant to the customer's request.

DSMAC Calculations

Before March 1st, beginning in 2006, the Company will file a request with supporting documentation to revise its DSMAC. The DSMAC will be recomputed annually.

All required and approved spending on eligible DSM-related items above the annual \$10 million base rate allowance will be recovered by the Company only on an "after-the-fact" basis through the DSM adjustment mechanism. DSMAC Schedules 1 through 4 shall be used to document DSMAC calculations.

The per-kWh charge for the year will be calculated by dividing the DSMAC recoverable costs by the number of kWh used by customers in the previous calendar year. General Service customers that are demand billed will pay a per kW charge instead of a per kWh charge. General Service customers that are not demand billed shall pay the DSMAC on a per kWh basis. To calculate the per kW charge, the recoverable costs shall first be allocated to the General Service class based upon the number of kWh consumed by that class. The remainder of the recoverable costs allocated to the General Service class shall then be divided by the kW billing determinants for the demand billed customers in that class to determine the per kW DSM adjustor charge. The DSM adjustor will be applied to both Standard Offer and Direct Access customers with the exception of solar rates Solar-1, Solar-2 and SP-1.

DSMAC Schedules

The recoverable annual costs and incentives from approved programs above the base rate cost allowance will be listed on Schedule 1. Schedule 2 lists actual revenues received by the Company through imposition of the DSMAC on customer bills. The Balancing Account computation (Schedule 3) contains the development of the recoverable costs for each year's DSMAC. Schedule 4 is an example of the DSMAC demand and energy charge calculations.

ARIZONA PUBLIC SERVICE COMPANY
DSMAC Schedule 1
Example DSM Adjustment
Recoverable Costs
Charge Period XXXXXX 1, XXXX through XXXXXX 31, XXXX

Line
No.

	<u>2005</u>	<u>2006</u>	<u>2007</u>
1 Recoverable Program and Incentive Costs above the Base Rate allowance	<u>\$ 100,000</u>	<u>\$ 5,000,000</u>	<u>\$ 11,000,000</u>

ARIZONA PUBLIC SERVICE COMPANY
DSMAC Schedule 2
Example DSM Adjustment
ACTUAL DSM Adjustment Charge Revenues
Charge Period XXXXXXX 1, XXXX through XXXXXXX 31, XXXX

Line No.	Mths	Actual Retail Energy Sales (kwh)	Effective DSM Adj. Energy Charge \$ per kWh	Revenue From DSM Adj. Energy Charge	Actual Retail G.S. Monthly Demand (kW)	Effective DSM Adj. Monthly Demand Charge \$ per kW	Revenue From DSM Adj. Demand Charge	Revenue From DSM Adj. Charges
1	Jan - Feb 05	3,048,197,000	\$ -	\$ -	4,166,667	\$ -	\$ -	\$ -
2	Mar - Dec 05	19,305,074,000	\$ -	\$ -	20,833,333	\$ -	\$ -	\$ -
		22,353,271,000		\$ -	25,000,000		\$ -	\$ -
3	Jan - Feb 06	3,109,160,940	\$ -	\$ -	4,250,000	\$ -	\$ -	\$ -
4	Mar - Dec 06	19,691,175,480	\$ 0.000004	\$ 78,765	21,250,000	\$ 0.001600	\$ 34,000	\$ 112,765
		22,800,336,420		\$ 78,765	25,500,000		\$ 34,000	\$ 112,765
5	Jan - Feb 07	3,171,344,159	\$ 0.000004	\$ 12,685	2,167,500	\$ 0.001600	\$ 3,468	\$ 16,153
6	Mar - Dec 07	20,084,998,990	\$ 0.000214	\$ 4,298,190	23,842,500	\$ 0.085600	\$ 2,040,918	\$ 6,339,108
		23,256,343,148		\$ 4,310,875	26,010,000		\$ 2,044,386	\$ 6,355,261

ARIZONA PUBLIC SERVICE COMPANY
DSMAC Schedule 3
Example DSM Adjustment
Balancing Account Computation
Charge Period XXXXXXX 1, XXXX through XXXXXXX 31, XXXX

Line No.		2005	2006	2007
1	Recoverable Program and Incentive Costs above the Base Rate allowance (Sch. 1)	\$ 100,000	\$ 5,000,000	\$ 11,000,000
2	Less DSM Revenue recovered from effective DSMAC (Sch. 2)	\$ -	\$ 112,765	\$ 6,355,261
3	Un-Recovered DSM Costs (Line 1 - Line 2)	\$ 100,000	\$ 4,887,235	\$ 4,644,739
4	Total DSMAC Recoverable Costs (Forward to Sch. 4)	\$ 100,000	\$ 4,887,235	\$ 4,644,739

ARIZONA PUBLIC SERVICE COMPANY
DSMAC Schedule 4
Example Calculation of the DSM Adjustment Charge
Charge Period XXXXXXX 1, YYYY through XXXXXXX 31, YYYY

Line No.		2005	2006	2007
1	Total DSMAC Recoverable Costs (Sch. 3, Line 4)	\$100,000	\$4,887,235	\$4,644,739
2	Retail kWh Sales in Period (Sch. 2)	22,353,271,000	22,800,336,420	23,256,343,148
3	DSM Adjustment Charge per kWh to be Applied in Following Year (Line 1/Line 2)	\$ 0.000004	\$ 0.000214	\$ 0.000200
4	kWh Sales for General Service Customers with Demand-Based Bills	10,000,000,000	10,200,000,000	10,404,000,000
5	kW Billing Determinants for General Service Customers with Demand-Based Bills	25,000,000	25,500,000	26,010,000
6	Revenue for G.S. Customers with Demand-Based Bills (Line 3*Line 4)	\$40,000	\$2,182,800	\$2,080,800
7	Monthly DSM Adj. Charge per kW to be Applied in Following Year (Line 6/Line 5)	\$ 0.001600	\$ 0.085600	\$ 0.080000

Demand Side Management Adjustment Charge Plan for Administration
Red-lined

Demand Side Management Adjustment Charge Plan for Administration

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| ~~Reserve Statistical Release H-15 or its successor publication.~~ Schedule 4 is an example of the DSMAC demand and energy charge calculations.

ARIZONA PUBLIC SERVICE COMPANY
DSMAC Schedule 1
Example DSM Adjustment
Recoverable Costs
Charge Period XXXXXXX 1, XXXX through XXXXXXX 31, XXXX

Line No.		<u>2005</u>	<u>2006</u>	<u>2007</u>
1	Recoverable Program and Incentive Costs above the Base Rate allowance	\$ 100,000	\$ 5,000,000	\$ 11,000,000

ARIZONA PUBLIC SERVICE COMPANY
DSMAC Schedule 2
Example DSM Adjustment
ACTUAL DSM Adjustment Charge Revenues
Charge Period XXXXXXX 1, XXXX through XXXXXXX 31, XXXX

Line No.	Mths	Actual Retail Energy Sales (kwh)	Effective DSM Adj. Energy Charge \$ per kWh	Revenue From DSM Adj. Energy Charge	Actual Retail G.S. Monthly Demand (kW)	Effective DSM Adj. Monthly Demand Charge \$ per kW	Revenue From DSM Adj. Demand Charge	Revenue From DSM Adj. Charges
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		23,256,343,148		\$ 4,310,875	26,010,000		\$ 2,044,386	\$ 6,355,261

ARIZONA PUBLIC SERVICE COMPANY
DSMAC Schedule 3
Example DSM Adjustment
Balancing Account Computation
Charge Period XXXXXXX 1, XXXX through XXXXXXX 31, XXXX

Line No.		2005	2006	2007
1	Recoverable Program and Incentive Costs above the Base Rate allowance (Sch. 1)	\$ 100,000	\$ 5,000,000	\$ 11,000,000
2	Less DSM Revenue recovered from effective DSMAC (Sch. 2)	\$ -	\$ 112,765	\$ 6,355,261
3	Un-Recovered DSM Costs (Line 1 - Line 2)	\$ 100,000	\$ 4,887,235	\$ 4,644,739
4	Annual Interest @ 3.33%	\$ _____	\$ _____	\$ _____
4 5	Total DSMAC Recoverable Costs (Forward to Sch. 4)	\$ 100,000	\$ 4,887,235	\$ 4,644,739

ARIZONA PUBLIC SERVICE COMPANY
DSMAC Schedule 4
Example Calculation of the DSM Adjustment Charge
Charge Period XXXXXXX 1, YYYY through XXXXXXX 31, YYYY

Line No.		2005	2006	2007
1	Total DSMAC Recoverable Costs (Sch. 3, Line 45)	\$100,000	\$4,887,235	\$4,644,739
2	Retail kWh Sales in Period (Sch. 2)	22,353,271,000	22,800,336,420	23,256,343,148
3	DSM Adjustment Charge per kWh to be Applied in Following Year (Line 1/Line 2)	<u>\$ 0.000004</u>	<u>\$ 0.000214</u>	<u>\$ 0.000200</u>
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