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Arizona Corporation Commission
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January 28, 2008

William A. Mundell, Commissioner
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007

Re: Your Letter Dated January 4, 2008; Docket Nos. E-01345A-05-0816, E-01345A-05-0826, and E-01345A-05-0827

Dear Commissioner Mundell:

Arizona Public Service Company ("APS" or "Company") would like to respond to your letter dated January 4, 2008 concerning both the APS "Equalizer" program and the potential for new or additional time-of-use ("TOU") rates for APS customers.[1] In doing so, the Company will address the specific questions posed by the letter.

EQUALIZER PROGRAM

Question No. 1: How many customers on the Equalizer Plan have been affected by APS' new practice to readjust bills – usually upward on a quarterly basis?

A periodic adjustment (both up and down) to Equalizer payments on a quarterly, if not more frequent, basis, is not a new practice. It is part of a long-standing Company policy of reviewing Equalizer accounts throughout the year to ensure that the customer's Equalizer payment amount remains in line with their actual energy costs. Changes in weather, electric prices, or usage patterns may cause customers' actual energy cost to be greater or less than the Equalizer payment amount. The premise behind reviewing accounts during the year is to ensure that customers do not accumulate a large balance that would ultimately need to be paid the next year or even paid in one large payment

[1] As to the specific reference in your letter to an individual customer's bill going up by a large percentage even with constant usage, APS would be happy to discuss the matter with either you or the customer.

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should the customer leave APS. Below is a chart showing the number of adjustments to Equalizer payments for APS residential customers by quarter for each of the past five years[2]:

		# of Customers	# of Adjustments
2003	Mar.	157,672	2,546
	June	157,152	18,158
	Sep.	163,289	15,442
	Dec.	167,671	50,094
2004	Mar.	167,373	7,454
	June	166,103	15,008
	Sep.	166,461	13,809
	Dec.	168,179	49,277
2005	Mar.	166,784	10,640
	June	166,072	32,050
	Sep.	168,242	28,479
	Dec.	177,834	94,424
2006	Mar.	178,016	14,867
	June	181,702	104,147
	Sep.	190,224	110,475
	Dec.	198,196	125,715
2007	Mar.	199,044	48,882
	June	197,968	23,689
	Sep.	199,601	114,035
	Dec.	198,072	101,665

Such periodic adjustments are made in accordance with Commission rules governing programs of this sort. Specifically, A.A.C. R14-2-210 (G) (5) states:

> The utility may adjust the customer's levelized billing in the event the utility's estimate of the customer's usage or cost should vary significantly from the customer's actual usage or cost; such review to adjust the amount of the levelized billing may be initiated by the utility or upon the customer's request.

APS agrees with the clear purpose of the above provision and further believes that it is in the best interest of the customer to make incremental changes to payment amounts, if necessary, during the year rather than have to them face a potentially a larger payment amount in the future.

Prior to 2002, APS reviewed Equalizer accounts manually on a quarterly basis. Changes to the Equalizer payment amounts were made if actual energy costs varied significantly above or below the payment amount. This manual process was replaced by an automated process in 2002. Programming

[2] In fact, Equalizer payments are adjusted for some customers during every month of the year (not the same customers, of course), but APS has presented the data on a quarterly basis because, as stated in your letter, it is true that generally adjustments are made quarterly.

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changes were made to the APS Billing System allowing the system to automatically review accounts and make payment amount changes if certain criteria were met.

The review process works as follows. Customer accounts are reviewed at least three times a year in addition to going through what is termed the annual "settle-up". During the reviews, a customer's Equalizer payment is evaluated by taking the total of the most recent 12 months actual energy bill and dividing by 12. If, for example, the calculation results in an average monthly payment that is greater than 5% or $10 more than the current Equalizer payment, an adjustment will occur.[3] If a customer's payment changes during both of the first two reviews, the billing system will not make any further change to the Equalizer payment amount during that year. The next time such a customer's account will be evaluated is during the annual settle-up.

The annual settle-up calculation is similar to the other reviews in that it takes into account the previous 12 months of actual energy bills and divides by 12. In addition, any over or underpayments that have accrued over the year and resulted in an outstanding balance, is divided by 12 and added to the new payment amount. As noted in your letter, the settle-up month for residential customers living in Arizona's desert region is December and June for the high mountain region. General Service (non-residential) customers are all settled-up in December. As a final step, the Company monitors accounts that accumulate extremely high balances (for example, greater than $800 for residential customers, which accounts for less 1% of our Equalizer customers) and adjusts payments more frequently if necessary to prevent accumulation of even higher balances.

When APS rates were stable or declining in the 1990s and the first half of this decade, the primary driver for the need to adjust Equalizer payments more frequently than annually was changes in customer usage. Unfortunately, electric prices have since increased and in order to more accurately compute the customer's Equalizer payment amount, APS modified its Equalizer calculation in August of 2007 to account for changes in price or "cost", to use the language of Rule 210 (G) (5). For example, during the September 2007 review of Equalizer payments, APS adjusted the historical 12-month average of electric bills to reflect the July 1, 2007 change in the price of electricity.

Despite the increased frequency in payment changes over the last couple of years, Equalizer continues to be a useful tool for APS customers in preventing large seasonal swings in electric bills. This is evidenced by the sustained popularity of the program.

Question No. 2: How will raising required payments on Equalizer Plan customers affect APS' financial condition in terms of cash flow and revenue collections?

All else being equal, raising any payment by APS customers, whether from Equalizer or not, will accelerate the Company's cash flow and revenue collections, however marginally. That does not mean that APS will collect any additional revenues from customers. Rather it is the timing of such collections that can be affected. Because customer bills are usually lower during the spring than the average bill for the year, APS is often in a credit position during such months (i.e., it has collected

[3] Ten dollars or 5% are the current criteria for making a change in an Equalizer payment. Such criteria can and do vary over time.

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more from Equalizer customers than their actual billings). The converse is true during the summer. In theory, all would balance out by the end of the year, but in practice, APS has ended the past three years in a substantial negative (debit) position. Specifically, the debit balance for year-end 2005 was $8.9 million, $26.1 million for 2006, and $22.1 million for 2007. The Company would note that had Equalizer payments not been increased during the course of the past year, the deficit at year's end would have been $44.3 million. In the case of an individual customer, the deficit for the following year could have been as much as $2500 or an increase of over $200 per month on top of his or her 2008 regular billings.

Question No. 3: Do you plan to inform customers adequately that the Equalizer Plan has become only a three-month budget plan instead of an annual one?

As discussed above, the Equalizer Plan has not changed with regard to the frequency with which Equalizer accounts are reviewed for possible payment adjustments. Attached to this letter are copies of representative materials available to APS customers regarding the Equalizer program since at least 2002 to the present. There is also a copy of the program's description on APS.com, which has been in its present format for several years. As you can see, APS has consistently told customers that their Equalizer payments will be reviewed and potentially adjusted more frequently than annually.

Question No. 4: Can you demonstrate that APS is correctly calculating customers' Equalizer monthly payments?

Please see attached for an actual calculation both before and after August of 2007.[4] Calculations after August 2007 will contain an adjustment for the rate changes made in Decision No. 69663.

TOU RATES

With respect to your inquiries regarding TOU, APS does not believe that a new TOU rate offering should necessarily or automatically shield customers from rising electric costs irrespective of any changes in their usage. The Company believes that the purpose of any TOU rate is twofold. First, a TOU rate is intended to correlate the price of electricity to customers to the cost of that electricity to the Company, with higher rates charged during the Company's daily and seasonal on-peak hours when the cost of electricity is at its highest. Second, in pricing the Company's energy at higher levels during peak system hours, a TOU rate should encourage customers to adjust their usage patterns in order to lower the peaks and fill in the valleys of the Company's system usage, thus increasing the overall efficient use of the grid. *See* Decision No. 52593 (November 9, 1981) at 7.[5] In doing so, a TOU rate also provides a customer with the opportunity to save money on his or her monthly energy bill, assuming that the customer actually has or can shift a greater percentage of their usage off-peak. If, however, a customer on a TOU rate either has not or cannot adjust his or her usage pattern and

[4] The attached calculations are for actual APS residential customers. Their account numbers and names have been edited to protect customer confidentiality pursuant to A.A.C. R14-2-203 (A) (2).
[5] This Decision first adopted the PURPA standard in Arizona concerning TOU rates.

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continues to use above average levels of electricity during on-peak hours, that customer's bill would – and should – be higher than it would have been if that customer were on a standard, non-TOU rate.

That said, the Company agrees that TOU rates play an important role in allowing customers the opportunity to conform their usage such that they may both save money and correspondingly reduce the Company's cost of serving them. APS customers clearly appreciate the potential benefits of TOU rates. Since the last rate case, customer participation in the Company's ET-2 and ECT-2 (the noon to 7pm) TOU rate offerings has increased, with nearly 53,000 of our 453,000 TOU customers participating in one of those two rate plans as of the end of last year.

APS has tried to be sensitive to the admonitions during the Company's last rate case that it should bring the Commission more innovative rate options in a future rate filing. To that end, APS has hired a professional consulting company with particular expertise in rate design—the Brattle Group—to evaluate a series of potential and existing rates that the Company has currently or could design, suggesting ways in which those offerings might be improved and offering new options that might be suitable for APS customers. As to TOU rates, such potential options include the following:

- modifying the Company's ET-2 and ECT-2 residential rate schedules to more precisely define and price peak, off-peak, and super-peak periods both during the summer and winter seasons;
- alternatively, introduce a new residential TOU option with the features described above that takes advantage of the ongoing deployment of Advanced Metering Infrastructure (AMI);
- a disaggregating of the commercial TOU rate (E-32-TOU) by size of customer; and
- a new commercial critical peak pricing rate option.

APS is filing a report by January 31, 2008, on the current implementation data regarding residential TOU rates, in compliance with Decision No. 68645 (April 12, 2006). APS has expanded the scope of this report to include a discussion of TOU pricing benefits and design alternatives. Specifically, APS intends to discuss in the report an enhanced TOU rate with a super-peak proposal that would provide customers with an opportunity for savings through additional load-shifting during peak and super-peak hours.

The Company will also file this report in the generic TOU docket. The Company hopes that this filing and TOU proposal can serve as a basis for discussion in the TOU docket. APS believes that such a discussion should include implementation issues, such as metering and billing considerations may require limitations on the availability and rate of deployment of any new TOU rate proposals.

Please do not hesitate to contact me should you have any questions.

Sincerely,

Thomas L. Mumaw

APS • APS Energy Services • Pinnacle West Energy • SunCor • El Dorado

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ATTACHMENT 1

The Value of Peace of Mind

At APS, we know your peace-of-mind is priceless. That's why we developed Equalizer. The Equalizer Plan takes the

plan on.

The Equalizer Plan™

Seasons will change, but your APS bills don't have to. The Equalizer Plan gives you a convenient way to even out your energy bills so you pay about the same amount each month. Budgeting is easier because you know in advance how much your payment will be.

Determining Your Equalizer Payment

The amount of your monthly Equalizer payment is based on an average of your electric bills for the past 12 months. Each year your account will be reviewed and you will be charged one-twelfth of last year's total use as the new monthly amount. This review will occur in June if you live in Arizona's mountain region and in December if you live in a desert region.

When your account is reviewed in June or December, any overpayment or underpayment from the previous year will be divided evenly over the following 12 months and applied to your new Equalizer payment amount. This process conveniently "settles up" your Equalizer balance over the next 12-month period.

Periodic Reviews

We realize the amount of electricity you use may vary depending on weather conditions, the purchase of new appliances or changes in your family size and lifestyle. Throughout the course of the year, we will continue to review your account. If your energy use begins to vary substantially from the amount you used in the past year, we may adjust your Equalizer amount. This will minimize the chances of building up large overpayments or underpayments, and ensures your Equalizer payment continues to stay in line with your actual energy use. The sample below illustrates how this will work:

Sample Calculation for Your New Equalizer Payment:

Actual energy cost for the past 12 months =	$1,452
Existing Equalizer Payment Amount =	$116
Equalizer payments made the past 12 months (12 x $116) =	$1,392
Equalizer account underpayment due to increase in energy use	= $ 60
New payment Calculation:	
Actual energy cost divided by 12 months ($1,452/12) =	$121
Plus the annual underpayment divided by 12 months ($60/12) =	$5
New Equalizer Payment Amount:	$126

Answers to Your Questions

Q. What are the eligibility requirements for the Equalizer Program?

A. To sign up for the Equalizer program, you must have a good payment record with APS for at least the last 12 months.

Q. Will I be charged interest if my bills are more than my Equalizer payment?

A. No interest is charged when your bills are more than your Equalizer balance and no interest is paid when you have a credit balance.

Q. Is there a charge for this service?

A. This is a free service for APS customers.

Q. Will I benefit by participating in the Equalizer Program?

A. Equalizer works best for budget conscious customers, households on fixed incomes and customers who wish to eliminate the ups and downs associated with seasonal energy bills.

Q. Will I have to "settle up" any time besides the annual review time?

A. We will ask you to settle up if you close your account, you cancel your participation in Equalizer or APS discontinues your Equalizer participation because of a past due bill balance.

Q. What if I miss a payment?

A. If you want to remain on the Equalizer Plan, your missed payment needs to be paid either before or along with the following month's bill. Failure to make a payment may result in your removal from the plan. At the time of removal, it will be necessary to pay the balance on your account with your next bill.

Q. How soon after signing up will my equal payments begin?

A. Your first Equalizer payment will be the month after you sign up for the plan.

Joining Equalizer is Simple

It's easy to sign up for the Equalizer Plan. Just visit our Web site at aps.com.

At aps.com, you can also pay your bill online or register for a password so you can check your account balance, payment history and past energy usage.

If you have questions, would like to receive an Equalizer application or to learn the amount of your Equalizer payment, just have your account number handy and give us a call at 602-371-7171 (metro Phoenix area) or 1-800-253-9405 (other areas). If you meet the minimum requirements for the plan, you'll be able to sign up for Equalizer. It's that simple.

Sign Up for Equalizer Today!

Don't go another season with unpredictable electric bills — sign up for the Equalizer Plan today.

We're available 7 days a week, 24 hours a day.

aps.com

Metro Phoenix area: 602-371-7171

Other areas: 1-800-253-9405

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The Equalizer Plan™

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Q. What happens if I pay extra in an exact multiple of my Equalizer payment?

A. If you pay in exact multiples (exactly twice, three times, etc. your Equalizer Payment Amount), we presume you are paying for the current month and for one or more month(s) in advance. For example, if your Equalizer Payment Amount is $75 and you pay $150 we will apply the second $75 to your next month's bill because it is an exact match of your monthly Equalizer Payment Amount.

Q. Why does line 6 on my bill show a credit (cr) balance?

A. If you live in Arizona's desert region, credit balances build to assist you in offsetting the energy costs associated with cooling your home during the summer months. If you live in Arizona's mountain regions, credit balances build to assist you in offsetting the cost of winter heating. Equalizer is an account that lets you put away a little each month to help offset payment of bills during higher energy use months.

Q. What if my account (cr) balance does not look like it is big enough to cover my bills during higher energy use months?

A. You can pay a little extra each month (as long as it's not an exact multiple of your Equalizer payment). The extra dollars you pay will be applied to your Equalizer Account Balance.

Q. What if I still have questions?

A. Go to www.aps.com or call 602-371-7171 (metro Phoenix area) or 800-253-9405 (other areas) for additional information.

03/03

Understanding Your Equalizer Account

As an Equalizer customer you are billed about the same amount each month. Your monthly payment is based on the average of your electric bills for the past 12 months and adjusted for any credits or excess balance owed. The Equalizer Account Balance Status Box can help you understand and manage your Equalizer account.

Equalizer Account Balance Status	
1. Previous account balance	240.77
2. Payments received	105.00cr
3. Sub Total	135.77
4. Total current account charges	86.45
5. Current account balance prior to paying this bill	222.22
6. After your payment of $105.00 is received, your account balance will be $117.22	

1. This is your previous Equalizer account balance. This line may show a credit or a balance owed.
2. Payment(s) received and processed by APS prior to this statement.
3. Subtotals lines 1 and 2.
4. Shows your actual energy charges and other charges or fees for the current month.
5. The balance of your Equalizer account prior to payment of the current bill.
6. This line lets you know where your Equalizer account balance stands after you've made your current month's payment. An account balance followed by cr indicates you have a credit balance. An account balance without a cr indicates you have paid for less energy than you've actually used. This line can help you manage your energy use and monitor your Equalizer Account Balance monthly.

Questions, Answers and Examples

Q. How can I use the Equalizer Account Balance Status Box to manage my account?

A. Watch line 6 each month. If you find you owe a large amount, you may be using more energy than in previous years or your Equalizer Payment Amount may be set too low. In either case, paying a little extra can help. Remember, APS will review your energy use quarterly for any significant changes and will make adjustments to your Equalizer Payment Amount if necessary.

Q. What can I do if line 6 shows a large balance owed to APS.

A. If you notice your balance increasing, you can pay a little extra each month or make a lump sum payment to reduce the balance owed. For example, if your payment is normally $84, you can pay $104 that month. Then we'll apply $84 to your current month's payment and the other $20 will be applied to your account balance. Paying a little extra works for just about any amount you wish to pay except an exact multiple of your current billed Equalizer Payment Amount.

Last chance to enroll! Equalizer evens out the highs and lows of your monthly electric bills, averaging your annual electric bill into 12 monthly payments. Periodically, we'll review your account and may adjust your payment if your energy use changes. Annually, in December, we review your last 12 months energy use and, if necessary, we will adjust your payment amount for the next year. It's that simple! (Certain eligibility requirements apply).

Equalizer is free, and it's easy to sign up!

Call toll-free 1-888-227-5277 and follow the prompts to enroll. Or, visit aps.com before November 30th, and click on the Equalizer button on our home page to enroll online.

Important Information

- Missing or late payments can result in removal from Equalizer.
- *This special enrollment offer ends November 30th, 2005.*

How Equalizer Works...

Instead of paying higher bills in summer and lower bills in winter, Equalizer evens out your electric bills by averaging your energy use over the entire year. With Equalizer, your bill stays about the same month after month.

Hot desert temperatures make air conditioners use more energy — and that means higher electric bills during the summer months. But with Equalizer, you can even out the ups and downs of your monthly bill. For example, if you normally pay $150/month for energy during June, July and August, while the rest of the year you pay $50/month — you would pay $75/month on Equalizer.

When you're on Equalizer, we review your account periodically and may adjust your payment if your energy use changes during the year. Annually, in December, we review your last 12 months of energy use and, if necessary, adjust your payment for the next year. Any overpayment or underpayment for the previous 12 months is spread out over the next 12 months. It's that simple.*

Signing up for Equalizer is simple, too! Call 602-371-7171 in the Phoenix area, or toll-free 800-253-9405 elsewhere. Once your call is answered, press 2, then 5 and follow the prompts to enroll. Or, visit aps.com before October 31st, and click on the Equalizer button on our home page to enroll online.

** Certain eligibility requirements apply.*

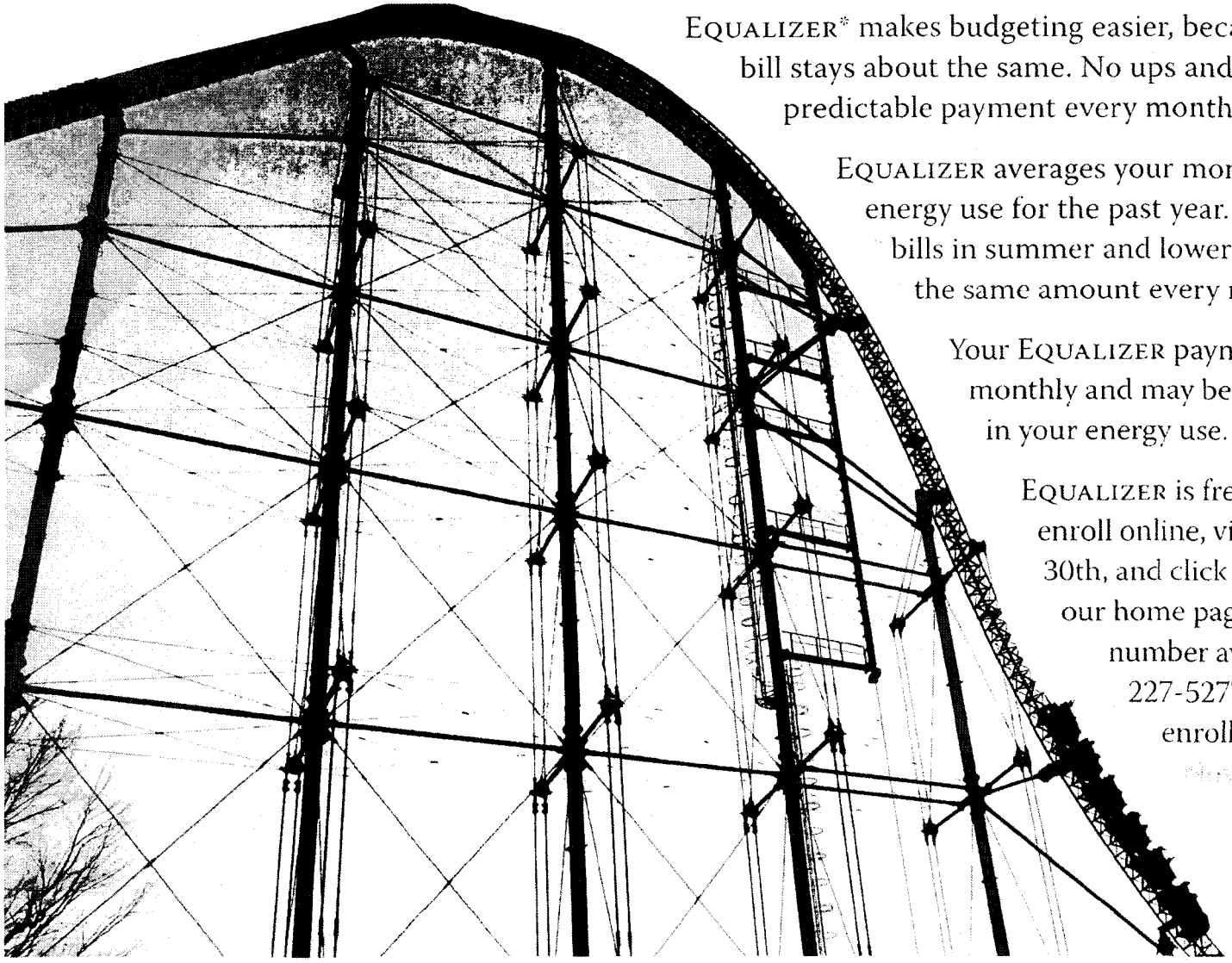
Answers to Your Equalizer Questions

Q. When can I enroll in Equalizer?
A. The enrollment period is August 1st through October 31st.

Q. Can I become ineligible for the Equalizer?
A. If you miss or make late payments during the year, you may become ineligible for the plan.

Q. Can I skip a payment if I see I have a credit balance on my Equalizer account?
A. No, you cannot skip a payment if your account is showing a credit balance. Equalizer evens out your payments throughout the year. Credit balances are used to offset the cost for higher energy use months — such as summer months in the desert climates.

Easy to predict. Easy to budget. [illegible]



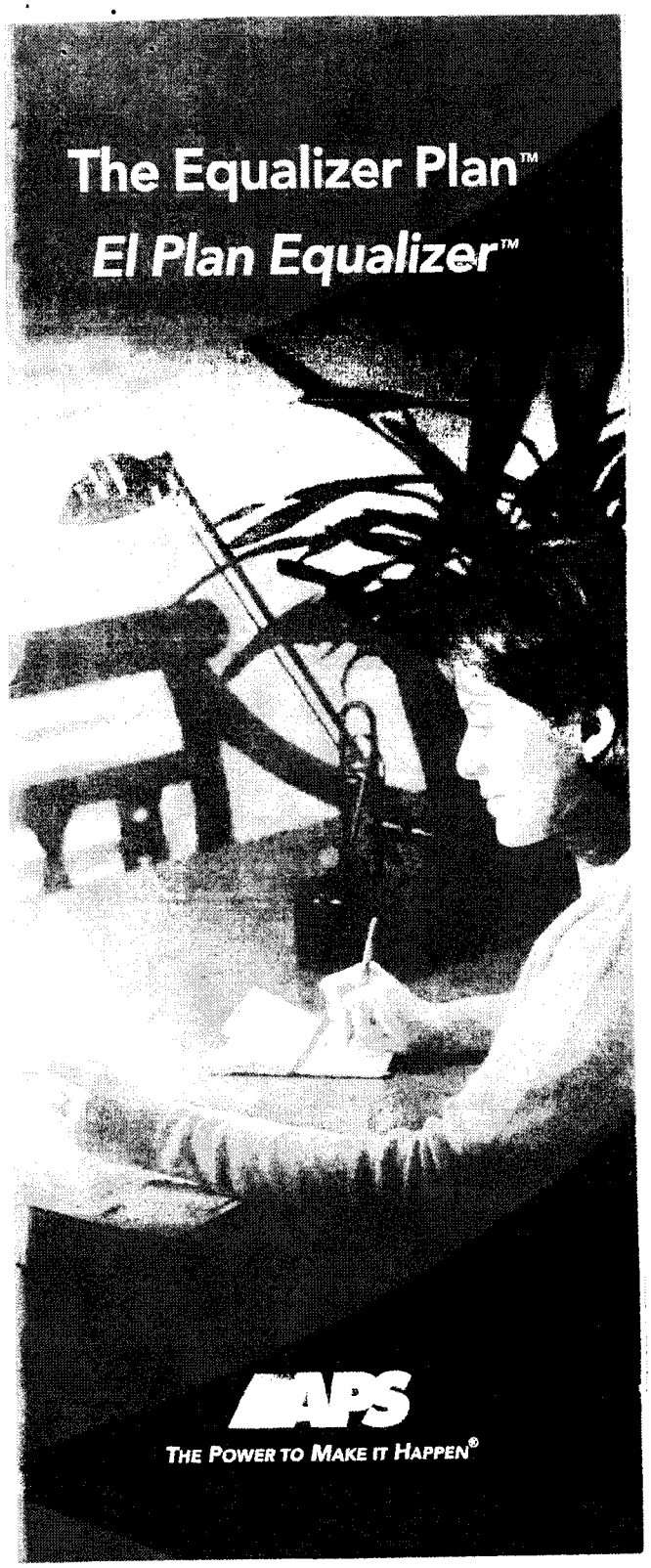
Equalizer* makes budgeting easier, because each month's electric bill stays about the same. No ups and downs. No surprises. Just a predictable payment every month.

Equalizer averages your monthly bill based on your total energy use for the past year. So instead of paying higher bills in summer and lower bills in winter, you pay about the same amount every month.

Your Equalizer payment amount will be reviewed monthly and may be adjusted to reflect any changes in your energy use.

Equalizer is free, and it's easy to sign up! To enroll online, visit aps.com before November 30th, and click on the Equalizer button on our home page. Or, have your APS account number available, call toll-free 1-888-227-5277 and follow the prompts to enroll. [illegible]

** Certain eligibility requirements apply.*



What are the eligibility requirements for the Equalizer Program?

To sign up for the Equalizer program, you must have a good payment record with APS for at least the last 12 months.

Will I benefit by participating in the Equalizer Program?

Equalizer works best for budget conscious customers, households on fixed incomes and customers who wish to eliminate the ups and downs associated with seasonal energy bills.

Will I have to "settle up" any time besides the annual review time?

We will ask you to settle up if you close your account, you cancel your participation in Equalizer or APS discontinues your Equalizer participation because of a past due bill balance

Frequently Asked Equalizer Questions

Q. What are the eligibility requirements for Equalizer?

A. To sign up for Equalizer, you must have a good payment record with APS for at least the last 12 months. If you miss or make late payments during the year, you may become ineligible for the plan.

Q. Is there a charge for this service?

A. This is a free service to APS customers.

Q. How is my Equalizer payment calculated?

A. The amount of your monthly Equalizer payment is based on an average of your electric bills for the past 12 months. Each year, in December, your account will be reviewed. Your new Equalizer monthly amount will be based on last year's total use plus any overpayment or underpayment from the previous year divided by 12.

Q. What happens if my energy use changes?

A. We realize the amount of electricity you use may vary depending on weather conditions, the purchase of new appliances or changes in your family size and lifestyle. Throughout the course of the year, we will continue to review your account. If your energy use begins to vary substantially from the amount you used in the past year, we may adjust your Equalizer amount. This will minimize the chances of building up large overpayments or underpayments, and ensures your Equalizer payment continues to stay in line with your actual energy use.

Q. Will I have to "settle up" any time besides the annual review time?

A. We will ask you to settle up if you close your account, you cancel your participation in Equalizer or APS discontinues your Equalizer participation because of a past due balance.

Q. Can I skip a payment if I see I have a credit balance on my Equalizer account?

A. No, you can not skip a payment even if your account is showing a credit balance. Equalizer evens out your payments throughout the year. Credit balances are used to offset the cost for higher energy use months - such as during summer months in desert climates.

Q. Will I be charged interest if my bills are more than my Equalizer payment?

A. No interest is charged when your bills are more than your Equalizer balance and no interest is paid when you have a credit balance.

Q. How soon after signing up will my equal payments begin?

A. You can expect to receive your first Equalizer electric bill a month or two after you sign up.

Q. Can I become ineligible for Equalizer?

A. Yes, Equalizer customers **may be removed** from Equalizer if they fail to make their full Equalizer payment amount twice within a 12-month period. When a customer is removed from Equalizer, they will be required to pay their account in full, including any debit balance which may have accrued.

Q. In addition to the annual settle-up, are there times when my Equalizer payment may be adjusted?

A. Yes, your Equalizer payment amount is based on the average of your electric bills for the past 12 months. It's important to understand that changes in weather, electric prices, or lifestyle may cause your actual energy use to be greater or less than your Equalizer payment amount. If your energy use begins to vary substantially, we may adjust your Equalizer payment amount. This will minimize the chance of building a large over or under payment, and ensures your Equalizer payment amount continues to remain in line with your actual energy use

APS

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01/07

RESIDENTIAL SERVICE | MY ACCOUNT APS [illegible] MY COMMUNITY

Frequently Asked Questions on Equalizer

What is Equalizer?
Equalizer helps you pay the same amount on your electric bill each month for budget [illegible] purposes. It helps you balance your lower bills with the higher bills [illegible] payment each month. This is especially useful in Arizona [illegible] seasonal changes in air conditioning use.

How can I tell if I am on Equalizer?
The amount summary, on the first page of your monthly statement, will show [illegible] Equalizer status as of your billing date. The [illegible] used during the current billing period are [illegible] your statement.

Can I sign up for Equalizer?
If you are eligible [illegible] are eligible, sign up now.

Is Equalizer a new plan?
No. Equalizer [illegible] your rate or [illegible]. You will [illegible] guidelines for [illegible] plan to manage your energy costs. By [illegible] of our [illegible] rates, you will not [illegible] our on- and off-peak hours.

Equalizer [illegible] for the total cost of the electricity you use. You should [illegible] your monthly charge and pay [illegible] our monthly bills.

How is my Equalizer payment calculated?
[illegible] most recent 12 months of [illegible] enabled if no history is available [illegible] "[illegible]" message during online [illegible] Care Center so that we can [illegible] account. Care Center associates are [illegible] at (602) 371-7171 or (800) [illegible].

Why has my Equalizer payment amount increased/decreased?
Your account is reviewed three times per year - March, June, and September in desert climates (more months for cooling than heating) or March, [illegible] in mountain climates (more months for heating than cooling). As a part of these reviews, we recalculate a new

Learn more

Web Survey

Attachment 1
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twelve-month average. Your Equalizer payment amount will only change if the newly calculated payment is at least a difference of plus or minus 5 percent and plus or minus $10 from your current Equalizer payment amount.

At the end of December (June in mountain climates), an annual settle-up for your Equalizer account is done. The system will recalculate a new twelve-month average, plus or minus any credit or debit balance on Equalizer. Your Equalizer payment amount will change if the newly calculated payment is at least a difference of plus or minus 5 percent and plus or minus $10 from the current Equalizer payment amount.

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What happens if I pay extra in an exact multiple of my Equalizer payment amount?
If you pay in exact multiples of your Equalizer payment amount (exactly twice, three times, etc.) we presume you are paying the current month, and for one or more month in advance. For example, if your Equalizer payment amount is $75 and you pay $150, we will apply the second $75 to your next month's bill because it is an exact match of your monthly Equalizer payment amount.

How can I tell if I have an Equalizer credit balance?
Your Equalizer balance will be proceeded by a minus sign (-) if you have a credit, and will listed as a credit balance on your statement. There will be no minus sign, and your balance will be listed as a debit on your statement, if you have a debit balance on your account.

I have a credit balance on my account. Do I need to make a payment this month?
Yes. Equalizer requires a payment every month, even when you have a credit balance on your account. This credit is factored in to your monthly payments, and is designed to cover energy costs during your higher energy use months.

What if my account credit balance does not look like it is big enough to cover my bills during the higher energy use months?
You can pay a little extra each month (as long as it's not an exact multiple of your Equalizer payment amount). The extra dollars you pay will be applied to your Equalizer balance.

If I have a balance at the end of the year, will I have to make an additional payment?
No. At the end of the year, your Equalizer account is reviewed to make sure that your payment is inline with your actual energy costs. We add your balance to your 12 months of energy costs and then divide by 12 to

determine a new Equalizer payment amount. We will only change your payment if the newly calculated payment is at least a difference of plus or minus 5 percent and plus or minus $10 from your current Equalizer payment.

How do I cancel Equalizer?
Equalizer participation is voluntary, and you may cancel at any time. Your Equalizer balance is settled-up at the time of cancellation. If the cost of the energy you have used is greater then the amount you have paid in monthly Equalizer payments, the difference will become due. If you have paid more in monthly payments then the cost of the energy you have used you will receive a credit on your bill.

To cancel Equalizer, send a request to aps@aps.com with your name and account number.

Equalizer balances are also settled-up if service is ended due to a move or if the account is removed from Equalizer due to delinquent payments.

I was taken off the Equalizer due to delinquent payments. When can I reapply?
You must remain off Equalizer for a minimum one year, and must meet the eligibility requirements to be re-enroll.

Can I enroll in Equalizer if I am on an EPR rate?
At this time, if you are enrolled in a EPR rate plan you are not eligible for Equalizer. EPR customers have a qualified generating system, such a photovoltaic system, installed at their home or business, and sell excess power back to APS.

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ATTACHMENT 2

Example of an Equalizer Settle-up Calculation as computed in Dec. 2006

Settle Up Calc completed Dec. 2006

Month	Actual Electricity Cost
DEC	49.11
NOV	61.89
OCT	119.7
SEPT	139.96
AUG	182.63
JULY	132.07
JUNE	101.37
MAY	49.13
APR	42.55
MAR	47.96
FEB	53.65
JAN	49.91
TOTAL	$1,029.93
Deferred underpayment accumulated as of Dec. 2006 billing	$127.85

Payment Calculation: (1029.93 + 127.85) / 12 = 96.48
New EQ Payment Amt for Jan. 2007 = $96.00

Example of an Equalizer Settle-up Calculation as completed in Dec. 2007

Settle Up Calc completed Dec. 2007

Month	Actual Electricity Cost	Adjusted Cost used for Equalizer Calc (if applicable)*
DEC	124.62	N/A
NOV	116.86	N/A
OCT	210.95	N/A
SEPT	302.92	N/A
AUG	284.93	N/A
JULY	316.89	N/A
JUNE	236.41	252.95
MAY	176.63	188.99
APR	124.98	133.72
MAR	114.88	122.92
FEB	112.87	120.77
JAN	126.37	135.21
TOTAL		$2,311.73
Deferred underpayment accumulated as of Dec. 2007 billing		$130.55

* Adjusted actual cost by 7% for months prior to July 2007 rate increase

Payment Calculation: (2311.73 + 130.55) / 12 = 203.52
New EQ Payment Amt for Jan. 2008 = $204.00