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March 31, 2008

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

RE: Arizona Public Service Company Environmental Improvement Surcharge Plan of Administration
Docket Nos. E-01345A-05-0816, E-01345A-05-0826, E-01345A-05-0827

Dear Sir or Madam:

Pursuant to Decision No.70213, Arizona Public Service Company is filing the revised Environmental Improvement Surcharge Plan of Administration (EIS POA). Enclosed please find both redline and non-redline versions of the revised EIS POA. Also enclosed are the redline and non-redline versions of the Adjustment Schedule EIS.

If you have any questions or concerns please contact Greg DeLizio at (602) 250-2704.

Sincerely,

Barbara Klemstine

BK/vld

Attachments

CC: Brian Bozzo
Ernest Johnson
Christopher Kempley
Barbara Keene
Lyn Farmer
Gordon Fox
Steve Irvine
Julie McNeely-Kirwan

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Arizona Corporation Commission
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Environmental Improvement Surcharge Plan of Administration

REDLINE

General Description

Sections XV and XVI of Arizona Corporation Commission ("Commission") Decision No. 69663 provide for the establishment of an Environmental Improvement Surcharge ("EIS"). The Arizona Public Service Company ("Company") is authorized under the Decision to collect the EIS at \$0.00016 per kWh from all retail Standard Offer customers except those on Schedules SP-1, Solar-2, Solar-3, GPS-1 and GPS-2. The Surcharge will be charged to customers beginning July 1, 2007 and will remain in effect unless changed by further Order of the ACC.

Accounting

Funds collected from the EIS surcharge will be separately identified by the Company and recorded as a regulatory liability. Use of these funds on qualified EIS improvement costs will reduce the regulatory liability and be recorded as Contributions in Aid of Construction ("CIAC") and applied against the capital costs of qualified EIS improvement projects during construction or upon acquisition, as appropriate. Interest will be calculated on the EIS regulatory liability balance monthly based on the prior month's ending balance. APS will use ~~The interest rate will be~~ the 5-year Treasury Constant Maturities rate when calculating the monthly earned interest applicable to the EIS fund. ~~adjusted annually on the first business day of the calendar year in the same manner as the APS customer deposit rate.~~ APS will separately account for costs charged to the EIS fund that are incurred by filing a climate change management plan, carbon emission reduction study and commitment-action plan.

EIS Billing

Beginning July 1, 2007 the EIS Surcharge will appear on customer bills as the "Federal Environmental Improvement Surcharge." In the event that other than federally mandated environmental projects are included in the EIS, then the EIS Surcharge will appear on customer bills as the "Environmental Improvement Surcharge." The informative description on the bill will state, "A charge to recover a portion of the cost of investments for environmental improvements at APS' generation facilities designed to comply with environmental standards mandated or expected to be by federal laws or regulations." The Surcharge will be applied to all retail Standard Offer customers except those on Schedules SP-1, Solar-2, Solar-3, GPS-1 and GPS-2. The EIS will be initially set at \$0.00016 per kWh.

Qualifying EIS Improvements

APS may draw from this account only for the purpose of funding environmental improvements (either mandatory or voluntary, but not for payment of fines or penalties).

Funds spent on environmental projects that have not been closed to plant-in-service would qualify as expenditures to which draws could be applied. In the event that non-mandated environmental projects are included in the EIS fund, and the projects are not expected to be mandated in the foreseeable future, APS shall obtain the Commission's approval to use EIS funds for those projects before construction begins on the projects.

EIS Reporting/Compliance

Beginning in August 2008, APS shall file a report of EIS transactions with the ACC for the most recent July 1 through June 30 period. This report will be filed by August 30th of each year until further ordered by the Commission. The report will include the following information:

- ⊖1) Beginning balance for the period (Schedule 1)
- ⊖2) Total amount of money collected by the EIS for the period (Schedule 1)
- ⊖3) Amount of interest earned by the EIS regulatory liability account for the period (Schedule 1)
- ⊖4) Total withdrawals for the period (Schedule 1)
- ⊖5) Ending EIS regulatory liability account balance (Schedule 1)
- ⊖6) Detailed list of the dates and amounts of withdrawals (Schedule 3)
- ⊖7) Narrative description of each EIS project to which funds were applied for the period (Schedule 2)
- ⊖8) Accounts and amounts of CIAC recognized for each EIS project for the period (Schedule 2)
- 9) Cumulative EIS funds collected July 1, 2007 through June 30th of the current period (Schedule 1)
- ⊖10) Cumulative interest earned by the EIS regulatory liability account from July 1, 2007 through June 30th of the current period (Schedule 1)
- ⊖11) Cumulative amounts withdrawn from the EIS regulatory liability account from July 1, 2007 through June 30th of the current period (Schedule 1)

See Attached

Schedule 1

Schedule 2

Schedule 3

Environmental Improvement Surcharge Plan of Administration

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- 6) Detailed list of the dates and amounts of withdrawals (Schedule 3)
- 7) Narrative description of each EIS project to which funds were applied for the period (Schedule 2)
- 8) Accounts and amounts of CIAC recognized for each EIS project for the period (Schedule 2)
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- 10) Cumulative interest earned by the EIS regulatory liability account from July 1, 2007 through June 30th of the current period (Schedule 1)
- 11) Cumulative amounts withdrawn from the EIS regulatory liability account from July 1, 2007 through June 30th of the current period (Schedule 1)

See Attached
Schedule 1
Schedule 2
Schedule 3

ARIZONA PUBLIC SERVICE COMPANY
 Environmental Improvement Surcharge Account Balance
 July 2007 - June 2008
 (\$ in thousands)

Line No.	July	August	September	October	November	December	January	February	March	April	May	June	Annual Total	Life-to-Date at 6/30/2008
1	\$ 0,000,000	\$ 0,000,000	\$ 0,000,000	\$ 0,000,000	\$ 0,000,000	\$ 0,000,000	\$ 0,000,000	\$ 0,000,000	\$ 0,000,000	\$ 0,000,000	\$ 0,000,000	\$ 0,000,000	\$ 0,000,000	
**2	2,400,000	2,400,000	2,400,000	2,400,000	2,400,000	2,400,000	2,400,000	2,400,000	2,400,000	2,400,000	2,400,000	2,400,000	28,800,000	28,800,000
3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4	384	384	384	384	384	384	384	384	384	384	384	384	4,608	4,608
5	(384)	(384)	(384)	(384)	(384)	(384)	(384)	(384)	(384)	(384)	(384)	(384)	(4,608)	(4,608)
6	-	-	-	-	-	-	-	-	-	-	-	-	-	-
**7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

* Data used is for illustrative purposes only and would exclude schedules SP-1, Solar-2, Solar-3, GPS-1 and GPS-2.

** Based on one-year Nominal Treasury Constant Maturities rate contained in the Federal Reserve Statistical Release, H-16.

ARIZONA PUBLIC SERVICE COMPANY
 Environmental Improvement Surcharge - Application of Funds
 July 2007 - June 2008
 (\$ in thousands)

Line No.	July	August	September	October	November	December	January	February	March	April	May	June	Annual Total	Life-to-Date at 6/30/2008
1 CWIP Account 107.0	\$ 384	\$ 384	\$ 384	\$ 384	\$ 384	\$ 384	\$ 384	\$ 384	\$ 384	\$ 384	\$ 384	\$ 384	\$ 4,608	\$ 4,608
2 Project 1	\$ 384	\$ 384	\$ 384	\$ 384	\$ 384	\$ 384	\$ 384	\$ 384	\$ 384	\$ 384	\$ 384	\$ 384	\$ 4,608	\$ 4,608
3 Total	\$ 384	\$ 384	\$ 384	\$ 384	\$ 384	\$ 384	\$ 384	\$ 384	\$ 384	\$ 384	\$ 384	\$ 384	\$ 4,608	\$ 4,608

Project 1 - Description

Description will be added once the project(s) is identified.

ARIZONA PUBLIC SERVICE COMPANY
 Environmental Improvement Surcharge - Schedule of Withdrawals
 July 2007 - June 2008
 (\$ in thousands)

Schedule 3

		PROJECTS					
Withdrawals (Date):	Project 1					Total	
7/30/2007	\$ 384					\$ 384	
8/31/2007	384					384	
9/30/2007	384					384	
10/31/2007	384					384	
11/30/2007	384					384	
12/31/2007	384					384	
1/31/2008	384					384	
2/28/2008	384					384	
3/31/2008	384					384	
4/30/2008	384					384	
5/31/2008	384					384	
6/30/2008	384					384	
Total	\$ 4,608					\$ 4,608	



**ADJUSTMENT SCHEDULE EIS
ENVIRONMENTAL IMPROVEMENT SURCHARGE**

APPLICATION

The Environmental Improvement Surcharge ("EIS") shall apply to all retail Standard Offer service, excluding kWh served in accordance with rate schedules, SP-1 (Solar Partners), Solar-2, Solar-3, and Green Power Schedules GPS-1 and GPS-2. All provisions of the customer's current applicable rate schedule shall apply in addition to charges under this Adjustment Schedule EIS.

The EIS was approved by the Arizona Corporation Commission ("ACC") in Decision No. 69663.

The EIS recovers the cost associated with investment and expenses for environmental improvements at APS' generation facilities that the ACC has approved for recovery. Approved environmental improvements include those implemented on or after January 1, 2004, for which costs have not been fully recovered under current approved rates, ongoing environmental improvement projects and environmental improvement projects designed to comply with prospective environmental standards required by federal, state, tribal, or local laws or regulations.

RATE

The charge shall be calculated at the following rate:

EIS

All kWh

\$0.00016 per kWh



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ENVIRONMENTAL IMPROVEMENT SURCHARGE**

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