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September 1, 2010

Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED

SEP 1 2010

DOCKETED BY

RE: DEMAND SIDE MANAGEMENT SEMI-ANNUAL REPORT
DECISION NO. 67744; DOCKET NOS. E-01345A-03-0437 & E-01345A-05-0526

On March 1, 2010, Arizona Public Service Company ("APS") filed its Demand Side Management ("DSM") Semi-Annual Report for the period July 1, 2009, through December 31, 2009, pursuant to Decision No. 67744. Commission Staff has since requested that APS update its treatment of tax credits in its net benefits calculations.

Based on Staff's request, the tax credits were removed from the incremental cost calculation for the Residential Existing Homes HVAC measures, lowering net benefits. The tax credits have been retained, however, in the calculation of incentives as a percent of incremental costs to ensure that each remains below the measure cap (75% of incremental cost). This change did not alter the cost-effective status of any measure.

In making these changes, two unrelated errors were discovered. An error was found in the unit societal cost per meter in the Non-Residential Energy Information Services program. A second error was found in the calculation of the societal cost in the Non-Residential programs. What was previously represented as societal cost was actually the net project incremental cost. That incremental cost has now been added to the program cost to calculate the correct societal cost. The changes did not affect the performance incentive amount.

The changes requested by Staff and the two errors discussed above affected Table 7, 8 and 9 in the Report. Enclosed is an attachment, marked as Attachment 1, containing replacement pages for pages 9, 10, and 11 (containing Table 7, Table 8, and Table 9 respectively) of the July - December 2009 DSM Semi-Annual Report.

If you have any questions or concerns please contact Erinn Andreasen at (602) 250-3276.

Sincerely,

Susan Casady

SC/sl
Attachments

Letter to Docket Control
September 1, 2010
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cc: Barbara Keene
Julie McNeely-Kirwan
Brian Bozzo

ATTACHMENT 1

ARIZONA PUBLIC SERVICE COMPANY

DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD:
JULY THROUGH DECEMBER 2009

TABLE 7
DSM Societal Benefits and Performance Incentive
July 2009 – December 2009

DSM Program	Program Cost	Societal Benefits	Societal Costs	Net Benefits
Residential				
Low Income ¹	\$821,756	\$749,367	\$749,367	\$0 ²
Res Existing Homes HVAC	\$3,170,772	\$6,947,055	\$4,422,529	\$2,524,526
Res New Home Construction	\$731,443	\$2,695,160	\$932,193	\$1,762,967
Consumer Products	\$1,822,052	\$13,190,122	\$3,073,840	\$10,116,282
Totals for Residential	\$6,546,023	\$23,581,704	\$9,177,929	\$14,403,775
Non-Residential				
Large Existing Facilities	\$3,534,866	\$18,253,465	\$6,058,487	\$12,194,978
Large Non Res New Const	\$962,103	\$8,551,928	\$1,508,009	\$7,043,919
Small Business	\$489,109	\$1,390,414	\$588,813	\$801,601
Energy Information Svcs	\$54,422	\$229,880	\$55,798	\$174,082
Schools	\$341,764	\$750,865	\$592,048	\$158,817
Total for Non-Residential	\$5,382,264	\$29,176,552	\$8,803,155	\$20,373,397
Subtotal	\$11,928,287	\$52,758,256	\$17,981,084	\$34,777,172
Measurement, Evaluation & Research	\$395,045		\$395,045	(\$395,045)
Performance Incentive	\$1,369,259		\$1,369,259	(\$1,369,259)
TOTAL	\$13,692,591	\$52,758,256	\$19,745,388	\$33,012,868
Performance Incentive Calculation:				
Spending Before PI / Total Net Benefits	\$12,323,332			\$34,382,127
10% of Spending / Net Benefits	\$1,369,259			\$3,438,213
Performance Incentive This Period³	\$1,369,259			

1. Program Costs include weatherization and bill assistance. Societal Costs do not include bill assistance because it does not contribute to electric savings.
2. Consistent with the ACC Staff's analysis in Decision No. 68647, the societal benefit is equal to the societal cost, resulting in a benefit to cost ratio of 1.00.
3. The Performance Incentive equals the minimum of either 10% share of net benefits, or 10% of total period program expenditures. The ACC approved the incentive calculation in Decision No. 69663. The maximum Performance Incentive allowed is 10% of the total spending level, including the Performance Incentive, as ordered in Decision No. 67744.

ARIZONA PUBLIC SERVICE COMPANY

**DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD:
JULY THROUGH DECEMBER 2009**

**TABLE 8
DSM Societal Benefits and Performance Incentive
Year-to-Date, January 2009 – December 2009**

DSM Program	Program Cost	Societal Benefits	Societal Costs	Net Benefits
Residential				
Low Income ¹	\$1,384,892	\$1,176,777	\$1,176,777	\$0 ²
Res Existing Homes HVAC	\$4,634,624	\$9,883,633	\$6,474,453	\$3,409,180
Res New Home Construction	\$1,359,660	\$5,261,100	\$1,751,537	\$3,509,563
Consumer Products	\$3,774,299	\$23,334,349	\$5,678,283	\$17,656,066
Totals for Residential	\$11,153,475	\$39,655,859	\$15,081,050	\$24,574,809
Non-Residential				
Large Existing Facilities	\$6,632,219	\$31,870,985	\$11,686,765	\$20,184,220
Large Non Res New Const	\$2,307,771	\$16,397,941	\$3,818,602	\$12,579,339
Small Business	\$691,887	\$1,723,030	\$841,218	\$881,812
Energy Information Svcs	\$87,901	\$558,280	\$123,764	\$434,516
Schools	\$786,824	\$2,544,107	\$1,463,431	\$1,080,676
Total for Non-Residential	\$10,506,602	\$53,094,343	\$17,933,780	\$35,160,563
Subtotal	\$21,660,077	\$92,750,202	\$33,014,830	\$59,735,372
Measurement, Evaluation & Research	\$1,345,860		\$1,345,860	(\$1,345,860)
Performance Incentive YTD ³	\$2,556,217		\$2,556,217	(\$2,556,217)
TOTAL	\$25,562,154	\$92,750,202	\$36,916,907	\$55,833,295

1. Program Costs include weatherization and bill assistance. Societal Costs do not include bill assistance because it does not contribute to electric savings.
2. Consistent with the ACC Staff's analysis in Decision No. 68647, the societal benefit is equal to the societal cost, resulting in a benefit to cost ratio of 1.00.
3. The ACC approved the incentive calculation in Decision No. 69663. The maximum Performance Incentive allowed is 10% of the total spending level, including the performance incentive, as ordered in Decision No. 67744. The year to date performance incentive amount is a summation of the Performance Incentive amount, as calculated during this Reporting Period and the previous Reporting Period of January – June 2009.

ARIZONA PUBLIC SERVICE COMPANY

**DSM SEMI-ANNUAL PROGRESS REPORT FOR THE PERIOD:
JULY THROUGH DECEMBER 2009**

**TABLE 9
DSM Societal Benefits and Performance Incentive
Program-to-Date, January 2005 – December 2009**

DSM Program	Program Cost	Societal Benefits	Societal Costs	Net Benefits
Residential				
Low Income ¹	\$5,799,317	\$4,922,215	\$4,922,215	\$0 ²
Res Existing Homes HVAC	\$11,126,397	\$24,613,423	\$17,625,715	\$6,987,708
Res New Home Construction	\$5,863,211	\$26,368,566	\$7,503,821	\$18,864,745
Consumer Products	\$14,411,336	\$137,354,032	\$31,674,340	\$105,679,692
Totals for Residential	\$37,200,261	\$193,258,236	\$61,726,091	\$131,532,145
Non-Residential				
Large Existing Facilities	\$19,777,594	\$84,195,768	\$34,779,172	\$49,416,596
Large Non Res New Const	\$8,225,625	\$59,487,617	\$18,393,595	\$41,094,022
Small Business	\$2,393,463	\$3,410,424	\$2,698,310	\$712,114
Bldg Operator Training	\$102,205	\$424,302	\$183,392	\$240,910
Energy Information Svcs	\$176,584	\$1,056,812	\$316,550	\$740,262
Schools	\$1,994,373	\$5,152,970	\$2,692,751	\$2,460,219
Total for Non-Residential	\$32,669,844	\$153,727,893	\$59,063,770	\$94,664,123
Subtotal	\$69,870,105	\$346,986,129	\$120,789,861	\$226,196,268
Measurement, Evaluation & Research	\$4,643,461		\$4,643,461	(\$4,643,461)
Performance Incentive PTD ³	\$8,296,861		\$8,296,861	(\$8,296,861)
TOTAL	\$82,810,427	\$346,986,129	\$133,730,183	\$213,255,946

- 1. Program Costs include weatherization and bill assistance. Societal Costs do not include bill assistance because it does not contribute to electric savings.*
- 2. Consistent with the ACC Staff's analysis in Decision No. 68647, the societal benefit is equal to the societal cost, resulting in a benefit to cost ratio of 1.00.*
- 3. The ACC approved the incentive calculation in Decision No. 69663. The maximum Performance Incentive allowed is 10% of the total spending level, including the performance incentive, as ordered in Decision No. 67744. The program to date performance incentive amount is a summation of the Performance Incentive amount as calculated during each previous Reporting Period beginning with the January – June 2005, Semi-Annual Report.*