



**Demand Side Management Adjustment Charge
Plan of Administration**

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1. General Description

This document describes the plan for administering the Demand Side Management Adjustment Charge (DSMAC) approved for Arizona Public Service Company (APS or Company) by the Arizona Corporation Commission (Commission) in Decision No. 67744, and later revised by the Commission in Decision Nos. 71448, 73183,74406, 76295, and 78317. The DSMAC provides for the recovery of Demand Side Management (DSM) program costs, including energy efficiency and demand response programs, and energy efficiency performance incentives. The DSMAC is applied to Standard Offer or Direct Access customer bills as a monthly kilowatt-hour charge (for Residential customers and General Service customers served in accordance with non-demand billed rate schedules), or kilowatt demand charge (for General Service customers served in accordance with demand billed rate schedules), unless the customer’s current rate has alternate provisions. The charges will be filed with the Commission annually when APS submits the Energy Efficiency Implementation Plan (EEIP) for approval. This will occur June 1st of each year. If approved by the Commission, the charge will be effective each year beginning with billing cycle 1 of the March revenue month and will not be prorated.

Recovery of all applicable program costs and incentives will be allowed for all programs that have been approved by the Commission.

2. Rate Schedule Applicability

The DSMAC shall be applied monthly to every retail Standard Offer or Direct Access service, unless exempted by Commission order.

3. Allowable Costs:

The types of allowable costs are as follows:

- A. Program Costs (PC) - Allowable expenses include, but are not limited to: Program development, implementation, promotion, administrative and general, training and technical assistance, marketing and communications, evaluation costs, monitoring and metering costs, advertising, educational expenditures, customer incentives, research and development, data collection (such as end-use), tracking systems, self-direction costs, measurement evaluation and research (MER), demonstration facilities and all other activities required to design and implement cost-effective DSM programs (energy efficiency and demand response) that are approved by the Commission in the EEIP. For those DSM programs that generate



revenue, the revenue, if any, will be credited back to the DSMAC. Unrecovered fixed costs will not be recoverable through the DSMAC.

- B. Performance Incentives (PI) - Represents a percentage of the net economic benefits (benefits minus costs) from approved energy efficiency programs based on a graduated scale that is capped at a percentage of EE PC.

Achievement Relative to Annual Goal Approved in APS's Energy Efficiency Implementation Plan	Performance Incentive as % of Energy Efficiency Net Benefits	Performance Incentive Cap*
< 85%	0%	Performance Incentive Will Not Exceed \$0.0125/kWh Saved
85% to 95%	6%	
96% to 105%	7%	
> 105%	8%	

*The PI cap applies to the annualized incremental first year energy savings generated.

4. Determination of True-Up:

The actual allowable cost recovered for approved DSM programs will be compared to the actual revenues received by the Company through the DSMAC. The True-Up (TU) will be based on the amount in the TU balancing account. This balance will include past period PC, PI and DSMAC revenue collection accruals as of April 30th of the filing year.

In the event that PC or PI are more or less than DSMAC revenues collected as of the last billing cycle of February, the over or under collection will be subtracted from or added to the DSMAC calculation in the subsequent period. Any over collection will accrue interest charges. Under collections will not accrue interest.

Illustrative Table of Events

Date	Included Items
7/15/2009 DSMAC includes:	File 2010 EEIP with 2010 DSMAC 2010 forecast of PC and PI 2009 forecast of PC and PI TU balancing account as of the last billing cycle of February
3/1/2010	DSMAC start from 2010 EEIP
6/1/2010 DSMAC includes:	File 2011 EEIP with 2011 DSMAC 2011 forecast of PC and PI TU balancing account as of the last billing cycle of February
3/1/2011	DSMAC start from 2011 EEIP
6/1/2011 DSMAC includes:	File 2012 EEIP with 2012 DSMAC 2012 forecast of PC and PI TU balancing account as of the last billing cycle of February



5. Determination of the Adjustor Charge

By June 1st of each year, APS will file a revised DSMAC with supporting documentation in the EEIP. The DSMAC will be calculated by projecting PC and PI for the upcoming year, adjusted by the over or under collection of previous periods.

The DSMAC for purposes of recovering PC and PI under the DSM Program will be developed based on the following formula:

$$\text{DSMAC} = \frac{\text{PC} + \text{PI} + \text{TU} + \text{I}}{\text{Sales}}$$

Where:

- PC = Program Costs as defined in section 3 forecast for the upcoming year.
- PI = Performance Incentives as defined in section 3 forecast for the upcoming year.
- TU = Any “true-up” balance as defined in section 4.
- I = Interest associated on any over recovery of DSMAC costs for the prior period. The interest rate is based on the one-year Nominal Treasury Maturities rate from the Federal Reserve H-15 or its successor publication. The interest rate shall be adjusted annually on the first business day of the calendar year.
- Sales = Forecast energy (kWh) sales under applicable electric rate schedules during the Adjustor Period in which this adjustor will be effective.
- Adjustor Period = The 12 month period beginning with the first billing cycle during March of the current year and ending with the last billing cycle of February of the next year.

The DSMAC for General Service customers that are billed on demand will be calculated as a per kW charge. The DSMAC for General Service customers that are not billed on demand will be calculated as a per kWh charge. 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 DSMAC.

For residential billing purposes, the DSMAC and the Renewable Energy Adjustment Charge (REAC) are combined and will appear on customer bills as the “Environmental Benefits Surcharge.” For general service and other non-residential customer billing, the Company may, but is not required to, provide for such combined billing of the REAC and DSMAC. In any event, each adjustor will be kept separate in the Company’s books, records, and reports to the Commission.



6. Review Process:

The proposed DSMAC for use during a specific Adjustor Period will be calculated as shown in Section 5. APS will file an updated adjustor charge each year with its EEIP on June 1st. If approved by the Commission, changes in the DSMAC will go into effect on the first billing cycle of March in the Adjustor Period.