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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

Arizona Corporation Commission  
**DOCKETED**

- JEFF HATCH-MILLER, Chairman
- WILLIAM A. MUNDELL
- MARC SPITZER
- MIKE GLEASON
- KRISTIN K. MAYES

JUN - 6 2005

DOCKETED BY *RN*

IN THE MATTER OF THE APPLICATION OF  
 ARIZONA PUBLIC SERVICE COMPANY FOR A  
 HEARING TO DETERMINE THE FAIR VALUE  
 OF THE UTILITY PROPERTY OF THE  
 COMPANY FOR RATEMAKING PURPOSES, TO  
 FIX A JUST AND REASONABLE RATE OF  
 RETURN THEREON, TO APPROVE RATE  
 SCHEDULES DESIGNED TO DEVELOP SUCH  
 RETURN, AND FOR APPROVAL OF  
 PURCHASED POWER CONTRACT.

Docket No. E-01345A-03-0437

**NOTICE OF FILING  
 PLAN FOR ADMINISTRATION  
 POWER SUPPLY ADJUSTMENT**

Commission Staff hereby gives this Notice of Filing the Plan for Administration for the Arizona Public Service Company ("APS") Power Supply Adjustment ("PSA"), as provided by Decision No. 67744.

This Notice is submitted by Staff on behalf of the Settling Parties. The Plan for Administration has been provided to all Settling parties for consideration and comment. There remain two issues that are unresolved in the Plan for Administration as filed. First, Staff and APS continue to engage in discussions regarding the operation of the \$100 million cap. Secondly, Staff and APS continue to engage in discussions regarding the treatment of brokerage and wheeling costs. Subject to those two exceptions, the Plan for Administration is acceptable to all the Parties.

RESPECTFULLY SUBMITTED this 6th day of June, 2005.

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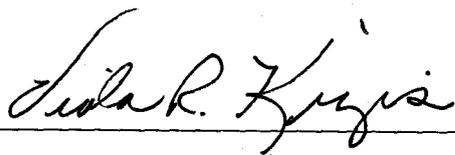
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**Power Supply Adjustment Plan for Administration**

Power Supply Adjustment Plan for Administration

General Description

The purpose of the Power Supply Adjustment ("PSA") is to track changes in Arizona Public Service Company's ("APS" or the "Company") cost of obtaining power supplies. This is done by making an annual adjustment to the cost of fuel and purchased power embedded in APS' base rates. The main components of the PSA are: 1) a risk sharing mechanism whereby APS and its customers share in the costs/savings on a 90% customer, 10% APS basis; 2) a bandwidth that limits the amount the PSA Adjustor Rate ("Adjustor Rate") can change over the entire term of the PSA to plus or minus \$0.004 per kWh; 3) a balancing account, 4) a balancing account surcharge mechanism, separate from the Adjustor Rate, to clear the balancing account under circumstances described below; and 5) the inclusion of off-system sales.

The monthly PSA calculations shall be adjusted for the calculated net savings from the methodology approved in Decision No. 67504 (pg. 50) from the PPL Sundance docket. APS will calculate the new fuel cost savings, purchased power savings and incremental off-system margin impacts by comparing two sets of projections for its own load fuel and purchased power costs and off-system sales margins and using the difference as the net savings amounts associated with the Sundance generation units. One set of projections would assume APS ownership of the Sundance plant and the other set would assume APS did not own the Sundance plant. The PSA will be adjusted to calculate the PSA balance as if the Sundance plant was not acquired by APS.

The results of the PSA are applied to customer's bills through the Adjustor Rate. The Adjustor Rate is applicable to APS' retail electric rate schedules (with the exception of Solar-1, Solar-2, SP-1, E-3, E-4, E-36 and Direct Access service) and is adjusted annually. It is applied to the customer's bill as a monthly kilowatt-hour ("kWh") charge that is the same for all customer classes. The Adjustor Rate must remain within a bandwidth that limits the amount it can increase or decrease. Balancing account amortization surcharges are not included in the calculation of the bandwidth limits.

The Adjustor Rate, initially set at zero, will be reset on April 1, 2006 and thereafter on April 1<sup>st</sup> of each subsequent year. The new Adjustor Rate will be effective with the first billing cycle in April unless suspended by the Arizona Corporation Commission ("Commission"). It will not be prorated. APS will submit a publicly available report to the Commission that shows the calculation of the new Adjustor Rate on March 1, 2006 and thereafter on March 1<sup>st</sup> of each subsequent year.

Calculations

The Adjustor Rate shall be calculated as follows:

Part 1. Monthly Energy Sales and Costs

1. Enter the monthly PSA Retail Energy Sales (kWh) and monthly Native Load Wholesale Energy Sales. Add these two items together to produce the monthly Native Load Energy Sales. PSA Retail Energy Sales include the calendar month's retail sales. Currently, Native Load Wholesale Energy Sales include traditional sales-for-resale and Pacificorp supplemental sales. The traditional sales-for-resale amount is the portion of load from wholesale electrical and irrigation district resale customers served by APS, but excluding the load served with preference power.
2. Enter the monthly System Book Fuel and Purchased Power Costs and the monthly System Book Off-System Sales Revenue. Then subtract the System Book Off-System Sales Revenue from the System Book Fuel and Purchased Power Costs to produce the monthly Net Native Load Power Supply Cost. The net savings associated with the Sundance Plant are included in the System Book Fuel and Purchased Power Costs. The monthly System Book Off-System Sales Revenue includes only the off-system sales using APS owned or contracted generation and purchased power related to optimizing the APS system. The off-system sales margin is embedded in the Net Native Load Power Supply Cost. The costs associated with the off-system sales are included the System Book Fuel and Purchased Power Costs. So when the System Book Off-System Sales Revenue is subtracted from the System Book Fuel and Purchased Power Costs the difference between the off-system sales costs and revenue ends up in the Net Native Load Power Supply Cost. That difference is the off-system sales margin. A list of the items included in the PSA sales and costs described above will be included in the PSA reporting schedules filed with the Commission each month.
3. Next, calculate the PSA Retail Power Supply Cost. Divide the PSA Retail Energy Sales by the Native Load Energy Sales and then multiply the product by the Net Native Load Power Supply Cost. The annual amount of PSA Retail Power Supply Cost that can be used to calculate the annual Adjustor Rate cannot exceed \$776,200,000. Any fuel or purchased power costs above that amount will not be recovered from the ratepayers through the PSA.
4. Directly-assigned power supply costs and related energy sales from applicable Special Contract customers, Schedule E-36 customers and customers returning to Standard Offer service from competitive generation subject to RCDAC treatment will be deducted prior to the above calculations.

## Part 2. Calculation of the (Over)/Under Collection

1. The amount recovered by the power supply cost embedded in base rates has to be calculated in order to determine the monthly (over)/under collection. To calculate the monthly Base Rate Power Supply cost, multiply the PSA Retail

Energy sales by the base cost of fuel and purchased power of \$0.020743 per kWh.

2. The next step is to subtract the monthly Base Rate Power Supply Cost from the PSA Retail Power Supply Cost to get the monthly Pre-Sharing (Over)/Under Collection amount.

### Part 3. Sharing Incentive

1. The Post-Sharing (Over)/Under Collection amount is calculated by multiplying the Pre-Sharing (Over)/Under Collection by 90%. This calculation is done to implement the 90%/10% sharing incentive. As described above APS and its customers share the costs/savings on a 90% customer and 10% APS basis. The monthly Post-Sharing (Over)/Under Collection amounts are summed for the year and used in the Adjustor Rate calculation.

### Part 4. Adjustor Rate Calculation

1. Sum the calendar year's monthly Post-Sharing (Over)/Under Collection amounts.
2. Sum the calendar year's Balancing Account Monthly Interest to produce the Annual Balancing Account Interest. This amount is recovered through the PSA and used in the Adjustor Rate calculation. The calculation of the Monthly Interest is described in more detail below in the Balancing Account section.
3. Bring forward the Bandwidth Carry Forward from Prior Period, if any. If the Adjustor Rate Bandwidth (described below) allows for just a partial recovery of the Total (Credit)/Charge amount then the portion that is not eligible for crediting/collection in the current year is carried forward to next year as the Bandwidth Carry Forward from Prior Period. The carryover amount is not subject to further sharing.
4. Add the Post-Sharing (Over)/Under Collection amount, Annual Balancing Account Interest and the Bandwidth Carry Forward from Prior Period together to determine the Total (Credit)/Charge Amount.
5. The Computed Adjustor Rate is calculated by dividing the Total Credit/Charge Amount by the Actual Energy Sales (kWh) from the prior calendar year. The calculation of the April 1, 2006 Adjustor Rate will only include data from April through December 2005. The Computed Adjustor Rate is then compared to the plus or minus \$0.004 per kWh bandwidth. The Actual Energy Sales amount will exclude E-3, E-4 and E-36 sales.

6. The Adjustor Rate Bandwidth Upper Limit is \$0.004 per kWh. The Adjustor Rate Bandwidth Lower Limit is \$(0.004) per kWh.
7. If the Computed Adjustor Rate is inside the bandwidth, the Computed Adjustor Rate becomes the Applicable Adjustor Rate. It is then applied to the customer's monthly bills for the next 12 months.
8. If the Computed Adjustor Rate is outside the bandwidth, the Applicable Adjustor Rate can be no higher than the upper limit of the bandwidth and no lower than the lower limit of the bandwidth.
9. If the Computed Adjustor Rate is outside the bandwidth then the Bandwidth Carry Forward from Prior Period amount must be calculated. This is done by multiplying the Applicable Adjustor Rate by the Actual Energy Sales (kWh) for the next 12 months and subtracting the total from the Total (Credit)/Charge Amount used to calculate the Applicable Adjustor Rate.

Examples of these calculations are attached as Schedules 1 through 3.

#### Balancing Account and Amortization Surcharge

APS shall establish a PSA Balancing Account. Entries to the Balancing Account shall be made each month as follows:

1. A debit or credit entry equal to the difference between the Post-Sharing (Over)/Under Collection and the sum of the amounts recovered by the Applicable Adjustor Rate. The Post-Sharing (Over)/Under Collection is calculated by taking amount recovered through the Base Rate Power Supply Cost of \$0.020743 and subtracting it from the PSA Retail Power Supply Cost. The product of that subtraction is then multiplied by 90% to reduce the recoverable costs in accordance with the 90%/10% sharing incentive.
2. A debit or credit entry equal to the kilowatthours billed for the month under the rate schedules subject to the Adjustor Rate multiplied by the effective Amortization Surcharge (as described below). If an Amortization Surcharge is not in effect, then no entry will be made.
3. A monthly debit or credit entry for interest to be applied to the account balance based on effective one-year Nominal Treasury Constant Maturities rate that is contained in the Federal Reserve Statistical Release, H-15, or its successor publication. This is called the Monthly Interest and is used above in the Adjustor Rate calculations. The interest rate will be adjusted annually on the first business day of the calendar year in the same manner as the APS customer deposit rate.

4. A debit or credit entry for refunds or payments authorized by the Commission.

An example of the Balancing Account calculation is included as Schedule 4.

If the size of the Balancing Account reaches plus or minus \$50 million, the Company has forty-five days to either file a request for Commission approval of an Amortization Surcharge or an explanation of why such a surcharge isn't necessary. Should the Company seek to recover or refund an amount from the Balancing Account, the timing and manner of recovery, or refund, will be addressed at that time. In no event shall the Company allow the Balancing Account to reach \$100 million prior to seeking recovery or refund.<sup>1</sup> Following a proceeding authorizing recovery or refund of a bank balance between \$50 million and \$100 million, the balance considered in the proceeding shall be reset to zero unless otherwise ordered by the Commission.

#### Compliance Reports

Beginning June 6, 2005, the Company shall provide monthly reports to Staff's Compliance Section and to the Residential Utility Consumer Office detailing all calculations related to the PSA. An APS Officer shall certify under oath that all information provided in the reports itemized below is true and accurate to the best of his or her information and belief. These monthly reports shall thereafter be due on the first day of the third month following the end of the reporting month.

The publicly available reports will include at a minimum:

1. The Balancing Account calculations, including all input and outputs.
2. Total power and fuel costs.
3. Customer sales in both kWh and dollars by customer class.
4. The number of customers by customer class.
5. A detailed listing of all items excluded from the PSA calculations.
6. A detailed listing of any adjustments to the adjustor reports.
7. Total off-system sales revenues.
8. System losses in MW and MWH.
9. Monthly maximum retail demand in MW.
10. Identification of a contact person and phone number from the Company for questions.

Beginning June 6, 2005, the Company shall provide to Commission Staff monthly reports containing the information listed below. These reports shall thereafter be due on the first day of the third month following the end of the reporting month. All of these additional reports will be filed confidentially.

The information for each generating unit shall include the following items:

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<sup>1</sup> The Commission Staff believes that the operation of the \$100 Million "cap" on the Balancing Account requires further review and discussion prior to final approval of this Plan for Administration.

1. The net generation, in MWH per month, and twelve months cumulatively.
2. The average heat rate, both monthly and twelve-month average.
3. The equivalent forced-outage rate, both monthly and twelve-month average.
4. The outage information for each month including, but not limited to, event type, start date and time, end date and time, and a description.
5. Total fuel costs per month.
6. The fuel cost per kWh per month.

The information on power purchases shall include the following items per seller:

1. The quantity purchased in MWH.
2. The demand purchased in MW to the extent specified in the contract.
3. The total cost for demand to the extent specified in the contract.
4. The total cost of energy.

Information on economy interchange purchases may be aggregated. These reports shall also include an itemization of off-system sales margins per buyer. Further detail on off-system sales margin will be provided to the Commission Staff on a confidential basis for review.

Fuel purchase information shall include:

1. Natural gas interstate pipeline costs, itemized by pipeline and by individual cost components, such as reservation charge, usage, surcharges and fuel.
2. Natural gas commodity costs, categorized by short term purchases (one month or less) and longer term purchases, including price per therm, total cost, supply basin, and volume by contract.

By June 6, 2005, the Company shall provide the information itemized above relating to the base cost of fuel and purchased power adopted for the test year settlement revenue requirement.

Workpapers and other documents that contain proprietary or confidential information will be filed with the Commission Staff under an appropriate confidentiality agreement. APS will keep fuel and purchased power invoices and contracts available for Commission review. All of the information is available during the year, upon Commission request. The Commission has the right to review the prudence of fuel and power purchases and any calculations associated with the PSA at any time. Any costs flowed through the PSA are subject to refund, if those costs are found to be imprudently incurred.

#### Allowable Costs

The allowable Adjustor Rate costs include fuel and purchased power costs incurred to provide service to retail customers. Additionally, the prudent direct costs of contracts used for hedging system fuel and purchased power will be recovered under the PSA. The Base Rate Power Supply Cost will be the allowable Adjustor Rate costs from the test year

used to determine retail electric rates. The allowable cost components presently include the following Federal Energy Regulatory Commission ("FERC") accounts<sup>2</sup>:

1. 501 Fuel (Steam)
2. 518 Fuel (Nuclear) less ISFSI regulatory amortization
3. 547 Fuel (Other Production)
4. 555 Purchased Power less non-fuel Bridge PPA costs
- 5.
- 6.

These accounts are subject to change if the Federal Energy Regulatory Commission alters its accounting requirements or definitions.

#### Directly Assignable Power Supply Costs Excluded

Decision No. 66567 provides APS the ability to recover reasonable and prudent costs associated with customers who have left APS Standard Offer service, including Special Contract rates, for a competitive generation supplier and then return to Standard Offer service. For administrative purposes, customers who were Direct Access customers since origination of service and request Standard Offer service would be considered to be returning customers. In such cases, a direct assignment or special adjustment may be applied that recognizes the cost differential between the power purchases needed to accommodate the Returning Customer and the power supply cost component of the otherwise applicable Standard Offer service rate. This process is described in the Returning Customer Direct Access Charge rate schedule and Plan for Administration filed with the Commission.

In addition, if APS purchases power under specific terms on behalf of a Standard Offer Special Contract customer, the costs of that power may be directly assigned. In both cases, where specific power supply costs are identified and directly assigned to a large Returning Customer or Standard Offer Special Contract customer or group of customers, these costs will be excluded from the Adjustor Rate calculations. Schedule E-36 customers are directly assigned power supply costs based on the APS system incremental cost at the time the customer is consuming power from the APS system so their power supply costs are excluded from the PSA.

#### Definitions

Pacificorp Supplemental sales – The Pacificorp Supplemental sales agreement is a long term contract from 1990 which requires APS to offer a certain amount of energy to Pacificorp each year. It is a component of the set of agreements that led to the sale of Cholla Unit 4 to Pacificorp and the establishment of the seasonal diversity exchange with Pacificorp.

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<sup>2</sup> The Commission Staff believes that the inclusion of FERC Account 557 (Broker Fees) and 565 (Wheeling) costs as allowable PSA cost components requires further review and discussion prior to the final approval of this Plan for Administration.

Bridge PPA – An agreement that ensures the non-fuel power supply costs from the PWEC generation units allowed in rate base by Decision No. 67744 will be the same as those costs embedded in base rates.

ISFSI – Regulatory amortization costs associated with the Independent Spent Fuel Storage Installation that will store spent nuclear fuel.

Mark to Market Accounting – Recording the value of qualifying commodity contracts to reflect their current market value relative to their original cost.

Native Load – Native load includes APS control area load and Pacificorp supplemental sales. Native load excludes Preference Power, Unisource Electric load, Tohono O’odham Utility Authority load, City of Williams (excluding APS retail customers) load and Direct Access load.

Preference Power – Power allocated to APS wholesale customers by federal power agencies such as the Western Area Power Administration.

ARIZONA PUBLIC SERVICE COMPANY  
Schedule 1  
Example PSA Calculation Methodology  
Monthly Energy Sales and Costs

Line No.	Month	(a)		(b)		(c)		(d)		(e)		(f)		(g)		(h)		(i)		(j)	
		PSA Retail <sup>1</sup> Energy Sales (kWh)	Wholesale Energy Sales (kWh)	Native Load <sup>2</sup> Wholesale Energy Sales (kWh)	Native Load Energy Sales (kWh)	System <sup>3</sup> Purchased Power Costs	System Book <sup>4</sup> Off-System Sales Revenue	Native Load Power Supply Cost	PSA Retail <sup>5</sup> Power Supply Cost	Base Rate Power Supply Cost	Pre-Sharing (Over)/Under Collection	Post-Sharing (Over)/Under Collection									
1	January	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	February	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	March	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	April	1,944,192,000	105,803,000	2,049,995,000	3,924,000	50,508,900	46,584,900	44,180,591	40,328,375	3,852,216	3,466,994										
5	May	2,279,426,000	102,849,000	2,382,275,000	4,021,200	56,566,800	52,545,600	50,277,070	47,282,134	2,994,936	2,695,442										
6	June	2,585,070,000	113,325,000	2,698,395,000	5,178,600	73,206,000	68,027,400	65,170,441	53,622,107	11,548,334	10,393,501										
7	July	2,909,896,000	110,933,000	3,020,829,000	6,676,200	93,020,400	86,344,200	83,173,408	60,359,973	22,813,435	20,532,092										
8	August	3,115,407,000	96,318,000	3,211,725,000	6,095,700	96,375,600	90,279,900	87,572,452	64,622,887	22,949,565	20,654,609										
9	September	2,560,314,000	85,311,000	2,645,625,000	4,779,000	71,951,400	67,172,400	65,006,354	53,108,593	11,897,761	10,707,985										
10	October	2,014,216,000	93,883,000	2,108,099,000	5,705,100	50,512,500	44,807,400	42,811,928	41,780,882	1,031,046	927,941										
11	November	1,921,888,000	96,941,000	2,018,829,000	6,106,500	42,744,600	36,638,100	34,878,796	39,865,723	(4,986,927)	(4,488,234)										
12	December	2,062,795,000	89,746,000	2,152,541,000	7,229,700	49,290,300	42,060,600	40,306,965	42,788,557	(2,481,592)	(2,233,433)										
13	Total	21,393,204,000	895,109,000	22,288,313,000	49,716,000	584,176,500	534,460,500	513,378,005	443,759,231	69,618,774	62,656,897										

Move forward to Schedule 3, Line 1 \$ 62,656,897

<sup>1</sup> PSA Retail Energy Sales are the calendar month's kWh sales. Retail Energy Sales of 58,000 MWhs on rate schedules E-36 and RCDAC-1 were excluded from the PSA Calculations this year.

<sup>2</sup> Includes traditional sales-for-resale and PacifiCorp supplemental sales.

<sup>3</sup> Includes native load and off-system fuel and purchased power costs less those costs associated with E-36, the non-fuel Bridge PPA, ISFSI and mark-to-market accounting adjustments. Sundance net savings are included.

<sup>4</sup> Includes off-system revenue less mark-to-market accounting adjustments.

<sup>5</sup> The maximum annual amount that can be used for the PSA calculation is \$776,200,000.

Definitions of commonly used terms for this filing are included in the PSA Plan for Administration. Any new terms will be defined on this page.

**ARIZONA PUBLIC SERVICE COMPANY**  
**Schedule 2**  
**Example PSA Calculation Methodology**  
**Annual Balancing Account Interest**

Line No.	Month	Balancing Account Monthly Interest
		(Schedule 4, Line 2)
1	January	\$ -
2	February	\$ -
3	March	\$ -
4	April	\$ -
5	May	\$ 9,621
6	June	\$ 17,127
7	July	\$ 46,017
8	August	\$ 103,121
9	September	\$ 160,724
10	October	\$ 190,885
11	November	\$ 193,989
12	December	\$ 182,073
13	Total	\$ 903,557

Move Forward to Schedule 3, Line 2 

\$ 903,557
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ARIZONA PUBLIC SERVICE COMPANY  
Schedule 3  
Example PSA Calculation Methodology  
PSA Adjustor Rate Calculation

Line No.			
	<b>PSA Adjustor Rate Calculation</b>		
1	Post-Sharing (Over)/Under Collection Amount (From Sch. 1)	\$	62,656,897
2	Annual Balancing Account Interest (From Sch. 2)	\$	903,557
3	Bandwidth Carry Forward from Prior Period	\$	-
4	Total (Credit)/Charge Amount (Line 1 + Line 2 + Line 3)		<u>\$ 63,560,454</u>
5	Total (Credit)/Charge Amount	\$	63,560,454
6	Actual Energy Sales without E-3, E-4 and E-36 (kWh)		<u>21,132,204,000</u>
7	Computed Adjustor Rate per kWh (Line 5 / Line 6)	\$	<u>0.003008</u>
	<b>Adjustor Rate Bandwidth</b>		
8	Adjustor Rate Bandwidth Upper Limit	\$	<u>0.004000</u>
9	Adjustor Rate Bandwidth Lower Limit	\$	<u>(0.004000)</u>
10	Applicable Adjustor Rate per kWh		<u><u>\$ 0.003008</u></u>
11	Total (Credit)/Charge Carried Forward Due to Adjustor Rate Bandwidth	\$	<u><u>-</u></u>

