



BEFORE THE ARIZONA CORPORATION COMMISSION

32

JEFF HATCH-MILLER
CHAIRMAN

2005 OCT 17 P 3:41

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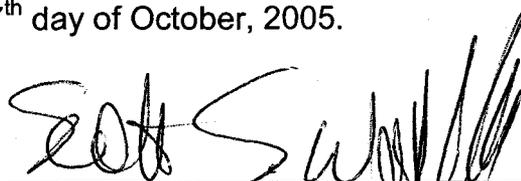
IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE
COMPANY FOR A HEARING TO
DETERMINE THE FAIR VALUE OF THE
UTILITY PROPERTY OF THE COMPANY
FOR RATEMAKING PURPOSES, TO FIX
A JUST AND REASONABLE RATE OF
RETURN THEREON, TO APPROVE RATE
SCHEDULES DESIGNED TO DEVELOP
SUCH RETURN, AND FOR APPROVAL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

Docket No. E-01345A-03-0437

NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing
the Supplemental Testimony of Marylee Diaz Cortez in the above-referenced matter.

RESPECTFULLY SUBMITTED this 17th day of October, 2005.



Scott S. Wakefield
Chief Counsel

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2 of the foregoing filed this 17th day
3 of October, 2005 with:

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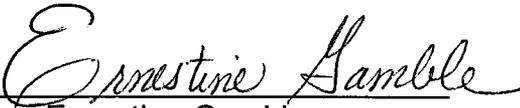
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By 
Ernestine Gamble
Secretary to Scott Wakefield

ARIZONA PUBLIC SERVICE COMPANY

DOCKET NO. E-01345A-03-0437

SUPPLEMENTAL TESTIMONY

OF

MARYLEE DIAZ CORTEZ, CPA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

October 17, 2005

1 Q. Please state your name, occupation, and business address.

2 A. My name is Marylee Diaz Cortez. I am a Certified Public Accountant and
3 the Chief of Accounting and Rates for the Residential Utility Consumer
4 Office located at 1110 W. Washington, Phoenix, Arizona 85007.

5
6 Q. What is the purpose of your testimony?

7 A. The purpose of my testimony is to address the Plan of Administration the
8 parties to the Settlement Agreement have developed for APS's Power
9 Supply Adjustor (PSA) mechanism.

10
11 Q. Why was the Plan of Administration developed?

12 A. Decision No. 67744 required that the parties to the Settlement Agreement
13 file a document that would reflect the operative terms of the PSA. This
14 document was filed with the Commission on June 6, 2005.

15
16 Q. Have the parties subsequently revised the Plan of Administration?

17 A. Yes. Pursuant to questions and concerns from the Commissioners the
18 parties revised the Plan of Administration to clarify the terms and
19 mechanical operation of the PSA as agreed to in the Settlement
20 Agreement and modified by the Commission.

21

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23

1 Q. Does RUCO believe that the revised Plan of Administration clearly defines
2 the operational terms of the PSA?

3 A. Yes. The revisions to the Plan of Administration were all made with the
4 intent of clarifying the specific operational terms of the PSA. These
5 revisions include a glossary of PSA terminology, expanded operational
6 explanations, as well as detailed spreadsheets showing the actual
7 mathematical calculations of all aspects of the PSA including but not
8 limited to: the balancing account, the April 1 PSA Adjustor, Surcharge
9 calculation and amortization, and interest accruals.

10

11 Q. Does RUCO support the revised Plan of Administration?

12 A. Yes. RUCO actively participated in the revisions to the Plan of
13 Administration and believes that it accurately reflects the operational
14 characteristics of the PSA as agreed to, and as amended by the
15 Commission.

16

17 Q. Does this conclude your testimony?

18 A. Yes.

19

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APPENDIX I

Qualifications of Marylee Diaz Cortez

- EDUCATION:** University of Michigan, Dearborn
B.S.A., Accounting 1989
- CERTIFICATION:** Certified Public Accountant - Michigan
Certified Public Accountant - Arizona
- EXPERIENCE:** Audit Manager
Residential Utility Consumer Office
Phoenix, Arizona 85007
July 1994 - Present

Responsibilities include the audit, review and analysis of public utility companies. Prepare written testimony, schedules, financial statements and spreadsheet models and analyses. Testify and stand cross-examination before Arizona Corporation Commission. Advise and work with outside consultants. Work with attorneys to achieve a coordination between technical issues and policy and legal concerns. Supervise, teach, provide guidance and review the work of subordinate accounting staff.

Senior Rate Analyst
Residential Utility Consumer Office
Phoenix, Arizona 85004
October 1992 - June 1994

Responsibilities included the audit, review and analysis of public utility companies. Prepare written testimony and exhibits. Testify and stand cross-examination before Arizona Corporation Commission. Extensive use of Lotus 123, spreadsheet modeling and financial statement analysis.

Auditor/Regulatory Analyst
Larkin & Associates - Certified Public Accountants
Livonia, Michigan
August 1989 - October 1992

Performed on-site audits and regulatory reviews of public utility companies including gas, electric, telephone, water and sewer throughout the continental United States. Prepared integrated proforma financial statements and rate models for some of the largest public utilities in the United States. Rate models consisted

of anywhere from twenty to one hundred fully integrated schedules. Analyzed financial statements, accounting detail, and identified and developed rate case issues based on this analysis. Prepared written testimony, reports, and briefs. Worked closely with outside legal counsel to achieve coordination of technical accounting issues with policy, procedural and legal concerns. Provided technical assistance to legal counsel at hearings and depositions. Served in a teaching and supervisory capacity to junior members of the firm.

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

<u>Utility Company</u>	<u>Docket No.</u>	<u>Client</u>
Potomac Electric Power Co.	Formal Case No. 889	Peoples Counsel of District of Columbia
Puget Sound Power & Light Co.	Cause No. U-89-2688-T	U.S. Department of Defense - Navy
Northwestern Bell-Minnesota	P-421/EI-89-860	Minnesota Department of Public Service
Florida Power & Light Co.	890319-EI	Florida Office of Public Counsel
Gulf Power Company	890324-EI	Florida Office of Public Counsel
Consumers Power Company	Case No. U-9372	Michigan Coalition Against Unfair Utility Practices
Equitable Gas Company	R-911966	Pennsylvania Public Utilities Commission
Gulf Power Company	891345-EI	Florida Office of Public Counsel

Jersey Central Power & Light	ER881109RJ	New Jersey Department of Public Advocate Division of Rate Counsel
Green Mountain Power Corp.	5428	Vermont Department of Public Service
Systems Energy Resources	ER89-678-000 & EL90-16-000	Mississippi Public Service Commission
El Paso Electric Company	9165	City of El Paso
Long Island Lighting Co.	90-E-1185	New York Consumer Protection Board
Pennsylvania Gas & Water Co.	R-911966	Pennsylvania Office of Consumer Advocate
Southern States Utilities	900329-WS	Florida Office of Public Counsel
Central Vermont Public Service Co.	5491	Vermont Department of Public Service
Detroit Edison Company	Case No. U-9499	City of Novi
Systems Energy Resources	FA-89-28-000	Mississippi Public Service Commission
Green Mountain Power Corp.	5532	Vermont Department of Public Service
United Cities Gas Company	176-717-U	Kansas Corporation Commission

General Development Utilities	911030-WS & 911067-WS	Florida Office of Public Counsel
Hawaiian Electric Company	6998	U.S. Department of Defense - Navy
Indiana Gas Company	Cause No. 39353	Indiana Office of Consumer Counselor
Pennsylvania American Water Co.	R-00922428	Pennsylvania Office of Consumer Advocate
Wheeling Power Co.	Case No. 90-243-E-42T	West Virginia Public Service Commission Consumer Advocate Division
Jersey Central Power & Light Co.	EM89110888	New Jersey Department of Public Advocate Division of Rate Counsel
Golden Shores Water Co.	U-1815-92-200	Residential Utility Consumer Office
Consolidated Water Utilities	E-1009-92-135	Residential Utility Consumer Office
Sulphur Springs Valley Electric Cooperative	U-1575-92-220	Residential Utility Consumer Office
North Mohave Valley Corporation	U-2259-92-318	Residential Utility Consumer Office
Graham County Electric Cooperative	U-1749-92-298	Residential Utility Consumer Office

Graham County Utilities	U-2527-92-303	Residential Utility Consumer Office
Consolidated Water Utilities	E-1009-93-110	Residential Utility Consumer Office
Litchfield Park Service Co.	U-1427-93-156 & U-1428-93-156	Residential Utility Consumer Office
Pima Utility Company	U-2199-93-221 & U-2199-93-222	Residential Utility Consumer Office
Arizona Public Service Co.	U-1345-94-306	Residential Utility Consumer Office
Paradise Valley Water	U-1303-94-182	Residential Utility Consumer Office
Paradise Valley Water	U-1303-94-310 & U-1303-94-401	Residential Utility Consumer Office
Pima Utility Company	U-2199-94-439	Residential Utility Consumer Office
SaddleBrooke Development Co.	U-2492-94-448	Residential Utility Consumer Office
Boulders Carefree Sewer Corp.	U-2361-95-007	Residential Utility Consumer Office
Rio Rico Utilities	U-2676-95-262	Residential Utility Consumer Office
Rancho Vistoso Water	U-2342-95-334	Residential Utility Consumer Office
Arizona Public Service Co.	U-1345-95-491	Residential Utility Consumer Office
Citizens Utilities Co.	E-1032-95-473	Residential Utility Consumer Office
Citizens Utilities Co.	E-1032-95-417 et al.	Residential Utility Consumer Office

Paradise Valley Water	U-1303-96-283 & U-1303-95-493	Residential Utility Consumer Office
Far West Water	U-2073-96-531	Residential Utility Consumer Office
Southwest Gas Corporation	U-1551-96-596	Residential Utility Consumer Office
Arizona Telephone Company	T-2063A-97-329	Residential Utility Consumer Office
Far West Water Rehearing	W-0273A-96-0531	Residential Utility Consumer Office
SaddleBrooke Utility Company	W-02849A-97-0383	Residential Utility Consumer Office
Vail Water Company	W-01651A-97-0539 & W-01651B-97-0676	Residential Utility Consumer Office
Black Mountain Gas Company Northern States Power Company	G-01970A-98-0017 G-03493A-98-0017	Residential Utility Consumer Office
Paradise Valley Water Company Mummy Mountain Water Company	W-01303A-98-0678 W-01342A-98-0678	Residential Utility Consumer Office
Bermuda Water Company	W-01812A-98-0390	Residential Utility Consumer Office
Bella Vista Water Company Nicksville Water Company	W-02465A-98-0458 W-01602A-98-0458	Residential Utility Consumer Office
Paradise Valley Water Company	W-01303A-98-0507	Residential Utility Consumer Office
Pima Utility Company	SW-02199A-98-0578	Residential Utility Consumer Office
Far West Water & Sewer Company	WS-03478A-99-0144 Interim Rates	Residential Utility Consumer Office
Vail Water Company	W-01651B-99-0355 Interim Rates	Residential Utility Consumer Office

Far West Water & Sewer Company	WS-03478A-99-0144	Residential Utility Consumer Office
Sun City Water and Sun City West	W-01656A-98-0577 & SW-02334A-98-0577	Residential Utility Consumer Office
Southwest Gas Corporation ONEOK, Inc.	G-01551A-99-0112 G-03713A-99-0112	Residential Utility Consumer Office
Table Top Telephone	T-02724A-99-0595	Residential Utility Consumer Office
U S West Communications Citizens Utilities Company	T-01051B-99-0737 T-01954B-99-0737	Residential Utility Consumer Office
Citizens Utilities Company	E-01032C-98-0474	Residential Utility Consumer Office
Southwest Gas Corporation	G-01551A-00-0309 & G-01551A-00-0127	Residential Utility Consumer Office
Southwestern Telephone Company	T-01072B-00-0379	Residential Utility Consumer Office
Arizona Water Company	W-01445A-00-0962	Residential Utility Consumer Office
Litchfield Park Service Company	W-01427A-01-0487 & SW-01428A-01-0487	Residential Utility Consumer Office
Bella Vista Water Co., Inc.	W-02465A-01-0776	Residential Utility Consumer Office
Generic Proceedings Concerning Electric Restructuring Issues	E-00000A-02-0051	Residential Utility Consumer Office
Arizona Public Service Company	E-01345A-02-0707	Residential Utility Consumer Office
Qwest Corporation	RT-00000F-02-0271	Residential Utility Consumer Office

Arizona Public Service Company	E-01345A-02-0403	Residential Utility Consumer Office
Citizens/UniSource	G-01032A-02-0598 E-01032C-00-0751 E-01933A-02-0914 E-01302C-02-0914 G-01302C-02-0914	Residential Utility Consumer Office
Arizona-American Water Company	WS-01303A-02-0867	Residential Utility Consumer Office
Arizona Public Service Company	E-01345A-03-0437	Residential Utility Consumer Office
UniSource	E-04230A-03-0933	Residential Utility Consumer Office
Arizona Public Service Company	E-01345A-04-0407	Residential Utility Consumer Office
Qwest Corporation	T-01051B-03-0454 & T-00000D-00-0672	Residential Utility Consumer Office
Southwest Gas Corporation	G-01551A-04-0876	Residential Utility Consumer Office
Arizona-American Water Company	W-1303A-05-0280	Residential Utility Consumer Office

Power Supply Adjustment Plan ~~offer~~ 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 PSA will apply to all fuel and purchased power costs incurred on or after April 1, 2005. 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. This adjustment will no longer be made once rates are effective that recover the capital and operating costs of the Sundance plant.

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 is initially set at zero as of April 1, 2005. The Adjustor Rate must remain within a plus or minus \$0.004 per kWh bandwidth that limits the amount it can increase or decrease in a year. Decision No. 67744 also limits the Adjustor Rate to \$0.004 from the base level (\$0.000) over the entire term of the PSA. Two examples of applying the two bandwidths are as follows:

1. Assume that the Adjustor Rate was set at negative \$0.002 per kWh. The following year, the calculation of the new Adjustor Rate would indicate a new rate of positive \$0.003 per kWh. However, since that rate would constitute a change of \$0.005 from the prior year's Adjustor Rate, the new Adjustor Rate would be set

at \$0.002 per kWh. That new rate would meet the limit of \$0.004 from the base level.

2. Assume that the Adjustor Rate was set at \$0.003 per kWh. The following year, the calculation of the new Adjustor Rate would indicate a new rate of \$0.005 per kWh. Although the annual change is less than \$0.004, the new rate would constitute a change from the base level that is greater than \$0.004. Therefore, the new Adjustor Rate would be set at \$0.004 per kWh.

Any recoverable or refundable amounts outside of the bandwidths shall be recorded in a balancing account and shall carry over to the subsequent year or years. The carryover amount shall not be subject to further sharing. Balancing account amortization surcharges are not included in the calculation of the bandwidth limits.

The Adjustor Rate, which was initially set at zero, will be reset on April 1, 2006, and thereafter on April 1st of each subsequent year. Balancing account entries are made each month starting with April 2005. These entries will effectively reflect the difference between 90 percent of incurred fuel and purchased power costs, less the balance of any approved Amortization Surcharge, and the sum of costs collected through the base cost of fuel and purchased power rate of \$0.020743 plus the applicable Adjustor Rate. An Amortization Surcharge may go into effect prior to the April 1st adjustment to the Adjustor Rate if it is approved by the Arizona Corporation Commission ("Commission"). The Amortization Surcharge is described in greater detail below. 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 1st of each subsequent year.

Definitions

Adjustor Rate (or PSA Adjustor Rate, PSA Adjustor, PSA Adjustment, Annual Adjustment Factor) – Cents per kWh charge that was initially set at zero and is updated annually on April 1st. The purpose of this charge is to adjust the cost of fuel and purchased power embedded in APS' base rates to reflect the prior year's actual fuel and purchased power costs. This annual adjustment was approved in Decision No. 67744 and is limited to a maximum change of plus or minus 4 mills.

Amortization Surcharge (or Surcharge, PSA Surcharge) – A cents per kWh charge that can be applied to customer bills after Commission approval to collect, or refund, an amount of revenue for the purpose of reducing the PSA Bank Balance. It can be either a positive or negative charge.

Balancing Account (or PSA Balancing Account) – The PSA Balancing Account is the account where the monthly sum of the Company’s post-sharing (over)/under collection is posted and also where the interest on the balance in the account is accrued. It is used to keep track of the cumulative total of the monthly postings.

Bandwidth Carry Forward from Prior Period – An amount that was outside the \$0.004 limit on change in the Adjustor Rate in a particular year that is used in the calculation of the Adjustor Rate in the following year. The Bandwidth Carry Forward is calculated by subtracting \$0.004 from the prior-year computed, not the actual, Adjustor Rate per kWh and multiplying the result by the annual kWh, less any amount approved to be amortized through a Surcharge.

Bank Balance (or Account Balance) – The total amount in the PSA Balancing Account.

Base Cost of Fuel and Purchased Power – The fuel and purchased power cost embedded in the base rates approved by the Commission in the Company’s most recent rate case. Currently, it is \$0.020743 per kWh.

Bridge PPA – A purchased power 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~~ actual cost.

Native Load – Native load includes customer load in the APS control area load for which the Company has a generation service obligation and PacifiCorp’s 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.

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.

PSA – The Power Supply Adjustment mechanism, which includes the PSA Adjustor Rate, Balancing Account, and Amortization Surcharge. The PSA mechanism is used to update the Base Cost of Fuel and Purchased Power each year for fluctuations in the Company’s actual cost of fuel and purchased power.

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

Surcharge Balance – The total amount of revenue expected to be collected through a Commission-approved Amortization Surcharge less the actual revenue received from the Surcharge.

System Book Fuel and Purchased Power Costs – The costs recorded for the fuel and purchased power used by APS to serve both Native Load and off-system sales, less the costs associated with applicable special contracts, E-36, RCDAC-1, the non-fuel Bridge PPA, ISFSI, mark-to-market accounting adjustments, and the savings associated with the acquisition of the Sundance plant.

System Book Off-System Sales Revenue – The revenue recorded from sales made to non-Native Load customers, for the purpose of optimizing the APS system, using APS-owned or contracted generation and purchased power, less mark-to-market accounting adjustments.

Wheeling Costs (FERC Account 565, Transmission of Electricity by Others) – Amounts payable to others for the transmission of the Company's electricity over transmission facilities owned by others.

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 PacificCorp sSupplemental sSales. 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 pPreference pPower.
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 shall be adjusted for the calculated net savings from the methodology approved in Decision No. 67504 from the PPL

Sundance docket. 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 in 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 Returning Customer Direct Access Charge ("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. The revenue collected from an Adjustor Rate is credited to the Balancing Account (described below). For example, in April 2006 if there is an Adjustor Rate of \$0.004 in effect, all of the revenue collected from that charge goes into the Balancing Account as a credit to the balance.
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. It includes interest from the Balancing Account and any outstanding balances from Commission-approved Amortization Surcharges, if the Surcharge balance was approved to accrue 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. Subtract any Commission approved Amortization Surcharge balances. If the Commission approves an Amortization Surcharge balance it will be subtracted from the total costs used to calculate the April 1st Adjustor Rate.
- ~~3.4.~~ 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.
- ~~4.5.~~ 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.
- ~~5.6.~~ 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.
- ~~6.7.~~ The Adjustor Rate Bandwidth Upper Limit is \$0.004 per kWh. The Adjustor Rate Bandwidth Lower Limit is \$(0.004) per kWh.

7.8. 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.

8.9. 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.

9.10. 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 Year 1, Schedules 1 through 3 and Year 2, Schedules 1 through 3. The attached schedules include two year's of schedules and two Amortization Surcharge examples.

Balancing Account and Amortization Surcharge

The PSA Balancing Account is where the monthly sum of the Company's post-sharing (over)/under collection is posted and also where interest on the balance in the account is accrued. It is used to track the cumulative total of the monthly postings. APS shall establish a PSA Balancing Account on April 1, 2005. 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 the 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 kilowatt hours 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.~~ Any Amortization Surcharge balance will be shown separately on the monthly reports for the Commission Staff, and, unless otherwise ordered by the Commission, shall not be considered as part of the Balancing Account.

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 includes the Amortization Surcharge balance(s), if the Surcharge balance was approved to accrue interest. 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 Year 1, Schedule 4 and Year 2, Schedule 4.

Although the Company may file a request for an Amortization Surcharge at any time, the Company is required to make a filing in the following circumstances. If the size of the Balancing Account, as shown in the monthly reports filed with the Commission, reaches plus or minus \$50 million, the Company has up to 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. In no event shall the Company allow the Balancing Account to reach \$100 million prior to seeking recovery or refund.[†] Should the Company seek to recover or refund an amount from the Balancing Account, the timing and manner of recovery, or refund, and whether interest will be allowed to accrue on the Surcharge balance, will be addressed at that time.

Once the Company has filed seeking recovery or refund through an Amortization Surcharge, the amount requested in such filing will be excluded from the balance used to determine if the \$100 million threshold has been reached (see chart below).

<u>(a)</u>	<u>(b)</u>	<u>(c)</u>	<u>(d)</u>	<u>(e)</u>
<u>Month</u>	<u>Month's Post-Sharing (Over)/Under Collection</u>	<u>End of Month Balancing Account Balance</u>	<u>June 15th Amortization Surcharge Request</u>	<u>Balance for \$100M Threshold (c + d)</u>
<u>May</u>	<u>\$7,000,000</u>	<u>\$60,000,000</u>	<u>\$0</u>	<u>\$60,000,000</u>
<u>June</u>	<u>\$10,000,000</u>	<u>\$70,000,000</u>	<u>\$(60,000,000)</u>	<u>\$10,000,000</u>
<u>July</u>	<u>\$30,000,000</u>	<u>\$100,000,000</u>	<u>\$(60,000,000)</u>	<u>\$40,000,000</u>

For example, the Company has a balance of \$60 million for May and it files an Amortization Surcharge request on June 15th for \$60 million and the post-sharing under-

[†] 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.

collection for June is \$10 million. The resulting June Balancing Account balance is \$70 million. The balance for the purpose of determining if the Company has met the \$100 million threshold for June is \$10 million (\$70 million balance - \$60 million request = \$10 million). Moving to the next month, July has a post-sharing under-collection of \$30 million so the balance for the \$100 million threshold calculation is \$40 million (\$100 million balance - \$60 million request = \$40 million).

The \$100 million threshold would apply each time the Company makes a filing with the Commission to address a Balancing Account balance between \$50 and \$100 million. After the Company makes the filing, if new accumulations in the Balancing Account were between \$50 and \$100 million, the Company could make a second, separate filing. Subsequently, it is possible that additional filings could be made with the \$100 million threshold being applied separately to the amount being addressed in each filing. 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:

1. The net generation, in MWhh 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 MWhh.
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.

Work papers 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~~PSA 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~~power supply costs from the test year used to determine retail electric rates. The allowable cost components presently include the following Federal Energy Regulatory Commission ("FERC") accounts²:

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. 565 Wheeling (Transmission of Electricity by Others)
- 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

² ~~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.~~

cost at the time the customer is consuming power from the APS system so their power supply costs are excluded from the PSA.

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

Line No.	Month	(a) PSA Retail ¹ Energy Sales (kWh)	(b) Native Load ² Wholesale Energy Sales (kWh)	(c) Native Load Energy Sales (kWh) (a + b)	(d) System ³ Book Fuel and Purchased Power Costs	(e) System Book ⁴ Off-System Sales Revenue	(f) Net Native Load Power Supply Cost (d - e)	(g) PSA Retail ⁵ Power Supply Cost (a/c * f)	(h) Base Rate Power Supply Cost (a * 0.020743)	(i) Pre-Sharing (Over)/Under Collection (g - h)	(j) Post-Sharing (Over)/Under Collection (i * 0.9)
1	January	-	-	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	February	-	-	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3	March	-	-	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4	April	1,944,192,000	105,803,000	2,049,995,000	\$ 50,508,900	\$ 3,924,000	\$ 46,584,900	\$ 40,328,375	\$ 3,852,216	\$ 3,466,994	
5	May	2,279,426,000	102,849,000	2,382,275,000	\$ 56,566,800	\$ 4,021,200	\$ 52,545,600	\$ 47,282,134	\$ 2,994,936	\$ 2,695,442	
6	June	2,585,070,000	113,325,000	2,698,395,000	\$ 73,206,000	\$ 5,178,600	\$ 68,027,400	\$ 53,622,107	\$ 11,548,334	\$ 10,393,501	
7	July	2,909,896,000	110,933,000	3,020,829,000	\$ 93,020,400	\$ 6,676,200	\$ 86,344,200	\$ 60,359,973	\$ 22,813,435	\$ 20,532,092	
8	August	3,115,407,000	96,318,000	3,211,725,000	\$ 96,375,600	\$ 6,095,700	\$ 90,279,900	\$ 64,622,887	\$ 22,949,565	\$ 20,654,609	
9	September	2,560,314,000	85,311,000	2,645,625,000	\$ 71,951,400	\$ 4,779,000	\$ 67,172,400	\$ 53,108,593	\$ 11,897,761	\$ 10,707,985	
10	October	2,014,216,000	93,883,000	2,108,099,000	\$ 50,512,500	\$ 5,705,100	\$ 44,807,400	\$ 41,780,882	\$ 1,031,046	\$ 927,941	
11	November	1,921,888,000	96,941,000	2,018,829,000	\$ 42,744,600	\$ 6,106,500	\$ 36,638,100	\$ 39,865,723	\$ (4,986,927)	\$ (4,488,234)	
12	December	2,062,795,000	89,746,000	2,152,541,000	\$ 49,290,300	\$ 7,229,700	\$ 42,060,600	\$ 42,788,557	\$ (2,481,592)	\$ (2,233,433)	
13	Total	21,393,204,000	895,109,000	22,288,313,000	\$ 584,176,500	\$ 49,716,000	\$ 534,460,500	\$ 443,759,231	\$ 69,618,774	\$ 62,656,897	
14									Move forward to Schedule 3, Line 1	\$ 62,656,897	

¹ 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.

² Includes traditional sales-for-resale and PacifiCorp supplemental sales.

³ 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 excluded.

⁴ Includes off-system revenue less mark-to-market accounting adjustments.

⁵ 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
Year 1, Schedule 2
Example PSA Calculation Methodology
Annual Balancing Account Interest

Line No.	Month	Balancing Account Monthly Interest
(Schedule 4, Line 216)		
1	January	\$ -
2	February	\$ -
3	March	\$ -
4	April	\$ -
5	May	\$ 8,061
6	June	\$ 14,346
7	July	\$ 38,545
8	August	\$ 86,371
9	September	\$ 134,594
10	October	\$ 159,803
11	November	\$ 162,332
12	December	\$ 140,224
13	Total	\$ 744,276

Move Forward to Schedule 3, Line 2 \$ 744,276

ARIZONA PUBLIC SERVICE COMPANY
Year 1, Schedule 3
Example PSA Calculation Methodology
PSA Adjustor Rate Calculation

Line			
No.	PSA Adjustor Rate Calculation		
1	Post-Sharing (Over)/Under Collection Amount (From Sch. 1)	\$	62,656,897
2	Annual Balancing Account Interest (From Sch. 2)	\$	744,276
3	<u>Less: Approved Amortization Surcharge Balance (Nov. 1, 2005) ¹</u>	\$	60,000,000
4	Bandwidth Carry Forward from Prior Period	\$	-
5	Total (Credit)/Charge Amount (Line 1 + Line 2 - Line 3 +Line 4)		\$ 3,401,173
6	Total (Credit)/Charge Amount	\$	3,401,173
7	Actual Energy Sales without E-3, E-4 and E-36 (kWh)		<u>21,132,204,000</u>
8	Computed Adjustor Rate per kWh (Line 6 / Line 7)	\$	<u>0.000161</u>
8.1	Current Adjustor Rate per kWh	\$	-
8.2	Diff. between Current Adj. Rate and Computed Adj. Rate (line 8.1 - line 8)	\$	0.000161
	Adjustor Rate Bandwidth		
9	Adjustor Rate Bandwidth Upper Limit	\$	<u>0.004000</u>
10	Adjustor Rate Bandwidth Lower Limit	\$	<u>(0.004000)</u>
11	Applicable Adjustor Rate per kWh for April 1, 2006 (EXAMPLE)		<u>\$ 0.000161</u>
12	Total (Credit)/Charge Carried Forward Due to Adjustor Rate Bandwidth	\$	<u>-</u>

¹This hypothetical example assumes the Commission approval of a \$60 Million Amortization Surcharge request that was made in September after the Balancing Account exceeded \$50 Million. The requested Amortization Surcharge of .002697 is effective on November 1, 2005, and expires on October 31, 2006, or when \$60 million is received through the Surcharge.

ARIZONA PUBLIC SERVICE COMPANY
Year 1, Schedule 4
Example of PSA Calculation Methodology
Monthly Balancing Account Calculations

Line No.	January	February	March	April	May	June	July	August	September	October	November	December
								Ending Balance Exceeds \$50M			Nov. 1, 2005 ¹ Surcharge Begins	
BALANCING ACCOUNT LESS APPROVED AMORTIZATION SURCHARGE BALANCE												
1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,170,497	\$ 16,578,344	\$ 37,148,981	\$ 57,889,961	\$ 68,732,540	\$ 69,820,284	\$ 5,494,382
3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 60,000,000	\$ -
4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,466,994	\$ 6,170,497	\$ 37,148,981	\$ 57,889,961	\$ 68,732,540	\$ 9,820,284	\$ 5,494,382
5	\$ -	\$ -	\$ -	\$ -	\$ 8,061	\$ 14,346	\$ 38,545	\$ 86,371	\$ 134,594	\$ 159,803	\$ 162,332	\$ 140,224
6	\$ -	\$ -	\$ -	\$ -	\$ 2,695,442	\$ 10,393,501	\$ 20,532,082	\$ 20,654,609	\$ 10,707,985	\$ 927,941	\$ (4,488,234)	\$ (2,233,433)
7	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8	\$ -	\$ -	\$ -	\$ -	\$ 2,695,442	\$ 10,393,501	\$ 20,532,082	\$ 20,654,609	\$ 10,707,985	\$ 927,941	\$ (4,488,234)	\$ (2,233,433)
9	\$ -	\$ -	\$ -	\$ -	\$ 6,170,497	\$ 16,578,344	\$ 37,148,981	\$ 57,889,961	\$ 68,732,540	\$ 69,820,284	\$ 5,494,382	\$ 3,401,173
9.1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 60,000,000	\$ 60,000,000	\$ 60,000,000	\$ -	\$ -
9.2	\$ -	\$ -	\$ -	\$ -	\$ 6,170,497	\$ 16,578,344	\$ 37,148,981	\$ 57,889,961	\$ 68,732,540	\$ 69,820,284	\$ 5,494,382	\$ 3,401,173
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.002697	\$ 0.002697
EXAMPLE NOVEMBER 1, 2005 APPROVED AMORTIZATION SURCHARGE BALANCE												
10	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 60,000,000	\$ 54,817,132
11	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,182,868	\$ 5,662,860
12	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 54,817,132	\$ 49,254,272
14	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 139,500	\$ 127,450
	\$ -	\$ -	\$ -	\$ -	\$ 6,170,497	\$ 16,578,344	\$ 37,148,981	\$ 57,889,961	\$ 68,732,540	\$ 69,820,284	\$ 60,311,514	\$ 52,665,445
15	\$ -	\$ -	\$ -	\$ -	\$ 8,061	\$ 14,346	\$ 38,545	\$ 86,371	\$ 134,594	\$ 159,803	\$ 162,332	\$ 140,224
16	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

¹ This hypothetical example assumes the Commission approval of a \$60 Million Amortization Surcharge request that was made in September after the Balancing Account exceeded \$50 Million in August (see line 9 above). The requested Amortization Surcharge of \$0.002697 is effective on November 1, 2005, and expires on October 31, 2006, or when \$60 million is received through the Surcharge.

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

Line No.	Month	Balancing Account Monthly Interest
(Schedule 4, Line 21)		
1	January	\$ 122,424
2	February	\$ 119,640
3	March	\$ 117,145
4	April	\$ 114,644
5	May	\$ 126,072
6	June	\$ 135,397
7	July	\$ 166,571
8	August	\$ 226,568
9	September	\$ 286,837
10	October	\$ 314,930
11	November	\$ 316,931
12	December	\$ 304,092
13	Total	\$ 2,351,251

Move Forward to Schedule 3, Line 2

\$ 2,351,251

ARIZONA PUBLIC SERVICE COMPANY
Year 2, Schedule 3
Example PSA Calculation Methodology
PSA Adjustor Rate Calculation

Line			
No.	PSA Adjustor Rate Calculation		
1	Post-Sharing (Over)/Under Collection Amount (From Sch. 1)		\$ 159,303,168
2	Annual Balancing Account Interest (From Sch. 2)		\$ 2,351,251
3	Less: Approved Amortization Surcharge Balance (September 1, 2006) ¹		\$ 100,000,000
4	Bandwidth Carry Forward from Prior Period		\$ -
5	Total (Credit)/Charge Amount (Line 1 + Line 2 - Line 3 +Line 4)		<u>\$ 61,654,419</u>
6	Total (Credit)/Charge Amount	\$ 61,654,419	
7	Actual Energy Sales without E-3, E-4 and E-36 (kWh)	<u>28,380,949,000</u>	
8	Computed Adjustor Rate per kWh (Line 6 / Line 7)		<u>\$ 0.002172</u>
8.1	Current Adjustor Rate per kWh	\$ 0.000161	
8.2	Diff. between Current Adj. Rate and Computed Adj. Rate (line 8.1 - line 8)	\$ 0.002011	
	Adjustor Rate Bandwidth		
9	Adjustor Rate Bandwidth Upper Limit		<u>\$ 0.004000</u>
10	Adjustor Rate Bandwidth Lower Limit		<u>\$ (0.004000)</u>
11	Applicable Adjustor Rate per kWh for April 1, 2007 (EXAMPLE)		<u>\$ 0.002172</u>
12	Total (Credit)/Charge Carried Forward Due to Adjustor Rate Bandwidth		<u>\$ -</u>

¹ This hypothetical example assumes the Commission approval of a \$100 million Amortization Surcharge request that was made in July 2006 after the Balancing Account again exceeded \$50 million. The requested Amortization Surcharge of \$0.003357 is effective on September 1, 2006, and expires on August 31, 2007, or when \$100 million is received through the Surcharge.

ARIZONA PUBLIC SERVICE COMPANY
Year 2, Schedule 4
Example of PSA Calculation Methodology
Monthly Balancing Account Calculations

Line No.	January	February	March	April	May	June	July	August	September	October	November	December
				1st Adjustor Rate Change		Ending Balance ²			Surcharge Begins			
				\$0.000161	\$0.000161	\$0.000161	\$0.000161	\$0.000161	\$0.000161	\$0.000161	\$0.000161	\$0.000161
1	\$ 3,401,173	\$ 8,046,832	\$ 12,600,617	\$ 17,106,519	\$ 27,399,542	\$ 37,741,187	\$ 58,351,870	\$ 92,287,386	\$ 126,934,983	\$ 44,392,737	\$ 52,286,703	\$ 53,473,023
2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100,000,000	\$ -	\$ -	\$ -
3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,564,160	\$ -	\$ -	\$ -
3.1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4	\$ 3,401,173	\$ 8,046,832	\$ 12,600,617	\$ 17,106,519	\$ 27,399,542	\$ 37,741,187	\$ 58,351,870	\$ 92,287,386	\$ 23,370,833	\$ 44,392,737	\$ 52,286,703	\$ 53,473,023
5	\$ 122,424	\$ 119,640	\$ 117,145	\$ 114,644	\$ 126,072	\$ 135,397	\$ 166,571	\$ 226,568	\$ 286,837	\$ 314,930	\$ 316,931	\$ 304,092
6	\$ 4,523,235	\$ 4,434,145	\$ 4,388,757	\$ 4,325,429	\$ 4,256,219	\$ 4,163,626	\$ 4,042,512	\$ 3,894,512	\$ 3,716,626	\$ 3,511,186	\$ 3,281,085	\$ 3,028,881
7	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8	\$ 4,523,235	\$ 4,434,145	\$ 4,388,757	\$ 4,325,429	\$ 4,256,219	\$ 4,163,626	\$ 4,042,512	\$ 3,894,512	\$ 3,716,626	\$ 3,511,186	\$ 3,281,085	\$ 3,028,881
9	\$ 8,046,832	\$ 12,600,617	\$ 17,106,519	\$ 27,399,542	\$ 37,741,187	\$ 58,351,870	\$ 92,287,386	\$ 126,934,983	\$ 44,392,737	\$ 52,286,703	\$ 53,473,023	\$ 57,910,524
9.1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9.2	\$ 8,046,832	\$ 12,600,617	\$ 17,106,519	\$ 27,399,542	\$ 37,741,187	\$ 58,351,870	\$ 92,287,386	\$ 126,934,983	\$ 44,392,737	\$ 52,286,703	\$ 53,473,023	\$ 57,910,524
	\$ 0.002697	\$ 0.002697	\$ 0.002697	\$ 0.002697	\$ 0.002697	\$ 0.002697	\$ 0.002697	\$ 0.002697	\$ 0.002697	\$ 0.002697	\$ 0.002697	\$ 0.002697
10	\$ 49,254,272	\$ 43,411,043	\$ 37,784,452	\$ 32,202,633	\$ 26,824,766	\$ 20,494,190	\$ 13,291,876	\$ 5,161,400	\$ -	\$ -	\$ -	\$ -
11	\$ 5,843,229	\$ 5,727,522	\$ 5,689,686	\$ 5,452,738	\$ 5,392,844	\$ 5,250,163	\$ 5,161,179	\$ 5,037,580	\$ -	\$ -	\$ -	\$ -
12	\$ 43,411,043	\$ 37,784,452	\$ 32,202,633	\$ 26,824,766	\$ 20,494,190	\$ 13,291,876	\$ 5,161,400	\$ (3,684,160)	\$ -	\$ -	\$ -	\$ -
13	\$ 114,516	\$ 100,931	\$ 87,849	\$ 74,871	\$ 62,368	\$ 47,649	\$ 30,903	\$ 12,000	\$ -	\$ -	\$ -	\$ -
14	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
15	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.003357	\$ 0.003357	\$ 0.003357	\$ 0.003357
16	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100,000,000	\$ 91,061,225	\$ 84,029,032	\$ 77,318,191
17	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,938,775	\$ 7,032,193	\$ 6,709,851	\$ 7,201,796
18	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 84,029,032	\$ 77,318,181	\$ 70,117,386
19	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,171	\$ 195,367	\$ 179,767
20	\$ 51,457,875	\$ 50,385,069	\$ 49,309,152	\$ 48,224,308	\$ 47,143,346	\$ 46,058,378	\$ 44,973,406	\$ 43,888,434	\$ 42,803,462	\$ 41,718,490	\$ 40,633,518	\$ 39,548,546
21	\$ 122,424	\$ 119,640	\$ 117,145	\$ 114,644	\$ 126,072	\$ 135,397	\$ 166,571	\$ 226,568	\$ 286,837	\$ 314,930	\$ 316,931	\$ 304,092

¹ This hypothetical example assumes the first change to the original PSA Adjustor Rate is \$0.000161. See Year 1, Schedule 3 for the calculation of the charge.
² This hypothetical example assumes the Commission approval of a \$100 Million Amortization Surcharge request that was made in July 2006 after the Balancing Account again exceeded \$50 Million in June (see line 9 above). The requested Amortization Surcharge of \$0.003357 is effective on September 1, 2006, and expires on August 31, 2007, or when \$100 million is received.
 This hypothetical example assumes the Commission approved November 1, 2006, Amortization Surcharge of \$0.002697 expired after \$60 million was received. A credit of \$3,564,160 was made to the Bank Balance to reflect an over-collection in September 2006.