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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

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KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY
FOR APPROVAL OF A POWER SUPPLY
ADJUSTOR SURCHARGE.

DOCKET NO. E-01345A-05-0526

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
TEHREON, TO APROVE RATE SCHEDULES
DESIGNED TO DEVELOP SUCH RETURN,
AND FOR APPROVAL OF PURCHASED
POWER CONTRACT.

DOCKET NO. E-01345A-03-0437

**NOTICE OF FILING
STAFF TESTIMONY ON
PLAN OF ADMINISTRATION**

Pursuant to the Procedural Order issued September 23, 2005, Staff hereby files the Testimony
of Barbara Keene on the Plan of Administration for the APS Power Supply Adjustor Mechanism.

RESPECTFULLY SUBMITTED this 17TH day of October, 2005.

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BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. E-01345A-03-0437
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 A)
PURCHASED POWER CONTRACT.)

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. E-01345A-05-0526
ARIZONA PUBLIC SERVICE COMPANY FOR)
APPROVAL OF A POWER SUPPLY ADJUSTOR)
SURCHARGE.)

TESTIMONY

OF

BARBARA KEENE

PUBLIC UTILITIES ANALYST MANAGER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

OCTOBER 17, 2005

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**EXECUTIVE SUMMARY
ARIZONA PUBLIC SERVICE COMPANY
PLAN OF ADMINISTRATION
DOCKET NOS. E-01345A-03-0437 AND E-01345A-05-0526**

Staff's testimony relates to the Plan of Administration of the Power Supply Adjustor ("PSA") for Arizona Public Service Company.

Staff's testimony describes the Plan of Administration and explains the PSA mechanism, step-by-step.

Staff recommends that the PSA Plan of Administration, as modified, be approved.

1 **INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Barbara Keene. My business address is 1200 West Washington Street,
4 Phoenix, Arizona 85007.

5

6 **Q. By whom are you employed and in what capacity?**

7 A. I am employed by the Utilities Division of the Arizona Corporation Commission as a
8 Public Utilities Analyst Manager. My duties include supervising the energy portion of the
9 Telecommunications and Energy Section. A copy of my résumé is provided in Appendix
10 1.

11

12 **Q. As part of your employment responsibilities, were you assigned to review matters
13 contained in Docket Nos. E-01345A-03-0437 and E-01345A-05-0526?**

14 A. Yes.

15

16 **Q. What is the subject matter of your testimony?**

17 A. Staff's testimony relates to the Plan of Administration of the Power Supply Adjustor
18 ("PSA") for Arizona Public Service Company ("APS"), describes the Plan of
19 Administration, explains the PSA mechanism, and makes a recommendation to the
20 Commission on the Plan.

21

22 **Q. What is Staff's recommendation regarding the PSA Plan of Administration?**

23 A. Staff recommends that the PSA Plan of Administration be approved, as modified in
24 Appendix 2.

25

1 **BACKGROUND OF THE PLAN OF ADMINISTRATION**

2 **Q. What is the background of the Plan of Administration?**

3 A. The Settlement Agreement, approved by the Commission in Decision No. 67744,
4 provided for a Power Supply Adjustor to be established for APS. A plan of administration
5 was to be filed that describes how the PSA operates. Decision No. 67744 required that the
6 parties to the Settlement Agreement submit a PSA Plan of Administration for Commission
7 approval that reflects the Decision.

8
9 **Q. Was a Plan of Administration filed?**

10 A. Yes. On June 6, 2005, Staff filed, on behalf of the Settling Parties, a Plan for
11 Administration for the APS PSA. On July 25, 2005, Staff filed a memo and proposed
12 order concerning the Plan for Administration. A modified version of the Plan is included
13 in Appendix 2 of this testimony.

14
15 **Q. What is included in the Plan of Administration?**

16 A. The Plan of Administration describes the PSA and how calculations are made,
17 incorporating the PSA features included in the Settlement Agreement and the provisions
18 of Decision No. 67744. The Plan also provides definitions and includes sample schedules.

19
20 **Q. Please summarize the Plan of Administration.**

21 A. The purpose of the PSA is to track changes in APS' cost of obtaining power supplies by
22 comparing actual costs on a going forward basis to the base cost of \$0.020743 per kWh
23 established by Decision No. 67744. The major features of the PSA are: (1) a 90 percent
24 ratepayer/10 percent APS sharing mechanism, (2) the inclusion of off-system sales
25 revenue, (3) the inclusion of fuel and purchased power costs, (4) an Adjustor Rate, (5) a
26 bandwidth on changes in the Adjustor Rate of plus or minus \$0.004 per kWh in a year and

1 over the life of the PSA, (6) a balancing account, (7) a Surcharge mechanism, and (8) a
2 limit of \$776,200,000 on annual power supply costs.

3
4 The results of the PSA are applied to customer bills through the Adjustor Rate. The
5 Adjustor Rate, initially set at zero, will be reset on April 1st of each year. APS will
6 provide a report to the Commission on March 1st of each year that shows the calculation
7 of the new Adjustor Rate.

8
9 According to Paragraph 19e of the Settlement Agreement, if the size of the balancing
10 account reaches plus or minus \$50 million, APS has 45 days to file a request for
11 Commission approval of a surcharge or file an explanation of why a surcharge is not
12 necessary. Decision No. 67744 imposed a cap on the balancing account of \$100 million.
13 APS is not to allow the Bank Balance to reach \$100 million prior to seeking recovery or
14 refund.

15
16 APS files monthly reports to Staff and the Residential Utility Consumer Office detailing
17 all calculations related to the PSA. APS also files confidential monthly reports with Staff
18 that provide details on generating units, power purchases, and fuel purchases.

19
20 **MODIFICATIONS TO THE PLAN FOR ADMINISTRATION**

21 **Q. Please describe the modifications made to the Plan for Administration that was**
22 **originally filed on June 6, 2005.**

23 **A.** The modifications, marked in the red-lined Plan in Appendix 2, include the following:

- 24 1. The name of the document has been changed from "Plan *for*
- 25 Administration" to "Plan *of* Administration" to be consistent with the Settlement
- 26 Agreement and Decision No. 67744. Both of these documents refer to a Plan *of*
- 27 Administration.

- 1 2. In the General Description section, a sentence was added that states that the
2 PSA will apply to all fuel and purchased power costs incurred on or after April 1,
3 2005. This is consistent with Decision No. 67744 which did not allow fuel costs
4 incurred before the effective date of the Decision to be included in the calculation
5 of the PSA.
- 6 3. Decision No. 67504 authorized APS to defer the costs of owning,
7 operating, and maintaining the Sundance Plant upon acquiring it from PPL, as long
8 as a PSA is in effect for APS. APS was to adjust the PSA to remove savings
9 (reduced fuel costs, reduced purchased power costs, and additional off-system
10 sales margins) resulting from APS ownership of the Sundance Plant. This
11 adjustment is necessary to properly capture all elements of the Sundance deferral.
12 In the General Description section of the PSA Plan of Administration, a sentence
13 was added that states that the adjustment made in regard to the Sundance plant will
14 no longer be made once rates are effective that recover the capital and operating
15 costs of the plant. It is reasonable that the savings adjustments would end if the
16 Commission were to make the Sundance Plant a part of APS' rate base.
- 17 4. In the General Description section, a sentence was added that gives the date
18 (April 1, 2005) that the Adjustor rate was set at zero. This is consistent with
19 Decision No. 67744.
- 20 5. In the General Description section, the amount of the bandwidth (\$0.004
21 per kWh in a year) was added to the sentence that states that the annual change in
22 the Adjustor Rate is limited, as stated in the Settlement Agreement. Another
23 sentence was added that states that the change is limited to \$0.004 from the base
24 level, consistent with Decision No. 67744. Two examples were added to illustrate
25 how the two bandwidths are applied.
- 26 6. In the General Description section, two sentences were added that state that
27 any additional recoverable or refundable amounts would be recorded in a

1 balancing account to be carried over to future years and not be subject to further
2 sharing, consistent with the Settlement Agreement.

3 7. In the General Description section, language was inserted that explains that
4 balancing account entries are made each month, starting with April 2005, that
5 reflect the difference between 90 percent of incurred fuel and purchased power
6 costs, less the balance of any approved Surcharge, and the sum of costs collected
7 through the base cost rate and the Adjustor Rate. This reflects the 90/10 sharing
8 feature included in the Settlement Agreement. Also, a Surcharge may go into
9 effect prior to the April 1st recalculation of the Adjustor Rate, if the Surcharge is
10 approved by the Commission.

11 8. The Definition section was moved forward to follow the General
12 Description section so that it would be more useful.

13 9. Definitions for "Adjustor Rate," "Amortization Surcharge," "Balancing
14 Account," "Bandwidth Carry Forward from Prior Period," "Bank Balance," "Base
15 Cost of Fuel and Purchased Power," "PSA," "Surcharge Balance," "System Book
16 Fuel and Purchased Power Costs," "System Book Off-System Sales Revenue," and
17 "Wheeling Costs" were added to the Definitions section. The existing definitions
18 for "ISFSI," "Mark to Market Accounting," and "Native Load" were revised.

19 10. In Part 1 of the Calculations section, a reference to the decision from the
20 PPL Sundance docket was added.

21 11. In Part 2 of the Calculations section, language was added to clarify that
22 revenue collected from the Adjustor Rate is credited to the Balancing Account.

23 12. In Part 4 of the Calculations section, a sentence was added that clarifies
24 that monthly interest includes interest from both the Balancing Account and from
25 outstanding balances from Commission-approved Amortization Surcharges, if the
26 Surcharge balance was approved to accrue interest.

1 13. In Part 4 of the Calculations section, language was added that states that
2 Commission-approved Surcharge balances are subtracted from the total costs used
3 to calculate the April 1st Adjustor Rate. This is because costs included in a
4 Surcharge balance have already been used to calculate a Surcharge rate, and
5 including them again to calculate the Adjustor Rate could result in double
6 recovery.

7 14. In Part 4 of the Calculations section, language was added to indicate that
8 sample schedules have been included for two years along with two Surcharge
9 examples.

10 15. In the Balancing Account and Amortization Surcharge section, language
11 was added that describes the purpose of a Balancing Account and that the
12 Balancing Account was to be established on April 1, 2005. This additional
13 language clarifies that the Balancing Account serves as the vehicle for tracking the
14 ongoing deferrals of the difference between APS' prudently incurred costs of fuel
15 and purchased power and APS' actual recovery of those costs through base rates
16 plus the Adjustor Rate. This additional language is consistent with paragraphs
17 19(h) and 20 of the Settlement Agreement.

18 16. In the Balancing Account and Amortization Surcharge section, a sentence
19 was added that states that any Surcharge balance will be shown separately on
20 monthly reports, and, unless otherwise ordered by the Commission, will not be
21 considered part of the Balancing Account. This additional language is consistent
22 with Decision No. 67744, in which the Commission stated that, following a
23 proceeding to recover or refund a Bank Balance, the Bank Balance would be reset
24 to zero, unless otherwise ordered by the Commission. Staff believes that showing
25 a Surcharge balance separately provides more clarity.

1 17. In the Balancing Account and Amortization Surcharge section, a sentence
2 was added to clarify that interest may be applied to any outstanding Surcharge
3 balance that was approved to accrue interest.

4 18. In the Balancing Account and Amortization Surcharge section, language
5 was added to clarify that the \$50 million threshold trigger applies when a monthly
6 report filed with the Commission shows a Bank Balance of at least \$50 million.
7 This section also clarifies that APS may file a request for a Surcharge at any time.

8
9 Because there is a 60-day lag between the time that APS records its
10 monthly deferrals in its books and the time that it is required to file its monthly
11 reports with the Commission, there has been confusion as to when the \$50 million
12 trigger is reached. This additional language resolves this issue by stating that the
13 trigger is reached at the time that APS files a report with the Commission that
14 contains a \$50 million bank balance. This allows the Commission to monitor APS'
15 compliance with the filing requirements set forth in the Plan of Administration on
16 page 9.

17
18 Staff also believes that APS may file a request for a Surcharge at any time
19 because neither the Commission's order nor the Settlement Agreement specifically
20 precludes such a filing. Furthermore, allowing APS to file such an application
21 provides both APS and the Commission the opportunity to more effectively
22 respond to unexpected circumstances that may affect the Bank Balance.

23 19. In the Balancing Account and Amortization Surcharge section, language
24 was added to clarify that once APS has filed a request for a Surcharge, the amount
25 requested in the filing is excluded from the balance used to determine if the \$100
26 million cap has been reached. A chart, plus descriptive narrative, was added to
27 illustrate this concept. Language was also added that explains that APS could

1 make additional Surcharge filings with the \$100 million cap applied to the amount
2 addressed in each filing. This additional language is necessary to describe the
3 interplay between the \$100 million cap and the Balancing Account. This issue is
4 discussed in more detail below.

5 20. In the Allowable Costs section, FERC account 565 Wheeling was added to
6 the list of allowable costs, and the reference to broker fees was deleted. Staff
7 continues to believe that broker fees are not allowable PSA costs. However, Staff
8 has concluded that Wheeling Costs as recorded in FERC account 565 should be
9 recovered through the PSA because these costs are legitimate costs of purchasing
10 power.

11 21. "Schedule 1" was changed to "Year 1, Schedule 1." Footnote 3 on this
12 schedule was changed to indicate that Sundance net savings are "excluded" instead
13 of "included" from the total of System Book Fuel and Purchased Power Costs.
14 The first change provides a more appropriate title for the schedule because
15 schedules for two years are now provided. The second change corrects a typo.

16 22. "Schedule 2" was changed to "Year 1, Schedule 2." The reference line
17 from Schedule 4 was changed from line 2 to line 16. The numbers in the table
18 were revised. The first change provides a more appropriate title for the schedule
19 because schedules for two years are now provided. The other changes were made
20 because Year 1, Schedule 4 now includes an example of an Amortization
21 Surcharge.

22 23. "Schedule 3" was changed to "Year 1, Schedule 3." This schedule was
23 modified to include a Surcharge balance in the example. The first change provides
24 a more appropriate title for the schedule because schedules for two years are now
25 provided. The second change provides helpful clarifications.

26 24. "Schedule 4" was changed to "Year 1, Schedule 4." This schedule was
27 modified to include a Surcharge balance in the example. The first change provides

1 a more appropriate title for the schedule because schedules for two years are now
2 provided. The second change provides helpful clarifications.

3 25. The following schedules were added: Year 2, Schedule 1; Year 2, Schedule
4 2; Year 2, Schedule 3; and Year 2, Schedule 4. These additional schedules are
5 intended to illustrate the mechanics of the PSA.

6

7 **Q. Please discuss the operation of the \$100 million cap that Decision No. 67744 applies**
8 **to the Balancing Account.**

9 A. In that Decision, the Commission capped the Balancing Account at \$100 million. On
10 page 17, the Decision also states, "In no event shall the Company allow the bank balance
11 to reach \$100 million prior to seeking recovery or refund." The Decision does not provide
12 specific details about how the \$100 million cap is intended to operate. Because this
13 portion of the order was added by the Commission and was not part of the Settlement
14 Agreement, there is no prefiled testimony to refer to for assistance with this issue.
15 Questions have been raised as to whether the \$100 million cap is supposed to serve as a
16 means to disallow PSA deferrals in excess of \$100 million or whether the cap was instead
17 intended as a means to ensure that the Company would file timely applications to amortize
18 an escalating Bank Balance.

19

20 Staff's review of the Open Meeting transcript has led Staff to conclude that the
21 Commission probably did not intend to use the \$100 million cap as a means to disallow
22 otherwise prudently incurred costs. Staff has used this conclusion as the starting point for
23 evaluating the description of the \$100 million cap and its interplay with the Balancing
24 Account in the Plan of Administration.

25

1 **Q. How does the Plan of Administration propose to resolve the issue of how to apply the**
2 **\$100 million cap?**

3 A. If APS files an application to establish a Surcharge, the amount requested in the filing is
4 excluded from the Bank Balance for purposes of determining if the \$100 million threshold
5 has been met. Staff believes that this resolution provides a reasonable interpretation of
6 how the \$100 million cap is applied. It ensures that escalating balances will be brought to
7 the Commission's attention but provides a means to avoid an automatic disallowance.

8

9 **STEP-BY-STEP EXPLANATION OF THE PSA**

10 **Q. Please explain how the PSA works, step-by-step.**

11 A. ***Step One (record retail kWh sales).***

12 For each calendar month, APS records its retail energy sales in Schedule 1 (Monthly
13 Energy Sales and Costs). These sales are the kWh sales made to APS' retail customers.
14 Excluded are the directly assigned kWh sales from applicable special contract customers,
15 E-36 (Station Use Service) customers, and customers returning to Standard Offer service
16 from competitive generation subject to the RCDAC-1 (Returning Customer Direct Access
17 Charge) rate schedule. These PSA Retail Energy Sales (kWh) are shown in column a of
18 Schedule 1. In the illustrative Year 1, Schedule 1, this figure for April is 1,944,192,000.

19

20 ***Step Two (record wholesale kWh sales).***

21 For each calendar month, APS records its wholesale energy sales in Schedule 1. These
22 sales are the kWh sales made to APS' Native Load wholesale customers. Native Load
23 includes customers in the APS control area for which APS has a generation service
24 obligation (also known as traditional sales-for-resale) and PacifiCorp Supplemental Sales.
25 The traditional sales-for-resale includes the portion of load from wholesale electrical and
26 irrigation district resale customers served by APS, but it excludes the load served with
27 Preference Power (power allocated by federal power agencies). These Native Load

1 Wholesale Energy Sales (kWh) are shown in column b of Schedule 1. In the illustrative
2 Year 1, Schedule 1, this figure for April is 105,803,000.

3
4 ***Step Three (add retail and wholesale kWh sales).***

5 For each calendar month, APS adds the PSA Retail Energy Sales (column a) to the Native
6 Load Wholesale Energy Sales (column b) to calculate the total Native Load Energy Sales
7 (kWh) and places the result in column c of Schedule 1. In the illustrative Year 1,
8 Schedule 1, this figure for April is 2,049,995,000.

9
10 ***Step Four (record fuel and purchased power costs).***

11 For each calendar month, APS records its costs for fuel and purchased power in Schedule
12 1. Included in these costs are costs recorded in FERC accounts 501 Fuel (Steam), 518
13 Fuel (Nuclear), 547 Fuel (Other Production), 555 Purchased Power, and 565 Wheeling
14 (Transmission of Electricity by Others). Excluded from the total costs are costs associated
15 with applicable special contracts, E-36, RCDAC-1, the non-fuel Bridge PPA allowed by
16 Decision No. 67744, Independent Spent Fuel Storage Installation, and mark-to-market
17 accounting adjustments. Removing mark-to-market adjustments is appropriate so that
18 only actual costs of fuel and purchased power, not the current value of hedges for the
19 future, are included in the PSA. Also excluded are the savings associated with the
20 acquisition of the Sundance plant, as required by Decision No. 67504, until the capital and
21 operating costs of the Sundance plant are included in rates. These System Book Fuel and
22 Purchased Power Costs are shown in column d of Schedule 1. In the illustrative Year 1,
23 Schedule 1, this figure for April is \$50,508,900.

24
25 ***Step Five (record off-system sales revenue).***

26 For each calendar month, APS records revenue it receives from off-system sales in
27 column e of Schedule 1. These off-system sales include only the off-system sales using

1 APS-owned or contracted generation and purchased power related to optimizing the APS
2 system. Mark-to-market accounting adjustments are removed from the revenue figures.
3 In the illustrative Year 1, Schedule 1, the figure for System Book Off-System Sales
4 Revenue for April is \$3,924,000.

5
6 ***Step Six (subtract off-system sales revenue from fuel and purchased power costs).***

7 For each calendar month, APS subtracts the System Book Off-System Sales Revenue
8 (column e) from the System Book Fuel and Purchased Power Costs (column d) to
9 calculate the Net Native Load Power Supply Cost and places the result in column f of
10 Schedule 1. The Net Native Load Power Supply Cost represents total fuel and purchased
11 power costs less off-system sales revenue. In the illustrative Year 1, Schedule 1, this
12 figure for April is \$46,584,900.

13
14 Since the costs associated with off-system sales are included in the System Book Fuel and
15 Purchased Power Costs, subtracting the off-system sales revenue from the System Book
16 Fuel and Purchased Power Costs results in the sales margin being embedded in the Net
17 Native Load Power Supply Cost. Detailed information on off-system sales, including
18 explanation for any negative margins, is included in the confidential monthly reports
19 provided to Staff.

20
21 ***Step Seven (calculate retail power supply cost).***

22 For each calendar month, APS divides the PSA Retail Energy Sales (column a) by the
23 Native Load Energy Sales (column c) and multiplies the product by the Net Native Load
24 Power Supply Cost (column f) to calculate the PSA Retail Power Supply Cost and places
25 the result in column g of Schedule 1. The PSA Retail Power Supply Cost represents the
26 amount of power supply costs associated with retail sales subject to the PSA. This amount

1 is limited to \$776,200,000 per calendar year. In the illustrative Year 1, Schedule 1, the
2 April figure for the PSA Retail Power Supply Cost is \$44,180,591.

3
4 ***Step Eight (calculate base rate power supply cost).***

5 For each calendar month, APS multiplies the PSA Retail Energy Sales (column a) by the
6 base cost of fuel and purchased power cost (\$0.020743) determined by Decision No.
7 67744 to calculate the Base Rate Power Supply Cost and places the result in column h of
8 Schedule 1. The Base Rate Power Supply Cost represents the costs currently being paid
9 by ratepayers for power supply costs through base rates. In the illustrative Year 1,
10 Schedule 1, this figure for April is \$40,328,375.

11
12 ***Step Nine (calculate change in power supply cost).***

13 For each calendar month, APS subtracts the Base Rate Power Supply Cost (column h)
14 from the PSA Retail Power Supply Cost (column g) to calculate the Pre-Sharing
15 (Over)/Under Collection and places the result in column i of Schedule 1. The Pre-Sharing
16 (Over)/Under Collection represents the increase or decrease in power supply costs
17 compared to the base cost of fuel and purchased power. In the illustrative Year 1,
18 Schedule 1, this figure for April is \$3,852,216.

19
20 ***Step Ten (calculate 90/10 sharing).***

21 For each calendar month, APS multiplies the Pre-Sharing (Over)/Under Collection
22 (column i) by 90 percent to calculate the Post-Sharing (Over)/Under Collection amount
23 and places the result in column j of Schedule 1. The Post-Sharing (Over)/Under
24 Collection represents 90 percent of the increase or decrease in power supply costs
25 compared to the base cost of fuel and purchased power. The remaining 10 percent is
26 attributable to APS. In the illustrative Year 1, Schedule 1, this figure for April is

1 \$3,466,994. The Post-Sharing (Over)/Under Collection is also shown on line 6 of
2 Schedule 4 (Balancing Account Calculations).

3
4 ***Step Eleven (calculate annual collection amount).***

5 After the end of the calendar year, APS sums the Post-Sharing (Over)/Under Collection
6 (column j) amounts for all the months in the year to calculate an annual total and places
7 the total on line 14 of Schedule 1. During 2005, only the months from April through
8 December are included. The annual Post-Sharing (Over)/Under Collection is also entered
9 on line 1 of Schedule 3 (PSA Adjustor Rate Calculation). In the illustrative Year 1,
10 Schedule 1, this figure is \$62,656,897.

11
12 ***Step Twelve (determine bank balance).***

13 For each month, APS places the monthly Post-Sharing (Over)/Under Collection from
14 column j of Schedule 1 on line 6 of Schedule 4 (Monthly Balancing Account
15 Calculations). For April 2005, the Post-Sharing (Over)/Under Collection is also the
16 Ending Balance for April and the Beginning Balance of May 2005 because there is no
17 interest involved. Interest is entered into the Balancing Account for all months after April
18 2005.

19
20 The Beginning Balance (line 2) in the Balancing Account (Schedule 4) for each month is
21 the Ending Balance with Interest (line 9) for the prior month. In the illustrative Year 1,
22 Schedule 4, the Beginning Balance for November is \$69,820,284. The balance for any
23 Commission-approved Amortization Surcharge is placed on line 3 and subtracted from the
24 Beginning Balance (line 2), resulting in the Balance less Amortization Surcharge on line
25 4. In the illustrative Year 1, Schedule 4, the Approved Balance for Amortization
26 Surcharge for November is \$60,000,000, resulting in a Balance Less Amortization
27 Surcharge of \$9,820,284.

1 An interest rate is applied each month to both the Balance less Amortization Surcharge
2 (line 4) and any Amortization Surcharge Balance approved to accrue interest to determine
3 the monthly interest shown on line 5 of Schedule 4 and in the last column of Schedule 2
4 (Annual Balancing Account Interest). The interest rate used is the one-year nominal
5 Treasury constant maturities rate as contained in the Federal Reserve Statistical Release,
6 H-15, or its successor publication. In the illustrative Year 1, Schedule 4, the interest rate
7 used is 2.79 percent, resulting in Monthly Interest for November of \$162,332 (line 5).

8
9 Revenue received from the applicable Adjustor Rate is entered on line 7 of Schedule 4 and
10 subtracted from the Post-Sharing (Over)/Under Collection (line 6) to calculate the
11 Residual (Over)/Under Collection placed on line 8. Since the Adjustor Rate was set at
12 zero on April 1, 2005, the revenue received from the Adjustor Rate in 2005 is zero. In the
13 illustrative Year 1, Schedule 4, the Residual (Over)/Under Collection for May is
14 \$2,695,442.

15
16 The Ending Balance with Interest (line 9) of the Balancing Account is calculated for each
17 month by summing the Beginning Balance Less Amortization Surcharge (line 4), the
18 Monthly Interest (line 5), and the Residual (Over)/Under Collection (line 8). In the
19 illustrative Year 1, Schedule 4, this figure for May is \$6,170,497.

20
21 Any pending Surcharge requests are entered on line 9.1 and subtracted from the Ending
22 Balance with Interest (line 9) to produce the Ending Balance Less Surcharge Request (line
23 9.2). The Ending Balance Less Surcharge Request figure is subject to the \$100 million
24 cap.

25

1 ***Step Twelve (calculate annual adjustor rate).***

2 The Adjustor Rate for 2005 is zero. After the end of the calendar year, APS calculates a
3 new adjustor rate using Schedule 3 (PSA Adjustor Rate Calculation). The annual Post-
4 Sharing (Over)/Under Collection Amount from line 14 of Schedule 1 is placed on line 1 of
5 Schedule 3. Annual Balancing Account Interest from line 13 of Schedule 2 is brought
6 forward to line 2 of Schedule 3. Any Approved Amortization Surcharge Balance is placed
7 on line 3 of Schedule 3. In future years, any Bandwidth Carry Forward from the prior
8 year is entered on line 4.

9
10 The Total (Credit)/Charge Amount (line 5) is calculated by adding the Post-Sharing
11 (Over)/Under Collection Amount (line 1), the Annual Balancing Account Interest (line 2),
12 and any Bandwidth Carry Forward from the prior year (line 4), and then subtracting any
13 Approved Amortization Surcharge Balance (line 3). In the illustrative Year 1, Schedule 3,
14 this figure is \$3,401,173.

15
16 The Computed Adjustor Rate per kWh (line 8) is calculated by dividing the Total
17 (Credit)/Charge Amount by the annual kWh Sales from line 13 of Schedule 1 less the
18 kWh sales of low income discount rate customers. During 2005, only kWh sales from
19 April through December are used. In the illustrative Year 1, Schedule 3, the Computed
20 Adjustor Rate per kWh is \$0.000161.

21
22 The Computed Adjustor Rate per kWh (line 8) is compared to a bandwidth of plus or
23 minus \$0.004 per kWh. If the Computed Adjustor Rate is within the bandwidth, then the
24 Computed Adjustor Rate becomes the new Adjustor Rate. In the illustrative Year 1,
25 Schedule 3, the Computed Adjustor Rate per kWh is \$0.000161 because it is within the
26 bandwidth. If the Computed Adjustor Rate is outside of the bandwidth, then the new
27 Adjustor Rate would be plus or minus \$0.004 as appropriate. The bandwidth limits

1 changes in the Adjustor Rate to \$0.004 from the base level (zero) over the entire term of
2 the PSA. Any amount outside the bandwidth would be used to calculate the Bandwidth
3 Carry Forward from Prior Period to be used in the Adjustor Rate calculation the following
4 year.

5
6 On March 1st of each year, APS files a report with the Commission that shows the
7 calculation of the new Adjustor Rate. The new Adjustor Rate becomes effective with
8 APS' first billing cycle in April unless suspended by the Commission.

9
10 The new Adjustor Rate, replacing the old Adjustor Rate, plus any existing Surcharge is
11 applied to the customer bill as a per kWh charge. The Adjustor Rate is applicable to all
12 customers, except those on Solar-1, Solar-2, SP-1, E-3, E-4, E-36, and Direct Access
13 service.

14

15 **SUMMARY OF RECOMMENDATIONS**

16 **Q. Please summarize Staff's recommendations.**

17 A. 1. Staff recommends that the PSA Plan of Administration, as modified herein,
18 be approved.

19 2. Staff recommends that APS docket with the Commission a PSA Plan of
20 Administration consistent with the Decision in this case within 15 days of the
21 Decision.

22

23 **Q. Does this conclude Staff's testimony?**

24 A. Yes, it does.

RESUME

BARBARA KEENE

Education

B.S. Political Science, Arizona State University (1976)
M.P.A. Public Administration, Arizona State University (1982)
A.A. Economics, Glendale Community College (1993)

Additional Training

Management Development Program - State of Arizona, 1986-1987

UPLAN Training - LCG Consulting, 1989, 1990, 1991

various seminars, workshops, and conferences on ratemaking, energy efficiency, rate design, computer skills, labor market information, training trainers, and Census products

Employment History

Arizona Corporation Commission, Utilities Division, Phoenix, Arizona: Public Utilities Analyst Manager (May 2005-present). Supervise the energy portion of the Telecommunications and Energy Section. Conduct economic and policy analyses of public utilities. Coordinate working groups of stakeholders on various issues. Prepare Staff recommendations and present testimony on electric resource planning, rate design, special contracts, energy efficiency programs, and other matters. Responsible for maintaining and operating UPLAN, a computer model of electricity supply and production costs.

Arizona Corporation Commission, Utilities Division, Phoenix, Arizona: Public Utilities Analyst V (October 2001-present), Senior Economist (July 1990-October 2001), Economist II (December 1989-July 1990), Economist I (August 1989-December 1989). Conduct economic and policy analyses of public utilities. Coordinate working groups of stakeholders on various issues. Prepare Staff recommendations and present testimony on electric resource planning, rate design, special contracts, energy efficiency programs, and other matters. Responsible for maintaining and operating UPLAN, a computer model of electricity supply and production costs.

Arizona Department of Economic Security, Research Administration, Economic Analysis Unit: Labor Market Information Supervisor (September 1985-August 1989), Research and

Statistical Analyst (September 1984-September 1985), Administrative Assistant (September 1983-September 1984). Supervised professional staff engaged in economic research and analysis. Responsible for occupational employment forecasts, wage surveys, economic development studies, and over 50 publications. Edited the monthly **Arizona Labor Market Information Newsletter**, which was distributed to about 4,000 companies and individuals.

Testimony

Resource Planning for Electric Utilities (Docket No. U-0000-90-088), Arizona Corporation Commission, 1990; testimony on production costs and system reliability.

Trico Electric Cooperative Rate Case (Docket No. U-1461-91-254), Arizona Corporation Commission, 1992; testimony on demand-side management and time-of-use and interruptible power rates.

Navopache Electric Cooperative Rate Case (Docket No. U-1787-91-280), Arizona Corporation Commission, 1992; testimony on demand-side management and economic development rates.

Arizona Electric Power Cooperative Rate Case (Docket No. U-1773-92-214), Arizona Corporation Commission, 1993; testimony on demand-side management, interruptible power, and rate design.

Tucson Electric Power Company Rate Case (Docket Nos. U-1933-93-006 and U-1933-93-066) Arizona Corporation Commission, 1993; testimony on demand-side management and a cogeneration agreement.

Resource Planning for Electric Utilities (Docket No. U-0000-93-052), Arizona Corporation Commission, 1993; testimony on production costs, system reliability, and demand-side management.

Duncan Valley Electric Cooperative Rate Case (Docket No. E-01703A-98-0431), Arizona Corporation Commission, 1999; testimony on demand-side management and renewable energy.

Tucson Electric Power Company vs. Cyprus Sierrita Corporation, Inc. (Docket No. E-0000I-99-0243), Arizona Corporation Commission, 1999; testimony on analysis of special contracts.

Arizona Public Service Company's Request for Variance (Docket No. E-01345A-01-0822), Arizona Corporation Commission, 2002; testimony on competitive bidding.

Generic Proceeding Concerning Electric Restructuring Issues (Docket No. E-00000A-02-0051), Arizona Corporation Commission, 2002; testimony on affiliate relationships and codes of conduct.

Tucson Electric Power Company's Application for Approval of New Partial Requirements Service Tariffs, Modification of Existing Partial Requirements Service Tariff 101, and Elimination of Qualifying Facility Tariffs (Docket No. E-01933A-02-0345) and Application for Approval of its Stranded Cost Recovery (Docket No. E-01933A-98-0471), Arizona Corporation Commission, 2002, testimony on proposals to eliminate, modify, or introduce tariffs and testimony on the modification of the Market Generation Credit.

Arizona Public Service Company's Application for Approval of Adjustment Mechanisms (Docket No. E-01345A-02-0403), Arizona Corporation Commission, 2003, testimony on the proposed Power Supply Adjustment and the proposed Competition Rules Compliance Charge.

Generic Proceeding Concerning Electric Restructuring Issues, et al (Docket No. E-00000A-02-0051, et al), Arizona Corporation Commission, 2003-2005; Staff Report and testimony on Code of Conduct.

Arizona Public Service Company Rate Case (Docket No. E-01345A-03-0437), Arizona Corporation Commission, 2004; testimony on demand-side management, system benefits, renewable energy, the Returning Customer Direct Assignment Charge, and service schedules.

Arizona Electric Power Cooperative Rate Case (Docket No. E-01773A-04-0528), Arizona Corporation Commission, 2005; testimony on a fuel and purchased power cost adjustor, demand-side management, and rate design.

Trico Electric Cooperative Rate Case (Docket No. E-01461A-04-0607), Arizona Corporation Commission, 2005; testimony on the Environmental Portfolio Standard; demand-side management; special charges; and Rules, Regulations, and Line Extension Policies.

Publications

Author of the following articles published in the *Arizona Labor Market Information Newsletter*:

- "1982 Mining Employees - Where are They Now?" - September 1984
- "The Cost of Hiring" and "Arizona's Growing Industries" - January 1985
- "Union Membership - Declining or Shifting?" - December 1985
- "Growing Industries in Arizona" - April 1986
- "Women's Work?" - July 1986
- "1987 SIC Revision" - December 1986
- "Growing and Declining Industries" - June 1987
- "1986 DOT Supplement" and "Consumer Expenditure Survey" - July 1987
- "The Consumer Price Index: Changing With the Times" - August 1987
- "Average Annual Pay" - November 1987
- "Annual Pay in Metropolitan Areas" - January 1988

"The Growing Temporary Help Industry" - February 1988
"Update on the Consumer Expenditure Survey" - April 1988
"Employee Leasing" - August 1988
"Metropolitan Counties Benefit from State's Growing Industries" - November 1988
"Arizona Network Gives Small Firms Helping Hand" - June 1989

Major contributor to the following books published by the Arizona Department of Economic Security:

Annual Planning Information - editions from 1984 to 1989
Hispanics in Transition - 1987

(with David Berry) "Contracting for Power," *Business Economics*, October 1995.

(with Robert Gray) "Customer Selection Issues," *NRRRI Quarterly Bulletin*, Spring 1998.

Reports

(with Task Force) *Report of the Task Force on the Feasibility of Implementing Sliding Scale Hookup Fees*. Arizona Corporation Commission, 1992.

Customer Repayment of Utility DSM Costs, Arizona Corporation Commission, 1995.

(with Working Group) *Report of the Participants in Workshops on Customer Selection Issues*," Arizona Corporation Commission, 1997.

"DSM Workshop Progress Report," Arizona Corporation Commission, 2004.

(with Erin Casper) "Staff Report on Demand Side Management Policy," Arizona Corporation Commission, 2005.

Power Supply Adjustment Plan of Administration

Power Supply Adjustment Plan for of 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 – An 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 PacificCorp sSupplemental sSales. 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.

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

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).

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

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	\$ 513,378,005	\$ 443,759,231	\$ 69,618,774	
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)		<u>\$ 3,401,173</u>
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
BALANCING ACCOUNT LESS APPROVED AMORTIZATION SURCHARGE BALANCE												
1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9.1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9.2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
EXAMPLE NOVEMBER 1, 2005 APPROVED AMORTIZATION SURCHARGE BALANCE												
10	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
COMBINED BALANCE												
15	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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 in August (see line 9 above). The requested Amortization Surcharge of \$0,002,697 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 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)	(d) System ³ Book Fuel and Purchased Power Costs	(e) System Book ⁴ Off-System Sales Revenue	(f) Net Native Load Power Supply Cost	(g) PSA Retail ⁵ Power Supply Cost	(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	2,166,760,000	94,269,000	2,261,029,000	\$ 59,739,000	\$ 7,594,000	\$ 52,145,000	\$ 44,945,103	\$ 5,025,817	\$ 4,523,235	
2	February	2,123,854,000	92,403,000	2,216,257,000	\$ 58,557,000	\$ 7,444,000	\$ 51,113,000	\$ 44,055,104	\$ 4,926,828	\$ 4,434,145	
3	March	2,102,401,000	91,469,000	2,193,870,000	\$ 57,965,000	\$ 7,369,000	\$ 50,596,000	\$ 43,610,104	\$ 4,876,397	\$ 4,388,757	
4	April	2,021,960,000	110,035,000	2,131,995,000	\$ 60,611,000	\$ 4,081,000	\$ 56,530,000	\$ 41,941,516	\$ 11,670,898	\$ 10,503,808	
5	May	2,370,603,000	106,963,000	2,477,566,000	\$ 67,880,000	\$ 4,182,000	\$ 63,698,000	\$ 49,173,418	\$ 11,774,573	\$ 10,597,116	
6	June	2,688,473,000	117,858,000	2,806,331,000	\$ 87,847,000	\$ 5,386,000	\$ 82,461,000	\$ 55,766,995	\$ 23,230,875	\$ 20,907,788	
7	July	3,026,292,000	115,370,000	3,141,662,000	\$ 111,624,000	\$ 6,943,000	\$ 104,681,000	\$ 62,774,375	\$ 38,062,466	\$ 34,256,219	
8	August	3,240,023,000	100,171,000	3,340,194,000	\$ 115,651,000	\$ 6,340,000	\$ 109,311,000	\$ 67,207,797	\$ 38,825,013	\$ 34,942,512	
9	September	2,662,727,000	88,723,000	2,751,450,000	\$ 86,342,000	\$ 4,970,000	\$ 81,372,000	\$ 55,232,946	\$ 23,515,140	\$ 21,163,626	
10	October	2,094,785,000	97,638,000	2,192,423,000	\$ 60,615,000	\$ 5,933,000	\$ 54,682,000	\$ 43,452,125	\$ 8,794,651	\$ 7,915,186	
11	November	1,998,764,000	100,819,000	2,099,583,000	\$ 51,294,000	\$ 6,351,000	\$ 44,943,000	\$ 41,460,362	\$ 1,324,539	\$ 1,192,085	
12	December	2,145,307,000	93,336,000	2,238,643,000	\$ 59,148,000	\$ 7,519,000	\$ 51,629,000	\$ 49,476,426	\$ 44,500,103	\$ 4,976,323	
13	Total	28,641,949,000	1,209,054,000	29,851,003,000	\$ 877,273,000	\$ 74,112,000	\$ 803,161,000	\$ 771,123,468	\$ 594,119,948	\$ 177,003,520	
14										Move forward to Schedule 3, Line 1	\$ 159,303,168

¹ PSA Retail Energy Sales are the calendar month's kWh sales. Retail Energy Sales of 60,000 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 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)		\$ 61,654,419
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
	\$ -	\$ -	\$ -	\$ 0.000161	\$ 0.000161	\$ 0.000161	\$ 0.000161	\$ 0.000161	\$ 0.000161	\$ 0.000161	\$ 0.000161	\$ 0.000161
	\$ 3,401,173	\$ 8,046,832	\$ 12,600,617	\$ 17,106,519	\$ 27,399,542	\$ 37,741,187	\$ 58,351,670	\$ 92,287,386	\$ 126,934,993	\$ 44,392,737	\$ 52,285,703	\$ 53,473,023
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100,000,000	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,564,160	\$ -	\$ -	\$ -
	\$ 3,401,173	\$ 8,046,832	\$ 12,600,617	\$ 17,106,519	\$ 27,399,542	\$ 37,741,187	\$ 58,351,670	\$ 92,287,386	\$ 23,370,833	\$ 44,392,737	\$ 52,285,703	\$ 53,473,023
	\$ 122,424	\$ 119,640	\$ 117,145	\$ 114,644	\$ 126,072	\$ 135,397	\$ 166,571	\$ 226,568	\$ 286,837	\$ 314,930	\$ 316,931	\$ 304,092
	\$ 4,523,235	\$ 4,434,145	\$ 4,388,757	\$ 4,323,429	\$ 4,256,219	\$ 4,187,074	\$ 4,117,929	\$ 4,048,783	\$ 3,979,637	\$ 3,910,491	\$ 3,841,345	\$ 3,772,199
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	\$ 4,523,235	\$ 4,434,145	\$ 4,388,757	\$ 4,323,429	\$ 4,256,219	\$ 4,187,074	\$ 4,117,929	\$ 4,048,783	\$ 3,979,637	\$ 3,910,491	\$ 3,841,345	\$ 3,772,199
	\$ 8,046,832	\$ 12,600,617	\$ 17,106,519	\$ 27,399,542	\$ 37,741,187	\$ 58,351,670	\$ 92,287,386	\$ 126,934,993	\$ 44,392,737	\$ 52,285,703	\$ 53,473,023	\$ 57,910,524
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	\$ 8,046,832	\$ 12,600,617	\$ 17,106,519	\$ 27,399,542	\$ 37,741,187	\$ 58,351,670	\$ 92,287,386	\$ 126,934,993	\$ 44,392,737	\$ 52,285,703	\$ 53,473,023	\$ 57,910,524
	\$ 0.002697	\$ 0.002697	\$ 0.002697	\$ 0.002697	\$ 0.002697	\$ 0.002697	\$ 0.002697	\$ 0.002697	\$ -	\$ -	\$ -	\$ -
	\$ 49,254,272	\$ 43,411,043	\$ 37,784,452	\$ 32,202,633	\$ 26,824,766	\$ 20,494,190	\$ 13,291,676	\$ 5,161,400	\$ -	\$ -	\$ -	\$ -
	\$ 5,843,229	\$ 5,727,522	\$ 5,609,688	\$ 5,492,738	\$ 5,375,788	\$ 5,258,838	\$ 5,141,888	\$ 5,024,938	\$ 4,907,988	\$ 4,791,038	\$ 4,674,088	\$ 4,557,138
	\$ 43,411,043	\$ 37,784,452	\$ 32,202,633	\$ 26,824,766	\$ 20,494,190	\$ 13,291,676	\$ 5,161,400	\$ (3,564,160)	\$ -	\$ -	\$ -	\$ -
	\$ 114,516	\$ 100,931	\$ 87,849	\$ 74,871	\$ 62,368	\$ 47,649	\$ 30,903	\$ 12,000	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.003357	\$ 0.003357	\$ 0.003357	\$ 0.003357
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100,000,000	\$ 91,061,225	\$ 84,029,032	\$ 77,319,181
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,938,776	\$ 7,032,193	\$ 6,709,851	\$ 7,201,786
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 91,061,225	\$ 84,029,032	\$ 77,319,181	\$ 70,117,386
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 232,500	\$ 211,717	\$ 195,367	\$ 179,767
	\$ 51,457,875	\$ 50,385,069	\$ 49,309,152	\$ 48,233,235	\$ 47,157,318	\$ 46,081,401	\$ 45,005,484	\$ 43,929,567	\$ 42,853,650	\$ 41,777,733	\$ 40,701,816	\$ 39,625,899
	\$ 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 of \$0.000000 takes effect on April 1, 2006. The new 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, 2005, 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.