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State Regulation and Compliance

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ORIGINAL

October 4, 2016

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

RE: Arizona Public Service Company (APS or the Company)
Rate Rider Alternative Generation-1 (AG-1) Plan of Administration
Docket No. E-01345A-11-0224

In Decision No. 75748, the Company was required to:

...file, as a compliance item in this docket, an updated AG-1 Plan of Administration consistent with the Decision in this case within 15 days of the effective of the Decision. (*Decision No. 75748, page 4, line 4*).

Attached please find both a redlined and a clean copy of the updated AG-1 Plan of Administration as required.

Sincerely,

Kerri A. Carnes

KC/ac

cc: Parties of Record

Arizona Corporation Commission
DOCKETED

OCT 04 2016

DOCKETED BY

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Phoenix, AZ 85004



**Alternative Generation (“AG-1”) Deferral
Plan of Administration**

1. General Description

This document describes the plan of administration of the deferral for the AG-1 rate rider approved for Arizona Public Service Company (“APS” or “Company”) by the Arizona Corporation Commission (“ACC”) on November 25, 2015 in Decision No. 75322. The AG-1 rate rider is a buy-through rate that provides an opportunity for a limited number of industrial and large commercial customers to arrange for an alternate source of generation in lieu of APS’s standard bundled generation service.

2. Deferral Description

APS is permitted to defer for possible future recovery 90 percent up to \$10,000,000 and 100 percent above \$10,000,000 in unmitigated unrecovered costs for every 12 month period after June 30, 2016 and until new rates become effective, with The deferrals shall be subject to review in the Company’s next rate case. No amount of the deferral shall be recovered from residential customers.

3. Deferral Components

APS Generation Retail Unrecovered Costs – Revenue from unbundled retail generation rate that APS would have recovered absent the AG-1 program.

Avoided Fuel Costs – Base cost of fuel and purchased power as recorded in Schedule 2 of APS’s monthly Power Supply Adjustor (“PSA”) compliance filing.

AG-1 Specific Charges – Monthly management fee and reserve capacity charge applied to participating customers’ bills.

Wholesale Margins – Off-system margin attributable to the AG-1 program as recorded in Schedule 3 of APS’s monthly PSA compliance filing.

Unmitigated Unrecovered Costs – APS Generation Retail Unrecovered Costs minus Avoided Fuel Costs, AG-1 Specific Charges and Wholesale Margins.



**PLAN OF ADMINISTRATION
ALTERNATIVE GENERATION DEFERRAL**

4. Deferral Calculation

Calculation for the APS Generation Retail Unrecovered Costs, Avoided Fuel Costs and AG-1 Specific Charges will be calculated specific to each service account enrolled in the AG-1 program. APS Generation Retail Unrecovered Costs for each customer will be calculated according to their monthly billing determinants and the unbundled generation charges on their retail rate. Avoided Fuel Costs will be calculated based on each customer's monthly kWh and the base fuel rate found in Schedule 2 of APS's monthly PSA compliance filing. The lost revenue and fuel costs associated with the PSA fuel adjustor rate are not specifically included as they net out to zero. AG-1 Specific Charges will be obtained from each specific customer's monthly bills. Wholesale Margins will be applied to each service account enrolled in the AG-1 program by pro rata MWh share.

Example deferral calculation:

	(\$000)
(a) APS Generation Retail Unrecovered Costs	15,000
(b) Avoided Fuel Costs	4,000
(c) AG-1 Specific Charges	1,000
(d) Wholesale Margins	4,000
(e) Unmitigated Unrecovered Costs (a-b-c-d)	6,000
(f) Deferred amount (e x 90%)	5,400

Deferred amount is \$5,400,000 (90% of unmitigated unrecovered costs if (e) above is \$10,000,000 or less in any 12 month period following June 30, 2016).

5. Documentation to be maintained in support of the Deferral Calculation:

For any Alternative Generation deferral amount calculated and recorded in the Company's books during any period, the Company shall maintain and provide to Commission Staff the following:

- i. A schedule showing how each of the following amounts used in the Deferral Calculation was calculated:
 - a. APS Generation Retail Unrecovered Costs,
 - b. Avoided Fuel Costs,
 - c. AG-1 Specific Charges, and
 - d. Wholesale Margins.
- ii. Documentation that supports and is cross-referenced to each amount in the schedule (e.g. each service account in the AG-1 program, monthly billing determinants, etc.).
- iii. The Company shall maintain and provide to Commission Staff upon request monthly balances applicable to each AG-1 customer.



**PLAN OF ADMINISTRATION
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AG-1 Specific Charges – Monthly management fee and reserve capacity charge applied to participating customers’ bills.

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Unmitigated Unrecovered Costs – APS Generation Retail Unrecovered Costs minus Avoided Fuel Costs, AG-1 Specific Charges and Wholesale Margins.



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 - b. Avoided Fuel Costs,
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