



**Environmental Improvement Surcharge
Plan of Administration**

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1. General Description

This document describes the plan for administering the Environmental Improvement Surcharge (EIS) approved for Arizona Public Service Company (APS or Company) by the Arizona Corporation Commission (ACC or Commission) on November 9, 2021 in Decision No. 78317. The EIS provides for the recovery of the capital carrying costs effect of actual environmental investments made by APS and not already recovered in base rates approved in Decision No. 78317 or recovered through another Commission approved adjustment. The EIS will be calculated annually based on the EIS Qualified Investments closed to plant-in-service during the preceding calendar year.

2. Definitions

Annual EIS Adjustment - The Annual EIS Adjustment represents the EIS Capital Carrying Costs on the Qualified Net Plant to be recovered in the subsequent 12-month period and is assessed to customer bills via the EIS \$/kWh rate.

EIS Capital Carrying Costs - EIS Capital Carrying Costs consists of (1) Return on the Qualified Net Plant calculated based on the Company’s Weighted Average Cost of Capital (WACC) approved by the Commission in Decision No. 78317 plus a return on the fair value increment (if any) for the Qualified Net Plant; (2) depreciation expense; (3) income taxes; (4) property taxes and (5) associated operations and maintenance expenses (O&M).

EIS Qualified Investments - Investments in Qualified Environmental Improvement Projects. Each EIS Qualified Investment must: (1) be classified in one or more of the FERC plant accounts as listed in Section 3 of this document, or any other successor FERC account, upon going into service and (2) be tracked by a specific project number.

Fair Value Increment - For purposes of the EIS, the difference between the Fair Value of the EIS Qualified Investments and Qualified Net Plant shall be deemed to be zero.

Qualified Environmental Improvement Projects - Projects designed to comply with established environmental standards required by federal, state, tribal, or local laws and regulations. These standards and criteria for water, waste and air include but are not limited to limits for carbon dioxide (CO2), sulfur oxide (SOx), nitrogen oxide (NOx), particulate matter (PM), volatile

organic compounds (VOC), and toxics such as mercury (Hg), coal ash management, and requirements under the clean and safe drinking water acts.

Qualified Net Plant – The Qualified Net Plant consists of the EIS Qualified Investments and their associated accumulated depreciation, accumulated deferred income taxes, tax credits and, in the event of federal corporate tax reform, any related unamortized excess deferred taxes, where applicable.

Total kWh Sales – The total prior calendar year energy (kWh) sales served under applicable ACC jurisdictional electric rate schedules, except Rate Schedules E-36 XL and AG-X as reported in the Company's FERC Form No. 1.

3. Qualified FERC Accounts

1. Steam Production

- FERC Account 310 – Land and Land Rights
- FERC Account 311 – Structures and Improvements
- FERC Account 312 – Boiler Plant Equipment
- FERC Account 313 – Engines and Engine-Driven Generators
- FERC Account 314 – Turbogenerator Units
- FERC Account 315 – Accessory Electric Equipment
- FERC Account 316 – Miscellaneous Power Plant Equipment

2. Nuclear Production

- FERC Account 320 – Land and Land Rights
- FERC Account 321 – Structures and Improvements
- FERC Account 322 – Reactor Plant Equipment
- FERC Account 323 – Turbogenerator Units
- FERC Account 324 – Accessory Electric Equipment
- FERC Account 325 – Miscellaneous Power Plant Equipment

3. Other Production

- FERC Account 340 – Land and Land Rights
- FERC Account 341 – Structures and Improvements
- FERC Account 342 – Fuel Holders, Products, and Accessories
- FERC Account 343 – Prime Movers
- FERC Account 344 – Generators
- FERC Account 345 – Accessory Electric Equipment
- FERC Account 346 – Miscellaneous Power Plant Equipment

Please note this list may expand to include other accounts approved by the ACC in the future.

4. Calculation of Annual EIS Adjustment

The Annual EIS Adjustment is calculated utilizing the accumulation of Qualified Net Plant and calculated EIS Capital Carrying Costs, as defined above and is applied to applicable customers' total bill via a \$/kWh rate over the 12-month period beginning in April of the year following the filing described in Section 6 below. The EIS \$/kWh rate is calculated by dividing the Annual EIS Adjustment by Total kWh Sales as determined in Schedule 3 of the filing. The EIS rate will



not exceed \$0.00050 per kWh.

5. EIS Balancing Account

APS will maintain accounting records that accumulate the difference between the actual allowable Annual EIS Adjustment as compared to the actual revenues received by the Company through the EIS surcharge during the recovery period (April through March). The difference will be recorded to the EIS Balancing Account each month and will be provided annually in Schedule 3 of the filing. In the event that Annual EIS Adjustments are more or less than the revenues collected as of the last billing cycle of March, the over or under collection will be subtracted from or added to the EIS calculation in the subsequent period subject to the overall cap of \$0.00050 per kWh.

6. Filing and Procedural Deadlines

EIS Qualified Projects and the Annual EIS Adjustment calculation will be submitted by the Company to the ACC in the form of Schedules 1 through 3 as attached to this document and described in Section 7 *Compliance Reports*. APS will file the calculated EIS \$/kWh rate including all supporting data, with the Commission for the previous year on or before February 1st.

The Commission Staff and interested parties shall have the opportunity to review the EIS filing and supporting data in the adjustor calculation. Unless the Commission has otherwise acted or Staff has filed an objection by April 1st, the new EIS \$/kWh rate proposed by APS will go into effect with the first billing cycle in April (without proration) and will remain in effect for the following 12-month period.

7. Compliance Reports

APS will provide an annual report to Staff and the Residential Utility Consumer Office detailing all calculations related to the EIS \$/kWh rate. The reports will include the following Schedules 1 through 3 as attached to this document:

- Schedule 1: Qualified Investments for EIS Electric Plant in Service
- Schedule 2: Annual EIS Adjustment Calculation
- Schedule 3: Current Year EIS Cap Calculation and Adjustment

ARIZONA PUBLIC SERVICE COMPANY
Schedule 1 - EIS
 QUALIFIED INVESTMENTS
 ELECTRIC PLANT IN SERVICE
 FOR CALENDAR YEARS 20XX - 20XX

Line No.	(A) Project Tracking Number	(B) Project Name	(C) Purpose	(D) In-Service Date	(E) Total Cost
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
Totals					\$ -

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Schedule 2 - EIS

ANNUAL EIS ADJUSTMENT CALCULATION
 PLANT IN SERVICE CALENDAR YEARS 20XX-20XX
 BILLING PERIOD 4/1/20XX - 3/30/20XX
 (Thousands of Dollars)

Line No.	(A) Annual EIS Adjustment Calculation	(B) Reference	(C) Totals
Qualified Plant			
1.	Qualified Environmental Improvement Projects	Schedule 1, Total Line, Column F	\$ -
2.	Accumulated Depreciation		-
3.	Cumulative Deferred Tax/Tax Credits/Excess Deferred Taxes ¹		-
4.	Qualified Net Plant	Line 1 - Line 2 - Line 3	<u>\$ -</u>
5.	Pre-tax Weighted Average Cost of Capital	Decision No. 76295	0.0000%
Capital Carrying Cost			
6.	Composite Return on EIS Net Plant	Line 4 * Line 5	\$ -
7.	Annual Depreciation of Plant In Service		-
8.	Applicable Property Tax		-
9.	Associated O&M Expense		-
10.	Total Annual EIS Adjustment	Line 6 + Line 7 + Line 8 + Line 9	<u><u>\$ -</u></u>

¹ In the event of a Federal Corporate Tax Rate Change

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Schedule 3 - EIS

CURRENT YEAR EIS CAP CALCULATION AND ADJUSTMENT

PLANT IN SERVICE CALENDAR YEARS 20XX-20XX

BILLING PERIOD 4/1/20XX - 3/30/20XX

(Thousands of Dollars)

Line No.	(A) EIS Rate Calculation	(B) Reference	(C) Totals
1.	EIS Adjustment Prior Year	Previous Filing Schedule 2, Line 10	\$ -
2.	EIS Revenue Billed Prior Year		-
3.	EIS Balancing Account	Line 1 - Line 2	<u>\$ -</u>
4.	Current Year Annual EIS Adjustment	Schedule 2, Line 10	\$ -
5.	Total Current Year Annual EIS Adjustment	Line 3 + Line 4	<u>\$ -</u>
6.	Applicable Company Sales, excluding E-36XL and AG-X (kWhs)	FERC Form 1	-
7.	EIS Rate (\$/kWh)	Line 5 / Line 6	\$ -
8.	EIS Rate Cap (\$/kWh)		\$ 0.00050
9.	EIS \$ per kWh Rate Applied to Customer's Bills (\$/kWh)	(Lesser of Line 7 and Line 8)	<u><u>\$ -</u></u>