



**Power Supply Adjustment  
Plan of Administration**

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**1. General Description**

This document describes the plan for administering the Power Supply Adjustment mechanism (PSA) approved for Arizona Public Service Company (APS) by the Commission on June 28, 2007 in Decision No. 69663, and subsequently amended by the Commission in Decision Nos. 71448 (December 30, 2009), 73183 (May 24, 2012), 76295 (August 18, 2017), 78317 (November 9, 2021), and 79293 (Date March 5, 2024). The PSA provides for the recovery of fuel and purchased power costs and other production-related variable costs to the extent that those costs deviate from the amount recovered through APS’s Base PSA Cost (\$0.038321 per kWh) authorized in Decision No. 79293, on March 5, 2024.

Non-fuel production costs included in the PSA relate to environmental chemical expenses, which vary directly with power plant production. The production-related environmental chemical costs are limited to expenses for lime, sulfur and ammonia used at fossil fuel generation sites. The PSA allows for the refund or recovery of said costs that deviate from the base cost amount of \$0.000744 per kWh<sup>1</sup>.

In addition, the PSA allows for the refund or recovery of the net margins from sales of emission allowances to the extent the actual sales margins deviate from the base cost amount of (\$0.000001) per kWh,<sup>2</sup> and for recovery of mandated carbon emission costs when it is economical to incur those costs as discussed below.

APS shall not incur mandatory carbon emission allowance costs unless it passes those costs on to the California entities that are purchasing energy from APS. In no event shall APS incur

<sup>1</sup> \$0.000744 per kWh is the result of the following: (2021-2022 Test Year chemical costs of \$21,278,000 / 2021-2022 Test Year native load sales of 28,592,000 MWh) / 1000.

<sup>2</sup>(\$0.000001) per kWh is the result of the following: (2015 net gains from sales of SO<sub>2</sub> allowances of \$25,181 / 2015 test year native load sales of 27,030,686 MWh) / 1000.



California's carbon emission allowance costs when doing so is not an economical choice for APS's Arizona ratepayers.

The PSA described in this Plan of Administration ("POA") uses a forward-looking estimate of fuel and purchased power costs and environmental chemical costs for fossil fuel production, and margins on the sales of emission allowances ("PSA Costs") to set a rate that is then reconciled to actual costs experienced.

This PSA includes a limit of \$0.006 per kilowatt-hour (kWh) on the amount the PSA rate may change in any one year absent express approval of the Commission. This PSA also provides a mechanism for mid-year rate adjustment by either the Commission or the Company (only if overcollection occurs) in the event that conditions change sufficiently to cause extraordinarily high balances to accrue under application of this PSA.

## 2. PSA Components

The PSA Rate will consist of three components designed to provide for the recovery of actual, prudently incurred PSA Costs. Those components are:

1. The Forward Component, which recovers or refunds differences between expected PSA Year's<sup>3</sup> PSA Costs and those embedded in base rates.
2. The Historical Component, which tracks the differences between the PSA Year's actual PSA Costs (fuel, purchased power and other allowable costs) and the recovery of those same cost elements through the combination of base rates and the Forward Component, and which provides for their recovery or refund during the next PSA Year.
3. The Transition Component, which provides for:
  - a. The opportunity to seek mid-year changes in the PSA Rate in cases where variances between the anticipated recovery of fuel and purchased power and other allowable costs for the PSA Year under the combination of base rates and the Forward Component become so large as to warrant recovery/refund, should the Commission deem such an adjustment to be appropriate or if the Company requests to make such a refund of an overcollection.
  - b. The tracking of balances resulting from the application of the Transition Components in order to provide a basis for the refund or recovery of any such balances.

Except for circumstances when the Commission approves new base rates, a PSA Year begins on February 1 and ends on the ensuing January 31. In the event that new base rates become effective on a date other than February 1, the Commission may, at its discretion, adjust any or all of the PSA components to reflect the new base rates.

On or before November 30 of each year, APS will submit a PSA Rate filing, which shall include a calculation of the three components of the proposed PSA Rate. This filing shall be accompanied by such supporting information as Staff determines to be required.

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<sup>3</sup> Each February 1 through January 31 period shall constitute a PSA Year.

a. Forward Component Description

The Forward Component is intended to refund or recover the difference between: (1) PSA Costs embedded in base rates and (2) the forecast PSA Costs over a PSA Year that begins on February 1 and ends on the ensuing January 31. APS will submit, on or before November 30 of each year, a forecast for the upcoming PSA year (February 1-January 31) of its PSA Costs. It will also submit a forecast of kWh sales for the same period, and divide the forecast costs by the forecast sales to produce the cents/kWh unit rate required to collect those costs over those sales. The result of subtracting the Base PSA Costs from this unit rate shall be the Forward Component.

APS shall maintain and report monthly the balances in a Forward Component Tracking Account, which will record APS's over/under-recovery of its actual PSA Costs as compared to the Base PSA Costs recovered in revenue. The balance calculated as a result of these steps is then reduced by the current month's collection of Forward Component revenue. This account will operate on a PSA Year basis (i.e., February to January), and its balances will be used to administer this PSA's Historical Component, which is described immediately below.

b. Historical Component Description

The Historical Component in any current PSA Year is intended to refund or recover the balances accumulated in the Forward Component Tracking Account (described above) and Historical Component Tracking Account (described below) during the immediately preceding PSA Year. The sum of the projected Forward Component Tracking Account balance on January 31 of the following calendar year and the projected Historical Component Tracking Account balance on January 31 of the following calendar year is divided by the forecast kWh sales used to set the Forward Component for the coming PSA Year. That result comprises the proposed Historical Component for the coming PSA year.

APS shall maintain and report monthly the balances in a Historical Component Tracking Account, which will reflect monthly collections under the Historical Component and the amounts approved for use in calculating the Historical Component.

Each annual November 30 APS filing will include an accumulation of Forward Component Tracking Account balances and Historical Component Tracking Account balances for the preceding February through October and an estimate of the balances for November through January (the remaining three months of the current PSA Year). The APS filing shall use these balances to calculate the Historical Component for the coming PSA Year<sup>4</sup>.

The November 30 filing's use of estimated balances for November through January (with supporting workpapers) is required to allow the PSA review process to begin in a way that will support its completion and a Commission decision, if necessary, prior to February 1.

The Historical Component Tracking Account will measure the changes each month in the Historical Component balance used to establish the current Historical Component as a result of

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<sup>4</sup> For example, the November 30, 2008 filing would include actual balances for February through October of 2008 and estimated balances for November 2008 through January 2009.

collections under the Historical Component in effect. It will subtract each month's Historical Component collections from the Historical Component balance. The Historical Component Account will also include Applicable Interest on any balances. APS shall file the amounts and supporting calculations and workpapers for this account each month.

c. Transition Component Description

The Transition Component will be used as the method for incorporating any approved mid-year changes to the PSA rate. APS or Staff may request at any time a change in the PSA rate through an adjustment to the Transition Component to address a significant imbalance between anticipated collections and costs for the PSA Year under the Forward Component element of this PSA. After the review of such request, the Commission may provide for the refund or collection of such balance (through a change to the Transition Component Balance) over such period as the Commission determines appropriate through a unit rate (\$/kWh) imposed as part of the Transition Component. The Commission on its own motion may also change the PSA rate as described above.

Notwithstanding the preceding paragraph, APS may at any time during the PSA Year request to reduce the PSA through the Transition Component, which shall be deemed approved and become effective beginning with the first billing cycle of the month following the filing of such a request, provided APS files the request within the first 15 days of a month and Staff does not file opposition to the request.

A Transition Component Tracking Account will measure the changes each month in the Transition Component balance. APS, Staff, or the Commission on its own motion may request that the balance in any Transition Component Tracking Account at the end of the period set for recovery be included in the establishment of the Transition Component for the coming PSA Year.

The Transition Component Account will also include Applicable Interest as determined by the Commission. APS shall file the amounts and supporting calculations and workpapers for this account each month.

As it must do for the Historical Component filing, APS shall file on or before November 30 of each year an accumulation of Transition Component Tracking Account balances for the preceding February through October and an estimate of the balances for November through January (the remaining three months of the prior PSA Year). Those balances will form the basis for setting the preliminary Transition Component for the coming PSA Year.

**3. Calculation of the PSA Rate**

The PSA Rate is the sum of the three components; *i.e.*, Forward Component, Historical Component and Transition Component. The PSA rate shall be applied to customer bills. Unless the Commission has otherwise acted on a new PSA Rate by February 1, the proposed PSA Rate shall go into effect. However, the PSA Rate may not change from the prior year's PSA Rate by more than plus or minus \$0.006 per kWh without an offsetting change in the Base Cost of Fuel and Purchased Power. The PSA Rate shall be applicable to APS's retail electric rate schedules



(with the exception of E-36 XL, AG-X, Direct Access service and any other rate that is exempt from the PSA) and is adjusted annually. The PSA Rate shall be applied to the customer's bill as a monthly kWh charge that is the same for all customer classes.

The PSA Rate shall be reset on February 1 of each year, and shall be effective with the first February billing cycle unless suspended by the Commission. It is not prorated.

#### **4. Filing and Procedural Deadlines**

##### a. Annual November 30 Filing

APS shall file the PSA Rate with all Component calculations for the PSA Year beginning on the next February 1, including all supporting data, with the Commission on or before November 30 of each year. That calculation shall use a forecast of kWh sales and of PSA Costs for the coming PSA year, with all inputs and assumptions being the most current available for the Forward Component where both forecast sales and forecast cost utilize the PSA year. The filing will also include the Historical Component calculation for the year beginning on the next February 1, with all supporting data. That calculation shall use the same forecast of sales used for the Forward Component calculation. The Transition Component filing shall also include a proposed method for addressing the over or under recovery of any Transition Component balances that result from changes in the sales forecasts or recovery periods set or any additions to or subtractions from Transition Component balances reviewed or approved by the Commission since the last February 1 resetting of the new PSA.<sup>5</sup>

##### b. Annual November 30 Filing Review Process

The Commission Staff and interested parties shall have an opportunity to review the November 30 forecast, balances and supporting data on which the calculations of the three PSA components have been based. Any objections to the November 30 calculations shall be filed within 60 days of the APS filing. Unless the Commission has otherwise acted on the APS calculation by February 1, the PSA rate proposed by APS shall go into effect with the first February billing cycle.

##### c. Additional Filings and Notifications

APS shall also file with the Commission any additional information that Staff determines it requires to verify the component calculations, account balances and any other matter pertinent to the PSA.

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<sup>5</sup> This method assumes that the Commission defers the recovery of any approved Transition Component Balance changes until the next February 1 PSA resetting. The Commission may also, as part of the approval of any such Transition Component Balance change, make a PSA change effective on dates and across periods as it determines to be appropriate when it approves such a Transition Component Balance change.

Additionally, APS will file in both the docket in which the then-current PSA rate was approved, if applicable, and in the docket for the most recently completed general rate case notifying Commission Staff when the under-collected or over-collected PSA balance is greater than \$100 million. The notice will include the current balances of the PSA and include a proposal for how the under-collection or over-collection should be addressed through the transition component with supporting calculations. Staff shall, within 60 days after the filing of such notification and proposal, review the notification and proposal, contact APS to obtain any supporting data necessary to review the calculations, and file in the docket in which the then-current PSA rate was approved, with a copy to the docket for the most recently completed general rate case, a Staff Report and Proposed Order analyzing the notification and proposal and recommending whether and in what manner the under-collection or over-collection should be addressed through the transition component of the PSA.

## 5. Verification and Audit

The amounts charged through the PSA shall be subject to periodic audit to assure their completeness and accuracy and to assure that all fuel and purchased power and other allowable costs were incurred reasonably and prudently. The Commission may, after notice and opportunity for hearing, make such adjustments to existing balances or to already recovered amounts as it finds necessary to correct any accounting or calculation errors or to address any costs found to be unreasonable or imprudent. Such adjustments, with appropriate interest, shall be recovered or refunded through the Transition Component.

## 6. Definitions

Applicable Interest – Interest is applied on the PSA balance annually at the following rates: any over-collection existing at the end of the PSA year will be credited an amount equal to interest at a rate equal to the Company’s authorized Return on Equity (“ROE”) or APS’s then-existing short term borrowing rate, whichever is greater, and will be refunded to customers over the following 12 months; any under-collection existing at the end of the PSA Year will be debited an amount equal to interest at a rate equal to the Company’s authorized ROE or APS's then existing short term borrowing rate, whichever is less, and will be recovered from customers over the following 12 months.

Base Chemical Costs – An amount generally expressed as a rate per kWh, which reflects the non-fuel production costs embedded in the base rates as approved by the Commission in APS’s most recent rate case. The production-related environmental chemical costs are limited to expenses for lime, sulfur and ammonia used at fossil fuel generation sites. The Base Chemical Costs are set at \$0.000744 per kWh effective on March 8, 2024.

Base Cost of Fuel and Purchased Power - An amount generally expressed as a rate per kWh, which reflects the fuel and purchased power costs embedded in the base rates as approved by the Commission in APS’s most recent rate case. The Base Cost of Fuel and Purchased Power recovered in base revenue is the approved rate per kWh times the applicable sales volumes. Decision No. 79293 set the base cost at \$0.038321 per kWh effective on March 8, 2024.



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Base Net Margins on the Sale of Emission Allowances - An amount generally expressed as a rate per kWh, which reflects the net margins on sales of SO<sub>2</sub> emission allowances embedded in the base rates as approved by the Commission in APS's most recent rate case. The Base Net Margins on the Sale of Emission Allowances is set at (\$0.000001) per kWh effective on March 8, 2024.

Base PSA Costs - A rate equal to the sum of Base Cost of Fuel and Purchased Power as defined above, the Base Chemical Costs, and the Base Net Margins on the Sale of Emission Allowances.

Forward Component - An amount generally expressed as a rate per kWh charge that is updated annually on February 1 of each year and is effective with the first billing cycle in February. The Forward Component for the PSA Year will adjust for the difference between the forecast PSA Costs generally expressed as a rate per kWh less the Base PSA Costs generally expressed as a rate per kWh embedded in APS's base rates. The result of this calculation will equal the Forward Component, generally expressed as a rate per kWh.

Forward Component Tracking Account - An account that records on a monthly basis APS's over/under-recovery of its actual PSA Costs as compared to the actual Base PSA Costs recovered in revenue and Forward Component revenue, plus Applicable Interest. The balance of this account as of the end of each PSA Year is, subject to periodic audit, reflected in the next Historical Component calculation. APS files the balances and supporting details underlying this Account with the Commission on a monthly basis.

Historical Component - An amount generally expressed as a rate per kWh charge that is updated annually on February 1 of each year and is effective with the first billing cycle in February unless suspended by the Commission. The purpose of this charge is to provide for a true-up mechanism to reconcile any over or under-recovered amounts from the preceding PSA Year tracking account balances to be refunded/collected from customers in the coming year's PSA rate.

Historical Component Tracking Account - An account that records on a monthly basis the account balance to be collected via the Historical Component rate as compared to the actual Historical Component revenues; plus Applicable Interest at year end. The balance of which at the close of the preceding PSA Year is, subject to periodic audit, then reflected in the next Historical Component calculation. APS files the balances and supporting details underlying this Account with the Commission on a monthly basis.

ISFSI - Costs associated with the Independent Spent Fuel Storage Installation that stores spent nuclear fuel.

Mandated Carbon Emission Allowance Costs - The costs incurred in purchasing allowances to meet legal requirements, beginning in 2013, that electricity from resources which emit carbon must be accompanied by carbon emission allowances equal to the amount of carbon emitted in generating the electricity (recorded in FERC Account 509 - Allowances).

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



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Native Load - Native load refers to the energy needed for customer load in the balancing authority area for which APS has a generation service obligation.

Net Margins on the Sale of Emission Allowances - Revenues incurred from the sale of emission allowances net of the costs incurred to produce the excess allowances.

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

PSA - The Power Supply Adjustment mechanism approved by the Commission.

PSA Costs - The combination of System Book Fuel and Purchased Power Costs net of the System Book Off-System Sales Revenues plus costs for environmental chemicals used in power production at fossil and nuclear production sites, storage product costs and the Net Margins on the Sales of Emission Allowances.

PSA Year - A consecutive 12-month period generally beginning each February 1.

Storage Product Costs - All costs associated with third-party storage facilities, including rent, capacity, and lease payments for electricity storage facilities (e.g., batteries) that APS utilizes in the dispatch of generated or purchased electricity.

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 XL, AG-X, RCDAC-1, ISFSI, and Mark-to-Market Accounting adjustments. Wheeling costs and broker fees are included up to the level in the Base Cost of Fuel and Purchased Power authorized in Decision No. 78317.

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.

Traditional Sales-for-Resale - The portion of load from Native Load wholesale customers that is served by APS, excluding the load served with Preference Power.

Transition Component - An amount generally expressed as a rate per kWh charge to be applied when necessary to provide for significant changes between estimated and actual costs under the Forward Component.

Transition Component Tracking Account - An account that records on a monthly basis the account balance to be collected via the Transition Component as compared to the actual Transition Component revenues, plus applicable interest; the balance of which upon Commission consideration may then be reflected in the next Transition Component calculation. APS files the



balances and supporting details underlying this Account with the Commission on a monthly basis.

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

## 7. Schedules

Samples of the following schedules are attached to this Plan of Administration.

Schedule 1	PSA Rate Calculation
Schedule 2	PSA Forward Component Rate Calculation
Schedule 3	PSA Year Forward Component Tracking Account
Schedule 4	PSA Historical Component Rate Calculation
Schedule 5	Historical Component Tracking Account
Schedule 6	PSA Transition Component Rate Calculation
Schedule 7	PSA Transition Tracking Account

## 8. Compliance Reports

APS shall provide monthly reports to Staff and to the Residential Utility Consumer Office detailing all calculations related to the PSA. An APS Principal Officer, as listed in APS's annual report filed with the Commission's Corporations Division, 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 be due within 30 days of the end of the reporting period.

The publicly available reports will include at a minimum:

1. The PSA Rate Calculation (Schedule 1); Forward Component, Historical Component, and Transition Component Calculations (Schedules 2, 4, and 6); Annual Forward Component, Historical Component and Transition Component Tracking Account Balances (Schedules 3, 5, and 7). Additional information will provide other relative inputs and outputs such as:
  - a. Total power and fuel costs
  - b. Margins on the sale of excess emission allowances
  - c. Environmental chemical costs for fossil generation
  - d. Customer sales in both MWh and thousands of dollars by customer class
  - e. Number of customers by customer class
  - f. A detailed listing of all items excluded from the PSA calculations
  - g. A detailed listing of any adjustments to the adjustor reports
  - h. Total off-system sales revenues
  - i. System losses in MW and MWh
  - j. Monthly maximum retail demand in MW
2. Identification of a contact person and phone number from APS for questions.

APS shall provide to Commission Staff monthly reports containing the information listed below. These reports shall be due within 30 days of the end of the reporting period. All of these additional reports will be provided confidentially.

A. Information for each generating unit shall include the following items:

1. Net generation, in MWh per month, and 12 months cumulatively
2. Average heat rate, both monthly and 12-month average
3. Equivalent forced-outage factor, both monthly and 12-month average
4. 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

B. Information on power purchases shall include the following items per seller (information on economy interchange purchases may be aggregated):

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

C. Information on off-system sales shall include the following items:

1. An itemization of off-system sales margins per buyer
2. Details on negative off-system sales margins

D. Fuel purchase information shall include the following items:

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 or per MCF, total cost, supply basin and volume by contract

E. APS will also provide:

1. Monthly projections for the next 12-month period showing estimated over/under-collected amounts
2. A summary of unplanned outage costs by resource type
3. A summary of the net margins on the sale of emission allowances
4. The data necessary to arrive at the System and Off-System Book Fuel and Purchased Power cost reflected in the non-confidential filing
5. The data necessary to arrive at the Native Load Energy Sales MWh reflected in the non-confidential filing

Work papers and other documents that contain proprietary or confidential information will be provided to the Commission Staff under an appropriate confidentiality agreement. APS will keep

fuel and purchased power invoices and contracts available for Commission review. 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.

## 9. Allowable Costs

### a. Accounts

The allowable PSA costs include fuel and purchased power costs incurred to provide service to retail customers. And, the prudent direct costs of contracts used for hedging system fuel and purchased power will be recovered under the PSA. Additionally, costs for specified environmental chemicals that vary with power generated at fossil power plants, storage product costs, and the net margins on the sale of emission allowances and Mandated Carbon Emission Allowance Costs will also be refunded or recovered through the PSA. The allowable cost components include the following Federal Energy Regulatory Commission (FERC) accounts:

- 501 Fuel (Steam)
- 518 Fuel (Nuclear) less ISFSI regulatory amortization
- 547 Fuel (Other Production)
- 555 Purchased Power
- 565 Wheeling (Transmission of Electricity by Others)
- 411 O&M (Margins on the Sale of Emission Allowances)
- 509 Allowances<sup>6</sup>

Additionally, broker fees recorded in FERC account 557 up to the amount included in the Base Fuel Cost and costs for environmental chemicals used in power production in FERC accounts 502 and 549 are allowable accounts.

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

### b. Directly Assignable Power Supply Costs Excluded

Decision No. 66567 (November 18, 2003) 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. 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 associated Plan for Administration filed with the Commission.

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<sup>6</sup> Or any successor FERC account used to record the costs of purchasing carbon emission allowances.



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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 XL and AG-X customers are directly assigned power supply costs based on the APS system incremental cost at the time the customer is consuming power from the APS system so their power supply costs and kWh usage are excluded from the PSA.