



Renewable Energy Standard Adjustment Schedule
Plan of Administration

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1. General Description

This document describes the plan for administering Arizona Public Service Company’s (APS or the Company) Adjustment Schedule REAC-1, Renewable Energy Adjustment Charge (Schedule REAC-1). Schedule REAC-1 is the tariff required by the Arizona Corporation Commission’s (Commission) Renewable Energy Standard and Tariff rules (the Rules) approved in Decision No. 69127 (November 14, 2006) and codified in A.A.C. R14-2-1801 *et. seq.*, which provides for recovery of the costs incurred by the Company to meet its annual renewable energy requirement as set forth in the Rules.¹

2. Allowable Costs

Schedule REAC-1 shall recover the cost of renewable programs included in the Company’s annual Renewable Energy Standard Implementation Plan (RES Plan), and approved by the Commission, that are not otherwise recovered in base rates or other recovery mechanism. Allowable Costs include, but are not limited to, program development, program implementation, purchased power costs not recovered through the Power Supply Adjustor, customer incentives, customer education and communication, technical assistance and training, marketing and advertising, administrative and general expense, funds approved by the Commission for Coal Community Transition or similar programs, monitoring and evaluation, capital carrying costs for renewable energy-related capital investments made by APS² and other relevant costs.

Capital carrying costs include (1) a return at the Company’s Weighted Average Cost of Capital found by the Commission in the Company’s most recent general rate case; (2) depreciation expense; (3) income taxes; (4) property taxes; (5) deferred taxes and tax credits where appropriate and (6) associated operations and maintenance expenses.

3. Balancing Account

Actual Allowable Costs shall be recorded in a separately maintained Balancing Account. Revenues received by APS through Schedule REAC-1, as well as other relevant revenue

¹ The Company’s initial Schedule RES was approved by the Commission in Decision No. 70313 (April 28, 2008) and has been revised on an annual basis as described in this Plan of Administration.

² Capital carrying costs for any APS renewable energy-related capital investments made in conjunction with projects outside the scope of Decision Nos. 71448, 76295, and 78317 shall not be recovered through Schedule REAC-1 without separate Commission approval.



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(including, but not limited to, forfeited PBI Reservation Deposits and Service Schedule 6 payments), shall be credited to the Balancing Account.

4. Adjustor Components

Schedule REAC-1 shall consist of a monthly kilowatt-hour (kWh) charge applied equally to all Standard Offer and Direct Access service. The kilowatt-hour charge is subject to a monthly surcharge limit calculated for specific customer billing classes as determined by the Company and approved by the Commission.

If the Balancing Account has accrued an over or under collected balance in a given period, any such over or under collection shall be included in Schedule REAC-1 in the subsequent calendar year.

5. Determination of the kWh Rate and Surcharge Limits for Schedule REAC-1

In accordance with Commission Decision No. 73183, customers who receive an incentive under the Renewable Energy Standard and install their system after July 1, 2012 will pay the applicable monthly surcharge limit. This provision shall be effective in billing cycle 1 after APS reprograms its billing system to accomplish this, or with the March 2013 billing, whichever is first.

Schedule REAC-1 shall be revised annually to recover projected Allowable Costs for the upcoming calendar year, and shall be based on programs and budgets contained in the Company's RES Plan and approved by the Commission. The Schedule REAC-1 kWh rate and surcharge limits shall be designed using projected billing determinants for the same period. The billing determinants shall include total retail kWh subject to Schedule REAC-1 and the number of customers and associated kWh that are billed under each surcharge limit.

6. Review and Approval Process

Schedule REAC-1 shall be filed for the upcoming calendar year as part of the Company's RES Plan, which is filed on July 1st each year as set forth in the Rules. Supporting information for the calculation of the kWh rate and surcharge limits as shown in Exhibit 1 to this Plan of Administration shall be provided. Schedule REAC-1 shall be updated to reflect the final approved budget for the upcoming year and an updated projected over and under collection in the Balancing Account through the end of the current year.

Once approved by the Commission, the Schedule REAC-1 rate and surcharge limits will be effective each year beginning with billing cycle 1 of the January revenue month or as otherwise ordered by the Commission and will not be prorated.