



Resource Comparison Proxy
Plan of Administration

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1. General Description

This document describes the plan for administering the Resource Comparison Proxy purchase rate (RCP) approved for Arizona Public Service Company (APS or Company) in Arizona Corporation Commission (Commission) Decision No. 75859 (January 3, 2017), as modified by Decision No. 75932 (January 13, 2017) and implemented in Decision No. 76295 (August 18, 2017) and Decision No. 78317 (November 9, 2021) and Decision No. 79293 (March 5, 2024). The RCP is the price at which the Company purchases Exported Energy from residential Customers with qualified on-site solar distributed generation facilities. This price is provided in Rate Rider RCP.

The RCP is a proxy for the avoided cost of providing electrical service that results when a distributed generator exports power to the grid. The RCP is calculated using: (i) a rolling historical five-year weighted average cost of grid-scale solar photovoltaic facilities that the Company owns or has rights to through a solar photovoltaic Purchased Power Agreement (PPA); and (ii) applicable Avoided Transmission Capacity Cost, Avoided Distribution Capacity Cost, and Line Losses.

2. Customer Billing

The Company will provide the Customer a monthly bill credit for the Export Energy based on the applicable RCP.

Any bill credit in excess of the Customer's otherwise applicable monthly bill will be credited on the next monthly bill, or subsequent bills if necessary. After the Customer's December bill, if the remaining Export Energy credits exceed \$25, a check will automatically be issued; otherwise, the Export Energy bill credits will carry forward to the following year.

3. Resource Comparison Proxy Purchase Rate

The RCP will be determined as follows:

- An RCP will be determined for each tranche of new DG Customers, effective September 1 each year or as determined by the Commission, without proration. The RCP may not be reduced by more than 10% each year.
- Each Customer's bill credit will initially be based on the RCP in effect at the time they submit an interconnection application for their system before September 1 provided that they subsequently complete the installation and obtain approval by the appropriate Authority Having Jurisdiction within 180 days of their interconnection application unless, through no fault of the Customer or the Customer's installer, the interconnection is delayed by a third party or APS. In that circumstance, the Customer will have 270 days to complete their interconnection.
- Each Customer's initial RCP will be applicable for 10 years from the time of their interconnection.
- After each Customer's initial 10-year period the bill credit will be based on the purchase rate in effect at that time, and will change from year to year.

4. Definitions

Avoided Cost. In the context of this Plan of Administration, the additional cost APS would incur to acquire electric energy to serve its Customers if electricity was not available from on-site distributed generation sources.

Avoided Distribution Capacity Cost. In the context of this Plan of Administration, the net cost of distribution grid equipment and facilities necessary to distribute electricity to APS Customers if electricity from on-site distributed generation sources was not available.

Avoided Transmission Capacity Cost. In the context of this Plan of Administration, the additional cost of transmission grid equipment and facilities necessary to transmit electricity to APS Customers if electricity from on-site distributed generation sources was not available.

Base Year. For the initial RCP calculation (effective September 1, 2017), the Company's most recent test year, calendar year ending December 31, 2015. Each subsequent annual calculation will use the immediately preceding calendar year as the Base Year. As an example, the RCP that will become effective with the first billing cycle of September 2018 will be calculated with the calendar year ending December 31, 2017 as the Base Year.



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Customer(s). For purposes of this Plan of Administration, an APS Customer taking service under a Residential rate schedule.

Export(ed) Energy. Energy generated by an on-site interconnected solar photovoltaic distributed generation source that is greater than the Customer's electric load at any single point in time and flows into the Company's distribution grid.

Levelized Cost. For purposes of this Plan of Administration, the net present value of the overall cost of building and operating a grid-scale solar photovoltaic generating plant, or the net present value of the overall cost to APS of an executed solar photovoltaic PPA, over the economic life of the asset and converted to equal annual amounts.

Line Losses. Electric energy lost as it is transmitted from a supply source (i.e., an electric generation plant) to a delivery point (i.e., the Customer's residence or place of business).

Partial Requirements Service. Electric service provided to a Customer that has an on-site distributed generation system interconnected to the Company's distribution grid that is configured so that the energy generated first supplies its own electric requirements, and any excess generation (over and above its own requirements at any point in time) is then exported to the Company. The Company supplies the Customer's supplemental electric requirements (those not met by their own generation facilities).

Production Tax Credit. The income tax credit available in the State of Arizona for taxpayers that own a qualified renewable energy generator as defined in A.R.S. §43-1083.02 and §43-1164.03 that produces energy after December 31, 2010 and before January 1, 2021. The amount of Production Tax Credit available is limited by facility and by calendar year.

Revenue Requirement. For purposes of this Plan of Administration, the amount of revenue calculated to be recovered in rates for the APS-owned grid-scale solar facilities included in the RCP calculation. Revenue Requirement expenses include depreciation expense, income taxes, property taxes, deferred taxes and tax credits where appropriate, associated operation and maintenance expense, and an approved debt and equity return.

5. System Eligibility

A distributed generation facility must meet all of the following qualifications to be eligible for the RCP:

- Electricity must be generated using solar photovoltaic panels;
- The facility must be interconnected to the Company's distribution grid; and



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- The generator must be on-site, installed behind the billing meter, and must serve the Customer's load.

Systems of any size are subject to the requirements found in the Arizona Administrative Code Distributed Generation Interconnection Requirements, APS's Interconnection Manual, Interconnection Agreement, and APS's Electric Service Requirements Manual.

SPECIAL CASES

Switching from a grandfathered legacy solar rate. A Customer may switch from a grandfathered solar Legacy rate and net metering rider to a new retail rate and the RCP rider. However, they will lose their grandfathering status and may not subsequently switch back to the grandfathered rate or net metering program. In addition, the bill credits for Export Energy will be based on the annual RCP rate as it changes from year to year excepting where 10 or more years are remaining in the solar grandfathering status. In such instances, the Customer will be eligible for a 10-year lock in the purchase rate in effect at the time of the switch.

Increasing Capacity. If a Customer modifies their generation system to include a material increase in capacity they will no longer be eligible for the initial RCP purchase rate they locked in for ten years; rather their bill credits will be based on the current RCP rate locked in for a period of ten years minus the number of years they received service under a prior RCP rate. For purposes of this Plan of Administration, a material increase in capacity means increasing the capacity by 10% or 1 kW, whichever is greater. Over the term of the Customer's ten year RCP lock, they may only increase their system's capacity by a total of 10% or 1 kW, whichever is greater.

Transferring Service. If a Customer moves to a site that is currently being served under rate rider RCP they will continue service under the rider with the same rate tranche. If a Customer moves their solar system to another site they will no longer be eligible for the initial 10-year lock in the RCP purchase rate; rather their bill credits will be based on the annual RCP rate as it changes from year to year.

6. Calculation of Resource Comparison Proxy Purchase Rate

The RCP is calculated by developing a historical rolling five-year weighted average cost per kWh for all grid-scale renewable solar photovoltaic generating systems used by APS to serve its Customers, both APS-owned facilities and facilities from which APS purchases power through an executed PPA. The calculation methodology is as follows:

The first RCP effective on September 1, 2017 is \$0.12900/kWh, using 2015 as the Base Year inclusive of adjustments as provided for in Decision No. 75859. Subsequent RCPs derived from following the calculations in Steps 1 through 8 below will then be compared to the RCP in effect. If the calculated RCP results in a reduction in the purchase rate from the previous RCP, any such reduction will be no greater than 10% of the previous RCP.

1. Determine appropriate five-year period. The RCP will be calculated using the 5-year period with the Base Year as the final year of the five. Only those grid-scale solar facilities with an in-service date within this 5-year period will be included in the annual RCP calculation.



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If there are no grid-scale solar photovoltaic projects in any particular year of the rolling five-year period described above, the rolling 5-year average will be calculated without a project for that particular year. Calculating the RCP without a project for a particular year (i) is the product of the settlement approved in Decision No. 76295; (ii) is the product of compromise; and (iii) does not establish a precedent for how the RCP should be calculated.

2. Develop/update annual Revenue Requirement for each APS-owned facility. The Company will calculate revenue requirements for each grid-scale solar photovoltaic generation facility owned by the Company that qualifies for inclusion in the RCP calculation as determined in Step 1. The annual designed output of the facility, including degradation, will be used for this calculation. This step provides an annual revenue requirement cost in dollars for each year of the facility's depreciable life.

3. Incorporate applicable Production Tax Credit. All expected available annual Production Tax Credit tax savings (in dollars) for the above APS facilities will be calculated based on expected annual energy production and subtracted from the annual facility cost derived in Step 2 above for each year.

4. Develop/update annual cost of power from each PPA facility. The Company will calculate an annual cost of purchased power for each facility from which APS purchases power under an executed agreement that qualifies for inclusion in the RCP calculation as determined in Step 1. The annual cost for each of these facilities will be calculated separately for the contract life of each PPA using the contract price and the designed output, including degradation, of the facilities, including contractual escalation factors, as appropriate.

5. Calculate individual facility Levelized Cost. The Levelized Cost for each of the facilities will then be calculated using the data derived in Steps 2 through 4 above. The net present value discount rate used in the Levelized Cost calculations will be calculated using the approved after-tax weighted average cost of capital as determined in the Company's most recent rate case. The result of this calculation step will be a Levelized Cost per MWh for each of the facilities.

6. Calculate weighted Levelized Cost for each facility. The weighted Levelized Cost is calculated by multiplying the cost per MWh derived for each facility in Step 5 by the actual Base year energy production in MWh for each Step 5 facility. The result of this step is an annual weighted cost in dollars for each included facility.

7. Calculate weighted average Levelized Cost for all facilities. The annual weighted average Levelized Cost is determined by dividing the total annual weighted costs for all included facilities by the total Base Year energy production MWh. The result of this step is the rolling historical five-year weighted average Levelized Cost per MWh for grid-scale solar photovoltaic facilities on the APS system before any applicable adjustments.



8. Adjustments. An adjustment is then applied to the annual weighted average Levelized Cost per MWh for Avoided Transmission Capacity cost, Avoided Distribution Capacity cost, and Line Losses as required in Decision No. 75859. For purposes of this Plan of Administration, and subject to future Commission proceedings, the combined adjustment for these three values is set at \$0.02/kWh as provided for in Decision No. 76295. This amount is negotiated, does not reflect an actual calculation of system conditions, and establishes no precedent for any future RCP calculations.

7. Procedural Timeline

The Company will provide Commission Staff and other intervening parties with its annual RCP calculation no later than May 1 each year. Interested parties will file comments to the Company's RCP calculation by June 1. Commission Staff will file its Report by July 15 and request that Staff's Report be considered in the August Open Meeting and be approved so that the new RCP calculation is effective on September 1.

8. Confidential Data

Portions of the data used to calculate APS's annual RCP are competitively/highly confidential and cannot be released to the public. Competitively/highly confidential information will be made reasonably accessible to parties so that they may determine that such data supports the RCP calculation and that the RCP calculation complies with Commission orders. Competitively/highly confidential information includes cost and production data for facilities from which APS purchases energy under a PPA agreement.

9. Schedules

Templates of the spreadsheet used to calculate the RCP are attached:

- Schedule 1: Annual Resource Comparison Proxy Calculation Summary
- Schedule 2: Solar Photovoltaic Grid-Scale Plant Data and Levelized Cost
- Schedule 3: Individual Plant Annual Cost (\$/MWh)
- Schedule 4: Individual Plant Energy Production (MWh)
- Schedule 5: Individual Plant Revenue Requirement/PPA Annual Cost (\$000)
- Schedule 6: Individual Plant Revenue Requirement/PPA Annual Cost including Production Tax Credits (\$000)

Each of these schedules may contain competitively/highly confidential PPA data as indicated.