



**System Reliability Benefit Adjustment Mechanism
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) System Reliability Benefit Adjustment Mechanism (SRB) and Adjustment Schedule SRB-1. As authorized for APS by the Arizona Corporation Commission (Commission) in Decision No. 79293 (March 5, 2024), the SRB provides for the recovery of approved Capital Carrying Costs for Qualifying Resources not already recovered in base rates or through a separate Commission-approved recovery mechanism. Schedule SRB-1 is applied to Standard Offer or Direct Access customer bills as a monthly kilowatt-hour charge (for Residential customers and General Service customers served in accordance with non-demand billed rate schedules), or a kilowatt demand charge (for General Service customers served in accordance with demand billed rate schedules), unless the customer’s current rate has alternate provisions.

The SRB is subject to the following limitations absent the express approval of the Commission: (1) a year-over-year annual increase limit of 3% of the Company’s ACC jurisdictional base rate revenue requirement, as determined in APS’s most recent rate case; (2) an Earnings Test that allows recovery of costs not to exceed the Earnings Test Threshold authorized in the Company’s last rate case, as described in this document; (3) a Qualifying Resource threshold investment cost of at least \$50 million; and (4) a limit of an initial SRB Application and no more than five annual Reset Applications between general rate cases.

2. Definitions

Adjusted Weighted Cost of Capital – The Weighted Cost of Capital (WACC) approved by the Commission in the Company’s most recent general rate case discounted by 1.00%. This discount is applied only for the purpose of calculating a return to include in Capital Carrying Costs for Qualifying Resources recovered through Adjustment Schedule SRB-1 prior to moving the Qualifying Resource into the Company’s rate base in a subsequent rate case. Once included in



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rate base, the WACC applied to the Qualifying Resource will be the same as that applied to all other rate base items.

All-Source Request for Proposal (All-Source RFP) – A document issued by APS soliciting proposals from qualified parties in which all types of electric resources or energy storage projects that can meet all or part of APS's needs as described in the RFP will be considered equally.

Allowable Costs – Schedule SRB-1 shall recover Capital Carrying Costs for Qualifying Resources that are in service at the time Schedule SRB-1 rates are approved and are not being recovered in base rates or other recovery mechanism.

Applicable Interest – Interest on any over-collection existing in the Balancing Account at the time of the annual SRB adjustor rate calculation will be credited to Schedule SRB-1 in an amount equal to interest at a rate equal to the Company's authorized return on equity (ROE) or APS's deposit interest rate as established in Service Schedule 1, whichever is greater, and will be refunded to customers over the following 12 months.

Earnings Test – Comparison of the Earnings Test Period rate of return with the Earnings Test Threshold. The Earnings Test Period rate of return will be based on APS's most recently filed FERC Form 1, using Earnings Test Period costs, revenues, and other financial information, with certain pro forma adjustments related to surcharges and explicit items removed in the Company's most recently approved rate case applicable to the evaluation year.

Earnings Test Period – Historical calendar year represented in the Company's most recently filed FERC Form 1.

Earnings Test Threshold – The Return on Equity (ROE) authorized in the Company's most recent rate case, with an updated capital structure and cost of debt adjusted to reflect authorized recovery of the Fair Value Increment (FVI) approved in the most recent rate case.

Integrated Resource Planning Action Plan (IRP Action Plan) - The three-year plan required by the Commission's Integrated Resource Planning (IRP) Rules set forth in A.A.C. R14-2-703(H), which is based on the most recent IRP filed by APS and outlines the actions to be taken by the Company on future resource acquisitions.

Qualifying Resource – An APS-owned generation or energy storage resource with an individual investment cost of \$50 million or more acquired through an All-Source RFP process.

Qualifying Resource Capital Carrying Costs – Qualifying Resource Capital Carrying Costs include (1) a return at the Company's Adjusted Weighted Average Cost of Capital as defined herein; (2) depreciation expense calculated using the rate(s) approved in APS's most recent general rate case; (3) income taxes; (4) property taxes; (5) deferred taxes and tax credits associated



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with Qualifying Resources where appropriate; and (6) associated operations and maintenance expenses less any Advance-in-Aid of Construction (AIAC) or Contributions-in-Aid of Construction (CIAC) that has been provided to APS for any Qualifying Resource.

Resource Planning Advisory Council (RPAC) – A group of diverse stakeholders, including Commission Staff, formed to provide input on resource planning activities and collaborate with the Company in the development of its Integrated Resource Plan (IRP).

SRB Table I – The schedule of All-Source RFPs which have been initiated and are in process. The schedule shall be limited to the details included in any applicable public announcement.

SRB Table II – The schedule of planned Qualifying Resource projects that have gone through the All-Source RFP process and have been publicly announced. The schedule shall include the following:

- A. Type (e.g. energy storage, wind, solar, gas, etc.).
- B. Size (MW).
- C. Location.
- D. Estimated in-service month and year.
- E. Other project descriptions.

SRB Table III – The schedule of completed Qualifying Resource projects that have gone through the All-Source RFP process. The schedule shall include the following:

- A. Project tracking number (if applicable).
- B. Type (e.g. energy storage, wind, solar, gas, etc.).
- C. Resource Name.
- D. Size (MW).
- E. Location.
- F. Actual in-service month and year.
- G. Other project descriptions.
- H. Total cost.
- I. ACC jurisdictional cost.

Tax Credit Benefit – Any federal or state tax credit benefit available to the Company based upon either (i) energy produced by Qualifying Resource, or (ii) the Company's eligible investment in the Qualifying Resource.



3. Determination of Qualifying Resources

To be eligible for inclusion in the Schedule SRB-1 adjustor rate, a Qualifying Resource must be consistent with APS's IRP Action Plan and must be acquired through an All-Source RFP process. The All-Source RFP process will comply with the Commission's Procurement Rules set forth in A.A.C. R14-2-705 and 706 and will include the use of an Independent Monitor.

Each Qualifying Resource will be classified in one or more of the Federal Energy Regulatory Commission (FERC) Plant in Service accounts listed below, any successor FERC account, or any other specific FERC account approved by the Commission. The FERC Plant in Service accounts shall include the following:

Steam Production

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

Nuclear Production

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

Hydraulic Production

- 330 – Land and Land Rights
- 331 – Structures and Improvements
- 332 – Reservoirs, Dams, and Waterways
- 333 – Water Wheels, Turbines and Generators
- 334 – Accessory Electric Equipment
- 335 – Miscellaneous Power Plant Equipment
- 336 – Roads, Railroads and Bridges

Other Production¹

- 340 – Land and Land Rights
- 341 – Structures and Improvements

¹ Includes natural gas, solar, and wind production.



- 342 – Fuel Holders, Producers, and Accessories
- 343 – Prime Movers
- 344 – Generators
- 345 – Accessory Electric Equipment
- 346 – Miscellaneous Power Plant Equipment

Energy Storage

- 348 – Energy Storage Equipment - Production
- 351 – Energy Storage Equipment - Transmission
- 363 – Energy Storage Equipment - Distribution Steam Production

If any Qualifying Resource included in Schedule SRB-1 generates a Tax Credit Benefit specific to that resource that is not being accounted for in base rates or another recovery mechanism, such Tax Credit Benefit will be included in the calculation of the Schedule SRB-1 adjustor rate in the year the credit is generated. To the extent that the Company is unable to realize a Tax Credit Benefit in the year generated, any carryforward of the Tax Credit Benefit will be included in the calculation of the Schedule SRB-1 adjustor rate.

4. Balancing Account

The Balancing Account shall accumulate and defer the difference between actual Allowable Costs and the recovery of Allowable Costs through Schedule SRB-1 each month. If the Balancing Account has accrued an overcollected balance in a given period for which a Reset Application is filed, any such over collection shall be credited to customers through the Schedule SRB-1 adjustor rate in a future year, regardless of the outcome of the Earnings Test described in Section 6. Under collected balances will not be collected through Schedule SRB-1 in any subsequent SRB proceeding.

5. Determination of the Schedule SRB-1 Adjustor Rate

The Schedule SRB-1 adjustor rate will recover Qualifying Resource Capital Carrying Costs over a twelve-month period (subsequent to approval by the Commission) and will be developed based on the following formula:

$$\text{SRB-1} = \frac{\text{QRCC} + \text{BA} + \text{I}}{\text{Sales}}$$

Where:

- QRCC = Qualifying Resource Capital Carrying Cost as defined herein.
- BA = Any balance in the Balancing Account as defined herein.
- I = Applicable Interest as defined herein.
- Sales = Forecast energy (kWh) sales under applicable rate schedules during the period in which Schedule SRB-1 will be effective.



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The Schedule SRB-1 adjustor rate for General Service customers that are billed on demand will be calculated as a per kW charge. The Schedule SRB-1 adjustor rate for General Service customers that are not billed on demand will be calculated as a per kWh charge. To calculate the per kW charge, the recoverable costs shall first be allocated to the General Service class based upon the number of kWh consumed by that class. The remainder of the recoverable costs allocated to the General Service class shall then be divided by the kW billing determinants for the demand billed customers in that class to determine the per kW Schedule SRB-1 adjustor rate. The SRB-1 adjustor rate will not be applicable to AG-X customers who self-supply Resource Adequacy and their kW or kWh will not be used to calculate the SRB adjustor rate.

Any annual increase in recovery through Schedule SRB-1 is subject to both an annual Earnings Test as described in Section 6 below and a year-over-year cap of 3% of the base rate revenue requirement approved in the Company's most recent rate case. If the calculation results in an amount in excess of either the Earnings Test Threshold or the 3% year-over-year cap, any amount in excess of the cap will not be deferred for recovery in a future year.

6. Earnings Test

Any requested increase in the recovery of costs through Schedule SRB-1 will be subject to an Earnings Test, which will compare the previous year's adjusted rate of return for the Earnings Test Period with an Earnings Test Threshold.

If APS exceeds the Earnings Test Threshold, APS shall not be permitted to defer for future recovery in a subsequent SRB proceeding any amount that exceeds the Earnings Test Threshold and shall not be permitted to increase the SRB surcharge in excess of the Earnings Test Threshold for the following year.

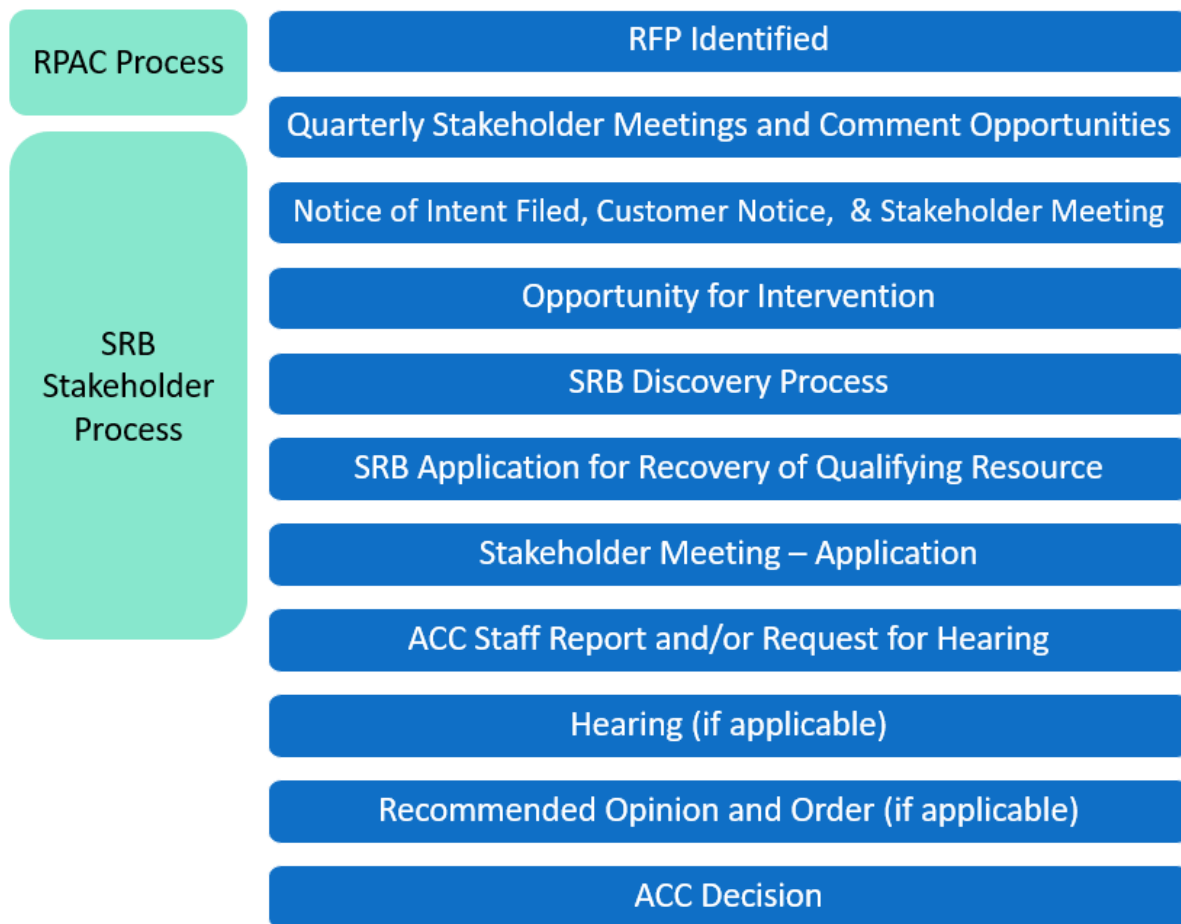
7. Stakeholder Process

As part of the existing RPAC process, stakeholders provide feedback on the RFP process. APS will facilitate an additional targeted SRB stakeholder process to provide information to interested parties and incorporate feedback into SRB Applications/Reset Applications. In addition to the applicable docket filings detailed in Section 8 herein, APS will host quarterly public stakeholder meetings and will provide updates to the information included in SRB Tables I, II, and III. Through the SRB stakeholder process, stakeholders will provide feedback on potential projects eligible for SRB inclusion. APS will facilitate a stakeholder comment period and provide written responses to comments. APS will make good-faith efforts to include stakeholder feedback in the development of SRB Applications/Reset Applications. A summary of stakeholder meetings and a description of the included resources with relevant supporting documentation will be included in each SRB Application/Reset Application.

As described in Section 8 herein, for each Notice of Intent to File an Application for Approval of Schedule SRB-1 (Notice), APS will provide notifications on the APS website and in the appropriate ACC docket(s), host a stakeholder meeting, and offer both a technical conference and

open house event for each Qualifying Resource. Once a Notice has been submitted, Commission Staff and interested parties may intervene. As described in Section 9 herein, APS will file an Application and hold at least one stakeholder review meeting. Both interested parties and the public will have the opportunity to provide public comment if desired during the Commission’s review of the Application. Figure 1 illustrates the SRB stakeholder process flow.

Figure 1: SRB Stakeholder Process



8. Notification of Filing

At least 60 days prior to filing an Application for Approval of Schedule SRB-1 (Application) under the SRB Adjustment Mechanism as described herein, APS will file a Notice with the Commission. APS will request a new docket for purposes of reviewing the Notice and Application, and any subsequent Notice(s) and/or Application(s) will be filed in that docket, until the conclusion of APS’s next rate case. The Notice(s) will include SRB Tables I, II, and III and will also be filed in



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APS's most recently concluded rate case docket in order to provide all interested parties an opportunity to participate in the stakeholder process. In addition, APS will notify its customers that it has filed a Notice by posting a link to a copy of the Notice, and when available, a copy of the Application, on its website (www.aps.com) in a prominent location on the main page, and will maintain the link until the Commission has issued a Decision on the Application. Additionally, APS will mail or email customers a bill insert/onsert or a separate communication with its regularly scheduled billing immediately following the date when the SRB Notice is filed. This communication will include an explanation of the SRB Notice that includes the following: (1) how to find the SRB Notice and the subsequent SRB Application/Reset Application on the APS website, (2) standard Commission-required information about intervention and instructions to file a Motion to Intervene, and (3) the deadline for a Motion to Intervene, among other pertinent information as necessary.

An interested party may file a Motion to Intervene after a Notice is filed. The deadline for a Motion to Intervene shall be 60 days after APS files such Notice. As needed to aid in the review of the Application, Commission Staff and interested parties may conduct discovery regarding the Application.

9. Application and Proceeding

Each Application will include the attachments outlined in Section 10 herein, a description of the Qualifying Resource(s) included in the Application, a discussion of the All-Source RFP that resulted in such Qualifying Resource(s), and additional relevant information to aid in review of the Application, including an updated determination of Jurisdictional Fair Value Rate Base. Commission Staff will review and process the Application/Reset Application and issue a Staff Report and/or a Request for Hearing within 90 days after filing of the Application.

Once the initial Application is approved by the Commission, APS will file an Application to Reset Schedule SRB-1 (Reset Application) every twelve months. The Reset Application will include calculations for the Earnings Test, calculations for the 3% revenue cap as described herein, and updated SRB Tables I, II, and III. The Reset Application may also include a request to recover additional Qualifying Resources through the Schedule SRB-1 adjustor rate. Any such request will be subject to the Notice requirements outlined in Section 8 herein. However, after the initial Application is approved, APS shall not file a request to include additional Qualifying Resources more often than annually, and shall not file more than five Reset Applications prior to filing its next rate case.

After APS files an Application/Reset Application that includes a new Qualified Resource(s), any party (APS, Staff, or Intervenor) may request a hearing to determine the prudence of an investment proposed for inclusion in the SRB. Prudence of the Qualifying Resource(s) shall be determined in the Application proceeding by the Commission, not during a rate case, and shall be based upon the definition of "Prudently invested" as set forth in Arizona Administrative Code (A.A.C.) R14-2-10(A)(3)(I).



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An Intervenor's deadline for filing an Objection to either the initial SRB Application, Reset Application, and/or Request for Hearing (Intervenor Objection/Request for Hearing) shall be 75 days after the Application/Reset Application is filed.

Each party may file a response to a Staff Report/Request for Hearing or Intervenor Objection/Request for Hearing within 14 days after it is filed, and APS may include in its response a Request for Hearing.

If a Request for Hearing is filed, the Hearing Division shall issue a Procedural Order scheduling a hearing to occur within 60 days after the Request for Hearing is filed, unless the parties agree to a later date or a later date is necessary due to Commission scheduling constraints. The hearing shall be scheduled for one day only, unless good cause exists for additional scheduled hearing days. The scope of the hearing shall be limited to determining the prudence of the capital investments APS proposes in the SRB Application/Reset Application, and the standard to be used shall be the definition of "prudently invested" included in A.A.C. R14-2-103(A)(3)(l). The Hearing Division shall issue a Recommended Opinion and Order for the Commission's final determination of prudence and approval or disapproval of the SRB Application/Reset Application. Schedule SRB-1 will not become effective until approved by the Commission.

Any Qualifying Resource(s) with Capital Carrying Costs being recovered through Schedule SRB-1 will be moved into rate base in the Company's subsequent rate case. When moved into rate base, the Qualifying Resource plant balance will reflect all accumulated depreciation since the actual in-service date of the Qualifying Resource. Schedule SRB-1 will be reset upon the issuance of a Commission Decision in that case.

10. Supporting Schedules

The following supporting schedules will be included with each Application and each Reset Application:

- SRB Table I – Initiated All-Source RFP
- SRB Table II – Schedule of Planned Qualifying Resource Projects
- SRB Table III – Completed Qualifying Resource Projects
- Attachment A - SRB Adjustor Rate Calculation
- Attachment B - Annual Capital Carrying Cost and Determination of Fair Value Rate Base
- Attachment C - Qualifying Resource(s) Electric Plant in Service
- Attachment D - Balancing Account
- Attachment E - Earnings Test
- Attachment F - Estimated Monthly Bill Impacts