



**Tax Expense Adjustment Mechanism
Plan of Administration**

Table of Contents

1. *General Description* 1

2. *Definitions* 1

3. *Calculation of TEAM* 2

4. *TEAM Balancing Account* 3

5. *Compliance Reports* 3

1. General Description

This document describes the plan for administering the Federal and State Income Tax Expense Adjustment Mechanism (TEAM) 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 and Decision No 79293 on March 5, 2024. The TEAM enables the pass-through of income tax effects that materially impact the Company’s Test Year revenue requirements¹ to customers resulting from federal or state income tax legislation. The TEAM will be calculated annually on a prospective basis.

2. Definitions

Annual Tax Expense Adjustment – The Annual Tax Expense Adjustment represents the amount to be passed through to jurisdictional retail customers in the subsequent twelve-month period and is applied to customer bills via a \$ per kWh adjustment.

Base Revenue Requirements Change – The change in the Company’s Base Revenue Requirements as a result of any Federal and/or State income tax reform legislation will be measured as the change in:

- a. The Federal and/or State Income Tax Rate-Test Year as compared to the Federal and/or State Income Tax Rate-Revised as applied to the Company’s Adjusted Test Year in Decision No. 79293;
- b. Annual amortization of any resulting deficient or excess deferred income tax regulatory account compared to the Company’s Adjusted Test Year in Decision No. 79293; and

¹ “Material impacts” is defined as changing APS’s revenue requirement by more than \$5 million.



PLAN OF ADMINISTRATION
TAX EXPENSE ADJUSTMENT MECHANISM

- c. New permanent income tax adjustments (such as interest expense and/or property tax expense deductibility) compared to those taken in the Company's Adjusted Test Year in Decision No. 79293.

Federal Income Tax Rate-Revised – The Federal marginal corporate income tax rate as set forth in relevant legislation.

Federal Income Tax Rate-Test Year – The Federal marginal corporate income tax rate of 21% in effect and utilized in the revenue requirements as approved by the Commission in Decision No. 79293.

Forecasted Retail kWh Sales – The forecasted calendar year energy (kWh) sales served under applicable ACC jurisdictional retail electric rate schedules. A true-up reconciliation of the forecasted data will be completed in the following year through the Balancing Account.

Protected Deficient or Excess ADIT – Changes in net Accumulated Deferred Income Taxes (ADIT) due to the Federal Income Tax Rate-Revised or State Income Tax Rate – Revised which must be passed through to Customers under specific IRS or State requirements (such as differences between regulatory depreciation calculations and tax depreciation calculations).

State Income Tax Rate-Revised – The State marginal corporate income tax rate (net of Federal tax benefits) as set forth in relevant legislation.

State Income Tax Rate-Test Year – The State marginal corporate income tax rate (net of Federal tax benefits) of 3.75% in effect and utilized in the revenue requirements as approved by the Commission in Decision No. 79293.

Unprotected Deficient or Excess ADIT – All changes in net ADIT due to the Federal Income Tax Rate-Revised or State Income Tax Rate - Revised that are not Protected Deficient or Excess ADIT. These changes may be passed through to Customers as determined by the Commission.

3. Calculation of TEAM

The Annual Tax Expense Adjustment is calculated annually and represents the amount to be passed through to jurisdictional retail customers. The adjustment is calculated based on the Company's Base Revenue Requirements Change as defined above.



PLAN OF ADMINISTRATION TAX EXPENSE ADJUSTMENT MECHANISM

The Annual Tax Expense Adjustment may include up to three separate components:

Phase I Component. The Phase I component represents the Base Revenue Requirements Change due to the difference between the Federal and/or State Income Tax Rate-Revised and the Federal Income Tax Rate-Test Year.

Phase II Component. The Phase II component represents the Base Revenue Requirements Change due to Unprotected Deficient or Excess ADIT as defined above which was recorded on the Company's balance sheet as of the effective date of relevant Federal or State tax legislation.

Phase III Component. The Phase III Component represents the Base Revenue Requirements Change due to Protected Deficient or Excess ADIT as defined above. Additionally, the Phase III Component will also address adjustments necessary to both Protected Deficient or Excess ADIT and Unprotected Deficient or Excess ADIT to reflect differences between tax positions reported in the Company's regulated books of account as of the effective date of relevant Federal tax legislation and positions which will be taken on the Company's Federal tax return for the same time frame.

The TEAM \$ per kWh rate is calculated by dividing the Annual Tax Expense Adjustment by the Forecasted Retail kWh Sales. For billing purposes, the TEAM Phase I, Phase II, and Phase III Components will be combined.

As determined in Decision No. 76601 (March 5, 2018), Customers served under the Company's Rate Rider AG-X (Alternative Generation) will receive 75.64% of the TEAM \$ per kWh rate as calculated above. Customers served under the Company's Experimental High Load Factor Rate Schedules HLF-1, HLF-2, and HLF-3 will receive 86.84% of the TEAM \$ per kWh rate.

4. TEAM Balancing Account

APS will maintain accounting records that accumulate the difference between each Component, as necessary, of the calculated Annual Tax Expense Adjustment as compared to the actual amounts applied to customers' total bills through the total TEAM \$ per kWh adjustment during the prior calendar year. Additionally, as a result of utilizing Forecasted Retail kWh Sales, the balancing account will contain a true-up component in which estimated balances will be replaced with actual balances for the prior year filing.



PLAN OF ADMINISTRATION
TAX EXPENSE ADJUSTMENT MECHANISM

Differences will be recorded to the TEAM Balancing Account each month and will accrue interest at the Company's applicable cost of short-term debt.

5. Compliance Reports

Each year until the TEAM is terminated, on or before March 1 APS will provide a report to Staff and the Residential Utility Consumer Office showing the status of the TEAM Balancing Account described in Section 4 above.