

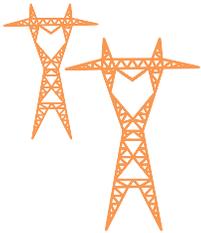
Rate Review highlights for residential customers

APS has filed a request with the Arizona Corporation Commission (ACC) for our first rate review in five years. The proposal seeks to replace a decades-old rate structure with modernized pricing and will enable us to continue investing in what customers have told us they want, including:



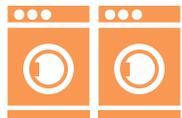
A cleaner energy mix

- Investment in the Ocotillo Modernization Project for a cleaner, more efficient plant
- Installation of additional environmental controls at Four Corners Power Plant
- Funding for the Solar Innovation Study and other advanced research for solar and battery energy storage



A reliable power grid that encourages innovation

- \$3.6 billion in infrastructure enhancements through 2018 for a stronger, more advanced grid
- “Project Illuminate” featuring an advanced energy management system (plus hundreds of smaller projects) to enhance safety, efficiency and customer value



More customer control of their energy costs

- Choice of three rate plans with time-of-use pricing and a peak usage (demand) charge
- More control and more ways to save with demand-based rates
- Add two more off-peak hours on weekdays and four more off-peak price holidays
- Moderates the cost shift that currently drives up electricity bills for the 96% of customers who do not have rooftop solar



Safeguards for select customer groups

- Increase funding for programs that serve limited-income customers by 35% to \$48 million
- A simple rate option with no peak usage charge or time-of-use pricing for customers with low electricity use
- Grandfathering protection for existing rooftop solar customers

The Details

Modernized rate design

The proposed rate design divides a customer's bill into three parts instead of two like today. This will give customers flexibility to control their energy use and more opportunity to save on their bill.

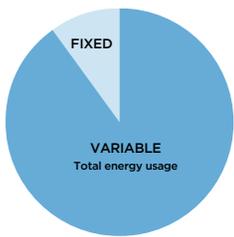
The updated design consists of:

1. a basic service charge
2. an energy use charge
3. a peak usage (or demand) charge.

CURRENT MODEL

WAYS TO SAVE

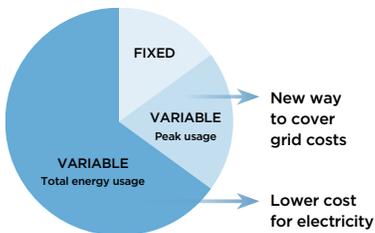
- Lower your overall usage
- Run appliances during off-peak hours



UPDATED MODEL

WAYS TO SAVE

- **Shift** the use of appliances to off-peak hours
- **Stagger** the use of major appliances during on-peak hours
- **Save** on your overall usage

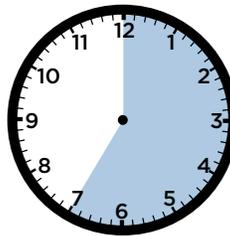


Peak usage is the one hour of each month when a customer's energy use is highest during on-peak hours only. Peak usage will be averaged over one hour, starting at the top of each hour, so customers will not have to worry about any one moment of energy use.

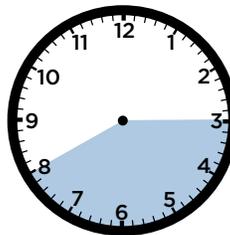
Reduced and realigned on-peak hours

We would add two off-peak hours each weekday and move on-peak hours to later in the day, which can help customers save. This more accurately reflects when customers' usage peaks and the costs to meet customer demand are highest.

Current on-peak hours (noon–7 p.m.)



Proposed on-peak hours (3–8 p.m.)



Added holidays with off-peak pricing

We are requesting four more days for customers on time-of-use plans to save with all-day off-peak pricing, for 10 days total. The new holidays are:

- Martin Luther King Day
- Presidents Day
- Cesar Chavez Day
- Veterans Day

Grandfathering for solar customers

Existing solar customers would be grandfathered under the net metering rules in place at the time of their agreement. The rules would remain for 20 years and stay with the property even if the customer moves.

Our plan also calls for customers to be grandfathered under current rules if their completed application for rooftop solar is received by us by July 1, 2017, and installed within 180 days.

Pricing Impact

The monthly bill for a typical residential customer (using 1,083 kWh) is projected to rise 7.96%, from \$139.32 to \$150.41.

Approximately \$1.74 of the average bill increase is due to the subsidy currently paid to support the rooftop solar industry by the 96% of customers who do not have rooftop solar.

What's Next

Rate cases typically take about 12 months from the initial filing date until the ACC issues a decision. We have requested that this rate increase go into effect July 1, 2017.