

Business Practice

Mechanisms for Distributing Penalty Revenues

1. Imbalance Penalty Distribution Mechanism

- 1.1 APS uses a Dow Jones index as a proxy for its system incremental cost for both generator and energy imbalance charges.
- 1.2 APS distributes the penalties it collects for generator and energy imbalance above the applicable index price to customers meeting the following criteria:
 - 1.2.1 The customer is inside the APS Balancing Area taking network service, takes energy imbalance service or takes generator imbalance service from APS under the OATT, and
 - 1.2.2 The customer did not incur an imbalance penalty during the hour the imbalance penalty was assessed, and
- 1.3 A customer meeting the criteria specified in 1.2 is referred to as "Imbalance Qualifying Customer".
- 1.4 The Imbalance Penalty will be distributed to Imbalance Qualifying Customers on a semi-annual basis as follows:
 - 1.4.1 For Imbalance Penalties assessed during the period January 1 through June 30, the distribution will be credited to Imbalance Qualifying Customers no later than the OATT invoice issued during September of that year.
 - 1.4.2 For Imbalance Penalties assessed during the period July 1 through December 31, the distribution will be credited to Imbalance Qualifying Customers no later than the OATT invoice issued during March of the following year.
- 1.5 The Imbalance Penalty distribution will appear as either a credit on the Imbalance Qualifying Customer's OATT invoice or as a check mailed to the Imbalance Qualifying Customer.
- 1.6 Each Imbalance Qualifying Customer's credit amount will be determined using a weighted average distribution factor for each hour that an imbalance penalty was assessed.
- 1.7 Each Imbalance Qualifying Customer's weighted average distribution factor for each applicable hour will be calculated using:
 - 1.7.1 For point-to-point transmission customers, the amount of energy scheduled by the Imbalance Qualifying Customer during the applicable hour.
 - 1.7.2 For network service customers, the amount of load served during the applicable hour.
- 1.8 APS affiliates meeting the criteria established in 1.2 above will receive a distribution of imbalance penalties.

2. Unreserved Use Penalty Distribution Mechanism

- 2.1 Consistent with the APS OATT, APS charges for unreserved use of the transmission at a rate equal to two (2) times the rate applicable based on the period of unreserved use. For Unreserved Use Penalty Distribution purposes, the charge is broken out as follows:
 - 2.1.1 The first half of the charge is the charge for the transmission service provided

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- 2.1.2 The second half of the charge is the Unreserved Use Penalty.
- 2.2 APS distributes the Unreserved Use Penalties to customers meeting the following criteria:
 - 2.2.1 The customer takes point-to-point or network service under the OATT, and
 - 2.2.2 The customer did not incur an Unreserved Use Penalty during the period for which the Unreserved Use Penalty was assessed, and
 - 2.2.3 The customer scheduled energy during the period the Unreserved Use Penalty was assessed.
- 2.3 A customer meeting the criteria specified in 2.2 is referred to as “Unreserved Use Qualifying Customer”.
- 2.4 The Unreserved Use Penalty will be distributed to Unreserved Use Qualifying Customers on a semi-annual basis as follows:
 - 2.4.1 For Unreserved Use Penalties assessed during the period January 1 through June 30, the distribution will be credited to Unreserved Use Qualifying Customers no later than the OATT invoice issued during September of that year.
 - 2.4.2 For Unreserved Use Penalties assessed during the period July 1 through December 31, the distribution will be credited to Unreserved Use Qualifying Customers no later than the OATT invoice issued during March of the following year.
- 2.5 The Unreserved Use Penalty distribution will appear as either a credit on the Unreserved Use Qualifying Customer’s OATT invoice or as a check mailed to the Unreserved Use Qualifying Customer.
- 2.6 Each Unreserved Use Qualifying Customer’s credit amount will be determined using a weighted average distribution factor for each period that an Unreserved Use Penalty was assessed.
- 2.7 Each Unreserved Use Qualifying Customer’s weighted average distribution factor for each applicable period will be calculated using:
 - 2.7.1 For point-to-point transmission customers, the amount of energy scheduled by the Unreserved Use Qualifying Customer during the applicable period.
 - 2.7.2 For network service customers, the amount of load (on a MWh basis) served during the applicable period.
- 2.8 APS affiliates meeting the criteria established in 2.2 above will receive a distribution of imbalance penalties.

This Business Practice describes general conditions and practices. There may be specific circumstances that require some variation from or are not addressed by this Business Practice.