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BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON  
Chairman  
WILLIAM A. MUNDELL  
Commissioner  
JEFF HATCH-MILLER  
Commissioner  
KRISTIN K. MAYES  
Commissioner  
GARY PIERCE  
Commissioner

Arizona Corporation Commission  
**DOCKETED**

JUN 28 2007

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IN THE MATTER OF THE ARIZONA  
PUBLIC SERVICE COMPANY'S  
APPLICATION FOR AUTHORIZATION TO  
(1) ENTER INTO A TRANSFORMER  
SHARING AGREEMENT, (2) TRANSFER A  
PORTION OF THE ROUND VALLEY  
SUBSTATION, (3) TRANSFER THE  
WADDELL SUBSTATION, AND (4) FOR  
PRE-APPROVAL OF CERTAIN FUTURE  
TRANSACTIONS UNDER A.R.S. §40-  
285(A).

DOCKET NO. E-01345A-06-0770  
DECISION NO. 69670  
ORDER

Open Meeting  
June 26 – June 27, 2007  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS") is certificated to provide electric service as a public service corporation in the State of Arizona.
2. On December 8, 2006, APS submitted an application to the Arizona Corporation Commission ("Commission") for authorization to:
  - I. Enter into an Edison Electric Institute ("EEI") Spare Transformer Sharing Agreement ("Sharing Agreement") with other utilities for high voltage and extra high voltage transformers in the event of an act of deliberate destruction.
  - II. Sell a portion of its Round Valley Substation to Southwest Transmission Cooperative.
  - III. Sell its Waddell Substation property to Suburban Land Reserve, Inc. ("SLR").

1 IV. Pre-approve certain transactions up to \$1 million.

2 **I. Transformer Sharing Agreement**

3 3. APS desires to enter into a Transformer Sharing Agreement with approximately 50  
4 other utilities in the United States and Canada to ensure that critical high voltage (230 kV) and  
5 extra high voltage (345 kV and 500 kV) transformers will be available to APS or other affected  
6 utilities in the event of an act of deliberate destruction. The benefit to APS and its customers is  
7 that transformers would be available to APS to rebuild damaged portions of its transmission  
8 system due to an act of deliberate destruction, and the inventory of spares available to APS would  
9 be greater in number and lower in cost than APS could obtain as an isolated utility preparing for a  
10 similar event. The Sharing Agreement will also require APS to possibly sell or otherwise dispose  
11 of or encumber these assets in this program on short notice to other participants, and it is this  
12 "selling of these assets" as described in A.R.S. §40-285(A) for which APS is specifically  
13 requesting approval.

14 4. APS states that it desires to participate specifically in the 500/230 kV class of  
15 transformers utilizing two units it now has available at its Westwing Substation. Also, it is  
16 anticipated that APS will join the 345/230 kV class (as soon as a sufficient number of other  
17 companies commit to this class) utilizing one unit it now has available at Pinnacle Peak Substation.  
18 Additionally, APS expects its participation would soon thereafter extend to the 230/69 kV class  
19 based on further review with other utilities and a determination of requirements to participate in  
20 this class. The review in the 230/69 kV class is ongoing; however, APS expects its participation  
21 would be four 230/69 kV transformers (as updated in APS' March 9, 2007 data response) for  
22 which it does have candidate spares and, therefore, it requests the approval to also include these  
23 transformers in the Sharing Agreement.

24 5. In total, the Application requests commitment for two 500/230 kV transformers,  
25 one 345/230 kV transformer and four 230/69 kV transformers to be included in the Sharing  
26 Agreement, and as a condition of that Sharing Agreement, these transformers could then be sold  
27 (as defined in A.R.S. §40-285(A)) to other participants in the Sharing Agreement on the required  
28 ...

1 short notice. This transaction would then proceed without further Commission approval of the sale  
2 of these assets.

3 6. Utilities Division Staff ("Staff") has reviewed the particulars of the Application  
4 with regard to the Sharing Agreement and has made the following observations:

- 5 a) APS owns and operates 500 kV, 345 kV and 230 kV stations in Arizona and  
6 New Mexico and has an obligation to ensure timely restoration of service in  
7 the event of an act of deliberate destruction. The Sharing Agreement  
8 addresses acts of deliberate destruction.
- 9 b) The longest manufacturing lead time of transmission components for electric  
10 utilities is for 230 kV high voltage and 345 kV and 500 kV extra high voltage  
11 transformers (approximately 18 months), and it is therefore necessary for  
12 utilities to plan for access to readily available transformers if certain  
13 unforeseen events occur.
- 14 c) APS owns or is a participant owner in a sufficient number of spare high  
15 voltage and extra high voltage transformers to participate in the Sharing  
16 Agreement depending on the level of participation of other utilities in each  
17 voltage class. A minimum MVA (million volt-amp, closely equivalent to  
18 MW) requirement for each voltage class is set by EEI, and as members  
19 commit to that class, the MVA requirement is then divided among the  
20 members. As the number of utilities participating in any voltage class  
21 increases, the MVA requirement for each participant in that overall class  
22 decreases accordingly.
- 23 d) APS has 11 in-service 500/230 kV transformers and four 500/230 kV single  
24 phase transformers (two of which are "in service" spares). The capacity of  
25 the two spare transformers APS is prepared to commit to this program totals  
26 931 MVA. This is insufficient to meet the requirement for joining this class  
27 at this time which is 1,029 MVA for the next member (11th) to join. APS  
28 would wait until the 13th membership is open as its 931 MVA commitment  
would meet the then reduced requirement of 848 MVA.
- e) APS has three in-service 345/230 kV transformers and one 345/230 kV spare  
plus one jointly owned spare at Four Corners that could be utilized for local  
needs. The capacity of APS' single spare transformer is 600 MVA which is  
insufficient to meet the requirement for joining this class at this time. APS  
would wait until sufficient membership is achieved such that a 600 MVA  
commitment in this voltage class would allow membership.
- f) APS has 48 in-service 230/69 kV transformers and four 230/69 kV spares.  
The capacity of these four spare transformers is 486 MVA which is  
insufficient to meet the requirement for joining this class at this time. APS  
would wait until sufficient membership is achieved such that a 486 MVA  
commitment in this voltage class would allow membership.

- 1 g) Acts of deliberate destruction are appropriate events for utilities to prepare  
2 for, and the Sharing Agreement provides the necessary inventory to be  
3 prepared for this class of event. Additionally, other localized emergencies  
4 and/or failures require similar planning and are addressed by individual  
5 utilities through maintaining a suitable number of spares on its system and  
6 some reliance on other utilities. Both programs, the acts of deliberate  
7 destruction and the localized emergency/failure events, may complement each  
8 other; i.e., the same transformer may be used in both categories as long as due  
9 consideration is given to depletion of the spares inventory for localized use.
- 10 h) Utilities may use their spare units under the acts of deliberate destruction  
11 category for any other purpose (for their own routine failed unit needs for  
12 example) as long as it or a replacement is restored to the acts of deliberate  
13 destruction inventory within 18 months.<sup>1</sup> Additionally, APS has protected its  
14 own local emergency needs for all transformers that are or will be included in  
15 the Sharing Agreement through a "Permitted Disposition" provision in the  
16 Sharing Agreement. This provision provides APS with the discretion to  
17 assess their own imminent reliability or other pertinent considerations before  
18 proceeding with a transformer sale, and if APS conditions so warrant, APS  
19 will maintain that transformer for its own use.
- 20 i) This Sharing Agreement will allow APS to transfer or sell the transformer  
21 equipment included in this Application on the very short notice required in  
22 emergencies associated with acts of deliberate destruction.
- 23 j) Staff has inspected the two 500/230 kV single phase transformers at  
24 Westwing Substation and finds them both to be acceptable inventory for use  
25 as may be needed under the acts of deliberate destruction program or other  
26 emergency or failure incidents. Staff also finds that the quantity of two  
27 500/230 kV single phase transformers requested for the acts of deliberate  
28 destruction program is appropriate considering the possible exposure of this  
class of transformer on the APS system. It is also noted that APS shares  
ownership of these 500/230 kV transformers with Western Area Power  
Administration and Salt River Project. These co-owners are in agreement  
with the use of these transformers as spares under the acts of deliberate  
destruction program. The APS net book values for the respective  
transformers are \$201,656 and \$740,004. Both units are presently stored on  
site as spares ready for future use as required.
- k) Staff has inspected the single 345/230 kV three-phase transformer at Pinnacle  
Peak Substation and finds it to be acceptable inventory for use as may be  
needed under the acts of deliberate destruction program or other localized  
emergency or failure incidents. Staff also finds that the quantity of one  
345/230 kV transformer requested for the acts of deliberate destruction  
program is appropriate considering the reduced exposure in number of this

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<sup>1</sup> Pg. 23 of July 18, 2006 EEI Spare Transformer Sharing Agreement.

1 class of transformer on the APS system as compared to the 500/230 kV class.  
2 It is also noted that APS owns 100 percent of this 345/230 kV transformer and  
3 it has a net book value of \$253,536. The unit is presently on site and in  
4 service; however, it is to be replaced by June 1, 2007, at which time it would  
5 become available as a spare ready for future use as required.

- 6
- 7 d) Staff has not inspected the four 230/69 kV transformers requested in this  
8 Application as the study for this requirement is ongoing. The use of 230/69  
9 kV transformers on the APS system is widespread and there are multiple  
10 available spares to handle previously expected contingencies. It is expected  
11 that a requirement of four 230/69 kV transformers will satisfy APS'  
12 obligation for this voltage class under the acts of deliberate destruction  
13 category and that this commitment can be made from the available spare  
14 inventory. It is noted that APS owns 100 percent of all 230/69 kV  
15 transformers on its system. The four transformers are booked as inventory  
16 and therefore do not carry a net book value. The transformers do carry an  
17 inventory value equal to their individual original cost. The two 55 MVA  
18 transformers identified as candidates for the Sharing Agreement have  
19 inventory values of \$114,654 and \$144,248. The two 188 MVA transformers  
20 identified as candidates for the Sharing Agreement have inventory values of  
21 \$1,565,450 and \$1,152,150.
- 22 m) The Sharing Agreement indicates similar utility participation throughout the  
23 continental United States.
- 24 n) Staff recognizes that the transformers identified at this time as candidates for  
25 the Sharing Agreement are subject to change over time due to usage by APS,  
26 sale to others, failure, retirement, and other possible factors. Participation in a  
27 particular voltage class requires commitment of a prescribed total capacity  
28 (MVA) of transformers, not specifically identified units. The determining  
factor for the transformers in the Sharing Agreement for each voltage class is  
the minimum MVA required by EEI in that voltage class which is determined  
by the total EEI requirement divided by the number of participants. As  
participation in the Sharing Agreement increases, the MVA requirement for  
each utility to participate decreases.
- o) The sale of any transformers under this Sharing Agreement is not intended to  
produce a profit for the seller and, therefore, all sales are priced at either the  
seller's depreciated book cost or the market price for a replacement  
transformer, at the seller's option, plus expenses of the transaction.

7. Staff supports the concepts of the Sharing Agreement and APS' participation in the  
program. APS benefits in this program as do other participants by increasing their available stock  
of high voltage transformers to restore service following acts of deliberate destruction.  
Additionally, the risk of over committing APS system spare transformers in this Sharing

1 Agreement program in lieu of its own emergency needs or unexpected contingencies has been  
2 adequately addressed through the "Permitted Disposition" provision of the Sharing Agreement.

3 8. Staff has recommended that the Commission grant APS approval to enter into and  
4 participate in the EEI Spare Transformer Sharing Agreement in the 500/230 kV voltage category,  
5 the 345/230 kV voltage category, and the 230/69 kV voltage category. Participation will occur  
6 after the EEI requirement is decreased to 931 MVA in the 500/230 kV voltage category, 600 MVA  
7 in the 345/230 kV voltage category, and 486 MVA in the 230/69 kV voltage category.

8 9. Staff has further recommended that APS be allowed to sell not more than two  
9 500/345 kV transformers totaling a maximum of 931 MVA to meet its commitment in the 500/345  
10 kV voltage category; not more than one 345/230 kV transformer totaling a maximum of 600 MVA  
11 to meet its commitment in the 345/230 kV voltage category; and not more than four 230/69 kV  
12 transformers totaling a maximum of 486 MVA to meet its commitment in the 230/69 kV voltage  
13 category; all subject to the following condition:

- 14 • The Company should file reports pursuant to this EEI Spare Transformer Sharing  
15 Agreement with Docket Control within sixty days of any transaction summarizing  
16 each transfer, sale, mortgage, lease, or assignment entered into pursuant to this  
17 order.

## 18

### 19 **II. Sale of a Portion of Round Valley**

20 10. APS owns and operates the Round Valley Substation in Coconino County, Arizona  
21 and provides transmission services to Southwest Transmission Cooperative ("SWTC") utilizing  
22 electric facilities in this substation under APS' Open Access Transmission Tariff ("OATT").  
23 SWTC serves Mohave Electric Cooperative ("MEC"), one of its distribution cooperatives, through  
24 APS' Round Valley Substation's electric facilities. SWTC desires to extricate itself from the cost  
25 of this APS transmission service through purchasing the requisite portion of the Round Valley  
26 Substation and assuming the associated future operations, maintenance and other obligations of the  
27 facility. The sale price of the agreed on 50 percent ownership interest in the facility is \$450,900,  
28 and the APS substation would become a joint-use facility with APS and SWTC equally sharing in

1 the ongoing cost of the facility. As a joint use facility, SWTC will no longer be subject to APS'  
2 OATT.

3 11. Staff has reviewed the particulars of the Application with regard to the Sale of a  
4 Portion of Round Valley Substation and has made the following observations:

- 5 a) The Round Valley Substation presently contains the 230 kV facilities of APS  
6 and Western Area Power Administration ("WAPA") with an adjacent 230/69  
7 kV facility owned by MEC. The WAPA and MEC facilities are both  
8 electrically connected to the APS equipment and operate together; however,  
9 the facilities of all three entities are identifiable and distinct except for some  
10 minor commonality in the control house which is shared by APS and WAPA.
- 11 b) The APS portion of the Substation is comprised of one 230 kV 1,200 amp oil  
12 circuit breaker, three 230 kV air switches, rigid and strain bus, steel support  
13 structures, potential devices, control house with relay panels and  
14 communication interface, foundations, and various other ancillary devices to  
15 support the operation of the facility. The land for the Substation is leased.  
16 The APS Substation portion of the yard was placed in service in 1958.
- 17 c) The sale price and percent ownership of a sufficient portion of the APS  
18 facility by SWTC to negate the APS OATT was derived through a negotiated  
19 settlement of offered and counter-offered sales prices and ongoing obligation  
20 costs.
- 21 d) The sale price of 50 percent of the facility at \$450,900 and the division of  
22 future obligations, including the land lease (50 percent to APS and 50 percent  
23 to SWTC), were derived through the negotiation process between APS and  
24 SWTC.
- 25 e) APS would apply the \$450,900 sale price to reduce total depreciation which  
26 will benefit APS customers by reducing the rate base correspondingly. Rate  
27 base is directly proportional to the utility's net asset value, where net asset  
28 value is the original cost of plant less depreciation. In this case, the \$450,900  
sale price is credited to Federal Energy Regulatory Commission ("FERC")  
Account 108 (accumulated depreciation), thereby increasing the depreciation  
account and reducing the rate base.
- f) Also, the 50 percent obligation to SWTC for future operations, maintenance  
and land lease cost will benefit APS customers. These benefits to APS  
customers will be offset (more or less) by the reduction in transmission tariff  
cost no longer received by APS.
- g) SWTC will no longer be required to pay the APS OATT of approximately  
\$137,000 annually when the sale is completed. This amount would be  
allocated to wholesale (FERC) service for ratemaking purposes and would not  
impact retail rates. This annual payment loss was likely inevitable either

1 through litigation or through SWTC completely bypassing the Round Valley  
2 Substation, both options of which were under review by SWTC.

3 h) Staff has inspected the facility and determined that APS' representation of the  
4 facilities in function is accurate. Additionally, the facilities were in place with  
5 consideration for good engineering design and practice. Staff did point out  
6 two issues of concern to APS which subsequently were adequately addressed.  
7 They were:

8 • A spare steel structure approximately 10 feet tall was stored vertically  
9 against the active structure supporting the 230 kV bus and ancillary  
10 devices. APS reviewed the situation and advised it did not view this as a  
11 safety or reliability concern; however, the spare structure was moved away  
12 from the active structure and stored horizontally. Staff believes this was  
13 the proper action.

14 • Oil containment for the three oil filled breakers was lacking. Staff noted  
15 this appeared inconsistent with other APS installations and was  
16 questionable especially with the downward slope of the substation pad  
17 appearing to be well in excess of one percent (thereby exacerbating the  
18 flow of oil off the site). APS reviewed this facility and advised that the  
19 site was not subject to Spill Prevention, Control and Countermeasure  
20 ("SPCC") regulations as promulgated by the Environmental Protection  
21 Agency. APS' computer modeling determined there was no environmental  
22 impact for an oil leak at this location considering the oil volume available  
23 and topography of the area. Staff considers this response acceptable.

24 12. APS indicated to Staff that the approximate rate paid by SWTC under the original  
25 1974 contract was \$30,408 annually. Under the current OATT rate, SWTC pays approximately  
26 \$137,000 annually. According to APS, SWTC has considered "building around" the Round  
27 Valley Substation to avoid the OATT tariff by installing its own facilities near Round Valley.

28 13. Staff believes such an alternative could be duplicative in nature and would be a  
higher cost solution to the high OATT rate problem. Staff further believes that SWTC's  
participation in the Round Valley Substation by purchasing 50 percent of the facility, paying 50  
percent of the land lease payment, and paying 50 percent of the ongoing costs of the facility would  
be a lower cost alternative that could be beneficial to Arizona ratepayers.

14. Staff therefore supports the sale of 50 percent of the Round Valley Substation to  
SWTC and a sharing agreement with SWTC to evenly share the ongoing operations of the facility  
on a 50 percent APS 50 percent SWTC basis.

1           15. Staff has recommended that the Commission grant APS approval to sell 50 percent  
2 of the Round Valley Substation to SWTC subject to the following conditions:

- 3           a) The sale price for 50 percent ownership of the substation would be \$450,900  
4 and the full sale price would be credited to APS accumulated  
5 depreciation/salvage (FERC Account 108).  
6           b) APS would enter an Operations and Maintenance Agreement with SWTC for  
7 an even cost sharing of future operations, ongoing land lease payments,  
8 maintenance, replacements, upgrades and other services in connection with  
9 the joint ownership of the substation.

### 8 **III. Sale of the Waddell Substation**

9           16. APS desires to sell the property it owns at Cotton Lane and Cactus Road in the  
10 County of Maricopa and the City of Surprise, Arizona and which presently contains an operational  
11 distribution substation known as Waddell Substation. The existing site is subject to reductions in  
12 size due to an upcoming road widening, and it is already inadequate to handle the future electric  
13 facilities needed in this growing area. It is to be replaced by a new substation at a larger nearby  
14 site. Once the new substation is built and energized, APS would then remove the electrical  
15 equipment at the Waddell Substation and complete the land transfer to the new owner, Suburban  
16 Land Reserve, Inc.

17           17. Staff has reviewed the particulars of the Application with regard to the Sale of  
18 Waddell Substation and has made the following observations:

- 19           a) The Waddell Substation has a capacity of 30 MVA and is supplied by one  
20 incoming 69 kV feeder and has three outgoing 13 kV feeders. The electrical  
21 facilities and land are 100 percent owned by APS.  
22           b) The electrical equipment on the site is comprised of two 20 MVA  
23 transformers, three 13 kV breakers, various 13 kV and 69 kV air switches,  
24 rigid and strain bus, wood structures and steel structures on permanent  
25 foundations and temporary supports, equipment foundations, relay and  
26 communication interface, and various other ancillary devices to support the  
27 operation of the facility. The Substation and most of the active equipment are  
28 in excess of 30 years old with the exception of one 20 MVA transformer and  
associated equipment which are less than 30 years old. The equipment less  
than 30 years old is generally salvageable and suitable for use elsewhere on  
the APS system. The equipment older than 30 years, with the possible  
exception of the 20 MVA transformer, is not generally salvageable.

- 1 c) The Waddell Substation has a relatively small footprint for a substation (107  
2 feet by 183 feet), and the site size is being diminished by road widening  
3 which will reduce its dimensions to 107 feet by 118 feet. This reduced size of  
4 the site is not adequate for the present 30 MW capacity of the station and is  
5 not capable of supporting the capacity increases necessary with expected load  
6 growth. Staff believes it is appropriate to incorporate the Waddell Substation  
7 capacity into a new and expandable nearby facility as APS plans.
- 8 d) The new substation site replacing Waddell Substation is approximately one  
9 mile from the Waddell Substation and is well positioned to handle the  
10 increasing load of this developing area. It also has a significantly larger  
11 footprint (320 feet by 265 feet) to accommodate increased facilities for  
12 greater capacity. The new substation site referred to as the "Sarival Site" is  
13 being procured by APS from the buyer of the Waddell Substation Site, SLR,  
14 and both transactions are contained in the same agreement.
- 15 e) Staff has inspected the facility and determined that APS' representation of the  
16 facilities in function is accurate. Additionally, the facilities with the  
17 consideration noted below were in place with consideration for good  
18 engineering design and practice.
- 19 • Various steel structures supporting insulators, bus, switches and other  
20 ancillary devices are mounted on temporary steel plates in lieu of standard  
21 concrete foundations. These structures are generally associated with the  
22 recent addition of the newer 20 MVA transformer and its associated 69 kV  
23 supply and 13 kV outgoing feeder. Considering the short-term nature of  
24 this installation, Staff does not object to this type of construction as long as  
25 all applicable standards and codes are met.
- 26 f) The sale price for the Waddell Substation site is based on appraised value of  
27 similar sites and is approximately \$5.00 per square foot adjusted for this site.  
28 Staff has reviewed appraisals provided by APS and concurs with the \$5.00  
per square foot determination. The resultant sale price of \$63,235 is  
commensurate with the reduced site size due to road widening (12,626 square  
feet). The purchase of the new "Sarival Site" from SLR is similarly based  
upon a purchase price of approximately \$5.00 per square foot.

18. Staff is in concurrence with APS' sale of the Waddell Substation site to SLR and  
the associated procurement of a new site and construction of a new replacement substation in the  
area.

19. Staff has recommended that the Commission grant APS approval to sell to SLR the  
land containing the Waddell Substation, located at Cotton and Cactus Lane in the Phoenix West  
Valley, subject to the following conditions:

- a) The sale price of the land for the site would be \$63,235.

- 1           b) The decommissioning of electrical service at Waddell Substation would be  
2 coordinated with the construction and commissioning of the new area  
3 substation such that no interruptions in customer electric service would occur.
- 4           c) The after tax loss of \$12,691 associated with this transaction would be credited  
5 against after tax gains. The net gain/loss on the sale of this asset would be  
6 equally shared between ratepayers and shareholders.

#### 7 **IV. Pre-Approval for Qualifying Transactions**

8           20. APS requests pre-approval from the Commission to transfer, sell, mortgage, or  
9 lease used and useful property without first securing an order from the Commission authorizing  
10 each specific transaction. APS proposes that the pre-approval be subject to certain conditions and  
11 limitations:

- 12           a) The transfer price or transaction price for individual transfers, sales,  
13 mortgages or leases would be limited to \$1,000,000.
- 14           b) The Company would report information summarizing each transaction  
15 entered into under the pre-approval semi-annually.
- 16           c) The net gain on such transfers, sales, or mortgages would be evenly split  
17 between APS shareholders and ratepayers with the ratepayer portion to be  
18 credited to an account accruing interest at the same rate as customer deposits  
19 for use to benefit ratepayers either by a direct refund or by expenditure of the  
20 funds for programs to directly benefit ratepayers.

21           21. The requested pre-approval would apply to transfers, sales, leases, or mortgages  
22 that are subject to A.R.S. §40-285(A), and not exempt under A.R.S. §40-285(C), and also meet  
23 APS' prescribed conditions and limitations; that is, transactions not exceeding \$1,000,000  
24 involving used and useful plant and other property. Transactions that fall within the statutory  
25 requirements for Commission approval and exceed \$1,000,000 would continue to require specific  
26 Commission approval on a case-by-case basis. Sales or other transactions involving property not  
27 necessary for the performance of APS' duties to the public would continue to require no  
28 Commission approval.

29           22. APS states that the benefits and advantages of the proposed pre-approval include:

- 30           a) Pre-approval will facilitate the Company's ability to respond to changing  
31 needs and to maximize efficient use of assets.

- 1           b) Pre-approval will enable the Company to act rapidly to take advantage of  
2           opportunities that may not remain available for the time required to obtain  
3           specific Commission approval.
- 4           c) Pre-approval should reduce the administrative burden on the Commission and  
5           the Company.
- 6           d) Pre-approval should minimize the transaction costs involved in disposing of  
7           properties and facilitate the Company's ability to move forward in a timely  
8           manner.

9           23. Staff reviewed APS' proposal and investigated the legal, procedural, and economic  
10          ramifications of the requested pre-approval. Staff sought information to help it to determine  
11          whether Commission pre-approval would satisfy public service corporation obligations under  
12          A.R.S. §40-285(A). A.R.S. §40-285(A) requires a public service corporation wishing to sell,  
13          lease, assign, mortgage or otherwise dispose of or encumber plant or other property necessary or  
14          useful in the performance of its duties to the public, to first obtain an order from the Commission  
15          granting it authority to do so.

16          24. In its review, Staff determined that a similar case involving the granting of pre-  
17          approval had been ordered when the Commission granted APS pre-approval for qualifying  
18          transfers, sales, or mortgages under A.R.S. §40-285(A) in Decision No. 60481, November 25,  
19          1997, as amended by Decision No. 61708, May 13, 1999. Pre-approval was granted under these  
20          decisions for certain individual transactions not exceeding \$500,000. Additional conditions on the  
21          pre-approval granted under these decisions set an annual cap for pre-approved transactions at  
22          \$5,000,000 per calendar year, after which all subsequent transactions that year exceeding \$100,000  
23          require specific Commission approval. The pre-approval granted in these decisions is still in force,  
24          and it appears that it might have been used by APS to meet its statutory obligation to obtain  
25          Commission approval for the sales requested in Items II and III of this Application if those  
26          decisions had been interpreted broadly. However, interpretations have varied regarding whether  
27          the pre-approval granted in Decision No. 60481, as amended by Decision No. 61708, applies only  
28          to qualifying street lighting equipment or if it applies generally to all types of plant and other used  
29          and useful property.

...

1           25.     In discussions with Staff, APS stated that it included Item IV in its Application to  
2 obtain an order from the Commission granting the Company pre-approval authority for all types of  
3 qualifying plant and other property, not just street lighting plant and equipment. APS is also  
4 proposing to increase the cap on individual qualifying transactions from \$500,000 to \$1,000,000.

5           26.     It is not anticipated that a high volume of sales or other transactions would take  
6 place under APS' proposed pre-approval, if granted. Indeed, only 12 transactions were completed  
7 under the pre-approval granted in Decision No. 60481 from November 1997 to date, and all but  
8 two of those transactions were for the sale of streetlighting systems. Other than the items in the  
9 instant Application, APS has made only one other individual request for approval for sale of used  
10 and useful property in the past five years. Transactions that may qualify for the requested pre-  
11 approval often involve the sale of smaller outgrown facilities to move to larger facilities and may  
12 include the following, for example:

- 13           • Sale of a service center building and land parcel
- 14           • Sale of a communications site
- 15           • Sale of a small portion of a transmission line
- Sale of a pole yard or other work or storage site

16           27.     The Company is proposing to utilize some of the same procedures and accounts that  
17 were used to implement Decision No. 60481 and its amendments in Decision No. 61708  
18 (Application p. 6, items b and c). After reviewing APS' pre-approval request, Staff views it as a  
19 request to gain pre-approval for transactions involving all types of qualifying used and useful plant  
20 and equipment and to raise the individual transaction cap to \$1,000,000.

21           28.     Staff agrees that it could be advantageous to grant APS pre-approval for certain  
22 smaller qualifying transactions. Indeed, in a rapidly growing service territory, APS must be able to  
23 respond to changing needs and to take advantage of opportunities quickly, efficiently, and  
24 economically. The Item III Waddell Substation scenario, for example, is likely to recur in the  
25 future. This is a situation where a small rural substation is no longer of adequate capacity to serve  
26 an area that has transformed from farm land into a developed residential/commercial area. Staff  
27 recognizes that pre-approval could help to minimize transaction costs involved in disposing of  
28 some smaller properties and facilities and could therefore save ratepayers money. Staff also

1 believes that pre-approval could reduce administrative burden on the Commission and allow the  
2 Commission to expend its time on more substantive issues. Staff is currently not aware of any  
3 disadvantages to allowing some form of pre-approval for many smaller transactions.

4         29. Staff examined the terms and conditions of the pre-approval granted in Decision  
5 No. 60481, as amended by Decision No. 61708, and found them to contain some appropriate  
6 safeguards and procedures to ensure that implementation of the pre-approval was reasonable, fair,  
7 and efficient. Staff examined the \$500,000 individual transaction limitation for pre-approval  
8 imposed in 1997 and considers that it was reasonable at that time. Staff applied various inflation  
9 indices to the \$500,000 individual transaction cap in 1997 and found that a limit in the range of  
10 \$600,000 - \$800,000 would be the equivalent level today. Staff similarly reviewed the inflation  
11 effect on the \$5,000,000 existing annual cap and the lower \$100,000 individual transaction cap  
12 that becomes effective after the annual maximum is reached in a calendar year. Staff believes that  
13 additional benefits would accrue to ratepayers, the Commission, and the Company if pre-approval  
14 were allowed to apply to qualifying transactions involving other types of used and useful plant and  
15 property in addition to street lighting.<sup>2</sup> However, because the pre-approval would apply to a  
16 broader array of used and useful assets, Staff believes that additional conditions on such pre-  
17 approval would be appropriate.

18         30. Staff has recommended that the Commission grant APS pre-approval to transfer,  
19 sell, mortgage, lease, assign, or otherwise dispose of or encumber, in whole or in part, tangible or  
20 intangible property otherwise subject to A.R.S. §40-285(A) (used and useful property), and not  
21 exempt under A.R.S. §40-285(C) (property other than used and useful), subject to the following  
22 conditions and limitations:

- 23             a) Individual transfers, sales, mortgages, leases, or assignments shall not exceed  
24                 a per transaction cap of \$750,000.
- 25             b) Logical transactions shall not be disaggregated into separate component  
26                 transactions for the purpose of allowing them to fall under the \$750,000 cap.

26 ...  
27 ...

28 <sup>2</sup> The present benefits are derived from APS and customer shared transactions and held in account generally with a balance less than \$100,000 until a Commission approved disbursement.

- 1 c) The cumulative amount of such transfers, sales, mortgages, leases, or  
2 assignments shall not exceed \$7,500,000 in any single year except as  
3 provided for in condition/limitation (4.) immediately following.
- 4 d) Once the \$7,500,000 accumulation threshold is reached in any calendar year,  
5 all subsequent qualifying transactions exceeding \$150,000 during the  
6 remainder of the year would require specific Commission approval.
- 7 e) Fifty percent of the net gain on pre-approved transfers, sales, mortgages,  
8 leases, or assignments shall be credited to APS ratepayers by placing the  
9 ratepayers' portion of the gain in a separate account that accrues interest at the  
10 same rate as customer deposits. The account to be utilized in compliance with  
11 this order shall be the same account currently utilized for compliance with  
12 Decision No. 60481 as amended by Decision No. 61708. This account has  
13 generally maintained balances less than \$100,000 over the last four years. No  
14 less often than once each two years on April 30 of even numbered years, the  
15 entire amount in the account, if \$100,000 or greater, will be either refunded to  
16 customers or utilized by APS to fund programs that will directly benefit  
17 customers as directed and approved by the Commission. However, should the  
18 amount in the account reach \$1.5 million earlier than six months prior to an  
19 April 30 disbursement date, disbursement of the entire amount in the account,  
20 in the manner described above, shall be undertaken as soon as is practicable.  
21 Customers receiving service under special contracts will not be eligible to  
22 receive such refunds. Any funds currently in the account as a result of  
23 Decision No. 60481, as amended by Decision No. 61708, shall be carried  
24 over, added to any future funds placed into the account, and subject to the  
25 same disposition procedure as described herein.
- 26 f) Any transfers, sales, mortgages, leases, or assignments that may directly or  
27 indirectly exert a negative impact on the safety, quality, reliability, or  
28 economy of an APS customer's electric service are ineligible for pre-approval  
and will require specific applications for Commission approval on a case-by-  
case basis.
- g) The Company shall file in Docket Control, quarterly reports summarizing  
each transfer, sale, mortgage, lease, or assignment entered into pursuant to  
this order and further shall state how each transaction complies with  
condition/limitation (6.) immediately above. This reporting requirement shall  
be met by continuing the reporting currently being submitted by APS in  
compliance with Decision No. 60481, as amended by Decision No. 61708,  
replacing and superseding that requirement, and increasing the frequency of  
the report to quarterly. The quarterly report shall also summarize APS' use of  
any funds expended for programs to directly benefit customers pursuant to the  
condition/limitation (5.) above. These quarterly reports, "Calculation of  
Gains on Utility Property," shall be filed with Docket Control on or before  
March 1, June 1, September 1, and December 1 of each year.

28 ...



1 than four 230/69 kV transformers totaling a maximum of 486 MVA to meet its commitment in the  
2 230/69 kV voltage category; all subject to the following condition:

3 Arizona Public Service Company shall file reports pursuant to this EEI Spare  
4 Transformer Sharing Agreement with Docket Control within sixty days of any  
5 transaction summarizing each transfer, sale, mortgage, lease, or assignment entered  
6 into pursuant to this order.

7 IT IS FURTHER ORDERED that approval to sell 50 percent of the Round Valley  
8 Substation to SWTC is hereby granted, subject to the following conditions:

- 9 a) The sale price for 50 percent ownership of the substation shall be \$450,900  
10 and the full sale price shall be credited to Arizona Public Service Company  
11 accumulated depreciation/salvage (FERC Account 108).  
12 b) Arizona Public Service Company shall enter an Operations and Maintenance  
13 Agreement with SWTC for an even cost sharing of future operations, ongoing  
land lease payments, maintenance, replacements, upgrades and other services  
in connection with the joint ownership of the substation.

14 IT IS FURTHER ORDERED that approval for Arizona Public Service Company to sell to  
15 SLR the land containing the Waddell Substation, located at Cotton and Cactus Lane in the Phoenix  
16 West Valley, is hereby granted, subject to the following conditions:

- 17 a) The sale price of the land for the site shall be \$63,235.  
18 b) The decommissioning of electrical service at Waddell Substation shall be  
19 coordinated with the construction and commissioning of the new area  
20 substation such that no unreasonable interruptions in customer electric service  
will occur.  
21 c) The after tax loss of \$12,691 associated with this transaction shall be credited  
22 against after tax gains. The net gain/loss on the sale of this asset shall be  
equally shared between ratepayers and shareholders.

23 IT IS FURTHER ORDERED that pre-approval for Arizona Public Service Company to  
24 transfer, sell, mortgage, lease, assign, or otherwise dispose of or encumber, in whole or in part,  
25 tangible or intangible property otherwise subject to A.R.S. §40-285(A) (used and useful property),  
26 and not exempt under A.R.S. §40-285(C) (property other than used and useful), is hereby granted,  
27 subject to the following conditions and limitations:  
28

...

- 1 a) Individual transfers, sales, mortgages, leases, or assignments shall not exceed  
2 a per transaction cap of \$750,000.
- 3 b) Logical transactions shall not be disaggregated into separate component  
4 transactions for the purpose of allowing them to fall under the \$750,000 cap.
- 5 c) The cumulative amount of such transfers, sales, mortgages, leases, or  
6 assignments shall not exceed \$7,500,000 in any single year except as  
7 provided for in condition/limitation (d.) immediately following.
- 8 d) Once the \$7,500,000 accumulation threshold is reached in any calendar year,  
9 all subsequent qualifying transactions exceeding \$150,000 during the  
10 remainder of the year would require specific Commission approval.
- 11 e) Fifty percent of the net gain on pre-approved transfers, sales, mortgages,  
12 leases, or assignments shall be credited to APS ratepayers by placing the  
13 ratepayers' portion of the gain in a separate account that accrues interest at the  
14 same rate as customer deposits. The account to be utilized in compliance with  
15 this order shall be the same account currently utilized for compliance with  
16 Decision No. 60481 as amended by Decision No. 61708. No less often than  
17 once each two years on April 30 of even numbered years, the entire amount in  
18 the account, if \$100,000 or greater, will be either refunded to customers or  
19 utilized by APS to fund programs that will directly benefit customers as  
20 directed and approved by the Commission. However, should the amount in  
21 the account reach \$1.5 million earlier than six months prior to an April 30  
22 disbursement date, disbursement of the entire amount in the account, in the  
23 manner described above, shall be undertaken as soon as is practicable.  
24 Customers receiving service under special contracts will not be eligible to  
25 receive such refunds. Any funds currently in the account as a result of  
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condition/limitation (e.) above. These quarterly reports, "Calculation of Gains on Utility Property," shall be filed with Docket Control on or before March 1, June 1, September 1, and December 1 of each year.

IT IS FURTHER ORDERED that the Commission shall reserve the option to impute revenues to Arizona Public Service Company in its next rate case to the extent of any annual net revenue loss resulting from plant or other property sales or other transactions under the pre-approval granted herein.

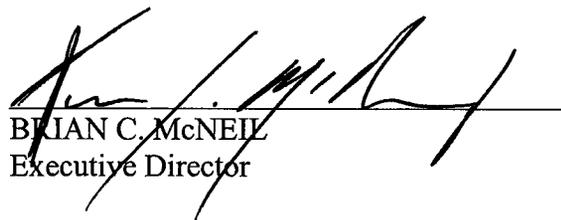
IT IS FURTHER ORDERED that this Order shall not bind the Commission to any particular rate making treatment of a transaction that qualifies for pre-approval.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

 CHAIRMAN	 COMMISSIONER	
 COMMISSIONER	 COMMISSIONER	 COMMISSIONER

IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 28<sup>th</sup> day of June, 2007.

  
BRIAN C. McNEIL  
Executive Director

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

EGJ:ST:JDA:lhmvMA

1 SERVICE LIST FOR: Arizona Public Service Company  
2 DOCKET NO. E-01345A-06-0770

3 Mr. Robert J. Metli  
4 Snell & Wilmer  
5 One Arizona Center  
6 400 East Van Buren  
7 Phoenix, AZ 85004-2202

8 Mr. Thomas L. Mumaw  
9 Pinnacle West Capital Corporation  
10 Post Office Box 53999, MS 8695  
11 Phoenix, Arizona 85072-3999

12 Mr. Ernest G. Johnson  
13 Director, Utilities Division  
14 Arizona Corporation Commission  
15 1200 West Washington  
16 Phoenix, Arizona 85007

17 Mr. Christopher C. Kempley  
18 Chief Counsel  
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