

ORIGINAL

OPEN MEETING



0000076193

MEMORANDUM RECEIVED

Arizona Corporation Commission

DOCKETED

SEP 05 2007

TO: THE COMMISSION 2007 SEP -5 P 2: 36

FROM: Utilities Division AZ CORP COMMISSION
DOCKET CONTROL

DATE: September 5, 2007

DOCKETED BY

RE: IN THE MATTER OF THE APPLICATION OF GARKANE ENERGY COOPERATIVE, INC. FOR APPROVAL OF REVISIONS TO ITS LINE EXTENSION POLICY (DOCKET NO. E-01891A-07-0081)

On February 5, 2007, Garkane Energy Cooperative, Inc. ("Garkane" or the "Cooperative") filed for Arizona Corporation Commission ("Commission" or "ACC") approval of revisions to its Line Extension Policy ("Policy"). The revised Policy adds a new item to provide hook-up fees and includes a new hook-up fee schedule. Garkane explains its Application is to make its Arizona Policy consistent with the Policy applicable to the rest of its system in Utah, where hook-up fees were implemented in June 2006. The Cooperative states that the most equitable way to support new investment required by rapid growth is to charge such investment directly to the incremental customers who are causing the cost to be incurred thus protecting existing customers from rate increases to fund new growth.

On February 9, 2007, Garkane, through its council, Michael M. Grant, filed a memorandum agreeing to suspend the time clock on its Application through and including May 11, 2007, to provide Staff with additional time to review Garkane's proposed Policy. In response to a Staff recommendation, the Commission on May 21, 2007, issued Decision No. 69571 to suspend Garkane's Application for an additional 130 days to September 18, 2007.

Garkane is a rural non-profit electric cooperative headquartered in Loa, Utah. In December 2006 Garkane provided electric power to 11,608 members in Utah and Arizona. About 94.1 percent of Garkane's customers are in Utah leaving only 5.9 percent, or 690 customers, in Garkane's Arizona service territory. The customers fall predominantly into the residential and small commercial classes of service with 519 residential customers, 119 small commercial customers, and 52 water-pumping, street lighting, and other customers in 2006. There are no large power customers in Garkane's Arizona service territory.

Staff is currently engaged in its investigation and research work in connection with generic Docket No. E-00000K-07-0052 and G-00000E-07-0052, opened by the Commission to address the hook-up fee issue for both electric and natural gas utilities in Arizona. Efforts in connection with the Generic Docket are currently in process; however, Staff does not believe that it is necessary to await the outcome of the generic docket investigation to move forward with Garkane's Application. Garkane's situation regarding hook-up fees is far less complex than that of many other Arizona utilities for the following reasons: 1) the same hook-up fees have been successfully implemented in Garkane's Utah service territory; 2) the Cooperative's status as a

THE COMMISSION

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not-for-profit cooperative exempt it from state and federal income taxes; 3) a cooperative has fewer options to fund infrastructure since they do not have access to capital equity markets; and 4) the low customer count and rural character of the Cooperative's service territory in Arizona. Furthermore, while Staff has not completed its work on the generic docket, certain facts and principles concerning hook-up fees have already become known.

Staff is aware of two electric utilities in Arizona that use hook-up fees. Dixie Escalante Rural Electric Association, which serves a small portion of the northeastern part of Arizona, has a Commission-approved "impact" fee that imposes \$750 per residential hook-up for installed capacity over 20 kW, and a Commercial, Irrigation, and General Service impact fee of \$60 per kW based on the maximum installed capacity. Wellton-Mohawk Irrigation and Drainage District, which provides electric service to a small portion of the southwestern part of Arizona, recently adopted a \$750 hook-up fee for new residential facilities. Hook-up fees for non-residential facilities are considered on a case-by-case basis.

One consideration in determining if hook-up fees may be appropriate is whether the service territory exhibits growth in customers, sales, and peak loads that could be considered rapid growth. More traditional methods of funding and recovering costs have historically been effective in acquisition of new infrastructure to accommodate growth in low- or moderate-growth areas. Infrastructure in these cases is typically funded with equity or debt financing, placed into rate base, and recovered through rates over the estimated lifetime of the equipment or plant purchased or constructed.

Customer growth in Garkane's two-state service territory has been rapid in both Utah and Arizona. The Arizona service territory exhibited slightly slower overall customer growth (from 472 to 690 Arizona customers) compared with Utah from 1997 to 2006 and in the most recently available five-year period (from 541 to 690 Arizona customers), but nonetheless the growth has been rapid. Customer growth over the most recent five years has been higher in both states compared to that of the first five years for which data is available. Below is a table illustrating Garkane customer growth figures presented in average annual growth rate percentages:¹

Garkane Energy Cooperative, Inc. Customer Growth (Average Annual Percentage Growth Rates)				
<u>Time Period</u>	<u>Arizona Service Territory</u>		<u>Utah Service Territory</u>	
	<u>Residential</u>	<u>Total All Classes</u>	<u>Residential</u>	<u>Total All Classes</u>
9 Yrs. Between 1997-2006	5.4%	4.3%	4.8%	4.8%
5 Yrs. Between 1997-2002	4.7%	4.0%	2.5%	3.0%
5 Yrs. Between 2001-2006	6.3%	5.0%	6.5%	6.2%

Megawatt hour sales growth has, likewise, exhibited robust growth. Residential sales in the Arizona service territory exhibited the most aggressive growth having more than doubled

¹ Under Staff's First Data Request, Garkane provided 10 years of December (snapshot) or annual data for a variety of different series allowing Staff to analyze nine periods of growth between those 10 data points. Note also that Staff's examination of the earliest five years of growth and the most recent five years of growth overlap.

from 3,087 MWh in 1997 to 6,622 MWh in 2006. During the same time period, total Arizona service territory sales in all classes of service grew from 8,031 MWh to 12,781 MWh. Arizona MWh sales in 2006 represent about 7.5 percent of Garkane's 2006 MWh sales. Below is a table illustrating Garkane MWh sales growth rates:

Garkane Energy Cooperative, Inc. MWh Sales Growth (Average Annual Percentage Growth Rates)				
Time Period	Arizona Service Territory		Utah Service Territory	
	Residential	Total All Classes	Residential	Total All Classes
9 Yrs. Between 1997-2006	8.8%	5.3%	5.7%	5.1%
5 Yrs. Between 1997-2002	6.8%	4.7%	3.0%	2.1%
5 Yrs. Between 2001-2006	11.0%	6.3%	7.9%	7.4%

Another consideration in determining whether hook-up fees may be appropriate is whether the utility is obligated to pay federal and/or state income taxes on the hook-up fees collected from potential customers. If income taxes are assessed against the hook-up fees, this method of financing new growth becomes less attractive and may be characterized as an inefficient way to pay for new plant and equipment needed to serve new customers. Garkane, as a not-for-profit cooperative, is not subject to income taxes either at the federal or state levels.

Following is the hook-up fee schedule proposed by Garkane. It is the same as the hook-up fee schedule currently in effect in Utah.

The hook-up fee shall be based upon the service entrance main breaker and/or fuse sets amperage and nominal service voltage. Where there are more than one service entrance main breakers and/or fuse sets, the hook-up fee shall be based upon the sum of such devices. Service entrances which are upgraded and result in increased capacity shall be assessed a hook-up fee equal to the difference between the original service entrance size and the upgraded service entrance size. Service entrances which are upgraded for safety reasons or system improvements without increase in service capacity may have the hook-up fee waived. In new subdivisions, hook-up fees shall be assessed to the lot owner at the time the customer requests service to the lot.

RESIDENTIAL OR NON-DEMAND SERVICES

(Single Phase 120/240 Volt Service)

OVERHEAD OR UNDERGROUND SYSTEM CONNECTION

0-100 amps	\$1,000.00
101-200 amps	\$2,000.00
Each additional 100 amps, or portion thereof	\$1,000.00

COMMERCIAL, IRRIGATIONAL, GENERAL SERVICE, OR ALL OTHER SERVICES

Installed Meter Capacity	\$40/kW
or Minimum Impact Fee	\$1,000.00

An important consideration in calculating an appropriate amount to charge for hook-up fees is that imbedded costs already included in base rates should be subtracted from the total cost of adding new customers in the calculation. This is important because new customers would be paying a hook-up fee and would then commence paying rates that include similar costs for existing or historical infrastructure. To avoid having new customers overpay, the hook-up fee should be designed to exclude the historical costs imbedded in base rates that all customers, existing or new would pay. The objective is to place existing and new customers on the same footing and to reduce or eliminate any cross subsidization between existing and new customers.

Garkane's hook-up fee calculation methodology appropriately follows this general principle. While Staff would not characterize the Cooperative's calculation as a sophisticated marginal cost study, it is based on appropriate data and follows a methodology that Staff considers to be logical and appropriate for this application.

Garkane's proposed hook-up fee schedule is based on system-wide calculations that include both Utah and Arizona. This is appropriate because much of the infrastructure that serves Arizona customers is located in Utah. Garkane believes only transmission and distribution backbone expenditures should be included in hook-up fees and has used only those costs in its calculations. Distribution backbone includes only substations and 19.9 kV and 34.5 kV distribution express feeders that Garkane built as upgrades or improvements to its system. It does not include facilities that have been constructed as "line extensions." The Cooperative analyzed the dollars invested to serve recent new customers and determined that \$6,299 was invested per customer during 2000-2005. It then determined the historical average investment per customer to be \$3,974 (net plant on the books divided by the total number of customers). Garkane then subtracted the historical average imbedded investment per customer (\$3,974) from the recent investment per customer (\$6,299) and arrived at a potential hook-up fee amount of \$2,325 per customer in new plant above the historical amount included in rates.

Garkane believes and Staff agrees that the cost associated with serving new loads should be proportional to the size of the load. The Cooperative expressed its belief that the service entrance main breaker is the best way to gauge the relative size of new loads that have no history. The service entry main breaker size is also readily identifiable. The calculated hook-up fee amount of \$2,325 was rounded down to \$2,000 and associated with the most prevalent type of customer added, the residential 200 amp customer, proportionately fixing the residential hook-up fee at \$1,000 per 100 amps. Commercial and other customers take service at a variety of voltage levels, so Garkane performed a calculation to convert the 200 amp service at \$2,000 to \$40/kW².

Although Staff agrees with Garkane's hook-up fee calculation, Staff is concerned that Garkane is proposing hook-up fees in conjunction with an existing free allowance line extension policy. The existing free allowance line extension policy, up to 600 feet free, would have the effect of reducing the amount of the hook-up fee. Staff feels the two policies would send

² A 200 amp single phase 120/240 volt service is equivalent to 48 kW (200 X 240). \$2,000 divided by 48 kW is \$41.67 per kW. This was rounded to \$40 per kW.

THE COMMISSION

Page 5

contradictory signals to potential customers and are theoretically incompatible with each other, however, easily netted out for practical implementation. Garkane's Utah service territory also has both a free allowance line extension policy and its hook-up fees in place, but the Cooperative is discussing possible elimination of the free line extension footage in 2008.

Garkane's free line extension footage allowances in effect in Utah and in Arizona are vastly different. The Policy in effect in Arizona is based on a free 600 foot extension and is more beneficial to customers than the Policy in Utah, which is based on a \$600 allowance. The discrepancy between the two Policies has resulted from regular updates having been applied to the Utah Policy, where the Arizona Policy has not been updated since 1985. The proposed Policy Garkane is asking the Commission to approve is the 22-year old Line Extension Policy with one additional item appended to add hook-up fees. While Staff is not opposed to the adoption of hook-up fees for Garkane, it is concerned that the Policy needs to be updated.

Staff believes that, in this instance, hook-up fees are an appropriate mechanism to help finance capital expenditures associated with incremental infrastructure required to accommodate rapid new growth. Their use would provide accelerated recovery to the Cooperative for installation of such infrastructure. Staff further believes the use of hook-up fees would more appropriately assign the costs of new growth to those who are causing the growth, and that their use would help to keep rates lower for Garkane's members. Therefore, Staff recommends the Commission approve Garkane's proposed Line Extension Policy that includes hook-up fees as outlined in item 10 of that Policy. Staff further recommends that hook-up fee collections be placed into a separate interest bearing account, and that Garkane file in Docket Control by September 30 of each year beginning in 2008 a report of its hook-up fee collections including 1) the amount collected; 2) from whom the hook-up fees were collected including contact information; 3) the amount spent; and 4) a list of plant installed using hook-up fee funds. Staff also recommends that Garkane file tariff pages consistent with the Decision within 15 days of the effective date of the Decision. Staff estimates that in the first year of hook-up fee collections, Garkane would add approximately 30 customers at an average hook-up fee of \$2,325 resulting in annual hook-up fee collections of about \$69,750.

Staff is interested in assuring that the procedures involved in the implementation of hook-up fees result in fair and equitable treatment of new customers recognizing that builders and potential new customers may be in various stages of construction or project planning. For instance, a builder may have already set the price for a new home to a purchaser, but was unaware that a \$2,000 hook-up fee would be assessed increasing the builder's cost. It is clear that a potential electric customer (builder or ultimate customer) that has been given a line extension quote within 30 days of the implementation of hook-up fees would be exempt, because Garkane's quote is good for 30 days. However, Staff believes that 30 days may not be sufficient in this instance. Therefore, Staff recommends that any potential electric customer (builder or ultimate customer) that has been given a line extension quote by Garkane within 120 days prior to a Decision in this matter be automatically exempt from a hook-up fee, and that Garkane consider other exemptions where a quote was provided up to one year prior to a Decision in this matter on a case by case basis, but exempt the hook-up fee only where signed contract or price

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commitment or other factor would make it unfair to assess the hook-up fee at the discretion of the Cooperative.

Staff is concerned about the fact that Garkane's Arizona Line Extension Policy has not been updated since 1985 and that it contains provisions for free line extensions up to 600 feet. As stated earlier, Staff views free line extension allowances and hook-up fees as mutually exclusive where a Line Extension Policy would normally include one or the other. However, both practices can exist together where the hook-up fee would simply be reduced by the value of the free line extension, such as is being done by Garkane presently in Utah. Staff even recognizes some advantage to maintaining the free line extension temporarily in order to somewhat mitigate the effect of the hook-up fee by lessening the shock of simultaneously removing the free extension and imposing the hook-up fee.

Staff believes that Garkane's Arizona Line Extension Policy should be reviewed and updated as necessary in Garkane's next rate case. Staff also believes that when the Line Extension Policy is updated, the Policy should eliminate Garkane's free line extension policy. Therefore, Staff recommends that when Garkane files its next rate case, it should update its Arizona Line Extension Policy to eliminate its line extension free allowance.

Because of Staff's ongoing investigation into the use of hook-up fees for electric gas utilities, decisions resulting from this case should not be considered to be a precedent for future Commission policy regarding hook-up fees.



Ernest G. Johnson
Director
for Utilities Division

EGJ:JDA:red\CH

ORIGINATOR: Jerry D. Anderson

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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

IN THE MATTER OF THE APPLICATION) DOCKET NO. E-01891A-07-0081
OF GARKANE ENERGY COOPERATIVE, }
INC. FOR APPROVAL OF REVISIONS TO } DECISION NO. _____
ITS LINE EXTENSION POLICY. } ORDER

Open Meeting
September 18 and 19, 2007
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Garkane Energy Cooperative, Inc. ("Garkane" or the "Cooperative") is engaged in providing electric service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("Commission" or "ACC").

2. On February 5, 2007, Garkane filed for Commission approval of revisions to its Line Extension Policy ("Policy"). The revised Policy adds a new item to provide hook-up fees and includes a new hook-up fee schedule. Garkane explains its Application is to make its Arizona Policy consistent with the Policy applicable to the rest of its system in Utah, where hook-up fees were implemented in June 2006. The Cooperative states that the most equitable way to support new investment required by rapid growth is to charge such investment directly to the incremental customers who are causing the cost to be incurred thus protecting existing customers from rate increases to fund new growth.

3. On February 9, 2007, Garkane, through its council, Michael M. Grant, filed a memorandum agreeing to suspend the time clock on its Application through and including May

1 11, 2007, to provide Staff with additional time to review Garkane's proposed Policy. In response
2 to a Staff recommendation, the Commission on May 21, 2007, issued Decision No. 69571 to
3 suspend Garkane's Application for an additional 130 days to September 18, 2007.

4 4. Garkane is a rural non-profit electric cooperative headquartered in Loa, Utah. In
5 December 2006 Garkane provided electric power to 11,608 members in Utah and Arizona. About
6 94.1 percent of Garkane's customers are in Utah leaving only 5.9 percent, or 690 customers, in
7 Garkane's Arizona service territory. The customers fall predominantly into the residential and
8 small commercial classes of service with 519 residential customers, 119 small commercial
9 customers, and 52 water-pumping, street lighting, and other customers in 2006. There are no large
10 power customers in Garkane's Arizona service territory.

11 5. Staff is currently engaged in its investigation and research work in connection with
12 generic Docket No. E-00000K-07-0052 and G-00000E-07-0052, opened by the Commission to
13 address the hook-up fee issue for both electric and natural gas utilities in Arizona. Efforts in
14 connection with the Generic Docket are currently in process; however, Staff does not believe that
15 it is necessary to await the outcome of the generic docket investigation to move forward with
16 Garkane's Application. Garkane's situation regarding hook-up fees is far less complex than that of
17 many other Arizona utilities for the following reasons: 1) the same hook-up fees have been
18 successfully implemented in Garkane's Utah service territory; 2) the Cooperative's status as a not-
19 for-profit cooperative exempt it from state and federal income taxes; 3) a cooperative has fewer
20 options to fund infrastructure since they do not have access to capital equity markets; and 4) the
21 low customer count and rural character of the Cooperative's service territory in Arizona.
22 Furthermore, while Staff has not completed its work on the generic docket, certain facts and
23 principles concerning hook-up fees have already become known.

24 6. Staff is aware of two electric utilities in Arizona that use hook-up fees. Dixie
25 Escalante Rural Electric Association, which serves a small portion of the northeastern part of
26 Arizona, has a Commission-approved "impact" fee that imposes \$750 per residential hook-up for
27 installed capacity over 20 kW, and a Commercial, Irrigation, and General Service impact fee of
28 \$60 per kW based on the maximum installed capacity. Wellton-Mohawk Irrigation and Drainage

1 District, which provides electric service to a small portion of the southwestern part of Arizona,
2 recently adopted a \$750 hook-up fee for new residential facilities. Hook-up fees for non-
3 residential facilities are considered on a case-by-case basis.

4 7. One consideration in determining if hook-up fees may be appropriate is whether the
5 service territory exhibits growth in customers, sales, and peak loads that could be considered rapid
6 growth. More traditional methods of funding and recovering costs have historically been effective
7 in acquisition of new infrastructure to accommodate growth in low- or moderate-growth areas.
8 Infrastructure in these cases is typically funded with equity or debt financing, placed into rate base,
9 and recovered through rates over the estimated lifetime of the equipment or plant purchased or
10 constructed.

11 8. Customer growth in Garkane's two-state service territory has been rapid in both Utah
12 and Arizona. The Arizona service territory exhibited slightly slower overall customer growth
13 (from 472 to 690 Arizona customers) compared with Utah from 1997 to 2006 and in the most
14 recently available five-year period (from 541 to 690 Arizona customers), but nonetheless the
15 growth has been rapid. Customer growth over the most recent five years has been higher in both
16 states compared to that of the first five years for which data is available. Below is a table
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18 percentages:¹

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13 10. Another consideration in determining whether hook-up fees may be appropriate is
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15 collected from potential customers. If income taxes are assessed against the hook-up fees, this
16 method of financing new growth becomes less attractive and may be characterized as an inefficient
17 way to pay for new plant and equipment needed to serve new customers. Garkane, as a not-for-
18 profit cooperative, is not subject to income taxes either at the federal or state levels.

19 11. Following is the hook-up fee schedule proposed by Garkane. It is the same as the
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22 *amperage and nominal service voltage. Where there are more than one service entrance*
23 *main breakers and/or fuse sets, the hook-up fee shall be based upon the sum of such*
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25 *assessed a hook-up fee equal to the difference between the original service entrance size*
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27 *reasons or system improvements without increase in service capacity may have the hook-up*
28 *fee waived. In new subdivisions, hook-up fees shall be assessed to the lot owner at the time*
the customer requests service to the lot.

RESIDENTIAL OR NON-DEMAND SERVICES*(Single Phase 120/240 Volt Service)***OVERHEAD OR UNDERGROUND SYSTEM CONNECTION**

<i>0-100 amps</i>	<i>\$1,000.00</i>
<i>101-200 amps</i>	<i>\$2,000.00</i>
<i>Each additional 100 amps, or portion thereof</i>	<i>\$1,000.00</i>

COMMERCIAL, IRRIGATIONAL, GENERAL SERVICE, OR ALL OTHER SERVICES

<i>Installed Meter Capacity</i>	<i>\$40/kW</i>
<i>or Minimum Impact Fee</i>	<i>\$1,000.00</i>

12. An important consideration in calculating an appropriate amount to charge for hook-up fees is that imbedded costs already included in base rates should be subtracted from the total cost of adding new customers in the calculation. This is important because new customers would be paying a hook-up fee and would then commence paying rates that include similar costs for existing or historical infrastructure. To avoid having new customers overpay, the hook-up fee should be designed to exclude the historical costs imbedded in base rates that all customers, existing or new would pay. The objective is to place existing and new customers on the same footing and to reduce or eliminate any cross subsidization between existing and new customers.

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1 customer during 2000-2005. It then determined the historical average investment per customer to
2 be \$3,974 (net plant on the books divided by the total number of customers). Garkane then
3 subtracted the historical average imbedded investment per customer (\$3,974) from the recent
4 investment per customer (\$6,299) and arrived at a potential hook-up fee amount of \$2,325 per
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6 15. Garkane believes and Staff agrees that the cost associated with serving new loads
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14 16. Although Staff agrees with Garkane's hook-up fee calculation, Staff is concerned that
15 Garkane is proposing hook-up fees in conjunction with an existing free allowance line extension
16 policy. The existing free allowance line extension policy, up to 600 feet free, would have the
17 effect of reducing the amount of the hook-up fee. Staff feels the two policies would send
18 contradictory signals to potential customers and are theoretically incompatible with each other,
19 however, easily netted out for practical implementation. Garkane's Utah service territory also has
20 both a free allowance line extension policy and its hook-up fees in place, but the Cooperative is
21 discussing possible elimination of the free line extension footage in 2008.

22 17. Garkane's free line extension footage allowances in effect in Utah and in Arizona are
23 vastly different. The Policy in effect in Arizona is based on a free 600 foot extension and is more
24 beneficial to customers than the Policy in Utah, which is based on a \$600 allowance. The
25 discrepancy between the two Policies has resulted from regular updates having been applied to the
26 Utah Policy, where the Arizona Policy has not been updated since 1985. The proposed Policy
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28 ² A 200 amp single phase 120/240 volt service is equivalent to 48 kW (200 X 240). \$2,000 divided by 48 kW is \$41.67 per kW. This was rounded to \$40 per kW.

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2 additional item appended to add hook-up fees. While Staff is not opposed to the adoption of hook-
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4 18. Staff believes that, in this instance, hook-up fees are an appropriate mechanism to
5 help finance capital expenditures associated with incremental infrastructure required to
6 accommodate rapid new growth. Their use would provide accelerated recovery to the Cooperative
7 for installation of such infrastructure. Staff further believes the use of hook-up fees would more
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12 placed into a separate interest bearing account, and that Garkane file in Docket Control by
13 September 30 of each year beginning in 2008 a report of its hook-up fee collections including 1)
14 the amount collected; 2) from whom the hook-up fees were collected including contact
15 information; 3) the amount spent; and 4) a list of plant installed using hook-up fee funds. Staff has
16 also recommended that Garkane file tariff pages consistent with the Decision within 15 days of the
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19 annual hook-up fee collections of about \$69,750.

20 19. Staff is interested in assuring that the procedures involved in the implementation of
21 hook-up fees result in fair and equitable treatment of new customers recognizing that builders and
22 potential new customers may be in various stages of construction or project planning. For
23 instance, a builder may have already set the price for a new home to a purchaser, but was unaware
24 that a \$2,000 hook-up fee would be assessed increasing the builder's cost. It is clear that a
25 potential electric customer (builder or ultimate customer) that has been given a line extension
26 quote within 30 days of the implementation of hook-up fees would be exempt, because Garkane's
27 quote is good for 30 days. However, Staff believes that 30 days may not be sufficient in this
28 instance. Therefore, Staff has recommended that any potential electric customer (builder or

1 ultimate customer) that has been given a line extension quote by Garkane within 120 days prior to
2 a Decision in this matter be automatically exempt from a hook-up fee, and that Garkane consider
3 other exemptions where a quote was provided up to one year prior to a Decision in this matter on a
4 case by case basis, but exempt the hook-up fee only where signed contract or price commitment or
5 other factor would make it unfair to assess the hook-up fee at the discretion of the Cooperative.

6 20. Staff is concerned about the fact that Garkane's Arizona Line Extension Policy has
7 not been updated since 1985 and that it contains provisions for free line extensions up to 600 feet.
8 As stated earlier, Staff views free line extension allowances and hook-up fees as mutually
9 exclusive where a Line Extension Policy would normally include one or the other. However, both
10 practices can exist together where the hook-up fee would simply be reduced by the value of the
11 free line extension, such as is being done by Garkane presently in Utah. Staff even recognizes
12 some advantage to maintaining the free line extension temporarily in order to somewhat mitigate
13 the effect of the hook-up fee by lessening the shock of simultaneously removing the free extension
14 and imposing the hook-up fee.

15 21. Staff believes that Garkane's Arizona Line Extension Policy should be reviewed and
16 updated as necessary in Garkane's next rate case. Staff also believes that when the Line Extension
17 Policy is updated, the Policy should eliminate Garkane's free line extension policy. Therefore,
18 Staff has recommended that when Garkane files its next rate case, it should update its Arizona
19 Line Extension Policy to eliminate its line extension free allowance.

20 22. Because of Staff's ongoing investigation into the use of hook-up fees for electric and
21 gas utilities, decisions resulting from this case should not be considered to be a precedent for
22 future Commission policy regarding hook-up fees.

23 CONCLUSIONS OF LAW

24 1. Garkane Energy Cooperative, Inc. is certificated to provide electric service as a
25 public service corporation in the state of Arizona within the meaning of Article XV, Section 2, of
26 the Arizona Constitution.

27 2. The Commission has jurisdiction over Garkane and over the subject matter of the
28 application.

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IT IS FURTHER ORDERED that when Garkane files its next rate case, it should update its Arizona Line Extension Policy to eliminate its line extension free allowance.

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 DEAN S. MILLER, Interim 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 _____ day of _____, 2007.

DEAN S. MILLER
Interim Executive Director

DISSENT: _____

DISSENT: _____

EGJ:JDA:red\CH

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