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Barbara Klemstine
Director
Regulation & Pricing

Tel. 602-250-4563
Fax 602-250-3003
e-mail Barbara.Klemstine@aps.com

Mail Station 9708
PO Box 53999
Phoenix, Arizona 85072-3999

Arizona Corporation Commission

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October 24, 2007

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Docket Control
Arizona Corporation Commission
1200 West Washington St.
Phoenix, Arizona 85007

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 AZ CORP COMMISSION
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RE: Arizona Public Service Company General Rate Case;
Docket Nos. E-01345A-05-0816, E-01345A-05-0826,
and E-01345A-05-0827

Dear Sir or Madam:

Enclosed, please find revisions to Arizona Public Service Company's ("APS" or "Company") Schedule 3 (Conditions Governing Extensions of Electric Distribution Lines and Services) that replace the version of Schedule 3 that the Company filed with the Arizona Corporation Commission ("Commission") on July 27, 2007 in compliance with the directives of Decision No. 69663 (June 28, 2007). See attachments 1 and 2 for redline and non-redline versions of Schedule 3 as amended. APS requests that this revised Schedule 3 become effective upon Commission approval. APS therefore waives the provisions of A.R.S. §§ 40-250 (B) and 40-367.

APS has removed and/or modified all language in Schedule 3 that grants either an equipment or "footage" allowance to applicants for new or expanded electric service. Similarly, APS has eliminated the use of economic feasibility studies to determine whether or how much of such an allowance should be granted. Finally, provisions for potential refunds of all or a portion of amounts charged to applicants were deleted. Attachment 3 is a summary of each of the specific revisions to Schedule 3. As amended, Schedule 3 would charge every new applicant for service and each existing customer that applies to upgrade his or her service, an amount equal to the estimated cost of extending or expanding the Company's distribution infrastructure in order to provide service to the applicant.

In order to better facilitate the Commission's stated purpose of revising Schedule 3 "to shift the burden of rising distribution infrastructure costs away from the current customer base to growth" (see Decision No. 69663 at 97), APS proposes to mitigate future rate increases by treating the payments received under Schedule 3 as Miscellaneous Service Revenues and recording them in Account No. 451 of the Uniform System of Accounts. Although Decision No. 69663 does not specifically discuss the accounting treatment of any proceeds received under the provisions of Schedule 3, APS believes such revenue treatment is the most appropriate way to address the

Decision's expressed concerns over how to pay for the higher costs of growth without solely relying on higher retail electric rates.

Fees similar to those that APS collects under Schedule 3 have frequently (although not universally) been recorded by regulated Arizona water and sewer utilities as contributions in aid of construction ("CIAC"). This produces no additional revenue to the utility, but rather an additional liability. As explained in depth at the hearing, for electric utilities such as APS, CIAC is taxable as income for federal and state purposes. This is unlike water and sewer utilities, which were exempted from the tax in 1992, and municipal/cooperative utilities that are generally exempt from all income taxes. The amount of that tax, roughly 40%, reduces both the cash available to finance new infrastructure and the rate base offset normally associated with CIAC. This significantly reduces the already limited positive impact of CIAC on future utility rates. The evidence in the record also showed that, because there is no offsetting revenue, funds from operations ("FFO") are reduced by the amount of such taxes. And although debt is also reduced to a degree, the small positive impact on debt is overtaken by the negative impact on FFO – thus the overall FFO/Debt ratio is weakened by treating Schedule 3 proceeds as CIAC

In contrast, recording Schedule 3 proceeds as revenues rather than CIAC addresses several of these issues, all of which were identified during the course of the hearing leading to Decision No. 69663. If Schedule 3 proceeds are treated as a new revenue source, the benefits on APS and its customers are improved. The FFO/Debt ratio improves because the new revenues more than compensate for the increase in taxes, resulting in a net *increase* to the Company's FFO (compared to the *decrease* caused by treating the proceeds as a CIAC). And while the amount of actual cash available to the Company for funding new construction is the same whether Schedule 3 proceeds are treated as CIAC or revenue, treating them as revenue enhances the Company's ability to finance its remaining construction requirements at a reasonable cost because of the FFO/Debt improvement. Perhaps an example can best illustrate this positive impact. For every dollar of new earnings received as a result of treating Schedule 3 proceeds as revenue, APS' FFO/Debt ratio improves enough to support more than \$4 of additional capital expenditures. CIAC, on the other hand, not only does not create any additional capital funding capacity, it could actually shrink the Company's existing capacity because of the decline in the FFO/Debt ratio, thus potentially making it more difficult to fund new construction.

Additionally, the treatment of Schedule 3 proceeds as revenue rather than CIAC allows the Company and its customers to see a comparably striking reduction in revenue requirements. Specifically, the new revenue will offset – *dollar for dollar* – future revenue requirements. As depicted in the chart below, which assumes a hypothetical \$1 million in Schedule 3 proceeds, this revenue credit is a far greater benefit to APS customers than a simple rate base deduction equal to the after-tax proceeds from CIAC, which lowers future revenue requirements by only about 12 cents for every dollar collected. Thus, even allowing for the fact that the Company's rate base will be higher under the revenue accounting treatment, such treatment provides a considerable advantage to APS customers.

Comparison of Accounting Treatment for Schedule 3 Proceeds

Treatment as CIAC:

Schedule 3 Fees Treated as CIAC	\$ 1,000,000
Less: Income Tax (40%)	400,000
Net Reduction to Rate Base	\$ 600,000

Cost of Capital Reduction (including Income Taxes)	\$ (72,420)
Depreciation Expense Reduction	(33,334)
Property Tax Expense Reduction	(15,000) ¹
Reduction to Revenue Requirement due to CIAC Treatment	\$ (120,754)

Treatment as Revenue:

Schedule 3 Fees Treated as Revenue	\$ 1,000,000
Reduction to Revenue Requirement due to Revenue Credit Treatment	\$ (1,000,000)

NET BENEFIT PER \$1 MILLION COMPARED TO CIAC **\$879,246**

This chart reflects the customer benefit per \$1 million of Schedule 3 proceeds (under the Company's proposal) in the next APS rate filing. APS also examined the impact of treating Schedule 3 proceeds as revenues in the longer term. For each year during the five year period reviewed, the revenue credit proposal reduced revenue requirements by more than the CIAC treatment, resulting in a cumulative additional benefit as compared to CIAC of between \$3.2 and \$4.4 million per \$1 million in Schedule 3 proceeds, depending on the assumed frequency of future rate cases and using the same assumptions as in the chart above.

There should be a transition period affecting the applicability of this Schedule 3. Applicants having executed line extension agreements prior to the effective date of this Schedule 3 would be served pursuant to the terms of such agreements. In determining whether any additional future applicants should be "grandfathered," the Commission should consider that the length of the transition period, combined with the current state of the housing and construction markets, will greatly affect the proceeds APS will actually receive under Schedule 3. If the Commission finds that the transition period should be extended, one option is provided below.

APS would "grandfather" all applicants that have executed line extension agreements as of the date this revised Schedule 3 is approved. Other applicants could be "grandfathered" if they meet both of the following conditions: (1) such applicant has received from APS, within six months prior to approval of the revised Schedule 3, a written estimate of the costs to the applicant for extending service; and (2) that same applicant executes a written line extension agreement within 12 months of the effective date of revised Schedule 3. A variant on this option would have the 12 months run from the date the written estimate is received by the applicant, which would give each potential applicant the same amount of time after having received an estimate from APS to execute a line extension agreement.

¹ This reflects current state tax provisions

As proposed herein, Schedule 3 will recover and treat as revenue the amount of money that Schedule 3 applicants would have paid under Schedule 3 absent the free footage/equipment allowance/economic feasibility and refund provisions. While this added revenue will offset a portion of the Company's rising costs of growth, it will not recover all such costs. To pay for those costs at a higher level, a "hook-up fee," as is currently being considered by the Commission in Docket No.E-00000K-07-0052, could be used in conjunction with this revised Schedule 3 to recover all or a portion of the higher costs attributable to replacing existing distribution facilities or additional growth-related generation facilities. Also, a "hook-up fee" could be designed to recover a portion of new general plant, some of which costs (e.g., new service centers) are clearly growth-related.

If you have any questions, please contact me at (602) 250-4563.



Barbara Klemstine

Attachments

Cc: Ernest Johnson
Steve Olea
Lyn Farmer
Christopher Kempley
Janet Wagner
Terri Ford
Parties of Record

ATTACHMENT 1



SERVICE SCHEDULE 3
CONDITIONS GOVERNING EXTENSIONS OF
ELECTRIC DISTRIBUTION LINES AND SERVICES

Provision of electric service from Arizona Public Service Company (Company) may require construction of new facilities or upgrades to existing facilities. Costs for construction depend on the customer's location, load size, and load characteristics. This schedule establishes the terms and conditions under which Company will extend its facilities to provide new or upgraded facilities.

~~All extensions are made on the basis of economic feasibility. Construction allowance and revenue basis methodologies are offered for use in circumstances where feasibility is generally accepted because of the number of extensions made within the construction allowance and dollar limits.~~ All extensions shall be made in accordance with good utility construction practices, as determined by Company, and are subject to the availability of adequate capacity, voltage and Company facilities at the beginning point of an extension as determined by Company. All payments received for new or upgraded service under provisions of this schedule shall be non-refundable and treated as Miscellaneous Service Revenue.

The following policy governs the extension of overhead and underground electric facilities rated up to 21kV to customers whose requirements are deemed by Company to be usual and reasonable in nature.

DEFINITIONS

- a. Backbone Infrastructure means the electrical distribution facilities typically consisting of main three-phase feeder lines and/or cables, conduit, duct banks, manholes, switching cabinets and capacitor banks.
- b. Conduit Only Designs mean a line extension request where the developer is only requesting the conduit layout and design to serve the project. Local distribution facilities such as transformers and services will be installed at a later date when lot sales occur.
- c. Corporate Business & Industrial Developments means a tract of land which has been divided into contiguous lots in which a developer offers improved lots for sale and the purchaser of the lot is responsible for construction of buildings for commercial and/or industrial use. Separate line extensions and equipment installations may be needed to provide service to each permanent customer.
- d. High Rise Residential means residential multi-family developments built with four or more floors, usually using elevators for accessing floors.
- e. Irrigation means water pumping service. Agricultural pumping means water pumping for farms and farm-related pumping used to grow commercial crops or crop-related activity. Non-agricultural water pumping is pumping for purposes other than the growing of commercial crops, such as golf course irrigation or municipal water wells.
- f. Master Planned Community Developments means developments that consist of a number of separately subdivided parcels for different "Residential Homebuilder Subdivisions". Developments may have a variety of uses including residential, commercial, and public use facilities.
- g. Mixed Use Residential Developments means buildings that consist of both residential and commercial use, such as a high-rise building where the first level is for commercial purposes and the upper floors are residential.
- h. Residential Custom Home "Lot Sale" Developments means any tract of land that has been divided into four or more contiguous lots in which a developer offers improved lots for sale and the

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Phoenix, Arizona
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purchaser of the lot is responsible for construction of a residential home. Separate line extensions and equipment installations may be needed to provide service to each permanent customer.

- i. Residential Homebuilder Subdivisions means any tract of land which has been divided into four or more contiguous lots with an average size of one acre or less in which the developer is responsible for the construction of residential homes or permanent mobile home sites.
- j. Residential Multi-family Developments means developments consisting of apartments, condominiums, or townhouse developments.
- k. Residential Single Family means a house, or a mobile home permanently affixed to a lot or site.
- l. ~~System Improvement Costs means the costs of system additions over and above what is required to serve the customer, where such additions provide additional capacity for other customers.~~

1.0 RESIDENTIAL

1.1 SINGLE FAMILY HOMES

~~1.1.1 Residential extensions will be made to new permanent residential customers or groups of new permanent residential customers. For purposes of this section, a "group" shall be defined as 4 or less than four homes. An allowance of \$5,000 per home will be credited against the total construction cost. All estimated costs of extending service to applicant, as determined by Company. Any additional cost will, including backbone infrastructure costs, shall be paid by the applicant, as a refundable advance prior to the Company extending facilities. Payment is due at the time the extension agreement is executed.~~

~~1.1.2 Where an advance is required, Company will issue the applicant an Advance Certificate. If, within five (5) years of issuance, a lateral extension is made off the original line extension, the applicant may present his/her Advance Certificate to Company for a potential refund. Refunds will be issued when the Advance Certificate is presented for payment and the connection of the subsequent applicant has been verified. In no event will refunds exceed the original advance. Refunds will be determined as shown in the example:~~

EXAMPLE:

First applicant's estimated cost for a line extension	\$22,000
First applicant allowance	\$ 5,000
First applicant's advance	\$17,000
Second applicant's estimated cost for a lateral off the original extension	\$ 3,000
Second applicant's allowance	\$ 5,000
Refund to first applicant upon presentation of Advance Certificate and verification	\$ 2,000

1.2 RESIDENTIAL HOMEBUILDER SUBDIVISIONS

~~1.2.1 Extensions will be made to residential subdivision developments of four or more homes in advance of application for service by permanent customers provided the applicant(s) signs an extension agreement. If approved by Company, a per lot allowance of \$5,000 may be credited against the total construction cost, which may include~~

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applicable backbone system costs All estimated costs of extending service to applicant, as determined by Company (minus street light and system improvement costs). Any additional construction cost in excess of the per lot allowance will be paid by applicant as a non-refundable contribution in aid of construction, including backbone infrastructure costs, shall be paid by the applicant prior to the Company extending facilities. Payment is due at the time the extension agreement is executed.

1.2.2 — Company reserves the right to perform a field audit as to the number of permanently connected customers within the development eighteen (18) months from the extension agreement's execution date and requires the applicant to make a refundable advance of the construction costs less the applicable credit for the number of permanently connected customers to date.

1.2.3 — Company reserves the right to disallow the allowance and collect a full advance of the construction costs from the applicant based on the project scope, or location, or financial condition of the applicant, or where organizational structure of the applicant warrants, as determined by Company. Advances are subject to the refund provisions in Section 4.2.

1.2.4 — The following provides examples of the application of the policy:

EXAMPLE 1:

The following example illustrates a case in which the allowance is adequate to cover the subdivision's construction costs. It is assumed that the applicant builds all of the homes in the 18 month period.

	Estimated Construction Cost	\$450,000
Number of Homes		100
Total Allowance		\$500,000
Non-Refundable Contribution		\$ 0

EXAMPLE 2:

Example #2 illustrates a case in which the construction costs exceed the allowance and the applicant completes all homes in the subdivision. The total construction cost exceeds the allowance by \$150,000 and the applicant provides the non-refundable contribution in aid of construction when the extension agreement is executed. If the applicants completes all 100 homes within the 18 month period after the execution date of the extension agreement, no additional funds are advanced by the applicant.

	Estimated Construction Cost	\$650,000
Number of Homes		100
Total Allowance		\$500,000
Non-Refundable Contribution		\$150,000

EXAMPLE 3:

The following example illustrates a case in which two events occur. First, the allowance does not adequately cover the required construction. This results in the requirement that the applicant provide a non-refundable contribution in aid of construction. This payment is due at the time the extension agreement is signed by the applicant.

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The second event illustrated in this example is the applicant does not sell sufficient homes in the development in the 18 month period following the extension agreement execution date. In the example, at the end of the 18 month period, the applicant has completed 35 homes. Since there are 65 homes left to be completed the applicant must provide a refundable advance of \$325,000. This advance will be eligible for refund during the subsequent 42 months as additional homes are completed. Any un-refunded advance remaining at the end of the refund period becomes a non-refundable contribution in aid of construction.

Estimated Construction Cost	\$650,000
Number of Homes Planned	100
Potential Allowance Refundable Advance	\$500,000
Non Refundable Contribution	\$150,000
Assumed Number of Completed Homes	35
Allowance Credited (35 x \$5000)	\$175,000
Potential Amount Remaining Eligible For Refund	\$325,000

1.3 RESIDENTIAL CUSTOM HOME "LOT SALE" DEVELOPMENTS

1.3.1 Extensions will be made to residential "lot sale" custom home developments in advance of application for service by permanent customers, provided the applicant(s) sign an extension agreement and make a refundable advance of the construction cost associated with the installation of "backbone" infrastructure. The payment of the advance is due at the time the extension agreement is executed and subject to refund as specified in Section 4.1. All estimated costs of extending service to applicant, as determined by Company, including backbone infrastructure costs, shall be paid by the applicant prior to the Company extending facilities.

1.3.2 Payment is due at the time the extension agreement is executed.

1.3.3 ~~1.3.1~~ Line extensions and/or equipment installations will be made for each permanent customer upon request for service, and an allowance of \$5,000 will be credited against the total construction costs for each installation as determined by Company (minus streetlight and system improvements costs). Any additional construction cost will be paid as a non-refundable contribution in aid of construction. in accordance with Section 1.1 of this service schedule.

~~1.3.2~~ Company reserves the right to disallow the allowance and collect a full advance of the construction costs from the applicant(s) based on the project scope, or location, or financial condition of the applicant(s), or where organizational structure of the applicant(s) warrants, as determined by Company. Advances are subject to refund as specified in Section 4.1.

1.3.4 ~~1.3.3~~ Company will provide "conduit only" designs provided applicant makes a non-refundable contribution in aid of construction payment in the amount equal to the estimated cost of the preparation of the design, in addition to the costs for any materials, field survey and inspections that may be required.

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1.4 MASTER PLANNED COMMUNITY DEVELOPMENTS

1.4.1 Extensions will be made to master planned community developments ~~Master Planned Community Developments~~ in advance of application for service by permanent customers, provided the applicant(s) ~~sign~~ signs an extension agreement and make a refundable advance of the construction cost associated with the installation of "backbone" infrastructure. ~~1.4.1~~ Line extensions and equipment installation for backbone infrastructure to serve a Master Planned Development will be made in advance of application for service by permanent customers. A per lot allowance of \$1,000 will be credited against the backbone infrastructure cost as determined by Company (minus street light and system improvement costs). ~~Any additional cost will.~~ All estimated costs of extending service to applicant, as determined by Company, including backbone infrastructure costs, shall be paid by the applicant as a non-refundable contribution prior to the Company extending facilities. Payment is due at the time the extension agreement is executed.

1.4.2 Line extensions and equipment installations will be made for each residential subdivision within the planned development in advance of application for service by permanent customers. The cost of the extensions and equipment installations needed to provide service will be used in determining the cost for the development. A per lot allowance of \$4,000 will be credited against the "subdivision" cost as determined by Company (minus street light and system improvement costs). Any additional cost will be paid as a non-refundable contribution in aid of construction at the time the extension agreement is executed. ~~1.4.2~~ Company reserves the right to disallow the credit and collect a full advance of the construction costs from the applicant based on the project scope, or location, or financial condition of the applicant, or where organizational structure of the applicant warrants, as determined by Company. Advances are subject to the refund provisions in Section 4.0. in accordance with Section 1.2 of this Service Schedule.

~~1.4.3~~ The residential extension examples provided in 1.2.4 would be applicable to residential developments within a Master Planned Community. Extensions to multi-family developments or commercial developments would be made in accordance with the applicable sections of this Service Schedule. The following example illustrates the policy application for the entire project.

EXAMPLE 4:

Example #4 illustrates a case in which the applicant of the Master Planned Community requests an extension of backbone infrastructure and individual residential developers request extensions for residential subdivisions. The applicant makes a refundable contribution in aid of construction at the time the extension agreement is executed. The individual subdivision will be handled in a manner consistent with the subdivision examples found in Section 1.2.4.

Estimated Backbone Cost	\$2,500,000
Number of Homes	1000
Potential Allowance Refundable Advance	\$1,000,000
Non-Refundable Contribution	\$1,500,000

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Estimated Subdivision Cost	\$600,000
Number of Homes	200
Total Allowance	\$800,000
Non-Refundable Contribution	\$0

1.5 RESIDENTIAL MULTI-FAMILY DEVELOPMENTS

1.5.1— Extensions will be made to multi-family apartment, condominium or townhouse developments in advance of application for service by permanent customers. If approved by Company, a per completed unit allowance of \$1,000 may be credited against the total construction cost provided the applicant signs an extension agreement. All estimated costs of extending service to applicant, as determined by Company, including any applicable backbone infrastructure costs as determined by the company, (minus street light and system improvement costs). Any additional cost will be paid as a non-refundable contribution in aid of construction, shall be paid by the applicant prior to the Company extending facilities. Payment is due at the time the extension agreement is executed.

1.5.2— Company reserves the right to perform a field audit as to the number of permanently connected customers within the development eighteen (18) months from the extension agreement's execution date and require the applicant to make a refundable advance of the construction costs less the applicable credit for the number of permanently connected customers to date.

1.5.3— Company reserves the right to disallow the credit and collect a full advance from the applicant based on the project scope, or location, or financial condition, or where organizational structure of the applicant warrants, as determined by Company. Advances are subject to the refund provisions in Section 4.0.

1.6 HIGH RISE AND MIXED USE RESIDENTIAL DEVELOPMENTS

1.6.1 Extensions will be made to high rise and mixed use developments High Rise and Mixed Use Residential Developments where the residential units are privately owned and either individually metered or master metered in accordance with Section ~~6-12-3-5.11~~.

1.6.2 In general, APS will provide service to these type of developments at one point of delivery and it is the applicant's responsibility to provide and maintain the electrical distribution facilities within the building.

1.6.3 Extensions will be on the basis of Economic Feasibility. "Economic Feasibility", as used in this policy, shall mean a determination by Company that the estimated annual revenue based on Company's then currently effective rate for distribution service (excluding taxes, regulatory assessment and other adjustments) less the cost of service provides an adequate rate of return on the investment made by Company to serve the customer(s) and development. made to High Rise and Mixed Use Residential Developments in advance of application for service by permanent customers provided the applicant signs an extension agreement. All estimated costs of extending service to applicant, as determined by Company, including backbone infrastructure costs, shall be paid by the



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applicant prior to the Company extending facilities. Payment is due at the time the extension agreement is executed.

~~1.6.4 — Company reserves the right to collect a full advance from the applicant based on the project scope, or location, or financial condition, or where organizational structure of the applicant warrants, as determined by Company. Advances are subject to the refund provisions in Section 4.2.~~

2.0 NON-RESIDENTIAL

~~2.1 — General service line extensions and equipment installations will be made to all applicants not meeting the definition of Residential or as provided for in Section 2.4, 2.1, or Section 3.0 of this Schedule. General service line extensions and equipment installations will be made on the basis of Economic Feasibility or on a revenue basis as described in Section 2.2. "Economic Feasibility", as used in this policy, shall mean a determination by Company that the estimated annual revenue based on Company's then currently effective rate for distribution service (excluding taxes, regulatory assessment and other adjustments) less the cost of service provides an adequate rate of return on the investment made by Company to serve the customer. Extensions that are economically feasible as determined by the revenue basis as described in Section 2.2 or by the economic feasibility analysis described in this section are provided free to the customer. Extensions will be provided to customers that do not meet the economic feasibility determination provided the customer signs an extension agreement and advances as much of the construction cost and/or agree to pay a facilities charge to make the extension economically feasible. All costs are to be paid All estimated costs of extending service to applicant, as determined by Company, including backbone infrastructure costs, shall be paid by the applicant prior to the Company extending facilities. Payment is due at the time the extension agreement is executed. Advances are subject to the refund provisions of Section 4.0.~~

~~2.2 — A revenue basis extension will be made to customers or applicants except those specified in Sections 2.4, 3.1, 3.2, or 3.3, when the extension does not exceed a total construction cost of \$25,000.~~

~~2.2.1 — Such extension shall be free to the customer where the estimated annual revenue based on Company's then currently effective rate for distribution service (excluding taxes, regulatory assessment and other adjustments) multiplied by six (6.0) is equal to or greater than the total construction cost less nonrefundable customer contributions.~~

~~2.3 — Company reserves the right to collect a full advance from the applicant based on the project scope, or location, or financial condition, or where organizational structure of the applicant warrants, as determined by Company. Advances are subject to the refund provisions in Section 4.0.~~

2.4 2.1 CORPORATE BUSINESS & INDUSTRIAL PARK DEVELOPMENTS

~~2.4.1 2.1.1 Extensions will be made to business and industrial park developments Corporate Business & Industrial Park Developments in advance of application for service by permanent customers, provided applicant(s) make a refundable advance of the construction cost associated with the installation of "backbone" infrastructure. provided the applicant signs an extension agreement.~~

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All estimated costs of extending service to applicant, as determined by Company, including backbone infrastructure costs, shall be paid by the applicant prior to the Company extending facilities. Payment is due at the time the extension agreement is executed.

2.4.2 — The costs for the installed infrastructure and the cost of the extensions and equipment installations needed to provide service to each permanent customer will be used in determining the development's Economic Feasibility. "Economic Feasibility", as used in this policy, shall mean a determination by Company that the estimated annual revenue based on Company's then currently effective rate for distribution service (excluding taxes, regulatory assessment and other adjustments) less the cost of service, provides an adequate rate of return on the investment made by Company to serve the customer(s) and development.

2.4.3 — For extensions and equipment installations which meet the conditions specified in Section 2.4.1, Company, after special study and at its option, may install its facilities to customers who do not satisfy the definition of economic feasibility as specified in Section 2.1. Such customers or applicant(s) must sign an extension agreement and advance as much of the construction cost and/or pay a non-refundable contribution (facilities charge) to make the extension economically feasible. All costs are to be paid at the time the extension agreement is executed. Advances are subject to refund as specified in Section 4.1.

2.1.2 Extensions will be made to individual customers within the Corporate and Business Park Development in accordance with the applicable sections of this Service Schedule.

3.0 OTHER CONDITIONS

3.1 IRRIGATION CUSTOMERS

Customers requiring construction of electric facilities for service to agricultural irrigation pumping will advance the total construction cost Extensions will be made to Irrigation Customers provided the applicant signs an extension agreement. All estimated costs of extending service to applicant, as determined by Company, including backbone infrastructure costs, shall be paid by the applicant prior to the Company extending facilities. Payment is due at the time the extension advance agreement is executed. Advances are subject to refund as specified in Section 4.3. Non-agricultural irrigation pumping service to permanent customers will be extended as specified in Section 2. Non-agricultural irrigation pumping service to temporary or doubtful permanency customers will be extended as specified in Section 3.2 or 3.3 below, as applicable.

3.2 TEMPORARY CUSTOMERS

Where a temporary meter or construction is required to provide service to the customer, the customer shall make a non-refundable contribution ~~payment~~ in advance of installation or construction equal to the cost of installing and removing the facilities required to furnish service, less the salvage value of such facilities. When the use of service is discontinued or agreement for service is terminated, Company may dismantle its facilities and the materials and equipment provided by Company will be salvaged and remain Company property.

3.3 DOUBTFUL PERMANENCY CUSTOMERS

When, in the opinion of Company, permanency of the customer's residence or operation is doubtful, the customer will be required to advance pay the total estimated construction cost.



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Advances are subject to refund as specified in Section 4.4.

4.0 REFUNDS

4.1 ECONOMIC FEASIBILITY BASIS REFUNDS

Customer advances over \$50.00 are subject to full or partial refund. At the end of eighteen months from the date Company facilities are energized, Company will obtain actual closing costs and actual first year distribution revenues and determine if the company is receiving the required minimum rate of return. If this results in an advance lower than the amount advanced by customer, Company will refund the difference between the amount advanced and the amount that would have been advanced using actual closing costs and distribution revenues. In no event shall the amount of any refund exceed the amount originally advanced. Subsequent refund studies will be performed at one year intervals for an additional four years using actual distribution revenues for the year. At the end of this total five year refund period, any advance not refunded shall become a nonrefundable contribution in aid of construction.

4.2 RESIDENTIAL HOMEBUILDER SUBDIVISIONS

Customer advances over \$50.00 are subject to refund based on the number of permanently connected customers during the five year refund period commencing on the extension agreement's execution date. At the end of this total five year refund period, any advance not refunded shall become a nonrefundable contribution in aid of construction.

4.3 REFUNDS FOR EXTENSIONS TO IRRIGATION CUSTOMERS

Customer advances over \$50.00 are subject to refund of twenty five (25) percent of the annual accumulation of twelve (12) monthly bills based on Company's then currently effective rate for distribution service (excluding taxes, regulatory assessment and other adjustments) in excess of the annual minimum bill, for service to the irrigation pump specified in the agreement for the extension being surveyed, commencing with the date of signing the agreement. In no event shall the amount of any refund exceed the amount originally advanced.

4.4 REFUNDS TO CUSTOMERS OF DOUBTFUL PERMANENCY

Customer advances over \$50.00 are subject to full or partial based on the Economic Feasibility Basis as specified in Section 3.3. In no event shall the refund exceed twenty five (25) percent of the annual accumulation of twelve (12) monthly bills based on Company's then currently effective rate for distribution service (excluding taxes, regulatory assessment and other adjustments) in excess of the annual minimum bill for the customer specified in the extension agreement. In no event shall the amount of any refund exceed the amount originally advanced.

4.5 GENERAL REFUND CONDITIONS

4.5.1 Customer advances of \$50.00 or less are not subject to refund.

4.5.2 No refund will be made to any customer for an amount more than the unrefunded balance of the customer's advance.

4.5.3 Any unrefunded advance balance shall become nonrefundable five (5) years from the execution or the effective date of the agreement.

ARIZONA PUBLIC SERVICE COMPANY
Phoenix, Arizona
Filed by: David J. Rumolo
Title: Manager, Regulation and Pricing
Original Effective Date: January 31, 1954

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Service Schedule 3
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4.5.4 — Company reserves the right to withhold refunds to any customer or developer who is delinquent on any account, agreement, or invoice and apply these refund amounts to past due bills. 5.0 — UNDERGROUND CONSTRUCTION

5.14.1 GENERAL UNDERGROUND CONSTRUCTION POLICY - With respect to all underground installations, Company may install underground facilities only if all of the following conditions are met:

5.1.14.1.1 The extension meets ~~feasibility~~all requirements as specified in Sections 1.0, 2.0, or 3.0.

5.1.24.1.2 The customer or applicant(s) provides all earthwork including, but not limited to, trenching, boring or punching, backfill, compaction, and surface restoration in accordance with Company specifications.

5.1.3 4.1.3 The customer or applicant(s) provides installation of equipment pads, pull-boxes, manholes, and conduits as required in accordance with Company specifications.

5.1.4 4.1.4 In lieu of customer or applicant(s) providing these services and equipment, the company may provide and the customer or applicant(s) will make a ~~non-refundable contribution~~payment equal to the cost of such work plus any administrative or inspection fees incurred by Company. Customers or applicants electing this option will be required to sign an agreement indemnifying and holding APS harmless against claims, liabilities, losses or damage (Claims) asserted by a person or entity other than APS' contractors, which Claims arise out of the trenching and conduit placement, provided the claims are not attributable to APS' gross negligence or intentional misconduct.

5.2 — Where it is determined that three phase service is required to serve the customer, customer may be required to make a nonrefundable contribution for excess service footage required by the customer equal to the increased estimated cost of installed service lines over what would be required with a maximum 40-foot service at 480 volts and 20-foot service at 120/208 or 240 volts.

6.05.0 GENERAL CONDITIONS

6.15.1 VOLTAGE

The extension ~~All extensions~~ will be designed and constructed for operation at standard voltages used by Company in the area in which the extension is located. Company may deliver service for special applications of higher voltages with prior approval from Company's Engineering Department and in accordance with this Schedule. applicant will be required to pay the costs of any required studies.

6.25.2 POINT OF DELIVERY

6.2.1 5.2.1 For overhead service, the point of delivery shall be where Company's service conductors terminate at the customer's weatherhead or bus riser.

6.2.2 5.2.2 For underground service, the point of delivery shall be where Company's service conductors terminate in the customer's or development's service equipment. The



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customer shall furnish, install and maintain any risers, raceways and/or termination cabinets necessary for the installation of Company's underground service conductors.

~~6.2.3~~ 5.2.3 For special applications where service is provided at voltages higher than the standard voltages specified in the Electric Service Requirements Manual, APS and customer shall mutually agree upon the designated point of delivery.

6.3.5.3 THREE PHASE

Extensions for three phase service can be made under this extension policy where the customer has installed major three phase equipment. Motors with a name-plate rating of 7-1/2 HP or more or single air conditioning units of 6 tons or more or where total horsepower of all connected three phase motors exceeds 12 HP or total load exceeding 100 kVA demand shall qualify for three phase service. ~~If the estimated load is less than the above horsepower or connected kVA specifications, Company may, at its option and when requested by the customer, serve three phase and require a nonrefundable contribution equal to the difference in cost between single phase and three phase construction, but in no case less than \$100.~~

6.4.5.4 EASEMENTS

All suitable easements or rights-of-way required by Company for any portion of the extension which is either on premises owned, leased or otherwise controlled by the customer or developer, or other property required for the extension, shall be furnished in Company's name by the customer without cost to or condemnation by Company and in reasonable time to meet proposed service requirements. All easements or rights-of-way obtained on behalf of Company shall contain such terms and conditions as are acceptable to Company.

6.5.5.5 GRADE MODIFICATIONS

If subsequent to construction of electric distribution lines and services, the final grade established by the customer or developer is changed in such a way as to require relocation of Company facilities or the customer's actions or those of his contractor results in damage to such facilities, the cost of relocation and/or resulting repairs shall be borne by customer or developer.

6.6.5.6 OWNERSHIP

Except for customer-owned facilities, all electric facilities, ~~including that for which customers have made advances and/or contributions,~~ installed in accordance with this Service Schedule will be owned, operated and maintained by Company.

6.7.5.7 MEASUREMENT AND LOCATION

6.7.1.5.7.1 Measurement must be along the proposed route of construction.

6.7.2.5.7.2 Construction will be on public streets, roadways, highways, or easements acceptable to Company.

6.7.3.5.7.3 The extension must be a branch from, the continuation of, or an addition to, one of Company's existing distribution lines.

6.8.5.8 UNUSUAL CIRCUMSTANCES



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In unusual circumstances as determined by Company, when the application and provisions of this policy appear impractical, or in case of extension of lines to be operated on voltages other than specified in the applicable rate schedule, or when customer's estimated load will exceed 3,000 kW, Company will make a special study of the conditions to determine the basis on which service may be provided. Additionally, Company may require special contract arrangements as provided for in Section 1.1 of Company's Schedule 1, Terms and Conditions for Standard Offer and Direct Access Service.

~~6.9~~ NON STANDARD CONSTRUCTION

~~Company's construction practices employ contemporary methods and equipment and meet current industry standards. Where extensions of electric facilities require construction that is in any way nonstandard, as determined by Company, or if unusual obstructions are encountered, the customer will make a non-refundable contribution equal to the difference in cost between standard and non-standard construction, in addition to other applicable costs involved.~~

~~6.105.9~~ ABNORMAL LOADS

~~Company, at its option, may make extensions to serve certain abnormal loads (such as: transformer-type welders, x-ray machines, wind machines, excess capacity for test purposes and loads of unusual characteristics), provided the customer makes a nonrefundable contribution equal to the total cost of such extension, including transformers, and the costs of any distribution system modifications or enhancements required to serve the customer will be included in the payment described in previous sections of this Service Schedule.~~

~~6.115.10~~ RELOCATIONS AND/OR CONVERSIONS

~~6.11.1~~ 5.10.1 Company will relocate or convert its facilities for the customer's convenience or aesthetics, providing the customer makes a nonrefundable contribution equal to the total, The estimated cost of relocation or conversion as determined by the Company will be included in the payment described in previous sections of this Service Schedule.

5.10.2 ~~6.11.2~~ When the relocation of Company facilities involve "prior rights" conditions, the customer will be required to make a non-refundable contribution payment equal to the total cost of relocation.

~~6.11.3~~ When the relocation or conversion is in conjunction with added revenue, as determined by Company and is not for the customer's convenience or aesthetics, then the relocation or conversion costs plus the costs to serve will be used to determine the customers advance on the basis specified in Section 2.0 or 3.0.

~~6.125.11~~ MASTER METERING

~~6.12.1~~ 5.11.1 Mobile Home Parks - Company shall refuse service to all new construction and/or expansion of existing permanent residential mobile home parks unless the construction and/or expansion is individually metered by Company.

~~6.12.2~~ 5.11.2 Residential Apartment Complexes, Condominiums - Company shall refuse service to all new construction of apartment complexes and condominiums which are master metered unless the builder or developer can demonstrate that the installation meets the provisions of R14-2-205 of the Corporation Commission's Rules and Regulations or the



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requirements discussed in ~~6.12.35~~5.11.3 below. This section is not applicable to Senior Care/Nursing Centers registered with the State of Arizona with independent living units which provide packaged services such as housing, food, and nursing care.

~~6.12.3~~ 5.11.3 **Multi-Unit Residential Developments** – Company will allow master metering for residential units where the residential units are privately owned provided the building will be served by a centralized heating, ventilation and/or air conditioning system, and each residential unit shall be individually sub-metered and responsible for energy consumption of that unit.

5.11.3.1 ~~6.12.3.1~~ Sub-metering shall be provided and maintained by the builder or homeowners association.

~~6.12.3.2~~ 5.11.3.2 Responsibility and methodology for determining each unit's energy billing shall be clearly specified in the original bylaws of the homeowners association, a copy of which must be provided to Company prior to Company providing the initial extension.

5.11.4 ~~6.12.4~~ Company will convert its facilities from master metered system to a permanent individually metered system at the customer's request provided the customer makes a ~~nonrefundable contribution~~payment equal to the residual value plus the removal costs less salvage of the master meter facilities to be removed. The new facilities to serve the individual meters will be extended on the basis specified in Section 1. Applicant is responsible for all costs related to the installation of new service entrance equipment.

6.135.12 **CHANGE IN CUSTOMER'S SERVICE REQUIREMENTS**

Company will rebuild or revamp existing facilities to meet the customer's added load or change in service requirements on the basis specified in Section 2.0 or 3.0.

6.145.13 **STUDY AND DESIGN DEPOSIT PAYMENT**

Any applicant requesting Company to prepare special studies or detailed plans, specifications, or cost estimates ~~may~~will be required to ~~deposit with~~make a payment to Company an amount equal to the estimated cost of preparation. Where the applicant authorizes Company to proceed with construction of the extension, the ~~deposit~~payment shall be credited to the cost of ~~construction~~the extension otherwise the ~~deposit~~payment shall be nonrefundable. Company will prepare, without charge, a preliminary sketch and rough estimate of the cost to be paid by the customer for a line extension upon request.

~~6.15~~ CUSTOMER CONSTRUCTION OF COMPANY DISTRIBUTION FACILITIES

~~The customer may provide construction related services, e.g. engineering, survey, materials and/or labor, associated with new distribution facilities to serve the customer's new or added load, provided the customer meets all of the requirements set forth by Company. All work and/or materials provided by the customer shall comply with Company standards in effect at the time of construction. The customer shall receive written approval from Company prior to performing any construction related services. Company will perform an Economic Feasibility Analysis prior to the approval of any proposed customer provided construction to ensure the proposed scope of work results in mutual benefits to the customer and Company.~~

6.165.14 **SETTLEMENT OF DISPUTES**

ARIZONA PUBLIC SERVICE COMPANY
 Phoenix, Arizona
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SERVICE SCHEDULE 3
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Any dispute between the customer or prospective customer and Company regarding the interpretation of these "Conditions Governing Extensions of Electric Distribution Lines and Services" may, by either party, be referred to the Arizona Corporation Commission or a designated representative or employee thereof for determination.

~~6.17~~ INTEREST

~~All advances made by the customer to Company in aid of construction shall be non-interest bearing.~~

~~6.18~~ 5.15 EXTENSION AGREEMENTS

All line extensions or equipment upgrades requiring payment by the customer shall be in writing and signed by both the customer and Company.

~~6.19~~ 5.16 ADDITIONAL PRIMARY FEED

When specifically requested by the customer to provide an alternate primary feed (excluding transformation), Company will perform a special study to determine the request's feasibility and the customer may be required to pay a nonrefundable contribution in aid of construction for the added cost as well as the applicable rate for the additional feed requested.

ATTACHMENT 2



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Provision of electric service from Arizona Public Service Company (Company) may require construction of new facilities or upgrades to existing facilities. Costs for construction depend on the customer's location, load size, and load characteristics. This schedule establishes the terms and conditions under which Company will extend its facilities to provide new or upgraded facilities.

All extensions shall be made in accordance with good utility construction practices, as determined by Company, and are subject to the availability of adequate capacity, voltage and Company facilities at the beginning point of an extension as determined by Company. All payments received for new or upgraded service under provisions of this schedule shall be non-refundable and treated as Miscellaneous Service Revenue.

The following policy governs the extension of overhead and underground electric facilities rated up to 21kV to customers whose requirements are deemed by Company to be usual and reasonable in nature.

DEFINITIONS

- a. Backbone Infrastructure means the electrical distribution facilities typically consisting of main three-phase feeder lines and/or cables, conduit, duct banks, manholes, switching cabinets and capacitor banks.
- b. Conduit Only Designs mean a line extension request where the developer is only requesting the conduit layout and design to serve the project. Local distribution facilities such as transformers and services will be installed at a later date when lot sales occur.
- c. Corporate Business & Industrial Developments means a tract of land which has been divided into contiguous lots in which a developer offers improved lots for sale and the purchaser of the lot is responsible for construction of buildings for commercial and/or industrial use. Separate line extensions and equipment installations may be needed to provide service to each permanent customer.
- d. High Rise Residential means residential multi-family developments built with four or more floors, usually using elevators for accessing floors.
- e. Irrigation means water pumping service. Agricultural pumping means water pumping for farms and farm-related pumping used to grow commercial crops or crop-related activity. Non-agricultural water pumping is pumping for purposes other than the growing of commercial crops, such as golf course irrigation or municipal water wells.
- f. Master Planned Community Developments means developments that consist of a number of separately subdivided parcels for different "Residential Homebuilder Subdivisions". Developments may have a variety of uses including residential, commercial, and public use facilities.
- g. Mixed Use Residential Developments means buildings that consist of both residential and commercial use, such as a high-rise building where the first level is for commercial purposes and the upper floors are residential.
- h. Residential Custom Home "Lot Sale" Developments means any tract of land that has been divided into four or more contiguous lots in which a developer offers improved lots for sale and the purchaser of the lot is responsible for construction of a residential home. Separate line extensions and equipment installations may be needed to provide service to each permanent customer.
- i. Residential Homebuilder Subdivisions means any tract of land which has been divided into four or

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Phoenix, Arizona
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more contiguous lots with an average size of one acre or less in which the developer is responsible for the construction of residential homes or permanent mobile home sites.

- j. Residential Multi-family Developments means developments consisting of apartments, condominiums, or townhouse developments.
- k. Residential Single Family means a house, or a mobile home permanently affixed to a lot or site.

1.0 RESIDENTIAL

1.1 SINGLE FAMILY HOMES

Residential extensions will be made to new permanent residential customers or groups of new permanent residential customers. For purposes of this section, a "group" shall be defined as less than four homes. All estimated costs of extending service to applicant, as determined by Company, including backbone infrastructure costs, shall be paid by the applicant prior to the Company extending facilities. Payment is due at the time the extension agreement is executed.

1.2 RESIDENTIAL HOMEBUILDER SUBDIVISIONS

Extensions will be made to residential subdivision developments of four or more homes in advance of application for service by permanent customers provided the applicant(s) signs an extension agreement. All estimated costs of extending service to applicant, as determined by Company, including backbone infrastructure costs, shall be paid by the applicant prior to the Company extending facilities. Payment is due at the time the extension agreement is executed.

1.3 RESIDENTIAL CUSTOM HOME "LOT SALE" DEVELOPMENTS

1.3.1 Extensions will be made to residential "lot sale" custom home developments in advance of application for service by permanent customers, provided the applicant(s) sign an extension agreement. All estimated costs of extending service to applicant, as determined by Company, including backbone infrastructure costs, shall be paid by the applicant prior to the Company extending facilities.

1.3.2 Payment is due at the time the extension agreement is executed.

1.3.3 Line extensions and/or equipment installations will be made for each permanent customer upon request for service in accordance with Section 1.1 of this service schedule.

1.3.4 Company will provide "conduit only" designs provided applicant makes a payment in the amount equal to the estimated cost of the preparation of the design, in addition to the costs for any materials, field survey and inspections that may be required.

1.4 MASTER PLANNED COMMUNITY DEVELOPMENTS

1.4.1 Extensions will be made to Master Planned Community Developments in advance of application for service by permanent customers, provided the applicant signs an



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extension agreement. All estimated costs of extending service to applicant, as determined by Company, including backbone infrastructure costs, shall be paid by the applicant prior to the Company extending facilities. Payment is due at the time the extension agreement is executed.

- 1.4.2 Line extensions and equipment installations will be made for each residential subdivision within the planned development in advance of application for service by permanent customers in accordance with Section 1.2 of this Service Schedule.

1.5 RESIDENTIAL MULTI-FAMILY DEVELOPMENTS

Extensions will be made to multi-family apartment, condominium or townhouse developments in advance of application for service by permanent customers provided the applicant signs an extension agreement. All estimated costs of extending service to applicant, as determined by Company, including backbone infrastructure costs, shall be paid by the applicant prior to the Company extending facilities. Payment is due at the time the extension agreement is executed.

1.6 HIGH RISE AND MIXED USE RESIDENTIAL DEVELOPMENTS

- 1.6.1 Extensions will be made to High Rise and Mixed Use Residential Developments where the residential units are privately owned and either individually metered or master metered in accordance with Section 5.11.

- 1.6.2 In general, APS will provide service to these type of developments at one point of delivery and it is the applicant's responsibility to provide and maintain the electrical distribution facilities within the building.

- 1.6.3 Extensions will be made to High Rise and Mixed Use Residential Developments in advance of application for service by permanent customers provided the applicant signs an extension agreement. All estimated costs of extending service to applicant, as determined by Company, including backbone infrastructure costs, shall be paid by the applicant prior to the Company extending facilities. Payment is due at the time the extension agreement is executed.

2.0 NON-RESIDENTIAL

General service line extensions and equipment installations will be made to all applicants not meeting the definition of Residential or as provided for in Section 2.1, or Section 3.0 of this Schedule. All estimated costs of extending service to applicant, as determined by Company, including backbone infrastructure costs, shall be paid by the applicant prior to the Company extending facilities. Payment is due at the time the extension agreement is executed.

2.1 CORPORATE BUSINESS & INDUSTRIAL PARK DEVELOPMENTS

- 2.1.1 Extensions will be made to Corporate Business & Industrial Park Developments in advance of application for service by permanent customers provided the applicant signs an extension agreement. All estimated costs of extending service to applicant, as determined by Company, including backbone infrastructure costs, shall be paid by the applicant prior to the Company extending facilities. Payment is due at the time the extension agreement is executed.



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2.1.2 Extensions will be made to individual customers within the Corporate and Business Park Development in accordance with the applicable sections of this Service Schedule.

3.0 OTHER CONDITIONS

3.1 IRRIGATION CUSTOMERS

Extensions will be made to Irrigation Customers provided the applicant signs an extension agreement. All estimated costs of extending service to applicant, as determined by Company, including backbone infrastructure costs, shall be paid by the applicant prior to the Company extending facilities. Payment is due at the time the extension agreement is executed. Non-agricultural irrigation pumping service to permanent customers will be extended as specified in Section 2. Non-agricultural irrigation pumping service to temporary or doubtful permanency customers will be extended as specified in Section 3.2 or 3.3 below, as applicable.

3.2 TEMPORARY CUSTOMERS

Where a temporary meter or construction is required to provide service to the customer, the customer shall make a payment in advance of installation or construction equal to the cost of installing and removing the facilities required to furnish service, less the salvage value of such facilities. When the use of service is discontinued or agreement for service is terminated, Company may dismantle its facilities and the materials and equipment provided by Company will be salvaged and remain Company property.

3.3 DOUBTFUL PERMANENCY CUSTOMERS

When, in the opinion of Company, permanency of the customer's residence or operation is doubtful, the customer will be required to pay the total estimated construction cost.

4.0 UNDERGROUND CONSTRUCTION

4.1 GENERAL UNDERGROUND CONSTRUCTION POLICY - With respect to all underground installations, Company may install underground facilities only if all of the following conditions are met:

- 4.1.1 The extension meets all requirements as specified in Sections 1.0, 2.0, or 3.0.
- 4.1.2 The customer or applicant(s) provides all earthwork including, but not limited to, trenching, boring or punching, backfill, compaction, and surface restoration in accordance with Company specifications.
- 4.1.3 The customer or applicant(s) provides installation of equipment pads, pull-boxes, manholes, and conduits as required in accordance with Company specifications.
- 4.1.4 In lieu of customer or applicant(s) providing these services and equipment, the company may provide and the customer or applicant(s) will make a payment equal to the cost of such work plus any administrative or inspection fees incurred by Company. Customers or applicants electing this option will be required to sign an agreement indemnifying and holding APS harmless against claims, liabilities, losses or damage (Claims) asserted by a person or entity other than APS' contractors, which Claims arise out of the trenching and



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conduit placement, provided the claims are not attributable to APS' gross negligence or intentional misconduct.

5.0 GENERAL CONDITIONS

5.1 VOLTAGE

All extensions will be designed and constructed for operation at standard voltages used by Company in the area in which the extension is located. Company may deliver service for special applications of higher voltages with prior approval from Company's Engineering Department, applicant will be required to pay the costs of any required studies.

5.2 POINT OF DELIVERY

5.2.1 For overhead service, the point of delivery shall be where Company's service conductors terminate at the customer's weatherhead or bus riser.

5.2.2 For underground service, the point of delivery shall be where Company's service conductors terminate in the customer's or development's service equipment. The customer shall furnish, install and maintain any risers, raceways and/or termination cabinets necessary for the installation of Company's underground service conductors.

5.2.3 For special applications where service is provided at voltages higher than the standard voltages specified in the Electric Service Requirements Manual, APS and customer shall mutually agree upon the designated point of delivery.

5.3 THREE PHASE

Extensions for three-phase service can be made under this extension policy where the customer has installed major three-phase equipment. Motors with a name-plate rating of 7-1/2 HP or more or single air conditioning units of 6 tons or more or where total horsepower of all connected three phase motors exceeds 12 HP or total load exceeding 100 kVA demand shall qualify for three phase service.

5.4 EASEMENTS

All suitable easements or rights-of-way required by Company for any portion of the extension which is either on premises owned, leased or otherwise controlled by the customer or developer, or other property required for the extension, shall be furnished in Company's name by the customer without cost to or condemnation by Company and in reasonable time to meet proposed service requirements. All easements or rights-of-way obtained on behalf of Company shall contain such terms and conditions as are acceptable to Company.

5.5 GRADE MODIFICATIONS

If subsequent to construction of electric distribution lines and services, the final grade established by the customer or developer is changed in such a way as to require relocation of Company facilities or the customer's actions or those of his contractor results in damage to such facilities, the cost of relocation and/or resulting repairs shall be borne by customer or developer.

5.6 OWNERSHIP

Except for customer-owned facilities, all electric facilities installed in accordance with this Service



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Schedule will be owned, operated and maintained by Company.

5.7 MEASUREMENT AND LOCATION

- 5.7.1 Measurement must be along the proposed route of construction.
- 5.7.2 Construction will be on public streets, roadways, highways, or easements acceptable to Company.
- 5.7.3 The extension must be a branch from, the continuation of, or an addition to, one of Company's existing distribution lines.

5.8 UNUSUAL CIRCUMSTANCES

In unusual circumstances as determined by Company, when the application and provisions of this policy appear impractical, or in case of extension of lines to be operated on voltages other than specified in the applicable rate schedule, or when customer's estimated load will exceed 3,000 kW, Company will make a special study of the conditions to determine the basis on which service may be provided. Additionally, Company may require special contract arrangements as provided for in Section 1.1 of Company's Schedule 1, Terms and Conditions for Standard Offer and Direct Access Service.

5.9 ABNORMAL LOADS

Company, at its option, may make extensions to serve certain abnormal loads (such as: transformer-type welders, x-ray machines, wind machines, excess capacity for test purposes and loads of unusual characteristics) and the costs of any distribution system modifications or enhancements required to serve the customer will be included in the payment described in previous sections of this Service Schedule.

5.10 RELOCATIONS AND/OR CONVERSIONS

- 5.10.1 Company will relocate or convert its facilities for the customer's convenience or aesthetics. The estimated cost of relocation or conversion as determined by the Company will be included in the payment described in previous sections of this Service Schedule.
- 5.10.2 When the relocation of Company facilities involve "prior rights" conditions, the customer will be required to make payment equal to the total cost of relocation.

5.11 MASTER METERING

- 5.11.1 Mobile Home Parks - Company shall refuse service to all new construction and/or expansion of existing permanent residential mobile home parks unless the construction and/or expansion is individually metered by Company.
- 5.11.2 Residential Apartment Complexes, Condominiums - Company shall refuse service to all new construction of apartment complexes and condominiums which are master metered unless the builder or developer can demonstrate that the installation meets the provisions of R14-2-205 of the Corporation Commission's Rules and Regulations or the requirements discussed in 5.11.3 below. This section is not applicable to Senior Care/Nursing Centers registered with the State of Arizona with independent living units which provide packaged services such as housing, food, and nursing care.



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5.11.3 Multi-Unit Residential Developments – Company will allow master metering for residential units where the residential units are privately owned provided the building will be served by a centralized heating, ventilation and/or air conditioning system, and each residential unit shall be individually sub-metered and responsible for energy consumption of that unit.

5.11.3.1 Sub-metering shall be provided and maintained by the builder or homeowners association.

5.11.3.2 Responsibility and methodology for determining each unit's energy billing shall be clearly specified in the original bylaws of the homeowners association, a copy of which must be provided to Company prior to Company providing the initial extension.

5.11.4 Company will convert its facilities from master metered system to a permanent individually metered system at the customer's request provided the customer makes a payment equal to the residual value plus the removal costs less salvage of the master meter facilities to be removed. The new facilities to serve the individual meters will be extended on the basis specified in Section 1. Applicant is responsible for all costs related to the installation of new service entrance equipment.

5.12 CHANGE IN CUSTOMER'S SERVICE REQUIREMENTS

Company will rebuild or revamp existing facilities to meet the customer's added load or change in service requirements on the basis specified in Section 2.0 or 3.0.

5.13 STUDY AND DESIGN PAYMENT

Any applicant requesting Company to prepare special studies or detailed plans, specifications, or cost estimates will be required to make a payment to Company an amount equal to the estimated cost of preparation. Where the applicant authorizes Company to proceed with construction of the extension, the payment shall be credited to the cost of the extension otherwise the payment shall be nonrefundable. Company will prepare, without charge, a preliminary sketch and rough estimate of the cost to be paid by the customer for a line extension upon request.

5.14 SETTLEMENT OF DISPUTES

Any dispute between the customer or prospective customer and Company regarding the interpretation of these "Conditions Governing Extensions of Electric Distribution Lines and Services" may, by either party, be referred to the Arizona Corporation Commission or a designated representative or employee thereof for determination.

5.15 EXTENSION AGREEMENTS

All line extensions or equipment upgrades requiring payment by the customer shall be in writing and signed by both the customer and Company.



**SERVICE SCHEDULE 3
CONDITIONS GOVERNING EXTENSIONS OF
ELECTRIC DISTRIBUTION LINES AND SERVICES**

5.16 ADDITIONAL PRIMARY FEED

When specifically requested by the customer to provide an alternate primary feed (excluding transformation), Company will perform a special study to determine the request's feasibility and the customer may be required to pay for the added cost as well as the applicable rate for the additional feed requested.

ATTACHMENT 3

Summary of Modifications to July 1, 2007 Schedule 3

SCH. 3 SECTION	REASON FOR DELETED LANGUAGE	REASON FOR ADDED LANGUAGE
<u>Preamble</u>	Discussion of extension allowances and economic feasibility studies	Treatment of payments under Schedule 3 as Miscellaneous Service Revenue
<u>Definitions</u>	Deletion of definition "I" that referred to System Improvement costs that were included in economic feasibility studies	
1.1 Residential-Single Family	Discussions of equipment allowance and refunds; example of refund calculation	Discussion of payment including determination of costs, payment timing, and contract requirements
1.2 Residential Homebuilders Subdivisions	Discussions of equipment allowances, refunds, and potential advances; examples of refund calculations	Discussion of payment including determination of costs, payment timing, and contract requirements
1.3 Residential Custom Home "Lot Sale" Dev.	Discussions of equipment allowances, refunds, and potential advances; examples of refund calculations	Discussion of payment including determination of costs, payment timing, and contract requirements
1.4 Residential Master Planned Dev.	Discussions of equipment allowances for developer and individual subdivisions, refunds, and potential advances; examples of refund calculations;	Discussion of payment including determination of costs, payment timing, and contract requirements
1.5 Residential Multi Family Dev.	Discussions of equipment allowances, refunds, and potential advances; examples of refund calculations	Discussion of payment including determination of costs, payment timing, and contract requirements
1.6 High Rise and Mixed Use Dev.	Discussions of equipment allowances, refunds, and potential advances; examples of refund calculations	Discussion of payment including determination of costs, payment timing, and contract requirements
2.0 Non-Residential	Discussions of economic feasibility and revenue-based extensions for individual businesses	Discussion of payment including determination of costs, payment timing, and contract requirements
2.1 Corporate Business and Industrial Parks	Discussions of economic feasibility and revenue-based extensions for the park developer and individual customers within the park	Discussion of payment including determination of costs, payment timing, and contract requirements for the park developer and individual permanent customers within park
3.1 Irrigation Customers	Discussion of advance requirements and refunds	Discussion of payment including determination of costs, payment timing, and contract requirements
3.2 Temporary Customers	"non-refundable contribution"	"payment"; language consistent with other sections
3.3 Doubtful Permanency	"Advance"; refund language	"payment of total estimated cost"
4.0 Refunds	Entire section	

Summary of Modifications to July 1, 2007 Schedule 3

SCH. 3 SECTION	REASON FOR DELETED LANGUAGE	REASON FOR ADDED LANGUAGE
5.0 Underground Policy	Language on refunds, feasibility, non-refundable contributions; discussion of service extensions	Replace "contribution" with "payment"
6.0 Voltage		Requires payment of cost of special extension studies and is consistent with section 5.13 revised policy.
6.3 Three-Phase	Language on non-refundable contributions	
6.6 Ownership	Language on contributions and advances	
6.9 Non-Standard Construction	Entire Section since non-refundable contributions for non-standard construction will be no longer necessary	
6.10 Abnormal Loads	Language on contributions	Discussion on inclusion of costs in customer payment
6.11 Relocations	Language on contributions	Discussion on inclusion of costs in customer payment
6.12 Master Metering	Language on contributions	Replace "contribution" with "payment"
6.14 Study Deposits		Replace "deposit" with "payments"
6.15 Customer Construction	Entire section; section is no longer applicable when extensions are treated as revenue; last sentence contains language related to economic feasibility	
6.17 Interest	Entire section; section is no longer applicable when extensions when proceeds are non-refundable	
6.19 Additional Primary Feed	Language on contribution in aid of construction	