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Fax: (602) 542-0765  
E-mail: kmayes@azcc.gov

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December 10, 2007

**Re: Arizona Public Service Company Revised Line Extension Tariff Schedule 3; Docket Nos. E-01345A-05-0816, E-01345A-05-0826, E-01345A-05-0827**

Dear Parties to the Docket:

On December 6, 2007, the Residential Utility Consumer Office ("RUCO") filed a response to my November 28, 2007 letter regarding Arizona Public Service Company's ("APS") proposal to treat funds collected from Schedule 3 as revenue rather than Contributions in Aid of Construction ("CIAC"). Today, Commissioner Pierce filed a letter requesting analysis of the Schedule 3 issue, and suggesting that the Parties examine the idea of treating Schedule 3 proceeds as revenue while attributing a zero, or near zero, cost of capital value to those revenues in order to prevent double payment associated with customer-financed infrastructure.

RUCO raises valid points concerning the lack of available data underlying APS' proposed treatment of Schedule 3 funds. Furthermore, RUCO argues that APS should be required to decrease its revenue requirement established in Decision No. 69663 if the Commission chooses to treat Schedule 3 funds as revenue. Additionally, Commissioner Pierce raises an important point of inquiry into the possibility of holding the Schedule 3 funds out of future ratebase, in an effort to ensure that customers benefit both in the short and long term from these revenues.

In order to provide adequate due process and notice to all interested Parties and to properly scrutinize all of these issues, I have concluded that the Commission should conduct an evidentiary hearing on this matter.

Such a hearing could address many of the questions I raised in my November 28 letter, RUCO's concerns, and Commissioner Pierce's inquiries, as well as provide the Parties adequate time to conduct discovery of and analyze all relevant data on APS' proposal to treat Schedule 3 funds as revenue. Prior to a hearing in this matter, in addition to addressing the issues raised in my and Commissioner Pierce's letters, I would like the Parties to identify and explain the proper procedural mechanism for treating Schedule 3 funds as revenues.

Thank you for your consideration of this matter.

Sincerely,

Kris Mayes  
Commissioner

Arizona Corporation Commission  
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Parties to the Docket

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Cc: Chairman Mike Gleason  
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Commissioner Gary Pierce  
Dean Miller  
Ernest Johnson  
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