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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission
DOCKETED
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DOCKETED BY nr

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

IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY - REVISED LINE EXTENSION TARIFF SCHEDULE 3

DOCKET NOS. E-01345A-05-0816
E-01345A-05-0826
E-01345A-05-0827

DECISION NO. 70185

ORDER

Open Meeting
February 12 and 13, 2008
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS") is certificated to provide electric service as a public service corporation in the State of Arizona.

2. Decision No. 69663 ordered APS, within 30 days after the effective date of the Decision, to file for Commission approval a revised Line Extension Tariff that eliminates any free footage or free equipment allowance, and remove any requirement for any economic feasibility analysis in its line extension policy.

3. On July 27, 2007, APS filed in Docket Control the revised Schedule 3. On October 24, 2007, APS filed an amended version of its proposed Schedule 3 tariff, which replaced the Company's July 27, 2007 filing.

4. The current Schedule 3 grants equipment allowances and/or economic feasibility analyses. For example, there is a $5,000 equipment allowance for single family homes.

Elimination of the free allowance and economic feasibility analyses is in accordance with the waivers of Arizona Administrative Code R14-2-207(C.1 and C.2) granted by Decision No. 69663.

5. Staff is in agreement with the proposed tariff filed by APS on October 24, 2007, which removes all free footage and free equipment allowance for all classes of customers, and eliminates economic feasibility analysis in all line extension cases. However, Staff takes exception to what is stated in the second paragraph of Schedule 3, "...All payments received for new or upgraded service under provisions of this schedule shall be non-refundable and treated as Other Electric Revenue."

6. Staff believes that discussion of the accounting treatment of payments should not be included in the tariff, and, therefore, the sentence should be deleted from the tariff. Furthermore, Staff disagrees with APS' contention that these payments should be treated as revenues. Staff believes that these payments should continue to be treated as Contributions in Aid of Construction ("CIAC") until the Commission orders otherwise.

7. Staff has recommended approval of the amended Schedule 3 tariff filed by APS on October 24, 2007, with the above noted exception.

8. Along with its proposal for the new Schedule 3, APS also submitted the transition plan describing how this new Schedule 3 would be implemented. APS proposed that all those applicants who have executed line extension agreements as of the effective date of this Order would be "grandfathered" into the Schedule 3 in effect at the time the agreement was executed. Staff agrees with APS' proposal.

9. APS provided two options that would allow for additional grandfathering. Applicants that have not executed a line extension agreement could be "grandfathered" if they meet both of the following conditions: (1) such applicant has received from APS, within six months prior to the effective date of this Order, 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 this Order. 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

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potential applicant the same amount of time after having received an estimate from APS to execute a line extension agreement. Staff recommends the Commission approve the first alternative.

10. The Hopi Tribe has brought it to the Commission's attention that the new Line Extension Schedule 3 will have a detrimental effect on the electrification of the reservation. Because of the special circumstances and the remote nature of Native American territories, it is appropriate to additionally 'grandfather' residential customers on Native American reservations served by APS into the Schedule 3 in effect prior to July 1, 2007.

11. Staff has further recommended that within 15 days of the effective date of the order in this matter, APS file with Docket Control, as a compliance matter in this docket, amended tariff pages that are consistent with the Decision in this matter.

12. On November 28, 2007, Commissioner Mayes sent a letter to the Parties in this docket in which she asked the Parties to file a comprehensive analysis of APS' proposal for treating the Schedule 3 proceeds as revenue, rather than CIAC. In that context, Commissioner Mayes asked that the analyses address a number of specific questions concerning the short-term and long-term advantages and disadvantages of these two different accounting treatments for both APS and its customers.

13. On December 6, 2007, the Residential Utility Consumer Office ("RUCO") filed its response to Commissioner Mayes' November 28, 2007, letter. In it, RUCO stated that it is unable to conclude if it would be appropriate to treat the Schedule 3 funds as CIAC or revenue because there are too few data to permit a sufficient examination of the question. RUCO further stated that, if the Commission were to permit APS to treat the Schedule 3 funds as revenue, the Commission should require APS to re-file its other tariffs to provide a corresponding revenue decrease to be consistent with the revenue requirement established in Decision No. 69663.

14. On December 10, 2007, Commissioner Pierce filed a letter in this docket in which he concurred with Commissioner Mayes' request for an analysis of APS' proposal. He further suggested that the Parties consider alternative treatments of the Schedule 3 funds, including one that would treat the proceeds as revenue but attribute a zero or near-zero cost-of-capital to those revenues.

15. Also on December 10, 2007, Commissioner Mayes filed another letter in this docket in which she acknowledge Commissioner Pierce's and RUCO's filings and concluded that the Commission should conduct an evidentiary hearing to properly scrutinize all of the issues relating to the treatment of the Schedule 3 funds.

16. On December 20, 2007, APS filed an extensive response to Commissioner Mayes' November 28, 2007, letter. In it, APS reiterated its arguments in support of treating the Schedule 3 funds as revenue. APS indicated its openness to discussing the issues in a hearing in connection with the Company's compliance filing, but also stated APS' position that a full traditional, evidentiary hearing is not necessary.

17. On January 29, 2008, Staff filed its report in response to Commissioner Mayes' November 28, 2007, letter. At the conclusion of its analysis, Staff maintained its recommendation that the Commission should require APS to record the Schedule 3 fees as CIAC. However, Staff further recommended that, if the Commission were to direct APS to record the Schedule 3 fees as revenue, the Commission should concurrently either order APS to defer such fees for crediting to ratepayers, or order APS to reduce non-fuel base rates by the amount of fees expected to be annually collected because of the Schedule 3 change.

18. Having reviewed the parties' analyses, we find that they provide ample basis for our conclusion that Schedule 3 fees paid to APS are CIAC and must be recorded as such.

CONCLUSIONS OF LAW

1. APS is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over APS and over the subject matter of the application.

3. The Commission, having reviewed the application, Staff's Memoranda dated November 2 and 15, 2007, RUCO's filing dated December 6, 2007, APS' filing dated December 20, 2007, and Staff's filing dated January 29, 2008, concludes that the Schedule 3 tariff filed on October 24, 2007, as amended according to Staff's recommendation in Finding of Fact No. 6, complies with Decision No. 69663 and is in the public interest."

4. The Commission, having reviewed the application and Staff's Addendum Memorandum dated November 15, 2007, concludes that APS' Transition Plan as recommended by Staff in Finding of Fact No. 9 is in the public interest.

ORDER

IT IS THEREFORE ORDERED that Arizona Public Service Company shall record all Schedule 3 fees as Contributions in Aid of Construction.

IT IS FURTHER ORDERED that the APS Schedule 3 tariff filed on October 24, 2007, is hereby approved, with the modifications recommended in Finding of Fact No. 6.

IT IS FURTHER ORDERED and that APS adopt the transition plan recommended by Staff as described in Finding of Fact Nos. 9 and 10.

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IT IS FURTHER ORDERED that within 15 days of the effective date of the order in this matter, APS file with Docket Control, as a compliance matter in this docket, amended tariff pages that are consistent with the Decision in this matter.

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 27th day of February, 2008.

DEAN S. MILLER
Interim Executive Director

DISSENT: _____

DISSENT: _____

EGJ:PKB:lhm\JFW

SERVICE LIST FOR: Arizona Public Service Company
DOCKET NOS. E-01345A-05-0816, et al.

Deborah R. Scott
Kimberly A. Grouse
SNELL & WILMER
One Arizona Center
400 East Van Buren
Phoenix, AZ 85004-2202

Thomas L. Mumaw
Karilee S. Ramaley
Pinnacle West Capital Corporation
P. O. Box 53999, MS 8695
Phoenix, AZ 85072-3999

C. Webb Crockett
Patrick J. Black
FENNEMORE CRAIG, P.C.
3003 North Central, Suite 2600
Phoenix, AZ 85012-2913

Michelle Livengood
UniSource Energy Services
One South Church Street, Suite 200
Tucson, AZ 85702

Steven B. Bennett
Deputy City Attorney
City of Scottsdale
City Attorney's Office
3939 North Drinkwater Blvd.
Scottsdale, AZ 85251

Michael W. Patten
ROSHKA DEWULF & PATTEN, PLC
One Arizona Center
400 East Van Buren, Suite 800
Phoenix, AZ 85004

Gary Yaquinto, President
Arizona Utility Investors Association
2100 North Central Avenue, Suite 210
Phoenix, AZ 85004

Sein Seitz, President
Arizona Solar Energy Industries Association
3008 North Civic Center Plaza
Scottsdale, AZ 85251

Dan Austin
Comverge, Inc.
6509 West Frye Road, Suite 4
Chandler, AZ 85226

Timothy M. Hogan
Arizona Center for Law in the Public Interest
202 East McDowell Road, Suite 153
Phoenix, AZ 85004

Jay I. Moyes
MOYES STOREY LTD.
1850 North Central Avenue, Suite 1100
Phoenix, AZ 85004

Kenneth R. Saline, P.E.
K.R. SALINE & ASSOC., PLC
160 North Pasadena, Suite 101
Mesa, AZ 85201

Robert W. Geake
Vice President and General Counsel
Arizona Water Company
P. O. Box 29006
Phoenix, AZ 85038-9006

Lieutenant Colonel Karen S. White
Chief, Air Force Utility Litigation Team
AFLSA/JACL-ULT
139 Barnes Drive
Tyndall AFB, FL 32403

Greg Patterson
Arizona Competitive Power Alliance
916 West Adams, Suite 3
Phoenix, AZ 85007

Jim Nelson
12621 North 17th Place
Phoenix, AZ 85022

George Bien-Willner
3641 North 39th Avenue
Phoenix, AZ 85014

Gary L. Nakarado
ARIZONA SOLAR ENERGY
INDUSTRIES ASSOCIATION
24657 Foothills Drive North
Golden, CO 80401

Scott S. Wakefield
RUCO
1110 West Washington, Suite 220
Phoenix, AZ 85007

Lawrence V. Robertson, Jr.
MUNGER CHADWICK
P. O. Box 1448
Tubac, AZ 85646

Bill Murphy
Murphy Consulting
5401 North 25th Street
Phoenix, AZ 85016

Andrew W. Bettwy
Karen S. Haller
Assistants General Counsel
Legal Affairs Department
SOUTHWEST GAS CORPORATION
5241 Spring Mountain Road
Las Vegas, Nevada 89150

Tracy Spoon
Sun City Taxpayers Association
12630 North 103rd Avenue, Suite 144
Sun City, AZ 85351

Douglas V. Fant
Law Offices of Douglas V. Fant
3655 West Anthem Drive
Suite A-109 PMB 411
Anthem, AZ 85086

Amanda Ormond
The Ormond Group LLC
Southwest Representative
Interwest Energy Alliance
7650 South McClintock, Suite 103-282
Tempe, AZ 85284

Michael L. Kurtz
Kurt J. Boehm
BOEHM, KURTZ & LOWRY
36 East Seventh Street, Suite 1510
Cincinnati, OH 45202

Tammie Woody
10825 West Laurie Lane
Peoria, AZ 85345

Joseph Knauer, President
Jewish Community of Sedona
and the Verde Valley
100 Meadowlark Drive
Post Office Box 10242
Sedona, AZ 86339-8242

David C. Kennedy, Esq.
3819 East Indian School Road
Phoenix, AZ 85018

Michael F. Healy
MORGAN, LEWIS & BOCKIUS
1111 Pennsylvania Avenue, NW
Washington, DC 20004

Barbara Klemstine
Brian Brumfield
Arizona Public Service
P.O. Box 53999, Mail Station 9708
Phoenix, AZ 85072-3999

Jon Poston
AARP Electric Rate Project
6733 East Dale Lane
Cave Creek, AZ 85331

Coralette Hannon
AARP Government Relations & Advocacy
6705 Reedy Creek Road
Charlotte, NC 28215

Michael M. Grant
GALLAGHER & KENNEDY, P.A.
2575 E. Camelback Road
Phoenix, AZ 85016-9225

Jana Van Ness
Arizona Public Service Company
400 North 5th Street, MS 8695
Phoenix, AZ 85004

Mr. Ernest G. Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Christopher C. Kempley
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007