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MEMORANDUM

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TO: Docket Control
FROM: Ernest G. Johnson
Director
Utilities Division

EA for EGJ

DATE: March 18, 2009

RE: IN THE MATTER OF THE SALE AND TRANSITION BY ARIZONA PUBLIC SERVICE TO ELECTRICAL DISTRICT NO. 3 OF CERTAIN ELECTRICAL FACILITIES IN PINAL COUNTY PURSUANT TO A.R.S. § 40-285(A) AND TO DELETE PORTIONS OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY WITHIN PINAL COUNTY (DOCKET NO. E-01345A-08-0426)

Attached is the Staff Report for Arizona Public Service Company's application to sell and transfer certain electrical assets within Pinal County to Electrical District No. 3, and to delete portions of its Certificate of Convenience and Necessity within Pinal County. Staff recommends approval, with conditions.

EGJ:AI:tdp

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Arizona Corporation Commission

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MAR 18 2009

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Service List for: Arizona Public Service Company
Docket No. E-01345A-08-0426

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

ARIZONA PUBLIC SERVICE COMPANY

DOCKET NO. E-01345A-08-0426

**APPLICATION BY ARIZONA PUBLIC SERVICE COMPANY TO SELL CERTAIN
ELECTRICAL ASSETS TO ELECTRICAL DISTRICT NO. 3 AND TO DELETE
PORTIONS OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY WITHIN
PINAL COUNTY**

MARCH 18, 2009

STAFF ACKNOWLEDGMENT

The Staff Report for the application of Arizona Public Service Company to sell certain electrical assets to Electrical District No. 3 and to delete portions of its Certificate of Convenience and Necessity within Pinal County was the responsibility of the Staff members listed below. Alexander Ihade Igwe was responsible for reviewing the application and performing pertinent financial analysis; Prem Bahl analyzed the engineering issues; and Deborah Reagan researched the Consumer Service issues.



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EXECUTIVE SUMMARY
ARIZONA PUBLIC SERVICE COMPANY
DOCKET NO. E-01345A-08-0426

On August 11, 2008, Arizona Public Service Company ("APS" or "Company") filed an application with the Arizona Corporation Commission ("Commission") for authorization to sell and transfer certain electric transmission and distribution facilities in Pinal County, to Electrical District No. 3 ("ED-3" or "District"); and for Commission approval to delete from its Certificate of Convenience and Necessity ("CC&N") all areas contained within ED-3's service territory and the Ak-Chin Indian Community ("Ak-Chin"). APS states that this application modifies its April 15, 2002 filing, in Docket No. E-01345A-02-0285.

On August 13, 2008, ED-3 filed a request for Commission authorization to intervene in this proceeding. By its filing, the District affirms its support for APS' application.

APS and ED-3 jointly report that since 1961, both utilities have jointly serviced customers within ED-3's service area through a Commission approved Lease Agreement, that enabled APS to sell some of its facilities to ED-3 and Lease-back same facilities; and a Lease Power Agreement that allowed APS to sell power and energy to ED-3. Similar agreements were consummated between APS and Electrical District No. 1 of Pinal County ("ED-1"). In 1989, ED-1's operations were consolidated into ED-3's. By these agreements, APS assumed operational control over all electrical facilities within the District. Upon expiration of these agreements in 2001, ED-3 assumed operational controls over its facilities. Both entities report that the Federal Energy Regulatory Commission ("FERC") opined that "it is clear from the terms of the Lease Agreement that operational control over ED-3's transmission system reverted to ED-3 upon termination of that agreement. ED-3 is a transmitting utility and there is no evidence that it cannot properly operate and maintain its transmission system." Since assuming control over its operations in 2001, ED-3 has been providing electric service to all customer classes, including residential, commercial and industrial loads, previously served solely by APS. ED-3 also made significant capital investments in additional infrastructure. As a result of these investments, both utilities report that there is now intermingling of APS owned facilities with ED-3 owned facilities. This intermingling has created operational, safety, and efficiency issues within the shared area.

On April 15, 2002, APS filed for Commission authorization to sell all its assets, comprised of Split Ends, the Sexton Substation and an inoperable 69kV line to ED-3. By this application, both parties intend to eliminate the operational difficulties associated with two utilities owning and operating intermingled infrastructure within the same service territory. However, APS did not propose to cede its CC&N in the 2002 filing. Based on preliminary discussions between APS, ED-3 and Commission Staff ("Staff"), it became evident that the application would not fully resolve all issues within the area. As a result, APS withdrew its 2002 application. This pending application is intended to resolve all issues, including cancellation of APS' CC&N within the District as well as Ak-Chin.

Staff agrees with APS and ED-3 that intermingling of electrical facilities owned and operated by separate utilities within a service area creates operational difficulties, safety concerns and confusion amongst customers. Staff finds that the sales of APS' Split Ends, Sexton Substation, and the related inoperable 69 kV line will not impair APS' ability to continue to serve its customers outside of the proposed ED-3 Service Area. Further, Staff finds that the Transition Plan proposed by APS and ED-3 will minimize any difficulty associated with transferring current APS customers to ED-3. Staff also finds ED-3's pledge to serve its current and prospective customers under the same terms and conditions, reasonable and acceptable. More specifically, Staff agrees with ED-3's promise to hold current APS low income customers receiving service under Low Income Assistance Program ("LIAP"), harmless. Staff finds that ED-3's current rates are comparable to APS' and affected customers will experience immaterial rate change upon transfer to ED-3.

Staff finds that cancellation of APS' CC&N overlapping the proposed ED-3 Service Area will clarify responsibility for provision of electric service within the area. Staff agrees that cancellation of APS' CC&N will make ED-3 the provider of last resort for the proposed service area. Staff finds that ED-3 has the infrastructure and technical experience to adequately serve current and prospective customers.

Finally, Ak-Chin has indicated that it is not opposed to deletion of its community from APS' CC&N. ED-3 has agreed to provide the same operational support to Ak-Chin Energy Services ("ACES"), previously provided by APS.

Based on the above findings, Staff recommends Commission approval of this application as follow:

1. That the Commission grant APS' request to sell and transfer its Split Ends, Sexton Substation and the related inoperable 69 kV line to ED-3.
2. That the Commission cancel APS' CC&N overlapping the proposed ED-3 Service Area.
3. That the Commission cancel APS' CC&N overlapping AK-Chin.
4. That if the Commission finds that a waiver is required for APS to transfer specific customer information to ED-3, for the sole purpose of effectuating transfer of affected customers from APS to ED-3, that the Commission grants APS a waiver from the requirements of A.A.C. R14-2-203(A)(2), pursuant to A.A.C. R14-2-212(A)(1).
5. That the Commission authorize APS to complete pending RES projects under the following conditions: (a) the customer completes the requested installation and related interconnection of the requested RES project before or within twelve (12) months from the date the Commission approves this application; and (b) the Commission Order in this proceeding authorizes APS to continue to pay incentives to APS' customers, subsequent to being transferred to ED-3, and permits APS to credit such incentives to APS RES distribution generation targets.
6. That the Commission authorize APS to complete pending DSM projects under the following conditions: (1) the customer completes the requested installation and related interconnection of the requested DSM project before or within twelve (12) months from the date the Commission approves this application; and (2) the Commission Order in this proceeding authorizes APS to continue to pay incentives to APS' customers, subsequent

to being transferred to ED-3, and permits APS to recover the related costs under APS' Demand Side Management Adjustment Clause, and claim the energy savings resulting from such project for all DSM related regulatory requirements.

7. That APS file with the Commission's Docket Control, as compliance item in this docket, a copy of all documents evidencing the sale and transfer of its assets to ED-3, no later than 90 days from the close of the transaction.
8. That APS file with the Commission's Docket Control, as compliance item in this docket, a report showing the net gain resulting from the sale of its assets to ED-3, no later than 90 days from the close of the transaction.

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTION	1
PUBLIC NOTICE	1
BACKGROUND	1
ELECTRIC SERVICE WITHIN ED-3'S SERVICE TERRITORY	2
THE TRANSACTION	5
SALE OF ASSETS	5
<i>The Split Ends</i>	5
<i>Sexton Substation</i>	5
CANCELLATION OF CC&N	6
CONSUMER SERVICES ISSUES	6
ENGINEERING ANALYSIS	6
NETWORK/SYSTEMS RELIABILITY	6
ED-3'S SYSTEM TECHNICAL CAPACITY	7
APS BENEFITS FROM SYSTEM TRANSFER	7
TECHNICAL SUPPORT FOR AK-CHIN	7
JOINT TRANSITION PLAN	8
CUSTOMER NOTIFICATION OF APPLICATION	8
CUSTOMER COMMUNICATIONS UPON APPROVAL OF APPLICATION	9
TRANSFER OF OPERATIONAL INFORMATION FROM APS TO ED-3	9
TRANSFER OF CUSTOMER INFORMATION FROM APS TO ED-3	10
TREATMENT OF CUSTOMER APPLICATIONS FOR INSTALLATION THAT COULD QUALIFY UNDER THE COMMISSION'S RENEWABLE ENERGY STANDARDS OR APS'S DEMAND SIDE MANAGEMENT PROGRAM	11
TREATMENT OF LOW INCOME CUSTOMERS	12
ED-3'S PLAN FOR TRANSITIONING TRANSFERRED APS CUSTOMERS	12
FINANCIAL ANALYSIS	13
SUMMARY OF CONCLUSIONS	14
RECOMMENDATIONS	14

ATTACHMENTS

ENGINEERING ANALYSIS	A
AFFIDAVIT OF PUBLICATION	B

INTRODUCTION

On August 11, 2008, Arizona Public Service Company (“APS” or “Company”) filed an application with the Arizona Corporation Commission (“Commission”) seeking authorization to sell and transfer certain electric transmission and distribution facilities in Pinal County to Electrical District No. 3 (“ED-3” or “District”); and for Commission approval to delete from its Certificate of Convenience and Necessity (“CC&N”), all areas contained within ED-3’s service territory and the Ak-Chin Indian Community (“Ak-Chin”). APS states that this application modifies its April 15, 2002 filing, in Docket No. E-01345A-02-0285.

On August 13, 2008, ED-3 filed a request for Commission authorization to intervene in this proceeding. By its filing, the District affirms its support for APS’ application.

PUBLIC NOTICE

Consistent with the Procedural Order in this proceeding, APS published a notice of this application in the *Maricopa Monitor*, on February 27, 2009, and in the *Casa Grande Dispatch* on March 3, 2009. On March 2, 2009, the same notice was mailed to each customer affected by the proposed transfer, and all property owners in the transfer area.

On August 22, 2008, APS mailed a letter to each customer within the affected area, informing them of its application for Commission authorization to transfer its customers to ED-3. To further publicize this filing, APS and ED-3 made joint presentations to the City Council of Maricopa, on July 15, 2008 and October 21, 2008. Also, On October 6, 2008, APS mailed a second letter advising each customer within the proposed ED-3 service Area of two town hall meetings, held at Stanfield, on October 23, 2008, and Maricopa, on October 28, 2008. APS states that these events were well publicized via direct mailing to customers within the proposed ED-3 Service Area, and through publication in the *Maricopa Monitor* and the *Casa Grande Dispatch*.

APS and ED-3 maintain a website “...devoted to educating the public about the Company’s Application and responding to all inquiries directed at APS and ED-3 regarding the matter.” This website has a page devoted to *Frequently Asked questions (“FAQ”)* about APS/ED-3 sale.

BACKGROUND

APS is certificated to provide electric service in several counties in Arizona State. In Pinal County, APS’ CC&N overlaps the service territory of ED-3 and the boundaries of Ak-Chin. Currently, APS serves approximately 1,000,000 customers in Arizona, of which 3,993 are located within ED-3’s service territory. Prior to 1960, APS was the dominant provider of electric service to residential, commercial, industrial and irrigation loads within ED-3’s service area. As a result, APS owned and controlled most electrical infrastructure necessary for provision of service in the area.

ED-3 is a municipal corporation organized by the Board of Supervisors of Pinal County pursuant to the Electrical District Act, as amended by the Arizona Revised Statutes (“A. R. S.”) § 48-1701 to 48-1822, in 1926. ED-3 distributes electric power and energy to approximately 17,033 customers within its service area. Because ED-3 is a municipal Corporation, it is not subject to Commission regulations. Prior to 1960, ED-3 primarily served irrigation pumps within its service territory.

The Ak-Chin Indian Community Land (“Ak-Chin” or “Community”) is located southwest of the Gila Indian community, and on the north central part of the proposed ED-3 Service Area. The Community is located within APS’ CC&N, and embedded within ED-3’s service territory. Pursuant to Commission approval in Decision No. 60433, Ak-Chin acquired APS’ electric facilities within its Community, in 1997. Upon acquisition of these facilities, Ak-Chin formed the Ak-Chin Energy Services (“ACES”) to provide electric service to its citizens. To facilitate this process, Ak-Chin and APS entered into a Maintenance and Construction Agreement and a Service Agreement authorizing APS to act as its “Control Area Operator”. APS reports that these agreements terminated on December 31, 2008, and that ACES has assumed full responsibility for its operations. Finally, APS states that it does not have any customer within the Community, and has no intention of prospecting for new customers within ACES service territory.

Electric Service within ED-3’s Service Territory

Prior to December 1960, APS was the primary provider of electric service to residential, commercial and irrigation customers within the service territories of ED-3 and Electrical District No. 1 of Pinal County (“ED-1”). On December 21, 1960, the Commission approved a Power Agreement between APS and ED-3, whereby APS agreed to transfer its irrigation pumping customers to ED-3 and to serve those customers on behalf of the District, for a fixed charge. Pursuant to this agreement, APS continued to serve its residential, commercial and industrial customers; while serving the irrigation customers, on behalf of ED-3. In 1961, the Commission authorized APS to sell and lease back certain facilities and infrastructure located within ED-3’s service area to ED-3, for the purpose of serving ED-3’s irrigation customers. Subsequent to Commission authorization of the sale/lease-back transaction, APS and ED-3 entered into a Lease Agreement for APS to lease ED-3’s transmission and distribution facilities, and to operate and maintain the electric system within the area. Further, APS and ED-3 signed a Lease Power Agreement, whereby APS sold and delivered power over the leased facilities. The Lease Agreement and Leased Power Agreement resulted in APS assuming full operational control over all facilities within ED-3’s service area, and APS utilizing the same facilities to serve its customers, and ED-3’s irrigation customers.

Subsequent to the 1961 agreements, APS constructed several facilities “...ranging from simple pole-mounted transformers with service drops to more extensive overhead and underground distribution systems” for serving new non-irrigation customers. These APS-owned facilities radiate from and are interconnected with ED-3’s facilities, and are generally referred to as the “Split Ends”. The Split Ends, a single substation (the “Sexton Substation”), and an

inoperable 69kV transmission line are the only facilities owned by APS within ED-3's service area. APS owns several transmission facilities, substations, easements and other infrastructures within Pinal County, but outside of ED-3's service territory, that are not a part of this proceeding.

In 1976, the Commission (Decision No. 46926) authorized APS to sell its electrical distribution facilities to ED-1, and for APS to lease the same facilities from ED-1 ("ED-1 Lease"), for an initial period of twenty-five years. Also, in Decision No. 46926, the Commission authorized APS to sell power, energy and associated services to ED-1, under a Lease Power Agreement. In 1989, ED-1's operation was consolidated into ED-3's, and ED-3 assumed the operations and contracts of ED-1. As a result of this merger, ED-3 assumed responsibility for the ED-1 Lease and Lease Power Agreement between APS and ED-1.

On October 21, 2001, the Lease Agreement between APS and ED-3 expired. ED-3 terminated the agreement, and assumed operational control over its electric facilities. The Federal Energy Regulatory Commission ("FERC") issued an opinion on the termination of this agreement, stating that "it is clear from the terms of the Lease Agreement that operational control over ED-3's transmission system reverted to ED-3 upon termination of that agreement. ED-3 is a transmitting utility and there is no evidence that it cannot properly operate and maintain its transmission system." Also, APS and ED-3 mutually agreed to terminate the ED-1 Lease, effective March 29, 2002. Subsequent to ED-3 assuming full control over its system, it began serving residential, commercial and industrial loads, that were previously served solely by APS. ED-3 reports that since it assumed full responsibility for its operation in 2001, it has made significant capital investments in electric infrastructure, including the addition of 69kV lines, substation enhancements and additions, pole and conductor replacements, and the replacement of other equipment. ED-3 states that its capital investments were necessary to adequately serve its customer base that has grown from 400 irrigation customers to over 17,000 residential, commercial and irrigation meters. As a result, the system employed in distribution of electric service within the District is now a mix of ED-3 and APS owned facilities. APS confirms that "ED-3 owns the subtransmission system, distribution substations and most of the areas distribution system, and serves those customers in the area that are not already served by APS."

On October 9, 2001, Pinnacle West Capital Corporation ("Pinnacle West"), the parent company of APS, filed a petition with "...the FERC under Section 211 of the Federal Power Act for an order requiring ED-3 to provide network transmission service to enable it deliver power and energy to APS retail loads served through ED-3 system." Based on this petition, FERC issued a proposed order dated January 17, 2002, stating that the transmission requested by APS would meet the standards of Sections 211 and 212 of the Federal Power Act. Further, FERC requested that APS and ED-3 negotiate the rates, terms and condition of such service within 45 days of the Order. On March 1, 2002 APS and ED-3 entered into a Settlement Agreement, as follows: "(1) provided for the sale of APS facilities within the ED3's boundaries to ED-3 (subject to Commission approval); (2) resolved the rates, terms and conditions for transmission service to APS retail loads served via the ED3 system; (3) resolved the termination of ED1 Lease

and provided for the termination of APS's Lease Agreement with ED1 and ED3 upon the sale of the specific assets." See Direct Testimony of ED-3's witness, David Benedict at Page 9 of 11.

On April 15, 2002, APS filed an application in Docket No. E-01345A-02-0285; for the Commission authorization to sell and transfer its assets within the District to ED-3. This filing was intended to effectuate the March 2002, Settlement Agreement discussed above. APS and ED-3 state that the Settlement Agreement would have mitigated the difficulties associated with two utilities owning and operating intermingled facilities within the same service area. Also, the Settlement Agreement intended that APS retains its existing customers, and the right to prospective customers, within the District. Thus, APS would continue to act as a provider of last resort within the District. Consistent with FERC's finding and the Settlement Agreement, Pinnacle West would wheel energy over ED-3's system transmission and distribution for delivery of retail electric service to APS' customers within the District. Although, ED-3 intervened in support of the 2002 filing, APS and ED-3 now contend that the difficulties associated with two utilities serving within the same territory would have persisted had the Commission approved the application as filed. Based on preliminary discussions between APS, ED-3 and Commission Staff ("Staff"), APS voluntarily withdrew the application in 2002.

On September 20, 2007, APS and ED-3 entered into a "Supplemental Agreement to the Implementation of the Settlement Agreement" (the "Supplemental Agreement") to fully resolve all operational inefficiencies and Safety concerns existing within the District. The Supplemental Agreement provides for: (1) APS to sell portions of its electric distribution system located within or immediately adjacent to the "proposed ED-3 Service Area" to ED-3, at the net book value of the pertinent assets, at the time of the transfer; and (2) for APS to discontinue service to current and prospective customers within the proposed ED-3 Service Area. By the Supplemental Agreement, ED-3 will become the sole provider of electric service within and around its district. The Supplemental Agreement provides for APS to sell all of its facilities to ED-3, and for the Commission to cancel APS' CC&N overlapping the proposed ED-3 Service Area. Thus, upon approval of this application, ED-3 will become the sole provider of electric service within the District, and it will assume full responsibility for the operation and maintenance of all electric infrastructures in the proposed ED-3 Service Area. APS and ED-3 claim that the Supplemental Agreement resolves the complex issues with intermingled infrastructure, as well as the difficulties associated with separate utilities serving the same territory.

On August 11, 2008, APS resubmitted its application for Commission authorization to sell and transfer its assets within the proposed ED-3 Service Area to ED-3; as well as for Commission approval to cancel its CC&N overlapping the proposed ED-3 Service Area and Ak-Chin. As previously indicated, ED-3 has been granted its request to intervene in support of this application.

On January 21, 2009, Ak-Chin responded to APS' request to cancel its CC&N overlapping the Community. The letter states that the "Ak-Chin Council has voted to indicate to APS and to the Commission its agreement with the request for deletion of Ak-Chin from APS CC&N."

THE TRANSACTION

As previously indicated, APS seeks Commission authorization to: (1) sell all of its electrical assets within the proposed ED-3 Service Area to ED-3, and (2) cancel and delete its CC&N overlapping the proposed ED-3 Service Area and Ak-Chin.

SALE OF ASSETS

APS seeks Commission authorization to sell and transfer: (1) Split Ends, and (2) the Sexton Substation, along with the inoperable 69 kV line to ED-3.

The Split Ends

APS seeks Commission authorization to sell and transfer the Split Ends to ED-3 pursuant to A.R.S. § 40-285. A full description of the Split Ends is contained in Attachment H of Mr. Froetscher's direct testimony. APS reports that the Split Ends acquired at an original cost of \$19,646,489, had a net book value of \$13,071,499, as of October 2007. APS states that it has accepted the net book value as the sales price for the Split Ends. APS projects a net gain of \$8,824 from its aggregate sale to ED-3.

APS states that the proposed sale of the Split Ends will not impair its ability to serve its customers within the District, even if the Commission denies its request for cancellation of its CC&N. APS contends that Commission approval of the proposed sale will "clarify responsibility for operating and maintaining the system, will improve the safe operation of the system by defining these responsibilities, will eliminate customer confusion resulting from the combined (and convoluted) ownership, and will further the public policy goal of resolving disputes through settlements. Moreover, because there is a risk that, if this sale is not approved, ED-3 will choose to serve new and existing customers who requests ED-3's service by bypassing the current APS infrastructure and constructing its own duplicative lines..." APS states that if its prognosis was to result from Commission denial of this proposal, the Split ends could become abandoned, and its ratepayers will be burdened with the related stranded costs as well as cost of removal. Finally, APS concludes that the proposed sale is consistent with previous Commission Orders, and in the public interest.

Sexton Substation

The Sexton Substation at the intersection of Highway 84 and Anderson Road, in Pinal County is owned by APS. The Sexton Substation is comprised of fuses, transformers and breakers. ED-3 owns a 69kV transmission line that enters and exits the Sexton Substation, while APS owns an inoperable 69kV transmission line that extends east from the Sexton Substation. APS contends that the sales of its 69kV transmission lines will not hinder its ability to serve its customers because the line is not in service and does not currently serve existing customers. Further, APS avows that the lines and associated structures only support ED-3's infrastructure, not APS' operation.

APS reports that it has agreed to sell the Sexton Substation and the related inoperative 69kV transmission lines to ED-3 at a negotiated sales price of \$100,000. Further, APS states the Sexton Substation was acquired at \$206,236. As of June 30, 2007, the Sexton Substation had an accumulated depreciation of \$120,788, and a net book value of \$85,448. The 69 kV transmission line, installed in 1974 at an original cost of \$19,294, is now fully depreciated. Based on the information provided by APS, it appears that it will receive an immaterial gain from the sale of the Sexton Substation and the related inoperable 69 kV line.

CANCELLATION OF CC&N

APS and ED-3 have jointly concluded that cancellation and deletion of APS' CC&N overlapping the proposed ED-3 Service Area will fully resolve the difficulties associated with two utilities serving the same area. Accordingly, APS requests the Commission cancel and delete its CC&N overlapping the proposed ED-3 Service Area, from its certificated areas. APS defines the proposed ED-3 Service Area as "...all lands within the ED-3 district boundaries along with additional properties immediately adjacent to those boundaries, and for which service is provided today by APS via facilities that are interconnected to ED-3's distribution system." APS contends that deletion of peripheral areas from its CC&N will minimize its reliance on ED-3 for wheeling and interconnection to serve its customers in those areas. APS and ED-3 concur that this proposal, upon Commission approval, will clearly eliminate APS' responsibility for construction, operations and maintenance of electric infrastructure in the proposed ED-3 Service Area. Finally, APS will cease to be a provider of last resort within the proposed ED-3's Service Area, and ED-3 will assume full responsibility for providing electric service to the affected customers.

CONSUMER SERVICES ISSUES

Staff's inquiry from the Corporations Division of the Arizona Corporation Commission, confirms that the APS is in good standing.

Staff's search of the Consumer Services database identified four opinions in 2008, opposing the proposed sales of assets and transfers of APS' customers to ED-3. There were no recorded complaints or opinions regarding this proceeding in 2006 and 2007. There has been no opinions or complaints filed regarding this application in 2009.

ENGINEERING ANALYSIS

Staff engineering analysis was focused on the following critical parameters:

NETWORK/SYSTEMS RELIABILITY

Staff finds that the proposed transfer of APS' Split Ends and the Sexton Substation to ED-3 is appropriate and reasonable from a network and system perspective. APS and ED-3's systems are currently intermingled, thus creating confusion, prospective safety hazards,

operational inefficiencies, and duplicity of system maintenance. The proposed sale of APS' Split Ends and the Sexton Substation will eliminate the inherent difficulties associated with two utilities maintaining intermingled facilities, by clearly defining responsibilities for the area's infrastructure. Staff found that because the Sexton Substation and the related inoperable 69 kV line have very limited use by APS, sale of these facilities will not impair APS' ability to serve outside the proposed ED-3 Service Area. Also, Staff's analysis indicates that the sale and transfer of the Split Ends will not negatively impact APS' ability to continue to provide reliable service outside of the District. Finally, Staff agrees with APS that the proposed sale will avert the prospect of abandonment of these facilities, and the risk of APS incurring significant removal costs. Based on the above findings, Staff concludes that the sale of the Split Ends and the Sexton Substation is in the public interest.

ED-3'S SYSTEM TECHNICAL CAPACITY

Based on the information provided in this application, Staff finds that ED-3's system is capable of serving the load that would be transferred from APS. APS and ED-3 have jointly confirmed that most of the sub-transmission and distribution system currently being employed in serving both utilities loads in the proposed ED-3 Service Area is owned, operated and maintained by ED-3. Further, ED-3 has been augmenting its system by engaging in significant capital investment in new infrastructure development within its service territory. Therefore, Staff finds that ED-3 has the technical capacity to serve the current and prospective loads within its proposed service territory.

APS BENEFITS FROM SYSTEM TRANSFER

With a few notable exceptions, the facilities being transferred to ED-3 are dedicated to serving only customers in the transfer area (the exceptions are four or five areas, including Mobile that will still be served by APS, via the ED-3 system; but are well outside the proposed ED-3 service area and don't present the same operational, safety, efficiency, etc., concerns). The transfer of customer load and facilities to ED-3 will result in a consolidated utility system in that area. All customers will be served by one utility, providing efficiencies in operations and maintenance, and consistency in rates, tariffs and system planning functions. Responsiveness to outages, for example, would be timely and better coordinated. Most of the customers being transferred to ED-3 are on APS' dedicated facilities. Those few customers who are not transferred to ED-3 will remain on the small portions of the system that APS would retain as described above. ED-3 in this case would wheel power for APS on its distribution system and charge APS wheeling charges approved by FERC.

TECHNICAL SUPPORT FOR AK-CHIN

Ak-Chin currently serves its community through ownership of ACES, which receives operational support from APS. Ak-Chin has indicated its willingness to obtain similar technical support from ED-3. On the other hand, ED-3 has assured Ak-Chin of the same quality of

service, previously provided by APS. Staff finds that deletion of Ak-Chin from APS' CC&N will not impair electric service to the Community.

Based on the above engineering analysis, Staff concludes that, from a technical, safety and reliability stand-point, APS' proposal to sell its Split Ends, Sexton Substation and the related deletion of APS CC&N overlapping the proposed ED-3's Service area and AK-Chin, is in the public interest.

JOINT TRANSITION PLAN

On January 5, 2009, APS and ED-3 filed a Joint Transition Plan ("Transition Plan") with the Commission, detailing mechanisms designed to effectuate the proposed sale and transfer of assets. More importantly, the Transition Plan outlines the process for insuring smooth transition of APS' customers to ED-3. APS and ED-3 state that they are "...working closely to assure that, if the Arizona Corporation Commission ("Commission") approves the Company's Application, the transfer of APS's distribution system and customers in the ED-3 Service Area will occur in as timely and straightforward a manner as possible." The Transition Plan is focused on pertinent issues necessary for smooth transition.

CUSTOMER NOTIFICATION OF APPLICATION

APS and ED-3 assert that they are committed "...to educating all affected customers of the facts and circumstances underlying the application and to informing customers of how the application will affect them." To facilitate the process of customer notification, APS has developed a Community Outreach Plan, attached to Mr. Froetscher's testimony as Exhibit F. The Community Outreach Plan proposes the development of a website for contacting and educating affected customers and other interested parties; mailing of letters with pertinent information to customers, issuance of public notices pursuant to Commission Procedural Order, Open Houses, and proper noticing of Commission decision regarding this application.

On August 22, 2008, APS mailed a letter to each customer within the affected area, informing them of its application with the Commission for authorization to transfer its customers to ED-3. To further publicize this filing, APS and ED-3 made joint presentations to the City Council of Maricopa, on July 15, 2008 and October 21, 2008. Also, On October 6, 2008, APS mailed a second letter advising each customer within the proposed ED-3 service Area of two town hall meetings, held at Stanfield, on October 23, 2008, and Maricopa, on October 28, 2008. APS state that these events were well publicized via direct mailing to customers within the proposed ED-3 Service Area, and through publication in the *Maricopa Monitor* and the *Casa Grande Dispatch*.

APS reports that a public website has been designed and "...devoted to educating the public about the Company's Application and responding to all inquiries directed at APS and ED-3 regarding the matter." Staff visited www.aps.com/ed3, the website devoted to this proceeding. Staff observed that the website has general information regarding this application as well as a

link to each letter mailed to APS' customers, dated February 20, 2009, August 22, 2008 and October 6, 2008, respectively. Also, the Company provided a link to *Frequently Asked Questions about APS/ED-3 Sale*.

Pursuant to the Commission Procedural Order, dated February 10, 2009, APS in conjunction with ED-3 published a Public Notice of this application in the *Maricopa Monitor* newspaper, on February 27, 2009; and in the *Casa Grande Dispatch*, on March 3, 2009. On Monday, March 2, 2009, APS mailed a copy of the Public Notice to each customer and all property owners in the affected area.

CUSTOMER COMMUNICATIONS UPON APPROVAL OF APPLICATION

APS and ED-3 state that if the Commission approves this application, they will provide affected customers written notice of the approval. The notice will indicate the exact date on which APS' customers will be transferred to ED-3, how APS' final meter reading will be conducted, and information regarding the treatment of customer deposits, line extension advances, and credit or debit balances with APS. As it relates to customer deposits, APS states that the balance of each customer's deposit will be applied to the last bill, and any remaining balance will be refunded to the pertinent customer. In the event that a customer has inadequate deposit to pay the last bill, the customer will be appropriately billed for the shortfall. Also, all credit balances will be refunded while debit balances will be appropriately billed. Further APS will refund line extension deposits to all eligible customers upon the transfer of assets to ED-3.

APS states that in the proposed notice of approval, APS' customers in the proposed ED-3 Service Area will be provided a listing of ED-3's current rates, programs, as well as deposit and credit policies. The notice will indicate that if the deadline for transfer to ED-3 expires, and an affected customer has not voluntarily transferred to ED-3; such customer will be automatically placed on ED-3's rate that is most comparable to the customer's current rate under APS. The notice will further indicate APS and ED-3's availability to respond to all inquiries during the transition period.

The notice of approval will advise customers enrolled in special programs offered by APS, such as equalizer and automatic payment, to indicate their interest in participating in similar programs offered by ED-3.

TRANSFER OF OPERATIONAL INFORMATION FROM APS TO ED-3

APS states that it will provide all operational information necessary for smooth transition of its assets and customers to ED-3. Further, APS pledges that its operations personnel will closely collaborate with ED-3's personnel before, during and after the transfer of its distribution system and customers to ED-3. APS claims that it will transfer to ED-3, the following information:

1. Map of the area, including GIS maps, wall maps, one-line and cabinet detail.

2. Right-of-way, survey and easement information.
3. Meter locations, routes, and other relevant metering information.
4. Location of regulators, capacitor banks, reclosers, switches, and fuses.
5. Equipment records.

TRANSFER OF CUSTOMER INFORMATION FROM APS TO ED-3

APS states that upon Commission approval of this application, it will be necessary to transfer pertinent customer information to ED-3. For residential customers, such information may include customer name, contact information, identification number, usage pattern, meter number and code, rates and programs, participation in medical monitoring program, and other information necessary for ED-3 to serve the affected customers. For non-residential customers, APS may be required to transfer similar information as well as others, such as business identification number, federal tax id, and identities of officers. Because of the sensitive nature of certain personal and business information, ED-3 promises to "...take commercially reasonable steps to protect and preserve the confidentiality of all customer specific information APS provides, in accordance to ED-3's privacy policy and applicable law."

APS contends that it may "...be prohibited from providing this customer specific information to ED-3 without a waiver from the Commission from the requirements of A.A.C. R14-2-203(A)(2)." The rule states that customer specific information cannot be released by a utility "...without specific prior written customer authorization unless the information is requested by a law enforcement or other public agency, or is requested by the Commission or its staff, or is reasonably required for legitimate account collection activities, or is necessary to provide safe and reliable service to a customer." Therefore, APS request that the Commission grant it: (a) a waiver pursuant to A.A.C. R14-2-212(A)(1) from the requirements of A.A.C. R14-2-203(A)(2) for all customers affected by this filing and for the sole purpose of effecting the transaction contemplated herein, or (b) a declaration that such transfer of customer specific information do not require a waiver from A.A.C. R14-2-203(A)(2), since such transfer is "...reasonably required for account collection activities" or is "...necessary to provide safe and reliable service."

Staff agrees with APS and ED-3 that transfer of pertinent customer specific information from APS to ED-3, will be necessary to facilitate seamless transition of affected customers from APS to ED-3. Further, Staff believes that if APS' request to transfer customer information is denied in this proceeding, and ED-3 is placed in a position to independently obtain same information from affected customers, the intended ease of transition may be burdened by the process of data collection as well as the related costs. Based on the fact that customer information will be "...necessary to provide safe and reliable service" to the affected customers, Staff concludes that the waiver sought by APS may not be necessary in this proceeding. If the Commission finds that a waiver is required in this instant case, Staff recommends that the Commission grants APS a waiver from the requirements of A.A.C. R14-2-203(A)(2), pursuant to A.A.C. R14-2-212(A)(1).

TREATMENT OF CUSTOMER APPLICATIONS FOR INSTALLATION THAT COULD QUALIFY UNDER THE COMMISSION'S RENEWABLE ENERGY STANDARDS OR APS'S DEMAND SIDE MANAGEMENT PROGRAM

APS anticipates that some customers who might be eligible and have requested participation in Commission approved Renewable Energy Standards ("RES") or Demand Side Management Program ("DSM") may be transferred to ED-3 prior to completion of their projects. The Company suggests that customers whose RES or DSM projects are in the process of being completed, prior to transfer to ED-3, should be motivated to continue such projects and receive the applicable incentives from APS, even after transfer to ED-3, subject to certain conditions.

For RES projects, APS proposes that if it has received a customer's application for incentives under any of the Commission approved programs and the customer has been given reservation for a RES qualifying installation, prior to being transferred to ED-3, APS will grant the customer such incentives, contingent upon: (a) the customer completion of the requested installation and related interconnection of the requested RES project before or within twelve (12) months from the date the Commission approves this application; and (b) the Commission Order in this proceeding authorizes APS to continue to pay incentives to APS' customers, subsequent to being transferred to ED-3, and permits APS to credit such incentives to APS RES distribution generation targets.

Similarly, APS proposes that if a customer located within the proposed ED-3 Service Area, has applied for an incentive under the Commission approved DSM programs, and the application is pending prior to Commission approval of this application, that the Commission authorize APS to complete the project under the following conditions: (a) the customer completes the requested installation and related interconnection of the requested DSM project before or within twelve (12) months from the date the Commission approves this application; and (b) the Commission Order in this proceeding authorizes APS to continue to pay incentives to APS' customers, subsequent to being transferred to ED-3, and permits APS to recover the related costs under APS' Demand Side Management Adjustment Clause and claim the energy savings resulting from such project for all DSM related regulatory requirements.

Staff has reviewed APS' proposal to fulfill its prior commitment to current customers seeking incentives under RES and/or DSM. Staff finds that it is reasonable that APS completes pending RES and DSM projects, even after the Commission approves this filing and the affected customers have been transferred to ED-3. This proposal will mitigate the concerns expressed by some customers intending to participate in RES or DSM programs. Further, Staff finds that the two conditions proposed by APS are reasonable. Staff recommends approval of APS' proposed RES and DSM transition plan, contingent upon conditions 1 and 2, stated above, for RES and DSM.

ED-3 has a Solar Program with incentives that are similar to those offered under APS' renewable programs. Also, ED-3 is in the process of developing DSM programs for its customers.

TREATMENT OF LOW INCOME CUSTOMERS

APS reports that approximately 190 customers within the proposed ED-3 Service Area are currently enrolled in its Low Income Assistance Programs ("LIAP"), through rate schedules E-3 and E-4. Further, APS states that ED-3 currently does not have an equivalent program for low income customers. However, ED-3 has agreed to provide low income discounts to customers who are currently enrolled in APS' LIAP, in amounts equal to the benefit received by such low income customers, under schedules E-3 and E-4. In other words, if the Commission approves this application, ED-3 has agreed to hold current APS' low income customers harmless, upon transfer to ED-3. Staff finds that ED-3's commitment to hold low income customers harmless, if the Commission approves their transfer from APS to ED-3, is reasonable.

ED-3'S PLAN FOR TRANSITIONING TRANSFERRED APS CUSTOMERS

ED-3's witness, Mr. Jeffery J. Woner avows at page 7 of his testimony, as follows:

"ED-3 will treat all of the customers it serves equally, both in rate structure and other applicable terms, regardless of whether such customers reside inside or outside of the ED3 district boundaries, regardless whether their property is included in ED3's tax base, and regardless of which utility served them previously. Additionally, ED3 will assume all remaining outstanding obligations of APS to its customers (including any applicable line extension refunds, etc), if any."

According to ED-3, all customers, existing and prospective, including those currently being served by APS, will be served by ED-3 under the same terms and conditions. However, ED-3 states that if a current APS customer seeks voting rights under its Bylaws, such customer may voluntarily petition to be included in the District Boundary. Upon approval, such customers would be subject to property tax assessment for the ED-3's statutory costs. In other words, APS customers transferring to ED-3 will not be automatically included in the District Boundary, and will not be subject to property tax assessments. ED-3 avows that it will not discriminate against current or prospective customer on any basis, whether the customer has voting rights or the property is included in the District Boundary.

Further, ED-3 has indicated that it will waive all requirements for establishment of new service, such as customer security deposits and establishment fees, for APS customers transferring to ED-3, under this filing. Consistent with its policy for all customers, ED-3 will require affected APS customers who become delinquent on payments, after transferring to ED-3, to provide security deposit. ED-3's Guidelines for APS Split Ends Transfer customers, states:

1. The existing service Establishment for existing APS customers will be waived
2. The initial Security Deposit requirement will be waived. If the customer has a returned payment or is disconnected, a Security Deposit will be required.
3. ED3 will accept all normal line extension agreements.

Staff has reviewed APS/ED-3 transition plan and finds it reasonable and acceptable. Staff finds that this transition plan will facilitate ease of transitioning current APS customers to ED-3.

FINANCIAL ANALYSIS

Staff has reviewed APS' proposal to sell its Split Ends, and Sexton Substation with the attached inoperable 69kV line for \$13.1 million. On June 2006, ED-3 deposited \$1,994,209 in an escrow account, which is the cost of APS' facilities relating to customers that have switched service from APS to ED-3. As of June 2008, APS projected a net gain that could range from \$5,728 to \$8,824, after accounting for income tax. APS contends that because the anticipated net gain is immaterial, that the Commission should authorize it to record the gain and reports it as part of its Sale of Utility Property (Net Gains) quarterly report. APS states that its request is consistent with Decision Nos. 60481, 61708, and 69670.

Staff's analysis indicates that APS' projected net gain could increase as accumulated depreciation grows over time, if the agreed-upon sales price holds. However, Staff agrees with APS that the net gains in this proceeding will be immaterial. Also, Staff agrees with APS that the standard fifty-fifty sharing of gain in the disposition of assets should apply in this proceeding. Finally, Staff recommends that the Commission approve APS' request to defer customers' share of any gain from the proposed sale of assets, and report such gains as a part of its quarterly filing in Sale of Utility Property (Net Gains) quarterly report.

ED-3 has calculated an estimate of the bill impact on an average residential customer that will be transferred from APS to ED-3, under its current tariff and the comparable APS tariff. This analysis is fully discussed by ED-3's witness, Mr. Jeffrey J Woner, and depicted in Exhibit ED3-12. The analysis shows that estimated bill impact will be minimal on an average residential customer transferred under this proposal. For example, a residential customer with an average consumption under APS' current tariff E-12 (non-TOU) is billed \$187.87 monthly. Under ED-3's tariff, Residential Service-01 (Underground), the same customer is billed \$188.81 monthly. Under the same APS tariff, the same residential customer has an average monthly bill of \$238.31 during the summer months and \$145.97 during the winter months. Under the ED-3's tariff, the monthly average bill for a residential customer is \$205.89 during the summer months and \$155.13 during the winter months.

For residential customers on Time of Use tariff, under APS Schedule ET-1, the monthly average bills are \$166.96 on an annual average, \$192.42 during the summer months, and \$141.46 during the winter months. Under ED-3's tariff, Residential Service-01TOU, the same customer is billed at \$166.20 on an annual average, \$188.87 during the summer months, and \$143.53 during the winter months.

ED-3's bill estimation shows that there is an immaterial difference in costs of electric service for a typical residential customer receiving service from APS or ED-3. Based on this

analysis, it appears that current APS residential customers that will be transferred to ED-3 will experience an immaterial difference in cost of electric service.

SUMMARY OF CONCLUSIONS

Staff agrees with APS and ED-3 that intermingling of electrical facilities owned and operated by separate utilities within a service area creates operational difficulties, safety concerns and confusion amongst customers within the service area. Staff finds that the sale of APS' Split Ends, Sexton Substation, and the related inoperable 69 kV line will not impair APS' ability to continue to serve its customers outside the proposed ED-3 Service Area. Further, Staff finds that the Transition Plan proposed by APS and ED-3 will minimize any difficulty associated with transferring current APS customers to ED-3. Staff also finds ED-3's pledge to serve its current and prospective customers under the same terms and conditions, reasonable and acceptable. More specifically, Staff agrees with ED-3's promise to hold current APS low income customers receiving service under LIAP, harmless. Staff finds that ED-3's current rates are comparable to APS' and affected customers will experience an immaterial bill impact upon transfer to ED-3.

Staff finds that cancellation of APS' CC&N overlapping the proposed ED-3 Service Area will clarify responsibility for provision of electric service within the area. Staff agrees that cancellation of APS' CC&N will make ED-3 the provider of last resort for the proposed service area. Staff's analysis indicates that ED-3 has the infrastructure and technical experience to adequately serve current and prospective customers.

Finally, Ak-Chin has indicated that it is not opposed to deletion of its community from APS' CC&N. ED-3 has agreed to provide the same operational support to ACES, hitherto provided by APS.

RECOMMENDATIONS

Based on the above analysis, Staff recommends Commission approval of this application as follows:

1. That the Commission grants APS' request to sell and transfer its Split Ends, Sexton Substation and the related inoperable 69 kV transmission line to ED-3.
2. That the Commission cancel APS' CC&N overlapping the proposed ED-3 Service Area.
3. That the Commission cancel APS' CC&N overlapping AK-Chin.
4. That if the Commission finds that a waiver is required for APS to transfer specific customer information to ED-3, for the sole purpose of effectuating transfer of affected customers from APS to ED-3, that the Commission grant APS a waiver from the requirements of A.A.C. R14-2-203(A)(2), pursuant to A.A.C. R14-2-212(A)(1).

5. That the Commission authorize APS to complete pending RES projects under the following conditions: (a) the customer completes the requested installation and related interconnection of the requested RES project before or within twelve (12) months from the date the Commission approves this application; and (b) the Commission Order in this proceeding authorize APS to continue to pay incentives to APS' customers, subsequent to being transferred to ED-3, and permits APS to credit such incentives to APS RES distribution generation targets.
6. That the Commission authorize APS to complete pending DSM projects under the following conditions: (1) the customer completes the requested installation and related interconnection of the requested DSM project before or within twelve (12) months from the date the Commission approves this application; and (2) the Commission Order in this proceeding authorize APS to continue to pay incentives to APS' customers, subsequent to being transferred to ED-3, and permits APS to recover the related costs under APS' Demand Side Management Adjustment Clause and claim the energy savings resulting from such project for all DSM related regulatory requirements.
7. That APS files with the Commission's Docket Control, as compliance item in this docket, a copy of all documents evidencing the sale and transfer of its assets to ED-3, no later than 90 days from the close of the transaction.
8. That APS files with the Commission's Docket Control, as compliance item in this docket, a report showing the net gain resulting from the sale of its assets to ED-3, no later than 90 days from the close of the transaction.

ENGINEERING STAFF REPORT
APS' SALE OF TRANSMISSION AND DISTRIBUTION SYSTEM ASSETS
AND TRANSFER OF A PORTION OF THE CC&N TO ELECTRICAL DISTRICT NO. 3
DOCKET NO. E-01345A-08-0426

INTRODUCTION

On August 11, 2008, Arizona Public Service Company ("APS" or the "Company") filed an application ("Application") with the Arizona Corporation Commission ("ACC" or "Commission"), seeking authorization to transfer or sell certain electric transmission and distribution facilities in Pinal County to Electrical District No. 3 ("ED-3")¹, and to delete from its Certificate of Convenience & Necessity ("CC&N") all those areas that are currently being served by ED-3, and those that are contained within Ak-Chin Indian Community lands.

DESCRIPTION OF FACILITIES AND SERVICE ISSUES

APS owns the 69 kV Sexton substation, a short portion of an abandoned 69 kV line, and numerous overhead and underground distribution facilities, collectively known as the "split ends." "Split ends" are lateral service connections extended from the main existing feeders and sub-feeders. They are constructed as more customers get connected on the system, and load grows with the passage of time. These facilities and the respective service areas of both the utilities are defined in detail, and included as Attachments A and B, respectively, in the Application.

Currently, APS customers in the area are served by the electrical distribution system that is connected to and fed through ED-3's electric system. This has occasionally resulted in confusion regarding which utility is responsible for repairs, delays in restoring service, increased costs for both utilities, and a potential risk to the safety of employees of both utilities and public. These service issues have led to APS' filing with the Commission an application to relinquish a portion of its CC&N and transfer it to ED-3. APS retains the service area outside the ED-3 boundary, though its electric system in this area is connected to and receives power wheeled on ED-3's system.

PURPOSE

The purpose of this filing is:

1. to consolidate APS' distribution system with the distribution system of ED-3, and transfer to ED-3 the APS distribution system facilities within the ED-3 service area;

¹ ED-3 is a political subdivision of the State of Arizona formed in 1926. ED-3 is a public power utility and has the authority to distribute electrical power and energy to both rural and urban customers within its service area in the western Pinal County. Ed-3 has provided electric service to irrigation customers since 1961 and to area residents and businesses since 2001.

2. to achieve operational efficiencies by operating the two systems as one system;
3. to improve quality of service and system reliability;
4. to provide greater safety to end use customers, the general public and utility personnel;
5. to achieve more coherent and integrated planning of the future distribution system and to avoid duplication of facilities;
6. to provide uniformity and fairness of rate structure and other service offerings to customers;
7. to provide essentially the same benefits to APS customers before transfer to ED-3 as is currently provided.

STAFF'S ANALYSIS, CONCLUSIONS AND RECOMMENDATIONS

Staff has reviewed the Application, and based its analysis on the answers to the following four questions:

1. Is the transfer appropriate and reasonable from a network/systems perspective?
2. Is ED-3's system technically capable of providing satisfactory service to the transfer area?
3. Will APS customers' services improve as a result of the proposed changes?
4. How does the transfer benefit APS from a technical (network) perspective? Are the facilities being transferred to ED-3 dedicated to serving only customers in the transfer area? If the APS facilities are not dedicated, what is the effect on APS' network and what changes will be needed?

Staff believes that transferring the distribution facilities / split-ends to ED-3 is appropriate and reasonable from the network/system perspective, because currently the two systems are intermingled with each other creating confusion, prospective safety hazards and operational inefficiencies while doing system maintenance.

ED-3's system is capable of serving the load that would be transferred from APS, because the ED-3 subtransmission / distribution system has been serving this same load (APS' split ends are attached to the existing ED-3 system) and ED-3 has been augmenting its system in the recent past, spending millions of dollars on upgrades and new infrastructure development.

With a few notable exceptions (including Mobile that will still be served by APS, via the ED-3 system; but are well outside the proposed ED-3 service area and don't present the same operational, safety, efficiency, etc., concerns, because these facilities are not intermingled with those of ED-3), the facilities being transferred to ED-3 are dedicated to serving only customers in the transfer area. The transfer of customer load and facilities to ED-3 will result in a consolidated utility system in that area. All customers will be served by one entity, providing efficiencies in operations and maintenance; and consistency in rates, tariffs and system planning functions. Responsiveness to outages, for example, should be more timely and more coordinated. Most of the customers being transferred to ED-3 are on APS' dedicated facilities. Those few customers who are not transferred to ED-3 will remain on the small portions of the system that APS would retain as described above. ED-3 in this case would wheel power for APS on its distribution system and charge APS wheeling charges approved by FERC.

The Ak-Chin Indian community that presently has its own Utility Authority but has received operational support² from APS has agreed to be transferred to ED-3, as it has been assured of receiving the same quality of service and the benefits as it currently receives from APS.

Based on the above analysis, Staff concludes that, from a technical, safety and reliability stand-point, the proposed CC&N transfer from APS to ED-3 and the transfer / sale of APS' distribution facilities to ED-3 is reasonable and appropriate.

EGJ:PKB:tdp

Originator: Prem K. Bahl

² Operational support constitutes responding to outages and restoring electric service.



Leland R. Snook
 Director
 State Regulation & Pricing

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RECEIVED

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

March 17, 2009

RECEIVED
 ARIZONA CORPORATION COMMISSION
 DOCKET CONTROL

Docket Control
 Arizona Corporation Commission
 1200 West Washington Street
 Phoenix, Arizona 85007

MAR 18 2009

ARIZONA CORPORATION COMMISSION
 Director Utilities

RE: Public Notice of Hearing for the Sale and Transfer of Certain Facilities to Electric District No. 3
 Docket No. E-01345A-08-0426

Pursuant to a Procedural Order dated February 10, 2009:

...APS shall mail to each customer affected by the transfer and all property owners in the transfer area a copy of the above notice, and shall cause the above notice to be published at least once in a newspaper of general circulation in the transfer area service territory, such mailing and publication to be complete by March 6, 2009.

Attached is the Affidavit of Publication from the Casa Grande Dispatch certifying that the required public notice was published in the Casa Grande Dispatch newspaper on March 3, 2009, and a second Affidavit of Publication from the Casa Grande Dispatch certifying that the required public notice was published in the Maricopa Monitor newspaper on February 27, 2009.

Also, attached is a copy of the public notice that was mailed to each customer affected by the transfer and all property owners in the transfer area on March 3, 2009.

If you have any questions or concerns, please call Jennie Vega at 602-250-2038.

Sincerely,

Leland R. Snook

Attachments

LS/dst

CC: Steve Olea
 Alexander Igwe
 Deborah Reagan
 Parties of Record (via electronic mail)

STATE OF ARIZONA

COUNTY OF PINAL

SS.

Affidavit of Publication

PUBLIC NOTICE OF HEARING ON THE A AND TRANSFER TO ELECTRICAL DISTRICT THE DELETION FROM ITS CERTIFICATE OF

(D)

Summary

On August 11, 2008, Arizona Public Service Company pursuant to A.R.S. 40-285(A), for the sale of certain e from its certificate of Convenience and Necessity of ce a waiver of Arizona Administrative Code R14-2-212(one-time approval for APS to provide ED-3 with custo only from those APS customers that will be transferred held on a strictly confidential basis by ED-3 and used c R14-2-203(A)(2) and specific language authorizing imp Standards ("RES") and APS' Demand Side Managemen for the sale of its electrical facilities.

If the application is approved, approximately 4,000 AP It is important to note that existing ED-3 customers v remain confidentially held by ED-3. APS has establish may call APS at (520) 421-8455 with questions or you

How You Can View or Obtain a Copy of the

Copies of the application are available at APS' offices, 3 1200 West Washington, Phoenix, Arizona, for public ir (www.azcc.gov) using the e-Docket function.

Arizona Corporation Commission Public H

The Commission will hold a hearing on this matter Commission's offices, 1200 West Washington Street day of the hearing. Written public comments may be Corporation Commission, Consumer Services Secti instructions on how to e-mail comments to the Com you require assistance, you may contact the Consum

About Intervention

The law provides for an open public hearing at which, entitled by law to intervene and having a direct and su you must file a written motion to intervene with the Co to APS or its counsel and to all parties of record. Your

1. Your name, address, and telephone number and th is to be made, if not yourself;

DONOVAN M. KRAMER SR.

first being duly sworn deposes and says: That he is a native born citizen of the United States of America, over 21 years of age, that he is publisher of the Casa Grande Dispatch, a daily newspaper published at Casa Grande, Pinal County, Arizona, Tuesday through Sunday of each week; that a notice, a full, true and complete printed copy of which is hereunto attached, was printed in the regular edition of said newspaper, and not in a supplement thereto, for

ONE consecutive issues the first publication thereof having been on the 3RD

day of MARCH A.D., 2009

Second publication _____

Third publication _____

Fourth publication _____

Fifth publication _____

Sixth publication _____

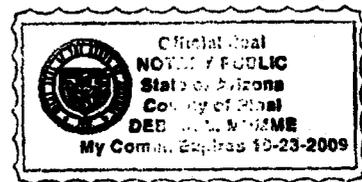
CASA GRANDE DISPATCH

By Donovan M. Kramer Sr.
DONOVAN M. KRAMER SR., Publisher

Sworn to before me this 9th

day of March A.D. 2009
Debbie R. Mummie

Notary Public in and for the County
of Pinal, State of Arizona



PUBLIC NOTICE OF HEARING ON THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR THE SALE AND TRANSFER TO ELECTRICAL DISTRICT NO. 3 OF CERTAIN ELECTRICAL FACILITIES IN PINAL COUNTY AND THE DELETION FROM ITS CERTIFICATE OF CONVENIENCE AND NECESSITY OF CERTAIN AREAS IN PINAL COUNTY (DOCKET NO. E-01345A-08-0426)

Summary

On August 11, 2008, Arizona Public Service Company ("APS") filed an application with the Arizona Corporation Commission ("Commission") pursuant to A.R.S. 40-285(A), for the sale of certain electrical facilities in Pinal County to Electrical District No. 3 ("ED-3") and for deletion from its certificate of Convenience and Necessity of certain areas in Pinal County. For the sole purpose of this transaction, APS has requested a waiver of Arizona Administrative Code R14-2-212(I), which considers all customer information to be confidential. The waiver requests a one-time approval for APS to provide ED-3 with customer-specific information such as customer name, address, billing rate, energy usage, etc. only from those APS customers that will be transferred to ED-3 and only upon approval of the Application. The information will continue to be held on a strictly confidential basis by ED-3 and used only for the purposes of providing electrical service. APS also requested a waiver of AAC R14-2-203(A)(2) and specific language authorizing impacted customers to remain eligible to participate in the Commission's Renewable Energy Standards ("RES") and APS' Demand Side Management ("DSM") programs up to the date on which the Commission approves APS' application for the sale of its electrical facilities.

If the application is approved, approximately 4,000 APS customers who reside in the Maricopa and Stanfield areas will be transferred to ED-3. It is important to note that existing ED-3 customers will NOT be impacted by this transition and their account information will continue to remain confidentially held by ED-3. APS has established a Web site with information regarding this application at www.aps.com/ed3 or you may call APS at (520) 421-8455 with questions or you may contact ED-3 at its website www.ed3online.org.

How You Can View or Obtain a Copy of the Application

Copies of the application are available at APS' offices, 318 N. Marshall, Casa Grande, Arizona, and at the Commission's Docket Control Center at 1200 West Washington, Phoenix, Arizona, for public inspection during regular business hours and on the Internet via the Commission's website (www.azcc.gov) using the e-Docket function.

Arizona Corporation Commission Public Hearing Information

The Commission will hold a hearing on this matter beginning April 2, 2009, at 10:30 a.m., or as soon thereafter as is practical, at the Commission's offices, 1200 West Washington Street, Hearing Room 100, Phoenix, Arizona. Public comments will be taken on the first day of the hearing. Written public comments may be submitted by mailing a letter referencing Docket No. E-01345A-08-0426 to Arizona Corporation Commission, Consumer Services Section, 1200 West Washington, Phoenix, AZ 85007, or by e-mail. For a form to use and instructions on how to e-mail comments to the Commission, go to http://www.azcc.gov/divisions/utilities/forms/public_comment.pdf. If you require assistance, you may contact the Consumer Services Section at 1-800-222-7000.

About Intervention

The law provides for an open public hearing at which, under appropriate circumstances, interested parties may intervene. Any person or entity entitled by law to intervene and having a direct and substantial interest in the matter will be permitted to intervene. If you desire to intervene, you must file a written motion to intervene with the Commission no later than March 18, 2009. You must send a copy of the motion to intervene to APS or its counsel and to all parties of record. Your motion to intervene must contain the following:

1. Your name, address, and telephone number and the name, address, and telephone number of any party upon whom service of documents is to be made, if not yourself;
2. A short statement of your interest in the proceeding (e.g., a customer of APS, a shareholder of APS, etc.); and
3. A statement certifying that you have mailed a copy of the motion to intervene to APS or its counsel and to all parties of record in the case.

The granting of motions to intervene shall be governed by A.A.C. R14-3-105, except that all motions to intervene must be filed on or before March 18, 2009. If representation by counsel is required by Rule 31 of the Rules of the Arizona Supreme Court, intervention will be conditioned upon the intervenor obtaining counsel to represent the intervenor. For information about requesting intervention, visit the Commission's website at <http://www.azcc.gov/divisions/utilities/forms/interven.pdf>. The granting of intervention, among other things, entitles a party to present sworn evidence at the hearing and to cross-examine other witnesses. However, failure to intervene will not preclude any interested person or entity from appearing at the hearing and providing public comment on the application or from filing written comments in the record of the case.

ADA/Equal Access Information

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting the ADA Coordinator, Shaylin Bernal, at SBernal@azcc.gov, voice phone number (602) 542-3931. Requests should be made as early as possible to allow time to arrange the accommodation.

No. of publications: 1; date of publication: March 3, 2009

STATE OF ARIZONA
COUNTY OF PINAL

SS.

Affidavit of Publication

PUBLIC NOTICE OF HEARING ON THE AP AND TRANSFER TO ELECTRICAL DISTRICT THE DELETION FROM ITS CERTIFICATE OF

(D)

Summary

On August 11, 2008, Arizona Public Service Company pursuant to A.R.S. 40-285(A), for the sale of certain electrical facilities from its certificate of Convenience and Necessity of certain electrical facilities a waiver of Arizona Administrative Code R14-2-212(I) one-time approval for APS to provide ED-3 with customer information only from those APS customers that will be transferred to the new utility held on a strictly confidential basis by ED-3 and used only for R14-2-203(A)(2) and specific language authorizing implementation of Standards ("RES") and APS' Demand Side Management for the sale of its electrical facilities.

If the application is approved, approximately 4,000 APS customers' information will be transferred to the new utility. It is important to note that existing ED-3 customers will remain confidentially held by ED-3. APS has established a toll-free number you may call APS at (520) 421-8455 with questions or you may visit our website.

How You Can View or Obtain a Copy of the Application

Copies of the application are available at APS' offices, 3112 West Washington, Phoenix, Arizona, for public inspection. For more information, visit our website (www.azcc.gov) using the e-Docket function.

Arizona Corporation Commission Public Hearing

The Commission will hold a hearing on this matter at the Commission's offices, 1200 West Washington Street, Phoenix, Arizona, on the day of the hearing. Written public comments may be submitted to the Corporation Commission, Consumer Services Section. For instructions on how to e-mail comments to the Commission, visit our website. If you require assistance, you may contact the Consumer Services Section.

About Intervention

The law provides for an open public hearing at which, you are entitled by law to intervene and having a direct and substantial interest in the matter you must file a written motion to intervene with the Commission to APS or its counsel and to all parties of record. Your request for intervention must be filed with the Commission.

1. Your name, address, and telephone number and the date the hearing is to be made, if not yourself:

DONOVAN M. KRAMER SR. first being duly sworn deposes and says: That he is a native born citizen of the United States of America, over 21 years of age, that he is publisher of the Casa Grande Dispatch, a daily newspaper published at Casa Grande, Pinal County, Arizona, Tuesday through Sunday of each week; that a notice, a full, true and complete printed copy of which is hereunto attached, was printed in the regular edition of said newspaper, and not in a supplement thereto, for ONE consecutive issues the first publication thereof having been on the 27TH

day of FEBRUARY A.D., 2009

Second publication _____

Third publication _____

Fourth publication _____

Fifth publication _____

Sixth publication _____

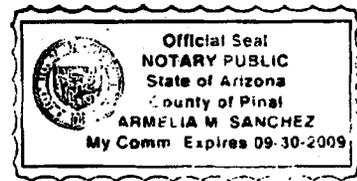
*** MARICOPA MONITOR ***

CASA GRANDE DISPATCH

By Donovan M. Kramer Sr. PK
DONOVAN M. KRAMER SR., Publisher

Sworn to before me this 3rd
day of February A.D., 2009

Armelia M. Sanchez
Notary Public in and for the County
of Pinal, State of Arizona



PUBLIC NOTICE OF HEARING ON THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR THE SALE AND TRANSFER TO ELECTRICAL DISTRICT NO. 3 OF CERTAIN ELECTRICAL FACILITIES IN PINAL COUNTY AND THE DELETION FROM ITS CERTIFICATE OF CONVENIENCE AND NECESSITY OF CERTAIN AREAS IN PINAL COUNTY (DOCKET NO. E-01345A-08-0426)

Summary

On August 11, 2008, Arizona Public Service Company ("APS") filed an application with the Arizona Corporation Commission ("Commission") pursuant to A.R.S. 40-285(A), for the sale of certain electrical facilities in Pinal County to Electrical District No. 3 ("ED-3") and for deletion from its certificate of Convenience and Necessity of certain areas in Pinal County. For the sole purpose of this transaction, APS has requested a waiver of Arizona Administrative Code R14-2-212(I), which considers all customer information to be confidential. The waiver requests a one-time approval for APS to provide ED-3 with customer-specific information such as customer name, address, billing rate, energy usage, etc. only from those APS customers that will be transferred to ED-3 and only upon approval of the Application. The information will continue to be held on a strictly confidential basis by ED-3 and used only for the purposes of providing electrical service. APS also requested a waiver of AAC R14-2-203(A)(2) and specific language authorizing impacted customers to remain eligible to participate in the Commission's Renewable Energy Standards ("RES") and APS' Demand Side Management ("DSM") programs up to the date on which the Commission approves APS' application for the sale of its electrical facilities.

If the application is approved, approximately 4,000 APS customers who reside in the Maricopa and Stanfield areas will be transferred to ED-3. It is important to note that existing ED-3 customers will NOT be impacted by this transition and their account information will continue to remain confidentially held by ED-3. APS has established a Web site with information regarding this application at www.aps.com/ed3 or you may call APS at (520) 421-8455 with questions or you may contact ED-3 at its website www.ed3online.org.

How You Can View or Obtain a Copy of the Application

Copies of the application are available at APS' offices, 318 N. Marshall, Casa Grande, Arizona, and at the Commission's Docket Control Center at 1200 West Washington, Phoenix, Arizona, for public inspection during regular business hours and on the Internet via the Commission's website (www.azcc.gov) using the e-Docket function.

Arizona Corporation Commission Public Hearing Information

The Commission will hold a hearing on this matter beginning April 2, 2009, at 10:30 a.m., or as soon thereafter as is practical, at the Commission's offices, 1200 West Washington Street, Hearing Room 100, Phoenix, Arizona. Public comments will be taken on the first day of the hearing. Written public comments may be submitted by mailing a letter referencing Docket No. E-01345A-08-0426 to Arizona Corporation Commission, Consumer Services Section, 1200 West Washington, Phoenix, AZ 85007, or by e-mail. For a form to use and instructions on how to e-mail comments to the Commission, go to http://www.azcc.gov/divisions/utilities/forms/public_comment.pdf. If you require assistance, you may contact the Consumer Services Section at 1-800-222-7000.

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No. of publications: 1; date of publication: February 27, 2009

PUBLIC NOTICE OF HEARING ON THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY
FOR THE SALE AND TRANSFER TO ELECTRICAL DISTRICT NO. 3 OF
CERTAIN ELECTRICAL FACILITIES IN PINAL COUNTY AND THE
DELETION FROM ITS CERTIFICATE OF CONVENIENCE AND
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(Docket No. E-01345A-08-0426)

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