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May 15, 2009

Arizona Corporation Commission
DOCKETED

MAY 15 2009

Commissioner Sandra D. Kennedy
Commissioner Paul Newman
Commissioner Bob Stump
Arizona Corporation Commission
1200 W. Washington
Phoenix, Arizona 850907

DOCKETED BY

**Re: Arizona Public Service Company – Docket No. E-01345A-08-0172
1,000 Foot Free-Line Extension**

Dear Commissioners Kennedy, Newman and Stump:

RUCO appreciates the opportunity to respond to your respective April 28, April 24, and April 23 letters regarding the “1,000 foot free-line extension” issue within the above-referenced docket. RUCO has also reviewed the letter signed by all three members of the La Paz County Board of Supervisors on this issue filed in this docket. Finally, my staff and I have met with Arizonans for Fair Power Policy to discuss their concerns.

RUCO understands that the 1,000 foot free¹-line extension was originally implemented to promote growth. Landowners would not have to pay the first \$25,000 of costs to extend the first 1,000 feet of distribution line to their property. Instead, those costs were subsidized by all ratepayers. Beginning a few years ago, as the Commission issued Orders on various rate cases for electric utilities, the Commission decided to reverse the policy that spread the costs of these line extensions throughout the rate base. Instead,

¹ RUCO notes that calling it a “free” line extension mischaracterizes the issue. “Free” meant that the first 1,000 feet and the first \$25,000 of cost would not be charged to the landowner. Instead, the utility’s rates were structured so that it recovered this cost from all ratepayers as part of its rate design, as approved by the Commission. In a past APS rate case, the Commission reversed that policy. Now, a landowner must pay the entire cost of constructing a line to his land and that subsidized cost was removed from rates.

the particular landowner who requests the line extension pays the full cost. By removing this subsidy from rates, everyone's rates were reduced.²

Initially, one might believe that this issue is limited to rural Arizona where there are vast spaces of undeveloped land and "homesteaders" who want to build homes far away from concentrated development. However, this issue does not only impact development in rural Arizona, although rural Arizona is surely affected. It also impacts any undeveloped parcel, including individual vacant residential lots, even in densely populated metropolitan or suburban areas. Finally, this issue also affects the development of small and large businesses. RUCO took particular note that the Prescott Women's Clinic paid \$46,074 to hook-up for service for its building adjacent to the new hospital in Prescott. Fortunately, the practitioners were willing to incur this expense. We have all seen the news articles and studies which show that the availability of healthcare resources in rural Arizona is a growing concern.³

If the Commission were to decide to reinstate the 1,000 foot line extension or some variant, it must also include some form of cost recovery. Furthermore, there are several possible alternatives for the Commission and parties to consider:

1. Return to the 1,000 feet/\$25,000 standard.
2. Adopt a modified standard for less feet and a lower cap.
3. Adopt a temporary standard for a time certain to incent development and economic recovery.
4. Adopt a "credit" method where landowners who first extend power to their properties are later reimbursed by future development.

RUCO lists these options to illustrate that there is much to discuss. This list does not imply that these are the only possible options, or that RUCO is unwilling to consider other alternatives including the choice to keep the current policy in place.

² Orders in APS and other electric utility rate cases eliminated recovery of line extension costs through base rates. RUCO understands that SRP continues to recover costs for "free"-line extensions through base rates but is unable to independently verify it at this time.

³ According to the Arizona Medical Board, there are only 15 Ob/Gyn practitioners in Yavapai County – 10 in Prescott, 4 in Cottonwood and 1 in Cornville. Of the 10 in Prescott, 5 Ob/Gyns practice out of the Prescott Women's Clinic. According to the College of Obstetrics, there are 14.1 Ob/Gyns per 100,000 people. With a population of 215,503, Yavapai County is short of the national average.

Commissioner Stump's Questions

- 1. What cost would consumers incur if the Commission were to reinstate the 1,000 foot free-line extension?**

RUCO understands that the cost to reinstate the line extension policy at 1,000 feet and the first \$25,000 would be approximately \$6 million. However, APS would have the precise figures.

- 2. Should there be a cap on the amount a utility can charge the development for the extension?**

No. Each parcel of land is different. Cost depends on the length of the extension and the terrain.

RUCO must point out, however, that in reviewing the comments from various ratepayers, there is a sense of arbitrariness in the costs assessed by the utility. Furthermore, there is currently no way for ratepayers to feel confident that they are not being overcharged. Only APS-authorized contractors can install the line. The ratepayer does not have the ability to "bid out" the project to find the lowest cost. Finally, there is no method for a ratepayer to challenge a price quote. There is a belief by some – whether or not rightly perceived – of a "take it or leave it" attitude on the part of the utility. Perhaps the utility could post a price sheet listing costs for material, hourly rates for labor and information about how terrain affects cost.

- 3. If a utility were to put in a line extension, is there a benefit to all users in that extension area, including the utility and its customers?**

RUCO finds reasonable the assertion made by the Arizonans for Fair Power Policy that the current policy can have the effect of stifling growth as well as suppressing the resale value and the assessed value of undeveloped land. This, in turn, could also affect county revenues collected from property tax collection.⁴

- 4. If a developer were to put in the extension, would the developer be subsidizing all development which occurs later?**

⁴ RUCO does recognize that there is no definitive study or statistics to support these assertions and that the arguments in favor of reinstatement of the 1,000 foot line extension policy arrive anecdotally from various concerned groups and landowners. Since SRP still has the "free foot line extension policy" it may be probative to compare property values in SRP and APS territories.

Yes. If there are five landowners of undeveloped land, the landowner farthest away from the existing power line is discouraged from building until the other four landowners build. If the landowner who is farthest away decides to build first, the remaining four landowners now receive a benefit because the line to the fifth landowner is closer to their property and their costs to construct are reduced. Even if the landowner who is closest to the existing line develops first, his development benefits other landowners because that line is now one parcel closer.

5. What policies, if any, could be put into place to re-pay the initial developer?

An alternative to re-creating a "free" line extension would be to establish a credit system. The landowner who first builds would pay the full costs to construct a line. When a second owner builds, APS would "refund" a portion of the costs paid by the second landowner to the first landowner. When a third landowner builds, his payment would be apportioned to the first and second landowners, and so on. A detail to be worked out is what happens if the first landowner sells/conveys his property before the second landowner develops the land. Does the credit "run with the land" or does the actual person remain entitled to the refund? If so, for how long? Also, this credit method does not provide any relief for the landowner who wishes to build on a parcel sandwiched between already built-out properties.

6. What is the average cost to a developer to put in the line extension?

7. What is the average cost to an individual homeowner to put in the line extension?

RUCO does not have this information.

Commissioner Kennedy's Questions

1. Please provide certain details on exactly how this policy has negatively or positively affected you and/or the persons/entities you represent.

Residential ratepayers enjoy a tangible and calculable benefit from the elimination of the "free" line extension policy because that subsidy was removed from rates that are paid by residential ratepayers. RUCO stands by its comments made in its May 4 letter to Commissioner Kennedy that *"the principle behind cost of service ratemaking is that ratepayers should only pay for their cost of service...When the Commission considers exempting one group of ratepayers, the Commission is no longer engaging in cost of*

service ratemaking...RUCO urges the Commission to disengage from cost of service ratemaking only when it is absolutely necessary for public policy reasons.”⁵

While residential ratepayers enjoy lower electric rates, they may be subject to effects that are not seen on their monthly bill. The current policy can have the effect of stifling growth as well as suppressing the resale value and assessed value of undeveloped land. Suppressed property values of undeveloped land have a negative impact on the property values of its neighboring, developed lots.

2. Please explain how the effect of the APS no-free footage line extension policy is being taken into consideration in APS' pending rate case.

The parties to the APS rate case are currently in confidential settlement negotiations. RUCO signed on to the "Agreement in Principle" filed May 4. However, this is still an open issue. The "free" footage issue is still being considered by the parties.

3. Please explain what benefits, if any, APS ratepayers may derive in APS' pending rate case from APS' no-free-footage line extension policy.

By continuing the current policy, ratepayers would continue to enjoy rates closer to the actual cost of service.

4. What detriments, if any, APS ratepayers may see in APS' pending rate case as a result of APS' no-free-footage line extension policy?

In 2007, in Decision No. 69663, the Commission eliminated the 1,000 foot extension policy and ordered the utility to recover its costs from the landowner who ordered the service. This change in policy mitigated the size of the rate impact to ratepayers. This policy change was later adopted by the Commission in rate cases for other electric utilities. To revert to the previous "free" line extension rate design would shift costs from the landowner and spread them to all ratepayers.

Several groups have expressed the position that if the Commission chooses to continue to require the utility to recover all costs of line extension from the individual landowner, ratepayers would be affected by reduced economic growth, suppressed land values and reduced county property tax collections. RUCO is aware that individual Commissioners may have differences in opinion in the validity of these detriments and whether the policies for continuing the current policy outweigh the policies for changing it.

⁵ Public policy reasons could include the encouragement of economic development, revitalization of the new home construction industry, an increase in property values and an increase in property tax revenue.

5. Please explain what benefits, if any, APS ratepayers may see in the future if APS maintains its current no-free-footage line extension policy.

The future benefit, like the current benefit will be reduced rates.

6. Please explain what detriments, if any, APS ratepayers may see in the future if APS maintains its current no-free-footage line extension policy.

Currently, Arizona is neck-deep in an economic recession. However, back in 2007 when the Commission changed how the utility recovers costs for line extensions, Arizona was enjoying an economic boom – particularly in the construction industry. Property values were increasing at extraordinary rates. It was easy for people to recover construction costs. People believed that in a very short amount of time, their property would significantly increase in value.

Now, things have changed dramatically. For example, according to Zillow, Mesa home values have dropped 26.5% in one year.⁶ Glendale has experienced a 29.5% decrease.⁷ State economists do not see a return to normal growth until FY'2012.

The Arizona construction industry is practically at a standstill. Arizona's coffers, once flush with revenue collected from this industry, are empty. Economists do not expect the construction industry to pick up for the next several years. In the future when the economy turns around and property values are, once again, stable and climbing, it will be easier for landowners to get financing that includes line extension costs and easier to recover those costs if the owner later sells that property. RUCO is open to a discussion of the option of a temporary suspension of the current rule until the economy turns around. However, the method to recover costs for a limited duration would have to be solved if the duration did not last until the next rate case.

7. Please explain what benefits and/or detriments APS ratepayers may see in APS' pending rate case if APS' no-free-footage line extension policy were modified in this case to allow some amount of free footage or monetary allowance. For example purposes, assume a free footage of 750 feet and a monetary allowance of \$5,000.

This is certainly a middle ground approach. Spreading a \$5,000 cap per line extension would be much less of an impact than spreading a \$25,000 cap per line extension. Unfortunately, RUCO does not possess the data to calculate the amount that would

Commissioners Kennedy, Newman and Stump

⁶ www.zillow.com/local-info/AZ-Mesa-home-value/

⁷ www.zillow.com/local-info/AZ-Glendale-home-value/

have to be spread to other ratepayers. That information could be provided by APS. Additionally, APS has the data to show how many line extensions would fall within the 750 feet/\$5,000 cap.

- 8. Please explain what benefits and/or detriments APS ratepayers may see in the future if APS' no-free-footage line extension policy were modified in this case to allow some amount of free footage or monetary allowance. For example purposes, assume a free footage of 750 feet and a monetary allowance of \$5,000.**

If the Commission were to find that the current economic conditions provide an additional emphasis on the policies that support reversal of the current line extension policy, then a future economic upswing could shift the balance of considerations in favor of removing a line extension allowance.

Commissioner Newman's Questions

- 1. What cost would consumers incur if the Commission were to limit the free footage extension to 500 feet instead of 1,000 feet?**

The cost would hinge on what would be the corresponding cost cap. The original line extension policy authorized the utility to recover the first \$25,000 in base rates. RUCO understands that reinstating this cap would increase base rates by \$6 million. If the Commission were to set a lower cap, the impact would be less.

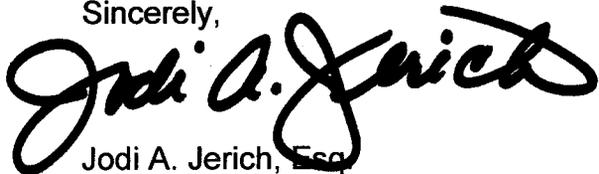
- 2. How many requests for free footage did APS receive over the last five years, by year?**
- 3. How many of the requests came from out of state landowners?**
- 4. How many of the requests were from developers as opposed to homeowners?**

RUCO does not have this information.

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Again, thank you for the opportunity to answer your questions.

Sincerely,

A handwritten signature in black ink that reads "Jodi A. Jerich". The signature is written in a cursive, flowing style.

Jodi A. Jerich, Esq.
Director

cc: Docket Control
Parties of Record
Chairman Kristin K. Mayes
Giancarlo Estrada, Advisor to Chairman Mayes
Commissioner Gary Pierce
John Le Sueur, Advisor to Commissioner Pierce
Christina Arzaga-Williams, Advisor to Commissioner Kennedy
Alan Stephens, Advisor to Commissioner Newman
Meghaen Duger, Advisor to Commissioner Stump