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2009 MAY 19 P 4: 24

AZ CORP COMMISSION May 19, 2009  
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Arizona Corporation Commission  
**DOCKETED**

**MAY 19 2009**

DOCKETED BY

The Honorable Bob Stump, Commissioner  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, Arizona 85007

RE: ARIZONA PUBLIC SERVICE COMPANY – DOCKET NO. E-01345A-08-0172 –  
LETTERS DATED APRIL 23, 24, AND 29, 2009 DISCUSSING 1,000 FOOT FREE  
LINE EXTENSION POLICY

Dear Commissioner Stump,

By way of introducing Staff's responses, Staff offers the following background information.

Although the questions that have been posed focus primarily on the elimination of the 1,000 foot free line extension policy that was previously part of APS' Schedule 3, Staff notes that Schedule 3 contained other related provisions that were terminated concurrently with the elimination of the free footage policy. For residential customers, the 1,000 policy might not apply in all circumstances for instance. If the extension cost was over \$25,000, even if the distance involved was less than 1,000 feet, the new customer would undergo an economic feasibility analysis and advance the difference in costs. Further, the fixed 1,000 foot free extension provision of Schedule 3 did not extend to developers. In order to deal with the costs of extending service to developers, Schedule 3 instead set out an economic feasibility analysis to determine how much of the extension would be free.

Under the economic feasibility analysis, a developer desiring an extension of new service would submit a request for a line extension. On receipt of the request, APS would then evaluate whether the anticipated revenues from the developer could cover the costs of the extension of service. If it was economically feasible, APS would extend the service at no cost to the developer, potentially to a point beyond 1,000 feet. However, if the analysis proved that the extension would not be economical to APS, then the developer would be responsible for providing the amount necessary to make up the difference between the cost determined to be economically feasible. Consequently, for an economically unfeasible extension of service, a developer might receive much less than 1,000 feet free.

Additionally, it was typical for developers to fund the cost difference with advances in aid of construction. Consequently, under the economic feasibility analysis there was a means for the developer to ultimately see a refund of a portion, if not all, of the cost of extending service.

Thus, to get a complete perspective of the issue, the 1,000 foot free allowance should be considered in conjunction with the other related provisions that were also eliminated.

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

The actual cost (impact on rates) would depend on the number of extensions in any given year. It would also depend upon whether the related provisions of Schedule 3 were also reinstated. Cumulatively, the cost for these extensions out to 1,000 feet, when the free footage policy is in effect, is initially borne by the utility. At the next rate case, the utility then has an opportunity to apply for the costs it paid to extend service to be placed in rate base and then earn a return on and of those costs from all ratepayers. If the free footage were reinstated, APS would revert to the prior treatment of the line extensions. Under that methodology, the actual costs of the line extensions would not be borne by ratepayers until the conclusion of APS' next rate case.

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

The maximum, amount a utility should be able to charge is its actual cost for the constructing the line extension. Capping the amount that a utility could charge for extensions could lead to cross-subsidization among ratepayers. For example, in the event that a line extension cost more than the capped amount, the excess will be borne by existing ratepayers when it is placed into APS' rate base. To that extent, having a cap introduces a potential subsidization of new customers by existing customers.

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

It depends on how it is implemented. If the utility makes use of appropriate regional planning as part of extending new infrastructure, bringing new customers onto the system is generally a benefit to all users. New customers help to spread rate impacts. Further, new infrastructure that is implemented with regional considerations in mind should benefit the system. However, if extensions are planned with too narrow a scope, benefits may be confined to only the customer being served.

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

See the answer to Question 3. It would depend on the configuration of the extension and whether it was tailored only to meet the developer's immediate needs or if regional/system considerations were used.

**5. What policies, if any, could be put into place to re-pay the initial developer for the 1,000 foot free-line extension?**

Although developers did not receive a 1,000 foot free extension under the previous version of Schedule 3, that schedule contained another provision for an economic feasibility analysis to determine the amount of free footage allowance. The economic feasibility provision allowed the possibility of refunding amounts advanced by the developer for the construction of line extension facilities. This provision of Schedule 3 was also eliminated in the last general rate case. One way to establish a means to refund the initial developer would be to revert to the old policy that was in place prior to the elimination of the economic feasibility analysis.

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

The average cost to the developer is going to depend on a number of factors, including the length of the line extension, the number of homes being connected, the capability of the existing distribution backbone where the interconnection will take place, and the local geographic conditions, such as terrain, soil conditions, etc. There are several reported figures. In Docket E-01345A-05-081, in the direct testimony of David Rumolo, APS reported costs in excess of \$10,000 per 1,000 feet of line-extension. In that same Docket, Mr. Rumolo also testified that the reproduction cost of the net distribution investment to serve residential customers would be approximately \$2,700. This cost estimate may be low, however, as it excludes substation equipment. In the current rate case, APS has reported that its growth-related costs in 2006-2007 totaled \$521 million. In that two-year time period, APS added 78,670 customers. This suggests an average cost per new customer of approximately \$6,623.

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

The average cost to an individual homeowner would depend on a number of factors, including the length of the line extension and the local geographic conditions, such as terrain, soil conditions, etc. In addition, see the response to question 6 above.

Staff hopes that this information is responsive to your letter.

Respectfully,

A handwritten signature in black ink, appearing to read 'EGJ', followed by a long horizontal flourish line extending to the right.

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Director  
Utilities Division

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