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June 16, 2009

2009 JUN 16 P 3: 26

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ARIZONA CORPORATION COMMISSION
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The Honorable Bob Stump
Commissioner
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

JUN 16 2009

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Re: Sulphur Springs Valley Electric Cooperative ("SSVEC") – Docket No. E-01575A-08-0328 – Letter dated April 23, 2009 Discussing 1,000 Foot Free Line Extension Policy

Dear Commissioner Stump,

SSVEC does not have 1,000 feet of free line extension policy. SSVEC instead currently offers a \$1,750 credit for residential line extensions and refundable aid to construction contracts for developers. Under the second scenario, SSVEC provides refunds when the new homes are occupied and connected to the grid. SSVEC is also seeking to eliminate credits in varying amounts for other customer classes relating to distribution line extensions, mobile homes, street light extensions, and extensions for water pumping to name a few.

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

As indicated above, SSVEC does not offer 1,000 feet free as part of its line extension policy. The Company instead offers a credit towards the cost on residential line extensions, and a refundable aid to construction contract for developers. The actual cost (impact on rates) would depend on the number of extensions in any given year. Cumulatively, the cost for these extensions up to the \$1,750 credit, when this policy is in effect, is initially borne by the utility. With the current policy in place SSVEC's operating margin will in all likelihood be reduced by the amount of the credits offered, and the need for additional rate increases may result. Under that methodology, the actual costs of the line extensions would not be borne by ratepayers until the conclusion of the next rate case.

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

At maximum, the utility should not be able to charge any more than its actual costs for the extensions. However, it should be understood that 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. 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?

Under SSVEC's current policy, the ratepayers subsidize the developer because SSVEC only collects a share of the costs as refundable aid to construction. SSVEC, under its current policy returns these funds to the developer as the new homes are connected to the grid. According to SSVEC this usually occurs over a 5 year period.

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

As indicated above, SSVEC offers a fixed credit amount of \$1,750 for residential line extensions. Under the Company's existing policy, under its aid to construction contracts with developers, it provides refunds to developers once new homes are connected to the grid. SSVEC is seeking to eliminate this provision in the current rate case. One way to establish a means to refund the initial developer would be to maintain the current policy.

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. According to SSVEC, under its existing policy, a developer pays an average cost of \$22,079, and the other members of SSVEC pay an average cost of \$136,613. This is a total average cost of \$158,692. As indicated above, SSVEC is seeking to eliminate this provision. Without this provision, the developer pays the entire cost of \$158,692.

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. According to SSVEC under its existing policy a homeowner pays an average cost of \$3,448, and the other members pay an average cost of \$12,437. As indicated above, SSVEC is seeking to eliminate this provision. Without this provision, the homeowner pays the entire amount of \$15,885.

The Staff hopes that this information is responsive to your letter.

Sincerely,

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

Ernest G. Johnson
Director
Utilities Division

EGJ:WVC/kdh