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BEFORE THE ARIZONA CORPORATION COMMISSION

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AT CORP COMMISSION  
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

OCT 23 2009

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IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR A HEARING TO DETERMINE THE FAIR VALUE OF THE UTILITY PROPERTY OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN.

Docket No. E-01345A-08-0172

**REPLY BRIEF OF ARIZONA INVESTMENT COUNCIL**

GALLAGHER & KENNEDY, P.A.  
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(602) 530-8000

Pursuant to the requirements of the Procedural Order dated October 9, 2009, the Arizona Investment Council ("AIC") files this Reply Brief to state it disagrees with the positions advanced in the Post-Hearing Brief of intervenor Barbara Wyllie-Pecora ("Ms. Pecora"). Ms. Pecora's basic argument is that the old Schedule 3, Revision 8 which provided for a "free" 1,000-foot line extension up to a cost of \$25,000 should be reinstated. For several reasons, the AIC disagrees.

The treatment of the current Schedule 3 (i.e., no "free" footage allowance) proceeds as revenue is a very important financial tool and a material term of the Settlement Agreement.<sup>1</sup> Changing it as Ms. Pecora suggests would have an immediate, negative impact on existing customers who, under the Settlement Agreement, receive a corresponding offset in the revenue requirements they otherwise would have to pay for dollars anticipated to be collected under the present policy.<sup>2</sup>

<sup>1</sup> Settlement Agreement, Section X.

<sup>2</sup> Hatfield Testimony, HR TR, pp. 2401-2402 and Higgins Testimony, pp. 246-248.

1 Further, returning to the old Schedule 3, Revision 8, which would require the Company  
2 to raise the capital necessary to support new customers' line extensions, would also have serious  
3 financial and capital consequences for APS. In addition to the estimated \$1 billion the Company  
4 has to raise each year for the next 15 years to pay for system improvements and additions, it also  
5 would have to raise the money necessary to support single customer end-of-the-line extension  
6 costs. Such a policy change would actively work against APS, this Commission and the Settling  
7 Parties' goals of improving, among other things, the Company's financial metrics and  
8 debt/equity ratio.

9 Finally, as AECC's Mr. Higgins discussed in his reply testimony, the current Schedule 3  
10 and the positions taken in Section X of the Settlement Agreement in relation to it are a balanced  
11 approach to these issues and sound public policy:

12 In my opinion, the current Schedule 3 approach as modified by the  
13 Agreement, which assigns to new customers the direct cost of extending service  
14 to their premises, but which does not include an additional impact fee, strikes the  
15 correct balance between fair consideration of the interests of new customers and  
16 existing customers.<sup>3</sup>

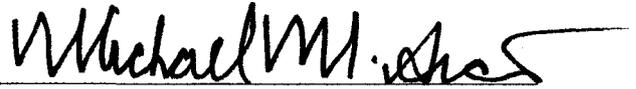
17 The AIC agrees with the discussion by the Commission Staff at pages 21-31 of its Post-  
18 Hearing Brief and APS at pages 26-36 of its Initial Post-Hearing Brief as to various financial and  
19 policy issues concerning Schedule 3 and the provisions of the Settlement Agreement pertaining  
20 to it. It urges the Commission to reject Ms. Pecora's request to return to the old Schedule 3  
21 policy.

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24 <sup>3</sup> AECC-2, pp. 5-6.

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RESPECTFULLY SUBMITTED this 23<sup>rd</sup> day of October, 2009.

GALLAGHER & KENNEDY, P.A.

By 

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**Original and 13 copies** filed this  
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