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ADMITTED TO PRACTICE IN:
ARIZONA, COLORADO, MONTANA,
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DISTRICT OF COLOMBIA

Arizona Corporation Commission
DOCKETED

APR 16 2010

DOCKETED BY

April 15, 2010

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

Re: Line Extension Policies of Electric Utilities
Docket No. E-00000J-10-0044

To Whom It May Concern:

Enclosed for filing in the above-referenced proceeding are the original and thirteen (13) copies of (i) the responses of the Southern Arizona Homebuilders Association ("SAHBA") to various of the questions set forth in the March 9, 2010 Line Extension Notice of Inquiry ("NOI"), and (ii) a background "White Paper" prepared by SAHBA for use in connection with the workshop(s) to be conducted in connection with the above-referenced proceeding.

SAHBA and its members wish to express their appreciation to the Commission and its Staff for initiating the NOI process and the contemplated workshop(s) on a subject which is of great significance to Arizona's electric utilities and their ratepayers, electric utility investors, the development and homebuilding industries and related business and professions.

Thank you in advance for your assistance in connection with distribution of the enclosed materials to the members of the Commission and its Staff. Please let me know if you have any questions.

Sincerely,

Lawrence V. Robertson, Jr.

Lawrence V. Robertson, Jr.

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cc: Southern Arizona Homebuilders Association

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Electric Utility Line Extension Policies and Regulations: The Need for Re-Examination and Modification of Recent Arizona Corporation Commission Decisions

I.
INTRODUCTION

The Southern Arizona Home Builders Association ("SAHBA")[1] requests that the Arizona Corporation Commission ("Commission") authorize Tucson Electric Power ("TEP") to work with the development and homebuilding industries as well as Arizona Corporation Commission Staff ("Commission Staff") to immediately modify the line extension policies established in Decision No. 70628 (December 1, 2008).[2] SAHBA believes the line extension policy concepts and modifications recommended in this paper are consistent with the TEP 2008 Settlement Agreement, do not negatively impact revenues established in TEP's approved tariff, and seek to accomplish the following:

- Assist recovery of southern Arizona's real estate development and homebuilding industries as well as the myriad businesses, professions and trades that depend on those industries for their own economic viability.[3]
- Stimulate near-term construction activity that benefits various state and local taxing jurisdictions, as well as broader economic conditions in southern Arizona.
- Provide the Commission with valuable input from representatives of the southern Arizona development and homebuilding industries, who were not aware of settlement discussions involving TEP's line extension policies and therefore did not intervene in TEP's 2007-08 rate case.
- Create line extension policies specific to TEP's financial needs and the economic conditions within southern Arizona.
- Establish policies appropriate for normal or stable economic conditions as well as current recessionary conditions, modifying those provisions meant to address past problems experienced due to extraordinary growth pressures during 2003-2006.

In this paper SAHBA demonstrates that the most significant and costly changes to TEP's line extension policy were not associated with elimination of the free footage allowance. In that regard, SAHBA does not intend to address the 2008 Settlement Agreement's elimination of

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[1] SAHBA is a member trade organization with 540 dues-paying members, which includes Home Builders, Developers, and Associate Members. SAHBA was incorporated in 1952, and its coverage area from the National Association of Home Builders includes Pima, Cochise and Santa Cruz Counties. SAHBA is a 501(C)(6) organization under the United States Internal Revenue Code.

[2] This paper focuses on TEP's line extension policies established in Decision No. 70628. However, SAHBA believes that the matters herein discussed might also warrant a re-examination of the revised line extension policies which were approved for TRICO Electric Cooperative, Inc. in Decision No. 71230 (August 6, 2009).

[3] These related businesses, professions, and trades impact every level of the job market and include: (i) land use planners; (ii) environmental consultants; (iii) design and engineering consultants; (iv) hydrology consultants; (v) architects; (vi) attorneys; (vii) construction contractors and subcontractors including plumbers, carpenters, electricians, excavators, et al; (viii) unskilled labor pools; (ix) material suppliers and associated sales force; (x) finance professionals; *et al* (collectively "related businesses and professions").

TEP's former free footage allowance. This paper focuses specifically on problems that have arisen for master-planned community and subdivision developers and homebuilders as well as related businesses and professions,[4] and offers remedies that address the concerns and needs of all stakeholders in southern Arizona.[5]

A substantial portion of southern Arizona's current economic structure and employment base is oriented towards the real estate development and homebuilding industries, and SAHBA believes the recovery of southern Arizona's economy and job market is inextricably linked to a timely recovery of those industries. In that regard, the lack of development and construction activity negatively impacts various state and local tax revenues, and the current budget crises (and associated job losses) are in part the result of reduced construction activity. Whether or not southern Arizona's economic health ultimately "should be" heavily dependent on growth-related industries has been a subject of active discussion during the current recession. However, for the foreseeable future, that is the reality of southern Arizona's economy.

As will be shown, the sum of the recently adopted changes to TEP line extension policies create insurmountable challenges to initiating new real estate development and subdivision projects, and thus stimulating near-term economic activity in southern Arizona. SAHBA believes a failure to modify the current line extension policies is likely to prolong the economic recovery of the region, and, therefore, requests that the Commission authorize TEP to work with the development and homebuilding industries and Commission Staff to immediately modify TEP's current line extension policies upon conclusion of the workshops.

II.
PROBLEMS TO BE ADDRESSED, PROPOSED MODIFICATION IN LINE EXTENSION POLICY APPROACH, AND BALANCING OF STAKEHOLDER INTERESTS TO BE ACHIEVED

A. <u>Problems Intended to Be Addressed.</u>

The changes in electric utility line extension policies recently adopted by the Commission occasioned several substantially adverse and direct financial consequences for the real estate development and homebuilding industries in southern Arizona, as well as related businesses and professions. Illustrative of this are the problems that SAHBA's members have experienced since the Commission's Decision No. 70628 (December 1, 2008) in TEP's last rate case, in which the Commission approved significant changes to TEP's previous line extension policies. SAHBA notes that these policy changes were not included among TEP's original application in Docket No. E-01933A-07-0402. Rather, they evolved from settlement negotiations and subsequent testimony in support of the Settlement Agreement, which ultimately resulted from those negotiations. Because the changes to TEP's line extension policies submitted on June 11, 2008 and approved in Decision No. 70628 were not included in TEP's original rate filing, neither

[4] SAHBA will defer to others to discuss the impact of recent line extension policy changes on electric utility line extensions to individual lots or real estate parcels.

[5] These stakeholders include the following: (i) affected electric utilities, and their investors; (ii) current and future ratepayers of affected utilities; (iii) the real estate development and homebuilder industries; and (iv) the related businesses and professions.

SAHBA nor any of its individual members intervened in TEP's 2007-2008 rate case. As a consequence the Commission was unfortunately denied the opportunity to receive and consider input from representatives of the real estate development and homebuilder industry, as well as the related businesses and professions, at the time the Commission authorized the changes in TEP's line extension policies.

To date, much of the statewide debate on recently approved electric line extension policy has focused on elimination of free footage allowances. However, SAHBA believes that the most significant and costly changes to TEP's line extension policy were not associated with elimination of the free footage allowance; and, in that regard, SAHBA does not seek to restore TEP's free footage allowance. Rather, SAHBA's analysis and recommended modifications focus on other, more significant changes made to the line extension policy approved in Decision No. 70628.

Following the issuance of Decision No. 70628, TEP provided SAHBA with a comparison of the costs associated with a 220-lot residential subdivision under the line extension tariff in effect during the 2000-2008 time period vis-à-vis the new tariff (Table 1).[6] The cost comparison included three (3) electric distribution facilities situations: (i) 600amp Underground Feeder, (ii) 200amp Three-Phase Underground, and (iii) 200amp Single-Phase Underground. Each example showed a dramatic increase in the costs of construction. In that regard, these construction cost increases appear to be based on costs incurred during a period of unusually high demand for materials and labor, rather than current actual costs. The new tariff also included charges for facilities and equipment previously provided by TEP at no cost.[7] Similarly, facilities for which applicants previously paid either a refundable deposit (Option 1), or for which they were able to defer payment of the deposit for several years by providing the utility with a bond or letter of credit (Option 2), were now required to be funded by non-refundable cash deposits at the time the line extension agreement was executed. In addition, because applicants would now be providing payment as a non-refundable Contribution in Aid of Construction (CIAC), which TEP had to account for as income, a new "gross-up" charge (effectively 65%) was added to line extensions exceeding $500,000. Finally, in addition to line extension related costs, the new tariff included a significantly higher per lot charge for single-phase and three-phase Secondary Service, increasing from $12.50 to $640 per unit or by more than 5000%.

Cost increases of this magnitude would be impossible to pass through to homebuyers under normal economic conditions, let alone under the current recessionary condition of southern Arizona's real estate market. Southern Arizona has experienced a dramatic decline in property values over the last several years. Market declines alone have rendered many projects financially infeasible for the foreseeable future, resulting in lengthy and costly hold periods for investors, or often, recapitalization with new investor groups, or worse, foreclosure. Other planned development projects remain marginally feasible if development costs are tightly controlled. In

[6] SAHBA and its members have since performed similar cost analyses for a variety of development projects and have found the magnitude of additional costs to be equal to or greater than the example provided by TEP. Exhibit 1 (attached) is an example provided by a SAHBA member, detailing the cost differential for a large lot subdivision under the old policy versus the new policy. As indicated in Exhibit 1, the additional per lot cost is estimated to be more than $37,000.

[7] In the previous tariff, TEP provided the 200amp three-phase portion of the job at no cost to the customer.

those instances, current market conditions warrant near-term construction if the costs of development are equal to or less than previously assumed. However, the unforeseen additional development costs associated with the TEP line extension policies are likely to delay project construction indefinitely. Under these conditions, investors and/or lenders are highly unlikely to commit the capital needed to begin construction and stimulate economic activity.

Against that background, Table 1 provides a summary of the cost differential under TEP's old and new line extension policies to construct the electrical facilities associated with a 220-lot subdivision. ***The new policies create nearly $8,000 per residential lot of <u>additional</u> costs for the real estate developer or homebuilder; or, $1,760,000 for the illustrative subdivision. This represents an increase of nearly 750% in non-refundable costs.***

TABLE 1 - 220-Lot Subdivision Cost Comparison TEP Line Extension Policies (old vs. new)

	Linear Feet	$/ft.	Other Costs	Total Cost	Total + 65% Gross-Up	$ Per Lot w/Gross Up	Deferrable	Refundable
600amp Underground Feeder								
• Old Tariff	10,319	$14.62	$80,000 (PME)	$230,864	$230,864	$1,049	YES	NO
• New Tariff	10,319	$51.00	$82,000 (PME)	$608,269	$1,003,644	$4,562	NO	NO
• Cost Difference		$36.38	$2,000	$377,405	$772,780	$3,513		
200amp Three-Phase Underground								
• Old Tariff	2,690	$0	NA	$0	NA	$0	NA	NA
• New Tariff	2,690	$64.50	NA	$173,505	NA	$789	NO	NO
• Cost Difference		$64.50	NA	$173,505	NA	$789		
200amp Single-Phase Underground								
• Old Tariff	28,156	NA	NA	$247,713 (Refundable)	$247,713 (Refundable)	$1,126 (Refundable)	YES	YES
• New Tariff	28,156	$18.00	NA	$506,808	$836,233	$3,801	NO	NO
• Cost Difference				$506,808	$836,233	$3,801		
TOTAL Line Ext.								
• Old Tariff				$230,864	$230,864	$1,049		
• New Tariff				$1,288,582	$1,839,877	$8,363		
• Cost Difference				$1,057,718	$1,609,013	$7,314		
Establish Service (Secondary Service)								
• Old Tariff				$2,750	$2,750	$12.50	NA	NA
• New Tariff				$140,800	$140,800	$640	NA	NA
• Cost Diff				$138,050	$138,050	$627.50		
GRAND TOTAL (Additional Costs)				$1,198,518 500% Increase	$1,747,063 750% Increase	$7,941 750% Increase		

In addition to the magnitude of the cost increases, there are equally significant challenges associated with (i) requiring payment when the line extension agreement is executed instead of at the time of actual construction of the facilities being financed, which could be more than a year between contract execution and actual construction; and, (ii) requiring that in all situations the applicant pay in cash, as opposed to the bond or letter of credit options previously allowed, with no portion of the cash payment being refundable.

Taken in combination, the above-discussed changes create impossible barriers to initiating near-term construction of development projects in TEP's service area. At present, capital for real estate development is limited and expensive. Accessing the additional capital needed to build infrastructure—electric, water, roads, etc—is even more challenging. Even if a real estate developer or homebuilder theoretically could pass-through these additional line extension costs to homebuyers, a highly dubious assumption, it is nearly impossible to find the capital to finance the infrastructure necessary to begin the project. Thus, if unaddressed, southern Arizona will struggle to spark construction activity and will fail to provide relief to thousands of unemployed and underemployed workers at every level across multiple sectors of the labor market. Moreover, a prolonged lack of construction activity would further erode various local and state tax revenues used to support a variety of critical services and programs as well as public sector employment.

In making the above observations, SAHBA does not mean to suggest that the Commission, the Commission's Staff, or TEP foresaw these outcomes. Few would have predicted the length and magnitude of the current recession, the degree to which property values have declined, or how depressed valuations combined with the aforementioned cost increases would render projects financially infeasible. To the contrary, SAHBA believes that which has occurred would readily qualify as a classic example of "unintended consequences." SAHBA recognizes that TEP's current policies might be appropriate during periods of extraordinary growth in order to address related financial difficulties such as those recently experienced by some electric utilities. During such periods, additional costs might be at least partly absorbed by the market. However, SAHBA believes the recent period of growth was in fact "extraordinary", that future extraordinary growth periods (if any) will be limited, and that such periods are likely to be brief and followed by immediate contraction.

In addition, SAHBA believes that application of such policies in the future should consider the specific financial condition of a given electric utility, as well as the plausible impacts given broader economic conditions within its service territory. Assuming a financially healthy electric utility, SAHBA believes that the proposed modifications detailed in the following section offer a balanced approach to financing electric infrastructure and are appropriate during normal or stable economic conditions as well as current recessionary conditions. Conversely, when a particular electric utility is experiencing financial adversity attributable to unusual growth within its service area, the Commission continues to possess the authority to make such revisions in line extension policies as may be appropriate for that particular utility at that particular point in time.

B. <u>Description of Proposed Modification In Line Extension Policy Approach.</u>

The above mentioned consequences need not be immutable. As previously indicated, SAHBA believes that the current situation can and should be addressed by authorizing TEP to work with the development and homebuilding industries and Commission Staff to immediately modify line extension policies to the benefit of all stakeholders, which include: (i) TEP and its investors; (ii) current and future ratepayers of TEP; (iii) the real estate development and homebuilder industries, and related businesses and professions, and (iv) the homebuyer. Accordingly, SAHBA proposes line extension policies that include the following features and concepts:

1. Modifications to TEP's current line extension policies as herein proposed shall not materially alter TEP's ability to endeavor to realize the revenue requirement recognized by the Commission in Decision No. 70628.

2. Data to be used for estimating the cost of infrastructure shall be updated immediately by TEP to reflect current prevailing material and labor costs. Subsequent reviews of costs should be performed no less than one (1) time each year thereafter.

3. Funds to be provided by an applicant for service shall be provided at or near the time of actual construction of the infrastructure, and not as of the date the underlying line extension agreement is executed.

4. Master-planned community and subdivision applicants for service shall be allowed the option of funding the construction of electric infrastructure facilities with (a) a refundable cash payment, or (b) deferring cash payment by providing an acceptable security such as a bond or letter of credit.

    a. Refundable Cash Payment. An applicant for service may fund infrastructure with a refundable cash payment. Refund payments to be made by TEP semi-annually, beginning two (2) years after installation, and to be calculated based on the percentage of lots occupied by permanent customers. Semi-annual review will continue until the project is 75% owner-occupied units, or a ten (10) year period from installation elapses. In the event that 75% of the project is complete, a full refund shall be due to the applicant (less applicable Cost of Ownership Charges). In the event that 75% of the project is not complete after two (2) years, a Cost of Ownership Charge is to be deducted semi-annually from the applicant's remaining refundable cash deposit. Cost of Ownership Charges are to be calculated and applied to that percentage of the project that is unoccupied and therefore not producing revenue.

    b. Payment Deferral. An applicant for service may defer payment for up to four (4) years by providing a bond or letter of credit. In the event the project is more than 75% complete within two (2) years from installation, the contract is satisfied and no actual payment is required. In the event the project is not 75% complete after two (2) years, the applicant shall pay a Deferral Charge and Cost of Ownership Charge semi-annually. Both the Deferral Charge and Cost of Ownership Charge are to be calculated and applied to that percentage of the project that is unoccupied and therefore not producing revenue. Applicant is to continue paying both charges semi-annually until up to four (4) years after installation (or until 75% of project is occupied). At the end of the four (4) year period, the applicant shall submit a refundable cash payment based on that percentage of the project that is unoccupied. Thereafter, Cost of Ownership Charges are to be deducted from the cash payment as outlined above in 4(a) above, but Deferral Charges no longer apply.

5. Eliminate (or mitigate) costs associated with the "gross-up" charge. This could be accomplished by allowing applicants to use bonds of letters of credit. This effectively reduces (or eliminates) the size of the cash payment to TEP that would need to be accounted for as taxable income. This would likely reduce line extension cash payments to the utility below the $500,000 gross-up threshold.

C. Balancing of Stakeholder Interests to Be Achieved.

Set forth below is a summary of the reasons why SAHBA believes the modified line extension policy approach discussed above balances interests of the respective stakeholders.

Real estate development and homebuilding industries—not TEP or ratepayers—bear the risk of development for projected new customer growth that does not materialize.

- TEP is compensated for its costs of ownership and maintenance and repair of that portion of the new distribution infrastructure that is "unused" during the line extension agreement period.

- TEP is compensated for that portion of the new distribution infrastructure that remains "unused" at the end of the line extension agreement period. TEP will acquire (as CIAC) at the end of the 10-year contract period, and at no cost to it, that portion of new distribution infrastructure for which new customer additions do not occur; and, the utility will have been reimbursed its costs of ownership and operation and maintenance during the contract.

TEP is able to include in future rate base that portion of new distribution infrastructure funded with bonds or letters of credit to the extent "refund" credits are made to the developer or homebuilder as a result of new customer additions.

- TEP thus avoids erosion in rate base, and the associated erosion in earnings that occurs when a disproportionate amount of plant in service is represented by CIAC. CIAC funded plant receives no recognition in rate base and receives no return on or of the investment in the cost of service or rates. As a result of TEP's current policies, the utility's earnings and cash flows could diminish over time as rate base effectively shrinks. Further, CIAC funded plant will eventually need to be replaced and the utility will need to fund replacement plant with its own capital.

During periods of normal customer growth and relatively stable construction costs, the proposed policies are more likely to result in a reasonable balance of capitalization of the utility (AIAC, CIAC, equity, debt) over time. With a balanced capitalization, rates are kept in check and subsidization is minimized.

- The division of responsibility between the real estate developer or homebuilder and TEP for the total cost of distribution infrastructure for the development or subdivision in question is established at the time of execution of the line extension agreement; and, the costs are allocated under a formula designed to achieve an average rate base investment per customer which is equivalent for existing and new customers of the affected electric utility.

- Proper structuring and utilization of the refund formula may require periodic review of (i) the affected utility's average rate base investment per customer, and (ii) the cost of materials and labor associated with construction of electric distribution infrastructure.

Real estate developers and homebuilders are financially responsible for a balanced allocation of the costs for electric distribution infrastructure associated with a given new development or subdivision.

- Deferral of cash payment by providing a bond or letter of credit would be accompanied by semi-annual payments to TEP of its costs of ownership and maintenance and repair for that portion of the infrastructure that is not connected to revenue producing load during the deferral period.

- The allocation is intended to avoid a situation where it could be said that "new growth is not paying for itself," in terms of its impact upon TEP's cost of service and return on its investment.

Real estate developers and homebuilders would have the flexibility to optimize their use of available project financing through access to the option(s) of a bond, a letter of credit, and/or refundable cash payment.

- Reduction of "front-end" costs required under current line extension policies will enable real estate developers and homebuilders to move forward with projects that otherwise would be impossible to undertake at this time or in the foreseeable future. In turn, such activity will create economic opportunities for related businesses and professions that otherwise would not exist, as well as improve local and state tax revenues.

III.
CONCLUSION

SAHBA believes that the modifications to TEP's line extension policy described above represents a constructive and balanced means for addressing and resolving the problems of the real estate development and homebuilding industries in southern Arizona, as well as related businesses and professions. More specifically, the recommended modifications achieve an equitable balance of costs and benefits among all stakeholders, whereby (i) existing customers do not subsidize new customer growth, and, conversely, new customers do not subsidize existing customers; (ii) the risks of development are placed on developers and homebuilders, while those risks are minimized or eliminated for TEP and its ratepayers; (iii) TEP is compensated for the investment it makes to serve customers either by the developer or homebuilder during the period of development or by the additional revenues from each new customer added to the system; (iv) TEP rates to customers are kept in check due to a balanced capitalization of plant; and (v) upfront development costs are reduced to promote near-term construction activity and thus economic recovery in southern Arizona.

SAHBA looks forward to presenting the proposed concepts and modifications in the forthcoming general workshop on line extension policies for electric utilities. In that regard, upon completion of the workshop, SAHBA respectfully requests that the Commission authorize TEP to work directly with the development and homebuilding industries and Commission Staff to immediately modify TEP's current line extension policies consistent with recommendations outlined in this paper or in another manner that is suitable for both the home building industry and TEP. SAHBA maintains that a "one-size fits all" approach to electric line extension policy is not required, nor is it appropriate, given the diverse and specific conditions of each electric utility and service territory.

EXHIBIT 1

Table 2 - 46-Large Lot Subdivision Cost Comparison TEP Line Extension Policies (old vs. new)

	Linear Feet	$/ft.	Other Costs	Total Cost	Total + 65% Gross-Up	$ Per Lot w/Gross Up	Deferrable	Refundable
600amp Underground Feeder								
• Old Tariff	11,439	$14.62	$60,000 (PME)	$227,238	$227,238	$4,940	YES	NO
• New Tariff	11,439	$51.00	$61,500 (PME)	$583,389	$1,064,066	$23,131	NO	NO
• Cost Difference		$36.38	$1,500	$356,151	$836,828	$18,191		
200amp Three-Phase Underground								
• Old Tariff								
• New Tariff								
• Cost Difference								
200amp Single-Phase Underground								
• Old Tariff		NA[3]	NA	$266,923 (Refundable)	$266,923 (Refundable)	$5,803 (Refundable)	YES	YES
• New Tariff	32,252	$18.00	NA	$580,536	$957,884	$20,823	NO	NO
• Cost Difference				$580,536	$957,884	$20,823		
TOTAL Line Ext.								
• Old Tariff				$227,238	$227,238	$4,940		
• New Tariff				$1,163,925	$1,920,476	$41,749		
• Cost Difference				$936,687	$1,693,238	$36,809		
Establish Service (Secondary Service)								
• Old Tariff				$575	$575	$12.50	-	NO
• New Tariff				$29,440	$29,440	$640	-	NO
• Cost Diff				$28865	$28,865	$627.50		
GRAND TOTAL (Additional Costs)				$965,552 400% Increase	$1,722,103 750% Increase	$37,437 750% Increase		

SAHBA Line Extension NOI Question Responses

1) What factors should the Commission consider when establishing policies governing electric line extensions?

Excerpt from SAHBA policy paper (Page 1, Lines 18-31)

Assist recovery of southern Arizona's real estate development and homebuilding industries as well as the myriad businesses, professions and trades that depend on those industries for their own economic viability.

Stimulate near-term construction activity that benefits various state and local taxing jurisdictions, as well as broader economic conditions in southern Arizona.

Provide the Commission with valuable input from representatives of the southern Arizona development and homebuilding industries, who were not aware of settlement discussions involving TEP's line extension policies and therefore did not intervene in TEP's 2007-08 rate case.

Create line extension policies specific to TEP's financial needs and the economic conditions within southern Arizona.

Establish policies appropriate for normal or stable economic conditions as well as current recessionary conditions, modifying those provisions meant to address past problems experienced due to extraordinary growth pressures during 2003-2006.

2) Should the principles of cost-causation be the predominant consideration (i.e. requiring costs to be borne by the cost-causer)? If not, what should be the predominant consideration?

Excerpt from SAHBA policy paper (Pages 8-9, Lines 314-323)

Attempt to achieve an equitable balance of costs and benefits among all stakeholders, whereby (i) existing customers do not subsidize new customer growth, and, conversely, new customers do not subsidize existing customers; (ii) the risks of development are placed on developers and homebuilders, while those risks are minimized or eliminated for TEP and its ratepayers; (iii) TEP is compensated for the investment it makes to serve customers either by the developer or homebuilder during the period of development or by the additional revenues from each new customer added to the system; (iv) TEP rates to customers are kept in check due to a balanced capitalization of plant; and (v) upfront development costs are reduced to promote near-term construction activity and thus economic recovery in southern Arizona.

3) Is it possible for the Commission to devise line extension policies that will result in existing customers subsidizing growth? If so, please provide an example.

NO RESPONSE.

4) Is it possible for the Commission to devise line extension policies that will result in growth subsidizing existing customers? If so, please provide an example.

NO RESPONSE.

5) Should growth pay for growth or should it be subsidized by existing customers? If you believe growth should be subsidized by existing customers, in what amount and by what mechanism? Should growth costs be included in base rates and allocated to all customers or should they be allocated to specific customer classes?

NO RESPONSE.

6) Should growth be required to pay for more than growth? If not, why not? Does APS' existing line extension policy require growth to pay for more than growth?

SAHBA does not wish to comment on APS' line extension policies.

7) Should certain customer groups (such as low income customers, Native Americans on Native American lands, rural customers, etc.) be exempted from an otherwise generally applicable line extension policy? If so, what groups should be exempted and why?

SAHBA believes no customer groups should be "exempted". However, SAHBA supports the concept of waivers proposed in NOI Question #31 below.

8) Should new line extensions have excess capacity? If so, should new customers be required to pay for that excess capacity? Is there a minimum level of electric capacity that all new customers should be required to have irrespective of their own electric demand? If so, what is that minimum electric capacity and what is the potential incremental cost of installing electric lines at the minimum electric capacity versus the customer's actual electric demand? What percentage of line extensions are single-customer installations, versus those that 'grow the grid' to further extend company service capability?

NO RESPONSE.

9) Explain how any applicable line extension charges should be calculated. Under what circumstances and on what basis, are customer refunds of customer-financed line extensions appropriate? Should the initial applicant be required to pay the total cost with a refunding mechanism if subsequent applicants use any common facility paid for by the original applicant or should the initial customer only be required to pay for the common plant constructed on a pro rata basis?

Excerpt from SAHBA policy paper (Pages 6-7, Lines 184-236)

Accordingly, SAHBA proposes line extension policies that include the following features and concepts:

Modifications to TEP's current line extension policies as herein proposed shall not materially alter TEP's ability to endeavor to realize the revenue requirement recognized by the Commission in Decision No. 70628.

Data to be used for estimating the cost of infrastructure shall be updated immediately by TEP to reflect current prevailing material and labor costs. Subsequent reviews of costs should be performed no less than one (1) time each year thereafter.

Funds to be provided by an applicant for service shall be provided at or near the time of actual construction of the infrastructure, and not as of the date the underlying line extension agreement is executed.

Master-planned community and subdivision applicants for service shall be allowed the option of funding the construction of electric infrastructure facilities with (a) a refundable cash payment, or (b) deferring cash payment by providing an acceptable security such as a bond or letter of credit.

a. Refundable Cash Payment. An applicant for service may fund infrastructure with a refundable cash payment. Refund payments to be made by TEP semi-annually, beginning two (2) years after installation, and to be calculated based on the percentage of lots occupied by permanent customers. Semi-annual review will continue until the project is 75% owner-occupied units, or a ten (10) year period from installation elapses. In the event that 75% of the project is complete, a full refund shall be due to the applicant (less applicable Cost of Ownership Charges). In the event that 75% of the project is not complete after two (2) years, a Cost of Ownership Charge is to be deducted semi-annually from the applicant's remaining refundable cash deposit. Cost of Ownership Charges are to be calculated and applied to that percentage of the project that is unoccupied and therefore not producing revenue.

b. Payment Deferral. An applicant for service may defer payment for up to four (4) years by providing a bond or letter of credit. In the event the project is more than 75% complete within two (2) years from installation, the contract is satisfied and no actual payment is required. In the event the project is not 75% complete after two (2) years, the applicant shall pay a Deferral Charge and Cost of Ownership Charge semi-annually. Both the Deferral Charge and Cost of Ownership Charge are to be calculated and applied to that percentage of the project that is unoccupied and therefore not producing revenue. Applicant is to continue paying both charges semi-annually until up to four (4) years after installation (or until 75% of project is occupied). At the end of the four (4) year period, the applicant shall submit a refundable cash payment based on that percentage of the project that is unoccupied. Thereafter, Cost of Ownership Charges are to be deducted from the cash payment as outlined above in 4(a) above, but Deferral Charges no longer apply.

Eliminate (or mitigate) costs associated with the "gross-up" charge. This could be accomplished by allowing applicants to use bonds of letters of credit. This effectively reduces (or eliminates) the size of the cash payment to TEP that would need to be accounted for as taxable income. This would likely reduce line extension cash payments to the utility below the $500,000 gross-up threshold.

10) Should line extension policies vary depending on the type of customer? In other words should line extension policies vary among the following types of customers:

- an individual owner, or a small group of owners, of land who will not subdivide their respective properties and are seeking service exclusively for a future residence and not for a development.

- larger developments, residential subdivisions, or master-planned communities.

- commercial and/or industrial customers.

SAHBA's NOI responses and submitted policy paper are intended to address larger developments, residential subdivisions, or master-planned communities.

11) What were the original considerations for establishing a 1,000 foot line extension policy for APS, and why wasn't the same line extension policy adopted for the other electric utilities?

SAHBA does not wish to comment on APS' line extension policies.

12) Has the changed character of APS's service territory, i.e. rural/urban mix, removed the need for a line extension subsidy? Given the fact that APS' line extension policy was in place for 50+ years prior to 2006, has the original purpose of this subsidy been served?

SAHBA does not wish to comment on APS' line extension policies.

13) What is the appropriate time interval for examining subsidy costs? I.e., should subsidies be re-examined every 50 years, 10 years, 5 years or less? Should subsidies be set on a downward glide path or is it appropriate for customers to expect their perpetual existence?

NO RESPONSE.

14) Is it inconsistent for the Commission to establish some subsidies that decline over time and some subsidies that do not decline over time? Should the Commission pursue an across-the-board phase out of all subsidies?

NO RESPONSE.

15) Should line extension policies for electric utilities be uniform across the state and established via rulemaking or should they be decided on a case by case basis? Should electric cooperatives be treated differently than investor-owned electric utilities? If so, how and why or why not?

SAHBA maintains that a "one-size fits all" approach to electric line extension policy is not required, nor is it appropriate, given the diverse and specific conditions of each electric utility and service territory.

16) Should line extension policies for electric utilities be uniform with line extension policies for telecommunications, gas, water and sewer utilities?

SAHBA's NOI responses and submitted policy paper are intended to only address electric utilities, and more specifically TEP. In that regard, SAHBA maintains that a "one-size fits all" approach for ALL Arizona public utilities is not required, nor is it appropriate, given the diverse and specific conditions of each utility and service territory.

17) If the Commission reinstates a free footage allowance for utilities, should the Commission make the new policy retroactive? Should existing customers be compensated who were previously negatively affected by the "no free allowance" policy? If so, how? If one is opposed to retroactive application, is that opposition based in law, policy or both?

<u>Excerpt from SAHBA policy paper (Pages 3, Lines 83-89)</u>

To date, much of the statewide debate on recently approved electric line extension policy has focused on elimination of free footage allowances. However, SAHBA believes that the most significant and costly changes to TEP's line extension policy were not associated with elimination of the free footage allowance; and, in that regard, SAHBA does not seek to restore TEP's free footage allowance. Rather, SAHBA's analysis and recommended modifications focus on other, more significant changes made to the line extension policy approved in Decision No. 70628.

18) What costs should be captured in line extension policies? In other words, should line extension policies consider the costs of local facilities, system or backbone facilities, and upgrades to existing facilities?

Line extension policies should only consider the costs of local facilities.

19) What are the comparative advantages and disadvantages of free footage allowance versus a dollar allowance policies? What would be the cost to ratepayers if the policy were changed to include an "equipment allowance" of a specified amount for only individual residential homeowners?

Excerpt from SAHBA policy paper (Pages 3, Lines 83-89)

To date, much of the statewide debate on recently approved electric line extension policy has focused on elimination of free footage allowances. However, SAHBA believes that the most significant and costly changes to TEP's line extension policy were not associated with elimination of the free footage allowance; and, in that regard, SAHBA does not seek to restore TEP's free footage allowance. Rather, SAHBA's analysis and recommended modifications focus on other, more significant changes made to the line extension policy approved in Decision No. 70628.

20) If you are an electric utility, what is your current line extension policy and how has your line extension policy changed over the last fifty years? For APS, what percent of line extensions are installed inside Maricopa County versus outside of Maricopa County? What percentage of line extensions are for residential service versus commercial and industrial service? How many residential line extension estimates has APS provided since 2007 that did not result in a subsequent payment and request for a line extension and service?

NO RESPONSE.

21) Please describe the optimal line extension policy that, in your view, best balances the interests of existing and future customers. If you believe that a historical line extension policy (e.g., APS' 1000 free feet line extension policy) is the best, please

explain why you believe it is better than alternative proposals (e.g., why is 1000 free feet better than 500 free feet, why is 1000 free feet better than 2000 free feet, etc.)

Excerpt from SAHBA policy paper (Pages 6-7, Lines 184-236)

Accordingly, SAHBA proposes line extension policies that include the following features and concepts:

Modifications to TEP's current line extension policies as herein proposed shall not materially alter TEP's ability to endeavor to realize the revenue requirement recognized by the Commission in Decision No. 70628.

Data to be used for estimating the cost of infrastructure shall be updated immediately by TEP to reflect current prevailing material and labor costs. Subsequent reviews of costs should be performed no less than one (1) time each year thereafter.

Funds to be provided by an applicant for service shall be provided at or near the time of actual construction of the infrastructure, and not as of the date the underlying line extension agreement is executed.

Master-planned community and subdivision applicants for service shall be allowed the option of funding the construction of electric infrastructure facilities with (a) a refundable cash payment, or (b) deferring cash payment by providing an acceptable security such as a bond or letter of credit.

a. Refundable Cash Payment. An applicant for service may fund infrastructure with a refundable cash payment. Refund payments to be made by TEP semi-annually, beginning two (2) years after installation, and to be calculated based on the percentage of lots occupied by permanent customers. Semi-annual review will continue until the project is 75% owner-occupied units, or a ten (10) year period from installation elapses. In the event that 75% of the project is complete, a full refund shall be due to the applicant (less applicable Cost of Ownership Charges). In the event that 75% of the project is not complete after two (2) years, a Cost of Ownership Charge is to be deducted semi-annually from the applicant's remaining refundable cash deposit. Cost of Ownership Charges are to be calculated and applied to that percentage of the project that is unoccupied and therefore not producing revenue.

b. Payment Deferral. An applicant for service may defer payment for up to four (4) years by providing a bond or letter of credit. In the event the project is more than 75% complete within two (2) years from installation, the contract is satisfied and no actual payment is required. In the event the project is not 75% complete after two (2) years, the applicant shall pay a Deferral Charge and Cost of Ownership Charge semi-annually. Both the Deferral Charge and Cost of Ownership Charge are to be calculated and applied to that percentage of the project that is unoccupied and therefore not producing revenue. Applicant is to continue paying both charges semi-annually until up to four (4) years after installation (or until 75% of project is occupied). At the end of the four (4) year period, the applicant shall submit a refundable cash payment based on that percentage of the project that is unoccupied. Thereafter, Cost of Ownership Charges are to be deducted from the cash payment as outlined above in 4(a) above, but Deferral Charges no longer apply.

Eliminate (or mitigate) costs associated with the "gross-up" charge. This could be accomplished by allowing applicants to use bonds of letters of credit. This effectively reduces (or eliminates) the size of the cash payment to TEP that would need to be accounted for as taxable income. This would likely reduce line extension cash payments to the utility below the $500,000 gross-up threshold.

22) If the optimal line extension policy is different than existing and/or historical line extension policies, should the Commission transition to the optimal policy? If so, how?

Excerpted from SAHBA policy paper (Page 1, Lines 9-13)

SAHBA requests that the Arizona Corporation Commission authorize TEP to work with the development and homebuilding industries as well as Arizona Corporation Commission Staff to immediately modify the line extension policies established in Decision No. 70628 (December 1, 2008).

23) Please estimate the impact on the economy and new construction from the current line extension policies. What is the impact on land values?

Excerpted from SAHBA policy paper (Pages 3-5, Lines 110-156)

Cost increases of this magnitude would be impossible to pass through to homebuyers under normal economic conditions, let alone under the current recessionary condition of southern Arizona's real estate market. Southern Arizona has experienced a dramatic decline in property values over the last several years. Market declines alone have rendered many projects financially infeasible for the foreseeable future, resulting in lengthy and costly hold periods for investors, or often, recapitalization with new investor groups, or worse, foreclosure. Other planned development projects remain marginally feasible if development costs are tightly controlled. In those instances, current market conditions warrant near-term construction if the costs of development are equal to or less than previously assumed. However, the unforeseen additional development costs associated with the TEP line extension policies are likely to delay project construction indefinitely. Under these conditions, investors and/or lenders are highly unlikely to commit the capital needed to begin construction and stimulate economic activity.

Against that background, Table 1 provides a summary of the cost differential under TEP's old and new line extension policies to construct the electrical facilities associated with a 220-lot subdivision. ***The new policies create nearly $8,000 per residential lot of <u>additional</u> costs for the real estate developer or homebuilder; or, $1,760,000 for the illustrative subdivision. This represents an increase of nearly 750% in non-refundable costs.***

In addition to the magnitude of the cost increases, there are equally significant challenges associated with (i) requiring payment when the line extension agreement is executed instead of at the time of actual construction of the facilities being financed, which could be more than a year between contract execution and actual construction; and, (ii) requiring that in all situations the applicant pay in cash, as opposed to the bond or letter of credit options previously allowed, with no portion of the cash payment being refundable.

Taken in combination, the above-discussed changes create impossible barriers to initiating near-term construction of development projects in TEP's service area. At present, capital for real estate development is limited and expensive. Accessing the additional capital needed to build infrastructure—electric, water, roads, etc—is even more challenging. Even if a real estate developer or homebuilder theoretically could pass-through these additional line extension costs to homebuyers, a highly dubious assumption, it is nearly impossible to find the capital to finance the infrastructure necessary to begin the project. Thus, if unaddressed, southern Arizona will struggle to spark construction activity and will fail to provide relief to thousands of unemployed and underemployed workers at every level across multiple sectors of the labor market. Moreover, a prolonged lack of construction activity would further erode various local and state tax revenues used to support a variety of critical services and programs as well as public sector employment.

In making the above observations, SAHBA does not mean to suggest that the Commission, the Commission's Staff, or TEP foresaw these outcomes. Few would have predicted the length and magnitude of the current recession, the degree to which property values have declined, or how depressed valuations combined with the aforementioned cost increases would render projects financially infeasible. To the contrary, SAHBA believes that which has occurred would readily qualify as a classic example of "unintended consequences."

24) Should the Commission be concerned about the potential for new line extensions becoming idle (i.e., "building a line to nowhere")? If so, what provisions should be made to protect against such contingencies?

Under SAHBA's proposed solution for TEP's line extension policy real estate developers and homebuilders—not TEP or ratepayers—bear the risk of development for projected new customer growth that does not materialize.

<u>Excerpted from SAHBA policy paper (Page 7, Lines 246-255)</u>

TEP is compensated for its costs of ownership and maintenance and repair of that portion of the new distribution infrastructure that is "unused" during the line extension agreement period.

TEP is compensated for that portion of the new distribution infrastructure that remains "unused" at the end of the line extension agreement period. TEP will acquire (as CIAC) at the end of the 10-year contract period, and at no cost to it, that portion of new distribution infrastructure for which new customer additions do not occur; and, the utility will have been reimbursed its costs of ownership and operation and maintenance during the contract.

25) Should an economic model be used to determine the benefits of new customers versus the costs associated with providing line extensions?

NO RESPONSE.

26) What prompted the changes to line extension policies that go beyond the elimination of free footage allowances? For example, what prompted the change in categorizing line extensions associated with subdivisions from "advances in aid of construction" to "contributions in aid of construction"? If the policy was changed back to an "advance" what would be the impact on electric utility rates? What would be the impact on electric utilities' financial condition?

NO RESPONSE.

27) How much, if any, additional funding has the change in line extension policies brought to electric utilities?

NO RESPONSE.

28) Is it possible to change line extension policies without affecting rates? If so, how?

SAHBA believes the proposed modifications to TEP's line extension policies will not materially alter TEP's ability to endeavor to realize the revenue requirement recognized by the Commission in Decision No. 70628.

29) How do the costs of construction of electric lines compare today with the costs of construction in 2006? How are adjustments made to the costs of construction? Are adjustments made to these costs pursuant to a tariff?

SAHBA's members have experienced a dramatic reduction in the cost of materials and labor since 2006. SAHBA's proposed modifications to TEP's line extension policies include an immediate update of costs established in Decision No. 70628 and for subsequent reviews of costs to be performed no less than one (1) time each year thereafter.

30) If the actual costs associated with construction are less than the amounts paid in advance by the developer, are those overages refunded? Can ratepayers obtain the actual costs for materials and the actual labor costs? What is the linear cost difference between buried electric line extensions and overhead, pole-attached line extensions?

SAHBA's proposed modifications to TEP's line extension policies include an immediate update of costs established in Decision No. 70628 and for subsequent reviews of costs to be performed no less than one (1) time each year thereafter.

31) Should the Commission adopt a separate line extension policy for "extraordinary" customers, waiving costs or the like for developer commitments such as, all electric subdivisions, Energy Star homes, or solar installation programs, etc. If so, what should be the criteria for establishing such waivers?

SAHBA supports waivers for projects that make commitments to implement certain features or programs that assist TEP's efforts to meet DSM or REST requirements.

32) What flexibility does a utility or cooperative have in interpreting and implementing line extension policies? What flexibility *should* they have?

<u>**Excerpted from SAHBA policy paper (Page 1, Lines 9-15)**</u>

SAHBA requests that the Arizona Corporation Commission authorize TEP to work with the development and homebuilding industries as well as Arizona Corporation Commission Staff to immediately modify the line extension policies established in Decision No. 70628 (December 1, 2008). SAHBA believes the line extension policy concepts and modifications recommended in this paper are consistent with the TEP 2008 Settlement Agreement and do not negatively impact revenues established in TEP's approved tariff.

33) What changes in line extension policies can occur in a generic docket? What changes must occur in a rate case?

Excerpted from SAHBA policy paper (Page 1, Lines 9-15)

SAHBA requests that the Arizona Corporation Commission authorize TEP to work with the development and homebuilding industries as well as Arizona Corporation Commission Staff to immediately modify the line extension policies established in Decision No. 70628 (December 1, 2008). SAHBA believes the line extension policy concepts and modifications recommended in this paper are consistent with the TEP 2008 Settlement Agreement and do not negatively impact revenues established in TEP's approved tariff.

34) Would a change in the line extension policy be detrimental to energy efficiency or DSM goals?

No. SAHBA believes that the high costs associated with TEP's current line extension policies effectively reduce the project funds available to invest in energy efficiency measures as well as reduce the consumer's willingness and ability to pay for such improvements.

35) Would a change in the line extension policy provide an economic incentive to build homes in Arizona? If so, does the benefit of increased construction outweigh the costs of increased rates for all ratepayers? Can any increase in new home construction be quantified?

Excerpted from SAHBA policy paper (various sections)

The sum of the recently adopted changes to TEP line extension policies create insurmountable challenges to initiating new real estate development and subdivision projects, and thus stimulating near-term economic activity in southern Arizona. SAHBA believes failure to make the recommended modifications outlined in this paper is likely to prolong the economic recovery of the region, and, therefore, requests that the Commission authorize TEP to work with the development and homebuilding industries and Commission Staff to immediately modify TEP's current line extension policies upon conclusion of the workshops.

A substantial portion of southern Arizona's current economic structure and employment base is oriented towards the real estate development and homebuilding industries, and believes the recovery of southern Arizona's economy and job market is inextricably linked to a timely recovery of those industries. In that regard, the lack of development and construction activity negatively impacts various state and local tax revenues, and the current budget crises (and associated job losses) are in part the result of reduced construction activity.

Against that background, Table 1 provides a summary of the cost differential under TEP's old and new line extension policies to construct the electrical facilities associated with a 220-lot subdivision. ***The new policies create nearly $8,000 per residential lot of <u>additional</u> costs for the real estate developer or homebuilder; or, $1,760,000 for the illustrative subdivision. This represents an increase of nearly 750% in non-refundable costs.***

In addition to the magnitude of the cost increases, there are equally significant challenges associated with (i) requiring payment when the line extension agreement is executed instead of at the time of actual construction of the facilities being financed, which could be more than a year between contract execution and actual construction; and, (ii) requiring that in all situations the applicant pay in cash, as opposed to the bond or letter of credit options previously allowed, with no portion of the cash payment being refundable.

TABLE 1 - 220-Lot Subdivision Cost Comparison TEP Line Extension Policies (old vs. new)

	Linear Feet	$/ft.	Other Costs	Total Cost	Total + 65% Gross-Up	$ Per Lot w/Gross Up	Deferrable	Refundable
600amp Underground Feeder								
• Old Tariff	10,319	$14.62	$80,000 (PME)	$230,864	$230,864	$1,049	YES	NO
• New Tariff	10,319	$51.00	$82,000 (PME)	$608,269	$1,003,644	$4,562	NO	NO
• Cost Difference		$36.38	$2,000	$377,405	$772,780	$3,513		
200amp Three-Phase Underground								
• Old Tariff	2,690	$0	NA	$0	NA	$0	NA	NA
• New Tariff	2,690	$64.50	NA	$173,505	NA	$789	NO	NO
• Cost Difference		$64.50	NA	$173,505	NA	$789		
200amp Single-Phase Underground								
• Old	28,156	NA	NA	$247,713	$247,713	$1,126	YES	YES

Tariff				(Refundable)	(Refundable)	(Refundable)		
• New Tariff	28,156	$18.00	NA	$506,808	$836,233	$3,801	NO	NO
• Cost Difference				$506,808	$836,233	$3,801		
TOTAL Line Ext.								
• Old Tariff				$230,864	$230,864	$1,049		
• New Tariff				$1,288,582	$1,839,877	$8,363		
• Cost Difference				$1,057,718	$1,609,013	$7,314		
Establish Service (Secondary Service)								
• Old Tariff				$2,750	$2,750	$12.50	NA	NA
• New Tariff				$140,800	$140,800	$640	NA	NA
• Cost Diff				$138,050	$138,050	$627.50		
GRAND TOTAL (Additional Costs)				$1,198,518 500% Increase	$1,747,063 750% Increase	$7,941 750% Increase		

<u>Accounting Treatment of Line Extension Proceeds</u>:

36) Are the funds associated with line extensions treated as contributions in aid of construction (CIAC) or as revenue in your electric utility?

TEP's current line extension policies treat funds associated with line extensions as non-refundable Contributions in Aid of Construction (CIAC).

37) Should the accounting treatment for any funds collected for line extensions be treated as revenues, as contributions-in-aid of construction, or determined on a case-by-case basis?

SAHBA's proposed modifications recommend treating cash payments as refundable Advances in Aid of Construction.

38) To what extent is the accounting treatment of line extension proceeds relevant to the over-arching policy discussion regarding who pays for the cost of the line extension and whether growth pays for growth?

SAHBA's proposed modifications recommend treating cash payments as refundable Advances in Aid of Construction, and believes the proposed system results in an equitable sharing of costs and benefits among all stakeholders.

39) Does the shift in accounting treatment from CIAC to revenue result in growth subsidizing existing customers? In answering this question please respond to the following scenarios.

The Commission recently authorized Arizona Public Service Company (APS) to treat all Schedule 3 proceeds as revenue instead of CIAC. Under the settlement agreement approved by the Commission, APS will be allowed to treat as revenue all line extension funds collected during January 1, 2010 and the earlier of December 31, 2012 or the conclusion of its next general rate case. Thereafter, Schedule 3 proceeds will be recorded as CIAC unless otherwise ordered by the Commission. APS' next base rate change from its next rate case will be effective no sooner than July 1, 2012. Assuming that the test year of APS' next general rate case ends on December 31, 2011 and that the Commission allows Schedule 3 proceeds to revert back to CIAC, please answer the following:

A. A hypothetical new customer pays APS $25,000 to extend a line 1000 feet to his new home in 2011. Would such a customer be better off having his $25,000 treated as revenue instead of CIAC? Will such a customer begin to pay for his line "again" once it is placed into rate base and put into APS' rates on July 1, 2012? To what extent, can it be said that existing customers have been insulated from the costs of growth, if the $25,000 paid by the new customer, is still placed into APS' rates on July 1, 2012? To what extent, if any, has this new customer benefitted by having his $25,000 treated as revenue instead of CIAC? Will this new customer receive any benefits under a revenue approach if he first begins taking service from APS on December 31, 2011? What if he first begins taking service from APS on June 30, 2012, the day before the next APS rate case is decided? To the extent that this new

customer is not benefitted by treating his $25,000 as revenue instead of CIAC, are there other customers who are benefitted? Who are these customers and how have they benefitted? Has the change in accounting treatment resulted in this new customer subsidizing these other customers? Does the shift in accounting treatment result in growth subsidizing existing customers?

B. A hypothetical developer is developing a new community along the East Verde River, ten miles west of Payson and is paying the full cost (approximately $6 million) for extending electric services from Payson to the new community. The developer pays the full $6 million to APS in 2011 and the lines are constructed, and become used and useful to the new community by December, 2011. Are the developer and the residents of this new community better off having the $6 million treated as CIAC or revenue? Will existing customers have to pay for the $6 million "again" after it is put into rate base and APS' new rates become effective on July 1, 2012? Once APS' new rates go into effect will APS begin to earn a rate of return on the $6 million that was paid by the developer?

SAHBA does not wish to comment on APS' line extension policies.

<u>Third Party Vendors:</u>

40) Should third-party contractors or vendors be allowed to install electric line extensions? If so, under what circumstances and conditions?

To the extent use of third-party contractors or vendors helps reduce construction costs SAHBA is supportive of considering the benefits associated with use of third-party contractors or vendors during its proposed discussions with TEP and Commission Staff.

41) What are the potential cost-savings of third-party vendors?

NO RESPONSE.

42) What should be the scope of third-party involvement? (e.g., design; construction; right-of-way acquisition; licenses and permits, etc.)

NO RESPONSE.

43) How should the host utility ensure quality control? How should warranty, insurance and liability issues be resolved? Who would bear responsibility for

accidents, injuries, and fatalities among patrons and workers resulting from substandard work from third-party contractors?

NO RESPONSE.

44) Can we be certain that any benefits from a third-party contractor option will not be offset by safety and reliability issues?

NO RESPONSE.

45) Would the inclusion of a third-party option generally promote the "convenience, comfort, and safety, and the preservation of the health, of the employees and patrons" of electric utilities?

NO RESPONSE.

46) Have other jurisdictions permitted third-party contractors to construct line extensions? If so, what has been their experience? Have there been any "hidden costs" (e.g., design, inspection, and repair costs borne by utilities and ratepayers, but not captured in contractors' prices), delays, and complaints associated with such work?

NO RESPONSE.

Catch-all Question:

47) What other questions or issues should be answered or addressed in connection with this inquiry

SAHBA's policy paper has been cited throughout its response to these NOI questions. It provides a comprehensive overview of SAHBA's views and proposed recommendations for TEP's line extension policies.