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MEMORANDUM



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TO: Docket Control
Arizona Corporation Commission

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FROM: Steven M. Olea
Director
Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

Date: November 2, 2010

RE: STAFF REPORT FOR THE APPLICATION OF AJO IMPROVEMENT
COMPANY FOR APPROVAL TO TRANSFER CERTAIN OF ITS ASSETS TO
THE ARIZONA PUBLIC SERVICE COMPANY.
(DOCKET NOS. E-01025A-10-0334 AND E-01345A-10-0334)

Attached is the Staff Report for the application of Ajo Improvement Company for the Arizona Corporation Commission authorization to transfer certain of its assets to the Arizona Public Service Company. Staff recommends approval.

Any party to this procedure who wishes may file comments to the Staff Report with Commission's Docket Control by 4:00 p.m. on or before November 8, 2010.

SMO:All:tdp

Originator: Alexander Ibhade Igwe, CPA

Arizona Corporation Commission

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DOCKETED BY

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Docket Nos. E-01025A-10-0334 and E-01345A-10-0334

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

AJO IMPROVEMENT COMPANY
(DOCKET NOS. E-01025A-10-0334 & E-1345A-10-0334)

APPLICATION FOR APPROVAL TO TRANSFER CERTAIN OF ITS ASSETS TO THE
ARIZONA PUBLIC SERVICE COMPANY

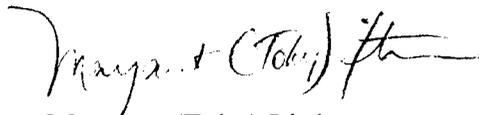
NOVEMBER 2, 2010

STAFF ACKNOWLEDGMENT

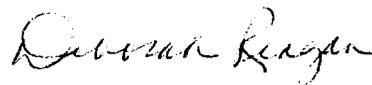
The Staff Report for Ajo Improvement Company, (Docket Nos. E-01025A-10-0334 and E-1345A-10-0334), was prepared by the Staff members shown below. Alexander Ihade Igwe was responsible for reviewing the application and performing pertinent financial analysis; Margaret (Toby) Little analyzed the engineering issues; and Deborah Reagan researched the Consumer Service issues in this proceeding.



Alexander Ihade Igwe, CPA
Executive Consultant III



Margaret (Toby) Little
Utilities Engineer



Deborah Reagan
Public Utilities Consumer Analyst II

EXECUTIVE SUMMARY
AJO IMPROVEMENT COMPANY
DOCKET NOS. E-01025A-10-0334 & E-01345A-10-0334

Ajo Improvement Company ("Ajo" or "Company") seeks the Arizona Corporation Commission ("Commission") authority to transfer fourteen 69 kV distribution line poles and related facilities to the Arizona Public Service Company ("APS"). The Company claims that the proposed transaction is integral to APS' plan to purchase renewable energy from Recurrent Energy ("RE"). RE is a developer in the process of constructing a 4.5 MW photovoltaic solar facility ("RE Ajo 1") on a property owned by Freeport McMoran Copper & Gold, Inc ("FMI"). APS will utilize assets transferred under this docket for interconnecting to RE Ajo 1, in lieu of constructing new redundant facilities.

According to the provisional terms of agreement between APS and RE, APS will purchase the renewable energy generated by RE Ajo 1, through the execution of a Small Generator Interconnection Agreement ("SGIA") with RE. RE contends that execution of a SGIA is required by its third-party financing partner before necessary funding can be approved for the RE Ajo 1 project. More importantly, the parties claim that a SGIA cannot be executed between APS and RE without Commission approval of Ajo's application to transfer pertinent assets to APS.

RE states that a component of the financing package for the proposed RE Ajo 1 project will be obtained from the American Recovery and Reinvestment Act's (ARRA) Cash Grant. The Treasury Department requires that a renewable energy project seeking funding under the ARRA must start and complete "material" construction activities by December 31, 2010. As a result, Ajo, APS and RE seek expedited processing of this application.

Staff has reviewed this application and recommends approval, for the following reasons:

1. Ajo's proposal to transfer fourteen 69 kV distribution line poles with related facilities to APS is in the public interest.
2. Ajo's request for Commission authority to transfer fourteen 69 kV distribution poles with related facilities will not impair its ability to continue to provide safe and reliable service to its customers.
3. Upon consummation of this transaction, Ajo will continue to utilize the transferred assets for provision of service at no additional cost to its rate payers.
4. Upon transfer of the above assets to APS, Ajo's ratepayers will no longer be burdened with the related maintenance costs.
5. The Company's proposal will have no negative impact on cost of service, because assets to be transferred under this docket have a net book value of zero.

6. Transfer of the referenced assets will eliminate the need for APS to construct new redundant facilities for interconnecting with RE Ajo 1.
7. This transaction will result in the development of a renewable generation facility near Ajo's certificated area.
8. The proposed solar facility could indirectly benefit Ajo's customers through APS's distribution and imbalance energy contract with FMI.

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BACKGROUND

On August 9, 2010, Ajo Improvement Company ("Ajo" or "Company") filed an application with the Arizona Corporation Commission ("Commission") for authorization to transfer certain of its assets to the Arizona Public Service Company ("APS").

Ajo is a public service corporation certificated by the Commission in Docket No. 414, dated July 13, 1917, to provide electric, water and wastewater services within approximately one-square mile in Ajo, Arizona. The Company currently serves 1,037 customers within its certificated territory.

On August 20, 2010, APS filed a motion to intervene in this proceeding. APS is a public service corporation certificated to provide electric service in Arizona. APS is the recipient of assets to be transferred under this docket.

Recurrent Energy ("RE") is an independent power producer and developer of distributed solar projects for utilities, government, and commercial customer. RE is currently in the process of constructing a 4.5 MW photovoltaic solar facility ("RE Ajo 1") on a property owned by Freeport McMoran Copper & Gold, Inc. ("FMI") in Ajo. APS will purchase the renewable energy generated by RE Ajo 1, through the execution of a Small Generator Interconnection Agreement ("SGIA") with RE. RE states that execution of an SGIA is required by its third-party financing partner before necessary funding can be approved for the RE Ajo 1 project. According to RE, the SGIA cannot be executed between APS and RE without Commission prior authorization for Ajo to transfer the necessary assets for APS to interconnect with RE Ajo 1.

RE states that funding from the American Recovery and Reinvestment Act's ("ARRA") Cash Grant, is a component of its proposed financing package for the RE Ajo 1 project. Further, RE claims that the Treasury Department requires that a renewable energy project seeking funding under the ARRA must start and complete "material" construction activities by December 31, 2010.

THE TRANSACTION

Ajo seeks to transfer fourteen (14) 69 kV distribution line poles, with related conductors, switches and insulators to APS, at net book value. These 69 kV distribution line poles currently interconnect Ajo with APS facilities on the third span of the tap on the Gila Bend/Why APD 69 kV line, which is one span north of the APS Coffee Pot substation. Ajo states that the primary purpose of this transaction is to facilitate APS' direct interconnection to the proposed RE Ajo 1 project. Also, this transaction will eliminate the need for APS to construct new redundant 69 kV distribution line for interconnecting with RE Ajo 1. The parties claim that purchase of renewable energy from RE Ajo 1 is an integral part of APS' strategy for meeting its requirement under the Renewable Energy Standard and Tariff Rules ("REST Rules").

Ajo states that the proposed transfer of its facilities to APS will not impair its ability to provide safe and reliable service to its customers. Although ownership of these facilities will transfer to APS, Ajo will continue to rely on these poles for provision of service to its customers at no additional cost. Further, the Company contends that approval of its proposal would facilitate the development of renewable generation facility adjacent to its certificated area. Finally, the Company believes that the proposed solar facility could indirectly benefit its customers through its distribution and imbalance energy contract with APS.

PUBLIC NOTICE

Staff has reviewed a copy of the Company's *Public Notice* of its application to transfer pertinent assets to APS, and found it to be appropriate. Ajo has scheduled to publish this notice on November 2, 2010, in the *Ajo Copper News*, a weekly newspaper of general circulation within and around its certificated area.

ENGINEERING ANALYSIS

Staff has reviewed the proposed transfer of assets from Ajo to APS and concludes that the proposal is reasonable. According to Ajo the Company has neither an interconnection process nor a tariff for wheeling, therefore the proposed transaction is the most cost effective and efficient means of facilitating APS' interconnection to the RE Ajo 1 facility. Finally, Staff finds that Ajo's customers could benefit from the construction of the proposed renewable plant if a portion of its generated energy is utilized to meet Ajo's local load. Such arrangement could reduce the amount of energy imported by Ajo and decrease transmission line losses. Detailed engineering analysis is attached herewith as Exhibit A.

FINANCIAL ANALYSIS

The Company's 69 kV distribution line poles and the related appurtenances were acquired at an aggregate cost of \$68,045. Ajo reports that these assets now have a zero net book value. The Company has agreed to transfer these assets to APS at recorded net book value because of the inherent benefits that its customers could derive from this transaction.

Staff finds that because the pertinent assets in this proceeding have no impact on Ajo's rate base, transfer of the assets will not negatively impact Ajo's future cost of service. Upon transfer of ownership of these poles to APS, Ajo's customers would no longer be burdened by future maintenance costs. Finally, Staff agrees with the Company that because these assets will be transferred at net book value, neither gain nor loss could arise from this transaction.

CONSUMER SERVICE ISSUES

Staff's inquiry confirmed that Ajo was in good standing with the Corporation Division of the Arizona Corporation Commission.

Consumer Services' database as of October 22, 2010, indicates there have been no complaints or opinions regarding this transaction.

CONCLUSION AND RECOMMENDATIONS

Staff finds that Ajo's proposal to transfer its 69kV distribution line poles with related facilities to APS is in the public interest. This proposal will not impair Ajo's ability to continue to provide safe and reliable service. Accordingly, Staff recommends as follows:

That the Commission approve Ajo's request for authorization to transfers its 69 kV distribution line poles and related appurtenances to APS.

That the Commission authorize Ajo to engage in any transactions and to execute or cause to be executed any documents so as to effectuate the authorizations requested with the application.

That Ajo files all pertinent documents evidencing the consummation of this transaction, no longer than 30 days from the effective date of transaction.

MEMORANDUM

TO: Alex Igwe
Executive Consultant
Utilities Division

FROM: Margaret (Toby) Little *DS*
Electric Utilities Engineer *for*
Utilities Division

DATE: October 14, 2010

RE: Ajo Improvement Company Application for Approval of the Transfer of Assets to Arizona Public Service Company (Docket Nos. E-01025A-10-0334 and E-01345A-10-0334)

On August 9, 2010, Ajo Improvement Company ("AIC") submitted an application ("Application") to the Arizona Corporation Commission ("Commission") for an order approving the transfer of fourteen (14) 69 kV distribution line poles and related facilities¹ to Arizona Public Service Company ("APS").

UTILITY OVERVIEW

AIC, a public service corporation currently regulated by the Commission, is authorized to provide electric, water and wastewater service to an approximate one-square mile of territory in Ajo, Arizona. AIC currently serves approximately 1,037 customers within the unincorporated area of Ajo, Arizona. Peak load for AIC was 3.16 MW in 2009, and has been 3.12 MW in 2010 to date.

BACKGROUND

AIC currently owns and operates a 69 kV distribution line that connects with APS facilities on the third span west of the tap on the Gila Bend/Why APS 69 kV line, which is one span north of the APS Coffee Pot substation, located east of Ajo, Arizona.

Recurrent Energy is constructing a 4.5 MW photovoltaic solar facility on property owned by Freeport McMoran Inc. ("FMI") just east of Ajo. This renewable energy facility is part of APS' current strategy to meet its requirements stemming from the Renewable Energy Standard and Tariff Rules ("REST"). AIC seeks authority to transfer a portion of its 69 KV distribution line to APS to facilitate a direct interconnection of the solar facility to the APS system.

¹ Including conductors, switches and insulators.

AIC proposes to transfer ownership of fourteen 69 kV distribution line poles and related facilities¹ to APS. AIC would transfer the facilities from the current interconnection point between AIC and APS to the point where the solar facility is to interconnect on the distribution line. This transfer would allow the solar facility to directly interconnect onto APS' system and the parties would therefore not have to build a parallel 69 kV transmission line to APS' system.

AIC has stated that the transfer of facilities will not impair its ability to provide safe and reliable service to its customers because it merely moves the AIC and APS ownership interconnection point. In addition, AIC feels that its customers will benefit indirectly through the transmission and imbalance energy contract between APS and FMI, and that transferring these assets will expedite the development of renewable generation near Ajo. AIC therefore believes that the proposed transfer is in the public interest.

STAFF REVIEW

Staff has reviewed the initial filing documents, along with responses to data requests. In answer to questions posed by Staff, AIC has provided the following additional information:

- AIC does not have an interconnection process in place or a tariff/rate structure for a wheeling arrangement. Therefore, the most efficient and cost effective method to facilitate the interconnection of the solar facility at this site is to transfer the facilities to APS.
- AIC customers will benefit because a portion of the power produced by this renewable generation project will be used to meet the local area load, thereby reducing the amount of energy that must be imported. This in turn will result in decreased transmission losses.
- The capacity of the existing line is approximately 15 MW, well above the local peak load, and there are no plans to increase the size of the line. In addition, the local generation provided by the solar facility has the potential to decrease the load on the transmission line.
- Transfer of facilities will take place immediately upon approval of the Application by the Commission.
- The facilities under consideration carry no Net Book Value, and there will be no monetary gain or loss related to the proposed asset transfer.

In addition, APS has provided the following information:

- According to the developer, the start of construction for the plant is anticipated to be 11/1/2010, construction completion will be 4/30/2011 and the project in-service date is planned to be 6/15/2011. This schedule assumes that approval of the AIC asset transfer is approved at the Commission October Open Meeting.
- Construction of the interconnection facilities (line and substation, communications facilities, relay upgrades) by APS is anticipated to begin in February 2011 and to be complete by April 30, 2011.

CONCLUSIONS AND RECOMMENDATIONS

Based on the information provided by AIC and APS, including the responses to Data Requests, Staff concludes that the transfer of fourteen utility poles and associated equipment from AIC to APS is reasonable under the terms of the Application.

Staff does not believe that a detrimental impact to service reliability will occur as a result of the transfer, nor will the transfer have a negative effect on AIC customers.