

OPEN MEETING ITEM



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COMMISSIONERS
KRISTIN K. MAYES - Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP



ARIZONA CORPORATION COMMISSION

Executive Director

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AZ CORP COMMISSION
DOCKET CONTROL

DATE: NOVEMBER 9, 2010

DOCKET NOS.: E-01025A-10-0334 and E-01345A-10-0334

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Jane Rodda. The recommendation has been filed in the form of an Order on:

AJO IMPROVEMENT COMPANY AND
ARIZONA PUBLIC SERVICE COMPANY
(TRANSFER OF ASSETS)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

NOVEMBER 18, 2010

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

NOVEMBER 22, 2010 and NOVEMBER 23, 2010

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission
DOCKETED
NOV - 9 2010

DOCKETED BY

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET; PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET; TUCSON, ARIZONA 85701-1347

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This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SBernal@azcc.gov

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES - Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION
OF AJO IMPROVEMENT COMPANY FOR
APPROVAL OF THE TRANSFER OF ASSETS
TO ARIZONA PUBLIC SERVICE COMPANY.

DOCKET NO. E-01025A-10-0334
E-01345A-10-0334

DECISION NO. _____

ORDER

Open Meeting
November 22 and 23, 2010
Phoenix, Arizona

BY THE COMMISSION:

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

1. On August 9, 2010, Ajo Improvement Company ("AIC") filed an Application for Commission approval of the transfer of fourteen (14) 69 kV distribution line poles and related facilities to Arizona Public Service Company ("APS").
2. On August 18, 2010, AIC filed a Notice of Errata, filing a diagram of the facilities to be transferred to APS.
3. The purpose of the transfer is to facilitate the interconnection of a renewable generation project near Ajo Arizona. AIC requested expedited consideration.
4. On August 20, 2010, APS filed a Motion to Intervene, which was granted on August 26, 2010.
5. On October 19, 2010, AIC filed a Request for Telephonic Conference and Expedited Consideration. AIC reported that American Recovery and Reinvestment Tax Act of 2009 ("ARRA")

1 funding is implicated in the proposed project, and that AIC was seeking a procedure that would allow
2 Commission consideration as soon as possible to safeguard ARRA funding availability.

3 6. A Procedural Conference convened on October 26, 2010, attended by representatives
4 of AIC, APS and the Commission's Utilities Division ("Staff"). AIC and APS asserted that having
5 Commission approval as soon as possible was in the public interest in order to make use of ARRA
6 funds and to keep the project on track. Staff reported that it would have a Staff Report filed within a
7 week of the Procedural Conference.

8 7. During the October 26, 2010, Procedural Conference, all parties agreed to waive the
9 ten day period for exceptions to a Recommended Order, if needed, in order to facilitate Commission
10 consideration of the matter during its November Open Meeting.

11 8. The Administrative Law Judge instructed AIC to have notice of the Application, in a
12 form to be approved by Staff, published in a newspaper of general circulation in its service area, such
13 publication to be completed as soon as possible.

14 9. On November 2, 2010, AIC caused notice of the transfer to be published in the *Ajo*
15 *Copper News*, a weekly newspaper of general circulation within and around its certificated area.
16 Prior to publication, Staff reviewed a copy of the Company's proposed notice and approved AIC's
17 form of notice.

18 10. On November 2, 2010, Staff filed its Staff Report in this matter, recommending
19 approval of the transaction.

20 11. On November 5, 2010, AIC filed Comments to the Staff Report. AIC agrees with
21 Staff's recommendations and provided additional information confirming the date of publication of
22 the Notice and clarifying the history and cost of the facilities to be transferred.

23 12. AIC provides electric, water and wastewater service in an area of approximately one-
24 square mile in Ajo, Arizona. AIC was originally granted a Certificate of Convenience and Necessity
25 ("CC&N") in 1917. Currently, AIC has about 1,037 customers within the unincorporated area of
26 Ajo, Arizona.

27 13. APS is certificated to provide electric service in Arizona.

28 14. AIC proposes to transfer fourteen 69 kV distribution line poles and related facilities,

1 comprised of conductors, switches and insulators, to APS from the point where the line interconnects
2 with APS' facilities on the third span west of the tap on the Gila Bend/Why APS 69 kV line, which is
3 one span north of the APS Coffee Pot substation. A diagram of the facilities to be transferred is
4 attached hereto as Exhibit A.

5 15. The facilities will be transferred at net book value. The facilities have a zero net book
6 value.

7 16. The purpose of the transfer is to facilitate a direct interconnection to APS from a
8 renewable generation project near Ajo, Arizona. Recurrent Energy is constructing a 4.5 MW
9 photovoltaic solar facility ("RE Ajo 1") on property owned by Freeport McMoran Inc. ("FMI") in
10 Ajo. Recurrent Energy is an independent power producer and developer of distributed solar projects
11 for utilities, government and commercial customers.

12 17. RE Ajo 1 is part of APS' current strategy to meet its requirements stemming from the
13 Renewable Energy Standard and Tariff Rules (REST Rules).

14 18. In this transaction, AIC would transfer the facilities from the current interconnection
15 point between AIC and APS to the point where RE Ajo 1 is to interconnect on the distribution line.
16 The transfer will allow the solar facility to directly interconnect into APS' system and the parties
17 would avoid building a redundant parallel 69 kV transmission line to the current Interconnection
18 Point.

19 19. APS will purchase the renewable energy generated by RE Ajo 1 through the execution
20 of a Small Generator Interconnection Agreement ("SGIA") with Recurrent Energy. Recurrent
21 Energy contends that execution of an SGIA is required by its third-party financing partner before
22 necessary funding can be approved for the solar facility. The parties claim that an SGIA cannot be
23 executed between APS and Recurrent Energy without Commission approval of AIC's application to
24 transfer the assets to APS.

25 20. Recurrent Energy states that a component of the financing package will be obtained
26 from an ARRA Cash Grant. According to the parties, the Treasury Department requires that a
27 renewable energy project seeking funding under the ARRA must start and complete "material"
28 construction activities by December 31, 2010.

1 21. AIC and APS assert that the transfer to APS will not impair AIC's ability to provide
2 safe and reliable service to its customers as the transfer merely moves the AIC and APS ownership
3 point 14 poles along the 69 kV line, and the ownership point will remain before the AIC substation
4 where the power is converted to distribution voltage and distributed to AIC customers. AIC will
5 continue to rely on the poles to provide service to its customers at no additional cost.

6 22. AIC asserts that approval of the transfer is in the public interest as transferring these
7 assets will expedite the development of renewable generation near Ajo, Arizona, and the transfer will
8 not impair service to any of AIC's customers. AIC states that although the capacity and energy of the
9 solar facility will be purchased by APS, AIC customers will benefit indirectly through the
10 transmission and imbalance energy contract between AIC and FMI.

11 23. Staff's engineering analysis concluded that the proposed transfer is reasonable. Staff
12 states that because AIC has neither an interconnection process nor tariff for wheeling, the proposed
13 transfer is the most cost effective and efficient means of facilitating APS' interconnection to the RE
14 Ajo 1 facility. Staff further finds that AIC's customers could benefit from the construction of the
15 proposed renewable plant if a portion of its generated energy is utilized to meet AIC's local load.
16 Staff states such arrangement could reduce the amount of energy imported by AIC and decrease
17 transmission line losses.

18 24. AIC believes that the original cost of the subject facilities was approximately \$68,045.
19 AIC states that it did not construct the facilities nor acquire them at cost, but that its records indicate
20 that it acquired the assets from its former parent, Phelps Dodge Corporation, for approximately
21 \$10.00 in 1996.

22 25. The assets now have a book value of zero. Staff finds that because the pertinent assets
23 have no impact on AIC's rate base, transfer of the ownership of the assets to APS will not negatively
24 impact AIC's future cost of service, and AIC will no longer bear the cost of maintaining these assets.
25 Staff agrees with AIC that because the assets will be transferred at net book value, neither gain nor
26 loss would arise from the transaction.

27 26. Staff's investigation confirmed that AIC is in good standing with the Commission's
28 Corporation Division. Staff reports no compliance issues affecting AIC.

- 1 27. Staff recommends approval of the Application for the following reasons:
- 2 (a) AIC's proposal to transfer the 69 kV distribution line poles with related facilities is
- 3 in the public interest.
- 4 (b) AIC's request for Commission authority to transfer the poles and facilities will not
- 5 impair its ability to continue to provide safe and reliable service to its customers.
- 6 (c) Upon consummation of this transaction, AIC will continue to utilize the
- 7 transferred assets to provide service at no additional cost to its ratepayers.
- 8 (d) Upon transfer of the assets to APS, AIC's ratepayers will no longer be responsible
- 9 for the related maintenance costs.
- 10 (e) AIC's proposal will have no negative impact on cost of service because the assets
- 11 to be transferred have a net book value of zero.
- 12 (f) Transfer of the assets will eliminate the need for APS to construct new redundant
- 13 facilities for interconnecting with Recurrent Energy's solar facility.
- 14 (g) The transaction will result in the development of a renewable generation facility
- 15 near Ajo's certificated area.
- 16 (h) The proposed solar facility could indirectly benefit AIC's customers through APS'
- 17 distribution and imbalance contract with FMI.

18 28. Staff further recommends that the Commission authorize AIC to engage in any

19 transactions and to execute or cause to be executed any documents necessary to effectuate the

20 authorizations requested, and that AIC file all pertinent documents evidencing the consummation of

21 the transaction within 30 days of the effective date of the transaction.

22 29. We concur with the parties that the proposed transfer of the fourteen 69 kV poles and

23 related facilities from AIC to APS is in the public service. The transfer will facilitate the construction

24 of renewable energy generation within the state and help APS meet its REST plan. AIC's quality of

25 service will not be affected, and because the facilities are being transferred at their net book value,

26 which is zero, AIC ratepayers will not be adversely financially affected on account of the transfer.

27 The AIC ratepayers may see a benefit from the reduction of maintenance costs associated with the

28 facilities and have the potential of seeing an indirect benefit through APS' contract with FMI.

CONCLUSIONS OF LAW

1 1. AIC is a public service corporation within the meaning of Article XV, Section 2, of

2 the Arizona Constitution and A.R.S. §40-285.

3 2. The Commission has jurisdiction over AIC and over the subject matter of the

1 Application.

2 3. Notice of the application was provided as required by law.

3 4. The sale of the transmission poles and related facilities from AIC to APS is in the
4 public interest.

5 **ORDER**

6 IT IS THEREFORE ORDERED that Ajo Improvement Company's application to transfer
7 fourteen 69 kV distribution line poles and related appurtenances to Arizona Public Service as
8 described in its August 9, 2010, Application is approved.

9 IT IS FURTHER ORDERED that Ajo Improvement Company is hereby authorized to
10 execute or cause to be executed any documents necessary to effectuate the authorizations approved
11 herein.

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IT IS FURTHER ORDERED that Ajo Improvement Company shall file with Docket Control all documents evidencing the consummation of the transaction no later than 30 days from the effective date of the transaction, as a compliance item in this docket.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN _____ COMMISSIONER

COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this ____ day of _____, 2010.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

1 SERVICE LIST FOR: AJO IMPROVEMENT COMPANY
2 DOCKET NOS.: E-01025A-10-0334 AND E-01345A-10-0334

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EXHIBIT "A"

Exhibit A
AIC Facilities to be transferred

