

ORIGINAL

OPEN MEETING

MEMORANDUM



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RECEIVED Arizona Corporation Commission
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2012 JUN 21 P 2:48 JUN 27 2012

TO: THE COMMISSION

FROM: Utilities Division

DATE: June 27, 2012

AZ CORP COMMISSION DOCKETED BY
DOCKET CONTROL *JM*

RE: ARIZONA PUBLIC SERVICE COMPANY-APPLICATION FOR
AUTHORIZATION TO APPLY THE CUSTOMER BALANCE IN ITS NET GAINS
ON UTILITY PROPERTY ACCOUNT AS A CREDIT TO ITS DEMAND-SIDE
MANAGEMENT ADJUSTOR CHARGE ACCOUNT
(DOCKET NO. E-01345A-12-0137)

BACKGROUND

On April 6, 2012, Arizona Public Service Company ("APS") filed its request for authorization to apply the customer balance in its Net Gains on Utility Property account as a credit to its Demand-Side Management Adjustor Charge ("DSMAC") account. On May 14, 2012, APS filed a revision to its application correcting the amount of the credit customer balance in its Net Gains on Utility Property account to be applied to the DSMAC account. APS provided Staff with information which indicated that the actual final credit customer balance in its Net Gains on Utility Property account was \$261,409 on December 31, 2011.

On June 28, 2007, the Arizona Corporation Commission ("Commission") issued Decision No. 69670 which granted APS pre-approval of certain property transactions subject to certain conditions and limitations specified in the Order. One requirement imposed on APS in Decision No. 69670, was that fifty percent of the net gain on pre-approved transactions would be credited to APS ratepayers by placing the ratepayers' portion of the gain in a separate account that accrues interest.

In addition, Decision No. 69670 ordered that "[n]o less often than once every two years on April 30 of even numbered years, the entire amount in the account, if \$100,000 or greater, will be either refunded to customers or utilized by APS to fund programs that will directly benefit customers as directed and approved by the Commission. However, should the amount in the account reach \$1.5 million earlier than six months prior to an April 30 disbursement date, disbursement of the entire amount in the account, in the manner described above, shall be undertaken as soon as practicable." The Commission has previously approved APS's requests to apply the customer balance in its Net Gains on Utility Property account as a credit to its DSMAC account in Decision Nos. 70295 (April 24, 2008) and 71716 (June 3, 2010). In addition, Decision No. 71716 clarified the filing dates for APS to file an application applying the credit customer balance.

On February 8, 2012, APS filed its Transfers of Utility Property quarterly report for the fourth quarter of 2011 in Docket No. E-01345A-06-0770 in compliance with Decision No.

69670. APS reported a credit customer balance of \$431,750¹ in its Net Gains on Utility Property account as of December 31, 2011. APS's revised filing dated May 14, 2012, reflects a balance of \$262,519² as of December 31, 2011. However, APS later provided Staff with information indicating that the actual final credit customer balance in its Net Gains on Utility Property account was \$261,409 on December 31, 2011. The new amount reflects the revisions to interest calculations and the removal of the 2009 ending customer balance of \$118,079 per Decision No. 71716.

STAFF ANALYSIS

APS states that applying the customer balance in the Net Gains on Utility Property account as a credit to the DSM Adjustor account in 2013, would directly benefit APS customers by reducing the impact of the DSMAC. According to APS, if the \$261,409 balance were directly refunded to customers, the one-time refund amount would be approximately \$0.12 for an average residential customer. Staff agrees that applying the \$261,409 to the DSM Adjustor account balance would directly benefit APS customers. This would slightly reduce the DSMAC customers would pay on their electric bill. When the new DSM adjustor rate takes effect with the first billing cycle in March 2013, the amount used to calculate the new rate would be lower by \$261,409 plus the amount of interest that the \$261,409 would have accrued in the account from the time it was paid until March 1, 2013. The customer balance of \$261,409 represents only the customer portion of the net gains on the property transactions and is equal to 50 percent of the entire net gains on the property transactions plus interest.

Staff has reviewed the other conditions placed by Decision No. 69670 on APS's pre-approval to transfer, sell, mortgage, or lease used and useful property. Based on the quarterly reports filed for 2010 and 2011, Staff has determined that APS has remained within the per-transaction cap and annual limitation specified in Decision No. 69670. In addition, Staff has concluded that APS has met all other restrictions and reporting requirements ordered in the Decision.

Below are tables and summaries of the transactions beginning January 1, 2010 through December 31, 2011.

2010 Transactions in the Net Gains on Utility Property Account

Customer Portion of Account Balance as of 12/31/2009	\$118,079
Interest 1Q Beginning Balance	\$133
Saguaro Switchyard land sale 1/20/2010	\$27,966
Pinnacle Peak Substation land sale 1/31/2010	\$187,621
Rio Vista Right of Way sale 3/31/2010	(\$9,747)
Interest from 2Q Beginning Balance³	\$232

¹ The \$431,750 inadvertently included the \$118,079 that should have been removed per Decision No. 71716.

² The \$262,519 included incorrect interest calculations.

³ There were no transactions during the second quarter of 2010. However, the balance carried over from the first quarter 2010 accrued \$232 in interest that was included in the calculation.

Per Decision No. 71716 ⁴	(\$118,079)
Customer Portion of Account Balance as of 6/30/2010	\$206,205
Interest from 3Q Beginning Balance	\$232
Excitor Diode Invent sale 7/7/2010	\$224
Sherman Street 4 land parcels 8/19//2010	\$384
CCVT Inventory sale 9/3/2010	\$191
Interest from 4Q Beginning Balance	\$233
Pinal Substation 400'x60' ft. land strip 10/1/2010	(\$394)
Gray Wolf Solar 10/7/2010	(\$23,095)
Varimax Control Valve sale from inventory 11/1/2010	\$58
230kV CCVT sale from inventory 11/1/2010	\$450
Frito Lay Distribution Assets 11/18/2010	\$2,368
9kV Arrester sale from inventory 11/19/2010	(\$1)
Valley Farms land sale to WAPA 12/30/2010	\$0
Customer Portion of Account Balance as of 12/31/2010	\$186,855

- APS sold 13.66 acres of vacant land along the south side of the APS Saguaro Power Plant to Tucson Electric Power (“TEP”) for the expansion of the TEP Tortolita Substation which is adjacent to the plant.
- APS sold 16.21 acres of substation land to Salt River Project (“SRP”) as part of the joint transmission agreement for ownership at the Pinnacle Peak Substation.
- APS donated a 0.165 acre strip of land along Union Hills Drive to the City of Surprise in lieu of condemnation.
- APS sold an Excitor Diode to Pennsylvania Power and Light Company to use in a generator to electrify electro magnets at start up. PPL needed the part on an emergency basis.
- APS sold Sherman Street land to a local business. Sale of this property saves APS from having to pay for future property maintenance costs and property taxes. Easements were retained by APS for access to a transmission line.
- APS sold a Capacitance Coupled Voltage Transformer (“CCVT”) to the Public Service Company of New Mexico to be used to step down extra high voltage to a lower voltage. This part was needed by PNM on an emergency basis.
- Little Acres Mobile Home Park (“MHP”) had leached sewage onto APS property. APS sold the property to the MHP owner due to the high cost of cleaning up the sewage. APS had no plans to expand the Pinal Substation.

⁴ Per ACC Decision No. 71716 (June 3, 2010), APS applied the entire \$118,079 credit customer balance in its Net Gains on Utility Property account to reduce the balance in its DSMAC account.

- Grey Wolf Solar is an APS solar project provided to Waste Management under contract. With the expiration of the contract, Waste Management had the option to take possession of the assets. APS will continue to provide maintenance under a separate maintenance contract.
- APS sold to other utilities a CCVT, a control valve, and an arrester per their request.
- Frito-Lay converted a portion of its Casa Grande facilities to solar. APS sold existing distribution equipment (e.g. wire, conduit, transformers, etc.) to Frito-Lay.
- Western Area Power Administration (“WAPA”) purchased an unused control house from APS at the Valley Farms Substation.

2011 Transactions in the Net Gains on Utility Property Account

Customer Portion of Account Balance as of 12/31/2010	\$186,855
Interest from 1Q Beginning Balance	\$136
Goodyear Street Light Sale 1/3/2011	\$19,168
Prescott land swap with the City of Prescott 1/12/2011	\$7,777
Speed Probe sale from inventory 1/21/2011	\$0
Interest from 2Q Beginning Balance	\$155
Pinal County Metering Station Transformer sale 4/11/2011	\$19,650
Glendale Dusk to Dawn sale 4/28/2011	(\$285)
Avondale Dusk to Dawn sale 5/10/2011	(\$1,968)
Pinnacle Peak land sale 5/21/2011	\$17,249
Saguaro Switchyard sale 5/21/2011	\$1,575
Customer Account Balance as of 6/30/2011	\$250,312
Interest from 3Q Beginning Balance	\$182
Quechan Substation land strip sale to Yuma 7/6/2011	\$11,233
Vista Substation land strip sale to Casa Grande 7/28/2011	(\$507)
Interest from 4Q Beginning Balance⁵	\$189
Customer Portion of Account Balance as of 12/31/2011	\$261,409

- Street light facilities within the City of Goodyear were sold to the City of Goodyear.
- APS exchanged existing land with the City of Prescott for adjacent land owned by the City of Prescott.
- APS sold two Speed Probe 4CC Steam Turbines to other utilities.
- APS sold transformers to the Pinal County Metering Station.
- The Dusk to Dawn lights in Glendale and Avondale were sold to the respective cities.
- APS sold 0.464 acres of land at the Pinnacle Peak Substation to Sinai Cemetery.

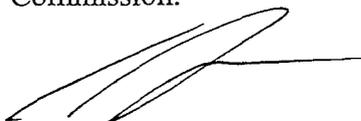
⁵ There were no transactions during the fourth quarter of 2011. However, the balance carried over from the third quarter 2011 accrued \$182 in interest that was included in the calculation.

- APS sold 0.78 acres of land at the Saguaro Switchyard to TEP for the expansion of the Tortolita Substation.
- APS sold 2,150 square feet of land at the Quechan Substation to the City of Yuma.
- APS sold 0.368 acres at the Vista Substation to the City of Casa Grande in lieu of condemnation.

RECOMMENDATIONS

Staff believes that APS' request to apply the credit customer balance in its Net Gains on Utility Property account to its DSMAC account balance is an appropriate way to benefit APS customers. In addition, Staff believes that the disposition of these funds is in compliance with Decision No. 69670. Staff further believes that APS has complied with the other conditions and limitations imposed by the Commission in connection with granting APS pre-approval to transfer, sell, mortgage, lease, assign, or otherwise dispose of used and useful property.

Therefore, Staff recommends that the Commission grant APS authorization to apply the entire \$261,409 customer balance in its Net Gains on Utility Property account to reduce its DSM Adjustor account in 2013. Staff further recommends that all other requirements of Decision No. 69670, as clarified by Decision No. 71716, remain in effect until further order of the Commission.



Steven M. Olea
Director
Utilities Division

SMO:CLA:sms\WVC

ORIGINATOR: Candrea Allen

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BEFORE THE ARIZONA CORPORATION COMMISSION

- GARY PIERCE
Chairman
- BOB STUMP
Commissioner
- SANDRA D. KENNEDY
Commissioner
- PAUL NEWMAN
Commissioner
- BRENDA BURNS
Commissioner

IN THE MATTER OF THE APPLICATION)
 OF ARIZONA PUBLIC SERVICE)
 COMPANY FOR AUTHORIZATION TO)
 APPLY THE CREDIT CUSTOMER)
 BALANCE IN ITS NET GAINS ON)
 UTILITY PROPERTY ACCOUNT TO ITS)
 DEMAND-SIDE MANAGEMENT)
 ADJUSTOR CHARGE ACCOUNT)

DOCKET NO. E-01345A-12-0137
 DECISION NO. _____
ORDER

Open Meeting
 July 18 and 19, 2012
 Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company (“APS”) is certificated to provide electricity as a public service corporation in the State of Arizona.

BACKGROUND

2. On April 6, 2012, APS filed its request for authorization to apply the customer balance in its Net Gains on Utility Property account as a credit to its Demand-Side Management Adjustor Charge (“DSMAC”) account. On May 14, 2012, APS filed a revision to its application correcting the amount of the credit customer balance in its Net Gains on Utility Property account to be applied to the DSMAC account. APS provided Staff with information which indicated that the actual final credit customer balance in its Net Gains on Utility Property account was \$261,409 on December 31, 2011.

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1 3. On June 28, 2007, the Arizona Corporation Commission (“Commission”) issued
2 Decision No. 69670 which granted APS pre-approval of certain property transactions subject to certain
3 conditions and limitations specified in the Order. One requirement imposed on APS in Decision No.
4 69670, was that fifty percent of the net gain on pre-approved transactions would be credited to APS
5 ratepayers by placing the ratepayers’ portion of the gain in a separate account that accrues interest.

6 4. In addition, Decision No. 69670 ordered that “[n]o less often than once every two years
7 on April 30 of even numbered years, the entire amount in the account, if \$100,000 or greater, will be
8 either refunded to customers or utilized by APS to fund programs that will directly benefit customers
9 as directed and approved by the Commission. However, should the amount in the account reach \$1.5
10 million earlier than six months prior to an April 30 disbursement date, disbursement of the entire
11 amount in the account, in the manner described above, shall be undertaken as soon as practicable.”
12 The Commission has previously approved APS’s requests to apply the customer balance in its Net
13 Gains on Utility Property account as a credit to its DSMAC account in Decision Nos. 70295 (April 24,
14 2008) and 71716 (June 3, 2010). In addition, Decision No. 71716 clarified the filing dates for APS to
15 file an application applying the credit customer balance.

16 5. On February 8, 2012, APS filed its Transfers of Utility Property quarterly report for the
17 fourth quarter of 2011 in Docket No. E-01345A-06-0770 in compliance with Decision No. 69670.
18 APS reported a credit customer balance of \$431,750¹ in its Net Gains on Utility Property account as of
19 December 31, 2011. APS’s revised filing dated May 14, 2012, reflects a balance of \$262,519² as of
20 December 31, 2011. However, APS later provided Staff with information indicating that the actual
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23 2009 ending customer balance of \$118,079 per Decision No. 71716.

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28 ² The \$262,519 included incorrect interest calculations.

STAFF ANALYSIS

6. APS states that applying the customer balance in the Net Gains on Utility Property account as a credit to the DSM Adjustor account in 2013, would directly benefit APS customers by reducing the impact of the DSMAC. According to APS, if the \$261,409 balance were directly refunded to customers, the one-time refund amount would be approximately \$0.12 for an average residential customer. Staff agrees that applying the \$261,409 to the DSM Adjustor account balance would directly benefit APS customers. This would slightly reduce the DSMAC customers would pay on their electric bill. When the new DSM adjustor rate takes effect with the first billing cycle in March 2013, the amount used to calculate the new rate would be lower by \$261,409 plus the amount of interest that the \$261,409 would have accrued in the account from the time it was paid until March 1, 2013. The customer balance of \$261,409 represents only the customer portion of the net gains on the property transactions and is equal to 50 percent of the entire net gains on the property transactions plus interest.

7. Staff has reviewed the other conditions placed by Decision No. 69670 on APS's pre-approval to transfer, sell, mortgage, or lease used and useful property. Based on the quarterly reports filed for 2010 and 2011, Staff has determined that APS has remained within the per-transaction cap and annual limitation specified in Decision No. 69670. In addition, Staff has concluded that APS has met all other restrictions and reporting requirements ordered in the Decision.

8. Below are tables and summaries of the transactions beginning January 1, 2010 through December 31, 2011.

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2 distribution equipment (e.g. wire, conduit, transformers, etc.) to Frito-Lay.
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20	Interest from 4Q Beginning Balance⁵	\$189
21	Customer Portion of Account Balance as of 12/31/2011	\$261,409

- 22 ▪ Street light facilities within the City of Goodyear were sold to the City of Goodyear.
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24 of Prescott.
- 25 ▪ APS sold two Speed Probe 4CC Steam Turbines to other utilities.
- 26 ▪ APS sold transformers to the Pinal County Metering Station.
- 27 ▪ The Dusk to Dawn lights in Glendale and Avondale were sold to the respective cities.
- 28 ▪ APS sold 0.464 acres of land at the Pinnacle Peak Substation to Sinai Cemetery.
- 29 ▪ APS sold 0.78 acres of land at the Saguaro Switchyard to TEP for the expansion of the
30 Tortolita Substation.
- 31 ▪ APS sold 2,150 square feet of land at the Quechan Substation to the City of Yuma.
- 32 ▪ APS sold 0.368 acres at the Vista Substation to the City of Casa Grande in lieu of
33 condemnation.

⁵ There were no transactions during the fourth quarter of 2011. However, the balance carried over from the third quarter 2011 accrued \$182 in interest that was included in the calculation.

1 RECOMMENDATIONS

2 9. Staff believes that APS's request to apply the credit customer balance in its Net Gains
3 on Utility Property account to its DSMAC account balance is an appropriate way to benefit APS
4 customers. In addition, Staff believes that the disposition of these funds is in compliance with
5 Decision No. 69670. Staff further believes that APS has complied with the other conditions and
6 limitations imposed by the Commission in connection with granting APS pre-approval to transfer, sell,
7 mortgage, lease, assign, or otherwise dispose of used and useful property.

8 10. Therefore, Staff has recommended that the Commission grant APS authorization to
9 apply the entire \$261,409 customer balance in its Net Gains on Utility Property account to reduce its
10 DSM Adjustor account in 2013. Staff has further recommended that all other requirements of Decision
11 No. 69670, as clarified by Decision No. 71716, remain in effect until further order of the Commission.

12 CONCLUSIONS OF LAW

13 1. Arizona Public Service Company is an Arizona public service corporation within the
14 meaning of Article XV, Section 2, of the Arizona Constitution.

15 2. The Commission has jurisdiction over Arizona Public Service Company and over the
16 subject matter of the Application.

17 3. The Commission, having reviewed the application and Staff's Memorandum dated June
18 27, 2012, concludes that it is in the public interest to approve Arizona Public Service Company's
19 application to apply the credit customer balance in its Net Gains on Utility Property account to its
20 DSMAC account, as specified in this order.

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ORDER

IT IS THEREFORE ORDERED that Arizona Public Service Company's request for approval to apply the \$261,396 credit customer balance in its Net Gains on Utility Property account to reduce its Demand-side Management Adjustor account balance be and hereby is approved, as discussed herein.

IT IS FURTHER ORDERED that all other requirements of Decision No. 69670, as clarified by Decision No. 71716, remain in effect until further order of the Commission.

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

BY THE 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 this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2012.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:CLA:sms/WVC

1 SERVICE LIST FOR: Arizona Public Service Company
2 DOCKET NO.: E-01345A-12-0137

3 Mr. Thomas Mumaw
4 Arizona Public Service Company
400 N. Fifth Street
M.S. 8695
5 Phoenix, Arizona 85004

6 Mr. Steven M. Olea
7 Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
8 Phoenix, Arizona 85007

9 Ms. Janice M. Alward
10 Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
11 Phoenix, Arizona 85007

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