

RULE NO. 6

SERVICE AND MAIN EXTENSIONS

Extensions of gas distribution services and mains necessary to furnish permanent service to applicants will be made in accordance with this rule.

A. GENERAL

The Utility will construct, own, operate and maintain service and main line extensions.

1. Gas service lines will be of suitable capacity from the Utility's gas main to a meter location on the property of the applicant that is satisfactory to the Utility.
2. Gas distribution main extensions will be only along public streets, roads, and highways which the Utility has legal right to occupy, and on public lands and private property across which rights-of-way, satisfactory to the Utility, may be obtained without cost or condemnation by the Utility.

B. SERVICE AND MAIN EXTENSIONS TO APPLICANTS FOR SERVICE

1. General Policy – All service and main extensions are made on the basis of economic feasibility except those for master-metered mobile home parks (MMP), whose extensions shall be made in accordance with the provisions in Section B.3 hereof. The economic feasibility will be calculated by the Incremental Contribution Method as described in Section B.4 hereof.
2. Facility Charge – If any applicant fails to take service in amounts stated as the basis for estimating the allowable investment, the Utility may calculate and bill the customer and the customer shall pay a nonrefundable Facilities Charge according to the Utility's extension rule in effect at the time the extension was made as though service had been requested on the basis of the actual equipment installed and utilized. At its option, the Utility may require a performance bond or other surety guaranteeing bona fide operation of the facility for which the extension is requested in accordance with applicant's representation in the contract.

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B. SERVICE AND MAIN EXTENSIONS TO APPLICANTS FOR SERVICE (Continued)

3. If the residential customers are tenants in a fully improved MMP and the MMP is currently or was formerly served under a master-metered mobile home park schedule, the allowable investment for the MMP will be determined by the following formula:

$$AI = (FR - CR) \times 5$$

where:

AI = Allowable Investment

FR = The MMP's estimated future total annual revenue, assuming conversion to individual residential service, using the MMP's average park occupancy for the past two years, less the Utility's current average cost of purchased gas to serve the MMP as set forth in the currently effective Statement of Rates, A.C.C. Sheet No. 13 of this Arizona Gas Tariff.

CR = The MMP's current total annual revenue, under the applicable master-metered mobile home park schedule, averaged for the past two years, less the Utility's current average cost of purchased gas to serve the MMP as set forth in the currently effective Statement of Rates, A.C.C. Sheet No. 13 of this Arizona Gas Tariff. If the MMP is not a current customer of the Utility, the CR will be determined on the basis of engineering estimates of occupancy and usage.

The Utility will install that portion of each service in excess of the allowance subject to a nonrefundable contribution to be paid prior to construction by the applicant MMP. In no event shall costs above the allowable investment be borne by the Utility.

4. Incremental Contribution Method - Gas service and main line extensions will be made by the Utility at its expense for the allowable investment as calculated by an Incremental Contribution Study.

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B. SERVICE AND MAIN EXTENSIONS TO APPLICANTS FOR SERVICE *(Continued)*

- a. Allowable investment shall mean a determination by the Utility that the revenues less the incremental cost to serve the applicant customer provides a rate of return on the Utility's investment no less than the overall rate of return authorized by the Commission in the Utility's most recent general rate case.
- b. The Utility, after conducting an Incremental Contribution study may, at its option, extend its facilities to Customers whose usage does not satisfy the definition of Economic Feasibility but who otherwise are Permanent Customers provided such Customer signs an extension agreement and advances as much of the cost, and/or agrees to pay a nonrefundable Facility Charge necessary to make the extension economically feasible.
- c. Customers provided with line extensions using the Incremental Contribution Method shall be reviewed annually to determine the amount of any refund as follows:
 - (1) For a period of five years except as in Item (2) below.
 - (2) For a period of ten years for feeder mains to serve master-planned subdivisions.

5. Method of Refund

Amounts advanced by the applicant in accordance with this rule, less any unpaid Facility Charges, shall be refunded, without interest, in the following manner:

- a. Refunds of an advance shall be made for each additional separately metered permanent service connected to the main extension for which an advance was collected when an excess allowable investment is calculated by the Incremental Contribution Study for the additional customer(s).
- b. No refunds will be made for additional customers connecting to a further extension or series of extensions constructed beyond the original extension.

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- B. SERVICE AND MAIN EXTENSIONS TO APPLICANTS FOR SERVICE *(Continued)*
- c. Refunds will be made annually, or intermittently within the annual period at the option of the Utility. Amounts refunded may be accumulated to a minimum of \$50, or the total refundable balance if less than \$50.
 - d. When two or more parties make a joint advance on the same extension, refundable amounts will be distributed to these parties in the same proportion as their individual percentages of the total joint advance.
 - e. The refund period shall be five years from the date of the completion of the extension, except that in the case of feeder mains to serve master-planned subdivisions, the refund period shall be ten years. No refunds will be made by the Utility after the termination of the refund period. Any portion of the advance that remains unrefunded at the end of the refund period shall remain the property of the Utility.
 - f. Any assignment by a customer of their interest in any part of an advance, which at the time remains unrefunded, must be made in writing and approved by the Utility.
 - g. Amounts advanced under a gas main extension rule previously in effect will be refunded in accordance with the provisions of such rule.
- C. SERVICE AND MAIN EXTENSIONS TO SERVE INDIVIDUALLY-METERED SUBDIVISIONS, TRACTS, HOUSING PROJECTS, MULTI-FAMILY DWELLINGS AND MOBILE HOME PARKS OR ESTATES
- 1. Advances
 - a. Gas distribution service and main extensions to and within individually-metered subdivisions, housing projects, multi-family dwellings and mobile home parks or estates will be constructed, owned and maintained by the Utility in advance of applications for service by bona fide customers only when the entire estimated cost of such extensions as determined by the Utility is advanced to the Utility, and a main extension contract is executed. This advance may include the cost of any gas facilities installed at the Utility's expense in conjunction with a previous service or main extension in anticipation of the current extension.

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C. SERVICE AND MAIN EXTENSIONS TO SERVE INDIVIDUALLY-METERED SUBDIVISIONS, TRACTS, HOUSING PROJECTS, MULTI-FAMILY DWELLINGS AND MOBILE HOME PARKS OR ESTATES *(Continued)*

- b. When a subdivider/builder/developer is building a project in consecutive phases such that each phase is constructed separately and requires separate advances, unused allowances from one phase may be applied to an outstanding advance in any other phase so long as such outstanding advance is still eligible for refund.
- c. See Rule No. 6, Section B.3(h) for governing requests to serve MMP through individual residential meters if the MMP is currently or was formerly served under a MMP schedule.

D. RESIDENTIAL AMORTIZATION PROGRAM

The Utility shall establish a residential amortization program for the purpose of amortizing the portion of the cost of main and service extensions in excess of the Utility's allowable investment in those instances where such excess cost presents an undue burden upon the customer if paid as a lump sum. This program may be offered to groups of ten or more direct residential customers which are judged by the Utility to be of a permanent and continuing nature. Pursuant to the program, main and service line extension contracts may be established to amortize that portion of an extension project's cost in excess of the Utility's allowable investment.

The Utility will make its decision on whether to offer amortization of a project's line extension expense on a case-by-case basis considering the following criteria:

1. The magnitude of the amount of the line extension cost for which the customer is responsible;
2. The degree of certainty with which the Utility may recover the line extension costs that it permits a group of customers to amortize; and

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D. RESIDENTIAL AMORTIZATION PROGRAM (Continued)

3. The ability of the Utility to recover its allowable investment over the life of the facilities.

If the Utility, after receiving a request from a qualified group of ten or more direct residential customers, declines to offer amortization of the project's line extension expense, the Utility shall submit details of the project to the Utilities Division of the Commission for review.

The amortization period of the aforementioned contract shall not exceed five years. The customer's contribution toward the line extension project shall constitute the principal of the contract. The customer will reimburse the Utility for its share of the principal by means of a monthly amortization charge. The customer's monthly amortization charge shall be determined by dividing the contract's principal by the product of: (a) the number of months over which the customer contribution is amortized, and (b) the number of customers projected to be served by the line extension project. If the monthly amortization charge is greater than the amount of the average monthly bill for residential service under Schedule No. G-5, the Utility shall submit details of the proposed project to the Utilities Division of the Commission for review. The monthly amortization charge shall appear on the customer's monthly bill for service. All monthly amortization charge revenues shall be used to reimburse the Utility for the capital cost in excess of the free allowance. If a customer that is a party to such a contract should disconnect service, and later reconnect at the same service address, the customer shall pay the Utility the sum of any unpaid monthly amortization charges accrued during the period of disconnection, plus the applicable Service Establishment Charge, before service shall be reestablished.

The Utility may permit additional customers to enter into line extension contracts, when servicing such customers requires connection to a line extension that is already subject to such contracts. Such additional customers shall, in addition to any incremental connection costs, pay the monthly amortization charge provided in the contract until such contract expires. The monthly amortization charge in the final month of the amortization period shall be adjusted, to account for any change in the estimated number of customers, such that the sum of charges paid over the term of the contract equals the principal.

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D. RESIDENTIAL AMORTIZATION PROGRAM *(Continued)*

In instances where a customer that is a party to a line extension contract disconnects service, the entirety of the remaining balance of the principal of the contract shall become due and payable immediately by the customer to the Utility, unless such customer arranges for the subsequent customer requesting gas service at the same service address to execute a new line extension contract. This new contract shall obligate the subsequent customer to pay the monthly amortization charge under terms identical to those of the original contract.

In instances where the remaining balance of the principal becomes due and payable immediately, the Utility shall make reasonable efforts to collect such remaining balance from the customer; however, if such efforts prove unsuccessful, the defaulted balance shall become the Utility's investment in gross plant.

The residential amortization program shall not be available to developers, contractors or other commercial entities.

E. GENERAL CONDITIONS

1. Postponement of Advance

The Utility, at its option, may postpone, for a period not to exceed five years, that portion of an advance which it estimates would be refunded under the provisions of this rule. At the end of such refund period, the Utility shall collect all such amounts not previously advanced which were not then refundable. When advances are postponed, the applicant may be required to furnish to the Utility evidence of the necessary approvals to commence construction and of adequate financing. A surety bond, or other Utility-approved surety, may be required to assure payment of any postponed amounts at the end of the postponement period.

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2. Contracts

- a. Each applicant requesting an extension in advance of applications for service will be required to execute a contract covering the terms under which the Utility will install main lines in accordance with the provisions of the tariff schedules.
- b. At the time service is requested, the applicant will submit a list of natural gas equipment to be used including the Btu input.
- c. In the event that no payment is required by a customer, the required signed contract may be waived with the approval of an officer of the Utility.

3. One Service for a Single Premise

- a. The Utility will not install more than one service line to supply a single premise, unless it is for the convenience of the Utility or an applicant requests an additional service, and in the opinion of the Utility, an unreasonable burden would be placed on the applicant if the additional service were denied. When an additional service is installed at the applicant's request, the applicant shall make a nonrefundable contribution for the additional service based on the Utility's estimated cost.
- b. When a service extension is made to a meter location upon private property which is subsequently subdivided into separate premises, with ownership portions thereof divested to other than the applicant or the customer, the Utility shall have the right, upon written notice, to discontinue service without obligation or liability. Gas service, as required by said applicant or customer, will be reestablished in accordance with the applicable provisions of the Utility's rules.

4. Branch Services

The Utility, at its option, may install a branch service for units on adjoining premises.

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5. Main Extension Agreement Requirements

- a. Upon request by an applicant for a main extension, the Utility shall prepare, without charge, a preliminary sketch and rough estimate of the cost of the installation to be advanced by the applicant.
- b. Any applicant for a main extension requesting the Utility to prepare detailed plans, specifications, or cost estimates may be required to deposit with the Utility an amount equal to the estimated cost of preparation. The Utility shall, upon request, make available within 90 days after receipt of the deposit referred to above, such plans, specifications, or cost estimates of the proposed main extension. Where the applicant authorizes the Utility to proceed with the construction of the extension, the deposit shall be credited to the cost of construction; otherwise, the deposit shall be nonrefundable. If the extension is to include oversizing of facilities to be done at the Utility's expense, appropriate details shall be set forth in the plans, specifications and cost estimates. Subdividers providing the Utility with approved plans shall be provided with plans, specifications or cost estimates within 45 days after receipt of the deposit referred to above.
- c. Where the Utility requires an applicant to advance funds for a main extension, the Utility shall furnish the applicant with a copy of this rule prior to the applicant's acceptance of the Utility's extension agreement.
- d. All main extension agreements requiring payment by the applicant shall be in writing, signed by each party and shall include the following:
 - (1) Name and address of applicant(s).
 - (2) Proposed service address(es) or location(s).

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E. GENERAL CONDITIONS *(Continued)*

- (3) Description and sketch of the requested main extension.
- (4) Description of requested service.
- (5) A cost estimate to include materials, labor, and other costs as necessary.
- (6) Payment terms.
- (7) A concise explanation of any refunding provisions, if applicable.
- (8) The Utility's estimated start date and completion date for construction of the main extension.
- (9) A summary of the results of the Incremental Contribution analysis performed by the Utility to determine the amount of advance required from the applicant for the proposed main extensions.
- (10) Each applicant shall be provided a copy of the approved main extension agreement.

6. Relocation of Services and Mains

- a. When, in the judgment of the Utility, the relocation of a main or service is necessary and is due either to maintenance of adequate service or the operating convenience of the Utility, the Utility shall perform such work at its own expense.
- b. If relocation of a main or service line is due solely to meet the convenience or the requirements of the applicant or the customer, such relocation, including metering and regulating facilities, shall be performed by the Utility at the expense of the applicant or the customer.

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c. Relocation of facilities will be mandatory and at the customer's expense when actions of the customer restrict the Utility's access to or the safety of the facility.

7. Standby Service or Residential Pool Heating

No allowance will be made for equipment used for standby or emergency purposes only. No allowance will be made for pool heaters for residential customers.

8. Temporary Service

Extensions for temporary service or for operations, which in the opinion of the Utility are of a speculative character or of questionable permanency will not be made under this rule, but will be made in accordance with Rule No. 3.

9. Length and Location

The length of main or service required for an extension will be considered as the distance along the shortest practical and available route, as determined by the Utility, from the Utility's nearest permanent distribution main.

10. Service Impairment to Other Customers

When, in the judgment of the Utility, providing service to an applicant would impair service to other customers, the cost of necessary reinforcement to eliminate such impairment may be included in the cost calculation for the extension.

11. Service From Transmission Lines

The Utility will not tap a gas transmission main except when conditions in its sole opinion justify such a tap. Where such taps are made, the applicant will pay the Utility the cost of such tap, and extensions therefrom will be made in accordance with the provisions of this rule.

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12. Other Types of Connections

Where an applicant or customer requests a type of service connection other than standard such as curb meters and vaults, etc., the Utility will consider each such request and will grant such reasonable allowance as it may determine. The Utility shall install only those facilities that it determines are necessary to provide standard natural gas service in accordance with this tariff. Where the applicant requests the Utility to install special facilities which are in addition to, or in substitution for, or which result in higher costs than the standard facilities which the Utility would normally install, the extra cost thereof shall be borne by the applicant.

13. Excess Flow Valve Installation Option

In accordance with Title 49, Section 192.383 of the Code of Federal Regulations, the installation of an excess flow valve, as defined in Rule No. 1, shall be performed by the Utility on a new or replaced single residence service line at the request of a customer. The installation of an excess flow valve is not mandatory; if a customer elects this installation, the Utility shall perform the installation subject to the customer assuming responsibility for all costs associated with installation, maintenance and replacement. Each customer requesting the installation of an excess flow valve will be required to execute a written agreement.

14. Exceptional Cases

In unusual circumstances, when the application of this rule appears impractical or unjust to either party, the Utility or the applicant may refer the matter to the Commission for special ruling or for the approval of special conditions which may be mutually agreed upon, prior to commencing construction.

15. Taxes Associated with Nonrefundable Contributions and Advances

Any federal, state or local income taxes resulting from a nonrefundable contribution or advance by the customer in compliance with this rule will be recorded as a deferred tax and appropriately reflected in the Utility's rate base. These deferred taxes will be amortized over the remaining tax life of the asset.