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August 23, 2005

HAND DELIVERED

Ms. Lyn Farmer
Chief Administrative Law Judge
Hearing Division
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

Re: *Southwest Transmission Cooperative, Inc. ("SWTC") Comments on the Staff Report dated August 9, 2005; SWTC's Application for Authorization to Apply the Proceeds of Previously Authorized Debt to a Different Purpose; Docket No. E-04100A-05-0151*

Dear Lyn:

On August 9, 2005, Staff filed its report on this matter (the "Staff Report") recommending approval of SWTC's Application. SWTC supports approval. However, one of the conditions recommended by Staff has been satisfied and another is inconsistent with Decision No. 68702—the Commission's Opinion and Order on SWTC's rate case which was approved at Open Meeting on the same day the Staff Report was filed and which was entered on August 17, 2005 (the "Decision").

At page 4 of the Staff Report, Staff recommends approval of the Application "contingent upon the Commission approving an operating income no less than recommended by Staff in the pending rate proceeding..." That operating income was approved by the Commission in the Decision and, therefore, that condition has been satisfied. (Decision, Finding 28.)

Staff also recommends that this financing approval require that SWTC adhere "to a plan to increase equity as a percentage of total capital to 30 percent no later than the end of 2015." That issue was actively contested in the recently concluded rate case and Staff's position on the 30 percent level was rejected by the Commission:

SWTC opposes, however, the concept that 30 percent equity is an appropriate goal for the Commission to adopt.

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The evidence is inconclusive, however, to make a finding that a 30 percent capital requirement is an appropriate goal for a transmission cooperative such as SWTC.

We do not adopt a requirement now, or do we read Decision No. 64227 as requiring, that SWTC achieve any specific equity goal.

Our decision not to accept a 30 percent equity goal at this time should not be interpreted as a finding on any particular ultimate equity requirement.

(Decision, Findings 37 and 39.)

Consistent with those Findings, the Commission did not adopt any equity level as recommended in this Staff Report, but instead ordered SWTC to file an equity improvement plan by March 31, 2006.¹ (Decision, Final Ordering Paragraph, p. 11.)

In light of the foregoing, SWTC requests that the Commission approve this Application without Staff's recommended condition concerning the 30 percent equity plan. Your assistance in relation to this matter is appreciated.

Very truly yours,

GALLAGHER & KENNEDY, P.A.



By:
Michael M. Grant

MMG/plp
15169-7/1292940

Original and 13 copies filed
with Docket Control this 23rd
day of August, 2005.

cc (delivered): Lyn Farmer
Tim Sabo

¹ SWTC advised the Commission during the Open Meeting that it may be necessary to seek an extension of this filing date.