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BEFORE THE ARIZONA CORPORATION COMMISSION

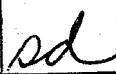
COMMISSIONERS

MARC SPITZER, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES

Arizona Corporation Commission

DOCKETED

OCT 27 2003

DOCKETED BY 

IN THE MATTER OF THE APPLICATION OF
SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT FOR
AN ORDER AUTHORIZING ITS ISSUANCE OF
REVENUE BONDS AND REFUNDING
REVENUE BONDS.

DOCKET NO. E-02217A-03-0232

66469

ORDER

Open Meeting
October 21 and 22, 2003
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. Salt River Project Agricultural Improvement and Power District ("SRP") is an agricultural improvement district duly organized and existing under Title 48, Chapter 17, Arizona Revised Statutes, and is a political subdivision of the State of Arizona pursuant to Article 13, Section 7 of the Arizona Constitution.

2. SRP is principally engaged in the purchase and sale of electricity in Maricopa, Pinal and Gila Counties in Arizona, and the generation of electricity in the states of Arizona, New Mexico, Nevada and Colorado, primarily for sale in Arizona. SRP provides electric power to over 804,000 customers in its 2,900 square mile service territory in major populated sections of Maricopa County, Arizona, as well as portions of Pinal and Gila Counties, where it serves mining load requirements.

3. On April 14, 2003, SRP filed an application with the Commission for an order authorizing the issuance of up to \$580,000,000 in revenue bonds and up to \$640,000,000 in refunding

1 bonds ("Application"). Pursuant to A.R.S. § 48-2465.B, SRP must secure "an order authorizing the
2 issuance of such bonds in accordance with those provisions of § 40-302 pertaining to the issuance of
3 bonds."

4 4. SRP published notice of the Application on May 9, 2003 in the *Arizona Republic*.

5 5. For the fiscal years 2004 through 2009, SRP estimates its capital expenditure
6 requirements to be approximately \$2.57 billion. Distribution plant is the largest category of
7 expenditures and is estimated to require approximately \$1.013 billion of expenditures. The
8 remaining projected areas of need are energy, approximately \$718 million; transmission,
9 approximately \$240 million; corporate, approximately \$223 million; water, approximately \$129
10 million; and a contingency allowance of \$250 million.

11 6. The Commission's Engineering Staff ("Engineering") reviewed the Application and
12 SRP's 2003-2009 Electric System Work Plan, and concluded that the new projects proposed by SRP
13 to be paid for by the funds generated from new debt are appropriate to meet the projected needs of
14 SRP's new customers and to ensure system reliability, and that the associated costs appear to be
15 reasonable.
16

17 7. SRP intends to issue up to \$580 million of revenue bonds to finance improvement and
18 expansion of electrical plant assets to keep up with demand growth in its service areas. The new
19 revenue bonds will be issued for a maximum term of fifty years, and will be marketed through
20 underwriters or sold in private placements at the best available terms and conditions. The actual
21 interest rate is unknown at this time, but SRP will try to achieve the minimum interest rate possible.
22 Assuming an interest rate of 3 percent, annual interest cost for the new revenue bonds would be
23 \$17,400,000 per year.
24

25 8. SRP also intends to issue up to \$640,000,000 of refunding bonds in order to take
26 advantage of reduced interest rates to reduce its debt service requirements. Staff states that most
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1 outstanding SRP bonds have interest rates in the 4.5 to 5.0 percent range, but some outstanding issues
2 have interest rates as high as 6.5 percent. Although the exact amount of savings cannot be
3 determined until the refinancing is completed, SRP expects to achieve interest savings exceeding all
4 refinancing costs and reducing debt service requirements. Staff calculates that a 2.0 percent per
5 annum interest savings on \$640,000,000 would be \$12,800,000 before costs.

6 9. The Application requests that SRP's capacity to issue alternative bond products be
7 increased from seven to fifteen percent of its total capitalization, to accommodate greater flexibility
8 in financial planning. Decision No. 58386 (September 2, 1993) granted SRP authority to issue bond
9 derivatives in an amount not to exceed seven percent of SRP's total capitalization, and Decision No.
10 64253 (December 4, 2001) continued the limitation of the total amount of alternative bond products
11 to seven percent of total capitalization.

12 10. SRP currently has two alternative bond products outstanding: Short Term Adjustable
13 Rate Securities ("STARS") and Short Term Rate Inverse Payment Exempt Securities ("STRIPES").
14 The total outstanding amount at March 31, 2003 was \$26.6 million. Institutional holders of STARS
15 earn a variable rate of interest approximating the rate on short-term money market investments, while
16 STRIPES holders receive a return that moves inversely with short-term rates of interest. Staff states
17 that the flexibility afforded by these alternative bond products works to reduce debt costs to SRP.
18

19 11. Staff states that total capitalization for SRP as of April 30, 2003 was \$5,478,000,000,
20 such that seven percent and fifteen percent of capitalization were \$383,460,000 and \$821,700,000,
21 respectively.
22

23 12. Based on its analysis of selected financial information from fiscal year 2003, Staff
24 determined that SRP's current capital structure consists of 4.9 percent short-term debt, 53.3 percent
25 long-term debt, and 41.8 percent equity. Staff's analysis shows that the proposed debt and debt
26 restructuring would change the capital structure to 4.3 percent short-term debt, 59.5 percent long-
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1 term debt, and 36.3 percent equity, resulting in a reasonable capitalization balance.

2 13. Staff states that it concludes that the issuance of new debt to finance plant additions
3 and to refinance existing debt is in the public interest, consistent with sound financial practices and
4 with SRP's duties as a public service entity. Staff recommends that the Commission authorize SRP
5 to issue up to \$580,000,000 of revenue bonds for plant construction needs and no more than
6 \$640,000,000 in refunding bonds.

7
8 14. Staff recommends that the Commission authorize SRP to increase the limit on
9 alternative bond products and bond derivatives to 15 percent of capitalization, provided the following
10 minimum performance standards are maintained:

11 1) The minimum investment grade ratings for any long-term debt issue is A- by
12 Standard and Poor's and A3 by Moody's;¹ and

13 2) Total long-term debt is no more than 70 percent of capitalization.

14 15. Staff further recommends that SRP be ordered to provide to the Commission, within
15 60 days of sale, a synopsis of terms and conditions of any sale of revenue bonds or refunding bonds
16 including the estimated savings over the life of such issue in the case of refunding bonds.

17 16. Staff further recommends that SRP be ordered to demonstrate, within 60 days of sale,
18 that any bonds issued are at competitive market rates by providing a report of an independent
19 financial advisor for each issuance.

20
21 17. In exceptions it filed to the Proposed Order on October 15, 2003, SRP stated that it has
22 decided not to pursue the expansion of the current limit on issuance of derivatives or other alternative
23 bond products at this time, and thereby withdrew its request to increase the cap on the issuance of
24 derivatives or other alternative bond products to fifteen percent. Staff's recommendation as set forth
25 in Findings of Fact No. 14 is therefore moot.
26

27 ...
28 ¹ Staff states that the current SRP Revenue Bond ratings are AA by Standard and Poor's and Aa2 by Moody's.

CONCLUSIONS OF LAW

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2 1. The Commission has jurisdiction over the Application pursuant to A.R.S. §§ 40-302
3 and 48-2465.B.

4 2. The proposed issuance by SRP of the revenue bonds and the refunding revenue bonds
5 as requested in the Application are within the powers of SRP as an agricultural improvement district
6 pursuant to A.R.S. §§ 48-2465 and 48-2471 and are compatible with the public interest.

7
8 3. The revenue and refunding bonding authority approved herein is for the purposes
9 stated in the Application and is reasonably necessary for those purposes, and such purposes are not,
10 wholly or in part, reasonably chargeable to operating expenses or to income.

11 4. Notice of the Application was given in accordance with the law.

ORDER

12
13 IT IS THEREFORE ORDERED that the Application of Salt River Project Agricultural
14 Improvement and Power District for authorization to issue revenue bonds in an amount not to exceed
15 \$580,000,000 for plant construction purposes and for authorization to issue an amount not to exceed
16 \$640,000,000 in refunding revenue bonds as described herein is hereby approved, subject to the
17 conditions set forth herein.
18

19 IT IS FURTHER ORDERED that the authorization granted herein is expressly conditioned
20 upon the application by Salt River Project Agricultural Improvement and Power District of the
21 proceeds derived thereby for those purposes set forth in the Application.

22 IT IS FURTHER ORDERED that Salt River Project Agricultural Improvement and Power
23 District shall be authorized to take any and all steps necessary to effectuate the authorization herein.

24 IT IS FURTHER ORDERED that Salt River Project Agricultural Improvement and Power
25 District shall file with the Commission a report including the date of issuance, interest rate, maturity,
26 the amount of discount or premium, issuance expenses, and the report of an independent financial
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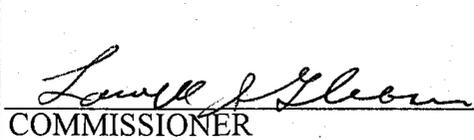
1 advisor showing that the bonds issued are at competitive market rates, within sixty days after the issuance
2 of any revenue bonds or refunding bonds authorized by this Decision.

3 IT IS FURTHER ORDERED that Salt River Project Agricultural Improvement and Power
4 District shall file with the Commission a report with an analysis showing the savings to be
5 experienced over the life of any refunding bonds issued under authority of this Decision, within sixty
6 days of issuance of such refunding bonds.

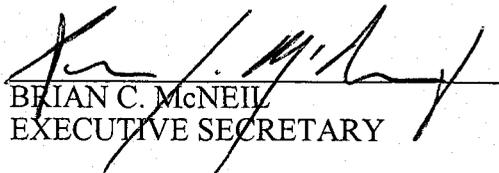
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8 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

9 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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11   
12 CHAIRMAN COMMISSIONER COMMISSIONER

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15 COMMISSIONER COMMISSIONER

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17 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
18 Secretary of the Arizona Corporation Commission, have
19 hereunto set my hand and caused the official seal of the
20 Commission to be affixed at the Capitol, in the City of Phoenix,
21 this 27th day of October, 2003.

22 
23 BRIAN C. McNEIL
24 EXECUTIVE SECRETARY

25 DISSENT _____

26 DISSENT _____

27 TW:mlj

1 SERVICE LIST FOR:

SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT

2
3 DOCKET NO.:

E-02177A-03-0232

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