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BEFORE THE ARIZONA CORPORATION COMMISSION
Arizona Corporation Commission

COMMISSIONERS

DOCKETED

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

NOV 14 2005

DOCKETED BY	<i>KW</i>
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IN THE MATTER OF THE APPLICATION OF
PINNACLE WEST CAPITAL CORPORATION TO
PROVIDE NOTIFICATION OF ITS INTENT TO
INCREASE ITS EQUITY INTEREST IN
ARIZONA PUBLIC SERVICE COMPANY
UNDER A.A.C. R14-2-803.

DOCKET NO. E-01345A-05-0520

DECISION NO. 68295

ORDER

Open Meeting
November 8 & 9, 2005
Phoenix, Arizona

BY THE COMMISSION:

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS") is a public service corporation principally engaged in furnishing electricity in the State of Arizona. APS provides either retail or wholesale electric service to substantially all of Arizona, with the major exceptions of the Tucson metropolitan area and about one-half of the Phoenix metropolitan area. APS also generates, sells and delivers electricity to wholesale customers in the western United States.

2. On July 20, 2005, Pinnacle West Capital Corporation ("Pinnacle West") filed an application with the Arizona Corporation Commission ("Commission") providing notice pursuant to A.A.C. R14-2-803 of its intent to increase its equity interest in APS. Pinnacle West is the parent company of APS, and an "affiliate" pursuant to A.A.C. R14-2-801 et. seq.

3. On August 26, 2005, Pinnacle West and the Commission's Utilities Division ("Staff") filed a Stipulation and Request for Procedural Order.

4. On September 16, 2005, by Procedural Order, dates were established for Staff filing

1 its Staff Report and for Pinnacle West to file any response thereto.

2 5. On September 30, 2005, Staff filed its Staff Report recommending approval of the
3 application with certain conditions.

4 6. On October 7, 2005, Pinnacle West and APS filed a Response to the Staff Report.

5 7. According to the application, because APS serves one of the fastest growing regions in
6 the country, its outside capital needs are and will continue to be substantial. APS states that the cost
7 to customers of degraded credit quality is substantial, in terms of both higher interest rates and
8 potential inability to access capital, as well as in "threats to service quality". Pinnacle West believes
9 that increasing its equity stake in APS is an essential element of maintaining APS as an investment-
10 grade utility. The application requests that the Commission permit the Notice to expire after 120
11 days without action by the Commission.

12 8. APS intends to increase its equity by more than \$450 million through investments by
13 Pinnacle West and retention of earnings. Pinnacle West issued \$250 million of common stock in May
14 2005 and invested \$100 million of the proceeds into APS and plans to invest the remaining \$150
15 million in APS.

16 9. The \$200 million in proceeds from the sale of a power plant in Nevada by GenWest,
17 L.L.C., a wholly owned subsidiary of Pinnacle West, will also be invested in APS. This infusion
18 may take place in either late 2005, or in 2006, depending upon when the sale closing occurs.

19 10. Pursuant to A.A.C. R14-2-803(C), the "Commission may reject the proposal if it
20 determines that it would impair the financial status of the public utility, otherwise prevent it from
21 attracting capital at fair and reasonable terms, or impair the ability of the public utility to provide
22 safe, reasonable and adequate service."

23 11. Staff concluded that:

- 24 • the proposed equity infusion would strengthen APS' capital structure and increase its
25 ability to obtain more favorable financing in the future;¹
- 26 • there is no basis under A.A.C. R14-2-803(C) to reject the capitalization plan;

27 ¹ APS' existing capital consists of 9.1 percent short-term debt, 45.8 percent long-term debt, and 45.1 percent equity. With
28 the equity infusion, the capital structure would consist of 8.4 percent short-term debt, 42.0 percent long-term debt; and
49.7 percent equity.

- no determination of the ratemaking treatment of the equity infusion is necessary or appropriate in this docket.

12. Staff recommended that the reorganization be approved.

13. The proposed equity infusion would not impair the financial status of APS, but rather strengthen it; it would not prevent it from attracting capital at fair and reasonable terms, but rather improve the likelihood for obtaining capital on better terms; and it would not impair the ability of APS to provide safe, reasonable and adequate service. Accordingly, the Notice of Intent should be approved.

CONCLUSIONS OF LAW

1. Arizona Public Service Company is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-202, and A.A.C. R14-2-801 et. seq.

2. Pinnacle West is an affiliate of APS pursuant to A.A.C. R14-2-801 et. seq.

3. The Commission has jurisdiction over Arizona Public Service Company and Pinnacle West Capital Corporation and the subject matter of the application.

4. Pursuant to A.A.C. R14-2-803 and Decision No. 58063, APS and Pinnacle West must file a notice of intent with the Commission when the Companies plan a change to the existing financial interest in the utility of more than \$100 million during a year.

5. Staff's recommendations are reasonable and will be adopted.

ORDER

IT IS THEREFORE ORDERED that Pinnacle West Capital Corporation and Arizona Public Service Company's Notice of Intent to Increase Equity as set forth in the application and herein, is hereby approved.

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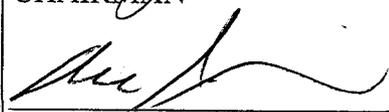
1 IT IS FURTHER ORDERED that this approval is for the purposes set forth in the application
2 and herein, including the equity infusion resulting from the sale of the Nevada power plant which
3 may occur in calendar year 2006.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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7 
8 CHAIRMAN


9 COMMISSIONER

10 
COMMISSIONER


COMMISSIONER


COMMISSIONER

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12 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
13 Director of the Arizona Corporation Commission, have
14 hereunto set my hand and caused the official seal of the
15 Commission to be affixed at the Capitol, in the City of Phoenix,
16 this 14th day of NOV., 2005.


17 BRIAN C. McNEIL
EXECUTIVE DIRECTOR

18 DISSENT _____

19
20 DISSENT _____

1 SERVICE LIST FOR: ARIZONA PUBLIC SERVICE COMPANY

2 DOCKET NO.: E-01345A-05-0520

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