

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER



ORIGINAL



ARIZONA CORPORATION COMMISSION

RE 0000039148

2001 NOV 15 P 1:55

DATE: NOVEMBER 15, 2001

DOCKET NO: E-01773A-01-0701

AZ CORP COMMISSION
DOCUMENT CONTROL

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Lyn Farmer. The recommendation has been filed in the form of an Order on:

ARIZONA ELECTRIC POWER COOPERATIVE, INC.
(FINANCE)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by 12:00 p.m. on or before:

NOVEMBER 20, 2001

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

NOVEMBER 27, 2001 and NOVEMBER 28, 2001

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250.

Arizona Corporation Commission

DOCKETED

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BRIAN C. McNEIL
EXECUTIVE SECRETARY

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BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF
ARIZONA ELECTRIC POWER COOPERATIVE,
INC. FOR FINANCING APPROVAL.

DOCKET NO. E-01773A-01-0701
DECISION NO. _____

ORDER

Open Meeting
November 27 and 28, 2001
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 Electric Power Cooperative, Inc. ("AEPCO" or "Applicant") is an electric power wholesaler/cooperative that provides power primarily to its Class A, B, and C members.
2. AEPCO had been a non-taxable entity until fiscal year 2000, when its power sales to non-members exceeded fifteen percent of revenues. AEPCO anticipates regaining non-taxable status for fiscal year 2001.
3. On September 4, 2001, AEPCO filed an application seeking authorization to enter into interim and permanent financing arrangements to borrow \$30,000,000 for up to 30 years.
4. The requested funding will be used by AEPCO to finance construction of a new 38 MW gas turbine at the Apache Generation Station near Wilcox, Arizona. The additional electric plant is intended to meet anticipated shortfalls in capacity through 2004.
5. AEPCO contracted with General Electric to purchase the turbine, and expects delivery by May 2002. AEPCO has paid \$6,291,052 from its cash account to General Electric under the agreed upon progress payment schedule.

1 6. The interim financing will be obtained from either the National Rural Utilities
2 Cooperative Finance Corporation ("CFC") and/or the Rural Utilities Service ("RUS"), with an
3 expected financing rate of approximately 6.20 percent. AEPCO expects to obtain the permanent
4 financing from the Rural Utilities Service and the Federal Financing Bank, for a term of 30 years
5 with quarterly debt service payments.

6 7. On November 1, 2001, the Utilities Division Staff ("Staff") filed its Staff Report, and
7 on November 13, 2001, Staff filed its Amended Staff Report.

8 8. Staff's analysis of the proposed financing focused on AEPCO's interest coverage
9 ratios and its capital structure. Staff is concerned that AEPCO is highly leveraged and that this
10 proposed financing will not improve its equity position. AEPCO's pro-forma capital structure for
11 2001 includes member capitalization of 2.1 percent.¹ Although this is an improvement, Staff
12 believes that the equity position is marginal. Staff believes that AEPCO should improve its equity
13 position because currently there is little cushion to offset volatility in fuel costs, non-member energy
14 sales, fuel transportation costs, and purchased power costs. Therefore, Staff recommends that
15 AEPCO be required to submit to the Commission by December 31, 2002, a capital plan to increase its
16 membership capital (equity) position to ten percent by December 31, 2006, to fifteen percent by end
17 of 2010, and to 30 percent by end of 2015.

18 9. Staff also analyzed AEPCO's ability to satisfy current and proposed debt payments.
19 Under previous financings from RUS and the CFC, AEPCO is currently required to maintain a
20 minimum times interest earned ratio ("TIER") of 1.05 and a debt service coverage ("DSC") ratio of
21 1.0. Staff's analysis was based on a long-term loan of \$30,000,000 at 5.69 percent, and results in a
22 pro-forma TIER of 1.51 and a pro-forma DSC of 1.13. Staff recommends an 8 percent interest rate
23 cap to insure that debt issuance remains consistent with sound financial principles.

24 10. Accordingly, based upon its analysis and identified concerns, Staff recommends that
25 the interim financing be approved in the amount of \$23,700,000², and that the replacement permanent
26

27 ¹ AEPCO recently spun-off its transmission and one other entity, with cash being distributed amongst the three
28 entities in proportion to their respective assets. Therefore, according to Staff, financial statements for AEPCO as a stand-
alone generation-only entity are not yet available

² \$30,000,000 less the \$6,291,052 already paid.

1 financing be approved for the entire \$30,000,000.

2 **CONCLUSIONS OF LAW**

3 1. AEPCO is a public service corporation within the meaning of Article XV of the
4 Arizona Constitution and A.R.S. §§ 40-301 and 40-302.

5 2. The Commission has jurisdiction over AEPCO and the subject matter of the
6 application.

7 3. Notice of the requested financing was given to AEPCO's members.

8 4. Staff's recommendations set forth in Findings of Fact No. 8, 9 and 10 are reasonable
9 and should be adopted.

10 5. The financing approved herein is for lawful purposes within AEPCO's corporate
11 powers, is compatible with the public interest, with sound financial practices, and with the proper
12 performance by AEPCO of service as a public service corporation, and will not impair AEPCO's
13 ability to perform that service.

14 6. The financing approved herein is for the purposes stated in the application and is
15 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably
16 chargeable to operating expenses or to income.

17 **ORDER**

18 IT IS THEREFORE ORDERED that Arizona Electric Cooperative, Inc. is authorized to
19 borrow up to \$23,700,000, on an interim basis, from either the National Rural Utilities Cooperative
20 Finance Corporation and/or the Rural Utilities Service.

21 IT IS FURTHER ORDERED that Arizona Electric Cooperative, Inc. is authorized to replace
22 the interim financing with permanent financing from the Rural Utilities Service and the Federal
23 Financing Bank, in an amount no greater than \$30,000,000.

24 IT IS FURTHER ORDERED that the terms of all financings authorized herein shall include a
25 cap on the interest rate at 8 percent.

26 IT IS FURTHER ORDERED that Arizona Electric Cooperative, Inc. is hereby authorized to
27 engage in any transactions and to execute any documents necessary to effectuate the authorization
28 granted herein.

1 IT IS FURTHER ORDERED that Arizona Electric Cooperative, Inc. is hereby authorized to
2 issue such liens or other security in relation to its property as may be required to secure the
3 borrowings.

4 IT IS FURTHER ORDERED that such authority is expressly contingent upon Arizona
5 Electric Cooperative, Inc.'s use of the proceeds for the purposes set forth in its application.

6 IT IS FURTHER ORDERED that approval of the financing set forth herein does not
7 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
8 proceeds derived thereby for purposes of establishing just and reasonable rates.

9 IT IS FURTHER ORDERED that Arizona Electric Cooperative, Inc. shall file with the
10 Commission copies of all executed financing documents setting forth the terms of the financing,
11 within 30 days of obtaining such financing.

12 IT IS FURTHER ORDERED that Arizona Electric Cooperative, Inc. shall file with the
13 Commission a capital plan as discussed herein, no later than December 31, 2002.

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

15 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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18 CHAIRMAN COMMISSIONER COMMISSIONER

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21 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
22 Secretary of the Arizona Corporation Commission, have
23 hereunto set my hand and caused the official seal of the
24 Commission to be affixed at the Capitol, in the City of Phoenix,
25 this ____ day of _____, 2001.

24

25 BRIAN C. McNEIL
26 EXECUTIVE SECRETARY

26

27 DISSENT _____
28 LAF:dap

28

1 SERVICE LIST FOR: ARIZONA ELECTRIC COOPERATIVE, INC.

2 DOCKET NO. E-01773A-01-0701

3
4 Michael M. Grant
5 GALLAGHER & KENNEDY, P.A.
6 2575 E. Camelback Road
7 Phoenix, Arizona 85016-9225
8 Attorneys for Arizona Electric Cooperative, Inc.

9
10 Christopher Kempsey, Chief Counsel
11 Legal Division
12 ARIZONA CORPORATION COMMISSION
13 1200 West Washington Street
14 Phoenix, Arizona 85007

15
16 Ernest G. Johnson, Director
17 Utilities Division
18 ARIZONA CORPORATION COMMISSION
19 1200 West Washington Street
20 Phoenix, Arizona 85007

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