

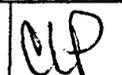


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Arizona Corporation Commission
BEFORE THE ARIZONA CORPORATION COMMISSION
DOCKETED

1
2 WILLIAM A. MUNDELL
CHAIRMAN
3 JIM IRVIN
COMMISSIONER
4 MARK SPITZER
COMMISSIONER
5

DEC 04 2001

DOCKETED BY 

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

DOCKET NO. E-02217A-01-0183

ORDER DECISION NO. 64253

9 Open Meeting
November 27 and 28, 2001
10 Phoenix, Arizona

11 **BY THE COMMISSION:**

12 Having considered the entire record herein and being fully advised in the premises, the
13 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

14 **FINDINGS OF FACT**

15 1. Salt River Project Agricultural Improvement and Power District ("SRP") is an
16 agricultural improvement district duly organized and existing under Title 48, Chapter 17, Arizona
17 Revised Statutes, and is a political subdivision of the State of Arizona pursuant to Article 13, Section
18 7 of the Arizona Constitution.

19 2. SRP is principally engaged in the generation of electricity in the states of Arizona,
20 New Mexico, Nevada and Colorado, and the purchase and sale of electricity to customers in
21 Maricopa, Pinal and Gila Counties in Arizona. At the end of SRP's fiscal year ending April 30,
22 2001, it served 746,386 customers.

23 3. SRP has three affiliated companies. New West Energy Corporation ("New West"),
24 received a Certificate of Convenience and Necessity to provide competitive retail electric service in
25 Arizona in Decision No. 61944 (September 17, 1999). New West markets SRP's surplus energy and
26 provides other retail energy services, and SRP acts as a guarantor of New West's contractual
27 obligations. Papago Park Center, Inc., another wholly-owned subsidiary of SRP, is engaged in land
28 development, and the third affiliate, the Salt River Valley Water Users' Association, is the

1 predecessor of SRP and operates and maintains the irrigation system of the Salt River Project as
2 SRP's agent.

3 4. On March 1, 2001, SRP filed an application with the Commission for an order
4 authorizing the issuance of up to \$500,000,000 in revenue bonds and up to \$550,000,000 in refunding
5 bonds ("Application"). Pursuant to A.R.S. § 48-2465.B, SRP must secure "an order authorizing the
6 issuance of such bonds in accordance with those provisions of § 40-302 pertaining to the issuance of
7 bonds."

8 5. For the fiscal years 2002 through 2004, SRP expects to spend approximately \$1.7
9 billion on capital items. Distribution plant is the largest category of expenditures and will require
10 553.9 million of expenditures. Transmission, generation, competitive services, corporate services,
11 and water operations will require \$1.1 billion over the same period.

12 6. SRP intends to issue up to \$500.0 million in revenue bonds to finance distribution
13 plant. Revenue bonds issued by an agricultural improvement district are secured by a pledge of and a
14 lien on the revenues of its electric system, and the interest paid on the revenue bonds is not subject to
15 income tax.

16 7. SRP also seeks authorization to issue up to \$550.0 million in refunding bonds
17 associated with the \$500.0 million revenue bonds. Revenue bonds issued by SRP often have "call"
18 features which allow for the redemption of a bond prior to its scheduled maturity. The decision to
19 refund a specific bond depends upon the interest rates and call provisions on outstanding bonds,
20 current market interest rates, the cost of funding an escrow, and other issuance costs. Using this
21 analysis, the net present value savings for each issue is determined. According to SRP, historically, it
22 has not refunded long maturity debt unless the debt service savings were 7.0 percent or greater, but
23 has refunded shorter maturity debt with savings as low as 3.0 percent.

24 8. Bond derivatives¹ are debt instruments that provide bondholders an income stream
25 based on the market, rather than a coupon rate. The Commission granted SRP authority to issue
26 derivatives for the first time in Decision No. 58386 (September 2, 1993) in order to provide SRP with
27

28 ¹ Bond derivatives are also known as "alternative bond products".

1 the opportunity for further debt service savings through the refunding process. The Commission
2 restricted the issuance of derivatives to 7.0 percent of SRP's total capitalization, and in Decision No.
3 58625 (May 2, 1994) continued to apply the 7.0 percent restriction. Currently, SRP has two types of
4 alternative bond products. As part of its 1993 Series C bond sale, SRP issued \$36.7 million of Short
5 Term Adjustable Rate Securities ("STARS") and \$36.7 million of Short Term Rate Inverse Payment
6 Exempt Securities ("STRIPES"). The two derivative issues total slightly over 2.0 percent of SRP's
7 total outstanding debt at the end of the most recent fiscal year. Staff recommends that SRP continue
8 to have the ability to issue alternative debt instruments in a limited amount, with the total amount of
9 derivatives to comprise no more than 7.0 percent of its total capitalization, consistent with SRP's
10 prior Applications.

11 9. On June 11, 2001, SRP filed an amendment to the application ("Amended
12 Application"), requesting approval of up to an additional \$175,000,000 in revenue bonds to refund
13 commercial paper ("Commercial Paper Revenue Bonds") and up to an additional \$200,000,000 of
14 associated refunding bonds. SRP currently has outstanding commercial paper in the amount of
15 \$525.0 million, including \$150.0 million of Series A commercial paper, and \$375.0 million of Series
16 B commercial paper². In Decision No. 55209 (September 18, 1986) and Decision No. 56381 (March
17 9, 1989), the Commission authorized SRP to issue up to \$425.0 million of revenue bonds to retire the
18 Series B commercial paper. With this amended application, SRP seeks authority to issue revenue
19 bonds to retire the Series A commercial paper, and corresponding authority to issue refunding
20 revenue bonds.

21 10. According to the Staff Report, SRP's financial statements reflect continued strong
22 financial health. SRP's capital structure has strengthened, with long-term debt falling from 63.0
23 percent of its capital structure in 1999, to 57.3 percent in 2001. SRP's debt service coverage ratios
24 have also increased during the same time period, from 3.20 in 1999, to 4.72 in 2001. In December,
25

26 ² The proceeds from the Series B commercial paper were used to refund prior notes that were issued, in part, to finance
27 additions, improvements, and replacements to SRP's electrical power generation, transmission, distribution, and related
28 facilities; finance a portion of the fuel inventory; and refund debt incurred under bank lines of credit. The proceeds from
the Series A commercial paper were used to retire an equivalent amount of revenue bonds.

1 2000, Moody's Investor Service, Municipal Credit Research, Public Power, published an analysis of
 2 SRP's financial health and credit strength, stating that "[t]he Salt River Project's Aa2 rating and
 3 positive outlook rests on its strong financial position, competitive rates, diverse power mix, and a
 4 history of stable management" Staff notes that SRP's cash position at the end of the 2000-2001
 5 fiscal year totaled close to \$1.0 billion.

6 11. In its Staff Report, Staff expresses concerns that the new debt will be allocated solely
 7 to distribution assets. Staff also discusses how SRP's plan to enact a new master bond resolution and
 8 recapitalize its debt ("Recapitalization Plan") would significantly increase the amount of debt
 9 attributed to distribution. In the past, the allocation of SRP's debt proceeds to the various distribution,
 10 generation, and transmission functions was inconsequential because all were included under one rate.
 11 With the advent of electric competition and the effect of rate unbundling on customer retention, the
 12 allocation of debt solely to the distribution function could have an effect on rates to distribution
 13 customers. This is because the cash requirements of the distribution business would be
 14 disproportionately higher than the cash requirements of the more competitive sectors of SRP's
 15 business. If distribution rates reflected this allocation, distribution customers would have no
 16 alternative provider, as distribution service is not subject to competition.

17 12. According to the Staff Report, SRP assured Staff that it has no plans to divest
 18 generation or transmission, and that for accounting purposes, issuance purposes and rate setting, it
 19 will continue to spread the debt balances among the three functions.³ SRP has also assured Staff that
 20 the allocation or "attribution" of debt for tax purposes will not be adopted for ratemaking. Further,
 21 pursuant to A.R.S. § 40-302.C, our approval of SRP's financing requests restricts SRP to use the
 22 proceeds for the purposes set forth in Orders.

23 13. On September 12, 2001, the Commission's Utilities Division Staff ("Staff") issued its
 24 Staff Report recommending approval of the Amended Application without a hearing, with the
 25 following conditions:

- 26 a. bond derivatives and alternative bond products should be limited to 7.0
 percent of SRP's capital structure;
 27 b. SRP file a report including the date of issuance, interest rate, maturity,

28 ³ For tax purposes, SRP will "attribute" the new bond proceeds solely to distribution plant.

- 1 the amount of discount or premium and issuance expenses, within two
2 weeks after the issuance of any bonds authorized by this Decision; and
3 c. SRP file a report showing the savings to be experienced from the
4 issuance of refunding bonds authorized by this Decision, within two
5 weeks after issuance of the refunding bonds.

6 Staff believes that with the above conditions, pursuant to A.R.S. § 40-302, the debt issuance is
7 reasonably necessary and appropriate for the purposes specified in the application and that such
8 purposes are not reasonably chargeable to operating expenses or to income.

9 CONCLUSIONS OF LAW

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

12 2. The proposed issuance by SRP of the revenue bonds and the refunding revenue bonds
13 as requested in the Application and the Amended Application is within the powers of SRP as an
14 agricultural improvement district pursuant to A.R.S. §§48-2465 and 48-2471 and is compatible with
15 the public interest.

16 3. The revenue and refunding bonding authority approved herein is for the purposes
17 stated in the application and is reasonably necessary for those purposes, and such purposes are not,
18 wholly or in part, reasonably chargeable to operating expenses or to income.

19 4. Notice of the application was given in accordance with the law.

20 ORDER

21 IT IS THEREFORE ORDERED that the Application of Salt River Project Agricultural
22 Improvement and Power District for authorization to issue an amount not to exceed \$500,000,000 of
23 revenue bonds for construction purposes and for authorization to issue an amount not to exceed
24 \$550,000,000 of associated refunding revenue bonds as described herein is hereby approved subject
25 to the conditions set forth herein.

26 IT IS FURTHER ORDERED that the Application of Salt River Project Agricultural
27 Improvement and Power District for authorization to issue an amount not to exceed \$175,000,000 of
28 revenue bonds for the purpose of retiring Series A Commercial Paper and for authorization to issue
an amount not to exceed \$200,000,000 of associated refunding revenue bonds as described herein is
hereby approved subject to the conditions set forth herein.

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

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

7 IT IS FURTHER ORDERED that the total amount of derivatives or other alternative bond
8 products issued by Salt River Project Agricultural Improvement and Power District shall not exceed
9 seven percent of its total capitalization.

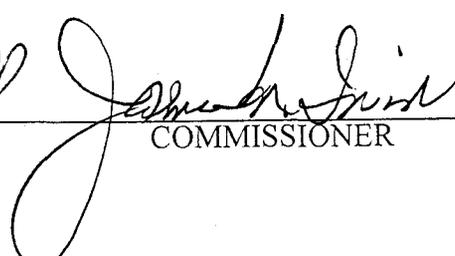
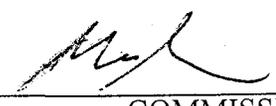
10 IT IS FURTHER ORDERED that Salt River Project Agricultural Improvement and Power
11 District shall file with the Commission a report including the date of issuance, interest rate, maturity,
12 the amount of discount or premium, and issuance expenses within two weeks after the issuance of
13 any revenue bonds authorized by this Decision.

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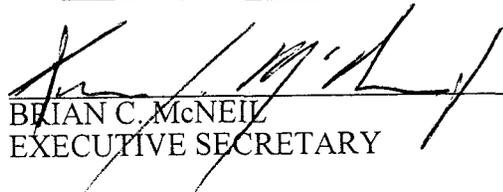
1 IT IS FURTHER ORDERED that Salt River Project Agricultural Improvement and Power
2 District shall file with the Commission a report with an analysis showing the savings to be
3 experienced from issuance of any refunding bonds authorized by this Decision, within two weeks of
4 issuance of such refunding bonds.

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

6 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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9 CHAIRMAN COMMISSIONER COMMISSIONER
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12 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
13 Secretary 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 4th day of December, 2001.

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18 BRIAN C. McNEIL
19 EXECUTIVE SECRETARY

20 DISSENT _____

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SERVICE LIST FOR:

SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT

DOCKET NO.:

E-02177A-01-0183

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