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THIS AMENDMENT:

Passed as amended by _____

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GLEASON PROPOSED AMENDMENT # 1

AZ CORP COMMISSION
DOCUMENT CONTROL

TIME/DATE PREPARED: 3:30 p.m./March 26, 2003

COMPANY: Arizona Public Service Co.

AGENDA ITEM NO. U-1

DOCKET NO. E-01345A-02-0707

OPEN MEETING:DATE: March 27, 2003

Page 24:

DELETE: Line 1

DELETE: Lines 5-28

Page 25, DELETE: Lines 1-16

Page 26, Lines 19-20:

DELETE: "We believe that APS should have the flexibility to use the guarantee option if it would be in the best interests of the ratepayers."

INSERT: We believe that the guarantee option is in the best interest of the ratepayers."

Page 26, Lines 22 - 25:

DELETE: Not all of the debt to be refinanced is due this summer, and it may be possible to use a combination of debt now and guarantee later. If APS chooses to use the guarantee option, it shall consult with Staff to make sure that the transaction's structure meets Staff's concerns."

INSERT: "We find that a guarantee is the only acceptable financing method for several reasons. First, a guarantee, unlike a loan, would not require APS to make loan payments. APS cash would remain available to fund needed APS utility operations. It may be argued that APS would merely pass on to the lender the repayment made by PWEC, and its cash flow would not be affected. However, it is conceivable that PWEC may not make timely payments or make all payments without necessarily going into default. In such a case, APS cash would be used to pay the loan and APS would have to wait for restitution. While the record provides no evidence that PWEC plans to miss payments or default, the reality of a volatile wholesale

Arizona Corporation Commission

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market requires the Commission to consider this unlikely result in determining what is in the best interest of the ratepayers. Second, a guarantee, more so than a loan, promotes this Commission's policy of a competitive wholesale market. We stated in Decision No. 65434 (December 3, 2002) that we would examine ways to improve regulatory insulation between APS and its affiliates in this docket. A loan between APS and PWEC would decrease regulatory insulation between the two entities. Third, a guarantee allows PWEC to make an entry into the financial markets and furthers the goal of PWEC becoming a creditworthy, standalone entity. Fourth, it is appropriate that PWEC should refinance PWEC debt. Fifth, a guarantee does not preposition this Commission to place PWEC assets in APS' rate base. A loan would have APS obtain a security interest in PWEC assets while a guarantee does not. While this Order does not prejudge the issue of placing PWEC's assets in APS' rate base, a loan from APS to PWEC with a corresponding security interest makes this possibility more likely. Finally, it is relevant to note that APS testified that it considers a guarantee an acceptable form of financing.

We disagree with APS that a guarantee is more expensive than a loan. With a guarantee, PWEC would not have to pay any basis points. Furthermore, while PWEC does not have an investment grade rating, APS does. APS' creditworthiness, as a guarantor of PWEC's loan, should provide the necessary assurances to lenders to provide a loan at a reasonable interest rate.

We also disagree that a PWEC loan with an APS guarantee would take significantly more time than having APS obtain unsecured financing and then loan those proceeds to PWEC in a separate transaction. APS and PWEC would approach the same lending institutions with either a loan or a guarantee. In either situation the commitment by APS to the lender is unsecured. Also in both types of financing, APS is obligated to pay the debt upon a PWEC default. Since the lender's ability to collect from APS upon a default is the same whether the financing be in the form of a loan or a guarantee, the public policy considerations make a guarantee the option that is in the best interest of the ratepayers. Accordingly, we find that APS should be authorized to guarantee PWEC's debt in an amount not to exceed \$500 million."

Page 27, Line 10:

DELETE: "borrowing funds to lend to an affiliate"
INSERT: "guaranteeing its affiliate's debt"

Page 27, Line 24:

DELETE: "use the borrowed funds"

INSERT: "guarantee debt in order"

Page 27, Line 26:

DELETE: "according to the rating agencies,"

Page 27, Line 27:

DELETE: "additional debt"

INSERT: "guarantee"

Page 27, Line 27:

DELETE: beginning with "Although Staff" through page 28, line 7, ending with "capital from APS."

INSERT: "A guarantee with the conditions of Staff adopted herein, will not impair APS' ability to perform its service as a public service corporation and is consistent with sound financial practices."

Page 29, Line 6:

DELETE: "approval of the application"

INSERT: "allowing APS to guarantee PWEC debt"

Page 29, Line 17:

DELETE: "new debt"

INSERT: "guarantee"

Page 31, Lines 2-6:

DELETE: "We believe that our condition to require APS to obtain a security interest in the PWEC assets assures that the debt follows the assets, and the interest premium paid by PWEC will compensate APS for its risk. We agree that it is not in the public interest for APS to use its assets to secure its debt and will limit the debt APS issues to unsecured debt only."

INSERT: "While this Commission recognizes that FERC provides conditions for a loan, its reasoning can be applied equally to a guarantee. APS shall not secure its guarantee with APS assets because the proceeds of the debt are not being used for a utility purpose. In sum, the \$500,000,000 refinancing of PWCC's bridge loan shall be refinanced by PWEC. APS may provide an unsecured guarantee to support PWEC's debt refinance."

Page 33, Lines 24 – 25:

DELETE: "and in order to protect APS' security interests in PWEC's generation assets and to promote the public interest,"

Page 34, Line 1:

DELETE: "loan or"

Page 39, DELETE Finding of Facts 25 and 26. INSERT new Findings of Fact 25 and 26:

"25. Reports by Fitch, Moody's and Standard and Poor indicate that PWEC is in need of APS credit support. However, the credit support poses some risks to APS and its ratepayers. Therefore, it is in the public interest that APS guarantee PWEC's loan. This Commission attaches several conditions to granting APS this authority including (1) APS shall meet the requirements of Staff conditions 5, 6 and 7, (2) APS shall not secure its guarantee with APS assets, (3) APS shall inform the Commission in the event of a PWEC loan default so the Commission can take appropriate action; (4) neither PWCC nor PWEC shall reorganize or restructure, acquire or divest assets, or form, buy or sell affiliates or pledge or otherwise encumber the PWEC generation assets during the duration of the guarantee without prior Commission approval; and that during the term of the guarantee, APS and its affiliates must comply with all Affiliated Interest Rules; (5) APS shall obtain a fair market value appraisal of the PWEC assets prior to issuing a guarantee, and such guarantee shall not exceed the appraised value; and (6) APS shall consult with Staff to make sure that the structure of the guarantee meets Staff's concerns and is consistent with the conditions of this Order."

26. APS shall structure the guarantee with the conditions attached hereto in a manner that will provide the most protection for its ratepayers."

Page 40, Line 22:

DELETE: "either issue non-secured debt in an amount not greater than \$500,000,000 and/or"

Pages 40-41: DELETE the third Ordering paragraph