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THIS AMENDMENT:

Passed as amended by _____

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HATCH-MILLER PROPOSED AMENDMENT #2 AZ CORP COMMISSION DOCUMENT CONTROL

TIME/DATE PREPARED: 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 40, Line 22

After "\$500,000,000" **Insert** "and loan proceeds to Pinnacle West Energy Corporation"

Page 41, Line 6

Replace "contingent" with "conditioned"

Arizona Corporation Commission

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Page 41, Line 7

Replace "herein" with "below in this ordering paragraph"

MAR 26 2003

Page 41, Line 8

After the period **Insert:** "The conditions are:

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- 1) APS should be authorized to issue and sell no more than \$500,000,000 of debt in addition to its current authorizations;
- 2) The debt to be lent to PWEC should be no more than \$500,000,000 of secured callable notes from PWEC. The security interest shall be on the same terms as the security interest APS already has pursuant to the \$125,000,000 loan authorization from Decision No. 65434;
- 3) The PWEC secured note coupon shall be 264 basis points above the coupon on APS debt issued and sold on equivalent terms (including but not limited to maturity and security);
- 4) The difference in interest income and interest expense should be capitalized as a deferred credit and used to offset rates in the future. The deferred credit balance shall bear an interest rate of six percent;
- 5) The PWEC debt maturity shall not exceed four years, unless otherwise ordered by the Commission;
- 6) Any demonstrable increase in APS' cost of capital as a result of the transaction, such as from a decline in bond rating, will be extracted from future rate cases;

- 7) APS shall maintain a minimum common equity of 40 percent and shall not be allowed to pay dividends if such payment would reduce its common equity ratio below this threshold, unless otherwise waived by the Commission. This condition shall remain in effect indefinitely, and APS shall file with the Commission a calculation of capital structure within one week of filing a 10-Q or 10-K;
- 8) Any guarantee shall meet the same concerns identified in Staff's seven conditions;
- 9) APS' debt issuance be for unsecured debt only;
- 10) Neither PWCC nor PWCC 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 loan/guarantee without prior Commission approval; and
- 11) During the term of the loan or guarantee, APS and its affiliates must comply with all the Affiliated Interest Rules."

Page 41, Line 9

Insert new ordering paragraph:

"IT IS FURTHER ORDERED that with respect to any waiver sought by Arizona Public Service Company under Condition No. 7, the Commission shall process such waiver request within 60 days and, for this 60-day period, the condition shall be suspended. However, Condition No. 7 shall not be permanently waived without an order of the Commission."