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AZ CORP COMMISSION
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MEMORANDUM

TO: Docket Control
FROM: Ernest G. Johnson
Director
Utilities Division

DATE: July 25, 2003

RE: STAFF REPORT FOR TUCSON ELECTRIC POWER COMPANY, APPLICATION
FOR FINANCING AUTHORIZATION (DOCKET NO E-01933A-03-0307)

Attached is the Staff Report for Tucson Electric Power Company application for a financing authorization. Staff recommends approval.

EGJ: JHJ: rdp

Originator: J. H. JOHNSON

Attachment: Original and sixteen copies

Arizona Corporation Commission

DOCKETED

JUL 25 2003

DOCKETED BY	CR
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Service List for: Tucson Electric Power Company
Docket No. E-01933A-03-0015

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

TUCSON ELECTRIC POWER COMPANY

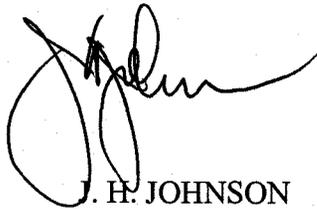
DOCKET NO. E-01933A-03-03037

**APPLICATION FOR A
FINANCING AUTHORIZATION**

JULY 2003

STAFF ACKNOWLEDGMENT

The Staff Report for Tucson Electric Power Company, Docket No. E-01933A-03-0307 was prepared by J. H. Johnson, who reviewed and analyzed the Company's application.

A handwritten signature in black ink, appearing to read 'J. H. Johnson', is positioned above the printed name.

J. H. JOHNSON
PUBLIC UTILITIES ANALYST III

EXECUTIVE SUMMARY

Tucson Electric Power Company ("TEP") filed an application with the Arizona Corporation Commission ("Commission") on May 13, 2003, requesting an order authorizing refinancing of \$401,000,000 in revolving credit and letter of credit facilities. TEP requests authorization to refinance the credit facilities approved in Decision No. 65209, dated September 20, 2002, as it believes more advantageous terms and conditions now exist for non-investment grade utilities. TEP also filed for authorization to refinance any approved facilities in the future as advantageous refinancing conditions may arise.

The facilities presently are:

1. A \$60 million Revolving Credit Facility with a maturity of November 13, 2003.
2. A \$135 million Letter of Credit Facility that matures on January 31, 2006.
3. A \$206 million Letter of Credit Facility that matures on November 13, 2006.

The Revolving Credit Facility is used to provide liquidity for general utility corporate purposes and had an outstanding balance of \$20 million as of May 13, 2003. The Letter of Credit Facilities are used to support \$329 million aggregate principal amount of tax-exempt variable-rate debt obligations and up to \$12 million in accrued interest obligations.

TEP is a wholly owned subsidiary of Unisource Energy Corporation and is a corporation organized and existing under the laws of the State of Arizona. TEP provides electrical service to Tucson, Ft. Huachuca, and part of Pima County surrounding Tucson. TEP operates facilities for generation, transmission, distribution, and sale of electricity and owns portions of generating stations within and outside of Arizona.

Staff concludes that the proposed transaction is within the powers of the applicant, is in the public interest, and is consistent with sound financial practices.

Staff recommends approval of the request for authorization to refinance the Revolving Credit Facility and the Letter of Credit Facilities for an aggregate amount not to exceed \$401 million.

Further, Staff recommends approval of the issuance of tax-exempt bonds in an amount not to exceed \$200 million, secured or unsecured, as a direct dollar-for-dollar offset to reductions in the Letter of Credit Facilities and the tax exempt revenue bonds supported by the letter of credit facilities. The tax-exempt bonds are to have maturities not exceeding forty years.

Staff recommends approval of any reimbursement agreement with any bond insurer where the bonds are issued based on the insurer's credit rating which is higher than TEP's. TEP agrees to reimburse any insurer should the bond be called upon.

Staff recommends denial of the request for authorization to refinance any facilities in the future without Commission review.

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SCHEDULES

SELECTED FINANCIAL DATA	SCHEDULE JHJ -1
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ATTACHMENT

NOTICES OF PUBLICATION

Introduction

Tucson Electric Power Company ("TEP") filed an application with the Arizona Corporation Commission ("Commission") on May 13, 2003, requesting an order authorizing refinancing of \$401,000,000 in revolving credit and letter of credit facilities. TEP requests authorization to refinance the credit facilities approved in Decision No. 65209, dated September 20, 2002, as it believes more advantageous terms and conditions now exist for non-investment grade utilities. TEP also filed for authorization to refinance any approved facilities in the future as advantageous refinancing conditions may arise.

The facilities presently are:

1. A \$60 million Revolving Credit Facility with a maturity of November 13, 2003.
2. A \$135 million Letter of Credit Facility that matures on January 31, 2006.
3. A \$206 million Letter of Credit Facility that matures on November 13, 2006.

The Revolving Credit Facility is used to provide liquidity for general utility corporate purposes and had an outstanding balance of \$20 million as of May 13, 2003. The Letter of Credit Facilities are used to support \$329 million aggregate principal amount of tax-exempt variable rate debt obligations and up to \$12 million to cover interest accrued on such obligations.

TEP is a wholly owned subsidiary of Unisource Energy Corporation. TEP, a corporation duly organized and existing under the laws of the State of Arizona, owns, leases, and operates facilities for the generation, purchase, transmission, distribution, and sale of electricity in the City of Tucson, in the surrounding Pima County area, and to Fort Huachuca in Cochise County. TEP also owns interests in the Springerville Generating Station, Arizona Generating Station, Four Corners Generating Station, San Juan Generating Station, and transmission facilities serving those generation stations. The latter two plants are located in the Farmington, New Mexico area.

Current rates for TEP were authorized in Decision No. 57674, dated December 31, 1991.

Purpose of Financing

TEP plans to refinance existing debt in the maximum amount of \$401,000,000 to obtain better terms and conditions. The debt being refinanced was previously refinanced in November of 2002, under authorization of Decision No. 65209, dated September 20, 2002. TEP must again refinance the \$60 million Revolving Credit Facility that matures November 13, 2003, and desires to replace a \$135 million Letter of Credit Facility that matures January 31, 2006, and a \$206 million Letter of Credit Facility that matures on November 13, 2006, if better terms and conditions are available. The latter two facilities are not immediately due but are included in the proposed authorization as more favorable terms and conditions may be available.

Further, TEP asks authorization to issue up to \$200,000,000 of tax exempt bonds with a maturity not to exceed forty years, secured or unsecured, to refinance variable rate tax exempt bonds which are supported by Letter of Credit Facilities. The \$401 million Letter of Credit Facilities would be reduced by the amount of the bonds issuance.

TEP also asks authorization to refinance any facilities in the future without Commission review as advantageous financial market conditions arise. TEP's request is open-ended and without adequate restrictions. Therefore, Staff recommends that future transactions continue to come before the Commission for consideration.

Notice

Public notice of the application for a financing order authorizing various financing transactions by Tucson Electric Power Company was published in the *Arizona Daily Star* and the *Daily Territorial* on June 6, 2003. Both are newspapers of general circulation in the area served by TEP. An affidavit of publication along with a copy of the classified advertisement was provided by the newspapers and is attached.

Financial Analysis and Discussion

TEP proposes to refinance its existing Credit Agreement which incorporates debt facilities totaling \$401,000,000. The \$60 million Revolving Credit Facility is used for ordinary corporate purposes and is renewable each year. Renewal/replacement of this facility will have little or no impact on debt servicing capability. The rate charged on this facility is (as of March 31, 2003) the London Inter-Bank Offered Rate ("LIBOR") plus 4 per cent per annum or an Alternate Base Rate ("ABR") plus 3 percent per annum. The ABR rate is the greater of Prime Rate, CD Rate plus 1 percent per annum, or the Federal Funds Rate plus 0.50 percent per annum. TEP also pays an unused facility fee of 0.35 percent per annum for amounts of the line not utilized.

The two Letter of Credit Facilities, ("LOC's") totaling \$343 million, are used to provide investment grade ratings to the variable-rate tax-exempt bonds issued by TEP. These bonds have rates which adjust weekly and are inexpensive (actual rates are confidential) from an interest rate standpoint. The real cost of these bonds is the interest cost plus the pricing for the letters of credit which impart "investment grade" ratings to the issues. The rating is based on the credit quality of the letter of credit issuers and not on TEP which is not an investment grade rated company. The letters of credit carry annual costs of 4 percent per annum for \$135,000,000 of the LOC facility, and 5.50 percent per annum for the other \$206,000,000 LOC facility. Both LOC facilities also carry a 0.25 percent per annum "LOC Fronting Fee." Due to the expenses of the LOC's, if a non-investment grade buyer can be found, it might be advantageous for TEP to issue tax-exempt fixed-rate bonds to refinance, dollar-for-dollar the variable-rate weekly-adjustable bonds supported by expensive LOC's.

Schedule JHJ-1, attached, shows selected financial data as of December 31, 2002. The coverage ratios are unchanged. The times interest earned ratio ("TIER") is 5.76. The debt service coverage ratio ("DSC") is 5.22. The cash coverage ratio ("CCR") is 6.73. If TEP can refinance under better terms, these ratios would be higher.

TIER represents the number of times earnings will cover interest expense on long-term debt. A TIER ratio greater than 1.0 means that operating income is greater than interest expense.

DSC represents the number of times internally generated cash covers required principal and interest payments on long-term debt. A DSC ratio greater than 1.0 indicates that operating cash flow is sufficient to cover debt obligations.

CCR represents the number of times internally generated cash covers required interest payments on debt. A CCR greater than 1.0 means that operating cash flow is greater than interest expense. CCR is equal to the sum of earnings before interest, taxes, depreciation, and amortization ("EBITDA") divided by interest expense.

Capitalization does not change as a result of this transaction. TEP has increased the percentage of equity in its capital structure from 11.4 percent to 14.6 percent in the 24-month period ending December 31, 2002.

Compliance

The Utilities Division Compliance Section indicated on July 17, 2003, that there were no outstanding compliance deficiencies for TEP.

Staff Conclusions and Recommendations

Staff concludes that an aggregate \$401,000,000 refinancing of the revolving credit and letter of credit facilities is in the public interest, consistent with sound financial practices and TEP's duties as a public service corporation.

Staff further concludes that issuance of up to \$200,000,000 in long-term tax-exempt bonds, secured or unsecured, with corresponding reductions to the LOC's and the tax-exempt variable-rate bonds supported by the LOC's, is in the public interest, consistent with sound financial practices, and within TEP's duties as a public service corporation as long as savings or other worthy corporate purpose is derived from such transactions.

Staff further concludes that the request to refinance any facilities in the future is open-ended, without adequate restrictions, and should not be authorized.

Staff recommends approval of the requested order authorizing refinancing of \$401,000,000 in credit facilities.

Tucson Electric Power Company
Docket No. E-01933A-03-0307
Application for Financing Authorization
Page 4

Staff recommends denial of the request for future refinancing authorization without Commission review.

Staff recommends that TEP be authorized to enter into all amendment(s) and agreement(s) necessary to refinance the debt.

Staff further recommends that TEP be ordered to provide copies of all executed documents and agreements of any kind in connection with this transaction to the Commission within 60 days of execution and a statement that TEP is in compliance with all terms and conditions of any new or extended credit agreement.

Staff further recommends that TEP be ordered to provide to the Commission within 60 days of the completion of any refinance transaction authorized by the Commission, a synopsis of savings to be derived and an explanation of any other worthy corporate purpose if there are no savings.

FINANCIAL ANALYSIS

Selected Financial Data in (000's)

		[A] 12 Months <u>12/31/2002</u>	
1	Operating Income	\$ 851,093	
2	Depreciation & Amort.	148,608	
3	Income Tax Expense	35,350	
4			
5	Interest Expense	153,849	
6	Repayment of Principal	44,597	
7			
8			
9	TIER		
10	[1+3] ÷ [5]	5.76	
11	DSC		
12	[1+2+3] ÷ [5+6]	5.22	
13	Cash Coverage Ratio		
14	[1+2+3] ÷ [5]	6.73	
15			
16			
17			
18	Short-term Debt	\$44,597	1.9%
19			
20	Long-term Debt	\$1,929,918	83.5%
21			
22	Common Equity	\$337,463	14.6%
23			
24	Total Capital	\$2,311,978	100%
25			
26			
27			

STAR PUBLISHING COMPANY

Tucson, Arizona

STATE OF ARIZONA)
COUNTY OF PIMA)

Janice Anderson, being first duly sworn deposes and says: that she is the Legal Advertising Representative of the STAR PUBLISHING COMPANY, a corporation organized and existing under the laws of the State of Arizona, and that the said STAR PUBLISHING COMPANY prints and publishes The Arizona Daily Star, a daily newspaper printed and published in the City of Tucson, Pima County, State of Arizona, and having a general circulation in said City, County, State and elsewhere, and that the attached

Legal Notice

was printed and published correctly in the entire issue of the said The Arizona Daily Star on each of the following dates, to-wit:

June 6, 2003

Janice Anderson

Subscribed and sworn to before me this 11th day of June, 2003

Kellie LaMasney
Notary Public



KELLIE LAMASNEY
Notary Public - Arizona
Pima County
Expires 11/30/06

My commission expires _____

TNI AD NO. 1755667

PUBLIC NOTICE OF AN APPLICATION FOR A FINANCING ORDER AUTHORIZING VARIOUS FINANCING TRANSACTIONS BY TUCSON ELECTRIC POWER COMPANY.
Tucson Electric Power Company ("Applicant") has filed an Application with the Arizona Corporation Commission ("Commission") for an order authorizing Applicant to refinance its Bank Credit Facilities in an aggregate amount not to exceed \$401 million and to refinance up to \$200 million in aggregate principal amount of its tax-exempt variable rate debt obligations. The application is available for inspection during regular business hours at the offices of the Commission in Phoenix, Arizona and Applicant's office in Tucson, Arizona.
Intervention in the Commission's proceedings on the application shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon Applicant and which, at a minimum, shall contain the following information:
1. The name, address and telephone number of the proposed intervenor and of any person upon whom service of documents is to be made if different than the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding.
3. Whether the proposed intervenor desires a formal evidentiary hearing on the application and the reasons for such a hearing.
4. A statement certifying that a copy of the Motion to Intervene has been mailed to Applicant.
The granting of Motions to Intervene shall be governed by A.A.C. R14-3-105, except that all Motions to Intervene must be filed on, or before, the 15th day after this notice.
Publish June 6, 2003
The Arizona Daily Star
Tucson Citizen

AFFIDAVIT OF PUBLICATION

STATE OF ARIZONA)

:ss.

COUNTY OF PIMA)

being first

ROBYN MCCOMBS

duly sworn, deposes and says that (he) (she) is the Legal Advertising Manager

of THE DAILY TERRITORIAL, a daily newspaper printed and published in the

County of Pima, State of Arizona, and of general circulation in the City of Tuc-

son,

County of Pima, State of Arizona and elsewhere, and the hereto attached

APPLICATION FOR A
FINANCING ORDER
PUBLIC NOTICE

was printed and published correctly in the regular and entire issue of said THE

DAILY TERRITORIAL for

1

issues; that was first made

6th

JUNE

03

on the

day of

6th

20

and the last publication thereof was made on the

day of

JUNE

03

20

; that said publication

was made on each of the following dates, to-wit:

06/06/03

Request of

TUCSON ELECTRIC POWER

The Daily Territorial

By

Subscribed and sworn to before me this

day of

6th

JUNE

20

03

OFFICIAL SEAL
KAREN BRIGHAM
Notary Public - State of Arizona
Notary Public in and for the County of Pima, State of Arizona
My Comm. Expires Feb. 10, 2005

My Commission Expires:

[Handwritten Signature]

PUBLIC NOTICE OF AN
APPLICATION FOR A FINANCING
ORDER AUTHORIZING VARIOUS
FINANCING TRANSACTIONS
BY TUCSON ELECTRIC POWER
COMPANY

Tucson Electric Power Company ("Applicant") has filed an Application with the Arizona Corporation Commission ("Commission") for an order authorizing Applicant to refinance its Bank Credit Facilities in an aggregate amount not to exceed \$401 million and to refinance up to \$260 million in aggregate principal amount of its tax-exempt variable rate debt obligations. The application is available for inspection during regular business hours at the offices of the Commission in Phoenix, Arizona and Applicant's office in Tucson, Arizona.

Intervention in the Commission's proceedings on the application shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon Applicant and which, at a minimum, shall contain the following information:

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The granting of Motions to Intervene shall be governed by A.A.C. R14-3-105, except that all Motions to Intervene must be filed on, or before, the 15th day after this notice.

Pub: The Daily Territorial
June 6, 2003
Req: Tucson Electric Power
pnapplication kb

AFFIDAVIT OF PUBLICATION

STATE OF ARIZONA)

:ss.

COUNTY OF PIMA)

being first

ROBYN MCCOMBS

duly sworn, deposes and says that (he) (she) is the Legal Advertising Manager of THE DAILY TERRITORIAL, a daily newspaper printed and published in the County of Pima, State of Arizona, and of general circulation in the City of Tucson, County of Pima, State of Arizona and elsewhere, and the hereto attached

APPLICATION FOR A FINANCING ORDER PUBLIC NOTICE

was printed and published correctly in the regular and entire issue of said THE

DAILY TERRITORIAL for 1 issues; that was first made on the 6th JUNE 03 day of 6th 20

and the last publication thereof was made on the JUNE 03 day of 20 ; that said publication

was made on each of the following dates, to-wit: 06/06/03

Request of

TUCSON ELECTRIC POWER

The Daily Territorial

By

Subscribed and sworn to before me this

day of

20

03

6th

JUNE

OFFICIAL SEAL KAREN BRIGHAM Notary Public in and for the County of Pima, State of Arizona My Comm. Expires Feb. 10, 2005

My Commission Expires:

Handwritten signature/initials

PUBLIC NOTICE OF AN
APPLICATION FOR A FINANCING
ORDER AUTHORIZING VARIOUS
FINANCING TRANSACTIONS
BY TUCSON ELECTRIC POWER
COMPANY

Tucson Electric Power Company ("Applicant") has filed an Application with the Arizona Corporation Commission ("Commission") for an order authorizing Applicant to refinance its Bank Credit Facilities in an aggregate amount not to exceed \$401 million and to refinance up to \$200 million in aggregate principal amount of its tax-exempt variable rate debt obligations. The application is available for inspection during regular business hours at the offices of the Commission in Phoenix, Arizona and Applicant's office in Tucson, Arizona.

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Pub: The Daily Territorial
June 6, 2003

Req: Tucson Electric Power
pnapplication kb

From: Brown Ryan Civ 355 TRS/RTS <Ryan.Brown@dm.af.mil>
To: "James Johnson (E-mail)" <JHJ@util.cc.state.az.us>
Date: 7/25/2003 11:41:22 AM
Subject: Loan Q for ya

SO I have a wierd loan Q for ya and was wondering if you could give me a hand understanding it.

I got a thing in the mail for our auto lender saying we were qualified for a 25,000\$ auto loan @ 4.39%. NO WAY ARE WE GOING TO GET ANOTHER CAR LOAN!! But our current one was sitting at 7%. So I called and asked if we could lower our current rate. They said we could, by doing something called a rate retention. The meat and taters of it - Our monthly won't change but the durration will be shorter due to the lower rate. How can I figure out the savings versus our old loan??

Original loan was 25,000 @ 7%, been paying for 2 years on a 6 year loan

Current amount is 18,249 with a 4.9% ridding out the rest of the loan for _____ amount of time.

Ryan Brown
CAE, A/OA-10 Team
(520) 228-7378