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EXCEPTION

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BEFORE THE ARIZONA CORPORATION COMMISSION

2003 AUG -6 P 4: 15

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JEFF HATCH-MILLER
MIKE GLEASON

ARIZONA CORPORATION COMMISSION
ARIZONA CORPORATION COMMISSION

DOCKETED

AUG 06 2003

DOCKETED BY	
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IN THE MATTER OF THE APPLICATION OF) DOCKET NO. E-01933A-03-0307
TUCSON ELECTRIC POWER COMPANY FOR A)
FINANCING ORDER AUTHORIZING VARIOUS) **TUCSON ELECTRIC POWER**
FINANCING TRANSACTIONS) **COMPANY'S EXCEPTIONS**

Tucson Electric Power Company ("TEP"), through undersigned counsel, hereby submits its exceptions to the Recommended Opinion and Order issued July 30, 2203 in the docket captioned above ("ROO") as follows:¹

A. The New Credit Agreements and Long-Term Tax-Exempt Bonds.

TEP filed with the Commission an Application for Financing Order ("Application") requesting authorization to replace an existing Credit Agreement with one or more New Credit Agreements having facilities and terms that are substantially the same. The purpose of these transactions is to obtain more favorable pricing and thereby reduce the annual interest expense that TEP must pay. The ROO proposes that this request be approved.

The ROO also recommends authorizing TEP to issue up to \$200 million in long-term tax-exempt bonds with a corresponding reduction to letters of credit under the existing Credit Agreement, as long as savings or other worthy corporate purpose is derived from the transactions. Again, TEP supports the ROO in this recommending approval of these transactions.

¹ TEP has waived the requirement that there be a full 10 day period to file exceptions.

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2 **B. The Request for Authority to Refinance the New Credit Agreements.**

3 TEP further requested authority to renew or replace the New Credit Agreements with other
4 credit facilities in an aggregate amount not to exceed the amount of the New Credit Agreements.
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6 The purpose of this request is to allow TEP to take advantage of improvements in the financial
7 markets on a timely basis. This could be advantageous to TEP and ultimately its ratepayers by
8 providing TEP the flexibility to quickly negotiate terms and conditions of credit facilities that are
9 favorable to TEP in rapidly changing markets. TEP can not enter into long-term credit agreements
10 without approval by the Commission. By necessity, proceedings such as this financing docket can
11 take several months to process thereby precluding TEP from "locking-in" favorable rates and terms
12 that may be available during the pendency of the approval process.
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15 Staff notes in its Report dated July 25, 2003 ("Staff Report") that TEP's, "request to
16 refinance any facilities in the future is open-ended, without adequate restrictions, and should not be
17 authorized". (Staff Report at 3.) This conclusion is reflected in the ROO as follows:
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19 IT IS FURTHER ORDERED that Tucson Electric Power Company's
20 request for future refinancing authorization of the aforementioned
21 replacement facilities without Commission review is hereby denied. (ROO
22 at 5)

23 TEP believes that its request to refinance the New Credit Agreements is sufficiently
24 important and in the public interest that it has prepared this exception to (i) clarify its request; and
25 (ii) continue to support its request.
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27 TEP's request to refinance the New Credit Agreements is limited to just those facilities and
28 does not apply to other financings.² See Application at 3. Further, TEP believes that Staff's concern
29 that restrictions should be imposed on refinancing authority is reasonable, and submits that it would
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2 be better to adopt such restrictions in this case rather than just deny TEP's request. TEP proposes
3 that the following limits be placed in its authority to refinance the New Credit Agreements:

- 4 1. The authority be given for a period of five (5) years, after which TEP must return to
5 the Commission if it desires to renew the authorization.
- 6 2. The authority be conditioned upon TEP obtaining rates and terms that are
7 substantially the same or better than those in the New Credit Agreements.
8
- 9 3. The authority be limited such that TEP cannot exceed the aggregate amount of the
10 New Credit Agreements that are replaced.
11
- 12 4. TEP submit an informational letter to the Director of the Commission's Utilities
13 Division within thirty days of the completion of any refinancing transaction pursuant
14 to this authority of the terms and conditions of the refinancing. Such letter may be
15 afforded confidential treatment if requested by TEP.
16
- 17 5. Any refinancing transactions pursuant to this authority shall be subject to review in
18 the first TEP rate case after the completion of the transaction.
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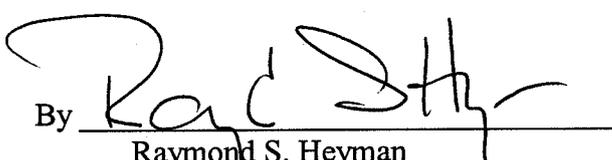
20 Accordingly, TEP requests that the Staff reconsider its recommendation and the Commission
21 reconsider the ROO's denial of the request for refinancing approval of the New Credit Agreements
22 and approve TEP's request with the preceding conditions. TEP has prepared proposed amendments
23 to the ROO reflecting its request to refinance the New Credit Agreements. The proposed
24 amendments are attached hereto as Exhibit 1.
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² TEP does believe that the Commission, in future proceedings, should consider similar authorizations for other credit facilities.

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RESPECTFULLY SUBMITTED this 6th day of August 2003

ROSKA HEYMAN & DEWULF, PLC

By 

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**ORIGINAL AND 13 COPIES OF THE FOREGOING
FILED THIS 6TH DAY OF AUGUST 2003 WITH:**

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

**COPY OF THE FOREGOING HAND-DELIVERED
THIS 6TH DAY OF AUGUST 2003 TO:**

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EXHIBIT 1

PROPOSED AMENDMENTS TO RECOMMENDED OPINION AND ORDER

1. Delete the first sentence of Finding of Fact No. 12 at page 3, and substitute the following language:

Staff indicated that TEP's request to refinance the new credit facilities in the future lacked adequate restrictions. We find that adequate restrictions can and should be imposed on TEP's request to refinance the new credit agreements authorized in this Order. Those restrictions are:

1. The authority to refinance the new credit agreements shall be for a period of five (5) years, after which TEP must return to the Commission if it desires to renew the authorization.

2. The authority to refinance the new credits agreements shall be conditioned upon TEP obtaining rates and terms that are substantially the same or better than those in the new credit agreements.

3. The authority to refinance the new credit agreements shall be limited such that TEP cannot exceed the aggregate amount of the new credit agreements that are replaced.

4. TEP submit an informational letter to the Director of the Commission's Utilities Division within thirty days of the completion of any refinancing transaction pursuant to this authority of the terms and conditions of the refinancing. Such letter may be afforded confidential treatment if requested by TEP.

5. Any refinancing transactions pursuant to this authority shall be subject to review in the first TEP rate case after the completion of the transaction.

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2. Create a new paragraph after the new inserted language in Finding of Fact No. 12. Delete “Staff believes, however,” with “Staff also believes.”

3. Delete the Second Ordering paragraph at page 5 and substitute the following:

IT IS FUTHER ORDERED that Tucson Electric Power Company’s request for future financing authorization for the new credit agreements authorized herein is granted subject to the conditions and limitations contained in Finding of Fact No. 12.