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COMMISSIONERS
MIKE GLEASON - Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE



ARIZONA CORPORATION COMMISSION

22

DATE: MARCH 26, 2007

DOCKET NO. E-02217A-06-0489

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Teena Wolfe. The recommendation has been filed in the form of an Order on:

SALT RIVER PROJECT
(FINANCE)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00 p.m.** on or before:

APRIL 4, 2007

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

APRIL 11, 2007, and APRIL 12, 2007

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Secretary's Office at (602) 542-3931.

BRIAN C. McNEIL
EXECUTIVE DIRECTOR

Arizona Corporation Commission
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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 MIKE GLEASON - Chairman
4 WILLIAM A. MUNDELL
5 JEFF HATCH-MILLER
6 KRISTIN K. MAYES
7 GARY PIERCE

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

DOCKET NO. E-02217A-06-0489

ORDER

10 Open Meeting
11 , 2007
12 Phoenix, Arizona

13 **BY THE COMMISSION:**

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

16 FINDINGS OF FACT

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

21 2. SRP is principally engaged in the purchase and sale of electricity in Maricopa, Pinal
22 and Gila Counties in Arizona, and the generation of electricity in the states of Arizona, New Mexico,
23 Nevada and Colorado, primarily for sale in Arizona. SRP provides electric power to over 892,000
24 customers in its 2,900 square mile service territory in major populated sections of Maricopa County,
25 Arizona, as well as portions of Pinal and Gila Counties, where it serves mining load requirements.

26 3. On July 28, 2006, SRP filed an application with the Commission for an order
27 authorizing the issuance of up to \$1.2 billion in revenue bonds and up to \$1.3 billion in refunding
28

1 bonds ("Application"). Pursuant to A.R.S. § 48-2465.B, SRP must secure "an order authorizing the
2 issuance of such bonds in accordance with those provisions of § 40-302 pertaining to the issuance of
3 bonds."

4 4. SRP published notice of the Application on September 8, 2006, in the *Arizona*
5 *Republic*.

6 5. SRP has a Capital Improvement Program for the fiscal years 2007 through 2012, and
7 estimates its capital expenditure requirements for that time period to be approximately \$4.77 billion.
8 Distribution plant is the largest category of expenditures and is estimated to require approximately
9 \$1.29 billion of expenditures. The remaining projected areas of need are electric generation,
10 approximately \$1.06 billion; and transmission, approximately \$322 million.

11 6. On February 20, 2007, the Commission's Utilities Division Staff ("Staff") filed a Staff
12 Report on the Application, recommending approval. The Staff Report indicated that comments on
13 the Staff Report should be filed on or before March 2, 2007.

14 7. On March 2, 2007, SRP filed comments in support of the Staff Report.

15 8. SRP commented that it accepts Staff's recommendation for an expiration date of
16 December 31, 2014, for the revenue bond authority. SRP further noted that Staff recommended no
17 similar expiration date for SRP's requested revenue refunding bond authority, and that such a
18 "sunset" date should not be imposed on revenue refunding bonds.

19 9. SRP requested in its comments that the compliance filing requirements for the
20 requested authority include the filing of pertinent documents, but that, in conformance with past
21 practice, SRP not be required to include copies of all notes memorializing the authorized transactions.

22 10. SRP commented that Staff's standardized calculation for debt service coverage differs
23 from that used by political subdivisions such as SRP, and that SRP believes Staff's calculation results
24 in an underestimation of the strength of SRP's financial status resulting from actual financing
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1 transactions.

2 11. SRP intends to issue up to \$1,200,000,000 of revenue bonds to finance costs of
3 construction and acquisition of improvements, additions, replacements, extensions and betterments to
4 SRP's electric system including, but not limited to the purchase, construction, acquisition and
5 installation of electric generating facilities, power supplies, transmission lines, distribution lines,
6 substations, and related facilities, assets (including fuel and fuel related assets), and equipment
7 necessary therefore, and financing costs related thereto.
8

9 12. The revenue bonds will be issued for a maximum term of fifty years, and will be
10 marketed through underwriters or sold in private placements, or at the option of SRP, at a publicly
11 advertised, competitive sale on the basis of the best bid received. The sale of the revenue bonds may
12 be in several increments, with the timing, frequency and amount of the sale of each such increment to
13 be determined by SRP, depending upon construction needs and upon capital market conditions. The
14 amount, maturity and interest rate of each series will depend upon capital market conditions and
15 SRP's bond rating at the time of the transaction.
16

17 13. The Commission's Engineering Staff reviewed the Application and SRP's 2007-2012
18 Capital Improvement Program. Staff concluded that the generation, transmission and distribution
19 projects included in SRP's 2007-2012 Capital Improvement Program are appropriate to meet the
20 projected needs of SRP's new customers and to ensure system reliability, and that the cost estimates
21 and expenditure levels associated with the Capital Improvement Program appear to be reasonable.
22 The Staff Engineering Report notes that SRP is requesting approval for only a portion of the total
23 expenditures for its 2007-2012 Capital Improvement Program, and that SRP plans to finance the
24 remaining expenditures using internal resources.
25

26 14. SRP also intends to issue up to \$1,300,000,000 of refunding bonds in order to take
27 advantage of reduced interest rates to lower its debt service requirements when future market
28

1 conditions present opportunities to do so. The Staff Report states that since the proceeds of the
2 refunding revenue bonds would be used to repay existing debt, their issuance will not result in
3 additional outstanding debt.

4 15. The refunding revenue bonds will be issued for a maximum term of fifty years, and
5 will be marketed through underwriters or sold in private placements, or at the option of SRP, at a
6 publicly advertised, competitive sale on the basis of the best bid received. The amount, maturity and
7 interest rate of each refunding revenue bond series will depend upon capital market conditions and
8 SRP's bond rating at the time of the transaction.

9
10 16. The sale of the refunding revenue bonds may be in several increments, with the
11 timing, frequency and amount of the sale of each such increment to be determined by SRP, based on
12 a number of criteria, including but not limited to interest rates on outstanding bonds, current market
13 interest rates, the cost of funding an escrow, call provisions on refunding candidates, and potential
14 debt savings. The Staff Report states that SRP's primary decision-making criterion for a refunding is
15 the aggregate net present value savings that could be realized through the refunding as a percentage
16 of the par amount of the bonds to be refunded. Staff states that historically, SRP has not refunded
17 long-term debt unless the net present value savings are 7 percent or greater, and for short term debt,
18 SRP considers that savings must be a minimum of 3 percent.

19
20 17. SRP's current bond ratings are AA by Standard and Poor's and Aa1 by Moody's
21 Investors Service.

22
23 18. As of April 30, 2006, SRP had \$2,532,453,351 in outstanding refunding revenue bond
24 authorizations.

25 19. The Staff Report states that both the revenue bonds and the refunding revenue bonds
26 would be secured by a pledge of, and a lien on, the revenues of SRP's electric system after deducting
27 operating expenses.

28

1 20. Staff states that total capitalization for SRP as of April 30, 2006 was \$6,165,225,000,
2 with 2.1 percent short-term debt, 46.9 percent long-term debt, and 50.9 percent common equity.
3 Under Staff's pro forma analysis including both the \$296 million of revenue bonds SRP issued July
4 13, 2006, ("2006 Series A Bonds") and the proposed \$1.2 billion in revenue bonds, SRP's total
5 capitalization would be \$7,692,748,067, consisting of 2.1 percent short-term debt, 57.1 percent long-
6 term debt, and 40.8 percent common equity.

7
8 21. Based upon SRP's historical financial information for the fiscal year ended April 30,
9 2006,¹ Staff performed a pro forma financial analysis to estimate the effect of SRP's issuance of the
10 proposed \$1.2 billion in revenue bonds. Staff's analysis assumes a 4.35 percent annual interest rate
11 and a 25 year amortization, based on current market conditions as published by the Value Line
12 Investment Survey, Selection and Opinion, September 29, 2006, page 911. Staff also performed a
13 second "stress test" scenario assuming a 6 percent annual interest rate, which is the highest interest
14 rate paid by SRP in its currently outstanding bonds, and a 5 year amortization.

15
16 22. For the fiscal year ended April 30, 2006, and including the 2006 Series A Bonds, Staff
17 calculated SRP's current Times Interest Earned Ratio ("TIER") to be 1.99 and its Debt Service
18 Coverage ("DSC") ratio to be 1.40.² Staff stated that SRP would also be able to meet all obligations
19 under Staff's "stress test" analysis.

20 23. Based on its analysis, Staff concluded that SRP's proposed issuance of new debt to
21 finance plant additions and to refinance existing debt is within SRP's organizational powers, is
22

23
24 ¹ Staff's pro forma analysis also included the 2006 Series A Bonds, which have a fixed interest rate of 5 percent and an
average term for the series of 30 years.

25 ² The TIER represents the number of times earnings cover interest expense on short-term and long-term debt. A TIER
26 greater than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in
the long term but does not mean that debt obligations cannot be met in the short term.

27 The DSC ratio represents the number of times internally generated cash will cover required principal and interest
28 payments on short-term and long-term debt. A DSC ratio greater than 1.0 indicates that operating cash flow is sufficient
to cover debt obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from
operations and that another source of funds is needed to avoid default.

1 compatible with the public interest, is consistent with sound financial practices and will not impair its
2 ability to provide services.

3 24. Staff recommends that the Commission authorize SRP's request to issue revenue
4 bonds not to exceed \$1,200,000,000 to fund its capital expenditures for fiscal years 2007-2012 and an
5 expiration of any unused revenue bond issuance on December 31, 2014.

6 25. Staff further recommends that the Commission authorize SRP's request to issue
7 refunding revenue bonds not to exceed \$1,300,000,000 to refund existing revenue bonds.

8 26. Staff further recommends that the Commission authorize SRP to engage in any
9 transactions and to execute any documents necessary to effectuate the authorizations granted.

10 27. Staff further recommends that SRP be required to file with the Commission's Docket
11 Control, as a compliance item in this docket, within 60 days of the execution of any financing
12 transaction authorized herein, a copy of all notes and other documents memorializing the transaction
13 and a written summary providing an overview of the transaction that includes, but is not limited to,
14 the business rationale for the transaction, the terms and conditions of the transaction, and a
15 demonstration that the rates and terms were consistent with those generally available to comparable
16 entities at the time.
17

18 28. Staff's recommendations are reasonable and should be adopted. SRP should be
19 required to provide pertinent documents memorializing the authorized financing transactions.
20

21 CONCLUSIONS OF LAW

22 1. The Commission has jurisdiction over the Application pursuant to A.R.S. §§ 40-302
23 and 48-2465.B.
24

25 2. The proposed issuance by SRP of the revenue bonds and the refunding revenue bonds
26 as requested in the Application are within the powers of SRP as an agricultural improvement district
27 pursuant to A.R.S. §§ 48-2465 and 48-2471, and are compatible with the public interest.
28

1 conditions of the transaction, and a demonstration that the rates and terms were consistent with those
2 generally available to comparable entities at the time.

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

4 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

5
6
7
8 CHAIRMAN

COMMISSIONER

9
10 COMMISSIONER

COMMISSIONER

COMMISSIONER

11
12 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
13 Director 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 ____ day of _____, 2007.

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18 _____
19 BRIAN C. McNEIL
EXECUTIVE DIRECTOR

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SERVICE LIST FOR: SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT

DOCKET NO.: E-02177A-06-0489

Jessica J. Youle
Kelly J. Barr
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