

**ORIGINAL**

THIS AMENDMENT:

Passed

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2007 JUN -5 A 11:58 **HATCH-MILLER PROPOSED AMENDMENT #1**

AZ CORP COMMISSION  
DOCKET CONTROL

DATE PREPARED: June 5, 2007

COMPANY: Arizona Public Service Company AGENDA ITEM NO. U-1

DOCKET NO. E-01345A-05-0816 et al.

OPEN MEETING DATE: June 13, 2007

~~E-01345A-05-0816~~  
E-01345A-05-0817

Arizona Corporation Commission  
**DOCKETED**

JUN -5 2007

Page 103, Line 7, INSERT:

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**“K. Purchased Power and Self Build Moratorium**

In his direct testimony, APS witness Robinson testified that the “financial community has increasingly come to regard purchased power as a form a debt that can strain utility cash resources without timely recovery of purchased power costs.” (APS Direct Testimony, Donald G. Robinson, p. 20) As APS’ baseload and peaking demands increase each year, the company will increase its reliance on natural gas-dependent purchased power. (APS Direct Testimony, Donald G. Robinson, p.17)

In order to capture an accurate picture of APS’ complete financial obligations, credit rating agencies include imputed debt and interest expense attributable to purchased power contracts in the calculation of various credit ratios, including FFO to Debt. (APS Rebuttal Testimony, Donald E. Brandt, p. 6) This adjustment is made because APS is effectively leasing a fixed asset via contract for a specified timeframe. As a result, the credit rating agencies will increase APS’ debt component, which will have the effect of reducing the company’s FFO to Debt ratio. (Donald E. Brandt, Vol. IV, p. 724) A lower FFO to Debt ratio, which carries the most weight with credit ratings agencies, could cause Standard & Poor’s and Moody’s to downgrade APS’ credit rating and affect the company’s ability to maintain an investment grade credit rating.

For the benefit of both APS and its ratepayers, we want APS to maintain and improve its investment grade credit rating in order to be able to finance its growing infrastructure needs,

including the construction of new generating plants, at competitive interest rates. In addition, we want APS to pursue the least-cost, most efficient means to provide for its power generation needs without erecting too many regulatory barriers. Section IX of the Settlement Agreement as approved by the Commission in Decision No. 67444 prevents APS from pursuing any self-build option that has in-service date prior to January 1, 2015. At this point, we believe this provision inadvertently limits market opportunities for APS as the company has little choice but to increase its dependence on the wholesale market for its power needs. As discussed herein, the more purchased power APS must obtain, the greater likelihood its credit ratios will be weakened, leading Standard & Poor's and Moody's to downgrade the company's debt rating.

Accordingly, we believe it is in the public interest to modify Decision No. 67744 relating to the self-build option. Instead of an outright prohibition, we will provide APS with greater flexibility in its long-term resource planning by allowing the company to pursue the self-build option without Commission approval as long as the company submits a filing justifying its decision. As part of the filing, APS should address the following concerns: 1) its specific unmet needs for additional long-term resources; 2) its efforts to secure adequate and reasonably-priced long-term resources from the competitive whole market to meet these needs; 3) the reasons why it believes those efforts have been unsuccessful, either in whole or in part; 4) the extent to which the self-build generation is consistent with any applicable resource plans or competitive resource acquisition rules or orders resulting from the Decision No. 67744; and 5) the anticipated life-cycle cost of the proposed self-build option in comparison with suitable alternatives available from the competitive market for a comparable period of time. APS should make this filing with the Commission's Docket Control 365 days prior to commencing construction of any power plant or 90 days prior to submitting its siting application to the Power Plant and Transmission Line Siting Committee, whichever is sooner. If it so chooses, the Commission may take action on this filing."

**Page 142, Line 1, INSERT: New Findings of Fact:**

"74. APS testified that credit rating agencies treat purchased power as a form of debt in the calculation of various credit ratios, including FFO to Debt.

75. APS testified that it will increase its reliance on natural gas-dependent purchased power to meet growing baseload and peaking requirements.

76. The Commission believes that it is in the public interest to modify Decision No. 67744 relating to the self-build option in order to maintain and improve APS' credit ratings and provide APS with greater flexibility in determining its long-term resource planning needs."

**Page 151, Line 15: INSERT New Ordering Paragraph:**

"IT IS FURTHER ORDERED that Arizona Public Service Company shall file with Docket Control, its justification, as discussed herein, for deciding to pursue self build generation 365 days prior to commencing construction of any power plant or 90 days prior to submitting its siting application to the Power Plant and Transmission Line Siting Committee, whichever is sooner, for Commission action, if it so chooses."

Renumber to conform

Make any other conforming changes as necessary