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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

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

Arizona Corporation Commission AZ CORP COMMISSION  
DOCKETED DOCKET CONTROL

NOV 02 2007

DOCKETED [Signature]

E-01773A-07-0632

IN THE MATTER OF THE APPLICATION OF THE  
ARIZONA ELECTRIC POWER COOPERATIVE,  
INC. TO EXTEND A PORTION OF THE SHORT-  
TERM BORROWING AUTHORIZATION  
GRANTED IN DECISION NO. 69337

DOCKET NO. E-01773A-\_\_-\_\_

APPLICATION

GALLAGHER & KENNEDY, P.A.  
2575 E. CAMELBACK ROAD  
PHOENIX, ARIZONA 85016-9225  
(602) 530-8000

Pursuant to A.R.S. § 40-302.D, the Arizona Electric Power Cooperative, Inc. ("AEPCO" or the "Cooperative") submits this Application to extend until December 31, 2008 part of the short-term borrowing authorization granted by the Commission in Decision No. 69337, dated February 20, 2007 (the "Decision"). Specifically, AEPCO requests that the Commission issue its Order authorizing short-term borrowings of up to \$20 million—approximately \$4 million above the seven percent statutory limit—through calendar year 2008.

In support of its Application, AEPCO states as follows:

1. AEPCO is a non-profit, member-owned cooperative which supplies all or most of the power and energy requirements of its five Arizona and one California Class A member distribution cooperatives.

2. The Decision approved AEPCO's Application to exceed the statutory short-term borrowing limit of seven percent of total capital through calendar year 2007. It authorized an increase in short-term borrowings up to \$25 million (Decision, First Ordering Paragraph, p. 4). The prior year, the Commission had authorized AEPCO to increase, if necessary, its short-term

1 borrowings to \$30 million in Decision No. 68481, dated February 15, 2007. As background and  
2 for convenience, copies of both Decisions are attached as Exhibit A.

3           3.       These increases in AEPCO's short-term debt were driven by the extraordinary  
4 increases in the prices of natural gas and purchased power caused primarily by Hurricane Katrina  
5 in the fall of 2005. AEPCO was forced to use its short-term line of credit for the first time in  
6 more than 15 years. The debt authorizations, together with the Commission's approval of fuel  
7 and purchased power adjustor ("FPPCA") rates, allowed AEPCO to mitigate the impact of the  
8 cost increases on its members as well as to make gradual progress in reducing its undercollected  
9 FPPCA bank balance, more timely recovery of its current actual fuel costs and reduced reliance  
10 on short-term borrowings.

11           4.       However, despite substantial repayments on the line of credit this year which  
12 reduced its balance over the first nine months by about \$12 million, AEPCO estimates that at the  
13 end of January 2008, total short-term borrowings will still total slightly more than \$17.2 million.  
14 That is approximately \$1.1 million above AEPCO's seven percent statutory limit. Further, next  
15 year's cash flow forecast indicates that some draws on the line of credit will be necessary  
16 through September.

17           5.       The cash flow forecast also is premised upon certain assumptions, such as  
18 projected natural gas and purchased power costs, the timing of permanent loan funds availability  
19 for AEPCO's construction work plan and anticipated replacement power costs for the scheduled  
20 spring 2008 maintenance at the Apache Power Station, which obviously may not materialize  
21 precisely as predicted.

22           6.       In order to accommodate these and other unforeseen developments, AEPCO  
23 requests that the Commission authorize a short-term borrowing limit of \$20 million through  
24

1 2008. That provides a modest "cushion" of about \$4 million to address emergencies and  
2 unanticipated changes in assumptions used in the cash flow forecast.

3 WHEREFORE, having fully stated its Application, AEPCO requests that the  
4 Commission issue its order authorizing AEPCO to incur up to \$20 million in short-term  
5 borrowings through calendar year 2008.

6 RESPECTFULLY SUBMITTED this 5<sup>th</sup> day of November, 2007.

7 GALLAGHER & KENNEDY, P.A.

8 By   
9 Michael M. Grant  
10 2575 East Camelback Road  
11 Phoenix, Arizona 85016-9225  
12 Attorneys for Arizona Electric Power  
13 Cooperative, Inc.

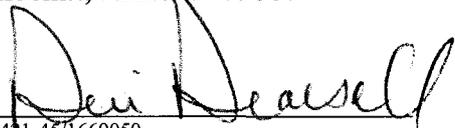
12 **Original and thirteen copies** filed  
13 this 5<sup>th</sup> day of November, 2007, with:

14 Docket Control  
15 Arizona Corporation Commission  
16 1200 West Washington  
17 Phoenix, Arizona 85007

16 **Copies** of the foregoing delivered  
17 this 5<sup>th</sup> day of November, 2007, to:

18 Gordon Fox, Utilities Division  
19 Arizona Corporation Commission  
20 1200 West Washington  
21 Phoenix, Arizona 85007

20 Pedro Chaves, Utilities Division  
21 Arizona Corporation Commission  
22 1200 West Washington  
23 Phoenix, Arizona 85007

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23 10421-45/1669050

**EXHIBIT A**

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

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

Arizona Corporation Commission

DOCKETED

FEB 20 2007

DOCKETED BY NR

IN THE MATTER OF THE APPLICATION OF  
ARIZONA ELECTRIC POWER COOPERATIVE,  
INC. TO EXTEND A PORTION OF THE SHORT-  
TERM BORROWING AUTHORIZATION  
GRANTED IN DECISION NO. 68481.

DOCKET NO. E-01773A-06-0629

DECISION NO. 69337

ORDER

Open Meeting

Phoenix, Arizona

**BY THE COMMISSION:**

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

\* \* \* \* \*

FINDINGS OF FACT

1. On September 26, 2006, Arizona Electric Power Cooperative, Inc. ("AEPCO" or "Cooperative") filed an application with the Commission requesting authorization to extend until December 31, 2007, a portion of the short-term borrowing granted in Decision No. 68481 (February 15, 2006).

2. AEPCO published notice of its financing application in *The Kingman Daily Miner* on November 10, 2006, and in *The Arizona Daily Star/Tucson Citizen* on November 2, 2006. *The Kingman Daily Miner* is a newspaper of general circulation in the City of Kingman, Mohave County and *The Arizona Daily Staff/Tucson Citizen* is a newspaper of general circulation in Pima County, Arizona.

3. On January 24, 2007, the Commission Utilities Division Staff ("Staff") filed its Staff Report, recommending approval of the proposed extension.

1           4.       On February 1, 2007, AEPCO filed its Response to Staff Report, indicating that it had  
2 no comments on the Staff Report and that it supported Staff's recommendation that the application be  
3 approved and that the short-term debt be continued at \$25 million through 2007. AEPCO also  
4 indicated that it would waive its ten day exception period.

5           5.       AEPCO is a non-profit, member-owned cooperative which supplies all or most of the  
6 power and energy requirements of its five Arizona and one California Class A member distribution  
7 cooperatives.

8           6.       In Decision No. 68481, the Commission approved AEPCO's Application to exceed  
9 the statutory short-term borrowing limit of seven percent of total capital through calendar year 2006,  
10 and authorized an increase in short-term borrowing up to \$30 million.

11          7.       The increase in debt was caused by increases in the prices of natural gas and  
12 purchased power. Prior to 2006, AEPCO had not borrowed on its short-term line of credit for more  
13 than 15 years, but the increase in fuel and purchased power costs in 2005 forced AEPCO to use its  
14 line of credit to meet those expenses.

15          8.       In Decision No. 68594 (March 23, 2006), the Commission authorized AEPCO to  
16 accelerate the implementation date, from October 1, 2006, to April 1, 2006, for its Fuel and  
17 Purchased Power Cost Adjustor ("FPPCA") in order to improve the Cooperative's cash flow.

18          9.       AEPCO states that the FPPCA was critical in assisting it to meet its obligations as  
19 they came due, but short-term borrowings remained at the \$16 million level. It states further that  
20 while natural gas prices moderated from the record levels in the fall of 2005 and winter of 2006, they  
21 remain high as compared to AEPCO's 2003 test year costs. As a result, AEPCO states it has not been  
22 able to make substantial progress in reducing its short-term debt. At the time it filed the current  
23 application, AEPCO projected that its January 2007 borrowings would still total \$19 million, which  
24 remains above the statutory limit (estimated to be approximately \$16 million), and estimated that it  
25 would not be able to completely pay down the outstanding balance on the line of credit until August  
26 2007.

27          10.       For the forgoing reasons, AEPCO requests authority for short-term borrowing up to  
28 \$25 million, or approximately 11 percent of total capital, through December 31, 2007. AEPCO states

1 that the one-year extension at the \$25 million level will allow it time to continue to reduce and  
2 ultimately pay off its short-term line of credit balance, and will provide a cushion in the authorization  
3 to handle unexpected increases in volatile fuel and purchased power costs through 2007.

4 11. Staff reviewed the Cooperative's 2007 Cash Flow Projections that were updated on  
5 January 10, 2007, to reflect the recently approved 2007 operating budget. Staff concludes from its  
6 review that AEPCO is at risk of exceeding the statutory limit set for its short-term borrowings  
7 throughout the year 2007.

8 12. Staff also concludes that the proposed use of the funds is appropriate and that  
9 authorization to increase short-term borrowing to \$25 million is within the corporate powers of the  
10 Cooperative, is compatible with the public interest and would not impair AEPCO's ability to provide  
11 service.

12 13. In Staff's opinion, not extending the authorization has potentially greater detrimental  
13 effects on AEPCO and its customers, than the increased short-term borrowing authority.

14 14. Staff recommends granting authorization to increase the limit of short-term debt  
15 borrowing to an amount not to exceed \$25 million until December 31, 2007, under the terms  
16 proposed and for the purposes described in the application and Staff Report.

17 15. Staff further recommends authorizing AEPCO to engage in any transactions and to  
18 execute any documents necessary to effectuate the authorizations granted.

19 16. Absent the requested authorization, AEPCO could default on accounts payable  
20 obligations to purchased power providers.

#### 21 CONCLUSIONS OF LAW

22 1. AEPCO is a public service corporation within the meaning of Article XV of the  
23 Arizona Constitution and A.R.S. §§ 40-301, 40-302, and 40-303.

24 2. The Commission has jurisdiction over AEPCO and of the subject matter of the  
25 application.

26 3. Notice of the application was given in accordance with the law.

27 4. The financing approved herein is for lawful purposes within AEPCO's corporate  
28 powers, is compatible with the public interest, with sound financial practices, and with the proper

1 performance by AEPCO of service as a public service corporation, and will not impair AEPCO's  
2 ability to perform the service.

3 5. The financing approved herein is for the purposes stated in the application, is  
4 reasonably necessary for those purposes and such purposes may be, wholly or in part, reasonably  
5 chargeable to operating expenses or to income.

6 **ORDER**

7 IT IS THEREFORE ORDERED that Arizona Electric Power Cooperative, Inc. is hereby  
8 authorized to increase short-term borrowing authority to \$25 million through December 31, 2007.

9 IT IS FURTHER ORDERED that such finance authority shall be expressly contingent upon  
10 Arizona Electric Power Cooperative, Inc.'s use of the proceeds for the purposes stated in its  
11 application and approved herein.

12 IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. is authorized to  
13 execute any documents necessary to effectuate the authorizations granted.

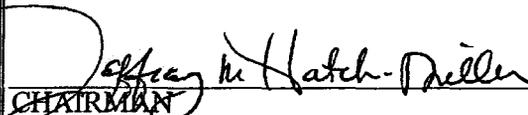
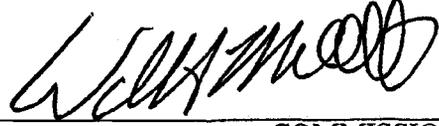
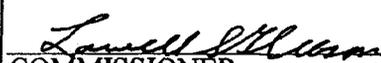
14 IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. shall file with  
15 Docket Control, as a compliance item in this docket, copies of any executed financing documents  
16 related to this authority within 30 days after the date of execution.

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1 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not  
2 constitute or imply approval or disapproval by the Commission of any particular expenditure of the  
3 proceeds derived thereby for purposes of establishing just and reasonable rates.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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7 CHAIRMAN COMMISSIONER  
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10 COMMISSIONER COMMISSIONER COMMISSIONER

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IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 20<sup>th</sup> day of Feb., 2007.

  
BRIAN C. McNEIL  
EXECUTIVE DIRECTOR

DISSENT \_\_\_\_\_  
DISSENT \_\_\_\_\_  
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BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER  
Chairman  
WILLIAM A. MUNDELL  
Commissioner  
MARC SPITZER  
Commissioner  
MIKE GLEASON  
Commissioner  
KRISTIN K. MAYES  
Commissioner

Arizona Corporation Commission

DOCKETED

FEB 15 2006

DOCKETED BY	<i>CM</i>
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IN THE MATTER OF THE APPLICATION )  
OF THE ARIZONA ELECTRIC POWER )  
COOPERATIVE, INC. FOR PERMISSION )  
TO TEMPORARILY EXCEED THE SEVEN )  
PERCENT SHORT-TERM DEBT )  
LIMITATION OF A.R.S. § 40-302.D. )

DOCKET NO. E-01773A-06-0007  
DECISION NO. 68481  
ORDER

Open Meeting  
February 14 and 15, 2006  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Electric Power Cooperative, Inc. ("AEPCO" or "Cooperative") filed an application requesting authorization for financing with the Arizona Corporation Commission ("Commission") on January 6, 2006.
2. AEPCO is a Class "A" Arizona cooperative that supplies the power needs of its five Arizona class "A" cooperatives and other customers.
3. AEPCO requests Commission authorization pursuant to A.R.S. §40-302.D. to temporarily exceed the statutory short-term borrowing limit of seven percent of total capital through 2006. Specifically, AEPCO requests authorization to increase its short-term borrowing to \$30 million.
4. Staff counsel has been notified that the Cooperative published notice of its financing application in the *Tucson Citizen*, *The Daily Star* and *Kingman Daily Miner* on

...

1 January 26, 2006. Staff is awaiting the affidavit of publication for notices published in *The Tucson*  
2 *Citizen* and *The Daily Star*.

3 5. On February 2, 2006, the Cooperative waived its ten day exception period and  
4 requested that this matter be decided by the Commission at the February Open Meeting.

5 6. AEPCO had short-term borrowings of approximately \$15.2 million as of  
6 December 31, 2005, and its application anticipates that it will be at the threshold of the seven  
7 percent limit (estimated at \$16.3 million) by January 31, 2006.

8 7. The Cooperative asserts that the larger short-term borrowing limit is needed to  
9 finance large under-collections caused by increasing costs of natural gas and purchased power and  
10 other operational efficiencies.

11 8. Absent increased borrowing authority, AEPCO may default on accounts payable  
12 obligations to purchased power providers.

13 9. AEPCO must repay short-term draws within one year.

14 10. Staff has determined that the proposed use of funds is appropriate and that  
15 authorization to increase short-term borrowing to \$30 million for those purposes is lawful and  
16 within the corporate powers of the applicant, is compatible with the public interest, and would not  
17 impair AEPCO's ability to provide service.

18 11. Staff has determined that extending the borrowing authorization is also sound  
19 practice from the perspective that not extending the authorization has potentially greater  
20 detrimental effects for AEPCO and its customers than any temporary cash flow shortfall for  
21 servicing the additional requested debt.

22 12. Staff concludes that AEPCO will not meet its obligations as they become due  
23 beginning in March 2006 without additional borrowing. Further, AEPCO needs additional cash to  
24 provide flexibility for its physical hedging program that saves fuel costs for the benefit of  
25 customers. In addition, AEPCO needs access to cash for contingencies. AEPCO also needs cash  
26 flow to reduce its existing and any additional short-term debt that the Commission may authorize.

27 13. Staff has recommended approval of the request to increase short-term borrowing to  
28 \$30 million.

CONCLUSIONS OF LAW

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1. The Cooperative is a public service corporation within the meaning of Article 15 of the Arizona Constitution and Title 40 of the Arizona Revised Statutes.

2. The Commission has jurisdiction over AEPCO and over the subject matter of the application.

3. Notice of the application was provided in conformance with law.

4. The Commission having reviewed the application and Staff's Memorandum of February 8, 2006, concludes that it is in the public interest to grant the Company's request to increase short-term borrowing to \$30 million from the perspective that not extending the authorization has potentially greater detrimental effects for AEPCO and its customers than any temporary cash flow shortfall for servicing the additional requested debt.

5. The Cooperative will be required to file one copy of executed loan documents with Docket Control, as a compliance item in this matter, within 90 days of the decision in this matter.

ORDER

IT IS THEREFORE ORDERED that the application of Arizona Electric Power Cooperative, Inc. to increase short-term borrowing to \$30 million be and hereby is granted.

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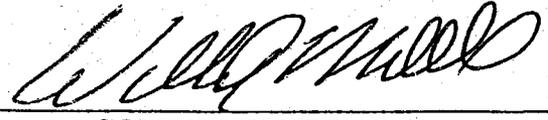
1 IT IS FUTHER ORDERED that the Company file the executed loan documents with  
2 Docket Control, as a compliance item in this matter, within 90 days of the decision in this matter.

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

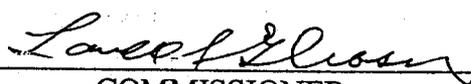
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BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

  
CHAIRMAN

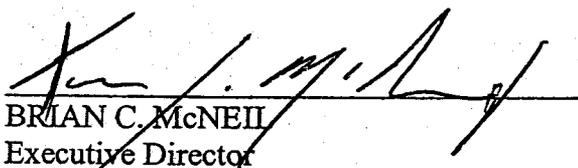
  
COMMISSIONER

  
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COMMISSIONER

IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 15<sup>th</sup> day of February, 2006.

  
BRIAN C. McNEIL  
Executive Director

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

EGJ:DTZ:lhm\CCK

1 SERVICE LIST FOR: Arizona Electric Power Cooperative, Inc.  
2 DOCKET NO. E-01773A-06-0007

3 Mr. Michael M. Grant  
4 Mr. Todd C. Wiley  
5 2575 East Camelback Road  
6 Phoenix, Arizona 85016-9225

7 Mr. Ernest G. Johnson  
8 Director, Utilities Division  
9 Arizona Corporation Commission  
10 1200 West Washington  
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12 Mr. Christopher C. Kempley  
13 Chief Counsel  
14 Arizona Corporation Commission  
15 1200 West Washington  
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