OPEN MEETING

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MEMORANDUM
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AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED

OCT 29 2008

DOCKETED BY

TO: THE COMMISSION

FROM: Utilities Division

DATE: October 29, 2008

RE: IN THE MATTER OF SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT APPLICATION FOR AN ORDER AUTHORIZING ITS ISSUANCE OF REVENUE BONDS AND REFUNDING REVENUE BONDS (DOCKET NO. E-02217A-08-0159)

Introduction

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

On March 17, 2008, SRP filed an application with the Arizona Corporation Commission ("Commission") requesting authority to issue $1.9 billion in revenue bonds and $2.1 billion in refunding revenue bonds.

Public Notice

On April 14, 2008, the Applicant published notice of its financing application in the *Arizona Republic*. The *Arizona Republic* is a daily newspaper of general circulation in the State of Arizona. A copy of the Notice is attached.

Background

SRP is mainly engaged in the purchase and sale of electricity in the Maricopa, Pinal and Gila Counties, and the generation of electricity in the States of Arizona, New Mexico, Nevada and Colorado, primarily for sale in Arizona. As of April 30, 2008, SRP served approximately 928,000 customers. SRP's principal business office is located at 1521 North Project Drive, Tempe, Arizona.

SRP is regulated by an independent, publicly-elected board of directors which approves its capital budgets and electric price structure. SRP is not subject to Commission regulation with the exception of line siting and the issuance of revenue bonds.[1]

[1] See further A.R.S. §§ 48-2465(B) and 40-302.

On April 16, 2007, Commission Decision No. 69422 authorized SRP to issue revenue bonds and refunding revenue bonds in amounts not to exceed $1.2 billion and $1.3 billion, respectively. The Applicant issued $816,650,000 in revenue bonds on March, 2008, leaving an unused financing authorization of $383,350,000.

Revenue Bonds

SRP requests authorization to issue $1.9 billion in revenue bonds. The proposed revenue bonds would be secured by a pledge of, and a lien on, the revenues of the electric system, after deducting operating expenses.

The Applicant plans to use the proceeds from the revenue bonds to refund a portion of the Applicant's commercial paper and to partly fund capital expenditure requirements for its fiscal years 2009-2014.

SRP plans to sell the revenue bonds in several series subsequent to the date of Commission approval. Maturity dates for the revenue bonds cannot exceed fifty years.[2] The amount, maturity and interest rate of each series depends upon construction needs, capital market conditions and the Applicant's bond rating at the time of the transaction. SRP's current bond ratings are AA by Standard and Poor's and Aa1 by Moody's Investors Service.

SRP has an unused financing authorization of $383,350,000, authorized by Decision No. 69422. Staff's financial analysis presented below quantifies the pro forma effect of this unused financing authorization.

Refunding Revenue Bonds

SRP requests authorization to issue $2.1 billion in refunding revenue bonds. The proposed refunding revenue bonds would be secured by a pledge of, and a lien on, the revenues of the electric system, after deducting operating expenses, i.e., in the same manner as the revenue bonds.

Similar to the revenue bond sales, SRP plans to sell the refunding revenue bonds in several series subsequent to the date of Commission approval. Maturity dates for the refunding revenue bonds can not exceed fifty years. The amount, maturity and interest rate of each series depends upon capital market conditions and the Applicant's bond rating at the time of the transaction.

The purpose of authorizing the Applicant to issue refunding revenue bonds at this time is to facilitate expeditious refinancing of existing debt when future market conditions present opportunities to reduce debt service costs. Since the proceeds of refunding revenue bonds would be used to repay existing debt, issuing them would not result in additional outstanding debt.

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[2] See further A.R.S. § 48-2466(A)

Although SRP makes refunding decisions based on a number of criteria (such as interest rates on outstanding bonds, current market interest rates, the costs of funding an escrow, call provisions on refunding candidates, potential debt savings, etc.), the Applicant's primary decision-making criterion for a refunding is the aggregate net present value savings that could be realized through the refunding as a percentage of the par amount of the bonds to be refunded. Historically, SRP has not refunded long-term debt unless the net present value savings are 7 percent or greater. For short-term debt, the Applicant considers that savings have to be a minimum of 3 percent.[3]

As of January 31, 2008, SRP had $3,801,280,072 outstanding refunding revenue bonds authorizations.[4] Some of the refunding revenue bond authorizations restrict the issues that can be refunded, and for some bonds, there are no outstanding refunding authorizations.

Financial Analysis

Staff's analysis is illustrated in Schedule PMC-1. Column [A] reflects SRP's historical financial information for the fiscal year ended April 30, 2008.

Column [B] presents pro forma financial information that modifies Column [A] to include the effect of issuing $383,350,000 (related to the unused financing authorization described above) and to reflect the effect of the 1.9 billion revenue bonds proposed by the Applicant. Staff assumed a 5.05 percent annual interest rate and a 30-year amortization. These assumptions are based on current market conditions, as published by Value Line.[5]

Column [C] provides a stress test that modifies Column [A] to quantify the effect of a 2.28 billion revenue bond issuance ($1.9 billion + $0.38 billion) assuming a 6 percent annual interest rate (the highest interest rate paid by the Applicant in its currently outstanding bonds) and a 10-year amortization.

The analysis shown in Schedule PMC-1 does not reflect any bond refunding. The proceeds of refunding revenue bonds would be used to repay existing debt. Since SRP applies as a primary condition for a decision to refund bonds that the refunding provide a positive net present value, issuing refunding revenue bonds would generally result in improved debt service coverage. The analysis also assumes immediate issuance of an amortizing loan of the full amount requested by the Applicant. SRP would be issuing serial bonds and would not issue the whole authorized amount immediately after Commission approval. Although differences in the timing and type of financing will result in outcomes different than those presented, Schedule PMC-1 provides a good basis for purposes of determining the appropriateness of granting the authorizations requested by SRP.

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[3] SRP's Application, page 6.
[4] *Ibid.* Attachment A – Page 1.
[5] The Value Line Investment Survey; Selection and Opinion, dated August 22, 2008, page 3985.

TIER and DSC

Times interest earned ratio ("TIER") represents the number of times earnings cover interest expense on short-term and long-term debt. A TIER 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.

Debt service coverage ratio ("DSC") represents the number of times internally generated cash will cover required principal and interest payments on short-term and long-term debt. A DSC 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.

Schedule PMC-1, Column [A] shows that for the fiscal year ended April 30, 2008, SRP had a 2.62 TIER and a 2.35 DSC. The pro forma TIER and DSC for SRP under the scenario described above for Column [B] are 1.36 and 1.52, respectively. These pro forma DSC results indicate that SRP would be able to meet all obligations, under this stringent test, with cash generated from operations. The pro forma TIER and DSC for SRP under the scenario described above for Column [C] are 1.26 and 1.16, respectively. The pro forma DSC results indicate that SRP would be able to meet all obligations under this stress test with cash generated from operations as long as the maturity is not less than 10 years.

Capital Structure

At April 30, 2008, SRP's capital structure consisted of 2.2 percent short-term debt, 47.9 percent long-term debt, and 49.9 percent equity (Schedule PMC-1, Column [A]). SRP's financial statements reflect continued strong financial health. Issuance of the proposed and unused revenue bonds and the unused financing authorization, would result in a capital structure composed of 2.2 percent short-term debt, 59.5 percent long-term debt and 38.3 percent equity (Schedule PMC-1, Column [B]). The pro forma capital structure for SRP under the scenario described above for Column [C] is composed of 3.4 percent short-term debt, 58.8 percent long-term debt and 37.8 percent equity.

Staff typically recommends Company capital structures with a minimum of 30 percent (40 percent for investor owned utilities) equity of total capital (short-term debt plus long-term debt plus common equity) as appropriate to provide a balance of cost and financial risk for regulated utilities and ratepayers. Although the Applicant's capital structure portrays a diminished equity position on a pro forma basis, SRP continues to generate additional operating income, and it would not immediately issue the entire authorized debt. Therefore, SRP's equity position is expected to remain within the range typically recommended by Staff.

Engineering Analysis

The Staff Engineering Report is attached. Staff reviewed SRP's capital improvement program for the fiscal years 2009-2014, and believes that the projects identified, which include upgrades to existing electrical facilities, replacement of aging underground cables and overhead lines, and the addition of new distribution facilities, are appropriate to meet the projected needs of SRP's existing and new customers and should continue to ensure system reliability.

Staff concludes that the expenditure levels associated with the proposed capital improvement program appear reasonable.

Compliance

There are no compliance issues with Salt River Project Agricultural Improvement and Power District.

Conclusion and Recommendations

Staff concludes that the cost estimates in SRP's 2009-2014 capital improvement program are reasonable.

Staff concludes that SRP's issuance of revenue bonds not to exceed $1,900,000,000 and issuance of refunding revenue bonds not to exceed $2,100,000,000, for the purposes described in the application is within SRP's organizational powers, is compatible with the public interest, is consistent with sound financial practices and will not impair its ability to provide services.

Staff recommends that the Commission authorize SRP's request to issue revenue bonds not to exceed $1,900,000,000, for the purposes described in the application with an expiration of any unused revenue bond issuance authorization on December 31, 2016.

Staff further recommends that the Commission authorize SRP's request to issue refunding revenue bonds not to exceed $2,100,000,000 to refund existing revenue bonds.

Staff further recommends authorizing SRP to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that refunding revenue bond issuance authorizations granted herein expire, in the ratio of 2.1 refunding bonds to 1.9 revenue bonds, when either revenue bond issuance authorizations granted herein expire or when revenue bonds issued pursuant to the authorizations granted herein are subsequently retired.

Staff further recommends that the Applicant file with Docket Control, as a compliance item in this docket, within 60 days of the execution of any financing transaction authorized herein; a copy of all notes and other documents memorializing the transaction and a written summary providing an overview of the transaction that includes, but is not limited to, the business rationale for the transaction, the terms and conditions of the transaction, and a demonstration that the rates and terms were consistent with those generally available to comparable entities at the time; and for any refunding transaction that it is economically beneficial.

for

Ernest G. Johnson
Director
Utilities Division

EGJ:PMC:lhm\KOT

ORIGINATOR: Pedro M. Chaves

MEMORANDUM

TO: Pedro M. Chaves
Public Utility Analyst II
Utilities Division

FROM: Prem Bahl Prem
Electric Utilities Engineer
Utilities Division

DATE: October 7, 2008

RE: SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT'S FINANCING APPLICATION (DOCKET NO. E-02217A-08-0159)

Salt River Project Agricultural Improvement and Power District ("SRP" or "District") submitted an application to the Arizona Corporation Commission ("Commission") requesting authorization to issue revenue bonds in an amount not to exceed $1.9 billion, and refunding revenue bonds in an amount not to exceed $2.1 billion. The purpose of the revenue bonds is to provide financing for SRP's 2009-2014 Capital Improvement Program ("Program") for FY2009-2014. This will enable the District to provide affordable and reliable electric service to its customers.

Customer and Load Growth

The District's annual peak control area load has grown from 5,086 MW in 1998 to 7,649 MW in 2007, an average annual increase of approximately 4.64%. In 2014, the District projects its annual peak control area load to increase to 8,462 MW, an average annual projected increase of approximately 2.26% over the seven-year period.

In 2007, SRP's transmission system (115 kV and above) consisted of approximately 2,719 overhead circuit miles that were fully or partially owned by SRP. The 69 kV sub-transmission system consisted of approximately 783 circuit miles of overhead and 6 miles of underground lines. The primary and secondary distribution circuit miles ending FY 2006-2007 were approximately 5,549 miles for overhead and 21,297 miles for underground.

Existing and Future Generation Resources

As of the end of April 2007, SRP's total generation resources were 8,167 MW. SRP's 2007 peak of 7,649 MW was slightly below its forecast. The District's total projected generation resources, including firm purchased power contracts, to meet the aforementioned peak load serving obligations, range from 8,043 MW in 2008 to 9,474 MW in 2014. These resources are in excess of the forecast net peak load in 2008-2014, providing an average annual planning reserve margin of slightly greater than 12%. This level of reserve margin represents an acceptable and reasonable level for planning purposes that strikes an appropriate balance between economics and reliability.

Review of 2009-2014 Capital Improvement Program

Staff has reviewed SRP's Capital Improvement Program for the fiscal years 2009-2014. In assessing this program, Staff utilized the following criteria.

- Does the Program adequately address the needs of projected customer load growth in SRP's service territory?

- Do the capital expenditures for generation, transmission, and distribution infrastructure upgrades and new additions appear appropriate and reasonable?

SRP is working in conjunction with Arizona Public Service Company ("APS") to improve the import and load-serving capabilities in the Phoenix metropolitan area load pocket. Recently constructed and planned projects, as detailed below, appear to reflect the joint efforts of the two largest utilities in the state to achieve their stated goals of providing reliable and cost effective service to their customers.

- Since 2002, an increase in the Palo Verde East transmission system path rating from 4,750 MW to 7,510 MW has improved SRP's import capability by about 2,215 MW.

- In 2003, the Palo Verde to Rudd 500 kV line was completed. Rated at 1,550 MW, this line significantly contributed to the increased Phoenix metropolitan area import capability. In 2007, a 4^{th} Rudd 500\230kV transformer was added as a joint project with APS. This project increased the rating of the Palo Verde to Rudd 500kV line to 1,980MW.

- In 2006, SRP completed the Santan Generation Expansion Project, which added approximately 825 MW of generation in the Phoenix metropolitan area.

- In 2007, SRP completed the Browning to Dinosaur (RS19) 230kV line and substation project.
- A new Abel (formerly Southeast Valley) Substation and expansion of the Browning Substation are planned for the future 500kV transmission line interconnections. These substations are part of the Pinal West to Southeast Valley to Browning 500/230 kV project, approved in Decision No. 68093.

Projected Capital Expenditures

In order to meet future load growth, SRP plans to add generation resources, including construction of Springerville #4 generating unit (to be completed by the end of 2009). In 2005, SRP's Board of Directors approved installing or acquiring renewable resources to the level of

15% by 2025. This is consistent with the renewable resource goals for the jurisdictional utilities recently approved by the Commission.

Staff has reviewed the technical studies submitted by SRP, showing impact of Springerville #4 on the interconnected transmission system in terms of receiving the full output of this unit. SRP is proposing significant transmission upgrades to the Coronado Transmission System to accommodate delivery of the output of Springerville #4. Some of the more significant upgrades include a new 500/345kV transformer at the Coronado end of the Springerville to Coronado 345kV transmission line, 50% series compensation on the Coronado to Silverking 500kV transmission line[1], sub-synchronous resonance protection of the Coronado Generating Station, a conductor upgrade of the Silverking to Goldfield 230kV transmission line, and the addition of 230kV shunt capacitor banks at multiple Valley substations. SRP worked with regional entities to have the technical studies reviewed and approved. Staff concurs with the results of these studies and transmission upgrades performed by SRP and believes these transmission upgrades are reasonable and appropriate.

Total generation expenditures for Fiscal Years 2009 through 2014 of $2,692,016,000, appear reasonable.

SRP is actively participating in the regional and sub-regional transmission planning forums such as Western Electricity Coordinating Council ("WECC"); WestConnect; and the Southwest Area Transmission ("SWAT"). SRP is a participant in key multi-state transmission projects that will provide access to resources and improve the overall reliability of the transmission system. One of these projects is the SunZia Southwest Transmission Project and the other is the High Plains Express Initiative. The SunZia Southwest Transmission Project is a project that would tie central Arizona with central New Mexico areas with two extra high voltage ("EHV") 500 kV lines to access geothermal, solar, wind, and gas resources. This project is in the siting and permitting phase. The High Plains Express Initiative is a backbone transmission expansion project that would tie Wyoming, Colorado, New Mexico, and Arizona with renewable resources in Wyoming.

SRP has been participating in the Central Arizona Transmission System (CATS) studies since 2000. The CATS-HV and CATS-EHV study work is conducted by a stakeholder group on a collaborative basis. Both of these CATS Committees continue to look at transmission alternatives in the Central Arizona area from a planning perspective to meet future load growth in a reliable manner. As a result of this work, SRP; Electrical District 2, 3, and 4 of Pinal County; Tucson Electric Power ("TEP"); and Southwest Transmission Cooperative ("SWTC") have embarked upon the Pinal West–Abel (formerly Southeast Valley)/Browning Station 500 kV line, which was approved for construction by the Commission in August 2005. The in-service date for this project is 2011. SRP's 500 kV line from Hassayampa-Pinal West, approved in the Commission Decision No. 67012, was energized earlier this year. SRP is also a joint participant

[1] Half of the series compensation will be added at the Coronado Substation and half at Silverking Substation for reliability and operational flexibility.

with APS in the Palo Verde to North Gila II 500kV project and the Palo Verde-Sun Valley, Sun Valley-TS9, and TS9-Pinnacle Peak 500 kV projects.

To meet the recent and future continued growth in the southeast Phoenix metropolitan area, SRP has developed comprehensive 230kV expansion plans for this area. The plans include the addition of the Abel and RS24 230/69kV receiving stations and 230kV lines to connect Pinal Central, Abel, Dinosaur, RS24, and Schrader/Santan Substations. Multiple 500/230 kV and 230/69 kV transformer additions are included in the 2009-2014 Program. Several 69 kV and above transmission elements, such as lines, circuit breakers and disconnect switches, are included for replacements and new additions at various substations. Staff believes that SRP's planned transmission projects in the Fiscal Years 2009 through 2014 are appropriate and the associated expenditure of $619,991,000 is reasonable.

SRP's projected distribution capital expenditures are for upgrading existing facilities (including underground cable replacement) and building new infrastructure to meet the customer load growth in the short-term planning horizon. Total Distribution expenditures of $1,620,047,000 are earmarked for the 2009 through 2014 period. Staff finds that the projected distribution capital expenditures are reasonable and appropriate.

Table No. 1 provides a Summary of the total Capital Expenditure for SRP's Capital Improvement Program, which is $4,932,054,000. SRP is requesting approval for only $1.9 billion of this total expenditure. To meet the additional capital needs for the Capital Improvement Program, SRP plans to utilize internal resources.

Table No. 1 ~ Summary of SRP's Capital Expenditure (2009-2014)	
Generation	$2,692,016,000
Transmission	$619,991,000
Distribution	$1,620,047,000
Total	**$4,932,054,000**

Conclusions

Based on the review of SRP's Capital Improvement Program for fiscal years 2009 through 2014, Staff believes that the Program and the projects identified, which include upgrades to existing electrical facilities, replacement of aging underground cables and overhead lines, and the addition of new distribution facilities, are appropriate to meet the projected needs of SRP's existing and new customers and should continue to ensure system reliability. Staff further concludes that the expenditure levels associated with this Program appear reasonable.

FINANCIAL ANALYSIS

Line		[A] Fiscal Year 2008		[B] Pro Forma		[C] Stress Test Pro Forma	
1	Operating Income	$ 322,215,000		$ 322,215,000		$ 322,215,000	
2	Depreciation & Amort.	369,477,000		369,477,000		369,477,000	
3	Income Tax Expense	0		0		0	
4							
5	Interest Expense	123,216,000		236,314,290		255,541,570	
6	Repayment of Principal	170,748,000		217,828,547		342,620,837	
7							
8							
9	**TIER**						
10	[1+3] ÷ [5]	2.62		1.36		1.26	
11	**DSC**						
12	[1+2+3] ÷ [5+6]	2.35		1.52		1.16	
13							
14							
15							
16							
17							
18	Short-term Debt	$170,748,000	2.2%	$217,828,547	2.2%	$342,620,837	3.4%
19							
20	Long-term Debt	$3,679,929,000	47.9%	$5,916,198,453	59.3%	$5,791,406,163	58.1%
21							
22	Common Equity	$3,838,835,000	49.9%	$3,838,835,000	38.5%	$3,838,835,000	38.5%
23							
24	Total Capital	$7,689,512,000	100.0%	$9,972,862,000	100.0%	$9,972,862,000	100.0%
25							

26 [A]: Based on audited financial statements for the fiscal year ended April 30, 2008 .
27 [B]: Column [A] inclusive of $2.28 billion ($1.9 billion + $0.38 billion) debt amortized for 30 years at 5.05%.
28 [C]: Column [A] inclusive of $2.28 billion ($1.9 billion + $0.38 billion) debt amortized for 10 years at 6.00%.

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF 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-08-0159 DECISION NO. ____________ ORDER

Open Meeting
November 12 and 13, 2008
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

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

2. SRP is mainly engaged in the purchase and sale of electricity in the Maricopa, Pinal and Gila Counties, and the generation of electricity in the States of Arizona, New Mexico, Nevada and Colorado, primarily for sale in Arizona. SRP provides electric power to approximately 928,000 customers.

3. On March 17, 2008, SRP filed an application with the Arizona Corporation Commission ("Commission") requesting authority to issue \$1.9 billion in revenue bonds and \$2.1 billion in refunding revenue bonds ("Application"). Pursuant to Arizona Revised Statute

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

4. SRP published notice of the Application on April 14, 2008, in the *Arizona Republic*.

5. SRP has a Capital Improvement Program for the fiscal years 2009 through 2014, and estimates its capital expenditure requirements for that time period to be approximately $4.93 billion. Electric generation is the largest category of expenditures and is estimated to require approximately $2.69 billion of expenditures. The remaining projected areas of need are distribution plant, approximately $1.62 billion; and transmission, approximately $620 million.

6. SRP requests authorization to issue $1.9 billion in revenue bonds to refund a portion of SRP's commercial paper and to finance costs of construction, acquisition and acquisition of improvements, replacements, additions, extensions and betterments to SRP's electric system including, but not limited to the purchase, construction, acquisition and installation of electric generating facilities, power supplies, transmission lines, distribution lines, substations, and related facilities, assets (including fuel and fuel related assets), and equipment necessary therefore, and financing costs related thereto.

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

8. SRP's current bond ratings are AA by Standard and Poor's and Aa1 by Moody's Investors Service.

9. Commission's Staff reviewed the Application and SRP's 2009-2014 Capital Improvement Program. Staff concluded that the generation, transmission and distribution projects included in SRP's 2009-2014 Capital Improvement Program are appropriate to meet the projected needs of SRP's new customers and to ensure system reliability, and that the cost estimates and

expenditure levels associated with the Capital Improvement Program appear to be reasonable. The Staff Engineering Report notes that SRP is requesting approval for only a portion of the total expenditures for its 2009-2014 Capital Improvement Program, and that SRP plans to finance the remaining expenditures using internal resources.

10. SRP also intends to issue up to $2,100,000,000 of refunding bonds in order to take advantage of reduced interest rates to lower its debt service requirements when future market conditions present opportunities to do so. Since the proceeds of the refunding revenue bonds would be used to repay existing debt, their issuance will not result in additional outstanding debt.

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

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

13. As of January 31, 2008, SRP had $3,801,280,072 outstanding refunding revenue bonds authorizations.

14. The proposed revenue bonds and refunding revenue bonds would be secured by a pledge of, and a lien on, the revenues of SRP's electric system, after deducting operating expenses.

15. Total capitalization for SRP as of April 30, 2008, was $ 7,689,512,000, with 2.2 percent short-term debt, 47.9 percent long-term debt, and 49.9 percent equity. Under Staff's pro

forma analysis including issuance of $383,350,000 in previously authorized revenue bonds not yet issued, and the proposed $1.9 billion in revenue bonds, SRP's total capitalization would be $9,972,862,000, consisting of 2.2 percent short-term debt, 59.5 percent long-term debt and 38.3 percent equity.

16. Staff typically recommends Company capital structures with a minimum of 30 percent (40 percent for investor owned utilities) equity of total capital (short-term debt plus long-term debt plus common equity) as appropriate to provide a balance of cost and financial risk for regulated utilities and ratepayers. Although the SRP's capital structure portrays a diminished equity position on a pro forma basis, SRP continues to generate additional operating income, and it would not immediately issue the entire authorized debt. Therefore, SRP's equity position is expected to remain within the range typically recommended by Staff.

17. Based upon SRP's historical financial information for the fiscal year ended April 30, 2008, Staff performed a pro forma financial analysis to estimate the effect of SRP's issuance of the proposed $1.9 billion in revenue bonds and issuance of $383,350,000, in previously authorized revenue bonds. Staff's analysis assumes a 5.05 percent annual interest rate and a 30-year amortization, based on current market conditions as published by the Value Line Investment Survey, Selection and Opinion, August 22, 2008, page 3985. Staff also performed a second "stress test" scenario assuming a 6 percent annual interest rate, which is the highest interest rate paid by SRP in its currently outstanding bonds, and a 10-year amortization.

18. For the fiscal year ended April 30, 2008, Staff calculated SRP's current Times Interest Earned Ratio ("TIER")[1] to be 2.62 and its Debt Service Coverage ("DSC")[2] ratio to be 2.35. Issuance of both the proposed $1.9 billion in revenue bonds and $383,350,000, in previously authorized revenue bonds results in a pro forma 1.36 TIER and 1.52 DSC. The pro

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[1] The TIER represents the number of times earnings cover interest expense on short-term and long-term debt. A TIER 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.

[2] The DSC ratio represents the number of times internally generated cash will cover required principal and interest payments on short-term and long-term debt. A DSC 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.

forma DSC results indicate that operating cash flow would be sufficient to cover all obligations. SRP would also be able to meet all obligations under Staffs "stress test" analysis.

19. Based on its analysis, Staff concluded that SRP's proposed issuance of new debt financing for the purposes stated in the Application is within SRP's organizational powers, is compatible with the public interest, is consistent with sound financial practices and will not impair its ability to provide services.

20. Staff recommends that the Commission authorize SRP's request to issue an amount not to exceed $1.9 billion in revenue bonds and $2.1 billion in refunding revenue bonds for the purposes described in the Application.

21. Staff further recommends that any unused revenue bond issuance authorization expire on December 31, 2016.

22. Staff further recommends that refunding revenue bond issuance authorizations granted herein expire, in the ratio of 2.1 refunding bonds to 1.9 revenue bonds, when either revenue bond issuance authorizations granted herein expire or when revenue bonds issued pursuant to the authorizations granted herein are subsequently retired.

23. Staff further recommends authorizing SRP to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

24. Staff further recommends that the Applicant file with Docket Control, as a compliance item in this docket, within 60 days of the execution of any financing transaction authorized herein; pertinent documents memorializing the transaction and a written summary providing an overview of the transaction that includes, but is not limited to, the business rationale for the transaction, the terms and conditions of the transaction, and a demonstration that the rates and terms were consistent with those generally available to comparable entities at the time; and for any refunding transaction that it is economically beneficial.

25. Staffs recommendations are reasonable and should be adopted.

CONCLUSIONS OF LAW

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

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

3. The revenue and refunding revenue bonding authority approved herein is for the purposes stated in the Application and is reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably chargeable to operating expenses or to income.

4. Notice of the Application was given in accordance with the law.

ORDER

IT IS THEREFORE ORDERED that the Application of Salt River Project Agricultural Improvement and Power District for authorization to issue an amount no to exceed $1.9 billion in revenue bonds is hereby approved as described herein, with an expiration of any unused revenue bond issuance authorization on December 31, 2016.

IT IS FURTHER ORDERED that the Application of Salt River Project Agricultural Improvement and Power District for authorization to issue an amount no to exceed $2.1 billion in refunding revenue bonds is hereby approved as described herein, with a refunding revenue bond issuance authorization expiration, in the ratio of 2.1 refunding bonds to 1.9 revenue bonds, when either revenue bond issuance authorizations granted herein expire or when revenue bonds issued pursuant to the authorizations granted herein are subsequently retired.

IT IS FURTHER ORDERED that the authorizations granted herein are expressly conditioned upon the application by Salt River Project Agricultural Improvement and Power District of the proceeds derived thereby for those purposes set forth in the Application.

IT IS FURTHER ORDERED that Salt River Project Agricultural Improvement and Power District is hereby authorized to engage in any transaction and to execute any documents necessary to effectuate the authorizations herein.

IT IS FURTHER ORDERED that Salt River Project Agricultural Improvement and Power District shall file with the Commission's Docket Control, as a compliance item in this docket, within 60 days of the execution of any financing transaction authorized herein, a copy of pertinent documents memorializing the transaction and a written summary providing an overview of the transaction that includes, but is not limited to, the business rationale for the transaction, the terms and conditions of the transaction, and a demonstration that the rates and terms were consistent with those generally available to comparable entities at the time; and for any refunding transaction that it is economically beneficial.

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

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN	COMMISSIONER

COMMISSIONER	COMMISSIONER	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 _______day of ___________________, 2008.

____
BRIAN C. McNEIL
EXECUTIVE DIRECTOR

DISSENT: ____________________________

DISSENT: ____________________________

EGJ:PMC:lhm\KOT

SERVICE LIST FOR: Salt River Project Agricultural Improvement and Power District
DOCKET NO.: E-02217A-08-0159

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