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BEFORE THE ARIZONA CORPORATION COMMISSION

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

Arizona Corporation Commission
DOCKETED
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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. **70611** ORDER

Open Meeting
November 12 and 13, 2008
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Salt River Project Agricultural Improvement 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 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 not 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 not 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

for William A. Mundell by [illegible] Exec Dir

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 19th day of November, 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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