

OPEN MEETING AGENDA ITEM

E-01345A-08-0172



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ORIGINAL

From: John Sellers [jasellers@cableone.net]
Sent: Wednesday, December 17, 2008 9:51 AM
To: Gleason-WebEmail; Pierce-Web; Hatch-WebEmail; Mayes-WebEmail; Mundell-Web
Subject: FW: APS rate hearing
Attachments: APS Filing.pdf; The Heavy LifterPDF.pdf; Joint City version PDF.pdf

Dear Sirs

Please find enclosed a submission I attempted to make yesterday.

I was told categorically by two of your staff that I had no e mail filing option which I understand may not be the case.

I asked APS to accept and submit it on my behalf so you may already have it

Thank you for your consideration

Sincerely

Arizona Corporation Commission
DOCKETED

DEC 17 2008

DOCKETED BY *MA*

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This message may be confidential. If it has been received in error, please destroy the original and all copies and advise the sender. Thank you.

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2008 DEC 17 A 11: 42

AZ CORP COMMISSION
DOCKET CONTROL

John & Deborah Sellers

595 Robin Drive
Prescott, Arizona 86305

Commissioner Gleason
Commissioner Mundell
Commissioner Hatch Miller
Commissioner Mayes
Commissioner Pierce
Arizona Corporation Commission

December 16, 2008

Re: **Arizona Public Service Company Interim Rate Recovery Request**
Docket # E-01345A-08-0172

Dear Chairman Gleason & Commissioners

It only came to my attention yesterday that the Commission may deny a rate increase for APS. I've not had time to analyze the financial condition of APS so this letter is written somewhat in haste. I may have missed the deadline for response so I would ask your indulgence. **I'm very concerned that such an action could have serious consequences for Arizona.** Like any Arizona ratepayer, I'm not keen to see costs escalate - particularly for lower income groups. My wife and I are both Big Brothers & Sisters and are helping Prevent Child Abuse Arizona in Prescott. Consequently we're very aware of the desperate plight of lower income groups who already appear to be leaving our area. In fact I'm already concerned that we're a very ominous leading indicator. Despite this, anything which could affect APS's investment grade debt rating could be disastrous for the State. I say this based on the following:

1. I was Global Head of Project Finance for Paribas, now BNPParibas and ranked No 1 in Project Finance globally. In the 80's and 90's we were one of the leaders in financing early PURPA projects in the US and financing power privatization projects around the world in China, Colombia, Turkey, Oman, the Philippines - just to mention a few.
2. I was also an adviser to the Chairman of the California Power Authority in 2002/3 - I saw the effects of the energy crisis on California.
3. To date on an unpaid basis, I:
 - Have helped the Cities of Prescott & Prescott Valley with their current PPP solicitation for the Big Chino water project which has attracted 13 major international groups. **This depends on Project Finance being available.**
 - Sat on the Embry Riddle Aeronautical University Focus Group where electricity is a key component of any vital plans for their campus.
 - Am on the Mayor of Prescott's 2050 Vision Economic Development group.
 - Am trying together with local officials and ADOT to develop a PPP structure for the whole I-17 transportation corridor between Phoenix and Prescott.
 - My estimates of these and other projects, which I believe will need significant amounts of Project Finance, exceeds \$3 Billion
4. See the work to date attached on these projects which is embryonic but moving ahead.
5. Overcoming the State's education ranking in my view is already a major hurdle in attracting outside Project Finance investors to these projects. This is why we're also in the early stages of developing a school PPP model with a school in Prescott already funded by the Gates Foundation. These investors look to the economy of the State **as a whole**. It's my view that, as was the case with the Latin American debt crisis in the 80's, a US regional debt problem

John & Deborah Sellers

595 Robin Drive

Prescott, Arizona 86305

will ultimately morph into the ring fencing of individual States. A major utility with a "*junk bond*" rating would have major consequences for the State. I should add I also worked for Salomon Brothers in the late 80's in the "*junk bond*" department. So I'm very aware of what can happen to "*fallen angels*" who lose their investment grade rating. The timing today of course could not be worse as APS's borrowing costs will skyrocket.

6. I have over 30 years of experience involving \$30 Billion of project financings. I've turned down projects in many others. I sat on Paribas's credit committee in Paris where, before any business could be done in a jurisdiction, a "*country envelope*" had to be defined. This practice is totally different to that in the US Public Finance market. Energy costs and stability of the local utilities are critical factors in even allocating a country envelope without which you simply don't attempt to do business.
7. In short, and I could go on - **THIS WOULD BE A DISASTER FOR INWARD INVESTMENT IN ARIZONA AND THE PROJECTS MENTIONED HERE. IT WOULD ALSO BE DISASTROUS FOR JOBS AND THE VERY SAME LOW INCOME GROUPS.**
8. I've read Abengoa's submission dated December 12th and endorse it. That financing is as I understand it an important \$600 mm project financing. It would be the first time to my knowledge that the Project Finance community has stepped into Arizona and I've been watching that project. [The Project Finance market is a totally different financing market than Public Finance]. I would add to the comments by Bank of America, Solana's adviser, by saying that, if APS loses its investment grade rating, they will have two chances of project financing that project - **SLIM AND NONE!**

As a rider to all the above, I have not read APS's financial statements but did read ENRON's. With my support and concurrence we at Paribas were one of the first banks to spot the connivance of Arthur Anderson and cut back our credit exposure to them. From what I know of APS's reputation I have a high degree of confidence their financial statements can be relied upon.

As a reference point, where "*bailouts*" are on everyone's lips, I also believe that Detroit should follow the rules of bankruptcy with substantial DIP financing from the TARP program. See the attached exchange with Senator Kyl.

I'm confident that preserving APS's debt rating is **NOT** a bailout.

Respectfully & sincerely in haste. I'd be happy to answer any questions.

John Sellers

Attachments

CV of John Sellers plus web site at www.jsellers.co.uk

Correspondence on Detroit with Senator Kyl

Big Chino presentation to the Cities of Prescott & Prescott Valley

Draft presentation on a PPP for the I-17 corridor between Phoenix and Flagstaff.

JOHN A. SELLERS - \$30 Billion of energy & infrastructure deals in 30 countries over 30 years

2006 - Present	<u>Community service</u> Local government projects including 2 proposed PPP's, the Prescott Mayors 2050 Vision Group and the Embry Riddle Aeronautical University Focus Group. Also moderated the PPP session of MAG's first Arizona Transportation Summit.	<u>Prescott, Arizona</u>
2002 - 2006	<u>Community service</u> Various local government projects including membership of the Weimar MAC and Chairman of MHAAA, a proposed water PPP. Placer County Firefighters Community Service award in 2006.	<u>California</u>
2002 - 2003	<u>Adviser to the Chairman, California Power Authority</u>	<u>Sacramento</u>
2000 - 2002	<u>Independent Consultant</u> - Various energy projects	<u>London</u>
1998 - 2000	<u>MEDIOCREDITO CENTRALE</u> Managing Director and Branch Manager	<u>Rome & London</u>
1997 - 1998	<u>ROLLS ROYCE POWER VENTURES</u> Finance Director. Member Executive Committee	<u>London</u>
1990 - 1997	<u>BANQUE PARIBAS</u> Director Project Finance - Global Head of Project Finance	<u>Paris, France</u>
1990 - 1991	<u>CITIBANK WORLD CORPORATE GROUP</u> Vice President and Senior Banker	<u>New York</u>
1987 - 1990	<u>SALOMON BROTHERS</u> High Yield Sales and Trading - Liability Management	<u>New York</u>
1980 - 1987	<u>CHASE MANHATTAN BANK</u> 1983-87: Vice President, Team Leader, Global Energy Group 1980-83: Executive Director, Project Finance	<u>New York</u> <u>Melbourne, Australia</u>
1972 - 1980	<u>J.P. MORGAN</u> Vice President, Energy and Project Finance	<u>London & New York</u>
1970 - 1971	<u>BOWATER SCOTT PAPER</u> Marketing Trainee	<u>London</u>
1964 - 1970	<u>HAWKER SIDDELEY AVIATION & AIRBUS</u> Aeronautical Engineering Apprentice	<u>England/Hamburg</u>

Academic and other

- Top of class - JPMorgan Accounting & Finance class in New York - 1973
- Diploma in Business Administration : Manchester Business School, England -1972
- Honours Degree, Aeronautical Engineering : Loughborough University, England - 1970
- O.N.C. Mechanical Engineering with Distinction : Hull Technical College, England - 1966
- British & US Citizen. Fluent in French, good German & Italian. Some Turkish
- Treasurer & Trustee, the Putney Samaritans, London [www.samaritans.org]
- Yavapai County Big Brothers & Sisters

595 Robin Drive, Prescott, Arizona 86305

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ORIGINAL OPEN MEETING AGENDA ITEM

ABENGOA SOLAR

12/10/2008

Chairman Mike Gleason
Commissioner William A. Mundell
Commissioner Jeff Hatch-Miller
Commissioner Kristin K. Mayes
Commissioner Gary Pierce
Arizona Corporation Commission

Re: Arizona Public Service Company Interim Rate Recovery Request;
Docket # E-01345A-08-0172

Dear Chairman Gleason and Commissioners:

First, let me thank you for your support for Solana, as witnessed by the Commission's approval of the PPA between Abengoa Solar and APS and your affirmation of the Arizona Power Plant and Transmission Line Siting Committee's recommended approval of Solana's Certificate of Environmental Compatibility. Your support for solar energy in general and concentrating solar power (CSP) specifically is noteworthy and will most certainly benefit the state of Arizona and provide a noteworthy Commission legacy long after your term is over.

It has come to the attention of Abengoa Solar that APS' interim rate request may be denied. I am writing to offer Abengoa Solar's perspective on the impact that denial would have on the Solana project, and on the economy of Arizona. I would like to state at the outset that Abengoa Solar respects the authority and responsibility of the Commission to approve or deny rate increases on their merits and that Abengoa Solar is not challenging that process or decision, but is only addressing the likely impact of an adverse decision on Solana.

Abengoa S.A., Abengoa Solar, and its U.S. subsidiary Abengoa Solar Inc., have been financing, building, owning and operating, or selling, power plants around the world for over 70 years. Abengoa's in-house Engineering, Procurement, and Construction (EPC) contractor, Abener, is ranked second, just after Bechtel, in power plant construction worldwide. Abengoa typically raises between 2 and 3 billion dollars in project finance annually. We therefore can state, without reservation, that the situation for project finance has changed dramatically in the past several months. Furthermore, we believe that this situation is extremely relevant when considering the impact of an adverse rate recovery decision on APS' ability to acquire new generation resources of any type.

Abengoa has negotiated with utilities around the world and our impression of APS, formed over many months of intense negotiations on the Solana PPA, is that of a very well-managed company at all levels, from senior management to procurement, legal, and operations. In our view, these managers are diligently concerned with providing the best value to customers by keeping costs down. Regarding the relatively new field of solar

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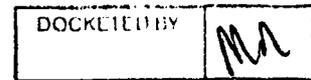
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Arizona Corporation Commission
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power, APS is one of the most knowledgeable companies we have worked with, a testimony to its management who believes that being well-informed ensures the best deal for the company and its customers. In our opinion, APS deserves to be at the top of the credit-worthiness list of rated utilities. Instead, it is now, essentially, at the bottom.

* | | | |

Financing any large project today is challenging, especially so for a large (billion dollar) and relatively new CSP project. When the banks lend again, they will be more risk-averse and far more selective in the projects that they will finance. In utility projects, not only do banks look carefully and deeply into the financial strength of the developer but they apply the same attention to the off-taker. Based on discussions with the financial advisor for Solana, the Bank of America, we believe that it will be very difficult to finance Solana if APS were to lose its investment grade credit rating from any of the rating agencies. The provisions in the PPA that the Commission recently approved were designed to deal with a possible downgrade during "normal" conditions in the financial markets but those conditions no longer apply.

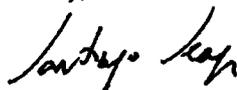
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There is another dimension to this issue and that is the overall interests of the citizens of Arizona, a significant number of whom are customers of APS. Solana, when built, will be the largest solar power plant in the world. Solana will significantly expand the use of the state's solar resources for the economic and environmental benefit of its citizens. Building Solana will bring over a billion dollars of investment into the state's economy, will create almost two thousand construction jobs and almost a hundred permanent jobs, will attract manufacturing, and will increase the state's tax income. Building Solana will reduce the state's greenhouse gas emissions and position Arizona to use a greater amount of its solar energy resource for future energy production, as well as for export to neighboring states. Solar energy is poised to become a new engine for the state's economy. Solana will, if built, be the first of many new solar power plants that will bring these multiple benefits to the citizens of Arizona.

Consequently, there seems to be a disconnect between the considerations in this rate case and the economic well being of Arizona. The two are clearly linked, yet it appears that only the narrow issue of near-term utility rates is being considered. The needs of Arizona citizens are ill-served if the decision of the ACC on this rate case results in the weakening of the financial health of APS and forces upon it a credit downgrade which would have far greater adverse impacts on the rate payers and citizens of Arizona.

I thank you for your consideration of Abengoa Solar's request that you carefully consider APS' interim rate request that is before you.

Sincerely,



Santiago Seage, CEO
Abengoa Solar

John & Deborah Sellers

595 Robin Drive
Prescott, Arizona 86305

Senators McCain & Kyl

November 18, 2008

Re: Auto Industry Bailout

Dear Senators

As a Vice President at Chase Manhattan in the 1980's, I was an obligatory invitee at the 8.00 a.m. Monday weekly Management committee meeting chaired by the Chairman of the Corporate Bank. To arrive late was seriously "career inhibiting"

One Monday the Chairman did not arrive until almost 9.00. The reason was, and we were being told 30 minutes before the Exchange opened, Frank Lorenzo was going to file Chapter XI that morning for Continental airlines – his sole purpose was to break the union contracts. Chase had over \$1 Billion of credit exposure to Continental. Chase was at risk itself.

The debate was heated. Seasoned bankers argued that no one in their right mind would ever fly Continental ever again. It proved nonsense because Chapter XI did not lead to Chapter VII.

The same situation applies here. Federal Bankruptcy judges only need a quorum of 1 - not 435 Congressmen or women or 100 Senators.

The key is providing liquidity for working capital post filing to prevent liquidation.

With respect, this is a "no brainer". All you need under Federal bankruptcy law is a D.I.P. financing ["debtor in possession"] secured over all the assets of the filing company – ahead of all existing creditors.

As the commercial banks are a bit strained right now - use TARP to do what the banks cannot – provide the DIP financing. I'd buy a piece of it myself.

For those who argue that TARP is not meant for industrial bailouts – it's not. It's actually helping the banks to do what I'm sure they would love to do – provide DIP financing. The other alternative is let the banks do it with the paper easily rediscountable at 100 cents on the \$ at the Fed. It's the best collateral they would ever have.

Regards

JON KYL

ARIZONA

730 HART SENATE OFFICE BUILDING
(202) 224-4521

COMMITTEE ON FINANCE

COMMITTEE ON THE JUDICIARY

REPUBLICAN WHIP

United States Senate

WASHINGTON, DC 20510-0304

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SUITE 120
PHOENIX, AZ 85016
(602) 840-1891

6840 NORTH ORACLE ROAD
SUITE 150
TUCSON, AZ 85704
(520) 575-8633

December 1, 2008

Mr. John Sellers
595 Robin Drive
Prescott, Arizona 86305

Dear Mr. Sellers:

Thank you for contacting me about the recent proposal to provide taxpayer assistance to the big three automobile manufacturers.

Neither the Speaker of the House nor the Senate Majority Leader scheduled a vote on the proposed bailout in November because the votes were not there to pass it in either chamber. And in any event, I don't think it would have solved the automakers' problems, but merely served as a bridge to another request for taxpayer dollars a few months from now.

The reason is that the companies have tremendous "legacy costs" (primarily, pension and health-care obligations to their current employees and retirees) that make it impossible for them to compete with Japanese automakers and make money. Even when they design cars that can compete with those made by foreign-owned companies, their legacy costs make it impossible to turn a profit. The hourly cost of labor for the three domestic auto manufacturers averaged \$73 in 2007, while the average for the Japanese auto companies operating in the U.S. was just \$48. The vast majority of the extra labor cost is attributable to benefits, since U.S. employees at foreign-owned car companies earn comparable wages.

Furthermore, most experts agree that the U.S. car companies make an unsustainable number of brands, compared with their foreign competitors. GM has eight brands, while Toyota has three and Honda has two. The domestic car companies also have too many dealerships, but state franchising laws make it very difficult and expensive to consolidate brands and streamline the number of dealerships. With 20 percent of the domestic auto market share, GM has about 7,000 dealerships. Toyota, on the other hand, has 19 percent of the domestic auto market share and fewer than 1,500 dealers.

A taxpayer funded bailout now would not solve any of these problems. However, they could be addressed if the companies sought protection under chapter 11 of the bankruptcy code. That would allow them to restructure their more than \$200 billion in debt and get out from their crushing labor costs. If taxpayer resources are needed, they should only be made available to companies going through chapter 11 reorganization. At that point, I would support the federal government guaranteeing or providing "debtor in possession" financing for the companies to allow them to retain possession of their assets while undergoing bankruptcy reorganization.

<http://www.senate.gov/~kyl/>

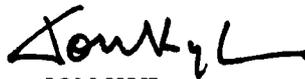
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The majority leadership has announced that it plans to bring Congress back into session on December 8 to reconsider a bailout if the auto companies present a plan acceptable to the majority of the House and Senate. My guess is that the plan will include enough assurances of change that a majority could well support it, though I do not believe the three companies could ever restructure their labor contracts outside bankruptcy – and bankruptcy reorganization would be necessary for my support.

No one wants to see these venerable companies fail, but there are small and big businesses in trouble throughout America. Until the recession ends, there will be high unemployment and unprofitable businesses. It is impossible for the government to bail out all of them. The best thing we can do is provide more liquidity in the financial sector so businesses and customers can get credit and the banking system can be kept strong. We must not raise taxes or think we can somehow spend our way out of the recession (with money we don't have).

Thank you again for your interest.

Sincerely,

A handwritten signature in black ink, appearing to read "Jon Kyl", with a long horizontal flourish extending to the right.

JON KYL
United States Senator

JK:JS

John & Deborah Sellers

595 Robin Drive
Prescott, Arizona 86305

Dear Senator Kyl

December 8, 2008

Thanks for your thoughtful response to my letter on the Detroit bailout.

Since writing it, I recently visited in Washington with Abby Donovan in your office. My theme, based on my career, was private capital in infrastructure.

I've been working most of this year with people in Arizona you'll know on PPP alternatives for transport, water and most recently schools. I started this learning odyssey back in January when Yavapai public works officials pointed me to the Senate video debates in Phoenix on PPP's. .

There was a long exchange I remember well between Senator Blendu and the witnesses, all of whom were consultants – no financiers or principals which is my background.

He asked some excellent penetrating questions which have answers but they can be very subtle. The big one I remember was "moral hazard". What for instance is the state's responsibility if a big PPP financing for a highway goes sour?

Commercial bankers financing these projects know the answer to that question which is basically, regardless of complexity, they look all the parties in the eye at closing and say – 'now we know what we're all up for – right? – let's not have any misunderstandings here!"

And the good commercial project finance bankers, there are plenty left, know how to say no if things work out sour.

The moral hazard precedent involved in congressional politicians trying to play bankruptcy workout specialists is already mind boggling anyway.

I fear though a fair number of people, faced with a difficult educational challenge anyway, might look at PPP's and say – what's the point – we'll bail them out anyway.

The law of unintended consequences of course

Sincerely – no response required