

E. 01345A.08.0172



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ORIGINAL

ARIZONA CORPORATION COMMISSION
UTILITY COMPLAINT FORM

Investigator: Trish Meeter

Phone: [REDACTED]

Fax: [REDACTED]

Priority: Respond Within Five Days

Opinion No. 2009 77071

Date: 2/27/2009

Complaint Description: 08Z Rate Case Items - Other
N/A Not Applicable

Arizona Corporation Commission

DOCKETED

FEB 27 2009

First:

Last:

Complaint By: David

Stoker

Account Name: David Stoker

Home: (000) 000-0000

DOCKETED BY [Signature]

Street: n/a

Work:

City: n/a

CBR: [REDACTED]

State: AZ Zip: n/a

is: E-Mail

Utility Company: Arizona Public Service Company

Division: Electric

Contact Name: [REDACTED]

Contact Phone: [REDACTED]

Nature of Complaint:

DOCKET NO. E-01345A-08-0172

I received in my last APS electric bill a notice that a rate increase is being considered for electricity users. While I have no problem having my monthly rates increased for legitimate needs, I do have one concern that I wanted to bring to your attention. I am employed in the securities industry and I'm aware that APS is the obligor on at least four separate Auction Rate Securities (ARS). This type of security has a variable interest rate and is reset because traditional institutional buyers have pulled their investments out of these securities. As a result, when an auction fails, the rate is reset at a pre-determined maximum rate. In the case of the auction rates securities where APS is an obligor, that rate is 14%. Since auctions began regularly failing last year, many issuers have refinanced their ATS into vehicles that provide a much lower cost of capital. APS has not refinanced their ARS and has been paying an interest rate that seems well above market averages. I have expected APS to refinance these securities but I've been watching them continue to pay these extremely high interest rates. If APS is asking for a rate increase, I feel they should be doing all they can to eliminate unnecessary expenses first. Refinancing these ARS seem to me to be a prudent step.

If you have any questions, please feel to contact me at [REDACTED]

Sincerely,

David Stoker
End of Complaint

Utilities' Response:

Investigator's Comments and Disposition:

AZ CORP COMMISSION
DOCKET CONTROL

2009 FEB 27 A 11: 51

RECEIVED

ARIZONA CORPORATION COMMISSION
UTILITY COMPLAINT FORM

Company response:
Trish,

Here is the APS response to David Stoker's concerns mentioned in his email:

The interest rates on eleven issues of APS' pollution control bonds, in the aggregate amount of approximately \$343 million, are reset every seven days through auction processes. These bonds are supported by bond insurance policies provided by Ambac, and the interest rates on the bonds can be directly affected by the rating of the bond insurer. Certain bond insurers, including Ambac, have had downgrades of their credit ratings. Downgrades of bond insurers result in downgrades of the insured bonds, which increases the possibility of a "failed auction" and results in higher interest rates during the failed auction periods. When auctions of APS bonds fail, the APS bondholders receive the maximum 14% annual interest rate for the week of the failed auction. For the twelve months ended December 31, 2008, we had ninety-nine failed auctions, which represented about 17% of all of our auctions. The average interest rate at December 31, 2008 on the auction rate securities was 12.4%. Bond auctions continued to fail through mid-January; however, since that time, we have had only one failure. The average interest rate at February 18, 2009 on the auction rate securities was 5.7%. We continue to closely monitor this market and, if market and business conditions allow, we are planning on refunding and reissuing these bonds during 2009.

Trish, I have prepared the below responses to your questions:

- 1) Is APS an obligor of auction rate securities at 14%? See response above. APS is obligor on eleven issues.
- 2) Has APS refinanced these ARS investments for a lower interest rate? If not, what is the reason APS chooses to continue with ARS?

APS began the process of refinancing these bonds in November. We anticipate that we will begin reissuing these bonds within the next several weeks. We haven't been able to refinance sooner because lower rated issuers like APS did not have market access after September 15.

Please let me know if you have any questions.

Thanks,
Angela

Inquiry sent to company through No. 75027
End of Comments

Date Completed: 2/27/2009

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