

# OPEN MEETING ITEM



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COMMISSIONERS  
GARY PIERCE - Chairman  
BOB STUMP  
SANDRA D. KENNEDY  
PAUL NEWMAN  
BRENDA BURNS

ORIGINAL



ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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AZ CORP COMMISSION  
DOCKET CONTROL

DATE: JULY 12, 2011

DOCKET NO: E-01773A-11-0154

JUL 12 2011

TO ALL PARTIES:

DOCKETED BY

Enclosed please find the recommendation of Administrative Law Judge Jane L. Rodda. The recommendation has been filed in the form of an Order on:

ARIZONA ELECTRIC POWER COOPERATIVE, INC  
(FINANCE)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

JULY 21, 2011

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

JULY 28, 2011

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 GARY PIERCE - Chairman  
4 BOB STUMP  
5 SANDRA D. KENNEDY  
6 PAUL NEWMAN  
7 BRENDA BURNS

7 IN THE MATTER OF THE APPLICATION OF  
8 ARIZONA ELECTRIC POWER COOPERATIVE,  
9 INC. FOR AUTHORIZATION TO REFINANCE  
CERTAIN EXISTING DEBT.

DOCKET NO. E-01773A-11-0154

DECISION NO. \_\_\_\_\_

ORDER

10 Open Meeting  
11 July 28, 2011  
12 Phoenix, Arizona

12 **BY THE COMMISSION:**

13 \* \* \* \* \*

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

16 FINDINGS OF FACT

17 1. On April 6, 2011, Arizona Electric Power Cooperative, Inc. ("AEPCO" or  
18 "Cooperative") filed an application with the Commission requesting an authorization to refinance  
19 Cooperative Utility Trust ("CUT") debt at a lower interest rate.

20 2. AEPCO is an Arizona Class "A" public service corporation and non-profit, member-  
21 owned generation cooperative located in Benson, Arizona. AEPCO provides all or most of the power  
22 and energy of its five Class A member distribution cooperatives.

23 3. On June 17, 2011, AEPCO filed an affidavit of publication, indicating that public  
24 notice of its application was published in *The Arizona Daily Star* (a newspaper of general circulation  
25 in Pima County, Arizona) on June 13, 2011, and in *The Kingman Daily Miner* (a newspaper of  
26 general circulation in the City of Kingman, in Mohave County, Arizona) on June 14, 2011.

27 4. On June 28, 2011, the Commission's Utilities Division ("Staff") filed its Staff Report  
28 recommending approval of the requested authority.

1           5.       On July 1, 2011, AEPCO filed Comments to the Staff Report, requesting that the  
2 Commission enter an Order as recommended by Staff, but that the termination date for the refinance  
3 authority be March 31, 2012, rather than December 31, 2011, as recommended by Staff.

4           6.       AEPCO's current rates were approved in Decision No. 72055 (January 6, 2011).

5           7.       In Decision No. 71111 (June 5, 2009), the Commission authorized AEPCO to borrow  
6 up to \$36,032,000 from the Rural Utilities Service Federal Financing Bank ("RUS/FFC") to fund the  
7 Cooperative's 2009-2011 Construction Work Plan ("CWP").

8           8.       In Decision No. 55594 (June 4, 1987), the Commission authorized AEPCO to issue  
9 \$49,727,003 in new debt to refinance certain of AEPCO's outstanding Federal Financing Bank  
10 ("FFB") debt that carried interest at rates higher than 10 percent. Pursuant to that authorization,  
11 AEPCO secured an equivalent amount of CUT debt with a lower interest rate and retired the higher  
12 cost FFB debt. Of the original amount of CUT debt, approximately \$25,749,000 remains outstanding.  
13 AEPCO seeks to refinance this debt again to obtain lower interest rates.

14           9.       AEPCO requests authorization to refinance long-term CUT debt through the National  
15 Rural Utilities Cooperative Financing Authority Corporation ("CFC") in an amount not to exceed  
16 \$26,135,235. This amount includes a \$386,235 prepayment penalty.

17           10.      The Cooperative reports that the CFC loan will be split into eight separate serial notes  
18 with one-year incremental maturities. Each note will bear interest at the applicable CFC long-term  
19 fixed rate for its term at the time of the refinancing. As of April 18, 2011, the interest rate on an  
20 eight-year CFC note was 5.65 percent.

21           11.      The Cooperative also requests authorization to borrow an additional \$3,734,725. The  
22 proceeds from the additional borrowing are to finance a CFC Loan Capital Term Certificate  
23 ("LCTC") which is in essence the purchase of equity in CFC. The LCTC will be repaid to AEPCO,  
24 with interest, over the life of the loan.

25           12.      AEPCO estimates that because the CUT debt will be replaced by CFC notes with  
26 lower interest rates, AEPCO will save approximately \$2.1 million in net dollars over the next eight  
27  
28

1 years.<sup>1</sup>

2 13. As of December 31, 2010, AEPCO's capital structure consisted of 3.12 percent short-  
3 term debt, 64.0 percent long-term debt, and 32.0 percent equity.

4 14. Staff calculated a pro forma capital structure reflecting the issuance of two eight-year  
5 amortizing loans at 5.65 percent per annum in the amounts of \$26,135,235 and \$3,734,725, to be 4.0  
6 percent short-term debt, 67.0 percent long-term debt and 29.0 percent equity. Staff states that its pro  
7 forma calculation represents a "stressed" result since AEPCO and Southwestern Transmission  
8 Cooperative, Inc. ("SWTC") are sharing responsibility for the loans in the relative percentages of  
9 67.42 percent AEPCO and 32.58 percent SWTC.

10 15. For the year ended December 31, 2010, AEPCO had a Times Interest Earned Ratio  
11 ("TIER") and Debt Service Coverage ("DSC") of 1.70 and 1.42, respectively.<sup>2</sup> Staff calculated a pro  
12 forma TIER and DSC of 1.80 and 1.39, respectively, for AEPCO after issuance of the debt requested  
13 herein.

14 16. Staff states that the DSC results show that cash flow from operations is sufficient to  
15 cover all obligations.

16 17. Staff concludes that issuance of the proposed debt financing for the purposes stated in  
17 the application is within AEPCO's corporate powers, is compatible with the public interest, is  
18 consistent with sound financial practices and will not impair its ability to provide services.

19 18. Staff recommends authorizing AEPCO to issue eight separate serial notes with one-  
20 year incremental maturities (terms of one to eight years) for a total amount not to exceed \$29,869,960  
21 ("\$26,135,235 plus \$3,734,725) at a rate not to exceed the interest rate available from CFC.

22 \_\_\_\_\_  
23 <sup>1</sup> In its application, AEPCO states that if all necessary refinancing details cannot be accomplished before the next  
24 principal payment is due in August 2011, then AEPCO proposes to refinance the approximately \$22.4 million of CUT  
25 debt which will still be outstanding plus a prepayment penalty of \$224,000 and a CFC LTCC in the amount of \$3.2  
26 million. AEPCO states that refinancing the lower amount of \$25.8 million after the August principal payment will result  
27 in approximately \$1.2 million in net dollar savings over the next seven years.

28 <sup>2</sup> 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. 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.



1 an amount not to exceed \$29,869,960 to refinance long-term Cooperative Utility Trust debt and to  
2 acquire a CFC Long Term Capital Certificate.

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

6 IT IS FURTHER ORDERED that Arizona Electric Power Cooperative Inc. is authorized to  
7 engage in any transaction and to execute any documents necessary to effectuate the authorizations  
8 granted herein.

9 IT IS FURTHER ORDERED that Arizona Electric Power Cooperative Inc. shall file with  
10 Docket Control, as a compliance item in this matter, copies of the loan documents within 60 days of  
11 the execution of any financing transaction authorized here.

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IT IS FURTHER ORDERED that the authorization to incur debt granted herein shall terminate on March 31, 2012.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, 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 \_\_\_\_\_ day of \_\_\_\_\_, 2011.

ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

DISSENT \_\_\_\_\_

DISSENT \_\_\_\_\_

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SERVICE LIST FOR: ARIZONA ELECTRIC POWER COOPERATIVE, INC.

DOCKET NO.: E-01773A-11-0154

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