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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

AUG - 3 2011

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

DOCKETED BY nr

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

DOCKET NO. E-01773A-11-0154

DECISION NO. 72508

ORDER

Open Meeting
July 28, 2011
Phoenix, Arizona

BY THE COMMISSION:

* * * * *

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

FINDINGS OF FACT

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

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

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

4. On June 28, 2011, the Commission's Utilities Division ("Staff") filed its Staff Report 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 Finance Corporation ("CFC") in an amount not to exceed \$26,135,235.
16 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
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28

1 years.¹

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.² 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 ¹ 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 ² 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 not to exceed \$29,869,960 to refinance long-term Cooperative Utility Trust debt and to acquire a
2 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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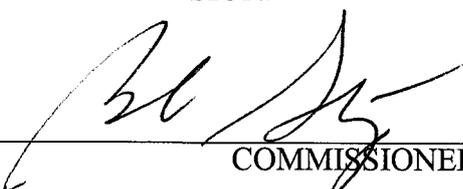
1 IT IS FURTHER ORDERED that the authorization to incur debt granted herein shall
2 terminate on March 31, 2012.

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

4 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

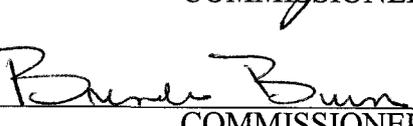
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CHAIRMAN


COMMISSIONER


COMMISSIONER


COMMISSIONER


COMMISSIONER

11 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
12 Executive Director of the Arizona Corporation Commission,
13 have hereunto set my hand and caused the official seal of the
14 Commission to be affixed at the Capitol, in the City of Phoenix,
15 this 3rd day of August, 2011.

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ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

1 SERVICE LIST FOR: ARIZONA ELECTRIC POWER COOPERATIVE,
2 INC.

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