

**ORIGINAL**  
COMMISSIONERS  
BOB STUMP - Chairman  
GARY PIERCE  
BRENDA BURNS  
BOB BURNS  
SUSAN BITTER SMITH

OPEN MEETING ITEM



0000141409

ARIZONA CORPORATION COMMISSION

RECEIVED

2013 JAN 14 P 3:44

DATE: JANUARY 14, 2013

DOCKET NO.: E-01345A-11-0423

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

TO ALL PARTIES:

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

ARIZONA PUBLIC SERVICE COMPANY  
(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:

JANUARY 23, 2013

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 Open Meeting to be held on:

JANUARY 30, 2013 AND JANUARY 31, 2013

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.

Arizona Corporation Commission  
DOCKETED

JAN 14 2013

DOCKETED BY *JM*

*Jodi A. Jerich*  
JODI JERICH  
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET; PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET; TUCSON, ARIZONA 85701-1347  
[www.azcc.gov](http://www.azcc.gov)

This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail [SABernal@azcc.gov](mailto:SABernal@azcc.gov).

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 BOB STUMP - Chairman  
4 GARY PIERCE  
5 BRENDA BURNS  
6 BOB BURNS  
7 SUSAN BITTER SMITH

8 IN THE MATTER OF THE APPLICATION OF  
9 ARIZONA PUBLIC SERVICE COMPANY FOR  
10 AN ORDER OR ORDERS AUTHORIZING IT TO  
11 ISSUE, INCUR, AND AMEND EVIDENCES OF  
12 LONG-TERM INDEBTEDNESS, SHORT-TERM  
13 INDEBTEDNESS, AND OTHER LONG-TERM  
SECURITIES, TO MANAGE INTEREST RATE  
RISK, TO EXECUTE NEW SECURITY  
INSTRUMENTS TO SECURE ANY SUCH  
INDEBTEDNESS OR OTHER LONG-TERM  
SECURITIES, AND FOR DECLARATORY  
ORDER CONCERNING VARIABLE INTEREST  
ENTITIES.

DOCKET NO. E-01345A-11-0423

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

**ORDER**

14 Open Meeting  
15 January 30 and 31, 2013  
16 Phoenix, Arizona

17 **BY THE COMMISSION:**

18 On November 11, 2011, Arizona Public Service Company ("APS" or "Company") filed with  
19 the Arizona Corporation Commission ("Commission") the above-captioned Application.

20 \* \* \* \* \*

21 Having considered the entire record herein and being fully advised in the premises, the  
22 Commission finds, concludes, and orders that:

23 **FINDINGS OF FACT**

24 1. APS is an Arizona public service corporation principally engaged in furnishing  
25 electricity in the State of Arizona. APS provides either retail or wholesale electric service to  
26 substantially all of Arizona, with the major exceptions of the Tucson metropolitan area and about  
27 one-half of the Phoenix metropolitan area. APS owns and maintains more than 33,000 miles of  
28 transmission and distribution lines and underground cable in its 34,646 square mile service area, and  
provides electric service to over 1 million Arizona customers. APS also generates, sells and delivers

1 electricity to wholesale customers in the western United States.

2 2. APS is a wholly owned subsidiary of Pinnacle West Capital Corporation.

3 3. APS's current financing authority was granted in Decision No. 69947 (October 30,  
4 2007). Decision No. 69947 authorized APS's current long-term debt limit of \$4.2 billion and short-  
5 term debt limit of seven percent of total capital plus \$500 million.<sup>1</sup>

6 **I. Procedural History**

7 4. APS filed the Application on November 22, 2011.

8 5. On October 23, 2012, APS filed copies of public notice of the Application and  
9 affidavits of publication indicating that notice had been published in the *Arizona Republic* on October  
10 16, 2012. The public notice indicated that intervention requests should be filed within 15 days of the  
11 public notice.

12 6. On November 2, 2012, the Commission's Utilities Division ("Staff") filed its Staff  
13 Report on the Application. In the Staff Report, Staff recommended adoption of an Order that  
14 includes language similar to that of Decision No. 69947, modified to reflect 19 Staff Report  
15 Recommendations, as set forth in Section IV below. The Staff Report provided a deadline of  
16 November 9, 2012, for the filing of responses to the Staff Report.

17 7. No requests for intervention were filed.

18 8. On November 8, 2012, APS filed Comments on the Staff Report ("Comments"). The  
19 Comments disagreed, as set forth in Section V below, with certain of the Staff Report  
20 Recommendations and requested that the Commission Decision on the Application use the ordering  
21 language, provisions, obligations, and requirements of Decision No. 69947, except as expressly  
22 modified in APS's Comments.

23 9. On November 19, 2012, APS filed Supplemental Comments on the Staff Report. In  
24 the Supplemental Comments, APS requested that the Commission issue an order by December 31,  
25 2012, extending the long-term debt authorizations of Decision No. 69947 until further order of the  
26 Commission, if no final Decision on this Application were issued by December 31, 2012. APS stated

27 \_\_\_\_\_  
28 <sup>1</sup> The authorization granted in Decision No. 69947 superseded the long-term debt authorized in Decision No. 55017 (May 6, 1986), and included the debt authorized by Decision No. 65796 (April 4, 2003).

1 in the Supplemental Comments that it would be appropriate to amend Decision No. 69947 to extend  
2 the termination date for long-term debt until the issuance of a new financing order in this docket.

3 10. On November 20, 2012, Staff filed a response to APS's November 19, 2012 filing.  
4 The filing stated that Staff believed the requested extension to be appropriate under the  
5 circumstances.

6 11. On December 4, 2012, Staff filed its Response to APS's Comments ("Response"). In  
7 the Response, Staff modifies and clarifies certain of its Staff Report Recommendations. Staff agrees  
8 with most of APS's Comments, and offers Staff's modified recommendations on the Application, as  
9 set forth in Section VI, below. In its recommendation regarding treatment of short-term debt in the  
10 equity ratio test, Staff proposes two alternative options.

11 12. On December 12, 2012, the Commission issued Decision No. 73619 in Docket No. E-  
12 01345-06-0779, reopening Decision No. 69947 (October 30, 2007) pursuant to A.R.S. § 40-252, for  
13 the sole and limited purpose of amending it to extend the termination date for Continuing Long-Term  
14 Debt authority granted in Decision No. 69947 until the issuance of a new financing order in this  
15 docket.

16 13. On December 27, 2012, APS filed a Reply to Staff's Response ("Reply"). In its  
17 Reply, APS states that it would be satisfied with one of the options Staff proposed in regard to the  
18 treatment of short-term debt in Staff's recommended equity ratio test. APS continues to disagree  
19 with Staff on the terms of the expiration of the requested financing authorization, and proposes  
20 compromise language as set forth in Section VII, below. APS requests that a Recommended Order  
21 be prepared for the Commission's consideration, and that the Recommended Order reflect Staff's  
22 Response and APS's Reply.

23 14. No hearing on the Application was requested. Following the filing of APS's Reply,  
24 this matter was taken under advisement pending the preparation of a Recommended Order for the  
25 Commission's consideration.

## 26 **II. Summary of Application**

### 27 Long-Term Debt, Short-Term Debt, and Other Long-Term Securities

28 15. By its Application, APS requests authority to increase the limitation on Continuing

1 Long-Term Debt<sup>2</sup> set in Decision No. 69947 and to allow for Other Long-Term Securities,<sup>3</sup> up to a  
2 new limit of \$5.5 billion for any period of more than thirty days, an increase of \$1.3 billion.<sup>4</sup> APS  
3 also requests authority to redeem, refinance, refund, renew, reissue, roll-over, repay, re-price and re-  
4 borrow from time to time such Continuing Long-Term Debt and Other Long-Term Securities, and to  
5 establish and amend the terms and provisions of Continuing Long-Term Debt and Other Long-Term  
6 Securities from time to time.

7 16. The Application requests continued authorization of Continuing Short-Term Debt<sup>5</sup>  
8 granted in Decision No. 69947, including the ability to redeem, refinance, refund, renew, reissue,  
9 roll-over, repay, re-price and re-borrow from time to time such Continuing Short-Term Debt, and  
10 establish and amend the terms and provisions of Continuing Short-Term Debt from time to time.

11 17. The Application requests that Other Long-Term Securities be treated, for purposes of  
12 the Common Equity Test and the debt service coverage ratio ("DSC")<sup>6</sup> test as defined in Decision  
13 No. 69947,<sup>7</sup> in accordance with the way they are treated by at least one of the major credit rating  
14 agencies. The Application also requests that, for purposes of the requested \$5.5 billion limit, any  
15 security issued to support, or otherwise issued in connection with, Other Long-Term Securities not be  
16 counted, in order to avoid duplication with the Other Long-Term Security, which is counted against  
17 the limit.

18  
19 <sup>2</sup> The Application refers to long-term indebtedness (including current maturities) outstanding on the effective date of  
20 Decision 69947 or thereafter issued or incurred pursuant to Decision No. 69947 (October 30, 2007) as "Continuing Long-  
Term Debt."

21 <sup>3</sup> The Application refers to preferred stock, trust preferred securities (potentially issued through an affiliated trust created  
for such purpose), or other forms of so-called "hybrid" capital securities as "Other Long-Term Securities."

22 <sup>4</sup> The requested \$5.5 billion limit is exclusive of debt incurred by Variable Interest Entities.

23 <sup>5</sup> The Application refers to all short-term indebtedness outstanding on the effective date of Decision No. 69947 or  
thereafter issued or incurred pursuant to Decision No. 69947 as "Continuing Short-Term Debt."

24 <sup>6</sup> DSC represents the number of times internally generated cash will cover required principal and interest payment 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.

25 <sup>7</sup> Decision No. 69947 requires APS's DSC to be equal or greater than 2.0 immediately subsequent to the issuance of any  
26 Continuing Long-Term Debt, with the DSC calculated as operating income plus depreciation and amortization plus  
27 income tax, divided by interest on short-term and long-term debt, using the most recent audited financial statements  
adjusted to reflect the interest impact of changes to outstanding debt to the date of calculation, calculated as the  
28 annualized interest at the actual interest rate on any new debt issued after the 12 month period covered by the applicable  
audited financial statements and remaining outstanding on the date of calculation and further including, for purposes of  
this calculation, the annualized interest at the expected interest rate on the new long-term debt to be issued or incurred and  
for which the DSC calculation is being made.

1           18.     The Application proposes that the net proceeds from issuance of the proposed  
2 Continuing Long-Term Debt, Other Long-Term Securities, and Continuing Short-Term Debt be  
3 applied, directly or indirectly, to augment the funds available from all sources to finance its  
4 construction, resource acquisition and maintenance programs, to redeem or retire outstanding  
5 securities, to repay or refund other outstanding long-term or short-term debt, and to meet certain of  
6 APS's working capital and other cash requirements.

7           19.     The Application requests that the authorizations it seeks terminate on December 31<sup>st</sup>  
8 of the fifth calendar year from the effective date of this Decision.

9           20.     The Application requests that all other ordering language, provisions, obligations, and  
10 requirements of Decision No. 69947 as they apply to APS, without any modification in substance  
11 except as expressly requested in the Application, be included in this Decision.

12           21.     Attached to the Application is the affidavit of Lee R. Nickloy, Vice President and  
13 Treasurer of APS. The affidavit indicates that APS plans to issue additional debt for capital  
14 expenditures in amounts ranging from \$3.65 million to \$6.07 million annually over the next five  
15 years, and projects total long-term debt at the end of five years at \$5.522 billion. It states that APS  
16 wishes to have a higher continuing limit approved at this time so that it will have the ability to fund  
17 its capital requirements and access the capital markets in a timely manner and to have the ability to  
18 take advantage of favorable market conditions and limit risk.

19 Interest Rate Risk and Exposure Management

20           22.     The Application requests authority to manage interest rate risk and exposure  
21 associated with Continuing Long-Term Debt, Other Long-Term Securities, and Continuing Short-  
22 Term Debt, as APS deems appropriate from time to time, based, among other things, on market  
23 conditions, by executing and entering into instruments such as fixed-to-floating interest rate swaps,  
24 floating-to-fixed interest rate swaps, Treasury rate locks, interest rate caps, and forward starting  
25 swaps. The Application asserts that such authorization would allow APS to limit ratepayers'  
26 exposure to interest rate volatility and/or potentially achieve lower interest rates. The Application  
27 requests that any gains or losses associated with pre-issuance interest rate hedging transactions be  
28 treated similarly to debt reacquisitions and be amortized over the life of the new debt issuance to

1 which they relate, with any fixed-to-floating or floating-to-fixed interest rate transactions or interest  
 2 rate caps being reflected in the net interest rate of the financing instruments to which those  
 3 transactions relate.

4 Determination of Form of Security; Terms and Provisions

5 23. The Application requests authorization to determine the form of security, if any, for  
 6 the Continuing Long-Term Debt, Other Long-Term Securities, and the Continuing Short-Term Debt;  
 7 execute and deliver one or more Security Instruments in connection with the Continuing Long-Term  
 8 Debt, Other Long-Term Securities, and the Continuing Short-Term Debt; and establish and amend  
 9 the terms and provisions or any such security instruments from time to time.

10 Declaratory Order Regarding Treatment of VIEs

11 24. The Application states that beginning in 2010, Generally Accepted Accounting  
 12 Principles ("GAAP") required the Palo Verde Sale/Leaseback Lessor Trusts as Variable Interest  
 13 Entities<sup>8</sup> to be consolidated with APS for financial reporting purposes, but that APS has no debt or  
 14 equity interest in the Variable Interest Entities and does not exercise any manner of control over  
 15 them. The Application requests a declaratory order confirming that all impacts of the consolidation  
 16 with APS for accounting purposes of the Variable Interest Entities are to be excluded for the purpose  
 17 of calculating the Common Equity Test and DSC as defined in Decision No. 69947, and for  
 18 calculating any dollar limits for Continuing Long-Term Debt, Other Long-Term Securities, and  
 19 Continuing Short-Term Debt.

20 **III. Staff's Engineering Analysis**

21 25. Staff's Engineering Memorandum, attached to the Staff Report, states that APS's  
 22 proposed increase in long-term indebtedness will generally be used to fund APS's capital  
 23 construction program, and the short-term indebtedness will generally be utilized to meet seasonal and  
 24 fluctuating working capital requirements. It further states that the requested long-term indebtedness  
 25 is directly related to the growth of APS and the associated requirements to build new, and upgrade  
 26 existing, electric system infrastructure. The Engineering Memorandum states that Staff's engineering

27 \_\_\_\_\_  
 28 <sup>8</sup> The Palo Verde Unit 2 Sale/Leaseback was authorized by Commission Decision Nos. 55120 (July 24, 1986) and 55320 (December 5, 1986).

1 analysis was confined to the five-year period from 2012-2016, because while the Application seeks  
2 debt authorization for the six-year period from 2012-2017, APS did not provide support for the \$425  
3 million it projected for year 2017 capital expenditures.

4         26. The Staff Engineering Memorandum notes that according to APS's Integrated  
5 Resource Plan filed with the Commission on March 30, 2012, APS is projecting an average load  
6 growth rate of 3 percent annually for the 2012-2021 time period. Staff found that APS's load and  
7 customer growth rates are reasonably projected, based on past load and customer growth rates and on  
8 overall population growth expected for Arizona.

9         27. The Staff Engineering Memorandum states that the indices measuring APS's customer  
10 reliability for the 2009-2012 time period fall in the top quartile of the 2012 Institute of Electrical and  
11 Electronic Engineers reliability indices guidelines. Engineering Staff found that the customer  
12 reliability measures for the last three years on an aggregate system basis indicate that with regard to  
13 reliability, APS is managing its distribution system on a comparable par with other similar utilities in  
14 the United States. Staff states that one of the reasons for the satisfactory results is that APS has been  
15 constantly improving and upgrading its Distribution Outage Management System for the past few  
16 years. Engineering Staff recommends that APS continue this trend with continued emphasis on  
17 reliability and appropriate infrastructure investment.

18         28. According to the Staff Engineering Memorandum, APS is making investment in its  
19 capital plant over the 2012-2016 timeframe in a manner that indicates new customers will be  
20 adequately and timely served, and all customers can expect a reasonable level of reliability. The  
21 Staff Engineering Memorandum states that APS provided documentation supporting its projected  
22 five-year capital budget expenditures with itemization by classes, showing total projected capital  
23 expenditures for the five years of approximately \$3.47 billion for generation, \$740 million for  
24 transmission, \$228 million for sub-transmission, \$1.35 billion for distribution, and \$113 million for  
25 underground cable. After selectively reviewing a number of the included capital projects,  
26 Engineering Staff found APS's 2012-2016 Construction Work Plan appropriate and the associated  
27 costs reasonable. The Engineering Staff Memorandum states that its findings associated with  
28 planned capital expenditures do not imply a specific treatment or recommendation for rate base or

1 ratemaking purposes in APS's future rate filings.

2 **IV. Staff Report Recommendations**

3 29. Staff states that APS provided Staff with audited financial statements for its most  
4 recent fiscal year, and that as of December 31, 2011, APS's capital structure consisted of 54.4 percent  
5 equity and 45.6 percent long-term debt, with no short-term debt outstanding. Staff states that a pro-  
6 forma capital structure reflecting the combined issuance of the requested Continuing Long-Term  
7 Debt and Other Long-Term Securities as debt in the requested \$5.5 billion threshold amount  
8 requested consists of 41.8 percent equity and 58.2 percent long-term debt.

9 30. Staff states that the nature of the Company's proposed general authorization to take on  
10 new debt and issue Other Long-Term Securities in unspecified amounts over time requires  
11 establishment of ongoing financial parameters and conditions to apply in advance to borrowings to  
12 prevent it from taking on an excessive amount of debt. Staff states that because the requested  
13 thresholds are ongoing in nature, the financial parameters employed as conditions for allowing any  
14 future borrowings must likewise be ongoing in nature, and that DSC is an effective parameter for this  
15 purpose, as it demonstrates the ability to service debt in all aspects and gives recognition to operating  
16 results. Staff states that equity-to-total capitalization is also an appropriate parameter to show a  
17 balance sheet perspective of financial leverage and risk. Staff states that the DSC and equity-to-total  
18 capitalization parameters that were adopted in Decision No. 69447 are effective for placing  
19 conditions on debt issuances within a framework of a threshold authorization, and are appropriate  
20 conditional parameters on a going-forward basis.

21 31. Staff states that APS uses short-term borrowings to finance the purchase of natural gas  
22 for electricity generation and for power purchases, both of which are critical activities for meeting  
23 electric load requirements, and that prudent procurement practices may be accompanied by large  
24 short-term capital requirements. Staff states that continuation of the authorization for short-term  
25 indebtedness of greater than 7 percent is appropriate, as it facilitates APS's continued ability to  
26 purchase natural gas or power as needed, and to recover the associated costs over what is anticipated  
27 to be the short term via a purchased power adjustor mechanism.

28 32. Staff states that because APS did not provide support for its proposed capital

1 improvements for 2017, the authorizations granted in this proceeding should not include them. Staff  
2 states that a \$5.1 billion threshold is therefore appropriate, and that an appropriate expiration date for  
3 any newly authorized long-term financing in this proceeding would be December 31, 2016.

4 33. Staff calculated a pro-forma capital structure for APS reflecting \$5.1 billion of  
5 Continuing Long-Term Debt. Staff's calculated pro-forma capital structure consists of approximately  
6 43 percent equity and 57 percent long-term debt.

7 34. In the Staff Report, Staff recommended adoption of an Order that includes language  
8 similar to that of Decision No. 69947, modified to reflect the following:

- 9 1. Increasing APS's authorized long-term debt threshold to \$5.1 billion subject to  
10 the following conditions:
- 11 a) common equity represents at least 40 percent of total capital (common  
equity, preferred stock, long-term debt and short-term debt);
  - 12 b) DSC is equal to or greater than 2.0 (Staff calculates DSC for this  
13 purpose as operating income plus depreciation and amortization and  
14 income tax divided by interest and principal on short-term and long-  
term debt less short-term debt and interest related to purchased power  
15 and natural gas and using the most recent audited financial statements  
adjusted to reflect changes to outstanding debt);
  - 16 c) variable interest debt should not exceed \$750 million; and
  - 17 d) APS not having entered into any agreement/contract for any financial  
18 derivative security or similar instrument other than those authorized by  
the Commission, and establishing that violation of this condition shall  
19 result in immediate expiration of this general authorization to issue  
long-term indebtedness (this provision is not intended to place any  
restriction on hedging activities pertaining to energy procurement);
- 20 2. That the authorizations to incur long-term debt, and short-term debt obligations  
21 provided in this proceeding replace all existing authorizations and that all  
existing authorizations expire upon the effective date of the authorizations  
22 provided in this proceeding;
- 23 3. Authorization for APS to incur short-term debt not to exceed \$500 million  
above 7 percent of total capital provided that the excess over 7 percent of total  
24 capital shall be used solely for costs relating to natural gas or power purchases  
and as long as APS has an authorized adjustor mechanism for recovery of these  
25 kinds of costs;
- 26 4. That short-term debt in excess of 7 percent of total capital, used solely for costs  
relating to natural gas or power purchases, not be applied toward APS's long-  
27 term debt threshold even when the amount remains outstanding for more than  
12 months;
- 28

- 1 5. Authorization for APS to redeem, refinance, refund, renew, reissue, roll-over,  
2 repay, and re-borrow from time to time the long-term debt and short-term debt  
3 in Staff recommendations 1 and 3 above;
- 4 6. That the short-term and long-term debt levels authorized in this proceeding  
5 expire on December 31, 2016;
- 6 7. Authorization for APS to
  - 7 a) conduct the activities enumerated in the Application that are necessary  
8 to secure and maintain debt; and
  - 9 b) determine the form of security (except as otherwise established in the  
10 Order), if any, for the continuing long-term debt and continuing short-  
11 term debt, execute and deliver the security instruments, and establish  
12 and amend the terms and provisions of the security instruments, as may  
13 be deemed appropriate by APS in connection with the continuing long-  
14 term debt and continuing short-term debt;
- 15 8. Denial of APS's request to issue Other Long-Term Securities;
- 16 9. Direct APS not to enter into any derivative financial instrument that effectively  
17 converts fixed cost long-term debt in Staff recommendation 1 above to  
18 floating/variable cost debt;
- 19 10. Direct that for purposes of calculating the \$750 million aggregate limit on the  
20 outstanding balance of floating/variable cost rate long-term debt, in the event  
21 that the Commission authorizes issuance of derivative financial instruments  
22 that effectively convert fixed cost rate debt to floating cost rate debt, the  
23 converted debt shall be considered floating cost rate debt;
- 24 11. Authorize APS to enter into derivative financial instruments that convert  
25 floating cost long-term securities to long-term fixed cost securities. For  
26 purposes of calculating the \$750 million aggregate limit on the outstanding  
27 balance of floating/variable cost rate debt, any floating cost security effectively  
28 converted to a fixed cost security by issuance of a financial derivative  
instrument or any other means shall be deemed a fixed cost security;
12. Find that it is in the public interest for the Commission to control the use by  
APS of interest rate swap agreements, U.S. Treasury rate-lock agreements,  
derivative financial securities and similar instruments;
13. Require APS to file confirmation with the Commission's Docket Control  
Center certifying that it has established an appropriate management  
policy/system of internal controls formally approved by APS's Board of  
Directors designed to govern such trading within the organization prior to  
initiation of trading activity in financial derivative securities or similar  
contracts to manage interest rate risk and/or exposure;
14. Find that any authorization granted APS to engage in financial derivative  
securities or similar contracts to manage interest rate risk and/or exposure  
should specifically exclude use of such authorization for speculative purposes;
15. Authorize APS to issue forward-starting swaps based on LIBOR or U.S.  
Treasuries and U.S. Treasury rate-locks for the purpose of hedging changes in  
interest rates up to 18 months in advance of planned issuances of fixed-rate

taxable long-term debt having final maturity of five years or longer;

16. Deny APS's request to amortize gains or losses associated with pre-issuance interest rate hedging transactions over the life of the new debt issuance to which they relate;
17. Order that the authorizations to incur short-term and long-term debt obligations in this case shall replace all existing authorizations for the incurrence of short-term and long-term debt provided for in Decision No. 69947, that those authorizations expire upon the effective date of an Order in this case, and that all existing obligations incurred under lawful authorization shall remain valid;
18. That on each occasion when APS enters into a new long-term debt agreement that APS file with the Commission's Docket Control Center within 90 days of the completion of the transaction a description of the transaction and a demonstration that the rates and terms were consistent with those generally available to comparable entities at the time and provide the Utility Division Compliance Section a copy of the relevant agreements; and
19. Approval of APS's request for declaratory order confirming that all impacts of the consolidation with APS for accounting purposes of the Variable Interest Entities are to be excluded for the purpose of calculating the common equity test and DSC test, and similarly excluded from calculating any dollar limits placed on authorizations for long-term debt and short-term debt.

#### V. APS's Comments

35. In its Comments, APS states its position on each of the 19 Recommendations appearing in the Staff Report. Those positions are summarized below. In the Comments, APS requests that the resulting Decision in this proceeding use the ordering language, provisions, obligations and requirements of Decision No. 69947 as they apply to APS, except where APS has requested modification.

36. Staff Report Recommendation 1. APS states that it can accept the \$5.1 billion limitation for purposes of this proceeding. APS comments on the subparts of Staff Report Recommendation 1 as follows:

a) APS takes issue with the inclusion of short-term debt in the common equity test. APS states that the 40 percent common equity test first approved in Commission Decision No. 65976 (April 4, 2003), and reaffirmed in Decision No. 69947, excluded short-term debt from the definition of total capital. APS requests that short-term debt be excluded from the common equity test in this authorization as well.

b) APS states that the Staff Report Recommendation for the 2.0 DSC test apparently includes principal amounts excluded from the calculation approved in Decision No. 69947. APS

1 states that investor-owned utilities such as APS use “bullet-maturity” financing, for which the entire  
2 principal amount is due at one time. APS states that Staff’s inclusion of principal in the DSC test  
3 would make it a difficult if not impossible test to meet, and would effectively cancel out the  
4 authorization of additional long-term debt Staff recommends.

5 c) APS states that Staff’s recommended \$750 million cap on variable rate long-term  
6 debt is sufficient for the term of this debt authority, but that APS may ask the Commission to revisit  
7 this issue in future financing proceedings.

8 d) APS states that the language in this Staff Report Recommendation appears to  
9 authorize the use of forward-starting swaps based on LIBOR or U.S. Treasuries and U.S. Treasury  
10 rate-locks but does not actually so state. APS requests that this be clarified. APS also requests that  
11 the language requiring “immediate expiration” of the debt authorization if APS issues a “derivative”  
12 other than the types identified in Staff Report Recommendation 15 be changed to provide instead that  
13 such an issuance would provide grounds for summary revocation of the debt authorization. APS  
14 explains that it has no control over what may at some future time be labeled by the accounting  
15 community as a “derivative,” when it had not previously been so described, and would like the  
16 opportunity to be able to explain such a situation to the Commission prior to having its financing  
17 authority revoked.

18 37. Staff Report Recommendation 2. APS requests that the authorizations granted in  
19 Decision Nos. 55120 and 55320 be expressly exempted from this recommended language, as they  
20 were in Decision No. 69947 at page 18. APS states that these two Decisions concerning the Palo  
21 Verde sale/leaseback have always stood on their own, distinct from general financing authorizations  
22 of the type APS is requesting in this Application, and that the Decisions contain provisions critical to  
23 the continued validity of those transactions. Further, APS requests that portions of Decision No.  
24 69947 apart from specific long-term and short-term debt authorizations remain in place. Specifically,  
25 APS points to the process approved in Decision No. 69947 for addressing unanticipated changes to  
26 GAAP.

27 38. Staff Report Recommendations 3 and 4. APS agrees with these Staff Report  
28 Recommendations.

1           39.    Staff Report Recommendation 5. APS states that the word “reprice” was included in  
2 its Application, and requests that the word be added to the language in this Recommendation, unless  
3 there was a reason for its omission.

4           40.    Staff Report Recommendation 6. APS requests that language similar to that appearing  
5 in Decision No. 69947 at page 18 regarding the term of authorizations be used for all financing  
6 authorizations granted in this proceeding. APS states that the language in Decision No. 69947 at  
7 page 18 did not include long-term debt, and that the omission led to the need to obtain a Decision  
8 from the Commission prior to December 31, 2012 in order to prevent previous authorizations from  
9 expiring. APS requests language that would extend its requested financing authorizations beyond  
10 December 31, 2016 only if the Company files an application to continue or expand the authorizations  
11 prior to January 1, 2016. APS further requests language clarifying that debt properly issued prior to  
12 December 31, 2016 will remain valid in accordance with its terms.

13           41.    Staff Report Recommendation 7. APS agrees with this Staff Report Recommendation.

14           42.    Staff Report Recommendation 8. APS states that because this Staff Report  
15 Recommendation is without prejudice to APS’s ability to raise the issue in a future application, APS  
16 can accept it for purposes of this proceeding.

17           43.    Staff Report Recommendation 9, 10 and 11. APS states that it can accept these Staff  
18 Report Recommendations for purposes of this proceeding.

19           44.    Staff Report Recommendation 12 and 13. APS agrees with these Staff Report  
20 Recommendations.

21           45.    Staff Report Recommendation 14. APS states that it can accept this Staff Report  
22 Recommendation for purposes of this proceeding. APS points out that the Application and the Staff  
23 Report identify the business purpose behind the Company’s proposals to use financial derivative  
24 securities or similar contracts for managing interest rate risk and exposure, and that APS has no intent  
25 to deviate from that purpose.

26           46.    Staff Report Recommendation 15. APS states that it can accept this Staff Report  
27 Recommendation for purposes of this proceeding.

28           47.    Staff Report Recommendation 16. APS states that the text of the Staff Report at page

1 9 makes clear that Staff is declining to endorse a particular ratemaking treatment of the gains or  
2 losses associated with pre-issuance interest rate hedging transactions. APS states that GAAP requires  
3 amortization of these types of gains and losses, that APS will follow GAAP's instructions in that  
4 regard, and that the ratemaking treatment of any gains or losses can be addressed in APS's next rate  
5 case.

6 48. Staff Report Recommendation 17. APS states that its comments on this Staff Report  
7 Recommendation are the same as its comments on Staff Report Recommendation 2.

8 49. Staff Report Recommendation 18. APS states that Decision No. 69947 at page 18  
9 limited this filing requirement to long-term debt issuances greater than \$5 million, and APS requests  
10 a similar limitation in this proceeding. APS states that it enters into all manner of relatively small  
11 equipment leasing and other business arrangements that could be argued to have certain  
12 characteristics of long-term debt, and that it would be administratively burdensome to comply with  
13 this filing requirement for such small transactions.

14 50. Staff Report Recommendation 19. APS agrees with this Staff Report  
15 Recommendation.

16 **VI. Staff's Response (Staff's Modified Recommendations)**

17 51. In its Response, Staff provides clarifications/modifications to the Staff Report  
18 Recommendations on the Application as set forth below.

19 52. Staff's Proposed Clarification/Modifications to Staff Report Recommendation 1.a.  
20 Staff states in its Response that it considers the inclusion of short-term debt in its definition of total  
21 capital for purposes of the equity test to be appropriate, particularly when authorizing an increase to a  
22 debt threshold for an extended period of time, because failing to include short-term debt in total  
23 capital does not capture the appropriate level of financial risk. Staff states that a simplified method  
24 for recognizing the financial risk would be to recognize short-term debt indirectly by increasing the  
25 equity ratio, and that a 42.8 percent equity to total capital ratio that excludes short-term debt is  
26 equivalent to a 40 percent equity to total capital ratio that includes the 7 percent short-term debt  
27 allowed by A.R.S. § 40-302.D. Staff states that increasing the required equity to total capital ratio to  
28 42.8 percent would effectively recognize the financial risk presented by the maximum level of short-

1 term debt while avoiding the complications of including short-term debt in the calculation, and that a  
2 somewhat lower equity ratio (e.g. 42.0 percent) would recognize that the maximum level of short-  
3 term debt is not typically outstanding. Staff recommends in its Response that the language in Staff  
4 Report Recommendation 1.a be modified to change the equity ratio from 40 percent to 42 percent,  
5 and to remove short-term debt from the definition of total capital, such that Staff's new  
6 Recommendation 1.a would read as follows:

- 7 1. a) Common equity represents at least 42.0 percent of total capital  
8 (common equity, preferred stock and long-term debt);

9 Alternatively, Staff recommends retaining the language in the Staff Report Recommendation 1.a  
10 without modification. Staff also adds that in the event the Commission finds it preferable not to  
11 specify a particular equity to total capital ratio, Staff would recommend that the Commission direct  
12 APS to maintain a healthy capital structure and in the event that the Company's equity to total capital  
13 (common equity, preferred stock and long-term debt) ratio falls below 42.0 percent, to file notice of  
14 such occurrence with the Commission's Docket Control Center within 30 days, so that upon  
15 receiving such notification, the Commission could then take whatever action, if any, it deems  
16 appropriate.

17 53. Staff's Proposed Clarification/Modification to Staff Report Recommendation 1.b. In  
18 its Response, Staff acknowledges that it has included principal amounts in the DSC test calculation,  
19 and further acknowledges that it has no objection to the debt principal amounts being excluded from  
20 the DSC test calculation. Staff states that it considers a DSC test of 2.0, exclusive of principal  
21 amounts in the denominator, to be a sufficient parameter by which to verify APS's financial integrity  
22 for purposes of issuing long-term debt.

23 54. Staff's Proposed Clarification/Modification to Staff Report Recommendation 1.d.  
24 Staff states that it has no objection to the Company's request that the ordering language relating to  
25 this issue be made more specific. Staff states that it also concurs with APS in regard to making the  
26 referenced derivatives issuance grounds for summary revocation rather than having such a revocation  
27 occur automatically. Staff therefore recommends in its Response that the language in Staff Report  
28 Recommendation 1.d be modified to read as follows:

- 1           1. d) APS not having entered into any agreement/contract for any  
2           financial derivative security or similar instrument other than  
3           those authorized by the Commission in Staff recommendation  
4           15 below, and establishing that the issuance by APS of a  
5           derivative security other than the types identified in Staff  
6           recommendation 15 be grounds for summary revocation by the  
7           Commission of the general authorization to issue long-term  
8           indebtedness granted in this proceeding (this provision is not  
9           intended to place any restriction on hedging activities  
10           pertaining to energy procurement)

11           55.     Staff's Proposed Clarification/Modification to Staff Report Recommendation 2. Staff  
12           states that it concurs with the Company, and Staff has no objections to APS's request that the two  
13           Decisions concerning the Palo Verde sale/leaseback be exempt from the "all existing authorizations"  
14           language in this Staff Report Recommendation and that the ordering language conform to that  
15           appearing in Decision No. 69947 at page 18. Staff also states that Staff Report Recommendation 2  
16           serves only to supplant the relevant long-term and short-term debt authorizations from Decision No.  
17           69947, and not to revoke that Decision in its entirety. Staff states that it placed the sentence  
18           preceding the Staff Report Recommendations, "Staff recommends adoption of an Order that includes  
19           language similar to that of Decision No. 69947, modified to reflect the following:" in the Staff Report  
20           for the purpose of conveying that intent.

21           56.     Staff's Proposed Clarification/Modification to Staff Report Recommendation 5. Staff  
22           states that APS correctly points out that Staff failed to include the term "reprice" in this Staff Report  
23           Recommendation, and that Staff does not object to inclusion of this term among the authorizations  
24           provided. Staff recommends that the word be spelled be "re-price" as it appears in the Company's  
25           Application.

26           57.     Staff's Proposed Clarification/Modification to Staff Report Recommendation 6.  
27           Staff states that it appreciates APS's concerns regarding the issue of expiration of this financing  
28           approval, but that Staff continues to believe there should be an expiration of the term. Staff  
29           recommends that Staff Report Recommendation 6 be modified to read as follows:

- 30           6.     That the short-term and long-term debt levels authorized in this proceeding  
31           remain valid until otherwise further ordered by the Commission, but expire  
32           no later than December 31, 2017;

33           Staff states that the December 31, 2017 expiration date would have no effect on any debt properly  
34           issued by APS prior to December 31, 2017.

1           58.    Staff's Proposed Clarification/Modification to Staff Report Recommendation 14.

2 Staff states that it is confident, in light of APS's comments on this Staff Report Recommendation,  
3 that APS understands Staff's intent in using the expression "speculative purposes."

4           59.    Staff's Proposed Clarification/Modification to Staff Report Recommendation 16.

5 Staff states that APS is correct that Staff Report Recommendation 16 serves to deny APS's request to  
6 establish the ratemaking treatment of gains and losses associated with pre-issuance interest rate  
7 hedging transactions. Staff states that it is in agreement with APS that GAAP requires amortization  
8 for financial reporting purposes, and that the ratemaking treatment of any gains or losses can be  
9 addressed in APS's next rate case.

10          60.    Staff's Proposed Clarification/Modification to Staff Report Recommendation 17.

11 Staff states that its response to APS's comments on this Staff Report Recommendation are the same  
12 as its response to APS's comments on Staff Report Recommendation 2.

13          61.    Staff's Proposed Clarification/Modification to Staff Report Recommendation 18.

14 Staff states that it agrees with the Company's assessment in its comments on this Staff Report  
15 Recommendation. Staff recommends that Staff Report Recommendation 6 be modified to read as  
16 follows:

- 17                   18.    That on each occasion when APS enters into a new long-term  
18                   debt agreement that APS file with Docket Control, within 90  
19                   days of the completion of the transaction, as a compliance item  
20                   in this docket, a description of the transaction and a  
21                   demonstration that the rates and terms were consistent with  
22                   those generally available to comparable entities at the time and  
23                   provide the Utility Division Director a copy of the relevant  
24                   agreements. No such filing need be made for any such new  
25                   long-term debt agreement that has a principal value of less than  
26                   \$5 million within a calendar year for (a) any individual  
27                   agreement or transaction or (b) the aggregate of similar  
28                   agreements or transactions with a single entity;

24    **VII.   APS's Reply to Staff's Response**

25          62.    In its Reply, APS states that it is willing to accept the proposed modification Staff  
26          made in its Response to Staff Recommendation 1.a that changes the equity ratio from 40 percent to  
27          42 percent, while removing short-term debt from the definition of total capital.

28          63.    In regard to the term of the financing authorization, APS proposed the following

1 language:

2 IT IS FURTHER ORDERED that the authorizations granted in this  
3 proceeding shall expire after December 31, 2017 unless the Company files  
4 an application with the Commission prior to January 1, 2017 seeking to  
continue or expand such authorizations. In that instance, the  
authorizations approved herein shall continue until further order of the  
Commission.

5 **VII. Conclusion**

6 64. The Application requests increased and expanded debt authorizations, including an  
7 increased debt threshold limit authority and new authority to enter into debt instruments designed to  
8 manage APS's interest rate risk and exposure. Staff provided an analysis of the requested authority  
9 and has made recommendations that place reasonable and appropriate limitations and conditions on  
10 the Company's debt issuances, in order to protect the public interest. We find that Staff's modified  
11 recommendations provide appropriate conditions and reasonable safeguards on the debt  
12 authorizations requested in the Application, and note that APS has accepted those recommendations  
13 for purposes of this proceeding, with the exception of language relating to the date the authority  
14 expires.

15 65. We agree with Staff that it is in the public interest for the Commission to control the  
16 Company's use of interest rate swap agreements, U.S. Treasury rate-lock agreements, derivative  
17 financial securities, and similar instruments. We also agree with Staff that it is not in the public interest  
18 at this time to approve the Company's request for authority to issue Other Long-Term Securities as  
19 defined in the Application.

20 66. In regard to the expiration of the authorizations we grant in this Decision, we find that  
21 the language APS proposes in its Reply comments is reasonable and appropriate. While Staff's  
22 modified recommendation on this issue incorporates both short-term and long-term debt  
23 authorizations, it does not include the possibility of extending the financing authority if APS has  
24 filed, one year prior to the expiration date, a request for new financing authority. A one-year  
25 timeframe for the Commission to consider a new financing authority request will provide sufficient  
26 time for Commission analysis of and action upon such a request, and APS's financing authority  
27 should not be allowed to expire in the event the Commission does not act within that timeframe.

28 67. With the exception of Staff Report Recommendation 6, Staff's recommendations as



1 relating to the issuance or incurrence of Continuing Short-Term Debt, are not, wholly or in part,  
2 reasonably chargeable to operating expenses or to income.

3 9. The financing with the conditions approved herein will not impair the financial status  
4 of the public utility, otherwise prevent it from attracting capital at fair and reasonable terms, or impair  
5 the ability of the public utility to provide safe, reasonable and adequate service.

6 **ORDER**

7 IT IS THEREFORE ORDERED that Arizona Public Service Company is hereby authorized  
8 (i) to issue, sell, and incur the Continuing Long-Term Debt (defined as all long-term indebtedness  
9 (including current maturities) outstanding on the effective date of this Decision or thereafter issued or  
10 incurred pursuant to this Decision, not to exceed \$5.1 billion for any period of more than thirty days),  
11 and the Continuing Short-Term Debt, as such term is defined below, redeem, refinance, refund,  
12 renew, reissue, roll-over, repay, re-price, and re-borrow from time to time such Continuing Long-  
13 Term Debt and Continuing Short-Term Debt, and establish and amend the terms and provisions of  
14 long-term and short-term indebtedness from time to time, (ii) to determine the form of security  
15 (subject to the limitations set forth in this Decision), if any, for the Continuing Long-Term Debt and  
16 the Continuing Short-Term Debt, execute and deliver the Security Instruments, and establish and  
17 amend the terms and provisions of the Security Instruments, as may be deemed appropriate by  
18 Arizona Public Service Company in connection with the Continuing Long-Term Debt and the  
19 Continuing Short-Term Debt, and (iii) to pay all related expenses, all as contemplated in the  
20 Application.

21 IT IS FURTHER ORDERED that all impacts of the consolidation with Arizona Public  
22 Service Company for accounting purposes of the Variable Interest Entities are excluded for the  
23 purpose of calculating any dollar limits placed on the authorizations for Continuing Long-Term Debt  
24 and Continuing Short-Term Debt granted herein.

25 IT IS FURTHER ORDERED that Arizona Public Service is authorized to issue short-term  
26 debt at any time and from time to time (excluding current maturities of long-term debt) in an amount  
27 not to exceed seven percent (7%) of Arizona Public Service Company's capitalization plus up to an  
28 additional \$500 million. The amount of the short-term debt issued in excess of seven percent (7%) of

1 Arizona Public Service Company's capitalization shall be used solely for costs relating to natural gas  
2 or power purchases. (All short-term indebtedness outstanding on the date of this Order or hereafter  
3 issued or incurred pursuant to this paragraph is referred to as "Continuing Short-Term Debt.")

4 IT IS FURTHER ORDERED that prior to the issuance or incurrence of short-term debt in  
5 excess of seven percent (7%) of Arizona Public Service Company's capitalization (up to \$500 million  
6 relating to purchases of natural gas and power), Arizona Public Service Company must have a  
7 Commission authorized adjustor mechanism for recovery of natural gas or power purchases and, if  
8 such mechanism is terminated, the authorization for the additional \$500 million of short-term debt  
9 will terminate 12 months thereafter.

10 IT IS FURTHER ORDERED that if all or a portion of the authorized short-term debt relating  
11 to natural gas and power purchases becomes classified as long-term debt because the amount remains  
12 outstanding for more than 12 months, such debt will continue to be counted as Continuing Short-  
13 Term Debt and should not be counted against the Continuing Long-Term Debt limit.

14 IT IS FURTHER ORDERED that Arizona Public Service Company is authorized to, for the  
15 purpose of managing interest rate risk and exposure, enter into derivative financial instruments that  
16 convert floating cost long-term securities to long-term fixed securities, including the execution and  
17 issuance of forward-starting swaps based on LIBOR or U.S. Treasuries and U.S. Treasury rate-locks  
18 for the purpose of hedging changes in interest rates up to 18 months in advance of planned issuances  
19 of fixed-rate taxable long-term debt having final maturity of five years or longer. Arizona Public  
20 Service Company shall not enter into any derivative financial instrument that effectively converts  
21 fixed cost long-term debt to floating/variable cost debt. The authorizations granted in this Ordering  
22 Paragraph specifically exclude the use of such instruments for speculative purposes. The issuance by  
23 Arizona Public Service Company of a derivative security other than those authorized in this Ordering  
24 Paragraph shall be grounds for summary revocation of the general authorization to issue long-term  
25 indebtedness granted in this Decision.

26 IT IS FURTHER ORDERED that Arizona Public Service Company shall file confirmation  
27 within 90 days, with the Commission's Docket Control as a compliance item in this matter, certifying  
28 that it has established an appropriate management policy and system of internal controls formally

1 approved by Arizona Public Service Company's Board of Directors designed to govern such trading  
2 within the organization prior to initiation of trading activity in financial derivative securities or  
3 similar contracts to manage interest rate risk and exposure.

4 IT IS FURTHER ORDERED that the ratemaking treatment of any gains or losses associated  
5 with pre-issuance interest rate hedging transactions is not determined herein.

6 IT IS FURTHER ORDERED that immediately subsequent to the issuance of any Continuing  
7 Long-Term Debt:

8 a) Arizona Public Service Company must have a minimum common equity ratio  
9 of forty-two percent (42%) (the Common Equity Test). For purposes of this test, the  
10 common equity ratio is calculated as common equity divided by the sum of such  
11 common equity, preferred stock and Arizona Public Service Company's long-term  
12 debt (including current maturities of long-term debt). The Common Equity Test will  
13 be calculated using the most recent audited financial statements available prior to the  
14 date of calculation, adjusted to give effect to the issuance of any new indebtedness  
15 (including the proposed indebtedness for which the calculation is being made). All  
16 impacts of the consolidation with Arizona Public Service Company for accounting  
17 purposes of the Variable Interest Entities are excluded for the purpose of calculating  
18 the Common Equity Test.

19  
20 b) Arizona Public Service Company's debt service coverage ratio (DSC) must be  
21 equal to or greater than 2.0. For purposes of this test, the DSC is calculated as  
22 operating income plus depreciation and amortization plus income tax, divided by  
23 interest on short-term and long-term debt, using the most recent audited financial  
24 statements adjusted to reflect the interest impact of changes to outstanding debt to the  
25 date of calculation, calculated as the annualized interest at the actual interest rate on  
26 any new debt issued after the 12 month period covered by the applicable audited  
27 financial statements and remaining outstanding on the date of calculation and further  
28 including, for purposes of this calculation, the annualized interest at the expected

1 interest rate on the new long-term debt to be issued or incurred and for which the DSC  
2 calculation is being made. All impacts of the consolidation with Arizona Public  
3 Service Company for accounting purposes of the Variable Interest Entities are  
4 excluded for the purpose of calculating the DSC.

5 c) Arizona Public Service Company's variable interest debt must not exceed an  
6 aggregate limit of \$750 million. For purposes of calculating this limit, any floating  
7 cost security effectively converted to a fixed cost security by issuance of a financial  
8 derivative instrument or any other means (as authorized in this Decision) is deemed a  
9 fixed cost security.

10  
11 d) Arizona Public Service Company not having entered into any  
12 agreement/contract for any financial derivative security or similar instrument other  
13 than those authorized herein.

14 IT IS FURTHER ORDERED that changes in United States GAAP or changes in the  
15 interpretation of GAAP (collectively, "GAAP Changes") shall be treated as follows: any contract or  
16 other legally-binding arrangement to which Arizona Public Service Company is or becomes a party  
17 (each, an "Obligation") will not be considered indebtedness for purposes of this Order, including the  
18 Continuing Long-Term Debt limit, the Continuing Short-Term Debt limit, the Common Equity test,  
19 and the DSC, until further Commission action, if (a) the Obligation was not considered indebtedness  
20 under GAAP as of the date Arizona Public Service Company became a party to the Obligation; (b) a  
21 GAAP Change subsequently occurs that results in the Obligation being considered indebtedness for  
22 purposes of GAAP; (c) Arizona Public Service Company notifies the Commission of the GAAP  
23 Change that results in the Obligation being classified as indebtedness for GAAP purposes within 30  
24 days after Arizona Public Service Company files its Quarterly Report on Form 10-Q or its Annual  
25 Report on Form 10-K with the Securities and Exchange Commission following the end of the fiscal  
26 quarter in which such GAAP Change occurs (the "Notification Period"); and (d) within the  
27 Notification Period, Arizona Public Service Company files an application with the Commission  
28 specifically requesting a decision regarding whether such reclassified Obligation should be included

1 in, or excluded from, the Continuing Long-Term Debt limit, the Continuing Short-Term Debt limit,  
2 the Common Equity Test, and the DSC calculation.

3 IT IS FURTHER ORDERED that the authorizations to incur short-term and long-term debt  
4 obligations provided in this Order shall replace all existing authorizations for the incurrence of short-  
5 term and long-term debt, and all such existing authorizations shall terminate upon the effective date  
6 of this Order. Notwithstanding the above, the Commission's Decision No. 55120 (July 24, 1986) and  
7 Decision No. 55320 (December 5, 1986) (the "Sale-Leaseback Authorizations") will remain in full  
8 force and effect.

9 IT IS FURTHER ORDERED that the authorizations granted in this proceeding shall expire on  
10 December 31, 2017, unless Arizona Service Company files an application with the Commission prior  
11 to January 1, 2017, seeking to continue or expand such authorizations. In that instance, the  
12 authorizations approved herein shall continue until further order of the Commission.

13 IT IS FURTHER ORDERED that on each occasion when Arizona Public Service Company  
14 enters into a new long-term debt agreement, Arizona Public Service Company shall file within 90  
15 days of the completion of the transaction, with Docket Control as a compliance item in this docket, a  
16 description of the transaction and a demonstration that the rates and terms were consistent with those  
17 generally available to comparable entities at the time, and shall provide the Commission's Utilities  
18 Division Director a copy of the relevant agreements. No such filing need be made for any such new  
19 long-term debt agreement that has a principal value of less than \$5 million within a calendar year for  
20 (a) any individual agreement or transaction or (b) the aggregate of similar agreements or transactions  
21 with a single entity.

22 IT IS FURTHER ORDERED that in the event that Arizona Public Service Company enters  
23 into a new mortgage and deed of trust Arizona Public Service Company shall file documentation  
24 thereof with Docket Control as a compliance filing in this docket within 60 days of entering into the  
25 mortgage or deed of trust.

26 IT IS FURTHER ORDERED that Arizona Public Service Company is hereby authorized to  
27 sign and deliver such documents and to engage in such acts as are reasonably necessary to effectuate  
28 the authorizations granted hereinabove.

1           IT IS FURTHER ORDERED that the purposes for which the proposed issuances of  
2 Continuing Long-Term Debt and the Continuing Short-Term Debt are herein authorized are to  
3 augment the funds available from all sources to finance Arizona Public Service Company's  
4 construction, resource acquisition and maintenance programs, to redeem or retire outstanding  
5 securities, to repay or refund other outstanding long-term or short-term debt and to use Continuing  
6 Short-Term Debt to meet certain of Arizona Public Service Company's working capital and other  
7 cash requirements and such purposes, other than those relating to the issuance or incurrence of  
8 Continuing Short-Term Debt, are not, wholly or in part, reasonably chargeable to operating expense  
9 or to income.

10           IT IS FURTHER ORDERED that Arizona Public Service Company shall use the proceeds  
11 from debt incurred pursuant to this authorization on for the purposes set forth herein.

12 ...  
13 ...  
14 ...  
15 ...  
16 ...  
17 ...  
18 ...  
19 ...  
20 ...  
21 ...  
22 ...  
23 ...  
24 ...  
25 ...  
26 ...  
27 ...  
28 ...

1 IT IS FURTHER ORDERED that approval of the financing set forth herein does not  
2 constitute or imply approval or disapproval by the Commission of any particular expenditure of the  
3 proceeds derived thereby for purposes of establishing just and reasonable rates.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.  
6  
7

8 CHAIRMAN \_\_\_\_\_

COMMISSIONER

9  
10 COMMISSIONER \_\_\_\_\_

COMMISSIONER \_\_\_\_\_

COMMISSIONER \_\_\_\_\_

11  
12 IN WITNESS WHEREOF, I, JODI JERICH, Executive  
13 Director of the Arizona Corporation Commission, have  
14 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 \_\_\_\_\_ 2013.

15  
16 \_\_\_\_\_  
17 JODI JERICH  
EXECUTIVE DIRECTOR

18 DISSENT \_\_\_\_\_

19  
20 DISSENT \_\_\_\_\_  
21  
22  
23  
24  
25  
26  
27  
28

1 SERVICE LIST FOR: ARIZONA PUBLIC SERVICE COMPANY

2 DOCKET NO.: E-01345A-11-0423

3  
4 Thomas L. Mumaw  
5 Meghan H. Grabel  
6 PINNACLE WEST CAPITAL  
7 CORPORATION LAW DEPARTMENT  
8 400 N. 5<sup>th</sup> St., MS 8695  
9 Phoenix, AZ 85004  
10 Attorneys for Arizona Public Service Company

11 Janice Alward, Chief Counsel  
12 Legal Division  
13 ARIZONA CORPORATION COMMISSION  
14 1200 West Washington Street  
15 Phoenix, AZ 85007

16 Steven M. Olea, Director  
17 Utilities Division  
18 ARIZONA CORPORATION COMMISSION  
19 1200 West Washington Street  
20 Phoenix, AZ 85007

21  
22  
23  
24  
25  
26  
27  
28