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BOB STUMP - Chairman
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OPEN MEETING ITEM



ARIZONA CORPORATION COMMISSION

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2 CORP COMMISSION
DOCKET CONTROL

DATE: FEBRUARY 4, 2013

DOCKET NO.: E-01773A-12-0192

TO ALL PARTIES:

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

ARIZONA ELECTRIC POWER COOPERATIVE, INC.
(FINANCING)

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:

FEBRUARY 7, 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:

FEBRUARY 12, 2013 AND FEBRUARY 13, 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

FEB -4 2013

DOCKETED BY *MM*

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

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

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

IN THE MATTER OF ARIZONA ELECTRIC
POWER COOPERATIVE, INC. FOR
AUTHORIZATION TO INCUR DEBT AND
SECURE LIENS IN ITS PROPERTY TO FINANCE
ITS CONSTRUCTION WORK PLAN.

DOCKET NO. E-01773A-12-0192
DECISION NO. _____

ORDER

Open Meeting
February 12, and 13, 2013
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 May 25, 2012, Arizona Electric Power Cooperative, Inc. ("AEPCO" or "Cooperative") filed an application with the Commission requesting authorization to incur debt and secure liens in its property in order to finance its Construction Work Plan ("CWP") for 2012-2014.
2. On August 29, 2012, the Cooperative filed an affidavit of publication verifying that it published notice of its financing application in *The Arizona Daily Star* and *The Kingman Daily Miner* on August 20, 2012, newspapers of general circulation in Pima County and Mohave County, respectively.
3. On January 17, 2013, Staff filed its Staff Report in this matter, and on January 22, 2013, Staff filed a corrected Staff Report that included pages that were missing from the first Report. Staff directed parties to file comments to the Staff Report by January 24, 2013.
4. On January 24, 2013, AEPCO filed Comments to the Staff Report stating that it agrees

1 with Staff's conclusion that the CWP Financing Request should be granted and that it has no
2 objections to any of Staff's recommendations at page 4 of the Staff Report. The Cooperative clarified
3 that in relation to the "Encumbrance" paragraph at page 3 of the Staff Report, that AEPCO will not
4 obtain a Water Infrastructure Finance Authority ("WIFA") loan, but will secure interim financing
5 from the National Rural Utilities Cooperative Finance Corporation ("CFC") and a permanent loan
6 from the Rural Utilities Service/Federal Financing Bank ("RUS/FFB").

7 5. In its Comments, AEPCO also states that it has been notified by the RUS that its loan
8 has been approved and AEPCO expects to receive loan documents shortly. For that reason, AEPCO
9 requests that the matter be placed on the Commission's February Open Meeting agenda, and AEPCO
10 waives the ten-day exception period to assist in that regard.

11 6. On February 4, 2013, Staff filed its Notice of Waiver of 10-Day Exception Period.

12 7. AEPCO is an Arizona public service corporation and non-profit, electric generation
13 cooperative located in Benson, Arizona. AEPCO provides power and wholesale energy primarily to
14 six Class A member distribution cooperatives—Anza Electric Cooperative, Inc., Duncan Valley
15 Electric Cooperative, Inc., Graham County Electric Cooperative, Inc., Sulphur Springs Valley
16 Electric Cooperative, Inc., Mohave Electric Cooperative, Inc., and Trico Electric Cooperative, Inc.—
17 under the terms of all-requirements or partial-requirements capacity and energy requirements. The
18 City of Mesa and the Salt River Project Agricultural Improvement District are Class B members and
19 Valley Electric Association is a Class D member.

20 8. AEPCO's current rates were approved in Decision No. 72055 (January 6, 2011).
21 AEPCO currently has a pending rate case (Docket No. E-01773A-12-0305).

22 9. As of November 26, 2012, AEPCO had \$115,000 in unused financing authorizations
23 which were approved in Decision No. 71111 (June 5, 2009). The Cooperative anticipated drawing
24 down the remaining unused authorization and to have no unused financing authorizations by
25 December 31, 2012.

26 The Financing Request

27 10. The Cooperative requests authorization to obtain interim financing in an amount not to
28 exceed \$38,907,400 from the CFC, and subsequently, when it becomes available, to obtain long-term

1 financing in an amount not to exceed \$34,042,700 from RUS/FFB to replace the CFC interim
2 financing. The amount of the interim financing exceeds that of the permanent financing due to a
3 CFC requirement that borrowers purchase capital credits.

4 11. AEPCO also requests Commission authorization, consistent with that granted in
5 Decision No. 71111, to change the specific facilities to be financed in the CWP without the necessity
6 of filing an amended application so long as the total amount being financed does not exceed
7 \$34,042,700 for permanent financing or \$38,907,400 for interim financing

8 12. AEPCO expects the interim financing to have a three-year term at CFC's variable
9 interest rate. The current CFC variable interest rate is 2.90 percent. No pre-payment penalties apply
10 to this proposed interim CFC financing as long as the interim financing is at CFC's variable interest
11 rate and repaid with the RUS/FFB long-term loan.

12 13. AEPCO expects an RUS/FFB loan with a final maturity date of December 2034. The
13 current rate for a 30-year RUS/FFB loan is 2.31 percent.

14 14. The applicable interest rate on the RUS/FFB loan will be fixed at the time each
15 advance is made. AEPCO will draw down the CFC interim financing as needed to proceed with the
16 CWP and to repay the CFC interim financing.

17 Staff's Review and Recommendations

18 15. The Commission Utilities Division Engineering Staff reviewed AEPCO's CWP for
19 2009-2011 – Amendment #3 and CWP for 2012-2014. The projects included in the 2012-2014 CWP
20 are for improvements, upgrades and replacements to the Apache generation plant.

21 16. Staff concludes that the projects included in the proposed CWP are appropriate and
22 that the associated costs appear to be reasonable. However, Staff makes no "used and useful"
23 determination in this proceeding. Staff states that its conclusions in this Docket do not imply a
24 specific treatment for rate base or for rate making purposes in AEPCO's current rate case or any
25 future rate filing.

26 17. Staff's financial analysis shows that as of December 31, 2011, AEPCO's capital
27 structure consisted of 14.8 percent short term debt, 55.5 percent long-term debt and 29.7 percent
28 equity.

1 18. A pro forma capital structure assuming issuance of new debt in the amount of
2 \$38,907,400, and amortizing over 22 years at 3.0 percent per annum, would be composed of 3.4
3 percent short-term debt, 76.0 percent long-term debt and 29.7 percent equity.

4 19. AEPCO's equity was 5.4 percent of total capitalization as of December 31, 2005.¹ Its
5 equity had improved to 23.9 percent of total capitalization as of December 31, 2007.²

6 20. Decision No. 68071 (August 17, 2005) ordered AEPCO to file an equity improvement
7 plan and to not make any patronage refunds when its equity remains below 20 percent of total
8 capitalization, and to limit patronage refund to 25 percent of net earnings if its equity is between 20
9 and 30 percent. On January 15, 2006, AEPCO filed an equity improvement analysis which forecasted
10 equity to be 30.0 percent of total capitalization by the year 2015.

11 21. For the year ended December 31, 2011, AEPCO had a Times Interest Earned Ratio
12 ("TIER") of 1.23 and Debt Service Coverage ("DSC") of 1.28.³ Assuming the issuance of long-term
13 debt amortizing over 22 years in the amount of \$38,907,400, at an interest rate of 3.0, the pro forma
14 analysis indicates AEPCO would have a TIER of 1.21 and DSC of 1.06 based on December 31, 2011,
15 financial results.

16 22. RUS requires AEPCO to maintain a minimum TIER of 1.05 and a DSC of at least
17 1.00 in two out of three years.

18 23. Arizona Revised Statutes ("A.R.S.") §40-285 requires public service corporations to
19 obtain Commission authorization to encumber certain utility assets. The statute protects captive
20 customers from a utility's act to dispose of any of its assets that are necessary for the provision of
21 service, and thus, pre-empts any service impairment due to disposal of assets essential for providing
22 service. Pledging assets as security, however, typically provides benefits to the borrower in the way
23 of increased access to capital funds or a preferable interest rate.

24 ¹ Decision No. 69238 (January 19, 2007) at 3-4.

25 ² Decision No. 71111 at 3.

26 ³ TIER represents the number of times earnings cover interest expense on short-term and long-term debt. A TIER greater
27 than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long
28 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 24. Staff reported no compliance issues with AEPCO.

2 25. Staff concludes that issuance of debt financing for the purposes stated in the
3 application is within AEPCO's corporate powers, is compatible with the public interest, is consistent
4 with sound financial practices and will not impair AEPCO's ability to provide service.

5 26. Staff recommends:

6 (a) Granting the Cooperative authorization to incur interim financing in an amount
7 not to exceed \$38,907,400 from the CFC to finance its 2012-2014 CWP;

8 (b) Granting the Cooperative authorization to incur long-term financing in an
9 amount not to exceed \$34,042,700 from RUS/FFB, to replace the CFC interim financing;

10 (c) Authorizing the Cooperative's request to change the specific facilities to be
11 financed in the CWP without the necessity of filing an amended application subject to the conditions:
12 1) the total amount financed remains below the financing amount authorized; 2) that the Cooperative
13 file in this docket a description of any proposed modifications to the CWP which cost more than
14 \$500,000; 3) that Staff has not filed an objection to the proposed modifications within 60 days of the
15 date AEPCO files the proposed changes; and 4) that the proposed modifications be deemed approved
16 for financing purposes only;

17 (d) Establishing an expiration date for any unused portion of the authorization
18 granted in this proceeding at December 31, 2017;

19 (e) Authorizing the Cooperative to pledge its assets in the State of Arizona
20 pursuant to A.R.S. §40-285 in connection with any indebtedness authorized in this proceeding;

21 (f) Authorizing AEPCO to engage in any transaction and to execute any
22 documents necessary to effectuate the authorizations herein granted; and

23 (g) Directing the Cooperative to file with the Commission's Docket Control
24 Center, as a compliance item in this matter, a letter summarizing the transaction and to provide to the
25 Commission's Utilities Division Compliance Section a copy of the loan documents, within 60 days of
26 the execution of any financing transaction authorized.

27 Conclusion

28 27. It is necessary for utilities to continue to invest in their systems in order to maintain

1 adequate levels of service. AEPCO requires additional finance authority in order to continue to
 2 invest in its generating assets. We find that Staff's conclusions and recommendations are reasonable
 3 and adopt them.

4 28. We agree that it is in the public interest to allow AEPCO to modify its 2012-2014
 5 CWP without necessarily having to file an amended financing request. We have previously granted
 6 AEPCO this flexibility and the process has worked well.⁴ However, consistent with our previous
 7 decisions, we find that such authority be contingent on the proposed modifications to the CWP
 8 substantially conforming to the purposes of the 2012-2014 CWP.

9 CONCLUSIONS OF LAW

10 1. AEPCO is a public service corporation within the meaning of Article XV of the
 11 Arizona Constitution and A.R.S. §§ 40-285, 40-301, 40-302, and 40-303.

12 2. The Commission has jurisdiction over AEPCO and of the subject matter of the
 13 application.

14 3. Notice of the application was given in accordance with the law.

15 4. The financing approved herein is for lawful purposes within AEPCO's corporate
 16 powers, is compatible with the public interest, with sound financial practices, and with the proper
 17 performance by AEPCO of service as a public service corporation, and will not impair AEPCO's
 18 ability to perform the service.

19 5. The financing approved herein is for the purposes stated in the application, is
 20 reasonably necessary for those purposes and such purposes may not be reasonably chargeable to
 21 operating expenses or to income.

22 ORDER

23 IT IS THEREFORE ORDERED that Arizona Electric Power Cooperative, Inc. is hereby
 24 authorized to obtain interim financing in an amount not to exceed \$38,907,400 from the Cooperative
 25 Finance Corporation to finance its 2012-2014 Construction Work Plan.

26 IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. is hereby

27 ⁴ E.g., in its last financing docket, (Docket No. E-01773-08-0587), AEPCO filed a modification of its 2009-2011 CWP
 28 when the projects constructed pursuant to that CWP were completed under budget, and the RUS asked AEPCO to
 identify other projects that could be financed with the surplus money. See letter filed August 29, 2012.

1 authorized to borrow an amount not to exceed \$34,042,700 from RUS/FFB, to replace the CFC
2 interim financing.

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 any authorization to incur debt granted in this proceeding
7 shall terminate on December 31, 2017.

8 IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. may change the
9 specific facilities to be financed in the CWP without the necessity of filing an amended financing
10 application conditioned upon the following: 1) the total amount financed remains below the financing
11 amount authorized; 2) that Arizona Electric Power Cooperative, Inc. file in this docket a description
12 of any proposed modifications to the Construction Work Plan which cost more than \$500,000, and
13 that such modifications substantially conform to the purposes of the 2012-2014 Construction Work
14 Plan; 3) that Staff has not filed an objection to the proposed modifications within 60 days of the date
15 Arizona Electric Power Cooperative, Inc. files the proposed changes; and 4) that the proposed
16 modifications be deemed approved for financing purposes only.

17 IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. is authorized to
18 engage in any transaction and execute any documents necessary to effectuate the authorizations
19 granted.

20 IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. shall file with
21 Docket Control, as a compliance item in this docket, copies of any executed financing documents
22 related to this authority within 30 days after the date of execution.

23 IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. is authorized to
24 pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 in connection with any
25 indebtedness authorized in this Decision.

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

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, JODI JERICH, 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 _____ 2013.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

1 SERVICE LIST FOR:

E-01773A-12-0192

2 DOCKET NO.:

ARIZONA ELECTRIC POWER
COOPERATIVE, INC.

3

4 Michael M. Grant
5 GALLAGHER & KENNEDY
6 2575 East Camelback Road
7 Phoenix, AZ 85016-9225

6 Janice Alward, Chief Counsel
7 Legal Division
8 ARIZONA CORPORATION COMMISSION
9 1200 West Washington Street
10 Phoenix, AZ 85007

9 Steven M. Olea, Director
10 Utilities Division
11 ARIZONA CORPORATION COMMISSION
12 1200 West Washington Street
13 Phoenix, AZ 85007

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