

NEW APPLICATION



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ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION OF THE
ARIZONA ELECTRIC POWER COOPERATIVE,
INC. FOR AUTHORIZATION TO OBTAIN TWO
COMMITTED REVOLVING LINES OF CREDIT

Docket No. E-01773A-14-0019

APPLICATION

Pursuant to A.R.S. § 40-301, *et seq.*, the Arizona Electric Power Cooperative, Inc.
("AEPKO") in support of its Application states as follows:

1. AEPKO is an Arizona not-for-profit electric generation cooperative which
supplies all or most of the power and energy requirements of its six Class A member distribution
cooperatives, five of which are located in Arizona.

2. For the reasons discussed herein, AEPKO requests Commission authorization to
obtain two unsecured committed revolving lines of credit in the combined amount of \$100
million. The lines of credit will be provided by the National Rural Utilities Cooperative Finance
Corporation ("CFC") and CoBank, each with a \$50 million commitment. The facilities will
terminate five years from closing and draws under the facilities may be voluntarily prepaid and
redrawn at any time prior to the termination date. The facility from CFC includes a renewal
option for up to two one-year extensions, subject to the consent of CFC. Interest rates will
generally be calculated based on LIBOR plus a margin.

3. Simultaneous with this Application, AEPKO and Southwest Transmission
Cooperative, Inc. ("SWTC") are filing a Joint Application seeking Commission authorization to

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1 merge (with AEPCO as the surviving cooperative) as well as AEPCO's issuance of an Indenture
2 and related approvals.

3 4. As explained in greater detail in that Joint Application, AEPCO and SWTC
4 (collectively, the "Cooperatives") are seeking to enhance and expedite their access to a broader
5 base of private and public loan funds, at the lowest available cost, to finance necessary
6 generation and transmission projects as well as to improve their ability to meet future electricity
7 supply and delivery challenges.

8 5. The lines of credit discussed in this Application further that goal by (1) improving
9 AEPCO's and the Cooperatives' post-merger combined credit profiles, (2) establishing broader,
10 more diversified banking relationships, and (3) providing access to committed funds that will
11 afford greater short-term financial flexibility. Further, the interest rates under these lines of
12 credit are anticipated to be lower than AEPCO's current financing rates.

13 6. The lines of credit will help improve AEPCO's credit profile by increasing its
14 liquidity. Liquidity is measured by comparing operating expenses to cash and cash equivalents
15 plus available committed lines of credit and commercial paper. The median liquidity coverage
16 ratio for a rated generation and transmission cooperative is more than 200 days. The short-term,
17 uncommitted line of credit which AEPCO currently maintains does not count toward meeting
18 this liquidity calculation. As a result, AEPCO's current liquidity is estimated at only 65 days –
19 far short of the target 200-day mark. The committed lines of credit requested by this Application
20 will count towards this liquidity calculation so as to help qualify AEPCO for an investment grade
21 credit rating. In turn, that rating is essential to obtaining the Indenture and to the pricing of
22 AEPCO's future short-term and long-term debt financings.

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1 7. In addition to addressing liquidity, the combined amount of the lines of credit is
2 based on AEPCO's analysis of its post-merger credit and interim financing needs. Upon closing
3 these lines of credit, AEPCO will immediately terminate its current short-term, uncommitted line
4 of credit. In the future, AEPCO will primarily use the committed lines of credit to provide
5 interim financing until permanent long-term financing for future capital projects is obtained.

6 8. During its December Board Meeting, AEPCO's Board of Directors approved the
7 lines of credit described herein and directed management to proceed with their closing on an
8 expedited basis so as to secure the most favorable fee and margin schedules available.

9 9. Given the connection between the lines of credit and the Indenture sought in the
10 separate Joint Application, AEPCO requests that the Commission approve this Application prior
11 to or simultaneous with the Joint Application (which approval is sought no later than the
12 Commission's June 2014 Open Meeting). However, as explained above, AEPCO anticipates
13 that early approval of this Application will result in more favorable financing terms and therefore
14 requests that the Application be processed as soon as possible.

15 WHEREFORE, having fully stated its Application, AEPCO requests that the
16 Commission enter its Order:

17 A. Authorizing AEPCO to enter into the committed lines of credit in the combined
18 amount of \$100 million described herein; and

19 B. Authorizing AEPCO to engage in any transactions and execute any documents
20 necessary to effectuate the authorizations granted.

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RESPECTFULLY SUBMITTED this 21st day of January, 2014.

GALLAGHER & KENNEDY, P.A.

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Original and 13 copies filed this
21st day of January, 2014, with:

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Two copies of the foregoing delivered
this 21st day of January, 2014, to:

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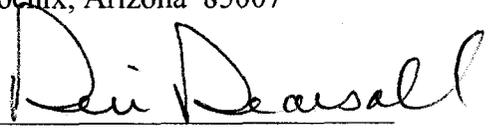
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