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# OPEN MEETING

## MEMORANDUM

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TO: Docket Control Center

FROM: Steven M. Olea  
Director  
Utilities Division

# ORIGINAL

DATE: July 11, 2014

RE: STAFF REPORT FOR THE JOINT APPLICATION OF ARIZONA ELECTRIC POWER COOPERATIVE, INC. AND SOUTHWEST TRANSMISSION COOPERATIVE, INC. FOR AUTHORIZATIONS ASSOCIATED WITH THEIR MERGER AND THE ISSUANCE BY AEP CO, AS THE SURVIVING COOPERATIVE, OF AN INDENTURE  
(DOCKET NOS. E-01773A-14-0018 AND E-04100A-14-0018)

Attached is the Staff Report for the Joint Application of Arizona Electric Power Cooperative, Inc. and Southwest Transmission Cooperative, Inc. for a merger and Indenture. Staff recommends approval of the merger and Indenture with conditions.

Steven M. Olea, Director  
Utilities Division

SMO:CLA:sms\WVC

ORIGINATOR: Candrea Allen

Attachment: Original and Thirteen Copies

Arizona Corporation Commission

### DOCKETED

JUL 11 2014

DOCKETED BY 

Service list for: ARIZONA ELECTRIC POWER COOPERATIVE, INC. AND SOUTHWEST TRANSMISSION COOPERATIVE, INC.

Docket Nos.: E-01773A-14-0018 and E-04100A-14-0018

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STAFF REPORT  
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ARIZONA CORPORATION COMMISSION

ARIZONA ELECTRIC POWER COOPERATIVE, INC.  
AND SOUTHWEST TRANSMISSION COOPERATIVE, INC.  
DOCKET NOS.: E-01773A-14-0018 AND E-04100A-14-0018

IN THE MATTER OF THE JOINT APPLICATION OF ARIZONA ELECTRIC POWER  
COOPERATIVE, INC. AND SOUTHWEST TRANSMISSION COOPERATIVE, INC. FOR  
AUTHORIZATIONS ASSOCIATED WITH THEIR MERGER AND THE ISSUANCE BY  
AEP CO, AS THE SURVIVING COOPERATIVE, OF AN INDENTURE

July 11, 2014

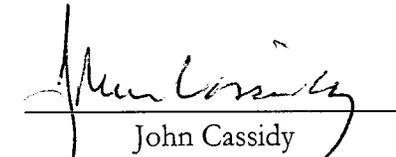
STAFF ACKNOWLEDGEMENT

The Staff Report for Arizona Electric Power Cooperative, Inc. and Southwest Transmission Cooperative, Inc., Docket Nos. E-01773A-14-0018 and E-04100A-14-0018, was prepared by the Staff members shown below.



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Candrea Allen  
Public Utilities Analyst



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John Cassidy  
Public Utilities Analyst

**EXECUTIVE SUMMARY**  
**ARIZONA ELECTRIC POWER COOPERATIVE, INC.**  
**AND SOUTHWEST TRANSMISSION COOPERATIVE, INC.**  
**DOCKET NOS. E-01773A-14-0018 AND E-04100A-14-0018**

On January 21, 2014, Arizona Electric Power Cooperative, Inc. ("AEPSCO") and Southwest Transmission Cooperative, Inc. ("SWTC") (collectively, the "Cooperatives") filed an application with the Arizona Corporation Commission ("Commission") requesting approval of a merger between AEPSCO and SWTC and an Indenture. On February 3, 2014, Trico Electric Cooperative, Inc. ("Trico") filed a motion to intervene and on March 31, 2014, Mohave Electric Cooperative, Inc. ("Mohave") filed a motion to intervene. On February 20, 2014, and April 17, 2014, the Administrative Law Judge granted each motion to intervene, respectively. On March 20, 2014, the Cooperatives filed a supplement to the initial application requesting additional authorizations pertaining to the proposed merger and Indenture.

AEPSCO and SWTC are requesting that the Commission grant the merger of SWTC and AEPSCO, with AEPSCO being the surviving entity providing generation and transmission services; the replacement of the Cooperatives' current mortgages with an Indenture as well as the assumption by AEPSCO of the benefit liabilities associated with employees being transferred from Sierra Southwest; and the reissuance of SWTC's Commission-approved network transmission service tariff, point-to-point transmission service tariff, and ancillary service tariff, and any other rates, charges, adjustors, or similar accounting or rate mechanisms, to AEPSCO.

Staff makes the following recommendations:

- Approval of the proposed merger, including the transfer of the SWTC Certificate of Convenience & Necessity and the staffing services provided by Sierra Southwest granted in Decision No. 63868;
- Approval of the discontinuance of reporting requirements for SWTC ordered in Decision No. 69239 and continued in Decision No. 72030;
- Approval of any authorizations or approvals held by SWTC that are outstanding as of the date of the Decision in this matter transfer to AEPSCO by operation of law;
- AEPSCO, as the surviving entity, be required to file, within 15 days of the Decision in this matter, the following Compliance items, under its own name:
  1. Network Transmission Service Tariff granted in Decision No. 74172, dated October 25, 2013;
  2. Point-to-Point Transmission Service Tariff granted in Decision No. 74172, dated October 25, 2013;
  3. Ancillary Service Tariff granted in Decision No. 74172, dated October 25, 2013;

4. Network Transmission Revenue Adjustor Tariff Rider granted in Decision No. 74172, dated October 25, 2013; and
  5. Network Transmission Revenue Adjustor Plan of Administration granted in Decision No. 74172, dated October 25, 2013;
- That the following authorizations be transferred from SWTC to AEPCO:
    1. The Certificate of Environmental Compatibility authorizing the construction of the San Manuel Interconnect Project granted in Decision No. 71218, dated July 16, 2009;
    2. The financing approval related to SWTC's 2009-2010 Construction Work Plan granted in Decision No. 71511, dated March 17, 2010;
    3. The Certificate of Environmental Compatibility regarding the SWTC and Central Arizona Project Joint Projects granted in Decision No. 71649, dated April 14, 2010; and
    4. The Certificate of Environmental Compatibility for the Marana Tap to the Sandario Tap Transmission Line Rebuild Project granted in Decision No. 72447, dated June, 28, 2011;
  - Approval of the Cooperatives' request to replace their current mortgages with an Indenture issued by AEPCO, securing existing and future Commission-approved debt through the pledge of the Cooperatives' combined assets;
  - Approval of the assumption by AEPCO of the employee benefit plan liabilities associated with the employees to be transferred from Sierra Southwest Cooperative Services, Inc. to AEPCO;
  - Authorizing AEPCO to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted;
  - That AEPCO file with Docket Control, as a compliance item in this matter, a copy of the negotiated Indenture agreement within 60 days of its approval by the Rural Utilities Service;
  - That AEPCO file with Docket Control, as a compliance item in this matter, a copy of the engagement contract entered into with the trustee selected to administer the Indenture agreement within 60 days of the contract having been signed and agreed to; and
  - That AEPCO file with Docket Control, as a compliance item in this matter, a copy of the investment grade credit rating report issued by Standard & Poor's and Fitch within 60 days of the issue date of the report.

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## Introduction

On January 21, 2014, Arizona Electric Power Cooperative, Inc. ("AEPSCO") and Southwest Transmission Cooperative, Inc. ("SWTC") (collectively, the "Cooperatives") filed an application with the Arizona Corporation Commission ("Commission") requesting approval of a merger between AEPSCO and SWTC and an Indenture. On February 3, 2014, Trico Electric Cooperative, Inc. ("Trico") filed a motion to intervene and on March 31, 2014, Mohave Electric Cooperative, Inc. ("Mohave") filed a motion to intervene. On February 20, 2014, and April 17, 2014, the Administrative Law Judge granted each motion to intervene, respectively. On March 20, 2014, the Cooperatives filed a supplement to the initial application requesting additional authorizations pertaining to the proposed merger and Indenture.

## Background

AEPSCO is a not-for-profit, generation-only cooperative that was initially granted a Certificate of Convenience & Necessity ("CC&N") to provide generation and transmission services, by the Commission, in Decision No. 33677, dated February 13, 1962. AEPSCO provides generation services to three all-requirements distribution cooperative members (Duncan Valley Electric Cooperative, Inc., Graham County Electric Cooperative, Inc., and Anza Electric Cooperative, Inc.)<sup>1</sup> (collectively "CARM") and three partial-requirements distribution cooperative members ("PRM") (Mohave, Sulphur Springs Valley Electric Cooperative, Inc., and Trico). The CARMs receive all of their power and energy needs from AEPSCO while each PRM only commits to purchase a fixed amount of capacity from AEPSCO and may secure additional power and energy from other sources.

SWTC is a not-for-profit, transmission-only cooperative formed as part of the restructuring of AEPSCO in the late 1990s and early 2000s. The Commission approved AEPSCO's restructuring in Decision No. 63868, dated July 25, 2001. In Decision No. 63868, AEPSCO's transmission assets and transmission portion of its CC&N were transferred to SWTC. Further, in Decision No. 63868, Sierra Southwest Cooperative Services, Inc. ("Sierra Southwest")<sup>2</sup> was formed, to provide, among other functions, various support services including staffing services to both AEPSCO and SWTC.

## Application

AEPSCO and SWTC are requesting that the Commission grant the merger of SWTC and AEPSCO, with AEPSCO being the surviving entity providing generation and transmission services; the replacement of the Cooperatives' current mortgages with an Indenture as well as the assumption by AEPSCO of the benefit liabilities associated with employees being transferred from Sierra Southwest; and the reissuance of SWTC's Commission-approved network transmission service

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<sup>1</sup> Anza Electric Cooperative is located in California.

<sup>2</sup> Sierra Southwest was granted a CC&N in Decision No. 61932, dated August 7, 1999, as an Arizona Electric Service Provider ("ESP"). The Arizona Superior Court vacated Sierra Southwest's CC&N granted by the Commission. The ruling was upheld by the Arizona Court of Appeals in *Phelps Dodge Corp. v. AEPSCO*, 207 Ariz. 95, ¶ 141, 83 P.3d 573 (Ariz. App. 2004).

tariff, point-to-point transmission service tariff, ancillary service tariff, and any other rates, charges, adjustors, or similar accounting or rate mechanisms, to AEPCO.

In its supplemental filing dated March 21, 2014, the Cooperatives also request specific Commission approval of the transfer of the following SWTC authorizations to AEPCO:

- a) The Certificate of Environmental Compatibility authorizing the construction of the San Manuel Interconnect Project granted in Decision No. 71218, dated July 16, 2009;
- b) The financing approval related to SWTC's 2009-2010 Construction Work Plan granted in Decision No. 71511, dated March 17, 2010.
- c) The Certificate of Environmental Compatibility regarding the SWTC and Central Arizona Project ("CAP") Joint Projects granted in Decision No. 71649, dated April 14, 2010; and
- d) The Certificate of Environmental Compatibility for the Marana Tap to the Sandario Tap Transmission Line Rebuild Project granted in Decision No. 72447, dated June, 28, 2011.

In addition, the Cooperatives are requesting discontinuance of reporting requirements ordered in Decision No. 69239, dated January 19, 2007, related to an equity improvement plan ordered by the Commission in Decision No. 69239 for SWTC.

### *Merger*

In an effort to better position themselves to transition from the Rural Utilities Service ("RUS") borrowing to the Indenture described below, the Cooperatives will have to obtain credit ratings from two of the credit ratings agencies. However, in issuing such ratings, the credit rating agencies must consider the ability of each Cooperative, on its own merits, to meet the criteria needed to qualify for an investment grade credit rating.<sup>3</sup> The Cooperatives state that SWTC is simply too small of an entity to obtain the credit ratings necessary to qualify for an Indenture or to participate in the wider credit markets that would be available following the conversion to an Indenture. The Cooperatives state that a merger between AEPCO and SWTC would result in additional benefits including reduced employee expense through the consolidation of benefit packages; reduced accounting costs, external audit fees and tax preparation fees through the consolidation of accounting records and tax filings; and reduced regulatory expense for required regulatory filings.

The Cooperatives indicate that the current rates and charges approved in the previous AEPCO and SWTC rate cases would remain the same.<sup>4</sup> AEPCO would continue to charge its generation rates under its Commission-approved tariffs and adjustor mechanisms. AEPCO would

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<sup>3</sup> The Cooperatives state that credit rating agencies also consider liquidity. In order to improve its credit profile and increase its liquidity, AEPCO filed an application for approval of \$100 million in committed lines of credit. The Commission approved the application in Decision No. 74447, dated April 18, 2014.

<sup>4</sup> Decision No. 74173 and Decision No. 74172, respectively.

charge the same transmission rates and adjustor mechanism that the Commission has approved for SWTC. However, AEPCO would re-issue SWTC's tariffs under its own name. In addition, any other charges, rates, adjustor mechanisms, or accounting orders authorized by the Commission for SWTC would need to be transferred to AEPCO. Sierra Southwest would no longer provide the administrative support or staffing services authorized in Decision No. 63868; these functions would transfer to AEPCO after the completion of this transaction. Further, the Cooperatives do not anticipate any layoffs from either entity as a result of this transaction.

This transaction would not affect the partial/full requirement status of the Cooperatives member distribution cooperatives. The Cooperatives stated that there was no anticipation of any changes to engineering, planning, operations, or maintenance processes. Based on a response to a Staff data request tht there will be no changes to engineering, planning, operation or maintenance processes as a result of the proposed merger, Staff concluded that no engineering analysis is required for this application. AEPCO and SWTC each have the same Class A Members and each member distribution cooperative serves on both the AEPCO and SWTC board. AEPCO and SWTC received board approval of the proposed merger prior to filing the application with the Commission.

### ***Indenture***

The Cooperatives indicate that long-term federal financing that has historically been available to the Cooperatives through RUS, through Notes with the Federal Financing Bank ("FFB"), has become increasingly complicated, time-consuming, and uncertain to obtain. However, in order to borrow from entities other than the RUS, they must obtain a mortgage lien accommodation from the RUS. In addition, the Cooperatives state that even if the RUS lien accommodation is granted, restrictions may be placed on the projects to which the funds are applied.

Attachment A of this report is Staff's review of the Cooperatives' request for authorization to replace current RUS-backed mortgages with an Indenture issued by AEPCO. Staff recommends approval of the requested authorization.

### **Notice**

On February 28, 2014, AEPCO and SWTC filed an Affidavit of Mailing certifying that notice of the application was sent to the Chief Executive Officers of each Class A Member Distribution Cooperative and an Affidavit of Publication confirming published notice of the application.

### **Analysis and Recommendations**

A.R.S. §10-2142 specifies that, after a merger or consolidation, all rights, privileges, and powers are deemed transferred to the surviving generation and transmission cooperative. In addition, the surviving generation and transmission cooperative is responsible and liable for all liabilities and obligations of the merged generation and transmission cooperatives involved in the

transaction. This statute serves to preempt any service impairment due to the merger or consolidation of generation and transmission cooperatives.

A.R.S. §40-285 requires public service corporations to obtain Commission authorization to assign or disperse a utility's assets as proposed by the merger in this transaction. This statute serves to preempt any service impairment due to the disposal of assets that are essential for providing service.

A.R.S. §40-301 requires public service corporations to obtain Commission authorization to issue stocks, bonds, and other evidences of indebtedness as proposed by the Indenture in this transaction. This statute serves to ensure that any issuance of stocks, bonds and other evidences of indebtedness will not impact a utility's financial soundness and its ability to provide service.

A.R.S. §40-365 requires public service corporations to file, with the Commission, all rate schedules approved by the Commission. This statute serves to ensure that all Commission-approved rate schedules are available for public inspection.

The proposed merger would transfer the transmission services (originally provided by AEPCO, as approved in Decision No. 33677) from SWTC back to AEPCO. AEPCO would re-issue all of SWTC's current Commission-approved rate schedules in its own name. Currently, each member distribution cooperative is represented on both the AEPCO and SWTC boards. As the surviving entity, AEPCO will be composed of the same board members that currently serve on the SWTC board and company officers, management, and employees that currently serve Sierra Southwest. In addition, the proposed Indenture would allow access to alternative sources of financing. Therefore, Staff does not believe the proposed merger and Indenture will negatively impact operations of AEPCO.

Staff recommends approval of the proposed merger, including the transfer of the SWTC CC&N and the staffing services provided by Sierra Southwest granted in Decision No. 63868. Staff also recommends the discontinuance of SWTC reporting requirements ordered in Decision No. 69239 and continued in Decision No. 72030. Staff recommends that all other SWTC reporting requirements ordered by the Commission be assumed by AEPCO as of the date of the Decision in this matter. Staff also recommends that any authorizations or approvals held by SWTC that are outstanding as of the date of the Decision in this matter transfer to AEPCO by operation of law. Staff also recommends that AEPCO, as the surviving entity, be required to file, within 15 days of the Decision in this matter, the following Compliance items, under its own name:

- Network Transmission Service Tariff granted in Decision No. 74172, dated October 25, 2013;
- Point-to-Point Transmission Service Tariff granted in Decision No. 74172, dated October 25, 2013;
- Ancillary Service Tariff granted in Decision No. 74172, dated October 25, 2013;
- Network Transmission Revenue Adjustor Tariff Rider granted in Decision No. 74172, dated October 25, 2013; and

- Network Transmission Revenue Adjustor Plan of Administration granted in Decision No. 74172, dated October 25, 2013.

In addition, Staff recommends that the following authorizations be transferred from SWTC to AEPCO:

- The Certificate of Environmental Compatibility authorizing the construction of the San Manuel Interconnect Project granted in Decision No. 71218, dated July 16, 2009;
- The financing approval related to SWTC's 2009-2010 Construction Work Plan granted in Decision No. 71511, dated March 17, 2010;
- The Certificate of Environmental Compatibility regarding the SWTC and CAP Joint Projects granted in Decision No. 71649, dated April 14, 2010; and
- The Certificate of Environmental Compatibility for the Marana Tap to the Sandario Tap Transmission Line Rebuild Project granted in Decision No. 72447, dated June, 28, 2011.

Further, Staff also recommends the following regarding the Indenture portion of the application:

- Approval of the Cooperatives' request to replace their current mortgages with an Indenture issued by AEPCO, securing existing and future Commission-approved debt through the pledge of the Cooperatives' combined assets;
- Approval of the assumption, by AEPCO, of the employee benefit plan liabilities associated with the employees to be transferred from Sierra Southwest to AEPCO;
- Authorizing AEPCO to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted;
- That AEPCO file with Docket Control, as a compliance item in this matter, a copy of the negotiated Indenture agreement within 60 days of its approval by the RUS;
- That AEPCO file with Docket Control, as a compliance item in this matter, a copy of the engagement contract entered into with the trustee selected to administer the Indenture agreement within 60 days of the contract having been signed and agreed to; and
- That AEPCO file with Docket Control, as a compliance item in this matter, a copy of the investment grade credit rating report issued by Standard & Poor's and Fitch within 60 days of the issue date of the report.

# Attachment A

## MEMORANDUM

TO: Candrea Allen  
FROM: John A. Cassidy *JAC*  
DATE: April 26, 2014  
RE: Proposed Indenture

IN THE MATTER OF THE JOINT APPLICATION OF THE ARIZONA ELECTRIC POWER COOPERATIVE, INC. AND SOUTHWEST TRANSMISSION COOPERATIVE, INC. FOR AUTHORIZATIONS ASSOCIATED WITH THEIR MERGER AND THE ISSUANCE BY AEPCO, AS THE SURVIVING COOPERATIVE, OF AN INDENTURE (DOCKET NOS. E-01773A-14-0018 AND E-04100A-14-0018)

As part of its joint filing in the above captioned dockets, the Arizona Electric Power Cooperative, Inc. ("AEPCO") and Southwest Transmission Cooperative, Inc. ("SWTC") (collectively, the "Cooperatives") have requested Arizona Corporation Commission ("Commission") authorization to replace their current mortgages with an Indenture issued by AEPCO. This memorandum contains Staff's analysis of the proposed Indenture. Staff recommends approval of the requested authorization.

### Introduction

On January 21, 2014, AEPCO and SWTC filed a Joint Application ("Application") with the Commission seeking authorization for a merger and the issuance of an Indenture. AEPCO is a not-for-profit, member-owned electric generation cooperative located in Benson, Arizona. AEPCO has three all-requirements distribution cooperative members (Duncan Valley Electric Cooperative, Inc., Graham County Electric Cooperative, Inc. and Anza Electric Cooperative, Inc. (collectively "CARM")), and three partial-requirements distribution cooperative members (Mohave Electric Cooperative, Inc., Sulphur Springs Valley Electric Cooperative, Inc. and Trico Electric Cooperative, Inc. (collectively "PRM")). Each CARM receives all of its power and energy needs from AEPCO for distribution to its retail electric members while each PRM commits to purchase only a fixed amount of capacity from AEPCO.

On March 21, 2014, the Cooperatives filed a Supplement to its Application. The Supplement contains additional requested authorizations identified subsequent to the initial joint filing, all of which relate to the proposed merger.

In a related Docket,<sup>1</sup> on January 21, 2014, AEPCO filed an application requesting Commission authorization to obtain two unsecured committed revolving lines of credit in the combined amount of \$100 million. In a Staff Report dated March 14, 2014, Staff recommended

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<sup>1</sup> Docket No. E-01773A-14-0019.

approval of the requested financing authorization, and Staff's recommendations were adopted in a Recommended Order and Opinion issued by the Commission's Hearing Division on April 3, 2014.

### Background

AEPCO was originally granted a Certificate of Convenience and Necessity ("CC&N") by the Commission as a generation and transmission ("G&T") cooperative.<sup>2</sup> However, in the late 1990s and early 2000s, AEPCO undertook a restructuring wherein its transmission assets and the transmission portion of its CC&N were transferred to SWTC, and Sierra Southwest Cooperative Services, Inc. ("Sierra Southwest") was formed as a separate cooperative entity to, among other things, act as a staffing provider for AEPCO and SWTC. As part of the restructuring, Sierra acquired most of AEPCO's employees,<sup>3</sup> and the assets relating to AEPCO's employee benefit plans were transferred to Sierra.<sup>4</sup> Sierra was granted a CC&N as an Arizona Electric Service Provider ("ESP") by the Commission in Decision No. 61932, dated August 27, 1999.<sup>5</sup> AEPCO's restructuring was approved by the Commission in Decision No. 63868, dated July 25, 2001.<sup>6</sup>

Historically, the vast majority of the Cooperatives' long-term debt financing has been provided by the Rural Utilities Service ("RUS"), an agency of the United States Department of Agriculture, through Notes with the Federal Financing Bank ("FFB"). The RUS both guarantees and administers these FFB Notes. Although RUS has been the primary lender for the capital projects undertaken by AEPCO and SWTC, the Cooperatives have also borrowed from the National Rural Utilities Cooperative Finance Corporation ("CFC").

As a condition of accessing the low-cost government funding made available by RUS, the Cooperatives are required to grant the RUS broad oversight authority, with the loan proceeds secured by blanket mortgages pledging substantially all generation, transmission and other assets held by AEPCO and SWTC to the RUS. Should it be advantageous/necessary for the Cooperatives to borrow from a lender other than RUS (i.e., CFC, CoBank or other private lenders), they must first seek a mortgage lien accommodation from the RUS. However, seeking such an accommodation has become increasingly uncertain, costly and time-consuming. Depending upon the nature of the project being funded (i.e., installation, retrofit or repair of a coal- or natural gas-fired resource), the lien accommodation, if granted, may also restrict the purposes to which the loan funds can be applied. Furthermore, it may result in third-party litigation challenging the RUS approval of a lien accommodation of project funding based on, *inter alia*, issues arising under the National Environmental Policy Act.

### RUS Funding to the Electric Cooperative Sector

As noted in the Application, a great deal has changed during the approximate 15-year period since the AEPCO restructuring took place, the most significant of which is central to the Cooperatives' filing in this docket. Specifically, access to federal funding from the RUS to the electric cooperative sector has increasingly come into question, with availability to funding often

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<sup>2</sup> Decision No. 33677, dated February 13, 1962.

<sup>3</sup> See Direct Testimony of Dirk C. Minson (p. 5 @ 9-10), filed in Docket No. E-03665A-98-0681.

<sup>4</sup> See Staff Report (p. 3), filed in Docket No. E-03665A-98-0681.

<sup>5</sup> Docket No. E-03665A-98-0681.

<sup>6</sup> Docket No. E-01773A-00-0826.

being dependent upon the type of project involved. RUS funding continues to be made available to electrical cooperatives for transmission and distribution projects, as well as certain generation upgrade projects. However, obtaining such financing has become more complicated and time consuming, as budget reductions and deep staffing cuts have negatively impacted the agency's ability to timely process new loan applications and requested lien accommodations.

More significantly, in March 2008, the federal Office of Management and Budget suspended government lending to G&T cooperatives for the construction of new base load coal and natural gas generation projects.<sup>7</sup> Since this lending moratorium went into effect, budgetary and environmental concerns have led to significant political pressure being placed upon policymakers to limit the purpose of RUS-guaranteed FFB loan funds. For example, the President's 2013 budget proposed placing a limitation on loan funds solely for renewable projects and certain environmental upgrades at existing generation facilities.

Thus, after decades of reliance on primarily government-subsidized, federally assisted borrowing programs, G&T borrowers have been forced to consider alternative financing sources, including private placements<sup>8</sup> and the capital markets to fund new generation. Fewer restrictions, greater flexibility and more timely execution make these alternatives attractive, despite the typically higher cost.<sup>9</sup>

#### G&Ts Convert to Indentures

To facilitate access to alternative sources of financing, many G&T cooperatives have replaced their traditional RUS loan contracts/mortgages with more flexible trust indentures. These indentures act as a mortgage and security agreement that constitutes a lien on substantially all of the G&T's property. However, unlike the RUS mortgage agreement, an independent, third-party trustee holds the lien on the collateral for the pro rata benefit of debt holders, thus eliminating the need for lengthy approvals or lien accommodations from the RUS prior to debt issuance.<sup>10</sup>

Since the moratorium on base load lending went into effect,<sup>11</sup> RUS has actively encouraged cooperatives like AEPCO and SWTC to convert from a mortgage-based, primarily federally-funded financing approach to a broader base of financing secured under an Indenture. In response to this encouragement, and to secure the advantages of the Indenture process over the limitations of the mortgage system, to date more than 40 G&T electric cooperatives now have indentures approved by the RUS.

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<sup>7</sup> FitchRatings, "Electric Cooperatives – A Financial Coming of Age," Special Report (January 6, 2014), p. 2. [www.fitchratings.com](http://www.fitchratings.com)

<sup>8</sup> The private placement market provides borrowers with access to funding from large financial institutions (principally insurance companies) with long-term capital to invest. Under Rule 144A of the Securities Act of 1933, privately placed debt is not required to be registered with the U.S. Securities and Exchange Commission.

<sup>9</sup> *Ibid*, pp. 1-2.

<sup>10</sup> *Ibid*, p. 3.

<sup>11</sup> *Ibid*.

Following this trend, the Cooperatives recently took steps to confirm their position in the RUS Indenture conversion queue.<sup>12</sup> AEPCO and SWTC initiated a request to confirm their position in the RUS indenture conversion queue on September 18, 2012. On November 1, 2012, AEPCO and SWTC met with the RUS Indenture team in Washington, D.C. to discuss indenture timing and procedural issues, and at that time there were approximately 15 G&Ts ahead of them in the queue. As of March 19, 2014, there was only one G&T ahead of the Cooperatives in the RUS Indenture conversion queue.<sup>13</sup> As noted in the Application, the Cooperatives anticipate receiving RUS approval of the Indenture by June 2014.<sup>14</sup>

### The Proposed Indenture

Conversion to an Indenture represents a significant departure from the manner in which the Cooperatives' long-term debt has, heretofore, been secured. The Indenture is to be administered by an independent, third-party trustee whose primary substantive responsibility will be to hold the lien on the Cooperatives' pledged assets and to exercise remedies equally for the benefit of and as agent for all secured debt holders. This is in contrast to the situation under AEPCO's current mortgage-based financing, in which each secured debt holder has a direct lien on AEPCO's property that is subject to the intercreditor provisions of the RUS mortgage. As noted earlier, however, because the Indenture is to be administered by an independent, third-party trustee, the need for lengthy loan approvals and/or lien accommodations from the RUS prior to debt issuance will be eliminated.

Given that the RUS has historically been the Cooperatives' primary lender, Staff inquired as to what RUS' involvement would be once conversion to the Indenture was complete. In response, AEPCO indicated that RUS would continue to retain significant oversight over AEPCO's activities, as the RUS loans would remain subject to covenants favoring RUS, and that like AEPCO's other secured debt holders, RUS would remain responsible for monitoring AEPCO's financial condition.<sup>15</sup>

The proposed Indenture will replace the Cooperatives' existing mortgages and will be secured by substantially the same assets. AEPCO will use the Indenture to secure existing debt and to issue and secure new debt. Transition to the Indenture will continue to allow for borrowings from the RUS and FFB, while affording the Cooperatives greater, timelier and more certain access to long-term debt. No additional debt authorization is requested by the Cooperatives in the Application.

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<sup>12</sup> In response to Staff Data Request JAC 4.1(i), AEPCO indicated that the RUS Indenture conversion queue was established to provide a systematic and fair way to process the numerous requests submitted to RUS by the G&T community requesting conversion of RUS mortgages to an indenture.

<sup>13</sup> AEPCO response to Staff Data Request JAC 4.1(ii).

<sup>14</sup> In response to Staff data request JAC 4.1 (iii), the primary steps remaining to be taken by AEPCO and SWTC to convert to an indenture include: 1) Finalization of and submission to the RUS and CFC of drafts of the Indenture and a restated RUS Loan Contract, as well as a Restated and Consolidating Loan Agreement to CFC; 2) Obtain the consent of tax-exempt bondholders; 3) Negotiate and finalize with the RUS, CFC and bondholders the Indenture and above-referenced related documents; 4) Select an Indenture Trustee; 5) Obtain AEPCO Board approval of the Indenture and related documents; 6) Following Commission approval, close on the Indenture and related documents (simultaneous with closure of the AEPCO/SWTC merger); 7) Record, and confirm the priority of, the Indenture; 8) Furnish options confirming perfection and Indenture lien priority to the RUS and CFC, together with releases of the existing mortgages by RUS and DCF; and 9) Record the mortgage release documents to fully terminate their liens.

<sup>15</sup> AEPCO response to Staff's final set of Data Requests (sent informally via e-mail on April 18, 2014).

In response to a Staff data request, AEPCO indicated that it does not expect borrowings under an indenture agreement to differ from borrowings under its current mortgage. As in the past, AEPCO will periodically prepare construction work plans which will form the basis for loan applications to the RUS and/or other borrowers. AEPCO will also continue to file applications with the Commission requesting its approval to enter into these loans. AEPCO stated that the primary difference will be (a) the instrument used to secure the borrowings (indenture rather than a mortgage) and (b) the use of a third-party trustee to hold the lien on the collateral.<sup>16</sup> In response to a separate Staff data request, AEPCO indicated that a copy of the Indenture was not yet available, as AEPCO has not yet begun the process of negotiating an indenture agreement with the RUS. Apparently, such negotiation must wait until the RUS has completed the indenture conversion process with the G&T cooperative immediately ahead of AEPCO in the RUS indenture conversion queue.<sup>17</sup>

To date, AEPCO has yet to select a trustee to administer the Indenture. In response to a Staff data request, AEPCO stated that the selection of a trustee will be handled through an informal Request for Proposal ("RFP"), with U.S. Bank, Regions Bank, and Commerce Bank being likely candidates for selection due to their extensive trustee experience on similar G&T Cooperative Indentures around the country. AEPCO anticipates making its Indenture trustee selection 4-6 weeks prior to closing.<sup>18</sup> When asked what criteria, if any, the RUS requires a third-party trustee to meet, AEPCO indicated the RUS requires only that the trustee be a corporate entity authorized under state or federal law to exercise corporate trust powers with capital of at least \$50 million.<sup>19</sup>

To facilitate its conversion from the RUS mortgage/primarily FFB funds-driven borrowing approach to the Indenture, the Cooperatives are actively seeking to obtain an investment grade credit rating from Standard & Poor's and Fitch, two of the three major credit rating agencies.<sup>20</sup> To date, that process has not yet been finalized.

In view of the March 2008 lending moratorium placed upon federal funding to G&T cooperatives for the construction of new base load coal and natural gas generation projects, and given the uncertainty associated with continued RUS-guaranteed FFB loan funds due to budgetary and environmental concerns, the Cooperatives require access to alternative sources of financing to meet future electricity supply and delivery challenges. AEPCO and SWTC anticipate that the proposed Indenture will enhance the Cooperatives' access to a broader base of private and public loan funds to finance necessary generation and transmission projects, at the lowest available cost. Staff concurs with this assessment.

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<sup>16</sup> AEPCO response to Staff Data Request CA 3.1.

<sup>17</sup> AEPCO response to Staff Data Request CA 3.5. AEPCO did provide Staff with a specimen form agreement which will provide the basis for the indenture agreement to be negotiated between RUS and AEPCO.

<sup>18</sup> AEPCO response to Staff Data Request JAC 4.2.

<sup>19</sup> In its response, AEPCO cited as authority Section 9.9 of the specimen form indenture agreement provided pursuant to Staff Data Request CA 3.5.

<sup>20</sup> Liquidity is a factor taken into consideration by the rating agencies when issuing an investment grade credit rating, and in a separate docket (Docket No. E-01773A-14-0118) filed simultaneous to this docket, Staff recommended approval of the \$100 million in committed lines of credit requested by the Cooperatives to enhance its liquidity profile.

## Conclusion and Recommendations

Staff concludes that, on a going-forward basis there is a need for the Cooperatives to have access to alternative sources of financing, and that authorization of the proposed Indenture is the logical/appropriate means of accomplishing this end.

Staff further concludes that contingent upon Commission approval being granted for the proposed merger, the assumption by AEPCO of the employee benefit plan liabilities associated with the employees to be transferred from Sierra Southwest to AEPCO is appropriate, as this financial obligation will need to be secured by the Indenture.

Staff further concludes that approval of the proposed Indenture is compatible with the public interest, consistent with sound financial practices, and will not impair the Cooperatives' ability to provide services.

Staff recommends:

- Approval of the Cooperatives' request to replace their current mortgages with an Indenture issued by AEPCO, securing existing and future Commission-approved debt through the pledge of the Cooperatives' combined assets.
- Approval of the assumption, by AEPCO, of the employee benefit plan liabilities associated with the employees to be transferred from Sierra Southwest Cooperative Services, Inc. ("Sierra Southwest") to AEPCO.
- Authorizing AEPCO to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.
- That AEPCO file with Docket Control, as a compliance item in this matter, a copy of the negotiated Indenture agreement within 60 days of its approval by the RUS.
- That AEPCO file with Docket Control, as a compliance item in this matter, a copy of the engagement contract entered into with the trustee selected to administer the Indenture agreement within 60 days of the contract having been signed and agreed to.
- That AEPCO file with Docket Control, as a compliance item in this matter, a copy of the investment grade credit rating reports issued by Standard & Poor's and Fitch within 60 days of the issue date of the report.

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BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE JOINT  
APPLICATION OF ARIZONA ELECTRIC  
POWER COOPERATIVE, INC. FOR  
AUTHORIZATION ASSOCIATED WITH  
THEIR MERGER AND THE ISSUANCE BY  
ARIZONA ELECTRIC POWER  
COOPERATIVE, INC. THE SURVIVING  
COOPERATIVE OF AN INDENTURE.

DOCKET NO. E-01773A-14-0018  
E-04100A-14-0018  
DECISION NO. \_\_\_\_\_  
ORDER

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Open Meeting  
July 22 and 23, 2014  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Introduction

1. On January 21, 2014, Arizona Electric Power Cooperative, Inc. ("AEPSCO") and Southwest Transmission Cooperative, Inc. ("SWTC") (collectively, the "Cooperatives") filed an application with the Arizona Corporation Commission ("Commission") requesting approval of a merger between AEPSCO and SWTC and an Indenture.

2. On February 3, 2014, Trico Electric Cooperative, Inc. ("Trico") filed a motion to intervene and on March 31, 2014, Mohave Electric Cooperative, Inc. ("Mohave") filed a motion to intervene. On February 20, 2014, and April 17, 2014, the Administrative Law Judge granted each motion to intervene, respectively.

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1 3. On March 20, 2014, the Cooperatives filed a supplement to the initial application  
2 requesting additional authorizations pertaining to the proposed merger and Indenture.

3 **Background**

4 4. AEPCO is a not-for-profit, generation-only cooperative that was initially granted a  
5 Certificate of Convenience & Necessity ("CC&N") to provide generation and transmission services,  
6 by the Commission, in Decision No. 33677, dated February 13, 1962. AEPCO provides generation  
7 services to three all-requirements distribution cooperative members (Duncan Valley Electric  
8 Cooperative, Inc., Graham County Electric Cooperative, Inc., and Anza Electric Cooperative, Inc.)<sup>1</sup>  
9 (collectively, "CARM") and three partial-requirements distribution cooperative members ("PRM")  
10 (Mohave, Sulphur Springs Valley Electric Cooperative, Inc., and Trico).

11 5. The CARMs receive all of their power and energy needs from AEPCO while each  
12 PRM only commits to purchase a fixed amount of capacity from AEPCO and may secure additional  
13 power and energy from other sources.

14 6. SWTC is a not-for-profit, transmission-only cooperative formed as part of the  
15 restructuring of AEPCO in the late 1990s and early 2000s. The Commission approved AEPCO's  
16 restructuring in Decision No. 63868, dated July 25, 2001.

17 7. In Decision No. 63868, AEPCO's transmission assets and transmission portion of its  
18 CC&N was transferred to SWTC. Further, in Decision No. 63868 Sierra Southwest Cooperative  
19 Services, Inc. ("Sierra Southwest")<sup>2</sup> was formed to provide, among other functions, various support  
20 services including staffing services to both AEPCO and SWTC.

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27 <sup>1</sup> Anza Electric Cooperative is located in California.  
28 <sup>2</sup> Sierra Southwest was granted a CC&N in Decision No. 61932, dated August 7, 1999, as an Arizona Electric Service Provider ("ESP"). The Arizona Superior Court vacated Sierra Southwest's CC&N granted by the Commission. The ruling was upheld by the Arizona Court of Appeals in Phelps Dodge Corp. v. AEPCO, 207 Ariz. 95, ¶ 141, 83 P.3d 573 (Ariz. App. 2004).

1 Application

2 8. AEPCO and SWTC are requesting that the Commission grant the merger of SWTC  
3 and AEPCO, with AEPCO being the surviving entity providing generation and transmission services;  
4 the replacement of the Cooperatives' current mortgages with an Indenture as well as the assumption  
5 by AEPCO of the benefit liabilities associated with employees being transferred from Sierra  
6 Southwest; and the reissuance of SWTC's Commission-approved network transmission service tariff,  
7 point-to-point transmission service tariff, ancillary service tariff, and any other rates, charges,  
8 adjustors, or similar accounting or rate mechanisms, to AEPCO.

9 9. In its supplemental filing dated March 21, 2014, the Cooperatives also request specific  
10 Commission approval of the transfer of the following SWTC authorizations to AEPCO:

- 11 a) The Certificate of Environmental Compatibility authorizing the construction of the  
12 San Manuel Interconnect Project granted in Decision No. 71218, dated July 16, 2009;
- 13 b) The financing approval related to SWTC's 2009-2010 Construction Work Plan granted  
14 in Decision No. 71511, dated March 17, 2010.
- 15 c) The Certificate of Environmental Compatibility regarding the SWTC and Central  
16 Arizona Project ("CAP") Joint Projects granted in Decision No. 71649, dated April 14,  
17 2010; and
- 18 d) The Certificate of Environmental Compatibility for the Marana Tap to the Sandario  
19 Tap Transmission Line Rebuild Project granted in Decision No. 72447, dated June, 28,  
20 2011.

21 10. In addition, the Cooperatives are requesting discontinuance of reporting requirements  
22 ordered in Decision No. 69239, dated January 19, 2007, related to an equity improvement plan  
23 ordered by the Commission in Decision No. 69239 for SWTC.

22 *Merger*

23 11. In an effort to better position themselves to transition from the Rural Utilities Service  
24 ("RUS") borrowing to the Indenture described below, the Cooperatives will have to obtain credit  
25 ratings from two of the credit ratings agencies. However, in issuing such ratings, the credit rating  
26 agencies must consider the ability of each Cooperative, on its own merits, to meet the criteria needed

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1 to qualify for an investment grade credit rating.<sup>3</sup> The Cooperatives state that SWTC is simply too  
2 small of an entity to obtain the credit ratings necessary to qualify for an Indenture or to participate in  
3 the wider credit markets that would be available following the conversion to an Indenture.

4 12. The Cooperatives state that a merger between AEPCO and SWTC would result in  
5 additional benefits including reduced employee expense through the consolidation of benefit  
6 packages; reduced accounting costs, external audit fees and tax preparation fees through the  
7 consolidation of accounting records and tax filings; and reduced regulatory expense for required  
8 regulatory filings.

9 13. The Cooperatives indicate that the current rates and charges approved in the previous  
10 AEPCO and SWTC rate cases would remain the same.<sup>4</sup> AEPCO would continue to charge its  
11 generation rates under its Commission-approved tariffs and adjustor mechanisms. AEPCO would  
12 charge the same transmission rates and adjustor mechanism that the Commission has approved for  
13 SWTC. However, AEPCO would re-issue SWTC's tariffs under its own name. In addition, any other  
14 charges, rates, adjustor mechanisms, or accounting orders authorized by the Commission for SWTC  
15 would need to be transferred to AEPCO.

16 14. Sierra Southwest would no longer provide the administrative support or staffing  
17 services authorized in Decision No. 63868; these functions would transfer to AEPCO after the  
18 completion of this transaction. Further, the Cooperatives do not anticipate any layoffs from either  
19 entity as a result of this transaction.

20 15. This transaction would not affect the partial/full requirement status of the  
21 Cooperatives member distribution cooperatives. The Cooperatives stated that there was no  
22 anticipation of any changes to engineering, planning, operations, or maintenance processes. Based on  
23 a response to a Staff data request that there will be no changes to engineering, planning, operations or  
24 maintenance processes as a result of the proposed merger, Staff concluded that there was no  
25 engineering analysis required for this application.

26 <sup>3</sup> The Cooperatives state that credit rating agencies also consider liquidity. In order to improve its credit profile and  
27 increase its liquidity, AEPCO filed an application for approval of \$100 million in committed lines of credit. The  
28 Commission approved the application in Decision No. 74447, dated April 18, 2014.

<sup>4</sup> Decision No. 74173 and Decision No. 74172, respectively.

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***Indenture***

16. The Cooperatives indicate that long-term federal financing that has historically been available to the Cooperatives through RUS, through Notes with the Federal Financing Bank (“FFB”), has become increasingly complicated, time-consuming, and uncertain to obtain. However, in order to borrow from entities other than the RUS, they must obtain a mortgage lien accommodation from the RUS. In addition, the Cooperatives state that, even if the RUS lien accommodation is granted, restrictions may be placed on the projects to which the funds are applied.

17. The Cooperatives have requested that the Commission grant authorization to replace current RUS backed mortgages with an Indenture issued by AEPCO. Staff recommends approval of the requested authorization.

**Notice**

18. On February 28, 2014, AEPCO and SWTC filed an Affidavit of Mailing certifying that notice of the application was sent to the Chief Executive Officers of each Class A Member Distribution Cooperative and an Affidavit of Publication confirming published notice of the application.

**Analysis and Recommendations**

19. A.R.S. §10-2142 specifies that, after a merger or consolidation, all rights, privileges, and powers are deemed transferred to the surviving generation and transmission cooperative. In addition, the surviving generation and transmission cooperative is responsible and liable for all liabilities and obligations of the merged generation and transmission cooperatives involved in the transaction. This statute serves to preempt any service impairment due to the merger or consolidation of generation and transmission cooperatives.

20. A.R.S. §40-285 requires public service corporations to obtain Commission authorization to assign or dispose of a utility’s assets as proposed by the merger in this transaction. This statute serves to preempt any service impairment due to the disposal of assets that are essential for providing service.

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1           21. A.R.S. §40-301 requires public service corporations to obtain Commission  
2 authorization to issue stocks, bonds, and other evidences of indebtedness as proposed by the  
3 Indenture in this transaction. This statute serves to ensure that any issuance of stocks, bonds and  
4 other evidences of indebtedness will not impact a utility's financial soundness and its ability to provide  
5 service.

6           22. A.R.S. §40-365 requires public service corporations to file, with the Commission, all  
7 rate schedules approved by the Commission. This statute serves to ensure that all Commission-  
8 approved rate schedules are available for public inspection.

9           23. The proposed merger would transfer the transmission services (originally provided by  
10 AEPCO, as approved in Decision No. 33677) from SWTC back to AEPCO. AEPCO would re-issue  
11 all of SWTC's current Commission-approved rate schedules in its own name. Currently, each member  
12 distribution cooperative is represented on both the AEPCO and SWTC boards.

13           24. As the surviving entity, AEPCO will be composed of the same board members that  
14 currently serve on the SWTC board and company officers, management, and employees that currently  
15 serve Sierra Southwest. In addition, the proposed Indenture would allow access to alternative sources  
16 of financing. Therefore, Staff does not believe the proposed merger and Indenture will negatively  
17 impact operations of AEPCO.

18           25. Staff has recommended approval of the proposed merger, including the transfer of the  
19 SWTC CC&N and the staffing services provided by Sierra Southwest granted in Decision No. 63868.

20           26. Staff has recommended the discontinuance of SWTC reporting requirements ordered  
21 in Decision No. 69239 and continued in Decision No. 72030, but that all other reporting requirements  
22 ordered by the Commission be assumed by AEPCO.

23           27. Staff has recommended that any authorizations or approvals held by SWTC that are  
24 outstanding as of the date of the Decision in this matter transfer to AEPCO by operation of law.

25           28. Staff has also recommended that AEPCO, as the surviving entity, be required to file,  
26 within 15 days of the Decision in this matter, the following Compliance items, under its own name:

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- Network Transmission Service Tariff granted in Decision No. 74172, dated October 25, 2013;
- Point-to-Point Transmission Service Tariff granted in Decision No. 74172, dated October 25, 2013;
- Ancillary Service Tariff granted in Decision No. 74172, dated October 25, 2013;
- Network Transmission Revenue Adjustor Tariff Rider granted in Decision No. 74172, dated October 25, 2013; and
- Network Transmission Revenue Adjustor Plan of Administration granted in Decision No. 74172, dated October 25, 2013.

29. In addition, Staff has recommended that the following authorizations be transferred from SWTC to AEPCO:

- The Certificate of Environmental Compatibility authorizing the construction of the San Manuel Interconnect Project granted in Decision No. 71218, dated July 16, 2009;
- The financing approval related to SWTC's 2009-2010 Construction Work Plan granted in Decision No. 71511, dated March 17, 2010;
- The Certificate of Environmental Compatibility regarding the SWTC and CAP Joint Projects granted in Decision No. 71649, dated April 14, 2010; and
- The Certificate of Environmental Compatibility for the Marana Tap to the Sandario Tap Transmission Line Rebuild Project granted in Decision No. 72447, dated June, 28, 2011.

30. Further, Staff has recommended the following regarding the Indenture portion of the application:

- Approval of the Cooperatives' request to replace their current mortgages with an Indenture issued by AEPCO, securing existing and future Commission-approved debt through the pledge of the Cooperatives' combined assets;
- Approval of the assumption, by AEPCO, of the employee benefit plan liabilities associated with the employees to be transferred from Sierra Southwest to AEPCO;
- Authorizing AEPCO to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted;

- 1 • That AEPCO file with Docket Control, as a compliance item in this matter, a copy of  
2 the negotiated Indenture agreement within 60 days of its approval by the RUS;
- 3 • That AEPCO file with Docket Control, as a compliance item in this matter, a copy of  
4 the engagement contract entered into with the trustee selected to administer the  
5 Indenture agreement within 60 days of the contract having been signed and agreed to;  
6 and
- 7 • That AEPCO file with Docket Control, as a compliance item in this matter, a copy of  
8 the investment grade credit rating report issued by Standard & Poor's and Fitch within  
9 60 days of the issue date of the report.

#### 10 CONCLUSIONS OF LAW

11 1. Arizona Electric Power Cooperative, Inc. and Southwest Transmission Cooperative,  
12 Inc. are public service corporations within the meaning of Article XV of the Arizona Constitution and  
13 A.R.S. §§ 40-250 and 40-251.

14 2. The Commission has jurisdiction over Arizona Electric Power Cooperative, Inc. and  
15 Southwest Transmission Cooperative, Inc. and of the subject matter of the request addressed herein.

16 3. Arizona Electric Power Cooperative, Inc. is a fit and proper entity to provide the  
17 transmission services transferred from Southwest Transmission Cooperative, Inc.

18 4. Staff's recommendations specified in Findings of Fact Nos. 25 through 30 are  
19 reasonable and should be adopted.

#### 20 ORDER

21 IT IS THEREFORE ORDERED that the merger of Arizona Electric Power Cooperative,  
22 Inc. and Southwest Transmission Cooperative, Inc., including the transfer of the Southwest  
23 Transmission Cooperative, Inc., CC&N and the staffing services provided by Sierra Southwest  
24 Cooperative Services, Inc., granted in Decision No. 63868, is hereby approved as set forth herein.

25 IT IS FURTHER ORDERED that the Southwest Transmission Cooperative, Inc. reporting  
26 requirements ordered in Decision No. 69239 and continued in Decision No. 72030 are hereby  
27 discontinued, but all other Southwest Transmission Cooperative, Inc. reporting requirements shall be  
28 assumed by Arizona Electric Power Cooperative, Inc.

1           IT IS FURTHER ORDERED that any authorizations or approvals held by Southwest  
 2 Transmission Cooperative, Inc. that are outstanding as of the date of the Decision in this matter be  
 3 hereby transferred to Arizona Electric Power Cooperative, Inc. by operation of law.

4           IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc., as the surviving  
 5 entity, file within 15 days of the Decision in this matter, the following compliance items, under its own  
 6 name:

- 7           • Network Transmission Service Tariff granted in Decision No. 74172, dated October
- 8           25, 2013;
- 9           • Point-to-Point Transmission Service Tariff granted in Decision No. 74172, dated
- 10           October 25, 2013;
- 11           • Ancillary Service Tariff granted in Decision No. 74172, dated October 25, 2013;
- 12           • Network Transmission Revenue Adjustor Tariff Rider granted in Decision No. 74172,
- 13           dated October 25, 2013; and
- 14           • Network Transmission Revenue Adjustor Plan of Administration granted in Decision
- 15           No. 74172, dated October 25, 2013.

16           IT IS FURTHER ORDERED that the following authorizations be transferred from  
 17 Southwest Transmission Cooperative, Inc. to Arizona Electric Power Cooperative, Inc.:

- 18           • The Certificate of Environmental Compatibility authorizing the construction of the
- 19           San Manuel Interconnect Project granted in Decision No. 71218, dated July 16, 2009;
- 20           • The financing approval related to Southwest Transmission Cooperative, Inc.'s 2009-
- 21           2010 Construction Work Plan granted in Decision No. 71511, dated March 17, 2010;
- 22           • The Certificate of Environmental Compatibility regarding the Southwest Transmission
- 23           Cooperative, Inc. and Central Arizona Project Joint Projects granted in Decision No.
- 24           71649, dated April 14, 2010; and
- 25           • The Certificate of Environmental Compatibility for the Marana Tap to the Sandario
- 26           Tap Transmission Line Rebuild Project granted in Decision No. 72447, dated June, 28,
- 27           • . 2011.

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1 IT IS FURTHER ORDERED that the Arizona Electric Power Cooperative, Inc. and  
2 Southwest Transmission Cooperative, Inc.'s request to replace their current mortgages with an  
3 Indenture issued by Arizona Electric Power Cooperative, Inc., securing existing and future  
4 Commission-approved debt through the pledge of the Arizona Electric Power Cooperative, Inc. and  
5 Southwest Transmission Cooperative, Inc.'s combined assets is hereby approved.

6 IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc., shall assume  
7 the employee benefit plan liabilities associated with the employees to be transferred from Sierra  
8 Southwest to Arizona Electric Power Cooperative, Inc. is hereby approved.

9 IT IS FURTHER ORDERED that the Arizona Electric Power Cooperative, Inc. is hereby  
10 authorized to engage in any transaction and to execute any documents necessary to effectuate the  
11 authorizations granted;

12 IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. shall file with  
13 Docket Control, as a compliance item in this matter, a copy of the negotiated Indenture agreement  
14 within 60 days of its approval by the Rural Utility Service;

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1 IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. shall file with  
 2 Docket Control, as a compliance item in this matter, a copy of the engagement contract entered into  
 3 with the trustee selected to administer the Indenture agreement within 60 days of the contract having  
 4 been signed and agreed to; and

5 IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. shall file with  
 6 Docket Control, as a compliance item in this matter, a copy of the investment grade credit rating  
 7 report issued by Standard & Poor's and Fitch within 60 days of the issue date of the report.

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

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**BY THE 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 this Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2013.

\_\_\_\_\_  
 JODI JERICH  
 EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

SMO:CLA:sms\WVC

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2 DOCKET NO.

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