



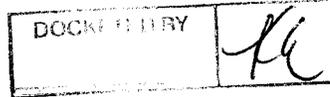
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**BEFORE THE ARIZONA CORPORATION COMMISSION**

Arizona Corporation Commission

**DOCKETED**

MAR 10 2016



COMMISSIONERS

DOUG LITTLE - Chairman  
BOB STUMP  
BOB BURNS  
TOM FORESE  
ANDY TOBIN

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-15-0389

DECISION NO. 75480

**ORDER**

Open Meeting  
March 2 and 3, 2016  
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**

**Procedural History**

1. On November 13, 2015, 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 2015-2017.
2. On December 2, 2015, 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 November 23, 2015, newspapers of general circulation in Pima County and Mohave County, respectively. No customer comments were received in response to the notice.
3. On January 25, 2016, the Commission's Utilities Division ("Staff") filed its Staff Report in this matter.
4. On February 3, 2016, AEPCO filed Comments to the Staff Report, acknowledging Staff's recommendations, but noting a minor typographical error on page 2 of the Staff Report

1 regarding the Cooperative's total line of credit authorization.

2 **Company Background**

3 5. AEPCO is an Arizona public service corporation and non-profit, electric generation  
4 cooperative located in Benson, Arizona. AEPCO provides power and wholesale energy primarily to  
5 six Class A member distribution cooperatives—Anza Electric Cooperative, Inc., Duncan Valley  
6 Electric Cooperative, Inc., Graham County Electric Cooperative, Inc., Sulphur Springs Valley Electric  
7 Cooperative, Inc., Mohave Electric Cooperative, Inc., and Trico Electric Cooperative, Inc.—under the  
8 terms of all-requirements or partial-requirements capacity and energy requirements. AEPCO has three  
9 Class D members: Valley Electric Association, Southwest Public Power Agency, and the Central  
10 Arizona Water Conservation District.

11 6. AEPCO's current rates were approved in Decision No. 74173 (October 25, 2013).

12 7. In Decision No. 75350 (December 17, 2015), the Commission approved AEPCO's  
13 Environmental Compliance Adjustment Rider and Plan of Administration.<sup>1</sup>

14 8. Staff reported no compliance issues with AEPCO.

15 9. The Cooperative presently has two active financing approvals from the Commission.  
16 Decision No. 73728 (February 20, 2013) authorized a permanent loan of \$32,042,700 and interim  
17 financing not to exceed \$38,907,400. As of October 31, 2015, AEPCO had drawn \$13,000,000 under  
18 the permanent loan from the Rural Utilities Services/Federal Financing Bank ("RUS/FFB"). AEPCO  
19 anticipates it will use the entire authorized amount of the permanent loan to finance the projects  
20 identified in its 2012-2014 CWP. In Decision No. 74447 (April 18, 2014), the Commission approved  
21 two unsecured, committed revolving lines of credit not to exceed the combined amount of  
22 \$100,000,000. As of October 31, 2015, AEPCO had drawn \$5,000,000.

23 **The Financing Request**

24 10. The Cooperative requests authorization to obtain financing in an amount not to exceed  
25 \$31,167,500 from the RUS/FFB guaranteed loan program to finance its 2015-2017 CWP.

26 11. AEPCO expects an RUS/FFB loan with a final maturity date of December 2034. The  
27

28 <sup>1</sup> The Environmental Compliance Adjustment Rider and Plan of Administration is a surcharge mechanism implemented to provide recovery of potential costs associated with future environmental compliance obligations.

1 current rate for a 20-year RUS/FFB loan is 2.39 percent.

2 12. The applicable interest rate on the RUS/FFB loan will be fixed at the time each advance  
3 is made.

4 13. AEPCO also requests Commission authorization, consistent with that granted in  
5 Decision No. 71111 (June 5, 2009) and Decision No. 73728, to change the specific facilities to be  
6 financed in the CWP without the necessity of filing an amended application as long as the total amount  
7 being financed does not exceed \$31,167,500.

8 **Staff's Review and Recommendations**

9 14. The Commission's Utilities Division Engineering Staff reviewed AEPCO's CWP for  
10 2015-2017. The projects included in the 2015-2017 CWP are for nitric oxide and nitrogen oxide  
11 reduction and compliance upgrades, and for mercury control and other improvements, upgrades, and  
12 replacements to the Cooperative's generation plant.

13 15. Staff concludes that the projects included in the proposed CWP are appropriate and that  
14 the associated costs appear to be reasonable. However, Staff makes no "used and useful" determination  
15 in this proceeding. Staff states that its conclusions in this Docket do not imply a specific treatment for  
16 rate base or for rate making purposes in any future rate filing.

17 16. Staff's financial analysis shows that as of December 31, 2014, AEPCO's capital  
18 structure consisted of 5.69 percent short term debt, 54.51 percent long-term debt and 39.80 percent  
19 equity.

20 17. A pro forma capital structure, assuming issuance of new debt in the amount of  
21 \$31,167,500, and amortizing over 20 years at 2.39 percent per annum, would be composed of 5.52  
22 percent short-term debt, 58.50 percent long-term debt and 35.98 percent equity.<sup>2</sup>

23 18. For the year ended December 31, 2014, AEPCO had a Times Interest Earned Ratio  
24  
25

26 <sup>2</sup> AEPCO's equity was 5.4 percent of total capitalization as of December 31, 2005. (Decision No. 69238 (January 19, 2007)  
27 at 3-4.) Its equity had improved to 23.9 percent of total capitalization as of December 31, 2007. Decision No. 68071  
28 (August 17, 2005) ordered AEPCO to file an equity improvement plan and to not make any patronage refunds when its  
equity remains below 20 percent of total capitalization, and to limit patronage refunds to 25 percent of net earnings if its  
equity is between 20 and 30 percent. On January 15, 2006, AEPCO filed an equity improvement analysis which forecasted  
equity to be 30.0 percent of total capitalization by the year 2015. (Decision No. 71111 at 3.)

1 (“TIER”) of 1.49 and Debt Service Coverage (“DSC”) of 1.32.<sup>3</sup> Assuming the issuance of long-term  
 2 debt amortizing over 20 years in the amount of \$31,167,500, at an interest rate of 2.39, the pro forma  
 3 analysis indicates AEPCO would have a TIER of 1.37 and DSC of 1.20 based on December 31, 2014,  
 4 financial results.

5 19. RUS requires AEPCO to maintain a minimum TIER of 1.05 and a DSC of at least 1.00  
 6 in two out of three years.

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

13 21. Staff concludes that issuance of debt financing for the purposes stated in the application  
 14 is within AEPCO’s corporate powers, is compatible with the public interest, is consistent with sound  
 15 financial practices and will not impair AEPCO’s ability to provide service.

16 22. Staff recommends:

17 (a) Granting the Cooperative authorization to incur long-term financing in an  
 18 amount not to exceed \$31,167,500 from RUS/FFB;

19 (b) That such finance authority shall be expressly contingent upon AEPCO’s use of  
 20 the proceeds for the purposes stated in its application and approved herein;

21 (c) That any unused authorizations to issue debt granted in this proceeding terminate  
 22 within five years of a decision in this docket;

23 (d) Authorizing the Cooperative’s request to change the specific facilities to be  
 24 financed in the CWP without the necessity of filing an amended application subject to the conditions:

25 \_\_\_\_\_  
 26 <sup>3</sup> 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) the total amount financed remains below the financing amount authorized; 2) that the Cooperative file in this docket a description of any proposed modifications to the CWP which cost more than \$500,000, and that such modifications substantially conform to the purposes of the 2015-2017 CWP; 3) that Staff has not filed an objection to the proposed modifications within 60 days of the date AEPCO files the proposed changes; and 4) that the proposed modifications be deemed approved for financing purposes only;

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

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

(g) Directing the Cooperative to file with Docket Control, as a compliance item in this matter, a letter summarizing the transaction and to provide to the Commission's Utilities Division Director a copy of the loan documents, within 30 days of the execution of any financing transaction authorized.

### **Conclusion**

23. It is necessary for utilities to continue to invest in their systems in order to maintain adequate levels of service. AEPCO requires additional finance authority in order to continue to invest in its generating assets. We find that Staff's conclusions and recommendations are reasonable and adopt them.

24. We agree that it is in the public interest to allow AEPCO to modify its 2015-2017 CWP without necessarily having to file an amended financing request. We have previously granted AEPCO this flexibility and the process has worked well. However, consistent with our previous decisions, we find that such authority be contingent on the proposed modifications to the CWP substantially conforming to the purposes of the 2015-2017 CWP, as well as the conditions recommended by Staff as described above.

### **CONCLUSIONS OF LAW**

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



1 engage in any transaction and execute any documents necessary to effectuate the authorizations  
2 granted.

3       IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. shall file with  
4 Docket Control, as a compliance item in this matter, a letter summarizing the transaction and to provide  
5 to the Commission's Utilities Division Director a copy of the loan documents, within 30 days of the  
6 execution of any financing transaction authorized.

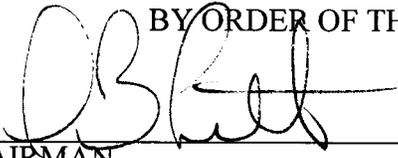
7       IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. is authorized to  
8 pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 in connection with any  
9 indebtedness authorized in this Decision.

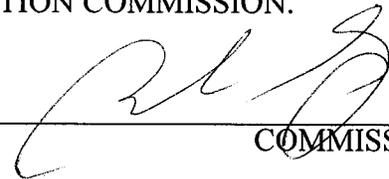
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1 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not  
2 constitute or imply approval or disapproval by the Commission of any particular expenditure of the  
3 proceeds derived thereby for purposes of establishing just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

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

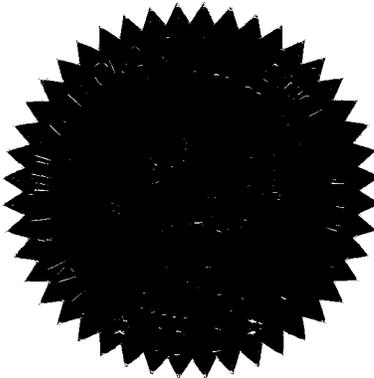
6   
7 CHAIRMAN

  
COMMISSIONER

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9 COMMISSIONER

  
10 COMMISSIONER

  
COMMISSIONER



11  
12 IN WITNESS WHEREOF, I, JODI JERICH, Executive Director  
13 of the Arizona Corporation Commission, have hereunto set my  
14 hand and caused the official seal of the Commission to be affixed  
15 at the Capitol, in the City of Phoenix, this 10th day  
16 of March 2016.

  
17 JODI JERICH  
18 EXECUTIVE DIRECTOR

19 DISSENT \_\_\_\_\_

20 DISSENT \_\_\_\_\_  
21 BM:ru

1 SERVICE LIST FOR:

E-01773A-15-0389

2 DOCKET NO.:

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