

OPEN MEETING



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MEMORANDUM

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FROM: Thomas M. Broderick  
Director  
Utilities Division

*Thomas M. Broderick*

2016 MAY 31 P 3:08

AZ CORP COMMISSION  
DOCKET CONTROL

DATE: May 31, 2016

RE: STAFF REPORT FOR THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT APPLICATION FOR AN ORDER AUTHORIZING ITS ISSUANCE OF REVENUE BONDS AND REFUNDING REVENUE BONDS. (DOCKET NO. E-02217A-16-0112)

Attached is the Staff Report for the Salt River Project Agricultural Improvement and Power District application for authority to issue revenue bonds and refunding revenue bonds. Staff recommends approval.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before June 10, 2016.

TMB:CSB:red/WVC

Originator: Crystal Brown

Arizona Corporation Commission  
DOCKETED

MAY 31 2016

DOCKETED BY *KA*

Service List for: Salt River Project Agricultural Improvement and Power District  
Docket No. E-02217A-16-0112

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**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**SALT RIVER PROJECT AGRICULTURAL  
IMPROVEMENT AND POWER DISTRICT  
DOCKET NO. E-02217A-16-0112**

**APPLICATION FOR AUTHORITY  
TO ISSUE REVENUE BONDS AND  
REFUNDING REVENUE BONDS**

**MAY 31, 2016**

## STAFF ACKNOWLEDGMENT

The Staff Report for Salt River Project Agricultural Improvement and Power District, Docket No. E-02217A-16-0112 is the responsibility of the Staff members listed below: Crystal S. Brown is responsible for the review and financial analysis of the Company's application. Chukwunonso Chidebell-Emordi is responsible for the engineering and technical analysis.



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Crystal Brown  
Executive Consultant III



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Nonso Chidebell-Emordi  
Utilities Engineer

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## **INTRODUCTION**

On March 31, 2016, Salt River Project Agricultural Improvement and Power District ("SRP" or "Company") filed an application with the Arizona Corporation Commission ("Commission") requesting authority to issue \$1.5 billion in revenue bonds and \$1.65 billion in refunding revenue bonds, pursuant to A.R.S. § 48-2465(B) and A.R.S. §40-302.

## **BACKGROUND**

SRP is a political subdivision of the State of Arizona organized in 1937 and provides electric service to approximately 1 million customers in Maricopa, Pinal, and Gila Counties, Arizona.

## **PUBLIC NOTICE**

On April 27, 2016, the Company published notice of its financing application in the Arizona Republic. The Arizona Republic is a daily newspaper of general circulation in the State of Arizona.

## **COMPLIANCE**

The Company is currently in compliance.

## **ENGINEERING ANALYSIS**

Staff reviewed SRP's five year construction program for fiscal years 2016-2021 and found it to be reasonable. A complete discussion of Staff's findings and recommendations concerning the financing application can be found in the attached Engineering Memorandum.

## **REVENUE BONDS**

### *Purpose and Terms of Proposed Revenue Bonds*

The purpose of the revenue bonds is to fund the Company's five year construction plan for the fiscal years 2016 to 2021 and to retire outstanding commercial paper. The Company is requesting, in aggregate, approval of revenue bonds in a principal amount not to exceed \$1.5 billion.

SRP plans to sell the revenue bonds in several series subsequent to the date of Commission approval. Maturity dates for the revenue bonds cannot exceed fifty years. The amount, maturity, and interest rate of each series depends upon construction needs, capital market conditions, and the Company's bond rating at the time of the transaction. Currently, the Company anticipates a 3 percent interest rate. SRP's current bond ratings are AA by Standard and Poor's ("S&P") and Aa1 by Moody's Investors Service ("Moody's").

## REFUNDING REVENUE BONDS

SRP requests authorization to issue \$1.65 billion in refunding revenue bonds. The proposed refunding revenue bonds would be secured by a pledge of, and a lien on, the revenues of the electric system, after deducting operating expenses, i.e., in the same manner as the revenue bonds.

Similar to the revenue bond sales, SRP plans to sell the refunding revenue bonds in several series subsequent to the date of Commission approval. Maturity dates for the refunding revenue bonds cannot exceed fifty years. The amount, maturity, and interest rate of each series depends upon capital market conditions and the Company's bond rating at the time of the transaction.

The purpose of authorizing the Company to issue refunding revenue bonds at this time is to facilitate expeditious refinancing of existing debt when future market conditions present opportunities to reduce debt service costs. The refunding revenue bonds will be used to repay existing debt and, therefore, will not result in additional outstanding debt.

## FINANCIAL ANALYSIS

Staff's financial analysis is based on SRP's financial statements for the fiscal year ended April 30, 2015, as shown on Schedule CSB-1. Column A presents the actual results of selected financial information for 2015. Column B presents pro forma financial information that modifies Column A to reflect the effect of the \$1.5 billion revenue bond issuance proposed by the Company. Since the proceeds of refunding revenue bonds will be used to repay existing debt, issuing them will not result in additional outstanding debt. Therefore, the \$1.65 billion in refunding bonds was not included in Staff's analysis.

Schedule CSB-1 also shows the debt service coverage ratio and capital structure. Staff assumed a 3 percent<sup>1</sup> annual interest rate and a 30-year amortization for the purposes of its analysis. These assumptions are based on current market conditions, as published by Value Line.

The analysis also assumes immediate issuance of an amortizing loan of the full amount requested by the Company. SRP would be issuing serial bonds and would not issue the whole authorized amount immediately after Commission approval. Although differences in the timing and type of financing will result in outcomes different than those presented, Schedule CSB-1 provides a good basis for purposes of determining the appropriateness of granting the authorizations requested by SRP.

### *Capital Structure*

At April 30, 2015, SRP's capital structure consisted of 1.3 percent short-term debt, 47.0 percent long-term debt, and 51.6 percent equity (Schedule CSB-1, Column A). SRP's financial statements reflect continued strong financial health. Issuance of the proposed revenue bonds would

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<sup>1</sup> The Company anticipates a 3 percent interest rate. This rate is consistent with current market conditions as published by The Value Line Investment Survey; Selection & Opinion, Selected Yields, dated May 20, 2016.

result in a capital structure composed of 1.4 percent short-term debt, 54.3 percent long-term debt and 44.3 percent equity (Schedule CSB-1, Column B).

*Debt Service Coverage ("DSC")*

The DSC represents the number of times cash flow from operations (i.e., operating income plus income tax, depreciation and amortization expenses) covers required principle and interest payments on debt. A DSC greater than 1.0 means cash flow from operations 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.

Schedule CSB-1, Column A shows that for the fiscal year ended April 30, 2015, SRP had a 2.21 DSC. The pro forma effect of SRP issuing \$1.5 billion in bonds would result in a 1.63 DSC. The pro forma DSC results indicate that SRP would be able to meet its minimum DSC ratio of 1.1 and all obligations with cash generated from operations.

**CONCLUSION**

Staff concludes that SRP's issuance of revenue bonds not to exceed \$1,500,000,000 and issuance of refunding revenue bonds not to exceed \$1,650,000,000, for the purposes described in the application is within SRP's organizational powers, is compatible with the public interest, is consistent with sound financial practices and will not impair its ability to provide services.

Staff concludes that the cost estimates in SRP's 2016-2021 capital improvement program are reasonable.

Staff further concludes that SRP would have adequate cash flow to meet all obligations on the debt.

**RECOMMENDATIONS**

1. Staff recommends that the Commission authorize SRP's request to issue revenue bonds not to exceed \$1,500,000,000, for the purposes described in the application with an expiration of any unused revenue bond issuance authorization on December 31, 2024.
2. Staff further recommends that the Commission authorize SRP's request to issue refunding revenue bonds not to exceed \$1,650,000,000 to refund existing revenue bonds.
3. Staff further recommends authorizing SRP to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.
4. Staff further recommends that refunding revenue bond issuance authorizations granted herein expire, in the ratio of 1.65 refunding bonds to 1.5 revenue bonds,

when either revenue bond issuance authorizations granted herein expire or when revenue bonds issued pursuant to the authorizations granted herein are subsequently retired.

5. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, within 60 days of the execution of any financing transaction authorized herein; a copy of all notes and other documents memorializing the transaction and a written summary providing an overview of the transaction that includes, but is not limited to, the business rationale for the transaction, the terms and conditions of the transaction, and a demonstration that the rates and terms were consistent with those generally available to comparable entities at the time; and for any refunding transaction that it is economically beneficial.

**FINANCIAL ANALYSIS**

Selected Financial Information  
Pro forma Includes Immediate Effects of the Proposed Long-term Debt

	[A] <sup>1</sup> 4/30/2015 <i>Without Bond</i>		[B] <sup>2</sup> <i>Pro Forma</i> <i>With \$1.5 Billion Bond</i>		
1	Operating Income	\$ 76,501,000		\$ 76,501,000	
2	Depreciation & Amort.	524,165,000		524,165,000	
3	Income Tax Expense	0		0	
4					
5	Interest Expense	174,000,000		248,497,412	
6	Repayment of Principal	97,356,250		119,486,729	
7					
8					
9					
10					
11	<b>DSC</b>				
12	[1+2+3] ÷ [5+6]	2.21		1.63	
13					
14					
15					
16					
17	<b>Capital Structure</b>				
18					
19	Short-term Debt	122,253,000	1.3%	144,383,479	1.4% <sup>3</sup>
20					
21	Long-term Debt	4,274,885,000	47.0%	5,752,754,521	54.3%
22					
23	Common Equity	4,694,745,000	51.6%	4,694,745,000	44.3%
24					
25	Total Capital	\$ 9,091,883,000	100.0%	\$ 10,591,883,000	100.0%
26					
27					
45					

46 <sup>1</sup> Column [A] is based on financial information for the year ended April 30, 2015.

49 <sup>2</sup> Column [B] is Column [A] modified to reflect full amortization of the proposed \$1.5 billion bond for 30 years at 3%.

50 <sup>3</sup> Pro Forma Short-term Debt represents the first year principal repayment on the proposed debt.

MEMORANDUM

TO: Crystal Brown  
Executive Consultant III  
Utilities Division

FROM: Nonso Chidebell-Emordi *CCF*  
Electric Utilities Engineer  
Utilities Division

DATE: May 13, 2016

RE: STAFF ENGINEERING REPORT FOR SALT RIVER PROJECT  
AGRICULTURAL IMPROVEMENT AND POWER DISTRICT'S FINANCING  
APPLICATION (DOCKET NO. E-02217A-16-0112).

On March 31, 2016, the Salt River Project Agricultural Improvement and Power District ("SRP" or "District") submitted an application to the Arizona Corporation Commission ("Commission") requesting authorization to issue revenue bonds in an amount not to exceed \$1.5 billion, and refunding revenue bonds in an amount not to exceed \$1.650 billion pursuant to A.R.S. §48-2465(B) and A.R.S. §40-302. The purpose of the revenue bonds is to provide financing for SRP's Capital Improvement Program ("Program") for FY2016-2021, enabling the District to provide affordable and reliable electric service to its customers.

*Description and Characteristics*

SRP is a political subdivision of the State of Arizona and an agricultural improvement district principally engaged in the purchase and sale of electricity in the Counties of Maricopa, Pinal and Gila, in the State of Arizona, and the generation of electricity in the States of Arizona, New Mexico and Colorado, primarily for sale in Arizona.

SRP owns a vertically integrated electricity system with 3,310 miles of transmission lines rated 34.5 kV or greater providing service to residential, commercial, industrial, and agricultural customers in a 2,900 square mile service territory covering parts of Maricopa, Gila, and Pinal counties including mine loads in a 2,400 square mile area in Gila and Pinal counties.

SRP's customers are predominantly residential (90%) with commercial and small industrial companies accounting for the next largest number of accounts (8.8%). Agriculture, mining, and lighting account for the remaining class of customers.

*Customer and Load Growth*

According to SRP, the recession of 2008 led to a drop in electricity sales from 33,872 GWh in 2007 to 33,567 GWh in 2014 (0.9%) with expectations for gradual recovery primarily in the manufacturing, financial, and business service sectors.

Peak Load and Resource projections for FY2016 – 2021 were made using an econometric model based on these assumptions as well as methodologies that include both historical data and projections for the economy over the next few years and are consistent with industry – wide practice (Table 1).

**Table 1 – Summary of Projected System Growth (MW) (2016 – 2021)**

<b>Year</b>	<b>Total Peak Load</b>	<b>Percent Growth</b>
2016	7,448	-
2017	6,867	-7.8%
2018	6,895	0.4%
2019	7,063	2.4%
2020	7,257	2.7%
2021	7,404	2.0%

The projections also include power purchase agreements for a reserve margin of between 12% and 13% to balance economics and reliability.

### **Projected Capital Expenditures**

The Capital Improvement Program sustains generation, transmission, and distribution of electricity. It also funds projects required for maintenance and reliability: of the approximately \$5.3 billion Capital Improvement Program, approximately \$1.7 billion is directed to generating projects such as plant emission controls, plant betterments and future generation facilities; \$1.7 billion is planned for expansion of the electrical distribution system to meet future growth and to replace aging underground cable; the Price Road Industrial Expansion Project, line additions and pole asset management account for part of the \$507.2 million planned expenditures for transmission.

**Table 2 – Summary of Capital Improvement Program (2016 – 2021)**

	<b>Total (\$000's)</b>
<b>Generation</b>	\$ 1,737,343
<b>Transmission</b>	\$ 507,222
<b>Distribution</b>	\$ 1,720,042

## Conclusions

Based on the review of SRP's Capital Improvement Program for fiscal years 2016 through 2021 and power quality data, Staff believes that the programs and projects identified in the Capital Improvement Program are appropriate to meet the projected needs of current and new customers and will ensure system reliability. Staff believes that the capital expenditures on generation, transmission, and distribution infrastructure upgrades and new additions are appropriate and reasonable.

TMB:CCE:red

Originator: Nonso Chidebell-Emordi

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

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

IN THE MATTER OF THE APPLICATION )  
OF SALT RIVER PROJECT )  
AGRICULTURAL IMPROVEMENT AND )  
POWER DISTRICT FOR AN ORDER )  
AUTHORIZING ITS ISSUANCE OF )  
REVENUE BONDS AND REFUNDING )  
REVENUE BONDS )

DOCKET NO. E-02217A-16-0112  
DECISION NO. \_\_\_\_\_  
ORDER

Open Meeting  
June 14 and June 15, 2016  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

**Introduction and Background**

1. On March 31, 2016, Salt River Project Agricultural Improvement and Power District (“SRP” or “Company”) filed an application with the Arizona Corporation Commission (“Commission”) requesting authority to issue \$1.5 billion in revenue bonds and \$1.65 billion in refunding revenue bonds, pursuant to A.R.S. § 48-2465(B) and A.R.S. §40-302.

2. SRP is a political subdivision of the State of Arizona organized in 1937 and provides electric service to approximately 1 million customers in the Maricopa, Pinal, and Gila Counties, Arizona.

3. On April 27, 2016, the Company published notice of its financing application in the Arizona Republic. The Arizona Republic is a daily newspaper of general circulation in the State of Arizona.

4. The Company is currently in compliance.

1           5.       Staff reviewed SRP's five year construction program for fiscal years 2016-2021 and  
2 found it to be reasonable.

### 3 **Revenue Bonds**

4           6.       The purpose of the revenue bonds is to fund the Company's five year construction  
5 plan for the fiscal years 2016 to 2021 and to retire outstanding commercial paper. The Company is  
6 requesting, in aggregate, approval of revenue bonds in a principal amount not to exceed \$1.5 billion.

7           7.       SRP plans to sell the revenue bonds in several series subsequent to the date of  
8 Commission approval. Maturity dates for the revenue bonds cannot exceed fifty years. The amount,  
9 maturity, and interest rate of each series depends upon construction needs, capital market conditions,  
10 and the Company's bond rating at the time of the transaction. Currently, the Company anticipates a 3  
11 percent interest rate. SRP's current bond ratings are AA by Standard and Poor's ("S&P") and Aa1 by  
12 Moody's Investors Service ("Moody's").

### 13 **Refunding Revenue Bonds**

14           8.       SRP requests authorization to issue \$1.65 billion in refunding revenue bonds. The  
15 proposed refunding revenue bonds would be secured by a pledge of, and a lien on, the revenues of the  
16 electric system, after deducting operating expenses, i.e., in the same manner as the revenue bonds.

17           9.       Similar to the revenue bond sales, SRP plans to sell the refunding revenue bonds in  
18 several series subsequent to the date of Commission approval. Maturity dates for the refunding  
19 revenue bonds cannot exceed fifty years. The amount, maturity, and interest rate of each series  
20 depends upon capital market conditions and the Company's bond rating at the time of the transaction.

21           10.      The purpose of authorizing the Company to issue refunding revenue bonds at this  
22 time is to facilitate expeditious refinancing of existing debt when future market conditions present  
23 opportunities to reduce debt service costs. The refunding revenue bonds will be used to repay  
24 existing debt and, therefore, will not result in additional outstanding debt.

### 25 **Financial Analysis**

26           11.      Staff's financial analysis is based on SRP's financial statements for the fiscal year ended  
27 April 30, 2015. Staff's analysis presented the actual results of selected financial information for 2015  
28 and the pro forma financial information that modified the actual results to reflect the effect of the \$1.5

1 billion revenue bond issuance proposed by the Company. Since the proceeds of refunding revenue  
2 bonds will be used to repay existing debt, issuing them will not result in additional outstanding debt.  
3 Therefore, the \$1.65 billion in refunding bonds was not included in Staff's analysis.

4 12. Staff utilized an amortization period of 30 years and a 3 percent interest rate in its  
5 financial analysis. Staff assumed a 3 percent annual interest rate<sup>1</sup> and a 30-year amortization for the  
6 purposes of its analysis. These assumptions are based on current market conditions, as published by  
7 Value Line.

8 13. The analysis also assumed immediate issuance of an amortizing loan of the full amount  
9 requested by the Company. SRP would be issuing serial bonds and would not issue the whole  
10 authorized amount immediately after Commission approval.

#### 11 *Capital Structure*

12 14. At April 30, 2015, SRP's capital structure consisted of 1.3 percent short-term debt,  
13 47.0 percent long-term debt, and 51.6 percent equity. SRP's financial statements reflect continued  
14 strong financial health. Issuance of the proposed revenue bonds would result in a capital structure  
15 composed of 1.4 percent short-term debt, 54.3 percent long-term debt and 44.3 percent equity.

#### 16 *Debt Service Coverage ("DSC")*

17 15. The DSC represents the number of times cash flow from operations (i.e., operating  
18 income plus income tax, depreciation and amortization expenses) covers required principle and  
19 interest payments on debt. A DSC greater than 1.0 means cash flow from operations is sufficient to  
20 cover debt obligations. A DSC less than 1.0 means that debt service obligations cannot be met by  
21 cash generated from operations.

22 16. For the fiscal year ended April 30, 2015, SRP had a 2.21 DSC. The pro forma effect of  
23 SRP issuing \$1.5 billion in bonds would result in a 1.63 DSC. The pro forma DSC results indicate  
24 that SRP would be able to meet its minimum DSC ratio of 1.1 and all obligations with cash generated  
25 from operations.

26 ...

27 \_\_\_\_\_  
28 <sup>1</sup> The Company anticipates a 3 percent interest rate. This rate is consistent with current market conditions as published by  
The Value Line Investment Survey; Selection & Opinion, Selected Yields, dated May 20, 2016.

1 **Conclusion**

2 17. Staff concludes that SRP's issuance of revenue bonds not to exceed \$1,500,000,000  
3 and issuance of refunding revenue bonds not to exceed \$1,650,000,000, for the purposes described in  
4 the application is within SRP's organizational powers, is compatible with the public interest, is  
5 consistent with sound financial practices and will not impair its ability to provide services.

6 18 Staff concludes that the cost estimates in SRP's 2016-2021 capital improvement  
7 program are reasonable.

8 19. Staff further concludes that SRP would have adequate cash flow to meet all obligations  
9 on the debt.

10 **Recommendations**

11 20. Staff recommends that the Commission authorize SRP's request to issue revenue  
12 bonds not to exceed \$1,500,000,000, for the purposes described in the application with an expiration  
13 of any unused revenue bond issuance authorization on December 31, 2024.

14 21. Staff further recommends that the Commission authorize SRP's request to issue  
15 refunding revenue bonds not to exceed \$1,650,000,000 to refund existing revenue bonds.

16 22. Staff further recommends authorizing SRP to engage in any transaction and to execute  
17 any documents necessary to effectuate the authorizations granted.

18 23. Staff further recommends that refunding revenue bond issuance authorizations  
19 granted herein expire, in the ratio of 1.65 refunding bonds to 1.5 revenue bonds, when either revenue  
20 bond issuance authorizations granted herein expire or when revenue bonds issued pursuant to the  
21 authorizations granted herein are subsequently retired.

22 24. Staff further recommends that the Company file with Docket Control, as a compliance  
23 item in this docket, within 60 days of the execution of any financing transaction authorized herein; a  
24 copy of all notes and other documents memorializing the transaction and a written summary  
25 providing an overview of the transaction that includes, but is not limited to, the business rationale for  
26 the transaction, the terms and conditions of the transaction, and a demonstration that the rates and  
27 terms were consistent with those generally available to comparable entities at the time; and for any  
28 refunding transaction that it is economically beneficial.



1           IT IS FURTHER ORDERED that the authorizations granted herein are expressly  
2 conditioned upon Salt River Project Agricultural Improvement and Power District's use of the  
3 proceeds derived thereby for purposes set forth in the application.

4           IT IS FURTHER ORDERED that Salt River Project Agricultural Improvement and Power  
5 District is hereby authorized to engage in any transaction and to execute any documents necessary to  
6 effectuate the authorizations herein.

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1 IT IS FURTHER ORDERED that Salt River Project Agricultural Improvement and Power  
 2 District shall file with the Commission's Docket Control, as a compliance item in this docket, within  
 3 60 days of the execution of any financing transaction authorized herein, a copy of pertinent  
 4 documents memorializing the transaction and written summary providing an overview of the  
 5 transaction that includes, but is not limited to, the business rationale for the transaction, the terms and  
 6 conditions of the transaction, and a demonstration that the rates and terms were consistent with those  
 7 generally available to comparable entities at the time; and for any refunding transaction that it is  
 8 economically beneficial.

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

10  
 11 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

12  
 13 \_\_\_\_\_  
 CHAIRMAN

COMMISSIONER

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 COMMISSIONER

COMMISSIONER

COMMISSIONER

17  
 18 IN WITNESS WHEREOF, I, JODI JERICH, Executive  
 19 Director of the Arizona Corporation Commission, have  
 20 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 \_\_\_\_\_, 2016.

21  
 22 \_\_\_\_\_  
 23 JODI JERICH  
 EXECUTIVE DIRECTOR

24  
 25 DISSENT: \_\_\_\_\_

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

27 TMB:CSB:red/WVC

1 SERVICE LIST FOR: Salt River Project Agricultural Improvement & Power District  
2 DOCKET NO. E-02217A-16-0112

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9 Managing Attorney, SRP Legal Services  
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16 1200 West Washington Street  
17 Phoenix, Arizona 85007

18 Ms. Janice M. Alward  
19 Chief Counsel, Legal Division  
20 Arizona Corporation Commission  
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23 Mr. Dwight Nodes  
24 Chief Administrative Law Judge, Hearing Division  
25 Arizona Corporation Commission  
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