



0000023199

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

DOCKETED

MARC SPITZER, Chairman
JIM IRVIN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON

AUG 13 2003

DOCKETED BY [Signature]

IN THE MATTER OF THE APPLICATION OF TRICO ELECTRIC COOPERATIVE, INC., AN ARIZONA NONPROFIT CORPORATION, FOR AUTHORITY TO PAY OFF AND REFINANCE CERTAIN DEBT.

DOCKET NO. E-01461A-03-0489

DECISION NO. 66164

ORDER

Open Meeting
August 12 and 13, 2003
Phoenix, Arizona

BY THE COMMISSION:

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

1. On July 17, 2003, Trico Electric Cooperative, Inc., an Arizona nonprofit corporation, ("Trico" or "Company") filed an application with the Commission requesting authorization to prepay existing Rural Utilities Service ("RUS") loans and issue new evidence of indebtedness to the National Rural Utilities Cooperative Finance Corporation ("CFC") to replace those loans ("Application").

2. Trico published notice of the Application in the July 19, 2003 edition of the Casa Grande Dispatch, the July 21, 2003 edition of the The Daily Territorial, and the July 25, 2003 edition of the Nogales International, all newspapers of general circulation in its service territory.

3. On August 1, 2003, the Commission's Utilities Division Staff ("Staff") filed a Staff Report recommending approval of Trico's Application.

4. Trico is a public service corporation providing electric distribution service in parts of Pima, Pinal and Santa Cruz counties pursuant to authority granted by the Commission. Its principal place of business is located at 8600 W. Tangerine Road in Marana, Arizona.

5. Trico serves more than 26,000 customers in a service area ranging from Mt. Lemmon

1 on the north side of Tucson to areas west and south of Tucson to Sasabe on the Mexican border.
2 Trico has no generating capacity of its own and has contracted with Arizona Electric Power
3 Cooperative for the majority of its power supply.

4 6. By Decision Nos. 43734 (October 22, 1973), 44078 (April 15, 1973), 44896 (January
5 2, 1974), 46556 (November 17, 1975), 48459 (November 22, 1977), the Commission authorized
6 Trico to issue debt in exchange for loans from the RUS. The loans in question are secured by a
7 mortgage and security agreement and are evidenced by ten separate promissory notes, each payable at
8 an interest rate of 5.0 percent, with remaining terms ranging from five to nine years. The total
9 outstanding principal under these notes is approximately \$2.014 million.

10 7. Trico proposes to refinance the ten promissory notes with the CFC under a program
11 approved by the RUS that enables cooperatives like Trico to take advantage of current lower interest
12 rates for loans with remaining terms of less than ten years. In addition to lower overall interest rates,
13 refinancing under the CFC program will allow Trico to take advantage of capital credit distributions
14 and member loan discounts from CFC, which benefits are not available from the RUS.

15 8. While the current interest rate on the ten promissory notes is 5 percent, the rates from
16 CFC would vary from 2.8 percent to 5.15 percent per annum, with an average effective rate of 3.47
17 percent per annum. No prepayment penalties would be levied, no new advances would be made, and
18 the principal amount due would remain unchanged.

19 9. According to Staff's analysis, Trico's proposed replacement of the existing debt will
20 save approximately \$33,526 in interest costs in the first year. Staff states that this figure includes
21 discounts for performance and volume, each for one-eighth of a percent per annum in savings. In
22 addition, Staff states that a projected receipt of patronage distributions (capital credit contributions)
23 of \$34,130 from CFC will provide Trico with an overall cash-flow improvement of \$90,330 in the
24 first year, and that Trico will continue to receive benefits over the life of the proposed debt, at
25 reduced levels, as the proposed new debt is retired.

26 10. As of December 31, 2002, Trico's capital structure consisted of approximately 6.9
27 percent short-term debt, 57.6 percent long-term debt, and 35.5 percent equity. The proposed
28 refinancing of the RUS debt will have no effect on the Company's capital structure.

1 11. For the 12 months ending December 31, 2002, Staff calculates that Trico had a Times
2 Interest Earned Ratio ("TIER") of 1.20 and a Debt Service Coverage ("DSC") ratio of 0.72.¹ Staff
3 states that the proposed financing will have a nominal beneficial effect, increasing Trico's TIER from
4 1.20 to 1.21. The DSC would remain unchanged for 2002,² but the DSC projections for 2003 and
5 2004 would increase to 1.55 and 1.36, respectively. The CFC's DSC requirement is 1.35 based on
6 the average of the two highest of three years.

7 12. Staff concludes that the refinancing contemplated in the Application is consistent with
8 sound financial practices, is compatible with the public interest, and will not impair Trico's ability to
9 perform its duty as a public service corporation. Staff recommends the following:

10 a. that the Commission authorize prepayment of the RUS debt and reissuance of
11 debt through the CFC in the amount of \$2,014,291 with comparable terms and
12 conditions and net financial benefits.

13 b. that Trico be required to provide to the Commission copies of loan agreements,
14 notes, any appropriate board resolution, and opinion of counsel, within 60 days of
15 funding of the new loans from CFC.

16 c. that the authority be granted as long as the refinancing is cost effective. Staff
17 states that the refinancing is cost effective if the internal rate of return of the new CFC
18 debt is less than the internal rate of return of the existing RUS debt.

19 d. that Trico should file in this docket, within 60 days of incurring the CFC debt
20 and repaying the RUS debt, documentation demonstrating that the proposed
21 refinancing is cost-effective.

22 13. According to Staff's analysis as set forth in Findings of Fact No. 9 above, the
23 proposed refinancing is cost-effective.

24
25
26 ¹ The TIER represents the number of times earnings will cover interest expense on long-term debt. A TIER ratio greater
than 1.0 means that operating income is greater than interest expense.

27 The DSC ratio represents the number of times internally generated cash will cover required principal and interest
payments on long-term debt. A DSC ratio greater than 1.0 indicates that operating cash flow is sufficient to cover debt
obligations.

28 ² Staff states that the 0.72 DSC for 2002 is an anomaly caused by an atypically large principal repayment.

CONCLUSIONS OF LAW

1
2 1. Trico is a public service corporation within the meaning of Article XV of the Arizona
3 Constitution and A.R.S. §§ 40-301 and 40-302.

4 2. The Commission has jurisdiction over Trico and the subject matter of the application.

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

6 4. The financing approved herein is for lawful purposes within Trico's corporate powers,
7 is compatible with the public interest, with sound financial practices, and with the proper
8 performance by Trico of service as a public service corporation, and will not impair Trico's ability to
9 perform that service.

10 5. The financing approved herein is for the purposes stated in the Application and is
11 reasonably necessary for those purposes, and is not reasonably chargeable to operating expenses or to
12 income.

13 6. It is reasonable and in the public interest to authorize Trico to prepay the RUS debt
14 and reissue that debt through the CFC, as described in the Application, in the amount of \$2,014,291.

15 7. It is reasonable and in the public interest to require Trico to provide to the
16 Commission copies of loan agreements, notes, any appropriate board resolution, and opinion of
17 counsel, within 60 days of funding of the new loans from CFC.

18 ORDER

19 IT IS THEREFORE ORDERED that Trico Electric Cooperative, Inc. is hereby authorized to
20 prepay its existing Rural Utilities Service debt and to reissue that debt through National Rural
21 Utilities Cooperative Finance Corporation, at the rates described in the Application and in the August
22 1, 2003 Staff Report, in the amount of \$2,014,291.

23 IT IS FURTHER ORDERED that Trico Electric Cooperative, Inc. is authorized to engage in
24 any transaction and to execute or modify, or cause to be executed or modified, any new or existing
25 documents necessary to effectuate the authorization granted herein, including notes or mortgage
26 agreements evidencing or securing the indebtedness authorized herein.

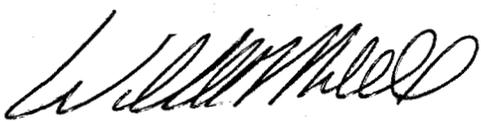
27 IT IS FURTHER ORDERED that Trico Electric Cooperative, Inc. shall use the financing
28 approved herein for the purposes set forth in the Application.

1 IT IS FURTHER ORDERED that Trico Electric Cooperative, Inc. shall file with the
2 Commission, within 60 days of the funding of the new loans, copies of executed documents and
3 agreements of any kind in connection with the approved transactions, including but not limited to
4 loan agreements, notes, any appropriate board resolution, and opinion of counsel.

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

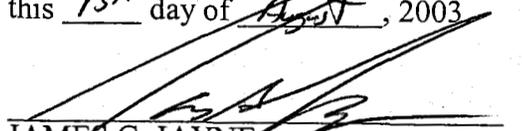
8 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

9 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

10   
11
12 CHAIRMAN COMMISSIONER COMMISSIONER

13  
14 COMMISSIONER COMMISSIONER

15 IN WITNESS WHEREOF, I, JAMES G. JAYNE, Interim
16 Executive Secretary of the Arizona Corporation Commission,
17 have hereunto set my hand and caused the official seal of the
18 Commission to be affixed at the Capitol, in the City of Phoenix,
19 this 13th day of August, 2003

20 
21 JAMES G. JAYNE
22 INTERIM EXECUTIVE SECRETARY

23 DISSENT _____

24 DISSENT _____

25 TW:mlj

1 SERVICE LIST FOR: E-01461A-03-0489
2 DOCKET NO.: TRICO ELECTRIC COOPERATIVE, INC.

3
4 D. Michael Mandig
5 Russell E. Jones
6 WATERFALL ECONOMIDIS CALDWELL
7 HANSHAW & VILLAMANA, P.C.
8 5210 East Williams Circle, Ste. 800
9 Tucson, AZ 85711
10 Attorneys for Applicant

11 Christopher C. Kempley, Chief Counsel
12 Legal Division
13 ARIZONA CORPORATION COMMISSION
14 1200 West Washington Street
15 Phoenix, AZ 85007

16 Ernest G. Johnson, Director
17 Utilities Division
18 ARIZONA CORPORATION COMMISSION
19 1200 West Washington Street
20 Phoenix, AZ 85007

21
22
23
24
25
26
27
28