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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

DOCKETED

DEC 19 2002

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

DOCKETED BY *pd*

IN THE MATTER OF THE APPLICATION OF
SOUTHWEST TRANSMISSION COOPERATIVE,
INC. FOR AUTHORIZATION TO INCUR DEBT
AND SECURE LIENS IN ITS PROPERTY TO
FINANCE CONSTRUCTION WORK PLAN.

DOCKET NO. E-04100A-02-0261
65473

DECISION NO. _____

ORDER

Open Meeting
December 17 and 18, 2002
Phoenix, Arizona

BY THE COMMISSION:

On April 4, 2002, Southwest Transmission Cooperative, Inc. ("STC" or "Applicant") filed with the Arizona Corporation Commission ("Commission") an application requesting authorization to incur debt of \$30,853,000 for the purpose of making improvements to its transmission system, and to pledge assets to secure the debt.

On October 23, 2002, the Commission's Utilities Division Staff ("Staff") docketed its Staff Report in this matter, recommending that the Commission approve STC's financing request.

On November 21, 2002, STC filed a projected statement of operations in this docket to reflect the open access transmission tariff ("OATT") rates recently approved by the Commission in Decision No. 65367 (November 5, 2002).

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. STC is an Arizona non-profit electric transmission cooperative located in Benson, Arizona, that supplies the transmission service needs of its Class A¹ and Class B² members. STC is

¹ Duncan Valley Electric Cooperative, Inc., Graham County Electric Cooperative, Inc., Sulphur Springs Valley Electric Cooperative, Inc., Trico Electric Cooperative, Inc., Mohave Electric Cooperative, Incorporated, and Anza Electric.
² The Morenci Water and Electric Company, Sierra Southwest Cooperative Services, Inc., and AEPCO.

1 an affiliate of Arizona Electric Power Cooperative ("AEPSCO"), and owns and operates all of the
2 transmission facilities that were owned and operated by AEPSCO prior to the restructuring approved
3 by the Commission in Decision No. 63868 (July 25, 2001).

4 2. STC is certificated to provide electric service as a public service corporation in the
5 state of Arizona.³

6 3. On April 4, 2002, STC filed an application requesting authorization to secure a long-
7 term loan from the Rural Utilities Service/Federal Financing Bank ("RUS/FFB") guaranteed loan
8 program in an amount not to exceed \$30,853,000; to grant liens on its property to secure the
9 borrowings; and to engage in any transactions and to execute any documents necessary to effectuate
10 the authorizations granted ("Application").

11 4. On October 23, 2002, Staff filed a Staff Report recommending approval of the
12 Application.

13 5. On November 5, 2002, the Commission issued Decision No. 65367, approving revised
14 OATT rates for STC.

15 6. On November 21, 2002, STC filed a statement of operations in this docket to reflect
16 the impact of the new OATT rates approved in Decision No. 65367.

17 7. The revised 2001-2004 construction work plan that STC filed with the Application
18 includes \$9,890,000 for transmission lines; \$9,841,683 for new substations and switching stations;
19 \$7,181,690 for line and station changes; \$2,083,491 for communication/supervisory control and data
20 acquisition; and \$1,857,060 for line and substation replacement, for a total of \$30,853,924.

21 8. Staff Engineering states that one major project, the Winchester Project, represents
22 approximately \$21 million in the work plan. The Winchester Project consists of replacing 23 miles
23 of the Apache to Hayden 115kV line with a double circuit 230 kV and 115 kV line. The new 230 kV
24 line will connect the Apache substation with a new Winchester 345 kV substation on Tucson Electric
25 Power Company's Greenlee to Vail transmission line. Staff Engineering believes the Winchester
26 Project is needed to resolve system overloads for single contingency outages, and to decrease STC's

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28 ³ STC states in its Application that it does not waive its position that it is not a public service corporation pursuant to
Article 15, § 2 of the Arizona Constitution.

1 need to implement remedial action schemes for multiple contingency outages.

2 9. The Winchester Project is expected to increase STC's import/export capability by
3 approximately 400 MW, and provides STC with a third transmission interconnection point to the
4 Arizona Extra High Voltage ("EHV") transmission system.

5 10. Staff Engineering states that the capital improvements proposed in the Application are
6 appropriate and necessary for reliable operation of STC's system, and that cost estimates for the
7 proposed projects are reasonable and are typical of costs for similar facility improvements made by
8 other transmission providers. However, Staff Engineering did not make a determination of whether
9 the proposed improvements are used and useful. Staff states that at such time that STC applies for a
10 rate adjustment, Staff Engineering will undertake a more thorough review of STC's transmission
11 facilities.

12 11. STC is in compliance with Commission requirements that it file ten-year transmission
13 plans by the end of January of each year.

14 12. STC proposes to borrow a total of \$30,853,000 from RUS/FFB for an expected term
15 of 35 years at an interest rate of 5.710 percent per annum. The loan terms call for advances to be
16 made through 2004, when the work plan is scheduled for completion.

17 13. USDA Rural Development has approved a loan guarantee commitment for the
18 \$30,853,000 loan for the purpose of additional transmission and substation facilities.

19 14. Staff analyzed STC's financial strength based on audited financial statements for the
20 five months ending December 31, 2001, representing the portion of the 2001 time period during
21 which STC was a separate entity from AEPCO.

22 15. Based on the five months ending December 31, 2001, Staff annualized STC's times
23 interest earned ratio ("TIER"), debt service coverage ratio ("DSC") and cash coverage ratio ("CCR"),
24 and determined an annualized TIER of .70; an annualized DSC of .92; and an annualized CCR of
25 1.01.

26 16. TIER represents the number of times earnings will cover interest expense on long-
27 term debt. The RUS minimum TIER requirement is 1.05.

28 17. DSC represents the number of times internally generated cash will cover required

1 principal and interest payments on long-term debt. The RUS minimum DSC requirement is 1.0.

2 18. CCR represents the number of times internally generated cash will cover required
3 interest payments on debt. CCR is equal to EBITDA (earnings before interest, taxes, depreciation,
4 and amortization) divided by interest expense. A CCR of greater than 1.0 means that operating cash
5 flow is greater than interest expense.

6 19. STC provided Staff with financial projections for the fiscal years 2001 through 2011.
7 Those projections included rates that were recommended to STC's board of directors at its June 2002
8 board meeting. STC projected that those proposed rates would produce sufficient revenues to
9 provide a DSC of 1.0 and a TIER of at least 1.26 through fiscal year 2010.

10 20. In its November 21, 2002 filing in this docket, STC projects the impact of the revised
11 OATT rates that the Commission recently approved in Decision No. 65357. STC states that the
12 revised rates are expected to produce a TIER of 1.15 and 1.14, and a DSC ratio of 1.14 and 1.11 for
13 the calendar years 2002 and 2003, respectively. Both years' projected results meet the RUS
14 minimum TIER and DSC requirements.

15 21. The Commission recently transferred to STC, in Decision No. 64991 (June 26, 2002),
16 certain financing authority previously granted to AEPCO, conditioned upon STC filing, no later than
17 December 31, 2002, a capital plan to increase its membership capital (equity) position to 10 percent
18 by December 31, 2006, to 15 percent by end of 2010, and to 30 percent by end of 2015.

19 22. Staff stated in the Staff Report that the issuance of debt as requested in the Application
20 is for lawful purposes, within the corporate powers of the Applicant, compatible with the public
21 interest, compatible with sound financial practice, and will not impair its ability to perform service,
22 provided that STC complies with the capital plan requirements established by Decision No. 64991.

23 23. In the Staff Report, Staff recommends approval of the Applicant's request to obtain
24 financing on the terms and conditions described in the Application in the amount of \$30,853,000.

25 24. Staff further recommends in the Staff Report that the Commission approve granting
26 liens in favor of the lender, as required, to secure the borrowings authorized; that the Commission
27 authorize STC to engage in any transaction and to execute any documents necessary to effectuate the
28 authorizations granted; and that the Commission order STC to file copies of all executed financing

1 documents with the Commission within 30 days after they become available.

2 **CONCLUSIONS OF LAW**

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

5 2. The Commission has jurisdiction over Applicant and the subject matter of the
6 Application.

7 3. Notice of the Application was given in accordance with the law.

8 4. Staff's recommendations as set forth in Findings of Fact Nos. 23 and 24 are reasonable
9 and should be adopted, provided that approval is conditioned upon STC's compliance with the capital
10 plan requirements established by Decision No. 64991.

11 5. The financing approved herein is for the purposes stated in the Application and is
12 reasonably necessary for those purposes.

13 6. The financing approved herein is for lawful purposes within Applicant's corporate
14 powers, is compatible with the public interest, with sound financial practices, and with the proper
15 performance by the Applicant of service as a public service corporation, and will not impair
16 Applicant's ability to perform that service, provided that Applicant complies with the capital plan
17 requirements established by Commission Decision No. 64991.

18 **ORDER**

19 IT IS THEREFORE ORDERED that the Application of Southwest Transmission
20 Cooperative, Inc. for authority to borrow up to \$30,853,000 from the Rural Utilities Service/Federal
21 Financing Bank guaranteed loan program, for a term of 35 years, is hereby approved, conditioned
22 upon Southwest Transmission Cooperative, Inc. filing with the Commission, no later than December
23 31, 2002, a capital plan as discussed herein.

24 IT IS FURTHER ORDERED that the financing authority granted herein is expressly
25 contingent upon Southwest Transmission Cooperative, Inc.'s use of the proceeds for the purposes set
26 forth in the Application.

1 IT IS FURTHER ORDERED that Southwest Transmission Cooperative, Inc. is hereby
2 authorized to engage in any transactions and to execute any documents necessary to effectuate the
3 authorization granted herein.

4 IT IS FURTHER ORDERED that Southwest Transmission Cooperative, Inc. is hereby
5 authorized to grant liens on its property in favor of the lender, as may be required, to secure the
6 authorized borrowings.

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

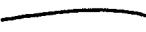
10 IT IS FURTHER ORDERED that Southwest Transmission Cooperative, Inc. shall file with
11 the Commission copies of all executed financing documents setting forth the terms of the financing,
12 within 30 days of obtaining such financing.

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

14 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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16 CHAIRMAN

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18 COMMISSIONER

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20 COMMISSIONER

21 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
22 Secretary of the Arizona Corporation Commission, have
23 hereunto set my hand and caused the official seal of the
24 Commission to be affixed at the Capitol, in the City of Phoenix,
25 this 19th day of December, 2002.

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27 BRIAN C. McNEIL
28 EXECUTIVE SECRETARY

DISSENT _____
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SERVICE LIST FOR:

SOUTHWEST TRANSMISSION COOPERATIVE,
INC.

DOCKET NO.:

E-04100A-02-0261

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