



BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

DOCKETED

SEP 30 2005

COMMISSIONERS

- JEFF HATCH-MILLER, Chairman
- WILLIAM A. MUNDELL
- MARC SPITZER
- MIKE GLEASON
- KRISTIN K. MAYES

DOCKETED BY	CAR
-------------	-----

IN THE MATTER OF THE APPLICATION OF
SOUTHWEST TRANSMISSION COOPERATIVE,
INC, FOR AUTHORIZATION TO APPLY THE
PROCEEDS OF PREVIOUSLY AUTHORIZED
INDEBTEDNESS TO A DIFFERENT PURPOSE.

DOCKET NO. E-04100A-05-0151

DECISION NO. 68179

ORDER

Open Meeting
September 27 and 28, 2005
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 March 4, 2005, Southwest Transmission Cooperative, Inc. ("SWTC" or "Cooperative") filed an application with the Commission requesting authorization to apply the proceeds of previously authorized debt to a different purpose. SWTC wishes to use \$6,099,959 from a previously authorized loan totaling \$30,853,000, to finance the building of a transmission substation.

2. On July 13, 2005, SWTC filed Affidavits of Publication indicating that it had notice of its finance request published in the *The Arizona Daily Star* on July 1, 2005, and the *Kingman Daily Miner* on July 7, 2005.

3. On August 11, 2005, Commission Utilities Division Staff ("Staff") filed a Staff Report that recommends approval of this application with certain conditions.

4. On August 23, 2005, SWTC filed Comments on the Staff Report objecting to some of

1 the conditions recommended by Staff.

2 5. SWTC is a non-profit member-owned cooperative that provides transmission service
3 to its six Class A members¹ and three Class B members. SWTC was formed in 2001 as part of the
4 reorganization of the Arizona Electric Power Cooperative, Inc. ("AEPCO").

5 6. SWTC plans to build a transmission substation known as the Sandario Project
6 ("Project"). The Commission approved a certificate of environmental compatibility ("CEC") for the
7 Project in Decision No. 67432 (December 3, 2004). The Project would improve reliability in the
8 service area of Trico Electric Cooperative, Inc. ("Trico").

9 7. In Decision No. 65473 (December 19, 2002), the Commission authorized SWTC to
10 incur up to \$30,853,000 in debt to finance certain capital improvements in its 2001-2004
11 Construction Work Plan. SWTC secured a loan for \$30,853,000 from the Rural Utility
12 Service/Federal Financing Bank ("RUS/FFB").

13 8. SWTC revised its Construction Work Plan to include the Project. The revision of the
14 Work Plan did not increase the overall funding requirement of the Plan because other projects in the
15 Plan were constructed for a lower cost than originally estimated. SWTC proposes to finance the cost
16 of the Project, estimated to be \$6,099,956, from the un-drawn portion of the existing RUS/FFB loan.

17 9. The existing RUS/FFB loan has a provision that the last day for an advance is
18 December 31, 2007, with a final maturity of December 31, 2035. The interest rate is equal to the
19 FFB 30 year note, which was 4.72 percent as of April 5, 2005. The interest rate is determined by the
20 FFB rate at the time of the advance.

21 10. Seventy-one percent of the Project's cost will be a Direct Assignment Facility
22 ("DAF") to Trico. Thus, Trico will compensate SWTC for costs pertaining to its portion of the
23 Project.

24 11. Pursuant to Staff's financial analysis, as of December 31, 2004, SWTC's Times
25 Interest Earned Ratio ("TIER") was 1.11 and its Debt Service Coverage Ratio ("DSC") was 1.01.
26 Staff's analysis indicates that based on December 31, 2004 results, the proposed debt would reduce

27 ¹ The Class A members are Anza Electric Cooperative, Inc., Duncan Valley Electric Cooperative, Inc., Graham County
28 Electric Cooperative, Mohave Electric Cooperative, Inc., Sulphur Springs Valley Electric Cooperative, Inc. and Trico
Electric Cooperative, Inc.

1 SWTC's TIER to 1.05 and its DSC to 0.98.

2 12. Staff indicated that with the rate increase approved in the Cooperative's recent rate
3 case (Docket No. E-04100A-04-0527) that resulted in Decision No. 68702 (August 17, 2005),
4 SWTC's TIER would improve to 1.40 and its DSC would increase to 1.11. Staff's calculations take
5 account of the DAF payment from Trico for approximately 71 percent of the monthly loan payment
6 related to the new debt.

7 13. TIER represents the number of times earnings cover interest expense on long-term
8 debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A TIER
9 less than 1.0 is not sustainable in the long term but does not mean that debt obligations cannot be met
10 in the short term. DSC represents the number of times internally generated cash will cover required
11 principal and interest payments on long-term debt. A DSC greater than 1.0 indicates that operating
12 cash flow is sufficient to cover debt obligations. A DSC less than 1.0 means that debt service
13 obligations cannot be met by cash generated from operations and that another source of funds is
14 needed to avoid default.

15 14. SWTC has a highly leveraged capital structure. As of December 31, 2004, SWTC's
16 capital structure consisted of 7.7 short term debt, 87.1 percent long term debt and 5.2 percent equity.
17 Staff's calculations, based on operating results prior to the approval of the recent rate case, indicate
18 that following draw down of the proposed debt, the Cooperative's equity drops to 4.9 percent of total
19 capital.

20 15. Staff recommends that this request to borrow funds should be contingent upon the
21 Commission authorizing an operating income no less than recommended by Staff in SWTC's rate
22 case and the Cooperative adhering to a plan to improve its equity to 30 percent of total capital by
23 December 31, 2015.²

24 16. In its Comments to the Staff Report, SWTC objected to Staff's recommendations that
25 this financing authorization be contingent on adopting Staff's recommended revenue requirement in a
26 pending rate case and that it adhere to a plan to increase equity to 30 percent of capital. SWTC notes

27 ² In Decision No. 64991 (June 26, 2002) the Commission ordered SWTC to file a capital plan to increase its equity
28 position to 10 percent by December 31, 2006, 15 percent by the end of 2010 and 30 percent by the end of 2015. SWTC
filed its Capital Improvement Plan as required by Decision No. 64991 on December 23, 2002.

1 that in Decision No. 68072, the Commission adopted Staff's recommended revenue requirement in
2 the rate case, and thus, that contingency has already been met. See Finding of Fact No. 28.
3 Moreover, SWTC asserts that Staff's recommendation to adhere to a plan to increase equity to 30
4 percent of equity no later than 2015 is inconsistent with the findings in Decision No. 68702. In the
5 recent rate case, the Commission did not require adherence to a capital plan to increase equity to 30
6 percent of total capital. Rather, Decision No. 68702 did not adopt any particular equity goal, but
7 required SWTC to file an equity improvement plan by March 31, 2006.

8 17. Decision No. 68072 found that the evidence presented in that case showed that under
9 the approved revenue levels, SWTC's equity could approach 15 percent of total capital in
10 approximately 10 years. See Decision No. 68072 at Findings of Fact No. 39. Decision No. 68072
11 prescribed that the capital improvement plan due March 31, 2006 should include an analysis of the
12 rates that would be required to achieve an equity level of 30 percent within ten years, or 2015.

13 18. Staff did not find any compliance issues affecting SWTC.

14 19. Commission Engineering Staff reviewed the material cost estimates for the Project,
15 and concluded that the \$6,099,956 estimate is reasonable. Staff believes the Project is appropriate,
16 but notes that its review made no "used and useful" determination and that treatment of the Sandario
17 Project for rate-making purposes is deferred to a future rate proceeding.

18 20. Staff further recommends approval of granting liens in favor of the lender as required
19 to secure the authorized borrowings, and that the Cooperative should be authorized to engage in any
20 transactions and to execute any documents necessary to effectuate the authorization granted.

21 21. In light of the recent rate increases approved in Decision No. 68072, the proposed use
22 of funds as set forth in the application is appropriate and an authorization to incur up to \$6,099,956 of
23 long term debt for the those purposes is lawful and within the corporate powers of SWTC, is
24 compatible with the public interest, consistent with sound financial practices, and does not impair
25 SWTC's ability to provide service.

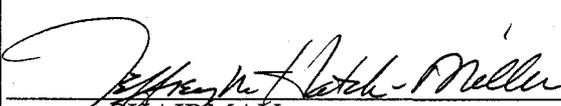
26 CONCLUSIONS OF LAW

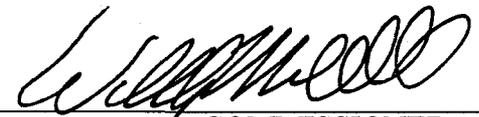
27 1. SWTC is a public service corporation within the meaning of Article XV of the
28 Arizona Constitution and A.R.S. §§ 40-301, 40-302, and 40-303.

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 
8 CHAIRMAN


COMMISSIONER

9
10 
11 COMMISSIONER


COMMISSIONER


COMMISSIONER

12
13 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
14 Director of the Arizona Corporation Commission, have
15 hereunto set my hand and caused the official seal of the
16 Commission to be affixed at the Capitol, in the City of Phoenix,
17 this 30th day of Sept., 2005.


17 BRIAN C. McNEIL
18 EXECUTIVE DIRECTOR

19 DISSENT _____

20
21 DISSENT _____

22 JR:mj

1 SERVICE LIST FOR: SOUTHWEST TRANSMISSION COOPERATIVE, INC.

2
3 DOCKET NO. E-04100A-05-0151

4
5 Michael M. Grant
6 Todd C. Wiley
7 Gallagher & Kennedy, P.A.
8 2575 E. Camelback Road
9 Phoenix Arizona 85016-9225

10 Christopher Kempley, Chief Counsel
11 Legal Division
12 ARIZONA CORPORATION COMMISSION
13 1200 West Washington Street
14 Phoenix, Arizona 85007

15 Ernest Johnson, Director
16 Utilities Division
17 ARIZONA CORPORATION COMMISSION
18 1200 West Washington Street
19 Phoenix, Arizona 85007

20
21
22
23
24
25
26
27
28