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MEMORANDUM

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TO: Docket Control

FROM: Ernest G. Johnson
son Director
Utilities Division

2006 MAR 21 P 3: 06

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: March 21, 2006

RE: STAFF REPORT FOR THE NAVOPACHE ELECTRIC COOPERATIVE, INC.
APPLICATION FOR AUTHORIZATION FOR FINANCING DOCKET NO. E-
01787A-05-0719

Attached is the Staff Report for Navopache Electric Cooperative, Inc.'s application for authorization for financing. Staff recommends conditional approval.

EGJ:DTZ:red

Originator: Daniel Zivan

Attachment: Original and fourteen copies

Service List for: Navopache Electric Cooperative, Inc.
Docket No. E-01787A-05-0719

Mr. Michael A. Curtis
Mr. William P. Sullivan
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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

NAVOPACHE ELECTRIC COOPERATIVE, INC.

DOCKET NO. E-01787A-05-0719

**APPLICATION FOR AUTHORIZATION
FOR FINANCING**

MARCH 21, 2006

STAFF ACKNOWLEDGMENT

The Staff Report for Navopache Electric Cooperative, Inc., Docket No. E-01787A-05-0719 is the responsibility of the Staff members listed below: Daniel Zivan was responsible for the review and financial analysis of the Company's application. Prem Bahl was responsible for the engineering and technical analysis. Kim Battista was responsible for reviewing the Commission's records on the Company and determining compliance with Commission policies and rules.



DANIEL ZIVAN
PUBLIC UTILITIES ANALYST III



PREM BAHL
UTILITIES ENGINEER



KIM BATTISTA
CHIEF OF COMPLIANCE AND ADMINISTRATION

EXECUTIVE SUMMARY
NAVOPACHE ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01787A-05-0719

Navopache Electric Cooperative, Inc. ("Navopache" or "Cooperative") filed an application requesting authorization for financing with the Arizona Corporation Commission ("Commission") on October 12, 2005. Navopache is a Class "A" Arizona cooperative that serves approximately 30,000 member-customers located in Navajo, Apache, Greenlee and Gila Counties in Arizona.

Navopache requests authorization to obtain a loan not to exceed \$33,231,000 from the Rural Utility Service/Federal Financing Bank ("RUS/FFB"). The proposed loan would provide funding for new lines, substations and miscellaneous equipment intended to improve transmission and distribution stability and reliability. Staff reviewed the material cost estimates of the proposed plant improvements and concludes that Navopache's \$33,231,000 cost estimate appears reasonable.

Navopache's existing capital structure is highly leveraged consisting of 3.7 percent short-term debt, 71.5 percent long-term debt and 24.9 percent equity. Navopache's highly leveraged capital structure may restrict its ability to obtain additional debt financing, may result in less favorable terms for future financing and places upward pressure on rates. Issuance of the entire proposed \$33,231,000 debt would exacerbate Navopache's leverage resulting in a capital structure consisting of 2.6 percent short-term debt, 82.5 percent long-term debt and 14.9 percent equity. Staff recommends that the Commission order the Cooperative to file a capital plan that is satisfactory to Staff, within 90 days of the decision in this matter, to achieve and maintain its equity at no less than 30 percent of total capital.

The pro forma times interest earned ratio ("TIER") and debt service coverage ratio ("DSC") resulting from the proposed \$33,231,000 loan are 1.06 and 1.13, respectively. Although these ratios indicate that Navopache would have sufficient cash flow to service all present and proposed long-term debt, they fall below the RUS/FFB requirement to maintain both ratios at 1.25. Accordingly, Staff recommends that the Commission order the Cooperative to file and adhere to a plan that is satisfactory to Staff, within 90 days of the decision in this matter, to increase its TIER and DSC to a minimum of 1.25.

Staff concludes that the issuance of the proposed long-term debt for the purposes stated in the application is lawful and within Navopache's corporate powers, is compatible with the public interest, would not impair its ability to provide services and would be consistent with sound financial practice if the Cooperative adheres to plans to increase its equity to 30 percent of total capital and increase TIER and DSC to a minimum of 1.25.

Staff recommends approval of the request for the authorization to incur long-term debt in an amount not to exceed \$33,231,000.

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ENGINEERING REPORT

PUBLIC NOTICE

Introduction

Navopache Electric Cooperative, Inc. ("Navopache" or "Cooperative"), an Arizona non-profit cooperative located in Lakeside, Arizona, filed an application requesting authorization for financing with the Arizona Corporation Commission ("Commission") on October 12, 2005.

Notice

Notice of a financing application was published in *The Payson Roundup* (Pinal and Gila counties), *The White Mountain Independent* (Navajo and Apache counties), *The Arizona Silver Belt* (Gila county), *The Mountain Times* (Catron county) and *The Copper Era* (Greenlee county). The affidavits of publication for *The Payson Roundup* and *The Arizona Silver Belt* are attached to this report along with a copy of the Notice. Staff is awaiting the affidavit of publication and copy of notice for *The White Mountain Independent*, *The Mountain Times* and *The Copper Era*.

Background

Navopache is a Class "A" Arizona cooperative that provides electric distribution services to approximately 30,000 member-customers located in Navajo, Apache, Greenlee and Gila Counties in Arizona. Navopache also provides electric service to member-customers in New Mexico. Navopache's current rates were approved in Decision No. 64293, dated December 28, 2001.

Purpose of the Financing

Navopache proposes to obtain a loan not to exceed \$33,231,000 from the Rural Utility Service/Federal Financing Bank ("RUS/FFB"). Navopache proposes "to expend the funds on new lines, substations and miscellaneous distribution equipment at strategic locations along Navopache's transmission and distribution system in order to improve local transmission and distribution system voltage stability and system reliability."¹

Description of Proposed Financing

Navopache proposes to execute a RUS/FFB loan that would not exceed \$33,231,000 and would be repaid over a period of 35 years. The loan would "be secured by a mortgage dated October 4, 1974...Said mortgage encumbers all of Navopache's real estate holdings, including all substations and corporate headquarters."²

Navopache would be able to draw down on the loan as needed to proceed with the Cooperative's construction work plan. The interest rate will be determined at the time of each draw and will be fixed at a rate dependent upon the length of term that Navopache selects with

¹ Page 2, Line 18 of Navopache's application

² Page 3, Line 14 of Navopache's application

each draw. Navopache can choose the length of term that the interest rate will be fixed for when making a draw. The loan payments would be calculated using a 35 year amortization regardless of what length of term Navopache selects. At the end of each term Navopache would be required to refinance the outstanding debt at the applicable interest rate at that time with payments being calculated using an amortization period equal to 35 years less the length of the initial loan term.

For example, Navopache could initially choose to fix the interest rate for ten years on the 35 year amortizing loan. Upon expiration of the initial ten year period, Navopache could then choose another fixed interest rate period with payments amortized over 25 years (35 year amortization less the 10 year original term). Navopache estimates that the maximum applicable interest rate for the initial draw is 5 percent. If Navopache chooses an initial fixed rate period less than 35 years, it will be subject to refinancing the remaining balance at the end of the initial period at a higher interest rate should interest rates increase in the interim.

Financial Analysis

Schedule DTZ-1 presents historical financial information for the year ended December 31, 2004 in column A. Column B presents pro forma financial information that reflects issuance of the entire \$33,231,000 proposed loan, amortized over 35 years with interest calculated at 5.25 percent per annum.

The times interest earned ratio ("TIER") and debt service coverage ratio ("DSC") for the year ended December 31, 2004 are 2.33 and 1.84, respectively (Schedule DTZ-1, column A). Issuance of the entire proposed debt would reduce the TIER and DSC to 1.06 and 1.13, respectively (Schedule DTZ-1, column B). A DSC of 1.13 indicates that Navopache would be able to meet all current obligations as well as the obligations associated with the proposed long-term debt. However, the TIER and DSC that result from the proposed financing fall below the RUS/FFB requirement to maintain both ratios at 1.25.

TIER represents the number of times earnings cover interest expense on long-term debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long 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 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.

Schedule DTZ-1 shows Navopache's existing capital structure and a pro forma capital structure reflecting issuance of the proposed debt. Navopache's existing capital structure consists of 3.7 percent short-term debt, 71.5 percent long-term debt and 24.9 percent equity. The

pro forma capital structure reflecting issuance of the proposed debt is 2.6 percent short-term debt, 82.5 percent long-term debt and 14.9 percent equity.

Issuance of the proposed debt would result in Navopache having a highly leveraged capital structure. Navopache's highly leveraged capital structure restricts its ability to obtain additional debt financing, may result in less favorable terms for future financing and places upward pressure on rates. Accordingly, Navopache should develop a capital plan that is satisfactory to Staff to achieve and maintain its equity at no less than 30 percent of total capital.

Compliance

Navopache did not have any outstanding compliance issues as of January 30, 2006.

Engineering Analysis

The Staff Engineering Report is attached. Staff reviewed the material cost estimates of the proposed plant improvements. Staff concludes that Navopache's \$33,231,000 cost estimate for the proposed plant improvements appears reasonable. However, Staff makes no "used and useful" determination in this proceeding. Treatment of the proposed plant improvements for rate-making purposes is deferred to a future rate proceeding.

Conclusion and Recommendations

Staff concludes that the proposed plant improvements are appropriate and that the estimated costs are reasonable.

Staff concludes that the issuance of long-term debt for an amount not exceeding \$33,231,000 for the purposes stated in the application is lawful and within Navopache's corporate powers, is compatible with the public interest, would not impair its ability to provide services and would be consistent with sound financial practice if the Cooperative adheres to plans to increase its equity to 30 percent of total capital and increase TIER and DSC to a minimum of 1.25.

Staff recommends granting authorization to borrow an amount not to exceed \$33,231,000 under the terms and conditions proposed and for the purposes described in this application.

Staff further recommends approval of granting liens in favor of the lender as required to secure the borrowings authorized.

Staff further recommends authorizing Navopache to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that the Commission order the Cooperative to file, as a compliance item, a capital plan that is satisfactory to Staff, within 90 days of the decision in this matter, to achieve and maintain its equity at no less than 30 percent of total capital.

Staff recommends that the Commission order the Cooperative to file, as a compliance item, and adhere to a plan that is satisfactory to Staff, within 90 days of the decision in this matter, to increase its TIER and DSC to a minimum of 1.25.

Staff further recommends that one copy of executed loan documents be filed with the Docket Control within 90 days of the decision in this matter.

FINANCIAL ANALYSIS

Selected Financial Data
To Show Immediate Effects of the Proposed Debt

	[A] Actual financial information for the 12 months ending 12/31/2004		[B] Pro Forma financial information with issuance of the recommended debt	
1	Operating Income	\$ 3,398,365	\$ 3,398,365	
2	Depreciation & Amort.	2,627,066	2,627,066	
3	Income Tax Expense	0	0	
4				
5	Interest Expense	1,459,903	3,196,425	
6	Repayment of Principal	1,816,790	2,156,845	
7				
8				
9	TIER			
10	[1+3] ÷ [5]	2.33	1.06	
11	DSC			
12	[1+2+3] ÷ [5+6]	1.84	1.13	
13				
14				
15				
16				
17				
18	Short-term Debt	\$1,816,790	3.7%	\$2,156,845 2.6%
19				
20	Long-term Debt	\$35,409,286	71.5%	\$68,300,231 82.5%
21				
22	Common Equity	\$12,318,771	24.9%	\$12,318,771 14.9%
23				
24	Total Capital	\$49,544,847	100.0%	\$82,775,847 100.0%
25				
26				
27				

[A] 2004 actual financial information

[B] Column [A] adjusted to reflect issuance of the \$33,231,000 proposed long-term debt

PAYSON ROUNDUP
P.O. Box 2520 - Payson, AZ 85547
708 N. Beeline Highway
(928) 474-5251 - Fax (928) 474-1893

STATE OF ARIZONA
COUNTY OF GILA

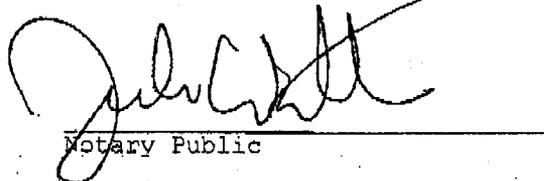
AFFIDAVIT OF PUBLICATION

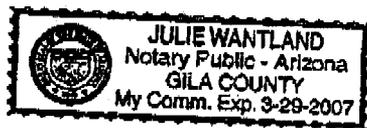
I, Marge Hanscom, acknowledge that the attached hereto was published in a newspaper of general circulation at Payson, Arizona, County of Gila on the following dates:

01/03/2006


Signed

On this 5TH DAY OF JANUARY, 2006:


Notary Public


JULIE WANTLAND
Notary Public - Arizona
GILA COUNTY
My Comm. Exp. 3-29-2007

10103-D10306
PUBLIC NOTICE
OF
AN APPLICATION FOR AN
ORDER AUTHORIZING THE
ISSUANCE OF DEBT BY
NAVOPACHE ELECTRIC
COOPERATIVE, INC.
Navopache Electric Cooperative,
Inc. (Applicant) has filed an Applica-
tion with the Arizona Corporation
Commission (Commission) for an
order authorizing Applicant to issue
\$35,231,000.00 in debt to finance
the construction and operation of
electric facilities (Docket No. E-
01787A-05-0719). The application
is available for inspection during
regular business hours at the office
of the Commission in Phoenix,
Arizona, and the Applicant's
offices in Lakeside, Arizona.
Intervention in the Commission's
proceedings on the application
shall be permitted to any person
entitled by law to intervene and
having a direct substantial interest
in this matter. Persons desiring to
intervene must file a motion to
intervene and thirteen copies with
the Commission's Docket Control
at 1200 West Washington,
Phoenix, Arizona and serve a copy
upon the Applicant c/o Michael A.
Curtis, Curtis, Goodwin, Sullivan,
Udall & Schwab, P.L.C., 2712
North 7th Street, Phoenix, Arizona
85006. At a minimum, a motion to
intervene shall contain the follow-
ing information:
1. The name, address and tele-
phone number of the proposed
intervenor and of any person upon
whom service of documents is to
be made if different than the inter-
venor.
2. A short statement of the pro-
posed intervenor's interest in the
proceeding.
3. Whether the proposed inter-
venor desires a formal evidentiary
hearing on the application and the
reasons for such a hearing.
4. A statement certifying that a
copy of the motion to intervene has
been mailed to Applicant.
The granting of motions to inter-
vene shall be governed by A.A.C.
R14-3-105, except that all motions
to intervene must be filed on, or
before the 15th day after the date
this notice is published.

Affidavit of Publication

State of Arizona
County of Gila

Ellen Kretsch, or her authorized representative, _____, being first duly sworn deposes and says: That she is the publisher of the Arizona Silver Belt, San Carlos Apache Moccasin, and the Gila County Advantage newspapers, located at 298 North Pine Street, Globe, Arizona 85501, or mail: P.O. Box 31, Globe, Arizona 85502.

The above stated newspapers are published weekly in Globe, in the State of Arizona, County of Gila and that the following described legal, or advertising was duly published:

Navopache Electric Cooperative, Inc. Filed App. w/AZ. Corp. Commission for order to finance construction/operation electric facilities

A printed copy of said legal or advertising is attached hereto and was published in a regular weekly edition of said newspaper (and not a supplement thereof) for 1 consecutive weeks in the Arizona Silver Belt newspaper, and/or the San Carlos Apache Moccasin newspaper, and/or the Gila County Advantage. The dates of publication being as follows, to wit:

Jan. 11, 2006

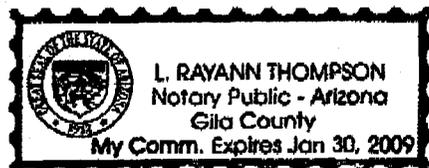
Ellen Kretsch
Ellen Kretsch, Publisher,
or authorized representative

State of Arizona
County of Gila

The foregoing instrument was acknowledged before me this

Jan. 11, 2006 (date)

by Ellen Kretsch



L. Rayann Thompson
L. Rayann Thompson, Notary Public
My Commission Expires: January 30, 2009

PUBLIC NOTICE
OF
AN APPLICATION FOR AN ORDER
AUTHORIZING THE ISSUANCE OF DEBT
BY NAVOPACHE ELECTRIC COOPERATIVE, INC.
Navopache Electric Cooperative, Inc. (Applicant) has filed an Application with the Arizona Corporation Commission (Commission) for an order authorizing Applicant to issue \$33,231,000.00 in debt to finance the construction and operation of electric facilities (Docket No. E-01737A-06-0719). The application is available for inspection during regular business hours at the office of the Commission in Phoenix, Arizona, and the Applicant's offices in Lakeside, Arizona.
Intervention in the Commission's proceedings on the application shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a motion to intervene and thirteen copies with the Commission's Docket Control at 1200 West Washington, Phoenix, Arizona and serve a copy upon the Applicant, c/o Michael A. Curtis, Curtis, Goodwin, Sullivan, Udall & Schwab, P.L.C., 2712 North 7th Street, Phoenix, Arizona 85008. At a minimum, a motion to intervene shall contain the following information:
1. The name, address, and telephone number of the proposed intervenor and of any person upon whom service of documents is to be made if different than the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding.
3. Whether the proposed intervenor desires a formal evidentiary hearing on the application and the reasons for such a hearing.
4. A statement certifying that a copy of the motion to intervene has been mailed to Applicant.
The granting of motions to intervene shall be governed by A.C.C. R14-3-105, except that all motions to intervene must be filed on, or before, the 15th day after the date this notice is published.
One Pub: 1-11-2006 Belt 5385

MEMORANDUM

TO: Daniel Zivan
Public Utility Analyst III
Utilities Division

FROM: Prem Bahl *Prem*
Electric Utilities Engineer
Utilities Division

THRU: Del Smith *DS*
Engineering Supervisor
Utilities Division

DATE: March 10, 2006

SUBJECT: Navopache Electric Cooperative, Inc.'s Financing Application dated October 24, 2005; Docket No. E-01787A-05-0719

Staff reviewed the referenced application, submitted by the Navopache Electric Cooperative, Inc. ("Navopache" or "Cooperative"). Navopache submitted an application to the Arizona Corporation Commission ("Commission") for authorization to borrow \$33,231,000 from the National Rural Utilities Cooperative Finance Corporation. The purpose of this loan is to provide financing for the Cooperative's 2005-2008 Construction Work Plan ("Plan" or "Work Plan"). This loan amount will enable Navopache to invest in electric utility infrastructure in terms of upgrades and new additions to the existing distribution and transmission systems to meet the projected customer demand in a reliable manner.

Utility Overview

Navopache is an all-requirement cooperative, receiving all of its power supply from Public Service Company of New Mexico ("PNM"). Navopache currently provides electric power to approximately 37,000 retail members over approximately 3,209 miles of energized lines (238 miles of 69 kV, and 2,435 miles of distribution voltage overhead lines, 536 miles of underground lines). The Cooperative spans 10,000 square miles of service territory, which covers parts of Apache, Navajo, Gila, and Greenlee counties and includes the communities of Lakeside, Pinetop, St. Johns, Springerville, Heber, Overgaard, Claysprings, and Pinedale. The Cooperative receives power supply at Springerville, Coronado and Cholla power plants, from where it is delivered to its distribution substations over 69 kV lines.

Review of Capital Projects

Staff has reviewed Navopache's 2005-2008 Work Plan. In assessing the Plan, Staff utilized the following criteria:

- Does the Plan adequately address the needs of the projected customer and load growth in Navopache service territory?
- Are the capital expenditures on transmission and distribution infrastructure upgrades and new additions appropriate and reasonable?
- Is the Cooperative operating and maintaining its electric system in a reliable manner?

Customer and Load Growth

Historically, Navopache's total number of customers grew from 32,100 in 2001 to 36,280 in 2005, indicating an annual average increase of approximately 3.3 percent. According to Rural Utility Services ("RUS") Form 7, in 2005, the Cooperative provided electric service to an average of 20,059 residential consumers (excluding seasonal consumers), 11,401 seasonal consumers, 54 irrigation consumers, 3,505 small commercial and industrial consumers (less than 1,000 kVA), 5 large commercial and industrial consumers, and 23 street lighting consumers.

In the same time period, the system load increased from 66.3 MW in 2001 to 78.4 MW in 2005, which represents an average increase of approximately 4.6 percent per year over the 4-year period.

According to the 2004 Power Requirement study undertaken by the Cooperative, the net gain of total customers is projected to be 5,345 in 2004-2008 time period, which primarily includes residential, small commercial and industrial classes. That represents approximately 3.9 percent average increase per year. According to the same study, the peak system demand is projected to increase from 78.7 MW in 2004 to 90.6 MW in 2008, showing an annual increase of approximately 3.8 percent.

Projected Capital Expenditures

Staff has reviewed the Cooperative's 2005-2008 Work Plan, which enumerates capital expenditures on transmission and distribution system upgrades and new infrastructure. These expenditures relate to new underground and overhead distribution lines for line extensions, subdivisions and other new services; new feeders and tie lines; conversions and changes in distribution lines; two new substations (Springerville and Linden in 2006); substation changes, such as adding new equipment, making changes in the protective relaying system, etc. The Plan also covers expenditures for miscellaneous distribution system upgrades, including pole mounted transformers, voltage regulators, metering equipment, etc.

Capital expenditures also include a total of 500 distribution pole replacements at \$175,000 per year, over a 4-year period, which is nearly 10 percent of the estimated total number of poles. This seems to be a reasonable number of poles to be replaced annually, which is consistent with the plans of pole replacement of other cooperatives in the state. Navopache started construction of a 20-mile long new 69 kV transmission line from Springerville to Round Valley substation in 2005, and plans to complete its construction in 2006. The Cooperative will

also complete construction of the Springerville 34.5 kV/69 kV substation in 2006. Capacity of five additional substations would be increased to meet the growing load requirements.

In conforming to the Environmental Portfolio Standard, Navopache plans to install photovoltaic systems totaling \$1,701,775 over the Plan period.

SUMMARY OF CONSTRUCTION WORK PLAN
(Expenditures in Dollars)

CAPITAL PROJECTS	2005	2006	2007	2008	TOTAL
New Underground and Overhead Distribution Lines	3,738,368	3,738,368	3,738,368	3,738,364	14,953,468
New Feeders and Tie Lines	0	60,000	0	20,000	80,000
Conversions and Line Changes	0	833,000	80,000	638,000	1,551,000
New Substations And Switching	0	0	0	1,600,000	1,600,000
Substation Changes	1,000,000	1,220,000	1,400,000	120,000	3,740,000
Misc. Distribution Equipment	1,891,508	1,891,508	1,927,508	1,960,963	7,671,487
Other Distribution Items	136,680	136,680	136,680	136,680	546,720
Distribution Grand Totals	6,766,556	5,879,556	7,282,556	8,214,007	30,142,675
New Transmission Lines	3,145,000	0	0	0	3,145,000
New Substations and Switching	1,600,000	0	0	0	1,600,000
Transmission Line & Station Changes	2,200,000	0	0	50,000	2,250,000

Other Transmission Items	76,174	76,174	76,174	76,172	304,694
Transmission Grand Totals	7,021,174	76,174	76,174	126,172	7,299,694
Generation Photovoltaic Installations	425,444	425,444	425,444	425,443	1,701,775
Grand Totals	14,213,174	8,381,174	7,784,174	8,765,622	39,144,144

Staff finds the items included in the list of capital projects are appropriate to meet new load growth and will enable Navopache to operate and maintain the electric system in a safe and reliable manner, and the expenditure amounts associated with these projects appear reasonable.

System Reliability

The Cooperative has included in its Work Plan upgrades and needed additions of distribution and transmission facilities for reliable operation of its system. There is provision in the Work Plan for new voltage regulators and shunt capacitors to maintain proper voltages on the system. The building of the new Springerville Substation in 2006 and augmenting the capacity of five other substations in the next four years will enable Navopache to meet the projected system load in a reliable manner. The wooden pole replacement program also contributes to minimizing line outages and improving system reliability.

Navopache outage hours per consumer vary between 2.98 and 3.5 for the 2000-2005 period, showing an average of 3.8 outage hours per consumer. This is within the RUS guidelines of an average of 5 outage hours per consumer per year. This shows that the Cooperative is providing reliable service to its customers and responding to emergencies in a timely manner.

System Losses

Navopache annual system losses varied between 7.15 percent in 1999 to 8.1 percent in 2005, with an average of approximately 7.1 percent per year. This is within the RUS Guidelines of 8.4 percent per year. With the system upgrades and new facilities planned in the Work Plan, the system losses are expected to be lower in the future.

Conclusion

Based on the aforementioned review of Navopache's transmission and distribution projects as included in its FY2005-FY2008 Construction Work Plan and other information, Staff believes that these projects are appropriate to meet the projected demand of the Cooperative's new customers and will help ensure system reliability through the upgrades of existing electric facilities, replacement of aged underground cables, and the addition of new transmission and

distribution facilities. Staff further concludes that the costs associated with these projects appear to be reasonable. However, this does not imply a specific treatment for rate base or rate making purposes.