

OPEN MEETING ITEM

ORIGINAL



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

ARIZONA CORPORATION COMMISSION

22

DATE: March 30, 2006

DOCKET NO: E-01787A-05-0719

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Teena Wolfe. The recommendation has been filed in the form of an Order on:

NAVOPACHE ELECTRIC COOPERATIVE, INC.

(FINANCING)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

APRIL 10, 2006

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

MAY 2 AND 3, 2006

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

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BRIAN C. McNEIL
EXECUTIVE DIRECTOR

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF
NAVOPACHE ELECTRIC COOPERATIVE, INC.
AN ARIZONA NON-PROFIT CORPORATION,
FOR APPROVAL OF A RUS GUARANTEED FFB
LOAN IN THE AMOUNT OF \$33,231,000 TO
FUND THE CONSTRUCTION OF FACILITIES.

DOCKET NO. E-01787A-05-0719

DECISION NO. _____

ORDER

Open Meeting
May 2 and 3, 2006
Phoenix, Arizona

BY THE COMMISSION:

* * * * *

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

FINDINGS OF FACT

1. On October 12, 2005, Navopache Electric Cooperative, Inc., an Arizona nonprofit corporation, ("Navopache" or "Company") filed an application with the Commission requesting authorization to borrow \$33,231,000 from the United States of America, Rural Utilities Service Guaranteed Federal Financing Bank ("RUS/FFB") to finance plant construction according to Navopache's construction work plan for 2005-2008 ("Work Plan").

2. Navopache published notice of the Application in the December 30, 2005 edition of the *White Mountain Independent*, the January 3, 2006 edition of *The Payson Roundup*, the January 11, 2006 edition of the *Arizona Silver Belt*, the February 3, 2006 edition of the *Mountain Times*, and the February 8, 2006 edition of *The Copper Era*, all newspapers of general circulation in its service territory.

3. On March 21, 2006, the Commission's Utilities Division Staff ("Staff") filed a Staff Report recommending conditional approval of Navopache's Application.

1 4. Navopache is a Class "A" cooperative Arizona public service corporation providing
2 electric distribution service to approximately 30,000 member-customers in parts of Navajo, Apache,
3 Greenlee and Gila counties pursuant to authority granted by the Commission. Navopache also
4 provides electric service to member-customers in Catron County in New Mexico. Navopache does
5 not own any major electrical generating capacity, but receives its power supply under an all-
6 requirements contract with Public Service Company of New Mexico.

7 5. Staff reviewed Navopache's Work Plan. In assessing the Work Plan, Staff analyzed
8 whether the Work Plan adequately addresses the needs of the projected customer and load growth in
9 Navopache's service territory; whether the Work Plan's capital expenditures on transmission and
10 distribution infrastructure upgrades and new additions are appropriate and reasonable; and whether
11 Navopache is operating and maintaining its electric system in a reliable manner.

12 6. Based on its engineering analysis, Staff concluded that the capital projects included in
13 Navopache's Work Plan are appropriate to the projected demand of Navopache's new load growth
14 and will help ensure system reliability through the upgrades of existing electric facilities, replacement
15 of aged underground cables, and the addition of new transmission and distribution facilities. Staff
16 also concluded that the costs associated with the projects appear to be reasonable, but stated that its
17 conclusion does not imply a specific treatment for rate base or rate making purposes.

18 7. As of December 31, 2004, Navopache's capital structure consisted of approximately
19 3.7 percent short-term debt, 71.5 percent long-term debt, and 24.9 percent equity. The proposed
20 RUS/FFB debt will have the effect of decreasing the Company's short-term debt from 3.7 percent to
21 2.6 percent, and increasing its long-term debt from 71.5 percent to 82.5 percent.

22 8. Based upon Navopache's December 31, 2004 financial statement, Staff calculates
23 Navopache's current Times Interest Earned Ratio ("TIER") to be 2.33 and its Debt Service Coverage
24 ("DSC") ratio to be 1.84.¹

25 9. Based upon its pro forma adjustments to Navopache's December 31, 2004 financial

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

28 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.

1 statement, Staff estimates that issuance of the entire proposed debt amortized over 35 years, with
2 interest calculated at 5.25 percent per annum, would reduce Navopache's TIER from 2.33 to 1.06 and
3 would reduce its DSC from 1.84 to 1.13. The RUS/FFB requires that both ratios be maintained at
4 1.25.

5 10. Staff states that as of January 30, 2006, Navopache has no outstanding compliance
6 issues with the Commission.

7 11. Staff concludes that the proposed financing is consistent with sound financial
8 practices, is compatible with the public interest, and will not impair Navopache's ability to perform
9 its duty as a public service corporation, if Navopache adheres to plans to increase its equity to 30
10 percent of capital and to increase its TIER and DSC ratios to a minimum of 1.25. Staff recommends
11 the following:

- 12 a. that the Commission authorize Navopache's request to borrow an amount not
13 to exceed \$33,231,000 under the terms and conditions proposed and for the purposes
14 described in the application;
- 15 b. that Navopache be authorized to grant liens in favor of the lender as required to
16 secure the borrowings authorized;
- 17 c. that Navopache be authorized to engage in any transactions and to execute any
18 documents necessary to effectuate the authorizations granted;
- 19 d. that Navopache be ordered to file a capital plan that is satisfactory to Staff,
20 within 90 days of the decision in this matter, as a compliance item with Commission
21 Docket Control, to achieve and maintain equity at no less than 30 percent of total
22 capital;
- 23 e. that Navopache be ordered to file a plan that is satisfactory to Staff, within 90
24 days of the decision in this matter, as a compliance item with Commission Docket
25 Control, and adhere to the plan, to increase its TIER and DSC to a minimum of 1.25;
26 and
- 27 f. that Navopache be ordered to file, within 90 days of the decision in this matter,
28 with Commission Docket Control as a compliance item, one copy of executed loan

1 documents.

2 12. Staff's recommendations are reasonable and should be adopted.

3 **CONCLUSIONS OF LAW**

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

6 2. The Commission has jurisdiction over Navopache and the subject matter of the
7 application.

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

9 4. With the conditions imposed herein, the financing approved herein is for lawful
10 purposes within Navopache's corporate powers, is compatible with the public interest, with sound
11 financial practices, and with the proper performance by Navopache of service as a public service
12 corporation, and will not impair Navopache's ability to perform that service.

13 5. The financing approved herein is for the purposes stated in the application and is
14 reasonably necessary for those purposes, and is not reasonably chargeable to operating expenses or to
15 income.

16 6. It is reasonable and in the public interest to authorize Navopache issue to long-term
17 debt authorized herein subject to the conditions recommended by Staff.

18 **ORDER**

19 IT IS THEREFORE ORDERED that Navopache Electric Cooperative, Inc. is hereby
20 authorized to borrow from the Rural Utilities Service Guaranteed Federal Financing Bank, at the rates
21 described in the application and in the March 21, 2006 Staff Report, an amount not to exceed
22 \$33,231,000, conditioned on compliance with the requirements set forth in the two following
23 Ordering Paragraphs.

24 IT IS FURTHER ORDERED that Navopache shall file within 90 days, as a compliance item
25 with Commission Docket Control, a capital plan that is satisfactory to Staff, to achieve and maintain
26 equity at no less than 30 percent of total capital.

27 IT IS FURTHER ORDERED that Navopache shall file, within 90 days, as a compliance item
28 with Commission Docket Control, a plan that is satisfactory to Staff, to increase its TIER and DSC

1 ratio to a minimum of 1.25, and shall adhere to the plan.

2 IT IS FURTHER ORDERED that Navopache Electric Cooperative, Inc. is authorized to grant
3 liens in favor of the lender as required to secure the borrowings authorized herein.

4 IT IS FURTHER ORDERED that Navopache Electric Cooperative, Inc. is authorized to
5 engage in any transaction and to execute any documents necessary to effectuate the authorization
6 granted herein.

7 IT IS FURTHER ORDERED that Navopache Electric Cooperative, Inc. shall use the
8 financing approved herein for the purposes set forth in the application.

9 IT IS FURTHER ORDERED that Navopache Electric Cooperative, Inc. shall file as a
10 compliance item with Commission Docket Control, within 90 days of the funding of the new loan,
11 one copy of executed loan documents.

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1 IT IS FURTHER ORDERED that approval of the financing set forth herein 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 COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER _____
11

12 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
13 Director of the Arizona Corporation Commission, have
14 hereunto set my hand and caused the official seal of the
15 Commission to be affixed at the Capitol, in the City of Phoenix,
16 this ____ day of _____, 2006.

17 _____
18 BRIAN C. McNEIL
19 EXECUTIVE DIRECTOR

20 DISSENT _____
21

22 DISSENT _____
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24 TW:mj
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1 SERVICE LIST FOR: NAVOPACHE ELECTRIC COOPERATIVE, INC.

2 DOCKET NO.: E-01787A-05-0719

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