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OPEN MEETING ITEM

ORIGINAL

JAMES G. JAYNE
Interim Executive Secretary

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



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2003 AUG -7 P 4: 21

DATE: August 7, 2003

Arizona Corporation Commission DOCUMENT CONTROL
DOCKETED

DOCKET NOS: E-01461A-03-0489

AUG 07 2003

TO ALL PARTIES:

DOCKETED BY	<i>CM</i>
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Enclosed please find the recommendation of Administrative Law Judge Teena Wolfe. The recommendation has been filed in the form of an Order on:

TRICO ELECTRIC COOPERATIVE, INC.
(FINANCING)

Filing exceptions has been waived.

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 Open Meeting to be held on:

AUGUST 12 AND 13, 2003

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250.

JAMES G. JAYNE
INTERIM EXECUTIVE SECRETARY

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 MARC SPITZER, Chairman
4 JIM IRVIN
5 WILLIAM A. MUNDELL
6 JEFF HATCH-MILLER
7 MIKE GLEASON

8 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. _____

ORDER

9 Open Meeting
10 August 12 and 13, 2003
11 Phoenix, Arizona

12 **BY THE COMMISSION:**

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

15 **FINDINGS OF FACT**

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

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

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

26 4. Trico is a public service corporation providing electric distribution service in parts of
27 Pima, Pinal and Santa Cruz counties pursuant to authority granted by the Commission. Its principal
28 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.

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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.

ORDER

18
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.

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CHAIRMAN COMMISSIONER COMMISSIONER

COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, JAMES G. JAYNE, Interim Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this ____ day of _____, 2003.

JAMES G. JAYNE
INTERIM EXECUTIVE SECRETARY

DISSENT _____

DISSENT _____

TW:mlj

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

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