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BEFORE THE ARIZONA CORPORATION COMMISSION  
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Arizona Corporation Commission  
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MIKE GLEASON, Chairman  
WILLIAM A. MUNDAY, Corp Commission  
JEFF HATCH-MILLER, Docket Control  
KRISTIN K. MAYES  
GARY PIERCE

DOCKETED BY [Signature]

IN THE MATTER OF THE  
APPLICATION OF SULPHUR  
SPRINGS VALLEY ELECTRIC  
COOPERATIVE, INC., AN ARIZONA  
NONPROFIT CORPORATION, FOR  
AUTHORIZATION TO INCUR DEBT  
TO FINANCE ITS CONSTRUCTION  
WORK PLAN AND FOR RELATED  
APPROVALS.

DOCKET NO. E-01575A-07-0446

SULPHUR SPRINGS VALLEY  
ELECTRIC COOPERATIVE, INC'S  
EXCEPTION TO RECOMMENDED  
ORDER

Snell & Wilmer  
LLP  
LAW OFFICES  
One Arizona Center, 400 E. Van Buren  
Phoenix, Arizona 85004-2102  
(602) 382-6000

On July 27, 2007, Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC" or "Cooperative") filed an Application with the Arizona Corporation Commission ("Commission") for approval to borrow up to \$70.78 million from the Natural Rural Utilities Cooperative Finance Corporation ("CFC") to finance its 2008-2009 Construction Work Plan ("CWP"). On November 9, 2007, the Administrative Law Judge ("ALJ") filed a Recommended Order ("RO") that approves SSVEC's authority to borrow the funds for the purposes set forth in the application, but only up to an interest rate not to exceed 7.5 percent. SSVEC, through counsel undersigned, hereby files this Exception seeking a clarification to the RO that the 7.5 percent limitation is an average effective<sup>1</sup> interest rate applied to the total amount of borrowed loan proceeds.

As indicated in the RO and in the October 29, 2007 Staff Report filed by the Commission's Utilities Division ("Staff"), the Cooperative will utilize the much needed proceeds from the financing to fund increased capital expenditures necessary to construct new facilities to serve a growing customer base and to replace and improve various older

<sup>1</sup> Effective rate refers to the actual interest rate that the Cooperative pays after applying any CFC credits and discounts to the stated interest rate.

1 facilities throughout its system. SSVEC expects that the proceeds from the loan will be  
2 drawn down at regular intervals over the two year period covered by the CWP. In  
3 analyzing the Application, Staff amortized the total amount of the loan over 35 years at  
4 an assumed interest rate of 7.5 percent with the Cooperative annually drawing \$35.75  
5 million in 2008 and \$35.03 million in 2009.<sup>2</sup> Based upon this conservative analysis,  
6 SSVEC's Debt Service Coverage ("DSC") was calculated to be 1.10 at the end of 2009.<sup>3</sup>

7 SSVEC does not oppose the 7.5 percent interest rate cap *per se* as it understands  
8 the Commission's desire that the Cooperative maintain a DSC of at least 1.0. However,  
9 to the extent the Commission will require a cap of 7.5 percent on this loan, such cap  
10 should be calculated based upon the average effective interest rate as applied to the  
11 amount of borrowed loan proceeds. For example, using Staff's analysis, if in 2008 the  
12 Cooperative borrowed \$35.5 million at an effective interest rate of 7.4 percent, it should  
13 be permitted to borrow the remaining \$35.03 million at an effective interest rate of up to  
14 7.6 percent which would result in an average effective interest rate of not more than 7.5  
15 percent. SSVEC believes this is consistent with the intent of the RO in ensuring that if  
16 SSVEC borrows the full \$70.8 million, the average effective interest rate for such  
17 borrowing does not exceed 7.5 percent, thereby resulting in SSVEC maintaining a DSC  
18 above 1.0.

19 SSVEC has been informed by the CFC that its current 35-year interest rate is 7.10  
20 percent. Although this is currently below the 7.5 percent cap, because this loan will be  
21 taken down through a series of draws to correspond with the CWP so that SSVEC does  
22 not borrow money and pay interest expenses any earlier than necessary, it is possible that  
23 at some point over the next two years, the CFC interest rate that is in effect at the time of  
24 a particular draw could be over 7.5 percent. SSVEC should not be precluded from

25  
26 <sup>2</sup> The 7.5 percent maximum interest rate was provided by SSVEC to Staff in response to an August 7,  
27 2007 data request. As of August 9, 2007, the CFC's interest rates ranged from 6.8 percent for a 1-year  
28 period to 7.5 percent for a 35-year period.

<sup>3</sup> It should be noted that the projections do not take into account revenues that will result from projected  
growth. (See, RO at Finding of Fact 24.) This additional revenue will help to improve SSVEC's DSC.

1 borrowing the needed funds for its CWP at a higher interest rate, if such higher rate when  
2 averaged into its prior borrowings, results in an average effective interest rate at or below  
3 7.5 percent which would maintain the Cooperative's overall DSC above 1.0, consistent  
4 with the intent of the RO.

5 On the basis of the foregoing, SSVEC respectfully requests that page 7, line 28 of  
6 the RO be clarified by inserting the word "average effective" before "interest rate".

7 RESPECTFULLY SUBMITTED this 19th day of November, 2007.

8 SNELL & WILMER L.L.P.

9  
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17 ORIGINAL and 13 copies filed this  
18 19th day of November, 2007, with:

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23 COPY of the foregoing hand-delivered  
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