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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

JUL - 3 2008

MIKE GLEASON, Chairman  
WILLIAM A. MUNDELL  
JEFF HATCH-MILLER  
KRISTIN K. MAYES  
GARY PIERCE

DOCKETED BY *mm*

IN THE MATTER OF THE APPLICATION OF TRICO ELECTRIC COOPERATIVE, INC. AN ARIZONA CORPORATION, FOR AUTHORITY TO BORROW THE ADDITIONAL SUM OF \$58,786,000 FROM THE UNITED STATES OF AMERICA (RDUP) AND THE ADDITIONAL SUM OF \$25,194,000 FROM NATIONAL RURAL UTILITIES COOPERATIVE, AND TO EVIDENCE SAID LOANS BY EXECUTION OF LOAN AGREEMENTS, PROMISSORY NOTES AND SECURITY DOCUMENTS REQUIRED BY THE LENDERS.

DOCKET NO. E-01461A-07-0433

DECISION NO. 70399

ORDER

Open Meeting  
July 1 and 2, 2008  
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 July 23, 2007, Trico Electric Cooperative, Inc. ("Trico" or "Cooperative"), a non-profit member-owned cooperative, filed an application with the Commission for authorization to borrow \$83.98 million from the United States of America through the Rural Utilities Service ("RUS").<sup>1</sup>

2. On September 13, 2007, the Commission granted intervention to Local Union 1116, International Brotherhood of Electrical Workers, AFL-CIO ("IBEW Local 1116").

<sup>1</sup> Trico originally planned to borrow \$58,786,000 from the RUS and \$25,194,000 from the National Rural Utilities Cooperative Finance Corporation ("CFC"), but subsequently decided to borrow all the funds from RUS.

1           3.       On September 13, 2007, Trico mailed affidavits of publication verifying that it had  
2 notice of its financing application published in the *Nogales International* on August 28, 2007 and in  
3 the *The Daily Territorial* on August 27, 2007. Both newspapers are papers of general circulation in  
4 the areas served by Trico. The affidavits were docketed by Staff on June 4, 2008.

5           4.       On May 29, 2008, the Commission's Utilities Division ("Staff") filed its Staff Report  
6 recommending conditional approval of the requested financing authority.

7           5.       On June 13, 2008, the IBEW Local 1116 filed Comments Regarding the Staff Report,  
8 expressing its "strong support for the recommended conditional approval for the financing  
9 authorization for the reasons set forth in the Staff's Report dated May 28, 2008."

10          6.       As of the date it filed its application, Trico provided electric power distribution service  
11 to approximately 37,300 customers in a service area ranging from Mt. Lemmon on the north side of  
12 Tucson to areas west and south of Tucson, to Sasabe on the Mexican border. The Cooperative  
13 expected 38,400 customers by the end of 2007. Portions of its service territory are rural and sparsely  
14 populated, but other areas, including Avra Valley, Sahuarita and Three Points are experiencing rapid  
15 growth from new subdivisions.

16          7.       Trico has no generating capacity of its own and contracts with the Arizona Electric  
17 Power Cooperative, Inc. ("AEPCO") for the majority of its electric power supply.

18          8.       Trico seeks to borrow the funds to finance its construction work plan for the period  
19 2008 through 2010 as set forth below:

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<u>Year</u>	<u>Construction Budget</u>
2007	\$20,029,700
2008	22,770,162
2009	24,733,604
2010	21,016,364
Subtotal	\$88,549,830
Less: Other funds	4,569,830

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<b>Required Loan</b>	<b>\$83,980,000</b>
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9. Trico states that the construction of additional and supplemental facilities is necessary to provide for expected growth in its service territory and to maintain its plant in sound operating condition.

10. The proposed financing consists of a 35-year amortizing loan that provides for multiple draws over an estimated five year period. The expected interest rate is estimated to be 5.0 percent per year, but the actual interest rate will be based on the market rate at the time of each draw. The anticipated yearly draws are set forth as follows:

<u>Year of Draw</u>	<u>Amount Drawn</u>	<u>Year of Maturity</u>
2008	\$10,500,000	2043
2009	18,000,000	2044
2010	18,000,000	2045
2011	18,000,000	2046
2012	18,000,000	2047
2013	1,480,000	2049
<b>Total</b>	<b>\$83,980,000</b>	

11. The following is a summary of Trico's 2007-2010 Construction Work Plan:

<u>Account Name</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Member Extns.	\$9,785,563	\$8,433,159	\$9,555,462	\$10,655,328	\$38,429,512
Tie Lines	1,862,000	3,488,610	3,054,331	2,107,871	10,512,812
Upgrades, Rebuilds	3,082,000	4,267,290	2,651,189	2,221,514	12,221,993
New Substations	0	927,000	1,591,350	819,545	3,337,895
Misc. Distrn. Eqp.	5,290,656	5,644,337	4,582,423	5,201,745	20,719,161

1	Other Distribution	9,481	9,766	10,059	10,361	39,667
2	Transmission	0	0	3,288,790	0	3,288,790
3					SubTotal	\$88,549,830
4	General Funds					4,569,830
5	Total Project Cost					\$83,980,000

6  
7 The Cooperative's Work Plan includes upgrades and additions of transmission and distribution  
8 facilities needed for reliable operation of its system. The Work Plan includes new tie lines and a  
9 conversion from overhead lines to underground cable to maintain proper voltage on the system. Staff  
10 believes the new transmission lines and new distribution tie lines will enable the Cooperative to meet  
11 the projected system load growth in a reliable manner.

12 12. Staff reports that Trico's outage hours per customer varied between 2.16 and 2.25 for  
13 the 2003-2007 period, showing an average of 2.21 outage hours per customer per year. Staff states  
14 this is well within the RUS guidelines of 5 outage hours per customer per year. In addition, Staff  
15 reports that Trico's system losses ranged between 5.29 percent in 2003 and 5.17 percent in 2007,  
16 which Staff states are well within the industry guidelines of 10 percent per year for rural electric  
17 cooperatives.

18 13. Staff's engineering review of the application indicates that the items included in the  
19 list of capital projects are appropriate to meet the load growth and will enable Trico to operate and  
20 maintain its electric system in a safe and reliable manner, and that the expenditure amounts  
21 associated with the projects appear to be reasonable.

22 14. Staff noted, however, that it is not making a "used and useful" determination as part  
23 of its review in this proceeding, but rather treatment of the proposed plant improvements for rate-  
24 making purposes will be deferred to a future rate proceeding.

25 15. Based on year ended December 31, 2006, financial information, Staff's analysis  
26 indicates that as of December 31, 2006, Trico's capital structure consisted of 1.6 percent short-term  
27 debt, 71.9 percent long-term debt and 26.5 percent equity. At that time, the Cooperative's Times  
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1 Interest Earned Ratio ("TIER") and Debt Service Coverage Ratio ("DSC") were 1.49 and 1.62,  
2 respectively.<sup>2</sup>

3 16. Staff states that as of December 31, 2006, Trico had \$24,748,000 of unused debt  
4 authorization. Staff's pro forma analysis, to account for the issuance of this unused finance authority,  
5 yields a capital structure as of December 31, 2006, consisting of 1.6 percent short-term debt, 75.5  
6 percent long-term debt, and 22.9 percent equity. The pro forma TIER and DSC for this scenario are  
7 1.20 and 1.35, respectively.

8 17. RUS loan covenants require a 1.25 TIER and a 1.25 DSC in two of the past three  
9 years.

10 18. Staff believes that the pro forma ratios indicate that Trico has little capacity to support  
11 additional borrowing based on its 2006 operating results.

12 19. Staff's financial analysis further modified 2006 operating results to take account of the  
13 current request to issue \$83.98 million in additional debt. Staff's pro forma analysis shows that the  
14 additional debt would result in a capital structure comprised of 1.4 percent short-term debt, 83.2  
15 percent long-term debt, and 15.4 percent equity, and that the TIER and DSC would fall to 0.71 and  
16 0.85, respectively. Staff asserts that these results represent a "stress test" because Trico will not be  
17 drawing down the entire amount of the new debt all at once, but plans to draw on the funds over a six  
18 year period beginning in 2008.

19 20. In the Staff Report, Staff states that although Trico's own financial analysis shows that  
20 the Cooperative will have the ability to meet debt service obligations including the newly proposed  
21 debt, its assumptions about future results are unknown. Consequently, Staff does not believe Trico's  
22 projections are sufficiently reliable to serve as a basis for unconditionally granting the entire  
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24 <sup>2</sup> Times Interest Earned Ratio ("TIER") represents the number of times earnings cover interest expense on short-term and  
25 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.

26 Debt Service Coverage Ratio ("DSC") represents the number of times internally generated cash will cover required  
27 principal and interest payments on short-term and long-term debt. A DSC greater than 1.0 indicates that operating cash  
28 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.

1 requested debt authorization.<sup>3</sup>

2       21. Staff notes that Trico's 2008 capital improvement projects budget is approximately  
3 \$20.8 million. Staff believes that issuance of \$20.8 million of additional debt would provide funds to  
4 allow the Cooperative to continue its planned capital improvement projects for another year without  
5 interruption. Staff's pro forma analysis taking account of the issuance of \$20.8 million of additional  
6 debt results in a capital structure consisting of 1.54 percent short-term debt, 77.82 percent long-term  
7 debt and 20.64 percent equity, with a pro forma TIER and DSC of 1.02 and 1.18, respectively, based  
8 on year-end 2006 results. Staff states that under this scenario, Trico would have sufficient cash flow  
9 to meet all obligations, but would need to improve upon its 2006 operating results to meet the RUS  
10 requirement for a 1.25 TIER and a 1.25 DSC. Staff acknowledges that because the TIER and DSC  
11 requirements apply to two of the past three years, if the Cooperative falls short of these parameters in  
12 any one year, it has an opportunity to pursue corrective measures for compliance in subsequent years.

13       22. Staff concludes that it is in the public interest for Trico to have \$20.8 million of new  
14 funding available to finance its 2008 budget for capital improvements. Staff also concludes that any  
15 borrowing authorizations granted to Trico in this proceeding beyond that needed to satisfy its  
16 budgeted 2008 capital improvement projects should be subject to the condition that a pro forma  
17 calculation, using its most recent annual financial report (Form 7) reflecting the additional borrowing,  
18 results in a 1.25 DSC and a 1.25 TIER unless the Commission specifically grants an exception. Staff  
19 additionally concludes, subject to this condition, that Trico incurring up to \$83.98 million of debt for  
20 the purposes proposed in its application is within its corporate powers, is compatible with the public  
21 interest, is compatible with sound financial practices, and will not impair its ability to provide public  
22 service.

23       23. In Decision No. 66779 (February 13, 2004), the Commission approved a \$25,000,000  
24 line of credit expressly for the purpose of providing interim financing for capital improvements until  
25 permanent RUS funding becomes available. Decision No. 66779 provided specifically "... use of  
26 the line of credit authorized herein shall be restricted to obtaining interim financing for future capital  
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28 <sup>3</sup> Staff Report at p 3.

1 improvement projects for which the Commission has authorized long-term financing.”

2       24. Staff is concerned that Trico’s use of the line of credit not result in excess borrowing  
3 beyond the Cooperative’s ability to service debt.

4       25. Staff believes that if the capital projects associated with the conditional authorization  
5 could be considered capital improvements for which the long-term has been authorized, Trico could  
6 use the line of credit to incur more debt than would meet financial restrictions. Consequently, Staff  
7 concludes that any debt authority that is conditioned or restricted under this Decision should not be  
8 used to qualify for interim financing under the line of credit approved in Decision No. 66779.

9       26. Staff reports that Trico has no outstanding compliance delinquencies.

10       27. Staff recommends the Commission authorize Trico (1) to issue debt in an amount not  
11 to exceed \$20.8 million to RUS in the form of a 35-year amortizing loan to fund the Cooperative’s  
12 budgeted 2008 capital improvement projects; and (2) to issue debt in an additional amount not to  
13 exceed \$63.18 million to RUS in the form of a 35-year amortizing loan to fund other capital projects  
14 described in its application subject to the condition that a pro forma calculation using its most recent  
15 annual financial report (Form 7) reflecting the additional borrowing results in a 1.25 DSC and a 1.25  
16 TIER.<sup>4</sup>

17       28. Staff further recommends that any debt issuance authorization conditionally granted in  
18 this proceeding shall not satisfy the line of credit restriction specified in Decision No. 66779 that “. .  
19 . use of the line of credit authorized herein shall be restricted to obtaining interim financing for future  
20 capital improvement projects for which the Commission has authorized long-term financing” unless  
21 the amounts drawn on the line of credit when treated as draws on debt authorizations granted in this  
22 proceeding would meet the 1.25 TIER and 1.25 DSC conditions.

23       29. Staff further recommends that any unused debt issuance authorization granted in this  
24 proceeding terminate on December 31, 2013.

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26 <sup>4</sup> For purposes of this test, Staff recommends the DSC should be calculated as a fraction with operating margin before  
27 fixed obligations, depreciation and amortization, and income tax, if any, in the numerator and interest on short-term and  
28 long-term debt plus principal repayments due within 12 months in the denominator, and TIER should be calculated as a  
fraction with operating margin before fixed obligations in the numerator and interest on short-term and long-term debt in  
the denominator. Calculations are to be based on the most recently filed audited financial statements (Form 1) adjusted to  
reflect the interest and principal impact of changes to outstanding debt to the date of the calculation plus the proposed  
new debt, where interest and principal repayments are annualized.





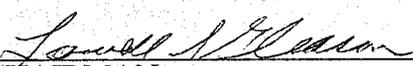
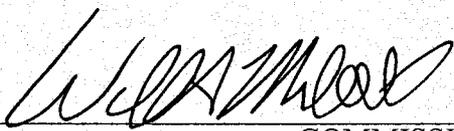
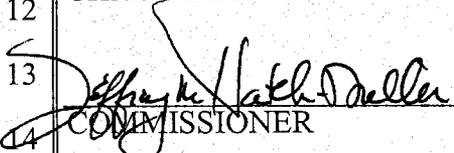
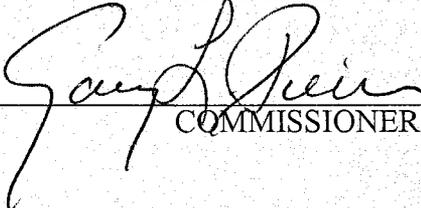
1 any documents necessary to effectuate the authorizations granted.

2 IT IS FURTHER ORDERED that Trico Power Cooperative, Inc. shall file with Docket  
3 Control, as a compliance item in this docket, copies of any executed financing documents related to  
4 this authority within 60 days after the date of execution.

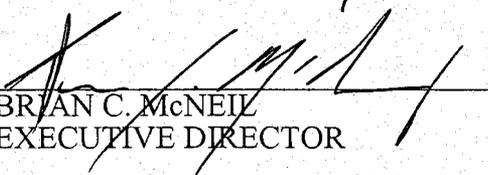
5 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not  
6 constitute or imply approval or disapproval by the Commission of any particular expenditure of the  
7 proceeds derived thereby for purposes of establishing just and reasonable rates.

8 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

9 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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12 CHAIRMAN COMMISSIONER  
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14 COMMISSIONER COMMISSIONER COMMISSIONER  
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16 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive  
17 Director of the Arizona Corporation Commission, have  
18 hereunto set my hand and caused the official seal of the  
19 Commission to be affixed at the Capitol, in the City of Phoenix,  
20 this 3<sup>rd</sup> day of July, 2008.

21   
22 BRIAN C. McNEIL  
23 EXECUTIVE DIRECTOR

24 DISSENT \_\_\_\_\_

25 DISSENT \_\_\_\_\_

26 JR:

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1 SERVICE LIST FOR: TRICO ELECTRIC COOPERATIVE, INC.

2 DOCKET NO.: E-01461A-07-0433

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