

ORIGINAL



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MEMORANDUM

TO: Docket Control
FROM: Ernest G. Johnson
Director
Utilities Division

EA for EGJ

DATE: May 28, 2008

RE: STAFF REPORT FOR TRICO ELECTRIC COOPERATIVE, INC.,
APPLICATION FOR FINANCING DOCKET NO. E-01461A-07-0433)

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

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before June 11, 2008.

EGJ:BCA:red

Originator: Brendan C. Aladi

Attachment: Original and sixteen copies

Arizona Corporation Commission
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Docket No. E-01461A-07-0433

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**TRICO ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01461A-07-0433**

**APPLICATION FOR A
FINANCING AUTHORIZATION**

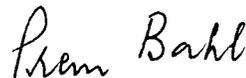
MAY 28, 2008

STAFF ACKNOWLEDGMENT

The Staff Report for Trico Electric Cooperative, Inc., Docket No. E-01461A-07-0433 was the responsibility of the Staff members listed below: Brendan C. Aladi was responsible for the review and financial analysis of the Company's application. Prem Bahl was responsible for the engineering and technical analysis.



BRENDAN C. ALADI
PUBLIC UTILITIES ANALYST III



PREM BAHL
UTILITIES ENGINEER (ELECTRICAL)

EXECUTIVE SUMMARY
TRICO ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01461A-07-0433

Trico Electric Cooperative, Inc., (“Trico” or “Cooperative”), a non-profit member owned cooperative, filed an application on July 23, 2007, for financing authorization to borrow \$58,786,000 from the United States of America, or guaranteed by the United States of America, through the Rural Utilities Service (“RUS”) and \$25,194,000 from National Rural Utilities Cooperative Finance Corporation (“CFC”). Trico submitted applications to RUS in June 2007 and to CFC in July 2007. Subsequently, Trico informed Staff that it anticipates borrowing all the funds from RUS.

Trico provides electric power distribution service to approximately 37,300 customers in a service area ranging from Mt. Lemmon on the north side of Tucson to areas west and south of Tucson to Sasabe on the Mexican border.

The Cooperative proposes to borrow funds in the years 2008 through 2013 to finance the construction of additional and supplemental facilities to provide for expected growth in its service territory and maintain its plant in sound operating condition. Construction and borrowing decisions will be made on a project-by-project basis.

Trico’s existing capital structure consists of 1.6 percent short-term debt, 71.9 percent long-term debt, and 26.5 percent equity. Trico has an existing, unused borrowing authorization of \$24,748,000. A pro forma capital structure reflecting issuance of this unused authorization consists of 1.6 percent short-term debt, 75.5 percent long-term debt, and 22.9 percent equity. Immediate issuance of the proposed \$83.98 million debt results in an excessively leveraged capital structure consisting of 1.4 percent short-term debt, 83.2 percent long-term debt, and 15.4 percent equity. The latter is not a projected result because Trico anticipates drawing the funds over a six-year period beginning in 2008 instead of immediately.

Trico’s times interest earned (“TIER”) and debt service coverage (“DSC”) ratios for 2006 are 1.49 and 1.62, respectively. Pro forma TIER and DSC reflecting issuance of the \$24,748,000 unused borrowing authorization as a 35-year amortizing loan at 5.0 percent per annum are 1.20 and 1.35, respectively. These pro forma results show that Trico has little capacity to support any borrowing beyond that previously authorized if it is to maintain compliance with its loan covenants since RUS loan covenants require a 1.25 TIER and a 1.25 DSC in two of the past three years. Trico essentially has a one-year leeway before it must increase its operating margin to support any of its requested additional borrowing authorization.

Staff concludes that the proposed use of funds is appropriate. Staff also concludes that it is in the public interest for Trico to have \$20.8 million of new funding available to finance its 2008 budget for capital improvements. A \$20.8 million debt issuance results in a pro forma 1.02 TIER and 1.18 DSC. Staff also concludes that any borrowing authorizations granted to Trico in this proceeding beyond that needed to satisfy its budgeted 2008 capital improvement projects should be subject to the condition that a pro forma calculation using its most recent annual

financial report (Form 7) reflecting the additional borrowing results in a 1.25 DSC and a 1.25 TIER unless the Commission specifically grants an exemption. Staff additionally concludes, subject to this condition, that Trico incurring up to \$83.98 million of debt for the purposes proposed in its application is within its corporate powers, is compatible with the public interest, is compatible with sound financial practices, and will not impair its ability to provide public service.

Staff recommends authorization for Trico (1) to issue debt in an amount not to exceed \$20.8 million to RUS in the form of a 35-year amortizing loan to fund its budgeted 2008 capital improvement projects and (2) to issue debt in an additional amount not to exceed \$63.18 million to RUS in the form of a 35-year amortizing loan to fund other purposes described in its application subject to the condition that a pro forma calculation using its most recent annual financial report (Form 7) reflecting the additional borrowing results in a 1.25 DSC and a 1.25 TIER.

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

Staff further recommends that Trico be ordered to file with Docket Control as a compliance item an annual report no later than April 15th each year demonstrating compliance with the 1.25 TIER and 1.25 DSC debt issuance condition for any debt issued in the preceding calendar year.

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Introduction

Trico Electric Cooperative, Inc., ("Trico" or "Cooperative"), a non-profit member owned cooperative, filed an application on July 23, 2007, with the Arizona Corporation Commission ("Commission") for financing authorization to borrow \$83.98 million. The application states that Trico plans to borrow \$58,786,000 from the United States of America, or guaranteed by the United States of America, through the Rural Utilities Service ("RUS") and \$25,194,000 from the National Rural Utilities Cooperative Finance Corporation ("CFC") to finance the construction of additional and supplemental facilities to provide for expected growth in its service territory and maintain its plant in sound operating condition. Trico submitted its application with RUS in June 2007 and its application with CFC in July 2007. Subsequently, Trico informed Staff that it anticipates borrowing all the funds from RUS.

Notice

Notice of the Application for Financing Authorization was published in *The Daily Territorial* on August 27, 2007, in the *Nogales International* on August 28, 2007, and in the *Casa Grande Dispatch* on August 28, 2007. All are newspapers of general circulation in the areas served by Trico. Affidavits of publication and the notices are attached.

Background

Trico provided electric power distribution service to 37,300 customers, as of the application date, in a service area ranging from Mt. Lemmon on the north side of Tucson to areas west and south of Tucson, to Sasabe on the Mexican border, and it expected customer totals of 38,400 by the end of 2007.

Portions of the Cooperative's service territory are sparsely populated, but the other areas including Avra Valley, Sahuarita, and Three Points are experiencing rapid growth via new subdivisions. Trico has no generating capacity of its own and has contracted with Arizona Electric Power Cooperative, Inc. ("AEPCO") for the majority of its electric power supply. Trico serves as a conduit for power by providing the lines, substations, switches, transformers, meters, and administrative functions for customers.

Purpose of Financing

The Cooperative is borrowing funds to finance its construction work plan for the period 2008 through 2010 as shown in Table 1 below. The application 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. Construction and borrowing decisions are made on a project-by-project basis.

Table 1

Year	Construction Budget
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
Required Loan	\$83,980,000

Description of Proposed Financing

The proposed financing is in the form of a 35-year amortizing loan that provides for multiple draws over an anticipated five-year period from mid-2008 to mid-2013. The expected interest rate is approximately 5.0 percent per annum. The actual interest rate will be based on the market rates at the time of each draw. The anticipated yearly funding is shown in Table 2 below.

Table 2

Year of Draw	Amount Drawn	Year of Maturity
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	2048
Total	\$83,980,000	

Financial Analysis

Staff's analysis is illustrated in Schedule BCA-1. Column [A] reflects Trico's financial information for the year ended December 31, 2006. Column [B] presents the pro forma results from modifying Column [A] to reflect issuance of the \$24,748,000 unused existing loan authorization. Column [C] presents pro forma results from modifying Column [B] to reflect issuance of the \$83.98 million proposed debt. Column [D] presents pro forma results from modifying Column [B] to reflect a \$20.80 million debt to fund Trico's budgeted 2008 capital improvement projects.

2006 Financial Results – Scenario A

The Cooperative's capital structure at December 31, 2006, consisted of 1.6 percent short-term debt, 71.9 percent long-term debt, and 26.5 percent equity. The times interest earned ratio ("TIER")¹ and debt service coverage ratio ("DSC")² for 2006 are 1.49 and 1.62, respectively.

Issuance of Unused Debt – Scenario B

At December 31, 2006, Trico had \$24,748,000 of unused authorization to incur debt. A pro forma capital structure that modifies scenario A to reflect issuance of this unused authorization consists of 1.6 percent short-term debt, 75.5 percent long-term debt, and 22.9 percent equity. The pro forma TIER and DSC for Scenario B are 1.20 and 1.35, respectively. RUS loan covenants require a 1.25 TIER and a 1.25 DSC in two of the past three years. The pro forma TIER and DSC results in scenario B show that Trico has little capacity to support additional borrowing based on its 2006 operating results.

Issuance of the Proposed \$83.98 Million Loan – Scenario C

Trico requests authorization to issue \$83.98 million in additional debt. A pro forma capital structure that modifies scenario B to reflect issuance of the proposed \$83.98 million debt, i.e., scenario C, consists of 1.4 percent short-term debt, 83.2 percent long-term debt, and 15.4 percent equity. The pro forma TIER and DSC for Scenario C are 0.71 and 0.85, respectively. These results reflect a stress test since Trico anticipates drawing the funds over a six-year period beginning in 2008 instead of immediately following 2006. Trico's projections, which represent unknown assumptions about future results, show that it will have the ability to meet debt service obligations including the proposed debt issuance. While Trico's projections may be reasonable, Staff concludes that these projections of financial performance are not sufficiently reliable to serve as a basis for unconditionally granting the requested debt issuance authorization.

Issuance of a \$20.8 Million Loan – Scenario D

Trico's 2008 capital improvement projects budget is \$20.8 million. Issuance of \$20.8 million of debt would provide funds to allow the Cooperative to continue its planned capital improvement projects for another year without interruption. A pro forma capital structure that modifies scenario B to reflect issuance of \$20.8 million in debt, i.e., scenario D, consists of 1.5 percent short-term debt, 77.8 percent long-term debt, and 20.6 percent equity. The pro forma TIER and DSC for Scenario D are 1.02 and 1.18, respectively. In scenario D, the Cooperative

¹ 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. A TIER less than 1.0 is not sustainable in the long term but does not necessarily mean that debt obligations cannot be met in the short term.

² DSC 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. 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.

has sufficient cash flow to meet all obligations, but it will need to improve upon its 2006 operating results to meet the RUS requirement for a 1.25 TIER and a 1.25 DSC. Since the TIER and DSC requirements apply to two of the past three years, if the Cooperative falls short of these parameters in any one year, it has an opportunity to pursue corrective measures for compliance in subsequent years.

Relationship between Line of Credit and Proposed Debt

The Cooperative has a \$25,000,000 revolving line of credit authorized in Decision No. 66779, dated February 13, 2004. The line of credit provides interim financing for capital improvements by funding construction until RUS long-term funds become available. Decision No. 66779 placed a restriction on use of the line of credit stating that “. . . use of the line of credit authorized herein shall be restricted to obtaining interim financing for future capital improvement projects for which the Commission has authorized long-term financing.” If the Commission authorizes the requested \$83.98 million financing and related capital improvement projects, this restriction will be satisfied. However, the underlying purpose of that restriction is not only to restrict use of funds for appropriate purposes but also to prevent excessive borrowing via a large line of credit. Use of the line of credit as interim financing does not result in excess debt only if Trico can service the long-term debt that it uses to refinance it. Trico is not currently generating sufficient cash flow to service all of the requested financing. Accordingly, Staff concludes that restrictions should apply to draws on the majority of the requested financing authorizations. If the restricted portions of the authorized financing are considered capital improvements for which the long-term financing has been authorized, Trico could use the line of credit to incur debt that cannot meet the conditions or restrictions placed on issuing the long-term debt. Therefore, Staff concludes that any conditioned/restricted authorizations should not be used to satisfy the line of credit restriction in Decision No. 66779.

Engineering Analysis

The Staff Engineering Report is attached. Staff reviewed the construction work plan which includes capital expenditures on transmission, distribution system upgrades and new infrastructure for the new projects. Staff concludes that Trico's \$83.98 million (Total project cost \$88,549,830 less \$4,569,830 from Trico's General fund) estimated cost for the proposed capital improvements appear reasonable. Treatment of the proposed plant improvements for rate-making purposes is deferred to a future rate proceeding. Staff makes no “used and useful” determination in this proceeding.

Compliance

No outstanding compliance delinquencies apply to Trico.

Staff Conclusions and Recommendations

Staff concludes that the proposed uses of funds are appropriate and the estimated costs are reasonable.

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

Staff recommends authorization for Trico (1) to issue debt in an amount not to exceed \$20.8 million to RUS in the form of a 35-year amortizing loan to fund its budgeted 2008 capital improvement projects and (2) to issue debt in an additional amount not to exceed \$63.18 million to RUS in the form of a 35-year amortizing loan to fund other purposes described in its application subject to the condition that a pro forma calculation using its most recent annual financial report (Form 7) reflecting the additional borrowing results in a 1.25 DSC and a 1.25 TIER.³

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

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

Staff further recommends that Trico be ordered to file with Docket Control, as a compliance item in this docket, an annual report no later than April 15th each year demonstrating

³ For purposes of this test, the DSC is calculated as a fraction with operating margin before fixed obligations, depreciation and amortization, and income tax, if any, in the numerator and interest on short-term and long-term debt plus principal repayments due within 12 months in the denominator, and TIER is 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 principle impact of changes to outstanding debt to the date of the calculation plus the proposed new debt, where interest and principal repayments are annualized.

compliance with the 1.25 TIER and 1.25 DSC debt issuance condition for any debt issued in the preceding calendar year.

Staff recommends authorizing Trico to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that Trico be ordered to provide to the Commission within 60 days of closing of the loans, copies of all executed loan documents. Such copies are to be filed with Docket Control, as a compliance item in this docket.

Selected Financial Information

	[A] ¹ 12/31/2006	[B] ² Pro Forma	[C] ³ Pro Forma	[D] ⁴ Pro Forma
1 Operating Income	\$ 7,410,530	7,410,530	7,410,530	\$ 7,410,530
2 Depreciation & Amort.	4,450,736	4,450,736	4,450,736	4,450,736
3 Income Tax Expense	47	47	47	47
4				
5 Interest Expense	4,957,877	6,189,203	10,392,796	7,230,340
6 Repayment of Principal	2,341,950	2,609,426	3,511,171	2,832,768
7				
8 TIER				
9 [1+3] ÷ [5]	1.49	1.20	0.71	1.02
10 DSC				
11 [1+2+3] ÷ [5+6]	1.62	1.35	0.85	1.18
12				
13				
14				
15				
16				
17 Capital Structure				
18 Short-term Debt	2,341,950	2,609,426	3,511,171	2,832,768
19 Long-term Debt	102,683,049	124,821,623	205,290,453	142,786,855
20 Common Equity	37,873,827	37,873,827	37,873,827	37,873,827
21 Total Capital	\$ 142,898,826	\$ 165,304,876	\$ 246,675,450	\$ 183,495,450
22				
23 Capital Structure (Inclusive of AIAC and Net CIAC)				
24 Short-term Debt	2,341,950	2,609,426	3,511,171	2,832,768
25 Long-term Debt	102,683,049	124,821,623	205,290,453	142,786,855
26 Common Equity ⁵	37,873,827	37,873,827	37,873,827	37,873,827
27 Advances in Aid of Construction ("AIAC")	5,329,828	5,329,828	5,329,828	5,329,828
28 Contributions in Aid of Construction ("CIAC") ⁷	0	0	0	0
29 Total Capital (Inclusive of AIAC and CIAC)	\$ 148,228,654	\$ 170,654,704	\$ 252,005,278	\$ 188,825,278
30				
31 AIAC and CIAC Funding Ratio	3.6%	3.1%	2.1%	2.8%
32 (36+39)/(40)				

¹ Column [A] is based on 2006 financial information for the year ended December 31, 2006.
² Column [B] is Column [A] modified to reflect a \$24,748,000 unused authorization, at an interest rate of 5 percent, for 35 years.
³ Column [C] is Column [B] modified to reflect a \$63,980,000 new loan, at an interest rate of 5.03 percent, for 35 years.
⁴ Column [D] is Column [B] modified to reflect a \$20,800,000 new loan, at an interest rate of 5.03 percent, for 35 years.
⁵ Pro Forma short-term debt includes the first year principal of the pro forma loan.
⁶ Staff typically recommends common equity equal to or greater than 30 percent of total capital for the Cooperative.
⁷ Net CIAC balance (i.e., less accumulated amortization of contributions).

MEMORANDUM

TO: Brendan Aladi
Public Utility Analyst III
Utilities Division

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

DATE: May 5, 2008

SUBJECT: STAFF REPORT FOR TRICO ELECTRIC COOPERATIVE, INC.,
APPLICATION FOR FINANCING DOCKET NO. E-01461A-07-0433)

Trico Electric Cooperative, Inc. ("Trico" or "Cooperative") submitted an application to the Arizona Corporation Commission ("Commission") for authorization to borrow \$58,786,000 through the Rural Utilities Service ("RUS") and \$25,194,000 from National Rural Utilities Cooperative Finance Corporation ("CFC"). The purpose of this loan is to provide financing for the Cooperative's 2004-2007 Construction Work Plan ("Plan" or "Work Plan"). This loan amount will enable Trico to invest in electric utility infrastructure in terms of upgrades and new additions to the existing distribution and transmission system to meet the projected customer demand in a reliable manner.

Utility Overview

Trico is an all-requirement cooperative, receiving all of its power supply from Arizona Electric Power Cooperative ("AEPSCO"). It is delivered to Trico through the transmission system of Southwest Transmission Cooperative, Inc. ("SWTC"). Currently, Trico provides electric power to approximately 33,867 retail customers (members), over approximately 3,497 miles of energized lines, including 31 miles of transmission lines, 1,581 miles of overhead distribution lines and 1,885 miles of underground distribution cables. Trico serves an area around the City of Tucson approximately 25 miles to the west, 50 miles to the south, 15 miles to the east, and 20 miles to the north. Trico also serves in the Arivaca and Sasabe areas, and in the Baboquivari Mountains. The

Cooperative's service territory is located within SWTC's Control Area¹. The Cooperative's retail load peaked at 166 MW in 2007. A geographical layout of Trico's present and proposed substations is attached as Exhibit 1.

Review of Capital Projects

Staff has reviewed Trico's 2007-2010 Construction 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 Trico's 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, Trico's total number of customers grew from 28,197 in 2003 to 38,119 in 2007. The Trico distribution system load increased from 116 MW to 166 MW in the same period. These are average increases of 7.83 percent and 9.01 percent, respectively, per year for the four year period. Most of this growth has been in the residential sector, although there has been large power growth with new loads such as City of Tucson's water recovery project and a new casino load. Trico's peak load is projected to grow from 166 MW in 2007 to 212 MW in 2012, which is only 5.2 percent average increase per year in this time period.

Trico staff, in collaboration with Ellett and Gaynor consultants, prepared a 2007-2027 Long Range Plan ("LRP") in May 2007. According to this LRP, Trico projected the average number of customers receiving service at an average customer growth from

¹ A Control Area monitors actual and scheduled transmission transactions to assure load and generation are balanced within its system and power flows are within the ratings of the transmission facilities.

37,515 in 2007 to 140,605 customers in 2027, including 9,744 customers at Willow Springs, an area north of Oracle Junction for which Trico had a Certificate of Convenience and Necessity (“CC&N”) extension application just approved last year by the Commission.

Projected Capital Expenditures

Staff has reviewed the Cooperative’s 2007-2010 Construction 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 to new customers, new tie lines; conversions and upgrades of existing distribution lines. The Work Plan budget for 2007-2010, amounting to \$88,549,830, is summarized in the following Table 1. To the extent the Cooperative could utilize funds in the amount of \$4,569,830 from its General Funds, Trico’s application for financing requests only the difference, which amounts only to \$83,980,830.

**Table 1
SUMMARY OF CONSTRUCTION WORK PLAN 2007-2010**

Codes	Account Name	2007	2008	2009	2010	Total
100	Member Extns.	\$9,785,563	\$8,433,159	\$9,555,462	\$10,655,328	\$38,429,512
200	Tie Lines	\$1,862,000	\$3,488,610	\$3,054,331	\$2,107,871	\$10,512,812
300	Upgrades, Rebuilds	\$3,082,000	\$4,267,290	\$2,651,189	\$2,221,514	\$12,221,993
400	New Substations	\$0	\$927,000	\$1,591,350	\$819,545	\$3,337,895
600	Misc. Distrn. Eqp.	\$5,290,656	\$5,644,337	\$4,582,423	\$5,201,745	\$20,719,161
700	Other Distribution	\$9,481	\$9,766	\$10,059	\$10,361	\$39,667
800	Transmission	\$0	\$0	\$3,288,790	\$0	\$3,288,790
					Sub-Total*	\$88,549,830
	General Funds					4,569,830
	Total Project Cost					\$83,980,000

* Note: The total work plan is \$4,569,830 greater than the current loan amount due to the remaining amount of Trico's last loan approved by RUS and the ACC. Trico has not completed all the work from the last construction work plan and still has the \$4.5 million remaining from the last loan. Therefore, the new loan amount does not need to be the total work plan amount.

The capital project facilities for which funds have been applied for include new **tie lines** such as, among others, Moore Road tie line Phase I & Phase II; San Lucas Development to Dove Mountain West; Ruby Star; Dove Mountain Blvd/Camino De Manana; SaddleBrooke Ranch Feeder second Circuit; Oracle Highway underground tie line, etc. **Conversions and line changes** include, among others, Circuit 24 rebuild – Three Points Substation to Diamond Bell Tap; Camino Del Portillo underground cable replacement; San Joaquin Substation to Valhalla and to Sandario Substations; New Tucson Substation to Wetstones and to Rinconado Substations, and ARTCO Farms to Grand Valley. **Miscellaneous distribution equipment** includes overhead and underground transformers and meters; capacitors and reactors; voltage regulators; and replacements. Security Lights to the tune of \$39,667.00 are also included. The Work Plan also includes a 12-mile long 69 kV **transmission line** from the SaddleBrook Ranch Substation to the Willow Springs area.

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

System Reliability

The Cooperative has included in its Work Plan upgrades and needed additions of transmission and distribution facilities for reliable operation of its system. There is a provision in the Work Plan for new tie lines and a conversion from overhead line to underground cable to maintain proper voltages on the system. The new transmission line and new distribution tie lines as described above will enable the Cooperative to meet the projected system load in a reliable manner.

Customer Outage Hours

Trico's outage hours per consumer varied between 2.16 and 2.25 for the 2003-2007 period, showing an average of 2.21 outage hours per consumer per year. This is well within the RUS guidelines 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

Trico's annual system losses ranged between 5.29 percent in 2003 and 5.17 percent in 2007. These losses are well within the industry guidelines of 10 percent per year for rural electric cooperatives.

Conclusions

Based on the aforementioned review of Trico's distribution projects as included in its 2007-2010 Construction Work Plan, and other information provided by Trico in response to Staff's Data Requests (both written and verbal), Staff believes that these projects are appropriate to meet the projected demand of the Cooperative's new customers. In addition, the upgrade of existing electric facilities, replacement of wooden poles and aged underground cable, and the addition of new transmission and distribution facilities will help ensure system reliability. 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.

cc: Del Smith

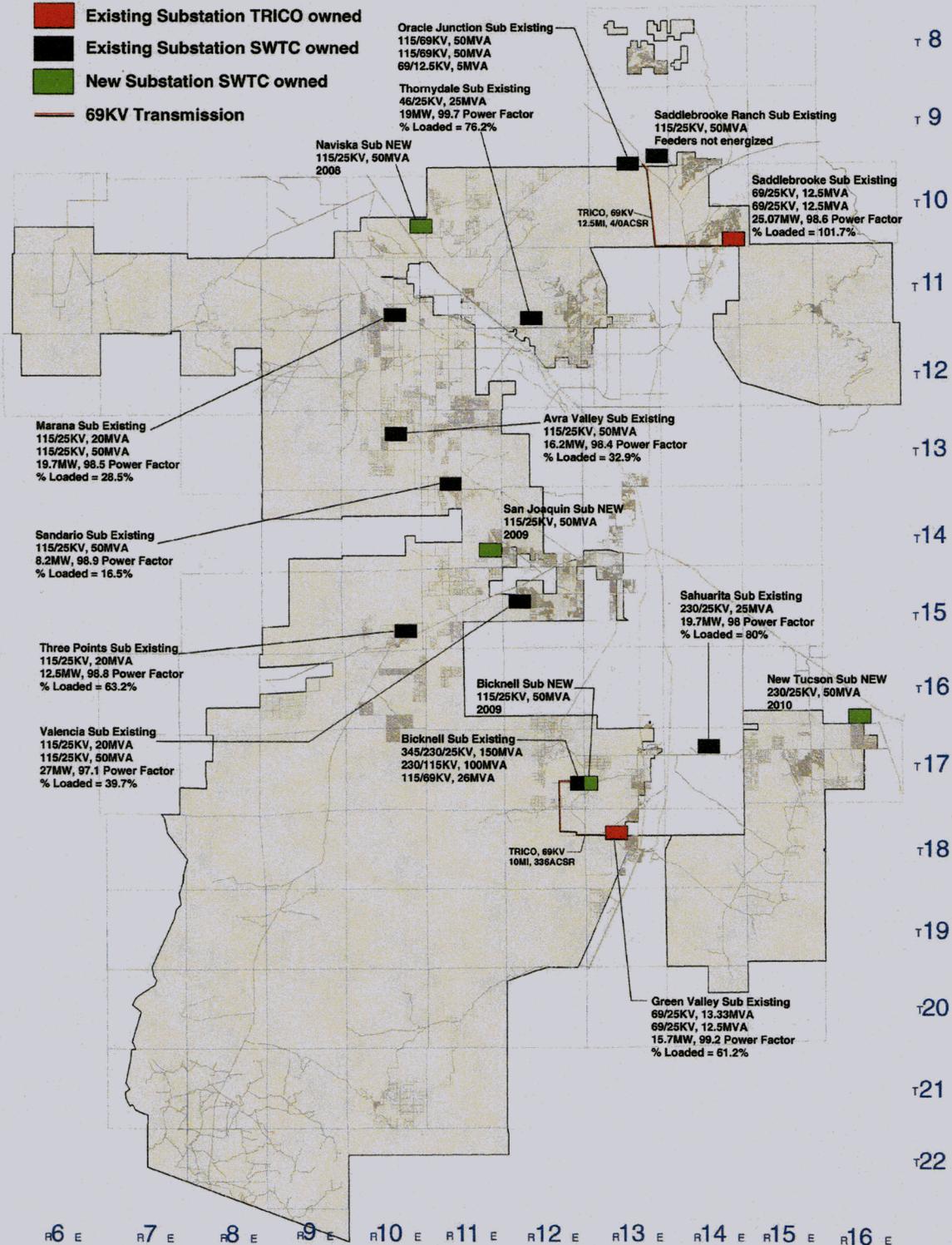
EXHIBIT 1

TRICO Electric Cooperative, Inc.

Substation and Transmission Line

Legend

- Existing Substation TRICO owned
- Existing Substation SWTC owned
- New Substation SWTC owned
- 69KV Transmission



R6 E R7 E R8 E R9 E R10 E R11 E R12 E R13 E R14 E R15 E R16 E

PUBLIC NOTICE
OF
AN APPLICATION FOR AN ORDER
AUTHORIZING TRICO ELECTRIC
COOPERATIVE, INC. 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
FINANCE CORPORATION AND TO
EVIDENCE SAID LOANS BY THE
EXECUTION OF LOAN
AGREEMENTS, PROMISSORY
NOTES AND SECURITY
DOCUMENTS REQUIRED
BY THE LENDERS

TRICO ELECTRIC COOPERATIVE,
INC. (Company) filed an Application
with the Arizona Corporation Commis-
sion (Commission) for an order author-
izing Applicant to Borrow the Additional
Sum of \$58,786,000 from the United
States Of America (RDUP) and the Ad-
ditional Sum of \$25,194,000 from Na-
tional Rural Utilities Cooperative Fi-
nance Corporation and to Evidence
Said Loans by the Execution of Loan
Agreements, Promissory Notes and Se-
curity Documents Required by the
Lenders in Docket No.
E-01461A-07-0433. The Application is
available for inspection during regular
business hours at the offices of the
Commission in Phoenix, Arizona, and
the Company's offices at 8600 West
Tangerine Road, Marana, Arizona.

Intervention in the Commission's pro-
ceedings on the Application shall be
permitted to any person entitled by law
to intervene and having a direct sub-
stantial interest in this matter. Persons
desiring to intervene must file a Motion
to Intervene with the Commission which
must be served upon Applicant and
which, at a minimum, 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 in-
tervenor's interest in the proceeding.
3. Whether the proposed intervenor de-
sires 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.A.C. R14-3-105,
except that all Motions to Intervene
must be filed on, or before, the 15th day
after this notice is published.

PUBLISH: The Daily Territorial
August 27, 2007
pntrico rj

Affidavit of Publication

STATE OF ARIZONA

COUNTY OF PINAL

} SS.

DONOVAN M. KRAMER SR.

first being duly sworn deposes and says: That he is a native born citizen of the United States of America, over 21 years of age, that he is publisher of the Casa Grande Dispatch, a daily newspaper published at Casa Grande, Pinal County, Arizona, Monday through Saturday of each week; that a notice, a full, true and complete printed copy of which is hereunto attached, was printed in the regular edition of said newspaper, and not in a supplement thereto, for ONE consecutive issues the first publication thereof having been on the 28TH

day of AUGUST A.D., 2007

Second publication _____

Third publication _____

Fourth publication _____

Fifth publication _____

Sixth publication _____

PUBLIC NOTICE
OF
AN APPLICATION FOR
AN ORDER AUTHORIZING
TRICO ELECTRIC COOPERATIVE, INC.
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
FINANCE CORPORATION
AND TO EVIDENCE SAID LOANS BY
THE EXECUTION OF
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TRICO ELECTRIC COOPERATIVE, INC. (Company) filed an Application with the Arizona Corporation Commission (Commission) for an order authorizing Applicant 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 Finance Corporation and to Evidence Said Loans by the Execution of Loan Agreements, Promissory Notes and Security Documents Required by the Lenders in Docket No. E-01461A-07-0433. The Application is available for inspection during regular business hours at the offices of the Commission in Phoenix, Arizona, and the Company's offices at 8600 West Tangerine Road, Marana, Arizona.

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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.
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The granting of Motions to Intervene 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 this notice is published.

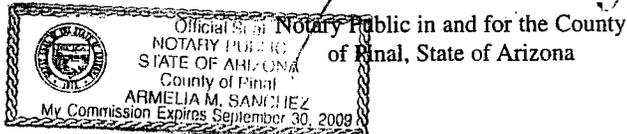
DATED: August 20, 2007

No. of publications: 1; date of publication: Aug. 28, 2007.

CASA GRANDE DISPATCH

By Donovan M. Kramer Sr.
DONOVAN M. KRAMER SR., Publisher

Sworn to before me this 15th
day of September A.D. 2007
Armelia M. Sanchez



LEGAL NOTICE

PUBLIC NOTICE OF AN APPLICATION FOR AN ORDER AUTHORIZING TRICO ELECTRIC COOPERATIVE, INC. 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 FINANCE CORPORATION AND TO EVIDENCE SAID LOANS BY THE EXECUTION OF LOAN AGREEMENTS, PROMISSORY NOTES AND SECURITY DOCUMENTS REQUIRED BY THE LENDERS

)
:SS.
CRUZ)

TRICO ELECTRIC COOPERATIVE, INC. (Company) filed an Application with the Arizona Corporation Commission (Commission) for an order authorizing Applicant 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 Finance Corporation and to Evidence Said Loans by the Execution of Loan Agreements, Promissory Notes and Security Documents Required by the Lenders in Docket No. E-01461A-07-0433. The Application is available for inspection during regular business hours at the offices of the Commission in Phoenix, Arizona, and the Company's offices at 8600 West Tangerine Road, Marana, 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

AFFIDAVIT OF PUBLICATION

MANUEL COPPOL;A

being first

duly sworn, deposes and says: That (he) (she) is the Agent to the Publisher of the NOGALES INTERNATIONAL newspaper printed and published two days a week in the City of Nogales, County of Santa Cruz, State of Arizona. That the notice, a copy of which is hereto attached, described as follows:

APPLICATION FOR AN ORDER AUTHORIZING TRICO ELECTRIC TO BORROW

was printed and published in the regular and entire issue of said NOGALES INTERNATIONAL for 1 issues, that the first was made on the 28th day of AUGUST 20 07 and the last publication thereof was made on the 28th day of

AUGUST 20 07 that said publication was made on each of the following dates, to wit:

08/28/07

Request of

Nogales International
268 W. View Point, Nogales, AZ 85621, (520) 281-9706

By *Manuel C. Coppola*