



BEFORE THE ARIZONA CORPORATION COMMISSION

DOCKETED

MAR 17 2010

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

DOCKETED BY NR

IN THE MATTER OF THE APPLICATION OF
SOUTHWEST TRANSMISSION COOPERATIVE,
INC. FOR AUTHORIZATION TO INCUR DEBT
AND SECURE LIENS ON ITS PROPERTY TO
FINANCE ITS 2009-2010 CONSTRUCTION
WORK PLAN.

DOCKET NO. E-04100A-09-0250

DECISION NO. 71511

ORDER

Open Meeting
March 2 and 3, 2010
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 May 20, 2009, Southwest Transmission Cooperative, Inc. ("SWTC" or
"Cooperative"), filed an application with the Commission requesting authority to secure interim, and
subsequently, permanent long-term financing for its 2009-2010 Construction Work Plan ("CWP").

2. On July 8, 2009, SWTC filed an affidavit of publication verifying public notice of its
financing application, indicating it published notice of its financing application in the Kingman Daily
Miner on June 10, 2009, and the Arizona Daily Star on June 15, 2009. The Kingman Daily Miner is
a daily newspaper of general circulation in the City of Kingman, Mohave County, Arizona. The
Arizona Daily Star is a daily newspaper of general circulation in Pima County.

3. SWTC is a non-profit Class "A" Arizona member-owned electric transmission
cooperative operating out of Benson, Arizona. SWTC was formed in August 2001 as part of the
reorganization of the Arizona Electric Power Cooperative, Inc. ("AEPSCO"). SWTC is owned by its

1 six Class A Member Cooperatives, which include Anza Electric Cooperative, Duncan Valley Electric  
2 Cooperative, Graham County Electric Cooperative, Mohave Electric Cooperative, Sulphur Springs  
3 Valley Electric Cooperative and Trico Electric Cooperative, and two Class B Members, AEPCO,  
4 which provides generation, and Sierra Southwest ("Sierra"), which provides staffing and human  
5 resources services. In addition to providing the electric transmission needs of the member  
6 cooperatives, as well as small areas of New Mexico and California, SWTC also provides  
7 transmission services to Safford, Thatcher and Mesa and Salt River Agricultural Improvement Project  
8 and Power District ("SRP") and the Morenci Water & Electric Company ("MW&E").

9 4. SWTC owns, operates and maintains a 613 mile high voltage and extra high voltage  
10 transmission system that spans all the way from the Mohave Desert surrounding Bullhead City,  
11 southeast to the playa and wetlands area of Cochise County, near Tucson. Additionally, SWTC  
12 operates more than 30 telecommunication facilities across Arizona, which also provide System  
13 Control, phone and data relay services to member cooperatives.

14 5. SWTC's current rates were approved in Decision No. 68072 (August 17, 2005).

15 6. In Decision No. 69239 (January 19, 2007), the Commission authorized SWTC to  
16 borrow up to \$49,575,000 from the Rural Utilities Service/Federal Financing Bank ("RUS/FFB") to  
17 finance its 2005-2008 Construction Work Plan.

18 7. On October 16, 2009, SWTC filed an application with the Commission requesting  
19 approval of rates to provide approximately \$7.65 million of additional revenue.<sup>1</sup> A hearing on the  
20 rate application is set to commence September 14, 2010.

21 8. On January 14, 2010, the Commission's Utilities Division ("Staff") filed its Staff  
22 Report on the current financing request, which recommended conditional approval.

23 9. On January 21, 2010, SWTC filed a response to the Staff Report, stating it had no  
24 comments or objections, and that SWTC received loan documents from the RUS/FFB that require  
25 execution by early April 2010. Consequently, SWTC requests that the matter be heard on the  
26 Commission's regular open meeting scheduled for March 2 and 3, 2010.

27  
28 <sup>1</sup> Docket No. E-04100A-09-0496.

1           10.    SWTC requests authority to secure interim financing in an amount not to exceed  
2 \$54,940,000 from the National Rural Utilities Cooperative Finance Corporation ("CFC").  
3 Subsequently, the Cooperative seeks to replace the interim financing with long-term financing not to  
4 exceed \$48,072,000 from RUS/FFB and internally generated funds.

5           11.    The Cooperative also requests that the Commission authorize it to change the specific  
6 facilities to be financed in the CWP without the necessity of filing an amended application so long as  
7 the total amount financed does not exceed \$54,940,000 for the interim financing or \$48,072,000 for  
8 the permanent financing.

9           12.    Staff reports that SWTC has no outstanding Commission compliance issues.

10          13.    A summary of the 2009-2010 CWP, by major category follows:

<u>Capital Projects</u>	<u>2009-2010 Total</u>
Transmission Lines	\$14,091,000
New Substations and Switching Stations	\$18,501,000
Line and Substation Changes	\$10,793,000
Communications & SCADA	\$3,487,000
Lines & Substations Ordinary Replacements	\$1,200,000
Total	\$48,072,000

19  
20          14.    The Commission Engineering Staff reviewed the Cooperative's proposed capital  
21 improvements and found the project costs appropriate and the related cost estimates reasonable. Staff  
22 makes no "used and useful" determination of the proposed improvements nor any conclusion for rate  
23 base or ratemaking purposes.

24          15.    Staff found the items included in the capital projects to be appropriate to meet new  
25 load growth of the member cooperatives and that they will enable SWTC to operate and maintain the  
26 electric system in a safe and reliable manner.

27          16.    Staff's financial analysis shows that for the year ended December 31, 2008, SWTC  
28

1 had a Times Interest Earned Ratio ("TIER") of 1.98 and Debt Service Coverage ("DSC") of 1.59.<sup>2</sup>

2 17. Staff's pro forma analysis, includes the proposed \$48,072,000 loan, with a 30 year  
3 amortization and an interest rate of 6.75 percent per annum, and includes the unused portion of the  
4 previously authorized debt ( \$25,565,000 at 4.50 percent), and calculated a TIER of 1.02 and DSC of  
5 0.98. In addition, Staff further assumed SWTC would receive revenue of \$910,632 (principal and  
6 interest on \$11,700,000) of direct assignment facility ("DAF") reimbursements from its Class A  
7 members for some of the facilities financed by the proposed loan, and calculated a TIER of 1.12 and  
8 DSC of 1.05.

9 18. Staff concludes that the pro forma DSC results indicate that only with recognition of  
10 the DAF reimbursements does the Cooperative have sufficient funds to pay all obligations.

11 19. The RUS/FFB requires a minimum TIER of 1.05 and DSC of 1.0.

12 20. Staff states that as of December 31, 2008, SWTC's capital structure consisted of 3.6  
13 percent short-term debt, 87.7 percent long-term debt, and 8.7 percent equity. Staff's pro forma  
14 analysis, reflecting the issuance of a \$48,072,000, 30-year amortizing loan at 6.75 percent per annum,  
15 plus issuance of a \$25,565,000, 30-year amortizing loan at 4.5 percent,<sup>3</sup> the capital structure would be  
16 composed of 2.6 percent short-term debt, 92.2 percent long-term debt and 5.2 percent equity.

17 21. Staff concludes that the issuance of the proposed debt financing for the purposes stated  
18 in the application is within SWTC's corporate powers, is compatible with the public interest, is  
19 consistent with sound financial practices and will not impair its ability to provide services.

20 22. Staff recommends authorization for SWTC to incur interim debt in an amount not to  
21 exceed \$54,940,000 from the CFC, and subsequently, to refinance the interim debt, in part, via  
22 amortizing debt in an amount not to exceed \$48,072,000 for a period of 28 to 32 years and at a rate  
23 not to exceed 6.75 percent from the RUS/FFB.

24 \_\_\_\_\_  
25 <sup>2</sup> TIER represents the number of times earnings cover interest expense on short-term and long-term debt. A TIER greater  
26 than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long  
27 term but does not mean that debt obligations cannot be met in the short term. DSC represents the number of times  
internally generated cash will cover required principal and interest payments on short-term and long-term debt. A DSC  
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.

28 <sup>3</sup> The unused portion of previously authorized debt.

1       23. Staff further recommends:

- 2           a. authorizing SWTC to engage in any transactions and to execute any documents  
3           necessary to effectuate the authorizations granted;
- 4           b. that SWTC file with Docket Control, as a *compliance item* in this matter, copies of the  
5           loan documents within 60 days of the execution of any financing transaction  
6           authorized herein; and
- 7           c. that the Commission approve the Cooperative's request to change the specific  
8           facilities to be financed in the CWP without the necessity of filing an amended  
9           application subject to the following conditions: (1) that the total amount financed  
10          remains below the financing amount requested herein; (2) that the Cooperative file in  
11          this docket a description of the modification(s) and its cost; (3) that the proposed  
12          modification(s) to the CWP substantially conform to the purposes of the CWP; and (4)  
13          that the cumulative costs do not exceed \$450,000, or if the cumulative costs exceed  
14          \$450,000, Staff does not file an objection to the proposed modification(s) within 60  
15          days of SWTC filing the proposed changes.

16       24. Finally, Staff recommends that any authorization to incur debt granted in this  
17 proceeding terminate on December 31, 2012.

18       25. In Decision No. 69239, the Commission was concerned about SWTC's equity levels  
19 and ordered SWTC to file an annual equity analysis. Staff's analysis indicates that with full issuance  
20 of authorized financing, SWTC's equity would fall to approximately 5 percent of total capital.  
21 Staff's analysis is a "worst-case" analysis in that all of the authorized debt is drawn and there is no  
22 change in rates. SWTC currently has a pending rate case in which the Commission will analyze and  
23 address SWTC's equity level.

24       26. Decision No. 69239, which authorized SWTC to borrow \$49,575,000 for its 2005-  
25 2008 CWP, allowed the Cooperative to modify the projects in its CWP without additional  
26 Commission approval, as long as aggregate modifications did not exceed \$500,000, and they  
27 substantially conformed to the purposes of the current CWP. The Cooperative seeks to retain this  
28 flexibility. This process is intended to save the Cooperative, Staff and the Commission the time and

1 resources associated with a formal amendment procedure, but still affords the Commission an  
2 opportunity to review the proposed modification. To date, the process has worked successfully.  
3 Staff will have 60 days to review any proposed project modifications. The Cooperative's request is  
4 reasonable.

5 27. Staff's recommendations are reasonable and should be adopted.

#### 6 CONCLUSIONS OF LAW

7 1. SWTC is a public service corporation within the meaning of Article XV of the  
8 Arizona Constitution and A.R.S. §§ 40-301, 40-302, and 40-303.

9 2. The Commission has jurisdiction over SWTC and of the subject matter of the  
10 application.

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

12 4. The financing as approved herein is for lawful purposes within SWTC's corporate  
13 powers, is compatible with the public interest, with sound financial practices, and with the proper  
14 performance by SWTC of service as a public service corporation, and will not impair SWTC's ability  
15 to perform the service.

16 5. The financing approved herein is for the purposes stated in the application, is  
17 reasonably necessary for those purposes and such purposes are not be reasonably chargeable to  
18 operating expenses or to income.

#### 19 ORDER

20 IT IS THEREFORE ORDERED that Southwest Transmission Cooperative, Inc. is hereby  
21 authorized to borrow an amount not to exceed \$54,940,000 from the National Rural Utilities  
22 Cooperative Finance Corporation for interim financing, as described herein and in the application,  
23 and an amount not to exceed \$48,072,000 from the Rural Utilities Service/Federal Financing Bank  
24 for long-term financing, when available, to replace the approved interim financing.

25 IT IS FURTHER ORDERED that such finance authority shall be expressly contingent upon  
26 Southwest Transmission Cooperative, Inc.'s use of the proceeds for the purposes stated in its  
27 application and approved herein.

28 IT IS FURTHER ORDERED that use of the loan proceeds authorized herein shall be

1 restricted to financing capital improvement projects as described in Southwest Transmission  
2 Cooperative, Inc.'s 2009-2010 Construction Work Plan as that plan may be amended as set forth  
3 herein, in an amount not to exceed \$54,940,000 for interim financing and \$48,072,000 for long-term  
4 financing.

5 IT IS FURTHER ORDERED that the authorization to incur debt granted herein shall  
6 terminate on December 31, 2012.

7 IT IS FURTHER ORDERED that Southwest Transmission Cooperative, Inc. may, without  
8 additional Commission approval, use the loan proceeds authorized herein for modifications to the  
9 2009-2010 Construction Work Plan as long as the projects substantially conform to the purposes of  
10 the projects in the Plan, their cumulative costs are less than \$450,000, and the total amount financed  
11 remains below the financing amounts approved herein. *Before implementing* any such modification,  
12 Southwest Transmission Cooperative, Inc. shall file in this docket a description of the project and its  
13 cost.

14 IT IS FURTHER ORDERED that Southwest Transmission Cooperative, Inc. shall file in this  
15 docket any proposed modifications to the 2009-2010 Construction Work Plan which substantially  
16 conform to the purposes of the 2009-2010 Construction Work Plan; and if the cumulative costs of the  
17 proposed modifications are greater than \$450,000, and do not exceed the authorized amount of  
18 \$54,940,000 for interim financing or \$48,072,000 for long-term financing, the proposed project  
19 modifications shall be deemed approved unless Staff files an objection to the proposed modifications  
20 within 60 days of Southwest Transmission Cooperative, Inc. filing the proposed changes.

21 IT IS FURTHER ORDERED that Southwest Transmission Cooperative, Inc. is authorized to  
22 execute any documents necessary to effectuate the authorizations granted.

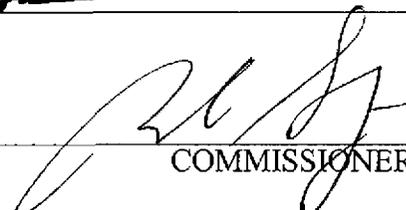
23 IT IS FURTHER ORDERED that Southwest Transmission Cooperative, Inc. shall file with  
24 Docket Control, as a compliance item in this docket, copies of all executed financing documents  
25 within 30 days after the date of execution.

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

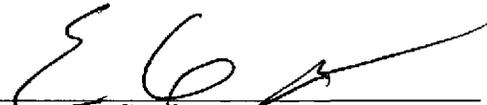
1 IT IS FURTHER ORDERED that the finance authority granted herein shall be expressly  
2 contingent upon Southwest Transmission Cooperative, Inc.'s use of the proceeds for the purposes  
3 stated in its application and approved herein.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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7   
8 CHAIRMAN  COMMISSIONER  
9  COMMISSIONER  COMMISSIONER  COMMISSIONER  
10  
11  
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13 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,  
14 Executive Director of the Arizona Corporation Commission,  
15 have hereunto set my hand and caused the official seal of the  
16 Commission to be affixed at the Capitol, in the City of Phoenix,  
17 this 17<sup>th</sup> day of MARCH, 2010.

18   
19 ERNEST G. JOHNSON  
20 EXECUTIVE DIRECTOR

21 DISSENT \_\_\_\_\_

22 DISSENT \_\_\_\_\_

23 JR:

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1 SERVICE LIST FOR: SOUTHWEST TRANSMISSION COOPERATIVE, INC.'S

2 DOCKET NO.: E-04100A-09-0250

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