

ORIGINAL

OPEN MEETING ITEM



0000112853

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



ARIZONA CORPORATION COMMISSION

2010 JUN 15 A 8:59

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

DATE: JUNE 15, 2010
DOCKET NO.: E-01749A-10-0071

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Belinda A. Martin. The recommendation has been filed in the form of an Order on:

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.
(FINANCING)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

JUNE 24, 2010

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 Commission's Open Meeting to be held on:

JUNE 29, 2010 and JUNE 30, 2010

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission

DOCKETED

JUN 15 2010

DOCKETED BY *mm*

E. G. Johnson
ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 KRISTIN K. MAYES, Chairman
4 GARY PIERCE
5 PAUL NEWMAN
6 SANDRA D. KENNEDY
7 BOB STUMP

8 IN THE MATTER OF THE APPLICATION OF
9 GRAHAM COUNTY ELECTRIC COOPERATIVE,
10 INC. FOR APPROVAL OF A LOAN.

DOCKET NO. E-01749A-10-0071

DECISION NO. _____

ORDER

11 Open Meeting
12 June 29 and 30, 2010
13 Phoenix, Arizona

14 **BY THE COMMISSION:**

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

17 * * * * *

18 **FINDINGS OF FACT**

19 1. On February 26, 2010, Graham County Electric Cooperative, Inc. ("GCEC" or
20 "Cooperative"), filed with the Commission an application for approval of a \$9,687,550 loan
21 ("Application").

22 2. On June 3, 2010, the Commission's Utilities Division Staff ("Staff") filed its Staff
23 Report recommending approval of the Application subject to certain conditions.

24 **Background**

25 3. GCEC is an Arizona Class "A" public service corporation and a non-profit, member-
26 owned cooperative located in Graham County, Arizona.

27 4. In Decision No. 66382 (October 6, 2003), the Commission granted GCEC a rate
28 increase and also approved GCEC's application for long-term debt in the amount of \$10,813,368 to
finance its five-year construction work plan. According to Staff, as of September 30, 2009, the
Cooperative had \$1,813,368 in unused financing authorization.

1 5. GCEC's current rates were approved in Decision No. 70289 (April 4, 2008).

2 6. Included in the Application was an affidavit of publication from the *Eastern Arizona*
3 *Courier* indicating that it had published GCEC's notice of its Application on January 6, 2010.¹ No
4 customer comments were received in response to the notice.

5 7. Staff states that there are no compliance issues with GCEC.

6 **Loan Terms**

7 8. GCEC requests that the Commission authorize it to acquire adequate financing to
8 complete its five-year construction work plan for 2010-2014 ("CWP") in the amount of \$9,687,550.

9 9. The lender will be the National Rural Utilities Cooperative Finance Corporation
10 ("CFC"). The loan from CFC will be amortized over 30 years, with principal and interest payments
11 due quarterly. The interest rate on the loan will be determined as the funds necessary to construct
12 each project are drawn. Although the interest rate will vary depending on the re-pricing date (as
13 defined by the loan agreement),² the interest rate will be between 3.45 percent and 7.6 percent.

14 10. Under the terms of the loan agreement, CFC will assume a security interest in GCEC's
15 assets.

16 **Financial Analysis**

17 11. Staff used GCEC's audited financial report for the year ended September 30, 2009, to
18 conduct its financial analysis and determine the effects of the *pro forma* financial information
19 reflecting a \$9,687,550 loan amortized for 30 years at a maximum 7.6 percent per annum, in addition
20 to the issuance of a 30-year \$1,813,368 loan³ amortized at 7.6 percent per annum.

21 12. As of September 30, 2009, GCEC's capital structure consisted of 1.1 percent short-
22 term debt, 57.8 percent long-term debt and 41.1 percent equity. A *pro forma* capital structure
23

24 ¹ On June 14, 2010, GCEC filed an Affidavit of Publication averring that the Application notice had been published.

25 ² According to Staff:

26 CFC loans with a re-pricing provision have an initial fixed interest rate that is dependent upon the number of years
27 selected for the initial period. After the initial period, the interest rate is re-priced (i.e., a new fixed interest rate is
28 established) for the remainder of the 30-year loan. For example, if the Cooperative chooses ten-year re-pricing, the
loan would have a fixed rate of 6.60 percent for ten years; then, the interest rate is re-priced at a fixed rate for the
remaining 20 years.

Staff Report, page 2.

³ This amount reflects the outstanding authorization granted in Decision No. 66382.

1 reflecting the loan terms and conditions described herein, results in 1.1 percent short-term debt, 68.9
2 percent long-term debt and 30.1 percent equity.

3 13. Staff typically recommends a capital structure consisting of a minimum of 30 percent
4 equity of total capital as the minimum financially prudent capital structure for member-owned
5 cooperatives.

6 14. According to the loan agreement, GCEC must maintain an average debt-service
7 coverage ratio ("DSC")⁴ of 1.35 in two out of three years.

8 15. Staff's analysis indicates that for the year ended September 30, 2009, GCEC had a
9 2.14 DSC. If the Cooperative draws down the entirety of the authorized amounts at once it would
10 result in a *pro forma* DSC of 1.29; however, Staff notes GCEC does not expect to draw all of the
11 available funds immediately. Staff concludes that, "[i]n its 10-year financial forecast, the
12 Cooperative projects that DSC ratios will not decline to less than 1.54. These projections suggest that
13 operating margin will be sufficient to meet CFC's DSC covenant."⁵

14 Engineering Analysis

15 16. Engineering Staff stated that in 2008 GCEC provided electric service to an average of
16 7,233 residential customers using an average of 830 kWh per month, 648 irrigation customers, 765
17 commercial customers, 15 large commercial customers and three public street and highway lighting
18 customers. Staff notes that GCEC averaged approximately 355 new services per year between 2007
19 and 2008.

20 17. According to Engineering Staff, GCEC predicts that by 2014, it will provide electric
21 service to an average 8,182 residential customers using an average of 856 kWh per month. The
22 Cooperative also expects to have 627 irrigation customers, 839 commercial customers, 13 large
23 commercial customers and three public street lighting customers. The projected net gain is
24 approximately 1,000 customers.

25

26

27 ⁴ DSC represents the number of times internally generated cash will cover required principal and interest payments on
long-term debt. A DSC greater than 1.0 indicates that operating cash flow is sufficient to cover debt obligations.

28 ⁵ Staff Report, page 3.

1 18. Staff notes that the loan proceeds will be used for distribution and transmission system
2 improvements consisting, in part, of \$2.9 million for two new substations, \$1 million for automated
3 meter reading, \$590,000 for transformers, \$1.7 million for 1,000 new distribution poles, and \$1.1
4 million for new underground and overhead lines.

5 19. According to Engineering Staff, GCEC's projected expenditures appear to be
6 appropriate and reasonable given the level of projected load growth and Staff states that the
7 expenditure levels are comparable to levels from past years.

8 20. Staff reviewed GCEC's proposed projects in the GCEC CWP and concluded that the
9 proposed capital expenditures are appropriate to meet the needs of GCEC's existing customers, the
10 needs of new customers, and system reliability needs. However, no used and useful determination of
11 the proposed improvements was made, and no particular future treatment should be inferred for rate-
12 making or rate base purposes.

13 **Staff Conclusions and Recommendations**

14 21. Based on its review of the Application, Staff made the following conclusions and
15 recommendations:

- 16 a) Staff concluded that GCEC's CWP projects are appropriate and that the
17 related cost estimates are reasonable;
- 18 b) Staff concluded that issuance of the proposed debt financing for the
19 purposes stated in the Application is within GCEC's corporate powers, is
20 compatible with the public interest, is consistent with sound financial
21 practices and will not impair its ability to provide services;
- 22 c) Staff recommends that the Commission authorize GCEC to incur
23 financing in an amount not to exceed \$9,687,550 from CFC to finance its
24 CWP, at an interest rate not to exceed the current CFC rate at the time the
25 loan is executed;
- 26 d) Staff further recommends that any authorization to incur debt granted in
27 this proceeding terminate on December 31, 2015;
- 28 e) Staff recommends authorizing GCEC to engage in any transactions and to
execute any documents necessary to effectuate the authorizations herein
granted; and,
- f) Staff recommends that copies of the executed loan documents be filed
with Docket Control within 60 days of their execution.

1 Conclusion

2 22. It is reasonable, consistent with sound financial practices, and in the public interest to
3 grant GCEC the requested financing authority to fund its CWP subject to certain conditions.

4 23. Staff's recommendations are reasonable and should be adopted.

5 CONCLUSIONS OF LAW

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

8 2. The Commission has jurisdiction over GCEC and the subject matter of the
9 Application.

10 3. Notice of the Application was provided in accordance with Arizona law.

11 4. Staff's recommendations are reasonable and should be adopted.

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

16 6. The financing approved herein is for the purposes set forth in GCEC's request filed on
17 February 26, 2010, is reasonably necessary for those purposes, and such purposes are not, wholly or
18 in part, reasonably chargeable to operating expenses or to income.

19 7. Based on our findings, and in light of Staff's recommendations, no hearing is
20 necessary.

21 ORDER

22 IT IS THEREFORE ORDERED that Graham County Electric Cooperative, Inc., is hereby
23 authorized to incur \$9,687,550 of new debt financing for the purposes stated in the Application, and
24 pursuant to the terms and conditions set forth in the Application and as described herein.

25 IT IS FURTHER ORDERED that such authority is expressly contingent upon Graham
26 County Electric Cooperative, Inc.'s, use of the proceeds for the purposes set forth in its Application.

27 ...

28 ...

1 IT IS FURTHER ORDERED that Graham County Electric Cooperative, Inc., is hereby
2 authorized to engage in any transactions and to execute or cause to be executed any documents
3 necessary to effectuate the authorizations requested with the Application.

4 IT IS FURTHER ORDERED that Graham County Electric Cooperative, Inc., shall file with
5 Docket Control, as a compliance item in this docket, within 60 days of closing, copies the loan
6 documents memorializing the authorized transaction.

7 IT IS FURTHER ORDERED that the granted authorization shall terminate on December 31,
8 2015.

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

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

13 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

14
15

16 CHAIRMAN _____ COMMISSIONER

17

18 COMMISSIONER COMMISSIONER COMMISSIONER

19 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
20 Executive Director of the Arizona Corporation Commission,
21 have hereunto set my hand and caused the official seal of the
22 Commission to be affixed at the Capitol, in the City of Phoenix,
23 this ____ day of _____, 2010.

24
25
26
27

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

28 DISSENT _____

DISSENT _____

1 SERVICE LIST FOR: GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

2
3 DOCKET NO.: E-01749A-10-0071

4 John Wallace
5 GRAND CANYON STATE ELECTRIC
6 COOPERATIVE ASSOCIATION, INC.
120 North 44th Street, Suite 100
Phoenix, AZ 85034

7 Steve Lines
8 GRAHAM COUNTY ELECTRIC COOPERATIVE, INC
9 P. O. Box Drawer B
Pima, AZ 85543

10 Janice M. Alward, Chief Counsel
11 Legal Division
ARIZONA CORPORATION COMMISSION
12 1200 West Washington Street
Phoenix, Arizona 85007

13 Steven M. Olea, Director
14 Utilities Division
ARIZONA CORPORATION COMMISSION
15 1200 West Washington Street
Phoenix, Arizona 85007

16
17
18
19
20
21
22
23
24
25
26
27
28