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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

COMMISSIONERS

DOCKETED

MAR - 9 2011

GARY PIERCE – Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

DOCKETED BY *ne*

IN THE MATTER OF THE APPLICATION OF
MOHAVE ELECTRIC COOPERATIVE, INC.'S
APPLICATION FOR AUTHORIZATION TO
SECURE A \$28,075,000 RUS GUARANTEED
FEDERAL FINANCING BANK LOAN AND
TO PLEDGE, MORTGAGE, LIEN AND/OR
ENCUMBER UTILITY ASSETS IN RELATION
THERE TO.

DOCKET NO. E-01750A-10-0179

DECISION NO. 72216

ORDER

Open Meeting
March 1 and 2, 2011
Phoenix, Arizona

BY THE COMMISSION:

On May 6, 2010, Mohave Electric Cooperative, Inc. (“Company” or “Applicant”) filed with the Arizona Corporation Commission (“Commission”) an application requesting approval in order to obtain long-term financing and to encumber the Company’s property as security for the debt (“Application”).

On September 2, 2010, the Applicant filed certification that it had provided public notice of its Application requesting Commission approval to incur long-term debt.

On January 4, 2011, the Commission’s Utilities Division (“Staff”) filed its report with regard to the Company’s Application and recommends approval by the Commission.

On January 13, 2011, the Company filed comments to the Staff Report indicating that it will accept Staff’s recommendations.

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. Pursuant to authority granted by the Commission, the Company is an Arizona non-

1 profit member-owned corporation that provides electric service to approximately 40,000 customers in
2 northwestern Arizona through approximately 1,500 miles of distribution and transmission lines
3 located within its certificated service area.

4 2. On May 6, 2010, the Company filed its Application with the Commission requesting
5 authorization to borrow \$28,075,000 for approximately 35 years from the Federal Financing Bank
6 (“FFB”). According to the Application, the proposed loan will be guaranteed by the Rural Utilities
7 Service (“RUS”) of the United States Department of Agriculture (“USDA”) and the proceeds will be
8 used to finance Applicant’s 2008-2013 Construction Work Plan (“CWP”).

9 3. The Company’s CWP sets forth capital expenditures on sub-transmission and
10 distribution system upgrades and new infrastructure necessary to provide for expected growth in
11 Applicant’s service territory and to maintain its plant in sound operating condition. The CWP
12 describes expenditures to be made for new underground and overhead distribution lines for line
13 extensions to new customers, new tie lines, conversions and upgrades of existing distribution lines,
14 upgrades of substations and the installation of transformers and sub-transmission facilities.

15 4. The CWP also includes an expenditure for communication and data collection
16 equipment that is critically important to the Company’s eventual development and deployment of
17 Smart Grid programs. The initial phase of the Company’s Smart Grid development will take
18 approximately three years to complete and is intended to provide Applicant with the following: the
19 data necessary to evaluate the implementation of cost-effective Smart Grid programs with and for its
20 members in the future; and the required backbone communication and data collection equipment.¹

21 5. In addition to the normal and routine Operations and Maintenance replacements and
22 additions (involving approximately 93 additional miles of distribution line, two miles of tie-ins and
23 fifteen miles of conversions and line changes), the CWP and the loan package include:

- 24 a. constructing the new Natural Corrals substation near Wikieup, Arizona, for
25 reliability and load growth costing, \$395,195;
- 26 b. upgrading the Bullhead Substation Transformer to 12/16/20 MVA for load
27 growth and reliability, costing \$310,000;
- 28 c. rebuilding the distribution line from Riviera to Lipan to support reliability and

¹ Subject to securing the financing for the installation of the additions and modifications to the backbone system.

1 load sectionalizing needs, costing \$61,796;

- 2 d. installing the initial phase of Automatic Meter Reading/Advanced Metering
3 Infrastructure technology including the installation of approximately 17,000
4 new Smart Meters, costing \$2,500,050;
- 5 e. installing a low-cost supervisory control and data acquisition system for data
6 acquisition for distribution system data such as load profiles, power factor,
7 outage duration, outage locations and voltage control, costing \$300,000;
- 8 f. installing additional fiber optic conductor to complete the existing
9 communication system in the Bullhead City area, costing \$209,789; and
- 10 g. injecting Cable Cure to direct buried cables built in the early 1970s to further
11 improve service reliability, costing \$500,000.

12 6. On September 2, 2010, the Company filed affidavits of publication that it had
13 published notice of its Application in the *Kingman Daily Miner* in Mohave County, in the *Courier* in
14 Yavapai County and in the *Arizona Daily Sun* in Coconino County, Arizona.

15 7. On January 4, 2011, Staff filed its Staff Report recommending conditional approval of
16 the Application.

17 8. On January 13, 2011, the Company filed comments to the Staff Report in which it
18 indicates that it will accept the recommendations made by Staff unless otherwise ordered by the
19 Commission.

20 9. The Commission has not received any comments or protests in response to the public
21 notice.

22 10. The loan for which the Company is seeking Commission approval is for a term of 35
23 years and is amortized at approximately 5.0 percent. According to the Staff Report, as of December
24 7, 2010, the 30-year FFB interest rate was 4.25 percent.

25 11. It is anticipated that loan disbursements will be made in approximately equal amounts
26 of \$6,000,000 from 2010 to 2013, with the remaining balance of approximately \$4,000,000 disbursed
27 in 2014.

28 12. According to the Staff Engineering Memorandum attached to the Staff Report,
Applicant's proposed capital improvements were reviewed and Staff found the project costs to be
appropriate and the related cost estimates reasonable. However, Staff made no "used and useful"
determination of the proposed improvements or any conclusions for rate base or rate making

1 purposes.

2 13. Staff performed a financial analysis based on the Company's financial information for
3 the year ended December 31, 2009. As of December 31, 2009, the Company's capital structure
4 consisted of 1.5 percent short-term debt, 36.1 percent long-term debt, and 62.4 percent equity. Staff's
5 analysis shows that if the Company draws upon the \$28,075,000 loan, the Company's pro forma
6 capital structure will be composed of 1.9 percent short-term debt, 48.8 percent long-term and 49.3
7 percent equity.

8 14. The Times Interest Earned Ratio ("TIER") represents the number of times earnings
9 cover interest expense on short-term and long-term debt. A TIER greater than 1.0 means that
10 operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long-
11 term, but does not mean that debt obligations cannot be met in the short-term.

12 15. The Debt Service Coverage Ratio ("DSC") represents the number of times internally
13 generated cash will cover required principal and interest payments on short-term and long-term debt.
14 A DSC greater than 1.0 indicates that cash flow from operations is sufficient to cover debt
15 obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash
16 generated from operations and that another source of funds is needed to avoid default.

17 16. Based on the financial information provided to Staff by the Company for the year
18 ended December 31, 2009, the Company's TIER and DSC were 0.36 and 0.76, respectively. The pro
19 forma TIER and DSC for the Company upon receiving the proposed \$28,075,000 long-term debt
20 financing amortized for 35 years at 5 percent, are 0.24 and 0.52, respectively.

21 17. Staff states that the DSC results show that cash flow from operations is insufficient to
22 cover all obligations, and the Company needs an additional source of funds for debt service.
23 However, staff points out that under RUS' methodology, Applicant has an operating TIER
24 ("OTIER") of 1.24 and operating DSC ("ODSC") of 1.12. Further, the loan covenants state that the
25 OTIER and the ODSC must be above 1.1, and therefore, the Company meets the financial conditions
26 required by the lender (FFB) for the financing.

27 18. Further, Staff states that as of December 31, 2009, the Company had \$18 million in
28 cash and cash equivalents available as another source of funds which equal approximately ten years'

1 of payments on the proposed loan. Additionally, Staff indicates that the Company recognizes this
 2 need and anticipates using its cash and cash equivalents to satisfy its debt service deficit of
 3 approximately \$2.9 million per year near-term. Staff points out that in the long-term, the Company
 4 will need to improve its operating margin to meet debt service. In the short-term, by issuing debt and
 5 using existing cash and cash equivalents for debt service instead of using available cash to directly
 6 finance capital improvements provides the Company with flexibility to address future financial needs.

7 19. According to the Staff Report, the Company has no compliance issues with the
 8 Commission.

9 20. Based on Staff's review and analysis, Staff is recommending approval of the
 10 Company's Application, concluding that the proposed financing as recommended by Staff is for
 11 lawful purposes, within the Company's powers as a corporation, compatible with the public interest,
 12 consistent with sound financial practices and will not impair the ability to provide public service so
 13 long as the Company maintains no less than \$9.0 million in cash and cash equivalents. Staff is
 14 further recommending the following:

- 15 a. that the Company be authorized to incur amortizing debt in an amount not to
 16 exceed \$28,075,000 for a period of 33 to 37 years and at a rate not to exceed
 5.0 percent from the RUS/FFB;
- 17 b. that the Company maintain \$9.0 million of cash and cash equivalents in reserve
 18 representing approximately three years of debt service deficit until the
 19 Commission subsequently removes such restriction, presumably based on a
 showing of improved operating results and debt service coverage or upon
 20 subsequent Commission authorization to use the reserve funds to make
 principal and interest payments, if necessary;
- 21 c. that the Company be authorized to engage in any transactions and to execute
 any documents necessary to effectuate the authorizations granted herein;
- 22 d. that the Company file, within 60 days of the execution of any financing
 23 documents related to this transaction, with the Commission's Docket Control,
 as a compliance item in this docket, copies of the executed loan documents;
 and
- 24 e. that any authorization to incur debt granted in this proceeding terminate if not
 25 exercised prior to June 30, 2015.

26 21. Staff's recommendations herein are reasonable and should be adopted.
 27 ...
 28 ...

CONCLUSIONS OF LAW

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2 1. The Company is a public service corporation within the meaning of Article XV of the
3 Arizona Constitution and A.R.S. §§ 40-285, 40-301, and 40-302.

4 2. The Commission has jurisdiction over the Company and of the subject matter of the
5 Application.

6 3. Notice of the Application was given in accordance with the law.

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

8 5. The financing approved herein is for lawful purposes within the Company's corporate
9 powers, is compatible with the public interest, with sound financial practices, and with the proper
10 performance by the Company of service as a public service corporation, and will not impair the
11 Company's ability to perform the service.

12 6. The financing approved herein is for the purposes stated in the Application and is
13 reasonably necessary for those purposes, and such purposes are not wholly or in part, reasonably
14 chargeable to operating expenses or to income.

15 **ORDER**

16 IT IS THEREFORE ORDERED that Mohave Electric Cooperative, Inc. is hereby authorized
17 to borrow up to \$28,075,000 from the Federal Financing Bank as guaranteed by the Rural Utility
18 Service of the United States Department of Agriculture, with a term of 33 to 37 years and at a rate of
19 interest not to exceed 5.0 percent, subject to the conditions set forth herein below.

20 IT IS FURTHER ORDERED that such authority is expressly contingent upon Mohave
21 Electric Cooperative, Inc. using the proceeds for the purposes stated in its Application and approved
22 herein.

23 IT IS FURTHER ORDERED that Mohave Electric Cooperative, Inc. shall maintain \$9.0
24 million of cash and cash equivalents in reserve representing approximately three years of debt service
25 deficit until the Commission subsequently removes such restriction.

26 IT IS FURTHER ORDERED that Mohave Electric Cooperative, Inc. is authorized to engage
27 in any transactions and to execute any documents necessary to effectuate the authorizations granted
28 herein.

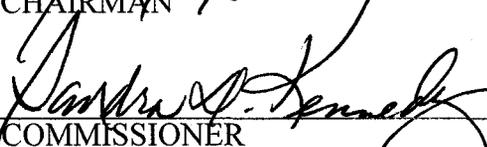
1 IT IS FURTHER ORDERED that Mohave Electric Cooperative, Inc. shall file, within 60 days
2 of the execution of any financing documents related to this transaction, with the Commission's
3 Docket Control, as a compliance item in this docket, copies of the executed loan documents.

4 IT IS FURTHER ORDERED that the financing authorization approved herein shall terminate
5 if not exercised prior to June 30, 2015.

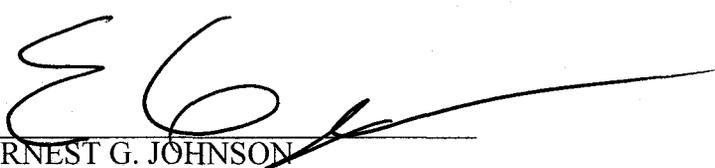
6 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not
7 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
8 proceeds derived thereby for purposes of establishing just and reasonable rates.

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

10 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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12 
13 CHAIRMAN  COMMISSIONER
14  COMMISSIONER  COMMISSIONER  COMMISSIONER
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18 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
19 Executive Director of the Arizona Corporation Commission,
20 have hereunto set my hand and caused the official seal of the
21 Commission to be affixed at the Capitol, in the City of Phoenix,
22 this 9th day of MARCH, 2011.

23 
24 ERNEST G. JOHNSON
25 EXECUTIVE DIRECTOR

26 DISSENT _____

27 DISSENT _____

28 MES:db

1 SERVICE LIST FOR:

MOHAVE ELECTRIC COOPERATIVE, INC.

2 DOCKET NO.

E-01750A-10-0179

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