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**BEFORE THE ARIZONA CORPORATION COMMISSION**

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

Arizona Corporation Commission

**DOCKETED**

MAR 21 2011

DOCKETED BY *nr*

IN THE MATTER OF THE APPLICATION  
OF SULPHUR SPRINGS VALLEY  
ELECTRIC COOPERATIVE, INC. FOR  
APPROVAL TO INCUR DEBT TO  
FINANCE ITS 2010-2012 CONSTRUCTION  
WORK PLAN AND FOR RELATED  
APPROVALS

DOCKET NO. E-01575A-10-0311

DECISION NO. 72237

ORDER

Open Meeting  
March 16, 2011  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

**A. Introduction**

1. On July 23, 2010, Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC" or "Cooperative"), an Arizona class "A" public service corporation and non-profit cooperative with its business office in Willcox, Arizona, filed an application with the Arizona Corporation Commission ("Commission") for authorization to incur debt to finance its 2010-2012 Construction Work Plan ("CWP").

2. On December 15, 2010, the Cooperative filed an amendment to its original application requesting authorization to refinance some of its existing debt at more favorable rates.

3. On February 15, 2011, Utilities Division Staff ("Staff" filed a memo and proposed order in this matter.

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1           4.       On February 23, 2011, the Cooperative filed comments and proposed amendments  
2 to the proposed order.

3           5.       On March 3, 2011, the Cooperative filed supplemental comments and proposed  
4 amendments.

5 **B.       Background**

6           6.       SSVEC is an Arizona non-profit, member-owned cooperative located in Willcox,  
7 Arizona. The Cooperative provides electric distribution service to approximately 51,000  
8 customers in parts of Cochise, Santa Cruz, Pima and Graham Counties.

9           7.       The Cooperative's current rates were approved in Decision No. 71274, dated  
10 September 8, 2009.

11          8.       The Cooperative asks that the Commission authorize it to assume new debt in an  
12 amount not to exceed \$78,676,664 through a credit facility from the National Rural Utilities  
13 Cooperative Finance Corporation ("CFC") and/or CoBank, ACB ("CoBank") and to pledge,  
14 mortgage, lien and/or encumber its assets in connection with the credit facility. The facility will be  
15 managed in such a way in which SSVEC will draw funds periodically from either CFC or CoBank,  
16 depending on which lender is offering better terms. However, regardless of which lender the  
17 Cooperative chooses at each borrowing interval, the total credit facility will be reduced by each  
18 lender by the amount borrowed.

19          9.       The purpose of \$72,676,664 of the proposed financing is to fund the upgrade and/or  
20 replacement of existing utility infrastructure and construction of supplemental facilities pursuant to  
21 SSVEC's CWP. The remaining \$6,000,000 of the proposed financing is to fund construction of a  
22 new 750 kW solar facility planned for Sonoita, Arizona, via a CoBank loan utilizing Clean  
23 Renewable Energy Bonds ("CREBs"). The interest rate on the CREBs loan will not exceed 2  
24 percent per annum.

25          10.       SSVEC has also requested authorization to refinance its existing debt at a time of its  
26 choosing without having to file an application with the Commission requesting authorization to do  
27 so. According to its application, SSVEC anticipates that it may have opportunities over the next  
28 several years to refinance much of its existing debt at more favorable interest rates and under more

1 favorable terms and conditions to save the Cooperative and its ratepayer-members considerable  
2 money.

3 11. On October 1, 2010, the Cooperative filed an affidavit of publication verifying  
4 public notice of its financing application. The Cooperative published notice of its financing  
5 application in The Weekly Bulletin on September 1, 2010, in the Sierra Vista Herald/Bisbee Daily  
6 Review on September 1, 2010, and in the San Pedro Valley News-Sun and the Arizona Range  
7 News on September 1, 2010. SSVEC published a second notice in each of those publications on  
8 January 12, 2011, pertaining to the refinancing of its existing debt pursuant to the Cooperative's  
9 amended application.

10 12. There are no outstanding compliance issues with the Cooperative.

11 13. Staff reviewed the Cooperative's proposed capital improvements and believes that  
12 the projects are appropriate and the related cost estimates are reasonable.

13 14. Staff states that its conclusions should not be interpreted to imply a specific  
14 treatment for rate base or rate-making purposes in the Cooperative's future rate filings.

15 **C. Financial Analysis**

16 15. Staff's analysis indicates that, based on the Cooperative's historical financial  
17 information for the year ended December 31, 2009, SSVEC had a capital structure consisting of  
18 2.1 percent short-term debt, 65.8 percent long-term debt and 32.1 percent common equity.

19 16. Staff's pro forma analysis was based on the Cooperative's historical financial  
20 information for the year ended December 31, 2009. This data was modified to reflect SSVEC's  
21 most recently authorized operating income,<sup>1</sup> the issuance of the proposed \$72.7 million financing  
22 amortized over 35 years at 7.5 percent per annum, the issuance of the proposed \$6 million CREB  
23 financing amortized for 15 years at 1.0 percent per annum, the issuance of a previously undrawn  
24 loan in the amount of \$4,864,000,<sup>2</sup> as well as \$25.5 million in undrawn funds from a loan  
25 previously authorized in Decision No. 70027 amortized over 30 years at 7.5 percent per annum.

26

27 <sup>1</sup> Commission Decision No. 71274 dated September 8, 2009.

28 <sup>2</sup> Commission Decision No. 67223 dated September 4, 2004. The final draw was made by the Cooperative in November 2010. Staff Memo at 2.

1 Staff's analysis indicates that SSVEC's total equity would drop from 32.1 percent of total capital  
2 to 21 percent, its times interest earned ratio would increase from 1.05 to 1.07, and its debt service  
3 coverage ratio would decrease from 1.39 to 1.17.

4 17. Based on its pro forma analysis, Staff concludes that cash flow from operations is  
5 sufficient to cover all obligations.<sup>3</sup>

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

10 19. Staff recommends that the Commission authorize SSVEC's request to obtain a  
11 credit facility from both CFC and CoBank in an amount not to exceed \$78,676,664, including  
12 \$6,000,000 pertaining to CREBs, and to pledge, mortgage, lien and/or encumber its assets in  
13 connection with this borrowing.

14 20. Staff further recommends that SSVEC be authorized to refinance its current debt  
15 without subsequent Commission approval provided the following conditions are met:

- 16 a) The interest rate of the refinancing will be more favorable than that of the  
17 current debt.
- 18 b) The term of the loan will not be shorter than the remaining term of the loan  
19 being refinanced.
- 20 c) The resulting loan will not be an interest-only loan. Rather, the resulting loan  
21 should be an amortizing loan that requires the Cooperative to make periodic  
22 principal payments no less frequently than yearly.

23 21. Staff further recommends authorizing SSVEC to engage in any transaction and to  
24 execute any documents necessary to effectuate the authorizations granted.

25 ...

26 ...

27 <sup>3</sup> The loan covenants state that the Cooperative must maintain a 1.35 DSC; however, under CFC and CoBank's  
28 methodology SSVEC has a DSC of 1.90. The Cooperative, therefore, meets the lenders' DSC covenants required for  
the financing. Staff Memo at 3.



1 IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc. is  
2 authorized to refinance its current debt without subsequent Commission approval provided the  
3 Cooperative meets the following conditions:

- 4 a) The interest rate of the refinancing will be more favorable than that of the current  
5 debt.
- 6 b) The term of the loan will not be shorter than the remaining term of the loan being  
7 refinanced.
- 8 c) The resulting loan will not be an interest-only loan. Rather, the resulting loan  
9 should be an amortizing loan that requires the Cooperative to make periodic  
principal payments no less frequently than yearly.

10 IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc. is  
11 authorized to engage in any transaction and to execute any documents necessary to effectuate the  
12 authorizations granted herein.

13 IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc. file  
14 with Docket Control, as a compliance item in this matter, copies of the loan documents within 60  
15 days of the execution of any financing transaction authorized herein.

16 IT IS FURTHER ORDERED that any authorization to incur debt granted in this  
17 proceeding not related to the refinancing contemplated herein terminate on December 31, 2016.

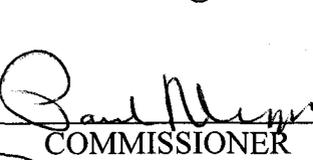
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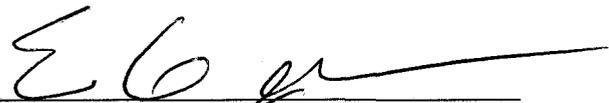
IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not constitute or imply approval or disapproval by the Commission of any particular expenditure of the proceeds derived thereby for purposes of establishing just and reasonable rates.

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

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

		
CHAIRMAN	COMMISSIONER	
		
COMMISSIONER	COMMISSIONER	COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 21<sup>st</sup> day of MARCH, 2011.

  
ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

SMO:JCM:lhm\WVC

1 Service List for: SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.  
2 Docket No. E-01575A-10-0311

3 Mr. Bradley Carroll  
4 One Arizona Center  
5 400 East Van Buren Street  
6 Phoenix, Arizona 85004-2202

7 Mr. Steven M. Olea  
8 Director, Utilities Division  
9 Arizona Corporation Commission  
10 1200 West Washington Street  
11 Phoenix, Arizona 85007

12 Ms. Janice Alward  
13 Chief Counsel, Legal Division  
14 Arizona Corporation Commission  
15 1200 West Washington Street  
16 Phoenix, Arizona 85007

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