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MEMORANDUM

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TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: December 20, 2006

RE: STAFF REPORT FOR THE APPLICATION OF TRICO ELECTRIC COOPERATIVE, INC. FOR AN EXTENSION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY IN AREAS OF PINAL COUNTY, ARIZONA FOR AN EXTENSION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY (DOCKET NO. W-01452A-06-0449)

Attached is the Staff Report for this application. Staff recommends approval of the application.

EGJ:LAJ:tdp

Originator: Linda Jaress

Arizona Corporation Commission
DOCKETED

DEC 20 2006

DOCKETED BY

Service List for: Trico Electric Cooperative, Inc.
Docket No. E-01461A-04-0393

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

TRICO ELECTRIC COOPERATIVE, INC.

DOCKET NO. E-01461A-04-0393

APPLICATION FOR AN EXTENSION OF ITS CC&N
TO PROVIDE ELECTRIC SERVICE IN PINAL COUNTY, ARIZONA

December 20, 2006

STAFF ACKOWLEDGEMENT

The Staff Report for Trico Electric Cooperative, Inc. (Docket No. E-01461A-06-0393) was the responsibility of the Staff members listed below. Linda Jaress prepared the Staff Report. Prem Bahl prepared Staff's Engineering Report.

Contributing Staff:

Linda A. Jaress
Executive Consultant II

Prem Bahl
Utilities Engineer

EXECUTIVE SUMMARY
TRICO ELECTRIC COOPERATIVE, INC.
DOCKET NO. W-01461A-04-0393

On May 26, 2004, Trico Electric Cooperative, Inc. ("Trico") filed an application for approval of an extension to its existing Certificate of Convenience and Necessity ("CC&N") to an area approximately 30 miles north of Tucson, in Pinal County, Arizona. The extension includes an area to be developed into a master planned community called Willow Springs. Trico plans to serve the development from a proposed 69kV SaddleBrooke Ranch Substation by constructing a 12-mile long 69kv line, energized at 24.9 kV, until 69kV is needed.

The San Carlos Irrigation Project ("SCIP") which is located in the vicinity of Willow Springs and currently serves several customers in the extension area has not requested intervention but has filed several documents in this docket indicating its desire to provide service to the Willow Springs development. The rate differential between SCIP and Trico for residential customers is slight.

The request for service Trico received from the Willow Springs developers comprises approximately one-forth of the extension area Trico requested. The Willow Springs Utilities, L.L.C., which recently received the water and wastewater CC&N to serve the same development, was granted a CC&N only for the area of the development. Also, in Decision No. 69163, dated December 5, 2006, Commission limited an Arizona Water Company CC&N extension to the area for which Arizona Water Company received requests for service. Furthermore, Trico has not shown the need to extend its CC&N to any area other than the Willow Springs development. Finally, SCIP offers service in the area and granting more area than necessary to Trico may foreclose or inhibit SCIP's growth. Therefore, Staff recommends that the extension granted to Trico be limited to the area for which it has a request for service.

Based on Trico's experience as an electric utility, its experience in serving high growth areas and its financial strength, Staff believes that Trico is fit and proper to provide service to the Willow Valley development.

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ENGINEERING REPORT 1

Introduction

On May 26, 2004, Trico Electric Cooperative, Inc. ("Trico") filed an application for approval of an extension to its existing Certificate of Convenience and Necessity ("CC&N") to an area approximately 30 miles north of Tucson, in Pinal County, Arizona. The extension includes an area to be developed into a master planned community called Willow Springs. ANAM, Inc. and U.S. Home Corporation (an affiliate of Lennar Corporation) are the developers of the community. On September 21, 2006, in Decision No 68963, the Commission approved the application of Willow Springs Utilities, L.L.C. for a CC&N to provide water and wastewater service to the same Willow Springs development.

The development covers approximately 4,600 acres and is expected to reach build-out in 10 to 15 years and will consist of approximately 6,000 residential units, 43 acres of commercial development, one school, 40 acres of parks and recreational facilities, and a golf course.

In 2004 Trico had 33,333 services in place. At the end of 2005, there were 35,916 services in place, nearly an 8.0 percent increase over 2004. Thus, Trico has experience with high degrees of customer growth and in serving new areas.

Trico is in compliance with the decisions of the Arizona Corporation Commission.

San Carlos Irrigation Project

The San Carlos Irrigation Project ("SCIP") which is located in the vicinity of Willow Springs and serves several customers in the proposed extension area, has not requested intervention but has filed several documents in this docket indicating its desire to provide service to the Willow Springs development. Ten electric customers of SCIP who are in the extension area filed letters in the docket indicating that they want to continue receiving service from SCIP and not be required to become customers of Trico. Staff is unaware of any Commission regulation which would prohibit SCIP from providing service to the development or require the current SCIP customers to change their electric service provider.

SCIP's residential electric rates include a $10.00 minimum bill which includes the first 50 kWh, $0.12 per kilowatt-hour for the next 500 kWh and $0.09 for each additional kWh over 550. SCIP also charges a $0.0023 per kWh as a power cost adjustor. SCIP purchases the power it distributes from the Salt River Project Agricultural Improvement District ("SRP") and from the Parker-Davis and SLCA/IP projects. However, its contract with SRP expires at the end of 2007 possibly affecting its rates to customers.

Trico's residential rate includes a $12.00 monthly charge, $0.09602 per kWh, a $0.35 per kWh Environmental Portfolio Surcharge and, according to a September, 2006 filing with the Commission, a purchased power adjustor of $0.012 per kWh. For a residential customer using 500 kWhs, the bill from SCIP would be $65.04 and the bill from Trico would be $66.35. Thus, the rate differential for residential customers is not great.

Requests for Service

On July 1, 2004, Trico docketed a request for service from the Remington Group, Inc. requesting electric service to Willow Springs Ranch – South Village project. Due to the amount of time which passed after the initial request for service, and at Staff's request, on September 18, 2006, Trico supplied evidence that its service continued to be requested for the Willow Springs development. On the same date, the Cooperative docketed a letter from Willow Springs Properties, LLC indicating that its members (ANAM, Inc. and Lennar Corporation) have worked with Trico in the past and received professional and capable service to their communities.

The request for service received from Willow Springs comprises approximately one-forth of the extension area Trico requested. The Willow Springs Utilities, L.L.C., which recently received the water and wastewater CC&N to serve the same development, was granted a CC&N only for the area of the development. Also, in Decision No. 69163, dated December 5, 2006, Commission limited an Arizona Water Company CC&N extension to the area for which Arizona Water Company received requests for service. Furthermore, Trico has not shown the need to extend its CC&N to any area other than the Willow Springs development. Finally, SCIP offers service in the area and granting more area than necessary to Trico may foreclose or inhibit SCIP's growth. Therefore, Staff recommends that the extension granted to Trico be limited to the area for which it has a request for service.

Trico's Financial Ability to Serve the Area

Trico's annual report to the United State's Department of Agriculture, Rural Utilities Service ("RUS") for the year ending December 31, 2005, indicates that Trico generated $53.3 million in revenue which resulted in net margins (profit) of $1.6 million. The document shows Trico holds $1.3 million in cash – general funds and another $1.9 million in temporary investments. The Cooperative is highly leveraged ($99.5 million in long-term debt and $27.3 million of equity), but most cooperatives carry high proportions of debt in their capital structure. Due to its organization as an electric cooperative, Trico can avail itself of low-interest loans and does not need to generate cash to pay quarterly dividends to shareholders as do investor-owned utilities, nor is it required to pay income taxes.

Financing

Trico filed an amendment to its Four Year construction Work Plan with the RUS in which it adds $2.2 million for the 69kV line to serve Willow Springs. Ultimately, Trico will finance the extension with loan funds.

Engineering Analysis

Attached as Exhibit 1 is Staff's Engineering Report. The Report indicates that the first phase of the development will require approximately 4 MW of demand. At build-out in 2023, the load is estimated between 35 and 40 MW. Trico plans to serve the development from a

proposed 69kV SaddleBrooke Ranch Substation by constructing a 12-mile long 69kv line, energized at 24.9 kV, until 69kV is needed.

The Report concludes that compared to SCIP, Trico is the more logical provider of electric service because it has electric facilities in the area and because Trico's long-term transmission and generation resource needs are guaranteed through Southwest Transmission Cooperative and Arizona Electric Power Cooperative. It further concludes that SCIP has not demonstrated long-term planned resources to meet the future needs of the development.

Conclusions and Recommendations

Based on Trico's experience as an electric utility, its experience in serving high growth areas and its financial strength, Staff believes that Trico is fit and proper to provide service to the Willow Valley development.

Staff recommends Trico charge its approved rates and charges in the extension area until further ordered by the Commission.

Staff recommends that Trico's application be approved to serve only the Willow Springs development.

EXHIBIT 1

MEMORANDUM

TO: Linda Jaress
Executive Consultant III
Utilities Division

FROM: Prem Bahl
Electric Utilities Engineer
Utilities Division

THRU: Del Smith
Engineering Supervisor
Utilities Division

DATE: December 13, 2006

SUBJECT: TRICO APPL1CATION FOR CC&N EXTENSION
DOCKET NO. E-01461A-04-0393

Attached is Staff Report on Trico's subject application for extension of its existing CC&N to serve the Willow Springs Ranch area. Please call me if you have any questions. Thanks.

Attachment: Staff Report

STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF TRICO ELECTRIC COOPERATIVE, INC. FOR AN EXTENSION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY IN AREAS OF PINAL COUNTY, ARIZONA

DOCKET NO. E-01461A-04-0393

DECEMBER 20, 2006

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EXHIBIT

SERVICE AREAS FOR SADDLEBROOKE RANCH/WILLOW SPRINGS PKB-1

Introduction

On May 26, 2004, Trico Electric Cooperative, Inc. ("Trico") applied to the Arizona Corporation Commission ("Commission") for extension of its existing Certificate of Convenience & Necessity ("CC&N") to serve the areas described in Exhibit "A" of Trico's Application, designated as the "Requested Area".

This application is occasioned by a request from ANAM, Inc., owner of Willows Springs Ranch, and doing business as Willow Springs Ranch South Village ("WSRSV") to Trico for providing electric service to the southerly portion of Willow Springs Ranch ("Willow Springs" or "Ranch") area, referred to as the "South Village Property," consisting of 4,600 acres of deeded land as described in the Exhibit "PKB-1" attached herewith. This master planned development is projected to ultimately contain 6,000 residential units and commercial loads.

Trico is an all-requirement electric distribution cooperative, receiving all of its power supply from Arizona Electric Power Cooperative ("AEPCO"). It is delivered to Trico through the transmission system of Southwest Transmission Cooperative, Inc. ("SWTC") and is measured at AEPCO's wholesale delivery points.

SWTC is an electric transmission cooperative, which participates in regional planning committees, such as Southwest Area Transmission ("SWAT") Extra High Voltage ("EHV") System and Central Arizona Transmission System ("CATS") High Voltage ("HV") System. SWTC supplies EHV transmission at Trico's Sandario, Oracle Junction, Marana, Three Points, Sahuarita, Bicknell, and Valencia Substations.

Staff's Analysis, Conclusions and Recommendations

Staff has reviewed Trico's application for grant of its CC&N extension to serve the Ranch area in response to a request from a developer to provide electric service to the new planned community in the Ranch. This report documents Staff's analysis, conclusions and recommendations in the following pages.

Load Growth

Currently, Trico provides electric power to approximately 36,340 active services, (approximately 32,000 of which are retail) over approximately 3,333 miles of energized lines, including 31 miles of transmission lines, 1,580 miles of overhead distribution lines and 1,752 miles of underground distribution cables.

The Cooperative's retail load peaked at approximately 147 MW in 2006. According to Trico's 2005 Long-Range Load Forecast, Trico's peak load is projected to

grow from 167 MW in 2007 to 867 MW in 2024, which is an average increase of 4.1% percent per year for this time period.

Willow Springs Ranch

Trico included Willow Springs Ranch in its long range construction work plan, 2004-2023, subject to Commission's approval of this Application. WSRSV applied to Trico in January 2004 for power supply to its subdivision, and signed an application agreement on April 14, 2004. According to Trico, WSRSV, with the help of a Developer, The Remington Group, intended to build residential units in phases, the first phase being expected to be completed in 2008 with approximately 4 MW load. The ultimate load development in the Willow Springs Ranch is estimated to vary between 35 and 40 MW in 2023. Trico plans to serve this development from its proposed 69 kV SaddleBrooke Ranch Substation by constructing a 12-mile long 69 kV line, which will be initially energized at 24.9 kV until 69 kV is needed.

Trico has also provided to Staff the following information:

1. Trico is not going through any private lands to serve Willow Springs. All of the right-of-way was obtained from the Arizona State Land Department ("ASLD") with permission from the two grazing lessees: the Wilson Ranch and the Willow Springs Ranch.

2. The franchise from Pinal County was filed with the Commission on July 12, 2006.

3. Trico submitted economic analysis and justification of providing service in the South Village Property.

4. A copy of the Applicant's contract with a contractor to construct roads in the Ranch.

5. A copy of the latest technical study done by AEPCO/SWTC on behalf of Trico showing the transmission infrastructure needed to serve future load requirements, including the Ranch area.

San Carlos Irrigation Project

San Carlos Irrigation Project ("SCIP") made a filing on July 8, 2004, requesting that the Commission reject Trico's application for extension of its CC&N, based on the fact that SCIP was already providing electric service to a few customers in the Ranch, and that SCIP's rates are lower than Trico's rates. On September 24, 2004, SCIP filed in the Docket its conceptual plan dated August 18, 2004, to serve the Ranch through its consultant K.R. Saline & Associates. On December 7, 2006, Staff contacted Mr. Dennis

Delany, Partner, K.R. Saline &.Associates. Mr. Delaney provided the following information:

1. SCIP is capable of providing electric service to South Village Property.

2. On May 11, 2004, The Remington Group, Inc., the Developer of South Village Property, confirmed to SCIP its selection of Trico as the provider of electricity.

3. WSRSV had not responded to accept SCIP's conceptual plan dated August 18, 2004, to receive power from SCIP. Therefore, SCIP has taken no action in initiating building the infrastructure to provide electric service to the South Village Property.

4. SCIP had not applied to the ASLD to obtain Right-of-Way for construction of transmission line to supply power to the Requested Area.

5. There is very little load that SCIP is presently serving in the South Village Property.

6. SCIP is an all-requirement customer of Salt River Project ("SRP") for meeting its native load and future load projections. SCIP is also entitled to some federal hydro power resources. Presently, SCIP's contract with SRP expires at the end of 2007, and SCIP is in the process of negotiations with SRP to extend that contract.

Staff has considered the facts as presented by both parties in this case. Based on review of the technical study provided by Trico and analysis of this case, Staff concludes and recommends as follows.

Conclusions

- The Remington Group, Inc. has categorically chosen to receive power supply from Trico as opposed to SCIP, as is evident from Remington's letter dated May 11, 2004, addressed to SCIP, filed in the Docket Control on July 1, 2004.

- Trico is the more logical provider of electric service to South Village Property because it has electric facilities in the area serving the nearby development of Saddle Brook Ranch, and because Trico's long term transmission and generation resource needs are guaranteed through SWTC and AEPCO, respectively, reflecting reliability of service to its customers.

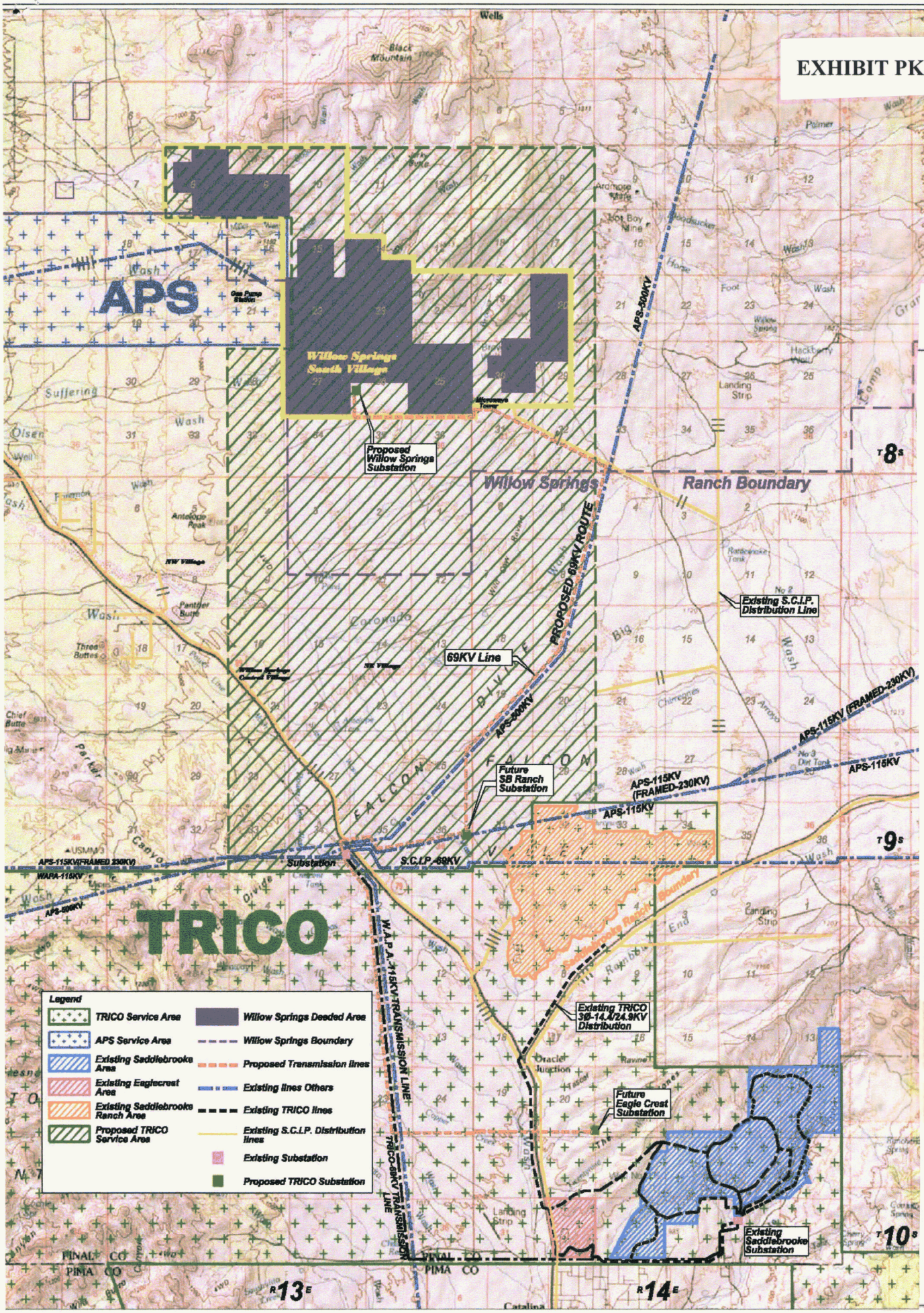
- Trico has obtained the necessary franchises from the Board of Supervisors of Pinal County for the proposed extension area.

- SCIP has not demonstrated long-term planned resources to meet the future needs of Willow Springs Ranch.

Recommendations

Based on the aforementioned analysis and conclusions, Staff recommends approval of the application of Trico Electric Power Cooperative, Inc. for an extension of its Certificate of Convenience and Necessity.

EXHIBIT PKB-1



ELECTRIC DISTRIBUTION PLAN -

SHEET NO.	
2	of 2

DATE DRAWN	BY
4/17/04	RAQ

REVISED	BY
5/28/04	RAQ
9/27/04	RAQ
10/12/04	RAQ

DEVPR: SERVICE AREAS FOR:

PRJCT: Saddlebrooke Ranch / Willow Springs

WO NO:

TRICO ELECTRIC COOPERATIVE, INC.

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