

**ORIGINAL**

**OPEN MEETING ITEM**

**COMMISSIONERS**  
GARY PIERCE - Chairman  
BOB STUMP  
SANDRA D. KENNEDY  
PAUL NEWMAN  
BRENDA BURNS



**ARIZONA CORPORATION COMMISSION**

DATE: JULY 30, 2012

DOCKET NO.: E-01461A-12-0056

TO ALL PARTIES:

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

**TRICO ELECTRIC COOPERATIVE, INC.**  
**(FINANCE)**

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:

AUGUST 8, 2012

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:

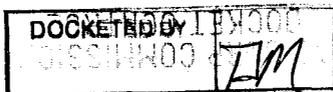
AUGUST 14, 2012 AND AUGUST 15, 2012

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**

**JUL 30 2012**



2012 JUL 30 PM 1:39

ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

**RECEIVED**

1200 WEST WASHINGTON STREET, PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET, TUCSON, ARIZONA 85701-1347

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This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail [SBernal@azcc.gov](mailto:SBernal@azcc.gov)

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF  
TRICO ELECTRIC COOPERATIVE, INC. FOR  
AUTHORIZATION TO ISSUE DEBT IN THE  
AMOUNT OF \$50,000,000 AND TO PREPAY  
CERTAIN EXISTING DEBT.

DOCKET NO. E-01461A-12-0056

DECISION NO. \_\_\_\_\_

ORDER

Open Meeting  
August 14 and 15, 2012  
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 February 16, 2012, Trico Electric Cooperative, Inc. ("Trico" or "Cooperative") filed an Application with the Commission requesting authorization to pre-pay and reissue debt in the amount of \$50,000,000.

2. Trico is requesting authority to replace existing United States Department of Agriculture Rural Utilities Service ("RUS") debt in the amount of \$50,000,000 with new debt priced more advantageously from the National Rural Utilities Cooperative Finance Corporation ("CFC") and/or CoBank, ABC ("CoBank").

3. Trico is a member-owned cooperative and Class "A" public service corporation that provides electric distribution service to over 40,500 metered customers in parts of Pima, Pinal and Santa Cruz Counties, Arizona.

4. On June 21, 2012, Trico filed an affidavit of publication verifying that public notice of

1 its Application was published in the *Arizona Daily Star*, a newspaper of general circulation in Trico's  
2 service area, on June 14, 2012.

3 5. On July 3, 2012, the Commission's Utilities Division ("Staff") filed a Staff Report  
4 recommending approval of the Application.

5 6. On July 6, 2012, Trico filed Comments on the Staff Report stating that it had no  
6 material issues with the Staff Report, and requesting Commission consideration of its Application at  
7 an Open Meeting as soon as possible in order for the Cooperative to take advantage of favorable  
8 financing markets.

9 7. In Decision No. 64055 (September 27, 2001), the Commission granted Trico  
10 authority to borrow \$36,043,000 from the RUS, at an interest rate of 5.0 percent per annum for a term  
11 of 35 years. In Decision No. 67412 (November 2, 2004), the Commission authorized Trico to borrow  
12 an additional \$57,992,000 from the RUS. As of December 31, 2011, Trico's outstanding balances of  
13 these authorized loans totals \$64,467,866, of which \$20,438,191 matures in March 2037 (25.1667  
14 years), and \$44,029,675 matures in August 2039 (27.6 years). The purposes of these financings were  
15 to finance outstanding and ongoing system improvements, to finance the 2004-2007 Construction  
16 Work Plan, and to supplement the financing of Trico's headquarters building.

17 8. Trico seeks the authority to refinance the remaining outstanding balance of the RUS  
18 debt described above in order to reduce costs. Trico states that by replacing this existing debt with  
19 debt at more favorable terms, it anticipates total interest savings of approximately \$3.7 million, and  
20 when combined with projected patronage capital credits from CFC and CoBank (which reduce the  
21 effective interest rates), potential savings could total up to \$9.3 million.<sup>1</sup>

22 9. In its Application, Trico asserts that it seeks to borrow up to \$50,000,000 to prepay  
23 existing RUS loans, without penalty, and issue indebtedness to CFC and/or CoBank to replace the  
24 RUS loans. Trico states the new debt will match the remaining maturities of the RUS loans and will  
25 be amortized over 25.1667 and 27.6 years at a blended average interest rate of 4.5 percent per annum.

26 \_\_\_\_\_  
27 <sup>1</sup> Trico anticipates that CFC and CoBank will each refinance approximately half of the amount requested, but because  
28 interest rates for each lender can be locked in for only a 30 day period, Trico will determine the relative amount of the  
RUS loans to be refinanced by each lender at the time of Commission approval based on the overall effective interest  
rates.

1 The terms of the anticipated CFC and/or CoBank loans provide for the encumbrance of all of Trico's  
2 assets and revenues. Trico states that it will not refinance if the economics are not favorable to Trico  
3 members. Neither the total amount of debt, nor its maturity, will be increased.

4 10. As of December 31, 2011, Trico's capital structure consisted of 2.0 percent short-term  
5 debt, 64.1 percent long-term debt and 33.9 percent equity. Because the financing request does not  
6 increase Trico's total debt level, Staff's pro forma analysis shows little effect on Trico's capital  
7 structure as a result of the transaction.

8 11. As of December 31, 2011, Trico had a Debt Service Coverage ratio ("DSC") of 1.39.<sup>2</sup>

9 12. Staff calculated that assuming a current interest rate of 5.0 percent, and a new blended  
10 rate of 4.5 percent per annum, amortized for the same period as current debt, the proposed  
11 refinancing would have the result of increasing Trico's DSC to 1.42. Staff states the projected  
12 increase in DSC suggests that Trico's ability to meet its debt obligation with internally generated  
13 funds would improve modestly with the proposed financing.

14 13. A.R.S. §40-285 requires public service corporations to obtain Commission  
15 authorization to encumber certain utility assets. Staff states that the statute serves to protect captive  
16 customers from a utility's disposal of assets that are necessary to provide service and thus, pre-empts  
17 any potential resultant service impairment. Staff asserts that pledging assets as security typically  
18 provides benefits to the borrower in the way of increased access to capital funds or preferable interest  
19 rates, and is often an unavoidable condition to procure funds.

20 14. Staff concludes that Trico's proposal to refinance \$50,000,000 of existing RUS debt  
21 with new debt obligations from CFC and/or CoBank having more favorable terms is appropriate, and  
22 that the proposed refinancing of RUS debt as set forth in Trico's Application is within Trico's  
23 corporate powers, is compatible with the public interest, will not impair its ability to provide service,  
24 and is consistent with sound financial practices.

25 15. Staff states that Trico currently has no Commission compliance issues.

26 \_\_\_\_\_  
27 <sup>2</sup> DSC represents the number of times internally generated cash will cover required principal and interest payments on  
28 short-term and long-term debt. A DSC greater than 1.0 indicates that cash flow from operations 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.



1 performance by Trico of service as a public service corporation, and will not impair Trico's ability to  
2 perform the service.

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

6 **ORDER**

7 IT IS THEREFORE ORDERED that Trico Electric Cooperative, Inc. is authorized to prepay  
8 up to \$50,000,000 of existing Rural Utilities Service debt and to refinance that debt with borrowings  
9 from the National Rural Utilities Cooperative Finance Corporation and/or CoBank ABC in an equal  
10 or nearly equal amount and with maturity dates the same or nearly the same as the refinanced Rural  
11 Utilities Service obligations, and at a blended average interest rate less than 5.0 percent per annum.

12 IT IS FURTHER ORDERED that such finance authority shall be expressly contingent upon  
13 Trico Electric Cooperative, Inc.'s use of the proceeds for the purposes stated in its application and  
14 approved herein.

15 IT IS FURTHER ORDERED that Trico Electric Cooperative, Inc. is hereby authorized to  
16 pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 in connection with the  
17 indebtedness authorized herein.

18 IT IS FURTHER ORDERED that that any unused authorization to refinance debt granted  
19 herein shall expire on December 31, 2014.

20 IT IS FURTHER ORDERED that Trico Electric Cooperative, Inc. may engage in any  
21 transaction and to execute any documents necessary to effectuate the authorizations granted herein.

22 IT IS FURTHER ORDERED that Trico Electric Cooperative, Inc. shall file with Docket  
23 Control, as a compliance item in this Docket, within 30 days of the execution of any financing  
24 transaction authorized herein, a notice confirming that such execution has occurred, and a  
25 certification by an authorized Cooperative representative that the terms of the financing fully comply  
26 with the authorizations granted.

27 IT IS FURTHER ORDERED that Trico Electric Cooperative, Inc. shall provide the Utilities  
28 Division Compliance Section a copy of any loan documents executed pursuant to the authorizations

1 granted herein, within 30 days of the execution of the loan, and shall file with Docket Control, as a  
2 compliance item in this Docket, a letter verifying that such documents have been provided to Staff.

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

4 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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7 CHAIRMAN \_\_\_\_\_ COMMISSIONER

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9 COMMISSIONER \_\_\_\_\_ COMMISSIONER \_\_\_\_\_ COMMISSIONER

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11 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,  
12 Executive Director of the Arizona Corporation Commission,  
13 have hereunto set my hand and caused the official seal of the  
14 Commission to be affixed at the Capitol, in the City of Phoenix,  
15 this \_\_\_\_\_ day of \_\_\_\_\_ 2012.

16 \_\_\_\_\_  
17 ERNEST G. JOHNSON  
18 EXECUTIVE DIRECTOR

19 DISSENT \_\_\_\_\_

20 DISSENT \_\_\_\_\_

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1 SERVICE LIST FOR: TRICO ELECTRIC COOPERATIVE, INC.

2 DOCKET NO.: E-01461A-12-0056

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