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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

AUG 21 2012

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

DOCKETED BY
NR

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. 73347

ORDER

Open Meeting
August 9, 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.¹

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.

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27 ¹ 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 1.39.²

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.

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27 ² 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

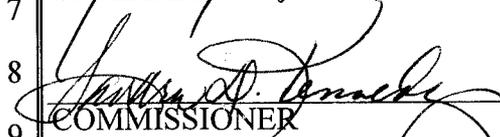
1 granted herein, within 30 days of the execution of the loan, and shall file with Docket Control, as a
2 compliance item in this Docket, a letter verifying that such documents have been provided to Staff.

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

4 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

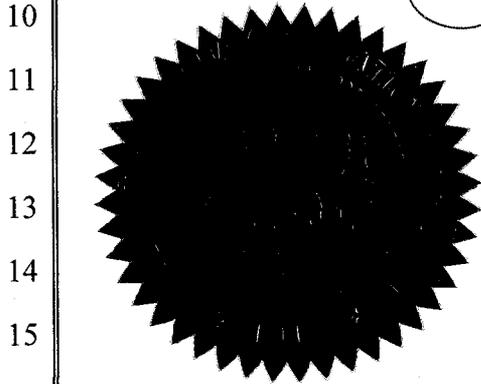
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7 CHAIRMAN


COMMISSIONER

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9 COMMISSIONER


COMMISSIONER


COMMISSIONER



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 the
Commission to be affixed at the Capitol, in the City of Phoenix,
this 21ST day of August 2012.


ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

17 DISSENT _____

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19 DISSENT _____

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1 SERVICE LIST FOR: TRICO ELECTRIC COOPERATIVE, INC.

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

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