

OPEN MEETING ITEM

COMMISSIONERS  
BOB STUMP - Chairman  
GARY PIERCE  
BRENDA BURNS  
BOB BURNS  
SUSAN BITTER SMITH

ORIGINAL



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ARIZONA CORPORATION COMMISSION

2013 JUL -2 A 9:33

Arizona Corporation Commission

DOCKETED

DATE: July 2, 2013

AZ CORP COMMISSION  
DOCKET CONTROL

JUL - 2 2013

DOCKET NO: E-01575A-12-0457

TO ALL PARTIES:

DOCKETED BY  
nr

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

SULPHUR SPRINGS VALLEY 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 ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

JULY 11, 2013

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 Working Session and Open Meeting to be held on:

JULY 17, 2013 and JULY 18, 2013

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250.

*Jodi A. Jerich*  
JODI JERICH  
EXECUTIVE DIRECTOR

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 BOB STUMP - Chairman  
4 GARY PIERCE  
5 BRENDA BURNS  
6 BOB BURNS  
7 SUSAN BITTER SMITH

8 IN THE MATTER OF THE APPLICATION OF  
9 SULPHUR SPRINGS VALLEY ELECTRIC  
10 COOPERATIVE, INC. FOR AN ORDER  
11 APPROVING A COMPREHENSIVE CREDIT  
12 MANAGEMENT PROGRAM AND  
13 SUPERSEDING AND REPLACING CERTAIN  
14 CONSIDERATIONS CONTAINED IN DECISION  
15 NO. 72237 PERTAINING TO THE REFINANCING  
16 OF SSVEC's EXISTING AND AUTHORIZED  
17 DEBT.

DOCKET NO. E-01575A-12-0457

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

**ORDER**

12 Open Meeting  
13 July 17 and 18, 2013  
14 Phoenix, Arizona

14 **BY THE COMMISSION:**

15 \* \* \* \* \*

16 Having considered the entire record herein and being fully advised in the premises, the  
17 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

18 **FINDINGS OF FACT**

19 1. On November 6, 2012, pursuant to Arizona Revised Statutes ("A.R.S.") §§ 40-285,  
20 40-301 and 40-302, Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC" or "Cooperative")  
21 filed an Application with the Commission for an order: 1) approving the Cooperative's  
22 Comprehensive Credit Management Program ("CCMP"), which would authorize the Cooperative to  
23 issue Commercial Paper and revenue bonds directly in addition to borrowing from the National Rural  
24 Utilities Cooperative Finance Corporation ("CFC") and CoBank, ABC ("CoBank"); and 2)  
25 superseding and replacing certain conditions contained in Decision No. 72237 (March 31, 2011), that  
26 are incompatible with the CCMP ("Financing Application").<sup>1</sup>

27 \_\_\_\_\_  
28 <sup>1</sup> SSVEC states as a point of clarification that it is not seeking authority to incur any additional debt beyond that which  
has already been approved in prior Commission orders, but that this application pertains only to refinancing existing debt

1           2.       On May 22, 2013, SSVEC filed a Notice of Publication of Notice and Filing of  
2 Affidavits of Publication. SSVEC caused notice of its Financing Application to be published in the  
3 *San Pedro Valley News-Sun*, the *Arizona Range News*, the *Sierra Vista Herald* and the *Bisbee Daily*  
4 *Review* on May 15, 2013. These publications are newspapers of general circulation in SSVEC's  
5 service area. SSVEC also placed a copy of the notice on its website.

6           3.       On June 11, 2013, the Commission's Utilities Division Staff ("Staff") filed a Staff  
7 Report recommending approval of the Financing Application as modified in the Staff Report. The  
8 Staff Report directed that any comments on the Staff Report be filed on or before June 21, 2013.

9           4.       On June 17, 2013, SSVEC filed Comments In Support of the Staff Report. SSVEC  
10 states that it supports the Staff Report, will abide by each of the recommendations contained therein,  
11 and urges the Commission to approve its Financing Application at the earliest possible opportunity so  
12 that the Cooperative and its members may begin realizing the benefits of lower borrowing costs and  
13 reduced interest rate risk.

14           5.       SSVEC is a member-owned, non-profit cooperative and a Class "A" Arizona public  
15 service corporation that provides electric distribution service to approximately 51,000 metered  
16 customers in parts of Cochise, Graham, Pima and Santa Cruz Counties, Arizona.

17           6.       SSVEC purchases power from Arizona Electric Power Cooperative ("AEPSCO") as a  
18 partial requirements member.

19           7.       The Cooperative's current rates were approved in Decision No. 71274 (September 8,  
20 2009).

21           8.       At present, SSVEC has total Commission authorized debt of \$243,474,008, of which  
22 \$170,797,344 ("Existing Debt") was issued and outstanding as of September 30, 2012. The Existing  
23 Debt consists of loans and clean renewable energy bonds ("CREBs") issued through both the CFC  
24 (\$103,349,697) and CoBank (\$67,447,647).

25 ...

26  
27  
28 and the financing (and subsequent refinancing) of new debt authorized in Decision No. 72237. See Financing Application  
at 1.

1           9.       The Existing Debt consists of a mix of fixed and variable interest rates ranging from  
2 0.40 percent for certain of the CREBs to 2.37 percent for some of the variable rate loans, to a high of  
3 6.75 percent for some of the CFC loans. Maturities range from six months to 31 years, and the  
4 CREBs have maturities of 11 to 22 years.

5           10.       SSVEC's most recent financing request sought Commission authorization to issue  
6 new debt totaling \$78,676,664, including \$6,000,000 in CREBs through a credit facility from CFC  
7 and/or CoBank, and to pledge, mortgage, lien and/or encumber its assets in connection with the credit  
8 facility. In that docket, SSVEC also sought authority to refinance a portion of its existing debt at  
9 more favorable rates. In Decision No. 72237, the Commission authorized \$78,676,664 in new  
10 indebtedness and the refinancing of \$126,282,240, subject to the following conditions:

11                   (a)     The interest rate of the refinancing will be more favorable than that of the current  
12 debt.

13                   (b)     The term of the loan will not be shorter than the remaining term of the loan to be  
14 refinanced.

15                   (c)     The resulting loan will not be an interest-only loan. Rather, the resulting loan  
16 should be an amortizing loan that requires the Cooperative to make periodic principal payments no  
17 less frequently than yearly.<sup>2</sup>

18           11.       At the time SSVEC filed its Financing Application, \$6,000,000 in CREBs had been  
19 issued, leaving SSVEC with \$72,676,664 of unused authorized new debt ("Authorized New Debt").

20           12.       In addition to the Existing Debt (\$170,797,344) and the Authorized New Debt  
21 (\$72,676,664), SSVEC has revolving lines of credit with CFC and CoBank with a combined capacity  
22 of \$16,540,000, and an outstanding balance of \$1,530,000 as of September 30, 2012. SSVEC may  
23 borrow up to \$16,540,000 from either CFC or CoBank, or a combination of the two, but may not  
24 exceed a total of \$16,540,000 between the two banks for the revolving lines of credit based on the  
25 limits established in A.R.S. §40-302(D).<sup>3</sup>

26 \_\_\_\_\_  
27 <sup>2</sup> Decision No. 72237 at 6.

28 <sup>3</sup> A.R.S. §40-302(D) establishes that a public service corporation with operating revenues exceeding \$250,000 may issue notes not exceeding 7 percent of total capitalization if the notes are payable at periods of not more than 12 months from the date of issuance.

1           13.     Staff states that as of May 21, 2013, SSVEC was in compliance with Commission  
2 Orders.

3 **The Refinancing Request**

4           14.     SSVEC is seeking a Commission order that:

5                   (a) Authorizes SSVEC to refinance all or any part of its Existing Debt  
6 (\$170,797,344): (i) by using loans from CFC and/or CoBank, issuing bonds in the capital markets,  
7 issuing Commercial Paper, borrowing under the requested "Credit Facility,"<sup>4</sup> using the revolving line  
8 of credit, or any combination thereof; (ii) at interest rates which the Cooperative determines in its  
9 discretion to be the best available interest rates at the time of the refinancing of the applicable class of  
10 debt instrument (*i.e.* loans, bonds, Commercial Paper, Credit Facility or revolving line of credit); and  
11 (iii) with a maturity date (either longer or shorter than the original maturity date) selected in the  
12 discretion of the Cooperative;

13                   (b) Authorizes SSVEC to finance all or any part of the Authorized New Debt, and  
14 thereafter to refinance the Authorized New Debt: (i) by using loans from CFC and/or CoBank,  
15 issuing bonds in the capital markets, issuing Commercial Paper, borrowing under the Credit Facility,  
16 using the revolving line of credit, or any combination thereof; (ii) at interest rates which the  
17 Cooperative determines in its discretion to be the best available interest rates at the time of the  
18 refinancing of the applicable class of debt instrument (*i.e.* loans, bonds, Commercial Paper, Credit  
19 Facility or revolving line of credit); and (iii) with a maturity date selected in the discretion of the  
20 Cooperative. The amount of the credit facilities with CFC and CoBank approved in Decision No.  
21 72237 shall each be reduced by the amount of any bond issue pertaining to the Authorized New Debt.

22                   (c) Authorizing the CCMP for any new borrowing by SSVEC subsequently  
23 approved by order of the Commission (*i.e.* future borrowing above and beyond the \$243,474,008  
24 currently authorized by the Commission).

25 \_\_\_\_\_  
26 <sup>4</sup> The proposed Credit Facility would consist of a Line of Credit and a five-year term loan specifically to back up the  
27 issuance of Commercial Paper. In the event of a disruption in the Commercial Paper market that prevents SSVEC from  
28 rolling over or renewing its Commercial Paper, it would call on the Line of Credit and/or term loan. The amount that  
SSVEC could borrow using either the Line of Credit or term loan would not exceed \$40 million combined. Drawing on  
the Credit Facility would reduce the amount of available financing authority by a commensurate amount, such that  
authorizing the Credit Facility does not increase SSVEC's total authorized borrowing capacity.

1 (d) Authorizing SSVEC to issue commercial paper and/or borrow under the Credit  
2 Facility in a combined amount not to exceed \$40 million, with the condition that the combined  
3 balance of all outstanding Cooperative debt, exclusive of the Cooperative's revolving lines of credit  
4 with CFC and CoBank, may not exceed \$243,474,008.

5 (e) Authorizing SSVEC to refinance all or any portion of the Existing Debt and the  
6 Authorized New Debt as frequently as the Cooperative determines in its discretion to be reasonable  
7 and prudent in order to manage its cost of debt and interest rate risk, consistent with conditions (a),  
8 (b), (c) and (d) above.

9 (f) Authorizing SSVEC to maintain its revolving lines of credit with CFC and  
10 CoBank (currently \$16,540,000 combined) in an amount not to exceed 7 percent of total  
11 capitalization, which shall be in addition to the issuance of a combined \$40 million of Commercial  
12 Paper or debt under the Credit Facility.

13 (g) Authorizing SSVEC to pledge, mortgage, lien, indenture and/or encumber any of  
14 the assets of the Cooperative pursuant to A.R.S. §§ 40-301 and 40-302 as necessary in order to  
15 complete the refinancing of the Existing Debt or the issuance and refinancing of the Authorized New  
16 Debt.

17 (h) Finding that the granting of the Financing Application is consistent with A.R.S.  
18 §40-301(C), and specifically, that the refinancing of the Existing Debt and financing and refinancing  
19 of the Authorized New Debt as described in the Financing Application is for lawful purposes which  
20 are within the corporate powers of SSVEC, are compatible with the public interest, with sound  
21 financial practices, and with the proper performance by SSVEC of service as a public service  
22 corporation, and will not impair SSVEC's ability to perform that service.

23 (i) Finding that the granting of the Financing Application is consistent with A.R.S.  
24 §40-302(A), and specifically, that the refinancing of the Existing Debt and financing and refinancing  
25 of the Authorized New Debt as described in the Application is reasonably necessary or appropriate  
26 for the purposes described in the Financing Application and that such purposes are not, wholly or in  
27 part, reasonably chargeable to operating expenses or to income.

28 ...

1 (j) Authorizing SSVEC to engage in any transactions and to execute any documents  
2 necessary to effectuate the authorizations granted by the Commission in this docket.

3 (k) Ordering that such portions of the Financing Conditions of Decision No. 72237  
4 that are inconsistent with the CCMP, and/or the approvals granted in this docket, are superseded and  
5 replaced.

6 15. The purpose of the CCMP and proposed refinancing is to enable SSVEC to materially  
7 lower its borrowing costs and to reduce interest rate risk. SSVEC states that the CCMP will enable  
8 SSVEC during the next seven years to refinance \$26,524,770 in existing loans with variable interest  
9 rates and an additional \$108,364,275 in loans with short-term fixed rates, at low 30-year fixed  
10 interest rates, as well as reduce the number of outstanding loans which will simplify management.<sup>5</sup>

#### 11 Financial Analysis

12 16. As of June 30, 2012, SSVEC's capital structure consisted of 2.9 percent short-term  
13 debt, 64.7 percent long-term debt and 32.5 percent equity. For the year ended June 30, 2012, the  
14 Cooperative had Operating Income of \$10,349,904, Depreciation and Amortization Expense totaled  
15 \$9,462,769, Interest Expense was \$7,118,083, and it made principal repayments of \$7,299,939.<sup>6</sup> The  
16 result was that as of June 30, 2012, SSVEC's Debt Service Coverage ("DSC") ratio was 1.37.<sup>7</sup>

17 17. Staff performed a pro forma analysis to reflect the issuance of \$74,901,830 of 20-year  
18 amortizing debt at 4.12 percent, to show the effect of SSVEC reaching its maximum Commission-  
19 authorized long-term debt of \$243,474,008. Staff's analysis shows that with the addition of \$74.9  
20 million of long-term debt, based on June 30, 2012 results, SSVEC's capital structure would consist of  
21 2.9 percent short-term debt, 72.1 percent long-term debt, and 25.0 percent equity. SSVEC's interest  
22 expense would increase to \$10,037,218 and its principal repayment would increase to \$9,690,007,  
23 resulting in a DSC of 1.0.<sup>8</sup>

24  
25 <sup>5</sup> Financing Application at 12.

26 <sup>6</sup> Staff Report at Sch JAC-1.

27 <sup>7</sup> DSC represents the number of times internally generated cash will cover required principal and interest payments on  
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.

28 <sup>8</sup> Staff's calculation of DSC is (Operating Income + Depreciation and Amortization Expense + Income Tax Expense) ÷  
(Interest Expense + Repayment of Principal).

1           18.     The existing CoBank and CFC loan covenants require SSVEC to maintain a DSC of at  
2 least 1.35, which is calculated by averaging the two highest annual ratios achieved during the most  
3 recent three fiscal years.

4           19.     According to Staff, CFC and CoBank calculate DSC using a different method than  
5 Staff, which includes recognition of non-operating margin components such as capital credits and  
6 interest income. Staff states that using the CFC and CoBank method for calculating DSC results in a  
7 DSC of 1.20 under the pro forma scenario in which SSVEC reaches its fully authorized levels of  
8 outstanding debt.<sup>9</sup>

9 **The Comprehensive Credit Management Program**

10           20.     The CCMP is a multi-faceted approach of financing the Authorized New Debt and  
11 refinancing the Existing Debt, as an alternative to the current method of obtaining long-term loans  
12 from CFC or CoBank. Even as it presents an alternative financing option, the CCMP preserves the  
13 ability to use the CFC and CoBank when those banks can offer loans that are favorable to bond  
14 issuances. Under the CCMP, the authorized New Debt and Existing Debt (when interest rate locks  
15 expire) would initially be financed by means of low-interest, short-term Commercial Paper, and once  
16 a sufficiently large pool of debt (approximately \$40 to \$60 million) has been aggregated, the  
17 Commercial Paper would be refinanced in a bond offering.<sup>10</sup>

18           21.     The CCMP also includes a Credit Facility that consists of two components: (1) a \$40  
19 million line of credit; and (2) a \$40 million five-year term loan. The Credit Facility serves as a back-  
20 up in the event SSVEC cannot rollover or renew its outstanding Commercial Paper. As a subset of  
21 the combined Existing Debt and Authorized New Debt, the Credit Facility would not affect total  
22 authorized debt. In the event the outstanding Commercial Paper could not be rolled over, the line of  
23 credit would be used to pay off the Commercial Paper. SSVEC anticipates a one-year term for the  
24

25 <sup>9</sup> Staff notes that the pro forma DSC results would vary depending on the assumptions made concerning operating  
26 income, the amount borrowed, loan term and interest rates. Staff states that it has discussed the marginal pro forma DSC  
27 results with SSVEC's management, whom Staff states is evaluating the actions, if any, to take to maintain compliance  
28 with its debt covenants.

<sup>10</sup> Commercial Paper is a short-term unsecured promissory note, generally with a maturity of 30 days, but maturity may  
range up to 270 days. Securities with maturities longer than 270 days are required to be registered with the United States  
Securities and Exchange Commission. Once issued, the interest rate on Commercial Paper remains fixed until maturity,  
although interest rates on Commercial Paper are subject to change on a daily basis. Staff Report at p 6 fn 15.

1 Line of Credit with the potential for an additional one-year renewal or refinancing. Under the terms  
2 of the Credit Facility, if the Line of Credit expires, the outstanding balance would be refinanced via a  
3 5-year loan. The Line of Credit and the term loan are integrally tied such that only one or the other  
4 can be implemented at any point in time, and in an amount not to exceed \$40 million. According to  
5 SSVEC, the Credit Facility is an essential component of the CCMP to prevent defaulting on  
6 outstanding Commercial Paper.

7 22. According to the parties, accessing the capital markets to issue Commercial Paper and  
8 bonds requires obtaining appropriate credit ratings. SSVEC must first obtain an investment grade  
9 credit rating from one of the three credit rating agencies ("Standard & Poor's," "Moody's" or  
10 "Fitch"). SSVEC states that it would need three types of credit ratings prior to issuing Commercial  
11 Paper and bonds: one rating for SSVEC as an issuing entity, a second rating for its capital market  
12 bond issue (a long-term rating), and a third rating for its Commercial Paper (a short-term rating).

13 23. To date, SSVEC has obtained an investment grade A- issuer credit rating from  
14 Standard & Poor's and an "A-" rating on its implied senior secured obligations from Fitch Ratings.  
15 Both Standard & Poor's and Fitch Ratings have assigned SSVEC a rating outlook of "Stable."<sup>11</sup>

16 24. SSVEC states that it is pursuing the option to borrow in the capital markets despite the  
17 additional complexity such borrowing presents compared to obtaining long-term loans from CFC and  
18 CoBank because the potential exists to materially lower SSVEC's borrowing costs. SSVEC's  
19 management developed the CCMP with the assistance of an outside financial advisor and the SSVEC  
20 Board of Directors authorized implementing the CCMP subject to approval by the Commission.<sup>12</sup>

21 25. SSVEC's Financing Application notes that borrowing costs are currently  
22 unprecedentedly low, and that this is an opportune time to refinance for longer versus shorter periods.  
23 Staff agrees that the plan to use Commercial Paper and/or other bridge financing to refinance  
24 SSVEC's Existing Debt and to finance Authorized New Debt via fixed rate long-term bonds is

25

26 <sup>11</sup> On April 8, 2013, SSVEC filed a March 25, 2013 Report of the Standard & Poor's Credit Profile and Rating of  
27 SSVEC, Inc. and a March 25, 2013 Fitch Ratings Full Report of SSVEC, Inc.

28 <sup>12</sup> SSVEC notes that other cooperatives have recently begun to access the capital markets as a way to reduce interest  
expense and interest rate risk, citing the experience of Guadalupe Valley Electric Cooperative, Inc., a rural Texas  
cooperative.

1 consistent with sound financial planning.<sup>13</sup> The window of opportunity will eventually close, such  
 2 that SSVEC believes that expeditious refinancing is desirable. However, the loan agreements for  
 3 SSVEC's Existing Debt contain pre-payment penalties which impede the ability to refinance most of  
 4 the Existing Debt in the short term.<sup>14</sup> As a result, SSVEC developed a general plan consistent with  
 5 the re-pricing dates of its Existing Debt and its anticipated need for the Authorized New Debt.

6         26. Staff concludes that granting SSVEC authority to access the capital markets by issuing  
 7 Commercial Paper and issuing bonds in conjunction with a Credit Facility, as an option in addition to  
 8 obtaining long-term loans from CFC and CoBank, is generally consistent with sound financial  
 9 practice. However, Staff warns that the success of other cooperatives in implementing a CCMP-like  
 10 financing does not ensure that SSVEC or any other entity will have similar success. Staff states that  
 11 using Commercial Paper or other short-term bridge financing while gathering sufficient debt for  
 12 refinancing efficiently in the bond market presents an exposure to rising interest rates during the  
 13 period of bridge financing. In addition, Staff notes that there are costs associated with preparing a  
 14 bond issuance, which costs may or may not be fully recovered if the attempt to issue debt is  
 15 unsuccessful or if the debt issuance is not sufficiently less costly than obtaining loans from traditional  
 16 lenders. Staff also has concerns about maturity matching, that is, the practice whereby the maturity  
 17 of the debt does not exceed the useful life of the asset being acquired with debt financing. Staff notes  
 18 that maturity matching ensures that the entity is not paying on debt for assets that have no remaining  
 19 usefulness. Staff believes that any authorization to refinance Existing Debt should preserve maturity  
 20 matching.<sup>15</sup>

21 \_\_\_\_\_  
 22 <sup>13</sup> Staff Report at 8.

23 <sup>14</sup> Some of SSVEC's Existing Debt with CFC and CoBank contains a re-pricing feature that allows the Cooperative to  
 24 choose an initial period to fix the interest rate, and then, at the end of the initial fixed-rate period, SSVEC must select  
 25 another fixed-rate period. This re-pricing can occur multiple times during the life of the loan. The applicable interest rate  
 26 is dependent upon the length of the period selected for the fixed interest rate, and the interest rate increases as the term of  
 27 the fixed rate increases. The interest rate available at each re-pricing date is dependent upon the rate available in the  
 28 market at the re-pricing date. Re-pricing can be an effective tool to manage interest rate risk. Because the fixed interest  
 rate available normally increases as the period of the interest rate lock increases, by obtaining multiple shorter period  
 fixed rate price locks versus a single fixed rate for the entire term of a loan, the average expected interest rate over the  
 entire loan can be reduced. However, if the re-pricing dates occur in periods of relatively high market interest rates, the  
 average interest rate may exceed that which is available for the entire term of the loan on its execution date. When interest  
 rates are relatively low, issuing fixed rate debt for longer periods can result in interest savings over financing in multiple  
 shorter periods.

<sup>15</sup> Staff Report at 8-9.

1 **Compatibility with Decision No. 72237**

2 27. The CCMP is not compatible with certain of the refinancing conditions contained in  
3 the ordering language of Decision No. 72237. SSVEC requests that those provision of Decision No.  
4 72237 that are incompatible with the CCMP be superseded and replaced.

5 28. Paragraph 20(a) of Decision No. 72237 permits refinancing only if “the interest rate of  
6 the refinancing will be more favorable than that of the current debt.”<sup>16</sup> The CCMP contemplates that  
7 SSVEC would initially refinance existing loans after the interest rate locks on those loans expire  
8 using low-interest, short-term Commercial Paper or variable rate loans, and that subsequently, once a  
9 sufficiently large pool of debt has been aggregated to make a bond offering, SSVEC should refinance  
10 the debt by issuing long-term bonds in the capital markets. When refinancing its debt under the  
11 CCMP, interest rates would first decrease in the short-term, and then increase as SSVC takes  
12 advantage of long-term bond rates, which is inconsistent with the literal language of Paragraph 20(a).

13 29. Paragraph 20 (b) of Decision No. 72237 permits refinancing only if “[t]he terms of the  
14 loan will not be shorter than the remaining term of the loan being refinanced.”<sup>17</sup>The CCMP, under  
15 which existing loans are first refinanced with short-term instruments and then replaced with longer  
16 term bonds, is inconsistent with Paragraph 20(b).

17 30. Paragraph 20(c) of Decision No. 72337 permits refinancing only if “the resulting loan  
18 will not be an interest-only loan. Rather, the resulting loan should be an amortizing loan that requires  
19 the Cooperative to make periodic principal payments no less frequently than yearly.”<sup>18</sup> Under the  
20 CCMP, SSVEC would be issuing Commercial Paper or variable rate loans, which may not be  
21 amortizing.<sup>19</sup> Thus, the refinancing contemplated by SSVEC is not compatible with Paragraph 20(c).

22 31. Decision No. 72237 provides that SSVEC borrow the Authorized New Debt from  
23 CFC, CoBank, or a combination of the two, which does not provide for SSVEC to issue Commercial  
24 Paper and bonds as an alternative to using CFC and/or CoBank.

25 \_\_\_\_\_  
26 <sup>16</sup> Decision No. 72237 at 4 and 6.

27 <sup>17</sup> Decision No. 72237 at 4 and 6.

28 <sup>18</sup> Decision No. 72237 at 4 and 6.

<sup>19</sup> Commercial Paper itself is not an amortizing loan, but rather a discounted security. The investor purchases the notes at less than face value, and at maturity, the issuer repurchases the notes at face value. The difference between the purchase price and the face value, called the discount, is the interest paid/received.

1 32. Furthermore, to the extent short-term financing exceeds that available under A.R.S. §40-  
2 302(D), the Cooperative needs Commission authorization.

3 33. Staff concludes that waiving the three refinancing conditions in Paragraph 20 of  
4 Decision No. 72237, and the restriction to borrow only from CFC or CoBank, in order to implement  
5 the alternative financing options under the CCMP, is appropriate with certain conditions as set forth  
6 below. Staff recommends:

7 (a) Authorizing SSVEC to refinance all or any part of its Existing Debt in the  
8 amount of \$170,797,344 (i) using loans from CFC, and/or CoBank and/or another lender, issuing  
9 bonds in the capital markets, issuing Commercial Paper, borrowing under the Credit Facility, using  
10 the revolving line of credit, or any combination thereof; (ii) at interest rates which the Cooperative  
11 determines in its discretion to be the best available interest rates at the time of the refinancing for the  
12 applicable class of debt instrument (*i.e.*, loans, bonds, Commercial Paper, Credit Facility or  
13 revolving line of credit); and (iii) with a maturity date(s) (either longer or shorter than the original  
14 maturity date(s)) selected in the discretion of the Cooperative subject to conditions described in  
15 recommendation (m) below.

16 (b) Authorizing SSVEC to finance all or any part of the Authorized New Debt of  
17 \$72,676,664, and thereafter to refinance the Authorized New Debt (i) using loans from CFC and/or  
18 CoBank and/or another lender, issuing bonds in the capital markets, issuing Commercial Paper,  
19 borrowing under the Credit Facility, using the revolving line of credit, or any combination thereof;  
20 (ii) at interest rates which the Cooperative determines in its discretion to be the best available interest  
21 rates at the time of the financing for the applicable class of debt instrument (*i.e.*, bank loans, bonds,  
22 Commercial Paper, Credit Facility or revolving line of credit); and (iii) with a maturity date(s)  
23 selected in the discretion of the Cooperative subject to conditions described in recommendation (m)  
24 below. The amount of the credit facilities with CFC and CoBank approved in Decision No. 72237  
25 shall each be reduced by the amount of any bond issue pertaining to the Authorized New Debt.

26 ...

27 ...

28 ...

1 (c) Defining the authorized CCMP as consisting solely of the authorizations granted  
2 in (a) and (b) above and denying SSVEC's authorization to use the CCMP for any future  
3 authorizations granted by the Commission to SSVEC to incur indebtedness beyond the \$243,474,008  
4 currently authorized unless the Commission specifically grants use of the CCMP in future decisions.

5 (d) Subjecting the authorizations granted in (a) and (b) above pertaining to the  
6 issuance and/or reissuance of Commercial Paper and borrowing under the Credit Facility to the  
7 following conditions: (i) at no time shall the combined outstanding Commercial Paper and Credit  
8 Facility balance exceed \$40 million; and (ii) at no time shall the combined balance of all outstanding  
9 Cooperative debt, exclusive of amounts payable less than twelve months from the date of issuance  
10 pursuant to A.R.S. § 40-302(D), exceed that specifically authorized by the Commission (currently  
11 \$243,474,008).

12 (e) Deny authorization for SSVEC to refinance all or any portion of the Authorized  
13 New Debt subsequent to the initial issuance as long-term financing, i.e. except as refinanced in  
14 accordance with the Credit Facility authorization granted herein, and deny authorization for SSVEC  
15 to refinance all or any portion of the Existing Debt subsequent to the first refinancing as long-term  
16 debt, (except as refinanced in accordance with the Credit Facility authorization granted herein).

17 (f) Authorizing SSVEC to maintain its revolving lines of credit with CFC and  
18 CoBank (\$16,540,000 combined between the two lenders as of the date of filing the application in  
19 this docket) and to incur other forms of debt in a combined amount not to exceed 7 percent of total  
20 capitalization, which shall be in addition to the issuance of a combined \$40 million of Commercial  
21 Paper or term borrowing under the Credit Facility.

22 (g) Authorizing SSVEC to pledge, mortgage, lien, indenture and/or encumber any of  
23 the assets of the Cooperative pursuant to A.R.S. §§ 40-285, 40-301 and 40-302 as necessary in order  
24 to execute the financing and refinancing authorized herein.

25 (h) Finding that the authorizations as granted herein for the financing and/or  
26 refinancing of Existing Debt and Authorized New Debt are consistent with A.R.S. §40-301(C), and  
27 specifically, that the refinancing of the Existing Debt and financing and refinancing of the Authorized  
28 New Debt are for lawful purposes which are within the corporate powers of SSVEC, are compatible

1 with the public interest, with sound financial practices, and with the proper performance by SSVEC  
2 of service as a public service corporation, and will not impair SSVEC's ability to perform that  
3 service.

4 (i) Finding that the authorizations as granted herein for the financing and/or  
5 refinancing of Existing Debt and Authorized New Debt are consistent with A.R.S. § 40-302(A), and  
6 specifically, that the refinancing of the Existing Debt and financing and refinancing of the Authorized  
7 New Debt are reasonably necessary or appropriate for the purposes and that such purposes are not,  
8 wholly or in part, reasonably chargeable to operating expenses or to income.

9 (j) Authorizing SSVEC to engage in any transactions and to execute any documents  
10 necessary to effectuate the authorizations granted by the Commission in this docket.

11 (k) Ordering that such portions of the Financing Conditions of Decision No. 72237  
12 that are inconsistent with the CCMP and/or the approvals granted in this docket are superseded and  
13 replaced.

14 (l) Directing SSVEC to perform and document an analysis to support the  
15 refinancing source(s) it selects for each long-term financing or long-term refinancing of Existing  
16 Debt and Authorized New Debt. This recommendation shall not apply to Commercial Paper  
17 transactions or transactions under the Credit Facility or revolving lines of credit.

18 (m) Subjecting the authorizations granted in (a) and (b) above pertaining to Existing  
19 Debt and Authorized New Debt to the following conditions: (i) that the weighted average maturity of  
20 any long-term refinancing obligations not increase or decrease from the weighted average maturity of  
21 the obligations to be refinanced by more than twenty-five percent; (ii) all long-term financing, except  
22 as authorized herein under the Credit Facility or bridge financing (debt held for periods not to exceed  
23 24 months), shall be fixed rate debt (*i.e.*, variable rate long-term financing is not authorized); and (iii)  
24 the newly issued debt does not directly result in a violation of the terms and/or conditions of any  
25 existing debt.

26 (n) Directing the Cooperative to file with Docket Control, as a compliance item in  
27 this matter, a memorandum summarizing any initial long-term financing agreement or any long-term  
28 refinancing agreement for Existing Debt or Authorized New Debt within 60 days of the closing of

1 such transaction. The memorandum shall specify the former debt obligations refinanced and the  
2 portion of the new financing that represents incurrence of new debt. This recommendation shall not  
3 apply to Commercial Paper transactions or transactions under the Credit Facility or revolving lines of  
4 credit.

5 (o) Directing the Cooperative, as a compliance item in this matter, to provide the  
6 Utilities Division Director with a copy of any financing agreement associated with any initial long-  
7 term financing or long-term refinancing of Existing Debt or Authorized New Debt within 60 days of  
8 the execution of such transaction and to file a letter in Docket Control confirming such. This  
9 recommendation shall not apply to Commercial Paper transactions or transactions under the Credit  
10 Facility or revolving lines of credit.

11 (p) Establishing that the authorizations granted in (a) and (b) above expire on  
12 December 31, 2019, unless the CCMP is extended by further order of the Commission.

13 (q) Within 60 days of the date of the decision in this matter, SSVEC shall file with  
14 Docket Control the amount of Existing Debt and the amount of the unused Authorized New Debt as  
15 of the date of the Decision.

16 (r) Finding that the authorizations granted herein do not include approval to enter  
17 into any agreement/contract for any financial derivative security or similar instrument.

### 18 Conclusions

19 34. SSVEC's proposed CCMP would allow it to take advantage of current market  
20 conditions, including historically low interest rates, and to benefit from material savings on interest  
21 rate expense. Staff's recommended conditions reduce risks of the CCMP by placing appropriate  
22 limits on SSVEC's authority to issue Commercial Paper and/or bonds in the market.

23 35. Our authorization of the CCMP as conditioned herein, allows SSVEC to engage in  
24 alternative methods of financing, but does not eliminate or restrict SSVEC from continuing to utilize  
25 the CFC or CoBank.

26 36. Consequently, we approve SSVEC's Financing Application as modified by Staff's  
27 conditions and set forth herein.

28 ...

**CONCLUSIONS OF LAW**

1  
2 1. SSVEC is a public service corporation within the meaning of Article XV of the  
3 Arizona Constitution and A.R.S. §§ 40-285, 40-301, 40-302, and 40-303.

4  
5 2. The Commission has jurisdiction over SSVEC and of the subject matter of the  
6 Financing Application.

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

8 4. The authorizations granted herein for the financing and/or refinancing of Existing  
9 Debt and Authorized New Debt are consistent with A.R.S. §40-301(C), and the refinancing of the  
10 Existing Debt and financing and refinancing of the Authorized New Debt are for lawful purposes  
11 which are within the corporate powers of SSVEC, are compatible with the public interest, with sound  
12 financial practices, and with the proper performance by SSVEC of service as a public service  
13 corporation, and will not impair SSVEC's ability to perform that service.

14 5. The authorizations as granted herein for the financing and/or refinancing of Existing  
15 Debt and Authorized New Debt are consistent with A.R.S. § 40-302(A), and the refinancing of the  
16 Existing Debt and financing and refinancing of the Authorized New Debt are reasonably necessary or  
17 appropriate for the purposes and that such purposes are not, wholly or in part, reasonably chargeable  
18 to operating expenses or to income.

**ORDER**

19 IT IS THEREFORE ORDERED that Sulphur Springs Valley Electric Cooperative, Inc. is  
20 hereby authorized to refinance all or any part of its Existing Debt in the amount of \$170,797,344 (i)  
21 using loans from CFC, and/or CoBank and/or another lender, issuing bonds in the capital markets,  
22 issuing Commercial Paper, borrowing under the Credit Facility, using the revolving line of credit, or  
23 any combination thereof; (ii) at interest rates which Sulphur Springs Valley Electric Cooperative, Inc.  
24 determines in its discretion to be the best available interest rates at the time of the refinancing for the  
25 applicable class of debt instrument (*i.e.*, loans, bonds, Commercial Paper, Credit Facility or  
26 revolving line of credit); and (iii) with a maturity date(s) (either longer or shorter than the original  
27 maturity date(s)) selected in the discretion of Sulphur Springs Valley Electric Cooperative, Inc.  
28

1 subject to conditions described herein below.

2 IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc. is  
3 authorized to finance all or any part of the Authorized New Debt of \$72,676,664, and thereafter to  
4 refinance the Authorized New Debt: (i) using loans from CFC and/or CoBank and/or another lender,  
5 issuing bonds in the capital markets, issuing Commercial Paper, borrowing under the Credit Facility,  
6 using the revolving line of credit, or any combination thereof; (ii) at interest rates which Sulphur  
7 Springs Valley Electric Cooperative, Inc. determines in its discretion to be the best available interest  
8 rates at the time of the financing for the applicable class of debt instrument (*i.e.*, bank loans, bonds,  
9 Commercial Paper, Credit Facility or revolving line of credit); and (iii) with a maturity date(s)  
10 selected in the discretion of the Sulphur Springs Valley Electric Cooperative, Inc. subject to  
11 conditions set forth herein below.

12 IT IS FURTHER ORDERED that the amount of the credit facilities with CFC and CoBank  
13 approved in Decision No. 72237 shall each be reduced by the amount of any bond issue pertaining to  
14 the Authorized New Debt.

15 IT IS FURTHER ORDERED that the above authorizations apply only to Sulphur Spring  
16 Valley Electric Cooperative, Inc.'s existing authorizations currently totaling \$243,474,008, and not to  
17 future authorizations granted by the Commission to Sulphur Springs Valley Electric Cooperative, Inc.  
18 unless the Commission specifically authorizes use of the Comprehensive Credit Management  
19 Program in a future Decision.

20 IT IS FURTHER ORDERED that the combined balances of the authorizations granted above  
21 pertaining to the issuance and/or re-issuance of Commercial Paper and borrowing under the Credit  
22 Facility shall at no time exceed \$40 million.

23 IT IS FURTHER ORDERED that at no time shall the combined balance of all outstanding  
24 debt of Sulphur Springs Valley Electric Cooperative, Inc., exclusive of amounts payable less than  
25 twelve months from the date of issuance pursuant to A.R.S. § 40-302(D), exceed the amount  
26 specifically authorized by the Commission (currently \$243,474,008).

27 IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc.'s request  
28 for authorization to refinance all or any portion of the Authorized New Debt subsequent to the initial

1 issuance as long-term financing, (except as refinanced in accordance with the Credit Facility  
2 authorization granted herein) is denied.

3 IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc.'s request  
4 for authority to refinance all or any portion of the Existing Debt subsequent to the first refinancing as  
5 long-term debt, (except as refinanced in accordance with the Credit Facility authorization granted  
6 herein) is denied.

7 IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc. is  
8 authorized to maintain its revolving lines of credit with CFC and CoBank (\$16,540,000 combined  
9 between the two lenders as of the date of filing the application in this docket) and to incur other forms  
10 of debt in a combined amount not to exceed 7 percent of total capitalization, which shall be in  
11 addition to the issuance of a combined \$40 million of Commercial Paper or term borrowing under the  
12 Credit Facility.

13 IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc. is  
14 authorized to pledge, mortgage, lien, indenture and/or encumber any of its assets pursuant to A.R.S.  
15 §§ 40-285, 40-301 and 40-302 as necessary in order to execute the financing and refinancing  
16 authorized herein.

17 IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc. may  
18 engage in any transactions and execute any documents necessary to effectuate the authorizations  
19 granted herein.

20 IT IS FURTHER ORDERED that such portions of the Financing Conditions of Decision No.  
21 72237 that are inconsistent with the Comprehensive Credit Management Program and/or the  
22 approvals granted in this docket are superseded and replaced.

23 IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc. shall  
24 perform and document an analysis to support the refinancing source(s) it selects for each long-term  
25 financing or long-term refinancing of Existing Debt and Authorized New Debt, except this  
26 requirement does not apply to Commercial Paper transactions or transactions under the Credit  
27 Facility or revolving lines of credit.

28 ...

1 IT IS FURTHER ORDERED that the authorizations granted above pertaining to Existing  
 2 Debt and Authorized New Debt are conditioned on the following: (i) the weighted average maturity  
 3 of any long-term refinancing obligations shall not increase or decrease from the weighted average  
 4 maturity of the obligations to be refinanced by more than twenty-five percent; (ii) all long-term  
 5 financing, except as authorized herein under the Credit Facility or bridge financing (debt held for  
 6 periods not to exceed 24 months), shall be fixed rate debt (*i.e.*, variable rate long-term financing is  
 7 not authorized); and (iii) the newly issued debt does not directly result in a violation of the terms  
 8 and/or conditions of any existing debt.

9 IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc. shall file  
 10 with Docket Control, as a compliance item in this matter, a memorandum summarizing any initial  
 11 long-term financing agreement or any long-term refinancing agreement for Existing Debt or  
 12 Authorized New Debt (excepting Commercial Paper transactions or transactions under the Credit  
 13 Facility or revolving lines of credit) within 60 days of the closing of such transaction; such  
 14 memorandum to specify the former debt obligations refinanced and the portion of the new financing  
 15 that represents incurrence of new debt.

16 IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc. shall, as a  
 17 compliance item in this matter, provide the Commission's Utilities Division Director a copy of any  
 18 financing agreement associated with any initial long-term financing or long-term refinancing of  
 19 Existing Debt or Authorized New Debt within 60 days of the execution of such transaction and shall  
 20 file a letter in Docket Control confirming such; except this requirement does not apply to Commercial  
 21 Paper transactions or transactions under the Credit Facility or revolving lines of credit.

22 IT IS FURTHER ORDERED that the authorizations granted to implement the Comprehensive  
 23 Credit Management Program as set forth herein, expire on December 31, 2019, unless the  
 24 Comprehensive Credit Management Program is extended by further order of the Commission.

25 ...  
 26 ...  
 27 ...  
 28 ...

1 IT IS FURTHER ORDERED that within 60 days of the date of the effective date of this  
2 Order, Sulphur Springs Valley Electric Cooperative, Inc. shall file with Docket Control the amount of  
3 Existing Debt and the amount of the unused Authorized New Debt as the date of this Decision.

4 IT IS FURTHER ORDERED that the authorizations granted herein do not include approval to  
5 enter into any agreement/contract for any financial derivative security or similar instrument.

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

7 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.  
8  
9

10 CHAIRMAN \_\_\_\_\_ COMMISSIONER \_\_\_\_\_

11  
12 COMMISSIONER \_\_\_\_\_ COMMISSIONER \_\_\_\_\_ COMMISSIONER \_\_\_\_\_

13  
14 IN WITNESS WHEREOF, I, JODI JERICH, Executive  
15 Director of the Arizona Corporation Commission, have  
16 hereunto set my hand and caused the official seal of the  
17 Commission to be affixed at the Capitol, in the City of Phoenix,  
18 this \_\_\_\_\_ day of \_\_\_\_\_ 2013.

19 \_\_\_\_\_  
20 JODI JERICH  
21 EXECUTIVE DIRECTOR

22 DISSENT \_\_\_\_\_

23 DISSENT \_\_\_\_\_  
24  
25  
26  
27  
28

1 SERVICE LIST FOR: SULPHUR SPRINGS VALLEY ELECTRIC  
2 COOPERATIVE, INC.

3 DOCKET NO.: E-01575A-12-0457

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