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BEFORE THE ARIZONA CORPORATION

Arizona Corporation Commission

COMMISSIONERS

DOCKETED

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

JAN - 7 2014

DOCKETED BY ne

IN THE MATTER OF THE APPLICATION OF
DUNCAN VALLEY ELECTRIC COOPERATIVE,
INC. FOR APPROVAL OF A LOAN.

DOCKET NO. E-01703A-13-0272

DECISION NO. 74256

ORDER

Open Meeting
December 17 & 18, 2013
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 August 8, 2013, Duncan Valley Electric Cooperative, Inc. ("DVEC" or "Cooperative") filed an application requesting authorization to borrow funds to make accelerated funding payments to the National Rural Electric Cooperative Association ("NRECA") Retirement Security Plan ("RSP") ("Finance Application").

2. DVEC is a public service corporation and non-profit, member-owned cooperative located in Duncan, Arizona, that provides electric and natural gas distribution service to approximately 1,660 members in portions of southeastern Arizona and southwestern New Mexico.¹

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¹ DVEC is one of five Class A member distribution cooperatives who purchase all or most of their electric power from Arizona Electric Power Cooperative, Inc. ("AEPSCO"). The Cooperative defines a member as "a consumer or group of consumers who jointly hold a membership in the cooperative for one or more services." The Cooperative reports that in 2012 it had 1,468 members in Arizona and 193 members in New Mexico; and had 3,043 total customers-- 1,974 electric customers and 732 gas customers in Arizona, and 337 electric customers in New Mexico. Staff Report at 1.

1 3. On September 4, 2013, DVEC filed an Affidavit of Publication verifying that public
2 notice of its Finance Application was published on August 28, 2013, in *The Copper Era*, a weekly
3 newspaper of general circulation published in Greenlee County, Arizona.

4 4. On October 31, 2013, the Commission's Utilities Division ("Staff") filed a Staff
5 Report recommending approval of the Finance Application. Any Comments to the Staff Report were
6 due on or before November 8, 2013. No Comments were filed.

7 5. DVEC's current rates were approved in Decision No. 67433 (December 3, 2004).

8 6. DVEC requests authority to borrow up to \$475,099 from the National Rural Utilities
9 Cooperative Finance Corporation ("CFC") in the form of an 11-year amortizing loan at an annual
10 interest rate of 2.95 percent in order to finance the prepayment of a portion of DVEC's future funding
11 obligations to the NRECA RSP.

12 7. DVEC estimates that by pre-paying a portion of its RSP payments, it will experience
13 retirement expense savings of \$67,485 (net after financing costs) over the 11-year loan period, based
14 on an assumed 3.0 percent annual increase in base salaries.² The savings would be greater if the base
15 salary expense over the period is greater than 3.0 percent. Over a 20-year period, DVEC anticipates
16 retirement expense savings of approximately \$750,000.³

17 8. DVEC argues that the benefit of all savings realized from the prepayment will accrue
18 to the DVEC members in the form of a lower cost of service.⁴

19 9. Staff's financial analysis indicates that as of December 31, 2012, the Cooperative had
20 a capital structure (not including a capital lease that had payments starting in 2013) consisting of 0.3
21 percent short-term debt, 2.8 percent long-term debt, and 96.9 percent equity.⁵ Taking the capital
22 lease into consideration, as of December 31, 2012, DVEC's capital structure consisted of 0.35
23 percent short-term debt, 2.5 percent long-term debt and 97.15 percent equity.⁶

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26 ² Finance Application at 2 & Exhibit B.

27 ³ Staff Report at 2.

⁴ Finance Application at 2.

28 ⁵ Staff Report Schedule JAC-1.

⁶ Staff Report at Schedule JAC-1

1 10. Staff's pro forma analysis indicates that based on audited financial statements dated
2 December 31, 2012, the addition of the proposed \$475,000 loan would create a capital structure
3 consisting of 0.8 percent short-term debt, 8.0 percent long-term debt and 91.2 percent equity.⁷

4 11. Staff's financial analysis indicates that for the year ended December 31, 2012,
5 (including the payments related to the capital lease), DVEC had a Debt Service Coverage ratio
6 ("DSC") of 5.22. DSC represents the number of times operating income will cover required principal
7 and interest payments on short-term and long-term debt. A DSC greater than 1.0 indicates that cash
8 flow from operations is sufficient to cover debt obligations. A DSC less than 1.0 means that debt
9 service obligations cannot be met by cash generated from operations and that another source of funds
10 may be needed to avoid default under certain conditions.

11 12. Staff's pro forma analysis indicates that including the proposed loan would result in a
12 DSC of 1.85.⁸ Based on the foregoing, Staff concludes that DVEC has sufficient operating cash flows
13 to meet the debt service obligations associated with the proposed financing.

14 13. DVEC informed Staff that the proposed financing does not involve the Cooperative
15 encumbering its assets.

16 14. Staff concludes that the prepayment of pension contributions using the currently
17 available low interest rates is a proper use of funds, and is in the public interest.⁹

18 15. Staff indicates that as of October 11, 2013, a check of the Commission's compliance
19 database showed that DVEC had no unresolved compliance issues.

20 16. Staff concludes that issuance of the proposed debt financing for the purposes stated in
21 the Finance Application is within DVEC's corporate powers, is compatible with the public interest, is
22 consistent with sound financial practices and will not impair its ability to provide services.

23 17. Staff recommends authorizing DVEC to borrow up to \$475,000 in the form of an 11-
24 year amortizing loan at an interest rate of 2.95 percent per annum from CFC to finance the
25 prepayment of a portion of DVEC's future funding pension contributions, as described in the Finance
26 Application.

27 ⁷ Staff Report at Schedule JAC-1.

28 ⁸ Staff Report at 2 and Schedule JAC-1.

⁹ Staff Report at 3.

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18. Staff further recommends:

- a. Authorizing DVEC to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted in this Decision;
- b. The Cooperative provide to the Utilities Division Director, a copy of the loan documents executed pursuant to the authorizations granted in this Decision, within 30 days of the execution of the loan, and also file a letter in Docket Control verifying that such documents have been provided to the Utilities Division; and
- c. That any unused authorization to incur debt granted in this proceeding terminates by December 31, 2014.

19. Based on DVEC's and Staff's analyses, which conclude that pre-paying pension costs now will result in lower operating costs in the future, we find that DVEC's request, and Staff's recommendations to be reasonable, and we approve them.

CONCLUSIONS OF LAW

- 1. DVEC is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-285, 40-301, 40-302, and 40-303.
- 2. The Commission has jurisdiction over DVEC and of the subject matter of the Finance Application.
- 3. Notice of the Finance Application was given in accordance with the law.
- 4. The authorizations granted herein are for lawful purposes which are within the corporate powers of DVEC, are compatible with the public interest, with sound financial practices, and with the proper performance by DVEC of service as a public service corporation, and will not impair DVEC's ability to perform that service.
- 5. The authorizations granted herein are reasonably necessary or appropriate for the purposes.

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ORDER

IT IS THEREFORE ORDERED that Duncan Valley Electric Cooperative, Inc. is hereby authorized to borrow up to \$475,000 from the National Rural Utilities Cooperative Finance Corporation in the form of an 11-year amortizing loan at an interest rate of 2.95 percent.

IT IS FURTHER ORDERED that such finance authority shall be expressly contingent upon Duncan Valley Electric Cooperative, Inc.'s use of the proceeds for the purposes stated in its Finance Application and approved herein.

IT IS FURTHER ODRERED that any unused authorizations granted herein shall expire on December 31, 2014.

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

IT IS FURTHER ORDERED that approval of the financing set forth herein 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.

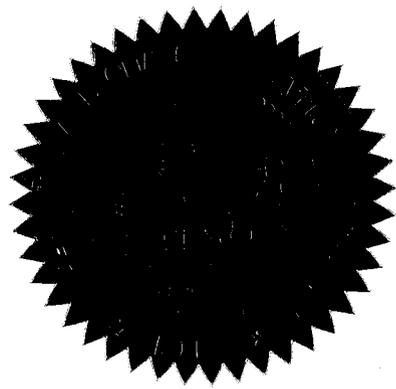
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1 IT IS FURTHER ORDERED that Duncan Valley Electric Cooperative, Inc. shall provide the
2 Utilities Division Director a copy of any loan documents executed pursuant to the authorizations
3 granted herein, within 30 days of the execution of the loan, and shall file with Docket Control, as a
4 compliance item in this Docket, a letter verifying that such documents have been provided to the
5 Utilities Division.

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

7 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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10  CHAIRMAN  COMMISSIONER
11  COMMISSIONER  COMMISSIONER  COMMISSIONER
12



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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 7th day of January, ~~2013~~
19 2014

20 
21 JODI JERICH
22 EXECUTIVE DIRECTOR

23 DISSENT _____
24
25 DISSENT _____
26 JR/tv
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1 SERVICE LIST FOR: DUNCAN VALLEY ELECTRIC COOPERATIVE,
INC.

2
3 DOCKET NO.: E-01703A-13-0272

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9 Mr. John V. Wallace
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