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MEMORANDUM

2014 MAR 31 A 8:07

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

ORIGINAL

DATE: March 28, 2014

RE: STAFF REPORT FOR TRICO ELECTRIC COOPERATIVE, INC.'S APPLICATION FOR AUTHORIZATION TO BORROW UP TO \$20 MILLION FROM THE NATIONAL RURAL UTILITIES COOPERATIVE FINANCE COOPERATIVE FINANCE CORPORATION AND CoBANK, ACB (DOCKET NO. E-01461A-14-0039)

Attached is the Staff Report for Trico Electric Cooperative, Inc.'s application for authorization to obtain two committed revolving lines of credit in the combined amount of \$20 million. Staff recommends approval of the requested authorization.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before April 11, 2014.

SMO:CLP:tdp|BES

Originator: Christine Payne

Arizona Corporation Commission
DOCKETED

MAR 31 2014

DOCKETED BY 

Service List for: Trico Electric Cooperative, Inc.
Docket No. E-0146A-14-0039

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**TRICO ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01461A-14-0039**

**APPLICATION FOR AUTHORIZATION TO OBTAIN
TWO COMMITTED LINES OF CREDIT
IN THE COMBINED AMOUNT OF \$20 MILLION**

MARCH 28, 2014

STAFF ACKNOWLEDGMENT

The Staff Report for Trico Electric Cooperative, Inc., Docket No. E-01461-A-14-0039 is the responsibility of the Staff members listed below. Christine Payne is responsible for the financial analysis. Ed Stoneburg is responsible for the engineering and technical analysis.



CHRISTINE PAYNE
PUBLIC UTILITIES ANALYST II



ED STONEBURG
UTILITIES ENGINEER

EXECUTIVE SUMMARY
TRICO ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01461A-14-0039

Trico Electric Cooperative, Inc., (“Trico” or the “Cooperative”) is a member-owned cooperative and a Class “A” public service corporation providing electric distribution service to approximately 41,000 metered customers in parts of Pima, Pinal and Santa Cruz Counties, Arizona. On February 7, 2014, Trico filed an application with the Arizona Corporation Commission (“Commission”) requesting authorization to borrow up to \$20,000,000 in the form of two revolving lines of credit (“RLOC”) for \$10,000,000 each from National Rural Utilities Cooperative Finance Corporation (“CFC”) and CoBank, ACB (“CoBank”).

The purpose of the RLOCs is to provide Trico the same authority for interim financing of capital improvements as previously granted in Decision No. 66779 (February 13, 2004) which expired February, 2014.

Staff recommends approval of Trico’s request to borrow an amount not to exceed \$20,000,000 from CFC and CoBank in the form of a \$10,000,000 RLOC agreement from CFC and CoBank, each with a ten-year term.

Staff further recommends the following:

- Authorizing Trico to engage in any transaction and to execute any documents necessary to effectuate the authorization herein granted.
- Granting Trico authorization to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-301 in connection with any indebtedness authorized in this proceeding.
- Directing Trico to provide to the Utilities Division Compliance Section copies of the loan documents executed pursuant to the authorizations granted herein 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.
- That any unused authorizations to issue debt granted in this proceeding terminate within ten years of a decision in this Docket.

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INTRODUCTION

On February 7, 2014, Trico Electric Cooperative, Inc., (“Trico” or “Cooperative”) filed an application with the Arizona Corporation Commission (“Commission”) requesting authorization to borrow up to \$20,000,000 in the form of revolving lines of credit for \$10,000,000 each from National Rural Utilities Cooperative Finance Corporation (“CFC”) and CoBank, ACB (“CoBank”). This new financing authority will replace the authority granted Trico in Decision No. 66779,¹ which expired on February, 2014. Trico will use this financing authority to fund capital projects identified in Trico’s 2013 – 2016 Construction Work Plan (“CWP”) on an interim basis prior to obtaining long term financing from the Rural Utilities Services (“RUS”).

PUBLIC NOTICE

On March 24, 2014, Trico filed an affidavit of published notice verifying notice of its financing application. The Cooperative published notice in the *Daily Territorial* on March 6, 2014, March 13, 2014, and March 20, 2014. The *Daily Territorial* is a weekly newspaper of general circulation serving Pima County.

COMPLIANCE

As of March 13, 2014, a check of the Commission Compliance Database indicates that there currently are no delinquencies for Trico. Therefore, Trico is currently in compliance.

BACKGROUND

Trico is a non-profit member-owned cooperative and a Class “A” public service corporation. Trico provides electric distribution service to approximately 41,000 metered customers in parts of Pima, Pinal and Santa Cruz Counties in Arizona. Its principal place of business is located at 8600 W. Tangerine Road, Marana, Arizona, 85658.

Trico has no generating capacity of its own and contracts with the Arizona Electric Power Cooperative, Inc. (“AEPSCO”) for the majority of its electric power supply.

Trico’s current rates were approved in Decision No. 71253² on September 2, 2009.

The Commission granted Trico authority to borrow an amount not to exceed \$25 million from CFC in the form of a Revolving Line of Credit (“RLOC”) in Decision No. 66779¹ (February 13, 2004). Decision No. 73933³ (June 27, 2013) granted Trico an extension of time until July 31, 2014, to draw on additional loan funds subject to the terms of Decision No. 70399⁴.

¹ Docket No. E-01461A-03-0607

² Docket No. E-01461A-08-0430

³ Docket No. E-01461A-07-0433

⁴ Docket No. E-01461A-07-0433

At present, Trico estimates the CFC debt amount outstanding is \$34 million, which is expiring in July, 2014.

PURPOSE OF THE PROPOSED FINANCING

Trico is requesting authority from the Commission to borrow an amount not to exceed \$20 million in the form of two RLOCs for \$10 million each from CFC and CoBank. As stated in the financing application, the purpose of the proposed financing is to provide Trico short-term borrowing capacity for its Construction Work Plan (“CWP”) for the period 2013 – 2016⁵ (outlined on page 2 of the Engineering Report) until permanent long-term financing can be obtained for future capital projects. Trico will repay any outstanding balance to CFC and CoBank.

Trico’s current CWP of \$83.98 million includes estimates for continued growth in residential line extensions and accompanying system improvement construction projects. Trico states in its financing application that the economic recession that occurred from 2008 - 2012 and the 2009 Commission-approved modifications to Trico’s Line Extension Policy (“LEP”) have drastically reduced Trico’s actual CWP spending.

FINANCIAL ANALYSIS

Staff’s financial analysis is contained in Schedule CLP-1. Column [A] of the schedule reflects Trico’s historical financial information for the year ended December 31, 2012. Column [B] presents pro forma financial information that modifies Column [A] to reflect the repayment of principal associated with a capital lease obligation.

Capital Structure

As of December 31, 2012, Trico’s capital structure consisted of 1.83 percent short-term debt, 60.73 percent long-term debt, and 37.44 percent equity (Schedule CLP-1, Column [A], lines 19-25). Authorization of the proposed committed RLOCs will not affect Trico’s capital structure until the Cooperative makes a draw upon the funds.

Debt Service Coverage (“DSC”)

Debt service coverage ratio (“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 may be needed to avoid default under certain conditions.

⁵ Trico’s financing application states the CWP was for the period 2013-2017. However, based upon Trico’s responses to Staff data requests and as confirmed by Trico, the CWP for the purposes of this financing application should be for the period 2013-2016.

Schedule CLP-1, Column [A] indicates that for the year ended December 31, 2012, Trico's DSC was 1.32. The pro forma DSC for the Cooperative under the scenario described above for Column [B] is 1.51. The pro forma DSC results show Trico has sufficient funds to meet all debt obligations and meets the minimum 1.0 DSC covenant required by CFC and CoBank. The increase in DSC resulting from the refinancing indicates that Trico's present ability to internally generate sufficient cash to meet its obligations will modestly improve as a consequence of the proposed refinancing.

Encumbrance

The terms of the anticipated loans provide for encumbrance of all Trico's assets and revenues. A.R.S. § 40-301 requires public service corporations to obtain Commission authorization to encumber certain utility assets. The statute serves to protect captive customers from a utility's act to dispose of any of its assets that are necessary for the provision of service; thus, it serves to preempt any service impairment due to disposal of assets essential for providing service. Pledging assets as security typically provides benefits to the borrower in the way of increased access to capital funds or preferable interest rates, and it is often an unavoidable condition for procurement of funds for small or financially stressed entities.

CONCLUSION AND RECOMMENDATIONS

Staff concludes that issuance of the two proposed RLOCs for the purposes stated in the application is within Trico's corporate powers, is compatible with the public interest, is consistent with sound financial practices and will not impair its ability to provide services.

Staff further recommends the following:

- Authorizing Trico to engage in any transaction and to execute any documents necessary to effectuate the authorization herein granted.
- Granting Trico authorization to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-301 in connection with any indebtedness authorized in this proceeding.
- Directing Trico to provide to the Utilities Division Compliance Section copies of the loan documents executed pursuant to the authorizations granted herein, 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.
- That any unused authorizations to issue debt granted in this proceeding terminate within ten years of a decision in this Docket.

TRICO ELECTRIC COOPERATIVE
DOCKET NO. E-01461A-14-0039

Trico Electric Cooperative, Inc.
Docket No. E-01461A-14-0039
Application For Financing

Schedule CLP-1

FINANCIAL ANALYSIS

Selected Financial Information

	[A] ¹ <u>12/31/2012</u>		[B] ² <u>Pro Forma</u>		
1 Operating Income	\$	5,331,503	\$	5,331,503	
2 Depreciation & Amortization		6,507,489		6,507,489	
3 Income Tax Expense					
4					
5 Interest Expense		5,713,480		5,139,788	
6 Repayment of Principal		3,289,102		3,372,581	
7					
8					
9					
10					
11 DSC					
12 [1+2+3] ÷ [5+6]		1.32		1.39	
13					
14					
15					
16					
17 Capital Structure					
18					
19 Short-term Debt		3,605,676	1.83%	3,372,581	1.62% ³
20					
21 Long-term Debt		119,439,132	60.73%	126,417,389	60.67%
22					
23 Common Equity		73,624,204	37.44%	78,591,557	37.72%
24					
25 Total Capital		\$196,669,012	100.0%	\$208,381,527	100.0%
26					
27					

¹ Column [A] is based on audited financial statements for the year ended December 31, 2012.

² Column [B] is Column [A] modified to reflect the repayment of principal associated with the new revolving line of credit.

³ Pro Forma short-term debt represents the first year principal repayment subsequent to the consummation of the proposed refinancing.

MEMORANDUM

TO: Christine Payne
Public Utilities Analyst II
Utilities Division

FROM: Edward Stoneburg *ESS*
Electric Utilities Engineer
Utilities Division

DATE: April 1, 2014

RE: **ENGINEERING REPORT – TRICO ELECTRIC COOPERATIVE, INC'S
FINANCING APPLICATION DATED FEBRUARY 7, 2014 - DOCKET
NO. E-01461A-14-0039**

I. INTRODUCTION

Trico Electric Cooperative, Inc. ("Trico" or "Cooperative") submitted an application to the Arizona Corporation Commission ("Commission") for authorization to borrow up to \$20,000,000 in the form of revolving lines of credit for \$10,000,000 each from National Rural Utilities Cooperative Finance Corporation and CoBank, ACB. This new financing authority will replace the authority granted Trico in Decision No. 66779, which expired in February 2014. Trico will use this financing authority to fund capital projects identified in Trico's 2013 – 2016¹ Construction Work Plan ("CWP") on an interim basis prior to obtaining long term financing from the Rural Utilities Services ("RUS"). Trico stated in its Application that it intends to make application to the RUS and the Commission at some point in the future for a new long term CWP loan for the 2013 - 2016 time frame.

II. TRICO OVERVIEW

Trico is headquartered in Marana, Arizona, providing electric service to approximately 41,000 members in an area around the City of Tucson. Trico is a partial-requirement member of Arizona Electric Power Cooperative ("AEPSCO") and receives transmission service from Southwest Transmission Cooperative, Inc. ("SWTC"). The Cooperative's retail load peak was 195 MW in 2013.

As with most of Arizona, growth in Trico's service area was negatively impacted by the economic downturn over the past few years. This resulted in a number of projects in Trico's 2007 – 2010 CWP being deferred due to lower load growth, some of which are included in the 2013-2016 CWP. Trico stated in its Application that it expects to have unexpended funds of \$30

¹ The Application stated the CWP was for 2013-2017. However, based upon Trico's responses to Staff data requests and as confirmed by Trico, the CWP is only for 2013-2016.

million of the \$83.98 million approved for its 2007 – 2010 CWP. Trico’s financing authority for the \$83.98 million expires July 31, 2014.

III. ENGINEERING REVIEW OF TRICO’S CONSTRUCTION WORK PLAN

Staff has reviewed Trico’s 2013-2016 Construction Work Plan using the following criteria:

- Does the CWP adequately address the needs of the projected customer and load growth in Trico’s service territory?
- Are the capital expenditures on transmission and distribution infrastructure upgrades and new additions appropriate and reasonable?
- Is the Cooperative operating and maintaining its electric system in a reliable manner?

Trico’s 2013 – 2016 CWP is based upon a forecast of customer growth and related load growth prepared in 2012. The CWP notes that Trico has seen a strengthening of the economy in its service area with an increase in applications for new service during 2013 compared to previous years. In addition to line extensions to serve new customers, Trico anticipates needing other system improvements and upgrades to meet increased system loads and to maintain reliability. The CWP documents the engineering analysis completed for Trico by C.H. Guernsey & Company that examined the existing and forecast system capacity and operating conditions. Based upon that analysis, system improvements and additions were identified that Trico believes are necessary to provide adequate and dependable service to its members through 2016. The CWP budget for 2013-2016, totaling \$30,589,542, is summarized in Table 1.

Table 1
SUMMARY OF TRICO CONSTRUCTION WORK PLAN COSTS 2013-2016
(\$000)

Category	2013	2014	2015	2016	Total
Member Extensions (Net of CIAC*)	\$ 167	\$ 203	\$ 250	\$ 276	\$ 896
Tie Lines	181	2,015	1,045	370	3,611
Distribution Line Upgrades, Rebuilds (Net of CIAC**)	4,136	3,435	4,366	2,126	14,243
Substations	0	0	0	2,500	2,500
Misc. & Other Distribution Equipment	3,746	438	2,057	3,098	9,339
Total	\$8,410	\$6,091	\$7,718	\$8,370	\$30,589

*Contribution in Aid of Construction totals \$8.065 million for the four year period

**Contribution in Aid of Construction totals \$2.993 million for the four year period

The CWP provides a description and estimated costs of facilities necessary to:

- Connect 3,593 new services to the system
- Install new transformers, service lines and meters to increase capacity for 226 existing customers
- Increase the capacity of 40.9 miles of existing overhead and underground distribution lines to serve projected increased system loads
- Construct 12.0 miles of new tie lines to provide backup capability and flexibility for distribution outages
- Increase the backup capability from other distribution substations for three radial transmission delivery points to provide increased flexibility for transmission system outages
- Increase the capacity of one substation to serve projected increased loads in the area
- Replace 820 deteriorated poles
- Replace 4.58 miles of aging underground conductor
- Install miscellaneous distribution equipment to improve system operations

Staff also reviewed Trico's customer outage metrics and system losses and found them to be well within the RUS guidelines.

IV. CONCLUSION

Based on Staff's engineering review of Trico's CWP, and other information provided by Trico in response to Staff's Data Requests, Staff believes that these projects are appropriate to meet the projected demand of the Cooperative's new and existing customers and will help ensure system reliability. Staff further concludes that the costs associated with these projects appear to be reasonable. Staff's conclusions do not, however, imply a specific treatment for rate base or rate making purposes.