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BEFORE THE ARIZONA CORPORATION

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

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AZ CORP COMMISSION
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2014 APR 9 PM 3:02

ORIGINAL

IN THE MATTER OF THE APPLICATION OF TRICO ELECTRIC COOPERATIVE, INC. FOR AUTHORIZATION TO BORROW UP TO \$20,000,000 FROM THE NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION ("CFC") AND CoBANK, ACB ("CoBANK").

DOCKET NO. E01461A-14-0039

STAFF'S NOTICE OF ERRATA

The Utilities Division ("Staff") of the Arizona Corporation Commission files this Notice of Errata to correct the Staff Report filed March 31, 2014, in this docket as follows:

On page 1, the last sentence "Decision No. 73933 (July 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. 70399" should be deleted.

On page 1, the first sentence in the last paragraph which reads "The Commission granted Trico authority to borrow an amount not to exceed \$25 million from CRF in the form of a Revolving Line of Credit ("RLOC") in Decision No. 66779" should be deleted and re-inserted as the first sentence of the "PURPOSE OF THE PROPOSED FINANCING" section on page 2.

On page 2, the first sentence "At present, Trico estimates the CFC debt amount outstanding is \$34 million, which is expiring in July, 2014" should be deleted.

On page 2, the language "to reflect the repayment of principal associated with a capital lease obligation" at the end of the first paragraph in the "FINANCIAL ANALYSIS" section should be deleted.

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Arizona Corporation Commission

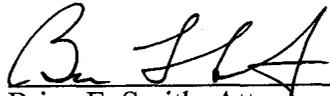
DOCKETED

APR 09 2014

DOCKETED BY

1 Attached hereto is the Amended Staff Report wherein are incorporated the above-referenced
2 amendments.

3 RESPECTFULLY SUBMITTED this 9th day of April 2014.

4
5 
6 Brian E. Smith, Attorney
7 Legal Division
8 Arizona Corporation Commission
9 1200 West Washington Street
10 Phoenix, Arizona 85007
11 (602) 542-3402

12 Original and thirteen (13) copies
13 of the foregoing filed this
14 9th day of April 2014 with:

15 Docket Control
16 Arizona Corporation Commission
17 1200 West Washington Street
18 Phoenix, Arizona 85007

19 Copy of the foregoing mailed this
20 9th day of April 2014 to:

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29 
30

**AMENDED
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**

APRIL 9, 2014

STAFF ACKNOWLEDGMENT

The Amended 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.

PURPOSE OF THE PROPOSED FINANCING

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. 66779³

¹ Docket No. E-01461A-03-0607

² Docket No. E-01461A-08-0430

³ Docket No. E-01461A-03-0607

(February 13, 2004). 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 – 2016⁴ (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].

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.

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

⁴ 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.

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.