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BEFORE THE ARIZONA CORPORATION COMMISSION

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

Arizona Corporation Commission

2014 MAY 30 P 2:12

DOCKETED

MAY 30 2014

CORP COMMISSION
DOCKET CONTROL

DOCKETED BY

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. E-01461A-14-0039
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"))

**COMMENTS ON
SUPPLEMENTAL STAFF
REPORT**

Trico Electric Cooperative, Inc. ("Trico") has reviewed the Supplemental Staff Report that was docketed on May 20, 2014. Trico has two concerns with the Supplemental Staff Report:

1. The Supplemental Staff Report includes two pro forma debt hypotheticals that are not realistic (or even possible given current Commission financing authorization for Trico).
2. Staff is now recommending an annual compliance filing for Trico to demonstrate that its Debt Service Coverage ("DSC") is at least 1.35, due to concerns arising from the two unrealistic hypothetical pro formas, even though both the CFC and CoBank revolving lines of credit ("RLOCs") already have covenants that require Trico to have a DSC of 1.35.

Trico does not believe that the additional compliance filing recommendation is necessary and requests that the Commission not impose this additional compliance requirement on Trico as a condition of renewing the two RLOCs.

A. The Unrealistic Hypothetical Scenarios.

Given Trico's current financing situation and debt restrictions imposed by the Commission, Scenarios C and D in the Supplemental Staff Report would not or cannot reasonably occur. First, Scenario C ostensibly contemplates that Trico would borrow the entire \$20 million in revolving credit, while not increasing the current \$44 million borrowed under the RUS AL8 loan.

1 However, the pro forma, shown in Schedule CLP-1, reflects an increase in new long term debt of
2 over \$40 million and an increase of interest and principal payments of just over \$7.4 million. In
3 order to increase the interest and principle payments by that level, Trico would need to borrow
4 more than it is authorized to do so. Also to achieve this increase in interest and principle
5 payments, the model appears to assume a shorter timeframe to pay back the debt than is normal for
6 Trico's current business practices.

7 Second, Scenario D contemplates that Trico borrows the entire \$83.98 million under the
8 RUS AL8 loan.¹ The pro forma, however, reflects an increase in long term debt of more than
9 \$112 million. Moreover, Trico has already borrowed \$44 million under that RUS AL8 loan
10 (which is already reflected in the Scenario A debt) and could only borrow an additional \$39
11 million under its current Commission financing authority. Trico simply could not reach the debt
12 levels contemplated by Scenario D without further Commission action.

13 **B. The Unnecessary Compliance Condition.**

14 Staff's recommendation of a compliance filing regarding DSC is unnecessary. Currently,
15 Trico submits an annual audit report to the Commission Compliance Section that reports the
16 information necessary to calculate the DSC, as well as the DSC itself. Moreover, as Staff
17 acknowledges in the Supplemental Staff Report, the covenants of the two RLOCs at issue here
18 require Trico to maintain a DSC of at least 1.35. Trico would not be able to borrow under the two
19 RLOCs at issue if that borrowing would result in a DSC of less than 1.35. Finally, Trico had been
20 operating under similar RLOCs (which are effectively being renewed here) and the Commission
21 did not require such compliance reporting in the financing authorization for those RLOCs granted
22 in Decision No. 66779 (February 13, 2004).

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27 ¹ The Supplemental Staff Report refers to an \$83.9 million line of credit from the RUS. Trico does not have such a line of credit.

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C. Conclusion.

Trico requests that the Commission grant the requested financing authority to effectively renew the \$20 million in revolving letters of credit without the additional DSC compliance filing requirement.

RESPECTFULLY SUBMITTED this 30th day of May 2014.

TRICO ELECTRIC COOPERATIVE, INC.

By 

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Original and 13 copies of the foregoing
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