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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission
DOCKETED

JUL 30 2014

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

DOCKETED BY *nr*

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 AND CoBANK, ACB.

DOCKET NO. E-01461A-14-0039

DECISION NO. 74592

ORDER

Open Meeting
July 22 and 23, 2014
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

Procedural History

1. On February 7, 2014, Trico Electric Cooperative, Inc. ("Trico" or "Cooperative") filed an application with the Commission requesting authorization to borrow up to \$20,000,000 in the form of two revolving lines of credit in the amount of \$10,000,000 each from National Rural Utilities Cooperative Finance Corporation ("CFC") and CoBank, ACB ("CoBank") ("Finance Application").

2. On March 24, 2014, Trico filed a Notice of Filing Affidavit of Publication indicating that the Cooperative had notice of its financing request published in *The Daily Territorial*, a daily newspaper printed and published in Pima County, on March 6, 2014, March 13, 2014 and March 20, 2014.

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1 3. On March 31, 2014, the Commission's Utilities Division ("Staff") filed its Staff
2 Report recommending approval of the requested authorization.

3 4. On April 9, 2014, Staff filed a Notice of Errata to correct the Staff Report, attaching an
4 Amended Staff Report.

5 5. On April 10, 2014, Trico filed Comments on Staff Report indicating that the
6 Cooperative supported the Amended Staff Report.

7 6. By Procedural Order dated May 12, 2014, Staff was directed to file a Supplemental
8 Staff Report to address certain facts missing from the record.

9 7. On May 20, 2014, Staff filed its Supplemental Staff Report, recommending
10 conditional approval of the requested revolving lines of credit.

11 8. On May 30, 2014, Trico filed Comments on Supplemental Staff Report. Trico
12 expressed two concerns: (1) that the Supplemental Staff Report includes two pro forma hypotheticals
13 that are not realistic, or even possible; and (2) that Staff's new recommendation for an annual
14 compliance filing to demonstrate a minimum Debt Service Coverage ratio ("DSC") of 1.35 is based
15 on the faulty hypotheticals and is unnecessary given the loan covenants already in place.

16 **Background**

17 9. Trico is a non-profit member-owned cooperative that provides electric distribution
18 service in parts of Pima, Pinal and Santa Cruz Counties pursuant to Certificates of Convenience and
19 Necessity issued by the Commission. Trico's principal place of business is located in Marana,
20 Arizona. Trico has no generating capacity of its own and contracts with the Arizona Electric Power
21 Cooperative, Inc. for the majority of its electric power supply.

22 10. Trico's current rates and charges were approved in Decision No. 71253 (September 2,
23 2009).

24 11. Staff reports that Trico is in compliance with Commission regulations and Orders.

25 12. In Decision No. 66779 (February 13, 2004), the Commission granted Trico authority
26 to borrow up to \$25,000,000 by means of a revolving line of credit ("RLOC") from CFC. Decision
27 No. 66779 authorized Trico to use the RLOC agreement for ten years. This authority expired in
28 February 2014. The RLOC provided interim financing for capital improvements between the time

1 the Commission authorized the borrowing and RUS agreed to provide the long-term loans, and the
2 time Trico actually received the proceeds from the long-term loans.

3 **Trico's Current Request**

4 13. Trico asserts that in light of the expired RLOC arrangements, CFC and CoBank each
5 have agreed to provide a new RLOC to Trico in the amount of \$10,000,000 (\$20,000,000 total). The
6 Agreements with CFC and CoBank provide that all funds advanced to Trico are to be used solely for
7 the purpose of financing capital additions to Trico's electric plant.

8 14. Trico states that its current Construction Work Plan ("CWP") of \$83.98 million,
9 which was approved in 2007 by the United States Department of Agriculture Rural Utility Service
10 ("RUS"), was based on estimates for continued growth in residential line extensions and
11 accompanying system improvement construction projections. In Decision No. 70399 (July 3, 2008),
12 the Commission authorized Trico to borrow up to \$83.98 million from RUS for its 2007-2010 CWP.
13 According to Trico, the economic recession from 2008-2012, and the Commission-approved
14 modifications to Trico's Line Extension Policy in 2009, substantially reduced Trico's actual CWP
15 spending.

16 15. In Decision No. 73933 (June 27, 2013), the Commission approved the extension of
17 Trico's authority to borrow under the long-term loan associated with the 2007 CWP for one year, or
18 until July 31, 2014. As of July 1, 2013, this loan had approximately \$39.4 million remaining
19 available to finance CWP projects. Trico estimates that as of July 1, 2014, the loan will still have
20 approximately \$30 million in unused capacity, and Trico has sought permission from RUS for a four-
21 year extension of the remaining available balance on the loan. At the time of this application with the
22 Commission, Trico was uncertain when and if the RUS would grant its extension request.

23 16. Trico states that the RLOC agreements from CFC and CoBank will give Trico the
24 ability to obtain short-term funds for capital improvements promptly and avoid unnecessary delays
25 for its consumers. Trico asserts that it intends to apply to RUS and the Commission for a new CWP
26 loan for the 2013-2016 timeframe, and that it needs the RLOCs because the timing of the long-term
27 funding of its next CWP is uncertain.

28 ...

17. Trico states that the RLOCs will be used only for interim financing to fund CWP projects once the RUS, or other lenders, and the Commission approve a long-term loan. The proposed loan agreements attached to the application require that when the long-term RUS loans are approved and funded, or other appropriate long-term financing is approved and funded, Trico must repay any outstanding balance on either of the RLOCs. The minimum DSC required by CFC is 1.35.¹ Trico submitted forecasts with its application that indicate it could absorb the entire \$20 million loan amount without falling below financial targets.²

18. According to the Staff Engineering Report, 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 2013-2016 CWP analysis conducted by C.H. Guernsey & Company identifies and documents needed system improvements and additions. Trico believes these improvements and additions are necessary to provide adequate and dependable service to its members through 2016. The CWP budget for 2013-2016 totals \$30,589,000, summarized as follows:

Category	2013	2014	2015	2016	Total
Member Extensions (Net of CIAC) ³	\$167,000	\$203,000	\$250,000	\$276,000	\$896,000
Tie Lines	181,000	2,015,000	1,045,000	370,000	3,611,000
Distribution Line Upgrades, Rebuilds (Net of CIAC) ⁴	4,316,000	3,435,000	4,366,000	2,126,000	14,243,000
Substations	0	0	0	2,500,000	2,500,000
Misc. & Other Distribution Equipment	3,746,000	438,000	2,057,000	3,098,000	9,339,000
Total	\$8,410,000	\$6,091,000	\$7,718,000	\$8,370,000	\$30,589,000

¹ For long-term loans, RUS requires a minimum DSC of 1.25.

² Trico's forecasts indicate that with additional borrowings of \$20 million under the RLOCs, Trico would have a DSC of 1.72 in 2013, 2.04 in 2014, 1.93 in 2015, 1.92 in 2016, and 1.92 in 2017.

³ Contributions in Aid of Constriction ("CIAC") total \$8.065 million for the four year period.

⁴ CIAC totals \$2,993 million for the four year period.

1 **Financial Analysis**

2 23. As of December 31, 2012, Trico's capital structure consisted of \$3,289,101 (1.7
3 percent) short-term debt, \$119,439,132 (60.8 percent) long-term debt, and \$73,624,204 (37.5 percent)
4 equity. For the year ended December 31, 2012, Trico had a Times Interest Earned Ratio ("TIER") of
5 1.93 and DSC of 1.95.⁶

6 24. In analyzing the current request, Staff prepared several pro forma analyses based on
7 different assumptions:

8 (a) In its Scenario B, Staff assumed that Trico draws down the \$39,400,000
9 remaining on its approved long-term loan, at 5.05 percent for 35 years. Based on December 31, 2012
10 financial results, Staff calculated that Trico would have a capital structure consisting of \$3,712,163
11 (1.6 percent) short-term debt, \$155,126,969 (66.7 percent) long-term debt, and \$73,624,204 (31.7
12 percent) equity, and it would have a TIER of 1.45 and DSC of 1.54.

13 (b) In its Scenario C, Staff states that it assumed that Trico utilizes the entire
14 \$20,000,000 in revolving lines of credit, at 3.2 percent interest. Based on December 31, 2012
15 financial results, Staff's calculations show that under this scenario, Trico's capital structure would
16 consist of \$5,915,678 (2.49 percent) short-term debt, \$158,103,454 (66.55 percent) long-term debt,
17 and \$73,624,204 (30.88 percent) equity, and that it would have a TIER of 1.05 and DSC of 1.07.

18 (c) In its Scenario D, Staff states that it assumed that Trico draws down the entire
19 \$83.98 million on its RUS loan.⁷ Based on Trico's December 31, 2012 results, Staff's pro forma
20 calculations show a capital structure consisting of short term debt of \$6,823,331 (2.2 percent), long-
21 term debt of \$232,283,638 (74.2 percent) and equity of \$73,684,204 (23.5 percent), and that it would
22 have a TIER of 0.75 and DSC of 0.82.

23 25. Staff asserts that its pro forma analysis illustrates that Trico does not have sufficient
24 cash flow to meet all of its debt obligations assuming that the unused authorization is entirely drawn
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27 ⁶ Supplemental Staff Report at CLP-1.

28 ⁷ The basis for Staff's assumption is not explained in the Supplemental Staff Report. It appears, however, that approximately \$44.5 million of the \$83.98 million approved in the last long-term financing Order is already included in Trico's outstanding debt as of December 31, 2012.

1 down. Thus, Staff believes that authority granted herein should be conditioned on Trico having a pro
2 forma DSC of at least 1.35 at the time of the draw based on its most recent financial statements.⁸

3 26. In the Supplemental Staff Report, Staff concludes:

4 (a) That it is in the public interest for Trico to have \$20 million of new funding
5 available to finance its 2013-2016 CWP;

6 (b) That any borrowing authorizations granted to Trico in this proceeding should be
7 subject to the condition that a pro forma DSC calculation using its most recent annual financial report
8 reflecting the additional borrowing results in a minimum DSC of 1.35; and

9 (c) That issuance of the two proposed RLOCs for the purposes stated in the
10 application, is within Trico's corporate powers, is compatible with the public interest, is consistent
11 with sound financial practices and will not impair its ability to provide service.⁹

12 27. Staff recommends:¹⁰

13 (a) That any unused debt issuance authorization granted in this proceeding terminate
14 ten years from the date of the Commission Decision in this docket;

15 (b) Requiring Trico to file with Docket Control, as a compliance item in this docket,
16 an annual report no later than April 15th each year demonstrating compliance with the DSC debt
17 issuance covenants required herein for any debt issued in the proceeding calendar year; the first such
18 report to be due no later than April 15, 2015;

19 (c) Trico should be authorized to engage in any transaction and to execute any
20 documents necessary to effectuate the authorization granted herein;

21 (d) Directing Trico to provide to the Utilities Division Director copies of the loan
22 documents executed pursuant to the authorizations granted herein, within 60 days of closing the loan,
23 and also file a letter in Docket Control verifying that such documents have been provided to the
24 Utilities Division Director.

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27 ⁸ Supplemental Staff Report at 4.

28 ⁹ Supplemental Staff Report at 4-5.

¹⁰ Supplemental Staff Report at 4-5.

Trico's Position

28. Trico asserts that Staff's Scenarios C and D as presented in the Supplemental Staff Report would not, or cannot, reasonably occur. Scenario C purports to contemplate Trico borrowing the entire \$20 million in revolving credit, with no increase in the amount borrowed under the existing RUS long-term debt. Trico asserts that Staff's pro forma schedule, reflects an increase in new long-term debt of over \$40 million and seems to assume that Trico would be borrowing more than it is entitled to do, and also appears to assume a shorter repayment timeframe than is normal for Trico. Trico notes that Scenario D contemplates Trico borrowing the entire \$83.98 million from RUS, but the pro forma reflects an increase in long-term debt of more than \$112 million. Trico states that Trico has already borrowed \$44 million under the RUS loan and could only borrow an additional \$39 million, and so could not reach the debt levels contemplated in Scenario D without further Commission action.

29. Trico argues that Staff's recommendation to impose a compliance filing regarding the DSC is unnecessary. Trico states that currently, it submits an annual audit report to the Commission's Compliance Section, which report contains the information necessary to calculate the DSC as well as the DSC itself. In addition, Trico notes that the proposed RLOCs require Trico to maintain a DSC of 1.35, and that Trico would not be able to borrow under the RLOCs if that borrowing would result in a DSC less than 1.35. Trico also states that it has operated with similar RLOCs in the past without the imposition of such compliance reporting.

Resolution

30. We find that based on Trico's year end December 31, 2012 Financial Statements as reported in the Staff Report:

(a) If Trico draws \$39.4 million at 5.30 percent for 35 years, it would have short-term debt of \$3,712,163 (1.57 percent), long-term debt of \$158,416,070 (67.2 percent), and equity of \$73,624,204 (31.3 percent); in this scenario, it would have a TIER of 1.45 and DSC of 1.54.

(b) Assuming a \$20,000,000 RLOC, amortized over 10 years at 3.2 percent interest, Trico would have short-term debt of \$5,013,933 (2.32 percent); long-term debt of \$137,714,300 (63.65 percent) and equity of \$73,624,204 (34.03 percent), and a TIER of 1.75 and DSC of 1.55.

1 (c) Assuming both additional long term debt in the amount of \$39.4 million, and the
2 draw-down of \$20,000,000 on an RLOC, amortized over ten years at 3.2 percent, Trico would have
3 short-term debt of \$5,436,995 (2.1 percent), long-term debt of \$176,691,238 (69.1 percent) and
4 equity of \$73,624,204 (28.8 percent); and a TIER of 1.33 and DSC of 1.28. However, as proposed,
5 Trico cannot draw on the RLOCs unless it has approval for the long-term debt for which the RLOCs
6 provide interim financing, and once it receives the funds from the long-term debt, it must pay off the
7 RLOC. Thus, for this last scenario to come about, the Commission would have to approve additional
8 long-term authority in at least the amount of \$20,000,000.¹¹

9 31. In Docket No. E-01461A-07-0433, Trico filed its audited financial statements for the
10 year ended December 31, 2013, as a compliance item for Decision No. 70399. The audited financial
11 statements indicate that at the end of 2013, Trico's total capital was \$204,894,688, comprised of
12 short-term debt of \$4,199,773 (2.1 percent), long-term debt of \$119,674,645, (58.4 percent), and
13 equity of \$81,020,270 (39.5 percent). According to Trico, based on its 2013 results, its operating
14 TIER for the year was 2.08, and its operating DSC was 1.91.

15 32. Based on the foregoing, we find that Trico has sufficient operating income to support
16 the proposed RLOCs, and we approve the requested authority under the proposed RLOCs. Trico is
17 authorized to utilize these RLOCs only as interim financing for capital projects for which the
18 Commission has already approved the long-term financing. Trico's current long-term authority
19 expires July 31, 2014. After July 31, 2014, Trico will need to obtain new long-term borrowing
20 authority from the Commission in order to utilize the RLOCs.

21 33. Although the parties have stated that the proposed lenders require a minimum DSC of
22 1.35, only the proposed loan agreement from CFC attached to the application contains such
23 requirement. The CoBank agreement attached to the application is much shorter than the CFC
24 agreement and refers to a Master Loan Agreement (not attached), and does not mention minimum
25 financial metrics; neither does it specify that draws on the RLOC are conditioned on prior
26 Commission approval of the long-term debt.¹² The parties speak of these agreements as if they

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28 ¹¹ We also note that Trico's current long-term borrowing authority expires July 31, 2014.

¹² The CoBank loan agreement requires that the funds be used on long-term capital expenditures.

1 contain the same conditions. To be clear, with respect to both RLOCs approved in this proceeding,
2 Trico is authorized to utilize these facilities only to provide interim financing for capital projects for
3 which the Commission has already approved the long-term financing, and both facilities are subject
4 to Trico maintaining an average annual DSC of at least 1.35, as calculated under the CFC
5 methodology.¹³

6 34. Staff's recommendation concerning an annual filing would require Trico to make a
7 filing similar to that Trico already makes in compliance to Decision No. 70399. We believe it is
8 reasonable for Trico to make a similar annual filing of its RUS Form 7 audited financials in this
9 Docket, and demonstrate compliance with the DSC requirement approved herein. The burden on
10 Trico is minimal and it provides valuable information to the Commission concerning Trico's
11 operations and the effect of the authorized borrowing. Further, it is reasonable to require that if the
12 annual DSC in any given year falls below 1.35, Trico should include in its report an explanation and
13 provide an analysis and projections for how the Cooperative will raise its DSC above 1.35.

14 CONCLUSIONS OF LAW

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

17 2. The Commission has jurisdiction over Trico and of the subject matter of the Finance
18 Application.

19 3. Notice of the Finance Application was given in accordance with the law.

20 4. The financing approved herein is for lawful purposes within Trico's corporate powers,
21 is compatible with the public interest, with sound financial practices, and with the proper
22 performance by Trico of service as a public service corporation, and will not impair Trico's ability to
23 perform the service.

24 5. The financing approved herein is for the purposes stated in the Finance Application, is
25 reasonably necessary for those purposes and such purposes may not be reasonably chargeable to
26 operating expenses or to income.

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28 ¹³ The CFC uses the two highest annual DSCs during the most recent three calendars to determine the average DSC.

ORDER

1
2 IT IS THEREFORE ORDERED that Trico Electric Cooperative, Inc. is hereby authorized to
3 borrow up to \$10,000,000 each, (for a combined amount of \$20,000,000), from the National Rural
4 Utilities Cooperative Finance Corporation and CoBank in the form of unsecured committed revolving
5 lines of credit to be used for interim financing on capital projects for which the Commission has
6 already approved the long-term financing.

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

10 IT IS FURTHER ORDERED that any unused debt issuance authorization granted in this
11 proceeding shall terminate July 31, 2024.

12 IT IS FURTHER ORDERED that Trico Electric Cooperative, Inc. shall file with Docket
13 Control, as a compliance item in this docket, an annual report no later than April 15th each year
14 demonstrating compliance with a minimum annual DSC requirement of 1.35, as discussed herein.
15 The first such annual report is due no later than April 15, 2015.

16 IT IS FURTHER ORDERED that Trico Electric Cooperative, Inc. may engage in any
17 transactions and execute any documents necessary to effectuate the authorizations granted herein.

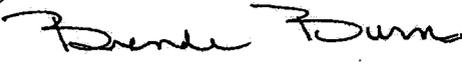
18 IT IS FURTHER ORDERED that approval of the financing set forth herein does not
19 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
20 proceeds derived thereby for purposes of establishing just and reasonable rates.

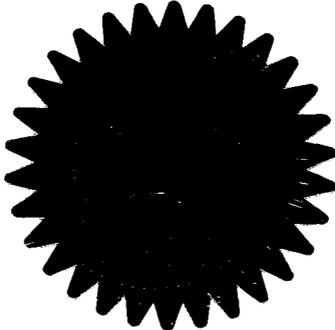
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1 IT IS FURTHER ORDERED that Trico Electric Cooperative, Inc. shall provide the Utilities
2 Division Director a copy of any loan documents executed pursuant to the authorizations granted
3 herein, within 60 days of the execution of the loan, and shall 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.

	EXCUSED COMM. BURNS	
CHAIRMAN		COMMISSIONER
	COMMISSIONER	
COMMISSIONER		COMMISSIONER



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 30th day of July 2014.

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20 JODI JERICH
21 EXECUTIVE DIRECTOR

22 DISSENT _____

23 DISSENT _____
24 JR:ru

1 SERVICE LIST FOR: TRICO ELECTRIC COOPERATIVE, INC.

2 DOCKET NO.: E-01461A-14-0039

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