

CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER



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BRIAN C. McNEIL
EXECUTIVE SECRETARY

ARIZONA CORPORATION COMMISSION

DATE: November 15, 2000
DOCKET NOS: E-01461A-00-0311 and E-01461A-00-0353
TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Jane Rodda. The recommendation has been filed in the form of an Order on:

TRICO ELECTRIC COOPERATIVE, INC.
(FINANCE)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

NOVEMBER 24, 2000

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

NOVEMBER 28, 2000 and NOVEMBER 29, 2000

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250.



BRIAN C. McNEIL
EXECUTIVE SECRETARY

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 CARL J. KUNASEK
CHAIRMAN
3 JIM IRVIN
COMMISSIONER
4 WILLIAM A. MUNDELL
COMMISSIONER
5

6 IN THE MATTER OF IN THE MATTER OF THE
APPLICATION OF TRICO ELECTRIC
7 COOPERATIVE, INC., AN ARIZONA
NONPROFIT CORPORATION, FOR AUTHORITY
8 TO BORROW THE ADDITIONAL SUM OF
\$16,000,000.00 FROM THE NATIONAL RURAL
9 UTILITIES COOPERATIVE FINANCE
CORPORATION (CFC), AND TO EVIDENCE
10 SAID LOAN BY THE EXECUTION OF A LOAN
AGREEMENT AND A SECURED PROMISSORY
11 NOTE WHICH ARE SECURED BY AN EXISTING
MORTGAGE AND SECURITY AGREEMENT.

DOCKET NO. E-01461A-00-0311

12 **IN THE MATTER OF THE APPLICATION OF**
TRICO ELECTRIC COOPERATIVE, INC., AN
13 ARIZONA NONPROFIT CORPORATION, FOR
AUTHORITY TO BORROW THE ADDITIONAL
14 SUMS OF \$2,769,000.00 FROM THE UNITED
STATES OF AMERICA (RUS), AND \$1,187,000.00
15 FROM THE NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION
16 (CFC), AND TO EVIDENCE SAID LOANS BY
THE EXECUTION OF PROMISSORY NOTES
17 WHICH ARE SECURED BY A MORTGAGE AND
SECURITY AGREEMENT.
18

DOCKET NO. E-01461A-00-0353

DECISION NO. _____

ORDER

19 Open Meeting
November 28 and 29, 2000
20 Phoenix, Arizona

21 **BY THE COMMISSION:**

22 Having considered the entire record herein and being fully advised in the premises, the
23 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

24 **FINDINGS OF FACT**

25 1. Trico Electric Power Cooperative, Inc. ("Trico") is a non-profit distribution
26 cooperative that serves approximately 24,565 customers in an area located around Tucson, Arizona.

27 2. On May 8, 2000, Trico filed an application requesting approval to borrow \$16,000,000
28 in long-term and interim-term debt from the National Rural Cooperative Finance Corporation

1 (“CFC”) (“Loan 1”).

2 3. On July 5, 2000, Trico amended its application for Loan 1.

3 4. On May 23, 2000, Trico filed for approval to incur additional long-term debt of
4 \$3,956,000, consisting of \$2,769,000 from the Rural Utilities Service (“RUS”) and \$1,187,000 from
5 the CFC (“Loan 2”).

6 5. By Procedural Order dated October 5, 2000, the applications were consolidated.

7 6. Trico published notice of the applications in all counties in which it does business.

8 7. On October 27, 2000, Staff filed its Staff Report for the consolidated applications,
9 recommending approval without a hearing.

10 8. Trico has access to low cost funds from a RUS municipal bond rate program,
11 however, the availability of these funds could take several years. In an effort to achieve the lowest
12 cost debt, Trico has applied for interim financing (\$9,000,000 of the amount of “Loan 1”) to be
13 utilized until such time as the low cost, long-term debt funding become available (“Loan 2”). Thus,
14 Loan 2 would be used to retire the same amount of Loan 1.

15 9. Trico is experiencing an approximate 11 percent annual growth in customer count and
16 coincident peak as its traditional rural service territory is transitioning to a more urban character. To
17 keep pace with customer growth, over the past five years Trico has pursued an aggressive
18 Construction Work Plan. Trico’s utility plant additions ranged from \$5.4 million in 1995 to \$8.3
19 million in 1999.

20 10. Trico’s Construction Work Plan for 2000 calls for plant additions of \$8.7 million, \$8.5
21 million in 2001¹ and \$9.3 million in 2002. Staff has reviewed Trico’s 2000-2001 Construction Work
22 Plan and found the projects to be proper and the cost estimates reasonable.

23 11. Trico intends to use Loan 1 proceeds to finance pending and future construction
24 projects, including \$7,000,000 (long-term loan of 30 years) for a new headquarters, \$3,956,000
25 (interim financing to be utilized until Loan 2 is available) to construct underground and overhead
26 lines to serve approximately 1,500 new customers and \$5,044,000 (interim financing until future
27

28 ¹ Trico also plans to built a new headquarters building with an estimated cost of \$9.5 million in 2001.

1 long-term debt approved) for future projects contained in its 2000-2002 Construction Work Plan.

2 12. Loan 2 would be utilized to refinance the cost of constructing the new lines.

3 13. Actual interest rates will not be known until the loan contracts between Trico and the
4 CFC and RUS are finalized. Trico estimates that the interest rate on the long-term portion of Loan 1
5 will be 7 percent annually and will have a 30-year maturity. Trico estimates the interim financing
6 portion of Loan 1 will have an interest rate of 8.25 percent annually. Based on these estimates, Staff
7 calculated that Loan 1 would have a total debt service cost of \$1,370,234 annually.

8 14. Trico expected the portion of Loan 2 funded by RUS to bear an annual interest rate of
9 5.5 percent, and the portion funded by CFC will bear an annual interest rate of 7 percent. Both
10 portions are expected to have maturities of 30 years. Based on these projections, Loan 2 would have
11 an annual debt service cost of \$283,441 annually

12 15. As of December 31, 1999, Trico's capital structure consisted of 62.4 percent debt and
13 37.6 percent equity. After assumption of the proposed debt, Trico's pro forma capital structure
14 would consist of 69.5 percent debt and 30.5 percent equity. Because of their ability to access low
15 cost debt, it is not uncommon for electric cooperatives to be highly leveraged.

16 16. Staff calculated that based on a draw down of all Loan 1 amounts at the higher
17 estimated interest rates, Trico would have a Times Interest Earned Ratio ("TIER") of 1.53 and Debt
18 Service Coverage ("DSC") of 1.65.²

19 **CONCLUSIONS OF LAW**

20 1. Trico is a public service corporation within the meaning of Article XV of the Arizona
21 Constitution and A.R.S. §§ 40-301 and 40-302.

22 2. The Commission has jurisdiction over Trico and the subject matter of the applications.

23 3. Notice of the applications was given in accordance with the law.

24 4. The financing approved herein is for lawful purposes within Trico's corporate powers, is
25 compatible with the public interest, with sound financial practices, and with the proper performance
26 by Trico of service as a public service corporation, and will not impair Trico's ability to perform that
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28 ² Generally, a TIER of 1.5 and a DSC of 1.25, are preferred.

1 service.

2 5. The financing approved herein is for the purposes stated in the application and is
3 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably
4 chargeable to operating expenses or to income.

5 **ORDER**

6 IT IS THEREFORE ORDERED that Trico Electric Cooperative, Inc. is hereby authorized to
7 borrow up to \$7,000,000 from the Rural Cooperative Finance Corporation at an annual interest rate of
8 approximately 7.0 percent or the prime rate, whichever is higher, \$9,000,000 from the Rural
9 Cooperative Finance Corporation at an annual interest rate of approximately 8.25 percent and
10 \$3,956,000, consisting of \$2,769,000 from the Rural Utilities Service at an annual interest rate of
11 approximately 5.5 percent and \$1,187,000 from the Rural Cooperative Finance Corporation at an
12 annual interest rate of approximately 7.0 percent or the prime rate, whichever is higher,.

13 IT IS FURTHER ORDERED that Trico Electric Cooperative, Inc is hereby authorized to
14 engage in any transactions and to execute any documents necessary to effectuate the authorization
15 granted hereinabove.

16 IT IS FURTHER ORDERED that such authority is expressly contingent upon Trico Electric
17 Cooperative, Inc.'s use of the proceeds for the purposes set forth in its applications.

18 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove 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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2 IT IS FURTHER ORDERED that Trico Electric Cooperative, Inc. shall file copies of all
3 executed financing documents setting forth the terms of the financing, within 30 days of obtaining
4 such financing.

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

6 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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9 CHAIRMAN COMMISSIONER COMMISSIONER

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IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this ____ day of _____, 2000.

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BRIAN C. McNEIL
EXECUTIVE SECRETARY

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DISSENT _____

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JR:dap

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1 SERVICE LIST FOR:

TRICO ELECTRIC COOPERATIVE, INC.

2 DOCKET NOS.:

E-01461A-00-0311 and E-01461A-00-0353

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