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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

DOUG LITTLE, Chairman
BOB STUMP
BOB BURNS
TOM FORESE
ANDY TOBIN

Arizona Corporation Commission
DOCKETED
OCT 07 2016
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E-01773A-16-0363

Docket No. E-01773A-16-_____

IN THE MATTER OF THE APPLICATION OF
ARIZONA ELECTRIC POWER COOPERATIVE,
INC. FOR APPROVAL OF THE SALE OF DIRECT
ASSIGNMENT FACILITIES TO TRICO ELECTRIC
COOPERATIVE, INC.

APPLICATION

GALLAGHER & KENNEDY, P.A.
2575 E. CAMELBACK ROAD
PHOENIX, ARIZONA 85016-9225
(602) 530-8000

Pursuant to A.R.S. § 40-285, Arizona Electric Power Cooperative, Inc. ("AEPCO" or the "Cooperative"), in support of its Application, states as follows:

1. AEPCO is an Arizona not-for-profit electric generation and transmission cooperative which supplies all or most of the power and energy requirements of its six Class A member distribution cooperatives.

2. Trico Electric Cooperative, Inc. ("Trico") is a not-for-profit electric distribution cooperative and a Class A Partial Requirements Member of AEPCO.

3. AEPCO was originally formed and certificated as a generation and transmission cooperative in 1962. In the early 2000s, AEPCO restructured to create a separate, affiliated entity – Southwest Transmission Cooperative, Inc. ("SWTC") – that assumed ownership and operational control of the Cooperative's transmission assets. However, in response to certain market conditions and changes in available financing, AEPCO and SWTC merged back into a single entity – with AEPCO as the surviving generation and transmission cooperative – in 2016, which merger was pre-approved by the Commission in Decision No. 74591.

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1 4. In 2015, prior to the completion of the AEPCO/SWTC merger, SWTC and Trico
2 reached an agreement for Trico's purchase of certain Direct Assignment Facilities from SWTC
3 (the "DAFs"). The parties' arrangement was memorialized in the letter agreement (the "Letter
4 Agreement") attached hereto as Exhibit 1.

5 5. As a result of the AEPCO/SWTC merger, all of SWTC's obligations became
6 AEPCO's obligations, including the agreement to sell the DAFs to Trico.

7 6. The DAFs consist of all or part of eight transmission substation delivery point
8 facilities that are owned by AEPCO but are not part of its system facilities. Instead, the DAFs
9 are used to provide transmission services only to Trico.

10 7. In its currently pending rate case (Docket No. E-01461A-15-0363), Trico
11 proposed to include the DAFs in its rate base as post-test year plant and requested that its revised
12 rates take effect no later than January 1, 2017. The Commission's Utilities Division Staff
13 ("Staff") analyzed the asset transfer, identified certain benefits flowing to Trico and its members,
14 and found the facilities to be used and useful. Further, Trico and Staff recently executed a
15 settlement agreement reciting a fair value rate base inclusive of the DAFs.

16 8. Pursuant to the Letter Agreement, the parties anticipate that the sale will close and
17 the assets will transfer to Trico concurrent with the effective date of Trico's new rates,
18 presumably January 1, 2017.

19 9. The purchase price under the Letter Agreement is the greater of the following on
20 the closing date: (1) the outstanding loan balance associated with the DAFs, plus any plant in
21 service financed by general funds, less a negotiated adjustment agreed to by AEPCO and Trico;
22 or (2) the amount of the depreciated net book value of the DAFs, which was estimated in 2015 to
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24

1 be approximately \$7,825,000. Based on current data, AEPCO anticipates the final purchase
2 price, assuming a January 1, 2017 closing date, to be in the range of \$8.4 million.

3 10. The benefits of the transaction include vesting Trico with ownership of assets that
4 are used only for its own transmission service and not any other AEPCO members, as well as
5 simplification of accounting for the costs associated with the service. Additionally, as reflected
6 in Staff's testimony in Trico's rate case, Trico has identified certain savings that will flow to its
7 members as a result of the purchase of the DAFs.

8 11. Given the connection between this Application and Trico's rate case, AEPCO
9 requests that the Commission approve this Application prior to or simultaneous with approval of
10 Trico's revised rates. However, because AEPCO's ability to close on the sale is contingent on
11 also receiving the necessary releases from its Indenture Trustee, AEPCO requests that this
12 Application be processed as soon as possible.

13 WHEREFORE, having fully stated its Application, AEPCO requests that the
14 Commission enter its Order (1) approving the sale and transfer of the DAFs to Trico and (2) such
15 other and further relief as the Commission deems just and reasonable under the circumstances.

16 RESPECTFULLY SUBMITTED this 7th day of October, 2016.

17 GALLAGHER & KENNEDY, P.A.

18
19 By 
20 Jennifer A. Cranston
21 2575 East Camelback Road
22 Phoenix, Arizona 85016-9225
23 Attorneys for Arizona Electric Power
24 Cooperative, Inc.

1 **Original and 13 copies** filed this
7th day of October, 2016, with:

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3 Docket Control
4 Arizona Corporation Commission
1200 West Washington Street
5 Phoenix, Arizona 85007

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EXHIBIT 1



A Touchstone Energy[®] Cooperative 

December 14, 2015

Mr. Patrick F. Ledger
Chief Executive Officer
Southwest Transmission Cooperative, Inc.
1000 S. Highway 80
Benson, AZ 85602

RE: SALE OF DIRECT ASSIGNMENT FACILITIES

Dear Mr. Ledger:

Over the past several years, Southwest Transmission Cooperative, Inc. (SWTC) and Trico Electric Cooperative, Inc. (Trico) (the "Parties") have discussed the purchase by Trico of certain Direct Assignment Facilities (DAFs), which SWTC installed, financed and classified as DAFs for Trico (Trico DAFs) in accordance with network transmission service agreements entered into by the Parties (Network Agreements).

The purpose of this letter (Letter Agreement) is to document the understanding of the Parties with respect to the SWTC sale of the Trico DAFs to Trico.

The Network Agreements do not preclude a mutually agreeable sale to Trico of DAFs. On October 23, 2015, Trico made a rate filing with the Arizona Corporation Commission (Trico Rate Case). Trico has requested that the closing date (Closing Date) of the purchase of the Trico DAFs occur concurrent with the effective date of approval of the Trico Rate Case, which is expected to be on or about January 1, 2017.

The Parties have discussed the conveyance of the Trico DAFs by SWTC to Trico at a price equal to the greater of: i) the value of the total outstanding debt associated with the Trico DAFs, plus any plant in service financed by general funds associated with the Trico DAFs; or ii) at depreciated net book value of the Trico DAFs as of the date of sale.

Since the first Trico DAF went into service, the Parties have worked to formalize and finalize the billing and accounting for the Trico DAFs. The Parties are now close to finalizing accounting reports for the Trico DAFs and revising the billing which will result in a final true-up of the costs and will include adjustments to reflect any additional plant in service at the time of the Closing Date.

P.O. Box 930 • Marana, AZ 85653 • Phone (520) 744-2944 • Toll Free (866) 337-2052 • www.trico.coop

Trico Electric is an equal opportunity provider and employer.

As reflected on the SWTC bills to Trico, the Trico DAFs include the following, with billed costs to Trico as of February 2015, subject to billing and accounting true-up as discussed herein:

DAF	Plant Start Date	Installed Costs	Depreciation As Billed	Depreciated NBV Cost
1 Thomydale	11/30/2001	\$ 1,349,963.32	\$ 553,199.46	\$ 796,763.86
2 Valencia	1/31/2003	\$ 1,063,002.33	\$ 310,262.10	\$ 752,740.23
3 Oracle Junction	10/31/2004	\$ 393,980.31	\$ 78,175.72	\$ 315,804.59
4 Avra Valley	11/30/2004	\$ 347,053.63	\$ 97,403.93	\$ 249,649.70
5 Three Points	11/30/2004	\$ 241,895.01	\$ 58,362.98	\$ 183,532.03
6 Sandario	5/31/2006	\$ 1,410,975.83	\$ 327,836.45	\$ 1,083,139.38
7 Saddlebrooke Ranch	5/24/2007	\$ 3,920,910.36	\$ 750,397.70	\$ 3,170,512.66
8 Bicknell	11/1/2008	\$ 2,152,353.20	\$ 320,671.65	\$ 1,831,681.55
TOTAL		\$ 10,880,133.97	\$ 2,496,309.99	\$ 8,383,823.99

Based on the current as billed data, the estimated depreciated net book value of all the Trico DAFs as of January 1, 2017 will be approximately \$7,825,000, which the Parties will modify based on the final accounting true-up.

Therefore, until otherwise modified in writing by agreement of the Parties, the Parties agree to the following:

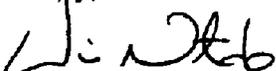
- 1) The Parties shall complete the accounting and billing true-up of costs for each Trico DAF and agree on final adjustments to Trico DAF billings, which shall establish the original installed cost and depreciated net book value for each Trico DAF.
- 2) The Parties shall prepare an agreement for the purchase by Trico of the Trico DAFs from SWTC, the terms and conditions of which shall include, but not be limited to, the following:
 - a) The purchase shall occur and be effective on the Closing Date, which shall be the effective date of the Trico Rate Case or such other date as the Parties may agree.
 - b) On the Closing Date, Trico shall make a onetime payment to SWTC for the Trico DAFs in the amount of the greater of the following at the Closing Date: i) the outstanding loan balance associated with the Trico DAFs, plus any plant in service financed by general funds, less a negotiated adjustment agreed to by the Parties; or ii) the amount of the depreciated net book value of the Trico DAFs. Such sales price shall be subject to any requisite lienholder or trustee approval.
 - c) Before the Closing Date, SWTC will seek any necessary release of lien to facilitate the sale as of Closing Date. On the Closing Date, SWTC shall convey all of its right, title and interest in the Trico DAFs to Trico, free and clear of all liens and encumbrances, including but not limited to those of the RUS, its successors and assigns; and, Trico shall thereafter assume ownership and control of the Trico DAFs, except as otherwise provided herein.

Mr. Ledger
December 14, 2015
Page 3

- d) On the Closing Date, in accordance with the Network Agreements, if any Trico DAF facilities and equipment to be purchased and owned by Trico is installed on land owned or controlled by SWTC, then SWTC and Trico shall enter into a License Agreement, as defined in the Network Agreements.
 - e) As soon as practicable after the execution of this Letter Agreement, the Parties shall review and determine whether the land rights, easements and leases associated with Trico DAFs can be assigned to Trico. In the event any such land rights, easements and leases are determined to be non-assignable, the Parties will work in good faith to determine alternatives that provide Trico with access to the equipment and facilities that it owns as a result of its purchase of the Trico DAFs.
 - f) To the extent required the Parties shall work cooperatively to assign any contract rights and obligations associated with the Trico DAFs from SWTC to Trico as part of the sale.
- 3) In accordance with the Network Agreements, the Parties shall prepare and enter into an operations and maintenance agreement (O&M Agreement) to be effective on the Closing Date, pursuant to which SWTC will perform the operations and maintenance work on the portion of the former Trico DAFs operating at 115 kV and above and for any equipment that directly connects to physical system facilities owned by SWTC. As agreed by SWTC and Trico, the O&M Agreement shall provide that SWTC shall charge Trico the actual costs to operate and maintain such portions of the purchased equipment and facilities.

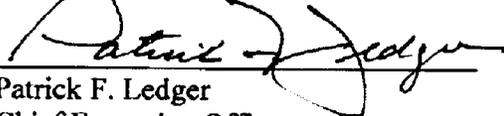
Please confirm your agreement with the foregoing by signing two originals of this Letter Agreement in the space provided below. Please return one original to me for Trico's files. Trico looks forward to working with SWTC and continuing our partnership.

Sincerely,


Vincent Nitido
Chief Executive Officer/General Manager

Accepted for:

SOUTHWEST TRANSMISSION COOPERATIVE, INC.

By: 
Patrick F. Ledger
Its: Chief Executive Officer

Date: 