

OPEN MEETING ITEM

COMMISSIONERS
TOM FORESE - Chairman
BOB BURNS
DOUG LITTLE
ANDY TOBIN
BOYD W. DUNN



0000177508

ARIZONA CORPORATION COMMISSION

ORIGINAL

AZ CORP COM
DOCKET CONTROL

2017 FEB 22 PM 2 24

DATE: FEBRUARY 22, 2017

DOCKET NO.: E-01787A-16-0480

TO ALL PARTIES:

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

NAVOPACHE 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 thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

MARCH 3, 2017

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 Open Meeting to be held on:

MARCH 14, 2017 AND MARCH 15, 2017

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.


TED VOGT
EXECUTIVE DIRECTOR

Arizona Corporation Commission

DOCKETED

FEB 22 2017

DOCKETED BY


1200 WEST WASHINGTON STREET, PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET, TUCSON, ARIZONA 85701-1347

www.azcc.gov

This document is available in alternative formats by contacting Carolyn Buck, ADA Coordinator, voice phone number 602-542-3931, E-mail CDBuck@azcc.gov.

1 On this 22nd day of February, 2017, the following document was filed with Docket Control as a
2 Recommended Order from the Hearing Division, and copies of the document were mailed on behalf of
3 the Hearing Division to the following who have not consented to email service. On this date or as soon
4 as possible thereafter, the Commission's eDocket program will automatically email a link to the filed
5 document to the following who have consented to email service.

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By: RTallman
Rebecca Tallman
Assistant to Belinda Martin

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 TOM FORESE - Chairman
4 BOB BURNS
5 DOUG LITTLE
6 ANDY TOBIN
7 BOYD W. DUNN

8 IN THE MATTER OF THE APPLICATION OF
9 NAVOPACHE ELECTRIC COOPERATIVE, INC.,
10 AN ELECTRIC COOPERATIVE NONPROFIT
11 MEMBERSHIP CORPORATION, FOR
12 AUTHORIZATION TO SECURE UP TO \$9,500,000
13 IN LONG-TERM FINANCING, TO PLEDGE,
14 MORTGAGE, LIEN AND/OR ENCUMBER
15 UTILITY ASSETS IN RELATION THERETO, AND
16 FOR RELATED AUTHORIZATIONS.

DOCKET NO. E-01787A-16-0480

DECISION NO. _____

ORDER

11 Open Meeting
12 March 14 and 15, 2017
13 Phoenix, Arizona

14 **BY THE COMMISSION:**

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

17 **FINDINGS OF FACT**

18 **Procedural History**

19 1. On December 23, 2016, Navopache Electric Cooperative, Inc. ("NEC" or
20 "Cooperative") filed an application with the Commission requesting authorization to secure up to
21 \$9,500,000 in long-term financing, to encumber assets, and related authorizations.

22 2. On January 23, 2017, the Cooperative filed an affidavit of publication verifying that it
23 published notice of its financing application in *White Mountain Independent* on January 17, 2017, a
24 newspaper of general circulation in Navajo County and Apache County. No customer comments were
25 received in response to the notice.

26 3. On January 23, 2017, the Commission's Utilities Division ("Staff") filed its Staff Report
27 in this matter.

28 4. NEC did not file comments or objections to the Staff Report.

1 **Company Background**

2 5. NEC is an Arizona public service corporation and a non-profit, electric generation
3 cooperative located in Pinetop-Lakeside, Arizona. The Cooperative provides service to approximately
4 39,000 customers.

5 6. NEC's current rates were approved in Decision No. 75833 (December 5, 2016).

6 7. The Cooperative presently has twelve outstanding Commission-authorized loans
7 through the United States Department of Agriculture Rural Development ("RUS") totaling
8 approximately \$9,142,781 in principal, at an interest rate of 5.00 percent.

9 **The Financing Request**

10 8. NEC requests Commission authorization to incur up to \$9,500,000 in long-term debt
11 from the National Rural Utilities Cooperative Financing Corporation ("CFC"). The Cooperative states
12 that the requested loans from CFC will provide only enough funds to pay off or retire the outstanding
13 RUS loans. The CFC loans will be issued at interest rates at or below the current RUS loans, and at
14 lengths no longer than the terms of those loans. The interest rates from CFC would vary from 2.9
15 percent to 4.4 percent per annum, with an average interest rate of 4.16 percent, or an average effective
16 rate of 3.9 percent.

17 9. Staff notes that, in addition to better interest rates, the refinancing through CFC will
18 allow NEC to receive capital credit distributions from CFC, which Staff believes provide an additional
19 financial value to the Cooperative's members that are not generated from the existing RUS loans.

20 10. Staff projects that the proposed refinancing will save NEC approximately \$772,202 in
21 interest expense over the life of the loans, and the patronage capital from CFC would generate cash
22 inflow of approximately \$208,012.

23 11. The Cooperative plans to maintain the same payment amount as that of the current loans,
24 resulting in lower annual interest expenses and higher payments to principal.

25 12. Staff believes that, although NEC requests authorization for a loan in the amount of
26 \$9,500,000, it is more appropriate to approve a loan in an amount necessary to cover the unpaid
27 balances of the RUS loans, which totaled \$9,142,781 at the end of 2016.

28 13. Staff's financial analysis shows that as of October 31, 2016, NEC's capital structure

1 consisted of 3.28 percent short term debt, 73.54 percent long-term debt and 23.17 percent equity. A pro
2 forma capital structure, assuming issuance of new debt in the amount of \$9,142,781, at an effective
3 interest rate at 3.90 percent per annum, would be composed of 3.35 percent short-term debt, 73.48
4 percent long-term debt and 23.17 percent equity.

5 14. For the year ended October 31, 2016, NEC had a Times Interest Earned Ratio ("TIER")
6 of 1.01 and Debt Service Coverage ("DSC") of 1.26.¹ Assuming the issuance of long-term debt in the
7 amount of \$9,142,781, at an effective interest rate of 3.9 percent, the pro forma analysis indicates NEC
8 would have a TIER of 1.04 and DSC of 1.20.

9 15. Arizona Revised Statutes ("A.R.S.") §40-285 requires public service corporations to
10 obtain Commission authorization to encumber certain utility assets. The statute protects captive
11 customers from a utility's act to dispose of any of its assets that are necessary for the provision of
12 service, and thus, pre-empts any service impairment due to disposal of assets essential for providing
13 service. Pledging assets as security, however, typically provides benefits to the borrower in the way
14 of increased access to capital funds or a preferable interest rate.

15 16. Staff concludes that issuance of debt financing for the purposes stated in the application
16 is within NEC's corporate powers, is compatible with the public interest, is consistent with sound
17 financial practices and will not impair NEC's ability to provide service.

18 17. Staff recommends:

19 (a) Authorizing NEC to incur long-term debt from CFC for the purpose of paying
20 off or retiring the existing RUS loans only, in an amount not to exceed \$9,142,781, at interest rates not
21 more than 5.0 percent over varying terms not to exceed the remaining terms of the RUS loans;

22 (b) Authorizing NEC to pledge its assets in the State of Arizona pursuant to A.R.S.
23 §40-285 in connection with any indebtedness authorized in this proceeding;

24 (c) Authorizing NEC to engage in any transaction and to execute any documents
25

26 ¹ TIER represents the number of times earnings cover interest expense on short-term and long-term debt. A TIER greater
27 than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long
28 term but does not mean that debt obligations cannot be met in the short term. 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 operating cash flow 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 is needed to avoid default.

1 necessary to effectuate the authorizations herein granted; and

2 (d) That NEC provide to the Utilities Division Director a copy of the loan
3 documents executed pursuant to the authorization granted herein, within 60 days of the execution of
4 the loan documents, and also file a letter with Docket Control verifying that such documents have been
5 provided to the Utilities Division.

6 18. We find that Staff's conclusions and recommendations are reasonable and adopt them.
7 The finance authority shall be expressly contingent upon NEC's use of the proceeds for the purposes
8 approved herein.

9 **CONCLUSIONS OF LAW**

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

12 2. The Commission has jurisdiction over NEC and of the subject matter of the application.

13 3. Notice of the application was given in accordance with the law.

14 4. The financing approved herein is for lawful purposes within NEC's corporate powers,
15 is compatible with the public interest, with sound financial practices, and with the proper performance
16 by NEC of service as a public service corporation, and will not impair NEC's ability to perform the
17 service.

18 **ORDER**

19 IT IS THEREFORE ORDERED that Navopache Electric Cooperative, Inc. is authorized to
20 borrow an amount not to exceed \$9,142,781 from CFC.

21 IT IS FURTHER ORDERED that such finance authority shall be expressly contingent upon
22 Navopache Electric Cooperative, Inc.'s use of the proceeds as approved herein.

23 IT IS FURTHER ORDERED that Navopache Electric Cooperative, Inc. is authorized to engage
24 in any transaction and execute any documents necessary to effectuate the authorizations granted.

25 IT IS FURTHER ORDERED that Navopache Electric Cooperative, Inc. is authorized to pledge
26 its assets in the State of Arizona pursuant to A.R.S. § 40-285 in connection with any indebtedness
27 authorized in this Decision.

28 IT IS FURTHER ORDERED that Navopache Electric Cooperative, Inc. shall provide to the

1 Utilities Division Director a copy of the loan documents executed pursuant to the authorizations granted
2 herein within 60 days of the execution of the loan documents, and shall also file with Docket Control
3 a letter verifying that the loan documents have been provided to the Utilities Division.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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CHAIRMAN FORESE

COMMISSIONER DUNN

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10

COMMISSIONER TOBIN

COMMISSIONER LITTLE

COMMISSIONER BURNS

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IN WITNESS WHEREOF, I, TED VOGT, Executive Director 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 _____ 2017.

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TED VOGT
EXECUTIVE DIRECTOR

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DISSENT _____

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DISSENT _____

BM:rt

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1 SERVICE LIST FOR:

E-01787A-16-0480

2 DOCKET NO.:

NAVOPACHE ELECTRIC COOPERATIVE, INC.

3 William Sullivan

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