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BEFORE THE ARIZONA CORPORATION COMMISSION  
Arizona Corporation Commission

COMMISSIONERS

DOCKETED

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

MAR 22 2017

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

DOCKET NO. E-01787A-16-0480

DECISION NO. 76017

**ORDER**

Open Meeting  
March 14 and 15, 2017  
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 December 23, 2016, Navopache Electric Cooperative, Inc. ("NEC" or "Cooperative") filed an application with the Commission requesting authorization to secure up to \$9,500,000 in long-term financing, to encumber assets, and related authorizations.

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

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

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.<sup>1</sup> 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 that 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 <sup>1</sup> 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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8 CHAIRMAN FORESE

  
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10 COMMISSIONER DUNN

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13 COMMISSIONER TOBIN

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16 COMMISSIONER LITTLE

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19 COMMISSIONER BURNS



20 IN WITNESS WHEREOF, I, TED VOGT, Executive Director of  
21 the Arizona Corporation Commission, have hereunto set my  
22 hand and caused the official seal of the Commission to be affixed  
23 at the Capitol, in the City of Phoenix, this 22nd day  
24 of March 2017.

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26  
27 TED VOGT  
28 EXECUTIVE DIRECTOR

DISSENT \_\_\_\_\_

DISSENT \_\_\_\_\_  
BM:rt

1 SERVICE LIST FOR: E-01787A-16-0480

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8 **Consented to service by email**

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16 **Consented to service by email**

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