

ORIGINAL



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MEMORANDUM

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TO: Docket Control
Arizona Corporation Commission

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: September 15, 2005

RE: STAFF REPORT IN THE MATTER OF PINEVIEW WATER COMPANY,
INC.'S APPLICATION TO AMEND, WITHDRAWAL OF REQUEST FOR AN
ORDER NUNC PRO TUNC, AND REQUEST FOR EXPEDITED
PROCESSING. DOCKET NOS. W-01676A-04-0463 AND W-01676A-04-0500.

Attached is the Staff Report for Pineview Water Company, Inc.'s above-captioned application. Staff recommends approval subject to certain conditions.

EGJ:JJD:red

Originator: James J. Dorf

Attachment: Original and 13 copies.

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Service List for: Pineview Water Company, Inc.
Docket Nos. W-01676A-04-0463 and W-01676A-04-0500

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

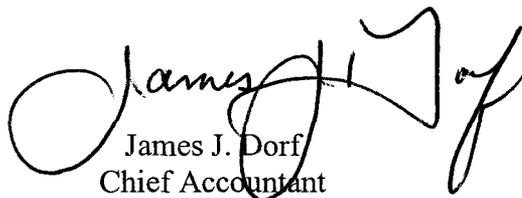
PINEVIEW WATER COMPANY, INC.
DOCKET NOS. W-01676A-04-0463 AND W-01676A-05-0500

IN THE MATTER OF PINEVIEW WATER COMPANY, INC.'S APPLICATION
TO AMEND, WITHDRAWAL OF REQUEST FOR AN ORDER NUNC PRO TUNC,
AND REQUEST FOR EXPEDITED PROCESSING

SEPTEMBER, 2005

STAFF ACKNOWLEDGEMENT

The Staff report for Pineview Water Company, Inc. (Docket Nos. W-01676A-04-0463 and W-01676A-04-0500) was prepared by the Staff member shown below.



James J. Dorf
Chief Accountant

Introduction

On September 9, 2005, Pineview Water Company, Inc. ("Company") filed the above-captioned application with the Arizona Corporation Commission ("Commission") to amend Decision No. 67989 to change the authorized interest for a Water Infrastructure Finance Authority of Arizona ("WIFA") loan to the Company.

Background

On July 18, 2005, the Commission approved Decision No. 67989 which provided for new rates and Staff's recommendation for \$577,578 in long-term debt from WIFA with terms not to exceed 20 years and at an interest rate not to exceed 4.20 percent. However, Staff's analysis of the financing application used a then-prevailing interest rate of 5.60 percent.¹ That analysis indicated that the Company's times interest earnings ratio ("TIER") and debt service coverage ("DSC") would be 1.14 and 1.99, respectively, with new rates approved in Decision No. 67989.

TIER represents the number of times earnings cover interest expense on long-term debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long term but does not mean that debt obligation cannot be met in the short term.

DSC represents the number of times internally generated cash will cover required principal and interest payment on 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.

Staff has recalculated the Company's pro forma TIER and DSC using an interest rate of 6.38 percent. Schedule JJD-1 shows a pro forma TIER of 1.05 and the revised pro forma DSC of 1.97. Therefore, the rates approved in Decision No. 67989 are sufficient to cover the \$577,578 WIFA loan at an interest rate of 6.38 percent.

Staff Conclusion and Recommendation

Staff concludes that the rates approved in Commission Decision No. 67989 are adequate to support \$577,578 in new long-term debt with an interest rate of 6.38 percent.

Staff concludes that issuance of debt in the amount of \$577,578 is within the Company's corporate powers, compatible with the public interest; compatible with sound financial practices, and will not impair its ability to perform service.

¹ EXHIBIT A MEMORANDUM, prepared by J.H. Johnson, Staff Report dated January 10, 2005, page 2.

Pineview Water Company, Inc.

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Staff recommends granting authorization to the Company to borrow an amount not to exceed \$577,578 under terms and conditions proposed and for the purposes described in Commission Decision No. 67989 except that an interest rate of 6.38 percent is appropriate.

Staff recommends authorizing the Company to engage in any transaction to execute documents necessary to effectuate the authorizations granted.

Staff further recommends that the Company be ordered to file copies of all executed financing documents with Docket Control within 90 days of loan closing.