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BEFORE THE ARIZONA CORPORATION COMMISSION
DOCKETED

OCT 10 2000

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

DOCKETED BY	SJ
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IN THE MATTER OF THE APPLICATION OF
CAYETANO, INC. D/B/A LAKEWOOD WATER
COMPANY FOR APPROVAL TO ISSUE
PROMISSORY NOTES.

DOCKET NO. W-01809A-00-0216

DECISION NO. 62951

ORDER

Open Meeting
October 4, 2000
Phoenix, Arizona

BY THE COMMISSION:

On April 5, 2000, Cayetano, Inc. d/b/a Lakewood Water Company ("LWC" or "Applicant") filed with the Arizona Corporation Commission ("Commission") an application for approval to issue promissory notes in the total amount of \$33,000 to the President of LWC, George E. Buscher, and Vice President, Virginia Buscher. On July 28, 2000, the Commission's Utilities Division Staff ("Staff") filed a Staff Report, in which it recommended approval of the application without a hearing.

Applicant notified its customers of the application by publication in a newspaper on April 12, 2000, and filed an Affidavit of Publication with the Commission on May 4, 2000.

DISCUSSION

Introduction

Applicant is an Arizona corporation servicing approximately 288 customers in Amado, Pima County, Arizona under rates set by Decision No. 59304 (September 22, 1995).

The Applicant's system currently meets Arizona Department of Environmental Quality ("ADEQ") requirements and the water produced meets the quality standards of the Safe Drinking Water Act ("SWDA"). Additionally, the Applicant is current on its property taxes.

The purpose of the proposed debt is to provide funds necessary to purchase two lots for a total price of \$33,000. LWC owns a well and equipment located on Lot No. 1, which is leased to LWC from Virginia Buscher, for \$532.88 per month. Lot No. 2, which is owned by George Buscher, is

1 currently not in use by LWC but will be used in the future as a well and storage tank site. The
2 principal amount for Lot No. 1 is \$15,000, and the principal amount for Lot No. 2 is \$18,000. Staff
3 Engineering has reviewed the land purchases and cost estimates and found them to be reasonable.
4 Staff Engineering recommends that approval of the financing be conditioned on the premise that the
5 costs associated with the purchase of Lot No. 2 shall not be included in the rate base until LWC
6 actually develops this lot and it becomes used and useful.

7 Proposed Financing

8 Applicant has requested approval of two loans in the principal amounts of \$15,000 and
9 \$18,000, payable to Virginia Buscher and George Buscher, respectively.

10 The two loans will have identical terms, both carrying an interest rate of 10.5 percent for a
11 period of 8 years. The proposed \$15,000 loan will require debt service of \$2,779 per year, the
12 proposed \$18,000 loan will require annual debt service of \$3,335.

13 Financial Impact

14 Staff adjusted Applicant's cost to include the elimination of lease expense and the inclusion of
15 interest expense related to the proposed debt. The purchase of the two lots will require increased
16 property taxes. An additional adjustment was made to eliminate the effect of a one time \$20,000 cash
17 payment representing severance payment made to a former employee. In addition, the purchase of
18 the two lots compared to continued rental will result in a savings to the Applicant of \$3,285 per year.

19 Staff examined the effects of the debt on the Times Interest Earned Ratio ("TIER") and the
20 Debt Service Coverage ("DSC") ratio of the Applicant. These ratios measure the number of times
21 that income will cover the interest payments (TIER) and the number of times that cash flow will
22 cover the principal and interest payments (DSC). A TIER of 1.50 and a DSC of 1.25 are usually
23 preferred. Applicant's ratios are .54 and 1.85 respectively. The DSC is well above the preferred
24 standard, while the TIER is below the preferred level. Staff placed more importance upon the DSC
25 rather than the TIER because the DSC represents an indication of "cash coverage" of the debt
26 requirements. The Applicant's DSC indicates that LWC should have the cash flow to service the
27 proposed debt.

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1 LWC generated \$11,331 cash available to service debt in 1999, which is sufficient to service
2 the proposed debt of \$6,114. In addition, LWC's capital structure with the proposed debt would be
3 approximately balanced at 43.9 percent debt and 56.1 percent equity.

4 Other Issues

5 Staff Engineering stated that in the past, LWC has had several power outages. Because there
6 is no storage tank in LWC's system, water outage will occur immediately when there is a power
7 outage. Water outage can cause health risks and other problems for customers. Therefore, Staff
8 Engineering recommends that LWC purchase a portable generator with a diesel tank for emergency
9 use, or install a 100,000 gallon storage tank and transmission line connecting the tank to the water
10 system.

11 Staff recommended conditional approval of the application without a hearing. We concur.

12 * * * * *

13 Having considered the entire record herein and being fully advised in the premises, the
14 Commission finds, concludes, and orders that:

15 FINDINGS OF FACT

16 1. LWC provides water service to approximately 288 customers in Amado, Pima County,
17 Arizona.

18 2. On April 5, 2000, LWC filed with the Commission an application for approval to issue
19 promissory notes in the total amount of \$33,000 to the President of LWC, George Buscher, and Vice
20 President of LWC, Virginia Buscher.

21 3. LWC's proposed debt will provide the necessary funds to purchase two lots for a total
22 amount of \$33,000.

23 4. On April 12, 2000, LWC published notice of the application in Pima County, Arizona,
24 and filed an Affidavit of Publication with the Commission on May 4, 2000.

25 5. On July 28, 2000, Staff filed a Staff Report in which it recommended approval of the
26 application without a hearing.

27 6. Staff Engineering has reviewed the land purchases and cost estimates and found them
28 to be reasonable. Staff Engineering stated that no "used and useful" determination of the proposed

1 plant in service was made, and no conclusions should be inferred for ratemaking purposes. Staff
2 concluded the Applicant would not likely experience any difficulty in servicing the annual debt
3 service of the two loans of approximately \$2,779 and \$3,335.

4 7. Staff recommended approval of the loan subject to the following conditions:

5 (a) That the financing for Lot No. 2 shall not be put into rate base until LWC
6 actually develops Lot No. 2 and its becomes used and useful; and

7 (b) That the two loans of \$15,000 and \$18,000 be approved with an interest rate of
8 10.5 percent for a term of 8 years.

9 8. Staff Engineering recommended that LWC purchase a portable generator with a diesel
10 tank for emergency use in the event of a power outage, or install a 100,000 gallon storage tank and
11 transmission line connecting the tank to the water system.

12 9. LWC is in compliance with ADEQ and is delivering water with no maximum
13 contaminant violations and meets the quality standards of the Safe Drinking Water Act. In addition,
14 LWC is current on its property and sales taxes.

15 CONCLUSIONS OF LAW

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

18 2. The Commission has jurisdiction over LWC and the subject matter of the application.

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

20 4. The financing approved herein is for lawful purposes, is compatible with the public
21 interest, with sound financial practices, with the proper performance by LWC of service as a public
22 service corporation, and will not impair LWC's ability to perform that service.

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

26 6. Staff's recommendations set forth in Findings of Fact Nos. 7 and 8 are reasonable and
27 should be approved.

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ORDER

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IT IS THEREFORE ORDERED that Cayetano, Inc. d/b/a Lakewood Water Company is hereby authorized to issue promissory notes in the total amount of \$33,000 to George E. Buscher and Virginia Buscher. The amount authorized will be in the form of two separate loans of \$15,000 and \$18,000, with an interest rate of 10.5 percent, both fully amortized over 8 years.

IT IS FURTHER ORDERED that Cayetano, Inc. d/b/a Lakewood Water Company is hereby authorized to engage in any transactions and to execute any documents necessary to effectuate the authorization granted hereinabove.

IT IS FURTHER ORDERED that Cayetano, Inc. d/b/a Lakewood Water Company shall execute the relevant loan documents within one year of the effective date of this Decision.

IT IS FURTHER ORDERED that such authority is expressly contingent upon Cayetano, Inc. d/b/a Lakewood Water Company's use of the proceeds for the purposes set forth in its application.

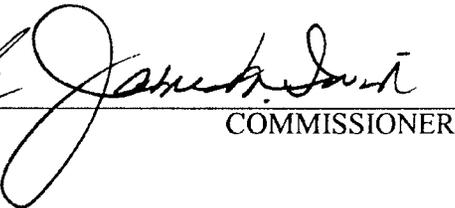
IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not constitute or imply approval or disapproval by the Commission of any particular expenditure of the proceeds derived thereby for purposes of establishing just and reasonable rates.

IT IS FURTHER ORDERED that Cayetano, Inc. d/b/a Lakewood Water Company shall file copies of all executed financing documents setting forth the terms of the financing, within 30 days of executing such documents.

1 IT IS FURTHER ORDERED that Cayetano, Inc. d/b/a Lakewood Water Company shall
2 review Staff Engineering's recommendations regarding health risks in the event of a power outage.
3 Cayetano, Inc. d/b/a Lakewood Water Company shall file a plan with the Commission to alleviate the
4 health risks within 6 months from the date of this Decision, and if necessary, file a financing
5 application in a timely manner.

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

7 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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10 CHAIRMAN COMMISSIONER COMMISSIONER
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12 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
13 Secretary of the Arizona Corporation Commission, have
14 hereunto set my hand and caused the official seal of the
15 Commission to be affixed at the Capitol, in the City of Phoenix,
16 this 10th day of October, 2000.

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18 BRIAN C. McNEIL
19 EXECUTIVE SECRETARY

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18 DISSENT _____
19 AG:dp

1 SERVICE LIST FOR:

CAYETANO, INC. D/B/A LAKEWOOD
WATER COMPANY

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3 DOCKET NO.:

W-01809A-00-0216

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