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Arizona Corporation Commission
BEFORE THE ARIZONA CORPORATION COMMISSION

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

NOV 19 1999

DOCKETED BY *ad*

IN THE MATTER OF THE APPLICATION OF
I.M. WATER COMPANY, INC. FOR APPROVAL
TO ISSUE LONG-TERM DEBT.

DOCKET NO. W-02191A-99-0415

DECISION NO. 62090

ORDER

Open Meeting
November 16 and 17, 1999
Phoenix, Arizona

BY THE COMMISSION:

On July 23, 1999, I.M. Water Company, Inc. ("I.M. Water" or "Applicant") filed with the Arizona Corporation Commission ("Commission") an application for approval to borrow \$10,299.42 in long-term debt. On October 28, 1999, the Commission's Utilities Division Staff ("Staff") filed a Staff Report, in which it recommended approval of the application without a hearing.

DISCUSSION

Introduction

Applicant is a Subchapter S Corporation located approximately five miles west of the junction of Interstate 10 and Marana Road, Pima County, Arizona. Applicant provides water service to approximately 92 customers.

Well Failure

On June 24, 1999, Applicant's only well become inoperative. It was necessary at that time to replace the pump, meter, and cable. The cost of the project was \$10,300. Because Applicant had no cash reserves, Mr. and Mrs. Chiolero, owners of I.M. Water, advanced funds to cover the costs of the well repairs. Staff reviewed the application and determined the work was necessary and the costs were reasonable.

Proposed Financing

Applicant has requested approval of the shareholder loan in the amount of \$10,300 for a term

1 of four years with an interest rate of nine percent. The loan agreement provides for interest on
2 payments until I.M. Water can refinance the loan with long-term debt from the Water Infrastruct.
3 Finance Authority ("WIFA"). As of September 24, 1999, I.M. Water's request was ranked number
4 142 on WIFA's year 2000 Funding Cycle Priority Project List.

5 Financial Impact

6 In Decision No. 60850 (dated April 30, 1998), the Commission authorized Applicant to
7 borrow \$57,100 from WIFA and \$3,600 from Applicant's owner. The proceeds of the WIFA loan
8 were to be used to install a storage tank, pressure tank and related equipment. The loan from the
9 owner was for a new computer system. In Decision No. 61161 (dated October 7, 1998), the
10 Commission approved a rate increase for Applicant in the amount of \$10,406 (an increase of 34
11 percent) of which \$5,665 was made interim. The interim portion of the increase was subject to
12 refund if Applicant did not make the necessary improvements to the system by May 1, 2000.
13 Decision No. 61161 also required Applicant to place \$472 per month into an interest bearing account
14 until the listed improvements were completed. As of October 4, 1999, the interest bearing acco
15 had a balance of approximately \$4,744. At the same time, Applicant has drawn \$18,918 from WIFA
16 and has made payments totaling \$1,727.97 on the loan proceeds to WIFA. Because the interest
17 bearing account is frozen until the improvements have been completed, Applicant has had to fund the
18 payments from other revenue sources.

19 Based on Staff's analysis, Applicant will not have adequate cash flow to cover existing debt
20 and the new proposed loan. As a result, Staff recommended a restructuring of Applicant's existing
21 debt whereby the frozen interest bearing account would be utilized to pay off portions of Applicant's
22 existing debts. Under Staff's proposal, the frozen account would have \$6,160 available by December
23 31, 1999, and could be used to pay off the \$1,500 balance on the computer loan and \$4,500 of the
24 \$6,347.43 balance on a 99-year well site lease loan. The remaining balance of \$1,847 of the well site
25 lease loan could be added to the new proposed loan of \$10,300 for a new loan in the amount of
26 \$12,147. In addition, Applicant would still have the obligation of the \$57,100 WIFA loan approved
27 in Decision No. 60850. According to Staff, the proposed restructuring has the effect of lowering I
28 Water's interest and principal payments whereby Applicant would have sufficient cash flow to cover

1 the loan payments. Staff recommended approval of the Applicant's financing request subject to the
2 recommended restructuring. Since the Company's capital structure would consist of 63 percent debt
3 after such restructuring, Staff recommended Applicant's next investment be financed with equity
4 capital. Staff also recommended the following:

- 5 • The interest bearing account established in Decision No. 61161 be rescinded and replaced
6 with an interest bearing checking account from which WIFA loan payments will be made;
- 7 • Beginning January 1, 2000, Applicant fund the interest bearing checking account for the
8 total amount of all monthly fixed payments to WIFA, based on the full loan amount, of
9 any Commission approved WIFA debt;
- 10 • Applicant be permitted to use the accumulated monies in the Company's existing ACC
11 reserve fund to pay down \$6,000 of Commission approved shareholder debt. This
12 includes the remaining \$1,500 balance on a loan for a computer originally approved in
13 Decision No. 60850 and \$4,500 of the \$6,347 balance on a loan for a 99-year well site
14 lease that was originally approved in Decision No. 59249.
- 15 • Any remaining balance of the shareholder loan approved in Decision No. 59249 be
16 combined with the \$10,300 Company-proposed shareholder loan, and that this \$12,174
17 amount be approved as a shareholder loan to be amortized over a 20 year period at 9.00
18 percent interest.
- 19 • The Commission approve future WIFA refinancing of the remaining \$12,147 shareholder
20 loan on condition that the terms of such a WIFA refinancing are either equal to or more
21 favorable than the terms of the shareholder loan authorized by the Commission.

22 We generally concur with Staff's proposed restructuring of Applicant's debt. However, it is
23 not known if WIFA will loan Applicant the \$12,147 amount on terms equal to or more favorable than
24 the shareholder loan. For that reason, we find that the new interest bearing checking account should
25 also be available for payments on the approved shareholder loan. We will require the Company to
26 deposit sufficient funds into that account on a monthly basis to cover payments on all Commission
27 approved loans for this Company. In addition, such account shall remain in effect until the
28 improvements approved in Decision No. 60850 have been satisfactorily completed.

1 * * * * *

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

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5 **FINDINGS OF FACT**

6 1. I.M. Water is a water utility that provides service to approximately 92 customers in an
7 area located five miles west of the junction of Interstate 10 and Marana Road in Pima County,
8 Arizona, pursuant to authority granted by the Commission.

9 2. On July 23, 1999, Applicant filed with the Commission an application for approval of
10 long-term debt in the amount of \$10,300.

11 3. On June 24, 1999, Applicant's only well became inoperative, requiring repairs in the
12 amount of \$10,300.

13 4. Mr. and Mrs. Chiolero loaned Applicant \$10,300 for the well repairs for a term of four
14 years with an interest rate of nine percent.

15 5. Applicant has requested a loan from WIFA in the amount of \$10,300 to pay off the
16 \$10,300 shareholder loan.

17 6. In Decision No. 60850, the Commission authorized Applicant to borrow \$57,100 from
18 WIFA with proceeds to be used to install a storage tank, pressure tank, and related equipment.

19 7. In Decision No. 60850, the Commission authorized Applicant to borrow \$3,600 from
20 Applicant's owner to purchase a new computer system.

21 8. In Decision No. 61161, the Commission approved a rate increase for Applicant in the
22 amount of \$10,406 (an increase of 34 percent) of which \$5,665 was made interim.

23 9. The interim amount was subject to refund if Applicant did not complete the
24 installation of the storage tank, pressure tank, and related equipment by May 1, 2000.

25 10. Decision No. 61161 also required Applicant to place \$472 per month into an interest
26 bearing account until the improvements were completed.

27 11. The interest bearing account established by Decision No. 61161 will have a balance
28 approximately \$6,160 by December 31, 1999.

1 12. Based on Staff's analysis, Applicant does not have adequate cash flow to cover
2 existing debt and the new proposed loan.

3 13. Staff recommended the following:

- 4 • The interest bearing account established in Decision No. 61161 be rescinded and replaced
5 with an interest bearing checking account from which WIFA loan payments will be made;
- 6 • Beginning January 1, 2000, Applicant fund the interest bearing checking account for the
7 total amount of all monthly fixed payments to WIFA, based on the full loan amount, of
8 any Commission approved WIFA debt;
- 9 • Applicant be permitted to use the accumulated monies in the Company's existing ACC
10 reserve fund to pay down \$6,000 of Commission approved shareholder debt. This
11 includes the remaining \$1,500 balance on a loan for a computer originally approved in
12 Decision No. 60850 and \$4,500 of the \$6,347 balance on a loan for a 99-year well site
13 lease that was originally approved in Decision No. 59249.
- 14 • Any remaining balance of the shareholder loan approved in Decision No. 59249 be
15 combined with the \$10,300 Company-proposed shareholder loan, and that this \$12,174
16 amount be approved as a shareholder loan to be amortized over a 20 year period at 9.00
17 percent interest.
- 18 • The Commission approve future WIFA refinancing of the remaining \$12,147 shareholder
19 loan on condition that the terms of such a WIFA refinancing are either equal to or more
20 favorable than the terms of the shareholder loan authorized by the Commission.
- 21 • I.M. Water be placed on notice that, in order to achieve a more balanced capital structure,
22 the Commission would prefer that the next substantial capital expenditures be financed
23 with equity as opposed to additional debt.

24 14. Staff reviewed the application and determined the well repair work was necessary and
25 the costs of \$10,300 were reasonable.

26 15. I.M. Water is current on its property taxes and meets the quality requirements of the
27 Safe Drinking Water Act.

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CONCLUSIONS OF LAW

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

2. The Commission has jurisdiction over I.M. Water and the subject matter of the application.

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

4. The financing approved herein is for lawful purposes within I.M. Water's corporate powers, is compatible with the public interest, with sound financial practices, and with the proper performance by Applicant of service as a public service corporation, and will not impair I.M. Water's ability to perform that service.

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

ORDER

IT IS THEREFORE ORDERED that I.M. Water Company, Inc. is hereby authorized to borrow \$12,147 from Mr. and Mrs. Chiolero for a term of twenty (20) years with an annual interest rate of nine percent.

IT IS FURTHER ORDERED that I.M. Water Company, Inc. is hereby authorized to refinance the Chiolero \$12,147 loan from the Water Infrastructure Finance Authority of Arizona subject to the condition that the terms of the refinancing are equal to or more favorable than the Chiolero loan.

IT IS FURTHER ORDERED that I.M. Water Company, Inc. is hereby authorized to transfer the balance in the interest bearing bank account, established pursuant to Decision No. 61161, to an interest bearing checking account to be used to make payments on Commission approved debt.

IT IS FURTHER ORDERED that I.M. Water Company, Inc. shall deposit sufficient funds into the checking account on a monthly basis to cover payments on all Commission approved loans, including the newly approved loan herein.

IT IS FURTHER ORDERED that I.M. Water Company, Inc. shall maintain the interest bearing account approved in this Order until the improvements approved in Decision No. 60850 have

1 been satisfactorily completed.

2 IT IS FURTHER ORDERED that I.M. Water Company, Inc. is hereby authorized to use the
3 accumulated monies in the bank account (established pursuant to Decision No. 61161) to payoff the
4 \$1,500 balance on the computer loan (approved in Decision No. 60850) and \$4,500 of the \$6,347
5 balance on the well site lease loan (approved in Decision No. 59249).

6 IT IS FURTHER ORDERED that after the \$4,500 payment on the well site lease loan, the
7 remaining \$1,847 balance shall be combined with the \$10,300 Chiolero loan to arrive at the \$12,147
8 loan authorized in the first ordering paragraph herein.

9 IT IS FURTHER ORDERED that the \$5,665 amount of the rates established in Decision No.
10 61161 will remain interim and subject to refund if the construction approved in Decision No. 60850
11 is not completed and approved by Engineering Staff on or before May 1, 2000.

12 IT IS FURTHER ORDERED that I.M. Water Company, Inc. is hereby authorized to engage
13 in any transactions and to execute any documents necessary to effectuate the authorization granted
14 hereinabove.

15 IT IS FURTHER ORDERED that such authority is expressly contingent upon I.M. Water
16 Company, Inc.'s use of the proceeds for the purposes set forth in its application.

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

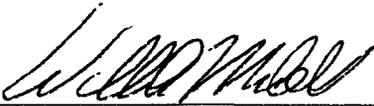
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IT IS FURTHER ORDERED that I.M. Water Company, Inc. shall file copies of all executed financing documents setting forth the terms of the financing, within 30 days of obtaining such financing.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

		
CHAIRMAN	COMMISSIONER	COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary 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 19th day of November, 1999.


 BRIAN C. McNEIL
 EXECUTIVE SECRETARY

DISSENT _____
JLR:dap

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SERVICE LIST FOR:

I.M. WATER COMPANY, INC..

DOCKET NO.

W-02191A-99-0415

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