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COMMISSIONER
MARC SPITZER
COMMISSIONER

OPEN MEETING ITEM



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ORIGINAL
BRIAN C. McNEIL
EXECUTIVE SECRETARY

ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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DATE: March 13, 2002
DOCKET NO: W-01445A-01-0408
TO ALL PARTIES:

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

ARIZONA WATER COMPANY
(LOAN AGREEMENT)

The ten day period for filing exceptions has been waived. 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 ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by 12:00 noon on or before:

MARCH 15, 2002

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 Open Meeting to be held on:

MARCH 19 and MARCH 20, 2002

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250.

Arizona Corporation Commission
DOCKETED
MAR 13 2002

DOCKETED BY

BRIAN C. McNEIL
EXECUTIVE SECRETARY

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 WILLIAM A. MUNDELL
3 CHAIRMAN
4 JIM IRVIN
5 COMMISSIONER
6 MARC SPITZER
7 COMMISSIONER

8 IN THE MATTER OF THE APPLICATION OF
9 ARIZONA WATER COMPANY FOR AN ORDER
10 AUTHORIZING THE EXECUTION OF A LOAN
11 AGREEMENT AND THE DELIVERY OF A
12 PROMISSORY NOTE IN CONNECTION
13 THEREWITH.

DOCKET NO. W-01445A-01-0408

DECISION NO. _____

ORDER

9 Open Meeting
10 March 19 and 20, 2002
11 Phoenix, Arizona

12 **BY THE COMMISSION:**

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. On May 11, 2001, Arizona Water Company ("Arizona Water or "Company") filed an
17 application with the Arizona Corporation Commission ("Commission") requesting authority to
18 execute a loan agreement and for delivery of a promissory note.

19 2. Arizona Water is an Arizona corporation which owns and operates 18 separate water
20 systems in Cochise, Coconino, Gila, Maricopa, Navajo, Pima, Pinal and Yavapai Counties, Arizona.
21 Arizona Water is a wholly owned subsidiary of Utility Investment Company, which is a wholly
22 owned subsidiary of United Resources, Inc. The Company provides water service to approximately
23 60,000 customers.

24 3. In 1997, Arizona Water entered into a Business Loan Agreement ("1997 Loan
25 Agreement") with Bank of America that established a line of credit in an amount not to exceed \$9
26 million. In Decision No. 60272, dated July 2, 1997, the Commission approved the 1997 Loan
27 Agreement. The Commission has approved eight amendments to the 1997 Loan Agreement during
28 the period of 1998 through 2000, which amendments approved extensions and increases for the line
of credit.

1 4. In Decision No. 62844, dated August 24, 2000, the Commission approved the eighth
2 amendment to the 1997 Loan Agreement authorizing the Company to increase its line of credit to an
3 amount not to exceed \$14 million. In that same Decision, the Commission also ordered that Arizona
4 Water's next financing application should be in the form of equity or long-term debt. The Company
5 subsequently issued and sold \$15 million of General Mortgage Bonds, and used a portion of the
6 proceeds to reduce its short-term debt. Arizona Water had no short-term debt balance as of April 13,
7 2001.

8 5. On May 11, 2001, Arizona Water filed an application seeking a ninth amendment to
9 the 1997 Loan Agreement. The Company's application sought authorization to extend the line of
10 credit by an additional \$2 million. On June 1, 2001, Arizona Water filed certification of publication
11 of its financing application.

12 6. On December 7, 2001, Arizona Water filed an amendment to its financing application.
13 The Company seeks to increase the \$2 million originally requested to \$5 million.

14 7. According to the application, Arizona Water intends to use the proceeds of the
15 financing to reimburse the Company for funds spent on capital improvements and additions to utility
16 plant in Arizona, and to reimburse its parent company for short-term indebtedness that may be
17 outstanding on or after the effective date of the amendment to the 1997 Loan Agreement. The Staff
18 Report indicates that the financing request is also needed because net income and advances in aid of
19 construction are lower than originally forecasted.

20 8. The revolving line of credit would be in an amount not to exceed \$5 million and
21 would be effective from the date of a signed Commission Order until May 31, 2002. The interest rate
22 would be based on the timing and amount of draws on the line of credit. As of October 3, 2001, the
23 interest rate options available to the Company were the Bank of America's Reference Rate (5.25
24 percent), Bank of America's Fixed Rate (3.41 to 3.53 percent), and the LIBOR rate (3.41 to 3.53
25 percent).

26 9. On January 28, 2002, Staff of the Commission filed its Staff Report recommending
27 approval without a hearing. According to Staff's analysis, Arizona Water had operating income of \$7
28 million for the year ending December 31, 2000, and a capital structure consisting of 19 percent short-

1 term debt, 13 percent long-term debt, and 68 percent equity. On March 12, 2002, Staff filed a revised
2 Schedule CSB-1. Staff's revised analysis shows that if the Company were to draw the entire \$5
3 million requested in its application, pro forma short-term debt would be 6.58 percent, long-term debt
4 would be 30.29 percent, and the equity component would be 63.13 percent.

5 10. Staff states that Arizona Water had a times interest earned ratio ("TIER") of 7.24 and
6 a debt service coverage ("DSC") ratio of 7.33 as of December 31, 2000. The TIER represents the
7 number of times earnings will cover interest expense on long-term debt. The DSC represents the
8 number of times internally generated cash will cover required principal and interest payments on
9 long-term debt.

10 11. According to Staff's revised schedule, the pro forma effect of the proposed \$5 million
11 line of credit will decrease the Company's TIER and DSC ratios to 4.68 and 4.11, respectively, based
12 on a worst case short-term interest rate of 5.25 percent under the agreement with Bank of America.

13 12. Based on its review, Staff concludes that the proposed financing is for lawful
14 purposes, within the Company's corporate powers, is compatible with the public interest, sound
15 financial practices and proper service performance, and will not impair Arizona Water's ability to
16 perform that service. Staff recommends that the Company's application be approved.

17 CONCLUSIONS OF LAW

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

20 2. The Commission has jurisdiction over Arizona Water and the subject matter of the
21 application.

22 3. Staff's recommendations set forth in Finding of Fact No. 12 is reasonable and should
23 be adopted.

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

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1 SERVICE LIST FOR: ARIZONA WATER COMPANY

2 DOCKET NO. W-01445A-01-0408

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