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MEMORANDUM

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AZ CORP COMMISSION
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TO: Docket Control
FROM: Ernest Johnson
Director
Utilities Division

DATE: March 12, 2002

RE: STAFF REPORT FOR ARIZONA WATER COMPANY'S APPLICATION FOR AN ORDER AUTHORIZING THE EXECUTION OF A LOAN AGREEMENT AND THE DELIVERY OF A PROMISSORY NOTE IN CONNECTION THEREWITH (DOCKET NO. W-01445A-01-0408)

Attached is the revised Schedule CSB-1 for Arizona Water Company's application for an order authorizing the execution of a loan agreement and the delivery of a promissory note in connection therewith. The revised schedule incorporates the following changes:

1. Long-term debt and short-term debt are adjusted to reflect two additional facts contained in the Staff report: (1) Short-term debt was brought down to zero due to the issuance of the Series K bonds and (2) the \$5 million line of credit was reclassified from long-term debt to short-term debt.
2. Interest expense was recalculated to reflect the application of the applicable interest rate for each outstanding debt (shown on the Company's data response to CSB No. 1-1) plus the interest expense on the \$5 million line of credit.
3. Interest expense on the line of credit was included in the calculation of the proposed Times Interest Earned Ratio ("TIER") and the Debt Service Coverage ("DSC") ratio.
4. The \$5 million short-term debt was excluded in the calculation of principal repayment and the denominator of the DSC calculation.

EGJ:CSB:rdp

Originator: Crystal S. Brown

Attachment: Original and eleven copies

Arizona Corporation Commission
DOCKETED

MAR 12 2002

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Service List for: Arizona Water Company
Docket No. W-01445A-01-0408

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Ms. Lyn Farmer
Chief, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
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FINANCIAL ANALYSIS

Selected Financial Information
Pro forma Includes Immediate Effects of the Proposed Line of Credit

	[A] <u>12/31/2000</u>		[B] <u>Pro Forma</u>	
1	Operating Income	\$ 7,059,938		\$ 7,059,938
2	Depreciation & Amort.	3,504,370		3,504,370
3	Income Tax Expense	2,682,630		2,682,630
4	Interest Expense on Debt (a)	1,344,874		2,082,191
5	Repayment of Principal	461,768		1,141,829
TIER				
6	[1+3] ÷ [4]	7.24		4.68
DSC				
7	[1+2+3] ÷ [4+5]	7.33		4.11
8	Short-term Debt	\$13,400,000	19.01%	\$5,000,000 6.58%
9	Long-term Debt	\$9,142,535	12.97%	\$23,001,314 30.29%
10	Common Equity	\$47,937,149	68.02%	\$47,937,149 63.13%
11	Total Capital	\$70,479,684	100.00%	\$75,938,463 100.00%

(a) Includes short-term interest.