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MARK SPIZZER
COMMISSIONER



BRIAN C. McNEIL
EXECUTIVE SECRETARY

ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: June 12, 2002
DOCKET NO: W-01445A-02-0275
TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Philip J. Dion III. The recommendation has been filed in the form of an Order on:

ARIZONA WATER COMPANY
(LOAN AGREEMENT)

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:

JUNE 21, 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:

JUNE 25 and 26, 2002

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

Arizona Corporation Commission

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JUN 12 2002

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BRIAN C. McNEIL
EXECUTIVE SECRETARY

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

6 IN THE MATTER OF THE APPLICATION OF
ARIZONA WATER COMPANY, AN ARIZONA
CORPORATION, FOR AN ORDER
7 AUTHORIZING THE EXECUTION OF A LOAN
AGREEMENT AND THE DELIVERY OF A
8 PROMISSORY NOTE IN CONNECTION
THEREWITH.

DOCKET NO. W-01445A-02-0275

DECISION NO. _____

ORDER

9
10 Open Meeting
June 25 and 26, 2002
Phoenix, Arizona
11

12 **BY THE COMMISSION:**

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

15 **FINDINGS OF FACT**

- 16 1. Arizona Water Company ("AWC" or "Company") is an Arizona Corporation that
17 owns and operates 18 separate water systems in Cochise, Coconino, Gila, Maricopa, Navajo, Pima,
18 Pinal and Yavapai Counties.
- 19 2. AWC is a wholly owned subsidiary of Utility Investment Company, which is a wholly
20 owned subsidiary of United Resources, Inc.
- 21 3. AWC charges rates approved in Decision Nos. 58120 (December 23, 1992) and 64282
22 (December 28, 2001).
- 23 4. As of December 31, 2001, AWC provides water service to approximately 64,000
24 customers.
- 25 5. On April 10, 2002, AWC filed an application with the Commission requesting
26 authorization to execute a loan agreement with the Bank of America-Arizona ("BofA") to extend
27 AWC a line of credit in an amount not to exceed \$11.5 million.
- 28 6. On May 3, 2002, AWC filed a Certificate of Publication for its financing application

that complies with the notice requirements as prescribed by law.

7. On May 15, 2002, Staff filed its Staff Report in this matter, recommending approval of the financing request.

8. On July 30, 1997, AWC entered into a Business Loan Agreement ("1997 Loan Agreement") with BofA that established a line of credit in an amount not to exceed \$9 million. The Commission approved the 1997 Loan Agreement in Decision No. 60272 (July 2, 1997).¹

9. The Commission approved a tenth amendment to the 1997 Loan Agreement in Decision No. 64663 (March 25, 2002).

10. AWC's application seeks approval to execute with BofA a new amendment ("11th Amendment") to the 1997 Loan Agreement. The proposed 11th Amendment increases the line of credit to \$11.5 million.

11. As of December 31, 2001, AWC's short-term debt balance was \$2.8 million. By February 28, 2002, AWC's short-term debt balance increased to \$3.7 million. The short-term debt increased primarily due to construction costs to make improvements and additions to AWC's utility plant within Arizona.

12. The purpose of the financing is to provide funds to make improvements and additions to AWC's utility plant, as well as to reimburse monies actually expended from AWC's treasury for such purposes.

13. The Commission Utilities Division Engineering Staff examined AWC's 2001 construction budget and found the projects to be both reasonable and appropriate.

14. AWC seeks the Commission's authority to obtain a line of credit with BofA to an amount not to exceed \$11.5 million. Under the line of credit agreement between AWC and BofA, the line of credit will be effective from the date of a signed Commission Order until it expires on June 1, 2003. The Company will have until November 30, 2003 to repay any balance outstanding as of June 1, 2003.

15. The unpaid principal balance of all advances made under the line of credit will bear

¹ During the period of 1998 through 2000, the Commission approved nine other amendments to the 1997 Loan Agreement.

interest on each calendar month under one of three rates depending on the timing and amount of the draws. AWC may chose one of three options: (1) BofA's Reference Rate minus 0.25 percentage points; (2) a fixed rate to be determined by BofA or (3) an interest compound using a formula based on the London Interbank Offered Rate ("LIBOR"). As of May 2, 2002, the rates under the three options were as follows:

- | | | |
|-----|-----------------|------|
| (1) | Reference Rate: | 4.50 |
| (2) | Fixed Rate: | 2.92 |
| (3) | LIBOR Rate: | 2.92 |

16. For the period ended December 31, 2001, Staff's analysis indicates that AWC's operating income was \$6 million and its capital structure consisted of 3.78 percent short-term debt, 30.55 percent long-term debt and 65.67 percent equity.

17. Staff's analysis shows that if AWC were to draw the entire \$11.5 million, AWC's pro forma capital structure would be 13.70 percent short-term debt, 27.40 long-term debt and 58.90 equity.

18. The Debt Service Coverage ("DSC") ratio represents the number of times internally generated cash will cover required principal and interest payments on long-term debt. A DSC greater than 1.0 means that operating cash flow is sufficient to cover debt obligations.

19. The Times Interest Earned Ratio ("TIER") represents the number of times earnings will cover interest expense on short-term and long-term debt. A TIER greater of 1.0 means that operating income is greater than income expense.

20. As of December 31, 2001, AWC had a DSC of 3.99 and a TIER of 4.35.

21. The pro forma effect of the proposed \$11.5 million line of credit fully drawn at an interest rate of 4.50 percent will decrease the Company's DSC to 3.69 and its TIER to 3.86.²

22. In its pro forma analysis, Staff chose the highest and most conservative interest rate option currently available under the short-term line of credit agreement to make its calculations.

² The DSC calculations includes no principal repayment on short-term debt and assumes the principal will be financed when due.

Staff indicates that AWC's pro forma DSC and TIER ratios show that AWC will have adequate cash flow to make interest payments on the proposed loan.

23. Staff recommended the approval of AWC's authorization to enter into the loan agreement with BofA for a line of credit not to exceed \$11.5 million at an interest rate not to exceed BofA's Reference Rate minus 0.25.

24. Staff further recommended approval of the financing application without a hearing.

CONCLUSIONS OF LAW

1. Applicant is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-281 and 40-282.

2. The Commission has jurisdiction over Applicant 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 Arizona Water Company's corporate powers, is compatible with the public interest, with sound financial practices and with the proper performance by Arizona Water Company of service as a public service corporation and will not impair Arizona Water Company'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.

6. Staff's recommendations in Findings of Fact No. 23 and 24 are reasonable and should be adopted.

ORDER

IT IS THEREFORE ORDERED that Arizona Water Company is hereby authorized to enter into a loan agreement with Bank of America-Arizona for a line of credit not to exceed \$11.5 million at an interest rate not to exceed Bank of America's Reference Rate minus 0.25 percentage points. The authorization for the line of credit will be effective from the date of this Decision until it expires on June 1, 2003, although the Company will have until November 30, 2003 to repay any balance outstanding as of June 1, 2003.

1 IT IS FURTHER ORDERED that Arizona Water Company is hereby authorized to engage in
2 any transactions and execute any documents necessary to effectuate the authorization granted
3 hereinabove.

4 IT IS FURTHER ORDERED that such authority is expressly contingent on Arizona Water
5 Company's use of the proceeds for the purposes set forth in its application.

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

9 IT IS FURTHER ORDERED that Arizona Water Company shall file copies of executed
10 financing documents setting forth the terms of the financing, within 30 days of obtaining such
11 financing.

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

13 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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16 CHAIRMAN

COMMISSIONER

COMMISSIONER

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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 ____ day of _____, 2002.

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BRIAN C. McNEIL
EXECUTIVE SECRETARY

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DISSENT _____

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PJD:mlj

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1 SERVICE LIST FOR:

ARIZONA WATER COMPANY

2 DOCKET NO.

W-01445A-02-0275

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