

ORIGINAL NEW APPLICATION



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BEFORE THE ARIZONA CORPORATION C  
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COMMISSIONERS:

Mike Gleason - Chairman  
Jeff Hatch-Miller  
William A. Mundell  
Kristin K. Mayes  
Gary Pierce

2007 APR 12 P 2:00  
AZ CORP COMMISSION  
DOCUMENT CONTROL

Arizona Corporation Commission  
DOCKETED

APR 12 2007

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IN THE MATTER OF THE APPLICATION OF  
ARIZONA WATER COMPANY, AN ARIZONA  
CORPORATION, FOR AN ORDER  
AUTHORIZING THE EXECUTION OF A NEW  
LOAN AGREEMENT OR AMENDMENT TO  
AN EXISTING LOAN AGREEMENT AND THE  
DELIVERY OF A PROMISSORY NOTE IN  
CONNECTION THEREWITH.

W-01445A-07-\_\_\_\_\_ W-01445A-07-0238  
APPLICATION FOR AUTHORITY TO  
EXECUTE A NEW LOAN AGREEMENT  
OR AMENDMENT TO AN EXISTING  
LOAN AGREEMENT AND DELIVER  
PROMISSORY NOTE

Arizona Water Company, a public service corporation (the "Company"), respectfully shows as follows:

I.

The Company is an Arizona public service corporation operating solely within the state of Arizona. The Company owns and operates public utility water systems in various municipalities and other areas in Cochise, Coconino, Gila, Maricopa, Navajo, Pima, Pinal and Yavapai Counties in accordance with Certificates of Convenience and Necessity heretofore granted by the Arizona Corporation Commission (the "Commission").

II.

The principal place of business of the Company is 3805 North Black Canyon Highway, Phoenix, Arizona 85015.

III.

On June 1, 2002, the Company and the Bank of America Arizona (the "Bank") entered into a new business Loan Agreement (the "2002 Loan Agreement"), which set the Company's

1 line of credit at an amount not to exceed \$11,500,000, which the Commission approved in  
2 Decision No. 64996 on June 26, 2002.

3 The 2002 Loan Agreement was amended in 2003 to increase the line of credit to an  
4 amount not to exceed \$15,000,000 and to replace the June 1, 2003 expiration date with the date  
5 June 1, 2004. The Commission authorized the Company to execute amendments to the 2002  
6 Loan Agreement in Decision No. 66104 on July 25, 2003.

7  
8 The 2002 Loan Agreement was amended in 2004 to replace the June 1, 2004 expiration  
9 date with the date August 1, 2005 but the \$15,000,000 line of credit amount was not changed.  
10 The Commission authorized the Company to execute amendments to the 2002 Loan Agreement  
11 in Decision No. 67274 on October 5, 2004.

12 The 2002 Loan Agreement was amended in 2005 to replace the expiration date of  
13 August 1, 2005 with the expiration date May 31, 2006 and to increase the line of credit to an  
14 amount not to exceed \$21,000,000. The Commission authorized the Company to execute  
15 amendments to the 2002 Loan Agreement in Decision No. 68118 on September 9, 2005.

16  
17 The 2002 Loan Agreement was further amended in 2006 to increase the line of credit to  
18 \$28,000,000. The Commission authorized the Company to execute the amendment in Decision  
19 No. 68918 on August 29, 2006.

20 IV.

21 The Company's short-term indebtedness is incurred for the construction of improvements  
22 and additions to the Company's utility plant and for the reimbursement of monies actually  
23 expended from monies in the Company's treasury for such purposes. As of December 31, 2006,  
24 the Company's short-term indebtedness was \$7,800,000.

25 V.

26  
27 The Company has requested the Bank to extend its line of credit in an amount not to  
28 exceed \$32,000,000, which will be available from the date of the Agreement, or the date the

1 Commission approves this Application, if later, through June 1, 2008. One of the conditions to  
2 the Company's obtaining the line of credit from the Bank is the execution of either a new Loan  
3 Agreement or one or more amendments to the 2002 Loan Agreement provided by the Bank (the  
4 "New Amendments"). The New Amendments are expected to keep in effect the terms and  
5 conditions of the 2002 Loan Agreement. Copies of either a new Loan Agreement or the New  
6 Amendments executed in conjunction with the \$32,000,000 line of credit will be submitted as  
7 late-filed exhibits.  
8

9 VII.

10 The outstanding principal balance of all advances made under the line of credit provided  
11 for in either a new Loan Agreement or the New Amendments will bear interest during each  
12 calendar month at the Bank's Reference Rate minus .25 of a percentage point or one of two  
13 optional interest rates elected by the Company as provided in the 2002 Loan Agreement. If one  
14 of these optional rates is chosen, it will be equal to or less than the Bank's Reference Rate minus  
15 .25 of a percentage point.  
16

17 VIII.

18 A new Loan Agreement or the New Amendments establishing the \$32,000,000 line of  
19 credit will not become effective until after the Commission has approved this Application. The  
20 expiration date of the Sixth Amendment to the 2002 Loan Agreement is May 31, 2007.  
21

22 IX.

23 The Company believes and therefore alleges that it is in the best interests of the Company  
24 and its customers that the Commission authorize the Company to execute either a new Loan  
25 Agreement or the New Amendments for the reason that the Company must finance future  
26 construction, including arsenic treatment facilities and expansion of its water facilities, to  
27 maintain and continue reliable water service to its customers.  
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X.

Attached hereto, marked Exhibit A, are the Company's financial statements for the twelve months ended December 31, 2006.

XI.

Attached hereto, marked Exhibit B, is a certified copy of a resolution adopted by the Board of Directors of the Company on March 27, 2007, authorizing the Company to borrow an amount not to exceed \$32,000,000 and to file this Application with the Commission.

XII.

In Decision No. 68918 the Commission concluded as a matter of law that, in consideration of the recommendation of the Staff of the Commission's Utility Division, the application therein could be summarily approved, and in further consideration of the Commission's approval of a virtually identical application in Decision No. 68118, no hearing was necessary to approve the Company's application.

This Application is likewise virtually identical to the applications referred to in the preceding paragraphs. Therefore, the Company submits that no hearing is necessary on this Application and that summary approval by the Commission would be appropriate in this matter.

WHEREFORE, the Company prays that the Commission, without a hearing, enter its order:

1. Authorizing the Company to execute and deliver either a new Loan Agreement or the New Amendments to Bank of America Arizona for a line of credit in an amount not to exceed \$32,000,000;
2. Authorizing the Company to use the proceeds of the line of credit provided for in either a new Loan Agreement or the New Amendments for the following purposes:

1 a. For payment for construction of improvements and additions to the  
2 Company's utility plant; and

3 b. For the reimbursement of monies actually expended from the Company's  
4 treasury for such purposes.

5 3. Finding that in the opinion of the Commission the money to be borrowed pursuant to  
6 either a new Loan Agreement or the New Amendments is reasonably necessary for the purposes  
7 specified in paragraph 2 of this prayer and that such purposes are not wholly or in part  
8 reasonably chargeable to operating expense or to income; and

9 4. Authorizing the Company to do and perform any and all acts and things necessary or  
10 appropriate to effectuate, carry out and perform the foregoing.

11  
12  
13  
14 DATED this 12th day of April, 2007.

15  
16 Respectfully submitted,

17  
18 By: Robert W. Geake  
19 Robert W. Geake  
20 Vice President and General Counsel  
21 Post Office Box 29006  
22 Phoenix, Arizona 85038-9006  
23 *Attorney for Arizona Water Company*

24 Original and thirteen (13) copies delivered this 12th day of April, 2007 to:

25 Arizona Corporation Commission  
26 Docket Control Division  
27 200 West Washington Street  
28 Phoenix, Arizona 85007

By: Robert W. Geake

## Exhibit A

**ARIZONA WATER COMPANY**  
Comparative Balance Sheet  
at December 31, 2006

**ASSETS**

|                                  | Dec. 31, 2006  | Dec. 31, 2005  | Increase<br>(Decrease) |
|----------------------------------|----------------|----------------|------------------------|
| <b>UTILITY PLANT</b>             |                |                |                        |
| Gross Utility Plant              | \$ 296,591,128 | \$ 261,699,119 | \$ 34,892,009          |
| Less Accumulated Depreciation    | 66,048,401     | 60,859,679     | 5,188,722              |
| Net Utility Plant                | 230,542,727    | 200,839,440    | 29,703,287             |
| <b>CURRENT ASSETS</b>            |                |                |                        |
| Cash on Hand and in Banks        | 550,012        | 343,376        | 206,636                |
| Investments and Special Deposits | 2,703          | 2,703          | 0                      |
| Accounts Receivable              | 3,190,521      | 3,012,258      | 178,263                |
| Materials and Supplies           | 197,412        | 196,151        | 1,261                  |
| Other                            | 363,336        | 304,635        | 58,701                 |
| Total Current Assets             | 4,303,984      | 3,859,123      | 444,861                |
| <b>DEFERRED DEBITS</b>           | 5,697,508      | 6,937,064      | (1,239,556)            |
| <b>TOTAL</b>                     | \$ 240,544,219 | \$ 211,635,627 | \$ 28,908,592          |

**LIABILITIES**

|                                      |                |                |               |
|--------------------------------------|----------------|----------------|---------------|
| <b>CAPITALIZATION</b>                |                |                |               |
| Common Stock                         | \$ 2,700,000   | \$ 2,700,000   | \$ 0          |
| Capital Surplus                      | 9,087,347      | 9,087,347      | 0             |
| Retained Earnings                    | 59,600,755     | 57,263,312     | 2,337,443     |
| Common Stock Equity                  | 71,388,102     | 69,050,659     | 2,337,443     |
| Long-Term Debt                       | 40,000,000     | 21,400,000     | 18,600,000    |
| Total Capitalization                 | 111,388,102    | 90,450,659     | 20,937,443    |
| <b>CURRENT LIABILITIES</b>           |                |                |               |
| Notes Payable                        | 7,800,000      | 9,850,000      | (2,050,000)   |
| Accounts Payable                     | 5,855,508      | 6,015,123      | (159,615)     |
| Accrued Expenses                     | 2,170,954      | 1,942,027      | 228,927       |
| Other                                | 701,049        | 639,109        | 61,940        |
| Total Current Liabilities            | 16,527,511     | 18,446,259     | (1,918,748)   |
| <b>DEFERRED CREDITS</b>              |                |                |               |
| Advances for Construction            | 58,399,810     | 52,926,158     | 5,473,652     |
| Contributions in Aid of Construction | 28,831,412     | 25,877,859     | 2,953,553     |
| Deferred Income Tax                  | 18,094,247     | 17,641,646     | 452,601       |
| Other                                | 7,303,137      | 6,293,046      | 1,010,091     |
| Total Deferred Credits               | 112,628,606    | 102,738,709    | 9,889,897     |
| <b>TOTAL</b>                         | \$ 240,544,219 | \$ 211,635,627 | \$ 28,908,592 |

DECEMBER 2006

**ARIZONA WATER COMPANY**  
Comparative Statement of Income  
December 31, 2006

|                                             | <u>12 MONTHS TO DATE</u> |               |              | <u>DECEMBER</u> |               |               | <u>12 Months to Date</u> |             |  |
|---------------------------------------------|--------------------------|---------------|--------------|-----------------|---------------|---------------|--------------------------|-------------|--|
|                                             | <u>2006</u>              | <u>2005</u>   | <u>2006</u>  | <u>2005</u>     | <u>2006</u>   | <u>2005</u>   | <u>2006</u>              | <u>2005</u> |  |
| <b>OPERATING REVENUE</b>                    | \$ 44,988,677            | \$ 42,215,915 | \$ 3,615,980 | \$ 3,586,104    | \$ 44,988,677 | \$ 42,215,915 |                          |             |  |
| <b>OPERATING EXPENSES</b>                   |                          |               |              |                 |               |               |                          |             |  |
| Operation and Maintenance                   | 22,546,030               | 20,433,418    | 1,985,459    | 1,732,263       | 22,546,030    | 20,433,418    |                          |             |  |
| Depreciation                                | 5,726,476                | 5,390,675     | 421,170      | 488,617         | 5,726,476     | 5,390,675     |                          |             |  |
| Taxes Other Than Income Taxes               | 6,461,580                | 5,950,274     | 461,673      | 478,008         | 6,461,580     | 5,950,274     |                          |             |  |
| Income Taxes                                | 3,156,731                | 2,871,484     | (499,339)    | (408,072)       | 3,156,731     | 2,871,484     |                          |             |  |
| Total Operating Expenses                    | 37,890,817               | 34,645,851    | 2,368,963    | 2,300,816       | 37,890,817    | 34,645,851    |                          |             |  |
| <b>OPERATING INCOME</b>                     | 7,097,860                | 7,570,064     | 1,247,017    | 1,285,288       | 7,097,860     | 7,570,064     |                          |             |  |
| <b>OTHER (INCOME) AND DEDUCTIONS</b>        |                          |               |              |                 |               |               |                          |             |  |
| Other (Income) - Net                        | (256,121)                | (25,460)      | (27,595)     | 9,326           | (256,121)     | (25,460)      |                          |             |  |
| Interest and Amortization on Long-Term Debt | 2,343,839                | 1,815,287     | 228,319      | 149,476         | 2,343,839     | 1,815,287     |                          |             |  |
| Other Interest                              | (1,420,567)              | 122,554       | (1,935,980)  | 38,992          | (1,420,567)   | 122,554       |                          |             |  |
| Other - Net                                 | (35,034)                 | (444,501)     | 235,671      | (38,639)        | (35,034)      | (444,501)     |                          |             |  |
| Total Other (Income) and Deductions         | 632,117                  | 1,467,880     | (1,499,585)  | 159,155         | 632,117       | 1,467,880     |                          |             |  |
| <b>NET INCOME</b>                           | 6,465,743                | 6,102,184     | \$ 2,746,602 | \$ 1,126,133    | \$ 6,465,743  | \$ 6,102,184  |                          |             |  |
| Regular Common Dividends                    | 4,128,300                | 3,966,300     |              |                 |               |               |                          |             |  |
| <b>INCOME RETAINED</b>                      | \$ 2,337,443             | \$ 2,135,884  |              |                 |               |               |                          |             |  |
| Active Services                             | 81,597                   | 77,652        |              |                 |               |               |                          |             |  |

DECEMBER 2006

**Exhibit B**

*ARIZONA WATER COMPANY*

**CERTIFICATE OF RESOLUTION**

**ROBERT W. GEAKE** does by these presents certify that he is the Secretary of Arizona Water Company, an Arizona corporation (hereinafter sometimes referred to as the "Company"); that as such he is familiar with the records and files of the Company; that on March 27, 2007, at the annual organization meeting of the Board of Directors of the Company, the following resolution was adopted:

**"RESOLVED:** That the Company may borrow from Bank of America Arizona or a comparable financial institution or Utility Investment Company when and as needed, from June 1, 2007 through May 31, 2008, an amount not to exceed in the aggregate of \$32,000,000 outstanding at any one time, exclusive of interest and charges, and that any two of the Chairman of the Board, the President, any Vice President, the Treasurer, the Secretary, or any one of the above and any Assistant Secretary or any Assistant Treasurer be, and they hereby are, authorized from time to time on behalf of the Company to agree to the terms and conditions of such borrowings and to execute notes, loan agreements, other necessary documents and extension or renewals thereof as may be required to evidence such borrowings; and

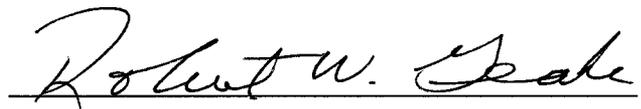
**"BE IT FURTHER RESOLVED:** That all prior actions of the officers of the Company in borrowing money from or in incurring other obligations to Bank of America Arizona or Utility Investment Company and the execution of any and all instruments and agreements by them are hereby ratified, confirmed and approved; and

**"BE IT FURTHER RESOLVED:** That Bank of America Arizona and/or such other comparable financial institution selected by the officers of the Company and/or Utility Investment Company may rely upon these resolutions and the certificates of the officers given in connection therewith until written notice of other action of the Board of Directors of the Company is served upon Bank of America Arizona and/or such other comparable financial institution selected by the officers of the Company and/or Utility Investment Company and until all indebtedness and obligations of the Company to Bank of America Arizona and/or such other comparable financial institution selected by the officers of the Company and/or Utility Investment Company are paid and satisfied; and

**"BE IT FURTHER RESOLVED:** That the Chairman of the Board, the President, any Vice President, the Treasurer, the Secretary, an Assistant Secretary or an Assistant Treasurer are hereby authorized to sign any and all documents, instruments and applications to the Arizona Corporation Commission, or otherwise, or other instructions necessary to complete such borrowings."

The foregoing resolution is in full force and effect and has not been revoked.

**IN WITNESS WHEREOF,** the said Robert W. Geake has executed this certificate this 3rd day of April, 2007.

A handwritten signature in cursive script that reads "Robert W. Geake". The signature is written in dark ink and is positioned above a horizontal line.

Secretary