

ORIGINAL

OPEN MEETING ITEM



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COMMISSIONERS
MIKE GLEASON - Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE



ARIZONA CORPORATION COMMISSION

DATE: NOVEMBER 2, 2007

DOCKET NO: W-02824A-07-0139

Arizona Corporation Commission

DOCKETED

NOV 02 2007

TO ALL PARTIES:

DOCKETED BY

Enclosed please find the recommendation of Administrative Law Judge Marc E. Stern. The recommendation has been filed in the form of an Order on:

ICR WATER USERS ASSOCIATION, INC.
(FINANCING)

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 **4:00** p.m. on or before:

NOVEMBER 13, 2007

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 Commission's Working Session and Open Meeting to be held on:

NOVEMBER 27, 2007 and NOVEMBER 28, 2007

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

BRIAN C. McNEIL
EXECUTIVE DIRECTOR

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AZ CORP. COMMISSION
DOCKET CONTROL

1
2 **BEFORE THE ARIZONA CORPORATION COMMISSION**

3 COMMISSIONERS

4 MIKE GLEASON, Chairman
5 WILLIAM A. MUNDELL
6 JEFF HATCH-MILLER
7 KRISTIN K. MAYES
8 GARY PIERCE

9
10 IN THE MATTER OF THE APPLICATION
11 OF ICR WATER USERS ASSOCIATION,
12 INC. FOR AUTHORIZATION TO ASSUME
13 NEW DEBT.

DOCKET NO. W-02824A-07-0139

DECISION NO. _____

14 ORDER

15 Open Meeting
16 November 27 and 28, 2007
17 Phoenix, Arizona

18 **BY THE COMMISSION:**

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

21 FINDINGS OF FACT

22 1. Pursuant to authority granted by the Commission in Decision No. 59263 (August 30,
23 1995), ICR Water Users Association, Inc. ("Applicant" or "Company") is an Arizona non-profit
24 corporation that provides water service to approximately 396 residential customers located in
25 Yavapai County, Arizona.¹

26 2. The Company charges rates approved in Decision No. 59263 and has recently filed an
27 application for a permanent rate increase in Docket No. W-02824A-07-0388.

28 3. On March 6, 2007, the Company filed an application with the Commission requesting
its approval to borrow up to \$100,000 in new debt in the form of a one-year line of credit.

4. On April 27, 2007, Applicant published notice of its application in this matter in a
newspaper of general circulation in Prescott, Arizona.

¹ The company is owned by its member customers who own property in its certificated service area. They elect the Company's board of directors who manage the Company's operations.

1 5. According to the Company's application, the Applicant intends to use \$40,000 to
2 purchase a backup emergency generator for emergency pumping power in the event of a power
3 outage and to construct a security fence around one of its wells for \$10,000. The remainder of the
4 funds will be available for unanticipated repairs to the system only if the Company lacks enough cash
5 on hand to pay for the repairs when they are completed.

6 6. On October 12, 2007, the Commission's Utilities Division ("Staff") filed a Staff
7 Report recommending partial approval of this application for up to a \$50,000 line of credit for one
8 year.

9 7. The Company will encumber its real property, utility plant and other assets as security
10 for the line of credit for up to the amount of debt authorized by the Commission.

11 8. The Company wishes to obtain Commission approval for authority to secure the line
12 of credit from the Stockmen's Bank in an amount not to exceed \$100,000, with interest on the line of
13 credit determined to be set at 0.5 percent above the Wall Street Journal prime rate. The date of
14 maturity will be one year from the execution date of the documents.

15 9. Staff Engineering reviewed the proposed plant improvements and related costs and
16 stated that without making any "used and useful" determination from which any conclusions should
17 be inferred for ratemaking or rate base purposes, Staff found the estimated project costs provided by
18 the Company to be reasonable and appropriate for the emergency generator and security fence.

19 10. Staff performed an analysis of the Company's unaudited financial statements for the
20 twelve-month period ended December 31, 2006.

21 11. According to the Staff Report, as of December 31, 2006, Applicant's capital structure
22 consisted of zero percent short-term debt, zero percent long-term debt, and 100 percent negative
23 equity. A draw down of the entire proposed \$100,000 credit line would result in a pro forma capital
24 structure composed of 31.2 percent short-term debt, zero percent long-term debt and 131.2 percent
25 negative equity.

26 12. Utilizing Staff's recommended authorization of only half of the Company's proposed
27 line of credit or \$50,000 would result in a pro forma capital structure of 13.5 percent short-term debt,
28 zero percent long-term debt and negative equity of 113.5 percent.

1 13. Staff finds that the negative equity position which results in either scenario for the
2 proposed line of credit has negative implications for issuing debt and should be remedied in the
3 foreseeable future.

4 14. Applicant's capital structure inclusive of Advances-in-Aid-of-Construction ("AIAC")
5 and Contributions-in-Aid-of-Construction ("CIAC") is portrayed in Schedule SPI-1 attached to the
6 Staff Report. ICR's 2006 capital structure in this example is zero percent short-term debt, zero
7 percent long-term debt, 8.8 percent negative equity, 80.7 percent AIAC and 28.0 percent CIAC.

8 15. According to Schedule SPI-1, Staff's proposed \$50,000 line of credit increases
9 negative equity by 13.5 percent and the Company's proposed \$100,000 line of credit increases
10 negative equity by 31.2 percent and while neither is desirable, Staff's proposal is more reasonable
11 under the circumstances.

12 16. Staff typically recommends that non-profit corporations maintain at least 30 percent
13 equity in their capital structure and contain funding from debt and AIAC sources at moderate levels
14 in order to reduce financial risk since they lack access to the equity capital markets.

15 17. The Debt Service Coverage ("DSC") ratio represents the number of times internally
16 generated cash will cover required principal and interest payments on long-term debt. A DSC ratio
17 greater than 1.0 means that operating cash flow is sufficient to cover debt obligations. A DSC less
18 than 1.0 means that debt service obligations cannot be met from operations and that another source of
19 funds is needed to avoid default.

20 18. The Times Interest Earned Ratio ("TIER") represents the number of times earnings
21 will cover interest expense on short-term and long-term debt. A TIER greater than 1.0 means that
22 operating income is greater than interest expense. A TIER of less than 1.0 is not sustainable in the
23 long term but does not necessarily mean that debt obligations cannot be met in the short term.

24 19. Staff provided an analysis of the Company's actual financial information for the 12
25 months ending December 31, 2006, but because Applicant has no long-term debt, its present TIER
26 and its DSC are not meaningful.

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28

1 20. Staff's analysis of the Company's pro forma impact of drawing down the proposed
2 line of credit in the amount of \$100,000 shows Applicant's TIER as negative 5.11 and its DSC as
3 0.69.

4 21. Staff's analysis of the pro forma impact of drawing down Staff's proposed \$50,000
5 line of credit results in a negative TIER of 10.22 and DSC of 1.38.

6 22. Staff states that the pro forma DSC ratio is better for measuring the Company's ability
7 to support the one-year line of credit since DSC measures the ability to meet its obligations. The
8 DSC which results from Staff's proposed \$50,000 line of credit indicates the Company can meet its
9 obligations. The Company's proposed \$100,000 line of credit results in a DSC that indicates the
10 Company will have insufficient cash flow from its operations to service its debt.

11 23. Staff indicates that the Company is in compliance with the Commission's regulations,
12 but it is not in compliance with the Arizona Department of Environmental Quality's ("ADEQ")
13 reporting requirements and disinfection levels. However, Staff further indicates that the Company is
14 working with ADEQ to bring itself into full compliance with ADEQ's regulations.

15 24. Based on Staff's review and analysis, Staff concluded that the proposed financing as
16 recommended by Staff is for lawful purposes, within the Company's powers as a corporation,
17 compatible with the public interest, consistent with sound financial practices and will not impair its
18 ability to provide public service.

19 25. Staff is recommending the following:

- 20 • approval of the Company's application for authorization to enter into a one-year
21 line of credit not to exceed \$50,000, at an interest rate not to exceed 0.5 percent
22 above the Wall Street Journal prime rate, for the purposes of acquiring a backup
23 generator and to construct a security fence;
- 24 • authorization for the Company to engage in any transaction and to execute any
25 documents necessary to effectuate the authorization granted;
- 26 • that the Company file, in its current rate case, a plan to increase the percentage of
27 equity in its capital structure; and

28

- that the Company file, within 60 days of the effective date of this Decision, with the Commission's Docket Control, as a compliance item in this docket, copies of the executed loan documents.

26. Staff's recommendations are reasonable and should be adopted.

CONCLUSIONS OF LAW

1. The Company is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-281, 40-282, 40-285, 40-301 and 302.

2. The Commission has jurisdiction over the Company and the subject matter of the application. Notice of the application was given in accordance with the law.

3. Staff's recommendations are reasonable and should be adopted.

4. The encumbrance approved herein is for the purposes stated in the application and is reasonably necessary for those purposes.

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

6. 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 the application of ICR Water Users Association, Inc. for authority to encumber its assets and to enter into a one-year line of credit not to exceed \$50,000, at an interest rate not to exceed 0.5 percent above the Wall Street Journal's prime rate shall be, and hereby is, approved.

IT IS FURTHER ORDERED that such authority is expressly contingent on ICR Water Users Association, Inc.'s use of the proceeds for the purposes set forth in its application.

1 IT IS FURTHER ORDERED that ICR Water Users Association, Inc. is hereby authorized to
2 engage in any transactions and execute any documents necessary to effectuate the authorization
3 granted hereinabove.

4 IT IS FURTHER ORDERED that ICR Water Users Association, Inc. shall file with Docket
5 Control, within 60 days of the effective date of this Decision, as a compliance item in this docket,
6 copies of all executed documents associated with the financing authorized herein.

7 IT IS FURTHER ORDERED that the financing approved herein shall not guarantee or imply
8 any specific treatment of any capital additions for rate base or rate making purposes.

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

10 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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13 CHAIRMAN

COMMISSIONER

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16 COMMISSIONER

COMMISSIONER

COMMISSIONER

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18 IN WITNESS WHEREOF, I, DEAN S. MILLER, Interim
19 Executive Director of the Arizona Corporation Commission,
20 have hereunto set my hand and caused the official seal of the
21 Commission to be affixed at the Capitol, in the City of Phoenix,
22 this ____ day of _____, 2007.

23
24 _____
25 DEAN S. MILLER
26 INTERIM EXECUTIVE DIRECTOR

27 DISSENT _____

28 DISSENT _____

MES:db

1 SERVICE LIST FOR: ICR WATER USERS ASSOCIATION, INC.

2 DOCKET NO.: W-02824A-07-0139

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