



BEFORE THE ARIZONA CORPORATION C

JIM IRVIN
COMMISSIONER-CHAIRMAN
RENZ D. JENNINGS
COMMISSIONER
CARL J. KUNASEK
COMMISSIONER

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

DOCKET NO. W-01445A-98-0198

DECISION NO. 60971

ORDER

Arizona Corporation Commission
DOCKETED

JUN 19 1998

DOCKETED BY [Signature]

Open Meeting
June 17 & 18, 1998
Phoenix, Arizona

BY THE COMMISSION:

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. Arizona Water Company ("AWC", "Applicant" or "Company") is an Arizona corporation engaged in the business of providing water utility service to the public in various municipalities and other areas in Cochise, Coconino, Gila, Maricopa, Navajo, Pima, Pinal and Yavapai Counties in Arizona, pursuant to the authority granted by the Arizona Corporation Commission ("Commission").

2. On April 16, 1998, AWC filed with the Commission an application which requested authority to execute a loan agreement with the Bank of America Arizona ("Bank") and to deliver a promissory note in connection therewith.

3. The loan agreement establishes a line of credit with the Bank not to exceed \$11,500,000.

4. The proposed line of credit will expire on May 31, 1999 and replaces the line of credit and the monthly extensions of short-term credit previously authorized by the Commission in Decision No. 60272 (July 2, 1997).

5. AWC has historically used lines of credit to fund its construction budgets. Over time, the Company pays off these lines of credit with long-term financing. The Company is currently

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1 contemplating a new bond issue, but such an offering would not take place until sometime in the latter
2 half of 1998.

3 6. AWC will use the proceeds from the line of credit primarily to fund its 1998 construction
4 budget of \$6.5 million.

5 7. On April 29, 1998, AWC published notice of the application in newspapers in Pima and
6 Maricopa Counties, Arizona.

7 8. Pursuant to the terms of the financing, the unpaid balance of all advances made under the
8 line of credit will be at either the Bank's reference rate (the prime rate, currently 8.5 percent per annum)
9 minus 0.25 percentage points, or one of two optional rates which include a fixed rate and an offshore¹
10 rate which are agreed to by the Bank and AWC for a 30 to 180 day time period.

11 9. The Applicant's construction budget includes funding for ordinary replacements such as
12 mains, services, hydrants, tools and office equipment, along with special projects such as the purchase
13 of well sites, drilling new wells, and the installation of tanks, pumps, and chlorinators. The construction
14 budget also includes funding for contingency purposes.

15 10. On May 26, 1998, the Commission's Utilities Division Staff ("Staff") filed its Staff Report
16 in this matter, recommending that the application be approved without a hearing.

17 11. Staff has reviewed the projects to be funded by the proceeds of the financing, and found
18 them to be reasonable and appropriate.

19 12. Staff analyzed the impact of the financing on Applicant's capital structure and found that
20 even if the entire available line of credit is drawn by the Company in 1998, the impact on the capital
21 structure would not be significant, with the total percentage of equity falling slightly from 71.0 percent
22 to 66.2 percent.

23 13. Staff also analyzed the impact of the financing on the Applicant's interest coverage and
24 found that with the proposed line of credit, the Applicant's projected pre-tax interest coverage ratio will
25 decrease slightly in 1998 from 6.82 to 5.13.

26 14. Staff concluded that the proposed financing is necessary to fund Applicant's construction
27

28 ¹ The offshore rate will be based on the London InterBank Offered Rate (LIBOR) minus
0.25 percentage points.

1 projects and will not significantly affect either the Applicant's capital structure or interest coverage.

2 15. Staff recommended that, due to Applicant's financial strength and ability to service its
3 debt obligations, Applicant should be allowed to carry short-term debt in its capital structure in a
4 proportion over seven percent of its total capitalization.

5 16. Staff further recommended that Applicant file a copy of all executed loan documents with
6 the Commission as soon as they become available.

7 17. Staff's recommendations, as set forth in Findings of Fact Nos. 10, 15 and 16 are
8 reasonable.

9 **CONCLUSIONS OF LAW**

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

12 2. The Commission has jurisdiction over Applicant and the subject matter of the application.

13 3. Applicant caused notice of its application in this matter to be duly published.

14 4. Staff's recommendations, as set forth in Findings of Fact Nos. 10, 15 and 16 should be
15 adopted.

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

20 6. The financing approved herein is for the purposes stated in the application and is
21 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably
22 chargeable to operating expenses or to income.

23 7. To the extent the proposed short-term financing would cause the Applicant to exceed the
24 exemption set forth in A.R.S. §40-302(D), said financing should be approved.

25 **ORDER**

26 IT IS THEREFORE ORDERED that Arizona Water Company is hereby authorized to enter into
27 a loan agreement with Bank of America Arizona and to issue in connection therewith promissory notes
28 up to an aggregate principal amount of \$11,500,000.

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

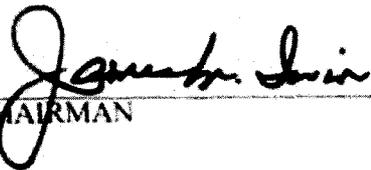
3 IT IS FURTHER ORDERED that Arizona Water Company shall file a copy of all executed loan
4 documents with the Commission as soon as they become available.

5 IT IS FURTHER ORDERED that such authority shall be expressly contingent upon Arizona
6 Water Company's use of the proceeds for the purposes set forth in the application.

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

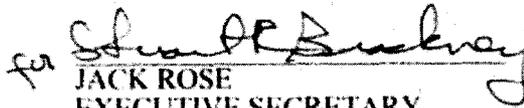
10 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

11 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

12 
13 CHAIRMAN

14 
COMMISSIONER

15 IN WITNESS WHEREOF, I, JACK ROSE, Executive Secretary of the Arizona
16 Corporation Commission, have hereunto set my hand and caused the official seal
17 of the Commission to be affixed at the Capitol, in the City of Phoenix, this 19
day of June, 1998.

18 
19 JACK ROSE
EXECUTIVE SECRETARY

20
21 DISSENT _____
TW:bbs

1 SERVICE LIST FOR: ARIZONA WATER COMPANY

2 DOCKET NO.: W-01445A-98-0198

3 Robert W. Geake
4 Post Office Box 29006
5 Phoenix, Arizona 85038-9006
6 Attorney for Arizona Water Company

7 Paul Bullis, Chief Counsel
8 Legal Division
9 ARIZONA CORPORATION COMMISSION
10 1200 West Washington Street
11 Phoenix, Arizona 85007

12 Ray T. Williamson, Acting Director
13 Utilities Division
14 ARIZONA CORPORATION COMMISSION
15 1200 West Washington
16 Phoenix, Arizona 85007

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