MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. WF-97-349, Tri-State Utility, Inc.

FROM: Randy Z. Wright, Financial Analysis Department RZW

Kenneth Rademan 4/9/97 — Director - Utility Services Division / Date

Wm K Haas 4/9/97 — General Counsel's Office / Date

SUBJECT: Staff's Supplement to its Recommendation for approval of the Application of Tri-State Utility, Inc. for Authority to borrow up to $1,300,000.

DATE: April 9, 1997

On February 25, 1997, Tri-State Utility, Inc. (Tri-State, Company) filed a financing Application (WF-97-349) for the authority to borrow up to $1,300,000. On March 7, 1997, Staff filed its Recommendation for approval of the Application.

On April 4, 1997, the Commission issued a Notice stating it did not have sufficient documentation to resolve the case. Specifically, the Commission asked for more current financial statments and an explanation of the effect of the borrowing on the Company's capital structure and cash flow.

On April 9, 1997, the Company filed an Ammended Application with a pro forma balance sheet and income statement as of December 31, 1996. Staff is providing capital structure and cash flow information as Attachment A, "Pro Forma Capitalization," and Attachment B, "Selected Pro Forma Financial Ratios," to this Memorandum. In addition, the Company has faxed to the Staff a copy of a revised Exhibit 4, the Resolution of the Board of Directors, and will file the revised Resolution with the Commission.

Tri-State's pro forma capital structure at December 31, 1996, would consist of 10.51 percent common equity and 89.49 percent long-term debt. While highly leveraged, the Staff is of the opinion the Company should be able to meet its financial obligations, based on projected revenue growth in the future. Tri-State's certificated area is experiencing significant and steady growth, and will for the foreseeable future. In 1997 Tri-State expects Chateau-on-the-Lake, a large hotel/resort complex, to be open for business and begin using water. The Company also expects growth from new residential construction. Due to this anticipated growth, the Company projects an increase to net income of $90,000 per year. This projected increase has been reflected in the Company's pro forma financial ratios (see Attachment B). Moreover, although the Staff does not expect the Company to experience financial hardship in the future, Staff believes Mr. Harold Epps, President, has the personal financial resources to assist the Company if needed.

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Based on these documents, along with corrected financial statements filed by the Company, Staff recommends approval of the Application.

At the Company's request, the Staff respectfully asks that this matter be placed on the Commission's Agenda as soon as possible, since the lending institution has stated April 15, 1997 as its deadline.

Copies: Director - Utility Operations Division
Director - Utility Services Division
Manager - Financial Analysis Department
Manager - Accounting Department
Charles Fain, Company Counsel
Director - Policy and Planning Division
General Counsel
Manager - Water and Sewer Department
Office of the Public Counsel
Harold Epps, Company President

Attachment A

Tri-States Utility, Inc.
Case No. WF-97-349

Pro Forma Capitalization as of December 31, 1996
for Tri-States Utility, Inc.

Capital Component	Percentage of Capital	Capital Dollars	Pro Forma Adjustments	Pro Forma Capital Dollars	Pro Forma Percentage of Capital
Common Equity	12.03%	$152,616		$152,616	10.51%
Preferred Stock	0.00%	0		0	0.00%
Long-Term Debt(1)	87.97%	1,116,038	$183,962	1,300,000	89.49%
Short-Term Debt	0.00%			0	0.00%
Total	100.00%	$1,268,654	$183,962	$1,452,616	100.00%

Financial Ratio Benchmarks
Total Debt / Total Capital - Including Preferred Stock

Standard & Poor's Utilities Rating Service, September 1996 Water Utility Business (Average Business Position)	AA	A	BBB
	48%	52%	59%

Attachment B

Selected Pro Forma Financial Ratios for Tri-States Utility, Inc.

RATIO ANALYSIS	Ratios as of 12-31-96	Pro-Forma Ratios (2)	S&P Guidelines "A" Rating	S&P Guidelines "BBB" Rating
Pre-Tax Interest Coverage:	1.63 x	1.73 x	3.00 x	2.00 x
After-Tax Coverage of Interest and Preferred Dividends:	1.45 x	1.62 x	N.A.	N.A.
Funds Flow Interest Coverage:	1.96 x	1.93 x	3.25 x	2.25 x
Funds from Operations to Total Debt:	6.90%	9.49%	21%	15%
Total Debt to Total Capital:	87.97%	89.49%	52%	59%

Formulas:

Pre-Tax Interest Coverage:	(Earnings before int. and taxes) / interest
After-Tax Coverage of Interest and Preferred Dividends:	(Gross Income + AFUDC) / (Gross Interest + Preferred Dividends)
Funds Flow Interest Coverage:	(Funds from Operations + Interest Charges Paid) / (Gross Interest Expense)
Funds from Operations to Total Debt: (1)	(Funds from Operations) / (Total Debt Outstanding)

Notes:

(1) Standard & Poor's Risk Adjusted Ratio Guideline formula uses an average total debt figure. For the purposes of this analysis, however, a total debt figure is used to account for the incremental change in the capital structure.

(2) Pro forma ratios reflect the Company's projected increase of $90,000 to net income for 1997.