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STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service
Commission held at its office
in Jefferson City on the 18th
day of February, 1998.

In the Matter of the Application of Rex)
Defenderfer Enterprises, Inc. for Authority)
to Borrow an Amount Not to Exceed \$300,000)
from Commerce Bank, N.A., and in Connection) Case No. WF-98-131
therewith to Execute Evidences of)
Indebtedness Payable and Secured by the)
System Revenues.)

ORDER APPROVING FINANCING

On September 24, 1997, Rex Defenderfer Enterprises, Inc.
(Applicant or Company), an investor-owned water company, filed an
application for authority to borrow not more than \$300,000 to finance
extensions and improvements to its water plant and system. Applicant
states that the borrowed sums will be used by Applicant generally to
finance the acquisition of property, the construction, completion,
extension and improvement of its plant and system within its area of
service for the sale and distribution of water to its customers, or
reimbursements of monies actually expended from the income of the Applicant
from any source within the last five years for any of the aforesaid
purposes. Applicant states that the borrowed sums will be specifically
used to make the following plant and system extension improvements: (1)
a 250,000 gallon ground-storage tank; (2) a 600 gallon-per-minute booster
pump station; (3) a stand-by generator; (4) 150 feet of highway bore; and
(5) 1,050 feet of eight inch water main.

Applicant proposes to execute and deliver a promissory note and
other evidences of indebtedness payable to Lender, Commerce Bank, N.A., in

the aggregate principal amount of \$300,000, bearing interest at the variable rate of 9.5 percent per annum and providing for payment for the indebtedness within sixteen years from the date thereof. Applicant proposes that the promissory note and other evidence of indebtedness to be in substantially the form and content contained in appendix B attached to the application, all being subject to and adjusted for the actual date of execution.

Applicant submitted with its application: (1) a certified copy of the resolution of Applicant's Board of Directors which approves making the loan and executing the promissory note and other evidences of indebtedness; (2) a pro forma balance sheet and a pro forma income statement showing the effect of the proposed financing; and (3) a five-year capitalization expenditure schedule. According to Applicant, the entire amount of the proposed indebtedness will be subject to the fee schedule as set forth in Section 386.300.2, RSMo Supp. 1997.

On February 10, 1998, the Staff of the Commission (Staff) filed a memorandum in the official case file recommending that the Commission issue an order approving the proposed financing. Staff's analysis which was based on the Company's most recent rate case and on its 1996 Annual Report to the Commission indicated that the Company's capital structure will consist of approximately twenty percent common equity and eighty percent long-term debt. Although Staff is concerned about the Company's low equity ratio that this loan will cause, Staff believes that the customers will be best served by the improvements this financing will provide. Staff notes that Applicant's growth prospects in the service territory along with the effectiveness of the Company's management will enable the Company to overcome its financial challenges.

Staff believes that the Company will have adequate cash flow upon implementation of its pending rate increase and the anticipated growth in the Company's service territory to: (1) meet all the requirements of this loan; and (2) increase its equity ratio through retained earnings. Staff recommends that the Company not be allowed to pay any dividends or money to its shareholders until it has obtained a common equity ratio that exceeds thirty percent of its total capital.

Staff acknowledges the need for the construction of the proposed plant which will be used to meet the growth needs of the Company and to meet total water storage needs for peak-use period, fire protection and emergency supply during power outage or well pump failure. The project, according to Staff, will also result in improved flow which will address loss of water pressure in some areas. Staff notes that the final cost of all projects will need to be reviewed in the Company's pending rate case before the Commission.

The Commission has reviewed the application filed by Applicant and the Staff's memorandum. The Commission is concerned about the Company's low equity ratio; however, the Commission finds that the customers will be best served by the improvements this financing will provide. Therefore, the Commission will grant the proposed financing subject to the conditions recommended by Staff. The Commission finds that the money, property, and labor procured by the \$300,000 loan is reasonably required for the purposes set forth in the application and that no part of the proceeds shall be reasonably chargeable in whole or in part to operating expenses or to income of the Applicant. The Commission determines that the entire amount of the proposed indebtedness will be

subject to the fee schedule as set forth in Section 386.300.2, RSMo Supp. 1997.

IT IS THEREFORE ORDERED:

1. That the application for financing filed by Rex Defenderfer Enterprises, Inc. on September 24, 1997, is approved.

2. That Rex Defenderfer Enterprises, Inc. is authorized to borrow from Commerce Bank, N.A. an amount not to exceed \$300,000 payable within sixteen years from the date thereof at the variable annual interest rate as set forth in the application filed by Rex Defenderfer Enterprises, Inc. on September 24, 1997.

3. That Rex Defenderfer Enterprises, Inc. is authorized to execute and deliver a promissory note and other evidences of indebtedness substantially in the form of those documents set forth in appendix B to the application filed by Rex Defenderfer Enterprises, Inc. on September 24, 1997, in the total sum not to exceed \$300,000.

4. That Rex Defenderfer Enterprises, Inc. shall not pay any dividends to its shareholders, make any loans to shareholders, or in any way pay money to its shareholders other than reasonable salaries until the common equity ratio of Rex Defenderfer Enterprises, Inc. exceeds thirty percent.

5. That Rex Defenderfer Enterprises, Inc. is authorized to do and perform or cause to be done and performed all such other acts and things, as well as to make, execute, and deliver any and all documents as may be necessary, advisable, or proper to the end that the intent and purposes of the financing approved in this order may be fully effectuated.

6. That Rex Defenderfer Enterprises, Inc. shall file the final terms and conditions associated with the financing transaction, and copies of the executed agreements, to the Commission's Official Case File.

7. That nothing in this order shall be considered a finding by the Commission of the reasonableness of the expenditures involved in this financing transaction or of the value, for ratemaking purposes, of the properties involved, or as an acquiescence in the value placed upon those properties by the Company. The Commission reserves the right to consider the ratemaking treatment to be afforded this financing transaction, and its resulting cost of capital, in any later proceeding.

8. That this order shall become effective on March 3, 1998.

BY THE COMMISSION



Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

Lumpe, Ch., Murray, and
Drainer, CC., concur.
Crumpton, C., absent.

G. George, Regulatory Law Judge

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**COMMISSION COUNSEL
PUBLIC SERVICE COMMISSION**