

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held at its office
in Jefferson City on the 31st
day of March, 1992.

In the matter of the application of Middlefork Water)
Company for permission, approval, and a certificate of)
convenience and necessity authorizing it to construct,)
install, own, operate, control, manage, and maintain a)
water storage and distribution system to supply the) Case No. WA-92-65
cities of Stanberry and Grant City, Missouri; and for)
authority to borrow up to \$2,000,000 from the Missouri)
Environmental Improvement and Energy Resources)
Authority.)

ORDER GRANTING CERTIFICATE OF CONVENIENCE AND NECESSITY
AND APPROVING FINANCING

On October 3, 1991, Middlefork Water Company (Company) filed an application requesting that the Commission issue a certificate of convenience and necessity authorizing Company to construct, own, operate, and maintain a water supply reservoir and treatment plant to be used to supply wholesale water service. Middlefork Water Company is a Missouri corporation with its principal office located at Rural Route 1, Box 54A, Maryville, Missouri. Initially Company's wholesale customers will be the cities of Grant City and Stanberry, Missouri. The Company will provide water service at metering points at its treatment plant with a service area consisting only of the property on which the water reservoir and the treatment plant are located. The cities are responsible for transportation from the Company's metered point to their individual consumers. These two cities currently obtain their water from wells and desire to cease operating their own facilities in that the wells have proven to be of questionable reliability and the treatment plants are outmoded and in need of renovation and/or replacement. On August 6, 1991 voters in both Grant City and Stanberry overwhelmingly approved the proposition of entering into a 20-year contract with Company for wholesale water service. On October 11, 1991, by its

Order and Notice the Commission set an intervention deadline of November 12, 1991 and there were no intervenors. On March 2, 1992 Company filed an Application requesting that the Commission approve and authorize the Company to borrow up to \$2 million from the State Environmental Improvement and Energy Resources Authority and execute and deliver a first mortgage on its utility assets as well as a pledge of the revenues from the contracts between Company and its water customers. The proceeds of the loan will be used by Company for the acquisition of property, the construction, completion, extension, or improvement of its plant or system with none of the purposes to which the proceeds of the loan will be applied to be, in whole or in part, reasonably chargeable to operating expenses or income.

The Commission, upon consideration of the verified Application filed October 3, 1991 and verified Application filed March 2, 1992, the exhibits offered in support of the two applications and the recommendation of the Missouri Public Service Commission Staff (Staff), determines that a hearing is unnecessary to resolve the matters at issue and finds and concludes as follows.

On March 18, 1992, the Staff filed a memorandum recommending the Commission approve the two applications subject to several caveats. Staff states that Company intends to finance the cost of the project (\$1,803,000) with approximately 10.26 percent equity (\$185,000) and 89.74 percent debt (\$1,618,000). Staff expresses a concern regarding the large percentage of debt in the capital structure, but contends that this is a "special" situation and cites the following extraordinary facts which allow a "comfort" level with the project as presented. First, both cities have agreed to "take or pay" contracts which are priced in such a manner that the cities will pay for all ordinary expenses incurred as determined by traditional ratemaking as well as all expenses incurred related to the long term debt issuance above and beyond the traditional recovery of interest expense. Second, both cities have written letters

expressing their approval of the proposed capital structure and ratemaking treatment. Third, the financial markets are expected to treat this debt issuance similar to that of a municipal bond issuance rather than private corporate utility debt, primarily as an effect of the "take or pay" contracts; and, therefore, the result should be a lower cost of debt for Company rather than the ordinary cost of debt associated with a highly leveraged company and its inherent risks. Staff further states that these wholesale customers of Company are small cities with declining populations that have limited options. Staff states that the "special" situation requires extraordinary ratemaking treatment to ensure continued safe and adequate water service for these communities. Staff recommends to the Commission that the Company be granted a certificate of convenience and necessity to construct and operate a water supply reservoir and treatment plant to be used in the supply of wholesale water service, initially to the cities of Grant City and Stanberry, Missouri. Staff further recommends that Company be authorized to issue up to \$2 million in tax-exempt State Environmental Improvement and Energy Resources Authority (EIERA) bonds at a rate not to exceed eight (8) percent for a term of twenty (20) years with a call provision of seven (7) years at one hundred three (103) percent declining at a rate of one (1) percent per annum after the original seven (7) year period. A coverage requirement is required providing for cash flow to be equal to 1.20 times annual principal and interest. The financing terms are attached hereto as Attachment A. Staff further recommends the following be required of Company:

- (1) Company to submit as a late-filed exhibit a map and metes and bounds description of the real estate upon which its reservoir and treatment plant are proposed to be situated;
- (2) Company file final terms and conditions of the financing arrangements;

- (3) Company submit a complete tariff for the provision of wholesale water service within 60 days of the effective date of the Commission's order;
- (4) Company keep its books and records in accordance with the Uniform System of Accounts; and
- (5) Company revise the surcharge and rates at any time a contract for water service is proposed for another wholesale customer.

Staff further recommends that the Commission approve a commodity rate of One Dollar Six Cents (\$1.06) per one thousand (1,000) gallons, and order Staff to review the rate within eighteen (18) months from the date the Company begins providing service. Staff also recommends depreciation rates for the Company attached hereto as Attachment B. Staff, finally, recommends language that approval does not constitute any determination of the ratemaking treatment to be accorded the transactions.

The Office of Public Counsel has made no recommendation in these proceedings.

Based upon the filings in this proceeding and the Staff's recommendation, the Commission determines that the authority requested will be granted in that there is a clear and present need to assure safe and adequate water service for Grant City and Stanberry, Missouri, that will be provided by Company through the updating of outmoded water treatment facilities. The Commission further determines that the requested financing should be authorized even though there will be a large percentage of debt in the capital structure because this is a "special" situation that is necessitated by lack of options for the two cities which will be wholesale customers of Company. Furthermore, the Commission determines that the proposed terms and conditions associated with the proposed financing arrangement are reasonable and adequate to support the exceptional large debt structure of the Company in that both cities have agreed to "take or pay"

contracts which are priced in such a manner that the cities will pay for all ordinary expenses incurred as determined by traditional ratemaking as well as all expenses incurred that are related to the long term debt issuance above and beyond the traditional recovery of interest expense. More specifically, principal and interest payments, coverage requirements, and other applicable costs associated with the long term debt issuance will be recovered by the Company through a surcharge. The actual amount of the surcharge will be determined after the bonds are sold and costs ascertained. The operational expenses and return on the Company's equity will be recovered by the Company through its metered commodity charge for water. Total operational expenses are estimated to be \$144,761 (One Hundred Forty-four Thousand Seven Hundred Sixty-one Dollars). Based upon this, and the present water use of the wholesale customers, the commodity rate of One Dollar Six Cents (\$1.06) per one thousand (1,000) gallons is found to be a fair and reasonable rate.

The Commission further finds that the money to be procured by the issuance of these bonds is reasonably required for the purposes specified herein and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

The Commission further finds that inasmuch as the proceeds of the loan are not anticipated to be used for the purpose of guaranteeing, taking over, refunding, discharging or retiring any bond, note, or other evidence of indebtedness, that the entire amount of the proposed loan will be subject to the fee schedule as set out in Section 386.300.1(5), R.S.Mo. 1986.

IT IS THEREFORE ORDERED:

1. That Middlefork Water Company be hereby granted a certificate of convenience and necessity to construct, own, operate, and maintain a water supply reservoir and treatment plant to be used to supply wholesale water service initially to Grant City and Stanberry, Missouri.

2. That Middlefork Water Company be authorized hereby to issue and sell up to Two Million Dollars (\$2,000,000) in aggregate principal of tax-exempt State Environmental Improvement and Energy Resources Authority (EIERA) bonds at a rate not to exceed eight (8) percent for a term of twenty (20) years and under the financing terms and conditions as set out in Attachment A and incorporated herein by reference.

3. That the issuance of these EIERA bonds and proceeds realized therefrom shall be used for the purposes specified herein and no other except to pay out of the gross proceeds from the sale of these EIERA bonds the reasonable expenses incurred in connection with the issuance and sale thereof.

4. That Middlefork Water Company be authorized hereby to execute and deliver a first mortgage on its utility assets as well as a pledge of the revenues from the contracts between Middlefork Water Company and its water customers.

5. That Middlefork Water Company be authorized hereby to execute, deliver, and perform the necessary agreements relative to the financing herein authorized.

6. That Middlefork Water Company be directed hereby to submit as a late-filed exhibit that is specifically admitted herein a map and metes and bounds description of the real estate upon which its reservoir and treatment plant are proposed to be situated.

7. That Middlefork Water Company be directed hereby to submit the final terms and conditions associated with the financing arrangements herein authorized.

8. That Middlefork Water Company be directed hereby to submit a complete tariff for the provision of wholesale water service as herein authorized within sixty (60) days of the effective date of this order.

9. That Middlefork Water Company be directed hereby to keep its books and records in accordance with the Uniform System of Accounts.

10. That Middlefork Water Company be directed hereby to revise tariffs reflecting the surcharge and rates at any time a contract for water service is proposed for another wholesale customer.

11. That Middlefork Water Company is hereby authorized to charge a commodity rate of One Dollar Six Cents (\$1.06) per one thousand (1,000) gallons and that the Commission's Staff is hereby directed to review the rate within eighteen (18) months from the date the Company begins water service.

12. That Middlefork Water Company be directed hereby to adopt the depreciation rates as set out in Attachment B and incorporated herein by reference.

13. That nothing in this order shall be considered a finding of the Commission of the value for ratemaking purposes of any properties herein involved, or as an acquiescence in the value placed upon any such properties by the Middlefork Water Company, and the Commission reserves the right to consider the ratemaking treatment to be afforded these financing transactions, and their resulting cost of capital, in any later proceeding.

14. That this order shall become effective on the date hereof.

BY THE COMMISSION

Brent Stewart

Brent Stewart
Executive Secretary

(S E A L)

McClure, Chm., Mueller, Rauch,
Perkins and Kincheloe, CC., Concur.

MIDDLEFORK WATER COMPANY

TERM SHEET

Type of Security:	Tax Exempt Water Facilities Revenue Bonds, Subject to the Alternative Minimum Tax
Issuer:	Missouri Environmental Improvement and Energy Resources Authority
Type of Underwriting:	Firm Commitment
Principal Amount:	Up to \$2 million
Maturity:	20 years
Call Provision:	7 years at 103%, declining 1% per annum thereafter
Sinking Fund:	Annual principal installments to provide a level annual payment by the Company.
Bond Registration:	Fully registered certificates
Security:	First mortgage on the Company's utility assets and pledge of revenues from take or pay contracts between the Company and the Water Purchasers.
Coverage:	Cash flow equal to 1.20 times annual principal and interest.
Pricing:	Based on then current market conditions.

Exhibit No. 2

Recommended Depreciation Rates for Middlefork Water Company

<u>Acct. No.</u>	<u>Description of Account</u>	<u>Annual Rate Percent</u>
311	Structures & Improvements	2.5
312	Collecting & Impounding Reservoirs	2.0
313	Lake, River & Other Intakes	2.5
316	Supply Mains	2.0
317	Other Water Source Plant	2.0
321	Structures & Improvements	2.5
323	Other Power Production Equipment	4.0
325	Electric Pumping Equipment (20 yr, -5% salv)	5.3
326	Diesel Pumping Equipment (35 yr, +5% salv)	2.7
327	Hydraulic Pumping Equipment	2.5
328	Other Pumping Equipment	5.0
331	Structures & Improvements	2.5
332	Water Treatment Equipment	2.9
341	Structures & Improvements	2.5
342	Distribution Reservoirs & Standpipes	2.5
343	Transmission & Distribution Mains	2.0
344	Fire Mains	2.0
346	Meters - Bronze (35 yr, +5% salv)	2.7
348	Hydrants	2.5
349	Other Transmission & Distribution Plant	3.3
390	Structures & Improvemtns	2.9
391	Office Furniture & Equipment	5.0
392	Transportation Equipment (7 yr, +10% salv)	13.0
393	Stores Equipment	4.0
394	Tools, Shop, Garage Equipment	5.0
395	Laboratory Equipment	5.0
396	Power Operated Equipment	6.7
397	Communication Equipment	6.7
398	Miscellaneous Equipment	5.0