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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 22nd  
day of March, 1995.

In the matter of the application of Noel       )  
Water Company, Inc. for authority to issue       )  
notes or other evidence of indebtedness       )  
and to encumber its works and system to       )  
secure the payment of same.                       )  
Case No. WF-95-168

**ORDER APPROVING FINANCING**

On November 18, 1995, Noel Water Company, Inc. (Noel or Applicant) filed an Application for Approval of Financing pursuant to §393.190 (sic) RSMo and 4 CSR 240-2.060(6). The Application requests authority for Noel to borrow up to and including three hundred and thirty-five thousand dollars (\$335,000) for use in making major capital improvements to its waterworks and system.

The proceeds of a loan in this amount will be used to pay for the acquisition of property, the construction, completion, extension or improvement of the plant or system, the improvement or maintenance of service or the discharge or lawful refunding of obligations; specifically, these proceeds will be used to pay for the construction of a new supply well and the construction of associated mains and appurtenances. The proposed financing arrangement will be evidenced by a promissory note or notes or other instruments of indebtedness upon which interest on any funds advanced will be calculated on the prime rate plus one percent (1%) per year adjusted annually. The interest rate will not exceed thirteen percent (13%) per year nor fall below six percent (6%) per year. The expected life of the financing is eight (8) years. The financing will be undertaken in two (2) distinct phases with separate credit agreements. The scheduled

payout for each of the phases is eight (8) years, however, Phase 2 will not begin until approximately eight (8) months after the initiation of Phase 1. The financing arrangement will involve the borrowing of money from both the State Bank of Noel and the stockholders of the Applicant. All notes will pay interest as described above, however, the stockholder notes will be subordinated to the bank notes. The Applicant's obligations to the State Bank of Noel will be secured by the grant of security interest and the assets of Applicant including the whole of its operations, works and system.

On February 14, 1995, the Commission Staff (Staff) filed a Memorandum in this case recommending approval of the request contained in the Application but subject to several conditions. These conditions were that: (1) the proceeds of the loan will be used to finance new construction as stated in the Application and in Exhibit No. 1 thereto; and (2) that the company will be required to file the final terms and conditions associated with the notes in to the Commission's official case file for this docket.

The Staff Memorandum indicates that a certified copy of the resolution of the directors of the Applicant authorizing the issuance of securities has been reviewed. A Pro Forma Balance Sheet and Income Statement have been reviewed. The capital structure has been reviewed. And, journal entries will be required to be filed by the company in order to allow the fee schedule to be applied.

The Commission, upon consideration of the Staff Memorandum, the verified Application, the exhibits offered in support thereof, and the entirety of the file determine that a hearing is unnecessary to resolve the matters at issue herein and makes the following findings of fact and conclusions of law.

Noel is a public utility pursuant to §386.020 RSMo 1994 and is in the business of treating, distributing and selling water in McDonald County, Missouri. Noel's intentions of borrowing two hundred twenty-five thousand dollars (\$225,000) through bank loans and an additional one hundred ten thousand dollars (\$110,000) from the principal stockholders will result in a net increase in interest expense of twenty-nine thousand three hundred and twelve dollars (\$29,312). The change in Noel's capital structure due to this new debt will be a net increase of 35.61 percentage points to long-term debt, from 9.73 percent to 45.34 percent of total capital. The annual interest cost will have a negative impact on (thus decreasing) Noel's after-tax coverage of interest ratio. Staff has expressed its concern that the projected net loss as indicated in the pro forma financial statements filed with this Application indicates that the company's cash flow will be sufficiently lacking to meet its obligations and this may possibly result in the need for company to request a rate increase in the future.

The Commission Staff has stated that the existing reservoirs are old and leaking and an additional well, two replacement reservoirs and associated distribution system improvements will provide more storage reserve and increase system pressure. This will result in better water service and may accommodate expected growth in the near future. In light of these facts, the Commission finds that the money, property or labor to be procured or paid for by the issue of the financing is reasonably required for the purposes specified in the order and that the purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

The proposed debt cost of prime rate, which at this writing is nine percent (9%), plus one percent (1%) is reasonable. After the addition

of the debt, the company's Total Debt to Total Capital ratio of just over forty-five percent (45%) should keep the company well within Standard and Poor's guidelines for "AA" rated water utility companies.

The Commission concludes that although the Application was filed ". . . pursuant to §393.190 RSMo . . ." that it should in fact be deemed to have been filed pursuant to §393.200 RSMo 1994 as this is the appropriate statute.

**IT IS THEREFORE ORDERED:**

1. That Noel Water Company, Inc. be authorized hereby to borrow up to three hundred and thirty-five thousand dollars (\$335,000) from the State Bank of Noel (Missouri) and the stockholders of the company and any such loan shall be entered into upon the terms and conditions set forth herein.

2. That Noel Water Company, Inc. shall file the final terms and conditions of the financing not later than thirty (30) days after all of the final documentation has been completed.

3. That Noel Water Company, Inc. shall be permitted 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 that end, that the intent and purposes of this borrowing may be fully effectuated.

4. That the proceeds of the loan(s) shall be used to finance new construction as stated in the Application and Exhibit No. 1 thereto.

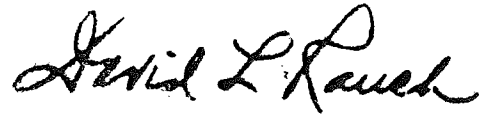
5. That nothing in this order shall be considered as a finding of the Commission of the reasonableness of the value for ratemaking purposes of the transactions herein involved, or as an acquiescence in the value placed upon said properties and transactions and the Commission reserves the right to consider the ratemaking treatment to be afforded this

financing transaction, and its resulting cost of capital, in any later proceeding.

6. That Noel Water Company, Inc. shall submit to the Commission's internal Accounting Department a report verified by the appropriate official of Noel Water Company, Inc. reflecting the journal entries recorded relating to the use and applications of the proceeds from the transaction approved herein.

7. That this order shall become effective on April 4, 1995.

BY THE COMMISSION

A handwritten signature in dark ink, appearing to read "David L. Rauch". The signature is fluid and cursive, with the first name "David" being more prominent.

David L. Rauch  
Executive Secretary

(S E A L)

McClure, Perkins, Kincheloe  
and Crumpton, CC., Concur.  
Mueller, Chm., Absent.