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April 16, 2001

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Director, Administration

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Secretary/Chief Regulatory Law Judge

DANA K. JOYCE  
General Counsel

Mr. Dale Hardy Roberts  
Secretary/Chief Regulatory Law Judge  
Missouri Public Service Commission  
P. O. Box 360  
Jefferson City, MO 65102

FILED<sup>3</sup>  
APR 16 2001

Missouri Public  
Service Commission

**RE: Case No. EF-2001-476**

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of a **STAFF RECOMMENDATION**.

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

David A. Meyer  
Associate General Counsel  
(573) 751-8706  
(573) 751-9285 (Fax)

DAM/lb  
Enclosure  
cc: Counsel of Record

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

FILED<sup>3</sup>

APR 16 2001

Missouri Public  
Service Commission

In the Matter of the Application of )  
Citizens Electric Corporation for )  
Authority to Borrow \$6,700,000 from the )  
Federal Financing Bank, to be Guaranteed )  
by the Rural Utilities Service. )

Case No. EF-2001-476

STAFF RECOMMENDATION

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission") and for its Recommendation in the above-captioned case, respectfully states as follows:

1. On March 7, 2001, Citizens Electric Corporation ("Citizens" or "Company") filed with the Commission, pursuant to Sections 393.180 and 393.200 RSMo 2000 and 4 CSR 240-2.060(11), an Application requesting authority to borrow certain sums, not to exceed \$6,700,000 from the Federal Financing Bank, to be guaranteed by the Rural Utilities Service. According to its Application, Citizens plans to use the funds to reimburse general funds.

2. Also on March 7th, Citizens filed a motion requesting expedited treatment of its Application to allow the Company to draw down a portion of the loan funds by March 26, 2001. However, the Application was not completed because not all exhibits were filed, and one exhibit remains to be filed as of the date of this Staff Recommendation.

3. The Commission denied Citizens' Motion for Expedited Treatment in its Order of March 22, 2001, and also ordered Staff to file its recommendation and memorandum or a status report addressing the proposed transaction no later than 14 days after the remaining exhibits were filed.

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4. Although Citizens has not yet filed the Mortgage and Security Agreement, Staff has proceeded with its review and is now prepared to file its recommendation and memorandum subject to the subsequent filing of that Mortgage and Security Agreement.

5. In Staff's opinion, Citizens' request is, pursuant to Section 393.200.1 RSMo 2000, reasonably required for the purposes stated in the Company's Application. Accordingly, in the attached Memorandum ("Appendix A"), Staff recommends approval of Citizens' request, subject to the conditions specified in the Memorandum. Specifically, Staff recommends that nothing in the Commission's order shall be considered a finding by the Commission of the value of the transaction for rate-making purposes, and that the Commission reserves the right to consider the rate-making treatment to be afforded the financing transactions and their results in the cost of capital in any later proceeding; and that the Company should file with the Commission the final terms and conditions, including the aggregate principal amount borrowed, expenses, actual interest rate paid and portion of debt subject to the fee schedule.

**WHEREFORE**, the Staff respectfully requests that the Commission issue an Order granting Citizens' request for authority to borrow funds from the Federal Financing Bank, subject to the specific conditions set forth in the Staff's attached Memorandum, and that the Commission also order that Citizens proceed to file its remaining outstanding exhibit.

Respectfully submitted,

DANA K. JOYCE  
General Counsel



David A. Meyer  
Associate General Counsel  
Missouri Bar No. 46620

Attorney for the  
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### **Certificate of Service**

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 16<sup>th</sup> day of April, 2001.



**MEMORANDUM**

TO: Missouri Public Service Commission Official Case File  
Case No. EF-2001-476, Citizens' Electric Corporation

FROM: Ronald L. Bible,  
Financial Analysis Department

*Ronald L. Bible 4/12/01*  
Project Coordinator / Date

*Steve P. 4/13/01*  
General Counsel's Office / Date

SUBJECT: Staff's Recommendation for approval of the Application of Citizens' Electric Corporation for authority to borrow \$6,700,000 from the Federal Financing Bank (FFB).

DATE: April 12, 2001

**Citizens' Electric Corporation**

1. (a) **Type of Issue:** Promissory notes.  
(b) **Amount:** \$6,700,000.  
(c) **Rate:** The rate will be either the Fixed Rate or the Variable Rate as established by the FFB for each advance.  
(d) **Other Provisions:** Will be determined later.
2. **Proposed Date of Transaction:** As soon as the Commission so authorizes.
3. (a) **Statement of Purpose of the Issue:** The funds will be used to reimburse general funds and to distribute to its shareholders their capital credit for 1986.  
(b) **From a financial perspective, does Staff deem this purpose reasonable? :**  
Yes X No
4. **Type of Transaction:** The Company would borrow \$6,700,000 from the Federal Financing Bank.
5. **Copies of executed instruments defining terms of the proposed securities:**  
\_\_\_\_ (a) If such instruments have been previously filed with the Commission, a reference to the Case Number in which the instruments were furnished.

X (b) If such instruments have not been executed at the time of filing, a statement of the general terms and conditions to be contained in the instruments which are proposed to be executed.

— (c) If no such instruments are either executed or to be executed, a statement of how the securities are to be sold.

6. **Certified copy of resolution of the directors of applicant, or other legal documents authorizing the issuance of the securities reviewed:**

Yes X No

7. **Pro-forma Balance Sheet and Income Statement reviewed:**

Yes X No

8. **Capital expenditure schedule reviewed:**

Yes X No

9. **Journal entries are required to be filed by the Company to allow for the Fee Schedule to be applied:**

Yes X No

10. **Recommendation of the Financial Analysis Department:**

X Grant by session order (see Comments)

— Conditional Approval granted pending receipt of definite terms of issuance (see Comments)

— Require additional and/or revised data before approval can be granted (see Comments)

— Formal hearing required (see Comments)

— Recommend dismissal (see Comments)

## COMMENTS:

Citizens' Electric Corporation, (Citizens', Company) is a public utility engaged in providing electric services to customers in Missouri. The Company has filed an application requesting the Missouri Public Service Commission (Commission) to authorize it to borrow \$6,700,000 from the Federal Financing Bank (FFB).

The Company's Application states, "Citizens' states that the funds to be borrowed will be used to reimburse general funds and to distribute to its shareholders their capital credit for 1986"

The Staff finds these terms reasonable.

Citizen's currently has a Commission approved loan from the National Rural Utilities Cooperative Finance Corporation (CFC) in the amount of \$2,095,000 (Case No. EF-99-192). The Company has not taken an advance from this loan, but the loan is approved and available for the Company's use. Therefore, the Staff has included this loan in its analysis of the company's current application for a loan in the amount of \$6,700,000 from the FFB.

A review of Citizens' current and pro forma financial statements submitted with the Application indicates the Company's current capital structure is that of an investment grade electric utility as defined by Standard & Poor's Corporation. Citizens' current capital structure consists of 40.60 percent long-term debt, and 59.40 percent common equity. In the pro forma financial statement as of December 31, 2000, Citizens' has shown what effect their stated borrowing will have on their capital structure. Long-term debt will increase to 48.68 percent and common equity will decrease to 51.32 percent (see Attachment A).

A ratio analysis reveals that Citizens' Pre-Tax Interest Coverage decreases from 2.12 times to 1.49 times. In addition, Total Debt to Total Capital Ratio increases from 40.60% to 48.68%. However, these changes still result in ratios that would indicate the Company is "A" to "BBB" rated according to Standard and Poor's criteria (see Attachment B).

The current weighted interest rate for the loan in this application is 6.038 percent. The interest rate for the previously approved loan available to the Company, and included in this analysis, is 8 percent.

Based on its review, the Staff recommends that the Commission approve the Application submitted by Citizens' subject to the following conditions:

1. That nothing in the Commission's order shall be considered a finding by the Commission of the value of this transaction for rate making purposes, and that the Commission reserves the right to consider the rate making treatment to be afforded these financing transactions and their results in cost of capital, in any later proceeding;

2. That the Company file with the Commission the final terms and conditions, including the aggregate principal amount borrowed, expenses, actual interest rate paid and portion of debt subject to the fee schedule.

**The Staff respectfully requests that this matter be placed on the Commission's Agenda as soon as possible.**

Attachments:

A: Pro Forma Capitalization

B: Ratio Analysis



**Pro Forma Capitalization as of December 31, 2000  
for Citizen's Electric Company**

Capital Component	Percentage of Capital	Capital Dollars	Pro Forma Adjustments	Pro Forma Capital Dollars	Pro Forma Percentage of Capital
Common Equity	59.40%	\$34,625,198	(\$404,546)	\$34,220,652	51.32%
Preferred Stock	0.00%	0	\$0	0	0.00%
Long-Term Debt	40.60%	23,671,166	\$8,795,000	32,466,166	48.68%
Short-Term Debt	0.00%	0	\$0	0	0.00%
Total	100.00%	\$58,296,364	\$8,390,454	\$66,686,818	100.00%

Note: Long-term debt adjustments, proforma and ratios at Attachments A and B, include the currently requested \$6,700,000 and \$2,095,000 previously approved in Case No. EF-99-192, but not yet accessed.

**Financial Ratio Benchmarks  
Total Debt / Total Capital**

Standard & Poor's Corporation's Utilities Rating Service, Financial Statistics Electric Companies July 7, 2000	Average(%)	AA	A
		49	58

**Selected Pro Forma Financial Ratios  
for Citizen's Electric Company**

<b><u>RATIO ANALYSIS</u></b>	<b><u>Ratios as of 12-31-00</u></b>	<b><u>Pro-Forma Ratios</u></b>	<b><u>S&amp;P Guidelines "AA" Rating (1)</u></b>	<b><u>S&amp;P Guidelines "A" Rating</u></b>	<b><u>S&amp;P Guidelines "BBB" Rating</u></b>
Pre-Tax Interest Coverage:	2.12 x	1.49 x	3.8-4.8 x	2.1-6.5 x	1.1-3.8 x
Funds From Operations Interest Coverage:	4.73 x	3.62 x	3.8-6.6 x	1.1-5.9 x	1.8-4.3 x
Funds from Operations to Total Debt:	27.02%	21.46%	20.4-41.6 %	.9-31.3 %	7.5-22.6 %
Total Debt to Total Capital:	40.60%	48.68%	42.4-50.8 %	45.9-70.1 %	53.8-69.3 %

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## Notes:

(1) Standard & Poor's Utilities Rating Service, Financial Statistics, July 31, 2000

**Service List for**  
**Case No. EF-2001-476**  
**Verified: April 16, 2001 (lb)**

**Office of the Public Counsel**  
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