

MEMORANDUM

FILED

JUN 20 1996

TO: Missouri Public Service Commission Official Case File **MISSOURI**
 Case No. WF-96-403, Emerald Pointe Utility Company **PUBLIC SERVICE COMMISSION**

FROM: Randy Z. Wright, *RZW gwmm*
 Financial Analysis Department

Kenneth Kadema 6/18/96
 Director - Utility Services Division / Date

Wm K Haas 6/20/96
 General Counsel's Office / Date

SUBJECT: Staff's Recommendation for approval of the Application of Emerald Pointe Utility Company for Authority to issue a Promissory Note for up to \$600,000.

DATE: June 18, 1996

Emerald Pointe Utility Company

1. (a) **Type of Issue:** Promissory Note.
- (b) **Amount:** \$600,000 Promissory Note.
- (c) **Rate:** The interest rate on the Promissory Note will be fixed at 10.25 percent per annum.
- (d) **Other Provisions:** The Promissory Note will have a stated maturity date of ten years from the date of issue.
2. **Proposed Date of Transaction:** As soon as the Commission so authorizes.
3. (a) **Statement of Purpose of the Issue:** To construct the water and sewer systems; to purchase and install equipment; to finance the needs of the Company; and for any other appropriate purposes.
- (b) **From a financial perspective, does Staff deem this purpose reasonable? :**
 Yes X No ___

4. **Type of Transaction:** The Company will issue a Promissory Note to the sole shareholders Gary W. Snadon and Patsy A. Snadon.

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.

(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 No

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

Yes No

8. **Capital expenditure schedule reviewed:**

Yes No

Note: As a startup Company, a capital expenditure schedule is not required.

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

Yes No

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

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:

Emerald Pointe Utility Company (Company) is a newly certificated (Case No. WA-96-96) public utility rendering water and sewer service to the public in Taney County, Missouri.

The Company's Application states "Applicant proposes to borrow certain sums, not to exceed \$600,000, from Gary W. Snadon and Patsy A. Snadon ('Lenders') in order to finance the development and construction of the water and sewer system recently certificated by the Commission in Case No. WA-96-96."

The Company proposes to invest a total of \$1.2 million to complete the water and sewer project. The proposed Promissory Note (Note) for \$600,000 represents the long-term debt portion (50 percent) of the planned capital structure for the Company. The other 50 percent of the capital dollars are in the form of common equity. The Company proposes to issue the Note to finance the water and sewer operations as authorized in certificate Case No. WA-96-96.

The proposed Note requests a stated interest rate of 12.00 percent per annum for ten years, with monthly payments of \$8,608. As noted in the Commission's Order in Case No. WA-96-96, the Staff recommended water and sewer rates assuming a more reasonable 10.00 percent cost of debt. At this time, based on current economic conditions, the Staff finds an interest rate of 10.25 percent appropriate and therefore recommends the Commission conditionally approve the financing request with an interest rate of 10.25 percent. In addition, conversations with the Company Counsel have indicated a willingness to accept this condition.

Based upon its review in this case, Staff recommends that the Commission approve the financing requested subject to the following condition:

1. The interest rate of the Promissory Note be changed to 10.25 percent per annum.

Copies: Director - Utility Operations Division
Director - Utility Services Division
Manager - Financial Analysis Department
Office of the Public Counsel
Gary Snadon, Company President

Director - Policy and Planning Division
General Counsel
Manager - Water and Sewer Department
Sondra Morgan, Company Counsel