

FILED

JAN 15 1993

MEMORANDUM

PUBLIC SERVICE COMMISSION

TO: Missouri Public Service Commission's Official Case File
Case Number WF-93-57

FROM: Mark A. Caplinger, Financial Analysis Department ^{ME} _{JWM}

RE: Financial Analysis Department's Recommendation
Case Number WF-93-57
Osage Water Company

DATE: January 8, 1993

Sherry S. Boldt 1/12/93
Director -- Utility Services
Division/Date

Robert J. Hock 1/12/93
General Counsel's Office/
Date

LT

Osage Water Company

1. (a) Type of Issue: Long-term debt (term loan)
 - (b) Amount: Not to exceed \$22,500
 - (c) Rate: The unpaid principal balance bears interest at an annual rate of ten percent (10%).
 - (d) Other Conditions: The Applicant proposes to issue three unsecured notes in the principal face amount of seven thousand five-hundred dollars (\$7,500) each and payable in equal monthly installments of ninety-nine dollars and eleven cents (\$99.11) each to David L. Hancock, William P. Mitchell, and Gregory D. Williams. The monthly payments will consist of both principal and interest, compounded monthly. The payments commenced on July 15, 1992, and will continue on the same date of each month thereafter until June 15, 2002, at which time the entire remaining balance of principal and interest shall be due and payable in full.
2. Proposed Date of Transaction: As soon as possible.
 3. (a) Statement of Purpose of the Issue: The proceeds will be used in the construction of a water well and water main to service the Shoney's Restaurant located in the Osage Beach North service area of the Applicant.

2.

X

(b) Does the Staff deem this purpose reasonable? X Yes
_____ No

4. Type of Sale: Not applicable. These notes are installment notes issued to the primary shareholders of the Company.

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 No. 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:

X Yes
_____ No

7. Pro-Forma balance sheet and income statement reviewed:

X Yes
_____ No

8. Capital Expenditure schedule included:

X Yes
_____ No

9. Recommendation of the Financial Analysis Department:

X Grant by session order (if terms are definite)

_____ 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 requested (see Comments)

_____ Recommend dismissal (see Comments)

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Comments:

On August 31, 1992, the Osage Water Company (OWC, Company) filed an Application with the Missouri Public Service Commission (Commission) for permission and approval to issue unsecured indebtedness.

The Financial Analysis Department (Staff) has reviewed the capital structure of the Company (see Schedule 1) and although it appears unusual it is not unreasonable. After issuance of the \$22,500 of long-term debt, OWC's debt ratio will be 20.77 percent. The Company's equity ratio shown in Schedule 1 is atypical for a regulated utility. The preferred stock ratio is 146.41 percent of total capital, while the common stock ratio is -67.18 percent. This negative common equity position results from reorganization costs incurred earlier this year. This reorganization was approved by the Commission in Case Numbers WM-92-138, WF-92-139, WF-92-140, and WA-92-141. These reorganization costs should be amortized by the Company over a given period of time, thus reducing the negative common equity position of the Company. OWC has an overall net equity ratio of 79.23 percent. As mentioned in its recommendation in the above-referenced cases, the Staff believes that a common equity ratio of approximately 40 percent would be more reasonable. To quote the Financial Analysis Department's previous recommendation, page 4:

(The Financial Analysis Department) cautions the Commission to note the excessive amounts of preferred stock equity in the Company's proposed capital structure and further notes that it would be appropriate to use an imputed capital structure for ratemaking purposes, until such future time when the OWC capital structure falls more in line with industry standards.

The Staff maintains this position at this time with regard to the ratemaking treatment to be afforded the capital structure of the Company.

The notes to be issued in this case are held by David L. Hancock, William P. Mitchell and Gregory D. Williams. These three individuals are currently equal shareholders of all the outstanding Class A Common Stock of the Company. Staff has reviewed the terms of the loan agreements and believes they are reasonable. Debt service (principal and interest) on these three notes totals \$297.33 per month. The Company states on page one of the Application that it will receive additional revenue in excess of four hundred dollars per month (\$400.00) as a result of water usage by the Shoney's Restaurant facility. This should allow the Company to cover the total annual debt service payments required by these

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notes (\$3,567.96) with the total additional annual revenues (of at least \$4,800.00), leaving at least \$1,232.04 to contribute to the Company's net income.

Thus it appears, by analysis of the Company's projections, that the issuance of this debt should not be detrimental to the continued operations of the Company or its ratepayers. The Staff of the Accounting Department of the Commission has reviewed the Application submitted by the Company and indicates that they do not intend to file a recommendation in this case. The Financial Analysis Department therefore recommends that the Commission approve the Application submitted by the Osage Water Company in Case Number WF-93-57.

cc: Sherry Boldt
Sam Goldammer
Dave Winter
Mark Oligschlaeger
Jay Moore
Bill Sankpill
Office of Public Counsel
William P. Mitchell
Gregory D. Williams

OSAGE WATER COMPANY
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Capital Structure
as of September 30, 1992

| Capital Component | Dollar Amount | Percentage of Total |
|-------------------|---------------------------|-------------------------|
| Short-term Debt | \$0 | 0.00% |
| Long-term Debt | 23,015 | 20.77% |
| Preferred Stock | 162,200 | 146.41% |
| Common Equity | (74,427) | -67.18% |
| Total Capital | <u>\$110,788</u> ===== | <u>100.00%</u> ===== |

Source: Response to Staff Data Request #3801.