

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER RAPER
COMMISSIONER ANDERSON
COMMISSION SECRETARY
LEGAL
WORKING FILE

FROM: JOSEPH TERRY
DONN ENGLISH

DATE: MARCH 5, 2020

RE: TETON WATER'S APPLICATION TO AUTHORIZE DEBT FOR
PURPOSE OF WELL CONSTRUCTION; CASE NO. TTS-W-20-01

On February 20, 2020, Teton Water & Sewer Company (Company) applied for authority to issue up to \$450,000 in debt in order to build a third well for the water system. The Company did not include the filing fee, but the filing fee was calculated to be \$187.50 and was subsequently received on February 28, 2020. In addition, the Company's included press release had minor errors that were corrected before being delivered to the local newspapers. The Company did not include financial statements with the Application, but provided unaudited financial statements to Staff on February 26, 2020.

The purpose of this loan is for planning, engineering, and construction of the water systems' third well. The Company referenced Case Nos. TTS-W-17-01 and TTS-W-19-01 for justification for this well. The Company provided bids and estimates totaling \$385,519. Staff reviewed those estimates and found them reasonable considering the geology of the area. The Company is requesting authority for \$450,000 in debt because once construction begins, costs may vary from the estimates. On initial discussion with the lenders, the Company reported they expect to receive a 7-8% interest rate and five-year term. This loan would be secured by the assets of the Company, and the Company would like to have the loan secured by April 1, 2020 in order to have the well online for the 2020 peak demand season. Staff requests that the Company file with the Commission the final loan documents when those documents become available.

If found prudent, the third well will have a significant impact to the Company's rate base. In the Company's last general rate case (Case No. TTS-W-08-01), the Company's rate base was

\$57,763. The Company's water revenues in its 2019 financial statements were \$162,534, and the gross income from the 2018 Annual Report was \$35,808. Staff estimates that the annual payment on a \$384,519 loan (the estimated cost of the project) at 7% interest with a five-year term would be approximately \$91,000. The Company's current rates are not sufficient to service the loan.

Wells for water systems are typically depreciated over a period of 25-35 years. With a five-year loan, a mismatch is created when recovery of investment is extended well beyond the original terms of the loan. Assuming the above-mentioned depreciation life Staff estimates the annual revenue requirement (depreciation and return on investment) from this project would be approximately \$51,000 or nearly \$40,000 less than estimated loan payments, and therefore still not sufficient to service the loan. Staff encourages the Company to attempt to secure loan conditions that minimize the impact on customer rates, either by extending the loan beyond 5 years, or structuring the loan with a balloon payment that can be refinanced after the original term. Staff recognizes that changing the loan conditions may affect the interest rate the Company will receive. Absent more favorable conditions, accelerated recovery of the third well may be the only option to maintain the financial security of the Company.

Staff recognizes that projects of this size for small water companies are difficult and commends the Company on its proactive management of the water system.

STAFF RECOMMENDATION

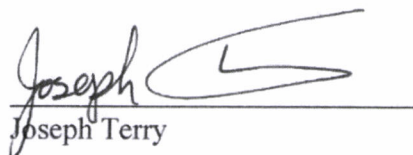
Staff recommends the Commission approve the Company's request for authority to issue up to \$450,000 in debt for the third well.

Staff recommends the Commission order the Company to file with the Commission the loan documents showing the amount borrowed and all other terms of the loan within seven days of those documents being available.

COMMISSION DECISION

Does the Commission wish to grant the Company authority to issue up to \$450,000 in debt?

Does the Commission wish to order the filing requirement described?


Joseph Terry

Udmemos/TTS-W-20-01 Decision Memo V2