

## **DECISION MEMORANDUM**

**TO:           COMMISSIONER KJELLANDER  
              COMMISSIONER SMITH  
              COMMISSIONER REDFORD  
              COMMISSION SECRETARY  
              LEGAL  
              WORKING FILE**

**FROM:       TERRI CARLOCK**

**DATE:       SEPTEMBER 14, 2007**

**RE:         APPLICATION OF EAGLE WATER COMPANY FOR  
              AUTHORITY TO BORROW FUNDS; CASE NO. EAG-W-07-1**

Eagle Water Company (Eagle Water) requests authority to borrow funds to provide sufficient cash flow to pay outstanding professional fees associated with the Engineering Report and system improvement process. Although the outstanding fees are approximately \$201,000, Eagle Water anticipates that it will need to borrow \$110,000 for cash flow purposes if the existing surcharge fund balance can be used to pay a portion of these fees. Idaho Banking Company prepared a loan proposal based on the total amount of \$201,433 with terms reflecting a two-year payoff and interest at prime plus 2%, currently 10.25% (8.25 + 2%). The required loan payments would consist of monthly payments to cover interest only with principle reductions required quarterly based on customer surcharge revenues. The final terms of the loan have not been established yet.

This case EAG-W-07-1 is being processed by Staff in two steps: the first step is this working capital loan request, and the second step is the ongoing review of the Engineering Report, system improvements and associated costs. The second step is where prudence and reasonableness of the fees, and the ongoing surcharge level will be evaluated and presented to the Commission for decision. The existing surcharge on water usage over 600 cubic feet will remain in place until a future Commission order is issued on the topic. For cash flow purposes and loan approval, the existing surcharge mechanism will be used as collateral reflecting a revenue stream for loan repayment. When a final order on recovery of costs is issued by this Commission (in the next step of this case), Staff reiterates that any costs not allowed for

recovery, are the sole responsibility of Eagle Water and will not be paid by customers. Therefore, Eagle Water will be required to reimburse the surcharge fund for any disallowed amounts paid from that fund. If the outstanding loan covers disallowed costs, Eagle Water will be required to pay these amounts directly to the bank.

### **STAFF RECOMMENDATION**

Loan approval will provide Eagle Water with cash flow but will not assure Eagle Water of a specific recovery level for the underlying costs being evaluated in the ongoing review process for this case. Staff recommends the Commission approve the loan request up to \$110,000 and allow Eagle Water to use the surcharge mechanism with that revenue stream as collateral for the loan. Staff also recommends Eagle Water be required to provide the final draft loan documents with the bank for Staff's review. Copies of all executed agreements for the loan will be filed with the Commission. Once a final order is issued in this case, Staff recommends Eagle Water be required to reconcile the surcharge and loan accounts and if necessary repay directly any costs disallowed by the Commission. This reconciliation process will be audited and verified by Staff.

### **COMMISSION DECISION**

Does the Commission approve the requested loan authority of \$110,000?

Does the Commission accept the surcharge revenue stream as collateral for the loan?

Does the Commission adopted Staff's recommended review and reporting requirements?

  
Terri Carlock

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