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**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a Session of the Public Service
Commission held at its office
in Jefferson City on the 13th
day of January, 1998.

In the Matter of the Application of)
Missouri-American Water Company, for)
Authority to Issue and Sell Under its)
Indenture of Mortgage, dated as of May 1,)
1968, as Amended and Supplemented, a New)
Series of Its General Mortgage Bonds, to)
Secure Bonds Issued by the State)
Environmental Improvement and Energy)
Resources Authority, in the Aggregate)
Principal Amount of Up to and Including)
\$4,500,000, and to, Among Other Things,)
Execute and Deliver a Supplemental)
Indenture to Provide for the Terms of)
Said General Mortgage Bonds, and to Enter)
into a Loan Agreement and to Enter into)
Related Agreements.)

Case No. WF-98-224

ORDER APPROVING APPLICATION FOR FINANCING

On December 1, 1997, Missouri-American Water Company, ("Missouri-American" or "Applicant") filed an application for authority to refinance \$4,500,000 of revenue bonds. Missouri-American provides water service to customers in the cities of St. Joseph, Joplin, St. Peters, St. Charles, O'Fallon, Brunswick, Mexico, Warrensburg, Parkville, Riverside, Platte Woods, Lake Waukomis, Houston Lake and the Village of Cottleville, and in the counties of Buchanan, Andrew, Jasper, Newton, Platte, Johnson, Chariton, St. Charles and Audrain. Applicant also provides sewer service to fewer than 100 customers in Platte County.

On December 15 Missouri-American filed a Motion for Expedited Consideration and requested that the Commission issue an order no later than January 12, 1998, bearing an effective date of January 22. Applicant

stated in its motion that it proposes to close this financing transaction on or before January 28, 1998, in order to obtain a favorable interest rate on the new series of General Mortgage Bonds. Applicant stated that interest rates are at a historical low and that there is some question as to whether these low rates will continue at current levels much beyond January of this coming year.

The Staff of the Missouri Public Service Commission ("Staff") filed a response to Missouri-American's motion on December 22. Staff requested that it be allowed through January 4, 1998, to file its recommendation concerning the application. On December 30 the Commission granted the motion for expedited consideration and ordered Staff to file its recommendation no later than Monday, January 5, 1998, at 3:00 p.m.

On January 6 Staff filed its memorandum in the official case file recommending approval of the requested financing. The Commission has considered the verified application and Staff's recommendation. The Commission determines that a hearing is not necessary to resolve the matters at issue herein. The Commission finds and concludes as follows:

Applicant is a public utility and water corporation under Sections 386.020(42) and (58), RSMo Supp. 1996, respectively. Applicant is subject to the jurisdiction of the Missouri Public Service Commission pursuant to Chapters 386 and 393. Applicant is a Missouri corporation with its principal office and place of business located at 1003 East St. Maartens Drive, P. O. Box 6276, St. Joseph, Missouri 64506.

Applicant states in its application that it owns and operates a water well in its Parkville District, a 3.5 million gallon standpipe and pump station improvements in its St. Charles District, an aerator and renovations of wells in its Mexico District, and a clear well (storage tank), high service pumps and electric improvements in its Warrensburg

District. In addition, Applicant has installed services, meters and mains to support new business and to maintain existing customers and other facilities and equipment which is used in producing and distributing water. These projects are hereafter referred to collectively as the "Project."

In 1991, Missouri Cities Water Company ("Missouri Cities") entered into a transaction with the State Environmental Improvement and Energy Resources Authority of the State of Missouri (Authority) to finance the Project. Missouri Cities was merged into Applicant effective January 1, 1995. The Authority issued and sold \$4,500,000 aggregate principal amount of its Water Facilities Revenue Bonds (Missouri Cities Water Company Project) Series 1991 (the "Original Revenue Bonds") pursuant to an Indenture of Trust (the "Bond Indenture") dated as of February 1, 1991, by and between the Authority and Mark Twain Bank, as Trustee, (the "Bond Trustee") and lent the proceeds of the sale of the Original Revenue Bonds to Applicant to finance the Project. Missouri Cities issued and delivered to the Bond Trustee, \$4,500,000 aggregate principal amount of its First Mortgage Bonds, 7.125 percent Series due 2021 (the "Original Mortgage Bonds") to secure its payment obligations under a Loan Agreement dated as of February 1, 1991, by and between Missouri Cities and the Authority (the "Loan Agreement"), and thus, in effect, to secure payment of the Original Revenue Bonds. The Commission approved those transactions in Case No. WF-91-238 by separate orders dated January 18 and March 1, 1991.

As a result of the current favorable market interest rates Applicant proposes to refinance the Project and lower the cost of debt associated with the Project. As part of the transaction:

- (1) The Authority would issue and sell up to \$4,500,000 of its Water Facilities Refunding Revenue Bonds (Missouri-American Water Company Project) Series 1998A (the "New Revenue Bonds") pursuant to an Indenture of Trust by and

between the Authority and a trustee (the "Revenue Trustee");

- (2) Applicant and the Authority would enter into a new Loan Agreement to provide for the New Revenue Bonds and, thus, in effect, for Applicant to make payments sufficient to pay principal of and premium, if any, and interest on the New Revenue Bonds;
- (3) Applicant would issue up to \$4,500,000 of a new series of its General Mortgage Bonds (the "New Mortgage Bonds") to secure its payment obligations under the new Loan Agreement and, thus, secure the payment of the New Revenue Bonds; and
- (4) the Original Revenue Bonds and the Original Mortgage Bonds would be redeemed.

Missouri-American attached to its application the Indenture of Trust and the new Loan Agreement both in substantially final form as Appendix 2 and 3, respectively.

The Authority will be the issuer of the New Revenue Bonds so that the interest on the bonds will be exempt from federal income taxation; however, the credit of the Authority will not be pledged for the payment of such bonds. The New Revenue Bonds will be payable from amounts received by the Revenue Trustee with respect to the New Mortgage Bonds. The Authority's rights in the New Mortgage Bonds will be assigned by the Authority to the Revenue Trustee.

Applicant has outstanding an Indenture of Mortgage dated May 1, 1968, as amended and supplemented by and between Applicant and First Union National Bank (formerly The Fidelity Bank), and Mercantile Bank of Western Missouri (successor to William B. Ebert), as Trustees (the "St. Joseph Trustees"), said Indenture of Mortgage as amended and supplemented is referred to as the "St. Joseph Mortgage." The New Mortgage Bonds are to be issued pursuant to the provisions of Applicant's St. Joseph Mortgage between Applicant and the St. Joseph Trustees as amended and supplemented by a Thirteenth Supplemental Indenture relating to the New Mortgage Bonds.

A copy of the Thirteenth Supplemental Indenture, in substantially final form, is attached to the application as Appendix 4. The New Mortgage Bonds will have the same interest rate and stated maturity as the New Revenue Bonds, and will be redeemable at the same time, for the same purposes, in the same principal amounts and at the same prices.

At the request of Applicant, the Authority will issue and sell for cash to Edward D. Jones & Co., L.P. as the underwriter, \$4,500,000 aggregate principal amount of New Revenue bonds. The terms of the New Revenue Bonds, including the price, interest rate and terms of payment of interest, maturity, redemption and sinking fund provisions, if any, and other terms and provisions which cannot be determined yet because of constant changes in the market for the bonds, will be determined at the time of sale. The maturity of the New Revenue Bonds will be between 9 months and 35 years and the interest will not exceed 200 basis points over the Bond Buyer Revenue Bond Index as published in the most current available issue of *The Bond Buyer* on the business day prior to the date on which the terms of the New Revenue Bonds are determined.

Staff states in its memorandum that the proposed financing does not alter the capital structure of Applicant because the Company is retiring \$4,500,000 in long-term debt and is issuing new debt for \$4,500,000. Staff states that the coverage ratios of Missouri-American will improve with the lowering of interest costs. Staff notes that the pro forma financial statements show an increase in annual interest costs because Applicant annualized a new 7.79 percent series of long-term debt which was issued on June 1, 1997. Staff calculates that the proposed financing will reduce Applicant's interest cost by more than \$82,000 annually based on Applicant's projected interest cost of the new series which is 5.30 percent.

Staff indicates that Missouri-American is planning to sell all of the bonds to Edward D. Jones & Co., L.P. through the Authority at an interest rate not to exceed 200 basis points above the most current Bond Buyer Revenue Bond Index at the time of issuance. The Bond Buyer Revenue Bond Index was 5.41 percent on January 2, 1998, according to Staff. Staff recommends that the Commission approve the Company's application with the following conditions: (1) that the interest cost of the First Mortgage Bonds not exceed 200 basis points above the most current Bond Buyer Revenue Bond Index at the time of the issuance; and (2) that the Company file the final terms and conditions with the Commission.

The Commission has reviewed the verified application and Staff's memorandum. The Commission finds that the application should be granted subject to the conditions recommended by Staff. Therefore, the Commission will authorize the requested financing in the form reflected in the application subject to the conditions that the interest cost of the First Mortgage Bonds not exceed 200 basis points above the most current Bond Buyer Revenue Bond Index at the time of the issuance and that the Company file the final terms and conditions with the Commission. The Commission finds that the money, property or labor to be procured or paid for by Applicant through the issuance and sale of the New Mortgage Bonds is reasonably required and necessary for the purposes set forth in the application filed by Missouri-American and will be used therefore, and such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income. The Commission notes that since Applicant will retire \$4,500,000 aggregate amount of bonds with the proceeds of the financing, the issuance is not subject to the fee schedule in Section 386.300.2, RSMo Supp. 1996.

IT IS THEREFORE ORDERED:

1. That the Application for financing filed on December 1, 1997, by Missouri-American Water Company, is approved.

2. That Missouri-American Water Company is authorized to create the New Mortgage Bonds as a new series of its General Mortgage Bonds under its Indenture of Mortgage and Deed of Trust Dated May 1, 1968, as amended and supplemented, to the St. Joseph Trustees, including by the Thirteenth Supplemental Indenture relating to the New Mortgage Bonds, such New Mortgage Bonds to be issued at such time and to be of such aggregate principal amount as shall be determined by Applicant provided that the aggregate principal amount does not exceed \$4,500,000 bearing interest at a rate not in excess of two hundred (200) basis points above the Bond Buyer Revenue Bond Index as published in the most current available issue of *The Bond Buyer* on the business day prior to the date on which the terms of such series are determined, having a maturity of not less than nine (9) months and not more than thirty-five (35) years from the date of issuance and having such designation and such redemption provisions and other terms and provisions as shall be determined by Applicant, all to be set forth in the Thirteenth Supplemental Indenture relating to the New Mortgage Bonds.

3. That Missouri-American Water Company is authorized to enter into, execute and deliver a new Loan Agreement setting forth the terms under which Missouri-American Water Company will provide for the New Revenue Bonds and, thus, in effect, for Applicant to make payments sufficient to pay principal of and premium, if any, and interest on the New Revenue Bonds.

4. That Missouri-American Water Company is authorized to issue and deliver pursuant to the St. Joseph Mortgage to the State

Environmental Improvement and Energy Resources Authority of the State of Missouri and/or the Revenue Trustee, the New Mortgage Bonds in the aggregate principal amount of up to \$4,500,000 as security for the loan payments due under the new Loan Agreement and, thus, in effect for the New Revenue Bonds to be issued pursuant to the Indenture of Trust.

5. That Missouri-American Water Company is authorized to execute and deliver to the St. Joseph Trustee a Thirteenth Supplemental Indenture with respect to the New Mortgage Bonds, to be dated on or prior to the date of the initial issuance of the New Mortgage Bonds, supplemental to the Indenture of Mortgage dated as of May 1, 1968, in substantially the form of Appendix 4 which is attached to the application filed by Missouri-American Water Company on December 1, 1997.

6. That Missouri-American Water Company is authorized to obtain the authentication and delivery of the New Mortgage Bonds by the St. Joseph Trustee under the St. Joseph Mortgage in any manner permitted by the St. Joseph Mortgage and to use the proceeds of the issuance thereof for the purposes hereinabove stated.

7. That Missouri-American Water Company is authorized to create and make effective the lien of the St. Joseph Mortgage as to be amended and supplemented by a Thirteenth Supplemental Indenture relating to the New Mortgage Bonds, on the property of Missouri-American Water Company in the State of Missouri to secure Missouri-American Water Company's outstanding General Mortgage Bonds, including the up to \$4,500,000 aggregate principal amount of the New Mortgage Bonds.

8. That Missouri-American Water Company is authorized to amortize any premium or discount and expenses incident to the issuance of said New Mortgage Bonds over the life thereof.

9. That Missouri-American Water Company is authorized to secure the payment of the installment payments due under the loan agreement as to be amended with the New Mortgage Bonds and thus to secure payment of the New Revenue Bonds.

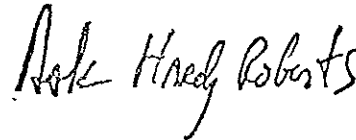
10. That Missouri-American Water Company is authorized to execute, enter into, deliver and perform any agreements, and to do any and all other things not contrary to law or to the rules of the Commission incidental, necessary or appropriate to the performance of any and all acts specifically authorized in this order.

11. That Missouri-American Water Company shall file with the Commission the final terms and conditions associated with the financing no later than February 27, 1998.

12. That nothing in this order shall be considered as a finding of the Commission as to the reasonableness for the expenditures herein involved. The Commission reserves the right to consider the ratemaking treatment to be afforded these transactions and the resulting cost of capital in any later proceedings.

13. That this order shall become effective on January 22, 1998.

BY THE COMMISSION



Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

Lumpe, Ch., Crumpton, Murray,
and Drainer, CC., concur.

G. George, Regulatory Law Judge