

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service
Commission held at its office
in Jefferson City on the 6th
day of September, 1991.

In the matter of the application of Missouri-American)
Water Company, for authority to issue and sell at) CASE NO. WF-92-5
private sale \$2,500,000 aggregate amount of 9.18%)
Series Cumulative Preferential Stock.)

ORDER APPROVING FINANCING

On July 11, 1991, Missouri-American Water Company (Applicant) filed an application with the Commission requesting authority to issue and sell \$2,500,000 of Cumulative Preferential Stock, 9.18 percent Series. Applicant wishes to issue and sell to First Colony Life Insurance Company 25,000 shares with the aggregate par value of \$2,500,000.

Applicant intends to apply the proceeds of the sale to the payment of short-term debts. Any additional proceeds are to be used for construction or improvements to Applicant's facilities. The additional proceeds will also be used to pay \$108,000 in 1991 sinking fund redemptions of securities (\$74,000 of General Mortgage Bonds; \$34,000 of Cumulative Preferred Stock).

On August 29, 1991, Staff filed a memorandum recommending the Commission approve the issuance and sale of preferential stock by Applicant.

In response to a data request from Staff, Applicant explained its decision to issue preferential stock instead of acquiring long-term debt. Applicant stated that its long-term debt is limited to 65 percent of total capitalization by an Indenture of Mortgage dated May 1, 1968. Applicant also stated that on July 25, 1991, its Board of Directors not only gave approval to the stock issuance and sale

pending before the Commission in this case, but also approved Applicant's next financing program consisting of \$5,000,000 of General Mortgage Bonds.

Staff calculated Applicant's long-term debt percentage of total capital. In completing its calculation, Staff assumed the issuance of \$5,000,000 in General Mortgage Bonds would be approved by the Commission, and that Applicant in this case had issued \$2,500,000 in long-term debt as opposed to preferential stock. According to Staff's calculation, Applicant's long-term debt percentage would be 66.98 percent of total capital, which is higher than the limit imposed by Applicant's Indenture of Mortgage.

Applicant's pre-issuance capital structure included a long-term debt level of 57.59 percent and an equity level of 39.94 percent. After issuance of the preferential stock, Applicant would have a long-term debt level of 54.01 percent and an equity level of 37.46 percent. Also, Applicant's preferred stock percentage will increase from 0.77 percent to 8.53 percent.

A Staff analysis of relevant financial ratios indicates that Applicant's times interest earned ratio will increase from 2.11 times to 2.27 times and its after-tax coverage of interest and preferred dividends ratio will decrease from 1.73 to 1.61 times. In addition, Staff indicated that the average yield for preferred stock is 9.19 percent.

The Commission finds that Applicant's decision to issue preferential stock instead of long-term debt is reasonable in light of the limit placed on Applicant's long-term debt by the Indenture of Mortgage. The Commission also finds that the changes in Applicant's capital structure, the adjustments in Applicant's coverage ratios, and Applicant's proposed dividend percentage are all reasonable.

The Commission further finds that the money, property, or labor to be procured or paid for by the issuance of the preferential stock is reasonably required

for the purposes specified herein, and that the purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

IT IS THEREFORE ORDERED:

1. That the application of Missouri-American Water Company to issue and sell \$2,500,000 aggregate par value of Cumulative Preferential Stock, 9.18 percent Series, to First Colony Life Insurance Company be hereby approved.

2. That Missouri-American Water Company may execute and deliver such instruments and may undertake such other acts as are necessary to consummate the issuance and sale of preferential stock as contemplated by this Order.

3. That nothing in this Order shall be considered as a finding by the Commission of the reasonableness of the expenditures herein involved, or of the value for ratemaking purposes of the properties herein involved, nor as an acquiescence in the value placed upon said properties by the Applicants. Furthermore, the Commission reserves the right to consider the ratemaking treatment to be afforded these transactions, and their resulting cost of capital, in any later proceeding.

4. That this Order shall become effective on September 16, 1991.

BY THE COMMISSION

Brent Stewart

Brent Stewart
Executive Secretary

(S E A L)

Steinmeier, Chm., Mueller, Rauch,
McClure and Perkins, CC., Concur.