

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION
JEFFERSON CITY
April 11, 2002**

CASE NO: WF-2002-359

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David P. Abernathy
Missouri-American Water Company
535 N. New Ballas Road
St. Louis, MO 63141

Enclosed find certified copy of an ORDER in the above-numbered case(s).

Sincerely,



Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Missouri-American)
Water Company for Authority (a) to Execute and)
Deliver a Seventeenth Supplemental Indenture to)
Its Indenture of Mortgage, Dated as of May 1, 1968,)
for the Purpose of Creating an Additional Series of)
Its General Mortgage Bonds, to Secure Bonds)
Issued by the State Environmental Improvement and)
Energy Resources Authority, (b) to Issue and Sell at)
Private Sale \$15,000,000 Principal Amount of Such)
Bonds, (c) to Enter into, Execute and Deliver a Loan)
Agreement and Other Documents in Connection)
Therewith, and (d) to Issue and Sell at Private Sale)
\$9,000,000 Aggregate Amount of Its Common Stock.)

Case No. WF-2002-359

ORDER APPROVING FINANCING

This order approves the proposed financing of Missouri-American Water Company with the conditions recommended by the Staff of the Missouri Public Service Commission.

On January 23, 2002, the Company filed a verified application with the Commission requesting authority under Sections 393.190 and 393.200, RSMo Supp. 2001, and 4 CSR 240-2.060, to:

- a) enter into, execute and deliver a Loan Agreement;
- b) execute and deliver a Seventeenth Supplemental Indenture to the Missouri-American Trustees under the Company's Indenture of Mortgage and Deed of Trust dated May 1, 1968, as amended and supplemented, for the purpose of creating a new series of General Mortgage Bonds to be issued by the Company;

- c) create, issue and deliver new bonds to secure obligations with respect to bonds to be issued by the Environment Improvement and Energy Resources Authority, on specific terms;
- d) create and make effective the lien of the Indenture of Mortgage on the property of the Company in the state of Missouri to secure the Company's General Mortgage Bonds including up to \$15,000,000 aggregate principal amount of the new bonds;
- e) issue and sell to American Water Works Company, Inc., 1,190,476 shares of common stock;
- f) amortize any premium or discount and expenses incident to the issuance of the new bonds over their life;
- g) enter into, execute, deliver and perform the necessary arrangements and other documents necessary to effectuate the said transactions; and
- h) take such other actions as may be reasonably necessary to complete the subject transactions.

On March 5, 2002, the Commission's Staff recommended that the Commission issue an order approving the application. The Staff analyzed the application and stated that the Company's application meets the legal standard set by Section 393.200, RSMo 2000.

On March 20, 2002, the Office of the Public Counsel also recommended that the Commission approve the application.

Missouri-American Water Company's Application

Missouri-American Water Company is a Missouri corporation with its principal office in St. Louis, Missouri. The Company is a public utility authorized to provide water service in communities in the counties of Andrew, Audrain, Buchanan, Chariton, Jasper, Jefferson, Johnson, Newton, Platte, and St. Charles. The Company also provides water service in the City of St. Louis. The Company proposes to issue and sell stock and bonds to pay or refinance short-term debt of \$23,301,356, and to pay for general property

acquisition, construction, extension and improvement of its plant and distribution facilities throughout its system in Missouri.

Presently, the Company has an Indenture of Mortgage dated May 1, 1968, as amended and supplemented, securing \$92,590,000 of outstanding General Mortgage Bonds. Pursuant to the application the Company proposes to execute and deliver a Seventeenth Supplemental Indenture for the purpose of issuing and securing an additional series of its General Mortgage Bonds in the amount of \$15,000,000. The Company will deliver its bonds to the State Environmental Improvement and Energy Resources Authority to secure an equivalent amount of bonds issued by the Authority. The Authority will sell its bonds (EIERA bonds) and provide the proceeds to the Company.

The Company also proposes to issue and sell 1,190,476 shares of common stock to American Water Works Company, Inc., to obtain \$9,000,000. The proceeds from the sale of the common stock will be used to pay short-term debt, financing costs, and for acquisition and construction.

The bonds proposed to be issued will mature not later than 30 years after their date of issue with interest cost not more than 200 basis points over the Bond Buyer Revenue Bond Index at the time of sale. The application and attachments present additional details for the financing and copies of associated authorizations, agreements and implementing documentation in substantially final form. Final terms and conditions will be filed when the proposed transactions are closed.

The Company states that the total principal amount of the new bonds will be subject to the fee schedule as set out in Section 386.300, RSMo 2000. The Company further states that proceeds from the proposed transactions are reasonably required for the

purposes described in the application, will be used for those purposes, and are not reasonably chargeable to operating expense or to income as required by Section 393.200, RSMo 2000.

Staff Analysis and Conditions

Based on the pro forma financial statements filed by Company, Staff determined that the capital structure of the Company would be affected by the proposed transactions. The present capital structure of the Company consists of 43.48 percent common equity, 0.59 percent preferred stock, 50.88 percent long-term debt, and 5.05 percent short-term debt. The issuance of stock, the retirement of short-term debt, and the issue of new long-term debt will result in a capital structure of 45.37 percent common equity, 0.58 percent preferred stock, and 54.05 percent long-term debt. Short-term debt will be eliminated. Staff stated that as a result, coverage ratios for the Company would improve and be well within the "A" rating according to Standard and Poor's Corporation. Annual interest costs will decrease \$479,081. The anticipated interest rate would be 5.25 percent. Staff found the interest rate and proposed capital structure to be reasonable.

The Commission's Staff recommended approval of the application with the following conditions:

- a. That the interest cost of the General Mortgage Bonds not exceed 200 basis points above the most current Bond Buyer Revenue Bond Index at the time of issuance.
- b. That the Company file all the final terms and conditions with the Commission, including the aggregate principal amount to be sold or borrowed, the price information, the estimated expenses, the portion

subject to the fee schedule, and the loan or indenture agreement concerning each issuance.

- c. That the Company file any information concerning the use of the proceeds from the issuances for the redemption of any outstanding debt, including the Net Present Value calculations indicating the amount of interest costs savings.

Findings and Conclusions

The application and the Staff recommendation show that the proposed financial transactions for the issuance and sale of securities and the terms proposed are reasonable. The Company's capital structure will be affected but not in a manner that is adverse to the public interest. The Commission finds that the proposed financing is not detrimental to the public interest and should be approved upon the terms presented in the Company's application and the conditions stated in the Staff's recommendation.

IT IS THEREFORE ORDERED:

1. That Missouri-American Water Company is authorized to issue and sell up to \$15,000,000 aggregate principal amount General Mortgage Bonds as described in the application.
2. That Missouri-American Water Company is authorized to issue and sell 1,190,476 shares of common stock as described in the application.
3. That the interest costs of the General Mortgage Bonds shall not exceed 200 basis points above the most current Bond Buyer Revenue Bond Index at the time of issuance.

4. That Missouri-American Water Company shall submit to the Director of the Commission's Financial Analysis Department the final terms and conditions of each of the transactions described and authorized in this order.

5. That Missouri-American Water Company shall pay all fees required under Section 386.300, RSMo 2000.

6. That Missouri-American Water Company shall file its notice in this case advising the Commission that each of the transactions described and authorized in this order have been closed consistent with its application and in compliance with the terms of this order.

7. That if the transactions authorized in this case are not closed by October 11, 2002, Missouri-American Water Company shall file a status report in this case.

8. That nothing in this order shall be considered a finding by the Commission of the value of this transaction for ratemaking purposes, and that the Commission reserves the right to consider the ratemaking treatment to be afforded these financing transactions and their results in cost of capital in any later proceeding.

9. That this order shall become effective on April 21, 2002.

BY THE COMMISSION

A handwritten signature in black ink, appearing to read "Dale Hardy Roberts". The signature is written in a cursive, somewhat stylized script.

**Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge**

(SEAL)

Nancy Dippell, Senior Regulatory
Law Judge, by delegation of authority
pursuant to Section 386.240, RSMo 2000.

Dated at Jefferson City, Missouri,
on this 11th day of April, 2002.

FYI: To Be Issued By Delegation

ALJ/Secretary: Dyppell / Pope

4-9 4-12, 10 am
Date Circulated Return Not Later Than

WF-2002-359
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KS
Simmons, Chair

am
Murray, Commissioner

SL
Lumpe, Commissioner

7/1
Gaw, Commissioner

10
Forbis, Commissioner

STATE OF MISSOURI

OFFICE OF THE PUBLIC SERVICE COM

I have compared the preceding copy with the original on file in this office and
I do hereby certify the same to be a true copy therefrom and the whole thereof.

WITNESS my hand and seal of the Public Service Commission, at Jefferson City,
Missouri, this 11th day of April 2002 .

Dale Hardy Roberts

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

