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March 5, 2002

ROBERT J. QUINN, JR.
Executive Director
WESS A. HENDERSON
Director, Utility Operations
ROBERT SCHALLENBERG
Director, Utility Services
DONNA M. PRENGER
Director, Administration
DALE HARDY ROBERTS
Secretary/Chief Regulatory Law Judge
DANA K. JOYCE
General Counsel

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

RE: Case No. WF-2002-359

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of a **STAFF RECOMMENDATION**.

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Cliff E. Snodgrass
Senior Counsel
(573) 751-3966
(573) 751-9285 (Fax)

CES:sw
Enclosure
cc: Counsel of Record

FILED³
MAR 05 2002
Missouri Public
Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED³

MAR 05 2002

Missouri Public
Service Commission

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

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission (Staff), by and through counsel, and for its Recommendation, states as follows:

1. On January 23, 2002, Missouri-American Water Company (Company) filed an application for approval of the issuance and sale of General Mortgage Bonds and Common Stock.

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2. Staff has reviewed the application for authority to engage in this proposed Transaction and has summarized its conclusions in a Memorandum that is attached to this Recommendation, labeled Appendix A, and incorporated by reference.

3. §393.200(1) RSMo 2000 provides, in part, that a regulated and Missouri incorporated water company may issue stocks, notes or other evidence of indebtedness, when necessary for the acquisition of property, the construction, completion, extension or improvement of its plant or system, or to discharge lawful obligations. This statute also indicates, in part, that the Commission can issue an Order approving the indebtedness if the money sought is "reasonably required" for the purposes specified in the Commission Order.

4. The application under review indicates that MAWC is a Missouri incorporated utility, and that the funds raised by the proposed transaction will be used to re-finance short term debt, with the balance to be used for the acquisition of property, the construction, extension and improvement of its plant and distribution systems, and other capital investment necessary and proper for the rendition of public water service, in addition to reimbursement to the Company treasury for any costs incurred after January 1, 2001.

5. The Staff examined the application filed by MAWC and concluded that the proposed transaction is reasonable and should be approved subject to several recommended conditions.

WHEREFORE, based upon the foregoing, the Staff respectfully recommends that the Commission enter an Order that approves the application subject to the following conditions:

A. That nothing in the Commission's Order shall be construed to be a finding by the Commission of the value of this transaction for rate making purposes, and that the Commission reserves the right to consider the rate making treatment to be afforded these financing transactions and their results in cost of capital in any later proceeding.


B. That the interest cost of the General Mortgage Bonds not exceed 200 basis points above the most current Bond Buyer Revenue Index at the time of issuance.

C. That the Company file with the Commission all final terms and conditions related to this financing, including, but not limited to, the aggregate principal amount to be sold or borrowed, price information, estimated expenses, portion subject to fee schedule and loan or indenture agreement concerning each issuance.

D. That the Company file with the Commission any information concerning the use of the funds from the issuance(s) with regard to redemption of any outstanding debt, including Net Present Value calculations indicating the amount of interest costs savings.

Respectfully submitted,

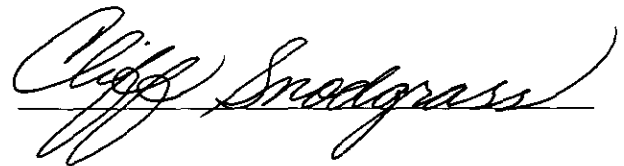
DANA K. JOYCE
General Counsel


Cliff Snodgrass
Senior Counsel
Missouri Bar No. 52302

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 5th day of March, 2002.



MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. WF-2002-359, Missouri-American Water Company

FROM: Roberta McKiddy, Financial Analysis Department

R. Schallenberg 3/1/02
Director Utility Services Division / Date

[Signature] 3-5-02
General Counsel's Office / Date

SUBJECT: Staff Recommendation for Approval of Authorization and Sale of General Mortgage Bonds and Issuance of Common Stock

DATE: February 28, 2002

1.
 - (a) **Type of Issues:** General Mortgage Bonds and Common Stock
 - (b) **Amounts:** Bonds not to exceed \$15,000,000; Stock not to exceed \$9,000,000
 - (c) **Rate:** The interest rate on the General Mortgage Bonds will not exceed 200 basis points over the most current Bond Buyer Revenue Bond Index. As of February 7, 2002, the Bond Buyer Revenue Index reported an interest rate of 5.3 percent.
 - (d) **Other Provisions:** The exact provisions of the loan will be determined at the time of closing.
2. **Proposed Date of Transaction:** As soon as practical
3.
 - (a) **Statement of Purpose of the Issues:** To refinance \$23,301,356 of short-term indebtedness, with the balance of the proceeds to be used for the acquisition of property, the construction, extension and improvement of its plant and distribution systems, and other capital investment all of which shall be necessary and proper for the rendition of public water supply, and to reimburse its treasury for any such costs heretofore incurred subsequent to January 1, 2001. Additionally, some of the proceeds from Applicant's sale of approximately 1,190,476 of its shares of common stock will also be used for some of the aforesaid purposes.
 - (b) **From a financial perspective, does Staff deem this purpose reasonable?:**
Yes X No
4. **Type of Sale:** The General Mortgage Bonds will be issued and sold to Edward D. Jones & Co., by the State Environmental Improvement and Energy Resources Authority at the request of Missouri-American Water Company. The Common Stock will be sold to the parent corporation, American Water Works Company, Inc.

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5. **Copies of executed instruments defining terms of the proposed securities:**

- ☐ (a) If such instruments have been previously filed with the Commission, a reference to the Case Number in which the instruments were furnished.
- ☒ (b) If such instruments have not been executed at the time of filing, a statement of the general terms and conditions to be contained in the instruments, which are proposed to be executed.
- ☐ (c) If no such instruments are either executed or to be executed, a statement of how the securities are to be sold.

6. **Certified copy of resolution of the directors of applicant, or other legal documents authorizing the issuance of the securities reviewed:**

Yes ☒ No

7. **Pro-forma Balance Sheet and Income Statement reviewed:**

Yes ☒ No

8. **Capital expenditure schedule reviewed:**

Yes ☒ No

9. **Journal entries are required to be filed by the Company to allow for the Fee Schedule to be applied:**

Yes ☒ No

(Note: Fee schedule applies only to new long-term debt.)

10. **Recommendation of the Financial Analysis Department:**

- ☒ Grant by session order (see Comments)
- ☐ Conditional Approval granted pending receipt of definite terms of issuance (see Comments)
- ☐ Require additional and/or revised data before approval can be granted (see Comments)
- ☐ Formal hearing required (see Comments)
- ☐ Recommend dismissal (see Comments)

COMMENTS:

Missouri-American Water Company (Missouri-American, Company) is a Missouri corporation with its principal office and place of business at 535 N. New Ballas Road, St. Louis, Missouri 63141. Applicant is qualified to conduct business as a public utility in the State of Missouri subject to the jurisdiction of the Commission as provided by law. Applicant is engaged, generally, in the business of furnishing water service to the public in the following areas: the cities of St. Joseph, Joplin, and surrounding areas in Buchanan, Andrew, Jasper and Newton Counties; and the cities of St. Peters, St. Charles, O'Fallon, Brunswick, Mexico, Warrensburg, the cities of Parkville, Riverside, Platte Woods, Lake Waukomis, Houston Lake, and the Village of Cottleville, Missouri in Chariton, Platte, Johnson, St. Charles and Audrain Counties.

Missouri-American has filed an Application requesting the Missouri Public Service Commission (Commission) authorize the Company: (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. The proceeds from the financing will be used to refinance existing short-term debt, with the balance of the proceeds to be used for the acquisition of property, the construction, extension and improvement of its plant and distribution systems, and other capital investment all of which shall be necessary and proper for the rendition of public water supply, and to reimburse its treasury for any such costs heretofore incurred subsequent to January 1, 2001. Additionally, some of the proceeds from Applicant's sale of approximately 1,190,476 of its shares of common stock will also be used for some of the aforesaid purposes.

Upon review of the current and pro forma financial statements submitted by Missouri-American, the capital structure would be affected by this financing. The Company proposes retiring \$23,301,356 in short-term debt through the issuance of \$9 million common stock and \$15 million long-term debt. The resulting capital structure would consist of 45.37 percent common equity, 0.58 percent preferred stock, and 54.05 percent long-term debt (see Attachment A). Coverage ratios of the Company will actual improve with this proposed financing and will be well within the Standard & Poors Guidelines for an "A" rating (see Attachment B). It should be noted that the Company's pro forma financial statements show a decrease in annual interest costs of \$479,081. The Company's projected interest cost of the new series is 5.25 percent. Staff finds the proposed interest rate and capital structure reasonable.

Missouri-American is planning to sell all of the bonds to Edward D. Jones & Co., through the Missouri State Environmental Improvement and Energy Resources 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. Per EIARA, the Bond Buyer Revenue Bond Index is currently 5.3 percent as of February 7, 2002. All of the Common Stock will be sold to American Water Works Inc., the parent corporation of Missouri-American.

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Based on this review, the Staff recommends that the Commission approve the Company's Application, as amended, in this case with the following conditions:

1. That nothing in the Commission's order shall be considered a finding by the Commission of the value of this transaction for rate making purposes, and that the Commission reserves the right to consider the rate making treatment to be afforded these financing transactions and their results in cost of capital, in any later proceeding.
2. 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.
3. That the Company file with the Commission all final terms and conditions on this financing, including, but not limited to, the aggregate principal amount to be sold or borrowed, price information, estimated expenses, portion subject to the fee schedule and loan or indenture agreement concerning each issuance.
4. That the Company file with the Commission any information concerning use of the funds from the issuance(s) with regard to redemption of any outstanding debt, including Net Present Value calculations indicating the amount of interest costs savings.

Attachments:

- A: Capitalization
- B: Ratio Analysis

Copies: Director - Utility Operations Division
Director - Research and Public Affairs
Director - Utility Service Division
General Counsel
Manager - Financial Analysis Department
Manager - Water and Sewer Department
Manager - Accounting Department
David P. Abernathy, Missouri-American Water Company
Office of the Public Counsel

**Pro Forma Capitalization as of November 30, 2001
for Missouri-American Water Company**

Capital Component	Percentage of Capital	Capital Dollars	Pro Forma Adjustments	Pro Forma Capital Dollars	Pro Forma Percentage of Capital
Common Equity	43.48%	\$200,502,464	\$9,000,000	\$209,502,464	45.37%
Preferred Stock	0.59%	2,704,000	0	2,704,000	0.58%
Long-Term Debt(1)	50.88%	234,588,600	15,000,000	249,588,600	54.05%
Short-Term Debt	5.05%	23,301,356	(23,301,356)	0	0.00%
Total	100.00%	\$461,096,420	\$698,644	\$461,795,064	100.00%

Financial Medians

Total Debt / Total Capital - Including Preferred Stock

Standard & Poor's Corporation's
Utilities Rating Service
Financial Statistics July 7, 2000
(Median)

A

57.10%

Notes:

(1) Long-term debt includes current maturities of long-term debt.

Pro Forma Capitalization as of November 30, 2001 for Missouri-American Water Company

RATIO ANALYSIS	Ratios as of 11-30-01	Pro-Forma Ratios	S&P Guidelines "A" Rating (1)
Pre-Tax Interest Coverage:	3.27 x	3.37 x	2.89x (2)
After-Tax Coverage of Interest and Preferred Dividends:	2.34 x	2.40 x	N.A.
Funds Flow Interest Coverage:	7.58 x	7.80 x	3.02x
Funds from Operations to Total Debt:	40.45%	41.91%	13.30%
Total Debt to Total Capital:	55.93%	54.05%	57.10%

Formulas:

Pre-Tax Interest Coverage:	(Earnings before int. and taxes) / interest
After-Tax Coverage of Interest and Preferred Dividends:	(Gross Income) / (Gross Interest + Preferred Dividends)
Funds Flow Interest Coverage:	(Funds from Operations + Interest Charges Paid) / (Gross Interest Expense)
Funds from Operations to Total Debt: (3)	(Funds from Operations) / (Total Debt Outstanding)

Notes:

- (1) Standard & Poor's, Utilities Rating Service - Financial Statistics, July 7, 2000.
- (2) 2.89x is the median. Interest coverages ranged from the lower quartile of 2.43x to an upper quartile of 3.13x
- (3) Standard & Poor's Risk Adjusted Ratio Guideline formula uses an average total debt figure. For purposes of this analysis, however, a total debt figure is used to account for the incremental change in the capital structure.

**Service List for
Case No. WF-2002-359
Revised: March 5, 2002 (SW)**

**Office of the Public Counsel
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Jefferson City, MO 65102**

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Missouri-American Water Company
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St. Louis, MO 63141**