

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Missouri-American Water)
Company for Authority to Issue up to)
\$57,490,000 in Aggregate Principal)
Amount of its General Mortgage Bonds in)
Conjunction with the Refunding of)
Outstanding Issues of Tax-Exempt Bonds)

Case No. WF-2006-0331

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission and, for its Staff Recommendation, states to the Missouri Public Service Commission as follows.

1. On February 17, 2006, Missouri-American Water Company filed an Application with the Commission, by terms of which it sought authority to issue general mortgage bonds in an aggregate principal amount of up to \$57,490,000, for the purpose of discharging or refunding existing indebtedness. On March 10, 2006, the Commission ordered the Staff to file a recommendation regarding Missouri-American's Application, by no later than March 24, 2006.

2. Attached hereto as Exhibit A is the Staff's Memorandum, which contains Staff's recommendation regarding Missouri-American's Application. The Staff recommends that the Company's Application be approved, upon the conditions that: the Commission's order shall not be considered a finding by the Commission of the value of the transaction for rate making purposes; the Company file with the Commission all final terms and conditions of the proposed financing; and the Company file with the Commission, upon refunding of any outstanding debt, the net present value calculations indicating the amount of interest cost savings.

WHEREFORE, the Staff submits its Recommendation in compliance with the Order Directing Staff to File a Recommendation.

Respectfully submitted,

/s/ Keith R. Krueger

Keith R. Krueger
Deputy General Counsel
Missouri Bar No. 23857

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered, transmitted by facsimile or e-mailed to all counsel of record as shown on the attached service list this 24th day of March 2006.

/s/ Keith R. Krueger

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. WF-2006-0331, Missouri-American Water Company

FROM: David Murray, Financial Analysis Department

/s/ David Murray 03/24/06

Project Coordinator / Date

/s/ Keith R. Krueger 03/24/06

General Counsel's Office / Date

SUBJECT: Staff Recommendation to approve the Application of Missouri-American Water Company for authority to issue up to \$57,490,000 aggregate principal amount of General Mortgage Bonds in Conjunction with the Refunding of Outstanding Issues of Tax-Exempt Bonds.

DATE: March 24, 2006

Missouri-American Water Company

1. (a) **Type of Issue:** General Mortgage Bonds to secure obligations relating to proposed revenue bonds (EIERA Bonds) to be issued by the State Environmental Improvement and Energy Resources Authority (Authority) and to purchase municipal bond insurance in conjunction with the EIERA Bonds.

(b) **Amount:** Up to \$57,490,000 principal amount

(c) **Rate:** The interest rate on the EIERA Bonds will not exceed 200 basis points over the most current Bond Buyer Revenue Bond Index and the bonds will be issued only if this results in a net interest cost savings to the Applicant.
2. **Proposed Date of Transaction:** As soon as the Commission so authorizes.
3. (a) **Statement of Purpose of the Transaction:** The Applicant proposes to request the Authority to issue one or more new series of EIERA Bonds to refund (i.e. refinance) some or all of Applicant's current outstanding EIERA Bonds.

(b) **From a financial perspective, does Staff deem this purpose reasonable?**

Yes X No
4. **Type of Transaction:** At request of the Applicant, the Authority will issue and sell for cash to an underwriter a specified principal amount of tax-exempt EIERA Bonds. The EIERA Bonds will be secured by Applicant's General Mortgage Bonds, which will bear the same terms as the EIERA Bonds.
5. **Copies of executed instruments defining terms of the proposed transaction:**

___ (a) If such instruments have been previously filed with the Commission, a reference to the Case Number in which the instruments were furnished.

Appendix A

- ☒ (b) If such instruments have not been executed at the time of filing, a commitment to provide the terms and conditions of the instruments when they are available has been made.
- ☐ (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 proposed transaction reviewed:**
- Yes ☒ No
7. **Capital expenditure schedule reviewed:**
- Yes No ☒
8. **Journal entries are required to be filed by the Company to allow for the Fee Schedule to be applied:**
- Yes No ☒
9. **Recommendation of the Staff:**
- ☐ Grant by session order (see Comments)
- ☒ Conditional Approval granted pending receipt of definite terms of transaction (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 or Company) is a Missouri corporation with its principal office and place of business at 727 Craig 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 and wastewater service to the public in over one hundred (100) municipalities within twelve (12) counties throughout the State of Missouri.

Missouri-American has filed an Application requesting that the Commission authorize the Company to issue up to \$57,490,000 in aggregate principal amount of its General Mortgage Bonds in conjunction with its

request of the Authority to issue EIERA Bonds. The Authority will issue EIERA Bonds to investors and then lend the proceeds to Missouri-American in return for Missouri-American General Mortgage Bonds bearing the same terms. This provides the Authority a security interest in Missouri-American assets. The Authority is authorized to issue EIERA Bonds and loan the proceeds to a corporation for the purpose of construction, reconstruction, enlargement, improvement, furnishing, equipping, maintaining, repairing, operating, leasing, financing and selling any facility constituting a "project" under Section 260.005 through 260.125, RSMo.

The EIERA Bonds are tax-exempt, which makes the cost of the bonds lower than traditional taxable bonds, because the investor does not require a higher return to offset the taxes. As can be seen in Paragraph 14 of the Application, the EIERA Bonds that Missouri-American proposes to refinance already have fairly low stated interest rates. However, Missouri-American has been informed that it can refinance these bonds at even lower costs. Missouri-American states that it will only seek to refinance the outstanding EIERA Bonds if the market conditions at the time of any such refinancing result in a net interest cost savings on a net present value basis.

The Applicant also states in Paragraph 17 that it will purchase municipal bond insurance if such municipal bond insurance will result in interest cost savings on a present value basis. In Paragraph 22 of the Application, Missouri-American committed to providing reports that verify that any such refinancing results in savings on a net present value basis.

Staff has not performed any quantitative analysis of the proposed transaction, because any such analysis will only show improvement in the Applicant's profitability and interest coverage ratios.

OTHER ISSUES:

The Staff has verified that the Company has filed its annual report and is not delinquent on any assessment. The Budget and Fiscal Services Department has reviewed the circumstances in this finance case and does not believe that journal entries are required to apply the fee schedule per Section 386.300, RSMo. Staff is not aware of any other case that affects or is affected by this case.

RECOMMENDED CONDITIONS:

Staff recommends that this Application be approved 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 Company file with the Commission all final terms and conditions of the proposed financing, including, but not limited to, the aggregate principal amount to be sold or borrowed, price information, estimated expenses, and loan or indenture agreement concerning each issuance.
3. That the Company file with the Commission, upon refunding of any outstanding debt, the net present value calculations indicating the amount of interest cost savings.

In the Matter of Missouri-American Water)
 Company for Authority to Issue up to \$57,490,000)
 in Aggregate Principal Amount of its General) Case No. WF-2006-0331
 Mortgage bonds in Conjunction with the Refunding)
 of Outstanding Issues of Tax-Exempt Bonds)

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

David Murray
David Murray

Subscribed and sworn to before me this 24th day of March 2006.

