

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

In the Matter of Missouri-American	)	
Water Company for Authority to Issue up	)	
to \$212,500,000 of Long-Term,	)	<b>Case No. WF-2011-0173</b>
Unsecured Debt	)	

**MISSOURI AMERICAN WATER COMPANY'S  
RESPONSE TO STAFF RECOMMENDATION**

**COMES NOW** Missouri-American Water Company (MAWC) and for its Response to Staff Recommendation, states to the Missouri Public Service Commission (Commission) as follows:

1. On December 17, 2010, Missouri American Water Company filed with the Commission an *Application for Authority to Issue up to \$212,500,000 of Long Term Debt* ("Application").
2. On December 17, 2010, the Commission issued an *Order* which directed Staff to file a pleading by December 28, 2010 stating when it anticipates filing its recommendation in this matter.
3. On December 28, 2010, the Commission ordered Staff to file a recommendation regarding the *Application* by February 17, 2011.
4. On February 17, 2011, Staff filed its response which among other things recommended that this *Application* be approved with conditions as defined in Staff's Appendix A, which was attached to Staff's response.
5. Having reviewed the Staff recommendation, MAWC is in general agreement with Staff's conclusion. MAWC notes, however, certain statements in Staff's Appendix A that warrant correction or clarification.

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First, the Staff report notes that the financial covenants in the 18th supplemental indenture and the original 1968 Indenture of Mortgage "restrict" MAWC from issuing additional

debt under the general mortgage (Staff Report, p. 6). While Staff emphasized that these covenants restrict MAWC from issuing new debt under the general mortgage and not from issuing debt to AWCC, for the purpose of clarification, MAWC is restricted only in the sense that it must satisfy these financial covenants in order to issue new debt under the general mortgage. These criteria include maintaining a 65% or lower debt ratio and a 1.5 times interest coverage ratio. As noted by Staff, the Company is currently in compliance with both of these covenants. Also, while Staff is correct that these financial covenants do not apply to new debt MAWC would issue to AWCC, they also do not apply to new debt MAWC would issue to other third parties who do not require that it be backed by an indenture of mortgage.

Second, in the "Other Analyses" section the Staff Report states that Staff did not perform "any quantitative analysis of the impact of the proposed transaction on Missouri-American's financial statements", because in Staff's view, it is the impact "on AWW's consolidated operations that is most relevant to the cost of debt available to Missouri-American from AWCC." MAWC notes that while AWW's financial strength will determine the cost of debt issued by AWCC, MAWC's financial strength is also relevant in the event it decides to issue debt independently to a third party. As such, MAWC manages its capital structure from the standpoint of a stand-alone entity so that it is able to issue debt on its own in the event it can obtain terms more favorable than if it issued debt through AWCC. MAWC strives to maintain reasonable balances of debt and equity in an effort to minimize its overall cost of capital. For these reasons, MAWC considers the impact of its financing plan on the relative balances of its capital components to be of significant importance.

It should be noted that in any event, the Company does not oppose an order approving the Application conditions as proposed by Staff.

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**WHEREFORE,** Missouri-American Water Company submits this Response to Staff Recommendation for the Commission's consideration in this case.

Respectfully submitted,

MISSOURI-AMERICAN WATER COMPANY

By: 

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**CERTIFICATE OF SERVICE**

I do hereby certify that a true and correct copy of the foregoing document has been sent by electronic mail this 25th day of February, 2011, to:

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