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STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service Commission held at its office in Jefferson City on the 27th day of May, 1997.

In the Matter of the Application of Missouri-American Water Company for Authority (1) to Execute and Deliver a Twelfth 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, 7.79% Series, due June 1, 2027, (2) to Issue and Sell at Private Sale $8,000,000 Principal Amount of Such Bonds, and (3) to Issue and Sell at Private Sale $2,900,000 Aggregate Amount of Common Stock.	**CASE NO. WF-97-414**

ORDER APPROVING FINANCING

Missouri-American Water Company (Missouri-American or Applicant) filed an application on March 25, 1997, with the Commission requesting authority to issue and sell $8,000,000 principal amount of General Mortgage Bonds, and to issue and sell 416,069 shares of Common Stock for $2,900.000. The Commission's authorization for the transactions is required under Sections 393.180, 393.200, 393.210 and 393.220, RSMo 1994.[1] Applicant filed an Amended Application by Interlineation on April 16 which indicated that as of March 7, 1997, the name of the Local Trustee under the Indenture of Mortgage was changed from Mercantile Bank of Joplin to Mercantile Bank of Western Missouri. On May 14 the Commission's Staff

[1]All Statutory references are to the Revised Statutes of Missouri, 1994, unless otherwise noted.

The Commission has reviewed the application filed by Missouri-American and the Staff's memorandum. The Commission notes that the Funds from Operation to Total Debt ratio is below the "BBB" standard, and the Commission is concerned that this ratio continues to move in the wrong direction. However, the Commission finds that the application should be approved because it appears that the issuance and sale of the securities is reasonably required to pay off the indebtedness described above and to construct, maintain and improve the facilities of the Applicant. Such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income. Therefore, the Commission will authorize the requested financing in the form reflected in the application and attached exhibits. The Commission notes that since Applicant will retire $545,000 aggregate amount of bonds with the proceeds of the financing, the fee schedule in Section 386.300.2, RSMo Supp. 1996, will apply to $7,455,000 of the total proceeds of $8,000,000 from the sale of the bonds. The Commission is not of the opinion that preferred stock is evidence of indebtedness under Section 386.300.2, RSMo Supp. 1996. Therefore, the fee schedule will apply to proceeds used to retire preferred stock.

Applicant submitted a letter on May 16 advising the Commission that the parties intend to close the transaction on June 12.

IT IS THEREFORE ORDERED:

1. That Missouri-American Water Company is hereby authorized to issue and sell at private sale $8 million aggregate principal amount of General Mortgage Bonds which will bear an interest rate of 7.79%, due 2027, to American United Life Insurance Company; said bonds to be issued, sold, received and held subject to the terms and conditions of the Indenture of Mortgage dated May 1, 1968, and Supplemental indentures thereto dated as of March 1, 1971; October 1, 1975; October 1, 1980; January 1, 1984;

September 1, 1986; February 1, 1990; January 1, 1993; March 1, 1994; January 1, 1995; March 1, 1995; and July 1, 1996, and a Twelfth Supplemental Indenture to be dated upon authentication and delivery of the General Mortgage Bonds no later than June 31, 1997; said bonds to be substantially in the form as provided in said Twelfth Supplemental Indenture.

2. That Missouri-American Water Company is hereby authorized to issue and sell at private sale 416,069 shares of no par Common Stock of Applicant to American Water Works Company, Inc. for $2.9 million no later than June 31, 1997.

3. That Missouri-American Water Company is hereby authorized to make payments for services rendered and expenses incurred in connection with the issuance and delivery of the General Mortgage Bonds and Common Stock referenced in ordered paragraphs 1 and 2 above.

4. That Missouri-American Water Company is hereby authorized to execute, enter into, deliver and perform any agreements, and to do any and all other things not contrary to law or the rules and regulations of the Commission incidental, necessary or appropriate to the performance of any and all acts specifically authorized in this order.

5. That Missouri-American Water Company shall file with the Commission the final terms and conditions associated with the financing no later than July 11, 1997.

6. That nothing in this order shall be considered as a finding of the Commission as to the reasonableness for the expenditures herein involved. The Commission reserves the right to consider the ratemaking treatment to be afforded these transactions and the resulting cost of capital in any later proceedings.

7. That this order shall become effective on June 6, 1997.

BY THE COMMISSION

Cecil I. Wright

Cecil I. Wright
Executive Secretary

(S E A L)

Zobrist, Chm., Crumpton, Murray
and Drainer, CC., concur.

ALJ: George