

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION
JEFFERSON CITY

August 25, 1992

CASE NO. WM-92-138, WF-92-139, WF-92-140, WA-92-141

Nathan Williams, Attorney at Law, P.O. Box 431, Sunrise Beach, MO 65079

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

Sincerely,

Brent Stewart

Brent Stewart
Executive Secretary

Uncertified Copy:

Office of the Public Counsel, P.O. Box 7800, Jefferson City, MO 65102
William P. Mitchell, Route 4, Box 30, Osage Beach, MO 65065

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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 25th
day of August, 1992.

In the matter of the application of William)
Patterson Mitchell for authority to acquire) CASE NO. WM-92-138
stock of Osage Water Company.)

In the matter of the application of Osage)
Water Company for permission and approval) CASE NO. WF-92-139
to issue stock.)

In the matter of the application of Osage)
Water Company for permission and approval) CASE NO. WF-92-140
to recapitalize and for authority to issue)
stock.)

In the matter of the application of Osage)
Water Company for permission, approval, and)
a certificate of convenience and necessity)
authorizing it to construct, install, own,)
operate, control, manage and maintain a water) CASE NO. WA-92-141
system for the public, located in an area)
including part of the City of Osage Beach,)
Missouri, all of the Village of Sunrise)
Beach, Missouri, and unincorporated portions)
of Camden and Miller Counties, Missouri.)

ORDER APPROVING APPLICATIONS

On December 19, 1991, Osage Water Company (Osage) filed four applications with the Commission. The application in Case No. WM-92-138 seeks permission for William Patterson Mitchell (Mitchell) to acquire the Osage stock he does not presently own. The applications in Case Nos. WF-92-139 and WF-92-140 seek permission to issue additional stock. In Case No. WA-92-141, Osage is requesting that the Commission issue a certificate of convenience and necessity to install, own, acquire, construct, operate, control, manage and maintain a water system in an area including part of the City of Osage Beach, all of the Village of Sunrise Beach, plus unincorporated portions of Camden and Miller Counties.

On January 10, 1992, the Commission issued an Order and Notice consolidating the four cases and directing its Executive Secretary to send notice of the applications. The Commission stated that if no one filed an application to intervene or motion for hearing, Osage would be allowed to submit evidence in support of the application by verified statement. No application to intervene nor motion for hearing was filed. On July 22, 1992, the Staff of the Commission (Staff) filed a memorandum recommending that the Commission approve the applications.

In Case No. WM-92-138, Mitchell is seeking to acquire all of Osage's stock from his co-shareholders because they do not want to sign personal guarantees required for Osage to obtain loans. Staff stated in its memorandum that Mitchell is experienced in the management of Osage and that the changeover should not be detrimental to Osage's operations or to its ratepayers. The Commission finds that, because of Mitchell's experience with Osage's operations and the need for Osage to have the ability to obtain financing, the purchase of Osage's stock by Mitchell is not detrimental to the public interest and should be approved.

In Case No. WF-92-139, Osage is requesting authority to issue Class A common stock for retention of the services of an attorney and the services of an expert in sewer system construction. Osage is also requesting authority to issue Class A preferred stock for the acquisition of water and sewer systems to improve service. In addition, Osage is requesting authority to issue 62 shares of Class B preferred stock to compensate its attorneys for service already rendered. Following issuance of the stock, the ownership of Osage would be as follows:

CLASS A COMMON

<u>Owner</u>	<u>Shares</u>
William P. Mitchell	50
Gregory D. Williams	50
David L. Hancock	50

CLASS A PREFERRED

<u>Owner</u>	<u>Shares</u>
William P. Mitchell	75
Hurricane Deck Holding Company	51
Hancock Construction Company	30

CLASS B PREFERRED

<u>Owner</u>	<u>Shares</u>
Williams & Williams, P.C.	62

In Case No. WF-92-140, Osage requests authority to create and issue the new classes of stock found in Case No. WF-92-139. Osage is seeking to recapitalize by issuing the following classes and number of shares of stock:

<u>Class</u>	<u># of Shares</u>	<u>Par Value</u>
Class A Common (New Common)	3,000	\$ 1.00
Class A Preferred	4,500	1,000.00
Class B Preferred	3,000	100.00

Osage currently is authorized to issue 3,000 shares of Class A common stock (Old Common) of which 50 shares are outstanding and would be held by Mitchell pending approval of the application in Case No. WM-92-138. Under the plan proposed by Osage, the Old Common shares would be exchanged for New Common and Class A preferred stock as follows:

"...to issue one share of New Class A common stock plus one and one-half (1.5) shares of Class A preferred stock in exchange for each share of Old Common...."

In its memorandum, Staff states that Osage's capital structure shows Osage to be highly leveraged, with 96.80 percent of its total capital in short-term debt. The pro-forma capital structure proposed by Osage indicates that, if the applications herein are approved, the capital structure would consist of 95.85 percent preferred stock. Staff indicates that while this is not a normal capital structure, it should not be detrimental to Osage's operations or its ratepayers.

Staff states that although the proposed capital structure is not optimal, a significant portion of preferred stock should not increase the risk of financial failure as would the same proportion of debt in the capital structure. Staff further stated that the problem created by an excessive amount of preferred stock is in the increased cost of capital. Staff suggests that a hypothetical capital structure be used to determine Osage's appropriate rate of return during ratemaking proceedings to prevent the ratepayers from bearing the burden of the increased cost of capital.

The Commission finds that Osage's decision to create and issue stock as contemplated in its applications in Case Nos. WF-92-139 and WF-92-140 is reasonable in that stock carries less risk than debt. The Commission also finds that Osage's proposed capital structure, while not ideal, is reasonable. Nonetheless, the Commission will reserve the right to consider the ratemaking treatment of these transactions in any later proceeding.

The Commission further finds that the money, property, or labor to be procured or paid for by the issuance of stock herein is reasonably required for the purposes specified herein, and that the purposes are not, in whole or in part, reasonably chargeable to operating expenses or income.

Thus, the Commission finds that Osage's proposal to create and issue stock is not detrimental to the public interest and should be approved.

In Case No. WA-92-141, Osage is seeking a certificate of public convenience and necessity to install, own, acquire, construct, operate, control, manage and maintain a water system in both incorporated and unincorporated areas of Camden and Miller Counties. On March 3, 1992, Osage filed amendments to its application. On July 6, 1992, after discussions with Staff, Osage again amended its application to revise the requested service area. Osage states that it has received approval from the City of Osage Beach and the Village of Sunrise Beach. Osage also states that there are no other public utilities or governmental bodies rendering water service in the proposed service area.

In its memorandum, Staff indicated that Osage is an existing company currently providing water service to portions of Camden County. Staff stated that Osage has proposed to use its present tariff and rates for customers in the new service area and that Staff agrees with this approach.

Upon review of Osage's application and Staff's recommendation, the Commission finds that providing a clean and reliable source of water to the proposed area is in the public interest, and that Osage's proposal is reasonable. The Commission also finds that, as Osage is an existing company currently providing water service to other areas, Osage is capable of providing water service to the proposed service area on an ongoing basis. Thus, the Commission determines that Osage's application for a certificate of convenience and necessity is in the public interest and should be approved.

IT IS THEREFORE ORDERED:

1. That William Patterson Mitchell is hereby authorized to acquire the outstanding stock of Osage Water Company that he does not presently own.
2. That Osage Water Company is hereby authorized to issue 3,000 shares of Class A common stock, 4,500 shares of Class A preferred stock and 3,000 shares of Class B preferred stock.

3. That Osage Water Company is hereby authorized to convert its present shares of common stock to shares of Class A common stock and shares of Class A preferred stock as follows: one share of Class A common stock plus 1.5 shares of Class A preferred stock for each current share of common stock.

4. That Osage Water Company is hereby authorized to issue 50 shares of Class A common stock to Gregory D. Williams, 50 shares of Class A common stock to David L. Hancock, 51 shares of Class A preferred stock to Hurricane Deck Holding Company, 30 shares of Class A preferred stock to Hancock Construction Company and 62 shares of Class B preferred stock to the law firm of Williams and Williams.

5. That Osage Water Company is hereby granted a certificate of convenience and necessity to install, own, acquire, construct, operate, control, manage and maintain a water system within the area outlined in its application, as amended.

6. That Osage Water Company shall update its tariff within twenty (20) days of the effective date of this order by filing a revised map and legal description consistent with the service area approved by this order.

7. That Osage Water Company shall utilize its current tariffs and rates for customers in the service area approved by this order.

8. That Osage Water Company is hereby authorized to take any and all actions necessary to effectuate the transactions contemplated by the applications and this order.

9. That nothing in this order shall be considered as a finding by the Commission of the reasonableness of the expenditures herein involved, nor of the value for ratemaking purposes of the properties herein included, nor as an acquiescence in the value placed upon said properties by Osage Water Company.

10. That the Commission reserves the right to consider the ratemaking treatment to be afforded the transactions herein contemplated in any later proceeding.

11. That this Order shall become effective on September 4, 1992.

BY THE COMMISSION

Brent Stewart

Brent Stewart
Executive Secretary

(S E A L)

McClure, Chm., Mueller, Rauch
and Kincheloe, CC., Concur.
Perkins, C., Absent.

Grothogg/Buchta

WM-92-138

WF-92-139

WF-92-140

CASE NO. WA-92-141

Mup 3

Chairman

am

Commissioner

DK

Commissioner

PD

absent

Commissioner

OK

Commissioner

4-OAS

3.1584c

Agenda 8/25

STATE OF MISSOURI

OFFICE OF THE PUBLIC SERVICE COMMISSION

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 25th day of August, 1992

Brent Stewart

**Brent Stewart
Executive Secretary**