OPC 3026

DATA INFORMATION REQUEST
Missouri-American Water Company
WR-2020-0344

Requested From: Brian LaGrand
Date Requested: 1/20/2021

Information Requested:

(Ref page 7, lines 3-18 of James Merante's Rebuttal Testimony) Please quantify the amount of MAWC's planned capital expenditures over the next five years that Mr. Merante considers discretionary versus mandatory for safe and reliable service. For the capital expenditures that are discretionary, please quantify the amount of customer savings anticipated in the long-run for such capital expenditures.

Requested By: David Murray- Office of Public Counsel- David.murray@opc.mo.gov

Information Provided:

Discretionary as defined by MAWC is that spend which is considered proactive investment of assets that can be delayed to a later period. A review of the capital plan for 2021-2022 has determined that approximately $70 million of capital expenditures could be deferred beyond 2022. Proactive replacement of aging or prone-to-fail assets does mitigate the long-term costs of providing service when compared to unscheduled replacement in a potential emergent situation. The Company has not quantified the long-term customer savings associated with such proactive capital investments.

Responsible Witness: Jeffrey Kaiser

OPC 3027

DATA INFORMATION REQUEST
Missouri-American Water Company
WR-2020-0344

Requested From: Brian LaGrand
Date Requested: 1/20/2021

Information Requested:

(Ref page 8, lines 2-4 of James Merante's Rebuttal Testimony) Please provide analysis/documentation supporting Mr. Merante's position that MAWC would not be able to issue independent debt at a lower cost than it pays to AWCC for debt. If not shown in the analysis/documentation, please explain/quantify the anticipated cost savings that could be realized by MAWC issuing bonds secured by its assets (i.e. first mortgage bonds).
Requested By: David Murray- Office of Public Counsel- David.murray@opc.mo.gov

Information Provided:
Please note that we are unable to determine the potential cost differential for MAWC to issue bonds if MAWC credit rating would fall to a level as low as Ba1 (non-investment grade) as discussed in the Company's response to OPC 3028. Consequently, assuming a Baa3 rating for illustrative purposes we have attached an estimate of the incremental costs associated with MAWC as an independent issuer of bonds versus issuing public debt through AWCC. See attached OPC 3027_Attachment 1.

As can be seen from this analysis, the estimated incremental long-term debt costs to raise capital through SEC-registered first mortgage bonds and private placements would be 225bps to 240bps higher. The analysis is based on estimated secured first mortgage bonds, senior unsecured issuances would add approximately 10-20bps of incremental cost.

It should be noted that, if MAWC did not issue debt through AWCC, it is more likely that MAWC would issue private placements which would significantly reduce its access to the capital markets. The private placement market requires significant investor marketing efforts and may not always attract adequate investor demand to meet MAWC's capital needs including the timing of these needs, taking into consideration MAWC's lower implied credit rating.

Additionally, MAWC's credit rating could impact its ability to access AWCC's revolving line of credit and commercial paper program to support its ongoing liquidity needs. As a standalone issuer/borrower, MAWC would need to obtain alternative financing sources for its liquidity needs such as a standalone bank line of credit, a standalone commercial paper program, etc.

Responsible Witness: James Merante

OPC 3027 Exhibit 1: Cost Comparison of AWCC Issued Debt and Standalone MAWC Debt
Missouri American Water Co.

Issuance Amount: **$100,000,000**

Status Quo (Senior Unsecured Issued through AWCC)		
Interest Rate		
30Y Benchmark Yield	1.80%	
New Issue Spread	0.90%	
New Issue Yield	**2.70%**	
Annual Interest Expense		
Coupon Rate	2.70%	
Interest Expense	$2,707,541	
Issuance Costs		
Underwriter	0.96%	962,500
Legal	0.02%	15,380
Rating Agency	0.16%	157,850
Accounting	0.01%	10,450
Other	0.02%	19,419
Total	**1.17%**	**$1,165,599**
Upfront Costs		
Annual Rating Agency Fees	0.01%	8,488
Total	**0.01%**	**$8,488**
On-Going Annual Expenses		
Rating Agency	0.08%	$79,200
Trustee Fee	0.00%	3,000
Outside SEC Legal	0.00%	-
No Additional FTE: Treasury	0.00%	-
No Additional FTE: Legal	0.00%	-
No Additional FTE: Accounting	0.00%	-
Total	**0.08%**	**$82,200**
All-in Cost		**2.84%**

MOAW Standalone Issuer (Baa3, SEC Registered First Mortgage Bonds)		
Interest Rate		
30Y Benchmark Yield	1.80%	
New Issue Spread	1.70%	
New Issue Yield	**3.50%**	
Increase vs. AWCC Issuance:	*0.80%*	
Estimated Annual Interest Expense		
Coupon Rate	3.50%	
Interest Expense	$3,500,000	
Increase vs. AWCC Issuance:	$792,459	
Estimated Issuance Costs		
Underwriter	0.96%	$962,500
Legal	0.15%	150,000
Rating Agency	0.23%	225,000
Accounting	0.13%	125,000
Other7	0.15%	150,000
Total	**1.61%**	**$1,612,500**
vs. AWCC Issuance:		*$446,901*
Estimated Upfront Costs		
SEC Registration	1.50%	1,500,000
Initial Rating Agency Fees	0.21%	214,500
Total	**1.71%**	**$1,714,500**
vs. AWCC Issuance:		*$1,706,012*
On-Going Annual Expenses		
Rating Agency	0.16%	$155,000
Trustee Fee	0.00%	3,000
Outside Legal	0.20%	200,000
FTE: 2 Additional Treasury	0.38%	375,000
FTE: 1 In-house Legal	0.35%	350,000
2 Additional Accounting	0.38%	375,000
Total	**1.46%**	**$1,458,000**
vs. AWCC Issuance:		*$1,375,800*
All-in Cost		**5.07%**
vs. AWCC Issuance (Status Quo)		2.23%

MOAW Standalone Issuer (Baa3, Private Placement)		
Interest Rate		
30Y Benchmark Yield	1.80%	
New Issue Spread	1.90%	
New Issue Yield	**3.70%**	
Increase vs. AWCC Issuance:	*1.00%*	
Estimated Annual Interest Expense		
Coupon Rate	3.70%	
Interest Expense	$3,700,000	
Increase vs. AWCC Issuance:	$992,459	
Estimated Issuance Costs		
Placement[6]	0.50%	$500,000
Legal[3]	0.15%	150,000
Rating Agency[4]	0.23%	225,000
Accounting[5]	0.13%	125,000
Other[7]	0.30%	300,000
Total	**1.30%**	**$1,300,000**
vs. AWCC Issuance:		*$134,401*
Estimated Upfront Costs		
Initial Rating Agency Fees[4]	0.21%	214,500
Total	**0.21%**	**214,500**
vs. AWCC Issuance:		*$206,012*
On-Going Annual Expenses		
Rating Agency	0.16%	$155,000
Trustee Fee	0.00%	3,000
Outside Legal	0.20%	200,000
FTE: 2 Additional Treasury	0.38%	375,000
FTE: 1 In-house Legal	0.35%	350,000
FTE: 2 Additional Accounting	0.38%	375,000
Total	**1.46%**	**$1,458,000**
vs. AWCC Issuance:		*$1,375,800*
All-in Cost		**5.21%**
vs. AWCC Issuance (Status Quo)		2.37%

OPC 3028

DATA INFORMATION REQUEST
Missouri-American Water Company
WR-2020-0344

Requested From: Brian LaGrand
Date Requested: 1/20/2021

Information Requested:

Please provide MAWC's analysis of the credit rating, or probable credit rating, that it would be assigned if it issued mortgage bonds directly to third-party debt investors.

Requested By: David Murray- Office of Public Counsel- David.murray@opc.mo.gov

Information Provided:

Moody's ratings applies both quantitative and qualitative factors to its ratings criteria: 50% business profile, 40% financial leverage and coverage, and 10% financial policy. One would expect the rating agencies to consider, as noted on page 4 of Mr. Merante's rebuttal testimony, that Missouri-American has not collected the revenues authorized by this Commission in eight (8) of the last 10 calendar years. (Table GPR-11 of Mr. Roach's Direct Testimony). In addition, because of the scale of MAWC's capital program and the use of an historical test year for ratemaking, much of MAWC's capital investment is subject to significant regulatory lag. Imputing a debt to capital ratio of 61% (based on an America Water consolidated capital structure), would lower MAWC's debt coverage (i.e. FFO/Debt) to approximately eleven percent. Under these circumstances, while we do not know what credit rating would be assigned to MAWC, it would not be unreasonable to expect it to fall to a level as low as Ba1 (non-investment grade).

($ in Millions)	**YE 2020**	**Adjustment**	**Proforma YE 2020**
Debt	816.2	252.4	1,068.6
Equity	935.6	(252.4)	683.2
Total Cap	1,751.7	-	1,751.7
Equity/Cap	53.4%		39.0%
Debt/Cap	**46.6%**		**61.0%**
Moody's FFO	154.9	(26.5)	128.4
Moody's Debt	906.7	252.4	1,159.1
Moody's FFO/Debt	**17.1%**		**11.1%**

Responsible Witness: James Merante