

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

In the Matter of Missouri-American Water)
Company for Authority to Issue up to)
\$650,000,000 of Long-Term, Unsecured Debt) **File No. WF-2022-0161**

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission (Staff), through counsel, and files its *Staff Recommendation* recommending that the Commission approve the application of Missouri-American Water Company (MAWC) to issue up to \$650 million of long-term unsecured debt. Staff further recommends that the Commission grant MAWC’s requested waiver from the 60 day requirement of 20 CSR 4240-4.017(1).

1. On December 15, 2021 MAWC filed its *Application and Motion for Waiver* (Application), pursuant to § 393.200, RSMo and Commission rules 20 CSR 4240-2.060, 20 CSR 4240-2.080, and 20 CSR 4240-10.125. In its Application, MAWC requests Commission authority to engage in unsecured debt financing over a three-year period following the effective date of an order approving MAWC’s financing plan.

2. On December 20, 2021, the Commission ordered Staff to file, by January 11, 2022, either a recommendation regarding MAWC’s Application, or a status report indicating when it will file its recommendation.

3. On January 10, 2022 Staff filed a *Status Report* requesting a due date of February 15, 2022 to file its recommendation. On January 11, 2022 the Commission ordered Staff to file its recommendation by February 15, 2022.

4. MAWC proposes to issue long-term unsecured debt up to \$650 million from American Water Capital Corp. (AWCC). AWCC was established in 2000 to provide financial services to American Water Works Co. (AWW), which is MAWC’s parent

company, and its utility subsidiaries. MAWC states in its Application that this debt will be issued as promissory notes with terms to be determined based on market conditions applicable at the time of issuance. The notes' maturities will not exceed 50 years and the interest rate(s) will be consistent with similar securities of comparable credit quality and maturities issued by other companies.¹

5. MAWC also requests authority to enter into agreements in order to use, at its discretion, derivative instruments such as interest rate swaps, treasury locks, forward-starting swaps, caps, collars, or other derivatives, to manage the risk associated with interest rate fluctuations and other financial exposures that may occur before the issuance of the proposed long-term debt.²

6. MAWC proposes to use the proposed long-term debt issuance for the acquisition of property; the construction, completion, extension or improvements or additions to its facilities; and other capital investments. Some proceeds will be used to replace maturing or other long-term debt at market rates and replace short-term borrowings accrued during the time MAWC's financing plan is in effect.³

7. Section 393.200.1, RSMo, provides, among other things, that a regulated utility may issue notes of indebtedness when necessary for the acquisition of property, the extension or improvement of its plant or system, or to discharge lawful obligations. This statute also states that the Commission can issue an order approving the indebtedness if the funds sought are "reasonably required" for the purposes the Commission approves in its order.

¹ Application, ¶ 14.

² *Id.* at ¶ 19.

³ *Id.* at ¶ 20.

8. Staff reviewed MAWC's Application and conducted discovery. Based on its review and investigation, Staff finds that the proposed debt issuance is consistent with § 393.200, RSMo in that it is or will be reasonably required for the purposes specified in the Application and that such purposes are not in whole, or in part, reasonably chargeable to operation expenses or income. Further, Staff finds that the Application is not detrimental to the public interest. For these reasons, Staff recommends that the Commission approve MAWC's Application, with the following seven conditions:

- a. 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 the financing transaction and its impact on cost of capital, in any later rate proceeding;
- b. That MAWC shall file with the Commission within thirty (30) days of issuance of any financing authorized pursuant to a Commission order in this proceeding, a report including the amount of indebtedness issued, date of issuance, interest rate (initial rate if variable), maturity date, redemption schedules or special terms, if any, use of proceeds, estimated expenses, and loan or indenture agreement concerning each issuance. In addition, MAWC shall also provide the analysis, to include but not be limited to, indicative pricing information provided by investment banks it performed to determine that the terms for the debt it decided to issue were the most reasonable at the time;
- c. That MAWC be given authority to enter into agreements in order to use, at its discretion, derivative instruments, such as interest rate swaps, treasury locks, forward-starting swaps, caps, collars or other derivatives, to manage the risk associated with interest rate fluctuations and other financial exposures that may occur before the issuance of the New Long-Term Debt;
- d. That MAWC shall file with the Commission any information concerning communication with credit rating agencies concerning any such issuance;
- e. That MAWC shall file with the Commission as a non-case related submission in EFIS under "Resources" - "Non-Case Related Query" - "Ordered Submission" any credit rating agency reports published

on MAWC's or AWW's corporate credit quality or the credit quality of its securities;

- f. That MAWC be required to file a five-year capitalization expenditure schedule in future finance cases;
- g. That the Commission's grant of authority shall expire three years from the effective date of the order in this proceeding; and
- h. That MAWC, independently or through AWCC, shall apply for and utilize special low cost government program funding for projects as applicable when the funding is available, and is less expensive than alternative sources including long-term debt with AWCC. If AWCC utilizes special low cost government program funding, MAWC shall borrow funds from AWCC at the same rate AWCC pays while utilizing the government programs.

9. MAWC also requests a waiver from the 60 day requirement of 20 CSR 4240-4.017(1). Staff does not object to the Commission granting this waiver, and recommends that it be granted.

WHEREFORE, for the above-stated reasons, Staff recommends that the Commission (1) authorize MAWC's Application with Staff's recommended conditions and (2) grant MAWC's waiver from the 60 day requirement of 20 CSR 4240-4.017(1).

Respectfully submitted,

/s/ Karen E. Bretz

Karen E. Bretz
Deputy Counsel
Missouri Bar No. 70632
Attorney for the Staff of the
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102
573-751-5472 (Voice)
573-751-9285 (Fax)
Karen.Bretz@psc.mo.gov

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing was served via e-mail on counsel for the parties of record to this case on this 15th day of February, 2022.

/s/ Karen Bretz