

## MEMORANDUM

**TO:** Missouri Public Service Commission Official Case File  
Case No. WF-2025-0150, Missouri-American Water Company

**FROM:** Johnny Garcia, Financial Analysis Department

*/s/ Seoung Joun Won, PhD 01/03/2025*  
Financial Analysis Department / Date

**SUBJECT:** Staff Recommendation concerning the Application of Missouri-American Water Company (“MAWC,” “Company,” or “Applicant”), for Authority to engage in a variety of unsecured debt financings with American Water Capital Corp. (“AWCC”), during an approximately three (3) year period and not to exceed an aggregate principal amount of Five Hundred Twenty-Five Million Dollars (\$525,000,000).

**DATE:** January 3, 2025

### FINDING OF FACTS:

1. (a) **Type of Issue:** Unsecured promissory notes with AWCC, issued in one or more series evidencing up to \$525 million.<sup>1</sup>
- (b) **Amount:** Up to \$525 million.
- (c) **Rate:** The interest rate for notes evidencing New Long-Term Debt, including any applicable discounts, will bear interest at a rate consistent with similar securities of comparable credit quality and maturities issued by other companies.<sup>2</sup> When AWCC borrows from the public markets, the rate paid by MAWC is the same as the rate paid by AWCC.<sup>3</sup>
- (d) **Other Provision:** The maturities will not exceed fifty (50) years at market interest rates.<sup>4</sup>

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<sup>1</sup> Paragraph 13, The Application.

<sup>2</sup> Paragraph 15, The Application; Staff Data Request No. 0018.

<sup>3</sup> Staff Data Request No 0017

<sup>4</sup> Paragraph 15, The Application.

2. **Proposed Date(s) of Transaction:** There is no specific transaction date contemplated at this time;<sup>5</sup> however, the application is anticipated to cover any unsecured debt issuances during an approximate three (3) year period following the effective date of an order approving the Applicant's proposed financing in this case extended to December 31, 2027.<sup>6</sup>
  
3. (a) **Statement of Purpose of the Issue:** The applicant plans to use the proceeds from the new long-term debt and funds from the finance facility for several purposes, including acquiring property, constructing or improving facilities, making other capital investments, and maintaining or improving public water supply and wastewater services. The funds will also be used to discharge or refinance existing debt, and to reimburse the treasury for previous expenses. Additionally, some of the proceeds will replace maturing long-term debt and short-term borrowings accrued during the financing plan period.<sup>7</sup> At this time it is unknown which portion of the long-term debt issuances will go toward the replacement of short-term debt with permanent, long-term financing.<sup>8</sup>  
  
(b) **From a financial perspective, does Staff deem this Statement of Purpose of the Issue reasonable?**  
  
Yes, with Staff's recommended conditions as indicated below on pages five and six.
  
4. **Copies of executed instruments defining terms of the proposed securities:**  
  
No, the proposed securities have not been executed yet.

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<sup>5</sup> Staff Data Request No. 0002

<sup>6</sup> Paragraph 12, the Application.

<sup>7</sup> Paragraph 20, The Application.

<sup>8</sup> Staff Data Request 0006

5. **Certified copy of resolution of the directors of applicant, or other legal documents authorizing the issuance of the securities reviewed:**

Yes.<sup>9</sup>

6. **Pro-forma Balance Sheet and Income Statement reviewed:**

Yes.<sup>10</sup>

7. **Capital expenditure schedule reviewed:**

Yes.<sup>11</sup>

8. **Journal entries required to be filed by Missouri-American Water to allow for the Fee Schedule to be applied:**

Currently the issuance amount of new long-term debt is unknown, therefore, there is no current anticipated fee schedule. The Applicant states its Supplemental Report of Financing Activity will include a statement identifying the portion of the issuances of long-term indebtedness that are subject to the fee schedule set forth in § 386.300 RSMo., in accordance with 20 CSR 4240-10.125(1)(F).<sup>12</sup> The report will be available when the new long-term debt is issued.

9. **Recommendation of the Staff:**

Conditional Approval recommended (see Comments and Recommended Conditions below).

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<sup>9</sup> Appendix 2, The Application.

<sup>10</sup> Staff Data Request 0001.

<sup>11</sup> Appendix 6, The Application; Staff Data Request 0016.

<sup>12</sup> Paragraph 25-26, The Application.

## COMMENTS:

MAWC, a wholly-owned subsidiary of American Water Works Company (“AWWC”), is a Missouri corporation with its principal office and place of business at 727 Craig Road, St. Louis, Missouri 63141.<sup>13</sup> The Applicant provides water service to approximately 483,000 customers and sewer service to approximately 24,000 customers in several counties throughout State of Missouri.<sup>14</sup>

On November 8, 2024, MAWC submitted an application requesting approval to enter into a variety of unsecured debt financings with AWCC, not to exceed an aggregate principal amount of \$525 million,<sup>15</sup> by signing promissory notes not to exceed 50 years.<sup>16</sup> The Applicant proposes to use the net proceeds from the loans for the acquisition of property; the construction, completion, extension or improvement of Applicant’s plant or system; the improvement or maintenance of its service; or the discharge or lawful refunding of indebtedness outstanding and to reimburse its treasury for any costs heretofore incurred. Some of the proceeds from the debt issuances will be used to replace maturing or other long-term debt at market rates and replace short term borrowings.<sup>17</sup>

MAWC’s total five-year capital expenditure plan, \*\* [REDACTED] \*\*,<sup>18</sup> is greater than the amount of the proposed financing. This total expenditure amount is divided between Recurring Projects and Investment Projects; \*\* [REDACTED] \*\*,<sup>19</sup> respectively.

Staff applies the “not detrimental to the public interest” standard to financing applications. In reviewing requests for issuing financing, Staff analyzes the requested amount as it relates to the

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<sup>13</sup> Paragraph 1, The Application,

<sup>14</sup> Paragraph 2, The Application.

<sup>15</sup> Paragraph 13, The Application.

<sup>16</sup> Paragraph 15. The application.

<sup>17</sup> Paragraph 20, The Application.

<sup>18</sup> Appendix 6, The Application; Staff Data Request 0016

<sup>19</sup> Ibid

stated uses to ensure that the amount requested is reasonable, and that it generally supports long-term capital investment.

Important in Staff's analysis of stated uses is determining whether the stated uses match the allowable purposes of investment in long-term capital, improvement and maintenance of service, and refunding of maturing short-term and or long-term obligations used for allowable purposes.<sup>20</sup> Staff has verified that MAWC's future capital expenditures support the need to obtain additional debt financing.<sup>21</sup> MAWC's 2024 total projected capital expenditures total just under \*\* [REDACTED] \*\*, equating to roughly \*\* [REDACTED] \*\* of expenditures per month.<sup>22</sup> Having a total five-year capital expenditure plan of \*\* [REDACTED] \*\*, the requested long-term debt of \$525,000,000 represents \*\* [REDACTED] \*\* of the total.<sup>23</sup>

Staff analyzed the pro forma impact the requested financing may have on the company's capital structure. The projected capital structures are investigated and presented in the table below. The pro forma impact of MAWC's proposed debt on MAWC's balance sheet as of September 30, 2024, is as follows:<sup>24</sup>

	<u>As of September 30, 2024,</u>	<u>Pro Forma</u>
Common Equity	49.82%	50.05%
Preferred Stock	0.00%	0.00%
Long Term Debt	50.18%	49.95%

The impact of the issuance of the proposed long-term debt on MAWC's balance sheet is a negligible shift from long-term debt to Common Equity by 0.23%. MAWC's Pro Forma showed

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<sup>20</sup> The allowable purposes of long-term financing authorization authorized by statute, Section 393.200.1, are listed in page 9 of Report and Order, issue date June 16, 2010, of case No. GF-2009-0450.

<sup>21</sup> Staff Data Request No. 0016, Attachment 4

<sup>22</sup> Ibid

<sup>23</sup> Ibid

<sup>24</sup> Staff Data Request No. 0008.

shifts in both common equity and long-term debt. The shift was caused by increases of retained earnings and equity infusions. This amount maintains MAWC's historical capital structure of approximately 50% equity and 50% debt.<sup>25</sup> The impact of the proposed issuance on MAWC's financial risk is manageable.

Staff also analyzed the pro forma impact on MAWC's financial ratios such as the company's Debt to Capital ratio, the company's Debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio, and its percentage of funds from operations ("FFO") to Debt. The debt to capital changed from \*\* [REDACTED] \*\* which would both be classified as "Aggressive." The Debt to EBITDA changed from \*\* [REDACTED] \*\* which are both graded as "Highly Leveraged." FFO to Debt also changed from \*\* [REDACTED] \*\* which are both categorized as "Aggressive."<sup>26</sup> In the pro forma financial risk profile analysis, there was an insignificant change to each financial benchmark.<sup>27</sup>

Staff understands that MAWC would greatly benefit by obtaining this new financing for the acquisition of property; the construction, completion, extension or improvement of Applicant's plant or system; the improvement or maintenance of its service; or the reimbursement of moneys actually expended from income as permitted by §393.200 RSMo.

Financing will be at market rates, and customers will benefit from lower debt issuance costs due to the economies of scale provided by WACC.<sup>28</sup> For these reasons, Staff concludes that the Application would not be detrimental to the rate payers given the recommended conditions listed below.

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<sup>25</sup> Staff Data Request No. 0019

<sup>26</sup> All criteria for rating financial ratios came from RatingsDirect, Methodology: Business Risk/Financial Risk Matrix Expanded.

<sup>27</sup> Staff Data Request No. 0016; Staff's Workpaper.

<sup>28</sup> Staff Data Request No. 0014.

**RECOMMENDED CONDITIONS:**

Staff recommends that the Commission approve the Application submitted by MAWC in this case subject to the following conditions:

1. 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 including the cost of the preferred stock, in any future proceeding;
2. That the Company be authorized to enter into a variety of secured debt financings with the AWCC, not to exceed an aggregate principal amount of Five Hundred Twenty-Five Million Dollars (\$525,000,000);
3. That the money, property or labor to be procured or paid for by MAWC through the issuance of the long-term debt is reasonably required and necessary for the purposes set forth and will be used therefore, and such purposes are not, in whole or in part, reasonably chargeable to operating expense or to income, as required by Section 393.200 RSMo;
4. That the Company 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 long-term debt issued, date of issuance, interest rate (initial rate if variable), and other general and special terms, if any, including the use of proceeds and estimated expenses. In addition, the Company 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 long-term debt it obtained was the most reasonable at the time;
5. That the Company could 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 if agreements are not detrimental to the public interest and the benefits of MAWC's ratepayers;
6. That the Company shall file with the Commission any information concerning communication with credit rating agencies concerning any such issuance;
  7. That the Company 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 AWWC's corporate credit quality or the credit quality of its securities;
  8. That the Company be required to file a five-year capitalization expenditure schedule in future finance cases; and,
  9. That the Commission's grant of authority shall expire three years from the effective date of the order in this proceeding.



**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of Missouri-American Water )  
Company for Authority to Issue up to ) File No. WF-2025-0150  
\$525,000,000 of Long-Term, Unsecured Debt )

**AFFIDAVIT OF JOHNNY GARCIA**

STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

**COMES NOW JOHNNY GARCIA** and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation* in memorandum form; and that the same is true and correct according to his best knowledge and belief.

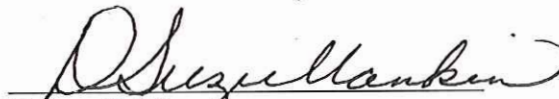
Further the Affiant sayeth not.

  
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**JOHNNY GARCIA**

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 3<sup>rd</sup> day of January 2025.

D. SUZIE MANKIN  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Cole County  
My Commission Expires: April 04, 2025  
Commission Number: 12412070

  
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Notary Public