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Witness:	Donald E. Johnstone
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Missouri American Water Company
WR-2010-0131

Rebuttal Testimony of

Donald E. Johnstone

on behalf of the

AG PROCESSING INC A COOPERATIVE

Competitive Energy
DYNAMICS

Missouri American Water Company
WR-2010-0131

Rebuttal Testimony of Donald E. Johnstone

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Missouri American Water Company

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Rebuttal Testimony of Donald E. Johnstone

INTRODUCTION - SUMMARY

Q PLEASE STATE YOUR NAME AND ADDRESS.

A Donald E. Johnstone. My address is 384 Black Hawk Drive, Lake Ozark, MO 65049.

Q ARE YOU THE SAME DONALD JOHNSTONE THAT PREVIOUSLY SUBMITTED TESTIMONY IN THIS CASE?

A Yes. My qualifications and experience are set forth in Schedule 1 attached to my testimony that was submitted March 9, 2010.

Q ON WHOSE BEHALF ARE YOU APPEARING?

A I am appearing on behalf of AG PROCESSING INC A COOPERATIVE ("AGP.") AGP is a customer in the St. Joseph District.

Q PLEASE SUMMARIZE YOUR TESTIMONY.

A As stated in my earlier testimony, AGP supports the properly determined cost of providing services as the fundamental starting point for the design of rates. I support cost incurrence responsibility as a fair and appropriate basis for spreading revenue responsibility among the classes and for the design of rates for each class, recognizing that various practical considerations may also arise and properly be considered. With the possible notable exception of special contract rates approved on the basis of an incremental cost analysis, the fully allocated cost of service is the appropriate measure of costs for the design of rates.

The Staff class cost-of-service study, both before and after my adjustments to remedy several problems, supports a decrease for the industrial class. However, the Staff's rate design proposal for the industrial class creates huge negative impacts for large customers.

The Staff rate design is a severe departure from the current industrial rate design, does not reasonably reflect costs, and is counterproductive to the maintenance of a vibrant industrial sector for the St. Joseph District, including AGP. Nor is conservation properly considered or advanced.

Instead of a change from the present industrial rate design to Staff's proposal, I recommend a continuation of the present volumetric charges with an equal percentage change in each of the current volumetric rates, after consideration of the change in the class revenues, if any, and any changes in customer charges.

I updated the AGP class cost-of-service study to reflect the lower St. Joseph District revenue requirements supported by the Staff Cost of Service Report and to quantify the differences between Staff and AGP in the class cost-of-service studies. The AGP study supports a 5.4% rate decrease for the industrial rate class based on costs for the St. Joseph District according to the Staff Cost of Service Report (as modified to incorporate present rate revenues revised by Staff March 24, 2010). I recommend the industrial result.

The OPC class cost-of-service study supported a decrease for the industrial rate class. However, there are problems with the study that were identified during the prehearing conference and as a consequence the results of the study will likely change. In any event a number of the methods used in the study have the effect of allocating too much cost to the industrial class and I oppose the use of the study for

adjusting rates.

REVIEW OF STAFF CLASS COST-OF-SERVICE STUDY

Q HAVE YOU REVIEWED THE CLASS COST-OF-SERVICE STUDY FOR THE ST. JOSEPH DISTRICT THAT WAS SUBMITTED IN THE RATE DESIGN REPORT OF THE STAFF?

A Yes. I have reviewed the Staff Class Cost-of-Service and Rate Design Report and, in particular, the class cost-of-service study for the St. Joseph District. The Staff study follows the format of the MAWC study - with important differences including a revenue requirement for the St. Joseph District consistent with the Staff Cost of Service Report and changes in the allocation of costs.

Q BASED ON YOUR REVIEW ARE ANY CHANGES NEEDED THAT MIGHT BE CHARACTERIZED AS DATA OR INPUT ERRORS, AS DISTINGUISHED FROM CHANGES THAT MAY BE APPROPRIATE BECAUSE OF DIFFERING APPROACHES TO THE ALLOCATION OF COSTS?

A Yes. Based on my review the changes of this nature are the following:

- During the course of the prehearing conference and related work, it became apparent that rate base deductions were input to the Staff study as additions rather than subtractions.
- Another matter is the treatment of Other Revenues, which were added to the cost of service instead of being subtracted to develop the rate revenue requirement.
- Rate revenues according to the Staff accounting workpapers, including Special Contract revenues, had been revised and changes were explained during the prehearing conference.
- Resale volumes should not have been included in the allocation of small mains

I address these along with several other changes.

Q DID STAFF USE ANY ST. JOSEPH DISTRICT LOAD RESEARCH DATA IN THE DEVELOPMENT OF THE CLASS ALLOCATION FACTORS IN ITS STUDY?

A No. Like the studies of all parties during the recent past, the current Staff study continues to suffer from the lack of load research data from the St. Joseph District to support the important allocation factors. It instead relies on unverifiable assumptions that may be characterized as "judgments." This same problem detracts somewhat from the usefulness of all of the studies in this case and the Staff study is no exception. Nevertheless the study illustrates that it costs less (per gallon) to serve larger customers with higher load factors than it costs to serve smaller customers with lower load factors.

Q HOW WERE "OTHER REVENUES" HANDLED IN THE STAFF CLASS COST-OF-SERVICE STUDY?

A In the Staff study the "Other Revenues," which are derived mainly from miscellaneous fees, were assigned to the residential class as a part of the Staff class cost-of-service study. However, because the miscellaneous fees do not apply solely to residential customers, and also because the related costs were not assigned to the residential class, the Other Revenue should instead be allocated among all classes. I recommend an allocation of Other Revenues in proportion to the cost of service for each class. ($256,717 is the amount according to Staff revenue workpapers dated March 24.)

Q DID STAFF APPARENTLY OVERLOOK ANY OF THE KNOWN INFORMATION?

A Yes. MAWC provided separate treatment for the larger mains (12" and larger) that provide primarily a transmission function, as distinguished from the smaller mains that provide more of a distribution function. This is an important improvement over past

studies because a number of the larger customers are served from the larger mains. The separate treatment for the transmission mains is appropriate and illustrates why lower than average costs are incurred to serve larger customers. It is not only more economical to serve the larger customers from the larger mains, but the multitude of smaller mains are not there to provide the service to them.

While Staff used a variation of the MAWC approach to separate the large mains and small mains, Staff did not exclude the Sales for Resale class from the cost allocation factor used for small mains. However, as explained in the testimony of MAWC witness Herbert, all sales for resale customers are attached only to the larger mains. Therefore, the Sales for Resale class should be excluded from the factor used to allocate the cost of small mains just as the usage for the large industrial customers that are also connected to the transmission mains should be excluded. This is an unexplained inconsistency with the way that service is provided or an oversight.

Q PLEASE DESCRIBE THE MANNER IN WHICH THE INDUSTRIAL SPECIAL CONTRACT CUSTOMERS WERE HANDLED IN THE STAFF CLASS COST-OF-SERVICE STUDY.

A Staff excluded the two special contract customers from the allocation of costs in its class cost-of-service study. Subsequent to the allocation of costs in the study, the special contract revenues were added to the industrial class. While the special contract revenues were assigned to the industrial class, the costs of providing the service were not allocated or assigned to the industrial class.

Q DO YOU RECOMMEND ANY CHANGES TO THE STAFF APPROACH TO THE SPECIAL CONTRACTS?

A Yes. First, as I state in my direct testimony, such contracts would appropriately be

reviewed from time to time. I refer to, but will not repeat, that recommendation here, including but not limited to the possible imputation of revenue. However, in any event some adjustment is needed to the Staff approach.

Given that Staff assigns special contract revenues to the industrial class, I recommend a change in the analysis to address special contract costs. The variable costs associated with service to the special contract customers should follow with the revenue to the industrial class.

Q CAN YOU QUANTIFY THE IMPACT OF THE SEVERAL CHANGES TO THE STAFF CLASS COST-OF-SERVICE STUDY YOU HAVE DESCRIBED IN THIS TESTIMONY?

A Yes. The Staff class cost-of-service study was provided in workpapers, and I made the several changes discussed above to the study. The result is attached as Schedule DEJ REB 1. The schedule reflects the combined effect of the change to allocate Other Revenues among the classes; the change to the allocation factor for distribution mains to exclude Sales for Resale usage; and the change to move the variable costs of the special contract into the industrial class; as well as the several data corrections discussed earlier in my testimony. Based on this study, the rate changes necessary to move the several of the large classes to the indicated cost of service follow:

Table 1.
St. Joseph District
Cost-Based Increases
Staff Study With Limited Adjustments

Line	Rate Class	Revenues, Present Rates	Cost Based Rate Increase	Percent Increase
T1-1	Residential	$10,230,105	$211,816	2.1%
T1-2	Commercial	3,936,426	-244,837	-6.2%
T1-3	Industrial	3,820,845	-35,777	-0.9%
T1-4	Sales for Resale	2,033,205	354,417	17.4%
T1-5	District Total	$21,040,387	$267,611	1.3%

While I have illustrated this result as an improvement to the Staff class cost-of-service study as filed, my primary recommendation continues to be the class cost-of-service study method described in my direct testimony.

Q ARE THERE ADDITIONAL ASPECTS OF THE STAFF STUDY WITH WHICH YOU DISAGREE?

A Yes. There are several.

Q PLEASE DESCRIBE THE AREAS OF DISAGREEMENT.

A In the development of the base and maximum day excess factor Staff changed the maximum day ratio to the historical average. While this approach is based on history, it will not represent the cost-causing design conditions. Design conditions must anticipate and accommodate more extreme conditions so that service will be adequate when demands are higher than the historical average. It is the design conditions that cause costs, and for that reason I recommend the 50% excess maximum day factor for the system, as used by MAWC instead of the lower historical value of 39% as proposed by Staff.

For the commercial class, Staff, without explanation, used a maximum day

excess usage assumption of 75% in comparison to the 80% assumption of MAWC. While the assumptions are similar, both suffer from the lack of actual St. Joseph District data.

For the Sales for Resale class Staff, without explanation, used a maximum day excess assumption of 90% in comparison to the 60% assumption of MAWC. The higher percentage means that in Staff's judgment, the Sales for Resale class places a higher demand on the system. In turn this leads to more costs being allocated to the class and higher rates. The assumptions are not similar, and again both suffer from the lack of actual St. Joseph District data. This gives rise to an important question: to what extent do some or all Sales for Resale customers use the MAWC system for either peaking or backup purposes? Either would result in higher maximum day excess usage (usage above average daily usage) and higher rates as compared to the other full requirements customer classes.

Since the matter has been raised, AGP is sending data requests to MAWC and to the sales for resale intervenor in an effort to gather such additional information as is available for the Sales for Resale class. Also, in my direct testimony I recommend the installation of the recording meters for the Sales for Resale class. The possibility of water service being used for peaking purposes underscores the importance of acquiring additional information. The data obtained as a result of my recommendation would ensure that retail customers are not required to pay higher rates to subsidize the sales for resale water systems and their customers, or *vice versa*.

The cost studies also develop a factor based on maximum hour usage for the purpose of allocating costs caused by the requirement to deliver more water during peak hourly periods. Staff assumes a system-wide excess hourly use of 195% of

average hourly use in comparison to MAWC's assumption of excess hourly use equal to 100% of average hourly use for the system. While there is no class data, the divergence of these assumptions, as well as MAWC responses to data requests, reveal that MAWC has not analyzed the total system usage data to determine the maximum hourly water usage for the system as a whole. Like the maximum day usage, this factor will be significantly influenced by the sales for resale customers to the extent that they are using MAWC water supplies for peaking purposes.

The assumed excess hour usage for the Sales for Resale class is 200% by MAWC and 320% by Staff. Again, there are divergent assumptions that are important to a proper cost allocation. In studies prepared to date, including the studies being submitted in this rebuttal testimony, I rely on the MAWC assumption. I am hopeful that data responses will be forthcoming that will shed some light on this important question. If possible, I will respond further later in this proceeding. And again, the data obtained from the recommended recording meters would ensure that retail customers are not required to pay higher rates to subsidize the sales for resale water systems and their customers, or *vice versa*.

The assumed excess hourly usages for the residential class are the same in the MAWC, Staff, OPC and AGP studies at 350% of average hourly usage. For the commercial class, MAWC and AGP assumed excess hourly usage is 280% as compared to 250% in the Staff and OPC studies. For the industrial class, excluding special contracts, MAWC assumed 150%, Staff and OPC assumed 120%, and I assumed 100% for the AGP study.

Q PLEASE SUMMARIZE YOUR DISCUSSION OF THE ASSUMPTIONS USED BY STAFF, MAWC, AND AGP IN REGARD TO THE ALLOCATION FACTORS TIED TO MAXIMUM DAILY USAGE AND MAXIMUM HOURLY USAGE.

A The assumptions regarding system characteristics and class usage characteristics vary among the studies. The system facts could be developed by the company by analysis of existing data. The class data is more difficult. However, a substantial improvement is possible for at least the larger industrial customers and the sales for resale customers.

Q WHAT ARE YOUR RECOMMENDATIONS IN REGARD TO MAWC'S PROVISION OF SYSTEM AND CLASS USAGE DATA FOR THE CLASS COST-OF-SERVICE STUDIES?

A I recommend MAWC pursue improved analyses and data for the system usage data, for the large industrial customers served from transmission mains, and for the sales for resale customers.

AGP CLASS COST-OF-SERVICE STUDY IN RESPONSE TO STAFF

Q HAVE YOU PREPARED A STUDY WHICH FURTHER MODIFIES THE STAFF CLASS COST-OF-SERVICE STUDY TO REFLECT THE COST ALLOCATION AND SPECIAL CONTRACT TREATMENTS AS DEVELOPED AND SUMMARIZED IN YOUR DIRECT TESTIMONY?

A Yes. For the purposes of this study I assume that it is appropriate to continue the special contracts in their current form and that the incremental approach I discuss in my direct testimony is appropriate. By adopting this assumption I do not intend to prejudge the matter or concede the point. With that said, the summary of the study is attached as Schedule DEJ REB 2. This study relies on the same system and class usage assumptions I used in my rate design direct testimony, but it incorporates the district revenue requirement according to the Staff Cost of Service Report. To the

extent additional relevant information becomes available I may have additional results and recommendations at another appropriate time in this proceeding.

The AGP study result supports an industrial rate decrease of 5.4% and changes for the other rate classes as summarized in the following table.

Table 2.
St. Joseph District
Cost-Based Increases
AGP Class Cost-of-Service Study

Line	Rate Class	Revenues, Present Rates	Cost Based Rate Increase	Percent Increase
T2-1	Residential	$10,230,105	$1,164,161	11.4%
T2-2	Commercial	3,936,426	-481,537	-12.2%
T2-3	Industrial	3,015,768	-162,712	-5.4%
T2-4	Sales for Resale	2,033,205	-206,544	-10.2%
T2-5	District Total	$21,297,104	$267,611	1.3%

REVIEW OF THE STAFF INDUSTRIAL RATE DESIGN PROPOSAL

Q PLEASE SUMMARIZE THE STAFF INDUSTRIAL RATE DESIGN PROPOSAL FOR THE ST. JOSEPH DISTRICT.

A Staff proposes to adjust the industrial meter charges by as much as 44% and to replace the existing declining block volumetric rate structures for the Saint Joseph District with a single flat volumetric rate. All aspects considered, the proposal is a radical change to the historic industrial rate design and the proposed flat rate is a problem for large customers, including AGP. Schedule DEJ REB 3 shows all of the proposed changes and percentage impacts. The proposal ignores size and usage except for the meter charge.

More specifically, Staff proposes a 44% increase in the customer charge for the smallest meter size (5/8") and a 39% decrease in the customer charge applicable to

customers with 6" meters. The proposed changes applicable to other meter sizes falls between the two extremes.

Staff proposes to decrease the volumetric rate charged for the first 100,000 gallons of usage by 54%, from $6.065 per 1,000 gallons down to $2.7911. At the other end of the spectrum is a proposed 66.7% increase in the volumetric rate charged for all usage over 5 million gallons per month. The increase for monthly usage within the range of 2 to 5 million gallons is 36.2%. The effect is a severe rate increase for large volume customers.

Q WHAT IS THE STAFF TESTIMONY IN SUPPORT OF ITS PROPOSAL?

A The Staff testimony appears at page 7 of the Staff's Class Cost-of-Service and Rate Design Report. It states:

> ". . . The existing declining block rates result in the small users in a customer class paying much more of the costs to provide their water than large customers pay, due to the fact that as more water is used, the rate being charged is lower. Also, moving away from a declining block structure is a move towards conservation.
>
> **C. Results of Water Rate Design**
>
> Due to the move from a declining block rate structure to a single-block rate structure, Staff's proposal will cause the commodity rates within the larger usage blocks to increase at a greater rate than changes in the initial block. Depending on the overall change in revenue requirement to a specific district, the initial block may actually increase or decrease. . ."

The Staff Report describes some of the effects. However, it fails to acknowledge differences in costs and more or less assumes them away. Smaller customers should and do pay a higher than average unit cost because costs are higher to serve them. Likewise, larger customers should and do pay a lower than average unit cost because the costs are lower. This reality seems to have been ignored. The unit costs are lower for larger customers because it costs less to deliver large volumes and because of higher load factors.

Q DO YOU AGREE WITH THE STAFF STATEMENT THAT ". . . MOVING AWAY FROM THE DECLINING BLOCK STRUCTURE IS A MOVE TOWARDS CONSERVATION?"

Q No. There is no evidence that meaningful conservation will be the result. Staff offers nothing beyond the statement itself.

Q WHAT IS CONSERVATION?

A By the Merriam-Webster online dictionary, conservation is defined as "**1 :** a careful preservation and protection of something; *especially* **:** planned management of a natural resource to prevent exploitation, destruction, or neglect **2 :** the preservation of a physical quantity during transformations or reactions."

Q DO THE STAFF PROPOSED INDUSTRIAL RATES EITHER ENCOURAGE OR DISCOURAGE CONSERVATION ACCORDING TO THE DICTIONARY MEANING OF THE TERM?

A No. They do not address preservation or protection, nor do they address other aspects of the definition. There is no suggestion that water is being exploited or destroyed; nor is there a suggestion that a flat rate would address any real problem. The Staff industrial rate design simply promotes more usage by some customers and less usage by others.

Q PLEASE EXPLAIN FURTHER.

A There is little debate of the point that charging more will discourage consumption while charging less will promote more consumption. However, Staff does not propose to uniformly charge more to all customers in the name of conservation. Instead, it charges more to some customers and less to others. Thus some customers would be incented to use less, but a lot more customers, the smaller customers, would be incented to use more water. There is no Staff analysis of the net effect on usage. Nor

is there any apparent consideration of the inequity of favoring some smaller usage customers over others.

Instead, the Staff analysis seems to proceed from the premise that conservation means less usage by large customers alone. I disagree. Water usage is vital to industry and there is no suggestion of usage inconsistent with the definition of conservation. There is simply no suggestion of exploitation or destruction of the water resource.

Another consideration is the impact on the large industrial customers in the St. Joseph District. The MAWC water treatment facility has abundant capacity, and I am aware of no constraints on MAWC's ability to delivery of water to industrial customers. Yet higher water prices for large customers (regardless of the reasons) would encourage the large customers to seek other supplies of water. If alternative sources are in turn developed, then the amount water sold by MAWC would indeed decrease, but water usage from all sources would not. In this circumstance there would be no net reduction of water usage, but the large customers would have paid the higher costs of alternative sources in order to avoid the higher MAWC industrial "conservation" rates proposed by Staff. Thus, a perhaps unintended result the rate proposal may well be higher rates for all remaining MAWC customers to recover the lost contributions to fixed costs, but to what end?

The apparent goal and certainly the result of the Staff proposal is to increase rates for large customers. This is counterintuitive and inconsistent with much of the effort that goes into a rate case - by Staff accountants and others that work diligently to ensure rates are no higher than needed to provide a fair return to MAWC.

Q CAN YOU ILLUSTRATE THE EFFECT OF THE STAFF PROPOSAL ON A HYPOTHETICAL CUSTOMER THAT CONSUMES 20,000,000 GALLONS OF WATER A MONTH?

A Yes. This would represent a customer that uses more water in the present tail block as compared to usage in the first three blocks. Based on the Staff case the variable cost of water is approximately $0.35 per 1,000 gallons and so the monthly variable cost incurred by MAWC to provide the water is approximately $7,000. The remainder of the costs are the fixed costs of the system that are allocated among the classes by the class cost-of-service study and are allocated within the industrial class by the rate design. The flat industrial rate proposed by Staff is $2.7911 per 1,000 gallons. Under this rate the volumetric charge for the 20 million gallons would be $55,822. Under the present approved and effective volumetric rates the volumetric charges would amount to $38,321 for the same 20 million gallons. The increase proposed by Staff would be $17,500 per month and $210,000 per year. Assuming a 6" meter, the lower customer charge under the Staff proposal would save the customer $95 per month, having only a small effect on the total bill. Overall the Staff proposed increase would be 45% for an industrial customer of this size.

Q WHAT IMPACT WOULD THE STAFF PROPOSAL HAVE ON ECONOMIC DEVELOPMENT IN THE ST. JOSEPH DISTRICT?

A Yes. Two customers receive service under contracts that provide service at rates that are lower than the industrial rate schedule. In my opinion these contracts were based in large part on a need to ameliorate the effect of industrial water rates that were already so high as to be a burden on commerce. Of course, there is also the possibility of large customers developing their own water supplies. What would be needed would be a well and a water treatment facility. In these circumstances of already high rates

and potential bypass, it makes no sense to change to the Staff's rate design for the purpose of discouraging the larger industrial customers from using water in the name of conservation while ignoring economies inherent in service to larger volume customers.

Another effect of the Staff proposal is to discourage economic development by larger industrial customers. This never makes sense, and certainly makes no sense now during the current difficult economic times when jobs are in short supply.

Q PLEASE SUMMARIZE YOUR RESPONSE TO THE STAFF PROPOSED INDUSTRIAL RATE DESIGN.

A The Staff rate design is a severe departure from the current industrial rate design and does not reasonably reflect costs, has not been shown to promote the intended conservation, and is counterproductive to the maintenance of a vibrant industrial sector for the St. Joseph District. Economical utility service is certainly important to AGP and the jobs that it represents.

Instead of a change from the present rate design to Staff's proposal, I recommend a continuation of the present rate design with an equal percentage change in each of the current volumetric rates, after consideration of any changes in the customer charges.

Q IS THE MAWC PROPOSED INDUSTRIAL RATE DESIGN APPROPRIATE?

A No. While not as quite as extreme as the Staff proposal it suffers from similar effects. I address concerns with the MAWC proposal in my direct testimony and I add to those concerns by reference to the above discussion of the Staff proposal.

REVIEW OF THE OPC CLASS COST-OF-SERVICE STUDY

Q HAVE YOUR REVIEWED THE OPC CLASS COST-OF-SERVICE STUDY FOR THE ST. JOSEPH DISTRICT?

A Yes. While the OPC Study appears to support a rate decrease for the industrial class, in my opinion several of the cost allocation assumptions and procedures are tilted in a way that overstates the cost of serving the industrial rate class. Nevertheless, the OPC showed that the current industrial rates are too high. Despite this apparently favorable result and a recommendation to decrease industrial water rates, it is my opinion that the methods of study are such that it does not provide a good indication of the cost-of-service and should not be relied upon. Also, based on information shared during the prehearing conference, it is likely that the study will be revised.

Q IN THE CONTEXT OF THE OPC CLASS COST-OF-SERVICE STUDY, WHAT TREATMENT DID OPC PROPOSE FOR SPECIAL CONTRACT CUSTOMERS?

A OPC proposes to spread a measure of benefit among the customer classes. However, given that the contract pricing does not accommodate fully allocated costs, I continue to recommend the approach I describe in my direct testimony.

Q DO YOU HAVE COMMENTS OR TESTIMONY ON OTHER ISSUES AT THIS TIME?

A No. This being rebuttal testimony, my silence on any matter should not be construed as agreement or acquiescence.

Q DOES THIS CONCLUDE YOUR TESTIMONY?

A Yes it does.

MISSOURI-AMERICAN WATER COMPANY

ST. JOSEPH DISTRICT

PSC STAFF STUDY - Adjustments per AGP Rebuttal

COMPARISON OF COST OF SERVICE WITH REVENUES UNDER PRESENT RATES
FOR THE TEST YEAR ENDED JUNE 30, 2009 UPDATED TO OCTOBER 31, 2009

Line No.	Customer Classification	Rate Revenues to Equal the Staff Cost of Service		Present Rate Revenues		Increase	
		Amount	Percent	Amount	Percent	Amount	Percent Increase
	(1)	(2)	(3)	(4)	(5)	(8)	(9)
1	Residential	$10,441,921	49.0%	$10,230,105	48.5%	$ 211,816	2.1%
2	Commercial	3,691,589	17.3%	$ 3,936,426	18.7%	(244,837)	-6.2%
3	Industrial	3,785,068	17.8%	$ 3,820,845	18.2%	(35,777)	-0.9%
4	Public Authority	766,047	3.6%	$ 769,745	3.7%	(3,698)	-0.5%
5	Sales for Resale	2,387,622	11.2%	$ 2,033,205	9.7%	354,417	17.4%
6	Private Fire Service	235,752	1.1%	$ 250,061	1.2%	(14,309)	-5.7%
7	Public Fire Service	-	0.0%	$ -	0.0%	-	-
8	Rate Revenue	$21,307,998	100.0%	$21,040,387	100.0%	$ 267,611	1.3%
9	Other Revenues	256,717		256,717			
10	Total Operating Revenue	$21,564,715		$21,297,104		$ 267,611	

Changes to Staff Study:

- Remove Sales for Resale volumes from Factor 4 inputs
- Change sign for "Other Revenue" line in COS to subtract from COS rather than add
- Spread Other Revenue among classes via allocation factor 19, total cost of service
- Change sign for Rate Base Deductions in COS to subtract from RB rather than add
- Adjust present class revenues to match Staff March 24, 2010 revision
- Assign special contract incremental cost to industrial class

Note: The $267,611 increase is equal to $195,169 (the Staff midpoint before true-up as filed March 9) plus $72,442 to accommodate the March 24 Staff revision to present operating revenue.

MISSOURI-AMERICAN WATER COMPANY

ST. JOSEPH DISTRICT

AGP CLASS COST OF SERVICE STUDY

BASED ON STAFF $267,611 INCREASE FOR THE DISTRICT
SPECIAL CONTRACT INCREMENTAL COST CREDIT AND MARGIN BENEFIT ALLOCATED AMONG CUSTOMER CLASSES

Line No.	Customer Classification	Cost of Service				Revenues, Present Rates	Cost-Based Rate Increase	
		Amount	Credit Special Contract Incremental Cost	Credit Special Contract Margin	Total		Amount	Percent
	(1)	(2)	(3)	(4)	(5)	(6)	(8)	(9)
1	Residential	$ 11,718,041	(131,316)	$ (192,459)	$11,394,266	$10,230,105	$1,164,161	11.4%
2	Commercial	3,606,580	(69,680)	(82,011)	3,454,889	3,936,426	(481,537)	-12.2%
3	Industrial	3,022,870	(93,173)	(76,641)	2,853,056	3,015,768	(162,712)	-5.4%
4	Special Contracts	-	376,364	428,713	805,077	805,077	-	
5	Public Authority	715,787	(15,228)	(17,646)	682,913	769,745	(86,832)	-11.3%
6	Sales for Resale	1,946,142	(65,842)	(53,639)	1,826,661	2,033,205	(206,544)	-10.2%
7	Private Fire Service	272,907	(1,126)	(6,317)	265,465	250,061	15,404	6.2%
8	Public Fire Service	-	-	-	-	-	-	-
9	Total Rate Revenue	$ 21,282,326	-	-	$21,282,326	$21,040,387	$ 241,939	1.1%
10	Other Revenues	282,389	-	-	282,389	256,717	25,672	10.0%
11	Total Operating Revenue	$ 21,564,715	$ -	$ -	$21,564,715	$21,297,104	$ 267,611	1.3%

Adjustments

- No Special Contracts class in allocation study
- Allocate Special Contracts incremental cost credit among classes and assign cost to contracts
- Allocate Special Contract margin among classes
- Review and adjust A&G allocations
- Adjust class allocations to be consistent with corporate allocation to district
- Factors 2 & 3 Maximum Day Weight factor: Industrial = 0.5
- Adjustment to Factors 4 & 5 Maximum Hour Weight factor: Industrial = 1.0
- A 10% increase is assumed for miscellaneous charges.
- Adjust present class revenues to match Staff March 24, 2010 revision

Note: The $267,611 increase is equal to $195,169 (the Staff midpoint before true-up as filed March 9) plus $72,442 to accommodate the March 24 Staff revision to present operating revenue.

MISSOURI-AMERICAN WATER COMPANY

ST. JOSEPH DISTRICT

PRESENT VS. STAFF PROPOSED RATES

INDUSTRIAL CLASS

Minimum Charge

Line No.	Meter Size	Present Rate Per Month	Proposed Rate Per Month	Amount Increase	Percent Increase
	(1)	(2)	(3)	(4)	(5)
1	5/8"	$ 8.95	$ 12.89	$ 3.94	44.0%
2	3/4"	11.46	13.65	2.19	19.1%
3	1"	16.24	15.50	(0.74)	-4.6%
4	1-1/2"	28.25	22.10	(6.15)	-21.8%
5	2"	42.65	26.39	(16.26)	-38.1%
6	3"	76.23	67.25	(8.98)	-11.8%
7	4"	124.19	94.25	(29.94)	-24.1%
8	6"	244.12	149.61	(94.51)	-38.7%
9	8"	388.03	327.49	(60.54)	-15.6%
10	10"	-	-	-	0.0%
11	12"	-	-	-	0.0%

Usage Rate (per 1000 gallons)

		Per Month (1000)	Present Rate	Proposed Rate	Amount Increase	Percent Increase
12	For the first	100	$6.0650	$2.7911	($3.27)	-54.0%
13	For the next	1,900	3.3975	2.7911	(0.61)	-17.8%
14	For the next	3,000	2.0493	2.7911	0.74	36.2%
15	For all over	5,000	1.6741	2.7911	1.12	66.7%

BEFORE THE

PUBLIC SERVICE COMMISSION OF MISSOURI

In the Matter of Missouri-American Water Company's Request for Authority to Implement a General Rate Increase for Water Service Provided in Missouri Service Areas	)))))	WR-2010-0131

Affidavit of Donald E. Johnstone

State of Missouri)
) SS
County of Camden)

Donald E. Johnstone, being first duly sworn, on his oath states:

1. My name is Donald E. Johnstone. I am a consultant and President of Competitive Energy Dynamics, L. L. C. I reside at 384 Black Hawk Drive, Lake Ozark, MO 65049. I have been retained by AG PROCESSING INC A COOPERATIVE.

2. Attached hereto and made a part hereof for all purposes are my testimony and schedules in written form for introduction into evidence in the above captioned proceeding.

3. I hereby swear and affirm that my testimony is true and correct and show the matters and things they purport to show.

/Donald E. Johnstone
Donald E. Johnstone

Subscribed and sworn to this 15th day of April, 2010.

Carolyn Neporadny
Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

CAROLYN NEPORADNY
My Commission Expires
August 30, 2013
Camden County
Commission #09452654

Competitive Energy
DYNAMICS