

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

In the Matter of the Application of)	
Missouri-American Water Company,)	
for the approval of an Agreement with)	
the City of Kirkwood, Missouri to)	
Construct Transmission Mains and)	Case No. WO-2005-0286
Points of Delivery and to Sell and)	
Deliver Water for Resale and Related)	
Tariff Sheets.)	

**RESPONSE OF MISSOURI-AMERICAN WATER CO. TO
STAFF'S RECOMMENDATION**

Missouri-American Water Company ("Company" or "MAWC"), pursuant to the Commission's Order of July 12, 2005, hereby responds to the recommendation of Commission Staff:

1. After considerable discussion with Company officials and attorneys, as well as with the Office of the Public Counsel, Staff recommended that MAWC's Application for the Approval of Agreement and Tariff ("Agreement") be approved under certain conditions. Approval of the Agreement will permit the Company to provide water service to the City of Kirkwood ("Kirkwood") and will authorize the Company to construct certain transmission mains and points of delivery in order to sell and deliver water for resale within Kirkwood.

2. Two of the Staff's recommendations require MAWC to maintain records regarding the cost of the construction projects and the annual net revenue benefits that should result from the special contract. See Staff Memorandum at 4 (July 11, 2005), Appendix A to Staff Recommendation. The Company does not object to those

recommended requirements.

3. However, Staff recommended that the Application be approved “only with the condition that any cost overruns related to the subject construction projects will be offset by a portion of the net revenue benefits that accrue as a result of the contract” Id. This recommendation cannot be accepted by the Company because it violates the long-standing Missouri prohibition against single issue ratemaking.

4. The Staff Memorandum specifically requires that any construction cost overruns be reduced by \$187,620 annually between the time that the Kirkwood contract begins until such time as MAWC’s “rates change as result of the Company’s next general rate case.” Id. at 2.

5. Staff contends in the Memorandum that such a fixed revenue offset of \$187,620 per year should be built into the Company’s next general rate case, without regard to any other facts and regardless of the evidence that will be presented in that general rate case. Id. at 3.

6. For the Company to agree to such a revenue offset in the event of any construction cost overruns prior to the filing and litigation of a general rate case would be contrary to law. It has been clear for many years that the Commission cannot condone a mechanism that “permits one factor to be considered to the exclusion of all others in determining whether or not a rate is to be increased [or decreased].” See State ex rel. Utility Consumers’ Council of Missouri, Inc. v. PSC, 585 S.W.2d 41, 49, 56 (Mo. 1979). Such a mechanism would violate the statutory prohibition against single-issue ratemaking under § 393.270.4 and possibly the retroactive ratemaking ban under

§ 393.140(5) and § 393.270.3.

7. Any issue concerning future construction cost overruns (if any), the effect of benefits earned by the Company as a result of the Kirkwood Agreement prior to a general rate case, and any other matter related to the Kirkwood contract should be taken up by the Commission at the time of the Company's next general rate case. In the meantime, there will be no change in the Company's rates.

8. Approval of this Agreement will not be detrimental to the public interest. As the first paragraph of Staff's Findings & Conclusions in its Memorandum indicates on page 2, the contract rate is reasonable. Staff furthermore concurs with the Company that net revenue benefits are expected to accrue each year that the contract is in effect. Clearly, approval of the Agreement is in the public interest.

WHEREFORE, Missouri-American Water Co. requests that the Commission approve its Application for the Approval of Agreement and Tariff as submitted.

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, transmitted by facsimile or emailed to the following counsel of record, this 15th day of July, 2005:

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