

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

In the Matter of Missouri-American Water)	
Company's Request for Authority to)	
Implement a General Rate Increase for)	Case Nos. WR-2011-0337
Water and Sewer Services Provided in)	SR-2011-0338
Missouri Service Areas.)	

POSITION STATEMENT OF AG PROCESSING A COOPERATIVE

COMES NOW Ag Processing Inc a Cooperative (“AGP”) and for its position statement referencing the Issues List filed herein provides the following statements of position *in italics*:

A. Rate Base Issues:

1. Cash Working Capital

What is the appropriate amount of Cash Working Capital to include in Rate Base?

Cash Working Capital is an item of rate base that appears to have been allocated to individual districts through the Staff's EMS runs. AGP takes the position that this should be allocated to each district as in the Staff's EMS runs and thereby is reflected in each separate district's cost of service.

2. Tank Painting Tracker

Should the Tank Painting Tracker be discontinued? If not, at what level should the Tank Painting Tracker be continued?

AGP takes no position on this issue at this time, but will await the development of evidence in the hearing on this issue. Nevertheless, we believe that it should be reflected properly in each district's cost of service.

3. Accrued Pension Liability

What is the appropriate amount of accrued Pension Liability to include

in Rate Base?

AGP takes no position on this issue at this time, but will await the development of evidence in the hearing on this issue. Nevertheless, we believe that it should be reflected properly in each district's cost of service.

4. Pension Tracker

Should the Pension Tracker be modified as proposed by Staff?

AGP takes no position on this issue at this time, but will await the development of evidence in the hearing on this issue. Nevertheless, we believe that it should be reflected properly in each district's cost of service.

Should the Pension Tracker apply to Service Company employees as well as MAWC employees?

AGP sees no reason why the proposed Pension Tracker should be applied to Service Company employees for the setting of Missouri rates. Expenses of the Service Company are identified to specific districts through the Staff's EMS runs as cost items that are allocated, first to Missouri and then to districts.

5. Acquisition Adjustment

How should the rate base of acquired small systems be established? How should acquisition premiums and discounts be treated?

AGP believes that there is inadequate analysis currently being done when MAWC seeks to acquire small water or sewer systems. These systems should not be acquired as a means of expanding MAWC's rate base as detailed in the testimony of Mr. Johnstone. Additionally, the Commission should determine whether the proposed acquisition can accept the additional costs that will flow as a result of acquisition (e.g., allocated expenses, tax gross up, etc.) and should not approve the acquisition where the proposed acquisition cannot be charged rates that will recover its district-specific costs. It is inappropriate and unlawful to charge these costs to other localities thereby creating a preference for the proposed acquisition and a disadvantage for the subsidizing district or districts.

6. Security Costs – AAO

Should the unamortized balance of the security costs regulatory asset be included in Rate Base?

AGP takes no position on this issue at this time, but will await the development of evidence in the hearing on this issue. Nevertheless, we believe that it should be reflected properly in each district's cost of service.

7. OPEB Contribution to External Fund (related to St. Louis County Water Company Amount)

Should the regulatory asset (Tracker) associated with the unrecovered St. Louis County Water Company FAS 106 transition cost be included in rate base?

AGP takes no position on this issue at this time, but will await the development of evidence in the hearing on this issue. Nevertheless, we believe that it should be reflected in that district's cost of service.

B. Cost of Capital Issues:

1. Capital Structure:

What is the appropriate capital structure for ratemaking purposes?

AGP takes no position on this issue at this time, but will await the development of evidence in the hearing on this issue.

2. Return on Equity:

What is the appropriate return on common equity for ratemaking purposes?

AGP takes no position on this issue at this time, but will await the development of evidence in the hearing on this issue. Nevertheless, we believe that any allowed rate of return should be the same for each district and reflected properly in each district's cost of service.

C. Revenue Issues:

1. Revenue (Water Usage Volumes)

How should the volume of water used by residential and commercial customers be calculated?

Using actual metered volumes, properly adjusted for weather and other relevant factors. AGP believes that Staff has properly accomplished this objective in its analysis.

2. Other Water/Sewer Revenue (Billing for municipals)

Should the revenues received by the Company for providing billing services to municipalities be treated as an offset to revenue requirement as Staff has proposed?

AGP takes no position on this issue at this time, but will await the development of evidence in the hearing on this issue. Nevertheless, we believe that it should be reflected properly in each district's cost of service.

3. MSD Contract

Is the compensation received by the Company under its contract with MSD adequate? If not, should an additional amount of revenue be imputed to the Company in this case?

AGP takes no position on this issue at this time, but will await the development of evidence in the hearing on this issue. Nevertheless, we believe that it should be reflected properly in each district's cost of service.

D. Expense Issues

1. Chemical Expense:

What prices and what quantities should be used in calculating chemical expense?

Staff has allocated the chemical expense to the individual districts and we believe that this is proper. However, there are questions that are unresolved about the total amount of chemical expense and the analysis that has been submitted by witnesses for MIEC should be carefully reviewed. In any event, the total cost should be treated in such a manner as to establish district-specific costs and, thus, rates that recover

that cost.

2. Tank Painting Expense

What is the appropriate amount of tank painting expense?

AGP takes no position on this issue at this time, but will await the development of evidence in the hearing on this issue. Nevertheless, we believe that it should be reflected properly in each district's cost of service.

3. Bad Debt Expense – Bad Debt Factor Up

What is the appropriate amount of bad debt expense? Should bad debt expense be projected to increase with any increase in revenue requirement?

AGP takes no position on this issue at this time, but will await the development of evidence in the hearing on this issue. Nevertheless, we believe that it should be reflected properly in each district's cost of service.

4. Service Company Expense:

What is the appropriate amount of Service Company expense to include in MAWC's revenue requirement?

AGP takes no position on this issue at this time, but will await the development of evidence in the hearing on this issue. Nevertheless, we believe that it should be reflected properly in each district's cost of service.

5. Rate Case Expense

What is the appropriate amount of rate case expense?

AGP takes no position on this issue at this time, but will await the development of evidence in the hearing on this issue. Nevertheless, we believe that it should be reflected properly in each district's cost of service.

6. Incentive Compensation

What is the appropriate amount of incentive compensation expense related to AIP and LTIP for employees of MAWC and Service Company?

Generally AGP does not believe in incentive compensation in the manner in which MAWC applies it. A public utility is a public trustee and its employees should reflect that fiduciary duty at all times. Incentives that encourage the work that should be done without incentives simply increase the cost for all ratepayers. If there are to be incentives, they should be paid for by shareholders.

7. Income Taxes

What is the appropriate income tax rate?

AGP takes no position on this issue at this time, but will await the development of evidence in the hearing on this issue. Nevertheless, we believe that it should be reflected properly in each district's cost of service.

8. Amortization of OPEB Assets (related to St. Louis County Water Company)

What is the appropriate level of expense to be included in MAWC's cost of service for recovery of the regulatory asset created by OPEBs associated with the former St. Louis County Water Company?

AGP takes no position on this issue at this time, but will await the development of evidence in the hearing on this issue. Nevertheless, we believe that it should be reflected properly in that district's cost of service.

9. Pension Expense

What is the appropriate amount of pension expense?

AGP takes no position on this issue at this time, but will await the development of evidence in the hearing on this issue. Nevertheless, we believe that it should be reflected properly in each district's cost of service.

10. Non-Revenue Water

What is the appropriate amount of non-revenue water?

We believe that this issue attempts to address fire service which is a public responsibility of MAWC's general obligation of service and a risk that is taken by the utility when it operates in a particular district. Otherwise, AGP takes no position on this issue at this time, but will await the development of evidence in the hearing on this issue. Nevertheless, we believe that it should be reflected properly in each district's cost of service.

11. Roark Sewer Plant Operating Expenses

What is the appropriate amount of Roark Sewer Plant operating expenses?

AGP takes no position on this issue at this time, but will await the development of evidence in the hearing on this issue. Nevertheless, we believe that it should be reflected properly in that district's cost of service.

12. Platte County Water Treatment Facility Depreciation Rate

Should the rate of depreciation be accelerated on the Platte County Water Treatment Facility in order to account for the Company's anticipated retirement date for that facility?

AGP takes no position on this issue at this time, but will await the development of evidence in the hearing on this issue. Nevertheless, we believe that it should be reflected properly in that district's cost of service.

13. Belleville Laboratory Expense

What is the appropriate amount of Belleville Laboratory expense to allocate to MAWC?

AGP generally supports Staff's allocation method insofar as it deals with costs that are directed to MAWC from above. However, we are uncertain about the amount of those costs or the methodology that lies behind their allocation to MAWC. Any cost, however, that is allocated to an individual district should be reflected properly in each district's cost of service.

14. Fuel & Power Expense:

What is the appropriate amount of fuel and power expense?

AGP takes no position on this issue at this time, but will await the development of evidence in the hearing on this issue. Nevertheless, we believe that it should be reflected properly in each district's cost of service.

E. Rate Design and Miscellaneous Issues

1. Cost of Service/Revenue Requirements

How should rates be designed in order to collect the revenue requirement from each customer class (i.e., district specific, single tariff or hybrid)?

The revenue requirement should be collected on the basis of the cost that each customer class causes to be incurred within that district. Inasmuch as no thorough class cost of service study has been done on a district-by-district basis, AGP recommends that rates within a district be adjusted on an equivalent basis to each rate component within that district.

Each district should provide revenues sufficient to cover the cost of service. AGP is not opposed to the creation of a hybrid district comprised solely of the small water districts. To the limited extent that small districts have similar costs AGP is not opposed to the same rates being charged to multiple small districts

Should any district provide a revenue support or subsidy to another district? If so, which districts should receive support and which districts should be required to provide that support?

No. There should be no revenue support or subsidy.

Should water service provide a revenue support or subsidy to sewer?

No.

2. Class Cost of Service & Rate Design

What are the proper allocations for costs not directly assigned to a particular system?

Allocation factors should be based on the underlying cost causative factors.

What is the appropriate basis upon which to allocate costs to each customer class?

Costs associated with only one class of service should be assigned to that class. The cost for a district that are common among two or more classes should be allocated among the classes based on the underlying cost causative factors.

What is the appropriate way to establish the customer charge?

The customer charge for the St. Joseph District should be increased at the same percentage as the rate revenues for the St. Joseph District.

Should the customer charge be uniform across all districts?

Only to the extent that costs are sufficiently similar. Rates should not be redesigned without due consideration to customer understanding and impact.

Should the commodity charge be set as a declining block rate or should the commodity charge be uniform for all levels of usage?

The current declining block rate structure should be continued for the St. Joseph District. The rates in each block should be increased at the same percentage as the overall rate revenues for the St. Joseph District.

Rates should not be redesigned without due consideration to customer understanding and impact.

How should any rate increases or rate decreases resulting from this case be spread or allocated?

Sewer customers should pay sewer costs.

Water customers should pay water costs.

Water costs should be spread to all districts in proportion to their respective costs of service.

Water costs for small districts may be combined into a hybrid district and, as a group, may subject to a phase in due to the extraordinary

rate increase. Within the hybrid district AGP is not opposed to the establishment of 3 to 4 price levels to be shared among small districts with similar costs.

3. Continuous Property Records

Is the Company adequately maintaining Continuous Property Records (CPR)?

AGP takes no position on this issue at this time, but will await the development of evidence in the hearing on this issue.

4. Customer Billing and Service

Is the Company in compliance with the Commission's Rule 4 CSR 240-13.015, in providing bills to customers within the appropriate billing period? If not, what must the Company do to comply with the rule?

AGP takes no position on this issue at this time, but will await the development of evidence in the hearing on this issue.

Are the Company's Customer Billing procedures adequate in other respects?

Is the Company providing adequate Customer Service?

Does the Company have appropriate prevention and detection controls in place to ensure adequate Customer Service?

Should the Company continue to routinely meet with Staff to ensure compliance with Commission rules and to address any Customer Service issues raised by Staff?

AGP takes no position on these issues at this time, but will await the development of evidence in the hearing on these issues.

5. Union Issues

Should the Company expand its Valve Exercise Program?

Is MAWC appropriately utilizing union workers?

AGP takes no position on these issues at this time, but will await the development of evidence in the hearing on these issues.

6. MAWC/PSC Small Water system Acquisition Policy

Should the Commission develop a policy regarding the acquisition of small water and/or sewer systems by the Company?

Yes. There should be a policy. Among other things there should be due consideration given to whether or not service can be provided at cost-based rates that customers within the acquired service territories are willing and able to pay without looking to existing customers for revenue support or subsidy. The current policy of “no detriment” needs to consider not only the impact on the to-be-acquired district customers, but also the impact on customers in other districts if the to-be-acquired district is not charged rates that recover the district-specific cost of service. This consideration spawns important questions that should be pursued in a proper proceeding as a part of an acquisition policy for small water and small sewer systems.

If small systems cannot be acquired and served at cost of service rates, and the utility still wishes to acquire them, the utility should be required to absorb any revenue difference so that other utility customers are not charged because the utility chose to purchase an asset that could not be charged a cost-based rate. The utility should have “skin in the game” instead of foisting this additional cost onto other customers and districts.

7. Riverside – Public Safety and Adequacy of Service

Is the service provided in Riverside adequate from a public safety perspective? If not, what must the Company do?

AGP takes no position on this issue at this time, but will await the development of evidence in the hearing on this issue.

8. Empire Special Contract

Should the January 19, 2012, Stipulation and Agreement as to a Special Contract for The Empire District Electric Company be approved? If the Stipulation and Contract is not approved, should the Company’s interruptible tariff remain in effect?

AGP does not believe that special contracts should be approved

without full consideration of the impact that the revenue that could be forgone on other customers within the water district and potentially outside of that district. No precedent should be created in any respect.

9. Special Accounting for Business Transformation Project/Request for AAO

What is the appropriate accounting treatment to use for the Business Transformation Project at this time?

AGP takes no position on this issue at this time, but will await the development of evidence in the hearing on this issue.

10. Jefferson City Upgrades

What is the status of the Jefferson City upgrades?

AGP has no knowledge of or position on this issue. We will await development of this issue at the hearing.

Respectfully submitted,

s/ Stuart W. Conrad
STUART W. CONRAD #23966
Finnegan, Conrad & Peterson LC
3100 Broadway
Suite 1209
Kansas City, MO 64111
stucon@fcplaw.com

Attorneys for Ag Processing Inc a Cooperative

**CERTIFICATE OF
SERVICE**

I hereby certify that a true and correct copy of the foregoing was served, either electronically or by hand delivery or by First Class United States Mail, postage prepaid, on this **15^h day of February, 2012**, on the parties of record as set out on the official Service List maintained by the Data Center of the Missouri Public Service Commission for this case.

s/ Stuart W. Conrad