

No.:
Witness: Michael Gorman
Type of Exhibit: Rebuttal Testimony
Issues: Cost of Service, Rate Design
Sponsoring Party: Triumph Foods, LLC
Case No.: WR-2010-0131

**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 Water and Sewer)
Services Provided in Missouri)
Service Areas)
_____)

Case No. WR-2010-0131

Rebuttal Testimony and Schedules of

Michael Gorman

On behalf of

Triumph Foods, LLC

April 15, 2010



Project 9246

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

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Missouri-American Water)
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_____)

Case No. WR-2010-0131

Rebuttal Testimony of Michael Gorman

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q WHAT IS YOUR OCCUPATION?**

5 A I am a consultant in the field of public utility regulation and a Managing Principal of
6 Brubaker & Associates, Inc., energy, economic, and regulatory consultants.

7 **Q PLEASE DESCRIBE YOUR EDUCATIONAL AND BACKGROUND EXPERIENCE.**

8 A These are set forth in Appendix A to my testimony.

9 **Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

10 A This testimony is presented on behalf of Triumph Foods, LLC ("Triumph Foods"). I
11 have also prepared direct testimony on behalf of the Missouri Industrial Energy
12 Consumers in this proceeding.

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1 Q PLEASE SUMMARIZE THE ISSUES YOU WILL ADDRESS IN YOUR TESTIMONY.

2 A I will respond to the direct testimony of Donald E. Johnstone, testifying on behalf of
3 Ag Processing Inc., a cooperative (“AGP”).

4 Q WHAT ISSUES WERE RAISED BY MR. JOHNSTONE TO WHICH YOU WILL
5 REPLY IN YOUR TESTIMONY?

6 A I will respond to Mr. Johnstone’s concern that the Triumph Foods special economic
7 development contract rate is unduly discriminatory and negatively impacts other
8 customers in the St. Joseph District of Missouri-American Water Company (“MAWC”
9 or “Missouri-American”). See Direct Testimony of Donald E. Johnstone, March 9,
10 2010 at 1.

11 Q PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.

12 A My findings and recommendations are set out as follows:

13 1. The Triumph Foods economic development contract rate is a discount to the full
14 cost of service rate for MAWC which was approved by the Commission because
15 of the economic benefits to the St. Joseph District of MAWC, and to the local
16 economy. This rate is not discriminatory. Rather, this rate has helped to produce
17 significant economic benefits to the St. Joseph community, and also reduces the
18 revenue requirement that is recovered from the other tariff rate customers in the
19 St. Joseph District.

20 2. The revenue Triumph Foods provides to MAWC under the economic development
21 contract rate provides full recovery of all variable production costs MAWC incurs
22 to provide service under this rate and makes a contribution to MAWC’s other
23 costs.

24 3. Because the economic development rate makes a contribution to MAWC’s other
25 costs, other customers benefit from the existence of this economic development
26 discount rate. Other customers benefit from a discount economic development
27 customer making contributions to other costs, because the revenue requirement
28 that MAWC recovers from its other full tariff rate customers of the District is
29 reduced.

30 4. MAWC’s economic development contract rate creates benefits to the St. Joseph
31 District and surrounding communities because it helped to attract large industrial

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1 facilities into the area, creates jobs, and increases the amount of local taxes paid
2 to local government. This economic contribution provides benefits to the St.
3 Joseph District in addition to the MAWC cost of service benefits created through
4 the reduced revenue requirement that MAWC recovers from its other tariff
5 customers.

6 Based on my analysis, the Triumph Foods economic development contract
7 rate is not discriminatory and does produce benefits to MAWC's other customers in
8 the St. Joseph District, and has contributed to the St. Joseph community economic
9 development.

10 **Q PLEASE DESCRIBE THE TRIUMPH FOODS ECONOMIC DEVELOPMENT**
11 **CONTRACT RATE.**

12 A The economic development rate is based on a Contract for the Retail Sale and
13 Delivery of Potable Water ("Contract") entered into as of September 2, 2003 between
14 MAWC and Premium Pork, LLC ("Premium Pork"), the predecessor in interest to
15 Triumph Foods. The Contract was found to be in the public interest and approved by
16 the Missouri Public Service Commission ("PSC" or "Commission"). The Contract rate
17 was designed to recover the variable cost, tariff customer charge, and also make a
18 contribution to MAWC's fixed costs.

19 **Q WHEN DID THE COMMISSION APPROVE TRIUMPH FOODS' ECONOMIC**
20 **DEVELOPMENT SPECIAL CONTRACT RATE?**

21 A MAWC's Economic Development Rider ("EDR") Tariff,¹ approved by the Commission
22 in Case No. WT-2004-0156, requires that each Special Service Contract be filed with,
23 and approved by, the Commission. See MAWC EDR Tariff, PSC Mo. No. 1, Sheet
24 56. On November 20, 2003 the Commission approved the contract between MAWC

¹The EDR Tariff is PSC Mo. No. 1, Sheets 49 through 60, for St. Joseph and vicinity.

1 and Premium Pork in Case No. WT-2004-0192. Premium Pork, LLC changed its
2 name to Triumph Foods, LLC in December 2003.

3 **Q HOW DID THE COMMISSION DETERMINE THE TRIUMPH FOODS ECONOMIC**
4 **DEVELOPMENT CONTRACT RATE IS IN THE PUBLIC INTEREST?**

5 A The Commission set forth the following standard. Once a company has established
6 its eligibility for Alternative Incentive Provisions in the EDR Tariff, it may enter into a
7 contract providing for an incentive rate, termed a “Special Service Contract.” See
8 MAWC EDR Tariff, PSC Mo. No. 1, Sheet 53. The Special Service Contract provides
9 a competitive rate that (1) does not exceed the tariffed rate that would otherwise be
10 applicable, and (2) is sufficient to recover the Variable Production Cost of Water and
11 make a “reasonable” contribution toward all other costs. Id. Additionally, the
12 customer must pay the monthly customer charge appropriate to its class, the public
13 fire protection service charge appropriate to its class, all applicable taxes, any other
14 appropriate fees or charges lawfully charged to it, and recoupment of any capital
15 expenses incurred in extending service to the customer. Id. at Sheets 53, 55.

16 This incentive rate is also subject to an Escalation Charge “based upon
17 changes in published price indices and/or changes in the Company’s cost of service.”
18 Id. at Sheet 54. A test for continued eligibility is applied at the end of each contract
19 year and failure to meet it for two successive years terminates eligibility for the
20 incentive rate. Id.

1 Q DOES TRIUMPH FOODS' ECONOMIC DEVELOPMENT CONTRACT RATE
2 PRODUCE REVENUE THAT MORE THAN RECOVERS MAWC'S VARIABLE
3 PRODUCTION COSTS AND PROVIDES A REASONABLE CONTRIBUTION TO
4 OTHER COSTS?

5 A Yes. This analysis is shown on my Confidential Schedule Triumph-MPG-1. On that
6 schedule, I identify all the variable production costs of providing water service to
7 Triumph Foods based on the Company's cost of service study for the St. Joseph
8 District. All costs that were allocated based on base volumes (Factor 1) were
9 included as variable production costs.

10 Any cost that would not be eliminated through a reduction in delivery volumes
11 was excluded from this variable production cost analysis. The variable costs related
12 to water production include: purchased power costs, chemical costs, and
13 miscellaneous water production expenses. Non-variable production costs (i.e., other
14 costs) include capital investments in water treatment production plant and the
15 distribution system, operation and maintenance of MAWC plant, direct labor costs,
16 and administrative and general expense.

17 Q PLEASE DESCRIBE YOUR ANALYSIS OF MAWC VARIABLE PRODUCTION
18 COST VERSUS THE TRIUMPH FOODS CONTRACT RATE REVENUE.

19 A As shown on Confidential Schedule Triumph-MPG-1, the variable cost per unit
20 volume is \$0.33/1,000 gallons (k gallons), in the test year under the Company's
21 estimated cost of service for the St. Joseph District. This cost is lower than the test
22 year Triumph Foods contract volumetric rate of *** ***. As such,

REDACTED

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1 Triumph Foods' economic development contract rate provides recovery of MAWC's
2 variable production costs, and contributes *** to MAWC's other costs.

3 Importantly, the contract rate's volumetric charge is adjusted per a formula
4 tied to inflation. This volumetric price adjustment will be made outside of a general
5 rate case. As a result, the contract rate is designed to increase over time to help
6 ensure that the contract revenue will fully recover variable production costs and make
7 a contribution to other costs over the contract term.

8 **Q DID MISSOURI-AMERICAN INCUR ANY ADDITIONAL COSTS TO SERVE**
9 **TRIUMPH FOODS AT THE TIME THE CONTRACT WAS NEGOTIATED?**

10 A No. Attached as Schedule Triumph-MPG-2, is a letter dated June 6, 2003 from
11 Missouri-American Manager of Northwest Operations Robert L. Amman, Jr. to the
12 then Vice President of Community Development of the St. Joseph Chamber of
13 Commerce. In that letter, Mr. Amman specifically stated that Missouri-American had
14 adequate production capacity to serve the Triumph Foods load, and would not need
15 additional investment in its production and distribution system in order to serve
16 Triumph Foods. He stated that Triumph Foods would be responsible for the cost of
17 interconnection to Missouri-American's facility as a condition of service. Triumph
18 Foods did pay for this interconnection.

19 **Q ARE MAWC'S ECONOMIC DEVELOPMENT SPECIAL CONTRACT RATES A**
20 **FULLY ALLOCATED COST OF SERVICE RATE?**

21 A No. MAWC's EDR Tariff offers water service at a discounted rate "to encourage
22 industrial and commercial development in the State of Missouri." See MAWC EDR
23 Tariff, PSC Mo. No. 1, Sheet 49.

REDACTED

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1 **Q ARE MAWC'S ECONOMIC DEVELOPMENT SPECIAL CONTRACT RATES IN THE**
2 **PUBLIC INTEREST?**

3 A Yes. The EDR Tariff requires that each Special Service Contract be filed with, and
4 approved by, the Commission. Id. at Sheet 56. In support of such a contract, the
5 customer must provide to the Commission a quantification as to the economic
6 benefits to the state, the affected metropolitan area(s) and/or the affected local
7 area(s) projected to be realized as a result of the Special Service Contract.

8 Pursuant to the EDR Tariff, discount incentive provisions are only available:

9 [i]n the event the General Incentive Provisions are not sufficient and a
10 qualifying customer can demonstrate a viable competitive alternative in
11 another geographical area, which is critical to the customer's decision
12 to locate new or expanding facilities in the Company's service territory,
13 and the qualifying customer can demonstrate that net benefits will
14 accrue to the State of Missouri by locating or expanding its facilities in
15 the Company's service territory[.]

16 Id. at Sheet 53.

17 **Q HOW IS TRIUMPH FOODS' SPECIAL CONTRACT IN THE PUBLIC INTEREST?**

18 A In approving the Contract between MAWC and Premium Pork, the Commission noted
19 at pages 8–9 of its Order in Case No. WT-2004-0192:

20 The application explains that Premium Pork proposes to construct a
21 pork-processing facility in the now-derelect Stockyards area of
22 St. Joseph, Missouri. The Stockyards was formerly the site of an
23 extensive animal slaughtering and processing operation that
24 historically formed the economic core of St. Joseph. The new facility,
25 projected at 600,000 square feet, will cost about \$130 million.
26 Five hundred pigs will be processed there each hour. The facility will
27 lead to the creation of 1,000 jobs, including 800 processing jobs and
28 200 jobs in the associated corporate headquarters. Each of these
29 persons will earn over \$10.00 per hour in pay and benefits, an annual
30 impact on the St. Joseph economy of at least \$21 million. The
31 application further states that over 300 persons will be employed in the
32 construction of the plant, earning over \$7 million in wages; that the
33 facility will pay about \$1.2 million annually in local taxes; and that
34 another 218 jobs, with an annual payroll of about \$25 million, will be
35 created by 2005. By 2017, Premium Pork projects that it will be paying

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1 annual salaries and wages of over \$66 million. The city and
2 community of St. Joseph are eager to attract Premium Pork to locate
3 there, as is evidenced by a number of exhibits attached to the
4 application.

5 However, St. Joseph is only one of several locations that Premium
6 Pork is considering. Because Premium Pork will consume large
7 amounts of utility services, the most important factor in the plant-
8 location decision is the level of utility rates. The application makes
9 clear that Premium Pork will only locate in St. Joseph if rates for water
10 service are available that are in line with the amount that Premium
11 Pork is prepared to pay. Missouri-American's current tariffed rates are
12 too high, the application states. Missouri-American's General
13 Incentive Provision rates under its EDR Tariff are also too high.
14 Premium Pork and Missouri-American have negotiated an agreement
15 that, if approved by the Commission, will provide water service at a
16 competitive rate for a period in excess of ten years.
17 Missouri-American asserts that approval of the agreement and
18 proposed tariff sheets will impose no detriment on other ratepayers in
19 the St. Joseph district and will, in fact, benefit them in many ways.

20 **Q WHAT ADDITIONAL FINDINGS DID THE COMMISSION MAKE?**

21 A The Commission found that Premium Pork was eligible for a discounted rate under
22 the EDR Tariff because it was a new industrial customer from outside Missouri, its
23 annual customer load factor equaled or exceeded 55%, the projected Average
24 Annual Billing Demand was at least 0.5% of the total consumption of the St. Joseph
25 District of Missouri-American, and the new facility will create at least 50 new
26 permanent jobs in the district. The Commission noted that the general incentives
27 were not sufficient because Premium Pork had a viable competitive alternative in
28 another area and the availability of a competitive water rate was critical to Premium
29 Pork's decision to locate in St. Joseph. Finally, the Commission found that the
30 contract provided for a reasonable contribution to "all other costs associated with the
31 provision of service" and that this contribution provided a benefit to other customers
32 because it served to reduce the revenue requirement of the St. Joseph district as a
33 whole. See Order, Case No. WT-2004-0192 (Nov. 20, 2003) at 10–12.

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1 Q WHAT DID THE COMMISSION CONCLUDE REGARDING THE CONTRACT IN
2 THAT PROCEEDING?

3 A The Commission approved the Special Service Contract filed by MAWC that provides
4 for a discount rate for water service to Premium Pork. See Order, Case No. WT-
5 2004-0192 (Nov. 20, 2003) at 12.

6 Q HAS THE CONTRACT BEEN REVIEWED SINCE ITS APPROVAL BY THE
7 COMMISSION?

8 A No, because any review would be premature pursuant to the EDR Tariff and this
9 Commission's decision. Since the Contract is for a period of ten or more years,
10 MAWC's EDR tariff, on file with the Commission, permits the Commission's Staff and
11 the Office of Public Counsel to request a Commission review of the continued
12 appropriateness of the alternative rate set forth in the contract after the initial five
13 years of the contract.

14 On February 20, 2009, the Office of the Public Counsel filed such a request
15 Case No. WO-2009-0303. However, because the Commission authorized MAWC to
16 perform according to the Contract on November 25, 2003, but Triumph Foods did not
17 begin its operations until January 2, 2006, it had not purchased water under the rates
18 provided for in the Contract for five years. Additionally, because any change to the
19 Contract must be implemented in a general rate case, any contract review was
20 premature at the time the Office of Public Counsel filed its request for review.

1 **Q WHAT DID THE COMMISSION CONCLUDE REGARDING THE CONTRACT IN**
2 **THAT PROCEEDING?**

3 A The Commission concluded Triumph had not yet received the five-year benefit
4 contemplated by the Contract. What's more, the Commission stated that the earliest
5 it could take any action with regard to this contract would be when MAWC files its
6 next general rate increase request. See Order, Case No. WO-2009-0303 (May 21,
7 2009) at 4–5.

8 **Q WHEN SHOULD THE CONTRACT BE RE-EXAMINED?**

9 A Pursuant to this Commission's findings in the prior proceedings relating to the
10 Contract, the Commission should not undertake a review of the Contract until the
11 Triumph Foods plant has operated for a full five years and until sufficient and
12 complete data has been compiled with regard to those operations.

13 **Q WHY DID THE COMMISSION STATE A FIVE-YEAR WINDOW FOR REVIEWING**
14 **THE ECONOMIC DEVELOPMENT SPECIAL CONTRACT RATE FOR TRIUMPH**
15 **FOODS?**

16 A In its original order in Case No. WT-2004-0192, at 11, the Commission noted a viable
17 competitive alternative for locating the Triumph Foods facility in St. Joseph, Missouri
18 to be in the city of Albert Lea, Minnesota. The Commission noted that the cost of
19 water service in Albert Lea, Minnesota was a fraction of the water service cost under
20 the tariff rate provisions of Missouri-American Water Company in its St. Joseph
21 District. The Commission noted that the record did not show that the rate available
22 for Albert Lea, Minnesota will increase annually and reach a level equivalent to the
23 current tariff industrial rate in the St. Joseph District after five years.

1 Q HOW DOES MISSOURI-AMERICAN'S INDUSTRIAL RATE AND THE TRIUMPH
2 FOODS CONTRACT RATE COMPARE TO THE CURRENT TARIFF RATE FOR A
3 NON-RESIDENTIAL CUSTOMER TAKING SERVICE IN ALBERT LEA,
4 MINNESOTA?

5 A The Contract rate is reasonably comparable to the cost of residential and commercial
6 water service in Albert Lea, Minnesota. This is based on a comparison of Triumph
7 Foods' Contract rate, and the water service tariff rate for Albert Lea, Minnesota. This
8 cost comparison is developed on my Confidential Schedule Triumph-MPG-3. This
9 cost comparison also shows that the water service tariff rate for Albert Lea, Minnesota
10 is considerably lower than MAWC's current industrial rate in its St. Joseph District.

11 Hence, the justification for a special contract rate to Triumph Foods is still
12 valid today. It is worthy of note, that the Alberta Lea rate schedule does not include a
13 large industrial rate. Hence, this rate comparison is based on a residential and
14 commercial rate schedule for Albert Lea, Minnesota in comparison to the industrial
15 rate for MAWC's St. Joseph District. Had Triumph Foods located in Albert Lea's
16 service territory, it is possible that a large customer, high load factor rate could have
17 been developed which would have been a lower cost rate than the City's standard
18 residential and commercial rates.

19 Q HAVE THE OPERATIONS OF THE TRIUMPH FOODS PLANT FULFILLED THE
20 EXPECTATIONS OUTLINED IN THE COMMISSION'S APPROVAL OF ITS
21 ECONOMIC DEVELOPMENT RATE?

22 A Yes. Since becoming operational in early 2006, Triumph Foods employs over 2,700
23 people, with 2,300 of those in production-related positions and 400 holding
24 management and clerical positions. Total payroll for 2008 was \$83.6 million, with an

1 hourly average wage of \$14.00. In 2009, total payroll was \$94 million. Additionally,
2 Triumph Foods maintains its corporate headquarters in St. Joseph, Missouri and
3 purchases goods and services locally, pays local taxes, and donates to local
4 community organizations. Triumph Foods estimates its annual positive revenue
5 impact to the St. Joseph community for 2008 was over \$125 million and for 2009 was
6 over \$135 million.

7 **Q HAVE THE OPERATIONS OF THE TRIUMPH FOODS PLANT EXCEEDED THE**
8 **2003 ECONOMIC DEVELOPMENT EXPECTATIONS TO DATE?**

9 A Yes. Triumph Foods has far exceeded its estimates of jobs created and annual
10 payroll. MAWC estimated in its original application to the Commission, filed
11 October 17, 2003, that the total investment in the Triumph Foods plant would be
12 approximately \$130-135 million, and that approximately 800 jobs would be associated
13 with the processing facility, with another 200 jobs created as part of the corporate
14 headquarters of the company also to be located in St. Joseph. See Application, Case
15 No. WT-2004-0192 (Oct. 17, 2003) at 3–4. As I have previously noted, Triumph
16 Foods employs over 2,700 people, with 2,300 of those in production-related positions
17 and 400 holding management and clerical positions. It was also estimated that the
18 payroll in 2017 would be \$66 million. Triumph Foods has already exceeded this by
19 \$28 million as of 2009. Additionally, the total cost of the Triumph Foods plant was
20 approximately \$150 million, and Triumph Foods has invested approximately
21 \$50 million more in the plant since it was initially built.

22 **Q DOES THAT CONCLUDE YOUR TESTIMONY?**

23 A Yes, it does.

Appendix A

Qualifications of Michael Gorman

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q PLEASE STATE YOUR OCCUPATION.**

5 A I am a consultant in the field of public utility regulation and a Managing Principal with
6 Brubaker & Associates, Inc., energy, economic, and regulatory consultants.

7 **Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND WORK
8 EXPERIENCE.**

9 A In 1983 I received a Bachelors of Science Degree in Electrical Engineering from
10 Southern Illinois University, and in 1986, I received a Masters Degree in Business
11 Administration with a concentration in Finance from the University of Illinois at
12 Springfield. I have also completed several graduate level economics courses.

13 In August of 1983, I accepted an analyst position with the Illinois Commerce
14 Commission ("ICC"). In this position, I performed a variety of analyses for both formal
15 and informal investigations before the ICC, including marginal cost of energy, central
16 dispatch, avoided cost of energy, annual system production costs, and working
17 capital. In October of 1986, I was promoted to the position of Senior Analyst. In this
18 position, I assumed the additional responsibilities of technical leader on projects, and
19 my areas of responsibility were expanded to include utility financial modeling and
20 financial analyses.

1 In 1987, I was promoted to Director of the Financial Analysis Department. In
2 this position, I was responsible for all financial analyses conducted by the staff.
3 Among other things, I conducted analyses and sponsored testimony before the ICC
4 on rate of return, financial integrity, financial modeling, and related issues. I also
5 supervised the development of all Staff analyses and testimony on these same
6 issues. In addition, I supervised the Staff's review and recommendations to the
7 Commission concerning utility plans to issue debt and equity securities.

8 In August of 1989, I accepted a position with Merrill-Lynch as a financial
9 consultant. After receiving all required securities licenses, I worked with individual
10 investors and small businesses in evaluating and selecting investments suitable to
11 their requirements.

12 In September of 1990, I accepted a position with Drazen-Brubaker &
13 Associates, Inc. In April 1995 the firm of Brubaker & Associates, Inc. ("BAI") was
14 formed. It includes most of the former DBA principals and Staff. Since 1990, I have
15 performed various analyses and sponsored testimony on cost of capital, cost/benefits
16 of utility mergers and acquisitions, utility reorganizations, level of operating expenses
17 and rate base, cost of service studies, and analyses relating industrial jobs and
18 economic development. I also participated in a study used to revise the financial
19 policy for the municipal utility in Kansas City, Kansas.

20 At BAI, I also have extensive experience working with large energy users to
21 distribute and critically evaluate responses to requests for proposals ("RFPs") for
22 electric, steam, and gas energy supply from competitive energy suppliers. These
23 analyses include the evaluation of gas supply and delivery charges, cogeneration
24 and/or combined cycle unit feasibility studies, and the evaluation of third-party
25 asset/supply management agreements. I have analyzed commodity pricing indices

1 and forward pricing methods for third party supply agreements, and have also
2 conducted regional electric market price forecasts.

3 In addition to our main office in St. Louis, the firm has branch offices in
4 Phoenix, Arizona and Corpus Christi, Texas.

5 **Q HAVE YOU EVER TESTIFIED BEFORE A REGULATORY BODY?**

6 A Yes. I have sponsored testimony on cost of capital, revenue requirements, cost of
7 service, and other issues before the Federal Energy Regulatory Commission and
8 numerous state regulatory commissions including: Arkansas, Arizona, California,
9 Colorado, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas,
10 Louisiana, Michigan, Missouri, Montana, New Jersey, New Mexico, New York, North
11 Carolina, Oklahoma, Oregon, South Carolina, Tennessee, Texas, Utah, Vermont,
12 Virginia, Washington, West Virginia, Wisconsin, Wyoming, and before the provincial
13 regulatory boards in Alberta and Nova Scotia, Canada. I have also sponsored
14 testimony before the Board of Public Utilities in Kansas City, Kansas, presented rate
15 setting position reports to the regulatory board of the municipal utility in Austin, Texas,
16 and Salt River Project, Arizona, on behalf of industrial customers, and negotiated rate
17 disputes for industrial customers of the Municipal Electric Authority of Georgia in the
18 LaGrange, Georgia district.

19 **Q PLEASE DESCRIBE ANY PROFESSIONAL REGISTRATIONS OR**
20 **ORGANIZATIONS TO WHICH YOU BELONG.**

21 A I earned the designation of Chartered Financial Analyst ("CFA") from the CFA
22 Institute. The CFA charter was awarded after successfully completing three
23 examinations which covered the subject areas of financial accounting, economics,

1 fixed income and equity valuation, and professional and ethical conduct. I am a
2 member of the CFA Institute's Financial Analyst Society.

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Missouri-American Water Company

Variable Production and Other Costs Analysis

<u>Line</u>	<u>Description</u>	<u>Costs</u> (1)	<u>MAWC</u> <u>Proof of Revenue</u> <u>Costs</u> (2)	<u>Note</u> (3)
<u>St. Joseph District Variable Costs Analysis</u>				
1	Fuel & Power Costs ¹	\$ 813,071		
2	Chemicals ¹	\$ 729,631		
3	Miscellaneous Expense (Water Treatment) ¹	\$ 296,974		
4	Total St. Joseph District Variable Expense	<u>\$ 1,839,676</u>		(Line 1+Line 2+Line 3)
5	St. Joseph District Usage (000 gals) ²	5,555,133		
6	St. Joseph District Variable Expense (\$/000 gals)	\$ 0.33		(Line 4 / Line 5)
<u>Triumph's Economic Development Rate</u>				
7	Triumph's Usage (000 gals) ³			
8	Triumph's Proposed Volumetric Rate (\$/000 gals) ³			
9	Triumph's Proposed Costs			(Line 7 x Line 8)
<u>Triumph's Contribution to Variable and Other Costs</u>				
10	Triumph's Variable Costs Contribution		\$ 282,240	(Line 6 x Line 7)
11	Triumph's Other Costs Contribution			(Line 9 - Line 10)

Sources:

¹ Schedule CAS-10-SJO.

² Schedule CAS-13-SJO.

³ Schedule CAS-14-SJO, Page 4 of 9.

6 June 2003

Robert L. Amman, Jr.
Manager
Northwest Operations

Brad Lau, Vice President, Community Development
St. Joseph Area Chamber of Commerce
3003 Frederick Avenue
St. Joseph, MO 64506

Re: Premium Standard Pork processing plant

Dear Mr. Lau:

I am writing in regard to our recent conversations concerning availability of water service to a proposed Premium Standard Pork processing plant in the vicinity of the stockyards in St. Joseph. We are pleased to present the following information regarding that project.

First with regard to capacity, our plant presently has a total production capacity of 30 MGD. Our average daily delivery in 2002 was 15.1 MGD. Based on the demand information you provided, we have ample capacity to supply the 3.6MGD demand required for this project.

In addition, water service in the quantities required is presently available from our existing distribution system in the stockyards area and is not expected to require any additional distribution facilities with the exception of an individual customer service line(s) for the Premium Standard Pork facility (ies) associated with this project. This service line(s) and its connection(s) would be built to our specifications at the expense of the customer.

Based on our conversations, Premium Standard Pork would most likely qualify for our Economic Development Rider (EDR), which, as you are aware, provides for annual refunds ranging from 30% to 10 % over the five-year life of the agreement if certain conditions are met. The EDR is already included in our currently approved tariffs. A copy is attached. We would be happy to review that with you in detail if you wish.

Another economic development alternative is the use of a Special Contract Rate. The Company has gained regulatory approval from the Commission to use a Special Contract Rate for a customer in its St. Louis District. Any development of a Special Contract rate to be used in the future in the St. Joseph District would have to be approved by the Missouri Public Service Commission. Our success with the Commission in this regard in the past gives us confidence we could achieve the same in this instance.

The purpose of the Special Contract Rate is to recognize that a prospective large industrial customer who is interested in locating its business to the Company's service territory has competitive alternatives when it comes to choosing its location and therefore its water provider.

3901 Beck Road
Suite B
St. Joseph, MO 64506

T + 1 816 233 4000
F + 1 816 233 3071
r. amman@amwater.com

The Special Contract Rate would be supported by a "Contract to Sell Water" and a tariff that is approved by the Missouri Public Service Commission. Some of the provisions of the contract and/or tariff would be as follows:

Robert L. Amman, Jr.
Manager
Northwest Operations

1. Customer must purchase all of its water from the Company.
2. Customer has a viable alternative to service from the Company and may select that alternative rather than the Company (i.e., locate its facilities in another community)
3. Customer shall provide to the Company documentation supporting the water rate available by the water system in the community representing the customer's competitive alternative.
4. The rate to be charged must be sufficient to recover, a) the variable production costs of water and, b) a reasonable contribution towards fixed costs associated with the provision of water service.
5. The rate is subject to an annual adjustment for inflation. This adjustment would be determined through the application of a recognized index such as the Consumer Price Index.

A Special Contract Rate may also include an annual base charge that is designed to recover the capital costs for any infrastructure placed into service by the Company that is used to serve the new customer. As indicated above, based on the information available at this time, we do not expect additional water company infrastructure to be required to serve the proposed Premium Standard Pork facility. Therefore, an annual base charge would appear not to apply in this case.

There may be additional terms or conditions negotiated by both parties based on issues that arise at the time of contract development discussions. The economics of each of these alternatives will need to be explored in greater depth as this project moves forward and further details become available.

We trust this information satisfactorily responds to your inquiry and are excited about the prospect of being able to provide water service to this project. Please feel free to contact me at 233-4000 if you have any question or wish to discuss this matter further. We are pleased to work with the City and the St. Joseph Area Chamber of Commerce in their efforts to attract new industry to our community.

Very truly yours,



Robert L. Amman, Jr.

c: E. Thornburg
F. Kartmann
Mayor David Jones
Patt Lilly

3901 Beck Road
Suite B
St. Joseph, MO 64506

T + 1 816 233 4000
F + 1 816 233 3071
E ranman@amwater.com

Missouri-American Water Company

Tariff Rate Comparison (Triumph Foods)

<u>Line</u>	<u>Description</u>	<u>Annual Water Cost</u>
1	City of Albert Lea, MN Utilities Department ¹	
2	MAWC Economic Development Rate ²	
3	MAWC St. Joseph Industrial Rate ³	

Sources:

¹See Redacted Schedule Triumph-MPG-3, Page 2 of 2.
²From "SC Revenues" from Donald Johnstone's COS DEJ 1 Mar26 2010.xlsm
³From "SC Revenues" from Donald Johnstone's COS DEJ 1 Mar26 2010.xlsm - Customer Charge Changed to Reflect Current Customer Charge for 8" Meter.

Missouri-American Water Company

Tariff Rate Comparison (Albert Lea, MN Rates Annual Cost¹)

<u>Line</u>	<u>Description</u>	<u>Annual Usage</u> (1)	<u>Rates</u> (2)	<u>Costs</u> (3)
1	Customer Charge: (3 meters) 6"		\$ 246.75	
	Volumetric Charges :			
2	First Block (100,000 CF)		\$ 0.0095	
3	Second Block (100,001 up to 500,000 CF)		\$ 0.0054	
4	Third Block (500,001 CF +)		\$ 0.0050	
5	Total	-		
6	Total All			

Source:

¹City of Albert Lea Resolution 10-03, passed January 11, 2010.