

Exhibit _____
Issues: Advertising Expense,
Equipment Lease,
Dues and Donations,
Transportation Expense,
Relocation Expense,
And Employee Expenses
Witness: Douglas M. Lehman, CFA
Senior Financial Analyst
Sponsoring Party: Missouri American Water
Type of Exhibit: Rebuttal Testimony
Case Nos.: WR-2003-0500
Date Testimony Prepared: November 10, 2003

MISSOURI AMERICAN WATER COMPANY

REBUTTAL TESTIMONY

OF

**DOUGLAS M. LEHMAN, CFA
SENIOR FINANCIAL ANALYST**

MISSOURI-AMERICAN WATER COMPANY

CASE NOS. WR-2003-0500

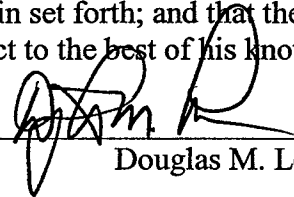
JEFFERSON CITY, MISSOURI

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

IN THE MATTER OF MISSOURI-AMERICAN)	CASE NO. WR-2003-0500
WATER COMPANY FOR AUTHORITY TO FILE)	
TARIFFS REFLECTING INCREASED RATES)	
FOR WATER SERVICE)	
)	

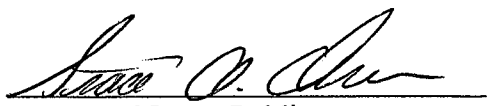
AFFIDAVIT OF DOUGLAS M. LEHMAN

Douglas M. Lehman, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying rebuttal testimony entitled "Rebuttal Testimony of Douglas M. Lehman"; that said rebuttal testimony and schedule(s) were prepared by him and/or under his direction and supervision; that if inquires were made as to the facts in said rebuttal testimony, he would respond as therein set forth; and that the aforesaid rebuttal testimony and schedule(s) are true and correct to the best of his knowledge.



Douglas M. Lehman

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
before me this 6th day of November 2003.



Notary Public

STACI A. OLSEN Notary Public - Notary Seal STATE OF MISSOURI St. Charles County My Commission Expires: Mar. 20, 2005
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My commission expires:

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DOUGLAS M. LEHMAN, CFA
SENIOR FINANCIAL ANALYST
MISSOURI-AMERICAN WATER COMPANY
CASE NOS. WR-2003-0500

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WITNESS INTRODUCTION

1
2

3 **Q: PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4

5 A: Douglas M. Lehman, 535 N. New Ballas Road, St. Louis, MO 63141.

6

7 **Q: BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8

9 A: I am an employee of Missouri American Water, and my job title is Senior Financial Analyst.

10

11 **Q: PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND?**

12

13 A: I graduated from Indiana University, receiving a Bachelor of Science degree in Finance in 1974. I
14 graduated from the General Electric Company's internal Financial Management Program in 1980.
15 I graduated from St. Francis University in Fort Wayne, Indiana in 1986, receiving a Masters
16 degree in Business Administration with a major in Finance. I earned the professional accreditation
17 as a Chartered Financial Analyst (CFA) in 1992.

18

19 **Q: PLEASE DESCRIBE YOUR DUTIES WHILE EMPLOYED BY MISSOURI AMERICAN
20 WATER?**

21

22 A: I have worked in a number of phases of this rate case process (data requests, prehearing
23 conference, rebuttal testimony) and in many other areas of financial analysis for Missouri
24 American Water. Since starting with the Company in July 2003, I have reviewed all filed
25 testimony and schedules of the Company.

26

27 **Q: HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS COMMISSION?**

28

29 A: No. However, I have filed testimony a number of times before the Indiana Utility Regulatory

1 Commission on water rate cases in which I was involved as Director of Finance for the City of
2 Fort Wayne, Indiana from 1989 to 1995. From 1995 to June 2003, I served as Securities Analyst—
3 Utilities and as President of Lehman Investment Management Corporation.
4

5 **Q: WHAT MATTERS WILL YOU ADDRESS IN YOUR TESTIMONY?**
6

7 A: I will address six areas of disagreement between Missouri American Water and the MPSC Staff:
8 Advertising Expense, Equipment Leases, Dues and Donations, Transportation Reserve and
9 Expense, Relocation Expense, and Employee Expense.
10

11 **ADVERTISING EXPENSES**
12

13
14 **Q: HOW HAS THE MISSOURI COMMISSION TRADITIONALLY ADDRESSED**
15 **ADVERTISING EXPENSES?**
16

17 A: The Missouri Commission has generally utilized four categories of advertising--1.) General or
18 informational advertising that is useful in the provision of adequate service; 2.) Safety advertising
19 which conveys the ways to safely use the substance and avoid accidents; 3.) Promotional
20 advertising used to encourage or promote the use of the substance; and 4.) Institutional advertising
21 used to improve the Company's public image—in assessing the recovery of advertising expenses;
22 and 5.) Political advertising.
23

24 **Q: DOES MAWC DISPUTE THE CATEGORIES MS. MCKIDDY ASSIGNED TO ITS**
25 **ADVERTISEMENTS?**
26

27 A: No. The primary issue here relates to expense documentation. Staff disallowed a large number of

1 paid invoices in allowable categories because an audiotape, videotape, or hard copy of the
2 advertising item was not easily obtainable. MAWC was unable to obtain a number of radio ads,
3 television ads, and magazine inserts.
4

5 **Q: WHAT EVIDENCE OF THESE ADVERTISEMENTS CAN MAWC PROVIDE?**

6
7 A: The Company is able to produce paid invoices with descriptions of the advertisement topic.
8 MAWC believes that should be adequate documentation to include the expense in rates.
9

10 **Q: CAN YOU PRODUCE THESE DISPUTED INVOICES?**

11
12 A: Yes, the invoices were provided to Staff in a data request. In addition, Ms. McKiddy has provided
13 copies of the same invoices to the Commission in her direct testimony. **Schedule DML-1** lists
14 each of the 77 invoices for which Ms. McKiddy has disallowed recovery. It is the Company's
15 position that these advertising expenses should be properly characterized as recoverable and that
16 their cost should be included in the revenue requirement developed by the Commission in this
17 case.
18

19 EQUIPMENT LEASES

20
21 **Q: WHAT IS THE DISPUTE RELATED TO EQUIPMENT LEASES?**

22
23 A: Staff witness Jeremy K. Hagemeyer has disallowed \$25,310 in Equipment Lease Expense that the
24 Company believes can be resolved before or in true-up reconciliation.
25

1 **Q: WHERE DO YOU DISAGREE?**

2

3 A: The Company believes that it should be allowed to recover a minimum of \$25,310 of equipment
4 lease expenses relative to five areas of dispute: 1.) Staff work papers contained a price that was
5 incorrect and disallowed \$29,433; 2.) taxes that were billed separately caused a disallowance of
6 \$4,256; 3.) one estimated price on an equipment lease turned out to be incorrect and caused a
7 disallowance of \$18,333; 4.) Staff added in too much from Company work papers for \$33,904;
8 and 5.) a contract yet to be provided was disallowed for \$7,193.

9

10 **DUES & DONATIONS EXPENSE**

11

12 **Q: WHAT IS THE ISSUE AS TO DUES AND DONATIONS EXPENSE?**

13 A: Staff witness Lisa K. Hanneken has disallowed \$206,730 in dues and donations expense in the test
14 year. I disagree with Ms. Hanneken's approach to some specific items. MAWC believes \$35,007
15 in dues and donations expense of the disallowed total is an appropriate above the line expenses.

16

17 **Q: WHY DO YOU DISAGREE?**

18 A: Our customers want us to be active members of the communities we serve. This is evidenced by
19 the continual requests for participation by Missouri American Water in the communities we serve
20 in a number of ways. Such as:

21 **Charitable Donations:** Charitable donations are provided to organizations like United Way and
22 for community event sponsorships: \$12,022.

23 **Civic & Social Clubs:** Districts have joined local organizations like Home Builders' Associations
24 and Rotary Clubs: \$3,354.

25 **Economic Development Organizations:** MAWC has a broad range of memberships in local and
26 state level chambers of commerce. Several utility cases over the years have supported the
27 inclusion in rates of growth-oriented advertising or economic development expenses. One of the

1 primary tenets in the Commission’s Mission Statement is to support economic development: “We
2 will....Support economic development, through either traditional rate of return regulation or
3 competition, as required by law;”: \$6,519.

4 **Professional Organizations:** Our employees provide our customers with value by participating in
5 and enhancing local professional societies in the fields of engineering, accounting, human
6 resources, and law:\$1,761.

7 **Water Industry Associations:** Memberships in water utility industry groups such as the
8 American Water Works Association provide customers with large-scale value far in excess of
9 membership costs through shared-research and training: \$321.

10 **Employee Expenses:** Staff disallowed in this category thousands of dollars of reasonable and
11 customary employee expenses. For example, if employees are asked to work substantial extra
12 hours, the company will provide a meal. Employee service and appreciation meals and awards
13 were also disallowed. The Company has incorrectly recorded such expenses in the dues and
14 donations category. While it was incorrect to book those expenses to the dues and donations
15 category, the dispute on the issue remains the same. The Company believes such recognition is
16 appropriate. Longevity of service and extraordinary service efforts benefit the ratepayer, and
17 should be encouraged by the Company and the Commission: \$10,880.

18
19 **Q: FOR WHAT DISPUTED EXPENSES DOES MAWC SEEK RECOVERY?**

20 A: Attached to my testimony as Schedule DML-2 is a summary of the 213 items, totaling \$35,007,
21 for which the Company seeks recovery.

22
23 **TRANSPORTATION EXPENSE**

24
25 **Q: WHAT IS THE DISPUTE AS TO TRANSPORTATION EXPENSE?**
26

1 A: Staff witness Lisa K. Hanneken has used the 2002 test year amount of \$1,101,989 for
2 transportation expense. The Company believes a three year average to be a more appropriate
3 measurement tool since this expense varies significantly from year to year.

4

5 **Q: IS MULTI-YEAR AVERAGING USED IN ANY OTHER AREAS WHERE EXPENSE**
6 **FLUCTUATES SIGNIFICANTLY?**

7

8 A: Yes. Relocation expense, employee expense, and uncollectible accounts are several of the areas
9 where multi-year averaging is used. In transportation expense, for example, October year-to-date
10 2003 is \$1,311,080. Full year 2003 is extrapolated to be approximately \$1,575,000. A multi-year
11 average provides for a normalized level of this expense.

12

13 **Q: WHAT WAS THE EFFECT OF THIS DIFFERENCE IN METHODOLOGY?**

14

15 A: Based on the Staff's position, the Company would recover \$225,493 less than it would with a
16 three-year average. The Company should collect in rates a three year average for transportation
17 expense. Therefore, the pro forma level for transportation expense should be \$1,327,482, which is
18 the Staff's level of \$1,101,989 plus \$225,493. See Schedule DML-3.

19

20 **RELOCATION EXPENSES**

21

22 **Q: WHAT IS THE ISSUE IN REGARD TO RELOCATION EXPENSES?**

23

1 A: Relocation expense is an item that can fluctuate substantially from year to year. Staff witness
2 Jeremy K. Hagemeyer has disallowed \$33,660 in Relocation Expense as a result of recognizing
3 only the test year amount in relocation expenses for 2002.

4

5 **Q: DO YOU BELIEVE THIS IS AN APPROPRIATE METHODOLOGY FOR**
6 **RECOGNIZING RELOCATION EXPENSES IN RATEMAKING?**

7

8 A: No. Relocation expense fluctuates significantly from year to year. A fair amount of it is outside the
9 control of the Company. It is controlled essentially by employee retirements, turnover and
10 promotions. The variability of this expense and the Company's limited ability to control it, argue
11 persuasively for normalizing the expense utilizing a multi-year average.

12

13 **Q: WHAT ARE THE IMPLICATIONS OF USING A MULTI-YEAR AVERAGE FOR**
14 **RELOCATION EXPENSE?**

15

16 A: The 2002 test year relocation expense was \$133,848. A broader-based four-year average yields
17 relocation expense of \$168,299. The Company believes a four-year average is a much better
18 representation of reality that just the current or test year.

19

20 **Q: WILL THE USE OF A MULTI-YEAR AVERAGE BE OF LONG-TERM BENEFIT TO**
21 **BOTH THE CUSTOMERS AND THE COMPANY?**

22

23 A: Yes. In 2002, the test year methodology works in the customer's favor. However, in any given
24 year, the result could be sharply different. For example, relocation expense in 2001 was \$296,635,
25 a much higher number than the test year number utilized by the Staff in this case. The

1 Commission should keep in mind the need to have a long-term policy that makes sense. Utilizing
2 an expense measurement approach merely because it yields the lowest result in that particular case
3 does not provide the regulatory consistency for predictable rate regulation.
4

5 EMPLOYEE EXPENSES

6
7 **Q: WHAT IS THE ISSUE IN REGARD TO EMPLOYEE EXPENSES?**

8
9 A: Staff witness Jeremy K. Hagemeyer has disallowed \$175,383 in Employee Expenses by utilizing
10 only the 2002 test year expenses.
11

12 **Q: DO YOU BELIEVE THIS IS AN APPROPRIATE METHODOLOGY FOR**
13 **RECOGNIZING EMPLOYEE EXPENSES IN RATEMAKING?**

14
15 A: No. This is another expense that varies greatly from year to year and merely looking at the test
16 year will disadvantage either the Company or the customer in any given year. For instance, 2003
17 employee expenses will likely end up 25% greater than the 2002 test year expense level.
18

19 **Q: WHAT WOULD BE THE IMPACT OF THE USE OF A MULTI-YEAR AVERAGE FOR**
20 **THIS EXPENSE?**

21
22 A: In the test year of 2002 Employee Expenses were \$297,408. A broader-based five-year average
23 yields Employee Expenses of \$472,791. In 2002, the test year amount works in the customer's
24 favor, in any given year, the result could be sharply different. For example, employee expenses in
25 2001 were \$539,672, an amount that is higher than the five year average.

1

2 **Q: DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

3 **A: Yes.**

Schedule DML-1

Advertising Expense by Operating District
Entered as Schedule DML-1

Date	District Part Company	Business Unit/Expense Description	Object Code	Description	Amount	Copy of Invoice Provided	Copy of Invoice Filed	Type	General	Safety	Institutional	Amount of Disallowance
3/2/2002	Statewide	STL Community Relations - Advertising		Impact Magazine - Ad supporting Mo Jaycees Publication	\$ 125.00	No	Yes				\$ 125.00	125.00
7/12/2002	Statewide	STL Community Relations - Advertising		Impact Magazine - Ad supporting Mo Jaycees Publication	\$ 125.00	No	No				\$ 125.00	125.00
					\$ 250.00						\$ 250.00	
2/7/2002	Brunswick	STL Community Relations - Advertising		Salisbury Press/Brunswick - Institutional Advertising	\$ 96.00	No	Yes				\$ 96.00	96.00
6/13/2002	Brunswick	Brunswick A&G - Misc. Op. A&G		Salisbury Press/Brunswick - Hydrant Flushing Notification	\$ 64.90	Yes	Yes			64.90		
6/20/2002	Brunswick	Brunswick A&G - Misc. Op. A&G		Salisbury Press/Brunswick - Water Quality Report Notification	\$ 33.60	Yes	Yes			33.60		
12/28/2002	Brunswick	Brunswick A&G - Community Relations		Brunswick Wildcat Booster Club - Donation/Advertisement	\$ 100.00	No	Yes				\$ 100.00	100.00
					\$ 294.50						\$ 294.50	
1/16/2002	Jeff City	Jeff City A&G - Community Relations		News Tribune-Greeting/Closed Ad (12/01)	\$ 90.00	No	Yes				\$ 90.00	90.00
6/11/2002	Jeff City	Jeff City A&G - Community Relations		News Tribune - Graduation Ad	\$ 55.00	No	No				\$ 55.00	55.00
6/18/2002	Jeff City	STL Community Relations - Advertising		News Tribune - Water Quality Report Notification	\$ 586.44	Yes	No			586.44		
6/19/2002	Jeff City	Jeff City A&G - Advertising		News Tribune - Guide to Jefferson City	\$ 697.20	Yes	Yes				\$ 697.20	697.20
8/30/2002	Jeff City	Jeff City A&G - Advertising		News Tribune - Progress Section	\$ 140.00	No	Yes				\$ 140.00	140.00
10/2/2002	Jeff City	STL Community Relations - Advertising		Capital Lifestyle Magazine - Ad for Publication Supporting JC	\$ 245.00	No	Yes			140.00	\$ 245.00	245.00
11/18/2002	Jeff City	Jeff City A&G - Advertising		News Tribune - Hydrant Flushing Announcement	\$ 210.40	No	Yes			210.40		
					\$ 2,024.04				140.00		\$ 1,087.20	1,227.20
5/31/2002	Joplin	STL Community Relations - Advertising		Joplin Globe - Institutional Advertising	\$ 100.00	Yes	Yes				\$ 100.00	100.00
7/31/2002	Joplin	STL Community Relations - Advertising		Joplin Globe - Water Quality Report	\$ 666.70	Yes	Yes			666.70		
10/28/2002	Joplin	Corporate Comm. Relations - Advertising		Joplin Globe - Institutional Advertising	\$ 830.28	Yes	Yes				\$ 830.28	830.28
					\$ 1,596.98						\$ 930.28	930.28
2/23/2002	Mexico	Mexico Customer Service - Advertising		Mexico Ledger - Institutional Advertising	\$ 101.35	Yes	Yes				\$ 101.35	101.35
4/25/2002	Mexico	Mexico Customer Service - Advertising		Mexico Ledger - Institutional Advertising	\$ 121.80	Yes	Yes				\$ 121.80	121.80
5/8/2002	Mexico	Mexico A&G - Community Relations		Kiwanis Radio Days - Radio Days Announcements	\$ 50.00	No	Yes				\$ 50.00	50.00
6/28/2002	Mexico	Mexico Customer Service - Advertising		Mexico Ledger - Institutional Advertising	\$ 95.00	Yes	Yes				\$ 95.00	95.00
6/30/2002	Mexico	STL Community Relations - Advertising		Mexico Ledger - Water Quality Report Notification	\$ 182.70	Yes	Yes			182.70		
9/30/2002	Mexico	Mexico Customer Service - Advertising		Mexico Ledger - Institutional Advertising	\$ 125.40	Yes	Yes				\$ 125.40	125.40
					\$ 676.25						\$ 493.55	493.55
2/13/2002	Parkville	STL Community Relations - Advertising		Sun Publications - Institutional Advertising	\$ 349.91	Yes	Yes				\$ 349.91	349.91
5/15/2002	Parkville	STL Community Relations - Advertising		Sun Publications - Graduation Ad	\$ 39.00	No	Yes				\$ 39.00	39.00
6/26/2002	Parkville	STL Community Relations - Advertising		Sun Publications - Water Quality Report Notification	\$ 206.00	Yes	Yes			206.00		
9/11/2002	Parkville	STL Community Relations - Advertising		Sun Publications - Institutional Advertising	\$ 45.00	No	Yes				\$ 45.00	45.00
11/14/2002	Parkville	STL Community Relations - Advertising		Sun Publications - Institutional Advertising	\$ 68.00	No	Yes				\$ 68.00	68.00
11/21/2002	Parkville	STL Community Relations - Advertising		Sun Publications - Institutional Advertising	\$ 19.00	No	Yes				\$ 19.00	19.00
12/19/2002	Parkville	STL Community Relations - Advertising		Sun Publications - Institutional Advertising	\$ 47.10	No	Yes				\$ 47.10	47.10
12/26/2002	Parkville	STL Community Relations - Advertising		Sun Publications - Institutional Advertising	\$ 19.00	No	Yes				\$ 19.00	19.00
					\$ 793.01						\$ 587.01	587.01
2/5/2002	St. Charles	St. Charles A&G - Community Relations		Rotary Auction-Clr Page for Rotary Auction/Community Relations	\$ 50.00	No	Yes				\$ 50.00	50.00
3/29/2002	St. Charles	St. Charles A&G - Community Relations		St. Louis Homes & Lifestyles-Guide to resources	\$ 50.00	No	Yes				\$ 50.00	50.00
5/20/2002	St. Charles	St. Charles A&G - Community Relations		St. Charles Community College-Scholarship Fundraiser	\$ 150.00	No	Yes				\$ 150.00	150.00
				See St. Louis County	\$ 250.00						\$ 250.00	250.00

Schedule DML-1

Advertising Expense by Operating District
Entered as Schedule DML-1

Date	District / Per Company	Business Unit/Expense Object Code Description	Description	Amount	Copy of Invoice Provided	Type	General	Institutional	Amount of Disallowance
4/16/2002	St. Joseph	STL Community Relations - Advertising	Sponsorship for Benton H.S. Sports Calendar	\$ 85.00	Yes			\$ 85.00	\$ 85.00
5/4/2002	St. Joseph	STL Community Relations - Advertising	KQ-TV - Apple Blossom Parade Sponsorship	\$ 575.00	No			\$ 575.00	\$ 575.00
1/25/2002	St. Joseph	St. Joseph A&G - Misc. Op. A&G	KQ-TV - Institutional Advertising (\$3,890 Annual Contract)	\$ 350.00	Yes			\$ 350.00	\$ 350.00
2/25/2002	St. Joseph	St. Joseph A&G - Community Relations	KQ-TV - Institutional Advertising (\$3,890 Annual Contract)	\$ 350.00	Yes			\$ 350.00	\$ 350.00
3/19/2002	St. Joseph	St. Joseph A&G - Community Relations	St. Joseph Saints Baseball	\$ 1,500.00	No			\$ 1,500.00	\$ 1,500.00
3/19/2002	St. Joseph	St. Joseph A&G - Community Relations	KQ-TV - Institutional Advertising (\$3,890 Annual Contract)	\$ 350.00	Yes			\$ 350.00	\$ 350.00
4/22/2002	St. Joseph	St. Joseph A&G - Community Relations	KQ-TV - Institutional Advertising (\$3,890 Annual Contract)	\$ 350.00	Yes			\$ 350.00	\$ 350.00
5/14/2002	St. Joseph	St. Joseph A&G - Community Relations	KQ-TV - Institutional Advertising (\$3,890 Annual Contract)	\$ 350.00	Yes			\$ 350.00	\$ 350.00
6/12/2002	St. Joseph	St. Joseph A&G - Community Relations	KQ-TV - Institutional Advertising (\$3,890 Annual Contract)	\$ 350.00	Yes			\$ 350.00	\$ 350.00
7/19/2002	St. Joseph	St. Joseph A&G - Community Relations	KQ-TV - Institutional Advertising (\$3,890 Annual Contract)	\$ 350.00	Yes			\$ 350.00	\$ 350.00
8/19/2002	St. Joseph	St. Joseph A&G - Community Relations	KQ-TV - Institutional Advertising (\$3,890 Annual Contract)	\$ 350.00	Yes			\$ 350.00	\$ 350.00
9/13/2002	St. Joseph	St. Joseph A&G - Community Relations	KQ-TV - Institutional Advertising (\$3,890 Annual Contract)	\$ 350.00	Yes			\$ 350.00	\$ 350.00
11/23/2002	St. Joseph	St. Joseph A&G - Community Relations	KQ-TV - Institutional Advertising (\$3,890 Annual Contract)	\$ 370.00	Yes			\$ 370.00	\$ 370.00
12/20/2002	St. Joseph	St. Joseph A&G - Community Relations	KQ-TV - Institutional Advertising (\$3,890 Annual Contract)	\$ 370.00	Yes			\$ 370.00	\$ 370.00
?	St. Joseph	STL Community Relations - Advertising	St. Joseph News Press - Institutional & Consumer Info Advertisements	\$ 60.00	Annual	Yes		\$ 60.00	\$ 60.00
?	St. Joseph	STL Community Relations - Advertising	St. Joseph News Press - Water Quality Report	\$ 363.08	Annual	Yes	\$ 363.08		\$ 363.51
?	St. Joseph	STL Community Relations - Advertising	St. Joseph News Press - Institutional & Consumer Info Advertisements	\$ 368.51	Yes	Yes		\$ 368.51	
?	St. Joseph	STL Community Relations - Advertising	St. Joseph News Press - Institutional & Consumer Info Advertisements	\$ 373.96	Yes	Yes	\$ 373.96		
?	St. Joseph	STL Community Relations - Advertising	St. Joseph News Press - Institutional & Consumer Info Advertisements	\$ 386.90	Annual	Yes		\$ 386.90	\$ 386.90
?	St. Joseph	STL Community Relations - Advertising	St. Joseph News Press - Water Quality Report	\$ 728.77	Yes	Yes	\$ 728.77		
?	St. Joseph	STL Community Relations - Advertising	St. Joseph News Press - Institutional & Consumer Info Advertisements	\$ 1,301.34	Yes	Yes	\$ 1,301.34		
?	St. Joseph	STL Community Relations - Advertising	St. Joseph Telegraph - Institutional & Consumer Info Advertisements	\$ 10.00	Annual	Yes		\$ 10.00	\$ 10.00
?	St. Joseph	STL Community Relations - Advertising	St. Joseph Telegraph - Institutional & Consumer Info Advertisements	\$ 99.00	Yes	Yes		\$ 99.00	\$ 99.00
?	St. Joseph	STL Community Relations - Advertising	St. Joseph Telegraph - Institutional & Consumer Info Advertisements	\$ 100.00	Yes	Yes		\$ 100.00	\$ 100.00
?	St. Joseph	STL Community Relations - Advertising	St. Joseph Telegraph - Institutional & Consumer Info Advertisements	\$ 189.00	Yes	Yes	\$ 189.00		
				\$ 10,028.56			\$ 1,675.30	\$ 7,074.41	\$ 7,074.41
2/3/2002	St. Louis	STL Community Relations - Advertising	Suburban Journals - Institutional Advertising	\$ 150.30	Yes			\$ 150.30	\$ 150.30
2/28/2002	St. Louis	STL Community Relations - Advertising	Webster-Kirkwood Times - Institutional Advertising	\$ 375.00	Yes			\$ 375.00	\$ 375.00
3/21/2002	St. Louis	STL Community Relations - Advertising	Joplin Parks & Recreation - Fence for Joe Becker Stadium	\$ 275.00	No			\$ 275.00	\$ 275.00
5/9/2002	St. Louis	STL Community Relations - Advertising	RCGA Welcome Book - Institutional Advertising	\$ 495.00	Yes			\$ 495.00	\$ 495.00
6/13/2002	St. Louis	STL Community Relations - Advertising	Chesterfield Chamber of Commerce Directory - Ad for Directory	\$ 275.00	No			\$ 275.00	\$ 275.00
6/30/2002	St. Louis	STL Community Relations - Advertising	Suburban Journals - Water Quality Report for STL & SCH	\$ 2,604.96	Yes			\$ 2,604.96	\$ 2,604.96
7/31/2002	St. Louis	STL Community Relations - Advertising	Royal Publishing - Pattonville H.S. Fall Sports Publication	\$ 310.00	Yes			\$ 310.00	\$ 310.00
11/21/2002	St. Louis	STL Community Relations - Advertising	Suburban Journals - Old Newsboys Day Ad	\$ 500.00	Yes			\$ 500.00	\$ 500.00
1/2-11/2/2002	St. Louis	STL Community Relations - Advertising	KMOV-TV - Institutional Advertising	\$ 675.00	No			\$ 675.00	\$ 675.00
3/2-11/2/2002	St. Louis	STL Community Relations - Advertising	KMOV-TV - Institutional Advertising	\$ 1,375.00	No			\$ 1,375.00	\$ 1,375.00
3/2-11/2/2002	St. Louis	STL Community Relations - Advertising	KMOV-TV - Institutional Advertising	\$ 4,050.00	No			\$ 4,050.00	\$ 4,050.00
3/2-11/2/2002	St. Louis	STL Community Relations - Advertising	KMOV-TV - Institutional Advertising	\$ 4,575.00	No			\$ 4,575.00	\$ 4,575.00
3/2-11/2/2002	St. Louis	STL Community Relations - Advertising	KMOV-TV - Institutional Advertising	\$ 12,000.00	No			\$ 12,000.00	\$ 12,000.00
				\$ 27,560.26			\$ 2,604.96	\$ 25,055.30	\$ 25,055.30
1/3/2002	Warrensburg	Warrensburg A&G - Advertising	KOKO Radio - Seasonal Greeting	\$ 55.00	No			\$ 55.00	\$ 55.00
2/7/2002	Warrensburg	STL Community Relations - Advertising	Daily Star Journal - Institutional Advertising	\$ 135.14	Yes			\$ 135.14	\$ 135.14
4/2/2002	Warrensburg	Warrensburg A&G - Community Relations	Warrensburg Gazette - Institutional Advertising	\$ 86.62	Yes			\$ 86.62	\$ 86.62
6/14/2002	Warrensburg	Warrensburg A&G - Community Relations	Daily Star Journal - Hydrant Flushing Announcement	\$ 442.53	Yes		\$ 442.53		
6/30/2002	Warrensburg	STL Community Relations - Advertising	Daily Star Journal - Water Quality Report Announcement	\$ 77.22	Yes			\$ 77.22	\$ 77.22
			Warrensburg Gazette - Water Quality Report Notification	\$ 49.50	Yes		\$ 49.50		
				\$ 846.01			\$ 589.25	\$ 276.76	\$ 276.76
				\$ 44,419.61			\$ 1,815.30	\$ 36,200.51	\$ 36,200.51

Note: There were no ads of the Promotional or Political Type in the test year of 2002.

Schedule DML-2

**Dues & Donations Expense
Amounts Contested by MAWC**

Test Year 2002				
Code	Description	Contested Amount	Items	Expense Example
1	Charitable Donations	\$12,022.29	21	United Way
2	Political Contributions	\$150.00	1	Rockwood School District
3	Civic & Social Clubs	\$3,353.80	25	Builders' Association
4	Economic Development	\$6,519.25	28	Chambers of Commerce
5	Professional Organizations	\$1,761.00	9	CPA & Engineering Societies
6	Water Industry Associations	\$321.00	3	AWWA
7	Employee Expenses	\$10,879.97	126	Employee Meals, Recognition
8	Other	<u>\$0.00</u>	<u>0</u>	
Totals		<u>\$35,007.31</u>	<u>213</u>	

Schedule DML-3

Missouri-American Water Company
St. Louis County District
MPSC Rate Case WR-2003-0500

Entered as DML-3

	<u>2000</u>	<u>2001</u>	<u>Test Year 2002</u>	<u>3 Year Total</u>	<u>3 Year Average</u>
Total O&M Transportation	\$1,766,494	\$1,578,499	\$1,145,575	\$4,490,568	\$1,496,856
	@12/31/00	@12/31/01	@12/31/02		
Clearing accounts					
186214	\$933,493	\$677,423			
186215	\$82	(\$1,125)			
186216	\$9,660	\$18,819			
186211	\$1,583,376	\$1,427,603			
186212	\$697,162	\$597,738			
Other	\$182,188	\$182,188	\$2,133,130		
Gross Transportation Expenses	<u>\$3,223,772</u>	<u>\$2,902,646</u>	<u>\$2,133,130</u>	<u>\$8,259,548</u>	<u>\$2,753,183</u>
% of O&M to Gross Transportation	54.80%	54.38%	53.70%		54.37%
Gross Depreciation Expense in Transportation	\$706,822	\$739,311	\$627,058		
O&M Depr Exp in Transportation Acct	<u>\$387,309</u>	<u>\$402,048</u>	<u>\$336,755</u>		
Total O&M Transportation	\$1,766,494	\$1,578,499	\$1,145,575		
Eliminate Reserve Write-off			\$130,758		
O&M Depr Exp in Transportation Acct	<u>(\$387,309)</u>	<u>(\$402,048)</u>	<u>(\$336,755)</u>		
Pro forma Transportation (w/o Depr Exp)	<u>\$1,379,185</u>	<u>\$1,176,451</u>	<u>\$939,578</u>	<u>\$3,495,214</u>	<u>\$1,165,071</u>
Three Year Average	\$1,165,071				
Less Test Year	\$939,578				
Adjustment	<u>\$225,493</u>				
Staff Pro Forma (1)	\$1,101,989				
Adjustment	\$225,493				
Company Rebuttal Amount (2)	<u>\$1,327,482</u>				

(1) Note: Staff has depreciation on vehicles included.

(2) Actual transportation expense through October annualized for full year is \$1,575,000.