

MISSOURI PUBLIC SERVICE COMMISSION

STAFF REPORT
COST OF SERVICE
APPENDICES

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2010-0131

Jefferson City, Missouri
March, 2010

MISSOURI PUBLIC SERVICE COMMISSION

STAFF REPORT
COST OF SERVICE

APPENDIX 1
Staff Credentials

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2010-0131

APPENDIX 1

STAFF CREDENTIALS TABLE OF CONTENTS

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**CASE PARTICIPATION
OF
KIMBERLY K. BOLIN**

<u>Company Name</u>	<u>Case Number</u>	<u>Testimony/Issues</u>	<u>Contested or Settled</u>
Empire District Gas Company	GR-2009-0434	<u>Report on Cost of Service</u> – Prepaid Pension Asset, Pension Tracker Asset/Liability, Unamortized Accounting Authority Order Balances, Pension Expense, OPEBs, Amortization of Stock Issuance Costs, Amortization of Accounting Authority Orders <u>Direct</u> – Overview of Staff’s Filing	Settled
Laclede Gas Company	GT-2009-0056	<u>Surrebuttal Testimony</u> – Tariff	Contested
Missouri-American Water Company	WR-2008-0311 & SR-2008-0312	<u>Report on Cost of Service</u> – Tank Painting Tracker, Lobbying Costs, PSC Assessment <u>Direct</u> – Overview of Staff’s Filing <u>Rebuttal</u> – True-Up Items, Unamortized Balance of Security AAO, Tank Painting Expense, Fire Hydrant Painting Expense <u>Surrebuttal</u> – Unamortized Balance of Security AAO, Cedar Hill Waste Water Plant, Tank Painting Expense, Fire Hydrant Painting Expense	Settled
Missouri Gas Utility, Inc.	GR-2008-0060	<u>Report on Cost of Service</u> – Plant-in Service/Capitalization Policy, Plant-in Service/Purchase Price Valuation, Depreciation Reserve, Revenues, Uncollectible Expense	Settled
Laclede Gas Company	GR-2007-0208	<u>Direct</u> - Test Year and True-Up, Environmental costs, AAOs, Revenue, Miscellaneous Revenue, Gross receipts Tax, Gas Costs, Uncollectibles, EWCR, AMR, Acquisition Adjustment	Settled

**CASE PARTICIPATION
OF
KIMBERLY K. BOLIN**

<u>Company Name</u>	<u>Case Number</u>	<u>Testimony/Issues</u>	<u>Contested or Settled</u>
Kansas City Power and Light Company	ER-2006-0314	<u>Direct</u> - Gross Receipts Tax, Revenues, Weather Normalization, Customer Growth/Loss Annualization, Large Customer Annualization, Other Revenue, Uncollectible (Bad Debt) Expense, Payroll, A&G Salaries Capitalization Ratio, Payroll Taxes, Employer 401 (k) Match, Other Employee Benefits <u>Surrebuttal</u> - Uncollectible (Bad Debt) Expense, Payroll, A&G Salaries Capitalization Ratio, Other Employee Benefits	Contested
Missouri Gas Energy	GR-2006-0204	<u>Direct</u> - Payroll, Incentive Compensation, Payroll Taxes, Employee Benefits, Lobbying, Customer & Governmental Relations Department, Collections Contract	Settled

**CASE PARTICIPATION
OF
KIMBERLY K. BOLIN**

WHILE EMPLOYED WITH THE OFFICE OF THE PUBLIC COUNSEL

<u>Company Name</u>	<u>Case Number</u>	<u>Testimony/Issues</u>	<u>Contested or Settled</u>
Missouri Gas Energy	GU-2005-0095	<u>Rebuttal</u> - Accounting Authority Order <u>Surrebuttal</u> - Accounting Authority Order	Contested
The Empire District Electric Company	ER-2004-0570	<u>Direct</u> - Payroll	Settled
Missouri American Water Company & Cedar Hill Utility Company	SM-2004-0275	<u>Direct</u> - Acquisition Premium	Settled
Missouri Gas Energy	GR-2004-0209	<u>Direct</u> - Safety Line Replacement Program; Environmental Response Fund; Dues & Donations; Payroll; Customer & Governmental Relations Department Disallowance; Outside Lobbyist Costs <u>Rebuttal</u> - Customer Service; Incentive Compensation; Environmental Response Fund; Lobbying/Legislative Costs <u>True-Up</u> - Rate Case Expense	Contested
Osage Water Company	ST-2003-0562 / WT-2003-0563	<u>Direct</u> - Payroll <u>Rebuttal</u> - Payroll; Lease Payments to Affiliated Company; alleged Legal Requirement of a Reserve	Case Dismissed
Missouri American Water Company	WR-2003-0500	<u>Direct</u> - Acquisition Adjustment; Water Treatment Plant Excess Capacity; Retired Treatment Plan; Affiliated Transactions; Security AAO; Advertising Expense; Customer Correspondence	Settled
Empire District Electric	ER-2002-424	<u>Direct</u> - Dues & Donations; Memberships; Payroll; Security Costs <u>Rebuttal</u> - Energy Traders' Commission <u>Surrebuttal</u> - Energy Traders' Commission	Settled

**CASE PARTICIPATION
OF
KIMBERLY K. BOLIN**

WHILE EMPLOYED WITH THE OFFICE OF THE PUBLIC COUNSEL

<u>Company Name</u>	<u>Case Number</u>	<u>Testimony/Issues</u>	<u>Contested or Settled</u>
Laclede Gas Company	GR-2002-356	<u>Direct</u> - Advertising Expense; Safety Replacement Program and the Copper Service Replacement Program; Dues & Donations; Rate Case Expense <u>Rebuttal</u> - Gas Safety Replacement Program / Deferred Income Taxes for AAOs	Settled
Missouri-American Water Company	WO-2002-273	<u>Rebuttal</u> - Accounting Authority Order <u>Cross-Surrebuttal</u> - Accounting Authority Order	Contested
Environmental Utilities	WA-2002-65	<u>Direct</u> - Water Supply Agreement <u>Rebuttal</u> - Certificate of Convenience & Necessity	Contested
Warren County Water & Sewer	WC-2002-160 / SC-2002-155	<u>Direct</u> - Clean Water Act Violations; DNR Violations; Customer Service; Water Storage Tank; Financial Ability; Management Issues <u>Surrebuttal</u> - Customer Complaints; Poor Management Decisions; Commingling of Regulated & Non-Related Business	Contested
Laclede Gas Company	GR-2001-629	<u>Direct</u> - Advertising Expense; Safety Replacement Program; Dues & Donations; Customer Correspondence	Settled
Gateway Pipeline Company	GM-2001-585	<u>Rebuttal</u> - Acquisition Adjustment; Affiliated Transactions; Company's Strategic Plan	Contested
Empire District Electric	ER-2001-299	<u>Direct</u> - Payroll; Merger Expense <u>Rebuttal</u> - Payroll <u>Surrebuttal</u> - Payroll	Settled
Osage Water Company	SR-2000-556/ WR-2000-557	<u>Direct</u> - Customer Service	Contested

**CASE PARTICIPATION
OF
KIMBERLY K. BOLIN**

WHILE EMPLOYED WITH THE OFFICE OF THE PUBLIC COUNSEL

<u>Company Name</u>	<u>Case Number</u>	<u>Testimony/Issues</u>	<u>Contested or Settled</u>
St. Louis County Water Company	WR-2000-844	<u>Direct</u> - Main Incident Expense	Settled
Missouri American Water Company	WR-2000-281/ SR-2000-282	<u>Direct</u> - Water Plant Premature Retirement; Rate Case Expense <u>Rebuttal</u> - Water Plant Premature Retirement <u>Surrebuttal</u> - Water Plant Premature Retirement	Contested
Laclede Gas Company	GR-99-315	<u>Direct</u> - Advertising Expense; Dues & Donations; Miscellaneous Expense; Items to be Trued-up	Contested
St. Joseph Light & Power	HR-99-245	<u>Direct</u> - Advertising Expense; Dues & Donations; Miscellaneous Expense; Items to be Trued-up <u>Rebuttal</u> - Advertising Expense <u>Surrebuttal</u> - Advertising Expense	Settled
St. Joseph Light & Power	ER-99-247	<u>Direct</u> - Merger Expense; Rate Case Expense; Deferral of the Automatic Mapping/Facility Management Costs <u>Rebuttal</u> - Merger Expense; Rate Case Expense; Deferral of the Automatic Mapping/Facility Management Costs <u>Surrebuttal</u> - Merger Expense; Rate Case Expense; Deferral of the Automatic Mapping/Facility Management Costs	Settled
Laclede Gas Company	GR-98-374	<u>Direct</u> - Advertising Expense; Gas Safety Replacement AAO; Computer System Replacement Costs	Settled
Missouri Gas Energy	GR-98-140	<u>Direct</u> - Payroll; Advertising; Dues & Donations; Regulatory Commission Expense; Rate Case Expense	Contested

**CASE PARTICIPATION
OF
KIMBERLY K. BOLIN**

WHILE EMPLOYED WITH THE OFFICE OF THE PUBLIC COUNSEL

<u>Company Name</u>	<u>Case Number</u>	<u>Testimony/Issues</u>	<u>Contested or Settled</u>
Gascony Water Company, Inc.	WA-97-510	<u>Rebuttal</u> - Rate Base; Rate Case Expense; Cash Working Capital	Settled
Union Electric Company	GR-97-393	<u>Direct</u> - Interest Rates for Customer Deposits	Settled
St. Louis County Water Company	WR-97-382	<u>Direct</u> - Interest Rates for Customer Deposits, Main Incident Expense	Settled
Associated Natural Gas Company	GR-97-272	<u>Direct</u> - Acquisition Adjustment; Interest Rates for Customer Deposits <u>Rebuttal</u> - Acquisition Adjustment; Interest Rates for Customer Deposits <u>Surrebuttal</u> - Interest Rates for Customer Deposits	Contested
Missouri-American Water Company	WA-97-45	<u>Rebuttal</u> - Waiver of Service Connection Charges	Contested
Imperial Utility Corporation	SC-96-427	<u>Direct</u> - Revenues, CIAC <u>Surrebuttal</u> - Payroll; Uncollectible Accounts Expense; Rate Case Expense, Revenues	Settled
St. Louis Water Company	WR-96-263	<u>Direct</u> -Main Incident Repairs <u>Rebuttal</u> - Main Incident Repairs <u>Surrebuttal</u> - Main Incident Repairs	Contested
Steelville Telephone Company	TR-96-123	<u>Direct</u> - Depreciation Reserve Deficiency	Settled

**CASE PARTICIPATION
OF
KIMBERLY K. BOLIN**

WHILE EMPLOYED WITH THE OFFICE OF THE PUBLIC COUNSEL

<u>Company Name</u>	<u>Case Number</u>	<u>Testimony/Issues</u>	<u>Contested or Settled</u>
Missouri-American Water Company	WR-95-205/ SR-95-206	<u>Direct</u> - Property Held for Future Use; Premature Retirement of Sewer Plant; Depreciation Study Expense; Deferred Maintenance <u>Rebuttal</u> - Property Held for Future Use; Premature Retirement of Sewer Plant; Deferred Maintenance <u>Surrebuttal</u> - Property Held for Future Use; Premature Retirement of Sewer Plant	Contested
St. Louis County Water Company	WR-95-145	<u>Rebuttal</u> - Tank Painting Reserve Account; Main Repair Reserve Account <u>Surrebuttal</u> - Main Repair Reserve Account	Contested

GUY C. GILBERT, MS, PE, RG

CASE PARTICIPATION

Issue	Case Number	Case Name
Modernization	TO-93-309	Farber Telephone
Certificate (Sewer) - Case dismissed	SA-94-54	Osage County Water (sewer)
Certificate	GA-94-127	Southern MO Gas Co
Transfer of assets	GM-94-252	Missouri Public Service
HB 360 & extr. ret.	TAO 992	Holway Telephone
Extraordinary retirement amortization	TAO 993	New Florence Telephone
Waiver from Rule	GO-95-104	Fidelity Natural Gas
Purchase of GTE exchanges	TM-95-134	Ozark Telephone
Purchase of GTE exchanges	TM-95-135	BPS Telephone
Purchase of GTE exchanges	TM-95-142	Modern Telecommunications
General rate case	WR-95-145	St. Louis County Water
Purchase of GTE exchanges	TM-95-163	Cass County Telephone
Certificate	SA-96-40	Taneycomo Highlands (Sewer)
Certificate	SA-96-91	S.T. Ventures (Sewer)
Certificate (Water & Sewer)	WA-96-96	Emerald Pointe Utilities
Certificate	GA-96-264	Ozark Natural Gas
General rate case (Water)	WR-96-407	Taney County
Depreciation rates & amortization	TAO 998	Fidelity Telephone
Depreciation rates & amortization	TAO 999	Bourbeuse Telephone
Depreciation rates	TAO 1001	Northeast Missouri Rural Tel
Variance from prior order	GO-97-30	Southern Missouri Gas
HB360 rates	TAO 1004	Kingdom Telephone
Extraordinary retirement of COE	TAO 1005	Iamo Telephone
Depreciation of Plant	EC97362	UtiliCorp United Inc. d/b/a MO Public Service
Depreciation of Plant	EO97144	UtiliCorp United Inc. d/b/a MO Public Service
Depreciation of Plant	ER97394	Missouri Public Service, A Division of UtiliCorp United Inc.
Sale of Plant	GM97435	Missouri Public Service, A Division of UtiliCorp United Inc.
Depreciation of Plant	ER97394	UtiliCorp United Inc. d/b/a MO Public Service
Amortization of accounts, Depreciation, Depreciation Recommendations	ER97394	UtiliCorp United Inc. d/b/a MO Public Service

GUY C. GILBERT, MS, PE, RG

CASE PARTICIPATION

Issue	Case Number	Case Name
Depreciation	GA98227	Ozark Natural Gas Company, Inc.
Depreciation of Plant	EC98573	St. Joseph Light and Power Company
Depreciation of Plant	WA97410	George Hoesch
Depreciation of Plant	ER99247	St. Joseph Light & Power Company
Depreciation of Plant	EC98573	St. Joseph Light & Power Company
Depreciation of Plant	GR2000512	Union Electric Company d/b/a AmerenUE
Depreciation of Plant	ER-2004-0570	Empire District Electric Company
Minimum Depreciation Rates	TU-2005-0358	Alma Telephone Company
Minimum Depreciation Rates	TO-2006-0239	Miller Telephone Company
Depreciation of Plant	GR-2005-0387	Atmos Energy Company
Depreciation of Plant	GR-2005-0422	Missouri Gas Energy
Depreciation of Plant	ER-2007-0002	AmerenUE
Depreciation of Plant	WR-2007-0216	Missouri-American Water Company
Waiver of Rule	GE-2008-0342	Atmos Energy
Depreciation of Plant	ER-2008-0318	AmerenUE
Waiver of Rule	GE-2009-0443	Atmos Energy
Depreciation of Plant	GR-2009-0434	Empire Gas
Waiver of Rule	GE-2010-0030	Missouri Gas Energy

GUY C. GILBERT, MS, PE, RG

PROFESSIONAL EXPERIENCE

*State of Missouri, Public Service Commission
Utility Regulatory Engineer I, 1994 -2000, 2004-present*

Prepare depreciation studies, cost studies, valuations and engineering analysis of utility assets.

Conduct special projects in conjunction with the FCC and the FERC.

*Linn State Technical College
Chair, Civil / Construction Engineering Management Technology Department
Director, Material and Safety Institute
2000 - 2004*

Department Chair and founding faculty instructor for courses in civil engineering technology, construction methods and techniques, surveying, engineering economics, materials, material testing, estimating, scheduling and project management.

Founder and manage activities of the Material and Safety Institute that provides resources and training for business and industry in the areas of quarry/materials acceptance certification as mandated by the Federal Highway Administration and OSHA/MSHA safety training.

*State of Illinois, Department of Energy and Natural Resources
Project Engineer 1991 - 1994*

Managed Clean Coal Technology Demonstration projects; often in concert with U.S.DOE projects. Represented Illinois in over \$1.1 billion of projects ranging from pre-combustion technologies to combustion and post combustion technologies. Performed cost benefit analysis of the environmental and economic impacts and procured benefits to the state.

*CW3M Company, Inc.
Consulting Project Engineer 1993 –1994 (part time contract)*

Conducted geotechnical evaluation of leaking underground storage tank sites. Designed equipment for containment and treatment of contaminated ground water.

*Illinois Commerce Commission
Management Analyst 1988 – 1991*

Managed consultant conducted comprehensive management audits of operational aspects of public utilities. Assessed least cost planning programs of public utilities and provided recommendations on risk assessment and cost estimating of various externalities. Have reviewed and provided recommendations to utilities within the management function areas of Operations, Operations Planning, Power Production (fossil and nuclear), Fuels Management (fossil and nuclear), Transmission and Distribution (electric and gas), Engineering and Construction (electric, gas, and telephone), Gas Supply, Network Operations Planning, Network Operations and Information Services.

GUY C. GILBERT, MS, PE, RG

*Freeman United Coal Mining Company (General Dynamics)
Assistant to the Superintendent 1982 - 1987*

Produced annual mining plans and budget for 2+ million ton per year underground mining facility. Assessed geologic aspects of the mine environment to optimize safety and productivity. Prepared economic feasibility studies and justification for new and alternative capital expenditures. Developed and implemented microcomputer based on site operations information systems encompassing maintenance, materials, manpower, and costs. Administered UMWA-BCOA Labor Agreement: grievance procedures, attendance control and benefits programs. Special projects involving production methods, structures, ventilation, and materials engineering. Provided certification of operating compliance with Federal and State regulations as required.

*Peabody Coal Company
Coal Miner, UMWA 1976-1980*

*Cloud Physics Space Sciences Research Center, University of Missouri – Rolla
Student Research Assistant / Electronics Design Fabricator, 1973-1978*

EDUCATION:

Bachelor of Science Economics, University of Missouri-Rolla
Bachelor of Science Mining Engineering, University of Missouri-Rolla
National Science Foundation Research Grant participant (NSF GY 9841)
Master of Science, Career & Technology Education, Central Missouri State University
Graduate Speaker, Central Missouri State University
Outstanding Graduate Student Leadership Award, Central Missouri State University

Advisory Board Member, Economics & Finance Department, University of Missouri-Rolla
Facilities and Planning Committee for construction of Calvary Lutheran High School
School Board Member Trinity Lutheran Grade School

Continuing Education

Management Analyst Training
Basic Depreciation Concepts
Models Used In Life and Salvage Studies
Forecasting Life and Salvage
Advanced Topics in Analysis and Forecasting
Business and Technical Writing
Communicating Effectively
Auditing in Telecommunications
Introduction to EDP Auditing
Network Certification
Asbestos Training for Maintenance Employees, #40 CFR 763.92(a)(2)(i thru iv)
Red Cross First Aid Adult/AED/Child/Infant CPR Instructor, Expired

GUY C. GILBERT, MS, PE, RG

Redirecting Employee Performance
Basic Supervision
Humboldt Radiation Safety Training Class

CERTIFICATIONS:

by United States Department of Labor

Noise Level Testing
Dust Sampling
Dust Sampling Equipment Calibration
Electricity Low/Medium/High Voltage, Expired
Dam and Refuse Impoundment Inspector
Dam and Refuse Impoundment Inspection Instructor
OSHA Safety Instructor (10 & 30 Hour), Expired

by State of Missouri

State Board of Geologist Registration, member
Registered Professional Engineer, No. EN 026908
Registered Professional Geologist, No. RG 0976
SAVE/SEMA Structural Inspector I
Vocational Teaching Certificate, No. 0238934
Department of Transportation, Trainer Certified Materials Technician Level 1
Department of Transportation, Trainer Certified Level 2 Aggregate
Department of Transportation, Trainer Certified Level 2 Soils
Department of Transportation, Trainer Certified Level 2 Concrete
Department of Transportation, Trainer Certified Profilograph

by State of Illinois

Mine Manager, No. 6634
Mine Examiner, No. 10324
Electrical Hoisting Engineer, No. 2427
Sewage Treatment Plant Operator, Class K
Industrial Wastewater Treatment Works Operator, Class K
State of Illinois Mine Rescue Team, Springfield Station, No. 2
Certified Benchman for Mine Rescue Equipment
Emergency Medical Technician-Ambulance, Expired

GUY C. GILBERT, MS, PE, RG

Demonstration Projects

- Energy & Environmental Research Corporation - Hennepin Station (GR-SI)
- Energy & Environmental Research Corporation - City Water Light and Power
- Pircon-Peck Process - Western Illinois University
- Combustion Engineering - Integrated Gasification Combined Cycle (IGCC) - City Water, Light and Power Springfield
- Southern Illinois University Refurbishment Repowering Project
- Tecogen's Development and Testing of a Commercial Scale Coal-Fired Combustion System - Illinois Coal Development Park
- TCS Incorporated's Micronized Coal System at Rochelle Municipal Utilities
- IGT - Kerr-McGee MildGas
- Radian's Characterization of Disposed Wastes from Advanced Coal Combustion Residues

Investigations

- NovaCon Sorbent: U.S. DOE and EERC
- Sargent & Lundy Combustion 2000:
- Tecogen: moving bed copper oxide flue gas cleaning process
- Air Purification's RotorFilter Technology:
- Tampa Electric Company: Use of Illinois high sulfur coal

Management Audits

Central Illinois Light Company, Peoria, Illinois
Commonwealth Edison, Chicago, Illinois
GTE Telephone Company, Dallas, Texas
GTE Data Systems, Tampa Florida

JERMAINE GREEN

Educational and Employment Background and Credentials

I am currently employed as a Utility Regulatory Auditor I for the Missouri Public Service Commission (Commission). I accepted the position of Utility Regulatory Auditor I in June 2009.

In May 2009, I earned a Bachelor of Arts in Accounting from Westminster College in Fulton, Missouri. While at the Commission, I have assisted with the preparation of schedules in the Empire District Gas rate case, Case No. GR-2009-0434, SK&M Water and Sewer Company rate case, Case No. WR-2010-0154 and Noel Water Company rate case, Case No. WR-2009-0395. I have sponsored recommendations on Plant in Service, Depreciation Expenses and Reserve, Payroll, Incentive Compensation, Postage Expense, Advertising Expense, Dues & Donations and other rate base items.

PAULA MAPEKA

Present Position:

I am currently employed as a Utility Regulatory Auditor III in the Auditing Department, Utility Services Division.

Education Background and Work Experience:

I graduated with a Masters degree in Business Administration from Lincoln University, Jefferson City, Missouri in August 2005. I attained a Bachelor of Science degree in Accounting from Lincoln University in May 2004. Prior to employment with the Commission, I was employed by the Department of Health and Senior Services. I joined the Commission as a Utility Regulatory Auditor I in March 2006.

**CASE PARTICIPATION
OF
PAULA MAPEKA**

Date Filed	Case Name	Case Number	Testimony Type/Issues
10/20/2009	The Empire District Gas Company	GR-2009-0434	Staff Report, Cost of Service – Revenues, Customer growth, Gas cost removal, Bad debt expenses, Maintenance, Employee benefits, Rate case expenses, Injuries & damages, Insurance, outside Services
02/22/2008	The Empire District Electric Company	ER-2008-0093	Staff Report, Cost of Service - Rate Base, Plant in Service, Depreciation Reserve, Cash Working Capital, Materials and Supplies, Prepayments, Customer Advances, Customer Deposits, Clearing Accounts, Payroll, Payroll Taxes and 401K Benefit Costs, Incentive Compensation, Rate Case Expenses, Dues and Donations, Edison Electric Institute Dues, Insurance Expense, Customer Deposit Interest Expense, Property Tax Expense, Advertising Expenses, Postage Expenses, Outside Services, Injuries and Damages
05/24/2007	Laclede Gas Company	GR-2007-0208	Direct - Accounting Schedules, Rate Base, Plant in Service, Adjustments to Plant in Service, Depreciation Reserve, Cash Working Capital, Interest on IFP & EWP, Depreciation Expense, Cost of Removal, Advertising, Postage Expense, Property Taxes, MO Franchise Taxes, Postage Expenses, Regulatory Expenses, Outside Services
12/11/2006	Missouri Gas Energy	GR-2006-0422	Surrebuttal - Rate Case Expenses
11/21/2006	Missouri Gas Energy	GR-2006-0422	Rebuttal - Cash Working Capital, Software Amortization

**CASE PARTICIPATION
OF
PAULA MAPEKA**

Date Filed	Case Name	Case Number	Testimony Type/Issues
10/12/2006	Missouri Gas Energy	GR-2006-0422	Direct - Miscellaneous Expenses, Insurance, Postage, Property Taxes, Regulatory Expenses, Dues & Donations, Accounting Schedules, Promotional Giveaways, Other Ratebase Issues, Advertising, Depreciation Expense, Inquiries & Damages, Interest on Customer Deposits, Case Working Capital, Depreciation Reserve, Plant in Service
06/23/2006	The Empire District Electric Company	ER-2006-0315	Direct - Postage Expenses, Property and Liability Insurance, Injuries and Damages & Worker's Compensation, Customer Deposits, PSC Assessment, Rate Case Expense, Customer Advances, Material & Supplies

Amanda C. McMellen
Utility Regulatory Auditor IV

EDUCATION

Bachelors of Science
DeVry Institute of Technology, Kansas City, MO-June 1998

PROFESSIONAL EXPERIENCE

Missouri Public Service Commission
Utility Regulatory Auditor IV
November 2006 – Present
Utility Regulatory Auditor III
June 2002 – November 2006
Utility Regulatory Auditor II
June 2000 – June 2002
Utility Regulatory Auditor I
June 1999 – June 2000

I am a Utility Regulatory Auditor for the Missouri Public Service Commission (Commission). I graduated from the DeVry Institute of Technology in June 1998 with a Bachelor of Science degree in Accounting. Before coming to work at the Commission, I worked as an accounts receivable clerk. I commenced employment with the Commission Staff in June 1999. As a Utility Regulatory Auditor, I am responsible for assisting in the audits and examinations of the books and records of utility companies operating within the state of Missouri.

SUMMARY OF RATE CASE TESTIMONY FILED

Amanda C. McMellen

<u>COMPANY</u>	<u>CASE NO.</u>	<u>ISSUES</u>
Osage Water Company	SR-2000-556	Plant in Service Depreciation Reserve Depreciation Expense Operation & Maintenance Expense
Osage Water Company	WR-2000-557	Plant in Service Depreciation Reserve Depreciation Expense Operation & Maintenance Expense
Empire District Electric Company	ER-2001-299	Plant in Service Depreciation Reserve Depreciation Expense Cash Working Capital Other Working Capital Rate Case Expense PSC Assessment Advertising Dues, Donations & Contributions
UtiliCorp United, Inc./ d/b/a Missouri Public Service	ER-2001-672	Insurance Injuries and Damages Property Taxes Lobbying Outside Services Maintenance SJLP Related Expenses
BPS Telephone Company	TC-2002-1076	Accounting Schedules Separation Factors Plant in Service Depreciation Reserve Revenues Payroll Payroll Related Benefits Other Expenses

SUMMARY OF RATE CASE TESTIMONY FILED

Amanda C. McMellen

<u>COMPANY</u>	<u>CASE NO.</u>	<u>ISSUES</u>
Aquila, Inc. d/b/a Aquila Networks-MPS & Aquila Networks-L&P	ER-2004-0034	Revenue Annualizations Uncollectibles
Fidelity Telephone Company	IR-2004-0272	Revenue Revenue Related Expenses
Aquila, Inc. d/b/a Aquila Networks-MPS & Aquila Networks-L&P	ER-2005-0436	Revenue Annualizations Uncollectibles
Empire District Electric Company	ER-2006-0315	Payroll Payroll Taxes 401(k) Plan Health Care Costs Incentive Compensation Depreciation Expense Amortization Expense Customer Demand Program Deferred State Income Taxes Income Taxes
Aquila, Inc. d/b/a Aquila Networks-MPS & Aquila Networks-L&P	ER-2007-0004	Revenue Annualizations Uncollectibles Maintenance Expenses Turbine Overhaul Maintenance
Empire District Electric Company	ER-2008-0093	Revenues Bad Debts Employee Benefits Tree Trimming Storm Costs Customer Programs Amortizations Current Income Taxes Deferred Income taxes Jurisdictional Allocations Corporate Allocations

SUMMARY OF RATE CASE TESTIMONY FILED

Amanda C. McMellen

<u>COMPANY</u>	<u>CASE NO.</u>	<u>ISSUES</u>
Missouri Gas Energy, a Division of Southern Union Company	GR-2009-0355	Staff Report Cost of Service Revenues-Customer Growth Corporate Allocations Other Rate Base Items Amortizations Interest expense on customer Deposits Rents and Leases

Qualifications of

James A. Merciel, Jr., P.E.

My name is James A. Merciel, Jr. I am employed by the Missouri Public Service Commission as a Utility Regulatory Engineering Supervisor, in the Water and Sewer Department. My duties include reviewing and making recommendations with regard to certification of new water and sewer utilities including development of rates and rules, sales of utility systems to other utilities, formal complaint cases, and technical issues associated with water and sewer utility rate cases including quality of service matters, utility plant utilization, costs incurred for providing utility service, and tariff rules. In addition to formal case work, I handle informal customer complaints that are of a technical nature, conduct inspections and evaluations of water and sewer utility systems, and informally assist water and sewer utility companies with respect to day-to-day operations, planning, and customer service issues. In the past, I have supervised engineers and technicians in the water and sewer department working on the above-described type of case work and informal matters. I served on the American Water Works Association Small Systems Committee for three years, and for approximately the past twelve years have served on the National Association of Regulatory Utility Commissioners Staff Subcommittee on Water.

I graduated from the University of Missouri at Rolla in 1976 with a Bachelor of Science degree in Civil Engineering. I am a Registered Professional Engineer in the State of Missouri. I worked for a construction company in 1976 as an engineer and surveyor, began employment with the Commission in the Water and Sewer Department in 1977, and have held my current position since approximately 1979.

A partial list of cases in which I have provided written or live testimony follows.

**Cases with Testimony
by James A. Merciel, Jr. (not all inclusive)**

Algonquin Water Resources
WR-2006-0425

Aqua Missouri, Inc.
SC-2007-0044

Big Island – Folsom Ridge
WO-2007-0277

Blue Lagoon, LLC
SO-2008-0358

Camelot Utility Co.
WA-89-1

Capital City Water Co.
WR-94-297
WR-90-118
WO-89-76
WR-88-215
WR-83-165.

Davis Water Company
WC-87-125 and WC-88-288
(including proceeding in the Circuit Court in Wayne County)

Finley Valley Water Company / Public Funding Corporation, City of Ozark
WM-95-423

Gascony Water Company, Inc.
WA-97-510

House Springs Sewer Co.
SC-2008-0409

Lake Region Water and Sewer Co.
SR-2010-0110 and WR-2010-0111

Lake Saint Louis Sewer Co.
SC-78-257
Proceeding in Circuit Court in St. Charles County, approx 1980 or 1981

Merriam Woods Water Company
WC-91-18 and/or WC-91-268

Mill Creek Sewer System, Inc.
Proceeding by MO Attorney General in Circuit court in St. Louis County, Cause
No. 611261, 1998

Missouri American Water Company
WR-2008-0311 and SR-2008-0312
WR-2007-0216
WC-2006-0345
WR-2003-0500
WR-2000-281
WR-97-237
WT-97-227 / WA-97-45 / WC-96-441 consolidated cases
WR-95-205

WR-95-174
WR-93-212
WR-91-211
WR-89-265
WR-87-177
WR-85-16
Missouri Cities Water Company
WR-95-172
WR-92-207
Proceeding in Circuit Court in Audrain County, CV192-40SCC approx 1992
WR-91-172
WR-90-236
WR-89-178
WC-88-280
WR-86-111
WC-86-20
WR-85-157
WR-84-51
WR-83-15
North Oak Sewer District, Inc.
SR-2004-0306
Raytown Water Company
WR-92-85 / WR-92-88
Southwest Village Water Company
WO-89-187
WC-89-138 (included testimony in Circuit Court in Greene County)
St. Louis County Water Company
WR-97-382
WR-96-263
WR-95-145
WR-94-166
WR-93-204
WR-91-361
WR-88-5
WR-87-2
WR-85-243
WC-84-29
WR-83-264
WR-82-249
WC-79-251
Stoddard County Sewer Co.
SO-2008-0289
Suburban Water and Sewer Co.
WC-84-19
Injunction hearing, Circuit Court in Boone County 07BA-CV02632, June 2007
WC-2007-0452

United Water Missouri

WR-99-326

Villa Park Heights Water Co.

WA-86-58

Warren County Water and Sewer Co.

Circuit court case in Warren County CV597-134CC, September 1997

West Elm Place Corporation

Circuit court lawsuit case in Jefferson County, approx 1988

DAVID MURRAY

Educational and Employment Background and Credentials

I am currently the Acting Utility Regulatory Manager of the Financial Analysis Department for the Missouri Public Service Commission (Commission). I accepted the position of a Public Utility Financial Analyst in June 2000 and my position was reclassified in August 2003 to an Auditor III. I was promoted to the position of Auditor IV, effective July 1, 2006. I was employed by the Missouri Department of Insurance in a regulatory position before I began my employment at the Missouri Public Service Commission.

In May 1995, I earned a Bachelor of Science degree in Business Administration with an emphasis in Finance and Banking, and Real Estate from the University of Missouri-Columbia. I earned a Masters in Business Administration from Lincoln University in December 2003.

I have been awarded the professional designation Certified Rate of Return Analyst (CRRA) by the Society of Utility and Regulatory Financial Analysts (SURFA). This designation is awarded based upon experience and successful completion of a written examination, which I completed during my attendance at a SURFA conference in April 2007.

I am pursuing the Chartered Financial Analyst (CFA) designation. I passed the examinations for Levels I and II of the CFA Program and am currently a Level III candidate. In order to receive the CFA designation, I must pass the Level III examination and also have four years of relevant professional work experience.

CASE PROCEEDING PARTICIPATION

DAVID MURRAY

Date Filed	Case Number	Company Name	Testimony Type	Issue(s)
03/05/10	ER-2010-0036	Union Electric Company d/b/a AmerenUE	Surrebuttal	Rate of Return Capital Structure
02/11/10	ER-2010-0036	Union Electric Company d/b/a AmerenUE	Rebuttal	Rate of Return Capital Structure
12/18/09	ER-2010-0036	Union Electric Company d/b/a AmerenUE	Cost of Service Report	Rate of Return Capital Structure
10/14/09	GR-2009-0355	Missouri Gas Energy	Surrebuttal	Rate of Return Capital Structure
09/28/09	GR-2009-0355	Missouri Gas Energy	Rebuttal	Rate of Return Capital Structure
08/21/09	GR-2009-0355	Missouri Gas Energy	Cost of Service Report	Rate of Return Capital Structure
04/09/09	HR-2009-0092	KCP&L Greater Missouri Operations Company	Surrebuttal	Rate of Return Capital Structure
04/09/09	ER-2009-0090	KCP&L Greater Missouri Operations Company	Surrebuttal	Rate of Return Capital Structure
04/07/09	ER-2009-0089	Kansas City Power & Light Company	Surrebuttal	Rate of Return Capital Structure
03/13/09	HR-2009-0092	KCP&L Greater Missouri Operations Company	Rebuttal	Rate of Return Capital Structure
03/13/09	ER-2009-0090	KCP&L Greater Missouri Operations Company	Rebuttal	Rate of Return Capital Structure
03/11/09	ER-2009-0089	Kansas City Power & Light Company	Rebuttal	Rate of Return Capital Structure
02/13/09	HR-2009-0092	KCP&L Greater Missouri Operations Company	Cost of Service Report	Rate of Return Capital Structure
02/13/09	ER-2009-0090	KCP&L Greater Missouri Operations Company	Cost of Service Report	Rate of Return Capital Structure
02/11/09	ER-2009-0089	Kansas City Power & Light Company	Cost of Service Report	Rate of Return Capital Structure
08/01/2008	HR-2008-0300	Trigen-Kansas City Energy Corporation	Cost of Service Report	Rate of Return Capital Structure

CASE PROCEEDING PARTICIPATION

DAVID MURRAY

Date Filed	Case Number	Company Name	Testimony Type	Issue(s)
01/18/2008	GR-2008-0060	Missouri Gas Utility, Inc.	Cost of Service Report	Rate of Return Capital Structure
07/31/2007	WR-2007-0216	Missouri-American Water Company	Surrebuttal	Rate of Return Capital Structure
07/13/2007	WR-2007-0216	Missouri-American Water Company	Rebuttal	Rate of Return Capital Structure
06/05/2007	WR-2007-0216	Missouri-American Water Company	Direct	Rate of Return Capital Structure
12/27/2006	GR-2006-0422	Missouri Gas Energy	True-up Direct	Rate of Return Capital Structure
12/11/2006	GR-2006-0422	Missouri Gas Energy	Surrebuttal	Rate of Return Capital Structure
11/21/2006	GR-2006-0422	Missouri Gas Energy	Rebuttal	Rate of Return Capital Structure
10/13/2006	GR-2006-0422	Missouri Gas Energy	Direct	Rate of Return Capital Structure
08/18/2006	ER-2006-0315	Empire District Electric Co.	Surrebuttal	Rate of Return Capital Structure
07/28/2006	ER-2006-0315	Empire District Electric Co.	Rebuttal	Rate of Return Capital Structure
06/23/2006	ER-2006-0315	Empire District Electric Co.	Direct	Rate of Return Capital Structure
12/13/2005	ER-2005-0436	Aquila, Inc. dba Aquila Networks-MPS and Aquila Networks-L&P	Surrebuttal	Rate of Return Capital Structure
11/18/2005	ER-2005-0436	Aquila, Inc. dba Aquila Networks-MPS and Aquila Networks-L&P	Rebuttal	Rate of Return Capital Structure
10/14/2005	ER-2005-0436	Aquila, Inc. dba Aquila Networks-MPS and Aquila Networks-L&P	Direct	Rate of Return Capital Structure
11/24/2004	ER-2004-0570	Empire District Electric Co.	Surrebuttal	Rate of Return Capital Structure
11/04/2004	ER-2004-0570	Empire District Electric Co.	Rebuttal	Rate of Return Capital Structure
09/20/2004	ER-2004-0570	Empire District Electric Co.	Direct	Rate of Return
07/19/2004	GR-2004-0209	Missouri Gas Energy	True-Up Direct	Rate of Return Capital Structure

CASE PROCEEDING PARTICIPATION

DAVID MURRAY

Date Filed	Case Number	Company Name	Testimony Type	Issue(s)
06/14/2004	GR-2004-0209	Missouri Gas Energy	Surrebuttal	Rate of Return Capital Structure
05/24/2004	GR-2004-0209	Missouri Gas Energy	Rebuttal	Rate of Return Capital Structure
04/15/2004	GR-2004-0209	Missouri Gas Energy	Direct	Rate of Return Capital Structure
03/11/2004	IR-2004-0272	Fidelity Telephone Company	Direct	Rate of Return Capital Structure
02/13/2004	GR-2004-0072	Aquila, Inc. dba Aquila Networks-MPS and Aquila Networks-L&P	Rebuttal	Rate of Return Capital Structure
02/13/2004	ER-2004-0034	Aquila, Inc. dba Aquila Networks-MPS and Aquila Networks-L&P	Surrebuttal	Rate of Return Capital Structure
02/13/2004	HR-2004-0024	Aquila, Inc. dba Aquila Networks-MPS and Aquila Networks-L&P	Surrebuttal	Rate of Return Capital Structure
01/26/2004	HR-2004-0024	Aquila, Inc. dba Aquila Networks-MPS and Aquila Networks L&P	Rebuttal	Rate of Return Capital Structure
01/26/2004	ER-2004-0034	Aquila, Inc. dba Aquila Networks-MPS and Aquila Networks L&P	Rebuttal	Rate of Return Capital Structure
01/09/2004	WT-2003-0563	Osage Water Company	Rebuttal	Rate of Return Capital Structure
01/09/2004	ST-2003-0562	Osage Water Company	Rebuttal	Rate of Return Capital Structure
01/06/2004	GR-2004-0072	Aquila, Inc.	Direct	Rate of Return Capital Structure
12/19/2003	ST-2003-0562	Osage Water Company	Direct	Rate of Return Capital Structure
12/19/2003	WT-2003-0563	Osage Water Company	Direct	Rate of Return Capital Structure
12/09/2003	ER-2004-0034	Aquila, Inc.	Direct	Rate of Return Capital Structure
12/09/2003	HR-2004-0024	Aquila, Inc.	Direct	Rate of Return Capital Structure
12/05/2003	WC-2004-0168	Missouri-American Water Co	Surrebuttal	Rate of Return Capital Structure

CASE PROCEEDING PARTICIPATION

DAVID MURRAY

Date Filed	Case Number	Company Name	Testimony Type	Issue(s)
12/05/2003	WR-2003-0500	Missouri-American Water Co	Surrebuttal	Rate of Return Capital Structure
11/10/2003	WR-2003-0500	Missouri-American Water Company	Rebuttal	Rate of Return Capital Structure
11/10/2003	WC-2004-0168	Missouri-American Water Company	Rebuttal	Rate of Return Capital Structure
10/03/2003	WC-2004-0168	Missouri-American Water Company	Direct	Rate of Return Capital Structure
10/03/2003	WR-2003-0500	Missouri-American Water Company	Direct	Rate of Return Capital Structure
03/17/2003	GM-2003-0238	Southern Union Co. dba Missouri Gas Energy	Rebuttal	Insulation
10/16/2002	ER-2002-424	The Empire District Electric Company	Surrebuttal	Rate of Return Capital Structure
09/24/2002	ER-2002-424	The Empire District Electric Company	Rebuttal	Rate of Return Capital Structure
08/16/2002	ER-2002-424	The Empire District Electric Company	Direct	Rate of Return Capital Structure
08/06/2002	TC-2002-1076	BPS Telephone Company	Direct	Rate of Return Capital Structure
01/22/2002	ER-2001-672	UtiliCorp United Inc. dba Missouri Public Service	Surrebuttal	Rate of Return Capital Structure
01/22/2002	EC-2002-265	UtiliCorp United Inc. dba Missouri Public Service	Surrebuttal	Rate of Return Capital Structure
01/08/2002	ER-2001-672	UtiliCorp United Inc. dba Missouri Public Service	Rebuttal	Rate of Return Capital Structure
01/08/2002	EC-2002-265	UtiliCorp United Inc. dba Missouri Public Service	Rebuttal	Rate of Return Capital Structure
12/06/2001	ER-2001-672	UtiliCorp United Inc. dba Missouri Public Service	Direct	Rate of Return Capital Structure
12/06/2001	EC-2002-265	UtiliCorp United Inc. dba Missouri Public Service	Direct	Rate of Return Capital Structure
05/22/2001	GR-2001-292	Missouri Gas Energy, A Division of Southern Union Company	Rebuttal	Rate of Return Capital Structure
04/19/2001	GR-2001-292	Missouri Gas Energy, A Division of Southern Union Company	Direct	Rate of Return Capital Structure

CASE PROCEEDING PARTICIPATION

DAVID MURRAY

Date Filed	Case Number	Company Name	Testimony Type	Issue(s)
03/01/2001	TT-2001-328	Oregon Farmers Mutual Telephone Company	Rebuttal	Rate of Return Capital Structure
02/28/2001	TR-2001-344	Northeast Missouri Rural Telephone Company	Direct	Rate of Return Capital Structure
01/31/2001	TC-2001-402	Ozark Telephone Company	Direct	Rate of Return Capital Structure

Jerry Scheible, P.E.

Education

Bachelor of Science Degree in Agricultural Engineering
University of Missouri – Columbia, 1995

Associate of Arts Degree in General Studies
East Central College – Union, MO 1991

Courses toward a Masters Degree in Public Administration
University of Missouri – Columbia

Professional Experience

Utility Regulatory Engineer, Water and Sewer Department - Missouri Public Service Commission (October 2001 – Present)

Environmental Engineer II, Water Pollution Control Program - Missouri Department of Natural Resources - Land Application Unit (May 2001 – October 2001)

Environmental Engineer II, Water Pollution Control Program - Missouri Department of Natural Resources - State Revolving Fund Unit (February 1998 – May 2001)

Environmental Engineer I & II, Water Pollution Control Program - Missouri Department of Natural Resources - Concentrated Animal Feeding Operations (October 1994 - February 1998)

Farm Manager/Custom Cabinet Design and Construction - (May 1987-August 1995)

Professional Certification

Registered Professional Engineer in the State of Missouri
Registration Number: 2001018805

Missouri Department of Natural Resources Public Drinking Water Program
Drinking Water Treatment- Certification Level D

Missouri Department of Natural Resources Clean Water Commission
Wastewater Treatment- Certification Level D

Previous Testimony Before the Commission

Case Number WC-2007-0303: Plant Capacity - Evidentiary Hearing/Live Testimony
Case Number WC-2006-0248: Billing Complaint - Evidentiary Hearing/Live Testimony
Case Number WR-2010-0131: Customer Water Usage Normalization- Written Testimony

**Case Participation Summary for
Jerry Scheible, P.E.**

Previous Testimony Before the Commission

Case Number WC-2007-0303: Plant Capacity - Evidentiary Hearing/Live Testimony

Case Number WC-2006-0248: Billing Complaint - Evidentiary Hearing/Live Testimony

Case Number WR-2010-0131: Customer Water Usage Normalization-

Rebuttal Written Testimony

Surrebuttal Written Testimony

MISSOURI PUBLIC SERVICE COMMISSION

**STAFF REPORT
COST OF SERVICE**

**APPENDIX 2
Support for Staff Cost
of
Capital Recommendations**

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2010-0131

The DCF model is a market-oriented approach for deriving the cost of common equity. The cost of common equity calculated from the DCF model is inherently capable of attracting capital. This results from the theory that security prices adjust continually over time, so that an equilibrium price exists and the stock is neither undervalued nor overvalued. It can also be stated that stock prices continually fluctuate to reflect the required and expected return for the investor.

The constant-growth form of the DCF model was used in this analysis. This model relies upon the fact that a company's common stock price is dependent upon the expected cash dividends and upon cash flows received through capital gains or losses that result from stock price changes. The interest rate which discounts the sum of the future expected cash flows to the current market price of the common stock is the calculated cost of common equity. This can be expressed algebraically as:

$$\text{Present Price} = \frac{\text{Expected Dividends}}{\text{Discounted by } k} + \frac{\text{Expected Price in 1 year}}{\text{Discounted by } k} \quad (1)$$

where k equals the cost of equity. Since the expected price of a stock in one year is equal to the present price multiplied by one plus the growth rate, equation (1) can be restated as:

$$\text{Present Price} = \frac{\text{Expected Dividends}}{(1 + k)} + \frac{\text{Present Price } (1+g)}{(1 + k)} \quad (2)$$

where g equals the growth rate and k equals the cost of equity. Letting the present price equal P_0 and expected dividends equal D_1 , the equation appears as:

$$P_0 = \frac{D_1}{(1 + k)} + \frac{P_0(1+g)}{(1 + k)} \quad (3)$$

The cost of equity equation may also be algebraically represented as:

$$k = \frac{D_1}{P_0} + g \quad (4)$$

Thus, the cost of common stock equity, k , is equal to the expected dividend yield (D_1/P_0) plus the expected growth in dividends (g) continuously summed into the future. The growth in dividends and implied growth in earnings will be reflected in the current price. Therefore, this model also recognizes the potential of capital gains or losses associated with owning a share of common stock.

The discounted cash flow method is a continuous stock valuation model. The DCF theory is based on the following assumptions:

1. Market equilibrium;
2. Perpetual life of the company;
3. Constant payout ratio;
4. Payout of less than 100% earnings;
5. Constant price/earnings ratio;
6. Constant growth in cash dividends;
7. Stability in interest rates over time;
8. Stability in required rates of return over time; and,
9. Stability in earned returns over time.

Flowing from these, it is further assumed that an investor's growth horizon is unlimited and that earnings, book values and market prices grow hand-in-hand. Although the entire list of the above assumptions is rarely met, the DCF model is a reasonable working model describing an actual investor's expectations and resulting behaviors.

The CAPM describes the relationship between a security's investment risk and its market rate of return. This relationship identifies the rate of return which investors expect a security to earn so that its market return is comparable with the market returns earned by other securities that have similar risk. The general form of the CAPM is as follows:

$$k = R_f + \beta (R_m - R_f)$$

where:

- k = the expected return on equity for a specific security;
- R_f = the risk-free rate;
- β = beta; and
- $R_m - R_f$ = the market risk premium.

The first term of the CAPM is the risk-free rate (R_f). The risk-free rate reflects the level of return that can be achieved without accepting any risk. In reality, there is no such risk-free asset, but it is generally represented by U.S. Treasury securities.

The second term of the CAPM is beta (β). Beta is an indicator of a security's investment risk. It represents the relative movement and relative risk between a particular security and the market as a whole (where beta for the market equals 1.00). Securities with betas greater than 1.00 exhibit greater volatility than do securities with betas less than 1.00. This causes a higher beta security to be less desirable to a risk-averse investor and therefore requires a higher return in order to attract investor capital away from a lower beta security.

The final term of the CAPM is the market risk premium ($R_m - R_f$). The market risk premium represents the expected return from holding the entire market portfolio less the expected return from holding a risk-free investment.

Bernanke Stresses Need for Low Rates

By JON HILSENATH

WASHINGTON—After taking several small steps recently to remove the financial system from life support, Federal Reserve Chairman Ben Bernanke made clear Wednesday that he wasn't close to the more momentous act of raising interest rates, thus tightening credit.

In his semi-annual testimony to Congress on the economy and monetary policy, Mr. Bernanke said that short-term interest rates, now near zero, were likely to remain there for at least several more months.

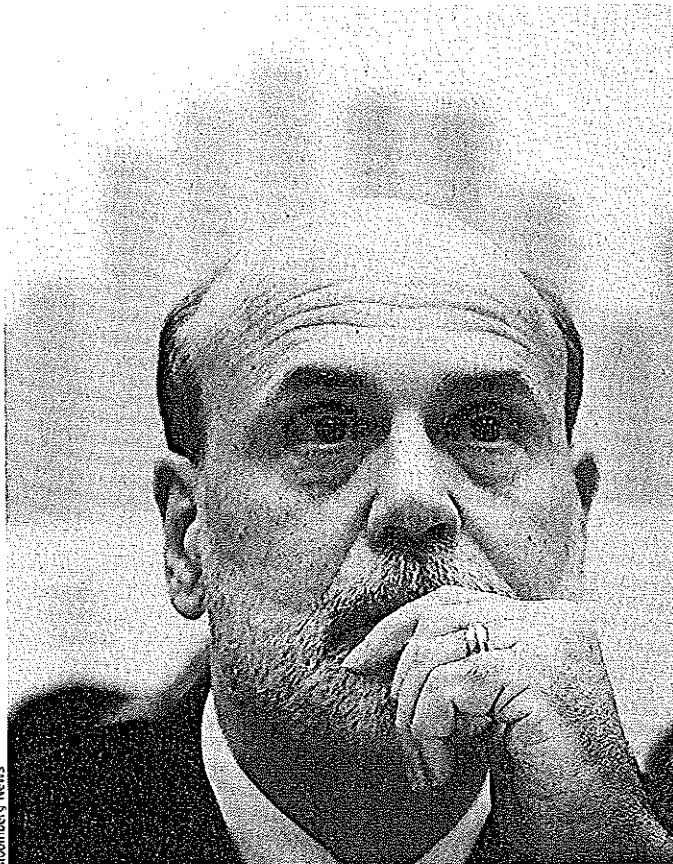
He highlighted worries about what he called the "nascent recovery"—marked by high unemployment, wobbly real-estate markets, weak lending and large budget deficits. Mr. Bernanke said slack in the economy meant the benchmark federal-funds rate would remain near zero for an "extended period."

The economy, he said, "still requires support for recovery."

Investors were heartened by Mr. Bernanke's tone. The Dow Jones Industrial Average finished up 91.75 points, or 0.9%, at 10374.16. Treasury bonds were little changed. Futures markets put more than 60% odds on the Fed lifting its benchmark federal funds rate to 0.5% by November from current levels of 0.25%.

"The fact that Chairman Bernanke reiterated the pledge in his testimony today has clearly increased the risk that the tightening cycle starts later than we currently think—maybe not until early 2011," said Harm Bandholz, an economist with Unicredit Bank.

The Fed this month ended several emergency lending programs that funneled credit directly to investment banks, blue-chip companies and central banks overseas. Last week, it also raised a rate it charges on



Fed Chairman Ben Bernanke spoke to a House committee Wednesday.

emergency loans to banks. Moreover, Mr. Bernanke reiterated his plan to finish purchasing \$1.25 trillion worth of mortgage-backed securities by the end of March, a program meant to drive down lending rates which Mr. Bernanke said would have lingering positive effects.

Those moves have left some investors and lawmakers unsettled about the Fed's plans for the broader economy. Mr. Bernanke tried to draw a distinction between emergency lending programs aimed at propping up a now-healing banking system and his broader efforts to support still-weak economic growth.

"Is there a connection be-

tween the increase in the amount of money that [banks] have to pay [on emergency loans] and households' interest?" Rep. Maxine Waters (D., Calif.) asked. "I don't think any," Mr. Bernanke replied.

Congress has been hostile territory for the Fed chairman for much of the past year, where lawmakers have attacked the Fed's rescues of American International Group Inc. and its disclosure policies.

At Wednesday's hearing, the Fed chairman had an unusual exchange with one of his main congressional nemeses, Rep. Ron Paul (R., Texas), who wants to subject Fed decisions to more

scrutiny by Congress.

Mr. Paul suggested the Fed had been involved in the 1980s in making secret loans to Iraq's former strongman Saddam Hussein, and that Fed money funded the Watergate break-in that brought down Richard Nixon.

Mr. Bernanke shot back that the allegations are "absolutely bizarre, and I have absolutely no knowledge of anything remotely like what you just described."

Mr. Bernanke did make an offer to increase disclosure on one front. He said he would support proposals that would require the Fed to disclose the names of some firms that turned to it during the crisis for loans under temporary lending programs.

The Fed has been resistant to naming borrowers for fear it would stigmatize them in the markets and damage their ability to get private funding. However, he said firms that used temporary crisis programs could be named if Congress demands it.

Among those that could be disclosed are blue-chip companies, investment banks and hedge funds, all of which used various temporary programs offered by the Fed amid the financial crisis.

Those programs have expired or will expire in the next few months.

Mr. Bernanke drew a line on disclosing names of banks that come to its traditional lending facility, known as the discount window. He said that naming them would make the discount window less effective and undermine the stability of the financial system.

WSJ.com

ONLINE TODAY: See a discussion on why Bernanke's comments were cheered by investors at WSJ.com/Video.

Corrections & Amplifications

The city of Thousand Oaks, Calif., had no money invested in Lehman Brothers and suffered no loss when the firm went bankrupt. A chart that accompanied the continuation of a Wednesday front-page article about San Mateo County's Lehman losses incorrectly listed Thousand Oaks as having lost \$14 million.

The Federal Reserve Bank of Chicago's national activity index rose to 0.02 in January. Tuesday's front-page Vital Signs incorrectly said it had risen to 0.2.

President Barack Obama's health plan includes new steps to crack down on Medicare and Medicaid fraud that the White House says were drawn from Re-

publican proposals. A Tuesday front-page article about Mr. Obama's plan said it didn't include any additional nods to Republican ideas.

Dartmouth College's Tuck School of Business is arranging for 50 M.B.A. students to travel at their own expense to Boston and San Francisco to meet with

potential employers. A Careers article about M.B.A. recruiting in Tuesday's Personal Journal incorrectly said the school would foot the bill for the trips.

The last name of Hasan Tevfik, a strategist at Citigroup Global Markets, was incorrectly given as Tevfil in Monday's Abreast of the Market column.

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The Quarterly Economic Review

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The *Selection & Opinion* Index appears on page 3176 (December 4, 2009).

In Three Parts: Part 1 is the Summary & Index. This is Part 2, Selection & Opinion. Part 3 is Ratings & Reports. Volume LXV, Number 27.

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See back cover for important disclosures.

ECONOMIC AND STOCK MARKET COMMENTARY

A business recovery is under way. Three months ago, in our last "Quarterly Economic Review," we noted that the recession had faded into history, having been brought to an apparent end in the third quarter of 2009, when the U.S. gross domestic product posted its first gain (2.2%) in over a year. In the several months since then, the recession's demise has become more evident, with GDP surging ahead by 5.7% in the fourth quarter. (Note: The group that determines when a recession begins and ends—The National Bureau of Economic Research—has yet to affirm that this downturn has concluded. However, we think that it will do so shortly.) In any event, the recession, which began in late 2007, proved long and painful, and its effects may linger for years to come, especially in the areas of housing, employment, credit availability, and fiscal and monetary policy.

The strength and sustainability of the economic recovery are open questions at this time. The business upturn seemed to initially get under way with a flourish,

with GDP at first reported to have risen by 3.5% during the third quarter of 2009. However, that gain was pared to 2.8% and then 2.2% in revisions that were issued in late November and late December, respectively. Now, as we peer out into 2010, the economy's outlook is uncertain, following the historically lackluster showing in the third quarter of 2009 and the stronger outcome in the final three months of the year. (However, it should be noted that the late-year surge was helped materially by a positive swing in inventories, as businesses moved to slow their pace of inventory liquidations, because demand for goods and services rose selectively.) We believe the economy will extend its winning ways in the current quarter, although probably at a slower pace—perhaps 2.5%-2.8%. This likely deceleration reflects our expectation that help from inventories will be less appreciable; the impact of fiscal stimulus on growth will fade; the housing and employment trends will be no better than neutral; and credit availability will be

(Continued on page 3020)

VALUE LINE FORECAST FOR THE U.S. ECONOMY

Statistical Summary for 2009-2011

	2009:4	2010:1	2010:2	2010:3	2010:4	2011:1	2011:2	2010	2011
GDP AND OTHER KEY MEASURES									
Real Gross Domestic Product	13154	13242	13327	13409	13502	13609	13713	13370	13769
Total Light Vehicle Sales (Mill. Units)	10.8	11.0	11.5	12.0	12.5	13.0	13.5	11.8	13.8
Housing Starts (Million Units)	0.55	0.60	0.70	0.80	0.95	1.10	1.20	0.76	1.28
After-Tax Profits (\$Bill.)	1262	1122	1214	1291	1426	1257	1335	1263	1368
ANNUALIZED RATES OF CHANGE									
Gross Domestic Product (Real)	5.7	2.7	2.5	2.6	2.8	3.2	3.1	2.9	3.0
GDP Deflator	0.6	2.0	1.0	1.5	1.5	1.5	1.5	1.5	1.6
CPI-All Urban Consumers	3.4	1.8	1.5	1.7	1.8	2.0	2.2	1.7	2.3
AVERAGE FOR THE PERIOD									
National Unemployment Rate	10.0	9.9	9.9	9.8	9.8	9.7	9.5	9.9	9.4
Prime Rate	3.3	3.3	3.3	3.5	3.8	4.0	4.5	3.5	4.8
10-Year Treasury Note Rate	3.5	3.7	3.8	4.0	4.0	4.1	4.1	3.9	4.1

Value Line Forecast for the U.S. Economy

	ACTUAL			ESTIMATED				
	2009:3	2009:4	2010:1	2010:2	2010:3	2010:4	2011:1	2011:2
GROSS DOMESTIC PRODUCT AND ITS COMPONENTS (2005 CHAIN WEIGHTED \$) BILLIONS OF DOLLARS								
Final Sales	13127	13199	13248	13314	13380	13463	13546	13640
Total Consumption	9253	9299	9368	9437	9512	9587	9658	9730
Nonresidential Fixed Investment	1269	1278	1294	1300	1308	1324	1347	1379
Structures	380	365	359	350	339	332	328	332
Equipment & Software	880	908	934	963	991	1021	1053	1088
Residential Fixed Investment	360	365	360	369	380	397	420	449
Exports	1479	1542	1572	1603	1622	1645	1668	1697
Imports	1837	1883	1937	1991	2039	2077	2107	2144
Federal Government	1043	1043	1055	1069	1070	1068	1055	1040
State & Local Governments	1546	1545	1544	1547	1546	1547	1545	1542
Gross Domestic Product	14245	14465	14634	14765	14912	15071	15247	15421
Real GDP (2005 Chain Weighted \$)	12973	13154	13242	13327	13409	13502	13609	13713
PRICES AND WAGES-ANNUAL RATES OF CHANGE								
GDP Deflator	0.4	0.6	2.0	1.0	1.5	1.5	1.5	1.5
CPI-All Urban Consumers	3.6	3.4	1.8	1.5	1.7	1.8	2.0	2.2
PPI-Finished Goods	4.4	7.6	3.0	1.5	2.0	2.0	2.5	2.5
Employment Cost Index—Total Comp.	1.8	1.5	1.8	2.0	2.0	2.0	2.1	2.1
Productivity	7.2	6.2	2.5	2.0	1.5	1.0	1.0	0.5
PRODUCTION AND OTHER KEY MEASURES								
Industrial Prod. (% Change, Annualized)	6.9	7.0	5.0	4.0	4.0	4.0	4.0	4.0
Factory Operating Rate (%)	67.1	68.3	69.5	71.0	72.0	73.0	73.5	74.0
Nonfarm Inven. Change (2005 Chain Weighted \$)	-141.4	-27.3	10.0	15.0	25.0	35.0	45.0	50.0
Housing Starts (Mill. Units)	0.59	0.55	0.60	0.70	0.80	0.95	1.10	1.20
Existing House Sales (Mill. Units)	5.29	6.03	5.50	5.70	5.75	5.80	5.70	5.80
Total Light Vehicle Sales (Mill. Units)	11.5	10.8	11.0	11.5	12.0	12.5	13.0	13.5
National Unemployment Rate (%)	9.6	10.0	9.9	9.9	9.8	9.8	9.7	9.5
Federal Budget Surplus (Unified, FY, \$Bill)	-330.8	-390.4	-475.0	-172.0	-344.0	-384.0	-388.0	-65.0
Price of Oil (\$Bbl., U.S. Refiners' Cost)	64.39	68.10	71.40	69.00	71.00	73.30	77.00	80.00
MONEY AND INTEREST RATES								
3-Month Treasury Bill Rate (%)	0.2	0.1	0.2	0.3	0.5	0.8	1.3	1.8
Federal Funds Rate (%)	0.2	0.1	0.1	0.1	0.2	0.6	1.0	1.5
10-Year Treasury Note Rate (%)	3.5	3.5	3.7	3.8	4.0	4.0	4.1	4.1
Long-Term Treasury Bond Rate (%)	4.3	4.2	4.5	4.5	4.6	4.7	4.8	4.8
AAA Corporate Bond Rate (%)	5.3	5.2	5.7	5.7	5.8	5.8	5.9	6.0
Prime Rate (%)	3.3	3.3	3.3	3.3	3.5	3.8	4.0	4.5
INCOMES								
Personal Income (Annualized % Change)	1.2	4.0	5.0	4.5	4.2	4.0	4.5	4.5
Real Disp. Inc. (Annualized % Change)	-1.4	2.1	1.5	3.0	2.5	1.5	1.0	2.0
Personal Savings Rate (%)	4.5	4.6	4.0	4.5	4.5	4.3	3.8	3.5
After-Tax Profits (Annualized \$Bill)	1174	1262	1122	1214	1291	1426	1257	1335
Yr-to-Yr % Change	-7.7	10.0	15.0	12.0	10.0	13.0	12.0	10.0
COMPOSITION OF REAL GDP-ANNUAL RATES OF CHANGE								
Gross Domestic Product	2.2	5.7	2.7	2.5	2.6	2.8	3.2	3.1
Final Sales	1.5	2.2	1.5	2.0	2.0	2.5	2.5	2.8
Total Consumption	2.8	2.0	3.0	3.0	3.2	3.2	3.0	3.0
Nonresidential Fixed Investment	-5.9	2.9	5.0	2.0	2.5	5.0	7.0	10.0
Structures	-18.4	-15.4	-6.0	-10.0	-12.0	-8.0	-5.0	5.0
Equipment & Software	1.5	13.3	12.0	13.0	12.0	13.0	13.0	14.0
Residential Fixed Investment	18.9	5.7	-5.0	10.0	12.0	20.0	25.0	30.0
Exports	17.8	18.1	8.1	8.0	4.9	5.9	5.7	7.1
Imports	21.3	10.5	11.9	11.6	9.9	7.8	5.8	7.2
Federal Government	8.0	0.1	4.4	5.5	0.5	-0.9	-4.6	-5.7
State & Local Governments	-0.6	-0.3	-0.2	0.8	-0.2	0.1	-0.4	-0.9

Value Line Forecast for the U.S. Economy

	ACTUAL					ESTIMATED				
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
GROSS DOMESTIC PRODUCT AND ITS COMPONENTS										
(2005 CHAIN WEIGHTED \$) BILLIONS OF DOLLARS										
Final Sales	12588	12917	13234	13341	13115	13351	13702	14154	14649	15147
Total Consumption	8819	9074	9314	9291	9237	9476	9766	10030	10261	10517
Nonresidential Fixed Investment	1347	1454	1544	1570	1289	1307	1401	1583	1742	1864
Structures	351	384	441	487	391	345	338	378	416	441
Equipment & Software	996	1070	1097	1069	888	977	1102	1300	1430	1530
Residential Fixed Investment	775	718	585	451	359	377	461	540	604	665
Exports	1305	1422	1546	1629	1469	1611	1712	1854	2017	2171
Imports	2028	2151	2194	2124	1823	2011	2162	2320	2464	2595
Federal Government	876	895	906	976	1027	1065	1034	1001	981	991
State & Local Governments	1494	1507	1537	1544	1543	1546	1542	1549	1565	1584
Gross Domestic Product	12638	13399	14078	14441	14260	14845	15516	16268	17107	17990
Real GDP (2005 Chain Weighted \$)	12638	12976	13254	13312	12988	13370	13769	14209	14692	15177
PRICES AND WAGES-ANNUAL RATES OF CHANGE										
GDP Deflator	3.3	3.2	2.7	2.2	1.2	1.5	1.6	1.6	1.7	1.8
CPI-All Urban Consumers	3.4	3.2	2.9	3.8	1.5	1.7	2.3	2.4	2.5	2.8
PPI-Finished Goods	4.9	3.0	3.9	6.4	1.9	2.1	2.6	2.7	2.8	3.0
Employment Cost Index—Total Comp.	3.1	2.9	3.1	2.8	1.2	2.0	2.2	2.3	2.5	2.6
Productivity	1.8	1.0	1.4	2.8	5.2	1.8	0.8	1.3	1.3	1.2
PRODUCTION AND OTHER KEY MEASURES										
Industrial Prod. (% Change)	3.3	2.2	1.7	-2.2	-3.9	4.3	4.2	3.8	3.7	3.5
Factory Operating Rate (%)	78.6	79.4	79.4	75.1	66.9	71.4	74.5	75.0	76.0	78.0
Nonfarm Inven. Change (2005 Chain Weighted \$)	39.1	46.3	-3.7	-34.3	-111.7	21.3	48.8	65.0	60.0	50.0
Housing Starts (Mill. Units)	2.07	1.81	1.34	0.90	0.55	0.76	1.28	1.50	1.65	1.75
Existing House Sales (Mill. Units)	7.08	6.51	5.67	4.89	5.17	5.69	5.80	6.00	6.30	6.50
Total Light Vehicle Sales (Mill. Units)	17.0	16.5	16.1	13.1	10.4	11.8	13.8	15.0	16.0	17.0
National Unemployment Rate (%)	5.1	4.6	4.6	5.8	9.3	9.9	9.4	8.3	7.5	7.0
Federal Budget Surplus (Unified, FY, \$Bill)	-321.0	-248.0	-162.0	-455.0	-1475.0	-1375.0	-985.0	-900.0	-700.0	-600.0
Price of Oil (\$Bbl., U.S. Refiners' Cost)	56.56	66.12	72.18	99.75	58.50	71.00	81.00	85.00	90.00	95.00
MONEY AND INTEREST RATES										
3-Month Treasury Bill Rate (%)	3.1	4.7	4.4	1.4	0.2	0.5	2.1	3.0	3.7	4.5
Federal Funds Rate (%)	3.2	5.0	5.0	1.9	0.2	0.3	1.8	3.3	3.8	4.5
10-Year Treasury Note Rate (%)	4.3	4.8	4.6	3.7	3.3	3.9	4.1	4.5	5.0	5.5
Long-Term Treasury Bond Rate (%)	4.6	4.9	4.8	4.3	4.1	4.6	4.9	5.3	5.8	6.3
AAA Corporate Bond Rate (%)	5.2	5.6	5.6	5.6	5.3	5.8	6.0	6.4	6.7	7.0
Prime Rate (%)	6.2	8.0	8.0	5.1	3.3	3.5	4.8	6.0	7.0	7.5
INCOMES										
Personal Income (% Change)	5.6	7.1	6.1	3.8	-0.1	4.4	4.6	5.0	5.3	5.5
Real Disp. Inc. (% Change)	1.4	3.5	2.8	1.3	1.8	2.1	2.1	2.2	2.7	3.2
Personal Savings Rate (%)	0.4	0.7	0.6	1.8	4.6	4.3	3.5	3.0	3.5	4.0
After-Tax Profits (\$Bill)	1207	1405	1436	1231	1111	1263	1368	1450	1552	1676
Yr-to-Yr % Change	34.5	16.4	2.2	-14.3	-9.8	13.7	8.3	6.0	7.0	8.0
COMPOSITION OF REAL GDP-ANNUAL RATES OF CHANGE										
Gross Domestic Product	3.1	2.7	2.1	0.4	-2.4	2.9	3.0	3.2	3.4	3.3
Final Sales	3.1	2.8	2.4	1.4	-1.7	1.8	2.6	3.3	3.5	3.4
Total Consumption	3.0	3.0	2.8	0.2	-0.6	2.6	3.0	2.7	2.3	2.5
Nonresidential Fixed Investment	7.2	7.5	4.9	1.6	-17.9	1.4	7.2	13.0	10.0	7.0
Structures	1.3	8.2	12.7	11.2	-19.7	-11.7	-2.1	12.0	10.0	6.0
Equipment & Software	9.3	7.2	1.7	-3.0	-16.9	10.0	3.0	18.0	10.0	7.0
Residential Fixed Investment	6.3	-7.1	-17.9	-20.8	-20.3	4.8	22.5	17.0	12.0	10.0
Exports	7.0	9.1	8.4	6.2	-9.8	9.6	6.3	8.3	8.8	7.6
Imports	5.9	6.0	2.2	-3.5	-14.2	10.3	7.5	7.3	6.2	5.3
Federal Government	1.2	2.3	1.6	6.0	5.2	3.8	-2.9	-3.2	-2.0	1.0
State & Local Governments	-0.1	1.3	2.3	1.1	-0.1	0.2	-0.3	0.5	1.0	1.2

The Quarterly Economic Review

Continued from cover page

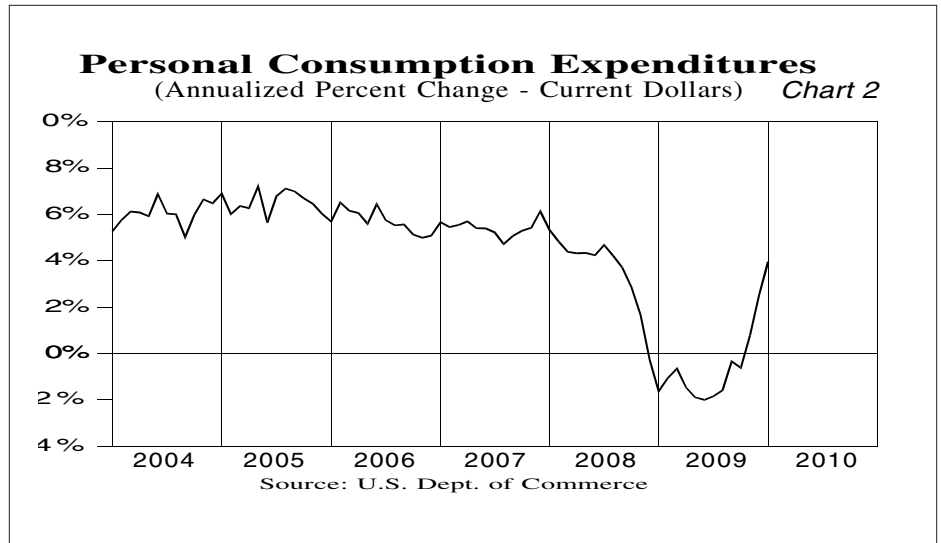
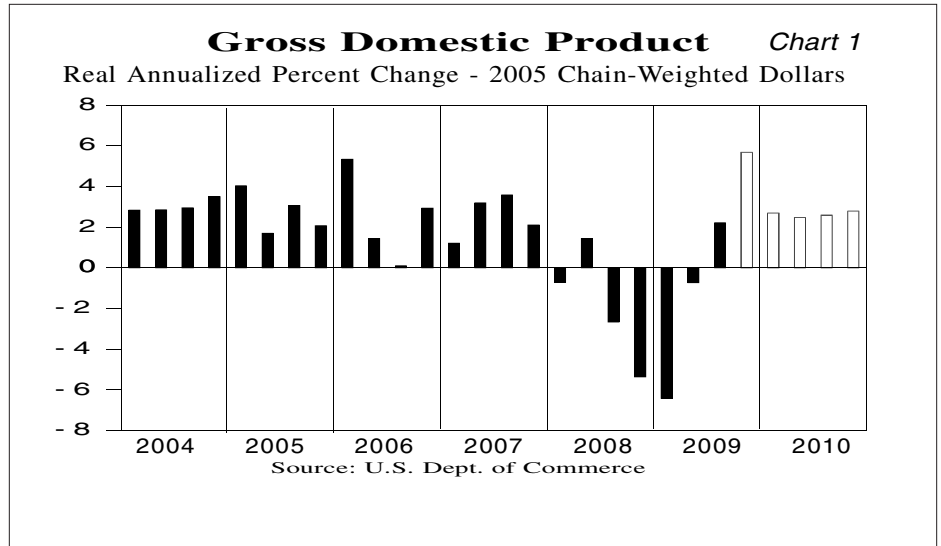
limited as before. Consumers could well be reticent to spend aggressively in such a setting. All told, the current period could more closely resemble the third quarter of 2009, in aggregate strength, than the final three months of last year. That said, the evolving economic up cycle still looks to be durable, if initially uninspiring. Indeed . . .

The business recovery may well be an understated affair for at least a year, with the prospective showing in the first quarter probably being the rule throughout 2010. Note, however, that our revised business forecast is more upbeat than it was three months ago. However, we do not envision a prototypical V-shaped recovery. Tight credit, lackluster trends in housing and employment, and uneven retail activity (the consumer remains the weak link in the recovery chain) aren't consistent with a booming up cycle. However, a swing in GDP from last year's decline of 2.4% to a possible increase of 2.9% in 2010 certainly would qualify as meaningful.

There are risks to our forecast. Economic modeling always contains some conjecture. In this case, our principal assumptions are that the coming 3 to 5 years will bring no new extended military crises, as well as no pandemic, drought, or major terrorist incident. Our forecast also presumes sustained expansions in housing and employment, few missteps in fiscal or monetary policy, no serious flareups of inflation, and no bouts of deflation, such as took place in the 1930s.

SOME SPECIFICS

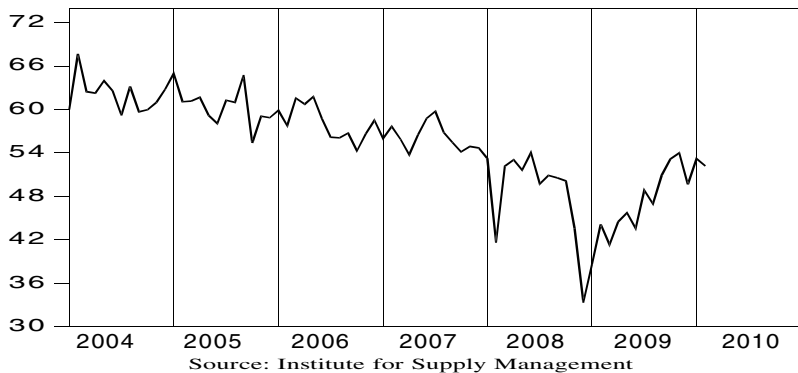
Economic Growth: As noted, the economy grew by 2.2% in the third quarter of 2009, its first advance in five quarters. It strengthened further during the final three months of the year, gaining a stellar 5.7%, in part due to a lesser decline in inventories than we had seen in earlier quarters. We note, however, that this positive swing might lessen somewhat in the current quarter. If that is the case and we



The Quarterly Economic Review

ISM - Nonmanufacturing Index

(Seasonally Adjusted) Chart 4

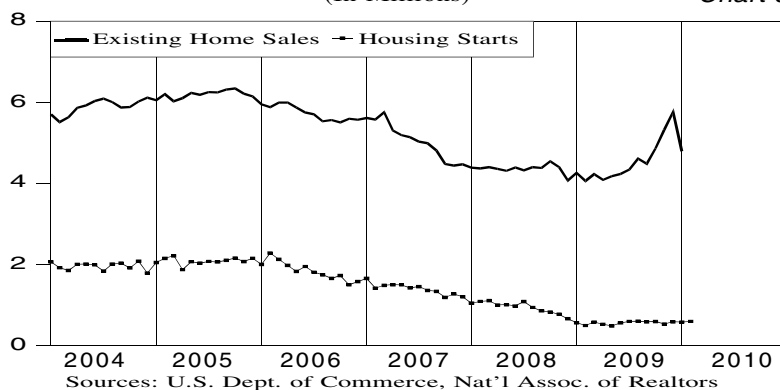


again experience a draw down in inventories, a material slowdown in growth could follow. Our forecast is for GDP to rise by a more moderate 2.5%-2.8% in the current three-month period (Chart 1).

Going forward this year, we would expect retail spending—a modest net positive in the second half of 2009 on the strength of a decent, but hardly notable, holiday shopping season—to contribute incrementally again. Our forecast is for an increase in overall consumption of 2.5%-2.7% this year (Chart 2). Meanwhile, there has been a further pickup in manufacturing, as data recently issued by the Institute for Supply Management chronicled progress in an area that has been strengthening since last summer (Chart 3). We have also seen gains in non-manufacturing, although here the record is notably spottier than it is in manufacturing (Chart 4).

Existing Home Sales & Housing Starts

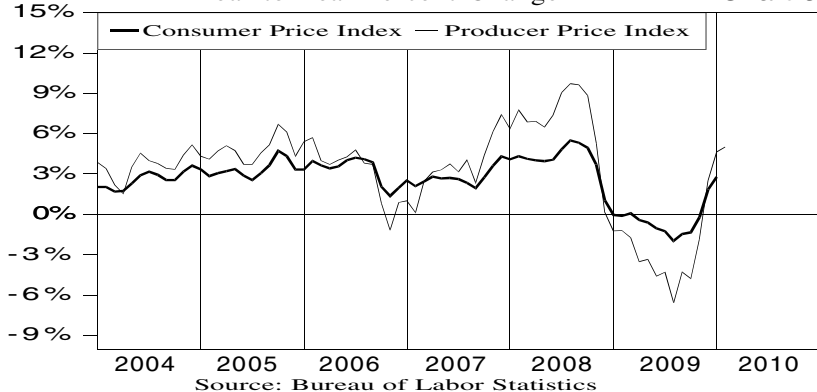
(In Millions) Chart 5



Two other important variables in the recovery equation are housing and employment. The key influences in housing include credit availability, the first-time homebuyers' tax credit, housing affordability, and the outlook for pricing. An uneven comeback, at best, is ahead for this sector in 2010 (Chart 5). Then, there is the outlook for employment and unemployment in the year ahead. The key question in this area is just how far companies will be able to push their remaining workers before deciding that they simply must bring in new staff. Our feeling is that a modest number of new jobs will return in 2010, but we will not see the major gains needed to really get the consumer ball rolling. The end result of this is likely to be 2010 GDP growth of 2.9%, somewhat more than we thought three months ago, but hardly an imposing number. We think growth will rise to 3.0% in 2011, and then advance into the 3.2%-3.4% range by 2013-2015. We note that this is an average growth projection over an extended period. Within such a lengthy timeframe, we could see one or more brief setbacks, or even the onset of a new recession.

Consumer and Producer Price Indexes

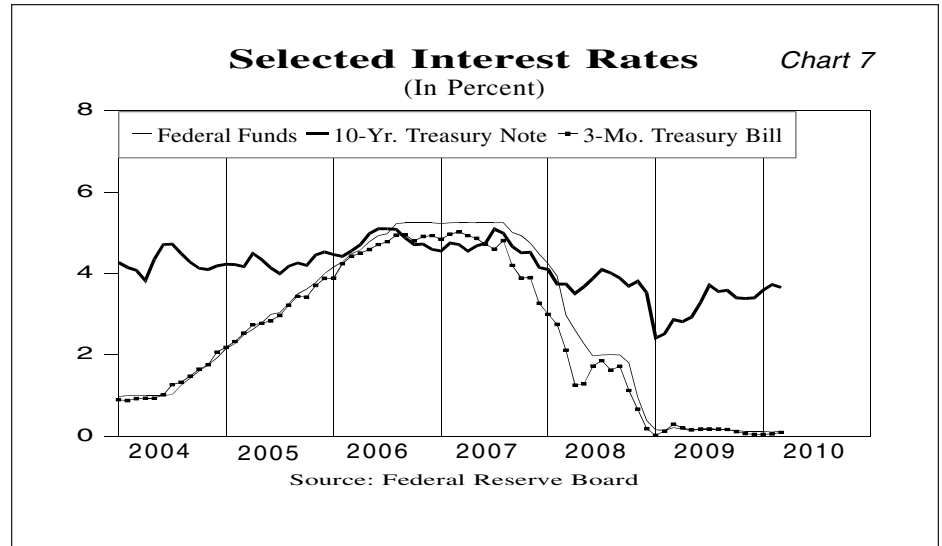
Year-to-Year Percent Change Chart 6



The Quarterly Economic Review

Inflation: Recent indicators show that core inflation, which is the rate of price change excluding the volatile food and energy components, is still rather tame, notwithstanding earlier increases in commodity prices. This relative calm on the pricing front, and our forecast of a continuation of this benign trend during the year ahead, reflects the current excess capacity in product markets and, especially, in the labor market. That said, we sense that the best inflation news may be in the near term, and that the wealth of new government initiatives over the past year will eventually put inflation on the front burner again. Inflation is a long-term threat and will require exit strategies of some merit on both the fiscal and monetary ends (Chart 6). As for the possibility of deflation (or falling prices), we think there is less likelihood of that result than we had feared a year ago, when the global economies seemed to be in danger of going into freefall. However, the recent debt worries across parts of the euro zone, if not relieved, could again bring on deflation headlines—if not the actual feared result itself.

Interest Rates: Here, as well, the problems are off in the distance—but with inflation likely to be a long-term concern of some note, chances are that both short- and long-term interest rates will climb. Our sense is that the former, which are controlled by the Federal Reserve, will increase this year, as the Fed backs away from its historic monetary easing and starts to gradually raise borrowing costs. In fact, as we were going to press, the central bank announced that it would hike its discount rate, the rate it charges on short-term loans to banks, by 0.25 percentage points, to 0.50%. We note that this will not affect loans to consumers, but it is suggestive of things to come on the monetary front going forward, in our view. Meantime, we think long-term rates, which reflect inflationary expectations, and which have stabilized in the 3.7% area on the 10-year Treasury note and 4.7% on the 30-year bond, will rise in the next 3 to 5 years, to 5.5% and 6.3%, respectively (Chart 7). Those rate projec-



tions assume a rather stable upslope in inflation. If the presumptive pricing gains are more serious, the resultant climb in bond yields might be sharper. In the less likely cases of disinflation or deflation, rates might fall below forecast levels.

Corporate Profits: Earnings fell in 2008 and 2009, as the recession and immediate aftermath proved unkind to corporate bottom lines. In fact, only jawboning and increasing productivity kept even worse results at bay. What gains there were—and these mainly came later in 2009—largely derived from reducing costs. Revenue growth remained very spotty, and that's been the principal disappointment during the formative stages of the business expansion. Going forward, we expect to see a gradual pickup in revenues as consumer and industrial demand firms up as the up cycle matures. With year-to-year comparisons easy for the first several quarters of 2010, we would expect a 12-month increase in net of 12%-15%. We project further gains to 2013-2015, as a maturing economic up cycle helps to prop up corporate results. However, as profit comparisons inevitably become more difficult, earnings growth could slow into the mid-single-digit range.

THE STOCK MARKET

Perhaps nowhere has volatility been as pronounced as it has in the stock market of the past half decade. Specifically,

stocks rose steadily from late 2002 to October, 2007, with the Dow surging from the mid-7,000 area to above 14,000 in the process. Then, the bursting of the housing bubble, the unfolding financial crisis, the plunge in earnings, and mounting fears of a global economic meltdown and consequent wave of deflation combined to send equities into the worst bear market in decades, with the Dow plunging from more than 14,000 to the mid-6000 area by early last March. More than half of that loss was made up in the final 10 months of 2009, with the Dow climbing from roughly 6,500 last March to 10,700 in January of this year. Stocks have backtracked in recent weeks, though, as worries about economic growth here, debt issues in the euro zone, and valuations in general have proliferated and taken some of the earlier froth out of the market.

On balance, stocks now look to be reasonably valued based on our view that the economy and earnings will do relatively well in 2010, in an economic expansion that appears sustainable.

Conclusion: We think a cautiously upbeat view of the market is justified now, given decent fundamentals and reasonable valuations. Please refer to the inside back cover of *Selection & Opinion* for our Asset Allocation Model's current reading.

Investors' Datebook: March, 2010

DATE	EVENT
3/1	13- & 26-Week Treasury Bill Auction Personal Income and Outlays, January-8:30 Construction Expenditures, January-10:00 ISM's Purchasing Manager's Index, February-10:00
3/4	Initial Unemployment Claims-8:30 Factory Orders, January-10:00 Weekly Fed Data-4:30 Productivity & Costs (Revised)
3/5	Employment Situation, February-8:30 Consumer Installment Credit, January-3:00
3/8	13- & 26-Week Treasury Bill Auction
3/10	Treasury Budget Report, February-2:00 Wholesale Trade, January
3/11	Initial Unemployment Claims-8:30 Merchandise Trade Balance, January-8:30 Weekly Fed Data-4:30
3/12	Advance Retail Sales, February-8:30 Mfg. & Trade: Inventories & Sales, January-10:00
3/15	13- & 26-Week Treasury Bill Auction Capacity Utilization, February-9:15 Industrial Production, February-9:15
3/16	FOMC Meeting Housing Starts & Building Permits, February-8:30
3/17	Producer Price Index, February-8:30
3/18	Consumer Price Index, February-8:30 Initial Unemployment Claims-8:30 Leading Indicators, February-10:00 Weekly Fed Data-4:30 Real Earnings, February
3/22	13- & 26-Week Treasury Bill Auction
3/24	Durable Goods Orders, February-8:30 New Home Sales, February-10:00
3/25	Initial Unemployment Claims-8:30 Weekly Fed Data-4:30
3/26	Corporate Profits, 4Q09 (Final) Gross Domestic Product, 4Q09 (Final)
3/29	13 - & 26-Week Treasury Bill Auction Personal Income and Outlays, February-8:30
3/30	Agricultural Prices
3/31	Factory Orders, February-10:00

Source: Office of Management & Budget.

Model Portfolios: Recent Developments

PORTFOLIO I

On a relative basis, Portfolio I performed respectably through the first two months of the first quarter. To be sure, we would much rather show a gain than a loss for this timeframe, but the modest decline posted so far, when viewed in the context of the choppy investment waters of late, is not seen as indicative of our group's prospects. Rather, our sense is that the companies currently held in the portfolio should continue performing well on an operating basis in the year ahead, suggesting that, on average, investor support for our selections is likely to remain relatively firm. All in all, then, we are satisfied with the portfolio's composition, and are making no changes this week.

Meanwhile, *Hewlett-Packard's* recent earnings report for the three-month period ending January 31st made for good reading, with financial and operating performances that met with shareholder approval. Indeed, in an era where investors are paying close attention to the top line, *HPQ* did not disappoint. Moreover, the high-tech giant raised its earnings forecast for the fiscal year ending October 31st. When we purchased these shares, we mentioned the company's opportunity in the services arena, given the acquisition of *EDS*. We are looking for conformation in this regard in the second half of *HP's* fiscal year, as business begins to flow from its order book.

PORTFOLIO II

Earnings season is winding down, and *Wal-Mart* is typically one of the last to report for Portfolio II. This time around, the retail giant offered up some mixed results. The company did exceed our share-net estimate by a few pennies in its fiscal 2009 fourth quarter (ended January 31, 2010). Still, *Wal-Mart* did not appear to have as strong a holiday season as originally anticipated. In fact, domestic same-store sales slipped 1.6%, falling below the company's prior forecast of flat, plus or minus 1%. Investors seemed a little disappointed initially with *Wal-Mart's* guidance for

the first quarter of fiscal 2010, as well. Our current estimate stands at the top end of the retailer's \$0.81-\$0.85 share-net forecast, the midpoint of which still represents an 8% year-to-year increase. Beyond this, we look for double-digit annual advances over the coming 3 to 5 years. *WMT* remains a high-quality stock, offering attractive risk-adjusted long-term total return potential.

On the acquisition front, *Abbott Labs* closed its \$6.2 billion purchase of Belgium-based Solvay Pharmaceuticals. On top of adding a bevy of new and diverse products to its portfolio, including branded generics, the purchase opens the door for *Abbott* into key emerging markets, especially in Eastern Europe and Asia. The deal should add nearly \$3 billion to *ABT's* top line in 2010 and almost pay for itself in a few years.

PORTFOLIO III

The share-price action across Portfolio III and the broader stock market remains quite choppy, as nervous investors shift back and forth between bullishness and bearishness. But earnings reports, by and large, continue to impress. And corporate profits appear poised to head higher through 2010 and into next year, even if the current economic expansion proceeds at a halting, slower-than-hoped-for pace. *Hormel*, the group's well-managed packaged-food company, recently posted better-than-expected financial results for the first quarter of fiscal 2010 (year ends October 30th). Indeed, share net of \$0.82 for the January interim easily topped our \$0.67 call, on a surprisingly healthy 3% rise in volume. We suspect management's success jump-starting the top line is attributable to efforts to step up advertising and roll out new value-added products that can compete more effectively with inexpensive private-label items. The company is also cutting costs and having success with an acquisition strategy that is enabling it to quickly gain ground in booming segments of the

food space (e.g., Mexican fare).

Looking out to 2013-2015, *Hormel's* prospects seem especially bright. Top and bottom lines gains ought to be supported by accretive deals (the balance sheet is in top shape) and a further move up the value-added ladder, as the company continues to transition from a meatpacker into a higher margined consumer-goods outfit. We are making no changes to Portfolio III this week.

PORTFOLIO IV

Portfolio IV is winding down earnings season in decent shape. Stock prices have treaded water for much of this year, curbed by lackluster profit outlooks, in addition to concerns about unemployment and Greece's deficit. Of late, though, overall returns have been helped a bit by positive signs in the housing market, healthy GDP prospects, and some relief in Europe. Dividends are also providing a boost to the portfolio's returns.

Recently, *SCANA Corp.* recorded a profit decline for the December quarter. The South Carolina-based utility's bottom line was hampered by lower electric margins and decreased gas revenues. Management guided toward share net of between \$2.85 and \$3.05 for 2010, as compared with \$2.85 in 2009. *SCG* shares were largely unaffected by the news, but fell from 3 (Average) to 4 (Below Average) in our Timeliness Ranking System. The stock has an approximate 5.4% yield.

Additionally, food processor *Heinz* pre-announced January-period earnings of \$0.82 a share, representing a \$0.06 year-over-year gain. It also raised its full-year forecast to between \$2.82 and \$2.85. The top and bottom lines are benefiting from rapid growth in emerging markets, along with volume increases in the U.S. and Europe, fueled by marketing initiatives. Moreover, the company hinted that it will up its dividend by a greater extent in fiscal 2010 than it did in fiscal 2009 (ends April 2010).

PORTFOLIO I: STOCKS WITH ABOVE-AVERAGE YEAR-AHEAD PRICE POTENTIAL*(primarily suitable for more aggressive investors)*

Ratings & Reports Page	Ticker	Company	Recent Price	Time-liness	Safety	P/E	Yield%	Beta	Financial Strength	Industry Name
1589	AGN	Allergan, Inc.	59.85	2	1	19.6	0.3	0.90	A+	Drug
711	AMX	America Movil	45.89	2	3	11.5	1.2	1.30	B++	Telecom. Services
1402	AAPL	Apple Inc.	203.40	1	3	15.8	Nil	1.10	A++	Computers/Peripherals
1169	BLL	Ball Corp.	52.04	2	2	12.3	0.8	1.00	B++	Packaging & Container
1816	CHKP	Check Point Software	32.79	2	2	17.7	Nil	0.80	A	E-Commerce
2582	CTSH	Cognizant Technology	47.43	1	3	24.4	Nil	1.15	A+	Computer Software/Svcs
1187	CL	Colgate-Palmolive	80.62	2	1	16.9	2.6	0.55	A++	Household Products
773	ESRX	Express Scripts 'A'	87.30	2	3	19.9	Nil	0.95	A	Pharmacy Services
2620	GOOG	Google, Inc.	541.30	2	2	22.9	Nil	0.90	A++	Internet
1408	HPQ	Hewlett-Packard	49.44	2	1	13.9	0.6	1.00	A++	Computers/Peripherals
2157	SHOO	Madden (Steven) Ltd.	40.00	1	3	13.8	Nil	1.00	B++	Shoe
2556	MA	MasterCard Inc.	225.30	2	3	18.3	0.3	1.20	A++	Financial Svcs. (Div.)
774	MHS	Medco Health Solutions	63.07	2	1	21.1	Nil	0.70	A+	Pharmacy Services
727	NIHD	NII Holdings	38.09	1	3	15.5	Nil	1.80	B+	Telecom. Services
2112	RL	Polo Ralph Lauren 'A'	79.72	2	3	18.2	0.5	1.20	A	Apparel
224	RMD	ResMed Inc.	55.45	2	2	22.1	Nil	0.75	A	Medical Supplies
1379	SLAB	Silicon Labs.	45.92	2	3	27.5	Nil	1.10	B+	Semiconductor
2609	SY	Sybase Inc.	42.07	2	3	20.4	Nil	0.80	B++	Computer Software/Svcs
2219	TJX	TJX Companies	38.47	2	1	12.7	1.2	0.80	A+	Retail (Special Lines)
1938	THS	TreeHouse Foods	42.41	2	2	17.5	Nil	0.60	A	Food Processing

To qualify for purchase in the above portfolio, a stock must have a Timeliness Rank of 1 and a Financial Strength Rating of at least B+. If a stock's Timeliness rank falls below 2, it will be automatically removed. Stocks in the above portfolio are selected and monitored by Charles Clark, Associate Research Director.

PORTFOLIO II: STOCKS FOR INCOME AND POTENTIAL PRICE APPRECIATION*(primarily suitable for more conservative investors)*

Ratings & Reports Page	Ticker	Company	Recent Price	Time-liness	Safety	P/E	Yield%	Beta	Financial Strength	Industry Name
1586	ABT	Abbott Labs.	54.59	2	1	13.3	2.9	0.60	A++	Drug
1540	AFL	Aflac Inc.	48.25	1	3	9.8	2.6	1.15	B+	Insurance (Life)
2574	ADP	Automatic Data Proc.	41.30	3	1	17.1	3.3	0.70	A++	Computer Software/Svcs
596	CB	Chubb Corp.	49.88	3	1	8.5	2.8	0.90	A	Insurance (Prop/Cas.)
1186	CLX	Clorox Co.	59.90	3	2	13.9	3.5	0.65	B++	Household Products
1961	KO	Coca-Cola	54.82	2	1	16.5	3.1	0.60	A++	Beverage
1187	CL	Colgate-Palmolive	80.62	2	1	16.9	2.6	0.55	A++	Household Products
1768	ITT	ITT Corp.	49.47	3	1	12.7	1.7	1.00	A+	Diversified Co.
1362	INTC	Intel Corp.	20.72	3	1	14.2	3.0	1.05	A++	Semiconductor
208	JNJ	Johnson & Johnson	63.61	3	1	13.0	3.2	0.60	A++	Medical Supplies
559	LMT	Lockheed Martin	76.03	3	1	9.9	3.3	0.85	A++	Aerospace/Defense
306	MCD	McDonald's Corp.	64.01	3	1	14.7	3.4	0.65	A++	Restaurant
215	MDT	Medtronic, Inc.	42.97	2	1	13.0	2.0	0.75	A++	Medical Supplies
1369	MCHP	Microchip Technology	27.20	3	3	21.8	5.0	1.00	B+	Semiconductor
2602	PAYX	Paychex, Inc.	29.87	3	1	20.9	4.2	0.85	A	Computer Software/Svcs
1971	PEP	PepsiCo, Inc.	61.31	3	1	15.4	3.1	0.60	A++	Beverage
1622	SNY	Sanofi-Aventis	36.75	2	1	11.3	4.4	0.75	A+	Drug
1952	SYY	Sysco Corp.	28.18	3	1	14.5	3.6	0.70	A++	Retail/Wholesale Food
733	TEF	Telefonica SA ADR	69.96	3	2	9.0	5.8	0.85	B++	Telecom. Services
2149	WMT	Wal-Mart Stores	53.56	3	1	13.9	2.2	0.60	A++	Retail Store

To qualify for purchase in the above portfolio, a stock must have a yield that is in the top half of the Value Line universe, a Timeliness Rank of at least 3 (unranked stocks may be selected occasionally), and a Safety Rank of 3 or better. If a stock's Timeliness Rank falls below 3, that stock will be automatically removed. Stocks are selected and monitored by Jason A. Smith, Senior Analyst.

PORTFOLIO III: STOCKS WITH LONG-TERM PRICE GROWTH POTENTIAL*(primarily suitable for investors with a 3- to 5-year horizon)*

Ratings & Reports Page	Ticker	Company	Recent Price	Time-liness	Safety	P/E	Yield%	Beta	3- to 5-yr	Industry Name
									Appreciation Potential	
1540	AFL	Aflac Inc.	48.25	1	3	9.8	2.6	1.15	45 - 105%	Insurance (Life)
771	CVS	CVS Caremark Corp.	33.52	3	1	12.4	1.0	0.80	80 - 125	Pharmacy Services
1593	CELG	Celgene Corp.	57.93	2	2	25.2	Nil	0.80	105 - 175	Drug
751	CSCO	Cisco Systems	24.00	3	1	19.4	Nil	0.95	25 - 65	Telecom. Equipment
2323	DIS	Disney (Walt)	30.47	2	1	15.2	1.1	1.00	95 - 130	Entertainment
2398	ESV	Enso Int'l plc	41.91	3	3	8.8	0.2	1.25	55 - 125	Oilfield Svcs/Equip.
2620	GOOG	Google, Inc.	541.30	2	2	22.9	Nil	0.90	65 - 125	Internet
2400	HAL	Halliburton Co.	31.05	3	3	26.5	1.2	1.35	15 - 75	Oilfield Svcs/Equip.
2309	HOG	Harley-Davidson	24.08	3	3	96.3	1.7	1.50	25 - 85	Recreation
1920	HRL	Hormel Foods	40.26	3	1	14.6	2.1	0.65	50 - 85	Food Processing
208	JNJ	Johnson & Johnson	63.61	3	1	13.0	3.2	0.60	55 - 95	Medical Supplies
1922	K	Kellogg	52.60	3	1	15.0	2.9	0.60	45 - 80	Food Processing
2405	NOV	National Oilwell Varco	44.07	3	3	11.9	0.9	1.60	35 - 105	Oilfield Svcs/Equip.
561	NOC	Northrop Grumman	59.56	3	1	11.2	3.0	0.80	95 - 125	Aerospace/Defense
1971	PEP	PepsiCo, Inc.	61.31	3	1	15.4	3.1	0.60	65 - 105	Beverage
646	DGX	Quest Diagnostics	56.69	2	2	13.8	0.7	0.65	40 - 85	Medical Services
2345	HOT	Starwood Hotels	37.47	3	3	68.1	0.5	1.55	5 - 60	Hotel/Gaming
1790	X	U.S. Steel Corp.	51.14	3	3	NMF	0.4	1.75	35 - 115	Steel (Integrated)
649	UNH	UnitedHealth Group	31.63	2	2	10.4	0.1	1.00	105 - 170	Medical Services
1384	XLNX	Xilinx Inc.	25.04	3	3	15.7	2.6	0.90	60 - 120	Semiconductor

To qualify for purchase in the above portfolio, a stock must have worthwhile and longer-term appreciation potential. Among the factors considered for selection are a stock's Timeliness and Safety Rank and its 3- to 5-year appreciation potential. (Occasionally a stock will be unranked (NR), usually because of a short trading history or a major corporate reorganization.) Stocks in the above portfolio are selected and monitored by Justin Hellman, Senior Industry Analyst.

PORTFOLIO IV: STOCKS WITH ABOVE-AVERAGE DIVIDEND YIELDS*(primarily suitable for investors interested in current income)*

Ratings & Reports Page	Ticker	Company	Recent Price	Time-liness	Safety	P/E	Yield%	Beta	Financial	Industry Name
									Strength	
508	ARLP	Alliance Resource	40.89	3	3	11.1	7.6	1.10	B+	Coal
1592	BMJ	Bristol-Myers Squibb	24.21	3	1	13.3	5.3	0.75	A	Drug
520	BPL	Buckeye Partners L.P.	56.07	2	2	15.2	6.7	0.85	B+	Oil/Gas Distribution
716	CTL	CenturyTel Inc.	35.14	3	2	10.1	8.0	0.75	B++	Telecom. Services
152	ED	Consol. Edison	42.95	3	1	13.5	5.5	0.65	A+	Electric Utility (East)
1578	DD	Du Pont	32.74	3	1	14.3	5.1	1.10	A++	Chemical (Basic)
1917	HNZ	Heinz (H.J.)	44.52	2	1	15.6	4.0	0.70	A+	Food Processing
526	NRGY	Inergy, L.P.	35.32	3	3	24.4	7.8	1.00	B+	Oil/Gas Distribution
1988	NA.TO	Nat'l Bank of Canada	58.80	3	2	9.8	4.3	0.65	B++	Bank (Canadian)
1773	NPK	National Presto Ind.	115.60	1	3	12.3	4.8	0.95	B++	Diversified Co.
1532	O	Realty Income Corp.	27.85	3	3	28.4	6.2	0.90	B+	R.E.I.T.
1996	RAI	Reynolds American	51.71	3	3	10.7	7.0	0.60	B+	Tobacco
1622	SNY	Sanofi-Aventis	36.75	2	1	11.3	4.4	0.75	A+	Drug
1931	SLE	Sara Lee Corp.	13.43	2	2	13.7	3.4	0.85	B++	Food Processing
165	SCG	SCANA Corp.	35.25	4	2	12.3	5.4	0.65	A	Electric Utility (East)
532	SPH	Suburban Propane	45.08	3	3	11.9	7.5	0.75	B+	Oil/Gas Distribution
733	TEF	Telefonica SA ADR	69.96	3	2	9.0	5.8	0.85	B++	Telecom. Services
1997	UVV	Universal Corp.	53.04	3	3	11.3	3.5	0.85	B++	Tobacco
740	VOD	Vodafone Group ADR	22.13	3	2	9.7	6.1	0.80	B++	Telecom. Services
2245	XEL	Xcel Energy Inc.	20.60	3	2	13.1	4.9	0.65	B++	Electric Utility (West)

To qualify for purchase in the above portfolio, a stock must have a yield that is at least 1% above the median for the Value Line universe, a Timeliness Rank of at least 3, and a Financial Strength Rating of at least B+. If a stock's Timeliness Rank falls below 4, that stock will be automatically removed. Stocks are selected and monitored by Damon Churchwell, Analyst-Specialist.

Industry Analysis: Chemical (Specialty)

The Specialty Chemicals Industry is a mature sector. For decades, many industries have utilized specialty chemicals in manufacturing and finishing. Some specific areas where these products are used include: agriculture, requiring fertilizers and crop protection applications; electronics, needing agents to produce printed circuit boards and other components; housing, which relies on chemicals for construction materials, sealants, coatings, paints and plastics; and consumer goods, such as perfumes, detergents, paper items and pharmaceuticals.

Market Dynamics

Despite a lengthy history, there's still room for innovation. Since specialty chemicals are widely used, changes to industrial and consumer product life cycles and new offerings can create demand for variations. Notably, growing concern about the global environment has led to eco-friendly restrictions, with the aim of reducing pollutants and greenhouse gases. This, in turn, is resulting in unique chemical applications, such as water-based plastics and paints, biodegradable electronic components, and low-impact food-and-beverage packaging. Too, developing energy fields, e.g., rechargeable batteries, wind and solar power, hold promise for expanded markets.

Though this industry is mature, member companies, some more than others, are subject to swings in the macroeconomic cycle. Indeed, for many, sales and earnings performance will track the fortunes of the housing, heavy construction, and industrial sectors. Investors might want to monitor industrial output, railcar loadings, housing starts, and other economic indicators to gauge the demand for specialty chemicals.

Investors should also consider the supply/demand balance in this industry. Not surprising, excess inventory may be an indicator of a slowdown and coming price pressure and earnings weakness. Importantly, competition is a factor. The popu-

lation of specialty chemical manufacturers is growing, especially in low-cost, moderately regulated locales in Asia, the Middle East, and South America.

Net-Profit Factors

The net profit of a specialty chemical company is sensitive to the cost of raw materials. Energy and commodities prices are volatile. Natural gas and petroleum products are widely used to create specialty chemicals. For example, many paints and coatings are made with titanium dioxides and petroleum distillates. Also, plastics require various petroleum-based resins. Minerals and metals, such as cobalt, nickel and certain powders, play a large role in producing some chemical products, and their prices can soar during periods of industrial expansion, impacting margins.

Fortunately for these companies, when energy and/or commodities costs are high, they can implement surcharges, as long as customers are aware of the situation. Pass-through agreements with customers, linking product prices with raw-material price indexes, are common. Investors should note, though, that surcharges often lag the cost trend, leading to seemingly contradictory demand/earnings relationships.

Historically, Specialty Chemical companies have turned in very respectable operating and net profit margins, in the teens and high single-digits, respectively. Managements usually react quickly when inventories are building and there are signs of a broader downturn. They may undertake restructuring, entailing temporary plant shutdowns, production consolidation, staff reductions, product line eliminations, and asset divestitures. Too, companies sometimes build facilities in foreign countries with close proximity to end-markets, economical labor, and limited government oversight. Wide margins are a good measure of operating efficiency, and typically yield favorable returns on shareholder equity.

Capital Considerations

Generally, Specialty Chemical companies have high capital spending requirements, mostly involving the upkeep and expansion of production and transportation facilities. In the industry, debt-to-total capital ratios range from zero to as high as 60%, with the mean hewing close to 30%. Those producers with substantial leverage pose greater interest rate risk to investors, especially if a significant portion of borrowings needs to be refinanced in the short term or is subject to floating rates. Heavy debt burdens are not necessarily bad. They often indicate a period of expansion.

Many of the companies in this industry are decent cash flow generators and have built up solid cash positions. They favor using funds for product development, brick-and-mortar expansion, and acquisitions, activities that enlarge the customer base. Management has to initiate expansion carefully and at the right time in the business cycle. There are a number of chemical companies that have endured costly, poorly timed, and badly executed business combinations. Their stockholders have suffered along with them. Safer, though somewhat less desirable, uses of cash include, share repurchases, special payouts to investors, and regular dividend hikes.

Investment Appeal

On balance, the stocks of Specialty Chemical companies are best classified as growth-and-income holdings. But that's not to say that growth investors should look elsewhere. When a company is new or has developed a product with meaningful sales potential or entered a large market, it may well enjoy an extended period of expansion, with commensurate gains in its stock price. Over time, however, the majority of new entrants mature and typically wind up offering Wall Street good diversification, international exposure, downside protection, and steady dividend payments.

Adam Rosner
Analyst-Specialist

Low-Risk Stocks for Worthwhile Total Return

This week we have screened the Value Line database for stocks that combine below-average risk with worthwhile total return potential over the long haul. First, we limited the field to equities with Safety ranks of 1 or 2 (Highest or Above Average). By definition, these are stocks that, in our opinion, have less than normal total risk.

Then, we required price appreciation potential to 2013-2015 of at least 75%, which is somewhat above the current median of 65% for all stocks under our review. Next, we specified that the remaining equities must have a current dividend yield of at least 3.1%, 100 basis points higher than the 2.1% median yield for the Value Line universe. We further limited the selection to stocks with projected three- to five-year average annual dividend growth of at least 5.0% (well above the average pace of inflation that Value Line forecasts for

the same period). To tie the growth and income criteria together, we required an average annual total return over the next three to five years of 18%, which is favorable given the returns currently available. For reference, we also present the projected average annual earnings growth over the three- to five-year pull for companies that survived this examination.

Finally, we eliminated all holdings with subpar prospects for market performance over the next six to 12 months. That is, equities ranked below 3, or Average, for Timeliness were discarded. This step was taken to screen out stocks that are most at risk of underperformance in the near term, in spite of their otherwise attractive investment attributes.

Of course, the sturdy relative price momentum and high investment qual-

ity implied by the above criteria would suggest limited opportunities for a good dividend yield and worthwhile three- to five-year price gains. Indeed, the resulting roster is a quite small and elite group of stocks that appears suitable for patient investors who seek worthwhile total returns, but are also averse to excess risk. This list should be particularly useful in today's market, given the volatility that has been prevalent as investors deal with the uncertain prospects for economic growth.

We would advise investors to use this screen, and all others presented in *Selection & Opinion*, as a starting point for investigating stocks that meet specific investment criteria. We suggest that a point for further investigation would begin by consulting the latest *Ratings & Reports* page for those stocks of interest.

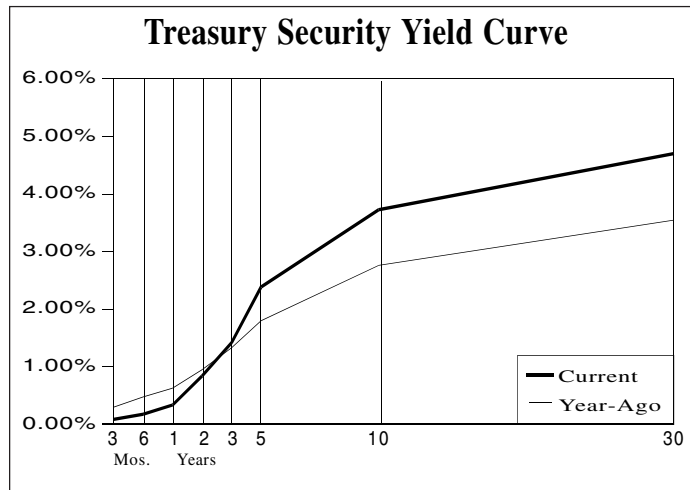
<i>Ratings & Reports</i> Page	Ticker	Company Name	Safety	3-5 Year EPS Growth	3-5 Year Avg. Apprec. Potential	Current Yield	3-5 Yr. Div'd Growth	Total Return	Time- liness
2574	ADP	Automatic Data Proc.	1	9.0%	95%	3.3%	9%	20%	3
1906	CPB	Campbell Soup	2	10.5	125	3.3	7	24	3
1186	CLX	Clorox Co.	2	10.0	85	3.5	10	19	3
559	LMT	Lockheed Martin	1	11.5	165	3.3	15	29	3
1622	SNY	Sanofi-Aventis	1	11.0	85	4.4	8	19	2
1931	SLE	Sara Lee Corp.	2	12.0	85	3.4	6	19	2
733	TEF	Telefonica SA ADR	2	10.5	125	5.8	10	26	3
1940	UL	Unilever PLC ADR	1	8.0	95	3.5	5	20	3

CLOSING STOCK MARKET AVERAGES AS OF PRESS TIME

	2/10/2010	2/17/2010	%Change 1 week	%Change 12 months
Dow Jones Industrial Average	10038.38	10309.24	+2.7%	+36.5%
Standard & Poor's 500	1068.13	1099.51	+2.9%	+39.3%
N.Y. Stock Exchange Composite	6819.12	7035.20	+3.2%	+42.4%
NASDAQ Composite	2147.87	2226.29	+3.7%	+51.4%
NASDAQ 100	1749.76	1810.86	+3.5%	+52.6%
American Stock Exchange Index	1786.24	1864.86	+4.4%	+36.7%
Value Line (Geometric)	297.07	309.49	+4.2%	+59.8%
Value Line (Arithmetic)	2186.30	2279.45	+4.3%	+83.6%
London (FT-SE 100)	5131.9	5276.6	+2.8%	+30.8%
Tokyo (Nikkei)	9963.99	10306.83	+3.4%	+34.8%
Russell 2000	595.82	624.83	+4.9%	+45.7%

Selected Yields

	Recent (2/17/10)	3 Months Ago (11/18/09)	Year Ago (2/18/09)		Recent (2/17/10)	3 Months Ago (11/18/09)	Year Ago (2/18/09)
TAXABLE							
Market Rates							
Discount Rate	0.50	0.50	0.50				
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25				
Prime Rate	3.25	3.25	3.25				
30-day CP (A1/P1)	0.16	0.14	0.52				
3-month LIBOR	0.25	0.27	1.25				
Bank CDs							
6-month	0.25	0.34	0.87				
1-year	0.45	0.58	1.20				
5-year	1.97	2.23	2.14				
U.S. Treasury Securities							
3-month	0.09	0.02	0.30				
6-month	0.18	0.14	0.48				
1-year	0.34	0.28	0.63				
5-year	2.38	2.19	1.80				
10-year	3.73	3.36	2.76				
10-year (inflation-protected)	1.44	1.15	1.61				
30-year	4.70	4.30	3.55				
30-year Zero	4.96	4.47	3.43				
Mortgage-Backed Securities							
GNMA 6.5%	2.99	3.03	4.05				
FHLMC 6.5% (Gold)	1.75	2.03	3.92				
FNMA 6.5%	2.61	1.99	3.78				
FNMA ARM	2.98	2.42	3.90				
Corporate Bonds							
Financial (10-year) A	5.41	5.21	8.33				
Industrial (25/30-year) A	5.85	5.52	6.14				
Utility (25/30-year) A	5.93	5.51	5.74				
Utility (25/30-year) Baa/BBB	6.44	6.24	7.07				
Foreign Bonds (10-Year)							
Canada	3.47	3.41	2.86				
Germany	3.19	3.29	2.99				
Japan	1.33	1.31	1.26				
United Kingdom	4.03	3.68	3.39				
Preferred Stocks							
Utility A	5.40	5.68	6.03				
Financial A	7.14	7.14	13.57				
Financial Adjustable A	5.52	5.52	5.52				



TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	4.34	4.40	4.89				
25-Bond Index (Revs)	4.96	5.02	5.67				
General Obligation Bonds (GOs)							
1-year Aaa	0.31	0.42	0.55				
1-year A	1.10	1.38	0.65				
5-year Aaa	1.55	1.82	1.85				
5-year A	2.59	3.00	2.15				
10-year Aaa	3.12	3.27	2.90				
10-year A	4.10	4.18	3.40				
25/30-year Aaa	4.45	4.49	4.72				
25/30-year A	5.50	5.48	5.72				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.77	4.78	5.80				
Electric AA	4.76	4.79	5.90				
Housing AA	5.63	5.72	6.15				
Hospital AA	5.03	5.19	6.10				
Toll Road Aaa	4.83	4.91	5.95				

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Seasonally Adjusted)

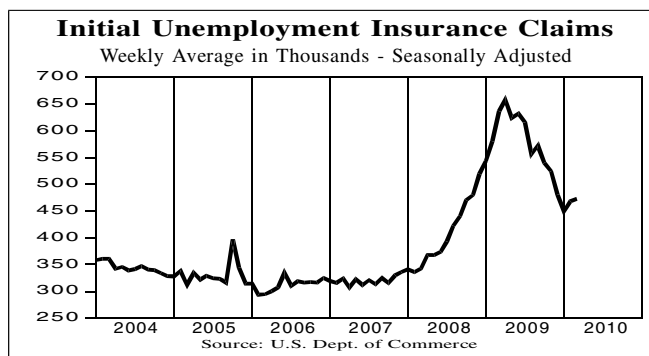
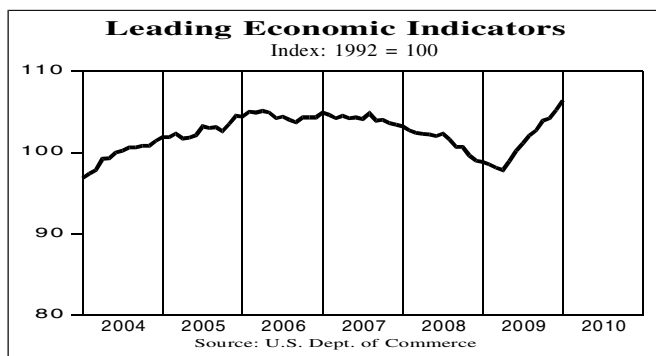
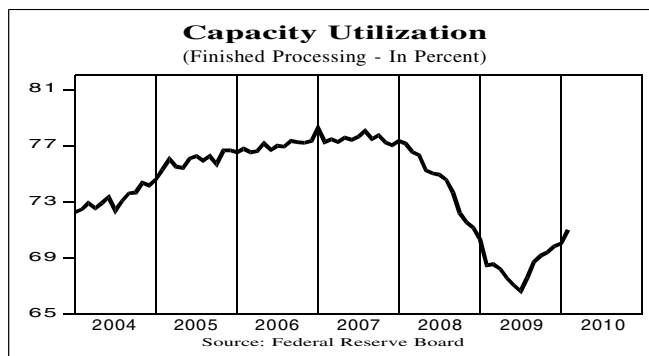
	Recent Levels			Average Levels Over the Last...		
	2/10/10	1/27/10	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1119423	1063401	56022	1071836	974870	868086
Borrowed Reserves	126874	125300	1574	168048	233876	369577
Net Free/Borrowed Reserves	992549	938101	54448	903789	740994	498509

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	2/1/10	1/25/10	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1692.0	1677.0	15.0	3.8%	3.3%	8.4%
M2 (M1+savings+small time deposits)	8471.4	8464.4	7.0	-1.3%	1.1%	1.8%

Tracking the Economy



Major Insider Transactions†

PURCHASES

Latest Full-Page Report	Timeliness Rank	Company	Insider, Title	Date	Shares Traded	Shares Held	Price Range	Recent Price
324	-	Brink's (The) Co.	M.T. Dan, Chair.	2/11/10	10,000	101,345	\$24.35	25.78
1579	3	FMC Corp.	P.R. Brondeau, CEO	2/8/10	18,500	72,303	\$53.57-\$53.88	56.48
2552	3	Legg Mason	J.A. Sullivan, V.P.	2/4/10-2/8/10	42,600	217,436	\$24.65-\$25.12	26.30
1807	3	NYSE Euronext	D.L. Niederauer, CEO	2/10/10	25,000	76,284	\$24.32	25.67
225	3	St. Jude Medical	J.W. Brown, Dir.	2/5/10	10,000	75,429	\$37.50	38.23
260	4	United Parcel Serv.	J. Thompson, Dir.	2/9/10-2/10/10	17,421	18,546	\$56.77-\$57.72	57.33
1319	3	WESCO Int'l	R. Heyse, CFO	2/3/10	10,750	22,750	\$28.96	28.33

SALES

Latest Full-Page Report	Timeliness Rank	Company	Insider, Title	Date	Shares Traded	Shares Held	Price Range	Recent Price
2540	1	Cash Amer. Int'l	D.R. Feehan, CEO	2/5/10	70,300	182,685	\$35.45-\$36.28	37.25
2620	2	Google, Inc.	L. Page, Pres.	2/8/10-2/10/10	83,334	NA	\$529.00-\$541.00	541.30
2620	2	Google, Inc.	S. Brin, Pres.	2/2/10	20,953	4,100	\$531.69-\$533.91	541.30
403	4	Hess Corp.	J.B. Hess, Chair.	2/8/10	41,735	552,150	\$58.10-\$58.89	60.46
2597	2	Microsoft Corp.	W.H. Gates III, Dir.	2/3/10-2/5/10	7,000,000	675,970,258	\$27.96-\$28.55	28.35
1127	3	NVR, Inc.	D.C. Schar, Chair.	2/8/10	14,514	70,000	\$676.76	705.16
137	1	OSI Systems	D. Chopra, Chair.	2/9/10	100,000	498,807	\$27.26	28.16

* Beneficial owner of more than 10% of common stock.

† Includes only large transactions in U.S.-traded stocks; excludes shares held in the form of limited partnerships, excludes options & family trusts.

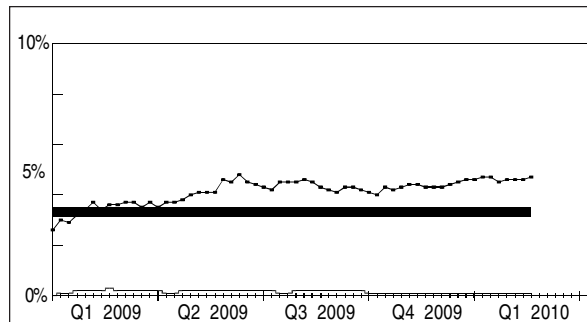
Major Insider Transactions are obtained from Vickers Stock Research Corporation.

Market Monitor

Valuations and Yields	2/17	2/10	13-week range	50-week range	Last market top (7-13-2007)	Last market bottom (3-9-2009)
Median price-earnings ratio of VL stocks	16.4	16.3	16.3 - 17.5	10.5 - 17.6	19.7	10.3
P/E (using 12-mo. est'd EPS) of DJ Industrials	14.0	14.5	14.0 - 15.4	13.5 - 26.8	16.1	17.3
Median dividend yield of VL stocks	2.1%	2.2%	2.0 - 2.2%	2.0 - 3.8%	1.6%	4.0%
Div'd yld. (12-mo. est.) of DJ Industrials	2.7%	2.8%	2.7 - 2.8%	2.7 - 4.0%	2.2%	4.0%
Prime Rate	3.3%	3.3%	3.3 - 3.3%	3.3 - 3.3%	8.3%	3.3%
Fed Funds	0.1%	0.1%	0.1 - 0.1%	0.1 - 0.2%	5.3%	0.2%
91-day T-bill rate	0.1%	0.1%	0.0 - 0.1%	0.0 - 0.2%	5.0%	0.3%
AAA Corporate bond yield	5.4%	5.3%	5.2 - 5.5%	5.0 - 6.0%	5.8%	5.5%
30-year Treasury bond yield	4.7%	4.6%	4.3 - 4.7%	3.5 - 4.8%	5.1%	3.7%
Bond yield minus average earnings yield	-0.7%	-0.9%	-0.9 - -0.4%	-4.0 - -0.3%	0.7%	-4.3%
Market Sentiment						
Short interest/avg. daily volume (5 weeks)	11.2	11.5	10.7 - 12.8	7.3 - 16.2	8.1	8.6
CBOE put volume/call volume	.89	1.05	.73 - 1.05	.72 - 1.26	.91	.93

VALUE LINE ASSET ALLOCATION MODEL
(Based only on economic and financial factors)

	Current (effective market open 8/17/09)	Previous
Common Stocks	60%-70%	65%-75%
Cash and Treasury Issues	40%-30%	35%-25%



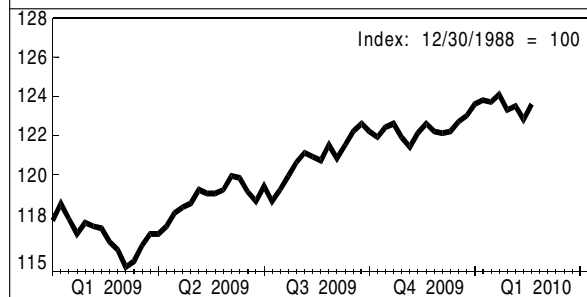
INTEREST RATES

Prime Rate

Federal Funds

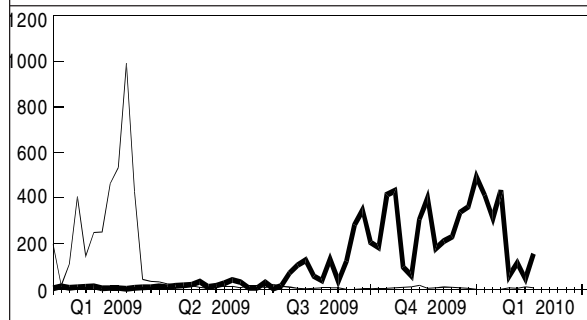
30-Year Treasury Bond

	Recent	Previous Week
Prime Rate	3.3%	3.3%
Fed Funds	0.1%	0.1%
30-Yr. Treasury	4.7%	4.6%



VALUE LINE UNIVERSE

	Recent	Previous Week
Advances	1500	277
Declines	193	1411
Issues Covered	1698	1697
Market Value (\$ Trillion)	15.353	15.012



VALUE LINE COMPOSITE

New Highs

New Lows

	Recent	Previous Week
New Highs	156	45
New Lows	7	11

INDUSTRY PRICE PERFORMANCE
LAST SIX WEEKS ENDING 2/16/2010

7 Best Performing Industries

Bank (Midwest)	+8.4%
Homebuilding	+7.5%
Restaurant	+6.9%
Toiletries/Cosmetics	+6.9%
Bank	+6.8%
Tobacco	+2.8%
Furn/Home Furnishings	+2.6%

7 Worst Performing Industries

Power	-16.2%
Steel (Integrated)	-12.2%
Trucking	-10.4%
Telecom. Services	-9.8%
Environmental	-9.3%
Internet	-8.5%
Investment Co. (Foreign)	-8.4%

The corresponding change in the Value Line Arithmetic Average is -1.9%

CHANGES IN FINANCIAL STRENGTH RATINGS

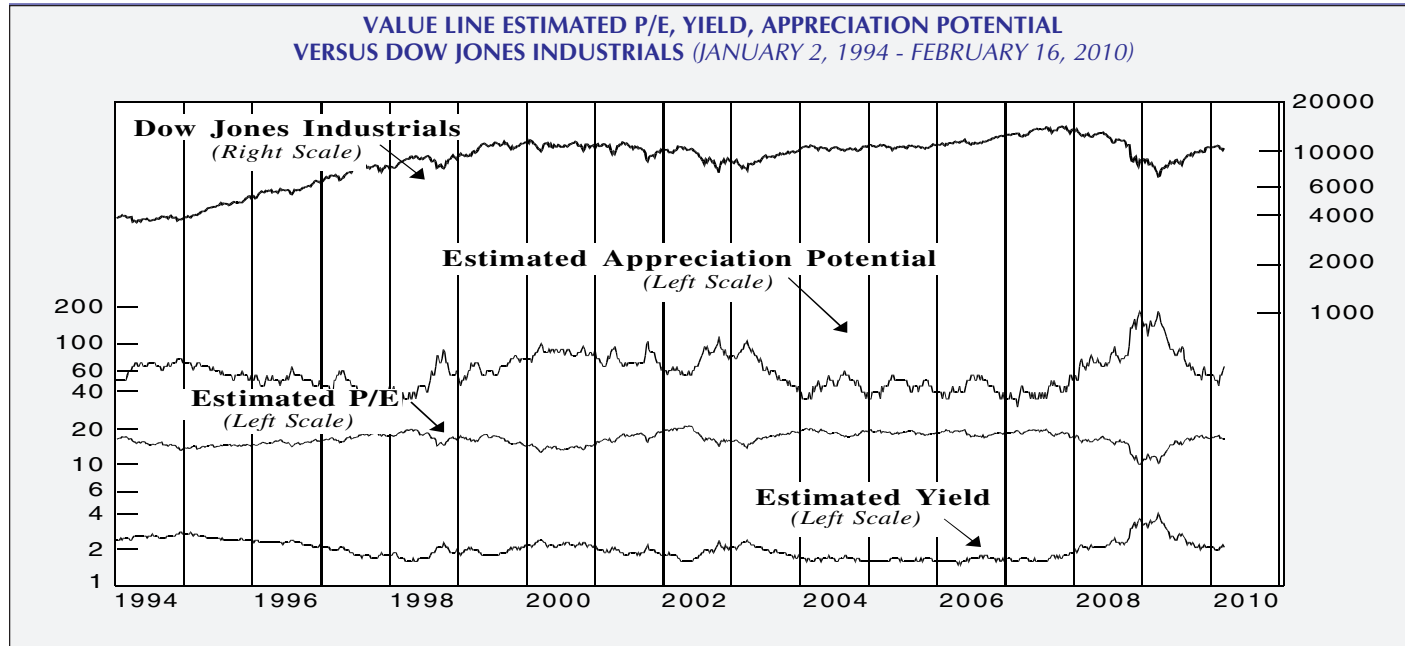
Company	Prior Rating	New Rating	Ratings & Reports Page
Bruker Corp.	B	B+	119
FPL Group	A+	A	157
Ford Motor	C+	C++	104

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Stock Market Averages

**VALUE LINE ESTIMATED P/E, YIELD, APPRECIATION POTENTIAL
VERSUS DOW JONES INDUSTRIALS (JANUARY 2, 1994 - FEBRUARY 16, 2010)**



THE VALUE LINE GEOMETRIC AVERAGES

	Composite 1668 stocks	Industrials 1556 stocks	Rails 8 stocks	Utilities 104 stocks
2/11/2010	301.51	245.73	2602.74	206.23
2/12/2010	302.67	246.74	2608.34	206.21
2/15/2010		HOLIDAY		
2/16/2010	307.87	251.00	2653.46	209.66
2/17/2010	309.49	252.40	2651.00	209.90
%Change last 4 weeks	-2.5%	-2.4%	0.0%	-4.2%

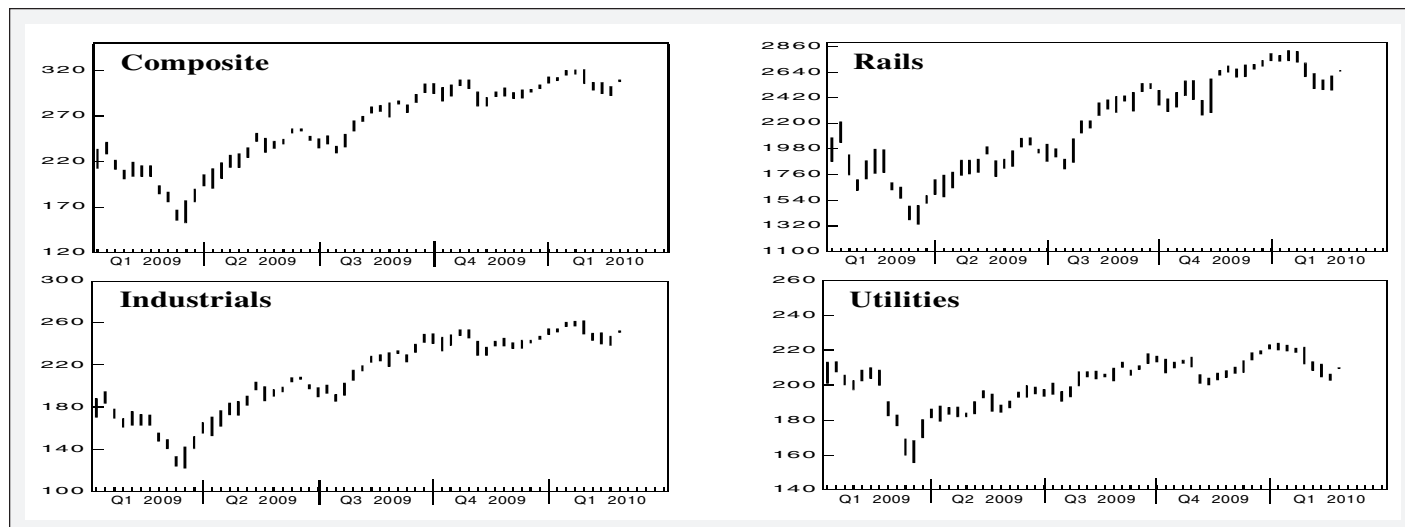
**Arithmetic
Composite
1668 stocks**

2219.46
2228.42
HOLIDAY
2267.10
2279.45
-2.1%

THE DOW JONES AVERAGES

Composite 65 stocks	Industrials 30 stocks	Transportation 20 stocks	Utilities 15 stocks
3419.87	10144.19	3923.16	367.38
3405.80	10099.14	3917.56	364.55
		HOLIDAY	
3468.06	10268.81	3997.86	371.55
3475.62	10309.24	4007.62	370.29
-3.8%	-2.8%	-3.4%	-7.3%

WEEKLY VALUE LINE GEOMETRIC AVERAGES (JANUARY 9, 2009 - FEBRUARY 17, 2010)



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Summary:

American Water Works Co. Inc.

Primary Credit Analyst:

Jonathan Blankenheim, CFA, New York (1) 212-438-3119; jonathan_blankenheim@standardandpoors.com

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Outlook

Summary:

American Water Works Co. Inc.

Credit Rating: BBB+/Stable/A-2

Rationale

The ratings on American Water Works Co. Inc. (AWW) and its funding subsidiary American Water Capital Corp. (AWCC) reflect the consolidated credit quality of AWW. A favorable competitive position, a diverse and supportive regulatory environment, and a stable, above-average service territory support AWW's 'excellent' business risk profile. AWW's regulatory framework includes reasonably allowed returns on equity and various cost-recovery mechanisms, including incentives for infrastructure improvements. The company's geographic diversity provides it with some market, cash flow, and regulatory diversification. We view AWW's operating risks associated with its nonregulated operations as fairly low. AWW's aggressive financial profile, elevated capital-spending requirements for infrastructure replacement, increased compliance costs with water-quality standards, and the company's reliance on acquisitions to provide growth partly offset these strengths.

AWW provides regulated water and wastewater services to more than 3.3 million customers in 20 states. The company's regulated utility subsidiaries represent almost 90% of total revenues, but have provided almost 100% of adjusted EBIT for the past three years. The company's nonregulated subsidiaries engage in water and wastewater facility management and maintenance, as well as design and construction consulting services related to water and wastewater plants. We view these nonregulated segments as having modest incremental risk for AWW due to their lack of cash flow contribution and modest expected capital requirements.

A state commission regulates each of AWW's regulated subsidiaries, which supports revenue and cash flow stability. The average allowed return on equity (ROE) in AWW's six largest jurisdictions, which account for about 75% of consolidated revenues, is about 10.3%. This is about the average allowed ROE in the water sector. In a number of jurisdictions, which represent about 50% of consolidated revenues, the utility recovers replacement capital spending between rate cases up to a stated percentage. The importance of infrastructure surcharge mechanisms has increased given AWW's capital program of up to \$1 billion per year. Certain states also allow for surcharges related to the cost of power, chemicals, and purchased water. For the next few years, we expect AWW to file additional rate cases and request additional recovery mechanisms to cover rising operating costs, capital expenditures, and pension and other postretirement obligations.

Consolidated financial metrics are improving, and are acceptable for the 'BBB+' rating. RWE AG's agreements to not file rate cases for up to three years following its acquisition of AWW in 2003, as well as significant goodwill impairments, resulted in a deterioration of the financial profile. In 2008, regulatory commissions granted AWW \$200 million of rate increases and the company currently has filed requests for an additional \$280 million. The company asked for the rate increases to cover rising operating costs, capital expenditures, and pension and other postretirement obligations. In November 2009, RWE announced an offering to sell its remaining holdings of AWW. None of the proceeds from the sale will benefit AWW, and the announcement is consistent with our expectation and RWE's previously stated plan to fully divest its ownership of AWW.

For the 12 months ended Sept. 30, 2009, AWW's adjusted funds from operations (FFO) totaled \$690 million. FFO

to debt was 11.3%, which is acceptable for the rating. Total debt to capital also improved to 60% as of Sept. 30, 2009, compared with the 63% as at March 31, 2009, with the completion of \$250 million equity issuance in June 2009. The uncertainties associated with the timing of the company's rate cases and the substantially higher capital plans are significant risks that may prevent adequate improvements to the company's financial profile. We expect FFO to benefit from additional rate increases, although a sustained improvement in consolidated FFO to debt may not materialize given the company's financing needs.

Short-term credit factors

The 'A-2' short-term ratings on AWW and AWCC reflect sizable borrowing capacity under the company's revolving credit facility and stable cash flows from regulated subsidiaries. However, AWW's cash uses include high levels of capital spending, substantial upcoming debt maturities, and expectations that the company will institute a common stock dividend. Capital expenditures are projected at around \$5 billion during the next five years for infrastructure replacements, new facility construction, maintenance of water-quality and environmental standards, and system reliability.

For the 12 months ended Sept. 30, 2009, AWW generated \$680 million of cash from operations. AWW's internal cash generation is insufficient to meet its ongoing operating and capital needs, and therefore requires periodic access to the capital markets. Scheduled debt maturities of \$45 million in 2010 and \$35 million in 2011 should be manageable given the company's good access to the markets. AWW's annual dividends total about \$130 million. AWW issued about \$250 million of equity and about \$400 million of debt in 2009. The company uses the proceeds to fund some of its capital expenditure plans, as well as to reduce short-term debt. We expect AWW to continue to fund its capital expenditures through a prudent mix of debt and equity.

As of Nov. 5, 2009, AWW had \$803 million available under its \$840 million revolving credit facilities. A small portion (15%) of the revolving credit facilities matures on Sept. 15, 2012, with the balance due Sept. 15, 2013. The company also has access to a \$10 million short-term working-capital line of credit. The company is in compliance with its various financial covenants, which include a maximum debt to capital (with adjustments) of 70% and restrictions on liens, distributions, debt incurred at AWW, and asset sales.

Outlook

The stable outlook on AWW and AWCC reflects our expectation that the company will receive supportive rate increases over the next three years to address rising costs and increased capital spending plans. The current rating can accommodate some acquisitions, assuming management funds the acquisitions in a balanced manner. We could lower the rating if financial performance stalls or deteriorates, which could result from substantial debt-financing of capital expenditures or acquisitions, such that FFO to debt falls below 9% and debt to capital rises above 65%. We could also lower the rating if rate increases or allowed returns are set at levels substantially below the requested figures and rate case filings take significantly longer to be resolved than currently expected. We could raise the rating if higher-than-expected rate increases or favorable cost recovery mechanisms allow for a sustained adjusted FFO to total debt ratio of 12% and adjusted leverage between 50% and 55%.

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COMPANY UPDATE
American Water Works Co., Inc. (AWK)

Neutral

Narrowing the ROE gap with rate case filings

What's changed

American Water reported 3Q results essentially in-line with our EPS forecast. As was the case in 2Q, lower water usage due to poor weather and weak commercial/industrial volumes was offset by O&M expenses that have been trending below expectations. American Water announced \$38 million in approved rate case requests since June 30, bringing the annual revenue awarded to \$71 million for 2009. Several large rate cases totaling \$239 million in 9 states are still pending. American Water also announced the acquisition of five small water systems serving 1,600 customers in September and October.

Implications

We have updated our forecast to adjust for the lower water volume, which is essentially offset by lower O&M expenses, updated rate case filings, and a slightly lower tax rate. Our 2009, 2010, and 2011 EPS estimates remain unchanged at \$1.25, \$1.44, and \$1.56, respectively.

Valuation

We maintain our Neutral rating. Our 12-month price target is \$21.50. Our price target is based on a combination of relative valuation metrics (both P/E and EV/EBITDA), as well as a dividend discount model (5% dividend growth and 9% cost of equity).

Key risks

Downside risks include (1) regulatory decisions and regulatory lag that limit ROE expansion and (2) financing risk associated with funding the large capital investment program.

Upside to our price target could come from (1) faster-than-expected recovery through rates, (2) lower O&M expenses (3) stronger free cash flow generation that reduces the need to issue new equity, and (4) elimination of the share overhang.

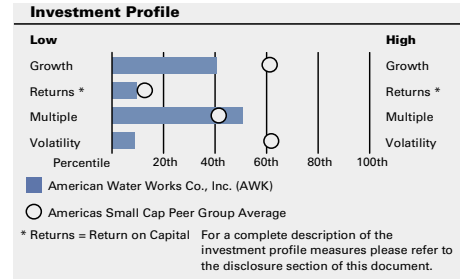
INVESTMENT LIST MEMBERSHIP

Neutral

Coverage View: Neutral

United States:
 Water

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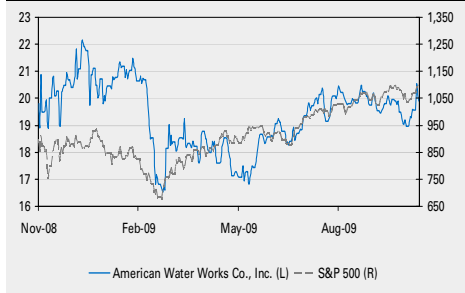


Key data	Current
Price (\$)	19.91
12 month price target (\$)	21.50
Market cap (\$ mn)	3,478.1
Dividend yield (%)	4.1
Net margin (%)	8.6
Debt/total capital (%)	57.9

	12/08	12/09E	12/10E	12/11E
Revenue (\$ mn)	2,336.9	2,435.9	2,660.9	2,824.9
EPS (\$)	1.10	1.25	1.44	1.56
P/E (X)	18.1	15.9	13.9	12.8
EV/EBITDA (X)	10.3	9.6	8.8	8.3
ROE (%)	4.1	5.2	6.3	6.5

	9/09	12/09E	3/10E	6/10E
EPS (\$)	0.52	0.21	0.23	0.36

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(1.5)	7.7	0.6
Rel. to S&P 500	(10.9)	(10.9)	(17.7)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 11/11/2009 close.

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American Water Works Co., Inc.: Summary financials

Profit model (\$ mn)	12/08	12/09E	12/10E	12/11E	Balance sheet (\$ mn)	12/08	12/09E	12/10E	12/11E
Total revenue	2,336.9	2,435.9	2,660.9	2,824.9	Cash & equivalents	9.5	7.8	7.8	7.8
Cost of goods sold	(1,575.1)	(1,606.7)	(1,699.9)	(1,776.4)	Accounts receivable	199.4	208.0	227.7	247.7
SG&A	(199.1)	(202.3)	(212.9)	(226.0)	Inventory	28.9	32.3	34.3	31.3
R&D	0.0	0.0	0.0	0.0	Other current assets	179.8	247.9	261.1	274.6
Other operating profit/(expense)	0.4	1.0	0.0	0.0	Total current assets	417.7	495.9	530.9	561.4
ESO expense	0.0	0.0	0.0	0.0	Net PP&E	10,123.9	10,684.4	11,351.0	11,859.0
EBITDA	834.4	921.6	1,066.7	1,169.5	Net intangibles	1,699.5	1,250.1	1,250.1	1,250.1
Depreciation & amortization	(271.3)	(293.7)	(318.5)	(347.0)	Total investments	0.0	0.0	0.0	0.0
EBIT	563.1	627.9	748.2	822.5	Other long-term assets	990.7	1,052.0	1,072.0	1,092.0
Net interest income/(expense)	(291.1)	(305.8)	(338.8)	(355.0)	Total assets	13,231.8	13,482.5	14,204.0	14,762.5
Income/(loss) from associates	0.0	0.0	0.0	0.0	Accounts payable	149.8	125.5	133.3	137.1
Others	27.4	20.6	26.0	26.0	Short-term debt	654.8	130.9	130.9	130.9
Pretax profits	299.4	342.8	435.4	493.5	Other current liabilities	300.1	350.5	350.5	350.5
Provision for taxes	(123.4)	(132.1)	(174.2)	(197.4)	Total current liabilities	1,104.8	606.8	614.7	618.4
Minority interest	0.0	0.0	0.0	0.0	Long-term debt	4,648.2	5,350.3	5,685.6	5,854.0
Net income pre-preferred dividends	176.1	210.6	261.3	296.1	Other long-term liabilities	3,372.3	3,533.2	3,558.2	3,583.2
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	8,020.5	8,883.5	9,243.7	9,437.1
Net income (pre-exceptionals)	176.1	210.6	261.3	296.1	Total liabilities	9,125.3	9,490.3	9,858.4	10,056.6
Post tax exceptionals	(738.5)	(443.0)	0.0	0.0	Preferred shares	4.6	4.6	4.6	4.6
Net income (post-exceptionals)	(562.4)	(232.4)	261.3	296.1	Total common equity	4,102.0	3,987.6	4,341.0	4,702.4
					Minority interest	0.0	0.0	0.0	0.0
EPS (basic, pre-exception) (\$)	1.10	1.25	1.44	1.58	Total liabilities & equity	13,231.8	13,482.5	14,204.0	14,762.5
EPS (diluted, pre-exception) (\$)	1.10	1.25	1.44	1.56	Additional financials	12/08	12/09E	12/10E	12/11E
EPS (basic, post-exception) (\$)	(3.52)	(1.38)	1.44	1.58	Net debt/equity (%)	128.9	137.1	133.7	127.0
EPS (diluted, post-exception) (\$)	(3.52)	(1.38)	1.44	1.56	Interest cover (X)	1.9	2.1	2.2	2.3
Common dividends paid	(64.1)	(137.3)	(157.9)	(174.4)	Inventory days	6.5	7.0	7.1	6.7
DPS (\$)	0.40	0.82	0.86	0.90	Receivable days	32.5	30.5	29.9	30.7
Dividend payout ratio (%)	36.4	65.4	59.9	57.2	BVPS (\$)	25.64	22.84	23.78	24.39
					ROA (%)	1.3	1.6	1.9	2.0
Growth & margins (%)	12/08	12/09E	12/10E	12/11E	CROCI (%)	4.5	4.9	4.4	4.6
Sales growth	5.5	4.2	9.2	6.2	Dupont ROE (%)	4.3	5.3	6.0	6.3
EBITDA growth	5.4	10.5	15.7	9.6	Margin (%)	7.5	8.6	9.8	10.5
EBIT growth	7.4	11.5	19.2	9.9	Turnover (X)	0.2	0.2	0.2	0.2
Net income (pre-exception) growth	10.5	19.6	24.0	13.3	Leverage (X)	3.2	3.4	3.3	3.1
EPS growth	10.6	13.8	14.7	9.8	Free cash flow per share (\$)	(2.85)	(1.24)	(1.88)	(1.22)
Gross margin	32.6	34.0	36.1	37.1	Free cash flow yield (%)	(13.8)	(6.2)	(9.5)	(6.1)
EBITDA margin	35.7	37.8	40.1	41.4					
EBIT margin	24.1	25.8	28.1	29.1					
Cash flow statement (\$ mn)	12/08	12/09E	12/10E	12/11E					
Net income	176.1	210.6	261.3	296.1					
D&A add-back (incl. ESO)	271.3	293.7	318.5	347.0					
Minority interest add-back	0.0	0.0	0.0	0.0					
Net (inc)/dec working capital	5.5	(14.2)	(27.1)	(26.7)					
Other operating cash flow	99.3	117.0	(20.0)	(20.0)					
Cash flow from operations	552.2	607.1	532.6	596.3					
Capital expenditures	(1,008.8)	(815.0)	(875.0)	(825.0)					
Acquisitions	(12.5)	(7.6)	(110.0)	(30.0)					
Divestitures	0.0	0.0	0.0	0.0					
Others	(12.3)	(6.1)	0.0	0.0					
Cash flow from investing	(1,033.7)	(755.3)	(985.0)	(855.0)					
Dividends paid (common & pref)	(64.1)	(137.3)	(157.9)	(174.4)					
Inc/(dec) in debt	292.9	25.1	335.3	168.4					
Other financing cash flows	248.7	258.7	275.0	264.7					
Cash flow from financing	477.6	146.5	452.4	258.7					
Total cash flow	(3.9)	(1.7)	0.0	0.0					

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

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New developments reflected in our forecasts

Approved rate cases:

During 3Q 2009, American Water received approval for additional annualized revenues in the following states:

- **Michigan rate case:** awarded 100% of filed amount
 - Awarded annualized revenues of \$0.2 million; requested \$0.2 million
 - ROE: awarded 10.5%; requested 10.5%
 - Rates effective July 1, 2009
- **Maryland rate case:** awarded 77.1% of filed amount
 - Awarded annualized revenues of \$0.6 million; requested \$0.8 million
 - ROE: awarded 10.75%; requested 11.75%
 - Rates effective September 10, 2009

Since September 30, 2009, American Water has received approval for additional annualized revenues in the following states:

- **Iowa rate case:** awarded 64.5% of filed amount
 - Awarded annualized revenues of \$6.1 million on October 8, 2009; requested \$9.4 million
 - Interim rates of \$6.8 million were put in place on July 27, 2009; Customers will receive refunds with interest due to interim rates being higher than final rates granted
 - ROE: awarded 10.5%; requested 12.2%
 - Rates effective November 3, 2009
- **Pennsylvania rate case:** awarded 53% of filed amount
 - Awarded annualized revenues of \$30.8 million; requested \$58.1 million
 - ROE: awarded 10.8%; requested 12.2%
 - Effective November 6, 2009

In addition, American Water finalized annualized revenues of \$22 million in distribution system improvement charges (DSIC) or infrastructure charges in the first nine months of 2009, with \$6.9 million awarded in 3Q 2009. Since September 30, 2009, the company was granted additional DSIC of \$4.6mn. Our model assumes that DSIC will contribute approximately 1% to revenue growth going forward.

Pending rate cases:

Since June 30, 2009, American Water has filed rate cases for additional annualized revenue increases of approximately \$70 million:

- **Arizona:** filed for \$20.6 million in annualized revenues and 12.25% ROE
 - Filed July 2, 2009; rate case could take up to 2 years (mid 2011)
- **New Mexico:** filed for \$0.7 million in annualized revenues and 12.25% ROE
 - Filed August 21, 2009; award expected mid 2010
- **Missouri:** filed for \$48.7 million in annualized revenues and 11.6% ROE
 - Filed October 30, 2009; award expected October 2010

Exhibit 1: American Water rate case requests from 2006 to present
 \$ millions

State	Date Filed	Amount Filed	Amount Granted	%	ROE Filed	ROE Granted	Expected Grant Date	Status
General Rate Cases Filed in 2006								
Ohio	3/1/06	\$5.1	\$3.4	66.7%	11.0%	10.0%	3/1/07	Completed
New Jersey	3/31/06	99.0	56.2	56.8%	11.2%	10.0%	4/1/07	Completed
New Mexico	5/30/06	1.3	1.3	100.0%	10.0%	9.7%	5/1/07	Completed
Arizona (Anthem)	6/16/06	7.0	4.3	61.4%	11.8%	8.8%	6/4/08	Completed
Arizona (Sun City)	7/28/06	3.9	2.4	61.5%	11.8%	10.6%	4/1/08	Completed
Texas	10/16/06	\$0.8	\$0.7	87.5%	12.0%	12.0%	1/1/07	Completed
Tennessee	11/22/06	6.4	4.1	64.1%	11.0%	9.6%	5/23/07	Completed
Indiana	12/5/06	24.7	14.0	56.7%	11.5%	10.0%	12/1/07	Completed
Missouri	12/15/06	41.5	21.4	51.6%	11.3%	10.0%	11/1/07	Completed

Total Granted (2006)	\$189.7	\$107.8	56.8%
Total Pending (2006)	\$0.0	\$0.0	

State	Date Filed	Amount Filed	Amount Granted	%	ROE Filed	ROE Granted	Expected Grant Date	Status
General Rate Cases Filed in 2007								
California *	1/1/07	\$16.4	\$13.0	100.0%	11.5%	10.2%	6/1/08	Completed
Michigan	1/8/07	0.2	0.2	100.0%	12.0%	10.0%	1/8/07	Completed
Maryland	3/29/07	0.6	0.6	100.0%	11.8%	10.5%	10/1/07	Completed
Pennsylvania	4/27/07	59.2	36.0	60.8%	11.8%	N/A	11/30/07	Completed
Arizona (Sun City)	4/30/07	2.2	1.9	86.4%	11.8%	10.8%	6/1/08	Completed
Kentucky	4/30/07	13.2	8.0	60.6%	11.4%	10.0%	12/1/07	Completed
Long Island **	5/1/07	9.6	6.6	68.8%	11.0%	9.5%	4/1/08	Completed
West Virginia	6/1/07	24.1	14.5	60.2%	11.3%	10.0%	3/28/08	Completed
Iowa	8/30/07	6.1	4.3	70.5%	11.3%	10.4%	2/1/08	Completed
Illinois	8/31/07	32.8	21.6	65.9%	11.3%	10.4%	8/8/08	Completed
Ohio	10/1/07	5.5	5.3	95.6%	11.3%	10.9%	11/13/08	Completed
Hawaii ***	11/1/07	1.3	0.7	50.0%	10.6%		11/1/08	Pending

* California rate increase includes step increase of \$2.0mn effective in 2009 and \$2.5mn effective in 2010

** Long Island rate increase includes step increase of \$1.0mn in 2009 and \$1.0mn in 2010

*** Hawaii temporary rate increase of \$0.7mn put in place Oct. 2008 and will be subject to adjustment upon issuance of final order

Total Granted (2007)	\$169.9	\$112.0	65.9%
Total Pending (2007)	\$1.3	\$0.7	50.0%

State	Date Filed	Amount Filed	Amount Granted	%	ROE Filed	ROE Granted	Expected Grant Date	Status
General Rate Cases Filed in 2008								
Michigan	1/1/08	\$0.2	\$0.2	100.0%	10.0%	10.0%	1/1/08	Completed
New Jersey	1/14/08	125.0	72.1	57.7%	11.5%	10.3%	12/7/08	Completed
California (Monterey Water)	1/30/08	35.3	12.1	34.3%	11.5%	10.2%	5/11/09	Completed
California (Monterey WW)	1/30/08	1.8	1.7	94.4%	11.5%	10.2%	7/9/09	Completed
California (Gen. Office)	1/30/08	6.4	2.2	34.4%	11.5%	10.2%	5/11/09	Completed
Virginia	1/30/08	4.3	3.4	79.1%	11.3%	10.5%	11/1/08	Completed
Texas *	2/21/08	0.9	0.4	50.0%	12.0%		6/30/08	Pending
Tennessee	3/14/08	7.6	1.7	21.6%	11.8%	10.2%	10/1/08	Completed
Missouri	3/31/08	49.8	34.5	69.3%	11.3%	10.0%	11/28/08	Completed
Pennsylvania - WW	4/28/08	2.7	1.9	70.4%	11.5%	10.6%	11/14/08	Completed
California (ROE)	5/1/08	2.8	0.1	3.6%	11.5%	10.2%	5/6/09	Completed
Arizona	5/1/08	20.0	10.0	50.0%	11.8%		9/1/09	Pending
West Virginia	5/30/08	14.8	5.2	35.3%	11.8%	10.0%	3/26/09	Completed
New Mexico (Clovis)	6/30/08	2.2	1.4	61.8%	11.8%	10.3%	5/12/09	Completed
Kentucky	10/31/08	18.5	10.3	55.7%	11.5%	10.0%	6/1/09	Completed

* Texas temporary rate increase of \$0.4mn put in place June 2008 and will be subject to adjustment upon issuance of final order.

Total Granted (2008)	\$271.4	\$146.7	54.1%
Total Pending (2008)	\$20.9	\$10.4	50.0%

State	Date Filed	Amount Filed	Amount Granted	%	ROE Filed	ROE Granted	Expected Grant Date	Status
General Rate Cases Filed in 2009								
California (Sac, LA, Lark)	1/23/09	\$32.7	\$16.4	50.0%	10.2%		1/1/10	Pending
Pennsylvania	4/24/09	58.1	30.8	53.0%	12.0%	10.8%	11/6/09	Completed
Iowa	4/30/09	9.4	6.1	64.5%	12.2%	10.5%	11/3/09	Completed
Indiana	4/30/09	46.9	23.5	50.0%	12.0%		5/1/10	Pending
Maryland	4/30/09	0.8	0.6	77.1%	11.8%	10.8%	9/10/09	Completed
Ohio	5/7/09	8.8	4.4	50.0%	12.2%		2/1/10	Pending
Illinois	5/29/09	58.6	29.3	50.0%	12.3%		5/1/10	Pending
Michigan	6/22/09	0.2	0.2	100.0%	10.5%	10.5%	7/1/09	Completed
Arizona	7/2/09	20.6	10.3	50.0%	12.3%		7/1/10	Pending
New Mexico (Edgewood)	8/21/09	0.7	0.3	50.0%	12.3%		7/1/10	Pending
Missouri	10/30/09	48.7	24.4	50.0%	11.6%		10/1/10	Pending

Total Granted (2009)	\$68.5	\$37.6	54.9%
Total Pending (2009)	\$217.0	\$108.5	50.0%

Total Granted (2006 - present)	\$699.5	\$404.1	57.8%
Total Pending (2006 - present)	\$239.2	\$119.6	50.0%

Source: Company data, various State Public Utility Commission news releases, Goldman Sachs Research estimates.

Exhibit 1 outlines American Water's rate case requests from 2006 to the present. Pending rate cases could increase annualized revenues by up to \$239.2 million. We have assumed that American Water receives approximately 50% of the amount requested for each pending rate case. For rate cases that have been concluded in 2009, the percentage has been higher at closer to 55%-56%, but we believe it is prudent to assume a lower rate for the next round of rate cases, as this is the second round of meaningful increases following large increases only a year or two ago.

Key pending rate cases include:

- Arizona (filed in May 2008) for \$20.0 million
- California (filed in January 2009) for \$32.7 million
- Indiana (filed in April 2009) for \$46.9 million
- Illinois (filed in May 2009) for \$58.6 million
- Arizona (filed in July 2009) for \$20.6 million
- Missouri (filed in October 2009) for \$48.7 million

Tuck-in acquisitions

We expect tuck-in acquisition activity to pick up, particularly given the increasing economic pressure on municipalities to bridge their budget shortfalls. Since June 30, 2009, American Water has completed five small tuck-in acquisitions. We forecast tuck-in acquisitions will add 1% to top-line growth over the next several years.

- **Pennsylvania** (Clearfield, Centre, Washington)
 - Clearfield (purchased assets of Wallaceton Municipal Authority)
 - Centre (purchased assets of Boggs Township Municipal Authority)
 - Washington (purchased assets of Amwell Township Water Authority)
 - Acquired 2 of the water systems in September 2009 and 1 water system on October 1, 2009
 - Total combined purchase price: \$0.935 million (\$0.65 million recognized in 3Q 2009)
 - 200 water customers (population of 600)
- **Indiana** (Waveland Water Utility)
 - Approved by Indiana PUC on September 23, 2009; acquired on October 26, 2009
 - Purchase price: \$0.68 million
 - 213 customers (population of 500)
- **Pennsylvania** (Saxonburg Area Authority water system in Butler County)
 - Effective Oct 28, 2009)
 - Purchase price: \$6 million
 - 1,200 customers (population of 3,600)
 - Newly acquired system serves Saxonburg Borough and portions of Jefferson and Clinton townships
- **Trenton update:**
 - On April 3, 2009 the Board of Public Utilities approved the \$75 million sale by American Water of the City of Trenton assets.
 - However, the approval is pending the resolution of court proceedings initiated in New Jersey Superior Court by Trenton residents seeking to require a referendum for the asset sale.

- In May 2009, Trenton trial court ruled that a referendum is not required. Trenton residents filed for reconsideration and on July 13, 2009, the court denied the resident's motion.
- An appeal was filed with the New Jersey Superior Court Appellate Court and oral arguments were held in October 2009.
- The Appellate Court ruling is still pending and the company did not provide additional color on expected timing for closure.
- Given the regulatory hurdles, Goldman Sachs Research estimates that the acquisition will close in the 1H 2010.

Non-regulated operation & maintenance (O&M) contracts:

American Water announced on October 1, 2009 that its Military Services Group was awarded contracts for O&M of the water and wastewater systems at Fort Belvoir, Virginia and Fort Meade, Maryland.

- **Fort Belvoir, Virginia:** estimated c.\$288 million of additional revenues over 50 year period (c.\$5.76 million/year or c.\$1.44 million/quarter)
- **Fort Meade, Maryland:** estimated c.\$650 million of additional revenues over 50 year period (c.\$13 million/year or c.\$3.25 million/quarter)
- Subject to price re-determination

We expect to see the full impact to non-regulated revenues from these contracts in the second half of 2010, as we believe it will take several months for the project to fully ramp.

Goldman Sachs forecasts non-regulated revenues to increase 4.5% in 2010, 2011 and 2012.

Capitalization:

American Water had net debt of \$5,344.8 million as of September 30, 2009, total debt of \$5,352.6 million and cash of \$7.9 million.

- **Secondary Equity Offering** (announced August 11, 2009)
 - RWE reduced its stake in American Water to 23.54%. We expect RWE will try to sell its remaining stake by April 2010, when certain regulatory approvals expire.
 - RWE sold 35 million shares of common stock (upsized by 5mn shares) priced at \$19.25 on August 13, 2009.
 - The underwriters exercised the overallotment of 5.25 million shares from selling shareholder RWE on August 18, 2009.
 - No primary shares were sold during this offering
- **\$26 million Tax-Exempt Debt Offering** (closed September 10, 2009)
 - Water facility revenue bonds issued by Owen County in Kentucky
 - 5.625% coupon with a 30-year maturity and 10-year call option
 - Proceeds used to pay short term debt related to construction of a water treatment and transmission facility located in Owen County, Kentucky as well as to pay a portion of the remaining costs of acquisition, construction, installation and equipping of the water treatment and transmission facility.
- **\$28.5 million Tax-Exempt Debt Offering** (closed October 1, 2009)
 - Water facility revenue bonds issued by Illinois Finance Authority
 - 5.25% coupon with a 30-year maturity and 10-year call option

- Proceeds used to pay short term debt related to construction of a water treatment and transmission facility consisting of supply mains, distribution mains, service lines, meters and miscellaneous equipment in Champaign County, Illinois and certain other Illinois American Water service.
- **\$134.2 million Tax-Exempt Debt Offering** (closed October 20, 2009)
 - Water facility revenue bonds issued by New Jersey
 - 5.70% coupon with a 30-year maturity
- **\$10.5 million Tax-Exempt Debt Offering** (closed October 20, 2009)
 - Water facility revenue bonds issued by New Jersey
 - 5.0% coupon with a 30-year maturity

Details on our model changes

Exhibit 2 summarizes the key differences between our 3Q estimates and the results reported by American Water.

Exhibit 2: American Water 3Q2009 actuals versus expected \$ millions, except per-share data

	3Q09A	3Q09E	% Chg	3Q08A	% Chg	2Q09A	% Chg
Operating Revenues	680.0	700.3	-2.9%	672.2	1.2%	612.7	11.0%
<i>Y/Y Growth</i>	1.2%	4.2%	-303 bps	6.2%	-502 bps	4.0%	-281 bps
Operating and maintenance	(340.9)	(360.8)	-5.5%	(342.2)	-0.4%	(330.6)	3.1%
Depreciation and amortization	(74.9)	(75.0)	-0.1%	(68.4)	9.5%	(73.2)	2.2%
General taxes	(50.6)	(56.0)	-9.6%	(49.4)	2.5%	(51.7)	-2.1%
% of revenues	7.4%	8.0%	-56 bps	7.3%	+10 bps	8.4%	-99 bps
Gain (loss) on sale of assets	0.8	0.0		(0.5)	-271.6%	(0.0)	-7940.0%
Operating Profit	214.4	208.5	2.8%	211.8	1.3%	157.2	36.4%
<i>Operating Margin</i>	31.5%	29.8%	+176 bps	31.5%	+3 bps	25.7%	+588 bps
Interest, net	(76.3)	(78.8)	-3.3%	(74.3)	2.7%	(75.2)	1.4%
AFUDC	4.0	5.0	-20.7%	7.4	-46.5%	5.6	-28.8%
Other inc/exp	(0.3)	2.5	-112.4%	0.8	-137.5%	(1.4)	-78.0%
Pretax Income	141.8	137.1	3.4%	145.7	-2.7%	86.1	64.6%
Provision for Income Taxes	(50.2)	(54.2)	-7.4%	(57.5)	-12.8%	(34.1)	47.0%
<i>Tax Rate</i>	35.4%	39.5%	-412 bps	39.5%	-412 bps	39.6%	-426 bps
Net Income - Continuing Ops	91.6	83.0	10.4%	88.2	3.9%	52.0	76.3%
Preferred Dividend	0.0	0.0		0.0		0.0	
Non-recurring/Discontinued Ops	0.0	0.0		0.0		0.0	
Extraordinary Items	0.0	0.0		0.0		0.0	
Net Income	91.6	83.0	10.4%	88.2	3.9%	52.0	76.3%
Shares Outstanding - Basic	174.6	160.0	9.1%	159.9	9.2%	163.2	7.0%
Shares Outstanding - Diluted	174.7	160.0	9.2%	160.0	9.2%	163.3	7.0%
Shares Outstanding - Basic (EOP)	174.6	174.6	0.0%	160.0	9.1%	174.6	0.0%
Shares Outstanding - Diluted (EOP)	174.8	174.6	0.1%	160.0	9.3%	174.6	0.1%
EPS - Continuing Ops- Basic	0.52	0.52	1.2%	0.55	-4.8%	0.32	64.8%
EPS - Continuing Ops- Diluted	0.52	0.52	1.2%	0.55	-4.8%	0.32	64.8%
<i>Y/Y EPS Growth (diluted)</i>	-4.8%	-5.9%	+109 bps	10.9%	-1,570 bps	11.9%	-1,674 bps
EPS - Net Income- Basic	0.52	0.52	1.2%	0.55	-4.8%	0.32	64.8%
EPS - Net Income- Diluted	0.52	0.52	1.2%	0.55	-4.8%	0.32	64.8%
EBITDA	289.3	283.4	2.1%	280.1	3.3%	230.4	25.5%
<i>Y/Y Growth</i>	3.3%	1.2%	+208 bps	8.4%	-514 bps	9.7%	-649 bps
<i>EBITDA Margin</i>	42.5%	40.5%	+207 bps	41.7%	+87 bps	37.6%	+493 bps
MARGIN ANALYSIS:							
O&M as a % of Revenue	50.1%	51.5%	-140 bps	50.9%	-78 bps	54.0%	-382 bps
EBITDA	42.5%	40.5%	+207 bps	41.7%	+87 bps	37.6%	+493 bps
EBIT	31.5%	29.8%	+176 bps	31.5%	+3 bps	25.7%	+588 bps
Pretax	20.9%	19.6%	+127 bps	21.7%	-82 bps	14.1%	+680 bps
Net-Continuing Operations	13.5%	11.8%	+163 bps	13.1%	+36 bps	8.5%	+499 bps
Net Income	13.5%	11.8%	+163 bps	13.1%	+36 bps	8.5%	+499 bps
YOY GROWTH							
Revenue	1.2%	4.2%	-303 bps				
EBIT	1.3%	-1.5%	+280 bps				
EBITDA	3.3%	1.2%	+208 bps				
D&A	9.5%	9.6%	-14 bps				
Pretax Income	-2.7%	-5.9%	+320 bps				
Net Income	3.9%	-5.9%	+983 bps				
EPS	-4.8%	-5.9%	+109 bps				

Source: Company filings, Goldman Sachs Research estimates.

American Water financial model

Exhibit 3: American Water annual income statement, 2006-2012E

\$ millions, except per-share data

INCOME STATEMENT	2006A	2007A	2008A	2009E	2010E	2011E	2012E
Operating Revenues	2,093.1	2,214.2	2,336.9	2,435.9	2,660.9	2,824.9	2,973.3
<i>Y/Y Growth</i>	-2.0%	5.8%	5.5%	4.2%	9.2%	6.2%	5.3%
Operation and maintenance	(1,174.5)	(1,246.5)	(1,303.8)	(1,313.0)	(1,381.4)	(1,429.4)	(1,478.9)
Depreciation and amortization	(259.2)	(267.3)	(271.3)	(293.7)	(318.5)	(347.0)	(375.5)
General taxes	(185.1)	(183.3)	(199.1)	(202.3)	(212.9)	(226.0)	(237.9)
% of revenues	8.8%	8.3%	8.5%	8.3%	8.0%	8.0%	8.0%
Gain (loss) on sale of assets	(0.1)	7.3	0.4	1.0	0.0	0.0	0.0
Operating Profit	474.2	524.5	563.1	627.9	748.2	822.5	881.0
<i>Operating Margin</i>	22.7%	23.7%	24.1%	25.8%	28.1%	29.1%	29.6%
Interest, net	(371.0)	(288.0)	(291.1)	(305.8)	(338.8)	(355.0)	(366.5)
AFUDC	8.6	11.2	22.7	19.7	20.0	20.0	20.0
Other inc/exp	0.9	6.2	4.7	0.9	6.0	6.0	6.0
Pretax Income	112.7	253.8	299.4	342.8	435.4	493.5	540.5
Provision for Income Taxes	(51.1)	(94.5)	(123.4)	(132.1)	(174.2)	(197.4)	(216.2)
<i>Tax Rate</i>	45.3%	37.2%	41.2%	38.6%	40.0%	40.0%	40.0%
Net Income, Continuing Ops	61.7	159.3	176.1	210.6	261.3	296.1	324.3
Preferred Dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-recurring/Discontinued Ops	(6.4)	(0.6)	0.0	0.0	0.0	0.0	0.0
Extraordinary Items	(217.5)	(501.5)	(738.5)	(443.0)	0.0	0.0	0.0
Net Income - Reported	(162.2)	(342.8)	(562.4)	(232.4)	261.3	296.1	324.3
Shares Outstanding - Basic (Avg)	160.0	160.0	160.0	168.1	181.8	187.7	196.6
Shares Outstanding - Diluted (Avg)	160.0	160.0	160.0	168.2	182.1	190.1	197.4
Shares Outstanding - Basic (EOP)	160.0	160.0	160.0	174.6	182.6	192.8	200.4
Shares Outstanding - Diluted (EOP)	160.0	160.0	160.0	174.6	186.8	193.4	201.3
EPS - Continuing Ops - Basic	0.39	1.00	1.10	1.25	1.44	1.58	1.65
EPS - Continuing Ops - Diluted	0.39	1.00	1.10	1.25	1.44	1.56	1.64
<i>Y/Y EPS Growth (diluted)</i>	-40.1%	158.4%	10.6%	13.8%	14.6%	8.5%	5.5%
EPS - Net Income - Reported - Basic	-1.01	-2.14	-3.52	-1.38	1.44	1.58	1.65
EPS - Net Income - Reported - Diluted	-1.01	-2.14	-3.52	-1.38	1.44	1.56	1.64
EBITDA	733.4	791.8	834.4	921.6	1,066.7	1,169.5	1,256.5
<i>Y/Y Growth</i>	-3.3%	8.0%	5.4%	10.5%	15.7%	9.6%	7.4%
<i>EBITDA Margin</i>	35.0%	35.8%	35.7%	37.8%	40.1%	41.4%	42.3%
MARGIN ANALYSIS:							
O&M as a % of Revenue	56.1%	56.3%	55.8%	53.9%	51.9%	50.6%	49.7%
EBITDA as % of Revenue	35.0%	35.8%	35.7%	37.8%	40.1%	41.4%	42.3%
EBIT as % of Revenue	22.7%	23.7%	24.1%	25.8%	28.1%	29.1%	29.6%
Pretax as % of Revenue	5.4%	11.5%	12.8%	14.1%	16.4%	17.5%	18.2%
Net Income - Cont Ops as % of Revenue	2.9%	7.2%	7.5%	8.6%	9.8%	10.5%	10.9%
Net Income - Reported as % of Revenue	-7.8%	-15.5%	-24.1%	-9.5%	9.8%	10.5%	10.9%
YOY GROWTH							
Revenue	-2.0%	5.8%	5.5%	4.2%	9.2%	6.2%	5.3%
EBIT	-4.6%	10.6%	7.4%	11.5%	19.2%	9.9%	7.1%
EBITDA	-3.3%	8.0%	5.4%	10.5%	15.7%	9.6%	7.4%
D&A	-0.8%	3.1%	1.5%	8.3%	8.4%	8.9%	8.2%
Pretax Income	-30.1%	125.1%	18.0%	14.5%	27.0%	13.3%	9.5%
Net Income - Cont Ops	-40.1%	158.4%	10.5%	19.6%	24.0%	13.3%	9.5%
EPS	-40.1%	158.4%	10.6%	13.8%	14.6%	8.5%	5.5%

Source: Company filings, Goldman Sachs Research estimates.

Exhibit 4: American Water balance sheet and cash flow statements, 2006-2012E

\$ millions

BALANCE SHEET	2006A	2007A	2008A	2009E	2010E	2011E	2012E
Cash and cash equivalents	29.8	13.5	9.5	7.8	7.8	7.8	7.8
Restricted funds	2.1	3.3	0.5	38.9	38.9	38.9	38.9
Utility customers accounts receivable	130.5	126.7	130.6	136.5	149.4	162.5	171.1
Unbilled utility revenues	123.2	134.3	134.2	140.0	153.2	166.7	175.4
Materials and supplies	23.0	27.5	28.9	32.3	34.3	31.3	32.4
Other receivables, net	54.5	89.7	68.9	71.5	78.3	85.1	89.6
Other current assets	36.6	35.5	45.1	69.0	69.0	69.0	69.0
Assets of Disc. Ops.	12.8	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Assets	412.4	430.4	417.7	495.9	530.9	561.4	584.3
<i>Utility plant, net</i>	<i>8,605.3</i>	<i>9,199.9</i>	<i>9,991.8</i>	<i>10,540.0</i>	<i>11,206.6</i>	<i>11,714.6</i>	<i>12,194.1</i>
<i>Nonutility property, net</i>	<i>115.2</i>	<i>118.1</i>	<i>132.1</i>	<i>144.4</i>	<i>144.4</i>	<i>144.4</i>	<i>144.4</i>
Net Property Plant & Equipment	8,720.6	9,318.0	10,123.9	10,684.4	11,351.0	11,859.0	12,338.5
Regulatory Assets	587.2	661.0	919.7	956.3	956.3	956.3	956.3
Restricted Funds	17.2	10.3	10.6	35.9	35.9	35.9	35.9
Goodwill & Other Intangibles	2,962.5	2,457.0	1,699.5	1,250.1	1,250.1	1,250.1	1,250.1
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Assets	83.2	74.8	60.4	59.8	79.8	99.8	119.8
Total Assets	12,783.1	12,951.3	13,231.8	13,482.5	14,204.0	14,762.5	15,284.9
Short-term Debt	1,007.1	317.0	654.8	130.9	130.9	130.9	130.9
Accounts payable	140.7	168.9	149.8	125.5	133.3	137.1	141.8
Accrued liabilities	62.9	106.9	106.1	165.3	165.3	165.3	165.3
Other current liabilities	150.5	181.8	194.0	185.2	185.2	185.2	185.2
Liabilities of Disc. Ops.	2.5	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	1,363.7	774.5	1,104.8	606.8	614.7	618.4	623.2
Long-term debt	4,870.9	4,699.1	4,648.2	5,350.3	5,685.6	5,854.0	6,018.0
Advances for construction	615.7	655.4	622.2	633.8	633.8	633.8	633.8
Deferred income taxes	583.4	638.9	705.6	811.8	811.8	811.8	811.8
Deferred investment tax credits	36.5	35.4	34.0	32.8	32.8	32.8	32.8
Regulatory liability-cost of removal	166.9	266.7	307.3	317.9	317.9	317.9	317.9
Accrued pension expense	314.6	290.7	502.1	490.8	490.8	490.8	490.8
Accrued postretirement benefit expense	144.9	158.5	241.2	235.2	235.2	235.2	235.2
Other long term liabilities	110.4	67.1	48.5	47.4	47.4	47.4	47.4
Contributions in Aid of Construction	754.2	818.4	911.4	963.3	988.3	1,013.3	1,038.3
Total Liabilities	8,961.1	8,404.7	9,125.3	9,490.3	9,858.4	10,055.6	10,249.4
Preferred Equity	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Shareholder's Equity	3,817.4	4,542.0	4,102.0	3,987.6	4,341.0	4,702.4	5,030.9
Total Liabilities & Equity	12,783.1	12,951.3	13,231.8	13,482.5	14,204.0	14,762.5	15,284.9
CASH FLOW STATEMENT	2006A	2007A	2008A	2009E	2010E	2011E	2012E
Sources:							
EBITDA	733.4	791.8	834.4	921.6	1,066.7	1,169.5	1,256.5
Interest Income	0.4	1.9	0.1	0.1	0.1	0.1	0.1
Total Sources	733.7	793.7	834.5	921.7	1,066.8	1,169.6	1,256.6
Uses:							
Interest Expense Paid	(371.4)	(289.9)	(291.2)	(305.9)	(338.9)	(355.1)	(366.7)
Book Taxes	(51.1)	(94.5)	(123.4)	(132.1)	(174.2)	(197.4)	(216.2)
Other Non-Operating Expenses	109.1	47.7	126.7	137.6	6.0	6.0	6.0
Change in Current Accounts (ex taxes)	(96.6)	16.8	5.5	(14.2)	(27.1)	(26.7)	(18.1)
Capital Expenditures	(682.9)	(750.8)	(1,008.8)	(815.0)	(875.0)	(825.0)	(825.0)
<i>% of total revenues</i>	<i>32.6%</i>	<i>33.9%</i>	<i>43.2%</i>	<i>33.5%</i>	<i>32.9%</i>	<i>29.2%</i>	<i>27.7%</i>
Total Uses	(1,092.9)	(1,070.8)	(1,291.1)	(1,129.6)	(1,409.2)	(1,398.2)	(1,420.0)
Free Cash Flow	(359.1)	(277.1)	(456.6)	(207.9)	(342.4)	(228.7)	(163.3)
<i>y/y growth</i>	<i>1213.1%</i>	<i>-22.8%</i>	<i>64.8%</i>	<i>-54.5%</i>	<i>64.7%</i>	<i>-33.2%</i>	<i>-28.6%</i>
Net Investments	(26.2)	10.4	(12.3)	67.3	0.0	0.0	0.0
Acquisitions	(12.5)	(15.9)	(12.5)	(7.6)	(110.0)	(30.0)	(30.0)
Dividends	0.0	0.0	(64.1)	(137.3)	(157.9)	(174.4)	(190.4)
Discontinued Operations	30.2	9.7	0.0	0.0	0.0	0.0	0.0
Translation Adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash Flow before Financing	(367.7)	(272.9)	(545.6)	(285.5)	(610.3)	(433.1)	(383.8)
Contributions in aid of construction	47.4	35.8	3.1	15.0	25.0	25.0	25.0
Net new Debt	285.5	1,004.0	292.9	25.1	335.3	168.4	164.1
Net New Equity	(0.5)	(783.3)	245.6	243.7	250.0	239.7	194.7
Net Change in Cash	(35.3)	(16.3)	(3.9)	(1.7)	0.0	(0.0)	(0.0)
Beginning Cash	65.1	29.8	13.5	9.5	7.8	7.8	7.8
Ending Cash	29.8	13.5	9.5	7.8	7.8	7.8	7.8

Source: Company filings, Goldman Sachs Research estimates.

Reg AC

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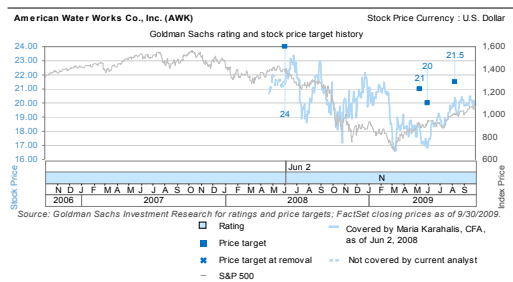
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COMPANY UPDATE
American Water Works Co., Inc. (AWK)

Neutral

Raising 2009/2010 estimates to reflect stronger operating margins

What's changed

American Water reported 1Q2009 EPS of \$0.19, above our \$0.17 estimate, excluding goodwill impairments. The key driver of this outperformance was lower than expected O&M and depreciation expenses. Rate cases approved during 2008 drove strong revenue growth (+8.6%), more than offsetting volume declines (-3.5%) in the quarter. The Trenton acquisition (\$80 million) was approved in April and should close by the end of June.

Implications

We have increased our 2009 EPS estimate to \$1.46 from \$1.34 to reflect the 1Q2009 \$0.02 beat and our assumption of lower O&M and depreciation expenses as a percent of sales for the remainder of the year. We have also increased our 2010/2011 EPS estimates to \$1.52 and \$1.62, respectively from \$1.47 and \$1.55 previously. AWK has an important opportunity to increase its rate base and returns through infrastructure investment and filing rate cases. We forecast strong revenue and net income growth over the next 3 years, but we believe EPS growth will be tempered by the need to raise equity to fund the company's capex program and restore its equity to cap ratio to 45% over time.

Valuation

We maintain our Neutral rating. Our updated price target of \$21 is based on multiples (P/E and EBITDA) and our DDM. The reduction in our price target to \$21 from \$24 can be explained by incorporating EV/EBITDA in our analysis, a higher assumed overhang discount of 15% (up from 10%), and a higher cost of equity of 9.0% (up from 8.5%).

Key risks

Key adverse risks include regulatory decisions and regulatory lag that limit ROE expansion, and financing risk associated with funding the large capital investment program. Upside to our price target could come from faster-than-expected price recovery through rates, lower O&M expenses, and strong free cash flow generation that reduces the need for new equity.

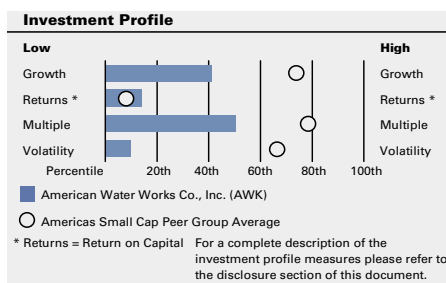
INVESTMENT LIST MEMBERSHIP

Neutral

Coverage View: Neutral

United States:
 Water

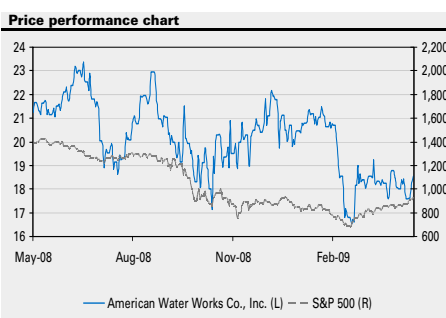
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Key data	Current
Price (\$)	18.55
12 month price target (\$)	21.00
Market cap (\$ mn)	2,968.2

	12/08	12/09E	12/10E	12/11E
Revenue (\$ mn) New	2,336.9	2,538.6	2,696.8	2,864.3
Revenue (\$ mn) Old	2,395.4	2,639.3	2,828.3	3,004.2
EPS (\$) New	1.10	1.46	1.52	1.62
EPS (\$) Old	1.13	1.34	1.47	1.55
P/E (X)	16.9	12.7	12.2	11.4
EV/EBITDA (X)	10.3	8.9	8.6	8.1
ROE (%)	4.1	6.1	6.5	6.7

	3/09	6/09E	9/09E	12/09E
EPS (\$)	0.19	0.38	0.57	0.31



Share price performance (%)	3 month	6 month	12 month
Absolute	(11.8)	(4.1)	(12.7)
Rel. to S&P 500	(17.5)	(4.0)	31.3

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 5/08/2009 close.

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American Water Works Co., Inc.: Summary financials

Profit model (\$ mn)	12/08	12/09E	12/10E	12/11E	Balance sheet (\$ mn)	12/08	12/09E	12/10E	12/11E
Total revenue	2,336.9	2,538.6	2,696.8	2,864.3	Cash & equivalents	9.5	8.5	8.5	8.5
Cost of goods sold	(1,575.1)	(1,645.8)	(1,732.1)	(1,817.8)	Accounts receivable	199.4	219.3	233.7	251.1
SG&A	(199.1)	(211.6)	(215.7)	(229.1)	Inventory	28.9	33.7	31.1	32.2
R&D	0.0	0.0	0.0	0.0	Other current assets	179.8	205.6	215.3	227.0
Other operating profit/(expense)	0.4	0.2	0.0	0.0	Total current assets	417.7	467.2	488.6	518.9
ESO expense	0.0	0.0	0.0	0.0	Net PP&E	10,123.9	10,737.0	11,323.9	11,832.3
EBITDA	834.4	969.4	1,067.1	1,164.0	Net intangibles	1,699.5	1,249.8	1,249.8	1,249.8
Depreciation & amortization	(271.3)	(288.0)	(318.1)	(346.6)	Total investments	0.0	0.0	0.0	0.0
EBIT	563.1	681.4	749.0	817.4	Other long-term assets	990.7	1,014.5	1,034.5	1,054.5
Net interest income/(expense)	(291.1)	(297.9)	(313.8)	(334.1)	Total assets	13,231.8	13,468.5	14,096.8	14,655.5
Income/(loss) from associates	0.0	0.0	0.0	0.0	Accounts payable	149.8	150.0	163.1	169.3
Others	27.4	25.8	26.0	26.0	Short-term debt	654.8	707.6	707.6	707.6
Pretax profits	299.4	409.4	461.2	509.3	Other current liabilities	300.1	346.6	346.6	346.6
Provision for taxes	(123.4)	(160.5)	(184.5)	(203.7)	Total current liabilities	1,104.8	1,204.1	1,217.2	1,223.4
Minority interest	0.0	0.0	0.0	0.0	Long-term debt	4,648.2	4,783.2	5,054.7	5,272.4
Net income pre-preferred dividends	176.1	248.9	276.7	305.6	Other long-term liabilities	3,372.3	3,406.6	3,431.6	3,456.6
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	8,020.5	8,189.8	8,486.2	8,729.0
Net income (pre-exceptionals)	176.1	248.9	276.7	305.6	Total liabilities	9,125.3	9,393.9	9,703.5	9,952.4
Post tax exceptionals	(738.5)	(443.0)	0.0	0.0	Preferred shares	4.6	4.6	4.6	4.6
Net income (post-exceptionals)	(562.4)	(194.1)	276.7	305.6	Total common equity	4,102.0	4,070.0	4,388.8	4,698.6
EPS (basic, pre-exception) (\$)	1.10	1.46	1.52	1.64	Minority interest	0.0	0.0	0.0	0.0
EPS (diluted, pre-exception) (\$)	1.10	1.46	1.52	1.62	Total liabilities & equity	13,231.8	13,468.5	14,096.8	14,655.5
EPS (basic, post-exception) (\$)	(3.52)	(1.14)	1.52	1.64	Additional financials	12/08	12/09E	12/10E	12/11E
EPS (diluted, post-exception) (\$)	(3.52)	(1.14)	1.52	1.62	Net debt/equity (%)	128.9	134.5	131.0	127.0
Common dividends paid	(64.1)	(141.3)	(158.0)	(171.8)	Interest cover (X)	1.9	2.3	2.4	2.4
DPS (\$)	0.40	0.82	0.86	0.90	Inventory days	6.5	7.0	6.8	6.4
Dividend payout ratio (%)	36.4	56.1	56.7	54.9	Receivable days	32.5	30.1	30.7	30.9
Growth & margins (%)	12/08	12/09E	12/10E	12/11E	BVPS (\$)	25.64	23.10	24.12	24.74
Sales growth	5.5	8.6	6.2	6.2	ROA (%)	1.3	1.9	2.0	2.1
EBITDA growth	5.4	16.2	10.1	9.1	CROCI (%)	4.5	4.5	4.4	4.6
EBIT growth	7.4	21.0	9.9	9.1	Dupont ROE (%)	4.3	6.1	6.3	6.5
Net income (pre-exception) growth	10.5	41.4	11.2	10.4	Margin (%)	7.5	9.8	10.3	10.7
EPS growth	10.6	32.9	3.8	8.3	Turnover (X)	0.2	0.2	0.2	0.2
Gross margin	32.6	35.2	35.8	36.5	Leverage (X)	3.2	3.3	3.2	3.1
EBITDA margin	35.7	38.2	39.6	40.6	Free cash flow per share (\$)	(2.85)	(1.56)	(1.69)	(1.17)
EBIT margin	24.1	26.8	27.8	28.5	Free cash flow yield (%)	(13.8)	(8.4)	(9.1)	(6.3)
Cash flow statement (\$ mn)	12/08	12/09E	12/10E	12/11E					
Net income	176.1	248.9	276.7	305.6					
D&A add-back (incl. ESO)	271.3	288.0	318.1	346.6					
Minority interest add-back	0.0	0.0	0.0	0.0					
Net (inc)/dec working capital	5.5	(13.7)	(8.3)	(24.1)					
Other operating cash flow	99.3	30.7	(20.0)	(20.0)					
Cash flow from operations	552.2	553.9	566.6	608.1					
Capital expenditures	(1,008.8)	(820.0)	(875.0)	(825.0)					
Acquisitions	(12.5)	(95.0)	(30.0)	(30.0)					
Divestitures	0.0	0.0	0.0	0.0					
Others	(12.3)	(6.1)	0.0	0.0					
Cash flow from investing	(1,033.7)	(921.1)	(905.0)	(855.0)					
Dividends paid (common & pref)	(64.1)	(141.3)	(158.0)	(171.8)					
Inc/(dec) in debt	292.9	187.0	271.4	217.7					
Other financing cash flows	248.7	320.5	225.0	201.0					
Cash flow from financing	477.6	366.2	338.4	246.9					
Total cash flow	(3.9)	(1.0)	0.0	0.0					

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

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The prices in the body of this report are based on the market close of May 8, 2009.

Investment view

We rate American Water shares Neutral with a 12-month price target of \$21, upside of 13%. We forecast robust revenue, EBITDA and net income growth in the coming years, but given the large capital investment program of \$4.0-\$4.5 billion over five years and the need to restore the company's equity to capital ratio to 45%-50% from 40% at March 31, we expect future primary equity issuance will dilute EPS growth, as shown in Exhibit 1. Our forecast assumes that American Water gradually returns to a 45% equity ratio by 2012.

We also believe that the overhang associated with RWE's 60% ownership of American Water will continue to weigh on the company's shares near-term. Given that the company would need to renew regulatory approval for a share sale after April 2010 (the 24 month anniversary of the IPO), we believe that RWE will try to monetize its stake prior to this deadline.

We would be more constructive on the stock if stronger-than-expected cash flow generation reduced the need to issue as much equity as we forecast (\$300 million in 2009, \$200 million in 2010, and \$175 million in 2011).

Exhibit 1: American Water financial summary

	2006A	2007A	2008A	2009E	2010E	2011E	2012E
\$ in millions, except per share data							
Revenue	\$2,093.1	\$2,214.2	\$2,336.9	\$2,538.6	\$2,696.8	\$2,864.3	\$3,016.2
Operating Profit	474.2	524.5	563.1	681.4	749.0	817.4	869.4
EBITDA	733.4	791.8	834.4	969.4	1,067.1	1,164.0	1,244.5
Net Income, Cont. Ops	61.7	159.3	176.1	248.9	276.7	305.6	326.1
Diluted Shares	160.0	160.0	160.0	170.1	182.4	188.4	194.5
EPS	0.39	1.00	1.10	1.46	1.52	1.62	1.68
yoy change, %							
Revenue	-2.0%	5.8%	5.5%	8.6%	6.2%	6.2%	5.3%
Operating Profit	-4.6%	10.6%	7.4%	21.0%	9.9%	9.1%	6.4%
EBITDA	-3.3%	8.0%	5.4%	16.2%	10.1%	9.1%	6.9%
Net Income, Cont. Ops	-40.1%	158.4%	10.5%	41.4%	11.2%	10.4%	6.7%
EPS	-40.1%	158.4%	10.6%	32.9%	3.7%	6.9%	3.4%
margins, % of sales							
Operating margin	22.7%	23.7%	24.1%	26.8%	27.8%	28.5%	28.8%
EBITDA margin	35.0%	35.8%	35.7%	38.2%	39.6%	40.6%	41.3%
Net Income margin	2.9%	7.2%	7.5%	9.8%	10.3%	10.7%	10.8%

Source: Company filings, Goldman Sachs Research estimates.

Growth through rates, capital investment and tuck-in acquisitions

American Water has an important opportunity to invest in water infrastructure, following many years of significant underinvestment by the industry at large. We believe that there are three core drivers of growth that will support strong revenue and return growth for American Water: (1) rate case catch-ups, (2) incremental infrastructure investment, and (3) tuck-in acquisitions.

Rate case catch-up continues

American Water has demonstrated that it is committed to filing rate cases in each state in which it operates approximately every two to three years. Rate cases approved during 2008 supported strong revenue growth during the first quarter of 2009, offsetting the volume declines during the period. Since the beginning of 2009, American Water has filed six new rate cases in Pennsylvania, Indiana, California, Iowa, Ohio and Maryland totaling \$156.7 million. In addition, pending rate cases filed in 2007 and 2008 total \$89.2 million. In our analysis, we assume that American Water is granted 50% of the amount that it has filed for in each state.

Exhibit 2 summarizes the rate cases that have been filed, our assumption for how much will be granted, and when this revenue should begin to contribute to the company's revenue line. Historically, the company has received approximately 60% of the amount filed. We believe that it is more prudent to assume a lower percentage, 50%, given that this is the second round of large rate increases requested in a 2-3 year period, in a particularly difficult economic environment.

Incremental infrastructure investment

We continue to assume that American Water will invest \$4.0-\$4.5 billion over the next five years. We forecast \$800 million is invested in 2009 and \$850 million in invested in 2010 and that this investment is funded approximately 50/50 debt and equity.

Tuck-in acquisitions

We expect tuck-in acquisition activity to pick up, particularly given the increasing economic pressure on municipalities to bridge their budget shortfalls. American Water completed 10 small tuck-in acquisitions in 2008. Tuck-in acquisitions in 2009 have been slower to materialize, but we do believe that they will be a source of incremental growth in the future, adding approximately 1.0% growth to the revenue line.

Exhibit 2: American Water rate case requests from 2006 to present

\$ millions

State	Date Filed	Amount Filed	Amount Granted	%	ROE Filed	ROE Granted	Expected Grant Date	Status
General Rate Cases Filed in 2006								
Ohio	3/1/06	\$5.1	\$3.4	66.7%	11.0%	10.0%	3/1/07	Completed
New Jersey	3/31/06	99.0	56.2	56.8%	11.2%	10.0%	4/1/07	Completed
New Mexico	5/30/06	1.3	1.3	100.0%	10.0%	9.7%	5/1/07	Completed
Arizona (Anthem)	6/16/06	7.0	4.3	61.4%	11.8%	8.8%	6/4/08	Completed
Arizona (Sun City)	7/28/06	3.9	2.4	61.5%	11.8%	10.6%	4/1/08	Completed
Texas	10/16/06	\$0.8	\$0.7	87.5%	12.0%	12.0%	1/1/07	Completed
Tennessee	11/22/06	6.4	4.1	64.1%	11.0%	9.6%	5/23/07	Completed
Indiana	12/5/06	24.7	14.0	56.7%	11.5%	10.0%	12/1/07	Completed
Missouri	12/15/06	41.5	21.4	51.6%	11.3%	10.0%	11/1/07	Completed
Total Granted (2006)		\$189.7	\$107.8	56.8%				
Total Pending (2006)		\$0.0	\$0.0					
General Rate Cases Filed in 2007								
California	1/1/07	\$16.4	\$13.0	100.0%	11.5%	10.2%	6/1/08	Completed
Michigan	1/8/07	0.2	0.2	100.0%	12.0%	10.0%	1/8/07	Completed
Maryland	3/29/07	0.6	0.6	100.0%	11.8%	10.5%	10/1/07	Completed
Pennsylvania	4/27/07	59.2	36.0	60.8%	11.8%	N/A	11/30/07	Completed
Arizona (Sun City)	4/30/07	2.2	1.9	86.4%	11.8%	10.8%	6/1/08	Completed
Kentucky	4/30/07	13.2	8.0	60.6%	11.4%	10.0%	12/1/07	Completed
Long Island	5/1/07	9.6	6.6	68.8%	11.0%	9.5%	4/1/08	Completed
West Virginia	6/1/07	24.1	14.5	60.2%	11.3%	10.0%	3/28/08	Completed
Iowa	8/30/07	6.1	4.3	70.5%	11.3%	10.4%	2/1/08	Completed
Illinois	8/31/07	32.8	21.6	65.9%	11.3%	10.4%	8/8/08	Completed
Ohio	10/1/07	5.5	5.3	95.6%	11.3%	10.9%	11/13/08	Completed
Hawaii	11/1/07	1.3	0.7	50.0%	10.6%		11/1/08	Pending
Total Granted (2007)		\$169.9	\$112.0	65.9%				
Total Pending (2007)		\$1.3	\$0.7	50.0%				
General Rate Cases Filed in 2008								
New Jersey	1/14/08	\$125.0	\$72.1	57.7%	11.5%	10.3%	12/7/08	Completed
Texas	2/21/08	0.9	0.4	50.0%	12.0%		6/30/08	Pending
California (Monterey, GO)	1/30/08	43.5	21.8	50.0%	11.5%		1/1/09	Pending
California (ROE)	5/1/08	2.8	1.4	50.0%	11.5%		5/1/09	Pending
Virginia	1/30/08	4.3	3.4	79.1%	11.3%	10.5%	7/8/08	Completed
Michigan	1/1/08	0.2	0.2	100.0%	10.0%	10.0%	1/1/08	Completed
Tennessee	3/14/08	7.6	1.7	21.6%	11.8%	10.2%	10/1/08	Completed
Missouri	3/31/08	49.8	34.5	69.3%	11.3%	10.0%	11/28/08	Completed
Pennsylvania - WW	4/28/08	2.7	1.9	70.4%	11.5%	10.6%	11/14/08	Completed
Arizona	5/1/08	20.0	10.0	50.0%	11.8%		5/1/09	Pending
West Virginia	5/30/08	14.8	5.2	35.1%	11.8%	10.0%	3/26/09	Completed
New Mexico (Clovis)	6/30/08	2.2	1.1	50.0%	11.8%		7/1/09	Pending
Kentucky	10/31/08	18.5	9.3	50.0%	11.5%		6/30/09	Pending
Total Granted (2008)		\$204.4	\$119.0	58.2%				
Total Pending (2008)		\$87.9	\$43.9	50.0%				
General Rate Cases Filed in 2009								
California (Sac, LA, Lark)	1/23/09	\$32.7	\$16.4	50.0%	10.2%		1/1/10	Pending
Pennsylvania	4/24/09	\$58.1	\$29.1	50.0%	12.0%		1/1/10	Pending
Iowa	4/30/09	\$9.4	\$4.7	50.0%	12.2%		3/1/10	Pending
Indiana	4/30/09	\$46.9	\$23.5	50.0%	12.0%		5/1/10	Pending
Maryland	4/30/09	\$0.8	\$0.4	50.0%	11.8%		2/1/10	Pending
Ohio	5/7/09	\$8.8	\$4.4	50.0%	N/A		1/1/10	Pending
Total Granted (2009)		\$0.0	\$0.0	0.0%				
Total Pending (2009)		\$156.7	\$78.3	50.0%				
Total Granted (2006 - present)		\$564.0	\$338.7	60.1%				
Total Pending (2006 - present)		\$245.9	\$122.9	50.0%				

Source: Company filings, various State Public Utility Commission news releases, Goldman Sachs Research estimates.

Declining water demand partially offsets strong rate increases

First-quarter water volume sold declined 3.5% year-on-year, with declines registered in all segments – residential, commercial, industrial, and public/other (see Exhibit 3). As expected, the industrial segment declined the most (-12.9%) driven by the decline in economic activity. The industrial segment represents 10% of total water volume and 5% of revenue. We expect this segment, followed by the commercial segment, will remain under pressure throughout 2009.

Exhibit 3: 1Q2009 regulated business water volume

Customer Class	Water Sales Volumes		Operating Revenues
	% change yoy	% of total	% of total
Residential	-1.5%	53.0%	57.6%
Commerical	-3.6%	21.7%	18.3%
Industrial	-12.9%	10.3%	4.7%
Public & Other *	-2.7%	15.0%	19.4%
Total	-3.5%	100.0%	100.0%

* Public and Other includes revenue from wastewater service

Source: Company filings.

O&M declines as a percent of revenue

Expenses came in below our forecast principally due to lower operating supplies and services expense, and lower depreciation. The lower operating supplies can be explained by the reduction in contracted services employed by American Water in 1Q2008 to support the company’s Sarbanes-Oxley remediation efforts and certain costs associated with the company’s IPO. Depreciation expenses were lower than our forecast and below depreciation in the fourth quarter. We believe this may be explained by fully depreciated assets rolling off and possible changes to depreciation schedules. As a result we have reduced our forecast for O&M as a percent of sales as well as depreciation going forward.

We expect less commodity inflation pressure on the O&M line as we begin to lap last year’s steep increases, particularly in the case of fuel and chemical costs. The one area where we do expect expenses to increase is pension-related expenses and post-retirement healthcare benefits. The company plans to expense \$32 million during 2009 and will seek rate relief on a portion of these expenses.

Bad debt expense has crept up but remains low

Bad debt expense (as measured by uncollectible accounts expense as a percent of revenues) for the first quarter (0.9% of sales) remained relatively flat with fourth quarter 2008, although it increased year-on-year (0.3% in first quarter 2008). We will continue to monitor the bad debt expense line given the difficult economic environment. We believe that American Water is actively focusing on collections of past due accounts and expect that bad debt expense should not increase meaningfully from here.

Stimulus Funds available for water infrastructure investment

American Water, like other water utilities, plans to take advantage of all sources of funding available to support its capital investment program. The company issued \$75 million in senior monthly notes in February, \$80 million in Pennsylvania tax-exempt revenue bonds and has indicated that it plans to issue a further \$300 million in tax-exempt financing in the coming months.

Valuation: 13% upside potential to our 12-month price target of \$21

Our 12-month price target of \$21 implies 13% upside from current levels. Our price target is based on multiples (P/E and EBITDA) and our dividend discount model.

We believe that the best way to value a water utility is a combination of multiples analysis and a dividend discount model. In the past, we have focused principally on P/E as the primary metric for comparative valuation, due to the regulated return framework which sets an allowed ROE, or essentially a fair rate of return. Given American Water's higher level of leverage relative to comparable companies, we are also incorporating EV/EBITDA multiples into our analysis. Note that the comparable group for American Water is quite limited. There are 10 publicly traded water utilities in the United States including American Water, and only three such companies with a market capitalization in excess of US\$500 million (see Exhibit 4).

Exhibit 4: American Water comparative valuation

Company	Ticker	Share Price	Mkt. Cap (mm)	Enterprise Value	P/E		EV/EBITDA		Dividend Yield	ROE (adj.)	Debt/Cap (BV)
					2009E	2010E	2009E	2010E			
American Water Works Company	AWK	\$18.55	\$2,969	\$8,352	12.7 x	12.2 x	8.6 x	7.8 x	4.3%	7.8%	59.6%
US Water Utilities											
Mid Cap*											
Aqua America Inc.	WTR	\$ 18.36	\$ 2,495	\$ 3,833	21.7 x	20.0 x	10.7 x	9.8 x	2.9%	9.6%	55.6%
California Water Service Group	CWT	\$ 37.36	\$ 775	\$ 1,091	18.0 x	17.5 x	8.3 x	8.2 x	3.2%	10.0%	45.0%
American States Water Co.	AWR	\$ 33.88	\$ 590	\$ 925	19.8 x	17.5 x	8.9 x	8.2 x	3.0%	9.2%	52.4%
Average of Mid Cap US Water Utilities					19.8 x	18.3 x	9.3 x	8.8 x	3.0%	9.6%	51.0%
Median of Mid Cap US Water Utilities					19.8 x	17.5 x	8.9 x	8.2 x	3.0%	9.6%	52.4%
Small Cap											
SJW Corp.	SJW	\$ 23.60	\$ 440	\$ 682	20.0 x	16.8 x	N/A	N/A	2.8%	8.4%	48.6%
Middlesex Water Company	MSEX	\$ 14.18	\$ 193	\$ 356	15.6 x	14.6 x	10.6 x	9.8 x	5.0%	8.5%	53.4%
Connecticut Water Service Inc.	CTWS	\$ 20.52	\$ 174	\$ 278	18.2 x	17.7 x	13.9 x	12.9 x	4.3%	9.4%	50.0%
York Water Company	YORW	\$ 13.65	\$ 149	\$ 241	20.6 x	20.6 x	N/A	N/A	3.7%	9.2%	57.0%
Southwest Water Company	SWWC	\$ 5.27	\$ 130	\$ 320	11.7 x	N/A	N/A	N/A	1.9%	4.9%	48.4%
Artesian Resource Corp.	ARTNA	\$ 14.48	\$ 108	\$ 215	15.7 x	14.5 x	N/A	N/A	4.9%	7.3%	59.5%
Average of Small Cap US Water Utilities					17.0 x	16.8 x	12.2 x	nm	3.8%	8.0%	52.8%
Median of Small Cap US Water Utilities					16.9 x	16.8 x	12.2 x	nm	4.0%	8.5%	51.7%

* Mid Cap = we define as companies with market cap >\$500mn
Prices as of close on 5/8/2009

Source: FactSet, Goldman Sachs Research estimates.

The share overhang remains very large (approximately 60% of the shares outstanding) and will likely keep some pressure on the valuation of American Water shares in the near term. RWE has indicated that it intends to sell its remaining stake in the company. We expect this will take place over the next 12 months. In light of this, we have increased our share overhang discount to 15% from 10%.

American Water's comparables trade at 19.8X 2009E and 17.5X 2010E EPS, and 8.9X 2009E and 8.2X 2010E EBITDA, respectively. If we apply a multiple of 20X 2010E EPS, and discount it by 15% for the share overhang, this implies a 12-month target price of \$25.75. If we use a multiple of 9X 2010E EBITDA, and discount it by 15% for the share overhang, this implies a 12-month target price of \$17.50. On a blended basis, our multiple analysis implies a price target of \$21.63 (50% P/E and 50% EV/EBITDA).

The second valuation method that we employ is a dividend discount model (DDM). Our DDM analysis implies a price target of \$20.50 assuming a 9.0% cost of equity and a 5% long-term dividend growth rate.

To arrive at our price target, we place a 50% weight on our multiples analysis and a 50% weight on our DDM analysis to imply our price target of \$21 versus our previous price target of \$24. Our new price target implies upside of 13%. American Water's current dividend yield is 4.3%.

Positive catalysts: Potential upside to our earnings forecast

Better than expected pricing/ROE recovery

American Water currently under-earns typical authorized ROEs of approximately 10% and the average for comparable water utilities of 9.6%. We estimate that American Water's 2008 regulated ROE was approximately 6% (7.8% for consolidated). While we expect American Water to gain pricing and steadily approach a 10% regulated ROE during the next few years, a faster than expected price recovery would increase both ROE and earnings growth.

Greater than anticipated accretive tuck-in acquisition activity

We estimate that tuck-in acquisitions will boost revenue by 1% but could add as much as 2% annually over the next few years. Greater-than-expected accretive acquisition opportunities, particularly from medium-sized acquisitions (i.e., Trenton for \$80 million), could result in upside to our earnings.

Better than anticipated growth in the non-regulated business

Greater than anticipated operations & maintenance contract wins could result in the non-regulated business growing faster than our estimate of a 1% 3-year revenue CAGR (2008-2011E), resulting in upside to our earnings estimates.

Risks to our view: Economic environment may slow rate relief

Adverse regulatory decisions/rate shock

American Water ultimately must rely on decisions from Public Utility Commissions in setting authorized ROEs and approved water rates. The timing of regulatory decisions or authorized ROE targets/water rates could come in below our expectations, reducing our earnings estimates. In addition, given rate case stay-outs, American Water's requested rate increases have often exceeded 25%, fueling increased public/political opposition and potentially reducing American Water's chances of reaching targeted returns.

Regulatory lag

Operating or capital costs could rise faster than expected, and American Water may not be able to recover these costs until the conclusion of future rate cases, creating regulatory lag and potentially reducing our earnings estimates.

Financing risk

American Water will remain free cash flow negative for the foreseeable future and will need to access the capital markets (both debt and equity) regularly over the next several years to fund its capital expenditure program and bring its equity ratio back to the 45%-50% range. To the extent that American Water is faced with adverse financing conditions, its growth plans may be at risk.

Goodwill impairment could negatively impact credit ratings or trigger negative regulatory conditions

While the company's \$450 million goodwill impairment in the first quarter is a non-cash charge, it does have the effect of reducing the company's equity ratio to 40% (at March 31) from approximately 44% at December 31, 2008. The company has indicated that its long-term target equity ratio is 45%-50%. We assume that the company returns to a 45% ratio in 2012.

American Water has approximately \$1.2 billion of goodwill on the balance sheet, primarily as a result of the company's acquisition by RWE in 2003. Goodwill could be further impaired in the future, which could have negative implications for American Water's credit rating, rate case outcomes or potentially require dilutive equity infusions. The company is required to test for impairment at the end of each fiscal year, unless there is a triggering event sooner. It appears that a sustained decline in the company's share price alone can constitute a triggering event, as was the case in the first quarter. To the extent that the company's share price falls meaningfully below book value per share for a sustained period of time, goodwill impairments will be more likely.

As of March 31, American Water's book value per share was \$22.87 following the impairment charge. This compares with the company's average price of \$19.56 during the first quarter, the closing price of \$19.24 on March 31 and \$18.55 on May 8.

Unfavorable weather conditions

Unseasonably wet or dry weather can negatively impact volumes and earnings as was the case during much of 2008. Greater rainfall could reduce demand for water, while severe droughts could limit available supply, also negatively impacting volumes.

Condemnation and eminent domain

Municipalities can petition to acquire water utility assets through eminent domain or condemnation. Such cases could be a negative distraction for management and, in the extreme case, force American Water to sell assets, negatively impacting the earnings outlook. In 2008, California American Water Company sold its water and wastewater operations to the town of Felton (1,300 customers), following an extended court battle. Some political leaders in Homer Glen, Illinois, Anthem, Arizona, Scottsdale, Arizona, and Tennessee have also been threatening to explore this option.

Financial model assumptions

Our key model assumptions are as follows:

Regulated business

Incremental revenue growth due to:

- **Core growth** – We estimate that core growth will be essentially flat over the coming years; population growth (0.64%) offset mostly by declining per capita usage (-0.60%).
- **Acquisitions** – 1% growth due to tuck-in acquisitions.
- **DSIC** – nominal amount of surcharges implemented between rate cases.
- **Rate cases** – assume that company receives 50% of the amount filed in pending rate cases.

Assume operation and maintenance expenses will increase 4% in 2009 and 3% in 2010.

Non-regulated business

With the completion of certain contracts and the delayed ramp up on several others we now assume that non-regulated revenue declines during 2009 and recovers in 2010.

- **Revenue growth** – assume 6% decline in 2009 and 5% growth in 2010.
- **Expense growth** – assume 3% decline in 2009 and 4% increase in 2010.

Target equity to capitalization ratio of 45%

Assume negative free cash flow will be funded with new financing (both debt and equity) with the objective of restoring the company's equity to capitalization ratio to 45% from 40%. Our model assumes that the company raises \$676 million in equity from 2009-2011 and \$676 million in debt over the same period.

Dividend growth of 5%

Assume dividend grows at 5% and the dividend payout trends down from 73% in 2008 to 57% in 2010.

3-year EPS CAGR (2008-2011E) of 13.8%

Driven by steady improvement to 9.4% regulated ROE, 7.0% average annual rate base growth, and small tuck-in acquisitions; EPS growth peaks in 2009 (+33%) and slows to 4% in 2010 and 7% in 2011.

American Water model

Exhibit 5: American Water annual income statement 2006-2012E

\$ millions, except per-share data

INCOME STATEMENT	2006A	2007A	2008A	2009E	2010E	2011E	2012E
Operating Revenues	2,093.1	2,214.2	2,336.9	2,538.6	2,696.8	2,864.3	3,016.2
<i>Y/Y Growth</i>	-2.0%	5.8%	5.5%	8.6%	6.2%	6.2%	5.3%
Operation and maintenance	(1,174.5)	(1,246.5)	(1,303.8)	(1,357.9)	(1,414.0)	(1,471.2)	(1,530.4)
Depreciation and amortization	(259.2)	(267.3)	(271.3)	(288.0)	(318.1)	(346.6)	(375.1)
General taxes	(185.1)	(183.3)	(199.1)	(211.6)	(215.7)	(229.1)	(241.3)
% of revenues	8.8%	8.3%	8.5%	8.3%	8.0%	8.0%	8.0%
Gain (loss) on sale of assets	(0.1)	7.3	0.4	0.2	0.0	0.0	0.0
Operating Profit	474.2	524.5	563.1	681.4	749.0	817.4	869.4
<i>Operating Margin</i>	22.7%	23.7%	24.1%	26.8%	27.8%	28.5%	28.8%
Interest, net	(371.0)	(288.0)	(291.1)	(297.9)	(313.8)	(334.1)	(351.9)
AFUDC	8.6	11.2	22.7	20.2	20.0	20.0	20.0
Other inc/exp	0.9	6.2	4.7	5.6	6.0	6.0	6.0
Pretax Income	112.7	253.8	299.4	409.4	461.2	509.3	543.4
Provision for Income Taxes	(51.1)	(94.5)	(123.4)	(160.5)	(184.5)	(203.7)	(217.4)
<i>Tax Rate</i>	45.3%	37.2%	41.2%	39.2%	40.0%	40.0%	40.0%
Net Income, Continuing Ops	61.7	159.3	176.1	248.9	276.7	305.6	326.1
Preferred Dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-recurring/Discontinued Ops	(6.4)	(0.6)	0.0	0.0	0.0	0.0	0.0
Extraordinary Items	(217.5)	(501.5)	(738.5)	(443.0)	0.0	0.0	0.0
Net Income - Reported	(162.2)	(342.8)	(562.4)	(194.1)	276.7	305.6	326.1
Shares Outstanding - Basic (Avg)	160.0	160.0	160.0	170.1	182.3	185.9	193.8
Shares Outstanding - Diluted (Avg)	160.0	160.0	160.0	170.1	182.4	188.4	194.5
Shares Outstanding - Basic (EOP)	160.0	160.0	160.0	176.2	182.0	189.9	197.8
Shares Outstanding - Diluted (EOP)	160.0	160.0	160.0	176.2	186.4	190.4	198.5
EPS - Continuing Ops - Basic	0.39	1.00	1.10	1.46	1.52	1.64	1.68
EPS - Continuing Ops - Diluted	0.39	1.00	1.10	1.46	1.52	1.62	1.68
<i>Y/Y EPS Growth (diluted)</i>	-40.1%	158.4%	10.6%	32.9%	3.7%	6.9%	3.4%
EPS - Net Income - Reported - Basic	-1.01	-2.14	-3.52	-1.14	1.52	1.64	1.68
EPS - Net Income - Reported - Diluted	-1.01	-2.14	-3.52	-1.14	1.52	1.62	1.68
EBITDA	733.4	791.8	834.4	969.4	1,067.1	1,164.0	1,244.5
<i>Y/Y Growth</i>	-3.3%	8.0%	5.4%	16.2%	10.1%	9.1%	6.9%
<i>EBITDA Margin</i>	35.0%	35.8%	35.7%	38.2%	39.6%	40.6%	41.3%
MARGIN ANALYSIS:							
O&M as a % of Revenue	56.1%	56.3%	55.8%	53.5%	52.4%	51.4%	50.7%
EBITDA as % of Revenue	35.0%	35.8%	35.7%	38.2%	39.6%	40.6%	41.3%
EBIT as % of Revenue	22.7%	23.7%	24.1%	26.8%	27.8%	28.5%	28.8%
Pretax as % of Revenue	5.4%	11.5%	12.8%	16.1%	17.1%	17.8%	18.0%
Net Income - Cont Ops as % of Revenue	2.9%	7.2%	7.5%	9.8%	10.3%	10.7%	10.8%
Net Income - Reported as % of Revenue	-7.8%	-15.5%	-24.1%	-7.6%	10.3%	10.7%	10.8%
YOY GROWTH							
Revenue	-2.0%	5.8%	5.5%	8.6%	6.2%	6.2%	5.3%
EBIT	-4.6%	10.6%	7.4%	21.0%	9.9%	9.1%	6.4%
EBITDA	-3.3%	8.0%	5.4%	16.2%	10.1%	9.1%	6.9%
D&A	-0.8%	3.1%	1.5%	6.2%	10.5%	9.0%	8.2%
Pretax Income	-30.1%	125.1%	18.0%	36.7%	12.7%	10.4%	6.7%
Net Income - Cont Ops	-40.1%	158.4%	10.5%	41.4%	11.2%	10.4%	6.7%
EPS	-40.1%	158.4%	10.6%	32.9%	3.7%	6.9%	3.4%

Source: Company filings, Goldman Sachs Research estimates.

Exhibit 6: American Water balance sheet and cash flow statements, 2006-2012E

\$ millions

BALANCE SHEET	2006A	2007A	2008A	2009E	2010E	2011E	2012E
Cash and cash equivalents	29.8	13.5	9.5	8.5	8.5	8.5	8.5
Restricted funds	2.1	3.3	0.5	1.4	1.4	1.4	1.4
Utility customers accounts receivable	130.5	126.7	130.6	143.9	153.4	164.8	173.5
Unbilled utility revenues	123.2	134.3	134.2	147.6	157.3	169.0	178.0
Materials and supplies	23.0	27.5	28.9	33.7	31.1	32.2	33.5
Other receivables, net	54.5	89.7	68.9	75.4	80.3	86.3	90.9
Other current assets	36.6	35.5	45.1	56.6	56.6	56.6	56.6
Assets of Disc. Ops.	12.8	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Assets	412.4	430.4	417.7	467.2	488.6	518.9	542.4
Net Property Plant & Equipment	8,720.6	9,318.0	10,123.9	10,737.0	11,323.9	11,832.3	12,312.2
Goodwill & Other Intangibles	2,962.5	2,457.0	1,699.5	1,249.8	1,249.8	1,249.8	1,249.8
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Assets	687.6	728.8	990.7	1,014.5	1,034.5	1,054.5	1,074.5
Total Assets	12,783.1	12,934.1	13,231.8	13,468.5	14,096.8	14,655.5	15,179.0
Short-term Debt	1,007.1	317.0	654.8	707.6	707.6	707.6	707.6
Accounts payable	140.7	168.9	149.8	150.0	163.1	169.3	176.1
Accrued liabilities	62.9	106.9	106.1	161.5	161.5	161.5	161.5
Other current liabilities	150.5	181.8	194.0	185.0	185.0	185.0	185.0
Liabilities of Disc. Ops.	2.5	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	1,363.7	774.5	1,104.8	1,204.1	1,217.2	1,223.4	1,230.2
Long-term debt	4,870.9	4,699.1	4,648.2	4,783.2	5,054.7	5,272.4	5,436.0
Taxes payable, Def. Taxes & Revs.	2,726.6	2,913.8	3,372.3	3,406.6	3,431.6	3,456.6	3,481.6
Total Liabilities	8,961.1	8,387.5	9,125.3	9,393.9	9,703.5	9,952.4	10,147.9
Preferred Equity	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Shareholder's Equity	3,817.4	4,542.0	4,102.0	4,070.0	4,388.8	4,698.6	5,026.6
Total Liabilities & Equity	12,783.1	12,934.1	13,231.8	13,468.5	14,096.8	14,655.5	15,179.0
CASH FLOW STATEMENT	2006A	2007A	2008A	2009E	2010E	2011E	2012E
Sources:							
EBITDA	733.4	791.8	834.4	969.4	1,067.1	1,164.0	1,244.5
Interest Income	0.4	1.9	0.1	0.1	0.1	0.1	0.1
Total Sources	733.7	793.7	834.5	969.5	1,067.2	1,164.1	1,244.6
Uses:							
Interest Expense Paid	(371.4)	(289.9)	(291.2)	(298.0)	(313.9)	(334.2)	(352.1)
Book Taxes	(51.1)	(94.5)	(123.4)	(160.5)	(184.5)	(203.7)	(217.4)
Other Non-Operating Expenses	109.1	47.7	126.7	56.5	6.0	6.0	6.0
Change in Current Accounts (ex taxes)	(96.6)	16.8	5.5	(13.7)	(8.3)	(24.1)	(16.8)
Capital Expenditures	(682.9)	(750.8)	(1,008.8)	(820.0)	(875.0)	(825.0)	(825.0)
% of total revenues	32.6%	33.9%	43.2%	32.3%	32.4%	28.8%	27.4%
Total Uses	(1,092.9)	(1,070.8)	(1,291.1)	(1,235.7)	(1,375.6)	(1,381.0)	(1,405.2)
Free Cash Flow	(359.1)	(277.1)	(456.6)	(266.1)	(308.4)	(216.9)	(160.6)
<i>y/y growth</i>	<i>nm</i>	<i>-22.8%</i>	<i>64.8%</i>	<i>-41.7%</i>	<i>15.9%</i>	<i>-29.7%</i>	<i>-26.0%</i>
Net Investments	(26.2)	10.4	(12.3)	(6.1)	0.0	0.0	0.0
Acquisitions	(12.5)	(15.9)	(12.5)	(95.0)	(30.0)	(30.0)	(30.0)
Dividends	0.0	0.0	(64.1)	(141.3)	(158.0)	(171.8)	(187.9)
Discontinued Operations	30.2	9.7	0.0	0.0	0.0	0.0	0.0
Translation Adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash Flow before Financing	(367.7)	(272.9)	(545.6)	(508.5)	(496.4)	(418.8)	(378.5)
Contributions in aid of construction	47.4	35.8	3.1	20.0	25.0	25.0	25.0
Net new Debt	285.5	1,004.0	292.9	187.0	271.4	217.7	163.6
Net New Equity	(0.5)	(783.3)	245.6	300.5	200.0	176.0	189.9
Net Change in Cash	(35.3)	(16.3)	(3.9)	(1.0)	(0.0)	0.0	0.0
Beginning Cash	65.1	29.8	13.5	9.5	8.5	8.5	8.5
Ending Cash	29.8	13.5	9.5	8.5	8.5	8.5	8.5

Source: Company filings, Goldman Sachs Research estimates.

Reg AC

I, Maria Karahalidis, CFA, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Investment profile

The Goldman Sachs Investment Profile provides investment context for a security by comparing key attributes of that security to its peer group and market. The four key attributes depicted are: growth, returns, multiple and volatility. Growth, returns and multiple are indexed based on composites of several methodologies to determine the stocks percentile ranking within the region's coverage universe.

The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

Disclosures

Coverage group(s) of stocks by primary analyst(s)

Maria Karahalidis, CFA: America-Small Companies.

America-Small Companies: American Water Works Co., Inc., Bristow Group Inc., Brunswick Corp., Cosan Limited, Cosan SA Industria e Comercio, EnerSys Inc., FTI Consulting, Inc., Hertz Global Holdings, Inc., Jarden Corp., Seaspan Corp., USEC Inc..

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Goldman Sachs has received compensation for investment banking services in the past 12 months: American Water Works Co., Inc. (\$18.55)

Goldman Sachs expects to receive or intends to seek compensation for investment banking services in the next 3 months: American Water Works Co., Inc. (\$18.55)

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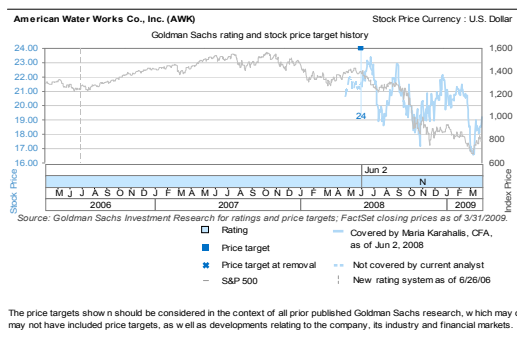
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Goldman Sachs Investment Research global coverage universe

	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	25%	53%	22%	54%	51%	43%

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Price target and rating history chart(s)



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Return potential represents the price differential between the current share price and the price target expected during the time horizon associated with the price target. Price targets are required for all covered stocks. The return potential, price target and associated time horizon are stated in each report adding or reiterating an Investment List membership.

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COMPANY UPDATE
American Water Works Co., Inc. (AWK)

Neutral

Lowering estimates due to higher anticipated O&M expenses

What's changed

We have reduced our estimates to reflect the following key assumptions: **(1)** higher O&M (operation & maintenance) expenses (slightly higher raw material costs, higher power costs, some delay in the recovery of pension expense, and increased expenses associated with financing – per equity offering announced June 1st); **(2)** Slightly lower revenue as we now assume that the Trenton acquisition contributes to revenue beginning in 4Q instead of 3Q; and **(3)** higher interest expense as we incorporate higher interest rates on debt issued subsequent to the close of the first quarter.

Implications

Our new 2009/2010/2011 EPS estimates are \$1.34/\$1.44/\$1.56 down from \$1.46/\$1.52/\$1.62 previously. Our new 2009/2010 EBITDA estimates are \$940/\$1,059 million, down from \$969/\$1,067 million. Our 2011 EBITDA estimate remains unchanged at \$1,164 million.

Valuation

We maintain our Neutral rating. Our 12-month price target moves to \$20 from \$21 previously and is based on the combination of relative valuation metrics (both P/E and EV/EBITDA), as well as a dividend discount model (5% dividend growth and 9% cost of equity). The reduction in our price target is explained by our lower 2010 EPS and EBITDA estimates.

Key risks

Key risks include: **(1)** regulatory decisions and regulatory lag that limit ROE expansion; and **(2)** financing risk associated with funding the large capital investment program.

Upside to our price target could come from: **(1)** faster-than-expected recovery through rates; **(2)** lower O&M expenses; and **(3)** stronger free cash flow generation that reduces the need for new equity.

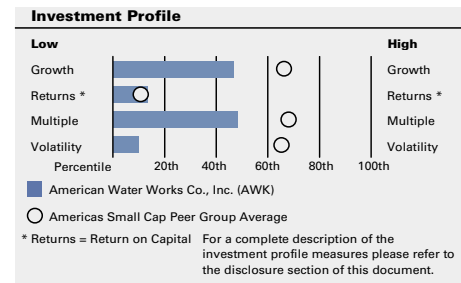
INVESTMENT LIST MEMBERSHIP

Neutral

Coverage View: Neutral

United States:
 Water

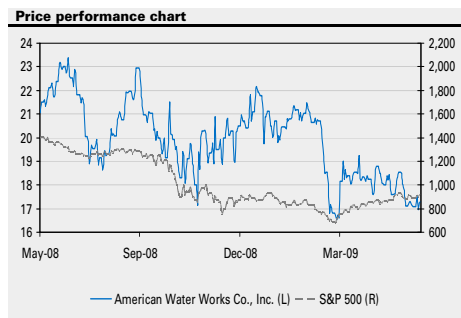
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Key data	Current
Price (\$)	17.28
12 month price target (\$)	20.00
Market cap (\$ mn)	2,765.0

	12/08	12/09E	12/10E	12/11E
Revenue (\$ mn) New	2,336.9	2,532.8	2,691.2	2,858.3
Revenue (\$ mn) Old	2,336.9	2,538.6	2,696.8	2,864.3
EPS (\$) New	1.10	1.34	1.44	1.56
EPS (\$) Old	1.10	1.46	1.52	1.62
P/E (X)	15.7	12.9	12.0	11.1
EV/EBITDA (X)	10.3	9.0	8.4	7.9
ROE (%)	4.1	5.6	6.3	6.6

	3/09	6/09E	9/09E	12/09E
EPS (\$)	0.19	0.32	0.55	0.27



Share price performance (%)	3 month	6 month	12 month
Absolute	(6.8)	(14.8)	(17.9)
Rel. to S&P 500	(25.5)	(16.9)	24.8

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 5/29/2009 close.

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American Water Works Co., Inc.: Summary financials

Profit model (\$ mn)	12/08	12/09E	12/10E	12/11E	Balance sheet (\$ mn)	12/08	12/09E	12/10E	12/11E
Total revenue	2,336.9	2,532.8	2,691.2	2,858.3	Cash & equivalents	9.5	8.5	8.5	8.5
Cost of goods sold	(1,575.1)	(1,669.6)	(1,735.2)	(1,812.8)	Accounts receivable	199.4	219.3	232.8	250.6
SG&A	(199.1)	(211.1)	(215.3)	(228.7)	Inventory	28.9	34.4	31.3	32.1
R&D	0.0	0.0	0.0	0.0	Other current assets	179.8	205.6	214.6	226.6
Other operating profit/(expense)	0.4	0.2	0.0	0.0	Total current assets	417.7	467.8	487.2	517.9
ESO expense	0.0	0.0	0.0	0.0	Net PP&E	10,123.9	10,737.7	11,324.6	11,833.0
EBITDA	834.4	939.7	1,058.8	1,163.5	Net intangibles	1,699.5	1,249.8	1,249.8	1,249.8
Depreciation & amortization	(271.3)	(287.3)	(318.1)	(346.6)	Total investments	0.0	0.0	0.0	0.0
EBIT	563.1	652.4	740.7	816.9	Other long-term assets	990.7	1,014.5	1,034.5	1,054.5
Net interest income/(expense)	(291.1)	(306.2)	(329.4)	(346.6)	Total assets	13,231.8	13,469.8	14,096.1	14,655.2
Income/(loss) from associates	0.0	0.0	0.0	0.0	Accounts payable	149.8	152.7	164.4	168.7
Others	27.4	25.8	26.0	26.0	Short-term debt	654.8	707.6	707.6	707.6
Pretax profits	299.4	372.0	437.4	496.2	Other current liabilities	300.1	346.6	346.6	346.6
Provision for taxes	(123.4)	(145.7)	(174.9)	(198.5)	Total current liabilities	1,104.8	1,206.9	1,218.5	1,222.9
Minority interest	0.0	0.0	0.0	0.0	Long-term debt	4,648.2	4,853.5	5,089.1	5,272.6
Net income pre-preferred dividends	176.1	226.3	262.4	297.7	Other long-term liabilities	3,372.3	3,406.6	3,431.6	3,456.6
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	8,020.5	8,260.1	8,520.7	8,729.1
Net income (pre-exceptionals)	176.1	226.3	262.4	297.7	Total liabilities	9,125.3	9,467.0	9,739.2	9,952.0
Post tax exceptionals	(738.5)	(443.0)	0.0	0.0	Preferred shares	4.6	4.6	4.6	4.6
Net income (post-exceptionals)	(562.4)	(216.8)	262.4	297.7	Total common equity	4,102.0	3,998.3	4,352.4	4,698.7
EPS (basic, pre-exception) (\$)	1.10	1.34	1.44	1.58	Minority interest	0.0	0.0	0.0	0.0
EPS (diluted, pre-exception) (\$)	1.10	1.34	1.44	1.56	Total liabilities & equity	13,231.8	13,469.8	14,096.1	14,655.2
EPS (basic, post-exception) (\$)	(3.52)	(1.29)	1.44	1.58	Additional financials	12/08	12/09E	12/10E	12/11E
EPS (diluted, post-exception) (\$)	(3.52)	(1.29)	1.44	1.56	Net debt/equity (%)	128.9	138.7	132.8	127.0
Common dividends paid	(64.1)	(140.4)	(158.4)	(175.3)	Interest cover (X)	1.9	2.1	2.2	2.4
DPS (\$)	0.40	0.82	0.86	0.90	Inventory days	6.5	6.9	6.9	6.4
Dividend payout ratio (%)	36.4	61.1	59.8	57.2	Receivable days	32.5	30.2	30.7	30.9
Growth & margins (%)	12/08	12/09E	12/10E	12/11E	BVPS (\$)	25.64	22.88	23.72	24.25
Sales growth	5.5	8.4	6.3	6.2	ROA (%)	1.3	1.7	1.9	2.1
EBITDA growth	5.4	12.6	12.7	9.9	CROCI (%)	4.5	4.4	4.4	4.6
EBIT growth	7.4	15.9	13.5	10.3	Dupont ROE (%)	4.3	5.7	6.0	6.3
Net income (pre-exception) growth	10.5	28.5	16.0	13.5	Margin (%)	7.5	8.9	9.8	10.4
EPS growth	10.6	21.9	7.1	9.8	Turnover (X)	0.2	0.2	0.2	0.2
Gross margin	32.6	34.1	35.5	36.6	Leverage (X)	3.2	3.4	3.2	3.1
EBITDA margin	35.7	37.1	39.3	40.7	Free cash flow per share (\$)	(2.85)	(1.70)	(1.77)	(1.20)
EBIT margin	24.1	25.8	27.5	28.6	Free cash flow yield (%)	(13.8)	(9.9)	(10.2)	(7.0)
Cash flow statement (\$ mn)	12/08	12/09E	12/10E	12/11E					
Net income	176.1	226.3	262.4	297.7					
D&A add-back (incl. ESO)	271.3	287.3	318.1	346.6					
Minority interest add-back	0.0	0.0	0.0	0.0					
Net (inc)/dec working capital	5.5	(11.5)	(7.7)	(26.3)					
Other operating cash flow	99.3	30.7	(20.0)	(20.0)					
Cash flow from operations	552.2	532.7	552.8	598.0					
Capital expenditures	(1,008.8)	(820.0)	(875.0)	(825.0)					
Acquisitions	(12.5)	(95.0)	(30.0)	(30.0)					
Divestitures	0.0	0.0	0.0	0.0					
Others	(12.3)	(6.1)	0.0	0.0					
Cash flow from investing	(1,033.7)	(921.1)	(905.0)	(855.0)					
Dividends paid (common & pref)	(64.1)	(140.4)	(158.4)	(175.3)					
Inc/(dec) in debt	292.9	257.2	235.6	183.5					
Other financing cash flows	248.7	270.5	275.0	248.9					
Cash flow from financing	477.6	387.4	352.2	257.0					
Total cash flow	(3.9)	(1.0)	0.0	0.0					

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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American Water model

Exhibit 1: American Water annual income statement 2006-2012E

\$ in millions, except per-share data

INCOME STATEMENT	2006A	2007A	2008A	2009E	2010E	2011E	2012E
Operating Revenues	2,093.1	2,214.2	2,336.9	2,532.8	2,691.2	2,858.3	3,009.8
<i>Y/Y Growth</i>	-2.0%	5.8%	5.5%	8.4%	6.3%	6.2%	5.3%
Operation and maintenance	(1,174.5)	(1,246.5)	(1,303.8)	(1,382.2)	(1,417.1)	(1,466.2)	(1,516.8)
Depreciation and amortization	(259.2)	(267.3)	(271.3)	(287.3)	(318.1)	(346.6)	(375.1)
General taxes	(185.1)	(183.3)	(199.1)	(211.1)	(215.3)	(228.7)	(240.8)
% of revenues	8.8%	8.3%	8.5%	8.3%	8.0%	8.0%	8.0%
Gain (loss) on sale of assets	(0.1)	7.3	0.4	0.2	0.0	0.0	0.0
Operating Profit	474.2	524.5	563.1	652.4	740.7	816.9	877.2
<i>Operating Margin</i>	22.7%	23.7%	24.1%	25.8%	27.5%	28.6%	29.1%
Interest, net	(371.0)	(288.0)	(291.1)	(306.2)	(329.4)	(346.6)	(362.1)
AFUDC	8.6	11.2	22.7	20.2	20.0	20.0	20.0
Other inc/exp	0.9	6.2	4.7	5.6	6.0	6.0	6.0
Pretax Income	112.7	253.8	299.4	372.0	437.4	496.2	541.1
Provision for Income Taxes	(51.1)	(94.5)	(123.4)	(145.7)	(174.9)	(198.5)	(216.4)
<i>Tax Rate</i>	45.3%	37.2%	41.2%	39.2%	40.0%	40.0%	40.0%
Net Income, Continuing Ops	61.7	159.3	176.1	226.3	262.4	297.7	324.7
Preferred Dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-recurring/Discontinued Ops	(6.4)	(0.6)	0.0	0.0	0.0	0.0	0.0
Extraordinary Items	(217.5)	(501.5)	(738.5)	(443.0)	0.0	0.0	0.0
Net Income - Reported	(162.2)	(342.8)	(562.4)	(216.8)	262.4	297.7	324.7
Shares Outstanding - Basic (Avg)	160.0	160.0	160.0	168.6	182.5	188.6	197.9
Shares Outstanding - Diluted (Avg)	160.0	160.0	160.0	168.6	182.5	190.7	198.5
Shares Outstanding - Basic (EOP)	160.0	160.0	160.0	174.7	183.5	193.7	202.0
Shares Outstanding - Diluted (EOP)	160.0	160.0	160.0	174.7	187.2	194.2	202.7
EPS - Continuing Ops - Basic	0.39	1.00	1.10	1.34	1.44	1.58	1.64
EPS - Continuing Ops - Diluted	0.39	1.00	1.10	1.34	1.44	1.56	1.64
<i>Y/Y EPS Growth (diluted)</i>	-40.1%	158.4%	10.6%	21.9%	7.1%	8.6%	4.8%
EPS - Net Income - Reported - Basic	-1.01	-2.14	-3.52	-1.29	1.44	1.58	1.64
EPS - Net Income - Reported - Diluted	-1.01	-2.14	-3.52	-1.29	1.44	1.56	1.64
EBITDA	733.4	791.8	834.4	939.7	1,058.8	1,163.5	1,252.3
<i>Y/Y Growth</i>	-3.3%	8.0%	5.4%	12.6%	12.7%	9.9%	7.6%
<i>EBITDA Margin</i>	35.0%	35.8%	35.7%	37.1%	39.3%	40.7%	41.6%
MARGIN ANALYSIS:							
O&M as a % of Revenue	56.1%	56.3%	55.8%	54.6%	52.7%	51.3%	50.4%
EBITDA as % of Revenue	35.0%	35.8%	35.7%	37.1%	39.3%	40.7%	41.6%
EBIT as % of Revenue	22.7%	23.7%	24.1%	25.8%	27.5%	28.6%	29.1%
Pretax as % of Revenue	5.4%	11.5%	12.8%	14.7%	16.3%	17.4%	18.0%
Net Income - Cont Ops as % of Revenue	2.9%	7.2%	7.5%	8.9%	9.8%	10.4%	10.8%
Net Income - Reported as % of Revenue	-7.8%	-15.5%	-24.1%	-8.6%	9.8%	10.4%	10.8%
YOY GROWTH							
Revenue	-2.0%	5.8%	5.5%	8.4%	6.3%	6.2%	5.3%
EBIT	-4.6%	10.6%	7.4%	15.9%	13.5%	10.3%	7.4%
EBITDA	-3.3%	8.0%	5.4%	12.6%	12.7%	9.9%	7.6%
D&A	-0.8%	3.1%	1.5%	5.9%	10.7%	9.0%	8.2%
Pretax Income	-30.1%	125.1%	18.0%	24.2%	17.6%	13.5%	9.0%
Net Income - Cont Ops	-40.1%	158.4%	10.5%	28.5%	16.0%	13.5%	9.0%
EPS	-40.1%	158.4%	10.6%	21.9%	7.1%	8.6%	4.8%

Source: Company filings, Goldman Sachs Research estimates.

Exhibit 2: American Water balance sheet and cash flow statements, 2006-2012E

\$ in millions

BALANCE SHEET	2006A	2007A	2008A	2009E	2010E	2011E	2012E
Cash and cash equivalents	29.8	13.5	9.5	8.5	8.5	8.5	8.5
Restricted funds	2.1	3.3	0.5	1.4	1.4	1.4	1.4
Utility customers accounts receivable	130.5	126.7	130.6	143.9	152.7	164.5	173.2
Unbilled utility revenues	123.2	134.3	134.2	147.6	156.6	168.6	177.6
Materials and supplies	23.0	27.5	28.9	34.4	31.3	32.1	33.2
Other receivables, net	54.5	89.7	68.9	75.4	80.0	86.1	90.7
Other current assets	36.6	35.5	45.1	56.6	56.6	56.6	56.6
Assets of Disc. Ops.	12.8	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Assets	412.4	430.4	417.7	467.8	487.2	517.9	541.2
Net Property Plant & Equipment	8,720.6	9,318.0	10,123.9	10,737.7	11,324.6	11,833.0	12,312.9
Goodwill & Other Intangibles	2,962.5	2,457.0	1,699.5	1,249.8	1,249.8	1,249.8	1,249.8
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Assets	687.6	728.8	990.7	1,014.5	1,034.5	1,054.5	1,074.5
Total Assets	12,783.1	12,934.1	13,231.8	13,469.8	14,096.1	14,655.2	15,178.5
Short-term Debt	1,007.1	317.0	654.8	707.6	707.6	707.6	707.6
Accounts payable	140.7	168.9	149.8	152.7	164.4	168.7	174.5
Accrued liabilities	62.9	106.9	106.1	161.5	161.5	161.5	161.5
Other current liabilities	150.5	181.8	194.0	185.0	185.0	185.0	185.0
Liabilities of Disc. Ops.	2.5	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	1,363.7	774.5	1,104.8	1,206.9	1,218.5	1,222.9	1,228.7
Long-term debt	4,870.9	4,699.1	4,648.2	4,853.5	5,089.1	5,272.6	5,436.6
Taxes payable, Def. Taxes & Revs.	2,726.6	2,913.8	3,372.3	3,406.6	3,431.6	3,456.6	3,481.6
Total Liabilities	8,961.1	8,387.5	9,125.3	9,467.0	9,739.2	9,952.0	10,146.8
Preferred Equity	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Shareholder's Equity	3,817.4	4,542.0	4,102.0	3,998.3	4,352.4	4,698.7	5,027.1
Total Liabilities & Equity	12,783.1	12,934.1	13,231.8	13,469.8	14,096.1	14,655.2	15,178.5
CASH FLOW STATEMENT	2006A	2007A	2008A	2009E	2010E	2011E	2012E
Sources:							
EBITDA	733.4	791.8	834.4	939.7	1,058.8	1,163.5	1,252.3
Interest Income	0.4	1.9	0.1	0.1	0.1	0.1	0.1
Total Sources	733.7	793.7	834.5	939.8	1,058.9	1,163.6	1,252.4
Uses:							
Interest Expense Paid	(371.4)	(289.9)	(291.2)	(306.4)	(329.5)	(346.8)	(362.2)
Book Taxes	(51.1)	(94.5)	(123.4)	(145.7)	(174.9)	(198.5)	(216.4)
Other Non-Operating Expenses	109.1	47.7	126.7	56.5	6.0	6.0	6.0
Change in Current Accounts (ex taxes)	(96.6)	16.8	5.5	(11.5)	(7.7)	(26.3)	(17.5)
Capital Expenditures	(682.9)	(750.8)	(1,008.8)	(820.0)	(875.0)	(825.0)	(825.0)
% of total revenues	32.6%	33.9%	43.2%	32.4%	32.5%	28.9%	27.4%
Total Uses	(1,092.9)	(1,070.8)	(1,291.1)	(1,227.1)	(1,381.2)	(1,390.6)	(1,415.2)
Free Cash Flow	(359.1)	(277.1)	(456.6)	(287.3)	(322.2)	(227.0)	(162.8)
y/y growth	nm	-22.8%	64.8%	-37.1%	12.2%	-29.5%	-28.3%
Net Investments	(26.2)	10.4	(12.3)	(6.1)	0.0	0.0	0.0
Acquisitions	(12.5)	(15.9)	(12.5)	(95.0)	(30.0)	(30.0)	(30.0)
Dividends	0.0	0.0	(64.1)	(140.4)	(158.4)	(175.3)	(191.9)
Discontinued Operations	30.2	9.7	0.0	0.0	0.0	0.0	0.0
Translation Adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash Flow before Financing	(367.7)	(272.9)	(545.6)	(528.8)	(510.6)	(432.3)	(384.7)
Contributions in aid of construction	47.4	35.8	3.1	20.0	25.0	25.0	25.0
Net new Debt	285.5	1,004.0	292.9	257.2	235.6	183.5	164.0
Net New Equity	(0.5)	(783.3)	245.6	250.5	250.0	223.9	195.6
Net Change in Cash	(35.3)	(16.3)	(3.9)	(1.0)	0.0	0.0	0.0
Beginning Cash	65.1	29.8	13.5	9.5	8.5	8.5	8.5
Ending Cash	29.8	13.5	9.5	8.5	8.5	8.5	8.5

Source: Company filings, Goldman Sachs Research estimates.

Reg AC

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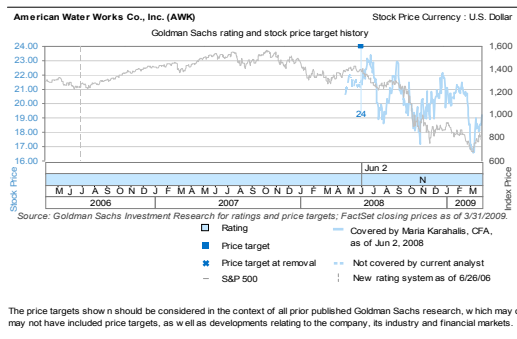
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	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
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COMPANY UPDATE

American Water Works Co., Inc. (AWK)

Neutral

2Q09 earnings in line; weather hurts volumes

What's changed

American Water reported 2Q EPS of \$0.32, in line with our forecast, although both revenue and O&M expenses were below our expectations. Poor weather in the Northeast was the principal driver of the volume shortfall. In addition, commercial and industrial volumes remained under pressure due to weaker economic activity and several customer bankruptcies. Lower contracted services, transportation, and maintenance expenses explain the improvement on the O&M line.

Implications

We are reducing our 2009 EPS estimate to \$1.25 from \$1.34 due to our lower volume forecast for the second half of the year (weaker 3Q09 volume due to poor weather in July and pushing revenue from the Trenton acquisition to 2010 from 4Q09, given recent transaction delays). As the second quarter volume decline was principally weather driven, we do not believe that this has negative implications for volume in 2010 or 2011. We maintain our 2010 and 2011 EPS estimates of \$1.44 and \$1.56, respectively.

Valuation

We maintain our Neutral rating. We are rolling forward our valuation year to 2011 from 2010, and our 12-month price target increases to \$21.50 from \$20.00. Our price target is based on a combination of relative valuation metrics (both P/E and EV/EBITDA), as well as a dividend discount model (5% dividend growth and 9% cost of equity).

Key risks

Key risks include **(1)** regulatory decisions and regulatory lag that limit ROE expansion and **(2)** financing risk associated with funding the large capital investment program.

Upside to our price target could come from **(1)** faster-than-expected recovery through rates, **(2)** lower O&M expenses, and **(3)** stronger free cash flow generation that reduces the need for new equity.

INVESTMENT LIST MEMBERSHIP

Neutral

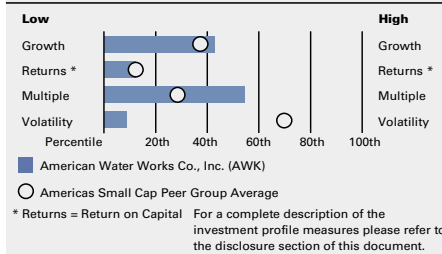
Coverage View: Neutral

United States:
Water

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Investment Profile

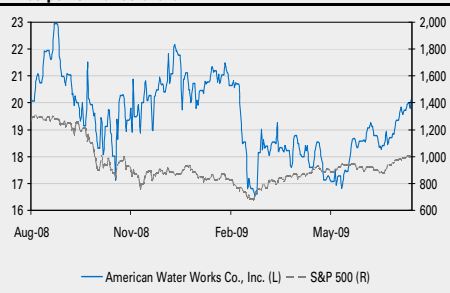


Key data	Current
Price (\$)	20.13
12 month price target (\$)	21.50
Market cap (\$ mn)	3,287.2

	12/08	12/09E	12/10E	12/11E
Revenue (\$ mn) New	2,336.9	2,476.4	2,681.3	2,846.5
Revenue (\$ mn) Old	2,336.9	2,532.8	2,691.2	2,858.3
EPS (\$) New	1.10	1.25	1.44	1.56
EPS (\$) Old	1.10	1.34	1.44	1.56
P/E (X)	18.3	16.0	14.0	12.9
EV/EBITDA (X)	10.3	9.7	8.9	8.4
ROE (%)	4.1	5.1	6.3	6.6

	6/09	9/09E	12/09E	3/10E
EPS (\$)	0.32	0.52	0.24	0.22

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	9.8	(4.3)	(0.1)
Rel. to S&P 500	(1.4)	(17.7)	25.2

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 8/07/2009 close.

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American Water Works Co., Inc.: Summary financials

Profit model (\$ mn)	12/08	12/09E	12/10E	12/11E	Balance sheet (\$ mn)	12/08	12/09E	12/10E	12/11E
Total revenue	2,336.9	2,476.4	2,681.3	2,846.5	Cash & equivalents	9.5	9.0	9.0	9.0
Cost of goods sold	(1,575.1)	(1,645.5)	(1,719.0)	(1,796.1)	Accounts receivable	199.4	215.0	233.7	249.6
SG&A	(199.1)	(209.3)	(214.5)	(227.7)	Inventory	28.9	34.1	31.3	31.8
R&D	0.0	0.0	0.0	0.0	Other current assets	179.8	236.1	248.7	259.3
Other operating profit/(expense)	0.4	0.2	0.0	0.0	Total current assets	417.7	494.2	522.7	549.6
ESO expense	0.0	0.0	0.0	0.0	Net PP&E	10,123.9	10,658.9	11,325.7	11,833.9
EBITDA	834.4	915.5	1,066.0	1,169.4	Net intangibles	1,699.5	1,250.1	1,250.1	1,250.1
Depreciation & amortization	(271.3)	(293.7)	(318.2)	(346.7)	Total investments	0.0	0.0	0.0	0.0
EBIT	563.1	621.7	747.8	822.7	Other long-term assets	990.7	1,058.6	1,078.6	1,098.6
Net interest income/(expense)	(291.1)	(307.9)	(336.4)	(351.6)	Total assets	13,231.8	13,461.7	14,177.0	14,732.2
Income/(loss) from associates	0.0	0.0	0.0	0.0	Accounts payable	149.8	151.7	164.1	166.8
Others	27.4	25.5	26.0	26.0	Short-term debt	654.8	366.1	366.1	366.1
Pretax profits	299.4	339.3	437.4	497.0	Other current liabilities	300.1	303.6	303.6	303.6
Provision for taxes	(123.4)	(132.9)	(175.0)	(198.8)	Total current liabilities	1,104.8	821.3	833.8	836.5
Minority interest	0.0	0.0	0.0	0.0	Long-term debt	4,648.2	5,189.3	5,512.5	5,648.3
Net income pre-preferred dividends	176.1	206.4	262.5	298.2	Other long-term liabilities	3,372.3	3,467.2	3,492.2	3,517.2
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	8,020.5	8,656.5	9,004.8	9,165.6
Net income (pre-exceptionals)	176.1	206.4	262.5	298.2	Total liabilities	9,125.3	9,477.9	9,838.6	10,002.0
Post tax exceptionals	(738.5)	(443.0)	0.0	0.0	Preferred shares	4.6	4.6	4.6	4.6
Net income (post-exceptionals)	(562.4)	(236.7)	262.5	298.2	Total common equity	4,102.0	3,979.3	4,333.8	4,725.6
EPS (basic, pre-exception) (\$)	1.10	1.25	1.44	1.58	Minority interest	0.0	0.0	0.0	0.0
EPS (diluted, pre-exception) (\$)	1.10	1.25	1.44	1.56	Total liabilities & equity	13,231.8	13,461.7	14,177.0	14,732.2
EPS (basic, post-exception) (\$)	(3.52)	(1.44)	1.44	1.58	Additional financials	12/08	12/09E	12/10E	12/11E
EPS (diluted, post-exception) (\$)	(3.52)	(1.44)	1.44	1.56	Net debt/equity (%)	128.9	139.2	135.3	127.0
Common dividends paid	(64.1)	(137.3)	(158.0)	(175.9)	Interest cover (X)	1.9	2.0	2.2	2.3
DPS (\$)	0.40	0.82	0.86	0.90	Inventory days	6.5	7.0	6.9	6.4
Dividend payout ratio (%)	36.4	65.3	59.6	57.1	Receivable days	32.5	30.5	30.5	31.0
					BVPS (\$)	25.64	22.80	23.72	24.31
					ROA (%)	1.3	1.5	1.9	2.1
					CROCI (%)	4.5	4.3	4.4	4.6
					Dupont ROE (%)	4.3	5.2	6.0	6.3
					Margin (%)	7.5	8.3	9.8	10.5
					Turnover (X)	0.2	0.2	0.2	0.2
					Leverage (X)	3.2	3.4	3.3	3.1
					Free cash flow per share (\$)	(2.85)	(1.93)	(1.82)	(1.19)
					Free cash flow yield (%)	(13.8)	(9.6)	(9.0)	(5.9)
Growth & margins (%)	12/08	12/09E	12/10E	12/11E					
Sales growth	5.5	6.0	8.3	6.2					
EBITDA growth	5.4	9.7	16.4	9.7					
EBIT growth	7.4	10.4	20.3	10.0					
Net income (pre-exception) growth	10.5	17.2	27.2	13.6					
EPS growth	10.6	14.0	15.0	9.6					
Gross margin	32.6	33.6	35.9	36.9					
EBITDA margin	35.7	37.0	39.8	41.1					
EBIT margin	24.1	25.1	27.9	28.9					
Cash flow statement (\$ mn)	12/08	12/09E	12/10E	12/11E					
Net income	176.1	206.4	262.5	298.2					
D&A add-back (incl. ESO)	271.3	293.7	318.2	346.7					
Minority interest add-back	0.0	0.0	0.0	0.0					
Net (inc)/dec working capital	5.5	(33.1)	(16.0)	(24.3)					
Other operating cash flow	99.3	30.1	(20.0)	(20.0)					
Cash flow from operations	552.2	497.1	544.7	600.6					
Capital expenditures	(1,008.8)	(815.0)	(875.0)	(825.0)					
Acquisitions	(12.5)	0.0	(110.0)	(30.0)					
Divestitures	0.0	0.0	0.0	0.0					
Others	(12.3)	(6.1)	0.0	0.0					
Cash flow from investing	(1,033.7)	(771.9)	(985.0)	(855.0)					
Dividends paid (common & pref)	(64.1)	(137.3)	(158.0)	(175.9)					
Inc/(dec) in debt	292.9	125.6	323.3	135.8					
Other financing cash flows	248.7	258.3	275.0	294.5					
Cash flow from financing	477.6	246.6	440.3	254.4					
Total cash flow	(3.9)	(28.3)	0.0	0.0					

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

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Details on our model changes

Exhibit 1 summarizes the key differences between our 2Q estimates and the results reported by American Water.

Exhibit 1: American Water 2Q2009 actuals versus expected

\$ in millions, except per share data

	2Q09A	2Q09E	% Chg	2Q08A	% Chg	1Q09A	% Chg
Operating Revenues	612.7	637.4	-3.9%	589.4	4.0%	550.2	11.4%
<i>Y/Y Growth</i>	4.0%	8.2%	-419 bps	5.5%	-152 bps	8.6%	-459 bps
Operating and maintenance	(330.6)	(360.9)	-8.4%	(330.6)	0.0%	(314.4)	5.2%
Depreciation and amortization	(73.2)	(70.6)	3.8%	(67.3)	8.8%	(68.8)	6.4%
General taxes	(51.7)	(51.0)	1.4%	(49.6)	4.2%	(52.5)	-1.5%
% of revenues	8.4%	8.0%	+44 bps	8.4%	+2 bps	9.5%	-110 bps
Gain (loss) on sale of assets	(0.0)	0.0		0.8	-101.3%	0.2	-105.0%
Operating Profit	157.2	154.9	1.4%	142.7	10.2%	114.6	37.1%
<i>Operating Margin</i>	25.7%	24.3%	+135 bps	24.2%	+145 bps	20.8%	+482 bps
Interest, net	(75.2)	(75.3)	0.0%	(71.5)	5.2%	(73.5)	2.4%
AFUDC	5.6	5.0	11.3%	5.1	8.9%	5.2	6.7%
Other inc/exp	(1.4)	1.5	-193.9%	(0.6)	135.2%	1.1	-226.5%
Pretax Income	86.1	86.2	-0.1%	75.7	13.8%	47.5	81.3%
Provision for Income Taxes	(34.1)	(34.0)	0.3%	(30.2)	13.2%	(17.5)	94.5%
<i>Tax Rate</i>	39.6%	39.5%	+14 bps	39.9%	-23 bps	36.9%	+269 bps
Net Income, Continuing Ops	52.0	52.1	-0.3%	45.5	14.3%	29.9	73.6%
Preferred Dividend	0.0	0.0		0.0		0.0	
Non-recurring/Discontinued Ops	0.0	0.0		0.0		0.0	
Extraordinary Items	0.0	0.0		0.0		(443.0)	-100.0%
Net Income	52.0	52.1	-0.3%	45.5	14.3%	(413.1)	-112.6%
Shares Outstanding - Basic	163.2	164.9	-1.0%	159.9	2.1%	160.0	2.0%
Shares Outstanding - Diluted	163.3	164.9	-1.0%	160.0	2.1%	160.0	2.1%
Shares Outstanding - Basic (EOP)	174.6	174.7	-0.1%	160.0	9.1%	160.0	9.1%
Shares Outstanding - Diluted (EOP)	174.6	174.7	-0.1%	160.0	9.1%	160.0	9.1%
EPS - Continuing Ops- Basic	0.32	0.32	0.7%	0.28	12.0%	0.19	70.2%
EPS - Continuing Ops- Diluted	0.32	0.32	0.7%	0.28	11.9%	0.19	70.1%
<i>Y/Y EPS Growth (diluted)</i>	11.9%	11.2%	+78 bps	-9.0%	+2,090 bps	399.8%	-38,786 bps
EPS - Net Income- Basic	0.32	0.32	0.7%	0.28	12.0%	-2.58	-112.3%
EPS - Net Income- Diluted	0.32	0.32	0.7%	0.28	11.9%	-2.58	-112.3%
EBITDA	230.4	225.5	2.2%	210.0	9.7%	183.5	25.6%
<i>Y/Y Growth</i>	9.7%	7.4%	+235 bps	-4.4%	+1,415 bps	27.8%	-1,806 bps
<i>EBITDA Margin</i>	37.6%	35.4%	+223 bps	35.6%	+198 bps	33.3%	+426 bps
MARGIN ANALYSIS:							
O&M as a % of Revenue	54.0%	56.6%	-267 bps	56.1%	-214 bps	57.1%	-319 bps
EBITDA	37.6%	35.4%	+223 bps	35.6%	+198 bps	33.3%	+426 bps
EBIT	25.7%	24.3%	+135 bps	24.2%	+145 bps	20.8%	+482 bps
Pretax	14.1%	13.5%	+53 bps	12.8%	+122 bps	8.6%	+542 bps
Net-Continuing Operations	8.5%	8.2%	+30 bps	7.7%	+76 bps	5.4%	+304 bps
Net Income	8.5%	8.2%	+30 bps	7.7%	+76 bps	-75.1%	+8,357 bps
YOY GROWTH							
Revenue	4.0%	8.2%	-419 bps	5.5%	-152 bps	8.6%	-459 bps
EBIT	10.2%	8.6%	+157 bps	-5.8%	+1,602 bps	43.9%	-3,374 bps
EBITDA	9.7%	7.4%	+235 bps	-4.4%	+1,415 bps	27.8%	-1,806 bps
D&A	8.8%	4.8%	+400 bps	-1.2%	+1,004 bps	7.7%	+111 bps
Pretax Income	13.8%	13.9%	-8 bps	-8.4%	+2,226 bps	254.0%	-24,022 bps
Net Income	14.3%	14.6%	-34 bps	-9.0%	+2,324 bps	399.8%	-38,557 bps
EPS	11.9%	11.2%	+78 bps	-9.0%	+2,090 bps	399.8%	-38,786 bps

Source: Company data, Goldman Sachs Research estimates.

Exhibits 2 and 3 summarize our expected full year forecasts for the company's income statement, balance sheet and cash flows.

Exhibit 2: American Water annual income statement, 2006-2012E

\$ in millions, except per share data

INCOME STATEMENT	2006A	2007A	2008A	2009E	2010E	2011E	2012E
Operating Revenues	2,093.1	2,214.2	2,336.9	2,476.4	2,681.3	2,846.5	2,996.0
<i>YY Growth</i>	-2.0%	5.8%	5.5%	6.0%	8.3%	6.2%	5.3%
Operation and maintenance	(1,174.5)	(1,246.5)	(1,303.8)	(1,351.8)	(1,400.8)	(1,449.4)	(1,499.5)
Depreciation and amortization	(259.2)	(267.3)	(271.3)	(293.7)	(318.2)	(346.7)	(375.2)
General taxes	(185.1)	(183.3)	(199.1)	(209.3)	(214.5)	(227.7)	(239.7)
% of revenues	8.8%	8.3%	8.5%	8.5%	8.0%	8.0%	8.0%
Gain (loss) on sale of assets	(0.1)	7.3	0.4	0.2	0.0	0.0	0.0
Operating Profit	474.2	524.5	563.1	621.7	747.8	822.7	881.6
<i>Operating Margin</i>	22.7%	23.7%	24.1%	25.1%	27.9%	28.9%	29.4%
Interest, net	(371.0)	(288.0)	(291.1)	(307.9)	(336.4)	(351.6)	(364.0)
AFUDC	8.6	11.2	22.7	20.8	20.0	20.0	20.0
Other inc/exp	0.9	6.2	4.7	4.7	6.0	6.0	6.0
Pretax Income	112.7	253.8	299.4	339.3	437.4	497.0	543.6
Provision for Income Taxes	(51.1)	(94.5)	(123.4)	(132.9)	(175.0)	(198.8)	(217.4)
<i>Tax Rate</i>	45.3%	37.2%	41.2%	39.2%	40.0%	40.0%	40.0%
Net Income, Continuing Ops	61.7	159.3	176.1	206.4	262.5	298.2	326.1
Preferred Dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-recurring/Discontinued Ops	(6.4)	(0.6)	0.0	0.0	0.0	0.0	0.0
<i>Extraordinary Items</i>	(217.5)	(501.5)	(738.5)	(443.0)	0.0	0.0	0.0
Net Income - Reported	(162.2)	(342.8)	(562.4)	(236.7)	262.5	298.2	326.1
Shares Outstanding - Basic (Avg)	160.0	160.0	160.0	164.5	181.9	188.5	198.3
Shares Outstanding - Diluted (Avg)	160.0	160.0	160.0	164.5	182.1	191.0	199.0
Shares Outstanding - Basic (EOP)	160.0	160.0	160.0	174.5	182.7	194.4	202.1
Shares Outstanding - Diluted (EOP)	160.0	160.0	160.0	174.6	186.9	195.0	203.0
EPS - Continuing Ops - Basic	0.39	1.00	1.10	1.25	1.44	1.58	1.65
EPS - Continuing Ops - Diluted	0.39	1.00	1.10	1.25	1.44	1.56	1.64
<i>YY EPS Growth (diluted)</i>	-40.1%	158.4%	10.6%	14.0%	14.9%	8.4%	4.9%
EPS - Net Income - Reported - Basic	-1.01	-2.14	-3.52	-1.44	1.44	1.58	1.65
EPS - Net Income - Reported - Diluted	-1.01	-2.14	-3.52	-1.44	1.44	1.56	1.64
EBITDA	733.4	791.8	834.4	915.5	1,066.0	1,169.4	1,256.8
<i>YY Growth</i>	-3.3%	8.0%	5.4%	9.7%	16.4%	9.7%	7.5%
<i>EBITDA Margin</i>	35.0%	35.8%	35.7%	37.0%	39.8%	41.1%	41.9%
MARGIN ANALYSIS:							
O&M as a % of Revenue	56.1%	56.3%	55.8%	54.6%	52.2%	50.9%	50.1%
EBITDA as % of Revenue	35.0%	35.8%	35.7%	37.0%	39.8%	41.1%	41.9%
EBIT as % of Revenue	22.7%	23.7%	24.1%	25.1%	27.9%	28.9%	29.4%
Pretax as % of Revenue	5.4%	11.5%	12.8%	13.7%	16.3%	17.5%	18.1%
Net Income - Cont Ops as % of Revenue	2.9%	7.2%	7.5%	8.3%	9.8%	10.5%	10.9%
Net Income - Reported as % of Revenue	-7.8%	-15.5%	-24.1%	-9.6%	9.8%	10.5%	10.9%
YOY GROWTH							
Revenue	-2.0%	5.8%	5.5%	6.0%	8.3%	6.2%	5.3%
EBIT	-4.6%	10.6%	7.4%	10.4%	20.3%	10.0%	7.2%
EBITDA	-3.3%	8.0%	5.4%	9.7%	16.4%	9.7%	7.5%
D&A	-0.8%	3.1%	1.5%	8.3%	8.3%	9.0%	8.2%
Pretax Income	-30.1%	125.1%	18.0%	13.3%	28.9%	13.6%	9.4%
Net Income - Cont Ops	-40.1%	158.4%	10.5%	17.2%	27.2%	13.6%	9.4%
EPS	-40.1%	158.4%	10.6%	14.0%	14.9%	8.4%	4.9%

Source: Company data, Goldman Sachs Research estimates.

Exhibit 3: American Water annual balance sheet and cash flow statement, 2006-2012E
\$ in millions, except per share data

BALANCE SHEET	2006A	2007A	2008A	2009E	2010E	2011E	2012E
Cash and cash equivalents	29.8	13.5	9.5	9.0	9.0	9.0	9.0
Restricted funds	2.1	3.3	0.5	33.0	33.0	33.0	33.0
Utility customers accounts receivable	130.5	126.7	130.6	141.1	153.4	163.8	172.4
Unbilled utility revenues	123.2	134.3	134.2	144.7	157.3	167.9	176.8
Materials and supplies	23.0	27.5	28.9	34.1	31.3	31.8	32.9
Other receivables, net	54.5	89.7	68.9	73.9	80.3	85.8	90.3
Other current assets	36.6	35.5	45.1	58.3	58.3	58.3	58.3
Assets of Disc. Ops.	12.8	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Assets	412.4	430.4	417.7	494.2	522.7	549.6	572.7
<i>Utility plant, net</i>	<i>8,605.3</i>	<i>9,199.9</i>	<i>9,991.8</i>	<i>10,518.6</i>	<i>11,185.4</i>	<i>11,693.7</i>	<i>12,173.5</i>
<i>Nonutility property, net</i>	<i>115.2</i>	<i>118.1</i>	<i>132.1</i>	<i>140.3</i>	<i>140.3</i>	<i>140.3</i>	<i>140.3</i>
Net Property Plant & Equipment	8,720.6	9,318.0	10,123.9	10,658.9	11,325.7	11,833.9	12,313.7
Regulatory Assets	587.2	661.0	919.7	945.6	945.6	945.6	945.6
Restricted Funds	17.2	10.3	10.6	46.4	46.4	46.4	46.4
Goodwill & Other Intangibles	2,962.5	2,457.0	1,699.5	1,250.1	1,250.1	1,250.1	1,250.1
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Assets	83.2	74.8	60.4	66.6	86.6	106.6	126.6
Total Assets	12,783.1	12,951.3	13,231.8	13,461.7	14,177.0	14,732.2	15,255.0
Short-term Debt	1,007.1	317.0	654.8	366.1	366.1	366.1	366.1
Accounts payable	140.7	168.9	149.8	151.7	164.1	166.8	172.5
Accrued liabilities	62.9	106.9	106.1	116.5	116.5	116.5	116.5
Other current liabilities	150.5	181.8	194.0	187.0	187.0	187.0	187.0
Liabilities of Disc. Ops.	2.5	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	1,363.7	774.5	1,104.8	821.3	833.8	836.5	842.2
Long-term debt	4,870.9	4,699.1	4,648.2	5,189.3	5,512.5	5,648.3	5,811.6
Advances for construction	615.7	655.4	622.2	620.0	620.0	620.0	620.0
Deferred income taxes	583.4	638.9	705.6	758.0	758.0	758.0	758.0
Deferred investment tax credits	36.5	35.4	34.0	33.2	33.2	33.2	33.2
Regulatory liability-cost of removal	166.9	266.7	307.3	318.6	318.6	318.6	318.6
Accrued pension expense	314.6	290.7	502.1	500.3	500.3	500.3	500.3
Accrued postretirement benefit expense	144.9	158.5	241.2	237.3	237.3	237.3	237.3
Other long term liabilities	110.4	67.1	48.5	48.4	48.4	48.4	48.4
Contributions in Aid of Construction	754.2	818.4	911.4	951.4	976.4	1,001.4	1,026.4
Total Liabilities	8,961.1	8,404.7	9,125.3	9,477.9	9,838.6	10,002.0	10,196.0
Preferred Equity	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Shareholder's Equity	3,817.4	4,542.0	4,102.0	3,979.3	4,333.8	4,725.6	5,054.5
Total Liabilities & Equity	12,783.1	12,951.3	13,231.8	13,461.7	14,177.0	14,732.2	15,255.0
CASH FLOW STATEMENT	2006A	2007A	2008A	2009E	2010E	2011E	2012E
Sources:							
EBITDA	733.4	791.8	834.4	915.5	1,066.0	1,169.4	1,256.8
Interest Income	0.4	1.9	0.1	0.1	0.1	0.1	0.1
Total Sources	733.7	793.7	834.5	915.6	1,066.2	1,169.5	1,257.0
Uses:							
Interest Expense Paid	(371.4)	(289.9)	(291.2)	(308.1)	(336.5)	(351.8)	(364.2)
Book Taxes	(51.1)	(94.5)	(123.4)	(132.9)	(175.0)	(198.8)	(217.4)
Other Non-Operating Expenses	109.1	47.7	126.7	83.3	6.0	6.0	6.0
Change in Current Accounts (ex taxes)	(96.6)	16.8	5.5	(33.1)	(16.0)	(24.3)	(17.3)
Capital Expenditures	(682.9)	(750.8)	(1,008.8)	(815.0)	(875.0)	(825.0)	(825.0)
<i>% of total revenues</i>	<i>32.6%</i>	<i>33.9%</i>	<i>43.2%</i>	<i>32.9%</i>	<i>32.6%</i>	<i>29.0%</i>	<i>27.5%</i>
Total Uses	(1,092.9)	(1,070.8)	(1,291.1)	(1,205.8)	(1,396.5)	(1,393.9)	(1,417.9)
Free Cash Flow	(359.1)	(277.1)	(456.6)	(290.2)	(330.3)	(224.4)	(160.9)
<i>y/y growth</i>	<i>nm</i>	<i>-22.8%</i>	<i>64.8%</i>	<i>-36.5%</i>	<i>13.8%</i>	<i>-32.1%</i>	<i>-28.3%</i>
Net Investments	(26.2)	10.4	(12.3)	43.1	0.0	0.0	0.0
Acquisitions	(12.5)	(15.9)	(12.5)	0.0	(110.0)	(30.0)	(30.0)
Dividends	0.0	0.0	(64.1)	(137.3)	(158.0)	(175.9)	(192.1)
Discontinued Operations	30.2	9.7	0.0	0.0	0.0	0.0	0.0
Translation Adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash Flow before Financing	(367.7)	(272.9)	(545.6)	(384.4)	(598.3)	(430.3)	(383.0)
Contributions in aid of construction	47.4	35.8	3.1	15.0	25.0	25.0	25.0
Net new Debt	285.5	1,004.0	292.9	125.6	323.3	135.8	163.2
Net New Equity	(0.5)	(783.3)	245.6	243.3	250.0	269.5	194.7
Net Change in Cash	(35.3)	(16.3)	(3.9)	(0.5)	0.0	(0.0)	(0.0)
Beginning Cash	65.1	29.8	13.5	9.5	9.0	9.0	9.0
Ending Cash	29.8	13.5	9.5	9.0	9.0	9.0	9.0

Source: Company data, Goldman Sachs Research estimates.

Rate case summary

Exhibit 4 outlines American Water's rate case requests from 2006 to the present. We have assumed that American Water receives approximately 50% of the amount requested for each pending rate case. For cases that have already been concluded, the percentage has been higher at closer to 58%, but we believe it is prudent to assume a lower rate for the next round of rate cases, as this is the second round of meaningful increases following large increases only a year or two ago.

Exhibit 4: American Water rate case requests from 2006 to present
 \$ in millions

State	Date Filed	Amount Filed	Amount Granted	%	ROE Filed	ROE Granted	Expected Grant Date	Status
General Rate Cases Filed in 2006								
Ohio	3/1/06	\$5.1	\$3.4	66.7%	11.0%	10.0%	3/1/07	Completed
New Jersey	3/31/06	99.0	56.2	56.8%	11.2%	10.0%	4/1/07	Completed
New Mexico	5/30/06	1.3	1.3	100.0%	10.0%	9.7%	5/1/07	Completed
Arizona (Anthem)	6/16/06	7.0	4.3	61.4%	11.8%	8.8%	6/4/08	Completed
Arizona (Sun City)	7/28/06	3.9	2.4	61.5%	11.8%	10.6%	4/1/08	Completed
Texas	10/16/06	\$0.8	\$0.7	87.5%	12.0%	12.0%	1/1/07	Completed
Tennessee	11/22/06	6.4	4.1	64.1%	11.0%	9.6%	5/23/07	Completed
Indiana	12/5/06	24.7	14.0	56.7%	11.5%	10.0%	12/1/07	Completed
Missouri	12/15/06	41.5	21.4	51.6%	11.3%	10.0%	11/1/07	Completed

Total Granted (2006)	\$189.7	\$107.8	56.8%
Total Pending (2006)	\$0.0	\$0.0	

General Rate Cases Filed in 2007								
California *	1/1/07	\$16.4	\$13.0	100.0%	11.5%	10.2%	6/1/08	Completed
Michigan	1/8/07	0.2	0.2	100.0%	12.0%	10.0%	1/8/07	Completed
Maryland	3/29/07	0.6	0.6	100.0%	11.8%	10.5%	10/1/07	Completed
Pennsylvania	4/27/07	59.2	36.0	60.8%	11.8%	N/A	11/30/07	Completed
Arizona (Sun City)	4/30/07	2.2	1.9	86.4%	11.8%	10.8%	6/1/08	Completed
Kentucky	4/30/07	13.2	8.0	60.6%	11.4%	10.0%	12/1/07	Completed
Long Island **	5/1/07	9.6	6.6	68.8%	11.0%	9.5%	4/1/08	Completed
West Virginia	6/1/07	24.1	14.5	60.2%	11.3%	10.0%	3/28/08	Completed
Iowa	8/30/07	6.1	4.3	70.5%	11.3%	10.4%	2/1/08	Completed
Illinois	8/31/07	32.8	21.6	65.9%	11.3%	10.4%	8/8/08	Completed
Ohio	10/1/07	5.5	5.3	95.6%	11.3%	10.9%	11/13/08	Completed
Hawaii ***	11/1/07	1.3	0.7	50.0%	10.6%		11/1/08	Pending

* California rate increase includes step increase of \$2.0mn effective in 2009 and \$2.5mn effective in 2010

** Long Island rate increase includes step increase of \$1.0mn in 2009 and \$1.0mn in 2010

*** Hawaii temporary rate increase of \$0.7mn put in place Oct. 2008 and will be subject to adjustment upon issuance of final order

Total Granted (2007)	\$169.9	\$112.0	65.9%
Total Pending (2007)	\$1.3	\$0.7	50.0%

General Rate Cases Filed in 2008								
Michigan	1/1/08	\$0.2	\$0.2	100.0%	10.0%	10.0%	1/1/08	Completed
New Jersey	1/14/08	125.0	72.1	57.7%	11.5%	10.3%	12/7/08	Completed
California (Monterey Water)	1/30/08	35.3	12.1	34.3%	11.5%	10.2%	5/11/09	Completed
California (Monterey WW)	1/30/08	1.8	1.7	94.4%	11.5%	10.2%	7/9/09	Completed
California (Gen. Office)	1/30/08	6.4	2.2	34.4%	11.5%	10.2%	5/11/09	Completed
Virginia	1/30/08	4.3	3.4	79.1%	11.3%	10.5%	11/1/08	Completed
Texas *	2/21/08	0.9	0.4	50.0%	12.0%		6/30/08	Pending
Tennessee	3/14/08	7.6	1.7	21.6%	11.8%	10.2%	10/1/08	Completed
Missouri	3/31/08	49.8	34.5	69.3%	11.3%	10.0%	11/28/08	Completed
Pennsylvania - WW	4/28/08	2.7	1.9	70.4%	11.5%	10.6%	11/14/08	Completed
California (ROE)	5/1/08	2.8	0.1	3.6%	11.5%	10.2%	5/6/09	Completed
Arizona	5/1/08	20.0	10.0	50.0%	11.8%		9/1/09	Pending
West Virginia	5/30/08	14.8	5.2	35.3%	11.8%	10.0%	3/26/09	Completed
New Mexico (Clovis)	6/30/08	2.2	1.4	61.8%	11.8%	10.3%	5/12/09	Completed
Kentucky	10/31/08	18.5	10.3	55.7%	11.5%	10.0%	6/1/09	Completed

* Texas temporary rate increase of \$0.4mn put in place June 2008 and will be subject to adjustment upon issuance of final order

Total Granted (2008)	\$271.4	\$146.7	54.1%
Total Pending (2008)	\$20.9	\$10.4	50.0%

General Rate Cases Filed in 2009								
California (Sac, LA, Lark)	1/23/09	\$32.7	\$16.4	50.0%	10.2%		1/1/10	Pending
Pennsylvania	4/24/09	58.1	29.1	50.0%	12.0%		1/1/10	Pending
Iowa *	4/30/09	9.4	6.8	72.3%	12.2%		2/1/10	Pending
Indiana	4/30/09	46.9	23.5	50.0%	12.0%		5/1/10	Pending
Maryland	4/30/09	0.8	0.4	50.0%	11.8%		1/1/10	Pending
Ohio	5/7/09	8.8	4.4	50.0%	12.2%		2/1/10	Pending
Illinois	5/29/09	58.6	29.3	50.0%	12.3%		5/1/10	Pending
Michigan	6/22/09	0.2	0.2	100.0%	10.5%	10.5%	7/1/09	Completed
Arizona	7/2/09	20.6	10.3	50.0%	12.3%		7/1/10	Pending

* Iowa temporary rate increase of \$6.8mn put in place July 2009 and will be subject to adjustment upon issuance of final order

Total Granted (2009)	\$0.2	\$0.2	100.0%
Total Pending (2009)	\$235.9	\$120.0	50.9%

Total Granted (2006 - present)	\$631.2	\$366.7	58.1%
Total Pending (2006 - present)	\$258.1	\$131.1	50.8%

Source: Company data, various State Public Utility Commission news releases, Goldman Sachs Research estimates.

Reg AC

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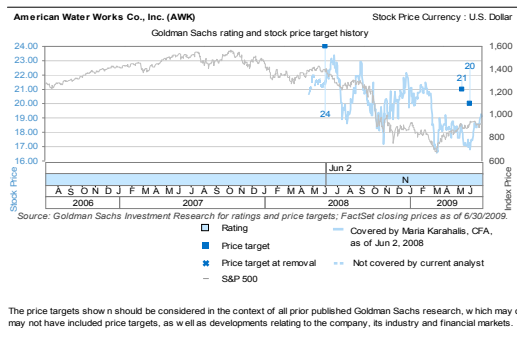
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AN ANALYSIS OF THE COST OF CAPITAL

FOR

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2010-0131

SCHEDULES

BY

DAVID MURRAY

UTILITY SERVICES DIVISION

MISSOURI PUBLIC SERVICE COMMISSION

MARCH 2010

Missouri-American Water Company
Case No. WR-2010-0131

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19	Multiple-Stage Discounted Cash Flow (DCF) Estimated Costs of Common Equity for the Comparable Water Utility Companies
20	Selected Financial Ratios for the Comparable Water Utility Companies
21	Public Utility Revenue Requirement or Cost of Service
22	Weighted Cost of Capital as of September 30, 2009 for Missouri-American Water Company

**Missouri-American Water Company
Case No. WR-2010-0131**

Federal Reserve Discount Rates Changes and Federal Reserve Funds Rates Changes

Date	Federal Reserve Discount Rate	Federal Reserve Funds Rate	Date	Federal Reserve Discount Rate	Federal Reserve Funds Rate
01/01/83	8.50%		06/30/99	4.50%	5.00%
12/31/83	8.50%		08/24/99	4.75%	5.25%
04/09/84	9.00%		11/16/99	5.00%	5.50%
11/21/84	8.50%		02/02/00	5.25%	5.75%
12/24/84	8.00%		03/21/00	5.50%	6.00%
05/20/85	7.50%		05/19/00	6.00%	6.50%
03/07/86	7.00%		01/03/01	5.75%	6.00%
04/21/86	6.50%		01/04/01	5.50%	6.00%
07/11/86	6.00%		01/31/01	5.00%	5.50%
08/21/86	5.50%		03/20/01	4.50%	5.00%
09/04/87	6.00%		04/18/01	4.00%	4.50%
08/09/88	6.50%		05/15/01	3.50%	4.00%
02/24/89	7.00%		06/27/01	3.25%	3.75%
07/13/90		8% *	08/21/01	3.00%	3.50%
10/29/90		7.75%	09/17/01	2.50%	3.00%
11/13/90		7.50%	10/02/01	2.00%	2.50%
12/07/90		7.25%	11/06/01	1.50%	2.00%
12/18/90		7.00%	12/11/01	1.25%	1.75%
12/19/90	6.50%		11/06/02	0.75%	1.25%
01/09/91		6.75%	01/09/03	2.25% **	1.25%
02/01/91	6.00%	6.25%	06/25/03	2.00%	1.00%
03/08/91		6.00%	06/30/04	2.25%	1.25%
04/30/91	5.50%	5.75%	08/10/04	2.50%	1.50%
08/06/91		5.50%	09/21/04	2.75%	1.75%
09/13/91	5.00%	5.25%	11/10/04	3.00%	2.00%
10/31/91		5.00%	12/14/04	3.25%	2.25%
11/06/91	4.50%	4.75%	02/02/05	3.50%	2.50%
12/06/91		4.50%	03/22/05	3.75%	2.75%
12/20/91	3.50%	4.00%	05/03/05	4.00%	3.00%
04/09/92		3.75%	06/30/05	4.25%	3.25%
07/02/92	3.00%	3.25%	08/09/05	4.50%	3.50%
09/04/92		3.00%	09/20/05	4.75%	3.75%
01/01/93			11/01/05	5.00%	4.00%
12/31/93	No Changes	No Changes	12/13/05	5.25%	4.25%
02/04/94		3.25%	01/31/06	5.50%	4.50%
03/22/94		3.50%	03/28/06	5.75%	4.75%
04/18/94		3.75%	05/10/06	6.00%	5.00%
05/17/94	3.50%	4.25%	06/29/06	6.25%	5.25%
08/16/94	4.00%	4.75%	08/17/07	5.75%	5.25%
11/15/94	4.75%	5.50%	09/18/07	5.25%	4.75%
02/01/95	5.25%	6.00%	10/31/07	5.00%	4.50%
07/06/95		5.75%	12/11/07	4.75%	4.25%
12/19/95		5.50%	01/22/08	4.00%	3.50%
01/31/96	5.00%	5.25%	01/30/08	3.50%	3.00%
03/25/97		5.50%	03/16/08	3.25%	
12/12/97	5.00%		03/18/08	2.50%	2.25%
01/09/98	5.00%		04/30/08	2.25%	2.00%
03/06/98	5.00%		10/08/08	1.75%	1.50%
09/29/98		5.25%	10/28/08	1.25%	1.00%
10/15/98	4.75%	5.00%	12/30/08	0.50%	0% - .25%
11/17/98	4.50%	4.75%	02/19/09	0.75%	0% - .25%

* Staff began tracking the Federal Funds Rate.

**Revised discount window program begins. Reflects rate on primary credit. This revised discount window policy results in incomparability of the discount rates after January 9, 2003 to discount rates before January 9, 2003.

Source:

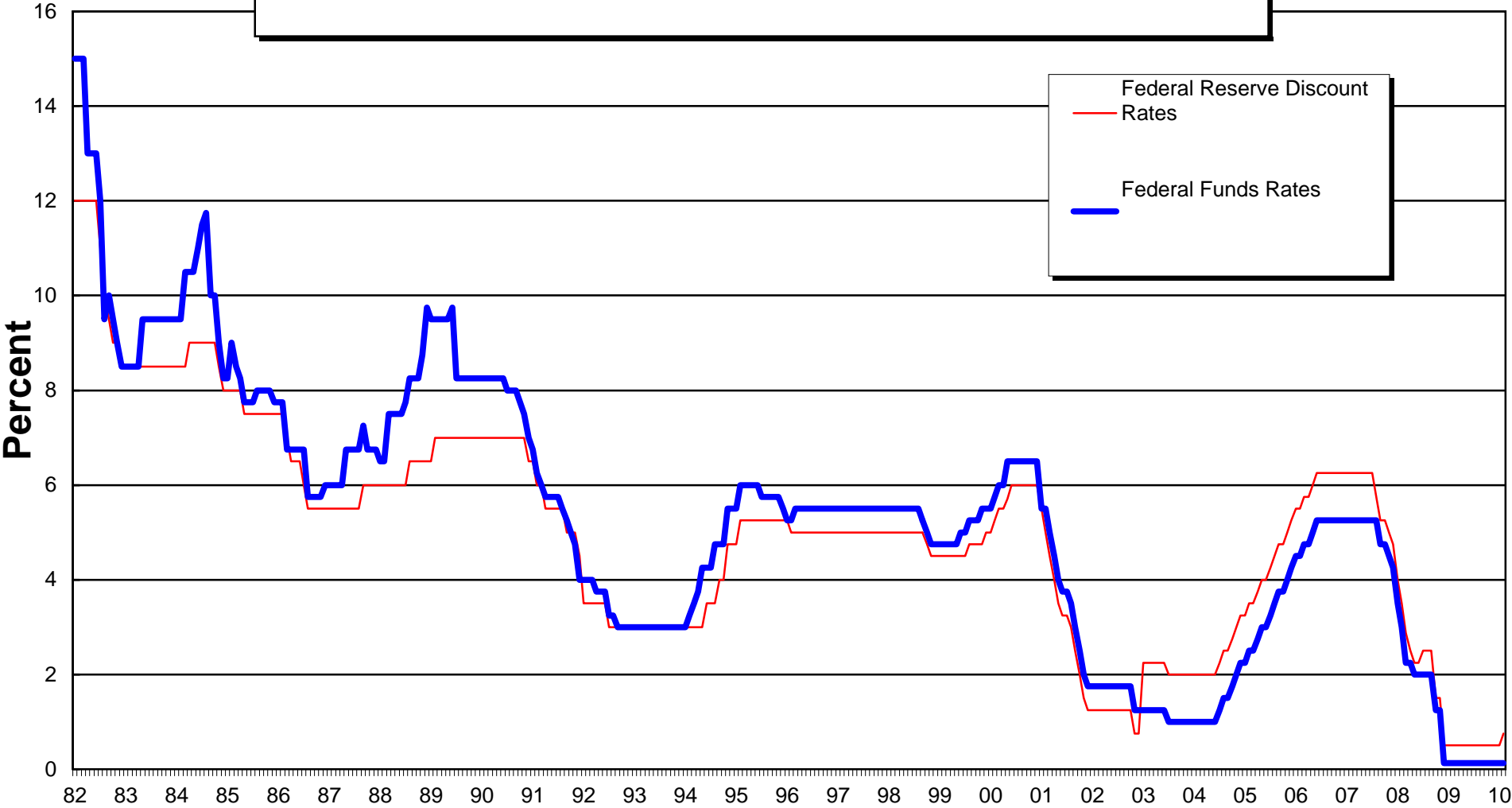
Federal Reserve Discount rate <http://www.newyorkfed.org/markets/statistics/dlyrates/fedrate.html>

Federal Reserve Funds rate <http://www.newyorkfed.org/markets/statistics/dlyrates/fedrate.html>

Note: Interest rates as of December 31 for each year are underlined.

Missouri-American Water Company
Case No. WR-2010-0131

Federal Reserve Discount Rates and Federal Funds Rates
1982 - 2010



**Missouri-American Water Company
Case No. WR-2010-0131**

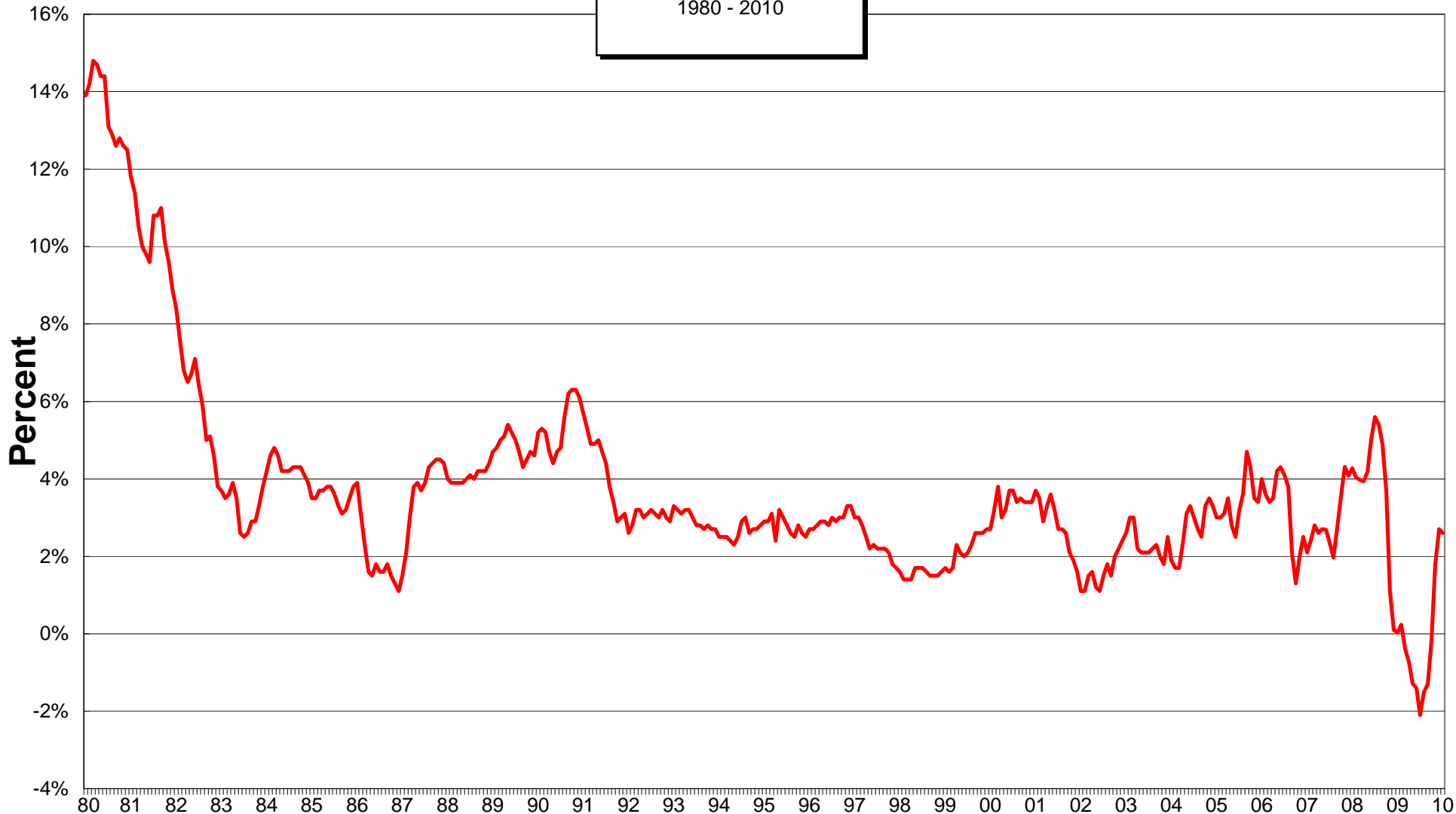
Rate of Inflation

Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)
Jan 1980	13.90	Jan 1984	4.20	Jan 1988	4.00	Jan 1992	2.60	Jan 1996	2.70	Jan 2000	2.70	Jan 2004	1.90	Jan 2008	4.30
Feb	14.20	Feb	4.60	Feb	3.90	Feb	2.80	Feb	2.70	Feb	3.20	Feb	1.70	Feb	4.00
Mar	14.80	Mar	4.80	Mar	3.90	Mar	3.20	Mar	2.80	Mar	3.70	Mar	1.70	Mar	4.00
Apr	14.70	Apr	4.60	Apr	3.90	Apr	3.20	Apr	2.90	Apr	3.00	Apr	2.30	Apr	3.90
May	14.40	May	4.20	May	3.90	May	3.00	May	2.90	May	3.20	May	3.10	May	4.20
Jun	14.40	Jun	4.20	Jun	4.00	Jun	3.10	Jun	2.80	Jun	3.70	Jun	3.30	Jun	5.00
Jul	13.10	Jul	4.20	Jul	4.10	Jul	3.20	Jul	3.00	Jul	3.70	Jul	3.00	Jul	5.60
Aug	12.90	Aug	4.30	Aug	4.00	Aug	3.10	Aug	2.90	Aug	3.40	Aug	2.70	Aug	5.40
Sep	12.60	Sep	4.30	Sep	4.20	Sep	3.00	Sep	3.00	Sep	3.50	Sep	2.50	Sep	4.90
Oct	12.80	Oct	4.30	Oct	4.20	Oct	3.20	Oct	3.00	Oct	3.40	Oct	3.30	Oct	3.70
Nov	12.60	Nov	4.10	Nov	4.20	Nov	3.00	Nov	3.30	Nov	3.40	Nov	3.50	Nov	1.10
Dec	12.50	Dec	3.90	Dec	4.40	Dec	2.90	Dec	3.30	Dec	3.40	Dec	3.30	Dec	0.10
Jan 1981	11.80	Jan 1985	3.50	Jan 1989	4.70	Jan 1993	3.30	Jan 1997	3.00	Jan 2001	3.70	Jan 2005	3.00	Jan 2009	0.00
Feb	11.40	Feb	3.50	Feb	4.80	Feb	3.20	Feb	3.00	Feb	3.50	Feb	3.00	Feb	0.20
Mar	10.50	Mar	3.70	Mar	5.00	Mar	3.10	Mar	2.80	Mar	2.90	Mar	3.10	Mar	-0.40
Apr	10.00	Apr	3.70	Apr	5.10	Apr	3.20	Apr	2.50	Apr	3.30	Apr	3.50	Apr	-0.70
May	9.80	May	3.80	May	5.40	May	3.20	May	2.20	May	3.60	May	2.80	May	-1.28
Jun	9.60	Jun	3.80	Jun	5.20	Jun	3.00	Jun	2.30	Jun	3.20	Jun	2.50	Jun	-1.40
Jul	10.80	Jul	3.60	Jul	5.00	Jul	2.80	Jul	2.20	Jul	2.70	Jul	3.20	Jul	-2.10
Aug	10.80	Aug	3.30	Aug	4.70	Aug	2.80	Aug	2.20	Aug	2.70	Aug	3.60	Aug	-1.50
Sep	11.00	Sep	3.10	Sep	4.30	Sep	2.70	Sep	2.20	Sep	2.60	Sep	4.70	Sep	-1.30
Oct	10.10	Oct	3.20	Oct	4.50	Oct	2.80	Oct	2.10	Oct	2.10	Oct	4.30	Oct	-0.20
Nov	9.60	Nov	3.50	Nov	4.70	Nov	2.70	Nov	1.80	Nov	1.90	Nov	3.50	Nov	1.80
Dec	8.90	Dec	3.80	Dec	4.60	Dec	2.70	Dec	1.70	Dec	1.60	Dec	3.40	Dec	2.70
Jan 1982	8.40	Jan 1986	3.90	Jan 1990	5.20	Jan 1994	2.50	Jan 1998	1.60	Jan 2002	1.10	Jan 2006	4.00	Jan 2010	2.60
Feb	7.60	Feb	3.10	Feb	5.30	Feb	2.50	Feb	1.40	Feb	1.10	Feb	3.60		
Mar	6.80	Mar	2.30	Mar	5.20	Mar	2.50	Mar	1.40	Mar	1.50	Mar	3.40		
Apr	6.50	Apr	1.60	Apr	4.70	Apr	2.40	Apr	1.40	Apr	1.60	Apr	3.50		
May	6.70	May	1.50	May	4.40	May	2.30	May	1.70	May	1.20	May	4.20		
Jun	7.10	Jun	1.80	Jun	4.70	Jun	2.50	Jun	1.70	Jun	1.10	June	4.30		
Jul	6.40	Jul	1.60	Jul	4.80	Jul	2.90	Jul	1.70	Jul	1.50	July	4.10		
Aug	5.90	Aug	1.60	Aug	5.60	Aug	3.00	Aug	1.60	Aug	1.80	Aug	3.80		
Sep	5.00	Sep	1.80	Sep	6.20	Sep	2.60	Sep	1.50	Sep	1.50	Sep	2.10		
Oct	5.10	Oct	1.50	Oct	6.30	Oct	2.70	Oct	1.50	Oct	2.00	Oct	1.30		
Nov	4.60	Nov	1.30	Nov	6.30	Nov	2.70	Nov	1.50	Nov	2.20	Nov	2.00		
Dec	3.80	Dec	1.10	Dec	6.10	Dec	2.80	Dec	1.60	Dec	2.40	Dec	2.50		
Jan 1983	3.70	Jan 1987	1.50	Jan 1991	5.70	Jan 1995	2.90	Jan 1999	1.70	Jan 2003	2.60	Jan 2007	2.10		
Feb	3.50	Feb	2.10	Feb	5.30	Feb	2.90	Feb	1.60	Feb	3.00	Feb	2.40		
Mar	3.60	Mar	3.00	Mar	4.90	Mar	3.10	Mar	1.70	Mar	3.00	Mar	2.80		
Apr	3.90	Apr	3.80	Apr	4.90	Apr	2.40	Apr	2.30	Apr	2.20	Apr	2.60		
May	3.50	May	3.90	May	5.00	May	3.20	May	2.10	May	2.10	May	2.70		
Jun	2.60	Jun	3.70	Jun	4.70	Jun	3.00	Jun	2.00	Jun	2.10	Jun	2.70		
Jul	2.50	Jul	3.90	Jul	4.40	Jul	2.80	Jul	2.10	Jul	2.10	Jul	2.40		
Aug	2.60	Aug	4.30	Aug	3.80	Aug	2.60	Aug	2.30	Aug	2.20	Aug	2.00		
Sep	2.90	Sep	4.40	Sep	3.40	Sep	2.50	Sep	2.60	Sep	2.30	Sep	2.80		
Oct	2.90	Oct	4.50	Oct	2.90	Oct	2.80	Oct	2.60	Oct	2.00	Oct	3.50		
Nov	3.30	Nov	4.50	Nov	3.00	Nov	2.60	Nov	2.60	Nov	1.80	Nov	4.30		
Dec	3.80	Dec	4.40	Dec	3.10	Dec	2.50	Dec	2.70	Dec	1.90	Dec	4.10		

Source: U.S. Dept of Labor, Bureau of Labor Statistics, Consumer Price Index - All Urban Consumers,
Change for 12-Month Period, Bureau of Labor Statistics
http://www.bls.gov/schedule/archives/cpi_nr.htm

Missouri-American Water Company
Case No. WR-2010-0131

Rate of Inflation
1980 - 2010



**Missouri-American Water Company
Case No. WR-2010-0131**

Average Yields on Mergent's Public Utility Bonds

Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)
Jan 1980	12.12	Jan 1984	13.40	Jan 1988	10.75	Jan 1992	8.67	Jan 1996	7.20	Jan 2000	8.22	Jan 2004	6.23	Jan 2008	6.08
Feb	13.48	Feb	13.50	Feb	10.11	Feb	8.77	Feb	7.37	Feb	8.10	Feb	6.17	Feb	6.28
Mar	14.33	Mar	14.03	Mar	10.11	Mar	8.84	Mar	7.72	Mar	8.14	Mar	6.01	Mar	6.29
Apr	13.50	Apr	14.30	Apr	10.53	Apr	8.79	Apr	7.88	Apr	8.14	Apr	6.38	Apr	6.36
May	12.17	May	14.95	May	10.75	May	8.72	May	7.99	May	8.55	May	6.68	May	6.38
Jun	11.87	Jun	15.16	Jun	10.71	Jun	8.64	Jun	8.07	Jun	8.22	Jun	6.53	Jun	6.50
Jul	12.12	Jul	14.92	Jul	10.96	Jul	8.46	Jul	8.02	Jul	8.17	Jul	6.34	Jul	6.50
Aug	12.82	Aug	14.29	Aug	11.09	Aug	8.34	Aug	7.84	Aug	8.05	Aug	6.18	Aug	6.48
Sep	13.29	Sep	14.04	Sep	10.56	Sep	8.32	Sep	8.01	Sep	8.16	Sep	6.01	Sep	6.59
Oct	13.53	Oct	13.68	Oct	9.92	Oct	8.44	Oct	7.76	Oct	8.08	Oct	5.95	Oct	7.70
Nov	14.07	Nov	13.15	Nov	9.89	Nov	8.53	Nov	7.48	Nov	8.03	Nov	5.97	Nov	7.80
Dec	14.48	Dec	12.96	Dec	10.02	Dec	8.36	Dec	7.58	Dec	7.79	Dec	5.93	Dec	6.87
Jan 1981	14.22	Jan 1985	12.88	Jan 1989	10.02	Jan 1993	8.23	Jan 1997	7.79	Jan 2001	7.76	Jan 2005	5.80	Jan 2009	6.77
Feb	14.84	Feb	13.00	Feb	10.02	Feb	8.00	Feb	7.68	Feb	7.69	Feb	5.64	Feb	6.72
Mar	14.86	Mar	13.66	Mar	10.16	Mar	7.85	Mar	7.92	Mar	7.59	Mar	5.86	Mar	6.85
Apr	15.32	Apr	13.42	Apr	10.14	Apr	7.76	Apr	8.08	Apr	7.81	Apr	5.72	Apr	6.90
May	15.84	May	12.89	May	9.92	May	7.78	May	7.94	May	7.88	May	5.60	May	6.83
Jun	15.27	Jun	11.91	Jun	9.49	Jun	7.68	Jun	7.77	Jun	7.75	Jun	5.39	June	6.54
Jul	15.87	Jul	11.88	Jul	9.34	Jul	7.53	Jul	7.52	Jul	7.71	Jul	5.50	July	6.15
Aug	16.33	Aug	11.93	Aug	9.37	Aug	7.21	Aug	7.57	Aug	7.57	Aug	5.51	Aug	5.80
Sep	16.89	Sep	11.95	Sep	9.43	Sep	7.01	Sep	7.50	Sep	7.73	Sep	5.54	Sep	5.60
Oct	16.76	Oct	11.84	Oct	9.37	Oct	6.99	Oct	7.37	Oct	7.64	Oct	5.79	Oct	5.64
Nov	15.50	Nov	11.33	Nov	9.33	Nov	7.30	Nov	7.24	Nov	7.61	Nov	5.88	Nov	5.71
Dec	15.77	Dec	10.82	Dec	9.31	Dec	7.33	Dec	7.16	Dec	7.86	Dec	5.83	Dec	5.86
Jan 1982	16.73	Jan 1986	10.66	Jan 1990	9.44	Jan 1994	7.31	Jan 1998	7.03	Jan 2002	7.69	Jan 2006	5.77	Jan 2010	5.83
Feb	16.72	Feb	10.16	Feb	9.66	Feb	7.44	Feb	7.09	Feb	7.62	Feb	5.83		
Mar	16.07	Mar	9.33	Mar	9.75	Mar	7.83	Mar	7.13	Mar	7.83	Mar	5.98		
Apr	15.82	Apr	9.02	Apr	9.87	Apr	8.20	Apr	7.12	Apr	7.74	Apr	6.28		
May	15.60	May	9.52	May	9.89	May	8.32	May	7.11	May	7.76	May	6.39		
Jun	16.18	Jun	9.51	Jun	9.69	Jun	8.31	Jun	6.99	Jun	7.67	June	6.39		
Jul	16.04	Jul	9.19	Jul	9.66	Jul	8.47	Jul	6.99	Jul	7.54	July	6.37		
Aug	15.22	Aug	9.15	Aug	9.84	Aug	8.41	Aug	6.96	Aug	7.34	Aug	6.20		
Sep	14.56	Sep	9.42	Sep	10.01	Sep	8.65	Sep	6.88	Sep	7.23	Sep	6.03		
Oct	13.88	Oct	9.39	Oct	9.94	Oct	8.88	Oct	6.88	Oct	7.43	Oct	6.01		
Nov	13.58	Nov	9.15	Nov	9.76	Nov	9.00	Nov	6.96	Nov	7.31	Nov	5.82		
Dec	13.55	Dec	8.96	Dec	9.57	Dec	8.79	Dec	6.84	Dec	7.20	Dec	5.83		
Jan 1983	13.46	Jan 1987	8.77	Jan 1991	9.56	Jan 1995	8.77	Jan 1999	6.87	Jan 2003	7.13	Jan 2007	5.96		
Feb	13.60	Feb	8.81	Feb	9.31	Feb	8.56	Feb	7.00	Feb	6.92	Feb	5.91		
Mar	13.28	Mar	8.75	Mar	9.39	Mar	8.41	Mar	7.18	Mar	6.80	Mar	5.87		
Apr	13.03	Apr	9.30	Apr	9.30	Apr	8.30	Apr	7.16	Apr	6.68	Apr	6.01		
May	13.00	May	9.82	May	9.29	May	7.93	May	7.42	May	6.35	May	6.03		
Jun	13.17	Jun	9.87	Jun	9.44	Jun	7.62	Jun	7.70	Jun	6.21	June	6.34		
Jul	13.28	Jul	10.01	Jul	9.40	Jul	7.73	Jul	7.66	Jul	6.54	July	6.28		
Aug	13.50	Aug	10.33	Aug	9.16	Aug	7.86	Aug	7.86	Aug	6.78	Aug	6.28		
Sep	13.35	Sep	11.00	Sep	9.03	Sep	7.62	Sep	7.87	Sep	6.58	Sep	6.24		
Oct	13.19	Oct	11.32	Oct	8.99	Oct	7.46	Oct	8.02	Oct	6.50	Oct	6.17		
Nov	13.33	Nov	10.82	Nov	8.93	Nov	7.40	Nov	7.86	Nov	6.44	Nov	6.04		
Dec	13.48	Dec	10.99	Dec	8.76	Dec	7.21	Dec	8.04	Dec	6.36	Dec	6.23		

Source: Mergent Bond Record

**Missouri-American Water Company
Case No. WR-2010-0131**

Average Yields on Thirty-Year U.S. Treasury Bonds

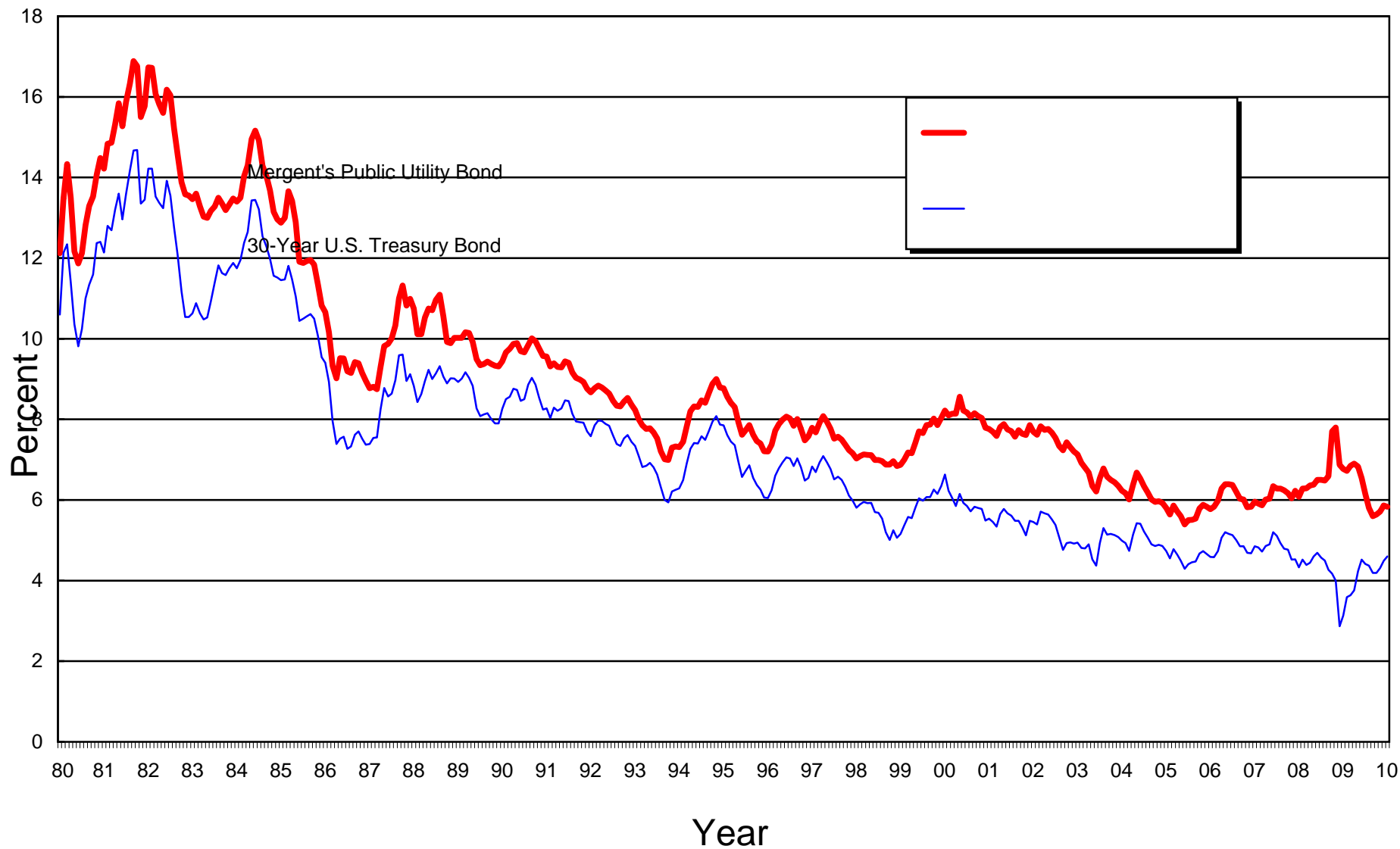
Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)
Jan 1980	10.60	Jan 1984	11.75	Jan 1988	8.83	Jan 1992	7.58	Jan 1996	6.05	Jan 2000	6.63	Jan 2004	4.99	Jan 2008	4.33
Feb	12.13	Feb	11.95	Feb	8.43	Feb	7.85	Feb	6.24	Feb	6.23	Feb	4.93	Feb	4.52
Mar	12.34	Mar	12.38	Mar	8.63	Mar	7.97	Mar	6.60	Mar	6.05	Mar	4.74	Mar	4.39
Apr	11.40	Apr	12.65	Apr	8.95	Apr	7.96	Apr	6.79	Apr	5.85	Apr	5.14	Apr	4.44
May	10.36	May	13.43	May	9.23	May	7.89	May	6.93	May	6.15	May	5.42	May	4.60
Jun	9.81	Jun	13.44	Jun	9.00	Jun	7.84	Jun	7.06	Jun	5.93	Jun	5.41	Jun	4.69
Jul	10.24	Jul	13.21	Jul	9.14	Jul	7.60	Jul	7.03	Jul	5.85	Jul	5.22	Jul	4.57
Aug	11.00	Aug	12.54	Aug	9.32	Aug	7.39	Aug	6.84	Aug	5.72	Aug	5.06	Aug	4.50
Sep	11.34	Sep	12.29	Sep	9.06	Sep	7.34	Sep	7.03	Sep	5.83	Sep	4.90	Sep	4.27
Oct	11.59	Oct	11.98	Oct	8.89	Oct	7.53	Oct	6.81	Oct	5.80	Oct	4.86	Oct	4.17
Nov	12.37	Nov	11.56	Nov	9.02	Nov	7.61	Nov	6.48	Nov	5.78	Nov	4.89	Nov	4.00
Dec	12.40	Dec	11.52	Dec	9.01	Dec	7.44	Dec	6.55	Dec	5.49	Dec	4.86	Dec	2.87
Jan 1981	12.14	Jan 1985	11.45	Jan 1989	8.93	Jan 1993	7.34	Jan 1997	6.83	Jan 2001	5.54	Jan 2005	4.73	Jan 2009	3.13
Feb	12.80	Feb	11.47	Feb	9.01	Feb	7.09	Feb	6.69	Feb	5.45	Feb	4.55	Feb	3.59
Mar	12.69	Mar	11.81	Mar	9.17	Mar	6.82	Mar	6.93	Mar	5.34	Mar	4.78	Mar	3.64
Apr	13.20	Apr	11.47	Apr	9.03	Apr	6.85	Apr	7.09	Apr	5.65	Apr	4.65	Apr	3.76
May	13.60	May	11.05	May	8.83	May	6.92	May	6.94	May	5.78	May	4.49	May	4.23
Jun	12.96	Jun	10.44	Jun	8.27	Jun	6.81	Jun	6.77	Jun	5.67	Jun	4.29	June	4.52
Jul	13.59	Jul	10.50	Jul	8.08	Jul	6.63	Jul	6.51	Jul	5.61	Jul	4.41	July	4.41
Aug	14.17	Aug	10.56	Aug	8.12	Aug	6.32	Aug	6.58	Aug	5.48	Aug	4.46	August	4.37
Sep	14.67	Sep	10.61	Sep	8.15	Sep	6.00	Sep	6.50	Sep	5.48	Sep	4.47	Sept	4.19
Oct	14.68	Oct	10.50	Oct	8.00	Oct	5.94	Oct	6.33	Oct	5.32	Oct	4.67	Oct	4.19
Nov	13.35	Nov	10.06	Nov	7.90	Nov	6.21	Nov	6.11	Nov	5.12	Nov	4.73	Nov	4.31
Dec	13.45	Dec	9.54	Dec	7.90	Dec	6.25	Dec	5.99	Dec	5.48	Dec	4.66	Dec	4.49
Jan 1982	14.22	Jan 1986	9.40	Jan 1990	8.26	Jan 1994	6.29	Jan 1998	5.81	Jan 2002	5.44	Jan 2006	4.59	Jan 2010	4.60
Feb	14.22	Feb	8.93	Feb	8.50	Feb	6.49	Feb	5.89	Feb	5.39	Feb	4.58	Feb	4.62
Mar	13.53	Mar	7.96	Mar	8.56	Mar	6.91	Mar	5.95	Mar	5.71	Mar	4.73		
Apr	13.37	Apr	7.39	Apr	8.76	Apr	7.27	Apr	5.92	Apr	5.67	Apr	5.06		
May	13.24	May	7.52	May	8.73	May	7.41	May	5.93	May	5.64	May	5.20		
Jun	13.92	Jun	7.57	Jun	8.46	Jun	7.40	Jun	5.70	Jun	5.52	Jun	5.16		
Jul	13.55	Jul	7.27	Jul	8.50	Jul	7.58	Jul	5.68	Jul	5.38	July	5.13		
Aug	12.77	Aug	7.33	Aug	8.86	Aug	7.49	Aug	5.54	Aug	5.08	Aug	5.00		
Sep	12.07	Sep	7.62	Sep	9.03	Sep	7.71	Sep	5.20	Sep	4.76	Sep	4.85		
Oct	11.17	Oct	7.70	Oct	8.86	Oct	7.94	Oct	5.01	Oct	4.93	Oct	4.85		
Nov	10.54	Nov	7.52	Nov	8.54	Nov	8.08	Nov	5.25	Nov	4.95	Nov	4.69		
Dec	10.54	Dec	7.37	Dec	8.24	Dec	7.87	Dec	5.06	Dec	4.92	Dec	4.68		
Jan 1983	10.63	Jan 1987	7.39	Jan 1991	8.27	Jan 1995	7.85	Jan 1999	5.16	Jan 2003	4.94	Jan 2007	4.85		
Feb	10.88	Feb	7.54	Feb	8.03	Feb	7.61	Feb	5.37	Feb	4.81	Feb	4.82		
Mar	10.63	Mar	7.55	Mar	8.29	Mar	7.45	Mar	5.58	Mar	4.80	Mar	4.72		
Apr	10.48	Apr	8.25	Apr	8.21	Apr	7.36	Apr	5.55	Apr	4.90	Apr	4.86		
May	10.53	May	8.78	May	8.27	May	6.95	May	5.81	May	4.53	May	4.90		
Jun	10.93	Jun	8.57	Jun	8.47	Jun	6.57	Jun	6.04	Jun	4.37	Jun	5.20		
Jul	11.40	Jul	8.64	Jul	8.45	Jul	6.72	Jul	5.98	Jul	4.93	July	5.11		
Aug	11.82	Aug	8.97	Aug	8.14	Aug	6.86	Aug	6.07	Aug	5.30	Aug	4.93		
Sep	11.63	Sep	9.59	Sep	7.95	Sep	6.55	Sep	6.07	Sep	5.14	Sep	4.79		
Oct	11.58	Oct	9.61	Oct	7.93	Oct	6.37	Oct	6.26	Oct	5.16	Oct	4.77		
Nov	11.75	Nov	8.95	Nov	7.92	Nov	6.26	Nov	6.15	Nov	5.13	Nov	4.52		
Dec	11.88	Dec	9.12	Dec	7.70	Dec	6.06	Dec	6.35	Dec	5.08	Dec	4.53		

Sources:

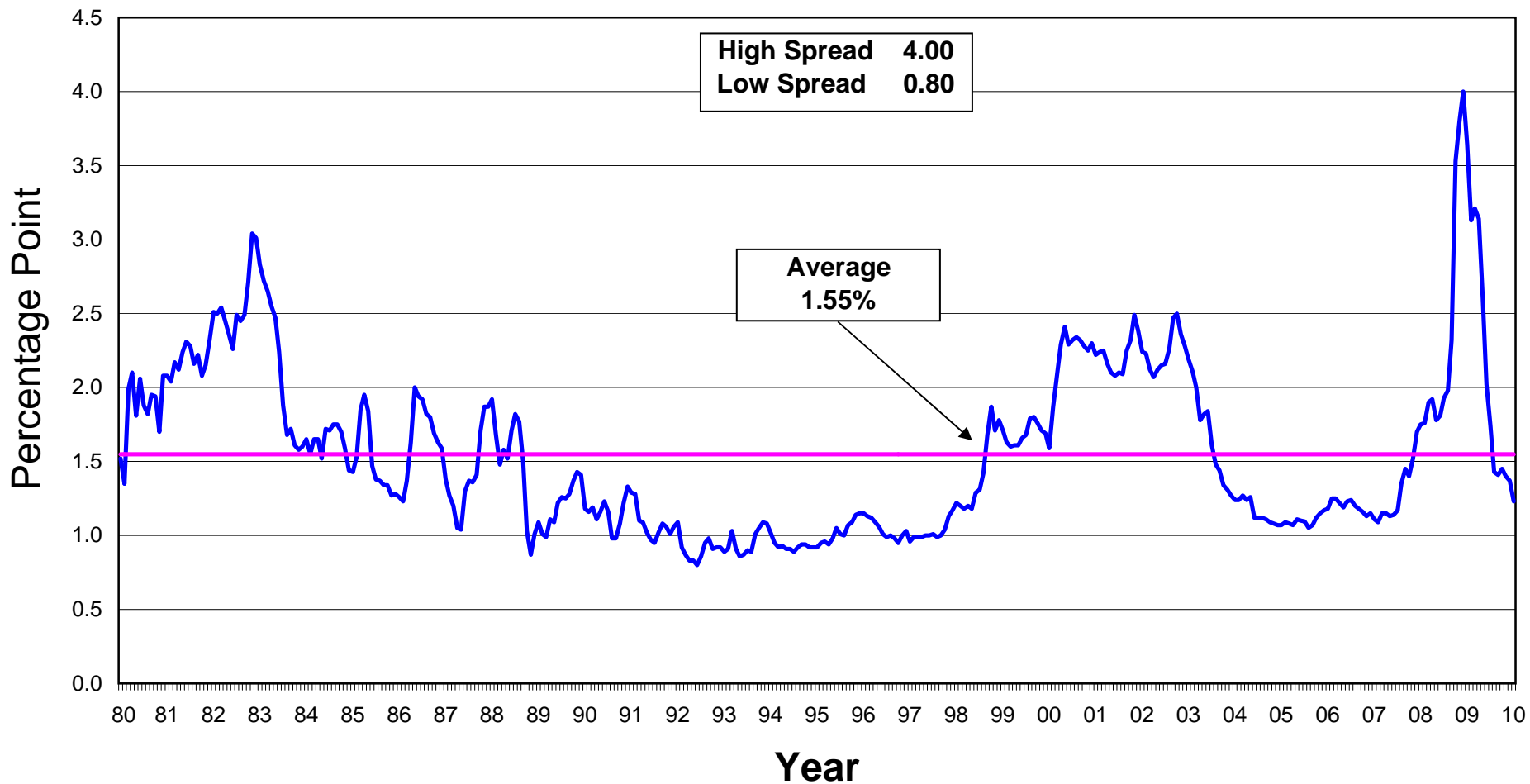
<http://finance.yahoo.com/q/hp?s=^TYX>
<http://research.stlouisfed.org/fred2/data/GS30.txt>

Missouri-American Water Company
Case No. WR-2010-0131

Average Yields on Mergent's Public Utility Bonds and
Thirty-Year U.S. Treasury Bonds (1980 - 2010)

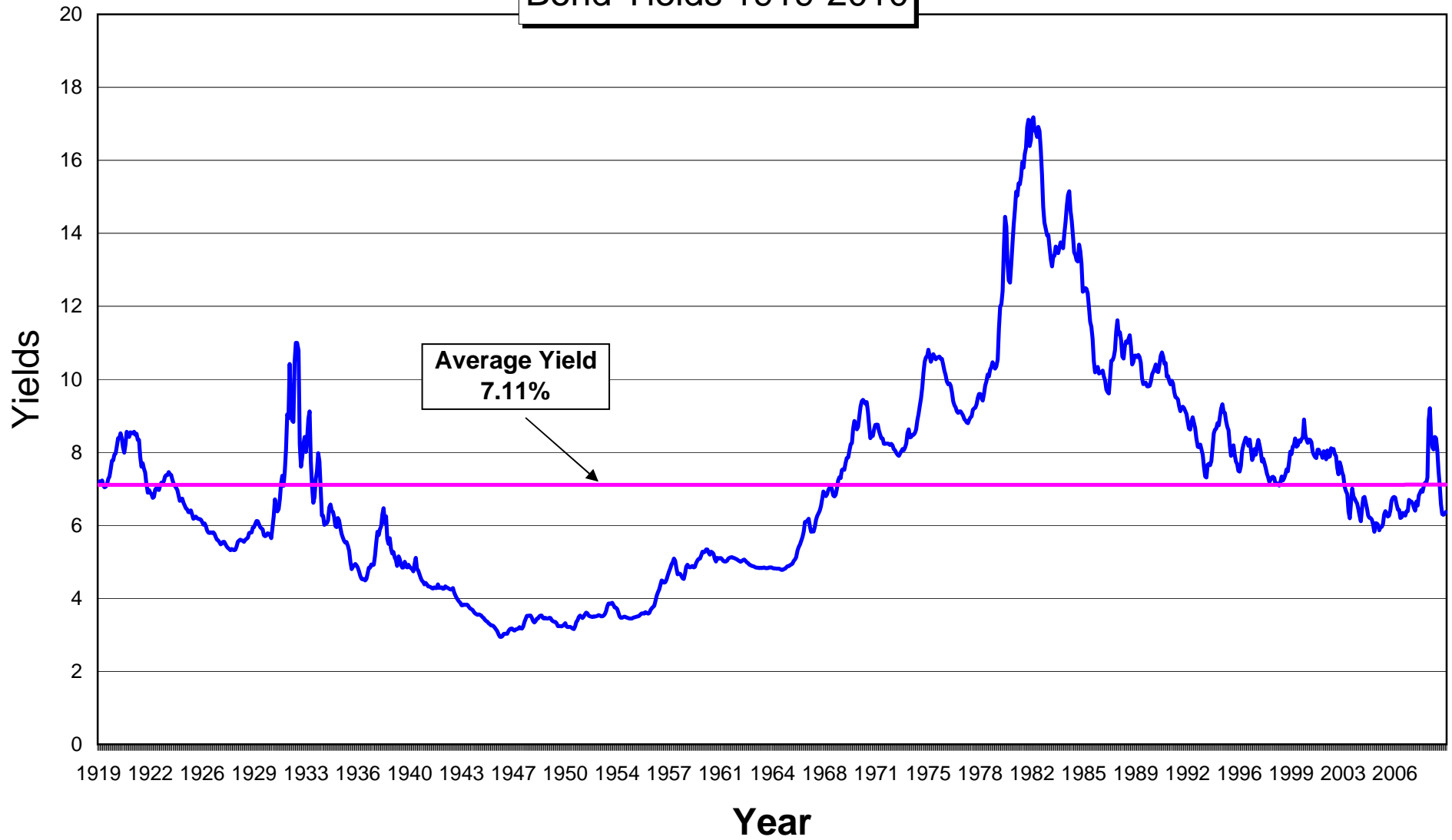


Monthly Spreads Between Yields on Mergent's Public Utility Bonds
and
Thirty-Year U.S. Treasury Bonds (1980 - 2010)



Missouri-American Water Company
Case No. WR-2010-0131

Moody's Baa Corporate
Bond Yields 1919-2010



**Missouri-American Water Company
Case No. WR-2010-0131**

Economic Estimates and Projections, 2010-2012

Source	Inflation Rate			Real GDP			Unemployment			3-Mo. T-Bill Rate			Long-Term T-Bond Rate		
	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012
Value Line Investment Survey -- Selection & Opinion (02-26-10, page 3019)	1.70%	2.30%	2.40%	2.90%	3.00%	3.20%	9.90%	9.40%	8.30%	0.50%	2.10%	3.00%	4.60%	4.90%	5.30%
The Budget and Economic Outlook FY2010-2020 (January 2010)	2.40%	1.30%	1.20%	2.20%	1.90%	4.60%	10.10%	9.50%	8.00%	0.20%	0.70%	1.90%	N/A	N/A	N/A
Current rate	2.60%			5.70%			9.70%			0.12%			4.62%		

Notes: N.A. = Not Available.

Sources of Current Rates:

- Inflation: The Bureau of Labor Statistics, Consumer Price Index - All Urban Consumers, unadjusted 12-Month Period Ending, December 31, 2009 (see first paragraph).
http://www.bls.gov/schedule/archives/cpi_nr.htm
- GDP: U.S. Department of Commerce, Bureau of Economic Analysis. Percentage change for the Fourth Quarter 2009 (see first paragraph).
<http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>
- Unemployment: The Bureau of Labor Statistics, Economy Situation Summary - Unemployment Rate, January 2010.
<http://www.bls.gov/news.release/empsit.nr0.htm>
- 3-Month Treasury: St. Louis Federal Reserve website for February 26, 2010 (Weekly).
<http://research.stlouisfed.org/fred2/series/TB3MS/22>
- 30-Yr. T-Bond: St. Louis Federal Reserve website for February 26, 2010 (Weekly).
<http://research.stlouisfed.org/fred2/series/WGS30YR>
- Other Sources: ValueLine Investment Survey Selection & Opinion, February 26, 2010, page 3019.
The Congressional Budget Office, The Budget and Economic Outlook: Fiscal Years 2010-2020, January 2010.
<http://www.cbo.gov/publications/bysubject.cfm?cat=0>

**Missouri-American Water Company
Case No. WR-2010-0131**

**Historical Consolidated Capital Structures for
American Water**

(Dollars in thousands)

<u>Capital Components</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Common Equity	\$1,634,798.0	\$1,669,677.0	\$1,758,018.0	\$1,801,921.0	\$3,009,396.0
Preferred Stock	93,811.0 ^{2,3}	52,693.0 ^{2,3}	49,415.0 ^{2,3}	33,858.0 ^{2,3}	1,782,610.0 ^{2,3}
Long-Term Debt	2,431,452.0 ¹	2,432,560.0 ¹	2,716,106.0 ¹	3,668,589.0 ¹	3,822,885.0 ¹
	<u>\$4,160,061.0</u>	<u>\$4,154,930.0</u>	<u>\$4,523,539.0</u>	<u>\$5,504,368.0</u>	<u>\$8,614,891.0</u>
<u>Capital Components</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Common Equity	\$2,888,896.0	\$2,609,458.0	\$2,613,696.0	\$4,542,046.0	\$4,102,001.0
Preferred Stock	1,779,875.0 ^{2,3}	1,779,795.0 ^{2,3}	1,779,088.0 ^{2,3}	\$28,864.0 ^{2,3}	28,707.0 ^{2,3}
Long-Term Debt	3,952,172.0 ¹	4,366,629.0 ¹	4,352,691.0 ¹	\$4,771,292.0 ¹	4,799,885.0 ¹
	<u>\$8,620,943.0</u>	<u>\$8,755,882.0</u>	<u>\$8,745,475.0</u>	<u>\$9,342,202.0</u>	<u>\$8,930,593.0</u>

**Historical Consolidated Capital Structures for
Missouri-American**

(Dollars in thousands)

<u>Capital Components</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Common Equity	\$47,632.4	\$65,203.0	\$196,249.3	\$210,515.0	\$215,245.0
Preferred Stock	2,742.0	2,716.0	2,704.0	2,692.0	2,680.0
Long-Term Debt	65,010.0 ¹	93,495.0 ¹	234,146.4 ¹	290,130.0 ¹	290,005.0 ¹
Total	<u>\$115,384.4</u>	<u>\$161,414.0</u>	<u>\$433,099.7</u>	<u>\$503,337.0</u>	<u>\$507,930.0</u>
<u>Capital Components</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Common Equity	\$214,999.0	\$219,543.0	\$222,961.6	\$298,926.0	\$336,785.0
Preferred Stock	2,668.0	2,664.0	2,704.0	2,620.0	2,620.0
Long-Term Debt	289,985.0 ¹	284,245.0 ¹	286,901.0 ¹	316,037.0 ¹	385,870.0 ¹
Total	<u>\$507,652.0</u>	<u>\$506,452.0</u>	<u>\$512,566.6</u>	<u>\$617,583.0</u>	<u>\$725,275.0</u>

- Note:
1. Includes current maturities on long-term debt.
 2. Includes redeemable preferred stock.
 3. Includes current maturities on preferred stock.

Sources: Missouri-American Water Company's response to Staff Data Request Nos. 103 and March 8, 2010 email from MAWC.
Schedule 7-1 attached to Staff witness David Murray's direct testimony in Case No. WR-2007-0216.

Missouri-American Water Company
Case No. WR-2010-0131

**Historical Consolidated Capital Structures for
American Water**
(Dollars in thousands)

Capital Components	1999	2000	2001	2002	2003
Common Equity	39.30%	40.19%	38.86%	32.74%	34.93%
Preferred Stock	2.26% ^{2,3}	1.27% ^{2,3}	1.09% ^{2,3}	0.62% ^{2,3}	20.69% ^{2,3}
Long-Term Debt	58.45% ¹	58.55% ¹	60.04% ¹	66.65% ¹	44.38% ¹
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Capital Components	2004	2005	2006	2007	2008	Average
Common Equity	33.51%	29.80%	29.89%	48.62%	45.93%	37.38%
Preferred Stock	20.65% ^{2,3}	20.33% ^{2,3}	20.34% ^{2,3}	0.31% ^{2,3}	0.32% ^{2,3}	8.79%
Long-Term Debt	45.84% ¹	49.87% ¹	49.77% ¹	51.07% ¹	53.75% ¹	53.84%
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

**Historical Consolidated Capital Structures for
Missouri-American**
(Dollars in thousands)

Capital Components	1999	2000	2001	2002	2003
Common Equity	41.28%	40.39%	45.31%	41.82%	42.38%
Preferred Stock	2.38%	1.68%	0.62%	0.53%	0.53%
Long-Term Debt	56.34% ¹	57.92% ¹	54.06% ¹	57.64% ¹	57.10% ¹
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Capital Components	2004	2005	2006	2007	2008	Average
Common Equity	41.28%	40.39%	45.31%	41.82%	46.44%	42.22%
Preferred Stock	2.38%	1.68%	0.62%	0.53%	0.36%	1.22%
Long-Term Debt	56.34% ¹	57.92% ¹	54.06% ¹	57.64% ¹	53.20% ¹	56.56%
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

- Note:
1. Includes current maturities on long-term debt.
 2. Includes redeemable preferred stock.
 3. Includes current maturities on preferred stock.

Sources: Missouri-American Water Company's response to Staff Data Request Nos. 103 and March 8, 2010 email from MAWC.
Schedule 1 attached to Staff witness David Murray's surrebuttal testimony in Case No. WR-2003-0500.

Missouri-American Water Company
Case No. WR-2010-0131

Capital Structure as of September 30, 2009
for American Water

<u>Capital Component</u>	<u>Amount</u> <i>(in thousands)</i>	<u>Percentage</u> <u>of Capital</u>
Common Stock Equity	\$3,987,252 ¹	46.21%
Preferred Stock	\$27,619 ²	0.32%
Long-Term Debt	\$4,537,552 ³	52.59%
Short-Term Debt	<u>\$76,556 ⁴</u>	<u>0.89%</u>
Total Capitalization	<u><u>\$8,628,980</u></u>	<u><u>100.00%</u></u>

Notes:

1. Based on common equity shown on American Water's September 30, 2009 balance sheet.
2. Based on total preferred stock shown on American Water's September 30, 2009 balance sheet less unamortized preferred stock expenses.
3. Based on total long-term debt shown on American Water's September 30, 2009 balance sheet less unamortized long-term debt expenses.
4. Based on short-term debt shown on American Water's September 30, 2009 balance sheet.

Source: MAWC's response to Staff Data Request Nos. 0103 and 0104.

**Missouri American Water Company
Case No. WR-2010-0131**

**Embedded Cost of Long-Term Debt as of September 30, 2009
for American Water
(Excluding Debt Held at American Water's Subsidiaries Besides MAWC)**

Total Annual Cost:	\$209,686,722	
Total Carrying Value:	\$3,394,498,755	
Embedded Cost = Total Annual Cost/Total Carrying Value		6.18%

Source: Missouri-American Water Company's response to Staff's Data Requests No. 0104.

**Missouri-American Water Company
Case No. WR-2010-0131**

**Embedded Cost of Preferred Stock as of September 30, 2009
for American Water
(Excluding Preferred Stock Held at American Water's Subsidiaries Besides MAWC)**

Total Annual Cost:	\$237,982	
Total Carrying Value:	\$2,588,491	
Embedded Cost = Total Annual Cost/Total Carrying Value		9.19%

Sources: Missouri-American Water Company's response to Staff's Data Request No. 0104.

**Missouri-American Water Company
Case No. WR-2010-0131**

Criteria for Selecting Comparable Water Utility Companies

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Water Utility Companies(Ticker)	Stock Publicly Traded	Information Printed In Value Line	5-Years of Data Available	At Least An Investment Grade Credit Rating from S&P	Projected Growth Rate Available from Value Line or Reuters	>75% of Revenues from Water Operations	Comparable Company Met All Criteria
American States Water Company (AWR)	Yes	Yes	Yes	Yes	Yes	Yes	Yes
American Water Works Co. Inc. (AWK)	Yes	Yes	No				
Aqua America Inc. (WTR)	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Artesian Resources Corporation (ARTNA)	Yes	No					
California Water Service Group (CWT)	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Connecticut Water Service, Inc. (CTWS)	Yes	Yes	Yes	Yes	No		
Middlesex Water Company (MSEX)	Yes	Yes	Yes	Yes	No		
Pennichuck Corporation (PNNW)	Yes	No	Yes	N.R.			
SJW Corporation (SJW)	Yes	Yes	Yes	N.R.			
York Water Company (YORW)	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Sources: Columns 1 and 2 = Edward Jones Water Utility Industry Summary Quarterly Financial and Common Stock Information for December 31, 2009.
Columns 3, 4 and 6 = The Value Line Investment Survey: Ratings & Reports, January 22, 2010.
Column 5 = Standard & Poor's RatingsDirect.
Column 6 = Reuters and The Value Line Investment Survey: Ratings & Reports, January 22, 2010.
Column 7 = AUS Utility Reports, February 2010.

Notes: N.R.=Not Rated by Standard and Poor's

**Missouri-American Water Company
Case No. WR-2010-0131**

**Comparable Water Utility Companies
for Missouri-American Water Company**

<u>Number</u>	<u>Ticker Symbol</u>	<u>Company Name</u>
1	AWR	American States Water Company
2	WTR	Aqua America Inc.
3	CWT	California Water Service Group
4	YORW	York Water Company

**Missouri-American Water Company
Case No. WR-2010-0131**

**Ten-Year Dividends Per Share, Earnings Per Share & Book Value Per Share Growth Rates
for the Comparable Water Utility Companies**

Company Name	DPS	EPS	BVPS	Average of 10 Year Annual Compound Growth Rates
American States Water Company	1.50%	3.50%	4.50%	3.17%
Aqua America Inc.	7.00%	7.50%	9.50%	8.00%
California Water Service Group	1.00%	0.00%	4.00%	1.67%
York Water Company	NA	NA	NA	NA
Average	<u>3.17%</u>	<u>3.67%</u>	<u>6.00%</u>	<u>4.28%</u>
Standard Deviation	2.72%	3.06%	2.48%	2.98%

Source: The Value Line Investment Survey, January 22, 2010.

NA = Not Available

**Missouri-American Water Company
Case No. WR-2010-0131**

**Five-Year Dividends Per Share, Earnings Per Share & Book Value Per Share Growth Rates
for the Comparable Water Utility Companies**

Company Name	----- 5-Year Annual Compound Growth Rates -----			Average of 5 Year Annual Compound Growth Rates
	DPS	EPS	BVPS	
American States Water Company	2.00%	5.50%	5.00%	4.17%
Aqua America Inc.	8.00%	5.50%	10.00%	7.83%
California Water Service Group	0.50%	7.00%	6.50%	4.67%
York Water Company	6.00%	6.00%	9.00%	7.00%
Average	<u>4.13%</u>	<u>6.00%</u>	<u>7.63%</u>	<u>5.92%</u>
Standard Deviation	3.01%	0.61%	1.98%	1.54%

Source: The Value Line Investment Survey, January 22, 2010.

**Missouri-American Water Company
Case No. WR-2010-0131**

**Average of Ten- and Five-Year Dividends Per Share, Earnings Per Share &
Book Value Per Share Growth Rates for the Comparable Water Utility Companies**

<u>Company Name</u>	<u>10-Year Average DPS, EPS & BVPS</u>	<u>5-Year Average DPS, EPS & BVPS</u>	<u>Average of 5-Year & 10-Year Averages</u>
American States Water Company	3.17%	4.17%	3.67%
Aqua America Inc.	8.00%	7.83%	7.92%
California Water Service Group	1.67%	4.67%	3.17%
York Water Company	NA	7.00%	7.00%
Average	<u>4.28%</u>	<u>5.92%</u>	<u>5.44%</u>

NA = Not Available

**Missouri-American Water Company
Case No. WR-2010-0131**

**Five-Year Projected Dividends Per Share, Earnings Per Share & Book Value Per Share Growth Rates
for the Comparable Water Utility Companies**

Company Name	DPS	EPS	BVPS	Average of 5 Year Annual Compound Growth Rates
American States Water Company	4.50%	9.50%	4.00%	6.00%
Aqua America Inc.	6.50%	10.00%	6.00%	7.50%
California Water Service Group	1.50%	8.50%	2.00%	4.00%
York Water Company	NA	NA	NA	NA
Average	<u>4.17%</u>	<u>9.33%</u>	<u>4.00%</u>	<u>5.83%</u>
Standard Deviation	2.05%	0.62%	1.63%	2.81%

Source: The Value Line Investment Survey, January 22, 2010.

**Missouri-American Water Company
Case No. WR-2010-0131**

**Projected EPS Growth Rates
for the Comparable Water Utility Companies**

	(1)	(2)	(3)
Company Name	Projected 5-Year EPS Growth Reuters (Mean)	Projected 3-5 Year EPS Growth Value Line	Average Projected EPS Growth Growth
American States Water Company	4.00%	9.50%	6.75%
Aqua America Inc.	8.60%	10.00%	9.30%
California Water Service Group	6.00%	8.50%	7.25%
York Water Company	6.00%	NA	6.00%
Average	6.15%	9.33%	7.33%
Standard Deviation	1.63%	0.62%	1.22%

Sources:

Column 1 = Analyst Estimates Accessed from Reuters on February 23, 2010.

Column 2 = The Value Line Investment Survey, January 22, 2010.

**Missouri-American Water Company
Case No. WR-2010-0131**

**Historical and Projected Growth Rates
for the Comparable Water Utility Companies**

	(1)	(2)	(3)	(4)	(5)
	Historical Growth Rate (DPS, EPS and BVPS)	Projected 5-Year EPS Growth Consensus Estimates (Mean)	Projected 3-5 Year EPS Growth Value Line	Average Projected EPS Growth Growth	Average of Historical & Projected Growth
Company Name					
American States Water Company	3.67%	4.00%	9.50%	6.75%	5.21%
Aqua America Inc.	7.92%	8.60%	10.00%	9.30%	8.61%
California Water Service Group	3.17%	6.00%	8.50%	7.25%	5.21%
York Water Company	7.00%	6.00%	NA	6.00%	6.50%
Average	5.44%	6.15%	9.33%	7.33%	6.38%

Proposed Range of Growth for Comparables:

5.40%-6.40%

Sources:

Column 4 = [(Column 2 + Column 3) / 2]

Column 5 = [(Column 1 + Column 4) / 2]

Column 1 = Average of 10-Year and 5-Year Annual Compound Growth Rates from Schedule 12-3.

Column 2 = <http://www.reuters.com/finance/stocks/estimates>

Column 3 = The Value Line Investment Survey, January 22, 2010.

**Missouri-American Water Company
Case No. WR-2010-0131**

**Average High / Low Stock Price for December 2009 through February 2010.
for the Comparable Water Utility Companies**

Company Name	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	-- December 2009 --		-- January 2010 --		-- February 2010 --		Average High/Low Stock Price (12/09 - 2/10)
	High Stock Price	Low Stock Price	High Stock Price	Low Stock Price	High Stock Price	Low Stock Price	
American States Water Company	36.86	32.79	36.42	33.01	33.67	31.20	33.99
Aqua America Inc.	17.89	16.32	17.88	16.59	17.57	16.45	17.12
California Water Service Group	38.21	36.18	38.09	35.32	37.68	35.25	36.79
York Water Company	15.24	14.21	15.00	13.04	14.08	13.04	14.10

Notes:

Column 7 = [(Column 1 + Column 2 + Column 3 + Column 4 + Column 5 + Column 6 / 6].

Source: <http://finance.yahoo.com>

Missouri-American Water Company
Case No. WR-2010-0131

Constant-Growth Discounted Cash Flow (DCF) Estimated Costs of Common Equity
for the Comparable Water Utility Companies

	(1)	(2)	(3)	(4)	(5)
<u>Company Name</u>	<u>Expected Annual Dividend</u>	<u>Average High/Low Stock Price</u>	<u>Projected Dividend Yield</u>	<u>Average of Historical & Projected Growth</u>	<u>Estimated Cost of Common Equity</u>
American States Water Company	\$1.05	\$33.992	3.09%	5.21%	8.30%
Aqua America Inc.	\$0.59	\$17.117	3.45%	8.61%	12.06%
California Water Service Group	\$1.19	\$36.788	3.23%	5.21%	8.44%
York Water Company	\$0.51 ¹	\$14.102	3.63%	6.50%	10.13%
Average			<u>3.35%</u>	<u>6.38%</u>	<u>9.73%</u>

Proposed Dividend Yield: 3.35%

Proposed Range of Growth: 5.40% - 6.40%

Indicated Cost of Common Equity: 8.75% - 9.75%

Notes:

Column 1 = Estimated Dividend Declared per share represents the projected dividend for 2010.

Column 3 = (Column 1 / Column 2).

Column 5 = (Column 3 + Column 4).

Sources:

Column 1 = The Value Line Investment Survey: Ratings and Reports, January 22, 2010.

Column 2 = Schedule 16.

Column 4 = Schedule 15.

Note: 1. York was calculated by taking the 2010 first quarter dividend times four.

Missouri-American Water Company

Case No. WR-2010-0131

**Capital Asset Pricing Model (CAPM) Costs of Common Equity Estimates
Based on Historical Return Differences Between Common Stocks and Long-Term U.S. Treasuries
for the Comparable Water Utility Companies**

	(1)	(2)	(3)	(4)	(5)	(6)
			Arithmetic Average Market Risk Premium (1926-2008)	Geometric Average Market Risk Premium (1926-2008)	Arithmetic CAPM Cost of Common Equity (1926-2008)	Geometric CAPM Cost of Common Equity (1926-2008)
<u>Company Name</u>	<u>Risk Free Rate</u>	<u>Company's Value Line Beta</u>				
American States Water Company	4.57%	0.80	5.60%	3.90%	9.05%	7.69%
Aqua America Inc.	4.57%	0.65	5.60%	3.90%	8.21%	7.11%
California Water Service Group	4.57%	0.75	5.60%	3.90%	8.77%	7.50%
York Water Company	4.57%	0.65	5.60%	3.90%	8.21%	7.11%
Average		0.71			8.56%	7.35%

Column 1 = The appropriate yield is equal to the average 30-year U.S. Treasury Bond yield for December 2009, January and February 2010 which was obtained from the St. Louis Federal Reserve website at <http://research.stlouisfed.org/fred2/series/GS30/22>.

Column 2 = Beta is a measure of the movement and relative risk of an individual stock to the market as a whole as reported by the Value Line Investment Survey: Ratings & Reports, January 22, 2010.

Column 3 = The Market Risk Premium represents the expected return from holding the entire market portfolio less the expected return from holding a risk free investment. The appropriate Market Risk Premium for the period 1926 - 2008 was determined to be 5.60% based on an arithmetic average as calculated in Ibbotson Associates, Inc.'s Stocks, Bonds, Bills, and Inflation: 2009 Yearbook.

Column 4 = The Market Risk Premium represents the expected return from holding the entire market portfolio less the expected return from holding a risk free investment. The appropriate Market Risk Premium for the period 1926 - 2008 was determined to be 3.9% based on a geometric average as calculated in Ibbotson Associates, Inc.'s Stocks, Bonds, Bills, and Inflation: 2009 Yearbook.

Column 5 = (Column 1 + (Column 2 * Column 3)).

Column 6 = (Column 1 + (Column 2 * Column 4)).

**Missouri-American Water Company
Case No. WR-2010-0131**

**Multiple-Stage Discounted Cash Flow (DCF) Estimated Costs of Common Equity
for the Comparable Water Utility Companies**

Company Name	(1) Annualized Quarterly Dividend	(2) Growth Years 1-5	(3) ----- 6	(4) 7	(5) Growth Years 8	(6) ----- 9	(7) 10	(8) Growth in Perpetuity	(9) Cost of Equity
American States Water Company	\$1.04	6.75%	6.38%	6.00%	5.63%	5.25%	4.88%	4.50%	8.19%
Aqua America Inc.	\$0.58	9.30%	8.50%	7.70%	6.90%	6.10%	5.30%	4.50%	9.26%
California Water Service Group	\$1.18	7.25%	6.79%	6.33%	5.88%	5.42%	4.96%	4.50%	8.48%
York Water Company	\$0.51	6.00%	5.75%	5.50%	5.25%	5.00%	4.75%	4.50%	8.67%
								Average:	8.65%

Sources: Column 1 = The Value Line Investment Survey: Ratings and Reports, January 22, 2010.
Column 2 = Average Projected Growth from Brokers' Estimates and Value Line Estimates.

Missouri-American Water Company
Case No. WR-2010-0131

Selected Financial Ratios for the Comparable Water Utility Companies

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Company Name	2009 Estimated Common Equity Ratio	2009 Estimated Long-Term Debt Ratio	Funds From Operations Interest Coverage	Funds From Operations to Total Debt	Market- to-Book Value	2009 Estimated Return on Common Equity	2010 Estimated Return on Common Equity	S&P Corporate Credit Rating
American States Water Company	54.00%	46.00%	4.20 x ¹	21.0% ¹	1.78 x	9.5%	10.5%	A
Aqua America Inc.	46.00%	54.00%	4.40 x ²	18.0% ²	2.22 x	10.0%	10.5%	A+
California Water Service Group	53.00%	47.00%	4.20 x ¹	18.0% ¹	1.87 x	10.0%	10.5%	A+
York Water Company	51.89% ³	48.11% ³	NA x	16.0% ¹	2.06 x	NA	NA	A-
Average	51.22%	48.78%	4.27 x	18.3%	1.98 x	9.8%	10.5%	A

Sources:

The Value Line Investment Survey Ratings & Reports, January 22, 2010. for columns (1), (2), (6) and (7).

Standard & Poor's RatingsDirect for columns (3), (4) and (8).

AUS Utility Reports, February 2010 for column (5).

Notes:

1. As of September 30, 2009.

2. As of March 31, 2009.

3. Based on York Water Company's SEC Form 10-Q Filing for September 30, 2009.

**Missouri-American Water Company
Case No. WR-2010-0131**

**Public Utility Revenue Requirement
or
Cost of Service**

The formula for the revenue requirement of a public utility may be stated as follows :

Equation 1 : **Revenue Requirement = Cost of Service**

or

Equation 2 : **$R R = O + (V - D) R$**

The symbols in the second equation are represented by the following factors :

$R R$	=	Revenue Requirement
O	=	Prudent Operating Costs, including Depreciation and Taxes
V	=	Gross Valuation of the Property Serving the Public
D	=	Accumulated Depreciation
$(V - D)$	=	Rate Base (Net Valuation)
$(V - D) R$	=	Return Amount (\$\$) or Earnings Allowed on Rate Base
R	=	$i L + d P + k E$ or Overall Rate of Return (%)
i	=	Embedded Cost of Debt
L	=	Proportion of Debt in the Capital Structure
d	=	Embedded Cost of Preferred Stock
P	=	Proportion of Preferred Stock in the Capital Structure
k	=	Required Return on Common Equity (ROE)
E	=	Proportion of Common Equity in the Capital Structure

**Missouri-American Water Company
Case No. WR-2010-0131**

**Weighted Cost of Capital as of September 30, 2009
for Missouri-American Water Company**

<u>Capital Component</u>	<u>Percentage of Capital</u>	<u>Embedded Cost</u>	<u>Weighted Cost of Capital Using Common Equity Return of:</u>		
			<u>8.95%</u>	<u>9.25%</u>	<u>9.55%</u>
Common Stock Equity	46.21%	-----	4.14%	4.27%	4.41%
Preferred Stock	0.32%	9.19%	0.03%	0.03%	0.03%
Long-Term Debt	52.59%	6.18%	3.25%	3.25%	3.25%
Short-Term Debt	<u>0.89%</u>	0.81%	<u>0.01%</u>	<u>0.01%</u>	<u>0.01%</u>
Total	<u>100.00%</u>		<u>7.42%</u>	<u>7.56%</u>	<u>7.70%</u>

Sources:
See Schedule 7 for the Capital Structure Ratios.

MISSOURI PUBLIC SERVICE COMMISSION

STAFF REPORT
COST OF SERVICE

APPENDIX 3
Allocation Factors Used

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2010-0131

**Missouri-American Water Company
Case No. WR-2008-0311
Staff's Corporate Allocation Factors**

Total Customers Allocation Factor

Source: Company's Numbers at 6/30/09

	<u>B'wick</u>	<u>Jeff City</u>	<u>Joplin</u>	<u>Mexico</u>	<u>P'ville W</u>	<u>St.Chas</u>	<u>St. Joe</u>	<u>St. Louis</u>	<u>War Co W</u>	<u>W'burg</u>	<u>Cedar Hill S</u>	<u>P'ville S</u>	<u>War Co S</u>	<u>Total</u>
Monthly	442	10,927	24,476	4,932	5,691	29,694	32,548	340,194	438	7,073	576	105	413	457,509
Qtrly														0
Total	442	10,927	24,476	4,932	5,691	29,694	32,548	340,194	438	7,073	576	105	413	457,509
Factor	0.097%	2.388%	5.350%	1.078%	1.244%	6.490%	7.114%	74.358%	0.096%	1.546%	0.126%	0.023%	0.090%	100.000%

Staff applied the Total Customer Allocation Factor to the following Corporate Accounts:

Other Revenues
Source of Supply - All accounts
Pumping - All accounts
Account 903.2, Contract & Order Labor
Account 907, Service & Information

Total Number of Bills

(Source: Customer Annual Billing based upon Company's Test Year Number of Customers)

	<u>B'wick</u>	<u>Jeff City</u>	<u>Joplin</u>	<u>Mexico</u>	<u>P'ville W</u>	<u>St.Chas</u>	<u>St. Joe</u>	<u>St. Louis</u>	<u>War Co W</u>	<u>W'burg</u>	<u>Cedar Hill S</u>	<u>P'ville S</u>	<u>War Co S</u>	<u>Total</u>
	5,304	131,124	293,712	59,184	68,292	356,328	390,576	4,082,328	5,256	84,876	6,912	1,260	4,956	5,490,108
Factor	0.097%	2.388%	5.350%	1.078%	1.244%	6.490%	7.114%	74.358%	0.096%	1.546%	0.126%	0.023%	0.090%	100.000%

Staff applied the Total Number of Bills Allocation Factor to the following Corporate Accounts:

Account 902, Meter Reading
Account 903.3, Collecting Expense
Account 903.5, Billing & Accounting Expense
Account 903.6, Billing & Accounting Labor
Account 904 Uncollectible Accounts

**Missouri-American Water Company
Case No. WR-2008-0311
Staff's Corporate Allocation Factors**

Corporate Customer Accounting Composite

(Source: Company's TY Numbers for Account Nos. 901 and 905)

	<u>B'wick</u>	<u>Jeff City</u>	<u>Joplin</u>	<u>Mexico</u>	<u>P'ville W</u>	<u>St.Chas</u>	<u>St. Joe</u>	<u>St. Louis</u>	<u>War Co W</u>	<u>W'burg</u>	<u>Cedar Hill S</u>	<u>P'ville S</u>	<u>War Co S</u>	<u>Total</u>
Labor	2,323	87	4,732	48	0	19,334	36,269	6,890	0	5,241	35	0	0	74,959
Non-Labor	4,664	17,410	6,819	5,523	3,863	6,467	38,160	53,029	0	12,866	1,936	0	0	150,737
Total	6,987	17,497	11,551	5,571	3,863	25,801	74,429	59,919	0	18,107	1,971	0	0	225,696
Factor	3.096%	7.752%	5.118%	2.468%	1.712%	11.432%	32.978%	26.549%	0.000%	8.023%	0.873%	0.000%	0.000%	100.000%

Staff applied the Corporate Customer Accounting Composite Factor to the following Corporate Accounts:

Account 901, Supervision
Account 905, Miscellaneous

Length of Mains (feet)

(Source 2008 PSC Annual Report, Page W-14)

	<u>B'wick</u>	<u>Jeff City</u>	<u>Joplin</u>	<u>Mexico</u>	<u>P'ville W</u>	<u>St.Chas</u>	<u>St. Joe</u>	<u>St. Louis</u>	<u>War Co W</u>	<u>W'burg</u>	<u>Cedar Hill S</u>	<u>P'ville S</u>	<u>War Co S</u>	<u>Total</u>
	65,858	785,407	2,345,846	445,534	441,636	2,388,264	3,242,232	19,965,320	60,073	551,926				30,292,096
Factor	0.217%	2.593%	7.744%	1.471%	1.458%	7.884%	10.703%	65.909%	0.198%	1.822%	0.000%	0.000%	0.000%	100.000%

Staff applied the Lengths of Mains Allocation Factor to the following Corporate Accounts:

All Transmission & Distribution Expense

**Missouri-American Water Company
Case No. WR-2008-0311
Staff's Corporate Allocation Factors**

Labor Composite

(Source: Staff's Payroll Annualization as of 10/31/09)

	<u>B'wick</u>	<u>Jeff City</u>	<u>Joplin</u>	<u>Mexico</u>	<u>P'ville W</u>	<u>St.Chas</u>	<u>St. Joe</u>	<u>St. Louis</u>	<u>War Co W</u>	<u>W'burg</u>	<u>Cedar Hill S</u>	<u>P'ville S</u>	<u>War Co S</u>	<u>Total</u>
Total	\$ 117,898	\$ 936,191	\$ 1,588,048	\$ 332,896	\$ 264,273	\$ 797,644	\$ 1,793,695	\$ 16,884,831	\$ 40,969	\$ 280,508	\$ 109,659	\$ 5,787	\$ 129,092	\$ 23,281,492
Corp A&G	\$ 9,762	\$ 77,514	\$ 131,486	\$ 27,563	\$ 21,881	\$ 66,043	\$ 148,514	\$ 1,398,022	\$ 3,392	\$ 23,225	\$ 9,080	\$ 479	\$ 10,689	\$ 1,927,650
	\$ 108,136	\$ 858,676	\$ 1,456,562	\$ 305,333	\$ 242,392	\$ 731,601	\$ 1,645,182	\$ 15,486,809	\$ 37,577	\$ 257,282	\$ 100,580	\$ 5,308	\$ 118,404	\$ 21,353,842
Factor	0.506%	4.021%	6.821%	1.430%	1.135%	3.426%	7.704%	72.525%	0.176%	1.205%	0.471%	0.025%	0.554%	100.000%

Staff applied the Labor Composite Factor to the following Corporate Accounts:

- A&G expenses (except for Call Center adjmt, Bellville Lab & OPEB amort)
- General Plant (All plant recorded in Corporate district)
- Accumulated Depreciation Reserve on General Plant
- Accumulated Amortization Reserve
- Miscellaneous Non-deductible Expenses
- Prepayments related to insurance and other

Water Revenue

(Source: Staff's Annualized Revenues as of 10/31/09)

	<u>B'wick</u>	<u>Jeff City</u>	<u>Joplin</u>	<u>Mexico</u>	<u>P'ville W</u>	<u>St.Chas</u>	<u>St. Joe</u>	<u>St. Louis</u>	<u>War Co W</u>	<u>W'burg</u>	<u>Cedar Hill S</u>	<u>P'ville S</u>	<u>War Co S</u>	<u>Total</u>
	\$ 346,907	\$ 6,259,775	\$ 17,101,373	\$ 3,497,955	\$ 4,859,449	#####	\$21,363,520	#####	\$ 236,597	\$ 3,836,992				\$ 216,826,743
Factor	0.160%	2.887%	7.887%	1.613%	2.241%	5.799%	9.853%	67.681%	0.109%	1.770%	0.000%	0.000%	0.000%	100.000%

Staff applied the Water Revenue Allocation Factor to the following Corporate Accounts:

- PSC Assessment for Water Operations

**Missouri-American Water Company
Case No. WR-2008-0311
Staff's Corporate Allocation Factors**

Sewer Revenue

(Source: Staff's Annualized Revenues as of 10/31/09)

	<u>B'wick</u>	<u>Jeff City</u>	<u>Joplin</u>	<u>Mexico</u>	<u>P'ville W</u>	<u>St.Chas</u>	<u>St. Joe</u>	<u>St. Louis</u>	<u>War Co W</u>	<u>W'burg</u>	<u>Cedar Hill S</u>	<u>P'ville S</u>	<u>War Co S</u>	<u>Total</u>
											\$ 339,698	\$35,666	\$ 98,955	\$ 474,319
Factor	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	71.618%	7.519%	20.863%	100.000%

Staff applied the Sewer Revenue Allocation Factor to the following Corporate Accounts:

PSC Assessment for Sewer Operations

Net Plant

(Source: Staff's October 30, 2009 Net Plant)

	<u>B'wick</u>	<u>Jeff City</u>	<u>Joplin</u>	<u>Mexico</u>	<u>P'ville W</u>	<u>St.Chas</u>	<u>St. Joe</u>	<u>St. Louis</u>	<u>War Co W</u>	<u>W'burg</u>	<u>Cedar Hill S</u>	<u>P'ville S</u>	<u>War Co S</u>	<u>Total</u>
	\$2,318,922	#####	#####	#####	#####	\$ -	\$99,731,126	#####	#####	#####	\$ 366,655	\$48,024	#####	#####
Factor	0.213%	1.991%	10.002%	1.700%	3.081%	0.000%	9.166%	71.565%	0.114%	1.821%	0.034%	0.004%	0.309%	100.000%

Staff applied the Net Plant Allocation Factor to the following Corporate Accounts:

State Franchise Tax
Prepaid Taxes (if any)

Net Normalized Timing Difference

(Source: Staff's EMS Schedules in Case No. WR-2008-0311)

	<u>B'wick</u>	<u>Jeff City</u>	<u>Joplin</u>	<u>Mexico</u>	<u>P'ville W</u>	<u>St.Chas</u>	<u>St. Joe</u>	<u>St. Louis</u>	<u>War Co W</u>	<u>W'burg</u>	<u>Cedar Hill S</u>	<u>P'ville S</u>	<u>War Co S</u>	<u>Total</u>
	\$ (43,585)	\$ 70,369	\$ 102,619	\$ 38,109	\$ 91,166	\$ (78,329)	\$ 1,003,133	\$ 4,981,477	\$ (10,036)	\$ 61,265	\$ (22,379)	\$ 492	\$ (45,834)	\$ 6,148,467
Factor	-0.709%	1.144%	1.669%	0.620%	1.483%	-1.274%	16.315%	81.020%	-0.163%	0.996%	-0.364%	0.008%	-0.745%	100.000%

Staff applied the Net Normalized Timing Difference Allocation Factor to the following Corporate Accounts:

Annulaized DIT based on each districts normalized timing differences.

**Missouri-American Water Company
Case No. WR-2008-0311
Staff's Corporate Allocation Factors**

Net Book to Net Tax Basis Plant Difference

(Source: EMS Schedules in Case No. WR-2007-0216)

	<u>B'wick</u>	<u>Jeff City</u>	<u>Joplin</u>	<u>Mexico</u>	<u>P'ville W</u>	<u>St.Chas</u>	<u>St. Joe</u>	<u>St. Louis</u>	<u>War Co W</u>	<u>W'burg</u>	<u>Cedar Hill S</u>	<u>P'ville S</u>	<u>War Co S</u>	<u>Total</u>
	\$ 146,657	\$ 1,490,832	\$ 3,092,515	\$ 1,205,848	\$ 875,252	\$ 1,321,452	\$ 3,891,193	\$ 18,693,834	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,717,583
Factor	0.477%	4.853%	10.068%	3.926%	2.849%	4.302%	12.668%	60.857%	0.000%	0.000%	0.000%	0.000%	0.000%	100.000%

Staff applied the Book to Nex Tax Basis Plant Difference Factor to the following Corporate Accounts:

Deferred Income Tax Balances

Labor Excluding STL, Warren County, Cedar Hill & JC - TYE as Updated:

(Source: Staff's Payroll Annualization as of 10/31/09)

	<u>B'wick</u>	<u>Jeff City</u>	<u>Joplin</u>	<u>Mexico</u>	<u>P'ville W</u>	<u>St.Chas</u>	<u>St. Joe</u>	<u>St. Louis</u>	<u>War Co W</u>	<u>W'burg</u>	<u>Cedar Hill S</u>	<u>P'ville S</u>	<u>War Co S</u>	<u>Total</u>
	\$ 108,136	\$ -	\$ 1,456,562	\$ 305,333	\$ 242,392	\$ 731,601	\$ 1,645,182			\$ 257,282		\$ 5,308		\$ 4,751,796
Factor	2.276%	0.000%	30.653%	6.426%	5.101%	15.396%	34.622%	0.000%	0.000%	5.414%	0.000%	0.112%	0.000%	100.000%

Staff applied the Labor Excluding STL, Warren County, Cedar Hill & JC Factor to the following Corporate Accounts:

OPEB Asset and Amortization

ITC Amortization - (Bases: Direct assigned ITC balances)

(Source: ITC Balances filed in WR-2008-0311)

	<u>B'wick</u>	<u>Jeff City</u>	<u>Joplin</u>	<u>Mexico</u>	<u>P'ville W</u>	<u>St.Chas</u>	<u>St. Joe</u>	<u>St. Louis</u>	<u>War Co W</u>	<u>W'burg</u>	<u>Cedar Hill S</u>	<u>P'ville S</u>	<u>War Co S</u>	<u>Total</u>
			\$ 16,850						\$ 21,973					\$ 38,823
Factor	0.000%	0.000%	43.402%	0.000%	0.000%	0.000%	0.000%	0.000%	56.598%	0.000%	0.000%	0.000%	0.000%	100.000%

Staff applied the ITC Amortization Factor to the following Corporate Accounts:

Corporate recorded ITC amortization

**Missouri-American Water Company
Case No. WR-2008-0311
Staff's Corporate Allocation Factors**

Water Test Analyses Performed

(Source: Test Year No. of Analyses performed by Belleville Lab by district)

	<u>B'wick</u>	<u>Jeff City</u>	<u>Joplin</u>	<u>Mexico</u>	<u>P'ville W</u>	<u>St.Chas</u>	<u>St. Joe</u>	<u>St. Louis</u>	<u>War Co W</u>	<u>W'burg</u>	<u>Cedar Hill S</u>	<u>P'ville S</u>	<u>War Co S</u>	<u>Total</u>
	232	194	334	197	268		157	1,043	123	302				2,850
Factor	8.140%	6.807%	11.719%	6.912%	9.404%	0.000%	5.509%	36.596%	4.316%	10.596%	0.000%	0.000%	0.000%	100.000%

Staff applied the Water Test Analyses Performed Factor to the following Corporate Accounts:

Bellville Lab costs/expense

MISSOURI PUBLIC SERVICE COMMISSION

**STAFF REPORT
COST OF SERVICE**

**APPENDIX 4
Usage Per Customer**

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2010-0131

Missouri American Water Company
Usage Per Customer
Case No. WR-2010-0131

Residential

(1,000 Gallons)

	Joplin	St. Charles	St. Joseph	St. Louis	Brunswick	Mexico	Parkville	Warrensburg	Jefferson City
per day	0.180	0.258	0.163	0.251	0.116	0.142	0.259	0.161	0.154
per month	5.486	7.853	4.974	7.647	3.533	4.332	7.871	4.913	4.678
per year	65.826	94.241	59.685	91.759	42.400	51.981	94.450	58.961	56.137

Commercial

(1,000 Gallons)

	Joplin	St. Charles	St. Joseph	St. Louis - Quarterly -	St. Louis - Monthly -	Brunswick	Mexico	Parkville	Warrensburg	Jefferson City
per day	0.967	1.229	0.814	1.082	14.720	0.224	0.583	1.017	0.720	0.764
per month	29.424	37.415	24.770	32.932	448.051	6.824	17.759	30.941	21.916	23.250
per year	353.084	448.984	297.242	395.183	5376.618	81.889	213.113	371.293	262.990	279.002

MISSOURI PUBLIC SERVICE COMMISSION

**STAFF REPORT
COST OF SERVICE**

**APPENDIX 5
Average Service Lives**

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2010-0131

**Missouri-American Water Company
Case No. WR-2010-0131**

Recommended Annual Depreciation Rates

Account Number	<u>WATER</u> Account Description	Whole Life Depreciation Rate (%)	Recommended Average		Net Salvage
			Service Life (Years)	lowa Curve	
<u>SOURCE OF SUPPLY PLANT</u>					
311.00	Structures and Improvements	2.36%	55	R4	-30.00%
312.00	Collecting and Impounding Reservoirs	1.25%	80	R2.5	0.00%
313.00	Lake, River, and Other Intakes	1.77%	65	R1.5	-15.00%
314.00	Wells and Springs	1.82%	55	R2.5	0.00%
315.00	Infiltration Galleries and Tunnels	1.67%	60	R2.5	0.00%
316.00	Supply Mains	1.79%	70	R3	-25.00%
317.00	Miscellaneous Source of Supply-Other	4.00%	25	SQ	0.00%
<u>PUMPING PLANT</u>					
321.00	Structures and Improvements	1.80%	75	R2.5	-35.00%
322.00	Boiler Plant Equipment	2.22%	45	R4	0.00%
323.00	Power Generation Equipment	2.00%	50	R3	0.00%
324.00	Pumping Equipment	2.62%	42	R1.5	-10.00%
<u>WATER TREATMENT PLANT</u>					
331.00	Structures and Improvements	1.69%	80	R3	-35.00%
332.00	Water Treatment Equipment	2.89%	45	R2.5	-30.00%
333.00	Miscellaneous Water Treatment-Other	3.33%	30	SQ	0.00%
<u>TRANSMISSION & DISTRIBUTION PLANT</u>					
341.00	Structures and Improvements	2.40%	50	R2.5	-20.00%
341.10	Structures and Improvements-Special Crossing	N/A	N/A	N/A	N/A
342.00	Distribution Reservoirs & Standpipes	2.25%	60	R3	-35.00%
343.00	Mains-Transmission & Distribution	1.39%	90	R2.5	-25.00%
344.00	Mains-Fire	1.56%	80	S1	-25.00%
345.00	Services	2.92%	65	S0.5	-90.00%
346.00	Meters	2.40%	40	R1	4.00%
347.00	Meter Installations	N/A	N/A	N/A	N/A
348.00	Fire Hydrants	1.85%	65	R1.5	-20.00%
349.00	Miscellaneous Transmission & Distribution-Other	2.00%	50	R3	0.00%
<u>GENERAL PLANT</u>					
390.00	Structures and Improvements-Shop and Garage	2.40%	50	R3	-20.00%
390.10	Structures and Improvements-Office Buildings	2.40%	50	R1	-20.00%
390.30	Structures and Improvements-Miscellaneous	2.40%	50	R2.5	-20.00%
390.90	Structures and Improvements-Leasehold	5.00%	20	R4	0.00%
391.00	Office Furniture	5.00%	20		0.00%
391.20	Computer Hardware	20.00%	5		0.00%
391.25	Computer Software	20.00%	5		0.00%
391.30	Other Office Equipment	6.67%	15		0.00%
392.10	Transportation Equipment-Light Trucks	11.25%	8	L1.5	10.00%
392.20	Transportation Equipment-Heavy Trucks	10.00%	9	L2	10.00%
392.30	Transportation Equipment-Autos	18.00%	5	L2	10.00%
392.40	Transportation Equipment-Other	5.67%	15	S2.5	15.00%
393.00	Stores Equipment	4.00%	25		0.00%
394.00	Tools, Shop, and Garage Equipment	5.00%	20		0.00%
395.00	Laboratory Equipment	6.67%	15		0.00%
396.00	Power Operated Equipment	7.73%	11	L1.5	15.00%
397.10	Communications Equipment-Non-Telephone	6.67%	15		0.00%
397.20	Communications Equipment-Telephone	10.00%	10		0.00%
398.00	Miscellaneous Equipment	6.67%	15		0.00%
399.00	Other Tangible Equipment	5.00%	20		0.00%

**Missouri-American Water Company
Case No. WR-2010-0131**

Recommended Annual Depreciation Rates

<u>Account Number</u>	<u>Account Description</u>	<u>Recommended</u>		
		<u>Current Annual Accrual</u>	<u>Annual Accrual</u>	<u>Annual Difference</u>
<u>SOURCE OF SUPPLY PLANT</u>				
311.00	Structures and Improvements	\$349,826	\$337,494	(\$12,332)
312.00	Collecting and Impounding Reservoirs	\$1,388	\$1,388	\$0
313.00	Lake, River, and Other Intakes	\$17,796	\$17,788	(\$8)
314.00	Wells and Springs	\$113,419	\$123,483	\$10,064
315.00	Infiltration Galleries and Tunnels	\$30	\$30	(\$0)
316.00	Supply Mains	\$332,223	\$370,784	\$38,562
317.00	Miscellaneous Source of Supply-Other	\$69	\$69	\$0
<u>PUMPING PLANT</u>				
321.00	Structures and Improvements	\$332,389	\$345,839	\$13,449
322.00	Boiler Plant Equipment	\$7	\$8	\$1
323.00	Power Generation Equipment	\$70,406	\$70,406	\$0
324.00	Pumping Equipment	\$1,379,119	\$1,480,319	\$101,200
<u>WATER TREATMENT PLANT</u>				
331.00	Structures and Improvements	\$1,499,114	\$1,551,997	\$52,883
332.00	Water Treatment Equipment	\$3,042,836	\$3,162,020	\$119,184
333.00	Miscellaneous Water Treatment-Other	\$49,339	\$49,389	\$49
<u>TRANSMISSION & DISTRIBUTION PLAN</u>				
341.00	Structures and Improvements	\$278,852	\$250,653	(\$28,198)
341.10	Structures and Improvements-Special Crossing	\$0		
342.00	Distribution Reservoirs & Standpipes	\$608,420	\$608,420	\$0
343.00	Mains-Transmission & Distribution	\$11,653,326	\$10,790,117	(\$863,209)
344.00	Mains-Fire	\$8,513	\$8,867	\$355
345.00	Services	\$847,120	\$803,960	(\$43,160)
346.00	Meters	\$1,915,025	\$1,891,383	(\$23,642)
347.00	Meter Installations	\$0		
348.00	Fire Hydrants	\$1,043,580	\$1,003,442	(\$40,138)
349.00	Miscellaneous Transmission & Distribution-Other	\$628	\$628	\$0
<u>GENERAL PLANT</u>				
390.00	Structures and Improvements-Shop and Garage	\$21,090	\$21,090	\$0
390.10	Structures and Improvements-Office Buildings	\$179,929	\$179,929	\$0
390.30	Structures and Improvements-Miscellaneous	\$100,637	\$100,637	\$0
390.90	Structures and Improvements-Leasehold	\$2,707	\$2,707	\$0
391.00	Office Furniture	\$73,874	\$92,343	\$18,469
391.20	Computer Hardware	\$0	\$1,348,008	\$1,348,008
391.25	Computer Software	\$1,332,803	\$1,865,365	\$532,562
391.30	Other Office Equipment	\$33,173	\$33,173	\$0
392.10	Transportation Equipment-Light Trucks	\$0	\$87,876	\$87,876
392.20	Transportation Equipment-Heavy Trucks	\$355,732	\$426,878	\$71,146
392.30	Transportation Equipment-Autos	\$0	\$195,141	\$195,141
392.40	Transportation Equipment-Other	\$0	\$22,635	\$22,635
393.00	Stores Equipment	\$11,670	\$16,338	\$4,668
394.00	Tools, Shop, and Garage Equipment	\$394,823	\$394,823	\$0
395.00	Laboratory Equipment	\$84,882	\$141,469	\$56,588
396.00	Power Operated Equipment	\$103,413	\$117,202	\$13,788
397.10	Communications Equipment-Non-Telephone	\$137,681	\$183,574	\$45,894
397.20	Communications Equipment-Telephone	\$9,961	\$14,941	\$4,980
398.00	Miscellaneous Equipment	\$93,008	\$124,010	\$31,003
399.00	Other Tangible Equipment	\$45,548	\$45,548	\$0
	<u>Total</u>	\$26,524,356	\$28,282,172	\$1,757,816

**Missouri-American Water Company
Case No. WR-2010-0131**

Previously Ordered Versus Recommended Depreciation Rates

<u>Account Number</u>	<u>Account Description</u>	<u>Currently Orderec Whole Life Depreciation Rate</u>	<u>Recommenedec Whole Life Depreciation Rate</u>
<u>WATER</u>			
<u>SOURCE OF SUPPLY PLANT</u>			
311.00	Structures and Improvements	2.45%	2.36%
312.00	Collecting and Impounding Reservoirs	1.25%	1.25%
313.00	Lake, River, and Other Intakes	1.77%	1.77%
314.00	Wells and Springs	1.67%	1.82%
315.00	Infiltration Galleries and Tunnels	1.67%	1.67%
316.00	Supply Mains	1.60%	1.79%
317.00	Miscellaneous Source of Supply-Other	4.00%	4.00%
<u>PUMPING PLANT</u>			
321.00	Structures and Improvements	1.73%	1.80%
322.00	Boiler Plant Equipment	2.00%	2.22%
323.00	Power Generation Equipment	2.00%	2.00%
324.00	Pumping Equipment	2.44%	2.62%
<u>WATER TREATMENT PLANT</u>			
331.00	Structures and Improvements	1.63%	1.69%
332.00	Water Treatment Equipment	2.78%	2.89%
333.00	Miscellaneous Water Treatment-Other	3.33%	3.33%
<u>TRANSMISSION & DISTRIBUTION PLAN</u>			
341.00	Structures and Improvements	2.67%	2.40%
341.10	Structures and Improvements-Special Crossing	0.00%	
342.00	Distribution Reservoirs & Standpipes	2.25%	2.25%
343.00	Mains-Transmission & Distribution	1.50%	1.39%
344.00	Mains-Fire	1.50%	1.56%
345.00	Services	3.08%	2.92%
346.00	Meters	2.43%	2.40%
347.00	Meter Installations	2.43%	
348.00	Fire Hydrants	1.92%	1.85%
349.00	Miscellaneous Transmission & Distribution-Other	2.00%	2.00%
<u>GENERAL PLANT</u>			
390.00	Structures and Improvements-Shop and Garage	2.40%	2.40%
390.10	Structures and Improvements-Leasehold	5.00%	0.00%
390.10	Structures and Improvements-Office Buildings		2.40%
390.30	Structures and Improvements-Miscellaneous	2.40%	2.40%
390.90	Structures and Improvements-Leasehold	5.00%	5.00%
391.00	Office Furniture	4.00%	5.00%
391.20	Computer Hardware		20.00%
391.25	Computer Software	14.29%	20.00%
391.30	Other Office Equipment	6.67%	6.67%
392.10	Transportation Equipment-Light Trucks	0.00%	11.25%
392.20	Transportation Equipment-Heavy Trucks		10.00%
392.30	Transportation Equipment-Autos	8.33%	18.00%
392.40	Transportation Equipment-Other		5.67%
393.00	Stores Equipment	0.00%	4.00%
394.00	Tools, Shop, and Garage Equipment		5.00%
395.00	Laboratory Equipment	0.00%	6.67%
396.00	Power Operated Equipment		7.73%
397.10	Communications Equipment-Non-Telephone	2.86%	6.67%
397.20	Communications Equipment-Telephone	5.80%	10.00%
398.00	Miscellaneous Equipment	4.00%	6.67%
399.00	Other Tangible Equipment	6.82%	5.00%

**Missouri-American Water Company
Case No. WR-2010-0131**

Recommended Annual Depreciation Rates

Account Number	<u>WATER</u> Account Description	Plant In Service	As Of December 31, 2008		Theoretical Less Actual Difference
			Theoretical Reserve Accrual	Actual Reserve Accrual	
<u>SOURCE OF SUPPLY PLANT</u>					
311.00	Structures and Improvements	14,278,610	3,908,866	3,601,001	\$307,865
312.00	Collecting and Impounding Reservoirs	111,066	76,918	85,476	(\$8,558)
313.00	Lake, River, and Other Intakes	1,005,417	204,900	159,967	\$44,933
314.00	Wells and Springs	6,791,581	1,483,628	1,164,390	\$319,238
315.00	Infiltration Galleries and Tunnels	1,804	155	30	\$125
316.00	Supply Mains	20,763,916	4,511,193	50,889,082	(\$46,377,889)
317.00	Miscellaneous Source of Supply-Other	1,730	311	69	\$242
<u>PUMPING PLANT</u>					
321.00	Structures and Improvements	19,213,262	9,170,799	4,499,052	\$4,671,747
322.00	Boiler Plant Equipment	348	322	7	\$315
323.00	Power Generation Equipment	3,520,282	134,297	125,461	\$8,836
324.00	Pumping Equipment	56,521,285	16,648,812	19,996,259	(\$3,347,447)
<u>WATER TREATMENT PLANT</u>					
331.00	Structures and Improvements	91,970,210	30,137,175	28,100,173	\$2,037,002
332.00	Water Treatment Equipment	109,454,535	30,315,281	35,559,042	(\$5,243,761)
333.00	Miscellaneous Water Treatment-Other	1,481,666	326,268	433,500	(\$107,232)
<u>TRANSMISSION & DISTRIBUTION PLANT</u>					
341.00	Structures and Improvements	10,443,883	2,765,540	3,473,145	(\$707,605)
341.10	Structures and Improvements-Special Crossing	0			\$0
342.00	Distribution Reservoirs & Standpipes	27,040,872	11,497,739	9,607,210	\$1,890,529
343.00	Mains-Transmission & Distribution	776,888,401	141,866,595	159,917,512	(\$18,050,917)
344.00	Mains-Fire	567,511	98,311	84,536	\$13,775
345.00	Services	27,503,883	8,286,189	5,671,030	\$2,615,159
346.00	Meters	78,807,612	13,305,420	17,976,419	(\$4,670,999)
347.00	Meter Installations	0			\$0
348.00	Fire Hydrants	54,353,107	13,646,878	16,078,156	(\$2,431,278)
349.00	Miscellaneous Transmission & Distribution-Other	31,395	11,074	4,931	\$6,143
<u>GENERAL PLANT</u>					
390.00	Structures and Improvements-Shop and Garage	878,763	187,704	71,654	\$116,050
390.10	Structures and Improvements-Office Buildings	7,497,054	420,616	602,749	(\$182,133)
390.30	Structures and Improvements-Miscellaneous	4,193,223	1,012,421	1,262,266	(\$249,845)
390.90	Structures and Improvements-Leasehold	54,149	32,695	1,943	\$30,752
391.00	Office Furniture	1,846,852	1,067,496	960,745	\$106,751
391.20	Computer Hardware	6,740,040	3,655,322	1,006,898	\$2,648,424
391.25	Computer Software	9,326,823	8,513,172	5,556,935	\$2,956,237
391.30	Other Office Equipment	497,599	218,658	116,931	\$101,727
392.10	Transportation Equipment-Light Trucks	781,122	348,788	512,415	(\$163,627)
392.10	Transportation Equipment-Light Trucks 1-1-2009				\$0
392.20	Transportation Equipment-Heavy Trucks	4,268,778	2,108,576	3,995,900	(\$1,887,324)
392.20	Transportation Equipment-Heavy Trucks 1-1-2009				\$0
392.30	Transportation Equipment-Autos	1,084,116	246,495	606,023	(\$359,528)
392.30	Transportation Equipment-Autos 1-1-2009				\$0
392.40	Transportation Equipment-Other	399,439	36,114	306,463	(\$270,349)
392.40	Transportation Equipment-Other 1-1-2009				\$0
393.00	Stores Equipment	408,442	137,566	140,661	(\$3,095)
394.00	Tools, Shop, and Garage Equipment	7,896,462	3,643,715	3,164,669	\$479,046
395.00	Laboratory Equipment	2,122,040	1,579,214	1,013,170	\$566,044
396.00	Power Operated Equipment	1,516,730	625,036	1,067,220	(\$442,184)
397.10	Communications Equipment-Non-Telephone	2,753,615	898,522	788,831	\$109,691
397.20	Communications Equipment-Telephone	149,408	102,757	117,164	(\$14,407)
398.00	Miscellaneous Equipment	1,860,153	648,539	398,117	\$250,422
399.00	Other Tangible Equipment	910,959	888,550	315,549	\$573,001
	<u>Total</u>	\$1,355,938,143	\$314,768,627	\$379,432,751	(\$64,664,124)