BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the tariff filing of	)	
Algonquin Water Resources of Missouri,	)	
LLC to implement a general rate increase	)	Cases Nos. WR-2006-0425
for water and sewer service provided	)	SR-2006-0426
to customers in its Missouri service areas.	)	

ALGONQUIN'S STATEMENT OF POSITION

Comes now Algonquin Water Resources of Missouri, LLC (Algonquin or Company), and, for its Statement of Position, states the following to the Missouri Public Service Commission (Commission) concerning the issues contained in the Proposed List of Issues, Order of Witnesses and Order of Cross-Examination filed on January 5, 2007:

A. Plant.

1. What amount, if any, should be reflected as plant-in-service for pre-1993 property?

Position: Algonquin believes that plant-in-service for pre-1993 property should be equal to $1,914,032. It is clear that there were water and sewer facilities operating at the Holiday Hills and Ozark Mountain resorts before 1993 and before the Commission certificated Silverleaf as a utility. No plant is shown on the Silverleaf books for that time period. The Uniform System of Accounts provides that plant may be estimated where it is not known. The plant-in-service amount identified by Algonquin witness Loos is a reasonable estimate of the appropriate amount of plant to be reflected. (Loos Dir., p. 15-28; Loos Reb., p. 14-19; Loos Sur., p. 16-19).

2. What is the appropriate level of post-1992 plant that should be included as

plant- in-service?

Position: Algonquin believes that the as plant-in-service for the post 1992 time period should equal $4,740,455. The Staff's recommended amount of $4,234,202 represents a minimum amount of plant that should be reflected for this time period. If the Commission finds both the Company and Staff approaches to contain strengths and weaknesses, Algonquin believes that under the circumstances it would be reasonable to set an amount of $4,531,453 for the post-1992 property -- the midpoint between the Staff and Company recommendations. (Loos Dir., p. 15-28; Loos Reb., p. 14-19; Loos Sur., p. 16-19).

B. Excess Capacity.

3. Do Algonquin's facilities include plant held for future use, which should not be included in plant in service, because they include excess capacity? If so, what is the value of the facilities that should not be included as plant-in-service?

Position: There is no excess well capacity or storage at the Ozark Mountain, Holiday Hills or Timber Creek resorts. However, even if some excess were found to exist, there is not a linear relationship between capacity and construction cost. The actual cost of the approximately 25% incremental capacity that Staff claims is excessive, would likely only reduce the installation cost by approximately 5%. (Loos Dir., p. 25;Loos Reb., p. 12-13; Hamrick Reb., p. 1-8).

C. Construction Cost Overrun.

4. Were some of the costs of constructing the facilities imprudently incurred? If so, how much should the plant-in-service accounts be reduced?

Position: The costs associated with the Well No. 2 project at Holiday Hills were prudently incurred. Silverleaf's decisions were reasonable based upon the facts known at the time decisions were made. (Hernandez Reb., p. 2-7).

D. Contributions in Aid of Construction (CIAC).

5. What is the amount of contributions in aid of construction that should be used to reduce Algonquin's plant-in-service accounts?

Position: There is no evidence of any transaction that meets the requirements of Silverleaf's tariff such that it should constitute contributed plant. Any amount booked as CIAC would be an after the fact estimate of CIAC. (Loos Dir., p. 28-29; Loos Reb., p. 19-22; Loos Sur., p. 19-22).

E. Depreciation Rates.

6. What depreciation rates should be applied to the various elements of Algonquin's plant in service?

Position: Relying on the rates proposed by Staff results in excessively high reserve ratios. Given these high ratios, the Commission should approve the depreciation rates recommended by Algonquin witness Loos (Loos Dir., p. 26-27, Sch LWL-3; Loos Upd. Dir., Sch. LWL-3 UPD). Algonquin further believes that the existing reserve balance as of September 30, 2006, should be calculated using those rates. (Loos Dir., p. 26-27; Loos Upd. Dir., Sch. LWL-3 UPD; Loos Reb., p. 22).

F. Capital Structure.

7. What capital structure should the Commission apply to Algonquin's investment in determining the proper rate of return on Algonquin's rate base?

Position: The capital structure of Algonquin Water Resources of Missouri, LLC consists of 100% equity. As a result, Algonquin recommends the use of the capital structure of the operating company's ultimate parent, Algonquin Power Income Fund. That capital structure is 65.18% equity and 34.82% long term debt (and convertible debentures) as of December 31, 2005; and 58.21% equity and 41.79% long term debt (and convertible debentures) as of September 30, 2006. (Loos Dir., p. 30-31; Loos Upd. Dir., Sch. LWL-4 UPD; Loos Reb., p. 6-8).

G. Return on Equity.

8. What return on equity should the Commission apply to Algonquin's investment in determining the proper rate of return on Algonquin's rate base?

Position: Algonquin recommends the Commission adopt a return on equity in the range of 11.25% to 12.00%. (Loos Dir., p. 31-33; Loos Reb., p. 8-12).

H. Payroll Expense.

9. What is the appropriate level of payroll expense that Algonquin should be allowed to recover in its rates?

Position: Payroll expense should be sufficient to provide for the costs associated with a Wastewater/Water Utilities Superintendent (95%), a Missouri Facility Accountant and a Missouri Utilities Assistant. The Staff's payroll expense should be increased by $84,336, to provide for these positions. (Hernandez Sur., p. 1-6).

I. Rate Case Expense.

10. Should the Commission allow Algonquin to recover in its rates any allowance for the rate case expenses that it incurred in presenting this case to the Commission? If so, how much rate case expense did Algonquin prudently incur, and over how many years should the rate case expense be amortized?

Position: The Commission has previously stated as follows concerning attacks on the recovery of rate case expense:

> The Commission does not want to put itself in the position of discouraging necessary rate cases by discouraging rate case expense. This is a particularly treacherous area for the Commission to be addressing in that the Commission cannot be viewed as having a dampening effect upon a regulated company's statutory procedural rights to seek out a rate increase when it believes that facts so justify it. Disallowing prudently incurred rate case expense can be viewed as violating the company's procedural rights.

In re St. Joseph Light & Power Company, 2 Mo.P.S.C.3d 248, 260 (1993); *See also In re St. Joseph Light & Power Company*, 3 Mo.P.S.C.3d 207, 214 (1994).

Algonquin has prudently incurred $174.954 of rate case expense in prosecuting this case, through December 31, 2006. A reasonable estimate of the rate case expense to be experienced by Algonquin is $225,000. This amount should be amortized over a five year period for purposes of reflecting this amount in the revenue requirement. (Loos Dir., Sch. LWL-5 and Loss Upd. Dir., Sch.

LWL-5 UPD;.Loos Reb., p. 2-5; Loos Sur., p. 2-6).

J. Rate Design.

11. Should the Commission's order establish separate rates for each of Algonquin's three service territories, or should the Commission's order establish a unified rate for water service to Algonquin's service to the Ozark Mountain and Holiday Hill service territories?

Position: Algonquin currently has a single rate for water and sewer services that is applicable to all three resorts. In this case, Staff proposes separate rates for each of the resorts. If the single rate for all three resorts is abandoned, Algonquin does not object to a separate rate for water and sewer services at the Timber Creek resort and sewer services at the Ozark Mountain resort. However, Algonquin believes that a single potable water rate should be adopted for the Ozark Mountain and Holiday Hills resorts because of the operational and geographic similarities between these two operations. A separate irrigation rate for delivery of non-potable water should still be established under this approach. Currently non-potable water is supplied only for irrigation purposes at Holiday Hills. (Loos Dir, p. 36-37; Loos Reb., p. 22-23).

K. Rate Mitigation.

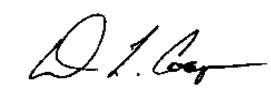
12. Should any increase in rates be phased-in, or be otherwise mitigated? If so, how?

Position: The Commission does not have the authority to require phase-in of a water or sewer company's rate increase over its objection. Section 393.155, RSMo provides the Commission this authority for electric companies. No such authority is provided for other utility industries.

This being said, Algonquin would not oppose a phase-in where residential rates would increase by more than 100%, if such a phase-in provided for sufficient carrying costs to keep the Company whole. (Loos Dir., p. 37).

WHEREFORE, the Company respectfully requests that the Commission consider this Statement of Position.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been sent by electronic mail this 17th day of January, 2007, to:

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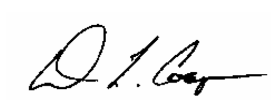

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Dean L. Cooper