

Exhibit No.: \_\_\_\_\_  
Issue(s): Business Transformation/  
DPAD/Income Taxes/  
Cost of Service/Rate Design  
Witness/Type of Exhibit: Smith/Surrebuttal  
Sponsoring Party: Public Counsel  
Case Nos.: WR-2015-0301/SR-2015-0302

**SURREBUTTAL TESTIMONY  
OF  
RALPH C. SMITH**

Submitted on Behalf of  
the Office of the Public Counsel

**MISSOURI AMERICAN WATER COMPANY**

**Case Nos. WR-2015-0301/SR-2015-0302**

March 4, 2016  
[Draft 06- 3/4/2016]

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

In the Matter of Missouri-American Water )  
Company's Request for Authority to ) Case No. WR-2015-0301  
Implement a General Rate Increase for ) Case No. SR-2015-0302  
Water and Sewer Service Provided in )  
Missouri Service Areas. )

**AFFIDAVIT OF RALPH C. SMITH**


**STATE OF MICHIGAN )**  
**) ss**  
**COUNTY OF WAYNE )**

Ralph C. Smith, of lawful age and being first duly sworn, deposes and states:

1. My name is Ralph C. Smith. I am the Senior Regulatory Consultant with Larkin & Associates, PLLC, acting as consultants in this matter for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

  
\_\_\_\_\_  
Ralph C. Smith  
Senior Regulatory Consultant

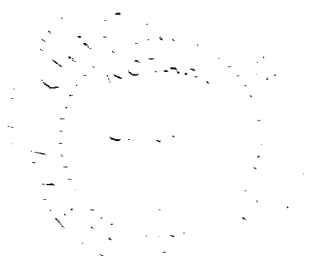
Subscribed and sworn to me this 4<sup>th</sup> day of March 2016.

  
\_\_\_\_\_

Notary Public

My Commission expires

**CHRISTINE MILLER**  
**NOTARY PUBLIC, STATE OF MI**  
**COUNTY OF WAYNE**  
**MY COMMISSION EXPIRES Nov. 8, 2021**  
**ACTING IN COUNTY OF**



**TABLE OF CONTENTS**

I. INTRODUCTION ..... 1

II. REVENUE REQUIREMENT ISSUES ..... 3

    A. American Water Works Business Transformation Costs and Depreciation Life ... 3

    B. The Deduction for Domestic Production Activities (“DPAD”) under §199 of the Internal Revenue ..... 10

    C. The American Water Works Decision to Not Have Missouri American Water Company Claim Bonus Tax Depreciation in 2011 and 2013 ..... 14

III. COST OF SERVICE/RATE DESIGN ISSUES ..... 18

    A. MAWC Proposed State-Wide Customer Charges ..... 18

    B. MIEC Witness Mr. Collins' Proposed Allocation of Power Costs for the St. Louis Metro District..... 22

    C. District Cost Differences /MAWC Proposal for State-Wide Rate Consolidation 23

Attachments:

Schedule RCS-21, Cost of Service Per Residential Customer Comparison by Districts and District Groups

1                                   **SURREBUTTAL TESTIMONY**  
2   **OF**  
3                                   **RALPH C. SMITH**

4                                   **MISSOURI AMERICAN WATER COMPANY**

5                                   **CASE NOS. WR-2015-0301/SR-2015-0302**

6   **I. INTRODUCTION**

7   **Q.   PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

8   A.   Ralph C. Smith. I am a Senior Regulatory Consultant at Larkin & Associates, PLLC,  
9        15728 Farmington Road, Livonia, Michigan 48154.

10  
11   **Q.   ARE YOU THE SAME RALPH SMITH WHO PREVIOUSLY SUBMITTED**  
12        **DIRECT TESTIMONY REGARDING CERTAIN REVENUE REQUIREMENT**  
13        **ISSUES AND DIRECT AND REBUTTAL TESTIMONIES ON COST OF**  
14        **SERVICE STUDY AND RATE DESIGN ISSUES IN THIS CASE?**

15   A.   Yes. I previously submitted direct testimony in this case on December 23, 2015,  
16        addressing these revenue requirement issues: Business Transformation and Income  
17        Taxes. Additionally, I previously submitted direct testimony on January 20, 2016 on the  
18        Class Cost of Service (“CCOS”) studies filed by Missouri-American Water Company  
19        (“Company” or “MAWC”) and discussed the Office of Public Counsel’s (“OPC”) position on how the results of these studies should affect the rate design for customer  
20        classes within each district, as well as presenting testimony on district specific pricing  
21

1 versus single tariff pricing, and a recommendation of revenue at current and proposed  
2 rates for the St. Louis Metro District of MAWC. I also submitted rebuttal testimony to  
3 address and respond to the recommendations concerning cost of service study and rate  
4 design issues of Missouri Industrial Energy Consumers ("MIEC") witness Brian C.  
5 Collins.

6  
7 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

8 A. The purpose of my surrebuttal testimony is to address and respond to the rebuttal  
9 testimony of selected MAWC witnesses. I respond to MAWC rebuttal witnesses Donald  
10 Petry and John Spanos on certain issues pertaining to the American Water Works  
11 Business Transformation project. I also respond to MAWC rebuttal witness Carl Meyers  
12 about certain income tax issues, including the Section 199 deduction that has been  
13 calculated for MAWC on a stand-alone basis. Finally, I respond to MAWC rebuttal  
14 witness Paul Herbert concerning the Company's proposal to consolidate rate zones and  
15 other cost of service study/rate design issues, including his rebuttal testimony proposal  
16 for uniform customer charges.

17 **Q. HAVE YOU ATTACHED ANY SCHEDULES TO YOUR SURREBUTTAL**  
18 **TESTIMONY?**

19 A. Yes. Schedule RCS-21, presents a Cost of Service Per Residential Customer Comparison  
20 by Districts and District Groups. This is based on MAWC witness Mr. Herbert's Schedule  
21 PRH-6, which was attached to his rebuttal testimony. Schedule RCS-21 shows subtotals  
22 and a total for cost of service as well as customer amounts and also shows differences

1           between the residential cost of service for each district and the group averages and overall  
2           average.

3

4

## **II. REVENUE REQUIREMENT ISSUES**

### ***A. American Water Works Business Transformation Costs and Depreciation Life***

5  
6  
7 **Q. WHAT DOES MAWC WITNESS DONALD PETRY STATE ABOUT THE**  
8 **BUSINESS TRANSFORMATION COST OVERRUNS?**

9 A. Mr. Petry, who filed rebuttal testimony for MAWC and is adopting the Direct Testimony  
10 of MAWC witness Mr. VerDouw, addresses the American Water Works Business  
11 Transformation costs at pages 14-22 of his rebuttal testimony. At page 15, he states:  
12 "The Company undertook the BT initiative because its existing technology systems had  
13 become antiquated and reached the end of their lives." However, he fails to mention the  
14 lives of the systems that the American Water Works BT systems are replacing. He notes  
15 the replaced systems were "stand-alone" systems designed for specific departments and  
16 were not integrated. He states an integrated approach was needed and notes that the  
17 American Water Works BT systems provided "added functionality that the existing  
18 systems could not deliver."<sup>1</sup>

19 **Q. WHAT ASPECTS OF THE AMERICAN WATER WORKS BT COSTS HAVE**  
20 **BEEN CHALLENGED IN THE CURRENT MAWC RATE CASE?**

---

<sup>1</sup> See, e.g., Petry Rebuttal, page 15, lines 7-9.

1 A. The American Water Works BT systems cost as proposed by MAWC have been  
2 challenged in the following respects:

- 3 1. MAWC has proposed a depreciation period of 10 years versus the current  
4 depreciation period of 20 years. The OPC recommends that the current period of  
5 20 years continue to be used.
- 6 2. It has been noted that the total American Water Works BT costs of \$326.2 million  
7 have exceeded the initial estimate of \$280 million by \$46.2 million. A  
8 satisfactory explanation of those cost overruns should be required from MAWC,  
9 otherwise a cost disallowance should be imposed on any inadequately explained  
10 differences.
- 11 3. The allocation of American Water Works BT costs to MAWC has been  
12 challenged. There is concern that a higher amount of BT costs should be charged  
13 or allocated to unregulated affiliates of American Water Works and should not be  
14 charged or allocated as heavily to the regulated public utilities such as MAWC,  
15 with the unregulated affiliates being allowed to selectively opt into portions at  
16 their choosing, and to only receive cost allocations for small portions of the  
17 overall BT project costs.

18 **Q. WHAT DOES MR. PETRY STATE ABOUT THE DEPRECIABLE LIFE ISSUE?**

19 A. At page 21 of his Rebuttal Testimony, Mr. Petry states: "the value of an asset is  
20 determined by its useful life."<sup>2</sup> He also claims it is typical to depreciate IT assets over a  
21 relatively short period because of the rapid technological changes that render such assets  
22 obsolete in relatively time periods.<sup>3</sup> He concedes "the IT systems might have some value  
23 at the expiration of 10 years ..."<sup>4</sup> But he claims that "is irrelevant to the issue of the  
24 appropriate useful life to assign to an asset."<sup>5</sup>

25 **Q. IS THE VALUE OF THE AMERICAN WATER WORKS BT ASSET**  
26 **DETERMINED BY ITS USEFUL LIFE, AS CLAIMED BY MR. PETRY?**

---

<sup>2</sup> See, e.g., Petry Rebuttal, page 21, line 21.

<sup>3</sup> Id, at lines 22-23.

<sup>4</sup> Id, at lines 25-26.

<sup>5</sup> Id, at lines 26-27.

1 A. No. For ratemaking purposes, the value being used is based on the cost of the asset. The  
2 depreciation period for a public utility asset relates to how the cost is recognized for  
3 regulatory purposes and determines the amount of the utility's depreciation expense and  
4 the charges to ratepayers.

5 **Q. ARE IT ASSETS ALWAYS DEPRECIATED OVER A SHORT TIME PERIOD?**

6 A. No. A major total overhaul of a company's systems, such as represented by the American  
7 Water Works BT program, for which a cost of \$326.2 million was incurred, is not a  
8 routine IT program. It is reasonable to depreciate this massive total overhaul and  
9 replacement of the American Water Works then-existing business systems over a longer  
10 period than might typically be used for smaller, routine IT expenditures.

11 **Q. WHAT DOES MAWC WITNESS SPANOS STATE WITH REPECT TO THE BT  
12 DEPRECIATION LIFE IN HIS REBUTTAL?**

13 A. MAWC witness Mr. Spanos addresses the BT depreciation life at page 37 of his rebuttal  
14 testimony. He indicates that Staff proposes a 20-year life and 5 percent rate for BT assets  
15 "which represent software applications developed for all American Water entities."<sup>6</sup> He  
16 indicates that, in the last case, MAWC agreed to a 5 percent rate for these assets before  
17 they were placed into service until a further understanding of the software application  
18 was known.<sup>7</sup> He states further he is specifically familiar with three other American  
19 Water entities with a 10-year amortization period and 10 percent rate agreed upon.

20 **Q. PLEASE RESPOND TO THOSE STATEMENTS BY MR. SPANOS.**

---

<sup>6</sup> See, e.g., Spanos Rebuttal Testimony, page 37, lines 4-6.

<sup>7</sup> Id, at lines 9-12.



1 A. Mr. Spanos' statement that the American Water Works BT "represent software  
2 applications developed for all American Water entities"<sup>8</sup> contradicts Mr. Petry's assertion  
3 at page 16, line 4-6 of his Rebuttal Testimony that the American Water Works BT  
4 systems were designed only for the American Water Works utilities: "All of the  
5 components of the BT initiative were designed, developed and implemented specifically  
6 to meet the needs of the water and wastewater utility subsidiaries of American Water  
7 Works Company, Inc." American Water has other entities besides water and wastewater  
8 utilities, including unregulated businesses.

9 Concerning Mr. Spanos' familiarity with three other American Water Works  
10 utilities using a 10-year amortization period and 10 percent rate agreed upon, I am not  
11 aware of any requirement for the Missouri PSC to defer to other states' determinations on  
12 depreciable lives of assets that are recorded on the books of Missouri utilities or to adopt  
13 settled results from American Water Works utilities in other jurisdictions.

14 Mr. Spanos' comments about the 5 percent depreciation rate being agreed to in the  
15 last MAWC rate case and his statement that Staff proposes a 20-year life and a 5 percent  
16 rate appear to be accurate.

17 **Q. DOES MAWC DENY THAT THE AMERICAN WATER WORKS BUSINESS**  
18 **TRANSFORMATION SYSTEMS COULD HAVE USE BEYOND THE 10-YEAR**  
19 **PERIOD THE COMPANY PROPOSES FOR DEPRECIATION?**

---

<sup>8</sup> See, e.g., Spanos Rebuttal Testimony, page 37, lines 4-6.

1 A. No. In fact, Mr. Petry concedes "the IT systems might have some value at the expiration  
2 of 10 years ..." <sup>9</sup> Moreover, contrary to Mr. Petry's assertion, it is relevant the American  
3 Water Works BT systems could have value beyond ten years. The Company has failed to  
4 demonstrate that the current depreciation life of 20 years being used by MAWC for the  
5 American Water Works BT systems is inappropriate. Consistent with my direct  
6 testimony, I continue to recommend the current 20-year period be used for the  
7 depreciation of American Water Works BT systems allocated to MAWC and reflected in  
8 MAWC rate base.

9 **Q. TO WHAT DOES MR. PETRY ATTRIBUTE THE AMERICAN WATER**  
10 **WORKS BT SYSTEMS COST OVERRUNS?**

11 A. At page 18 of his rebuttal testimony, Mr. Petry denies there were any cost overruns. At  
12 pages 17-18, he states approximately one-half of the \$46.2 million difference is AFUDC  
13 and the remainder is for Sarbanes Oxley Act ("SOX") compliance. He claims neither  
14 AFUDC nor SOX compliance costs were part of the American Water Works BT cost  
15 estimate of \$280 million from 2009.

16 **Q. DOES MR. PETRY PROVIDE ANY DOCUMENTATION OR SUPPORT FOR**  
17 **THOSE ASSERTIONS?**

18 A No, not with his Rebuttal Testimony.

19 **Q. WHEN WAS THE SARBANES OXLEY ACT PASSED AND WHAT DID IT**  
20 **REQUIRE?**

---

<sup>9</sup> See, e.g., Petry Rebuttal Testimony, page 21, at lines 25-26.

1 A. The Sarbanes-Oxley Act of 2002 ("SOX") is an act passed by U.S. Congress in 2002 to  
2 protect investors from the possibility of fraudulent accounting activities by corporations.  
3 The Sarbanes-Oxley Act mandated strict reforms to improve financial disclosures from  
4 corporations and prevent accounting fraud.

5 **Q. IS IT CREDIBLE THAT BY 2009 WHEN IT WAS ESTIMATING THE BT**  
6 **COSTS THAT AMERICAN WATER WORKS WOULD NOT KNOW THAT IT**  
7 **WAS REQUIRED TO COMPLY WITH SOX?**

8 A. No. The SOX was passed in 2002, and by 2009, virtually all affected companies,  
9 including American Water Works, should have known that SOX compliance would be  
10 necessary. For the Company to now be citing a requirement to comply with SOX, a law  
11 passed in 2002, as reasons for incurring BT costs that are substantially in excess of the  
12 2009 American Water Works estimates strains credibility.

13 **Q. HAS MAWC ADEQUATELY EXPLAINED THE SUBSTANTIAL BT COST**  
14 **OVERRUNS?**

15 A. No. The Company has failed to explain why costs associated with compliance of the  
16 2002 SOX law were not part of the \$280 million American Water Works total BT cost  
17 estimate from 2009.

18 **Q. WHAT DOES MR. PETRY STATE WITH RESPECT TO THE ALLOCATION**  
19 **OF BT COSTS TO MAWC?**

20 A. At page 18 of his rebuttal testimony, he apologizes for an incorrect discovery response  
21 that he states "inadvertently led OPC to think that the BT assets were designed for both  
22 regulated and non-regulated companies use. MAWC apologizes for this error and has

1           supplemented/corrected its response."<sup>10</sup> However, Mr. Petry's rebuttal testimony fails to  
2           identify to what erroneous response he is referring.

3   **Q.    ARE THE UNREGULATED AFFILIATES USING PORTIONS OF THE**  
4   **AMERICAN WATER WORKS BT SYSTEMS?**

5   A.    Yes. The unregulated subsidiaries of American Water Works are permitted to use some  
6    BT applications.

7   **Q.    HAS MAWC DEMONSTRATED THAT THE HEAVY ALLOCATION OF BT**  
8   **COSTS TO THE UTILITIES SUCH AS MAWC IS APPROPRIATE?**

9   A.    No. The vast majority of the American Water Works BT cost is being charged to the  
10   regulated utilities such as MAWC where the costs can be passed onto ratepayers. Also,  
11   no BT costs are allocated to and retained by the parent company, American Water Works,  
12   which is using the BT systems. The lack of any allocation of BT costs to the parent  
13   company also contributes to the regulated utilities bearing more than an appropriate share  
14   of the total BT costs. The unregulated affiliates are being allowed to selectively use  
15   systems and avoid the brunt of the substantial initial investment in BT costs.

16   **Q.    IS THE CHARGING OF THE AMERICAN WATER WORKS BT COSTS TO**  
17   **THE REGULATED UTILITES SUCH AS MAWC TRANSPARENT?**

18   A.    No. The amount of American Water Works BT cost that MAWC has requested to be  
19   included in rate base is identifiable. In addition to that, there are other BT related costs  
20   which are charged or allocated to MAWC through the affiliated Service Company,  
21   including costs for BT related assets that are leased to the Service Company by another

---

<sup>10</sup> See, e.g., Petry rebuttal page 18, lines 20-23.

1           affiliate, Laurel Oak Properties, which make identifying the total cost of the American  
2           Water Works BT that is being allocated and charged to MAWC and requested by MAWC  
3           to be recovered from Missouri ratepayers a challenge.

4   **Q.   PLEASE SUMMARIZE YOUR SURREBUTTAL RECOMENDATIONS**  
5   **CONCERNING BT COSTS.**

6   A.   The concerns identified in my direct testimony about BT cost overruns and allocations  
7           still remain. I also recommend that the BT costs are allowed for MAWC continue to be  
8           depreciated using the current 20-year life.

9           ***B.   The Deduction for Domestic Production Activities (“DPAD”) under***  
10          ***§199 of the Internal Revenue***

11   **Q.   WHAT DOES MAWC WITNESS CARL MEYERS STATE ABOUT THE**  
12          **DEDUCTION FOR DOMESTIC PRODUCTION ACTIVITIES UNDER §199 OF**  
13          **THE INTERNAL REVENUE CODE?**

14   A.   At page 2 of his rebuttal testimony, MAWC witness Mr. Meyers states the DPAD cannot  
15           be taken on the American Water Works consolidated federal income tax return. He refers  
16           to the DPAD as "fictional".<sup>11</sup> He also claims the reason for "imputing" the DPAD is  
17           unhappiness that American Water Waters did not elect to take bonus depreciation on its  
18           tax return.<sup>12</sup>

19   **Q.   HOW ARE MAWC'S FEDERAL INCOME TAXES BEING COMPUTED FOR**  
20          **RATEMAKING PURPOSES IN THE CURRENT RATE CASE?**

---

<sup>11</sup> See, e.g., Meyers rebuttal, page 2, line 21.

<sup>12</sup> See, e.g., Meyers Rebuttal Testimony, page 3, lines 7-18.

1 A. MAWC's income tax expense is being computed on a "stand-alone" basis in the current  
2 MAWC rate case. All of the parties' presentation (MAWC's, Staff's, and OPC's)  
3 calculate MAWC's income tax expense using their proposed allowed revenues, operating  
4 expenses, and deductions.

5 **Q. IS IT CONSISTENT TO COMPUTE THE DPAD ON A "SEPARATE RETURN"**  
6 **BASIS FOR RATEMAKING PURPOSES?**

7 A. Yes. For its Missouri rate filings, including the current rate case, MAWC has used a  
8 stand-alone calculation for income tax expense. The stand-alone calculations reflected in  
9 MAWC's filing use the test year, which is the year ended December 31, 2014 adjusted for  
10 pro forma revenue and expense adjustments but did not reflect deductions that MAWC  
11 would be able to claim and use on a stand-alone basis, such as the DPAD under Section  
12 199 of the Internal Revenue Code. A stand-alone income tax calculation for the Section  
13 199 DPAD is presented in my December 23, 2015 Direct Testimony in Schedule RCS-7.  
14 As shown there, on a stand-alone basis, using adjusted test year amounts, MAWC would  
15 qualify for the DPAD and it should therefore be reflected for ratemaking purposes in the  
16 current MAWC rate case.

17 **Q. IS THE DPAD "FICTIONAL"?**

18 A. No. The DPAD is calculated on IRS Form 8903 using the calculation set forth in  
19 Schedule RCS-7 attached to my December 23, 2015 Direct Testimony, as explained in  
20 that testimony.

1 **Q. IS THE DPAD ADJUSTMENT TO FEDERAL INCOME TAX EXPENSE BEING**  
2 **MADE IN THIS CASE BECAUSE AMERICAN WATER WORKS FAILED TO**  
3 **HAVE MAWC ELECT BONUS DEPRECIATION IN 2011 OR 2013?**

4 A. No. The DPAD adjustment is being made in the current MAWC rate case because it is a  
5 legitimate tax deduction to which MAWC is entitled on the "stand-alone" income tax  
6 calculation basis that is being used to compute MAWC's income tax expense in the  
7 current rate case. Put another way, MAWC's income taxes in the current rate case are  
8 calculated on a "stand-alone" (separate return) basis. The calculation uses revenues,  
9 expenses, and deductions that are directly from the amounts being used to determine  
10 MAWC's revenue requirement. The income tax calculation on a "stand-alone" (separate  
11 return) basis reflects no benefits from the American Water Works consolidated federal  
12 income tax return and should in turn reflect no detriments from MAWC being associated  
13 with the American Water Works consolidated federal income tax return.

14 **Q. AT PAGES 3-4 OF HIS REBUTTAL TESTIMONY, MR. MEYERS DISCUSSES**  
15 **TAX NORMALIZATION REQUIREMENTS. ARE THOSE TAX**  
16 **NORMALIZATION REQUIREMENTS APPLICABLE TO THE DPAD?**

17 A. No. There are tax normalization requirements that apply to accelerated tax depreciation,  
18 including bonus tax depreciation. The tax normalization requirements do not apply to the  
19 DPAD. Reflecting the DPAD in the current MAWC rate case does not violate any tax  
20 normalization requirements.

1    **Q.    HAS THE §199 DEDUCTION ISSUE BEEN MADE TO INCOME TAX EXPENSE**  
2           **IN THE CONTEXT OF A RATE CASE INVOLVING AN AMERICAN WATER**  
3           **UTILITY OPERATING AFFILIATE?**

4    A.    Yes. The issue of the reduction to current income tax expense based on calculating the  
5           §199 deduction on a “separate return” basis was one of the issues involving income tax  
6           expense in a California-American Water Company (“Cal-Am”) rate case, A.10-07-007.  
7           In that case, Cal-Am had reflected the §199 deduction on a “separate return” basis for  
8           purposes of computing current federal income tax expense for ratemaking purposes in  
9           conjunction with the use of a forecast 2012 test year. The California Public Utilities  
10          Commission (“CPUC”) Department of Ratepayer Advocates (“DRA”) also computed a  
11          §199 deduction on a “separate return” basis for purposes of computing current federal  
12          income tax expense for ratemaking purposes in conjunction with the use of a forecast  
13          2012 test year. Both the Cal-Am and the DRA calculations reflected that Cal-Am would  
14          have positive federal taxable income for ratemaking purposes for the 2012 test year being  
15          used in that case. In rebuttal, Cal-Am claimed to have large net operating losses and  
16          would therefore not have net positive taxable income and would therefore not be eligible  
17          to claim the §199 deduction on a separate return basis. The §199 deduction issue, as well  
18          as various other issues surrounding income taxes, were contested by the DRA and by



1           TURN.<sup>13</sup> The income tax issues in the Cal-Am general rate case, including the §199  
2           deduction, were addressed in the CPUC's final decision<sup>14</sup> that held:

3                         "The issue here is which of Cal-Am's tax positions should be used to  
4                         determine whether the DPAD is applicable. In this case, because Cal-  
5                         Am's tax position for ratemaking purposes resulted in income tax, it is  
6                         reasonable to apply the DPAD to reduce the income tax obligation for  
7                         ratemaking purposes."

8           It is the same issue for MAWC. The DPAD should be reflected for ratemaking purposes  
9           on a separate-return basis.

10           ***C. The American Water Works Decision to Not Have Missouri***  
11           ***American Water Company Claim Bonus Tax Depreciation in 2011 and***  
12           ***2013***

13           **Q. WHAT IS THE CONCERN ABOUT THE AMERICAN WATER WORKS**  
14           **DECISION TO NOT HAVE MISSOURI AMERICAN WATER COMPANY**  
15           **CLAIM BONUS TAX DEPRECIATION IN 2011 AND 2013?**

16           A. The concern is that the parent company, American Water Works, is making decisions at a  
17           corporate level for reasons that favor stockholders over Missouri ratepayers. The  
18           consequences on MAWC ratepayers from the failure to claim bonus tax depreciation in  
19           2011 and 2013 could have far-reaching consequences on MAWC customers, such as  
20           higher rate base for MAWC for an extended period. Higher rate base for MAWC, other  
21           things being equal, also benefits American Water Works shareholders due to the higher  
22           returns (profits) garnered at Missouri ratepayer expense. Bonus tax depreciation typically

---

<sup>13</sup> TURN stands for The Utility Reform Network.

<sup>14</sup> Excerpts from the CPUC's Decision 12-06-016 (June 7, 2012) in A.10-07-007 on the DPAD have been attached to my December 23, 2015 Direct Testimony in Schedule RCS-2.

1 results in much higher tax deductions. For ratemaking purposes, tax depreciation is  
2 normalized, which over time results in higher Accumulated Deferred Income Tax (ADIT)  
3 balances. Other things being equal, claiming bonus tax depreciation results in higher  
4 ADIT balances and lower utility rate base since ADIT related to differences between  
5 accelerated tax depreciation and book depreciation is a large source of non-investor  
6 supplied cost-free capital deducted from rate base for ratemaking purposes.

7 **Q. DOES MR. MEYERS ADMIT THAT THE INTERNAL REVENUE CODE**  
8 **ALLOWS FLEXIBILITY TO OPT IN AND OUT OF BONUS TAX**  
9 **DEPRECIATION AT THE LEGAL ENTITY LEVEL?**

10 A. Yes. At page 5 of his rebuttal testimony, Mr. Meyers concedes that the Internal Revenue  
11 Code allows flexibility to opt in and out of bonus depreciation at the legal entity level.  
12 This means Missouri American Water Company could have claimed bonus tax  
13 depreciation in 2011 and 2013, notwithstanding other American Water Works affiliates  
14 were opting out (i.e., were making decisions at the legal entity-level to not claim bonus  
15 tax depreciation in those years, based on their own separate-return based circumstances).

16 **Q. FOR WHAT REASONS DOES MR. MEYERS STATE THAT THE PARENT**  
17 **COMPANY, AMERICAN WATER WORKS, DETERMINED THAT MISSOURI**  
18 **AMERICAN WATER "OPTED OUT" OF 2011 AND 2013 BONUS TAX**  
19 **DEPRECIATION?**

20 A. No analysis was apparently done at a MAWC stand-alone level, based on MAWC's  
21 stand-alone taxable income for those years. Rather, concerns about the American Water

1 Works consolidated net operating loss carryforward, and the American Water Works  
2 charitable contribution carryforward are cited for the decision.<sup>15</sup>

3 **Q. WHAT IS YOUR UNDERSTANDING OF HOW CHARITABLE**  
4 **CONTRIBUTIONS ARE TREATED FOR MISSOURI RATEMAKING**  
5 **PURPOSES?**

6 A. My understanding, affirmed by the testimony of OPC witness Charles Hyneman, is  
7 charitable contributions are not allowed for Missouri ratemaking purposes.

8 **Q. WHAT IMPACT WOULD CHARITABLE CONTRIBUTIONS HAVE ON THE**  
9 **AMOUNT OF INCOME TAX EXPENSE FOR MAWC FOR MISSOURI**  
10 **RATEMAKING PURPOSES?**

11 A. There should be no impact. Because MAWC's income tax expense for Missouri  
12 ratemaking purposes is determined on a stand-alone (separate-return) calculation and is  
13 based on revenue and expenses that are allowed for ratemaking purposes, the existence of  
14 charitable contributions at MAWC or at the parent company, American Water Works,  
15 should have no impact on MAWC's income tax expense allowance for ratemaking  
16 purposes.

17 **Q. SHOULD THE IMPACT OF PARENT COMPANY CONSOLIDATED**  
18 **CHARITABLE DEDUCTIONS BE DRIVING DECISIONS THAT COULD**  
19 **DETRIMENTALLY AFFECT MAWC RATEPAYERS?**

20 A. No. The impact of parent company consolidated charitable contributions should not be  
21 the driving decisions to opt out of bonus tax depreciation at the MAWC legal entity level.

---

<sup>15</sup> See, e.g., Meyers Rebuttal, page 5.

1 The American Water Works decision to have MAWC opt out of (i.e., not claim) bonus  
2 tax depreciation in 2011 and 2013 is expected to have long-term, detrimental  
3 consequences for MAWC ratepayers in that, over time, MAWC's ADIT balances that  
4 offset rate base will be lower than they otherwise would be had MAWC claimed the full  
5 amounts of bonus depreciation that it could have in those years.

6 **Q. ARE YOU RECOMMENDING ANY DIRECT REMEDY IN THIS CASE FOR**  
7 **THE PARENT COMPANY DECISIONS TO HAVE MAWC OPT OUT OF (I.E.,**  
8 **NOT CLAIM) BONUS TAX DEPRECIATION IN 2011 AND 2013?**

9 A. No direct or indirect remedy is being recommended by me for those parent company  
10 decisions. This matter is only being brought to the PSC's attention because of the  
11 apparent detrimental long-term impact on MAWC ratepayers in the form of higher  
12 MAWC rate base due to lower ADIT balances and to call attention to the reasoning  
13 American Water Works has offered for those decisions. These decisions focused not on  
14 MAWC's stand-alone tax situation but only on the American Water Works consolidated  
15 net operating loss ("NOL") and charitable contribution carryforwards.

16 **Q. IS THE REFLECTION OF THE DPAD SOME TYPE OF INDIRECT CURE FOR**  
17 **THE AMERICAN WATER WORKS PARENT COMPANY DECISIONS TO**  
18 **HAVE MAWC OPT OUT OF (I.E., NOT CLAIM) BONUS TAX DEPRECIATION**  
19 **IN 2011 AND 2013?**

20 A. No. The DPAD deduction should be reflected for calculating MAWC's income tax  
21 expense allowance on a separate return basis for ratemaking purposes on its own merits,  
22 as I have explained in my direct testimony and above. The DPAD deduction is not a cure

1 for parent company decisions to have MAWC opt out of 2011 and 2013 bonus tax  
2 depreciation, which is expected to have long-term detrimental consequences for MAWC  
3 ratepayers in the form of higher MAWC rate base due to lower ADIT balances.

4 **III. COST OF SERVICE/RATE DESIGN ISSUES**

5 **Q. WHAT PORTIONS OF MAWC'S REBUTTAL WILL YOU ADDRESS**  
6 **CONCERNING COST OF SERVICE/RATE DESIGN ISSUES?**

7 A. I address MAWC witness Mr. Herbert's rebuttal testimony on selected issues.

8 ***A. MAWC Proposed State-Wide Customer Charges***

9 **Q. AT PAGE 5 OF HIS REBUTTAL TESTIMONY, MR. HERBERT CLAIMS THAT**  
10 **THERE IS LITTLE DIFFERENCE IN THE COSTS ASSOCIATED WITH**  
11 **CUSTOMER COSTS. HE PROPOSES, IF THE COMPANY'S PROPOSAL FOR**  
12 **STATE-WIDE CUSTOMER CHARGES IS NOT ACCEPTED, HE PROPOSES**  
13 **IDENTICAL CUSTOMER CHARGES FOR WATER DISTRICTS 1, 2 AND 3.**  
14 **DO YOU AGREE WITH THAT PROPOSAL?**

15 A. No. Mr. Herbert has failed to justify his proposal for no differences in customer charges.  
16 Additionally, his recommended specific customer charges are based on MAWC's  
17 requested revenue requirement, which is believed to be excessive.

18 **Q. WHAT IS MR. HERBERT'S BASIS FOR RECOMMENDING UNIFORM**  
19 **CUSTOMER CHARGES STATE-WIDE?**

20 A. Page 5 of his rebuttal testimony states that:

21 All customers have a similar service line and meter, all have their meter  
22 read for billing either monthly or quarterly, all are billed from a

1 centralized billing facility, and all receive customer service from a shared  
2 call center. Since there is no compelling difference in customers'  
3 individual facilities, billing cost, and other customer-related costs, there  
4 also should be no difference in customer charges.  
5

6 **Q. HAS MR. HERBERT PROVEN THOSE ASSERTIONS?**

7 A. No. His points about customers being billed from a centralized facility and receiving  
8 customer service from a shared call center and therefore should receive the same per-  
9 customer charges for those functions are contradicted by the allocations of affiliated  
10 Service Company costs to the MAWC districts that have been used by MAWC in this  
11 rate case. Mr. Herbert has not demonstrated that all MAWC water utility customers have  
12 a similar service line and meter. Also, he has not demonstrated that there is the same cost  
13 for customers who have their meter read for billing monthly versus customers who have  
14 their meter read for billing quarterly.

15 **Q. WHAT AFFILIATED SERVICE COMPANY COSTS FOR CENTRALIZED**  
16 **CUSTOMER SERVICE FUNCTIONS ARE CHARGED TO MAWC?**

17 A. Data request OPC 5037 requested that the Company provide copies of the monthly  
18 invoices from the affiliated Service Company to MAWC. MAWC's response to that data  
19 request provided a breakout of the various cost centers which reflect the activities  
20 associated with the centralized customer service functions. The centralized customer  
21 service functions provided to MAWC from the affiliated Service Company are listed by  
22 Service Company cost center in the table below:

<b>Customer Service Center</b>	
<b>Cost Center</b>	<b>Description</b>
	<b>SC-FRCC</b>
335304	COE - CR - Areal - LW
335303	CORP - CR - Areal - MainWB
335204	COE - CR - Area2 - LX
335203	CORP - CR - Area2 - Main BV
	<b>SC-Pensacola Call Center</b>
337076	CCP - Quality & Rprtg
337070	CCP - Call Handling
337005	CCP - Administration
337073	CCP - Oper & Spprt
337075	CCP - Education & Dev
	<b>SC-Alton Call Center</b>
334005	CCA - Administration
334070	CCA - Call Handling
334071	CCA - Billing
334072	CCA - Collections
334073	CCA - Oper & Perform
334074	CCA - Businss Srves
334075	CCA - Education & Dev
334076	CCA - Quality & Rprtg
Source: OPC 5037	

1  
2  
3  
4  
5  
6  
7  
8  
9

Amounts associated with the affiliated Service Company cost centers identified in the table above for centralized customer service functions are included in the \$29.989 million of test year affiliate "support services" costs that were charged to MAWC by AWWSC during the test year.<sup>16</sup>

**Q. HOW HAVE THE COSTS FOR THE CENTRALIZED CUSTOMER SERVICE FUNCTIONS THAT ARE CHARGED TO MAWC BY THE AFFILIATED SERVICE COMPANY BEEN ALLOCATED TO THE MAWC DISTRICTS IN MAWC'S FILING?**

<sup>16</sup> See the response to OPC 5036.

1 A. The costs for the centralized customer service functions that are provided to MAWC by  
2 the affiliate, American Water Works Service Company, that are part of the \$29.989  
3 million test year recorded (and \$28.682 million Company pro forma adjusted) "support  
4 services" costs that are allocated to the MAWC utility districts in MAWC's filing using a  
5 Company-proposed "hybrid allocation" that is based on three factors: (1) total customers;  
6 (2) net plant; and (3) total employees.<sup>17</sup> This "hybrid" allocation is referred to as the  
7 "Massachusetts Formula Calculation." Because the amounts of net plant and employees  
8 vary among the districts on a per-customer basis, MAWC's own proposed allocation to  
9 the districts of the centralized customer service functions that are provided to MAWC by  
10 the affiliated Service Company results in differing amounts on a per-customer basis. If  
11 MAWC truly believes that the centralized customer service functions provided to it by  
12 AWWSC should have a different allocation that results in uniform amounts per  
13 residential customer, MAWC should have proposed that as a revised allocation of the  
14 affiliated Service Company costs when it originally filed its rate case. Instead, MAWC  
15 has used the three-factor Massachusetts Formula Calculation for allocating those Service  
16 Company costs among the districts, which, because of the use of the three factors in the  
17 allocation, results in varying amounts of cost per customer. Mr. Herbert's proposal for  
18 uniform, identical costs per customer for such costs, which is presented in his rebuttal

---

<sup>17</sup> See, e.g., MAWC's "Support Services Expense Workpapers," Schedule CAS-13 Support, and MAWC's proposed allocations of affiliated Service Company costs using the "Hybrid Massachusetts Formula Calculation" which is based on the three factors; (1) total customers, (2) net plant, and (3) total employees. The Excel files provided by MAWC for those workpapers contain the details of the Company's allocation among the districts of affiliated Service Company costs.



1 testimony, is thus contradicted by, and is inconsistent with, the MAWC-proposed  
2 allocation of affiliated Service Company costs to the MAWC districts in MAWC's  
3 original filing.

4 **Q. WHAT DO YOU RECOMMEND FOR MAWC'S REQUESTED STATE-WIDE**  
5 **PROPOSAL FOR UNIFORM CUSTOMER CHARGES?**

6 A. I recommend this proposal by MAWC, which is presented in MAWC witness Mr.  
7 Herbert's rebuttal testimony, be rejected in the current rate case for lack of support. Mr.  
8 Herbert has failed to demonstrate costs associated with the centralized customer service  
9 functions have not been appropriately allocated among the districts in the Company's  
10 own revenue requirement and per-district cost of service studies. Moreover, if MAWC  
11 believes its allocation of centralized customer service functions that are provided to  
12 MAWC by the affiliated Service Company are truly no longer appropriate, it can propose  
13 a different allocation method for such costs in its next rate case. Trying to "back door" a  
14 different allocation of such costs to the MAWC districts for the first time in a revised rate  
15 design proposal for uniform customer service charges, as Mr. Herbert proposes in his  
16 rebuttal testimony, is not appropriate for the reasons explained above, and should  
17 therefore be rejected.

18 ***B. MIEC Witness Mr. Collins' Proposed Allocation of Power Costs for***  
19 ***the St. Louis Metro District***

20 **Q. WHAT DOES MAWC WITNESS MR. HERBERT STATE WITH RESPECT TO**  
21 **MIEC WITNESS MR. COLLINS' PROPOSED ALLOCATION OF POWER**  
22 **COSTS FOR THE ST. LOUIS METRO DISTRICT?**

1 A. MAWC witness Mr. Herbert addresses the proposed reallocation of power costs for the  
2 St. Louis Metro District at pages 6-8 of his rebuttal testimony. At page 7, he states:

3 In my analysis of power bills, the difference between the minimum  
4 demand charge for the lowest demand month and the demand charges for  
5 the remaining months results in approximately 4.5% of the total purchased  
6 power expense attributable to the extra demand. Therefore, I would  
7 support a refinement to my cost allocation that would allocate 4.5% of  
8 purchased power costs to the extra capacity function; however, this  
9 refinement would result in a very minor revision to my study.

10

11 **Q. IS THAT REFINEMENT ADJUSTMENT NECESSARY?**

12 A. No, it is not. While the refinement appears to have some merit, Mr. Herbert indicates that  
13 it would result in a very minor revision to the COSS results and reducing the Rate J cost  
14 of service by \$24,160 or 0.35%, a very small and insignificant amount. Thus, while I  
15 would not object to this refinement, it appears to be immaterial and unnecessary.

16 ***C. District Cost Differences /MAWC Proposal for State-Wide Rate***  
17 ***Consolidation***

18 **Q. AT PAGES 10-11, MR. HERBERT SUGGESTS THAT CUSTOMERS ARE**  
19 **CONCERNED ABOUT THE VALUE OF SERVICE. HE CLAIMS "THE**  
20 **CUSTOMERS' PERCEPTION WOULD BE THAT WATER SERVICE HAS THE**  
21 **SAME VALUE SO THE PRICE SHOULD BE THE SAME." PLEASE RESPOND.**

22 A. This assertion by Mr. Herbert does not appear to be supported by any customer surveys  
23 or empirical information. In previous MAWC rate cases, the cost of the utility service  
24 was quite important to customers, leading to the continued use of district-specific pricing

1 in recent MAWC rate cases. Cost is an important consideration, as well as receiving  
2 water that is under sufficient pressure and meets the water quality standards.

3 Also, the "value of service" concept has limitations. A gallon of non-leaded  
4 gasoline at the specified octane content is standardized across geographic areas, such as a  
5 state. Presumably, under Mr. Herbert's theory, any customer buying the same quality of  
6 gasoline anywhere in Missouri would, like his concept for the value of the water utility  
7 service being provided by MAWC, perceive the same "value" and thus would likewise be  
8 willing to pay the same price for the same quality of gasoline. However, it can be  
9 observed many customers are not willing to pay the same price for the same quality of  
10 gasoline in a state. Also, even though it is a standardized product, the price varies by  
11 location and other factors such as the cost of providing service, etc. Accordingly, Mr.  
12 Herbert's attempt to use a "value of service" concept as justification for imposing state-  
13 wide water utility rates for MAWC is lacking in merit and should be rejected.

14 **Q. MR. HERBERT ALSO STATES AT PAGES 11-12 OF HIS REBUTTAL**  
15 **TESTIMONY THAT DISTRICT SPECIFIC PRICING DOES NOT ELIMINATE**  
16 **INEQUITIES OR SUBSIDIES WITHIN A DISTRICT. IS THAT ANY**  
17 **JUSTIFICATION FOR UNIFORM STATE-WIDE RATES?**

18 A. No. This is a "straw man" diversion and is not related to any proposal being made by any  
19 party in the current MAWC rate case. No party in this case is proposing such micro-level  
20 sub-district rates. No party is attempting to develop rates that are so granulated as to  
21 have micro rates within each district. The fact that individual "micro" customer rates are  
22 not being developed, or that no one is proposing that, is not justification for imposing

1 uniform state-wide rates on customers in districts where the cost of service is  
2 demonstrably different. The dispute in the current MAWC case is on consolidation of  
3 districts into rate zones and the MAWC proposal for uniform state-wide rates. Thus Mr.  
4 Herbert's criticism relating to a theoretical development of in-district "micro" rates is  
5 misdirected. This rebuttal by Mr. Herbert should therefore have no impact on the valid  
6 concerns about the MAWC proposals for district consolidation and state-wide pricing  
7 that have been raised.

8 **Q. AT PAGE 12-13 OF HIS REBUTTAL TESTIMONY, MR. HERBERT CLAIMS**  
9 **THAT ONE OF YOUR COMPARISONS ON PAGE 35 OF YOUR DIRECT**  
10 **TESTIMONY WHICH SHOWS CERTAIN COMPONENTS OF THE COST OF**  
11 **SERVICE IS "NOT A PROPER DETERMINATION OF COST OF SERVICE"**  
12 **BECAUSE IT DOES NOT SUM ALL COMPONENTS. PLEASE RESPOND.**

13 A. The table on page 35 shows that rate base and depreciation expense per residential  
14 customer vary considerably from district to district. The table shows those components  
15 of the cost of service and was not intended to present a comparison of total cost of  
16 service, but rather to point out certain costs which vary substantially on a per-residential  
17 customer between districts. I have noted the total cost of service also varies considerably  
18 by district.

19 Mr. Herbert's Schedule PRH-6 presents a listing of amounts and customer counts,  
20 and a calculation of average costs, but it does not show dollar or percentage differences  
21 between the districts. Mr. Herbert's Schedule PRH-6 also contains significant calculation  
22 errors of the average costs for the Mexico and Brunswick districts.

1 **Q. PLEASE EXPLAIN THE CACULATION ERRORS ON MR. HERBERT'S**  
 2 **SCHEDULE PRH-6.**

3 A. The amounts reflected on Mr. Herbert's rebuttal Schedule No. PRH-6 for the "Cost per  
 4 Residential Customer" for the Brunswick and Mexico water districts are significantly  
 5 misstated. For all of the other MAWC districts listed on Mr. Herbert's rebuttal Schedule  
 6 PRH-6, the per-residential customer amounts are derived by dividing the residential cost  
 7 of service amounts by the residential customer counts listed there. Those amounts are in  
 8 turn based on Mr. Herbert's originally filed class cost of service studies in this  
 9 proceeding. As shown in the table below (and on my Schedule RCS-21, attached to my  
 10 surrebuttal testimony), dividing the cost of service amount listed by Mr. Herbert on his  
 11 rebuttal Schedule PRH-6 by the number of customers listed there by Mr. Herbert  
 12 produces a cost per residential customer for the Brunswick and Mexico Districts of  
 13 \$937.23 and \$578.35, respectively. However, Mr. Herbert's rebuttal Schedule No. PRH-  
 14 6 shows a cost per residential customer of \$702.92 for the Brunswick District and  
 15 \$433.76 for the Mexico District:

<b>Description</b>	<b>Brunswick</b>	<b>Mexico</b>
Residential Cost of Service	\$ 309,286	\$2,479,962
Residential Customer Counts	330	4,288
Cost Per Residential Customer	\$ 937.23	\$ 578.35
Cost Per Residential Customer per Schedule No. PRH-6	\$ 702.92	\$ 433.76
Difference	\$ 234.31	\$ 144.59
Source: MoPSC 0218		

16  
 17 As shown in the above table, the calculated costs per residential customer for MAWC's  
 18 Brunswick and Mexico Districts are \$937.23 and \$578.35, respectively, and were

1           understated on Mr. Herbert's rebuttal Schedule PRH-6 by \$234.31 and \$144.59  
2           respectively. This calculation error appears to have influenced the conclusion in his  
3           rebuttal testimony that the costs per residential were similar among the listed districts.

4   **Q.   PLEASE EXPLAIN WHAT IS SHOWN ON SCHEDULE RCS-21.**

5   A.   On Schedule RCS-21 I have replicated Mr. Herbert's Schedule PRH-6 and have added  
6           subtotals for the district groupings, and also show dollar and percentage differences for  
7           the cost of service, by district and for the district groupings. As shown on Schedule RCS-  
8           21, using Mr. Herbert's amounts, the per-residential customer cost of service for a  
9           number of districts varies substantially from the group averages and from the statewide  
10          average. The per-residential cost for the MAWC water districts is sufficiently variable  
11          to warrant continuation of the present policy of having district-specific rates. The  
12          demonstrated per-residential cost of service differences among the MAWC water districts  
13          provides an important reason for rejecting MAWC's proposal for state-wide uniform rates  
14          for water utility service.

15

16   **Q.   DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

17   A.   Yes, it does.

Missouri-American Water Company  
 Summary of Average Annual Residential Cost of Service by District

Case No. WR-2015-0301

Line No.	Description	Residential	Residential	Cost per	Difference from		Difference from	
		Cost of Service	Customers	Residential Customer	Dollars	Percentage	Dollars	Percentage
		(A)	(B)	(C)	(D)	(E)	(F)	(G)
<b>Zone 1</b>								
1	St. Louis Metro	\$ 171,271,008	355,437	\$ 481.86	\$ 5.84	1.23%	\$ (133.24)	-21.66%
2	Joplin	\$ 9,931,121	20,653	\$ 480.86	\$ 4.84	1.02%	\$ (134.24)	-21.82%
3	St. Joseph	\$ 12,055,110	28,813	\$ 418.39	\$ (57.62)	-12.11%	\$ (196.71)	-31.98%
4	Warrensburg	\$ 2,709,324	6,613	\$ 409.70	\$ (66.32)	-13.93%	\$ (205.40)	-33.39%
	Maplewood/Riverside/Stonebridge/Saddlebrooke/Emera							
5	Id Pointe	\$ 772,347	1,702	\$ 453.79	\$ (22.23)	-4.67%	\$ (161.31)	-26.23%
6	Tri-States	\$ 1,351,806	2,925	\$ 462.16	\$ (13.86)	-2.91%	\$ (152.94)	-24.86%
7	Subtotal/Average	<u>\$ 198,090,716</u>	<u>416,143</u>	<u>\$ 476.02</u>			<u>\$ (139.08)</u>	<u>-22.61%</u>
<b>Zone 2</b>								
8	Mexico	\$ 2,479,962	4,288	\$ 578.35 a	\$ (109.08)	-15.87%	\$ (36.75)	-5.97%
9	Platt County	\$ 5,502,950	5,335	\$ 1,031.48	\$ 344.05	50.05%	\$ 416.38	67.69%
10	Jefferson City	\$ 4,832,155	9,019	\$ 535.78	\$ (151.65)	-22.06%	\$ (79.32)	-12.90%
11	Subtotal/Average	<u>\$ 12,815,067</u>	<u>18,642</u>	<u>\$ 687.43</u>			<u>\$ 72.33</u>	<u>11.76%</u>
<b>Zone 3</b>								
12	Brunswick	\$ 309,286	330	\$ 937.23 b	\$ 313.73	50.32%	\$ 322.13	52.37%
13	Spring Valley/Lake Manor	\$ 88,241	134	\$ 658.51	\$ 35.01	5.62%	\$ 43.42	7.06%
14	Ozark Mountain/ LTA	\$ 248,370	499	\$ 497.74	\$ (125.77)	-20.17%	\$ (117.36)	-19.08%
15	Rankin Acres/Whitebranch	\$ 92,954	222	\$ 418.71	\$ (204.79)	-32.85%	\$ (196.39)	-31.93%
16	Subtotal/Average	<u>\$ 738,851</u>	<u>1,185</u>	<u>\$ 623.50</u>			<u>\$ 8.40</u>	<u>1.37%</u>
17	Total/Average	<u>\$ 16,263,242</u>	<u>26,440</u>	<u>\$ 615.10</u>				

Notes and Source

Cols A-C: MAWC witness Herbert Rebuttal Testimony Schedule No. PRH-6, page 1 of 2

a: MAWC witness Herbert's Schedule No. PRH-6, page 1 of 2 shows \$433.76 for this amount. MAWC acknowledged this is an error and confirmed that the amount shown above is correct

b: MAWC witness Herbert's Schedule No. PRH-6, page 1 of 2 shows \$702.92 for this amount. MAWC acknowledged this is an error and confirmed that the amount shown above is correct

Missouri-American Water Company  
 Summary of Average Annual Residential Cost of Service by District

Case No. WR-2015-0301

Line No.	Description	Residential Cost of Service (A)	Residential Customers (B)	Cost per Residential Customer (C)	Difference from Group Average		Difference from Overall Average	
					Dollars (D)	Percentage (E)	Dollars (F)	Percentage (G)
<b>Water District 1</b>								
1	St. Louis Metro	\$ 171,271,008	355,437	\$ 481.86	\$ (2.44)	-0.50%	\$ (3.60)	-0.74%
2	Mexico	\$ 2,479,962	4,288	\$ 578.35	\$ 94.05	19.42%	\$ 92.89	19.14%
3	Jefferson City	\$ 4,832,155	9,019	\$ 535.78	\$ 51.47	10.63%	\$ 50.32	10.37%
4	Subtotal/Average	<u>\$ 178,583,125</u>	<u>368,744</u>	<u>\$ 484.30</u>			<u>\$ (1.16)</u>	<u>-0.24%</u>
<b>Water District 2</b>								
5	St. Joseph	\$ 12,055,110	28,813	\$ 418.39	\$ (99.83)	-19.26%	\$ (67.07)	-13.81%
6	Platt County	\$ 5,502,950	5,335	\$ 1,031.48	\$ 513.26	99.04%	\$ 546.02	112.48%
7	Brunswick	\$ 309,286	330	\$ 937.23	\$ 419.01	80.85%	\$ 451.77	93.06%
8	Subtotal/Average	<u>\$ 17,867,346</u>	<u>34,478</u>	<u>\$ 518.22</u>			<u>\$ 32.77</u>	<u>6.75%</u>
<b>Water District 3</b>								
9	Joplin	\$ 9,931,121	20,653	\$ 480.86	\$ 16.88	3.64%	\$ (4.60)	-0.95%
10	Warrensburg	\$ 2,709,324	6,613	\$ 409.70	\$ (54.28)	-11.70%	\$ (75.76)	-15.61%
Maplewood/Riverside/Stonebridge/Saddlebrooke/Emera								
11	ld Pointe	\$ 772,347	1,702	\$ 453.79	\$ (10.18)	-2.20%	\$ (31.67)	-6.52%
12	Tri-States	\$ 1,351,806	2,925	\$ 462.16	\$ (1.82)	-0.39%	\$ (23.30)	-4.80%
13	Spring Valley/Lake Manor	\$ 88,241	134	\$ 658.51	\$ 194.54	41.93%	\$ 173.06	35.65%
14	Ozark Mountain/ LTA	\$ 248,370	499	\$ 497.74	\$ 33.76	7.28%	\$ 12.28	2.53%
15	Rankin Acres/Whitebranch	\$ 92,954	222	\$ 418.71	\$ (45.26)	-9.76%	\$ (66.75)	-13.75%
16	Subtotal/Average	<u>\$ 15,194,163</u>	<u>32,748</u>	<u>\$ 463.97</u>			<u>\$ (21.48)</u>	<u>-4.43%</u>
17	Total/Average	<u>\$ 211,644,634</u>	<u>435,970</u>	<u>\$ 485.46</u>				

Notes and Source

Cols A-C: MAWC witness Herbert Rebuttal Testimony Schedule No. PRH-6, page 2 of 2

a: MAWC witness Herbert's Schedule No. PRH-6, page 1 of 2 shows \$433.76 for this amount. MAWC acknowledged this is an error and confirmed that the amount shown above is correct

b: MAWC witness Herbert's Schedule No. PRH-6, page 1 of 2 shows \$702.92 for this amount. MAWC acknowledged this is an error and confirmed that the amount shown above is correct