

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

In the Matter of Missouri-American Water)
Company's Request for Authority to)
Implement a General Rate Increase for)
Water and Sewer Services Provided in)
Missouri Service Areas.)

Case No. WR-2010-0131

JOINT REPORT ON COST OF SERVICE

COME NOW the Staff of the Missouri Public Service Commission (Staff), Missouri-American Water Company (MAWC) and the Office of the Public Counsel (OPC), by and through the undersigned attorney, and respectfully state the following to the Missouri Public Service Commission (Commission):

1. On June 16, 2010, the Commission issued its *Report And Order* determining the terms of, and charges for, the water and sewer services of MAWC in the above stated rate case. The *Report And Order* directed the Staff, MAWC, and OPC to jointly file by October 15, 2010, a report setting forth the underlying facts that support the cost of service in each MAWC service territory. Also, the *Report And Order* further directed the development of a sixth column to Exhibit 227, Attachment A, to estimate a single-tariff rate based on comparable usage for the average residential customer in each service territory.

2. The parties to this filing have prepared the attached joint report describing each MAWC service territory, including details such as the age of each system, the number of customers on the particular system and the differences in the sources of water supply. The report also includes a table that describes for each service district the source of supply, the number of customers in the district, and the utility plant cost per customer.

3. Further, the parties to this filing have prepared Attachment A of the joint report, with the sixth column of the table added to estimate a single tariff rate for each service district

based on the usage listed in the first column of the table. Attachment A also includes two bar charts to assist the reader in comparing each district specific price to the developed single tariff price.

WHEREFORE, the Staff of the Missouri Public Service Commission, Missouri-American Water Company, and the Office of the Public Counsel submit this Joint Report for the Commission's information and consideration, and in compliance with the Commission's June 16, 2010 *Report And Order*.

Respectfully submitted,

/s/ Jennifer Hernandez
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CERTIFICATE OF SERVICE

I hereby certify that true and accurate copies of the foregoing have been mailed U.S. first class postage prepaid, hand-delivered, transmitted by facsimile or electronically mailed to all counsel/parties of record this 15th day of October 2010.

/s/ Jennifer Hernandez

Joint Report on Cost of Service for Missouri-American Water Company's Service Districts

Introduction

The Missouri Public Service Commission (Commission) issued a *Report And Order* in Case No. WR-2010-0131, that became effective on June 18, 2010. In the *Report And Order*, the Commission ordered the Commission's Staff, the Office of Public Counsel and Missouri-American Water Company (MAWC or Company) to "jointly file a report setting forth, for each service in each service territory, the underlying facts that support each territory's cost of service" by October 15, 2010. (*Report And Order*, p. 16) Pursuant to the *Report and Order*, the parties to this filing submit this report and supporting table that describes each of the different service districts and the major investment costs associated with each district affecting the cost of service. The parties to this filing have also compiled Exhibit A, a comparison between district specific pricing and single tariff pricing for the average residential usage per district. Exhibit A also contains bar charts to assist the reader in comparing a district's cost of service using district specific pricing verses single tariff pricing.

Brunswick

The Brunswick district, which is located in Chariton County, Missouri, serves approximately 421 water customers in and around the city of Brunswick. In terms of the number of customers served, the Brunswick district is the smallest water district in the MAWC system. This system was originally built in 1934. Alluvial wells along the Grand River and an iron removal treatment facility provide the sources of supply for Brunswick. The present treatment facility was constructed in approximately 1987 to replace an obsolete facility.

This district has the highest operating expense per customer ratio when compared to all of the water districts in the MAWC system. This district also has the highest utility plant investment per customer ratio. The high ratios are primarily due to the level of investment that was necessary when the present treatment facility was constructed, and the low number of customers on the system, along with a minimum amount of required costs inherent in operating a water system.

Jefferson City

The Jefferson City district serves approximately 10,835 water customers in sections of the City of Jefferson, Missouri. This system was originally built in 1888. The source of supply for the Jefferson City district is the Missouri River and a lime-softening treatment facility. This district has the lowest operating plant investment per customer ratio of all water districts in the MAWC system, in part because there have been few major improvements needed on this system. While there have been relatively few major investments made on this system in the last several years, there is currently a major project, a replacement river intake system, under construction.

Joplin

The Joplin district serves approximately 24,163 water customers in and around the City of Joplin, along with service to smaller surrounding communities, making it the third largest MAWC system. This system was originally built in 1881. The source of supply for the Joplin district is a combination of deep wells and a surface treatment facility using Shoal Creek as the source.

MAWC has made several major improvements to the Joplin water treatment system in the last ten (10) years, which has caused rates to increase for this system. Besides drilling additional deep wells

periodically, the Company has replaced the Shoal Creek intake, constructed an additional two-mile long raw-water pipeline, and increased the treatment plant capacity by ten (10) million gallons per day. The Company has made other improvements to the water treatment plant since the 2008 rate case, including the installation of security systems, and a rehabilitation of many components of the treatment facility including replacement of electrical equipment, chemical treatment equipment, distribution pumps and a new ultraviolet water disinfection system. The Company has also replaced water meters and service lines within the district.

Mexico

The Mexico district serves approximately 4,874 water customers and consists of 89 miles of distribution mains, which makes this system the seventh largest water district in the MAWC system in terms of both customer numbers and miles of distribution mains. This system was originally built in 1885. Deep wells with lime-softening treatment provide the source of supply for the Mexico district. The treatment facility was rehabilitated approximately ten (10) years ago, but there have been relatively few other major investments made on this system in the last several years, because the system is sufficiently meeting its current water demand.

Platte County Water

The Platte County Water district, which is located in Platte County, Missouri, serves approximately 5,605 water customers. This system consists of 91 miles of distribution mains. Platte County Water is the sixth largest water system in the MAWC system in terms of both customer numbers and miles of distribution main. The communities of Houston Lake, Parkville and Riverside are served by the Platte County Water district. This system, which is the oldest water district owned by MAWC, was originally constructed in 1875. The source of supply for the Platte County Water District is a combination of alluvial wells along the Missouri River with a lime-softening treatment facility, and treated water purchased intermittently from Kansas City. In the last several years, the Company has made major improvements to this system, including main replacements for fire protection and completing an interconnection between the Platte County Water system and the City of Kansas City Water system.

St. Joseph

The St. Joseph district serves the city of St. Joseph and five “sale for resale” customers. The St. Joseph Water district serves approximately 32,004 water customers making it the second largest district in the MAWC system. This system was originally constructed in 1880. Alluvial wells along the Missouri River and a water treatment facility provide the source of supply for the St. Joseph Water district, all of which were constructed in 2000. Before the construction of the new treatment facility and wells, the source of supply for St. Joseph was the Missouri River, along with a lime-softening treatment facility, which was subject to extreme flood conditions. Since the construction of the new treatment facility and wells, the rates for this system have been relatively stable.

St. Louis Metro

The St. Louis Metro district serves the various communities located in St. Charles County, St. Louis County and Jefferson County, Missouri. The St. Louis Metro Water district serves approximately 336,976 water customers, making it the largest MAWC district. The St. Louis County portion of the system was originally constructed in 1904. The sources of supply for the St. Louis Metro District are the Missouri and Meramec Rivers with lime-softening treatment facilities. In the past, this district was two separate districts, St. Charles County Water district, which purchased water from a county-owned water treatment facility, and St. Louis County Water district. These two districts were consolidated as a result of Case No. WR-2008-0311, when the Company consolidated rates and operations, and also ceased its water purchase from the

county. The Company began sending water from one of its Missouri River water treatment facilities in St. Louis County to its St. Charles County area using a pipeline that crosses under the Missouri River. The St. Louis County portion of this district is the only MAWC district that is allowed to recover infrastructure replacement costs through the Infrastructure Replacement Surcharge (ISRS).

Major contributors to the Company's increased expenses in this district are the large improvements/projects within the district since the Company's last rate case: the Company replaced and/or reallocated water mains, fire hydrants and water meters at various locations within the district. In past years the Company has also made major improvements and undertaken rehabilitation projects to the water system, such as replacing pumps, valves, chemical feeders and electrical equipment at its four water treatment plants that serve the district.

Warrensburg

The Warrensburg district serves approximately 7,235 water customers and consists of 104 miles of distribution mains, which makes this system the fifth largest water district in the MAWC system in terms of both customer numbers and miles of distribution mains. This system was originally constructed in 1894. Deep wells with aeration and ozone treatment provide the source of supply for the Warrensburg water district. Except for the ozone treatment system that is used to eliminate odor caused by hydrogen sulfide, there have been relatively few major investments made on this system in the last several years, and the system is sufficiently meeting its current water demand.

Warren County Water

The Warren County Water district serves the community of Incline Village and other surrounding developments in St. Charles, Warren and Lincoln Counties, Missouri. The Warren County Water district serves approximately 439 water customers making it the second smallest water district in the MAWC system. This system was originally constructed in 1975. This was a small troubled water and sewer system owned by Warren County Water and Sewer Company, which the Commission caused to be placed in receivership. (The sewer system is discussed below.) MAWC acquired it out of receivership in August 2004. A single well provides the source of water supply for the Warren County Water district. After the acquisition, the Company constructed a new storage tank.

Warren County Sewer

The Warren County Sewer district serves the community of Incline Village and other surrounding developments in St. Charles, Warren and Lincoln Counties, Missouri. The Warren County Sewer district serves approximately 415 sewer customers. This system was originally constructed in 1980. As stated above, this was a small troubled water and sewer system owned by Warren County Water and Sewer Company, which the Commission caused to be placed in receivership. MAWC acquired the system out of receivership in August 2004. The system consists of gravity and pressure collection systems, several lift stations and two extended aeration sewage treatment facilities. MAWC replaced both of the sewage treatment facilities immediately after acquisition to provide adequate treatment capacity and to correct ongoing water pollution violation events, and undertook minor rehabilitation to some of the lift stations.

Platte County Sewer

The Platte County Sewer district, which is located in Platte County, Missouri, serves approximately 100 sewer customers. This system is the smallest sewer system owned by MAWC. The Platte County Sewer system was originally constructed in 1964. The system consists only of gravity collection sewers, with wholesale treatment provided by the City of Kansas City, Missouri. Being a small district, the Company's overall cost of service must be spread among fewer customers. The greatest cost associated

with this district is the third party contract payment to the City of Kansas City for waste treatment. The Company is currently participating in discussions with the City in an attempt to renegotiate that contract.

Cedar Hill Sewer

The Cedar Hill Sewer district which is located in Jefferson County, Missouri, serves approximately 658 sewer customers. There are two sewer treatment facilities. In November 2004, MAWC acquired sewer system assets from Cedar Hill Utilities, Inc., a regulated sewer utility. The Company utilizes gravity collecting sewers with lift stations. Sewage treatment is accomplished by using an aerated lagoon treatment facility, and a contact stabilization facility, which is known as the Sand Creek Plant.

In mid year 2007, due to anticipated growth, the Company began expansion of the Sand Creek Plant in the Cedar Hill Sewer district. This expansion increased the treatment capacity from 75,000 to 150,000 gallons per day. In 2009, the Lake Tamarack subdivision system, a troubled sewer system that was owned by the original subdivision developer and used to provide service to the residents at no charge, was acquired by MAWC and connected to the Sand Creek treatment facility.

Missouri-American Water Company
Comparison of Districts

Service Area	Brunswick	Jefferson City	Joplin	Mexico	Parkville Water	St Joseph	St Louis Metro	Warrensburg	Warren Co Water	Warren Co Sewer	Parkville Sewer	Cedar Hill
Residential Commodity Rate/1000 gal	\$11.5849	\$3.8843	\$3.8017	\$5.6490	\$6.5930	\$4.2705	\$3.1901	\$3.3542	\$7.1955	\$53.74**	\$65.22**	\$45.64**
Customers at 4/30/10	421	10,835	24,163	4,874	5,605	32,004	366,976	7,235	439	415	105	658
Utility Plant at 4/30/10	\$3,248,339	\$28,245,945	\$129,446,479	\$22,517,090	\$40,582,620	\$126,780,517	\$1,102,435,912	\$24,919,857	\$1,724,499	\$4,007,522	\$82,404	\$3,481,122
Utility Plant/Customer	\$7,716	\$2,607	\$5,357	\$4,620	\$7,240	\$3,961	\$3,004	\$3,444	\$3,928	\$9,657	\$785	\$5,290
# of direct employees	2	16	39	7	6	43	547	7	***	***	****	2
Miles of Main 12/31/09	14	149	461	89	91	633	4,617	104	11	11	1	12
Source of Supply	Wells	River	River/Wells	Wells	Wells & Purchased Water	Wells	Rivers	Wells	Well			
System Origin	1934	1888	1881	1885	1875	1880	1904	1894	1975	1980	1964	1972

The above information was provided by Missouri-American Water Company and has not been audited by the Staff.

**Flat rate

***Labor done by STL Metro

**** Included in Parkville Water

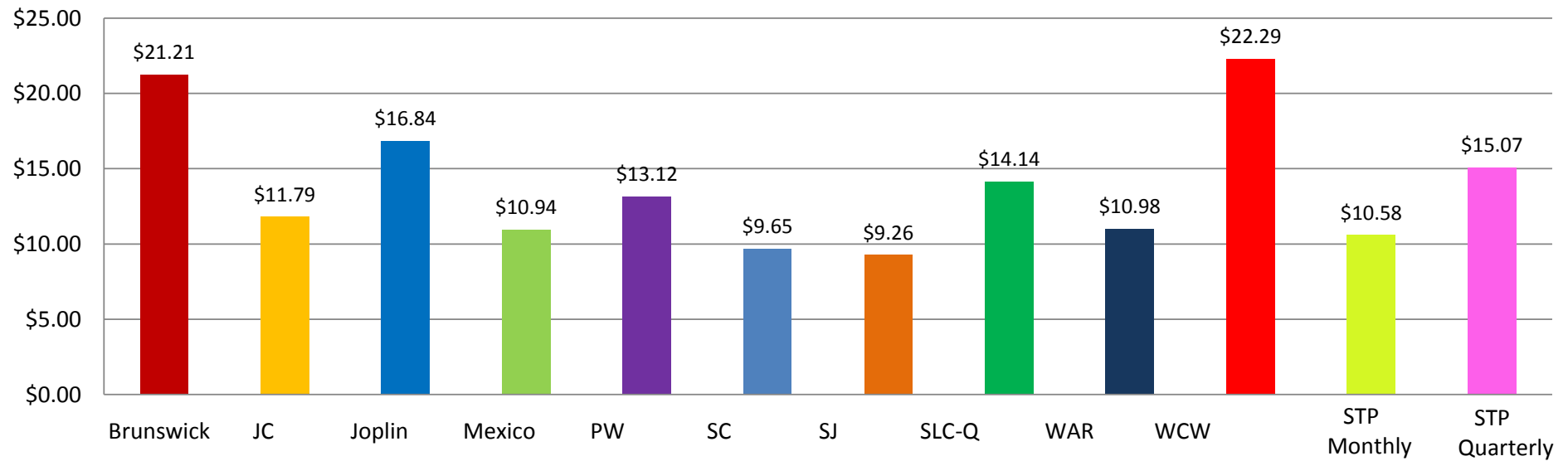
Missouri-American Water Company
Case No. WR-2010-0131
Proposed Residential Rates by Operating District

Highest Rate
Lowest Rate

District	Present Rate (1)	Company Proposed Rate % increase/(decrease)	Staff Recommended Rate (2) % increase/(decrease)	OPC Recommended Rate (3) % Increase/(decrease)	Stipulated Rate (4) % increase/(decrease)	Single Tariff Pricing Based on District Average Usage
Brunswick	\$45.74 per month Based on 3,500 gallons	\$60.08 per month 31.4%	\$99.82 per month 118.2%	\$67.31 per month 47.2%	\$61.76 per month 35%	\$22.16 per month
Jefferson City	\$31.26 per month Based on 5,000 gallons	\$35.43 per month 13.3%	\$32.78 per month 4.9%	\$31.18 per month (0.26%)	\$31.21 per month (0.14%)	\$27.12 per month
Joplin	\$32.58 per month Based on 5,500 gallons	\$38.41 per month 17.9%	\$35.23 per month 8.1%	\$38.62 per month 18.5%	\$37.75 per month 15.86%	\$28.78 per month
Mexico	\$33.23 per month Based on 4,500 gallons	\$43.59 per month 31.2%	\$34.21 per month 2.9%	\$35.51 per month 6.9%	\$36.36 per month 9.44%	\$25.47 per month
Parkville Water	\$55.27 per month Based on 8,000 gallons	\$70.63 per month 27.8%	\$64.01 per month 15.8%	\$64.64 per month 17.0%	\$65.86 per month 19.17%	\$37.05 per month
St. Charles County	\$29.24 per month Based on 7,500 gallons	\$36.17 per month 23.7%	\$34.07 per month 16.6%	\$27.91 per month (4.5%)	\$33.58 per month 14.83%	\$35.39 per month
St. Joseph	\$29.59 per month Based on 5,000 gallons	\$38.40 per month 29.8%	\$29.80 per month 0.7%	\$30.26 per month 2.3%	\$30.61 per month 3.43%	\$27.12 per month
St. Louis County	\$74.82 per quarter Based on 22,500 gallons	\$91.00 per quarter 21.6%	\$83.66 per quarter 11.8%	\$83.74 per quarter 11.9%	\$85.92 per quarter 14.83%	\$89.51 per quarter
Warrensburg	\$27.50 per month Based on 5,000 gallons	\$32.79 per month 19.2%	\$28.55 per month 3.8%	\$27.14 per month (0.1%)	\$27.75 per month 0.90%	\$27.12 per month
Warren County Water	\$45.83 per month Based on 5,500 gallons	\$57.21 per month 24.8%	\$75.79 per month 65.4%	\$61.17 per month 33.5%	\$61.87 per month 35%	\$28.78 per month
Parkville Sewer	\$53.41 per month Flat Rate	\$66.42 per month 24.3%	\$62.90 per month 17.7%	Did Not Perform	\$65.22 per month 22.1%	\$50.50 per month
Cedar Hill	\$33.81 per month Flat Rate	\$42.66 per month 26.2%	\$47.18 per month 39.5%	Did Not Perform	\$45.64 per month 35%	\$50.50 per month
Warren County Sewer	\$39.81 per month Flat Rate	\$50.24 per month 26.2%	\$173.20 per month 335%	Did Not Perform	\$53.74 per month 35%	\$50.50 per month

- (1) Rate comparisons are based on 5/8" residential meters.
- (2) Staff Recommended Rate is based on results of Staff's CCOS by district and customer class.
- (3) OPC Recommended Rate is based on Barb Meisenheimer testimony.
- (4) Stipulated amount is based on an equal increase or decrease for all customer classifications in each district.

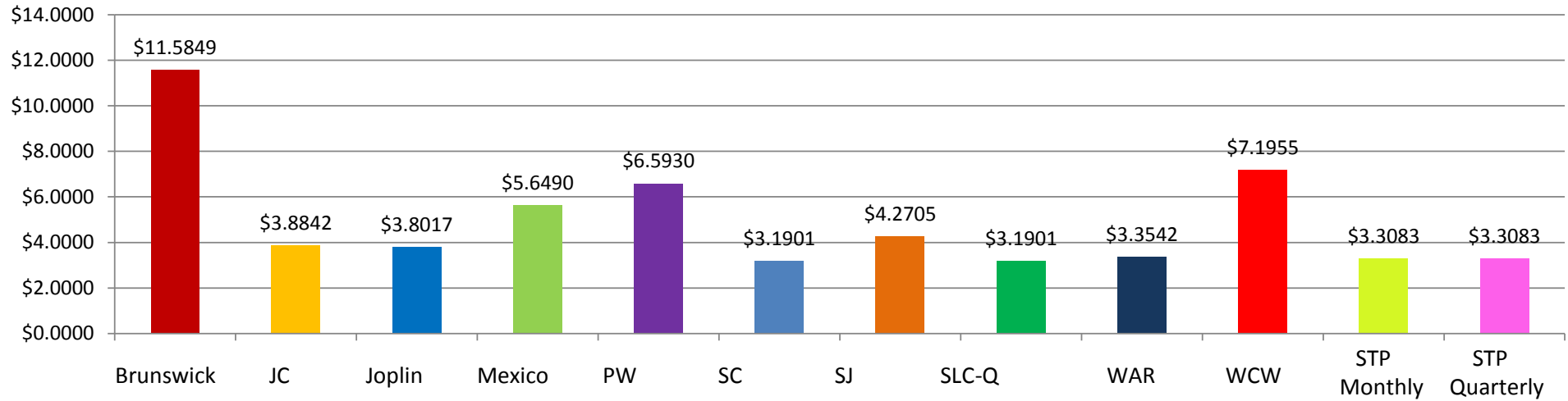
Missouri American Water Company Current Customer Charge vs. STP Customer Charge



STP = Single Tariff Pricing
 JC = Jefferson City
 PW = Parkville Water
 SC = St. Charles

SJ = St. Joseph
 SLC-Q = St. Louis County Quarterly Bill
 WAR = Warrensburg
 WCW = Warren County Water

Missouri American Water Company Current Commodity Charge vs. STP Commodity Charge



STP = Single Tariff Pricing
 JC = Jefferson City
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