

MISSOURI-AMERICAN WATER COMPANY

St. Louis, Missouri

COST OF SERVICE

ALLOCATION STUDY

FOR THE TEST YEAR ENDED DECEMBER 31, 2007

GANNETT FLEMING, INC. - VALUATION AND RATE DIVISION

Harrisburg, Pennsylvania

Calgary, Alberta

Valley Forge, Pennsylvania



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March 31, 2008

Missouri-American Water Company
535 North New Ballas Road
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Attention Mr. Terry L. Gloriod, President

Gentlemen:

Pursuant to your request, we have conducted cost of service allocation studies based on the district specific revenue requirements estimated for the test year ended December 31, 2007.

The attached report presents the results of the allocation studies, as well as supporting schedules which set forth the detailed cost allocation calculations and the proposed schedule of rates. Schedule A, for each district, presents a comparison of the cost of service by customer classification with the pro forma revenues produced by each classification under present and proposed rates.

Respectfully submitted,

GANNETT FLEMING, INC.

A handwritten signature in black ink, reading "Paul R. Herbert".

PAUL R. HERBERT
President
Valuation and Rate Division

PRH:krm

Attachment



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PART I. INTRODUCTION

MISSOURI-AMERICAN WATER COMPANY
COST OF SERVICE ALLOCATION STUDY
FOR THE TEST YEAR ENDED DECEMBER 31, 2007

PART I. INTRODUCTION

PLAN OF REPORT

The report sets forth the results of the cost of service allocation studies based on district specific revenue requirements as of December 31, 2007, for Missouri-American Water Company. Part I, Introduction, contains statements with respect to the basis of the study, the procedures employed, and a summary of the results of the study. Part II, Cost of Service by Customer Classification, presents detailed schedules of the allocation of costs to district specific customer classifications, as well as the bases for the allocations. Schedule A in Part II summarizes the cost allocation and the revenues produced under present and proposed rates for each district.

BASIS OF STUDY

The purpose of the cost allocation studies was to determine the relative cost of service responsibilities of the several customer classifications within each operating district, based on considerations of quantity of water consumed, variability of rate of consumption, and costs associated with customer metering, billing and accounting. The allocation studies incorporated generally-accepted principles and procedures for allocating the several categories of cost to customer classifications in proportion to each classification's use of facilities, commodities and services required in providing water service.

ALLOCATION PROCEDURES

The allocation studies were based on the Base-Extra Capacity Method for allocating costs to customer classifications. The method is described in the 2000 and prior editions of the Water Rates Manual published by the American Water Works Association. The four basic categories of cost responsibility are base, extra capacity, customer, and fire protection costs. The following discussion presents a brief description of these costs and the manner in which they were allocated.

Base Costs are costs that tend to vary with the quantity of water used, plus costs associated with supplying, treating, pumping, and distributing water to customers under average load conditions, without the elements necessary to meet peak demands. Base costs were allocated to customer classifications on the basis of average daily usage.

Extra Capacity Costs are costs associated with meeting usage requirements in excess of the average. They include operating and capital costs for additional plant and system capacity beyond that required for average use. The extra capacity costs in this study are subdivided into costs necessary to meet maximum day extra demand and costs to meet maximum hour extra demand. The extra capacity costs were allocated to customer classifications on the bases of each classification's maximum day and hour usage in excess of average usage.

Customer Costs are costs associated with serving customers regardless of their usage or demand characteristics. Customer costs include the operating and capital costs related to meters and services, meter reading costs, and billing and collecting costs. The customer costs were allocated on the bases of the capital cost of meters and services, and the number of customers.

Fire Protection Costs are costs associated with providing the facilities to meet the potential peak demand of fire protection service. Fire Protection costs are subdivided into costs to meet Public Fire Protection and Private Fire Protection demands. The extra capacity costs assigned to fire protection service were allocated to Public and Private Fire Protection on the basis of the total relative demands of the hydrants and fire service lines, sized to provide fire protection.

RESULTS OF STUDY

The results of the cost of service allocation study are set forth in Part II. The data summarized for each district in Schedule A, Comparison of Pro Forma Cost of Service with Revenues Under Present and Proposed Rates for the Test Year Ended December 31, 2007, constitute the principal results of the cost allocation studies and subsequent rate designs. The cost of service by customer classification shown in column 2 of Schedule A is developed in Schedule B, Cost of Service for the Twelve Months Ended December 31, 2007, Allocated to Customer Classifications. The allocation of the total cost of service to the several customer classifications was performed by applying the allocation factors referenced in column 2 of Schedule B to the cost of service set forth in column 3. The bases for the allocation factors are presented in Schedule C.

Schedule D, in all but the St. Louis Metro Area, sets forth the experienced average day and maximum day system sendout and the maximum day ratios from 1990 through 2007. Schedule E in most districts, and Schedule D in the St. Louis Metro Area, presents the basis for allocating demand related costs of fire service to private and public fire protection classifications.

PART II. COST OF SERVICE BY CUSTOMER CLASSIFICATION