BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the General Rate Increase for Water and Sewer Service Provided by Missouri-American Water Company.	)))	Case No. WR-2003-0500, Lead case
Staff of the Missouri Public Service Commission, Complainant, v. Missouri-American Water Company, Respondent.	))))))))))	Case No. WC-2004-0168

MAWC'S STATEMENTS OF POSITION

COMES NOW Missouri-American Water Company ("MAWC" or "Company"), and states the following to the Missouri Public Service Commission as MAWC's Statements of Position, in response to the List of Issues filed with the Commission on December 3, 2003:

ISSUES/MAWC POSITIONS

1. Pensions – What is the appropriate amount of expense to be included in MAWC's cost of service for pension expense?

MAWC POSITION: Company proposes that the Commission continue to use the Financial Accounting Standard No. 87 (FAS 87) method to determine the amount of pension expense that should be included in MAWC's revenue requirement. The Staff's proposal to instead use the minimum contribution fails to consider the long term impact of moving to a ERISA method for rate recovery.

(Williamson, Rebuttal, pp. 1-6; Grubb, Rebuttal, pp. 7-12).

2. Capital Structure – What is the appropriate capital structure for MAWC?

MAWC POSITION: The Company believes that its actual capital structure at November 2003 is the most appropriate capital structure to use for purposes of determining its overall cost of capital. MAWC's actual capital structure is appropriate because: 1) MAWC has an independently determined capital structure; 2) MAWC's stand-alone capital structure represents the actual capital financing of MAWC's jurisdictional rate base to which rates set in this proceeding will be applied; 3) MAWC's stand-alone capital structure is consistent with the capital structure ratios maintained, on average, by other water companies; 4) MAWC's stand-alone capital structure is consistent with Standard & Poores financial target ratios of total debt to total capital criteria; and 5) MAWC's stand-alone capital structure is consistent with the capital structures allowed by the Commission precedent. (Grubb, Direct, pp. 9-10; Ahern, Rebuttal, pp. 2-13; Ahern, Surrebuttal, pp. 2-8).

3. What is the appropriate cost of capital, including return on equity, for MAWC?

MAWC POSITION: The Company proposes an overall cost of capital of 8.30%. This is based upon the following capital structure and component costs.

	Percent	Cost Rate	Weighted Cost
Long Term Debt	56.38%	6.22%	3.51%
Preferred Stock	.52%	9.12%	.05%
Common Equity	43.10%	11.0%	4.74%
Cost of Capital/Rate of Return			8.30%

As part of its overall cost of capital, the Company recommends that it be authorized to earn 11% on its actual equity investment. This cost of equity is supported by Company witness Ahern's analysis of market based cost rates of similar risk companies which shows that an appropriate return on equity is actually in the 11.75% to 12% range.

(Ahern, Direct, Rebuttal, pp. 13-32 and Surrebuttal, pp. 9-20; Jenkins, Rebuttal, pp. 2-4).

4. Interest Synchronization – What is the appropriate amount of expense to be included in the calculation of MAWC's income tax expense for an interest expense deduction?

MAWC POSITION: The appropriate amount of interest expense to use a deduction in the calculation of MAWC's income tax expense is the product of the weighted cost of debt (as determined by MAWC's actual capital structure) times its jurisdictional rate base. The use of interest synchronization depends upon the use of MAWC's actual capital structure.

(Grubb, Rebuttal, pp. 35-36).

5. Belleville Laboratory Costs – What is the appropriate amount to be included in MAWC's cost of service for its use of the Belleville Laboratory facility?

MAWC POSITION: MAWC believes that allocating Belleville Laboratory Costs among the participating subsidiaries based on the customer numbers in each jurisdiction benefitting from the services is the most sensible way to allocate such costs, and is fair and reasonable. Staff's recommendation that laboratory costs be allocated based on the number tests performed in the test year instead of being based on the relative numbers of customers in each participating subsidiary should be rejected because: 1) the number of tests per jurisdiction in any given year will, and does, vary unpredictably; 2) the lab performs significant water quality research and the development of standards for American companies that are of generic value and distinct from specific testing services; 3) a per-customer allocation is straightforward and understandable; 4) a per-customer allocation provides system-wide consistency; 5) a per-customer allocation provides consistency of customer impact; 6) selective abandonment of cost allocations based on customer numbers only when it might reduce costs allocated to Missouri is opportunistic and unfair; and, 7) since no other jurisdictions of participating subsidiaries are contesting the customer-count allocation, this adjustment will necessarily result in laboratory costs that will be unrecovered.

(Baryenbruch, Rebuttal, pp. 1-8; Grubb, Rebuttal, p. 12).

6. National Call Center – What is the appropriate level of expense to be included in MAWC's cost of service for services relating to the National Call Center, and what is the appropriate way in which to recognize the costs which MAWC has incurred in transitioning to its National Call Center?

MAWC POSITION: MAWC believes that actual test year Call Center operating expenses are fair and reasonable, and should be recoverable in future rates. MAWC believes that its transition costs to the Call Center were prudent and thus should be recoverable. The Company has recommended capitalization of those costs with recovery over approximately twenty years. Staff's reduction and virtual elimination of Call Center operating costs, and its elimination of all transitions costs, along with an insistence that costs incurred under preexisting legacy customer service facilities should be the measure of going forward costs, should be rejected because: 1) Current costs are in line with industry norms; 2) Staff's analysis is based on invalid calculations and assumptions as to the difference between what customer service costs "were" before the call center, and what that have since become; 3) in pricing the costs of pre-existing service Staff has failed to include the costs of serving 28,000 additional customers from previously unregulated and thus relatively uninformed municipal utilities; 4) Staff's "as-was" assumptions ignore the increasing volume of customer service contacts from all customers which is a universally consistent phenomenon throughout all utilities, 5) it ignores the costs which would have been necessary to increase the service levels at the single-source customer service department to those afforded in the new call center; 6) it fails to acknowledge the revisions of the current "as-is" cost calculations; and, 7) it completely disregards savings realized elsewhere which were attributable to the elimination of support services that would otherwise need to have been continued in the previous single-source customer service operation (e.g. data systems, report generation, system integration interface management).

(Van den Berg, Rebuttal, pp.8-28; Jenkins, Rebuttal, pp. 7-9; Thornburg, Rebuttal, pp. 1-16).

7. Other Transition Costs – What is the appropriate way in which to recognize the costs which MAWC has incurred in transitioning to its National Shared Services Center?

MAWC POSITION: MAWC believes that its transition costs were prudent and thus should be recoverable. The Company has recommended capitalization of those costs with recovery over approximately twenty years. Staff's recommendation that Transition Costs of the conversions to both the Call Center and the Shared Services organization should be disallowed by characterizing them as one time "non recurring" and being not associated with "assets" should be rejected because: 1) both the Call Center and the Shared Services organization are very much in the interest of customer service and efficiency; 2) disallowance of such transition costs, which are reasonable in amount, and which are necessarily unavoidable in any future transition efforts, is bad policy in that it is punitive and tells this Company and all others to not undertake such transitions; 3) capitalization of expenses unrelated to physical assets is well within the discretion of the Commission as it has been adopted in the past; 4) the amortization of expenses that could be characterized as "non-recurring" is well within the discretion of the Commission as it has been adopted in the past; 5) to realize similar improvements in the legacy systems without benefit of the shared centers, the Company would have been required to invest millions in capital improvements that would have been in rate base; 6) the transition costs incurred are well within standards for the industry; and 7) the investments in transition were prudent.

(Van den Berg, Rebuttal, pp. 13-28; Jenkins, Rebuttal, pp. 7-9; Thornburg, Rebuttal, pp. 1-16).

8. American Water Resources – Company's position? What is the appropriate amount of revenues to be included in MAWC's cost of service as compensation for services provided to American Water Resources by MAWC?

MAWC POSITION: Staff's imputed income associated with the Company's participation in providing information to its customers concerning the AWR water service line insurance program is inappropriate because: 1) the Company's involvement was a public service and the promotion of a solution to a long standing customer service problem, for which the demand for compensation would have been unwarranted and inappropriate; and 2) Staff arbitrary value ascribed to the Company's involvement is grossly excessive by any standard.

(Grubb, Rebuttal, pp. 20-24).

9. Acquisition Premiums and Transaction Cost Adjustment – What is the appropriate treatment

of the transaction costs and premium which MAWC incurred to acquire the United Water, Florissant, Webster Groves and Valley Park water systems?

MAWC POSITION: The Commission should allow MAWC to recover the acquisition premiums and transaction costs associated with the acquisition of Valley Park (a negative acquisition premium), Webster Groves, Florissant and United Water Missouri, Inc.. The acquisition premium should be included in rate base and amortized over a weighted average period of 37 years. Such rate making treatment is appropriate because the acquisition of these systems have allowed MAWC to create additional scale economies and direct cost savings for the customers of both these operations and MAWC's existing operations.

(Grubb, Direct, pp. 10-17; Jenkins, Rebuttal, pp. 9-19; Jenkins, Surrebuttal, pp. 1-4).

10. AFUDC – What is the appropriate way to calculate AFUDC? Should such a calculation be applied to adjust plant in service included in this case, or on a prospective basis?

MAWC POSITION: The Company believes that its method of calculating allowance for funds used during construction (AFUDC) is reasonable. However, should the Commission agree with the Staff's proposed methodology, it should order this change on a prospective basis as making the change in the retroactive fashion proposed by Staff will result in a write-off for the Company, in addition to the revenue requirement impact.

(Grubb, Rebuttal, pp. 1-4; Grubb, Surrebuttal, pp. 7-10).

11. Security AAO – What is the appropriate way to treat costs deferred by MAWC pursuant to the Commission's Security AAO?

MAWC POSITION: The Company should be allowed to recover the security costs deferred pursuant to the accounting authority order (AAO) in Commission Case No. WO-2002-273 through a ten (10) year amortization with rate base treatment of the unamortized balance. These costs should include the legal costs associated with the AAO proceedings, the deferred carrying costs associated with the security AAO, without the Staff's proposed change in the allowance for funds used during construction (AFUDC) (which will be addressed in issue 10 – "AFUDC") and a return on the unamortized balance of the AAO costs.

(Grubb, Direct, pp. 29-30, 31-32; Grubb, Rebuttal, pp. 24-28; Grubb, Surrebuttal, pp. 3-7).

12. Employee Expenses – What is the appropriate amount of expense to be included in MAWC's cost of service for employee relocations, training and conferences, incentive compensation, and customer service bonuses?

MAWC POSITION: MAWC recommends that the Commission normalize this expense by using an average, rather than the test year amount. MAWC proposes a five year average for the general employee expenses category and a four average (because five years of data is not available) for employee relocations. MAWC believes the cost of its customer service bonus and Annual Incentive Plan should be recovered in rates as these programs contain goals to improve performance and the benefits of the plans are ascertainable and reasonably related to the plans.

(Lehman, Rebuttal, pp. 6-8; Milton Roberts, Rebuttal, pp. 1-7; Lehman, Surrebuttal, pp. 2-4; Milton Roberts, Surrebuttal, pp. 1-4).

13. Lobbying – What is the appropriate level of expense to be included in MAWC's cost of

service for its Governmental Affairs Department?

MAWC POSITION: The efforts of MAWC's governmental affairs department are normal business expenses that benefit both the ratepayers and the Company. This department is the Company's primary liaison with the 100 plus municipalities MAWC serves through out the State of Missouri for issues such as water service issues, franchise agreements, wholesale contracts, negotiations for water service to new areas, levy district proposals and construction. MAWC believes that no more than 5% of these costs should be attributed to lobbying activities.

(Grubb, Rebuttal, pp. 33-35).

14. Dues and Donations – What is the appropriate amount of expense to be included in MAWC's cost of service for dues and donations?

MAWC POSITION: MAWC believes that the Commission should provide for recovery of the disallowed expenses because they provide value to the customers. These expenses are important to MAWC's ability to be active members of the communities it serves and in developing the professional skills of its employees.

(Lehman, Rebuttal, pp. 4-5).

14.(sic) Transportation expense – What is the appropriate level of expense to be included in MAWC's cost of service for transportation expense?

MAWC POSITION: MAWC proposes to use a three year average to normalize this expense because it varies significantly from year to year.

(Lehman, Rebuttal, pp. 5-6).

15. Old St. Joseph plant retirement – What is the appropriate way in which to recognize MAWC's undepreciated investment and net cost of removal associated with its old St. Joseph plant?

MAWC POSITION: The Commission should provide for recovery of the Company's undepreciated investment related to the old St. Joseph treatment plant through a twenty (20) year amortization. The existence of these amounts is a function of the depreciation rates set by the Commission. To not allow recovery of the amounts would allow the Commission to deny recovery of MAWC's prudent investment.

(Grubb, Direct, pp. 17-20; Grubb Rebuttal, pp. 16-20; Grubb, Surrebuttal, pp. 1-3).

16. New St. Joseph plant capacity costs – Is MAWC experiencing excess capacity at its new St. Joseph treatment plant? If so, how is that excess capacity identified and treated for ratemaking purposes?

MAWC POSITION: MAWC believes that all of St. Joseph Treatment Plant is appropriate and should be included in rate base without any deduction for alleged "excess capacity." The disallowance of rate base associated with Staff's characterization of "excess capacity" at the St. Joseph Treatment Plant should be rejected because: 1) the Commission's disallowance of this rate base was wrong in WR-2000-281; 2) the availability of this capacity was significantly instrumental to the attraction of critical new industry to the St. Joseph area; 3) the disallowance has exhausted any explicable purpose it might have had four years ago, and is even less appropriate now; 4) the Company is faced with real planning decisions again in Joplin, and the principles necessarily resulting from this disallowance make planning decisions virtually impossible; and 5) the adjustment sets a terrible precedent.

(Kartmann, Rebuttal, pp. 19-30).

17. What are appropriate depreciation rates to be applied to MAWC's depreciable plant?

MAWC POSITION: The appropriate depreciation rates to be authorized in this case are the rates determined by the depreciation study performed by Mr. John Spanos of Gannett Fleming, Inc. for depreciable plant accounts in MAWC's Brunswick, Joplin, Mexico, Platte County, St. Charles County, St. Joseph and Warrensburg Districts pursuant to the Commission's order in the last rate proceeding involving those districts that such a study be conducted. These rates are set forth on pages III-4 and 5 in Exhibit JJS-1 attached to Mr. Spanos' Direct Testimony. For purposes of the St. Louis and Jefferson City Districts, the Company proposes to utilize the depreciation rates currently in effect and authorized by the Commission in the last rate cases involving those respective districts.

(Spanos, Direct, Rebuttal, Surrebuttal; Roesch, Direct, p. 7).

18. In establishing depreciation rates for MAWC, what is the appropriate way to account for cost of removal, net of salvage?

MAWC POSITION: The Company proposes the Commission continue the traditional approach and incorporate net salvage in the determination of the depreciation rates. This traditional approach has been used by this Commission in establishing the Company's depreciation rates for many years. The traditional approach collects net salvage cost ratably, over the life of the plant, from the customers served by that plant. This approach is equitable and conforms to the definition of depreciation as the loss in service value, where service value is the original cost less net salvage.

Further, the company continues to meet the criteria for use of the traditional approach established by the Commission in the St. Louis District's last rate proceeding, Case No. WR-2000-844. (Spanos, Direct, pp. 6-9; Rebuttal, pp. 1-17; Surrebuttal, pp. 1-8; Jenkins, Rebuttal, pp. 5-7).

19. What are appropriate asset lives to be used in prescribing depreciation rates for MAWC?

MAWC POSITION: The asset lives as used by Mr. Spanos in his depreciation study for depreciable plant accounts in its Brunswick, Joplin, Mexico, Platte County, St. Charles County, St. Joseph and Warrensburg Districts reflect historical retirements specific to these districts and informed judgment and are the most appropriate for determining depreciation rates for these districts. For depreciable plant accounts in the Jefferson City and St. Louis Districts, the Company proposes to utilize the asset lives that support the depreciation rates currently in effect and authorized by the Commission in the last rate cases involving those respective districts.

(Spanos, Direct, pp. 6-9; Rebuttal, pp. 17-27; Surrebuttal, pp. 8-13).

20. Should the Commission allow the existing reserve deficiency amortization to continue for the St. Louis District?

MAWC POSITION: Yes. The Commission should continue the reserve deficiency amortization which it authorized for the St. Louis District in Case No. WR-2000-844. Staff's position to discontinue this reserve deficiency amortization is based upon its position regarding recovery of net salvage and the determination of service lives which the Company contends is inappropriate.

(Spanos, Rebuttal, pp. 27-28).

21. What is the appropriate way to allocate costs among MAWC's various operating districts?

MAWC POSITION: The Company is proposing to allocate costs among its operating districts based, first, by directly allocating those costs that are specific to each district and, second, by allocating those costs that are not specifically related to any individual district, based on factor(s) which best represent the cost causing nature of the expense, such as customers, plant, revenues, employees, etc.

(Grubb, Direct).

22. What is the appropriate way in which to allocate costs among customer classes within each operating district?

MAWC POSITION: The Company proposes to allocate costs among customer classes within each operating district based upon the cost allocation and rate design study performed by Mr. Paul Herbert of Gannett Fleming, Inc. Mr. Herbert uses the traditional base-extra capacity method as described in 2000 (and prior) Water Rates Manual published by the American Water Works Association (AWWA) to allocate district specific costs among the various classes of customers (i.e., residential, commercial, industrial, other public authorities, sales for resale, private fire protection and public fire protection) and Rates A-J in St. Louis County. The base-extra capacity is a well recognized method for allocating the cost of providing water service to customer classifications in proportion to the classifications' use of the commodity, facilities and services. The base-extra capacity method is generally accepted as a sound method for allocating the cost of water service and used by the Company in previous cases.

(Herbert, Direct, Rebuttal and Surrebuttal).

23. What is the appropriate way to design rates for each customer class?

MAWC POSITION: The Company believes the most appropriate way in which to design rates for each customer class is to first determine each class's cost of service, which is accomplished through the proper performance of a base-extra capacity analysis. In designing rates for each customer class the Company has proposed a uniform schedule of customer charges for all districts excluding St. Louis and St. Charles, which have their own uniform schedule of customer charges. For their commodity charge, the Company proposes single-block residential rates within each district. For all districts other than St. Louis and St. Charles, the Company proposed two (2) to four (4) declining block rate structures for each non-residential class, believing that large-use customers should benefit from declining block rates. Further, in allocating costs among customer classes, the Company has made an adjustment for industrial and sales for resale classes (Rates B, D and J in St. Louis County) by recognizing that many of these customers are not served by smaller distribution mains but rather larger transmission mains. Therefore, the Company has not allocated all of the costs associated with its distribution plant to these customer classes in its St. Louis, St. Joseph, and Joplin Districts. This type of analysis has been used for many years in Company's St. Louis District and the Company is proposing to extend that concept to its St. Joseph and Joplin Districts. The Company is also proposing to identify and allocate, through a specific rate element, the cost of public fire protection. Again, the Company has used this type of cost recovery mechanism for many years in its St. Louis District and is proposing the same rate treatment in all of its other districts in this case.

(Herbert, Direct, Rebuttal and Surrebuttal).

24. Should there be any revenue contribution among districts to mitigate the impact of full, cost

of service rates for any district?

MAWC POSITION: The Company is proposing in this case to continue the revenue contribution the Commission established in its last case. In Company's last rate case (Case No. WR-2000-281), the Commission identified $880,000 of revenue to be contributed from one district to six other districts. The reason given by the Commission was to ameliorate the rate impact on the six districts. In this case, the Company is proposing to continue this contribution, but proposes to move the revenue contribution from the district that contributed in the last case to the St. Louis District. (Grubb, Direct, pp. 33-34; Surrebuttal, pp. 13-15; Herbert, Rebuttal, pp. 9-10).

25. Should there be consolidated billing?

MAWC POSITION: Consolidated billing, as the Company understands it, would allow a customer to consolidate smaller accounts located on the same or contiguous parcels of land to take advantage of lower rates in larger use blocks. This issue was raised for the first time in MEG witness LaConte's rebuttal testimony. The Company is in the process of determining whether its current billing system has the ability to perform the necessary billing consolidation modification without the need for a system program and will advise the parties and Commission accordingly. Assuming the current billing system is capable of consolidating accounts, the Company believes it is appropriate for the customer to make an application for the Company's approval. Such application should, at a minimum, include the following:

- A map or drawing the customer's parcel of land or contiguous parcels and the buildings for the several accounts to be consolidated are in fact contiguous and adjacent to each other and are served off of the same main.
- Proof of common ownership.

- Account number and address of each account to be consolidated.
- Location of each service line from the building to the curb stop.
- Statement that customer currently has an account with the Company that is being billed under the Rate J tariff.

If the customer meets the consolidated billing requirements, then the billing would take effect concurrently with the effective date of the next general rate increase.

(Grubb, Surrebuttal, pp. 11-13).

26. Should there be an interruptible rate, and if so, what is an appropriate rate for that service?

MAWC POSITION: The Company does not oppose the establishment of an interruptible rate for its Joplin District as recommended by Empire witness Kalbarczyk. However, such interruptible rate should only apply in limited circumstances.

(Herbert, Rebuttal, p. 12; Jenkins, Surrebuttal, pp. 4-8).

27. What are the appropriate customer class definitions for the Platte County and St. Joseph Districts?

MAWC POSITION: The Company believes the appropriate classifications for these districts are the ones currently in effect (i.e., residential, commercial, industrial, other public authorities, sale for resale and private fire protection). These customer classifications were established in Company's last rate case (Case No. WR-2000-281). The appropriate definitions for each of these classes is contained in the Surrebuttal Testimony of Company witness Grubb, Schedule EJG-1.

(Grubb, Surrebuttal, pp. 10-11).

28. Weather normalization – What is the appropriate weather-normalized revenue to be included

in MAWC's cost of service for the residential customer class in its St. Louis district?

MAWC POSITION: As this issue continues to be under good faith discussion between the Company and Staff, at present the issue appears to be that the Company and the Staff disagree on the calculation of what should be the normalized Rate A usage for residential customers in the St. Louis district. This disagreement appears at this time to be centered on how to properly reflect changes to the calculations attributable to the addition of new customers from the recently acquired Webster Groves and Florissant municipal systems.

(Spitznagel, Direct, pp. 1-12; Spitznagel, Rebuttal, pp. 1-4 [which may be refiled if and when Staff Witness Patterson files Supplemental Direct]; Spitznagel, Surrebuttal, pp. 1-3).

29. Fuel, power, and chemicals – What is the appropriate amount of expense to be included in MAWC's cost of service for weather-normalized sales?

MAWC POSITION: Company believes that this is no longer an issue.

(Grubb, Rebuttal, pp. 28-29).

30. St. Joseph Chemicals – What is the appropriate amount of expense to be included in MAWC's cost of service for chemicals in its St. Joseph district?

MAWC POSITION: This issue is directly linked to the below issue concerning St. Joseph waste disposal expense. MAWC has made changes to its waste disposal handling which will save the ratepayers certain chemical expenses. However, while the Staff has captured the prospective chemical savings (i.e. not allowed recovery of the historic expenses), it has failed to allow any costs related to the waste disposal improvements. MAWC's position is that it should be allowed to recover either the waste disposal expense or the subject chemical expenses.

(Kartmann, Rebuttal, p. 5).

31. St. Joseph Waste Disposal – What is the appropriate amount of expense to be included in MAWC's cost of service for waste disposal in its St. Joseph District?

MAWC POSITION: This issue is directly linked to the above issue concerning St. Joseph chemical expense. MAWC has made changes to its waste disposal handling which will save the ratepayers certain chemical expenses. However, while the Staff has captured the prospective savings (i.e. not allowed recovery of the historic expenses), it has failed to allow any costs related to the waste disposal improvements. MAWC's position is that it should be allowed to recover either the waste disposal expense or the subject chemical expenses.

(Kartmann, Rebuttal, pp. 2-5).

32. Property Taxes – What is the appropriate amount of expense to be included in MAWC's cost of service for property taxes?

MAWC POSITION: The amount to be included in the revenue requirement for property taxes should be based upon MAWC's utility plant in service (UPIS) as of th end of the true-up period in this case (November 30, 2003). Staff approach of utilizing property taxes based on UPIS as of December 31, 2002. Staff's proposal creates a mismatch of property taxes and plant and fails to provide the Company an opportunity to earn whatever return may be authorized by the Commission.

(Grubb, Rebuttal, pp. 12-16).

33. Cash Working Capital – What is the appropriate amount to be included in MAWC's rate base for cash working capital as it relates to depreciation, deferred taxes and the management fees expense lag?

MAWC POSITION: The Commission should not accept Staff's lag for Management Fees in the Lead/Lag Study because Staff fails to recognize that Management Fees are paid in advance resulting in a positive lag of 42.30 days, rather than the negative 4.13 days computed by the Staff. The Staff's approach also fails to recognize the considerable delay MAWC experiences in the recovery of the depreciation and deferred tax expenses. Accordingly, it is necessary to increase rate base by $5.055 million to correct these adjustments and properly state rate base.

(Grubb, Direct, pp. 32-33; Grubb, Rebuttal, pp. 4-7).

34. Advertising – What is the appropriate expense to be included in MAWC's cost of service for advertising?

MAWC POSITION: MAWC believes that the disputed advertisements are within categorizes of advertisement for which the Commission has historically provided recovery. Additionally, in certain instances, MAWC believes that paid invoices and descriptions of the advertisement should be sufficient evidence to assign the advertisements to the Commission's categories.

(Lehman, Rebuttal, pp. 2-3;

35. Credits and Billing Adjustments – What is the appropriate amount of revenue to be included in MAWC's cost of service for credits and billing adjustments?

MAWC POSITION: The Company believes that the actual test year credits and billing adjustments should be incorporated into its revenue requirement for all classes, with the exception of residential and commercial (which are weather normalized).

(Grubb, Rebuttal, p. 28).

36. Jefferson City Fire Suppression - Are MAWC's Jefferson City fire suppression facilities adequate?

MAWC POSITION: MAWC believes its facilities in Jefferson City are more than sufficient for fire suppression purposes.

(Kartmann, Rebuttal, pp. 5-18).

37. Affiliate Transaction Rule – Should the Commission promulgate an affiliate transaction rule that would apply to MAWC?

MAWC POSITION: MAWC does not believe a rate case is the appropriate forum to promulgate a Commission rule. However, the Company is willing to work with Staff to propose an affiliate transaction rule that will assure that transaction with affiliates are undertaken in a manner such that neither the Company nor its customers are inappropriately advantaged or disadvantaged by such transactions.

(Grubb, Rebuttal, pp. 31-33).

38. Cost Allocation Manual – Should the Commission direct the Company to modify its cost allocation manual, and if so, how?

MAWC POSITION: The Commission should not order the Company to modify the cost allocation manual (CAM) filed with the Commission in this case. MAWC's CAM complies with the Commission's direction in Case No. WR-2000-844 and is effective in providing American Water employees and external parties with a clear understanding of how Service Company expenses are assigned to affiliate companies.

(Grubb, Direct, p. 33; Grubb, Rebuttal, pp. 29-31).

WHEREFORE, MAWC respectfully requests that the Commission consider MAWC's Statements of Position found herein.

Respectfully submitted,

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Certificate of Service

I hereby certify that a true and correct copy of he above and foregoing document was sent by U.S. Mail, postage prepaid, or electronic mail on this 8th day of December, 2003, to the following:

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