

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

In the Matter of Missouri-American Water)	
Company's Request for Authority to Implement)	Case No. WR-2010-0131
A General Rate Increase for Water and Sewer)	SR-2010-0135
Service Provided in Missouri Service Areas.)	

STIPULATION AND AGREEMENT

COME NOW Missouri-American Water Company (MAWC or Company), the Staff of the Missouri Public Service Commission (Staff), the Office of the Public Counsel (Public Counsel), AG Processing Inc. (AGP), Missouri Energy Group (MEG), Public Water Supply District Nos. 1 and 2 of Andrew County (Water Districts), Missouri Industrial Energy Consumers (MIEC), Metropolitan St. Louis Sewer District (MSD), City of St. Joseph (St. Joseph), City of Riverside (Riverside), St. Louis Fire Sprinkler Association (FSA) and Triumph Foods, LLC (Triumph), and respectfully state to the Missouri Public Service Commission (Commission) that, as a result of negotiations, the undersigned parties (Signatories) have reached the stipulations and agreements contained herein.

1. **Issues Settled.** This Stipulation and Agreement is intended to settle among the Signatories for purposes of the above captioned cases all issues previously identified by some or all of the Signatories through testimony and or schedules in both Case No. WR-2010-0131 and Case No. SR-2010-0135.¹ The Signatories recommend

¹ The Comprehensive Planning Study and Business Transformation Costs issues are addressed by the Stipulation and Agreement As to Certain Issues, filed with the Commission on May 14, 2010. If this Stipulation and Agreement is approved by the Commission, the Stipulation and Agreement As to Certain Issues filed on May 14, 2010, is superseded by this Stipulation and is of no effect.

that the Commission accept this Stipulation and Agreement as a fair compromise of their respective positions on all issues.

2. **Parties Not Objecting.** While not Signatories, City of Warrensburg (Warrensburg), City of Jefferson (Jefferson City), Utility Workers Union of America Local 335, AFL-CIO (Local 335) and City of Joplin (Joplin) have affirmatively stated to the Signatories that they have no objection to this Stipulation and Agreement and do not request a hearing concerning the matters resolved by this Stipulation and Agreement.

3. **Rates and Miscellaneous Fees.** The Signatories agree that the rates and miscellaneous fees and charges for each district for service rendered on and after July 1, 2010, or as soon thereafter as is practicable, shall be those shown on **Appendix A** (rates) and **Appendix C** (miscellaneous fees) attached hereto. The attached rates and fees, based on rate case usage parameters, produce an annual increase in revenue of \$28 million. Rates and miscellaneous fees contained in Appendices A and C are exclusive of any applicable license, occupation, franchise, gross receipts taxes or other similar tax or taxes.

4. **Rate Design.** The rates shown on **Appendix A** are designed using the following parameters:

A) Equal percentage increases or decreases in class revenues have been made for all rate elements, for all classes in each district including fire services, but excluding the special contract-controlled rate elements of Triumph Foods and Nestle in St. Joseph, Rates H and G-1 in St. Louis and information services provided to MSD. In addition, current annualized revenues associated with ISRS have been rolled into the

attached base rates (**Appendix A**) before the equal percentage revenue increase is applied.

B) No revenue imputation associated with the Economic Development contracts or the MSD contract has been made.

5. Pension/FAS 87 Tracker Mechanism and OPEB/FAS 106 Tracker

Mechanism. The Company agrees to continue to use the Pensions/FAS 87 and OPEB/FAS 106 “Tracker Mechanisms” as established in the stipulation approved by the Commission in Case No. WR-2007-0216. No Service Company Pension/OPEB costs shall be included in MAWC’s tracker balances in this case. The revenue requirement will include the amortization of the tracker balances at the true-up date (April 30, 2010) amortized over a five year period, with the unamortized tracker balances to be included in rate base as regulatory assets or regulatory liabilities, as appropriate.

The cost of FAS 87 of \$5,323,974 (after application of a payroll expense O&M allocation factor) and the cost of the FAS 106 of \$3,780,869 (after application of a payroll expense O&M allocation factor) will be used as the starting point for a new “vintage” of Pensions/FAS 87 and OPEB/FAS 106 Tracker Mechanisms, respectively, at the time new rates in the current case become effective. The subsequent tracker balances resulting from this case will start to be booked in the month following the true-up date in this rate case and will continue to be booked until the later of the test year ending date, test year update period ending date or the true-up date in the Company’s next rate case. The new tracker balances resulting from this case (Case No. WR-2010-0131) will be amortized over a five year period beginning on the first day of the month following implementation of new rates in the Company’s next rate case. Any

unamortized tracker balances will be included in rate base as a regulatory asset or liability, as appropriate. Nothing in this agreement is intended to impair the ability of any party in the Company's next rate case proceeding to challenge the prudence of the Company's calculated levels of pension and OPEB expenses that it proposes to recover from the tracker mechanisms.

6. **Tank Painting Tracker.** The Signatories agree that MAWC will continue the regulatory asset or liability for tank painting and inspection expense previously established in Case No. WR-2007-0216. The regulatory asset or liability will increase or decrease each year by the same amount that actual tank painting and inspection expense is either greater than or less than \$1,000,000. The tracker will be maintained through the effective date of the rates established in the next general rate proceeding. The method of recovery of any amounts accumulated (under or over) will be determined in the next general rate proceeding.

7. **Revenues.** MAWC agrees to continue to record revenues in the St. Louis Metro District on a monthly basis.

8. **Call Center Records.** MAWC agrees to continue reporting monthly all data it presently reports to the Staff and the Office of the Public Counsel, including all call center performance metrics. In addition, the Company agrees to inform the Staff and the Office of the Public Counsel of all future operational and technological changes that may be utilized by either of its call centers in Alton, Illinois or in Pensacola, Florida such as the implementation of virtual hold technology, the ability to record all calls coming into the centers, enhancements in the call routing process or other significant changes.

9. **Customer Records Information.** MAWC agrees to retain, through each subsequent rate case, monthly customer records information that would provide to the Signatories the number of customers for each customer class and meter size. This information will be made available to any Signatory requesting such information in the context of a rate case. Company will not object to Staff, Public Counsel or any other requesting Signatory retaining such information for use in future rate cases.

10. **Bad Debt/Recovery Tracking.** MAWC agrees to track bad debt write-offs and recoveries separately for each operating district within MAWC.

11. **Infrastructure System Replacement Surcharge (ISRS).** As required by statute and Commission rule, MAWC's current ISRS shall be reset to zero upon the effective date of new rates in this proceeding. The Signatories agree that, for any ISRS filings implemented between the date new rates are established in this proceeding and the effective date of new rates established in the Company's next general rate case proceeding, the overall rate of return shall be computed by utilizing a 10% return on common equity and the Company's actual capital structure as of April 30, 2010. Plant in service additions to be included in a future ISRS may include those additions placed in service after April 30, 2010.

12. **Depreciation.** The Signatories agree that MAWC shall be authorized to begin booking depreciation expense at the depreciation rates attached hereto as **Appendix B** as to all of its operating districts effective upon the date that new customer rates are implemented as a result of this Stipulation. The Company shall keep a separate accounting of its amounts accrued for recovery of its initial investments in plant from the amounts accrued for the cost of removal.

13. **Low Income Rate.** No low income rate shall be implemented at this time. A collaborative group consisting of MAWC, Public Counsel, Staff and any interested Signatory shall be formed to study the need, procedure and options for future implementation of a low income rate. The study will include a survey of low income water rates implemented in other states including other American Water Works Company regulated subsidiaries currently providing service. The collaborative group will make recommendations to the Commission based on its review

14. **City of Riverside.** MAWC, Riverside, Staff and Public Counsel shall form a task force to further investigate the service concerns expressed in Riverside's testimony. If the parties to the task force cannot agree on infrastructure plan provisions by November 1, 2010, then they will bring their unresolved issues to the Commission for adjudication.

15. **Triumph Foods, LLC.** Triumph Foods' commodity charge under its contract with MAWC will be set in accordance with the terms in Highly Confidential (HC) **Appendix D**. Triumph and MAWC agree to execute an agreement incorporating the terms found in Appendix D to be effective July 1, 2010. The executed agreement will be submitted to the Commission for approval.

16. **Consolidation of Tariff.** Rules, Regulations and Conditions of Service shall not be consolidated for MAWC's operating districts in this case. A collaborative group consisting of MAWC, Public Counsel, Staff and any interested party to this case will be established to study the need, procedure and options for future implementation of a consolidated Rules, Regulations and Conditions of Service tariff for MAWC's

operating districts. MAWC will expressly and in good faith identify to the collaborative group and discuss what, if any, changes are being proposed from existing tariff rules on a district by district basis. If the parties to the collaborative group cannot agree on such tariff consolidation by November 1, 2010, then they will bring their unresolved issues to the Commission for adjudication.

17. **Main Extensions.** No tariff changes shall be made at this time in the existing provisions for main extensions or upgrades, including customer refunds, fair share payments and Company participation amounts. A collaborative group consisting of MAWC, Public Counsel, Staff, interested Signatories, governmental agencies, municipalities and industry groups or associations will be established to study existing main extension rules and attempt to develop new, reasonable terms and conditions. If the parties to the collaborative group cannot agree on such tariff provisions by February 1, 2011, then they will bring their unresolved issues to the Commission for adjudication.

18. **Residential Fire Sprinkler Service.** MAWC will implement on an interim basis, new tariff provisions for residential fire sprinkler service. Those interim tariff provisions will be consistent with the provisions of the following specimen tariff sheets: Exh. 129, Weeks Sur., Sched. GAW-5, pages 17, 29, 30 and 31 of 31. MAWC, the FSA, Staff and any interested party to this case agree to work together to develop permanent tariff rules for residential fire sprinkler service. If the parties to the work group cannot agree on such tariff provisions by November 1, 2010, then they will bring their unresolved issues to the Commission for adjudication.

19. **Comprehensive Planning Study/Business Transformation Costs.** MAWC has participated in the development of a Comprehensive Planning Study (the

CPS) to identify the information technology-based needs of the regulated American Water Companies. This study identifies the investments to replace, upgrade, enhance and/or redesign core business processes and systems. As a result of the findings of the CPS, the Company is participating in an initiative to enhance processes and upgrade supporting information technology systems identified through what Company refers to as the Business Transformation Project.

Costs associated with the CPS and the Business Transformation Project shall be accounted for on the books of the Company as construction work in progress (CWIP). In accordance with the National Association of Regulatory Utility Commissioners (NARUC) 1973 Uniform System of Accounts, as revised July 1976, Accounting Instruction No. 3 Subpart (17), the Company shall accrue allowance for funds used during construction (AFUDC) on the related CWIP balances at the Company's monthly calculated AFUDC rate. The Company shall transfer the CWIP balances to Utility Plant in Service when in-service in accordance with the NARUC Uniform System of Accounts and, beginning in the month immediately following transfer, shall record depreciation thereon at the appropriate Commission approved depreciation rate.

Nothing in this agreement shall be considered a finding by the Commission or agreement of the Signatories as to the reasonableness, prudence or future regulatory ratemaking of the expenditures involved.

20. **MSD Contract.** The existing MSD contract rate shall be maintained. There shall be no imputation of revenue associated with this contract for purposes of rate design.

Contingent Waiver of Rights

21. This Stipulation and Agreement is being entered into solely for the purpose of settling the identified issues in the cases that are listed above. Unless otherwise explicitly provided herein, none of the Signatories to this Stipulation and Agreement shall be deemed to have approved or acquiesced in any ratemaking or procedural principle, including, without limitation, any method of cost determination or cost allocation or revenue-related methodology. Other than explicitly provided herein, none of the Signatories shall be prejudiced or bound in any manner by the terms of this Stipulation and Agreement in these or any other proceeding regardless of whether this Stipulation and Agreement is approved.

22. This Stipulation and Agreement has resulted from extensive negotiations among the Signatories and the terms hereof are interdependent. If the Commission does not approve this Stipulation and Agreement unconditionally and without modification, then this Stipulation and Agreement shall be void and no Signatory shall be bound by any of the agreements or provisions hereof, except as explicitly provided herein.

23. If the Commission does not approve this Stipulation and Agreement without condition or modification, and notwithstanding the provision herein that it shall become void; neither this Stipulation and Agreement nor any matters associated with its consideration by the Commission shall be considered or argued to be a waiver of the rights that any Party has for a decision in accordance with §536.080 RSMo 2000 or Article V, Section 18 of the Missouri Constitution, and the Signatories shall retain all procedural and due process rights as fully as though this Stipulation and Agreement

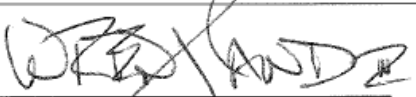
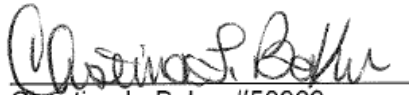

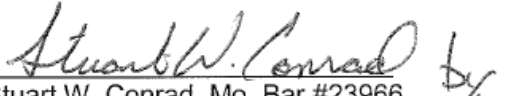
had not been presented for approval, and any suggestions, memoranda, testimony, or exhibits that have been offered or received in support of this Stipulation and Agreement shall become privileged as reflecting the substantive content of settlement discussions and shall be stricken from and not be considered as part of the administrative or evidentiary record before the Commission for any purpose whatsoever.

24. In the event the Commission accepts the specific terms of this Stipulation and Agreement without condition or modification, the Signatories waive their respective rights to present oral argument and written briefs pursuant to §536.080.1 RSMo 2000; their respective rights to the reading of the transcript by the Commission pursuant to RSMo §536.080.2 RSMo 2000; their respective rights to seek rehearing, pursuant to §536.500 RSMo 2000; and their respective rights to judicial review pursuant to §386.510 RSMo 2000. Further, in the event the Commission accepts the specific terms of this Stipulation and Agreement, all prefiled testimony not yet admitted into evidence shall be received into evidence without the necessity of the witnesses taking the stand. The waivers contained in this paragraph apply only to a Commission order approving this Stipulation and Agreement without condition or modification issued in this proceeding and only to the issues that are resolved hereby. It does not apply to any matters raised in any prior or subsequent Commission proceeding nor any matters not explicitly addressed by this Stipulation and Agreement.

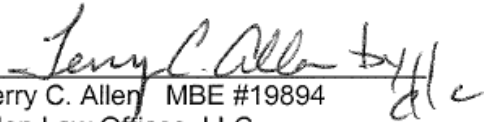
WHEREFORE, for the foregoing reasons, the Signatories respectfully request that the Commission issue its Order approving all of the specific terms and conditions of

this Stipulation and Agreement.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been sent by electronic mail this 24th day of May, 2010, to:

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