

**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.)

MAWC'S STATEMENTS OF POSITION

COMES NOW Missouri-American Water Company (MAWC or Company), and for its Statement of Position, states the following to the Missouri Public Service Commission (Commission) concerning the issues contained in the Joint List of Issues, Order of Witnesses, Order of Cross-Examination and Order of Opening Statement, filed on May 11, 2010:

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I. REVENUE REQUIREMENT

A. Rate of Return Issues

1. Capital Structure: What capital structure, MAWC stand alone or American Water consolidated, should be used for determining MAWC’s rate of return?

MAWC Position: The appropriate capital structure for calculating MAWC’s weighted average cost of capital is its stand-alone capital structure as of April 30, 2010, which represents the actual capital financing its jurisdictional rate base to which the overall rate of return set in this proceeding will be applied. As of April 30, 2010, MAWC’s actual stand-alone capital structure is comprised of 50.40% long-term debt, 0.33% preferred stock and 49.27% common equity.

MAWC’s stand-alone capital structure is reasonable for ratemaking purposes because it is consistent with the capital structure ratios maintained, on average, by other water companies. The Commission should not use American Water’s consolidated capital structure because MAWC is a separate corporate entity that issues its own debt and common stock, and therefore, maintains an independent capital structure.

Rungren Dir., Reb. and Sur., all pages (Mr. Rungren has adopted the Direct and Rebuttal Testimony of Ms. Michi Q. Chao).

2. Long Term Debt Cost: What cost of long term debt should be used for determining MAWC's rate of return?

MAWC Position: The correct cost of long-term debt is determined by dividing MAWC's total annual cost of long-term debt (i.e., annual interest plus debt expense amortization) by the total carrying value of its long-term debt. This methodology results in the correct long-term debt cost of 6.36 percent that when applied to the long-term debt balance in MAWC's capital structure, will enable to meet the contractual obligations it has to its bondholders to pay its actual interest cost.

Rungren Dir., Sch. MQC-1, p. 2 of 5; Sur. pp. 18 – 19.

3. Return on Common Equity: What return on common equity should be used for determining MAWC's rate of return?

MAWC Position: Based upon the common equity cost rates resulting from all four cost of common equity models - the Discounted Cash Flow (DCF), the Risk Premium Model (RPM), the Capital Asset Pricing Model (CAPM) and the Comparable Earnings Model (CEM) - consistent with the Efficient Market Hypothesis, the proper business risk-adjusted return on common equity for MAWC is in the range of 10.51 percent to 12.22 percent with a mid-point of 11.35 percent as of April 30, 2010 as determined by MAWC witness Pauline M. Ahern, CRRA.

Taking into account the cost rates for long-term debt (6.36 percent), preferred stock (9.20 percent) and common equity, the appropriate *pro forma* weighted cost of capital, or fair rate of return, for MAWC on its jurisdictional water utility rate base is 8.83 percent as of April 30, 2010.

Ahern Dir., Reb. and Sur., all pages.

B. Rate Base Issues

4. Cedar Hill Sewage Treatment Plant: Should any portion of the capital costs and depreciation expense costs associated with the capacity expansion project of Cedar Hill Sand Creek sewage treatment facility be disallowed for ratemaking in this proceeding?

MAWC Position: MAWC believes that prudently constructed facilities that are providing service to MAWC's customers should be included in MAWC's rate base such that MAWC is allowed to receive a return on and of (depreciation expense) its investment in that facility.

The Cedar Hill Treatment Plant was prudently planned and constructed, is used and useful and satisfies MAWC's obligation to serve its customers. Staff has previously stated that the Cedar Hill Treatment plant was "prudently undertaken" and "necessary for future growth, which appeared imminent at the time the project was undertaken." (Dunn Sur., p. 3, *quoting* Staff witness Merciel's Surrebuttal Testimony in Case No. WR-2008-0311). Staff further states in this case that it "is not contesting the prudence or timing of the construction of the plant." Staff, however, still suggests that MAWC be denied recovery on almost \$740,000 of MAWC's investment in the treatment plant, district office, storage building and associated items.

In constructing capacity, MAWC is required by the Department of Natural Resources (DNR) to consider both current and committed loads. MAWC's current and committed loads for the Cedar Hill district have already exceeded the capacity of the Cedar Hill Treatment Plant. Accordingly, while an "excess capacity" disallowance associated with the plant is being considered, DNR rules and regulations are pushing

MAWC to begin planning the next expansion. MAWC should be allowed to include the costs of the existing Cedar Hill Treatment plant in rate base.

Dunn Reb., pp. 2-10, Dunn Sur., pp. 1-6; Williams Reb., pp. 33-34..

5. Cash Working Capital: What is the appropriate amount to be included in MAWC's rate base for cash working capital?

MAWC Position: Cash working capital is included in a company's rate base to compensate investors for "upfront" capital that is required in order to fund the daily operations of the business. The timing difference between incurring expenses and the receipt of the revenue will result in either a net (lead) or lag. There is a difference between Company and Staff in this case as to the appropriate calculation of the expense lags for Tax Withholding, Service Company fees, and Cash Vouchers to be used in the Lead/Lag Study. In addition, there is a difference between Company and Staff as to the appropriate calculation of the revenue lag (i.e., the time between provision of service and receipt of revenues from customers) for all Districts. The Company believes its lead/lag study for these items more accurately reflects the actual experience of the Company in the provision of service, payment of expenses and receipt of revenues and, therefore, its study should be adopted by the Commission.

Tierney Dir., pp. 4-5, Tierney Reb., pp. 2-9; Tierney Sur., pp. 2-8.

6. Rate Base for Security AAO Deferral: Should the unamortized balance of deferred Security AAO costs be included in rate base?

MAWC Position: In Commission Case No. WO-2002-273, the Commission authorized MAWC to defer certain costs associated with security measures instituted by MAWC in short order after September 11, 2001. The Company began to amortize the deferred expenses over a ten year period beginning in December of 2002.

The question for Commission decision is whether the unamortized balance should be given rate base treatment. The Commission has stated previously that this is a question that it may address on a case by case basis. This approach was recently upheld by the Missouri Court of Appeals for the Western District in *State ex rel. Aquila, Inc. v. Public Service Commission*, 2010 Mo. App. LEXIS 499 (Mo.App. W.D. 2010).

In this case, the subject expenditures were made for the purpose of protecting MAWC's customers and the assets and the employees that serve them. The costs incurred by MAWC to enhance its security were urgent in nature and were undertaken as a result of an emergency for which MAWC had no responsibility and could not have been foreseen.

The Company was not allowed to begin recovery of the costs until after completion of its next rate case. However, the Company was required to begin amortizing the cost in advance of rate recovery. Without rate base treatment, as would be afforded a plant asset, the Company will have no revenues from which to pay back lenders who provided these funds.

Williams Reb., pp. 40-41; Williams Sur., pp. 2 - 6.

7. Accumulated Deferred Income Taxes Associated with the Security AAO: Should accumulated deferred income taxes associated with the Security AAO be included as an offset to rate base?

8. Does this change if the unamortized balance of the security AAO is not included in rate base?

MAWC Position: If the Commission determines that the unamortized balance of the Security AAO should not be included in rate base, then, at the very least, the accumulated deferred income taxes associated with the Security AAO should also not be included in rate base. The deferred tax liability is otherwise used to reduce the

Company's rate base and essentially provide MAWC's customers with a return on these deferred taxes.

It is neither fair nor reasonable to provide customers with a return on deferred taxes associated with an asset for which MAWC is not allowed to earn a return. This is best exhibited by the fact that the approach taken by the Staff and OPC will result in a *negative rate base* amount for the net Security AAO issue.

Williams Reb., pp. 41- 43; Williams Sur., pp. 6 - 11.

9. OPEB Contribution to External Fund (related to St. Louis County Water Company Amount): Should the regulatory asset associated with the unrecovered St. Louis County Water Company FAS106 transition cost be included in rate base?

MAWC Position: Yes. Both Company and Staff have included in their cases an annual amortization amount of the regulatory asset associated with the deferral of OPEB costs for the St. Joseph and Joplin Districts from July 1, 1994 up through the effective date of the Commission's Report and Order in its Case No. WR-95-205. This deferral resulted from the issuance of Statement No. 106 by the Financial Accounting Standards (FAS) Board converting the accounting for post retirement benefits (OPEBs) from the pay-as-you-go method to the accrual method. This change in method resulted in unrecovered booked expenses that were approved by the Commission for deferral and recovered through a twenty year amortization.

At the same time, the Company also deferred the same type of unrecovered OPEB expenses for the then St. Louis County Water Company and began amortizing that deferral over a twenty year period from the date FAS 106 was first adopted for financial reporting purposes. In Commission Case No. WR-94-166, St. Louis County Water proposed to include the amortization of the deferral over 19.33 years. The case

was settled and the Order issued did not specifically reference the OPEB deferral and amortization.

The amortization of the St. Louis County Water Company asset continues and MAWC believes that recovery of the annual amortization amount (\$44,056) is appropriate. Likewise, rate base treatment of the unamortized deferral of \$117,483 at April 30, 2010, is appropriate. Such treatment has never been disallowed by previous Commission orders and is consistent with the precedent established by the Commission's treatment and approval of the St. Joseph and Joplin deferrals. Exclusion of this item from rate base would result in the Company having to write-off to expense, the deferred amount at the time new rates become effective, which is estimated to be \$99,126.

Williams Reb., pp. 20-21.

10. Comprehensive Planning Study: Should the costs incurred by MAWC as part of its Comprehensive Planning Study be included in rate base?

MAWC Position: It is MAWC's understanding that a stipulation and agreement will be filed concerning the Comprehensive Planning Study and Business Transformation Costs issues.

Young Reb., all pages; Williams Reb., pp. 34-36.

11. Business Transformation Costs: What is the appropriate accounting treatment for costs currently being incurred by MAWC for implementing its Business Systems conversion?

MAWC Position: It is MAWC's understanding that a stipulation and agreement will be filed concerning the Comprehensive Planning Study and Business Transformation Costs issues.

Williams Reb., pp. 34-36.

12. Pension and OPEB Trackers (related to Service Company costs): Should the current MAWC Pension and OPEB Trackers be extended to include the Service Company Pension and OPEB costs?

MAWC Position: Yes. There is currently in place a tracker mechanism to track actual pension and OPEB costs for MAWC employees in comparison to the levels included in rates. This tracking mechanism protects customers and Company from wide variations that can exist in expected costs at the time rates are set from what actually occurs beyond that point in time. Pension and OPEB costs are largely dependent upon market conditions and, especially in recent years, the market has experienced great volatility. This tracker has been very effective and fair in appropriately reflecting actual cost incurred in rates and has avoided large over- and under-recovery of a cost category that fluctuates widely and is hard to estimate. For this reason, the Company has proposed that this tracker mechanism be extended to those pension and OPEB costs that are incurred by the American Water Service Company (Service Company) and passed through in its charges to MAWC. This proposal is appropriate because 1) the type of pension and OPEB costs incurred by the Service Company are exactly the same as those which are subject to the MAWC tracker; 2) like MAWC pension and OPEB costs, those same costs of the Service Company are highly volatile, subject to wide variations and not subject to simple estimation or normalization; and 3) these Service Company costs are known and easily auditable.

Williams Dir., pp. 12-14; Williams Sur., pp. 11-15.

13. Tank Painting Tracker: Should the existing tank painting tracker be continued?

14. Should the balance of the current Tank Painting Tracker be included in rate base?

MAWC Position: Yes. As MAWC explained, tank painting costs from year to year can vary dramatically due to complexity, weather, and timing issues. The seasonal timing of tank painting and variability from year to year of the tanks to be painted makes the tracker a good mechanism to establish average annual expenditures that may not be accurately captured in either a calendar or “test” year.

Further, from a practical standpoint, the existence of the tracker is important as a protection for both the customer and MAWC. It serves as a true-up mechanism to insure that the costs of the tank painting program as they vary from year to year and only the costs of that program, are appropriately recovered. For these reasons, the Tracker should be continued at a level that is commensurate with the annual expense amount included in the Company’s cost of service. In this case, the Company believes an optimal level of tank painting expense and thus, for a tracker, is \$1.6 million. In addition, the balance in the current tank painting tracker, as of April 30, 2010, should be amortized to cost of service as proposed by Staff.

Weeks Reb. pp. 1-5; Sur, pp.1-3; Williams Reb., p. 48

C. Revenue Issues

15. **Customer Water Usage Normalization (Usage per Customer per Day):** What is the appropriate method to use to normalize customer water usage?

MAWC Position: In order to properly calculate the Company’s revenue requirement, it is necessary to identify or calculate a “normal” level of customer usage

for the test period. This normalized amount of usage per customer per day (UCD) is then multiplied by present rates to arrive at a normal level of test year revenues. As it has in past cases, the Company retained the services of Edward Spitznagel, Professor of Mathematics at Washington University, to perform a detailed, statistical analysis of residential and commercial sales for the St. Louis Metro, St. Joseph, Joplin and Jefferson City Districts to arrive at a normalized level of UCD. Professor Spitznagel's analysis showed that for certain customer classes in these districts there was a strong correlation between weather and year, on the one hand, and usage, on the other hand. As a result, the Company used the results of Professor Spitznagel's statistical analysis to develop test year UCD for those customer classes where weather and/or year had an impact on usage. For other customer classes, Company used either actual test year UCD or a three or four year average.

Petry Dir., pp. 9-11, Petry Reb., pp. 1-5, Petry Sur., pp. 1-5; Spitznagel Dir. All, Spitznagel Reb., pp 2-4, Spitznagel Sur., All.

16. Revenue Normalization (Weather): What is the appropriate test year, weather-normalized revenue to be used for purposes of this case?

MAWC Position: As noted above, the Company retained Professor Spitznagel to perform a detailed weather normalization study for the St. Louis Metro, St. Joseph, Joplin and Jefferson City Districts, as these four districts represent over 94% of the total revenues of the Company. For six of the twelve customer classes in these districts, the appropriate weather normalized revenues are those that result from Professor Spitznagel's weather normalization model. Professor Spitznagel uses a multivariate model to predict normalized customer usage. Professor Spitznagel's model takes into consideration soil moisture, as identified by the Palmer Drought Severity Index (PDSI),

which is strongly correlated with customer utilization. Professor Spitznagel's model also found that usage was strongly correlated to the year, as his analysis shows a downward trend in consumption, primarily due to conservation. Professor Spitznagel has been using this model for developing weather normalized sales for the Company since its 2003 rate case. This model appropriately and accurately reflects the fact that variations in temperature and soil moisture, as well as trends in usage, lead to changes in water consumption. For example, more water will generally be used during hotter and drier periods than will be used during cooler and wetter periods. The Company submits that Professor Spitznagel's weather normalization model is statistically sound and therefore superior in predicting normal usage to that of a six year average as used by Staff and MIEC.

Petry Dir., pp. 9-11, Petry Reb., pp. 1-5, Petry Sur., pp. 1-5;
Spitznagel Dir., All, Spitznagel Reb., pp 2-4, Spitznagel Sur., All.

17. Revenue Associated with Economic Development Contracts:

Should an adjustment to revenues be made related to the Contract rates paid by Triumph Foods, LLC and Nestle Purina in St. Joseph pursuant to the Economic Development Rider tariff?

MAWC Position: No. For purposes of this case, the Company included actual, annualized test year revenues it receives from Triumph and Nestle pursuant to the Economic Development Contract rates approved by the Commission. AGP and Public Counsel have proposed an adjustment to impute revenues that would have been received from these customers had they been paying for water service at the Industrial tariff rate. AGP and Public Counsel are proposing that the Company absorb this "hypothetical" revenue, even though there's been no allegation of charging a wrong rate or other improper conduct on the Company's part.

First, there is a question whether the contract rate paid by Triumph is ripe for review. The Company's Economic Development Rider tariff, on file with and approved by the Commission, requires the following:

“. . . that: (1) the Commission's Staff and the Office of Public Counsel have the right to request a Commission review of the continued appropriateness of the alternative rate set forth in the contract after the initial five years of the contract, with the purpose of such review being to determine whether the alternative rate continues to be in the best interest of all customers in the Company's service territory; (2) the Commission, acting on its own volition, may also open an inquiry in this regard; (3) if, upon such review(s), the Commission finds that the contract, as implemented, no longer serves the public interest, it may allow the Company to continue providing service under the contract after adjusting the rate conditions to restore the interest of the Company's other customers in the service territory, or it may direct the Company to terminate the contract; and (4) the results of any review(s) conducted under these provisions shall be implemented in a general rate proceeding.”

Thus, the Contract rate is not reviewable until after the initial five years of the Contract. The Commission found in Case No. WO-2009-0303 that based on Triumph's operational start on January 2, 2006, "Triumph [had] not yet received the five-year benefit contemplated by the contract." Therefore, it appears that the Contract has not been in effect for the full five years. Second, if the Commission determines, after proper review, that the Contract no longer serves the public interest, its only two options are 1) to adjust the Contract rate to Triumph to a level that restores the interest of the Company and other customers, or 2) to direct the Company to terminate the Contract. The remedy is not to impute revenues and punish the Company for charging a rate that has been approved by the Commission.

The fact of the matter, however, is that the Triumph and Nestle Contracts are in the public interest. The Contract rates are in excess of the Company's variable cost of producing water. Accordingly, as long as Triumph and Nestle pay rates which exceed

the Company's variable cost to produce water, there is a revenue contribution to the Company's fixed cost of providing service in the St. Joseph District. Stated another way, if the Company did not provide service to Triumph and Nestle under the existing Economic Development Contract rate, all other things being equal, the cost of service, and therefore the rates, to all of the other customers would increase.

Williams Reb., pp. 43-45, Williams Sur., pp. 25-26;
Herbert Reb., pp. 14-15, Herbert Sur., p. 5

18. MSD Contract Revenue: What is the appropriate amount of compensation MAWC should receive for the billing data provided by MAWC to MSD?

MAWC Position: Company is proposing no change in the existing tariff rate to be paid by the St. Louis Metropolitan Sewer District (MSD) for certain billing and usage data which MSD needs to bill its customers for sewer service. The existing rate is the product of a Stipulation entered into between MAWC and MSD and approved by the Commission in Case No. WR-2007-0216. The resulting contract was later approved by the Commission in Case No. WO-2008-0240.

As a result, MSD is currently paying a rate that is significantly above the incremental cost of providing this billing and usage data, although not as much as its fully allocated costs. Public Counsel is proposing to increase the rate closer to the fully allocated cost and impute additional revenues that would result from such an increase. The Company is opposed to any change in the existing tariff rate as it is well above incremental cost and is a reasonable compromise, given the fact that MSD has argued that it is entitled to this information at no cost pursuant to Section 249.645, RSMo..
Williams Reb., pp. 46-48.

D. Expense Issues

19. Amortization of OPEB Assets (related to St. Louis County Water Company and Service Company): What is the appropriate level of expense to be included in MAWC's cost of service for recovery of the regulatory asset created for OPEBs associated with the Service Company and the former St. Louis County Water Company?

MAWC Position: MAWC and Staff agree that the current asset balance related to the deferral of OPEB costs for the St. Joseph and Joplin Districts be included in the cost of service. In addition, the Company proposes to include the amortization of the deferral of the OPEB costs associated with the Service Company and the former St. Louis County Water Company. This is the "expense side" of the rate base issue identified above as "OPEB Contribution to External Fund (Related to St. Louis County Water Company Amount). The rationale for including the amortization of these OPEBs is consistent with the Commission's decision in its Case No. WR-95-205.

Williams Reb., pp. 20 – 21.

20. Tank Painting Expense: What is the appropriate level of tank painting expense to be included in MAWC's cost of service?

MAWC Position: The MAWC proposes to include in its cost of service an annual tank painting expense of \$1,600,000. As explained in its testimony, the Company has conducted an analysis of its tank coating life expectancies and repainting costs. Based on this analysis, the MAWC determined this is the optimal value at which to set an annual tank painting expense level, i.e., that value that supports an average tank painting frequency that matches the average life expectancy of a tank's paint coating. As further support for this level of tank painting expense, MAWC incurred tank painting expense in 2009 of \$1,587,474, and is under contract to spend \$1,600,000 in 2010.

Williams Reb. pp. 7-11; Weeks Sur., pp. 1-3.

21. Fuel & Power Expense (related to Ameren Rate Increase): Should the test year fuel and power expense be adjusted to reflect any increase to be authorized AmerenUE in its current rate case?

MAWC Position: This issue concerns whether MAWC's fuel & power expense should be adjusted for any increase in rates that AmerenUE may receive in Commission Case No. ER-2010-0036. MAWC understands this to be a true-up issue and will address it at that time.

22. Rate Case Expense: What is the appropriate level of rate case expense to be included in MAWC's cost of service?

23. Should rate case expense be normalized or amortized and should prior rate case expense be recovered in this rate case?

MAWC Position: The Commission has previously found that a regulated utility is "entitled to recover its reasonable and prudently incurred cost of presenting this rate case to the Commission. Such costs are routinely accepted as a cost of doing business for which the company will be allowed to recover its costs in rates" *Missouri Gas Energy*, 12 Mo. PSC 3d 581, 623 (September 21, 2004). "Disallowing prudently incurred rate case expense can be viewed as violating the company's procedural rights." *In re St. Joseph Light & Power Company*, 2 Mo.P.S.C.3d 248, 260 (1993); *See also In re St. Joseph Light & Power Company*, 3 Mo.P.S.C.3d 207, 214 (1994).

In order to achieve this result, MAWC's expenses associated with this case should be amortized over a three year period. Rate case expenses are easily measured and do not require estimation. Further, it is difficult to predict the cost to develop, prepare and present a rate case. Those costs may differ depending upon

whether a settlement is reached or a hearing is held. Moreover, there is always uncertainty as to what issues may be raised by the parties. For this reason, rate case expense is appropriate for amortization rather than normalization.

The use of the proposed three year “normalization” period would deny MAWC recovery of a portion of its expenses from this case, as well as past cases. Use of a three year normalization will essentially result in a planned disallowance of MAWC’s reasonable and prudent rate case expenses.

Williams Reb., pp. 26-33; Williams Sur., pp. 16 - 21.

24. Depreciation Expense: What are the appropriate depreciation rates and resulting depreciation expense to be authorized in this case?

MAWC Position: For purposes of this case, MAWC retained the services of John J. Spanos, Vice President of the Valuation and Rate Division of Gannett Fleming to perform a depreciation study the Company’s depreciable accounts. Mr. Spanos’ study (which is attached to his direct testimony) contains detailed calculations, graphs and tables relating to the service lives and net salvage studies of all accounts. The Company is proposing to implement new depreciation rates in accordance with the results of Mr. Spanos’ study and further proposes to adjust its test year depreciation expense by applying those rates to the various plant accounts as of April 30, 2010. The differences between Mr. Spanos’ recommended depreciation rates and those recommended by Staff in this proceeding center on the use of life spans for major facilities, the use of the remaining life method of depreciation, and utilization of general plant amortization. The primary difference between Company’s and Staff’s annual depreciation expense levels is due to the life span approach and the remaining life

method of calculating depreciation. Company submits that Mr. Spanos' study and resulting rates are the most appropriate to use for purposes of this case.

Spanos Dir., all, Spanos Reb., all, Spanos Sur., all.

25. Bad Debt Expense: What is the appropriate level of bad debt expense to be included in MAWC's cost of service?

MAWC Position: Both Staff and Company have included in their cases an allowance for bad debt expense. However, Company proposes to further adjust bad debt expense to include the bad debts attributable to the additional revenues that will result from a rate increase in this case. Company believes there is a direct relationship between revenues and bad debt expense. In other words, as revenues increase, bad debt expense increases as well. Therefore, by applying the bad debt ratio to proforma or anticipated revenues resulting from this case, the bad debt expense amount that is reflected in rates will more accurately reflect the actual bad debt expense to be incurred during the time rates set in this case will be in effect.

Petry Reb., pp. 6-7, Sur., pp. 5-8.

II. ADEQUACY OF SERVICE AND OTHER ISSUES

26. Main Extensions: (A) Are the existing tariff provisions and company policies appropriate for customer charges, contributions and refunds for main extensions?

MAWC Position: Yes. Existing tariff provisions regarding customer charges, contributions and refunds for main extensions have been on file with and approved by the Commission for many years. Those tariff provisions and policies are therefore lawful and reasonable. Moreover, existing rules regarding customer contributed main extensions are consistent with those of other water and sewer providers, including those

operated by municipalities and water districts. Prior to the filing of this case, MAWC was unaware of any complaints regarding these existing tariff provisions.

Weeks Dir., p. 17; Dunn Reb., pp. 21-26, Dunn Sur., pp. 6-7.

27. (B) Are the existing tariff provisions and company policies appropriate for developer charges, contributions and refunds for main extensions?

MAWC Position: Yes. Existing tariff provisions regarding developer charges, contributions and refunds for main extensions have been on file with and approved by the Commission for many years. Those tariff provisions and policies are therefore lawful and reasonable. Moreover, existing rules regarding developer contributed main extensions are consistent with those of other water and sewer providers, including those operated by municipalities and water districts. Prior to the filing of this case, MAWC was unaware of any complaints regarding these existing tariff provisions.

Weeks Dir., p. 17; Dunn Reb., pp. 21-26, Dunn Sur., pp. 6-7.

28. (C) How should the construction of main extensions beyond that necessary for service in a new development or projects be apportioned?

MAWC Position: As part of its filing in this case, the Company has proposed to consolidate and unify its rules regarding extension of mains. The existing main extension tariffs require developers to bear the entire cost of extending mains of the size and configuration needed to serve their new developments or projects. Any upsizing of mains beyond the requirements of the development are paid for by the Company. The proposed consolidated tariff does not change that requirement.

The new tariff provisions do allow for a “developer lay” option. This allows the developer to use his own contractor to install the pipe, subject to MAWC’s specifications and inspection.

The Company is also proposing to eliminate customer refunds and “fair share” payments that currently exist in several of its districts. MAWC believes that the capital required by current infrastructure replacement requirements are a higher priority for the existing customer base to support in their rates and for the limited funds that MAWC has for its capital budget than are main extensions, which primarily benefit developers, and future customers.

Weeks Dir., p. 17; Dunn Reb., pp. 21-26, Dunn Sur., pp. 6-7.

29. Residential Fire Sprinkler Service: Are the current tariff provisions and company policies appropriate for adequate residential fire sprinkler service?

MAWC Position: MAWC’s current tariff provisions do not differentiate between residential and commercial fire sprinkler service. In its proposed consolidated tariff, Company has included new provisions to address residential fire sprinkler service that it believes are appropriate. As a result of discussions with the Fire Sprinkler Association and Staff, the Company has proposed additional revisions to these new tariff provisions. In addition, the Company is willing to continue to work with the Fire Sprinkler Association, Staff and other interested parties to attempt to reach consensus agreement on appropriate tariff provisions for residential fire sprinkler service.

Weeks Dir., p. 18, Weeks Reb., pp. 12-14, Weeks, Sur., pp. 4-5.

30. Sufficiency of Fire flow, related infrastructure maintenance, improvements and quality of service (Riverside issues): (A) Is the water service provided by MAWC in the Riverside District safe and adequate?

MAWC Position: Yes. The water service provided by MAWC in the City of Riverside is safe and adequate and meets all state and federal quality of service requirements.

Further, the existing mains provide the fire flows for which they are designed. Replacing mains that are not displaying other service issues solely for the purpose of increasing fire flows would increase the rate base upon which rates are set and potentially result in premature retirement of mains that are still capable of providing the service for which they were designed.

Dunn Reb., pp. 11 - 21; Dunn Sur., pp. 7 – 10.

31. (B) How should contributions made by the City of Riverside to MAWC for water system improvements/expansion be treated for ratemaking purposes?

MAWC Position: Contributions made by Riverside will be recorded as contribution in aid of construction (CIAC). CIAC acts as an offset to the plant placed in service such that MAWC will receive neither a return of, nor a return on, the value of the associate plant, up to the amount of the contribution.

Dunn Reb., p. 21.

32. Metering of certain large volume customers in St. Joseph District: Should MAWC be required to install and maintain additional metering for the five large, industrial customers and the Water Districts in its St. Joseph District?

33. If so, how should the additional costs associated with installing and reading such meters, as well as analyzing the data from such meters, be recovered?

MAWC Position: MAWC is not opposed to installing special meters for large volume customers in its St. Joseph District. However, MAWC questions whether the additional information to be derived from such metering will result in significantly better

indications of cost responsibilities for customer classes in the St. Joseph District. The additional metering will result in additional capital costs to purchase and install the meters, as well as additional administrative costs in obtaining, reviewing and analyzing the data from the new meters. These costs should be included in MAWC's cost of providing service to the St. Joseph District and fully recovered in rates.

Weeks Reb., p. 11; Herbert Sur., pp. 2-3.

III. RATE DESIGN/COST OF SERVICE/OTHER ISSUES

34. Class Cost of Service Studies: What is the appropriate basis upon which to allocate costs within a district to each customer class?

MAWC Position: The Company retained the services of Paul Herbert, President of the Valuation and Rate Division of Gannett Fleming, Inc., to perform a class cost of service (CCOS) study for this case. The purpose of the CCOS study is to allocate the district specific cost of service to each of the customer classes in those operating districts. In Mr. Herbert's CCOS study, the district specific costs were allocated to the residential, commercial, industrial, other public authorities, sales for resale, private fire protection and public fire protection customer classes in accordance with the Base-Extra Capacity Method, as described in the 2000 and prior Water Rates Manuals published by the American Water Works Association (AWWA). The Base-Extra Capacity Method is a recognized method for allocating the costs of providing water service to customer classifications in proportion to the customer classifications' use of the commodity, facilities and services. It is generally accepted as a sound method for allocating the cost of water service and has been used by the Company in previous cases. Mr. Herbert's CCOS Study results in indications of the relative cost

responsibilities of each class of customers in each operating district. The allocated cost of service is one of several criteria appropriate for consideration in designing customer rates to produce the required revenues. Other criteria to consider in designing rates include the impact of changes from the present rate structure, the understandability and ease of application of the rate structure, community and social influences and the value of service.

Herbert Dir, All, Herbert Sup. Dir., All, Herbert, All, Herbert Sur., pp. 1-3.

35. (A) Should there be a small mains adjustment?

MAWC Position: Yes. Mr. Herbert, in performing his CCOS Study, modified the allocation of costs associated with distribution mains to exclude consumption for certain large customers connected primarily to large mains (commonly referred to as transmission mains). Mr. Herbert made this “small mains adjustment” in the Joplin, St. Joseph and the St. Louis Metro Districts to reflect the fact that many of the large users in those districts are served primarily from large transmission mains (generally larger than ten inch) and, thus, do not benefit from the smaller mains in the distribution system. In larger systems, large users (such as industrial and sales for resale customers) are located on transmission mains and take water from those mains before it reaches the distribution system. Mr. Herbert’s study recognizes this fact and excludes certain large users from the allocation of costs associated with small mains.

Conversely, by not employing a small mains adjustment, higher costs will be allocated to industrial and sales for resale customers in these districts. This will unfairly allocate costs to these large customers, will have an adverse impact on industry in these districts and will make it more difficult for the Company to meet competitive pressures.

Herbert Dir., pp. 9-10; Herbert Reb., pp. 5-7.

36. (B) What is the appropriate basis upon which to allocate purchase power expense?

MAWC Position: For purposes of his CCOS Study, Mr. Herbert allocates the demand charge portion of the Company's electric bills (i.e., purchase power expense) on his factor No. 1, which is based on average daily sales. MIEC witness Michael Gorman suggests that the demand charge portion of the Company's electric bills be allocated on an extra capacity basis using factor No. 6. The result of MIEC's proposal would be to allocate less purchase power costs to the Rate J (i.e., Industrial) customers and more to the remaining classes of customers in the St. Louis County Metro District. While Company agrees with the concept of this proposal, it does not agree to the extent proposed by MIEC. Mr. Herbert analyzed a sample of the Company's power bills in the St. Louis District and determined that the bills include a monthly demand charge regardless of the level of service. Therefore, Mr. Herbert would support a refinement to his cost allocation that would allocate 6% of purchase power costs to the extra capacity function. However, this refinement results in a very minor revision. For example, the result of allocating 6% of the power costs, on an extra capacity basis, reduces the industrial class cost of service by \$19,857, or about 0.28% of the total Rate J costs. Herbert Dir., p. 5, Herbert Reb., pp. 2-3.

37. (C) What is the appropriate basis upon which to allocate corporate costs?

MAWC Position: Company has allocated corporate costs, which are similar to administrative and general costs, based on the allocation of all other O&M expenses

excluding power and chemicals. This allocation method is consistent with the American Water Works Association Rates Manual.

Herbert Reb., p. 15.

38. (D) What is the appropriate basis upon which to allocate administrative and general (A&G) costs?

MAWC Position: The Company has allocated its administrative and general costs based on the allocation of all other O&M expenses, excluding power and chemicals. This method is consistent with the American Water Works Association Rates Manual.

Herbert Reb, p. 15.

39. (E) What is the appropriate basis upon which to allocate revenues and/or costs associated with the Economic Development Rider Contract Customers?

MAWC Position: In Mr. Herbert's CCOS Study, he excluded the volumes associated with the Contract sales and deducted the Contract sales revenue from the cost of service from all customer classes in proportion to the result of each classes' cost of service. (Contract customers include Triumph and Nestle in the St. Joseph District and the Rate G and H customers in the St. Louis Metro District). This adjustment recognizes that contract customers have been retained on the system to the benefit of the remaining tariff customers and should offset the cost of service in proportion to each customer classes' cost of service.

Herbert Reb., pp. 8-9.

40. Inter-District Support or Revenue Contribution: Should any district provide a revenue support or a subsidy so that another district may be provided service that is priced below that district's cost of service?

41. If so, which district(s) should receive support and which district should be required to provide that support?

MAWC Position: Not only may one district provide support to another district but, given the facts in this case, it is clearly appropriate to do so. An inter-district revenue contribution in the setting of rates is appropriate as it addresses a number of goals including: 1) avoiding rate shock; 2) promoting gradualism toward cost-based rates; 3) promoting fairness; and 4) avoiding the impact of a drastic change in the existing rate structure. In the current case, the Company's revenue contribution proposal attempts to avoid rate shock and to gradually move towards cost-based rates for four (4) districts. Specifically, the Company is proposing a revenue contribution for the Brunswick, Parkville Water, Cedar Hill Sewer, Warren County Water and Warren County Sewer Districts. The Company's proposal for this revenue contribution was based on its belief that the smaller districts should receive a revenue contribution if their percentage rate increase, on a purely district specific basis, was significantly above the overall percentage rate increase for the Company. For example, if the revenue contribution is not permitted, then the increases for those four districts would be 161% (Brunswick), 34% (Parkville Water), 190% (Cedar Hill Sewer), 63% (Warren County Water) and 475% (Warren County Sewer), based on Company's filed case. The Company's proposed revenue contribution would limit the percent increases for these four districts to approximately 26%.

The Company proposes that this revenue contribution come from the St. Louis Metro District, as that is the largest district and the impact of such revenue contribution on that district would be minimal.

Williams Dir., p. 22; Williams Sur., pp. 26-27.

42. Phase-In: (A) Is a phase-in of rates appropriate or lawful?

MAWC Position: No. A phase-in of rates is neither lawful nor appropriate.

First, there is no statutory authority for the Commission to mandate the phase-in of a rate increase without the agreement of the water utility. The only express authority which allows the Commission to authorize a rate increase which is less than the full amount of a utility's revenue deficiency is found in Section 393.155 RSMo, which only applies to electrical corporations. Thus, there is no express statutory authority for the Commission to phase-in rates for a water utility, such as MAWC.

In addition, the phase-in of rates is neither appropriate nor necessary. The only party that has proposed a phase-in in this case is Public Counsel for the Brunswick and Warren County Districts. However, Public Counsel's phase-in plan is lacking in substance and is flawed. More importantly, even with no carrying costs and assuming no intervening rate cases, the rates paid by Brunswick and Warren County customers under Public Counsel's phase-in plan will increase by 95% and 65%, respectively, over the next three years. The Company believes that, at least for the foreseeable future, inter-district revenue contributions are a better solution.

Williams Sur., pp. 27-30.

43. (B) Which, if any, districts should have their rate increase phased in?

MAWC Position: As indicated in Section (A) above, a mandatory phase-in is neither lawful nor appropriate.

44. (C) How should any carrying cost associated with a phase-in deferral be recovered and from whom?

MAWC Position: While Company continues to believe a mandatory phase-in is neither lawful nor appropriate, if it were to agree to a phase-in, a provision for recovering in future rates the carrying costs associated with a deferral of rate recovery is a necessary component.

Williams Sur., p. 30.

Rates

45. Commodity Charge: (A) Should the commodity charge be set as a declining block rate or should the commodity charge be uniform for all levels of usage?

MAWC Position: The Company is proposing for the seven districts, other than St. Louis Metro and Parkville, a one-block, uniform commodity rate for all residential customers and declining block rates for non-residential classes of customers. Declining block rates allow for larger customers, who generally experience better load factors, to pay a lower tail block rate to reflect the lower cost to serve them. The basic idea behind a declining block rate structure is that large customers will pay for all the extra capacity costs in the initial blocks of consumption which allows for the payment of the lower, base costs in the tail block. This is an appropriate rate design and justified from a cost standpoint because larger customers, with more favorable load factors, will pay less per unit as their volumes increase.

Herbert Dir., pp. 13-14; Herbert Reb., pp. 13-14; Herbert Sur., p. 3.

46. (B) Should commodity rates be uniform across all classes in a district?

MAWC Position: No. While the Company has proposed a single block for the residential class, it does not believe that a single or uniform block is appropriate for other classes of service as discussed in Issue Ai) above.

Herbert Dir., pp. 13-14, Herbert Reb., pp. 13-14.

Customer Charge

47. (A) What is the appropriate way to establish the customer charge?

MAWC Position: An appropriate customer charge is one that recovers the “fixed” cost of providing service, before any commodity (i.e., water) is provided. In Mr. Herbert’s CCOS Study, he allocates the costs related to meters, services and customer billing and collecting (which also includes meter reading) to the customer charge.

These costs are then divided by the number of meters or service equivalents or the number of customers and then divided by twelve (12) to determine the monthly customer charge for a 5/8 inch meter. This is consistent with the AWWA Rates Manual. Herbert Dir., pp. 12-13; Herbert Reb., pp. 10-13, Herbert Sur., p. 4.

48. (B) Should the customer charge be uniform across the districts?

MAWC Position: Yes. The Company has proposed a uniform \$15 per month customer charge for 5/8 inch meters in all districts except for St. Louis Metro District. In the St. Louis Metro District, the Company has proposed a \$11.40 per month and \$16.70 per quarter customer charge. Uniform customer charges are supported from a cost and administrative standpoint. Uniform customer charges make sense because all customers have a service line and meter. All customers have their meter read each month (except for St. Louis County quarterly billed customers) and are billed from a

common billing center. Furthermore, common customer charges are easier to administer and explain to customers.

Herbert Dir., pp. 12-13; Herbert Reb., pp. 11-13; Herbert Sur., p. 4.

49. How should any rate increases or decreases resulting from this case be spread or allocated?

MAWC Position: Any rate increases or decreases resulting from this case should be spread or allocated in a manner that is consistent with the Company's proposed rate design. The Company's proposed rate design is cost based and reflects the proper allocation of costs as presented in its Class Cost of Service Study. The Company's cost study appropriately uses a uniform set of customer charges for all districts (other than the St. Louis Metro District). It includes a single block, volumetric rate for residential customers and a declining block rate structure for non-residential customers. Finally, the Company's proposed rate design maintains the basic rate structure for the St. Louis Metro District which has been in existence for many years.

Herbert Dir, pp. 11-15, Herbert Reb, pp. 11-18, Herbert Sur., pp. 3-4.

50. Low Income Provision: Should MAWC be authorized to include a low income provision in its tariffs?

MAWC Position: MAWC proposed a low-income provision in its tariffs in recognition of the plight of certain of low-income customers for whom affordability of this essential resource was a financial burden. Subsequent to its filing, the Commission has, in other utility rate cases, expressed an interest in exploring this important issue.

It is the Company's recommendation that the proposed low-income tariff be instituted, even on a trial basis, if necessary. If, however, the Commission

believes that such a program is premature, the Company stands ready and willing to discuss with other parties implementation criteria and standards for this or other similar programs that may be recommended. In the meantime, the Company intends to continue pursuit of its H2O assistance program that has been in place for a number of years.

Williams Sur. pp. 23-25; Herbert Dir., p. 13.

51. MSD Rate: What is the appropriate rate to charge MSD for customer usage information?

MAWC Position: See MAWC's position provided above in response to the "MSD Contract Revenue" issue.

52. Consolidated Tariff: (A) Should existing tariff rules and regulations be consolidated into one tariff?

MAWC Position: Yes. The Company proposes to establish, to the greatest extent possible, one set of rules and regulations that would be applicable to all of its water operations throughout the State. Currently, MAWC operates under a number of separate (and in some cases different) tariff rules depending on the district served. This situation resulted from the fact that as MAWC acquired various properties in Missouri, it also acquired or adopted the legacy tariffs of the company that it was acquiring. This consolidation of rules will improve efficiencies and allow all of the Company's water operations to work under the same guidelines. This consolidation will also improve the Company's effectiveness in handling customer issues, improve customer service, and provide consistency for customers between districts and with regulators. The Company is not proposing to consolidate the various rate schedules that apply to each of its

districts nor is it proposing at this time to consolidate its sewer tariffs for the three districts where it currently provides sewer service.

Weeks Dir., pp. 15-18, Weeks Reb, pp. 8-11, Weeks Sur., pp. 3-5.

53. (B) Miscellaneous fees.

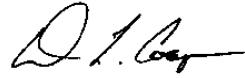
MAWC Position: As part of its efforts to consolidate rules for all districts, the Company proposed to update and unify its fees for miscellaneous activity charges such as connection fees, meter testing fees, etc. Although the cost of performing these activities were evaluated on a district-by-district basis, the Company found that the district specific costs were relatively similar, so it is proposing to establish the same fees for these activities regardless of district. Again, consistency among these charges will improve the Company's effectiveness in handling customer issues, improve customer service, and provide consistency for customers between districts and with regulators. Public Counsel has proposed, as an alternative, the establishment of one set of miscellaneous fees for the St. Louis Metro and Warren County districts and a separate set of miscellaneous fees for all other districts. The Company is not opposed to this proposal as it would address many of the goals that the Company is trying to address through its proposed consolidation of miscellaneous fees.

Weeks Dir., p. 19, Weeks Reb, pp. 9-10, Weeks Sur., pp. 5-6.

WHEREFORE, MAWC respectfully requests that the Commission consider these

statements of position.

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 13th day of May, 2010, to:

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