

Adjustment for Labor
For the Test Year Ended December 31, 2010

Missouri-American Water Company
Case No. WR-2011-XXXX and Case No. SR-2011-XXXX

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Line #

1		
2	Calculation of Pro forma Adjustment for Labor	
3		
4		
5		Total
6	Pro forma amount	\$ 27,076,952
7		
8	Per books amount	\$ 27,397,930
9		
10	Pro forma adjustment	<u>\$ (320,978)</u>

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Narrative Discussion of Proposed Adjustment for Labor

The Company has calculated its pro forma labor expense by using the December 31, 2010 employee levels plus planned additions through December 2011. Overtime labor was based on the three year average of overtime hours by job classification. Overtime wage was calculated by taking the average wage that would be in effect by December 2011 by job classification. Labor rates used for union personnel reflect those rates that will be in effect by December 2011 based on contractual agreements. Labor rates for non union personnel are based on projected rates that will be in effect on December 2011. Gross labor dollars were allocated to O&M expense based on the difference between the historical three year average of capital charged by district and total labor from 2008-2010.

Responsible: Tierney

**Adjustment for Group Insurance Expenses
For the Test Year Ended December 31, 2010**

**Missouri-American Water Company
Case No. WR-2011-XXXX and Case No. SR-2011-XXXX**

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Line #

1
2 **Calculation of pro forma Adjustment for Group Insurance Expenses**

	<u>Total</u>
5 Pro forma amount	\$ 7,439,342
7 Per books amount	\$ 8,216,821
9 Pro forma adjustment	<u><u>\$ (777,479)</u></u>

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14 **Narrative Discussion of Proposed Adjustment for Group Insurance Expenses**

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The Company has calculated its pro forma Group Insurance expense based on expected changes in employee levels by December 2011, benefit levels and rates in effect January 1, 2011. The pro forma corporate employee cost is allocated to each district (operation) by number of employees. OPEB cost was based on the latest actuarial information provided by the Company actuary and the payment of \$500 into a VEBA fund for union employees not eligible for post-retirement benefits.

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Responsible: Tierney

**Adjustment for Pension Expense
For the Test Year Ended December 31, 2010**

**Missouri-American Water Company
Case No. WR-2011-XXXX and Case No. SR-2011-XXXX**

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1			
2	Calculation of pro forma Adjustment for Pension Expense		
3			
4		<u>Total</u>	
5	Pro forma amount	\$	4,359,101
6			
7	Per books amount	\$	4,252,253
8			
9	Pro forma adjustment	<u>\$</u>	<u>106,849</u>

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Narrative Discussion of Proposed Adjustment for Pension Expense

The Company has calculated its pro forma pension expense based on the current actuarial report. The pro forma level also includes the defined contribution plan of 5.25% of base salary for employees hired on or after 1/1/06.

Responsible: Tierney

**Adjustment to 401K Expense
For the Test Year Ended December 31, 2010**

**Missouri-American Water Company
Case No. WR-2011-XXXX and Case No. SR-2011-XXXX**

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Line #

1		
2	Calculation of pro forma Adjustment to 401K Expense	
3		
4		<u>Total</u>
5	Pro forma amount	\$ 562,867
6		
7	Per books amount	\$ 602,065
8		
9	Pro forma adjustment	<u>\$ (39,198)</u>

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Narrative Discussion of Proposed Adjustment to 401K Expense

The Company has calculated its pro forma 401k expense based on changes in employee levels expected to occur by December 2011. Pro forma wages are multiplied by the employees company match percent to determine the 401K Pro forma expense.

Responsible: Tierney

**Adjustment for Payroll Tax Expense
For the Test Year Ended December 31, 2010**

**Missouri-American Water Company
Case No. WR-2011-XXXX and Case No. SR-2011-XXXX**

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Line #

1			
2	Calculation of pro forma Adjustment for Payroll Tax Expense		
3			
4		<u>Total</u>	
5	Pro forma amount	\$	2,149,013
6			
7	Per books amount	\$	2,223,559
8			
9	Pro forma adjustment	<u>\$</u>	<u>(74,546)</u>

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Narrative Discussion of Proposed Adjustment for Payroll Tax Expense

The Company has calculated its pro forma payroll tax expense based on the changes in labor as of December 2011 and applying current payroll tax rates.

**Adjustment of Fuel & Power Expense
For the Test Year Ended December 31, 2010**

**Missouri-American Water Company
Case No. WR-2011-XXXX and Case No. SR-2011-XXXX**

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Line #

1		
2	Calculation of pro forma Adjustment of Fuel & Power Expense	
3		
4		Total
5	Pro forma amount	\$ 11,518,391
6		
7	Per books amount	\$ 9,907,147
8		
9	Pro forma adjustment	<u>\$ 1,611,244</u>
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Narrative Discussion of Proposed Adjustment of Fuel & Power Expense

The Company purchases fuel & electricity for operations from several utility suppliers. The pro forma adjustment was calculated based upon five suppliers. AmerenUE, The Empire District Electric Company, Missouri Gas Energy, Laclede Gas and Kansas City Power and Light, which have changed or will be changing rates. AmerenUE rates increased 11% effective June 22, 2010 and 3% on October 1, 2010 for a fuel adjustment clause. Empire District rates increased 13.40% effective September 10, 2010 and for fuel adjustment clauses in June 2010 (2.5%) and December 2010 (1%). Missouri Gas Energy rates increase 2.5% in March 2010 and also in July 2010 (12.5% - cost of gas) and November 2010(-3% - cost of gas). Laclede Gas rates increase 4% on September 1, 2010. Kansas City Power & Light rates are expected to increase by 14% June 2011. AmerenUE rates are expected to increase 11% by August 2011. Empire rates are expected to increase by 9.2% during the summer of 2011.

Responsible: Tierney

**Adjustment of Chemical Expense
For the Test Year Ended December 31, 2010**

**Missouri-American Water Company
Case No. WR-2011-XXXX and Case No. SR-2011-XXXX**

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Line #

1		
2	Calculation of pro forma Adjustment of Chemical Expense	
3		
4		<u>Total</u>
5	Pro forma amount	\$ 11,143,738
6		
7	Per books amount	\$ 10,226,623
8		
9	Pro forma adjustment	<u><u>\$ 917,115</u></u>

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Narrative Discussion of Proposed Adjustment of Chemical Expense

The adjustment was calculated by taking the historical chemical usage and dividing that by the historical system delivery. This resulted in units per thousand gallons. The Company then applied the units per thousand gallons to the pro forma system delivery which produces the pro forma chemical units. Once, this was complete the Company utilized the latest known chemical prices and applied them to the pro forma chemical units to arrive at the pro forma chemical expense. If a historical chemical usage was not available the Company used the test year units per thousand gallons.

Responsible: Thakadiyil

**Adjustment of Purchased Water Expense
For the Test Year Ended December 31, 2010**

**Missouri-American Water Company
Case No. WR-2011-XXXX and Case No. SR-2011-XXXX**

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Line #

1
2 **Calculation of pro forma Adjustment of Purchased Water Expense**

	<u>Total</u>
5 Pro forma amount	\$ 625,427
7 Per books amount	\$ 566,097
9 Pro forma adjustment	<u><u>\$ 59,330</u></u>

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Narrative Discussion of Proposed Adjustment of Purchased Water Expense

The Company purchases water primarily from the City of St Louis and the City of Kansas City. The water purchased from the City of St Louis is delivered to St Louis and St Charles customers, and the City of Kansas City water is delivered to Platte County customers. A pro forma adjustment was made to account for the change in test year system delivery and pro forma system delivery. An additional adjustment was made for the increase in the contracted volumetric rates from Kansas City and the City of St. Louis.

Responsible: Tierney

**Adjustment of Waste Disposal Expense
For the Test Year Ended December 31, 2010**

**Missouri-American Water Company
Case No. WR-2011-XXXX and Case No. SR-2011-XXXX**

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Line #

1
2 **Calculation of pro forma Adjustment of Waste Disposal Expense**

	<u>Total</u>
4	
5 Pro forma amount	\$ 1,053,597
6	
7 Per books amount	\$ 1,207,406
8	
9 Pro forma adjustment	<u><u>\$ (153,809)</u></u>

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Narrative Discussion of Proposed Adjustment of Waste Disposal Expense

The Pro Forma adjustment for Waste Disposal Expense was calculated by applying anticipated costs on the bids for the removal of residue from the settling lagoons for the operations except for Parkville Sewer. The Parkville Sewer Pro Forma Adjustment was calculated by applying the latest known amounts from the waste disposal invoice, annualizing for 12-months, to the 2010 Test Year per book amount.

Responsible: Tinsley

**Adjustment of Regulatory Expense
For the Test Year Ended December 31, 2010**

**Missouri-American Water Company
Case No. WR-2011-XXXX and Case No. SR-2011-XXXX**

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Line #

1		
2	Calculation of pro forma Adjustment of Regulatory Expense	
3		
4		<u>Total</u>
5	Pro forma amount	\$ 557,427
6		
7	Per books amount	\$ 879,750
8		
9	Pro forma adjustment	<u>\$ (322,323)</u>

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Narrative Discussion of Proposed Adjustment of Regulatory Expense

The Pro forma adjustment to Regulatory Expense reflects a two year amortization of the estimated cost of the current rate case. The cost of the current rate case includes costs related to preparation of accounting exhibits, testimony, responding to both PSC, OPC and intervener data requests, review and reconciliation of PSC Staff, OPC and intervener exhibits and testimony, preparation of rebuttal and surebuttal testimony and attending hearings, legal fees, publication cost, outside consultants and associated travel expenses. The cost also includes the unamortized balance of the previous rate case.

Responsible: Tierney

**Adjustment of Insurance Other Than Group Expense
For the Test Year Ended December 31, 2010**

**Missouri-American Water Company
Case No. WR-2011-XXXX and Case No. SR-2011-XXXX**

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Line #

1
2 **Calculation of pro forma Adjustment of Insurance Other Than Group Expense**

	<u>Total</u>
4 Pro forma amount	\$ 3,988,893
6	
7 Per books amount	\$ 3,114,974
8	
9 Pro forma adjustment	<u><u>\$ 873,919</u></u>

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17 **Narrative Discussion of Proposed Adjustment of Insurance Other Than Group Expense**

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The Company has calculated its pro forma Insurance Other Than Group Expense from its latest annual insurance premiums. The Company's insurance coverage includes: Property & Casualty Insurance, which consists of General & Excess Liability, Property Claims Damage, and Workmen's Compensation; and Financial Liability Insurance, which consists of Directors & Officers Liability, Fiduciary Liability, Crime, and Employment Practice Insurance. The pro forma expenses for each category were multiplied by the O&M percentage factors that were agreed upon with Staff in case No. WR-2007-0216.

Responsible: Thakadiyil

**Adjustment of Support Services Fees
For the Test Year Ended December 31, 2010**

**Missouri-American Water Company
Case No. WR-2011-XXXX and Case No. SR-2011-XXXX**

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Line #

1		
2	Calculation of pro forma Adjustment of Support Services Fees	
3		
4		<u>Total</u>
5	Pro forma amount	\$ 32,054,145
6		
7	Per books amount	\$ 30,235,664
8		
9	Pro forma adjustment	<u><u>\$ 1,818,481</u></u>

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Narrative Discussion of Proposed Adjustment of Support Services Fees

Test year Support Services from American Water Works Service Company were adjusted for the following items:

- 1) Eliminate one time costs;
- 2) Increase Labor and related expenses for merit wage adjustments and average labor related costs;
- 3) Increase Other costs for Information Technology Services depreciation/maintenance cost pertaining to 2011 Capital projects and application costs and average 1.3% inflationary adjustment;
- 4) Adjust allocations as a result of changes in customer levels.

Responsible: Chao

**Adjustment for Mainbreak Expense
For the Test Year Ended December 31, 2010**

**Missouri-American Water Company
Case No. WR-2011-XXXX and Case No. SR-2011-XXXX**

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Line #

1		
2	Calculation of pro forma Adjustment for Mainbreak Expense	
3		
4		<u>Total</u>
5	Pro forma amount	\$ 2,558,038
6		
7	Per books amount	\$ 2,606,722
8		
9	Pro forma adjustment	<u>\$ (48,685)</u>

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Narrative Discussion of Proposed Adjustment for Mainbreak Expense

The main break adjustment was calculated based on a 5 year average of actual main breaks ending December 2010. The number of main breaks based on the 5 year average as of 12/31/10 is 1,077. The pro forma average cost per break is \$2,376. This is a decrease over the test year level cost of \$3,014. The decrease in the average cost to repair a main break is being driven by decreases in Materials & Supplies offset by higher cost for paving.

Responsible: Tinsley

Transportation Expense
For the Test Year Ended December 31, 2010

Missouri-American Water Company
Case No. WR-2011-XXXX and Case No. SR-2011-XXXX

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Line #

1			
2	Calculation of pro forma Transportation Expense		
3			
4		<u>Total</u>	
5	Pro forma amount	\$	<u>2,329,934</u>
6			
7	Per books amount	\$	3,202,304
8			
9	Pro forma adjustment	\$	<u><u>(872,369)</u></u>

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Narrative Discussion of Proposed Transportation Expense

The Company has calculated its pro forma Transportation expense based on changes in leased vehicle levels expected to occur by December 2011. For vehicles not yet ordered, costs were based on recently ordered vehicles of the same type. Corporate vehicles were allocated to each district. Adjustment is made up of removal of test year transportation depreciation expense (\$-364,442) and (-\$507,927) related to declining transportation expenses for leases & increased fuel and maintenance expense.

Responsible: Tierney

**Adjustment to Net Negative Salvage
For the Test Year Ended December 31, 2010**

**Missouri-American Water Company
Case No. WR-2011-XXXX and Case No. SR-2011-XXXX**

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Line #

1		
2	Calculation of pro forma Adjustment to Net Negative Salvage	
3		
4		<u>Total</u>
5	Pro forma amount	\$ -
6		
7	Per books amount	\$ 4,307,643
8		
9	Pro forma adjustment	<u>\$ (4,307,643)</u>

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Adjustment to Net Negative Salvage

For book purposes the Company records Net Negative Salvage to Amortization expense. In the current rate case the Company has included Net Negative Salvage expense in the pro forma adjustment to Depreciation Expense. Thus, it was necessary to eliminate Net Negative Salvage from Amortization Expense.

**Adjustment of Property Tax Expense
For the Test Year Ended December 31, 2010**

**Missouri-American Water Company
Case No. WR-2011-XXXX and Case No. SR-2011-XXXX**

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Line #

1		
2	Calculation of pro forma Adjustment of Property Tax Expense	
3		
4		<u>Total</u>
5	Pro forma amount	\$ 14,134,602
6		
7	Per books amount	\$ 13,470,094
8		
9	Pro forma adjustment	<u>\$ 664,508</u>

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Narrative Discussion of Proposed Adjustment of Property Tax Expense

The Company has developed its pro forma property tax expense based on its latest actual property tax bills. The pro forma property tax was calculated by dividing the 2010 property tax bills by December 31, 2009 utility plant in service and materials & supplies producing a property tax rate per \$1 of taxable property base. This rate was multiplied by the utility plant in service and materials & supplies as of December 31, 2010 to determine the pro forma property tax expense.

Responsible: Thakadiyil

**Adjustment of PSC Assessment Expense
For the Test Year Ended December 31, 2010**

**Missouri-American Water Company
Case No. WR-2011-XXXX and Case No. SR-2011-XXXX**

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Line #

1
2 **Calculation of pro forma Adjustment of PSC Assessment Expense**

	<u>Total</u>
4	
5 Pro forma amount	\$ 2,006,635
6	
7 Per books amount	\$ 1,677,923
8	
9 Pro forma adjustment	<u><u>\$ 328,712</u></u>

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Narrative Discussion of Proposed Adjustment of PSC Assessment Expense

The pro forma adjustment to the Public Service Commission Fee was calculated by applying the last known assessment rate to pro forma present rate revenues.

Responsible: Tierney

**Adjustment of Tank Painting Expense
For the Test Year Ended December 31, 2010**

**Missouri-American Water Company
Case No. WR-2011-XXXX and Case No. SR-2011-XXXX**

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Line #

1		
2	Calculation of pro forma Adjustment of Tank Painting Expense	
3		
4		<u>Total</u>
5	Pro forma amount	\$ 1,608,053
6		
7	Per books amount	\$ 1,008,527
8		
9	Pro forma adjustment	<u>\$ 599,526</u>

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Narrative Discussion of Proposed Adjustment of Tank Painting Expense

The pro forma adjustment for Tank Painting Expense is based upon performing a specific level of tank inspections and tank painting projects. The Company's current revenue requirement includes an annual level of \$1,000,000 for tank painting and inspections. This was a result of the stipulation that the Company and the parties agreed to in Case No. WR-2007-0216. The Company is currently recording a tracker for tank painting and inspection costs and has recorded \$1,608,770 of annual cost in 2009 and \$1,444,666 in 2010. The Company is proposing in the current case to increase the amount of the tank painting tracker to \$1,600,000.

Responsible: Tinsley

**Adjustment of Annualize Amortization of Regulatory Assets
For the Test Year Ended December 31, 2010**

**Missouri-American Water Company
Case No. WR-2011-XXXX and Case No. SR-2011-XXXX**

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Line #

1
2 **Calculation of pro forma Adjustment of Annualize Amortization of Regulatory Assets**

	<u>Total</u>
4	
5 Pro forma amount	\$ 171,264
6	
7 Per books amount	\$ 171,264
8	
9 Pro forma adjustment	<u><u>\$ -</u></u>

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Narrative Discussion of Proposed Adjustment of Annualize Amortization of Regulatory Assets

MAWC has received authorization from the Missouri PSC in case No. WR-2007-0216 to record to a regulatory asset account the costs associated with the transition to the Customer Call Center and the Shared Services Center. These costs are being amortized over a period of 50 years. This adjustment allocates these costs to each District based on the number of customers.

Responsible: Tinsley

**Adjustment of Uncollectible Expense at present water rates
For the Test Year Ended December 31, 2010**

**Missouri-American Water Company
Case No. WR-2011-XXXX and Case No. SR-2011-XXXX**

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Line #

1
2 **Calculation of pro forma Adjustment of Uncollectible Expense at present water rates**

	<u>Total</u>
3	
4	
5 Pro forma amount	\$ 2,428,810
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7 Per books amount	\$ 2,314,496
8	
9 Pro forma adjustment	<u><u>\$ 114,314</u></u>

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Narrative Discussion of Proposed Adjustment of Uncollectible Expense at present water rates

Pro Forma uncollectible accounts expense at present and at proposed rates was calculated by applying the three-year average ratio of net-charge offs to water revenues to the pro forma present rate water revenues and to the pro forma proposed rate water revenues. The adjustment at proposed rates is calculated by multiplying the proposed revenue increase by the average rate of net-charge offs.

Responsible: Thakadiyil

**Adjustment of Depreciation Expense
For the Test Year Ended December 31, 2010**

**Missouri-American Water Company
Case No. WR-2011-XXXX and Case No. SR-2011-XXXX**

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Line #

1
2 **Calculation of pro forma Adjustment of Depreciation Expense**

	<u>Total</u>
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5 Pro forma amount	\$ 30,023,169
6	
7 Per books amount	\$ 22,269,524
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9 Pro forma adjustment	<u>\$ 7,753,645</u>

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Narrative Discussion of Proposed Adjustment of Depreciation Expense

The calculation is based on the true-up utility plant in service (UPIS) balance through December 31, 2011. Depreciation rates used were approved by PSC in the last rate case.

Responsible: Thakadiyil

**Adjustment of Postage Expense
For the Test Year Ended December 31, 2010**

**Missouri-American Water Company
Case No. WR-2011-XXXX and Case No. SR-2011-XXXX**

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Line #

1			
2	Calculation of pro forma Adjustment of Postage Expense		
3			
4		<u>Total</u>	
5	Pro forma amount	\$	1,285,183
6			
7	Per books amount	\$	1,268,352
8			
9	Pro forma adjustment	<u>\$</u>	<u>16,831</u>

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Narrative Discussion of Proposed Adjustment of Postage Expense

The Pro Forma adjustment for Postage Expense was calculated by applying 2011 anticipated rates from the United States Postal Service to the number of test year mailings.

Adjustment to Fuel/Heat
For the Test Year Ended December 31, 2010

Missouri-American Water Company
Case No. WR-2011-XXXX and Case No. SR-2011-XXXX

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Calculation of pro forma Adjustment to Fuel/Heat

	<u>Total</u>
Pro forma amount	\$ 31,533
Per books amount	\$ -
Pro forma adjustment	<u><u>\$ 31,533</u></u>

Narrative Discussion of Proposed Adjustment to Fuel/Heat

The pro forma adjustment is to reclass the gas heating fuel that was eliminated in the Fuel/Power adjustment to the Heating Fuel expense account.

Responsible: Tierney