

Exhibit No.:
Issues: Cash Working Capital
Witness: Harold Walker, III
Exhibit Type: Rebuttal/Surrebuttal/Sur-Surrebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2024-0320
Date: January 24, 2025

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2024-0320

REBUTTAL/SURREBUTTAL/SUR-SURREBUTTAL TESTIMONY

OF

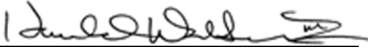
HAROLD WALKER, III

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Harold Walker, III, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am Manager, Financial Studies for Gannett Fleming Valuation and Rate Consultants, LLC, that the accompanying testimony has been prepared by me or under my direction and supervision; that if inquiries were made as to the facts in said testimony, I would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of my knowledge and belief.


Harold Walker, III

January 21, 2025
Dated

**REBUTTAL/SURREBUTTAL/SUR-SURREBUTTAL TESTIMONY
HAROLD WALKER, III
MISSOURI-AMERICAN WATER COMPANY
CASE NO.: WR-2024-0320**

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REBUTTAL/SURREBUTTAL/SUR-SURREBUTTAL TESTIMONY

HAROLD WALKER, III

I. INTRODUCTION

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Q. Please state your name and business address.

A. My name is Harold Walker, III. My business address is 1010 Adams Avenue, Audubon, Pennsylvania, 19403.

Q. Are you the same Harold Walker, III who previously submitted Direct Testimony in this proceeding before the Missouri Public Service Commission (“Commission”)?

A. Yes.

II. SCOPE OF TESTIMONY

Q. What is the purpose of your Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony?

A. The purpose of my Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony is to respond to the testimonies submitted by Commission Staff (“Staff”) witness Angela Niemeier and Office of the Public Counsel (“OPC”) witness John S. Riley as they relate to adjustments to the Cash Working Capital (“CWC”) calculation on the following topics: 1) Changing the Revenue lag days for the Collection lag; 2) Changing the Revenue lag days for the Billing lag; 3) Changing the expense lead days for Contract Services; 4) Changing the expense lead days for Support Services; 5) Changing the expense lead days for Current Federal Income Tax and Current State Income Tax; and 6) Changing the rate case expense for the cost of the CWC study.

III. COLLECTION LAG DAYS

Q. Did Staff address the Collection lag days recommended by the Company and the OPC?

1 A. Yes, Staff Witness Angela Niemeier addresses the Collection lag days recommended by
2 the Company.

3 **Q. What are the Collection lag days?**

4 A. The Collection lag days are the average number of days from the date the bills are mailed
5 to customers to the date payments are received by MAWC. The Collection lag days are
6 one of the three components which comprise Revenue lag days, the other components
7 being Service Period lag days and Billing lag days.

8 **Q. What is Staff's recommendation for the Company's Revenue lag days in the CWC
9 lead-lag study?**

10 A. Ms. Niemeier recommends changing the Revenue lag days utilized by the Company from
11 a 48.7 day revenue lag to a 45.7 day revenue lag used in the Company's last rate case, Case
12 No. WR-2022-0303.¹

13 **Q. Why does Staff recommend 45.7 Revenue lag days for the Company?**

14 A. Ms. Niemeier found what she called a "discrepancy" between the accounts receivable
15 report that was used to calculate the Collection lag days that are included in the Company's
16 revenue lag for this case and the Company's ageing report. Since Ms. Niemeier could not
17 verify the Company's Collection lag days, she recommends using the 45.7 day revenue lag
18 used in the Company's last rate case, Case No. WR-2022-0303.²

19 **Q. As a result of Staff's testimony has the Company investigated the "discrepancy"
20 between the accounts receivable report that was used to calculate the Collection lag
21 days that are included in the Company's revenue lag for this case and the Company's**

¹ Niemeier DT/RT, p. 15.

² *Id.*

1 A. Mr. Riley attributes the 3-day increase in the Company’s original 48.7 Revenue lag days
2 from the 45.7 day revenue lag used in Case No. WR-2022-0303, to the increase in the
3 Company’s Billing lag days between the two cases. Since Mr. Riley believes the increase
4 in the Billing lag is under Company’s control, he recommends using the shorter 45.7 day
5 revenue lag.⁴

6 **Q. Does the Company have complete control of the Billing lag?**

7 A. No. For example, as to Arnold sewer customers, the Company must rely on the water
8 districts that provide water service to the Arnold Sewer customers for water use data. As
9 a result, no Arnold Sewer customer has a Billing lag that is less than 18 days. Additionally,
10 although the majority of MAWC’s customers have Billing lags of less than 3 days, some
11 customer bills require extra scrutiny, which delays the billing process for those affected.
12 The Company’s Billing lag is properly determined and reflects the weighted average of the
13 Billing lag days for all 500,532 customer invoices reviewed.

14 **V. CONTACT SERVICES LEAD DAYS**

15 **Q. Did Staff address the Contract Services lead days recommended by the Company?**

16 A. Yes, Staff Witness Angela Niemeier addresses the Contract Services lead days
17 recommended by the Company.

18 **Q. What is Staff’s recommendation for the Company’s Contract Services lead days in
19 the CWC lead-lag study?**

20 A. Ms. Niemeier recommends changing the Contract Services lead days utilized by the

⁴ Riley DT/RT, p. 6.

1 Company from 34.2 lead days to 39.91 lead days.⁵

2 **Q. Why does Staff recommend 39.91 lead days for the Company’s Contract Services?**

3 A. Ms. Niemeier recommends the removal of three invoices from the Contract Services
4 invoices sampled because their payment dates were “atypical” as compared to the other
5 Contract Services invoices sampled. The Company agrees with Ms. Niemeier’s
6 recommendation and is revising its Contract Services lead days to 39.91 lead days.

7 **VI. SUPPORT SERVICES LEAD DAYS**

8 **Q. Did Staff address the expense lead days for Support Services recommended by the**
9 **Company and the OPC?**

10 A. Yes, Ms. Niemeier addresses the expense lead days for Support Services recommended by
11 the Company and the OPC.

12 **Q. What is addressed by the expenses lead days for Support Services?**

13 A. These expenses lead days concern the amounts owed by MAWC to American Water Works
14 Service Company, Inc. (“Service Company”).

15 **Q. What is Staff’s recommendation for Support Services in the CWC lead-lag study?**

16 A. Ms. Niemeier recommends changing the expense lead days for Support Services utilized
17 by both the Company and OPC from a negative 5.60 day expense lead days to a positive
18 48.80 day expense lead days to match the weighted average lead days she calculated for 12
19 expense line items, which she characterizes as “cash voucher” “expense services.”⁶ Ms.

⁵ Niemeier DT/RT, p. 14.

⁶ Staff’s “cash voucher” “expense services” include the following 12 expense line items: Purchased Water; Contracted Services Expense; Building Maintenance and Services Expense; Telecommunications Expense; Postage, Printing, and Stationary Expense; Office Supplies and Services Expense; Employee Related Expenses; Transportation Expense; Miscellaneous Expenses; Customer Accounting; Maintenance supplies and services; and Other Benefits.

1 Niemeier ignored 9 expense line items whose weighted average lead days are much less
2 than the line items she utilized.⁷

3 **Q. Why does Staff recommend Support Services be assigned the same expense lead days**
4 **as “cash voucher” “expense services”?**

5 A. Ms. Niemeier contends the “the cash voucher expense lag better represents unaffiliated
6 vendors than contracted services alone, because it reflects a broader mixture of expense
7 services, while contracted services is based on fewer expense services.”⁸

8 **Q. Does the Company pay Support Services expense before it receives service?**

9 A. No. Ms. Niemeier incorrectly states, “that the requirement that MAWC prepay amounts
10 to the Service Company is solely a result of the affiliated relationship of MAWC to the
11 Service Company.”⁹ In reality, the Company pays Support Services expense before the
12 midpoint of the service period, not before it receives service. For example, the Support
13 Services provided to MAWC in January are paid for in January, February services are paid
14 for in February, so on and so forth.

15 Ms. Niemeier’s recommended lead days for Support Services expense substitutes
16 theory for fact and is, thus, incorrect. No valid legal or factual basis supports her complaint
17 about when MAWC pays amounts owed to the Service Company. Ms. Niemeier does not
18 dispute that amounts were owed. Paying actual amounts owed in a timely manner
19 consistent with the Service Company Agreement¹⁰ between the Service Company and

⁷ The expense line items ignored by Staff include the following 9 expense line items: Fuel and Power; Chemicals; Waste Disposal; Labor; Pensions; OPEB; Group Insurance; Rents; Regulatory Expense; and Insurance Other than Group.

⁸ Niemeier DT/RT, p. 13.

⁹ Niemeier DT/RT, p. 13

¹⁰ Agreement, dated January 1, 1989, between American Water Works Service Company, Inc. and Missouri-American Water Company. (“Service Company Agreement”) which is attached as Schedule HW-1 to this testimony.

1 MAWC does not provide any profit opportunity for MAWC. Ms. Niemeier's theory that
2 MAWC should have the lead days for Support Services expense increased because the
3 average lead days for non-affiliates is longer ignores that the circumstances are not parallel,
4 as the types of services non-affiliate vendors provide are vastly different.

5 **Q. What type of services are provided by the Service Company?**

6 A. The Service Company provides MAWC customer service, water quality testing, innovation
7 and environmental leadership, accounting, communication, engineering, finance, human
8 resources, information technology ("IT"), legal, accounts payable, supply chain, rates and
9 revenue, regulatory, risk management, security, and other services agreed upon. These
10 services are performed by Service Company personnel, most of whom have years of water
11 industry experience. The Service Company's personnel can specialize in their functional
12 areas, provide expert services, and develop a strong understanding of water quality and the
13 business needs of MAWC. The Service Company Agreement allows MAWC to receive
14 high quality services at a lower cost as compared to the cost of hiring their own full-time
15 staff. The services provided by the Service Company are addressed further in the Direct
16 Testimony of Company witnesses Cifuentes and Baryenbruch.

17 **Q. What is the nature of the Service Company?**

18 A. The Service Company exists solely to provide services to American Water affiliates at cost.
19 The Service Company's billing terms match expenses with the receipt of payments from
20 affiliates, which are the beneficiaries of the services provided. The Service Company
21 makes no profit from the provision of services. A payment of five days before (i.e., -5.6)
22 the mid-point of the service period for the at-cost Service Company bill is a reasonable
23 provision to support cash expenses and payroll incurred on behalf of MAWC by the Service

1 Company. Similar services provided by a private company **include a markup for profit**
2 **on their services provided.** Therefore, the services provided by the Service Company
3 reduce the cost of the services provided relative to similar services provided by a private
4 company.

5 **Q. How does this differ from non-affiliates?**

6 A. Private companies that provide services similar to those of the Service Company include a
7 markup for profit in addition to the cost of their other cost of service items, including
8 working capital. Unlike these other vendors, the Service Company provides its services at
9 cost. It has no retained earnings, and it does not internally generate funds with which to
10 provide working capital to fund the services it provides to MAWC prior to receipt of
11 payment for those services.

12 **Q. Are your Support Services lead days based on actual circumstances?**

13 A. Yes, the lead days for Support Services expense that I developed (i.e., -5.6) reflect the
14 terms of the Service Company Agreement. Ms. Niemeier's proposal disregards the
15 contractual obligations for regulatory purposes. Additionally, Ms. Niemeier's
16 recommendations represent a clear and arbitrary confiscation of investor-provided capital
17 because the Service Company Agreement establishes that payment of Support Services
18 expenses "shall be paid by Water Company within a reasonable time after receipt of bill."¹¹
19 Conversely, Ms. Niemeier recommends delaying payment arbitrarily, a clear contract
20 violation. MAWC must follow the terms of the Agreement and does not have the option of
21 delaying payment as advocated by Ms. Niemeier. Accordingly, adopting Ms. Niemeier's

¹¹ Schedule HW-1,,, section 4.1, page 11.

1 recommendation simply bars MAWC recovery of a prudently incurred cost.

2 **Q. Are expense lead days similar across the Company's various Operations and**
3 **Maintenance expense categories or line items?**

4 A. No. The lead-lag study used to determine the Company's CWC shows a range of
5 Operations and Maintenance expense lead days of -74.6 (negative) to 70.3 lead days across
6 the Company's various Operations and Maintenance expense categories or line items. In
7 a competitive market, the pricing for any service must reflect the invoicing practice of the
8 vendor and payment practice of the customer. There is no reason to expect Support
9 Services and "cash voucher" expenses to have similar lead days since each provides very
10 different services and have different invoicing practices.

11 **Q. What Operations and Maintenance expense line item includes services which most**
12 **closely resemble the majority of the services paid for through Support Services?**

13 A. I believe the Labor expense line item most closely resembles the services paid for through
14 Support Services.

15 **Q. What are the lead days for Labor expenses?**

16 A. The Company's Labor expense lead days are 10.5 days.

17 **VII. CURRENT INCOME TAX LEAD DAYS**

18 **Q. Did OPC address the expense lead days for Current Federal Income Tax and Current**
19 **State Income Tax recommended by the Company and the Staff?**

20 A. Yes, Mr. Riley addresses the expense lead days for Current Federal Income Tax and
21 Current State Income Tax recommended by the Company and the Staff.

22 **Q. What is OPC's recommendation for Current Federal Income Tax and Current State**

1 **Income Tax in the CWC lead-lag study?**

2 A. Mr. Riley recommends changing the expense lead days for Current Federal Income Tax
3 and Current State Income Tax utilized by both the Company and Staff from a 35.6 day
4 expense lead to a 365.0 day expense lead to match a Commission decision in its Report
5 and Order in a Spire Missouri, Inc. rate case (Case No. GR-2021-0108) (“Spire Report and
6 Order”).¹²

7 **Q. Are the facts regarding the Company’s current Federal Income Tax and Current**
8 **State Income Tax the same as those found in the Spire Report and Order?**

9 A. No. In the Spire Report and Order, finding of fact No. 66 states, “Spire Inc.’s state and
10 federal income tax returns, Spire Missouri’s annual report filed with the Commission, and
11 the public 10-K reports filed with the U.S. Securities and Exchange Commission, all
12 indicate that both the parent company and Spire Missouri have not been required to pay
13 income tax in at least the past three years.” (Emphasis added) However, MAWC’s parent
14 company paid income taxes in each of the last three years according to their public 10-K
15 report filed with the U.S. Securities and Exchange Commission (SEC).

16 In the Spire Report and Order, finding of fact No. 67 states, “Spire Missouri’s
17 current NOLC makes it highly unlikely that it will pay income taxes for the next three
18 years.” Conversely, MAWC has not used, nor does it have NOLC available to it.¹³

19 **Q. Even if you assume MAWC’s situation is similar to that of Spire’s, is there any**
20 **mathematical basis for OPC’s recommendation of a 365.0 day expense lead for**

¹² Riley DT/RT, p 5.

¹³ MAWC’s rate base claim would be higher if NOLC were available, since NOLC asset balance would be an offset (reduction) to the ADIT liability.

1 **Current Federal Income Tax and Current State Income Tax?**

2 A. No. Mr. Riley states, “The income tax expense lag should be adjusted to reflect the
3 collection of, yet nonpayment of income tax for the entire 365 day year.”¹⁴ However, since
4 income tax expenses are recovered periodically from customers throughout the year as
5 revenues are collected, even if you follow Mr. Riley’s reasoning, the 182.5 day mid-point
6 of “the entire 365 day year” would be the mathematical correct lead day, not 365 days.

7 **Q. In OPC witness Riley’s Cross-Rebuttal Testimony¹⁵ , he asserts that there are two**
8 **errors in Staff’s CWC schedule. Would you comment on these “errors”?**

9 A. Yes. OPC witness Riley’s Cross-Rebuttal Testimony uses the terms “error” or “errors”
10 incorrectly in reference to Staff Witness Angela Niemeier’s testimony in as much as an
11 “error” denotes a mistake, while in reality, Mr. Riley simply has a different opinion than
12 Ms. Niemeier in regard to the proper income tax expense lead days. Having reviewed Mr.
13 Riley’s and Ms. Niemeier’s Direct/Rebuttal Testimonies and Cross-Rebuttal Testimonies,
14 I agree with Ms. Niemeier’s opinion regarding the proper income tax expense lead days.

15 **Q. What approach is Mr. Riley suggesting?**

16 A. Mr. Riley believes Ms. Niemeier should have either excluded (zeroed out) income tax
17 expense from the CWC if the expense is negative or used 365 lead days if the income tax
18 expense is positive. Mr. Riley’s recommended exclusion (zeroing out) of income tax
19 expense from the CWC if the expense is negative is a completely new
20 opinion/recommendation, which he did not raise in his Direct/Rebuttal Testimony, even
21 though the same facts were known then as now.

¹⁴ Riley DT/RT, p. 5.

¹⁵ Riley C-RT, p. 4.

1 **Q. How do you respond to OPC witness Riley on this point?**

2 A. In a CWC study, lead days do not uniquely fluctuate from 0 to 365 based upon a True-Up
3 period (ended December 31, 2024) expense being negative or positive because lead days
4 are based upon a lead lag study conducted for a historic test period (i.e., 12 months ended
5 December 31, 2023). I previously addressed Mr. Riley’s recommended use of 365 lead
6 days for income tax expense and will not repeat my critique here.

7 **VIII. RATE CASE EXPENSE FOR THE COST OF THE CWC STUDY**

8 **Q. Did OPC and Staff address the rate case expense for the cost of the CWC study?**

9 A. Yes, both OPC witness Riley and Staff witness Niemeier address the rate case expense for
10 the cost of the CWC study.

11 **Q. What were the OPC and Staff recommendations for rate case expense for the cost of
12 the CWC study?**

13 A. Mr. Riley recommends the Company’s rate case expense should be reduced by the cost of
14 the CWC study. Ms. Niemeier uses this study as an example to support her
15 recommendation that rate case expense should be shared 50/50.

16 **Q. Why does OPC recommend the Company’s rate case expense should be reduced by
17 the cost of the CWC study?**

18 A. Mr. Riley contends that a “new study was unnecessary as the Company could very well
19 have updated the 2022 balances” from the CWC study that was conducted for the
20 Company’s last rate case (Case No. WR-2022-0303).¹⁶ However, neither OPC nor Staff
21 recommended in Case No. WR-2022-0303 that the Company use that CWC study in its

¹⁶ Riley DT/RT, p. 7.

1 next rate filing. Further, the Commission did not order the Company to use the CWC study
2 from Case No. WR-2022-0303 in its next rate filing. I have little doubt that if the Company
3 arbitrarily used the CWC study from Case No. WR-2022-0303 in their current rate filing
4 that either Staff or OPC would question its appropriateness. Using the current study
5 provides the Commission with the most current analysis to support its position.

6 **Q. Staff witness Niemeier indicates that in response to Staff DR No. 0153, the Company**
7 **stated that there are no known changes since the last rate case that would have a**
8 **material impact on revenue lags and expense leads.¹⁷ (Dir./Reb., p. 12) Does that**
9 **alone indicate to you that a new CWC was not necessary?**

10 A. No. The Company could not have reached that conclusion without first conducting a new
11 CWC study and comparing its results to the CWC study conducted for Case No. WR-
12 2022-0303. The CWC study conducted for Case No. WR-2022-0303 was based on the
13 twelve-month period ended September 30, 2021, and included impacts from the COVID-
14 19 pandemic. Accordingly, finding only small changes in revenue lags and expense leads
15 since the last case would be quite remarkable and unexpected and could only be known by
16 conducting a new CWC study.

17 **Q. Does this conclude your Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony?**

18 A. Yes.

¹⁷ Niemeier DT/RT, p. 12.

AGREEMENT

Agreement dated January 1, 1989, between AMERICAN WATER WORKS SERVICE COMPANY, INC., a Delaware corporation (hereinafter "Service Company"), and MISSOURI-AMERICAN WATER COMPANY, a Missouri corporation (hereinafter "Water Company").

The background of this Agreement is that:

1. Both Service Company and Water Company are subsidiaries of American Water Works Company, Inc., a Delaware corporation (hereinafter "American").
2. Water Company has been organized for and is presently engaged in the business of providing potable water as a public utility in the State of Missouri.
3. Service Company maintains an organization whose officers and employees are familiar with all facets of the water utility business, including the development, business and property of Water Company, and are experienced in the efficient management, financing, accounting and operation of water utility properties and the extension and improvement thereof. The officers and employees of Service Company are qualified to aid, assist and advise Water Company in its business operations through the services to be performed under this Agreement.
4. Service Company has provided administrative and operating services to Water Company for many years, the past 17 years pursuant to an agreement dated January 1,

1971. Because Water Company is of the opinion that it cannot obtain the same quality and diversification of services on a comparable economic basis elsewhere, it proposes to enter into a new agreement with Service Company more specifically defining the types of services available to it.

5. Service Company has entered or proposes to enter into agreements similar to this agreement with other affiliated water companies (hereinafter collectively "Water Companies").
6. The services to be rendered under this agreement are to be rendered by Service Company to Water Companies at their cost to Service Company, as hereinafter provided.

NOW, THEREFORE, in consideration of the premises and mutual agreements herein contained, the Water Company and Service Company agree that:

ARTICLE 1. PERSONNEL AND SERVICES TO BE PROVIDED

1.1 During the term of this agreement and upon the terms and conditions hereinafter set forth, Service Company shall provide corporate guidance for Water Company. In addition to the guidance provided by the officers and employees of Service Company through the coordination of functional activities for all subsidiaries of American, the officers and employees of Service Company shall furnish and Water Company shall purchase from Service Company, the following services: Accounting, Administration, Communication, Corporate Secretarial, Engineering, Financial, Human Resources,

Information Systems, Operation, Rates and Revenue, Risk Management and Water Quality, together with such other services as Water Company and Service Company may agree; provided, however, that Water Company may perform the service with its own personnel or engage another company or person to provide those services on its behalf. Service Company by mutual consent may engage another Company or person to provide such services on its behalf.

1.2 Service Company shall employ qualified officers and employees and those persons shall be available for election by Water Company to serve as officers of Water Company.

1.3 Without limitation, services to be provided by the Service Company shall be rendered as follows:

A. **Accounting:** Service Company shall assist in the preparation and implementation of accounting methods and procedures to determine that they conform fully to the requirements, rules and regulations of governmental authorities having jurisdiction and review Water Company's monthly financial reports, annual reports and other reports to stockholders and to any governmental authorities. It shall advise and assist in the establishment and maintenance of current record keeping techniques; review accounting procedures, methods and forms; and evaluate systems of internal control for receipt and disbursement of funds, materials and supplies, and other assets. Service Company shall maintain accounting records as required by Water Company. When appropriate, Service Company shall cooperate and consult with Water Company's independent certified public accountants.

Service Company shall assist in the preparation of operating and construction budgets and monitor the control over such budgets by comparing experienced costs to the projections.

Service Company shall prepare or assist in the preparation of federal, state and local tax returns for and to the extent required by Water Company.

B. Administration: Service Company shall make qualified employees available to perform or assist in the performance of Water Company's corporate activities. Those employees shall keep themselves informed on all aspects of Water Company's operations and shall regularly visit Water Company's facilities. They shall make recommendations to Water Company for operating expenditures and for additions to and improvements of property, plant and equipment. They shall keep abreast of economic, regulatory, governmental and operational developments and conditions that may affect Water Company; and advise Water Company of any such developments and conditions to the extent that they may be important to Water Company. Service Company shall provide an internal audit staff for periodic audits of accounts, records, policies and procedures of Water Company and submit reports thereon.

C. Communications: Service Company shall recommend procedures to promote satisfactory relations with employees, customers, communities and the general public and assist in the preparation of communication materials, (including press releases, brochures, audio visual presentations and speeches) plant tours, public exhibits and displays and other related services to inform the public.

D. Corporate Secretarial: Service Company shall maintain, in such places and manner as may be required by applicable law, documents of Water Company, such as minute books, charters, by-laws, contracts, deeds and other corporate records, and shall administer an orderly program of records retention. It shall maintain, or arrange for the maintenance of, records of stockholders of Water Company, prepare or arrange for the preparation of stock certificates, perform duties relating to the transfer of stock and perform other corporate secretarial functions as required including preparation of notices of stockholder and director meetings and the minutes thereof.

Service Company shall review and may assist in the preparation of documents and reports required by Water Company such as deeds, easements, contracts, charters, franchises, trust indentures and regulatory reports and filings.

E. Engineering: Service Company shall advise, and provide engineering services to assist Water Company in planning for, operating, maintaining and constructing its facilities.

It shall conduct distribution system surveys and hydraulic analyses and prepare or review maps, charts, operating statistics, reports and other pertinent data.

It shall assist Water Company in the proper maintenance and protection of Water Company properties by periodic inspection of its structures, tanks, reservoirs, dams, wells and electrical and mechanical equipment.

The engineering services provided by Service Company shall also include the conduct of field investigations as necessary to

obtain engineering information and, when required, the preparation of studies, reports, designs, drawings, cost estimates, specifications, and contracts for the construction of additions to or improvements of Water Company's source of supply, treatment plant, pumping stations, distribution system, and such other facilities as Water Company may request. Service Company shall provide a Materials Management Program to arrange for the purchase of equipment, materials, and supplies in volume on a basis advantageous to Water Company and assist in the evaluation of new and existing products and application procedures.

F. Financial: Service Company shall assist in the development and implementation of financing programs for Water Company, including the furnishing of advice from time to time on securities market conditions and the form and timing of financing; advise concerning arrangements for the sale of its securities; and assist in the preparation of necessary papers, documents, registration statements, prospectuses, petitions, applications and declarations. It shall prepare reports to be filed with, and reply to inquiries made by, security holders and bond and mortgage trustees.

Service Company shall assist Water Company in cash management including arrangements for bank credit lines, establishment of collection policies, and development of temporary investment programs.

Service Company shall provide assistance to Water Company in the preparation of all financial reports.

G. Human Resources: Service Company shall assist in obtaining qualified personnel for Water Company; in establishing appropriate rates of pay for those employees; and in negotiating with bargaining units representing Water Company employees. It shall carry out training programs for the development of personnel and advise and assist Water Company regarding personnel. It shall also advise and assist Water Company in regard to group employee insurance, pension and benefit plans and in the drafting or revising of those plans when required. It will keep Water Company apprised of all employment laws and develop procedures and controls to assure compliance.

H. Information Systems: Service Company shall make available to Water Company electronic data processing services. Those services shall include customer billing and accounting, preparation of financial statements and other reports including those required by Federal and State agencies.

I. Operation: Service Company shall develop and assist in the implementation of operating procedures to promote the efficient and economic operation of Water Company. Periodic operational reviews will be performed by Service Company personnel and any deviations from adopted procedures will be reported to Water Company.

J. Rates and Revenue: Service Company personnel shall make recommendations for changes in rates, rules and regulations and shall assist Water Company in the conduct of proceedings before, and in its compliance with the rulings of, regulatory bodies having jurisdiction over its operation. These personnel

shall keep abreast of economic and regulatory developments and conditions that may affect Water Company; and advise Water Company of any such developments and conditions to the extent that they may be important to Water Company. Rates and Revenue personnel shall assist in the preparation of rate filings or applications and the supporting documents and exhibits requested or required by the Water Company and their respective regulatory commissions. Service Company shall also provide qualified personnel to testify on Water Company's behalf as required during any regulatory proceedings.

K. Risk Management: Service Company shall provide a Risk Management Program to review the exposures to accidental loss of the Water Company, recommend efficient methods of protection either through the purchase of insurance, self-insurance or other risk management techniques and arrange for the purchase of insurance coverage. It shall also supervise investigation procedures; review claims; and negotiate and assist in, and evaluate proposals for, settlement at the request of Water Company. It shall assist in the establishment of safety and security programs to avoid or minimize risk and loss.

L. Water Quality: Service Company shall assist Water Company to comply with standards of governmental agencies and establish and attain water quality objectives of the Water Company. It shall assist in providing design criteria for processes, coordinating with public agencies, developing approaches and solutions to water quality problems, and providing

technical assistance and general direction for Water Company personnel.

It shall also provide laboratory services for programmed analyses as required by drinking water regulations, and special analyses as required by Water Company.

ARTICLE II. PAYMENT FOR SERVICES

2.1 In consideration for the services to be rendered by Service Company as hereinabove provided, Water Company agrees to pay to Service Company the cost thereof determined as provided in this Article II and in Article III.

2.2 All costs of service rendered by Service Company personnel for Water Company or in common with other Water Companies shall be charged to Water Company based on actual time spent by those personnel as reflected in their daily time sheets or other mutually acceptable means of determination.

2.3 All costs of Service Company incurred in connection with services rendered by Service Company which can be identified and related exclusively to Water Company, shall be charged directly to Water Company.

2.4 All costs incurred in rendering services to Water Company in common with similar services to other Water Companies which cannot be identified and related exclusively to services rendered to a particular Water Company, shall be allocated among all Water Companies so served, or, in the case of costs incurred with respect to services rendered to a particular group of Water

Companies, among the members of such group, based on the number of customers served at the immediately preceding calendar year end.

2.5 Cost for support personnel (secretaries, clerical personnel, clerks, messengers, telephone operators, mail clerks, and other incidental support personnel of the Service Company) as well as the cost of lease payments, depreciation, utilities and other costs associated with leasing office space and equipment by Service Company shall be allocated among the Water Companies on the basis of the proportion of the aggregate cost allocated under Sections 2.3 and 2.4.

ARTICLE III. ALLOWANCE FOR OVERHEAD

3.1 In determining the cost to be assessed by Service Company for the rendering of services to Water Company as herein provided, there shall be added to the salaries of all officers and employees for whose services charges are to be made, a percentage sufficient to cover the general overhead of Service Company, as defined below, properly allocable thereto. Such percentage shall be calculated each month and shall be the ratio of the total general overhead of the Service Company for the month to the total salaries of the employees for whose service charges are to be made to the Water Companies. No general overhead of Service Company shall be added to costs incurred for services of non-affiliated consultants employed by Service Company.

3.2 The term "general overhead" shall include:

- (a) pension and insurance premiums paid for the benefit of Service Company employees,

- (b) legal and other fees for services rendered to the Service Company,
- (c) taxes,
- (d) other general office supplies and other similar expenses, and
- (e) interest on working capital.

ARTICLE IV. BILLING PROCEDURES AND BOOKS AND RECORDS

4.1 As soon as practicable after the last day of each month, Service Company shall render a bill to Water Company for all amounts due from Water Company for services and expenses for such month plus an amount equal to the estimated cost of such services and expenses for the current month, all computed pursuant to Articles II and III. Such bill shall be in sufficient detail to show separately the charge for each class of service rendered. All amounts so billed shall reflect the credit for payments made on the estimated portion of the prior bill and shall be paid by Water Company within a reasonable time after receipt of the bill therefore.

4.2 Service Company agrees to keep its books and records available at all times for inspection by representatives of Water Company or by regulatory bodies having jurisdiction over Water Company.

4.3 Service Company shall at any time, upon request of Water Company, furnish any and all information required by Water Company with respect to the services rendered by Service Company

hereunder, the costs thereof, and the allocation of such costs among Water Companies.

ARTICLE V. OTHER AGREEMENTS

5.1 It is understood by Water Company that Service Company has entered or may enter into similar agreements with other Water Companies that are affiliated with American to which similar services are to be furnished. Service Company will not enter into agreements to perform similar services for other companies on terms more favorable than those provided herein.

5.2 It is understood by Water Company that Service Company has entered or may enter into an agreement or agreements with American and certain other companies not engaged in the water or sewer service business to which limited services are to be furnished; Water Company consents to such additional agreements, provided, however, that no part of the cost of furnishing such services will be charged to Water Company.

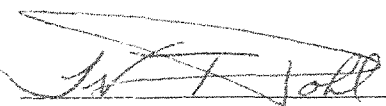
ARTICLE VI. TERM OF AGREEMENT

This agreement shall become effective as of the later of (a) the date first mentioned above or (b) the date the parties receive the last of any necessary approvals of governmental regulatory agencies having jurisdiction in the premises. Upon becoming effective, this agreement shall be the sole agreement between the parties concerning the subject matter hereof and shall supersede all prior agreements, written or oral, including the agreement dated January 1, 1971, which shall terminate on the date this

agreement becomes effective. This agreement shall continue in full force and effect until terminated by either of the parties hereto giving the other party hereto ninety day's notice in writing; provided, however, that this agreement shall terminate as of the date Water Company or Service Company ceases to be an affiliate of American.

IN WITNESS WHEREOF, Service Company and Water Company have caused this agreement to be signed in their respective corporate names by their respective Presidents or Vice Presidents, and impressed with their respective corporate seals attested by their respective Secretaries or Assistant Secretaries, all as of the day and year first above written.

ATTEST:



AMERICAN WATER WORKS SERVICE COMPANY, INC.


By 

President

ATTEST:



MISSOURI-AMERICAN WATER COMPANY

By 

President