Exhibit No.: 108
Issues: Cedar Hill Plant Disallowance, Consolidated and Revised Tariff (Company Participation and Fair Share), City of Riverside Fire Protection
Witness: Kevin H. Dunn
Exhibit Type: Surrebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2010-0131
SR-2010-0135
Date: May 6, 2010

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2010-0131
CASE NO. SR-2010-0135

SURREBUTTAL TESTIMONY

OF

KEVIN H. DUNN

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

IN THE MATTER OF MISSOURI-AMERICAN WATER COMPANY FOR AUTHORITY TO FILE TARIFFS REFLECTING INCREASED RATES FOR WATER AND SEWER SERVICE	)))))	**CASE NO. WR-2010-0131 CASE NO. SR-2010-0135**

AFFIDAVIT OF KEVIN H. DUNN

Kevin H. Dunn, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of Kevin H. Dunn"; that said testimony and schedules were prepared by him and/or under his direction and supervision; that if inquires were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge.

Kevin H. Dunn

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 20th day of April 2010.

Notary Public

My commission expires:

STACI A. OLSEN
Notary Public – Notary Seal
STATE OF MISSOURI
St. Charles County
Commission Number 09519210
My commission expires March 20, 2013

SURREBUTTAL TESTIMONY
KEVIN H. DUNN
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR.2010.0131
SR.2010.0135

TABLE OF CONTENTS

I. Witness Introduction and Purpose 1

II. Cedar Hill Plant Disallowance 1

III. Consolidated and Revised Tariff (Company Participation and Fair Share) 6

IV. City of Riverside Fire Protection 7

SURREBUTTAL TESTIMONY

KEVIN H. DUNN

WITNESS INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.

A. My name is Kevin H. Dunn, my title is Director Engineering for American Water, and my business address is 727 Craig Road, St. Louis, Missouri 63141.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?

A. Yes, I have submitted direct testimony and rebuttal testimony in this proceeding.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to discuss on behalf of Missouri-American Water Company (MAWC or Company) the issue of the Cedar Hill Plant Disallowance; Consolidated and Revised Tariff issues concerning Company Participation Amount and Fair Share Amount; and the City of Riverside Fire Protection, as presented in the Rebuttal Testimony of Staff witness James A. Merciel, Jr.

CEDAR HILL PLANT DISALLOWANCE

Q. HAVE YOU REVIEWED THE STAFF'S REBUTTAL RECOMMENDATION IN REGARD TO THE CEDAR HILL PLANT DISALLOWANCE?

A. Yes, I have.

Q. WHAT DOES THE STAFF RECOMMEND?

A. The Staff now proposes a disallowance of $1,050,282 that it believes is associated with the part of the expansion project that Staff alleges is not used and useful.

Q. IS THIS A CHANGE FROM THE RECOMMENDATION CONTAINED IN STAFF'S DIRECT TESTIMONY?

A. Yes. Staff's proposed disallowance related to the Cedar Hill Plant has been reduced from $2,179,908 to $1,050,282.

Q. WHAT IS THE STATED BASIS FOR THIS CHANGE IN RECOMMENDATION?

A. The revised recommendation is based on Staff's view that some of the upgrades to the new plant were required to meet the latest standards of the Missouri Department of Natural Resources and with the actual addition of new customers the plant expansion is now necessary, used and useful. Thus, Staff recommends that rather than dividing the cost of the new plant by future customers (the recommendation found in Staff's Direct Testimony), the new plant's total cost should be calculated by dividing it by the total number of existing and new customers and allowing the Company recovery of the cost of the portion of plant utilized by existing customers. Staff continues to recommend that the portion of

the plant it believes to be necessary for the service of future customers be disallowed until the future customers become a part of the system.

Q. DO YOU AGREE WITH THE STAFF RECOMMENDATION?

A. No, as stated earlier in my Rebuttal Testimony, MAWC not only prudently planned and constructed this Wastewater Treatment Facility, but it also required and accepted contributions in aid of construction (CIAC) from new developers that will use the plant as required by its approved tariffs.

Q. HAS THE STAFF PREVIOUSLY STATED AN OPINION CONCERNING MAWC'S DECISION TO CONSTRUCT THE PLANT?

A. Staff witness James A. Merciel, Jr. stated in his Surrebuttal Testimony in the Company's last rate case (Case No. WR-2008-0311) on page 2, lines 12 – 14, "I believe that the expansion project was prudently undertaken. I also believe that it is necessary for future growth, which appeared imminent at the time the project was undertaken . . . . ."

Q. GIVEN THAT SITUATION, HOW DOES MAWC BELIEVE THE PLANT SHOULD BE TREATED FOR RATEMAKING PURPOSES?

A. The Company should be granted full recovery of the treatment plant cost. Partial recovery for prudent, necessary plant should not be an option. The Company built the plant in a reasonable increment and should not be forced to recover its investment in individual increments of customer additions to the plant.

Q. DOES THE STAFF APPROACH PROPERLY SPREAD THE COST BETWEEN THE EXISTING AND FUTURE CUSTOMERS?

A. Not in my opinion. The Staff divides the total plant cost at 85% volume by the average usage amount of the existing customers to determine the total number of expected customers. I believe the use of the total plant cost is not reasonable for this calculation, as this cost not only represents items for the treatment facility expansion, but also represents items associated with basic improvements needed to operate the Cedar Hill District. The calculation should only include those costs involved with the treatment capacity of the newly installed facility. As discussed in my Rebuttal Testimony, a portion of the total cost includes costs for construction of an office and storage building on the site, installation of the HVAC system for the office, installation of roadway and fencing, and the cost associated with an Inflow and Infiltration study. These costs represent $469,405 of the total project cost of $2,022,005. (See attached **Schedule KHD-1**). I believe the Staff's total cost of the plant should be reduced by the $469,405, and these costs recovered from existing customers.

Q. STAFF WITNESS MERCIEL STATES THAT PORTIONS OF THE PLANT ARE NOT IN USE AND USEFUL. HOW DO YOU RESPOND?

A. As stated above and in previous testimony, the Company believes that it prudently designed and constructed a plant in accordance with its obligation to serve. This plant was required to be built at an increment that took into the consideration the expected addition of the O'Brien Place subdivision.

Q. DID THE O'BRIEN PLACE SUBDIVISION CONTRIBUTE TO THE CONSTRUCTION OF THE PLANT?

A. Contributions in aid of construction were made by the developer of this subdivision.

Q. IS THERE SOME PORTION OF THE PLANT THAT IS NOT OPERATING AT THIS TIME?

A. No. The whole treatment plant is operating and treating waste.

Q. HAVE ANY RECENT EVENTS CHANGED THE ACTUAL USAGE LEVEL OF THE PLANT?

A. Yes. During the week of April 26, 2010, MAWC connected fifty-three (53) additional customers from the Lake Tamarack subdivision to this plant.

Q. WHAT IS THE IMPACT OF THESE ADDITIONAL CUSTOMERS?

A. With the addition of the Lake Tamarack customers' projected usage, the existing customers' usage, and the usage associated with the contributions made by O'Brien Place, volumes will now exceed 85% of the total plant capacity (See attached **Schedule KHD-1**).

Q. HAVE YOU REVISED THE STAFF'S CALCULATION TO TAKE INTO ACCOUNT THE FACTORS YOU HAVE IDENTIFIED?

A. Yes. I revised Staff Witness Merciel's work paper by removing the items that were not directly related to the treatment capacity facility, added ten (10) new

customers that were not previously taken into account by Mr. Merciel (who had identified one (1) new customer), and added the 53 Lake Tamarack customers. This leaves a potential disallowance of $470,865. This cost is more than offset by the contributions in aid of construction related to this project ($491,820) (See attached **Schedule KHD-2**). Accordingly, even utilizing Staff approach, there should be no disallowance related to the Cedar Hill Treatment Plant.

CONSOLIDATED AND REVISED TARIFF

(Company Participation and Fair Share)

Q. STAFF WITNESS MERCIEL CLAIMS THAT THE COMPANY PROPOSES TO ELIMINATE COMPANY PARTICIPATION, REFUNDS, AND FAIR SHARE AMOUNTS RELATED TO MAIN EXTENSIONS IN THE PROPOSED CONSOLIDATED TARIFF. PLEASE EXPLAIN COMPANY'S REASONS FOR THIS ELIMINATION?

A. First, MAWC is not fully eliminating Company Participation, as it will continue to review mains to be upgraded for improvements to the system beyond the existing development. However, this being said, MAWC is proposing a change in approach. MAWC believes that its current infrastructure replacement requirements are a higher priority for the limited funds that MAWC has for its capital budget than are main extensions. The Refund or Customer Fair Share amounts make more sense for small growing systems that have limited rate base. The MAWC systems are well developed with a substantial rate base in each district. Also, the current refund policy requires a pay out over a long period of time (7-10 years), which is difficult to

administer. The Company would like to eliminate the time, effort and costs it incurs in tracking the advances, making refunds/fair share payments, and lapsing the accounts.

Q. WILL THESE CHANGES IMPEDE FUTURE DEVELOPMENT?

A. MAWC believes that the Refund or Customer Fair Share amounts paid would not impede future development in its service areas. As stated in my Rebuttal Testimony, there are currently districts in MAWC that do not have Customer Participation/Fair Share or have a small Customer Participation and we have not noticed any reduction in growth.

Q. WHAT DISTRICTS HAVE A CUSTOMER FAIR SHARE AMOUNT IN THE CURRENT TARIFFS?

A. Only the "old" St. Louis County and St. Charles Districts and the Warren County District have a tariff that describes a Customer Fair Share. While the Company shares Mr. Merciel's concern for an individual customer who might pay to extend piping to his lot only to see subsequent customers get to tap on to this main extension free of charge, we also find that the subsequent customers have, in many cases, waited out the time period to make a fair-share payment to the original customer and thus avoided the payment anyway. Administering these actions hardly seems reasonable as the lack of this provision in other districts has not seemed to have caused a hardship.

CITY OF RIVERSIDE FIRE PROTECTION

Q. DO YOU AGREE WITH STAFF WITNESS MERCIEL THAT IT MAY BE DESIRABLE IN COMMUNITIES WITH OLDER PARTS OF TOWN AND OLDER WATER SYSTEMS TO IMPROVE WATER FLOW AND PRESSURE TO MEET THE NEEDS OF MODERN FIRE PROTECTION?

A. Yes, many fire departments/districts would find it desirable to improve fire flow in older sections of water systems and have had discussions with MAWC concerning this issue.

Q. SHOULD INFRASTRUCTURE IMPROVEMENTS BE MADE IN EACH OF THESE SITUATIONS?

A. Not necessarily. The Company does not believe it to be prudent to replace such older water mains based simply on the change of fire flow requirements set in a new Ordinance. The existing system has provided adequate pressure and flow throughout its years of service and continues to perform at such conditions today. The funding to replace mains in MAWC systems or other water systems is not unlimited and therefore, priority projects must carefully selected to match the available funds. Mains are normally selected to be replaced based on criteria such as multiple main break history, insufficient pressure, pavement replacement, etc. Lower fire flow is a consideration that helps to increase the prioritization for replacement of sections of main, but it is not the sole consideration.

Q. WOULD REPLACEMENT OF MAINS TO MEET EVER CHANGING FIRE FLOWS HAVE AN IMPACT ON THE RATES OF A DISTRICT'S CUSTOMERS?

A. Yes, Company main replacements would increase the rate base upon which rates are set. Replacing mains that are not displaying other service issues would potentially result in premature retirement of mains that are still capable of providing the service for which they were designed.

Q. COULD REPLACEMENT BE FAR REACHING IN SOME CIRCUMSTANCES?

A. Yes. Depending on the new flow requirements, many mains may be required to be replaced. An example is the Houston Lakes area (near Riverside) where it was determined that almost all of the mains in this area would need to be replaced with a larger diameter main if the system is retrofitted to meet the new Ordinance. The preliminary estimate of the cost to replace these mains is over $1 million.

Q. WHAT IS THE CONSEQUENCE OF SUCH GLOBAL REPLACEMENT?

A. Replacing large sections of mains will require additional rate increases.

Q. WHAT IS MAWC'S BELIEF AS TO THE ADEQUACY OF ITS EXISTING SYSTEM?

A. The Company believes these existing mains are adequate as they provide the flow for which they were designed. The Company does not believe it is a good use of its limited capital to retrofit its system based solely on fire flow requirements that are normally needed for newly constructed buildings. The Company believes it is more reasonable to concentrate its funds on replacing

infrastructure of higher priority where other service issues need to be addressed.

Q. WHAT APPROACH DOES MAWC BELIEVE IT TAKES IN REGARD TO INFRASTRUCTURE REPLACEMENTS?

A. The Company prudently expends its available funds to meet its many infrastructure and service needs throughout the State of Missouri, and, as a result, provides safe and adequate service that meets the many regulatory and customer requirements.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes, it does.

Missouri-American Water
Cedar Hill Plant Improvement Project UPIS and CIAC

subacct	naruc acct	description	3/31/2008 accum cost	non-treatment related plant	treatment related plant	in service date
361100	352.100	Pipe and Fittings - PVC 8"	51,910	51,910		5/31/2007 0:00
361100	352.200	Structure - Manhole/Catch Basin	51,910	51,910		5/31/2007 0:00
355200	356.000	Electrical - Generator (Alternator - AC, DC)	20,928		20,928	4/23/2007 0:00
371200	365.000	Electrical - Motor Starter/Motor Control Center (Oil, Adjustable Speed, Vacuum, Star Delta, Soft Start, Resistance, Air, Auto Transformer, Direct On Line, Variable HV Air)	49,304		49,304	4/23/2007 0:00
371200	365.000	Electrical - Power Supply Equipment (DC Supply, Fuel Cells, Hydroelectric, Phase Converter, Portable Light Plant, Power Inverter, Solar Panel, Uninterruptible Power Supply, Voltage Regulator, Wind Generator)	3,990		3,990	4/23/2007 0:00
371200	365.000	Process Pumping Equipment - Submersible Centrifugal Pump	39,900		39,900	4/23/2007 0:00
354400	371.000	HVAC/Plumbing - HVAC Equipment (Air Condition Unit/Air Chiller, Heat Pump)	17,100	17,100		4/23/2007 0:00
354400	371.000	Structure - Manhole/Catch Basin	22,800		22,800	4/23/2007 0:00
354400	371.000	Structure - Paving (Parking Lot, Sidewalk, Driveway, Road)	45,600	45,600		4/23/2007 0:00
354400	371.000	Structure - Vault/Chamber/Pit (Concrete, Fiberglass, Plastic, Steel)	155,040		155,040	4/23/2007 0:00
354400	371.000	Structure - Wood Building	228,001	228,001		4/23/2007 0:00
354400	371.000	Structure - Fence (Barrier, Gate, Masonry, Palisade,Wire Mesh, Wooden)	33,028	33,028		4/23/2007 0:00
354400	371.000	Structure - Vault/Chamber/Pit (Concrete, Fiberglass, Plastic, Steel)	52,320		52,320	4/23/2007 0:00
354400	371.000	Structure - Wood Building	41,856	41,856		4/23/2007 0:00
380000	372.000	Electrical - Generator (Alternator - AC, DC)	45,600		45,600	4/23/2007 0:00
380000	372.200	INSTALL TREATMENT EQUIPMENT sand creek WWTP	43,172		43,172	4/23/2007 0:00
380000	372.300	INSTALL TREATMENT EQUIPMENT sand creek WWTP	776,852		776,852	4/23/2007 0:00
380000	372.400	Meters - Process (Closed Pipe Time of Flight, Magnetic, Multi-jet, Porgrammable, Open Channel, Ultrasonic, Paddle, Propeller, Thermal Mass Flow, Ultrasonic, Vortex, Rotameter)	19,380		19,380	4/23/2007 0:00
380000	372.400	INSTALL TREATMENT EQUIPMENT sand creek WWTP	43,051		43,051	4/23/2007 0:00
380000	372.500	Pipe and Fittings - Ductile Iron 6"	5,292		5,292	4/23/2007 0:00
380000	372.500	Treatment - Clarification - Clarification Tank (Steel, Concrete)	52,320		52,320	4/23/2007 0:00
381000	373.000	Pipe and Fittings - Ductile Iron 8"	43,949		43,949	4/23/2007 0:00
[illegible]000	373.000	Flow Control - Other Valve (Air, Altitude, Backflow Preventor, Ball, Check, Cone, Diaphragm, Flap (Outfall), Float, Foot, Globe, Knife, Needle, Open Chanel Gate, Pinch, Piston, Plug, Presure/Vacuum Release, Pressure Relief, Solenoid, Telescopic)	40,795		40,795	4/23/2007 0:00
[illegible]000	373.000	Pipe and Fittings - Ductile Iron 4"	24,110		24,110	4/23/2007 0:00
[illegible]000	373.000	Pipe and Fittings - Ductile Iron 6"	15,289		15,289	4/23/2007 0:00
381000	373.000	Pipe and Fittings - Ductile Iron 8"	52,630		52,630	4/23/2007 0:00
381000	373.000	Pipe and Fittings - Ductile Iron 10"	12,937		12,937	4/23/2007 0:00
382000	374.100	Structure - Vault/Chamber/Pit (Concrete, Fiberglass, Plastic, Steel)	14,701		14,701	4/23/2007 0:00
396000	396.000	Instrumentation - Control System - Modem	7,410		7,410	4/23/2007 0:00
396000	396.000	Instrumentation - Control System - Programmable Logic Controller	10,830		10,830	4/23/2007 0:00
		Total UPIS	**$2,022,005**	**$469,405**	**$1,552,600**	

CIAC		CIAC Amount	non-treatment related ciac	treatment related ciac	CIAC GL Date
271160	O'Brien	106,823		106,823	1/3/2007 0:00
271160	O'Brien	100,000		100,000	6/22/2006 0:00
271160	O'Brien	118,865		118,865	7/9/2007 0:00
271160	O'Brien	6,820		6,820	9/12/2006 0:00
271160	Northwest HS *	159,312		159,312	12/2/2004 0:00
	Total CIAC	**491,820**		**491,820**	

* Northwest HS CIAC was transferred to the Company's books at the time of acquisition.

Plant less CIAC	$1,060,780
New Plant Cost/Gal	$10
2009 Existing Avg Daily Usage	75,150
Existing Usage Cost of Plant	$777,853
Remaining Plant not Contributed	$282,928
Lake Tamarack Capacity Charge Paid	$79,500
Remaining Plant less CIAC less Capacity Charge	$203,428
Capacity not yet Paid or Used	19,654 gallons
% Capacity Remaining	13.10%

WR-2010-0131
Cedar Hill Sand Creek Plant Adjustment

Merciel - Rebuttal
KHD Adj for Treatment Only and Lake Tamarack

	CHUC	Expanded plant capacity				
		gpd		$		
185	pre-existing customers	66,000			357	gal/customer
			88%			
old plant		75,000		$ 100,000		
				Treatment Cost Only		
expansion		75,000		$ 1,552,600	$ 10.35	per gallon
total capacity		150,000				
15%	reserve cushion	22,500				
capacity limit for ratemaking		127,500		357 customer limit for ratemaking		

==========

			$	540.54	rate base per existing customer, plant (entire pre-existing plant)
Total capacity	150,000	gal			
capacity used	66,000				
reserve cushion	22,500	gal			
Available capacity limit	61,500				
total customer capacity for rates	357		$	1,552,600	Plant expansion cost
			$	4,344	cost per all customers to 85% capacity (all new customers, existing and future share in plant expansion)
potential new customers	172				
actual new customers	64	with Lake Tamarack	ciac	$ 1,500	residential

plant disallowance for rate case is			
cost per future customer	108	new customer	
Capital Disallowance	$ 470,865	CIAC from O'Brien Place and NW HS	$ 491,820
		CIAC from Lake Tamarack Capacity Fee	$ 79,500
			$ 571,320