

**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-2008-0311
A General Rate Increase for Water and Sewer) SR-2008-0312
Service Provided in Missouri Service Areas.)

**SECOND NONUNANIMOUS
STIPULATION AND AGREEMENT
AS TO CERTAIN ISSUES**

COME NOW Missouri-American Water Company (MAWC or Company) and the Staff of the Missouri Public Service Commission ("Staff"), and respectfully state to the Missouri Public Service Commission (Commission) that, as a result of negotiations, the undersigned parties (Signatories) have reached the stipulations and agreements contained herein in order to settle the certain issues specified below.

1. **Issues Settled.** This Stipulation and Agreement is intended to settle among the Signatories the following issues previously identified by the Signatories through testimony and or schedules. The Signatories recommend that the Commission accept this Stipulation and Agreement as a fair compromise of their respective positions on the following enumerated issues:

Pension/OPEB Methodology
Amortization of Pension/OPEB Assets
Insurance Other than Group
Annual Incentive Program (AIP)
Belleville Lab
Fuel & Power/Chemicals Expense annualization for St. Louis/St. Charles Districts *

* This Stipulation and Agreement is intended to settle only that portion of this issue raised in the direct testimony on revenue requirement issues of MIEC witness Michael Gorman at page 3, line 6 through page 5, line 9.

2. **Revenue Requirement.** In settlement of the issues identified in this Second Nonunanimous Stipulation and Agreement, the Company's revenue requirement, as computed by the Staff, shall include an additional \$250,000.

3. **Pension/FAS 87 Tracker Mechanism and OPEB/FAS 106 Tracker Mechanism.** The Company and Staff agree that MAWC will continue to use the Pensions/FAS 87 and OPEB/FAS 106 "Tracker Mechanisms" as established in the stipulation approved by the Commission in Case No. WR-2007-0216, and as further described in the attached **Appendix A**. The current case (Case No. WR-2008-0311) revenue requirement will include the amortization of the tracker balances at the true-up date (September 30, 2008) amortized over a five year period, with the unamortized tracker balances to be included in rate base as regulatory assets or regulatory liabilities, as appropriate.

The sum for FAS 87 of \$4,615,665 (after application of a payroll expense O&M allocation factor as calculated at September 30, 2008 based upon MAWC's Payroll Model) and the sum for FAS 106 of \$4,315,012 (after application of an payroll expense O&M allocation factor as calculated at September 30, 2008 based upon MAWC's Payroll Model) will be used as the starting point for a new "vintage" of Pensions/FAS 87 and OPEB/FAS106 Tracker Mechanisms, respectively, at the time new rates in the current case become effective. The subsequent tracker balances resulting from this case will start to be booked in the month following the true-up date in this rate case and will continue to be booked until the later of the test year ending date, test year update period ending date or the true-up date in the Company's next rate case. The new tracker balances resulting from this case (Case No. WR-2008-0311) will be amortized

over a five year period beginning on the first day of the month following implementation of new rates in the Company's next rate case. Any unamortized tracker balances will be included in rate base as a regulatory asset or liability, as appropriate. Nothing in this agreement is intended to impair the ability of any party in the Company's next rate case proceeding to challenge the prudence of the Company's calculated levels of pension and OPEB expenses that it proposes to recover from the tracker mechanisms.

Contingent Waiver of Rights

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

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

6. If the Commission does not unconditionally approve this Stipulation and Agreement without modification, and notwithstanding the provision herein that it shall become void; neither this Stipulation and Agreement nor any matters associated with its consideration by the Commission shall be considered or argued to be a waiver of the rights that any Party has for a decision in accordance with §536.080 RSMo 2000 or Article V, Section 18 of the Missouri Constitution, and the Signatories shall retain all procedural and due process rights as fully as though this Stipulation and Agreement had not been presented for approval, and any suggestions, memoranda, testimony, or exhibits that have been offered or received in support of this Stipulation and Agreement shall become privileged as reflecting the substantive content of settlement discussions and shall be stricken from and not be considered as part of the administrative or evidentiary record before the Commission for any purpose whatsoever.

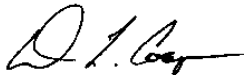
7. In the event the Commission unconditionally accepts the specific terms of this Stipulation and Agreement without modification, the Signatories waive their respective rights to present oral argument and written briefs pursuant to §536.080.1 RSMo 2000; their respective rights to the reading of the transcript by the Commission pursuant to RSMo §536.080.2 RSMo 2000; their respective rights to seek rehearing, pursuant to §536.500 RSMo 2000; and their respective rights to judicial review pursuant to §386.510 RSMo 2000. This waiver applies only to a Commission order unconditionally approving this Stipulation and Agreement issued in this proceeding and only to the issues that are resolved hereby. It does not apply to any matters raised in any prior or subsequent Commission proceeding or any matters not explicitly addressed by this Stipulation and Agreement.

Right to Disclose

8. The Staff may file suggestions or a memorandum in support of this Stipulation and Agreement. Each of the Parties shall be served with a copy of any such suggestions or memorandum and shall be entitled to submit to the Commission, within five (5) days of receipt of Staff's suggestions or memorandum, responsive suggestions or a responsive memorandum, which shall also be served on all Parties. The contents of any suggestions or memorandum provided by any Party are its own and are not acquiesced in or otherwise adopted by the other signatories to this Stipulation and Agreement, whether or not the Commission approves and adopts this Stipulation and Agreement.

WHEREFORE, for the foregoing reasons, the undersigned Parties respectfully request that the Commission issue its Order approving all of the specific terms and conditions of this Stipulation and Agreement.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been sent by electronic mail this 31st day of October, 2008, to:

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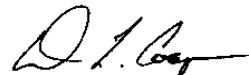
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Appendix A

OPEB/FAS 106 Tracker

The OPEB tracker mechanism represents the difference between the allocated and funded FAS 106 cost, as calculated on an ongoing basis by the Company's actuary, and the recalculated and allocated FAS 106 cost included in rates in this case. This difference results, in part, from the elimination of the corridor approach for amortizing unrecognized net gains and losses and a reduction in the amortization period. Instead of utilizing a corridor with a longer amortization period, the total net unrecognized gains and losses will be amortized over ten years.

Pensions/FAS 87 Tracker

The Pensions tracker mechanism represents the difference between the allocated FAS 87 cost, as calculated on an ongoing basis by the Company's actuary, and the recalculated and allocated FAS 87 cost included in rates in this case. This difference results, in part, from the elimination of the corridor approach for amortizing unrecognized net gains and losses and a reduction in the amortization period. Instead of utilizing a corridor with a longer amortization period, the total net unrecognized gains and losses will be amortized over ten years.