Exhibit No.:	
Issues:	Revenue Stabilization Mechanism, Pension and PBOP expense and Pension and PBOP tracker
Witness:	John M. Watkins
Exhibit Type:	Direct
Sponsoring Party:	Missouri-American Water Company
Case No.:	WR-2017-0285 SR-2017-0286
Date:	June 30, 2017

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2017-0285
CASE NO. SR-2017-0286

DIRECT TESTIMONY

OF

JOHN M. WATKINS

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

DIRECT TESTIMONY
JOHN M. WATKINS
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2017-0285
CASE NO. SR-2017-0286

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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-2017-0285 CASE NO. SR-2017-0286

AFFIDAVIT OF JOHN M. WATKINS

John M. Watkins, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of John M. Watkins"; that said testimony and schedules were prepared by him and/or under his direction and supervision; that if inquiries 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.

John M. Watkins

John M. Watkins

State of New Jersey
County of Camden
SUBSCRIBED and sworn to
Before me this 6th day of June 2017.

Ann G. Alfano
Notary Public

My commission expires: 4/15/2020

ANN G. ALFANO
NOTARY PUBLIC OF NEW JERSEY
ID # 50014130
My Commission Expires 4/15/2020

DIRECT TESTIMONY

JOHN M. WATKINS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is John M. Watkins, and my business address is 131 Woodcrest Road, Cherry Hill, New Jersey 08034.

Q. By whom are you employed and in what capacity?

A. I am employed by American Water Works Service Company, Inc. ("Service Company") as Senior Director Regulatory Services.

Q. Please summarize your educational background and work experience.

A. I am a graduate of Trenton State College with a Bachelor of Science Degree in Finance and minors in Mathematics and Economics. I received a Masters in Business Administration with a concentration in Accounting from Drexel University.

From May 1996 to October 1998, I was employed by U.S. Vision as a Staff Accountant. I began my employment with Service Company as a Rate Analyst for the Region in November 1998. At that time, the Region included American Water Works Company, Inc. ("American Water" or "AWW") subsidiaries located in the states of Connecticut, Iowa, Maryland, Massachusetts, Michigan, Missouri, New Hampshire, New York, Ohio, Tennessee and Virginia. In May 2000, I transferred to Haddon Heights, New Jersey, in conjunction with the transfer of the Service Company's responsibility for the New England companies which at that time, together with New Jersey American Water Company ("NJAWC"), comprised American Water's Northeast Region. In July 2000, I was promoted to Financial Analyst-Intermediate. In March 2003, I was promoted to Senior Financial Analyst. In September 2007, I was promoted to Principal Financial Analyst. In November 2010, I was promoted to Senior Manager – Rates & Regulation. In this position I led the Rates and Regulation group in supporting rate case filings for all American Water regulated subsidiaries. At that time, I supported filings for American Water subsidiary companies located in the states of Arizona, California, Hawaii, Indiana, Illinois, Iowa, Kentucky, Maryland, Michigan, Missouri, New Jersey, New Mexico, New York, Pennsylvania, Ohio, Tennessee, Texas, Virginia and West Virginia. In April 2012, I was promoted to Director Regulatory Services. In this position my duties consisted of reviewing, preparing and assisting in regulatory filings and related activities for all of the regulated subsidiaries of American Water. In June 2014, I transferred into the position of Director Rates and Regulatory Support. In January 2017, I was promoted into my current position of Senior Director Regulatory Services.

Q. What are your current employment responsibilities?

A. My duties consist of reviewing, preparing and assisting in regulatory filings and related activities for all of the regulated subsidiaries of American Water. My responsibilities and my team's responsibilities include the preparation of written testimony, exhibits and work papers in support of rate applications and other regulatory filings as well as responses to data requests for Missouri-American Water Company ("Missouri-American" or "the Company") and its regulated utility affiliates.

Q. Have you previously testified before any regulatory commissions?

A. Yes. I have testified before Commissions in Connecticut (Case 99-08-32), Missouri (WR-2000-281, WR-2015-0301), Massachusetts (DTE 00-105), New Jersey (WR03070511, WR06030257, WR08010020, WR10020149 and WR10040260), New York (Case 04-W-0577, Case 07-W-0508 and Case 11-W-0200), Illinois (Docket No 16-0093) and Iowa (RPU-2016-002).

Q. What is the purpose of your direct testimony in this proceeding?

A. I will describe and explain the Company's proposed Revenue Stabilization Mechanism ("RSM"). In addition, I will explain adjustments to Pension and Post-retirement Benefits Other than Pension ("PBOP") and discuss the Pension and PBOP trackers.

Q. Are you sponsoring any exhibits with your testimony?

A. Yes. I am sponsoring the following schedules which are filed with my Direct Testimony:

- Schedule JMW-1 – Water RSM Tariff;
- Schedule JMW-2 – Sewer RSM Tariff;
- Schedule JMW-3 – Analysis of Operation of RSM.

II. <u>REVENUE STABILIZATION MECHANISM</u>

Q. What is the purpose of the Company's proposed Revenue Stabilization Mechanism?

A. Company Witness Jenkins describes the purpose and need for the RSM. I will discuss how the mechanism works.

Q. Please describe the components of the proposed RSM and how the RSM would operate if the Commission approved it.

A. The Commission would first set the Company's revenue requirement in this case, i.e., the amount of revenue necessary for the Company to recover its reasonable cost of providing service to its customers (the "authorized revenue"). The RSM would compare the authorized revenue and actual billed metered revenues for the customer classes of residential, commercial, other public authorities (OPA) and Sale for Resale for both water and sewer, and defer/accrue the difference, less the applicable change in production costs on a monthly basis. Production costs would include power, chemicals, purchased water and waste disposal. The annual amounts of metered revenues and the annual amount of expenses for all production costs would be prorated to monthly amounts. The Company would propose the proration be set using the Company's last two years of system delivery in order to obtain a reasonable monthly amount of authorized revenues and production costs. These monthly amounts would be reset in the next base rate case proceeding.

Q. Why does the RSM consider revenues net of production costs?

A. Production costs are considered because they vary with sales volumes. Delivering more water costs more and delivering less water costs less. The same is true for sewer, treating more wastewater costs more and treating less costs less. Netting production costs will ensure that customers pay only those production costs associated with the actual amount of water delivered.

Q. Do any other American Water affiliates operate with an RSM and, if so, how do they work?

A. Yes, New York-American Water Company's first Revenue Adjustment Clause ("RAC") was established in October 1988. The RAC reconciles metered revenues, fuel, power and chemicals between what was authorized and what was actually experienced. The difference is then surcharged or credited within the following rate year. The first California-American Water Company Revenue Adjustment Mechanism and Modified Cost Balancing Account ("WRAM/MCBA") was implemented in the fourth quarter of 2008. The WRAM/MCBA reconciles the volumetric consumption revenues, purchased water, power costs and pumping taxes between what was authorized and actuals. Illinois-American received approval of the Volume Balancing Adjustment Rider ("VBA") in December 2016. The VBA reconciles volumetric consumption revenues, power, chemicals and waste disposal, and the difference is surcharged or credited within the remaining calendar months (April-December) after the tariff rate becomes effective. The VBA reconciles water and wastewater.

Q. Please describe the specific accounting treatment for the Company's RSM.

A. Each month the Company would compare the actual metered revenues for the applicable customer classes to the amount of authorized revenues for the applicable classes. Missouri-American would also compare the actual production costs to the authorized amount of production costs associated with the applicable customer classes. If the actual revenues fall short of the authorized revenues, the difference in the revenue less the production costs would be deferred to a regulatory asset. If the actual revenues were more than the authorized revenues, the difference in the revenue less the production costs would be deferred to a regulatory liability. Generally speaking, if the Company has additional revenues due to an increase in water sales, the Company will defer the additional revenue, less the additional cost to produce the water, to a regulatory asset. Whereas, if water sales are lower, then the Company has a shortfall in revenues due to a decrease in water sales, the Company will accrue the shortfall in revenues less the savings in production expense from producing less water, to a regulatory liability.

Q. Does the proposed RSM have a reconciliation mechanism?

A. Yes, the Company proposes that a reconciliation occur on an annual basis at the end of each calendar year. The Company would file the first reconciliation by January 31 and Commission Staff would have 60 days to review and approve the RSM filing following the end of the calendar year in which the Commission decides this rate case. The first filing will reconcile the revenues for the period when rates become effective, approximately June 1, 2018, through December 31, 2018. Each subsequent filing will be filed as described above but will reconcile the revenues for the entire preceding calendar year. The Company proposes that any credit be issued as soon as administratively possible and the credit would be determined based on the number of customers. The reason the Company would propose a one-time credit that is equal to all customers covered by the RSM is that it benefits the low users at a greater percentage therefore those that conserve water would be rewarded with a higher percentage than those that use more water. The Company is proposing that any surcharge be based on a volumetric amount and should be targeted to recover the shortfall within the current calendar year or from April 1 through December 31. The reason the Company would propose a volumetric surcharge is to ensure that the low usage customers would continue to benefit from their conservation because the volumetric rate would be equal for the entire Company. Therefore, if you conserve, you will save more money not only in paying the current bill but also if a surcharge is applied to collect any shortfall in revenues less production costs.

Q. How does the Company propose to treat customer growth through acquisitions?

A. The Company believes that there are three options for the treatment of growth through acquisitions. The first is to exclude the acquisition revenue and production costs from the RSM until they can be recognized in the Company's next rate case. The second option is to determine in the acquisition approval case an amount of revenue and production costs that would be added to the rate case authorized amounts to come up with a total authorized amounts. The third is to determine in the acquisition approval case an amount of revenue and production costs on a standalone basis for the acquired system which would be reconciled separately until the next general rate case. Proration would occur for any timeframe that does not coincide with the rate year with the same method as described above. The Company recommends the second option.

Q. Does the Company propose separate treatment for organic growth from existing customers?

A. Organic growth can be defined as the addition of customers to the Company's current operating districts, within the existing borders of those districts. The Company believes that any organic growth would be minimal, at best, and would be subsumed within the overall trend of declining sales. If, however, Missouri-American did experience any organic growth, the result would be additional actual metered revenues, which would be credited to customers through the RSM if total revenues net of production costs exceed the authorized revenues net of production costs.

Q. Does the RSM eliminate the need to perform an accurate sales forecast because the RSM will correct any inaccuracies?

A. No. The Company always strives for, and the Commission should always demand, the most accurate sales forecasts possible. The most accurate forecasts achievable should minimize, to the extent possible, the surcharge or credit under the RSM.

Q. How would declining use affect the calculation?

A. Declining usage lowers the actual water sales volume and therefore actual revenues. Were the Commission to approve both the RSM and the declining usage adjustment, and the Company were to project too great a decline in usage such that sales volumes were higher than forecasted, the Company would simply credit the over-collection of the revenues to customers through the RSM.

Q. Could the RSM potentially result in both credits and surcharges to customers from year to year?

A. Yes. As discussed above, there are many reasons that actual revenues can deviate from authorized revenues. The primary cause of variations in sales volume, particularly for residential customers, is weather. Other causes include improved water and energy efficiency, customer conservation, price elasticity, and economic conditions.

Q. Have you provided additional information concerning the operation of the RSM?

A. Yes, the proposed water RSM Tariff is filed with my Direct Testimony as Schedule JMW-1. Schedule JMW-2 is the proposed sewer RSM Tariff.

Q. Has the Company analyzed how the RSM would have impacted Missouri-American had it been adopted previously?

A. Yes, Schedule JMW-3 attached to my Direct Testimony, shows the over/under collection of the authorized revenues, the production costs and the net of the two items. A positive number reflects the amount of the surcharge and a negative number reflects the amount of the credit to customers. The Company under-collected its approved revenues net of production costs in all years except 2012, when credits for over-collections would have been issued to Missouri-American's customers.

Q. Under the RSM, will customers who use less pay less?

A. Yes, they will pay less in their current bill because they are using less water. They will also pay less when and if a surcharge is issued because the surcharge is volume based. Customers who use less water will pay a lower surcharge. They will also pay less when and if a credit is issued because the credit is a one-time fixed amount. The lower the customer's consumption the higher credit he or she receives as a percentage of their bill.

III. REVENUE STABILIZATION MECHANISM ALTERNATIVES

Q. Can the mechanics of the RSM proposed by the Company be structured in any different way?

A. Yes, the Commission has other opinions available for how to structure the RSM. I will discuss some of them below. However, these options all have the weakness that they do not encourage customers to use water efficiently in as timely a manner as our proposal described above.

Q. Please explain one of the other options.

A. If the Commission were to determine that the production expenses proposed in the Company's RSM should not be reconciled within the RSM, then the mechanism would work as proposed with the exception of deferring the production expenses for credit or surcharge until the next base rate case. This would provide treatment for the production costs in a similar manner as other expenses that the Company has deferred in the past, and is currently deferring, such as pension and PBOPs.

Q. Why should production expenses be part of the mechanism or deferred until the next rate case?

A. As previously stated in my testimony, production costs vary with sales volumes. Delivering more water costs more and delivering less water costs less. The same is true for the treatment of wastewater. Netting production costs will ensure that customers pay only those production costs associated with the actual amount of water delivered or wastewater treated. By including the production costs in either the RSM reconciliation or deferring until the next case, the customer is not over-surcharged or under-credited. For example, if the Company reconciles only the revenues and volumetric sales fall short of the authorized amount by \$5 million, then the Company would surcharge customers the \$5 million. If sales fall short, then producing less water should result in production savings. If we assume the cost savings are \$1 million, then netting the production cost savings with the revenue shortfall would result in a surcharge to customers of \$4 million. In this example, the customers would benefit by including the production costs with the RSM as they would have the surcharge lowered by \$1 million as opposed to deferring the \$1 million to the next rate case.

Q. What if the residential sewer tariff moves to a fixed charge as proposed by the Company in this case?

A. If the Company's residential customers are charged on a fixed basis, then only the commercial customers would have a volumetric charge. Based on this, the Company would exclude the sewer group from the RSM as the majority of the revenues would be fixed.

Q. As another alternative, could the Company defer the RSM revenues and production expenses between cases?

A. Yes, while the Company believes the proposed RSM is the best alternative, deferring the revenue and the production costs between rate cases is another alternative. The advantage of an annual reconciliation is the annual surcharge or credit addresses the shortfall or over collection of net revenues in a timely manner instead of accumulating multiple years together and then amortizing it over a longer period of time. Also, incorporating any surcharge or credit into base rates by deferring and amortizing would mask or hide any impact to the customer and not drive water efficiency or effective pricing signals.

IV. PENSION AND PBOB EXPENSE

Q. Please describe the adjustment to operating expenses related to pension expense.

A. Missouri-American provides a defined pension benefit to non-union employees hired before January 1, 2006 and to union employees hired before January 1, 2001.

To reflect pension costs appropriately, the historic test year level of pension expense is adjusted first to arrive at the annualized expense level as of May 31, 2018, and second to arrive at a forecast expense for the twelve months ended May 31, 2019. Pro forma pension expense for Missouri-American is comprised of two components. The first component is pension expense according to FASB Accounting Standards Codification Topic 715 or "ASC 715", (formerly Statement of Financial Accounting Standards 87). This first component is referred to as "FAS 87" cost in the work paper. FAS 87 cost is forecasted by the Company's professional third party actuary, Willis Towers Watson. The gross 2018 FAS 87 cost for American Water is expected to go down to $48.2 million and the gross 2019 FAS 87 cost for American Water is expected to go down further to $40.3 million. Missouri-American's current share of American Water's pension cost is 12.55%. Once this factor is applied to the American Water total amounts, it yields a Missouri-American gross FAS 87 cost of $6,049,100 and $5,057,650 for calendar years of 2018 and 2019, respectively. For the annualized period ending May 31, 2018, the Company used the 2018 calendar year value. The Company's pro forma FAS 87 cost for the twelve months ended May 31, 2019 was calculated by using seven months of the 2018 value and five months of the 2019 value.

The percent chargeable to expense, based on pro forma labor costs, is 57.7%.

The second component of Missouri-American's pro forma pension expense is the amortization of the Company's pension tracker. The total forecasted balance of the pension tracker at May 31, 2018 is a credit of $2,699,481. The Company is proposing a five-year amortization of the credit balance, which would reduce expense by $539,892 annually.

Total pro forma pension expense is the sum of these components. For the annualized period ending May 31, 2018, the sum is $2,950,621, and for the forecasted twelve months ended May 31, 2019, the sum is $2,712,248. Please refer to Schedule CAS-13 for a summary of this adjustment.

Q. Please describe the adjustment to operating expenses related to PBOP expense.

A. Like Pension expense, pro forma PBOP expense for Missouri-American is comprised of two components. The first component is PBOP expense according to FASB Accounting Standards Codification Topic 715 or "ASC 715", (formerly Statement of Financial Accounting Standards 106). This first component is referred to as "FAS 106" cost in the work paper. FAS 106 cost is forecasted by the Company's professional third party actuary, Willis Towers Watson. The gross 2018 FAS 106 cost for American Water is expected to go down to $4.4 million and the gross 2019 FAS 106 cost for American Water is expected to go down further to $2.9 million. Missouri-American's current share of American Water's PBOP cost is 13.27%. Once this factor is applied to the American Water total amounts, it yields a Missouri-American gross FAS 106 cost of $583,880 and $384,830 for calendar years 2018 and 2019, respectively. The Company's pro forma FAS 106 cost for the twelve months ended May 31, 2018 is the calendar year value for 2018. The Company's pro forma FAS 106 cost for the forecasted twelve months ended May 31, 2019 is seven months of the 2018 value and five months of the 2019 value. The percent chargeable to expense, based on pro forma labor costs, is 57.7%.

The second component of Missouri-American's pro forma PBOP expense is the amortization of the Company's PBOP tracker. The total forecasted balance of the PBOP tracker at May 31, 2018 is a credit of $6,509,699. The Company is proposing a five-year amortization of the credit balance, which would reduce expense by $1,301,940 annually.

Total pro forma PBOP expense is the sum of these two components, or a negative $965,024 for the annualized pro forma period ending May 31, 2018 and a negative $1,012,880 for the twelve months ended May 31, 2019. Please refer to Schedule CAS-13 for a summary of this adjustment.

V. PENSION AND PBOP TRACKER

Q. Please explain the purpose of the pension and PBOP Tracker and the method for calculating it?

A. As part of a non-unanimous revenue requirement stipulation and agreement in Case No. WR-2015-0301, the Company agreed to track actual pension and PBOP cost in comparison to the levels included in rates in the same manner as agreed by the parties in Case No WR-2011-0337. The concept behind the establishment of tracking mechanisms for pension and PBOP is to protect customers and the Company from the wide variations that can exist in expected costs. Pension and PBOP costs are largely dependent upon market conditions, which can, and have, experienced great volatility.

Therefore, a base level of pension and PBOP expense has been established in the Company's rate proceeding and actual costs above or below that base level are recorded monthly as deferrals on the Company's books. Both excess recoveries and shortages can and have occurred. At the time of the next rate case, the cumulative excess or shortage is included in rate base and amortized. The current amortization period is five years.

The Pension/PBOP Tracker pro forma included in rate base in this case is based upon a projected balance at May 31, 2018. The projected balance includes the amortization of the vintage deferrals, which were based upon balances at January 31, 2016, and authorized to be amortized in the Company's last rate case (WR-2015-0301). The pro forma also includes the deferral of actual cost excesses or shortages from January 1, 2016 to March 31, 2017 as well as the projected deferral of cost excesses or shortages from April 1, 2017 to May 31, 2018. The projected cost deferrals for April 1, 2017 to May 31, 2018 are based upon on actuarial studies conducted annually by Willis Towers Watson and reduced by the amounts anticipated to be capitalized which is being supported by Company witness Bowen.

Q. Does this conclude your direct testimony?

A. Yes, it does.

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Sheet No. ______

Missouri-American Water Company
Name of Issuing Corporation

For

Community, Town or City

Revenue Stabilization Mechanism (RSM)

Applicable to All residential ("domestic"), commercial, other public authority and sale for resale metered water customers.

Section A - Definitions

The terms below are defined to mean:

Actual Revenue (AR) shall mean the actual dollar amount of revenues billed to customers for the identified Service Classifications, excluding revenues arising from adjustments under this tariff and any other tariff, which were billed for the applicable Fiscal Year.

Actual Production Costs (APC) shall mean the actual dollar amount of power, chemicals, purchased water and waste disposal incurred by the Company in the Fiscal Year.

Effective Period shall mean the period for which the adjustments in Section B are to be billed to customers, and shall be the nine-month period April through December after the Filing Month.

Effective Period Usage (G) shall mean the number of 100 gallon units delivered to customers by the Company, including the number of 100 gallon units for the applicable Effective Period.

Filing Month shall mean the month in which an adjustment is determined by the Company and submitted to the Commission, on or before January 31.

Fiscal Year shall mean the Fiscal Year of the Company that ended as of the most recent December 31.

Previous Amortization Period shall mean the nine-month reconciliation amortization period that ended as of the most recent Fiscal Year.

Rate Case Revenue (RCR) shall mean the dollar amount of revenues reflected in the revenue requirements approved by the Commission for the applicable Service Classifications in the Company's most recent general rate case. In a month or year in which new rates come into effect, the RCR shall be prorated based upon the number of days in the month or year under the old rates and the number of days in the month or year under the new rates. If the dollar amount of revenues is expected to change as a result of the Commission's approval of one or more water system acquisitions by the Company, then the RCR will be adjusted to reflect the additional revenue as determined in the acquisition case. In a month or year in which the Commission approves a water acquisition by the Company, the RCR shall be prorated based upon the number of days in the month or year that do not reflect the revenues billed to customers in the acquired system(s) and the number of days in the month or year that do reflect the revenues billed to customers in the acquired system(s).

DATE OF ISSUE: ______________ DATE OF EFFECTIVE: ______________

ISSUED BY: Cheryl Norton, President
727 Craig Road, St. Louis, MO 63141

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Sheet No. ______

Missouri-American Water Company For ______________________
Name of Issuing Corporation Community, Town or City

Section A - Definitions – continued

Rate Case Production Costs (RPC) shall mean the dollar amount of power, chemicals, purchased water and waste disposal expenses reflected in revenue requirements approved by the Commission in the Company's most recent general rate case. In a month or year in which new rates come into effect, the RPC shall be prorated based upon the number of days in the month or year under the old rates and the number of days in the month or year under the new rates. If the dollar amount of production costs is expected to change as a result of the Commission's approval of one or more water system acquisitions by the Company, then the RPC will be adjusted to reflect the additional production costs as determined in the acquisition case. In a month or year in which the Commission approves a water acquisition by the Company, the RPC shall be prorated based upon the number of days in the month or year that do not reflect the production costs in the acquired system(s) and the number of days in the month or year that do reflect the production costs in the acquired system(s).

Upcoming Amortization Period shall mean the nine-month reconciliation amortization period commencing on April 1 following the Fiscal Year.

Section B - Determination of Adjustment

$$\frac{((RCR-RPC) - (AR-APC)) + RA}{G}$$

Where:

- RCR represents the Rate Case Revenue for the Fiscal Year.
- RPC represents the Rate Case Production Costs for the Fiscal Year.
- AR represents the Actual Revenue for the Fiscal Year.
- APC represents the Actual Production Costs for the Fiscal Year.
- G represents the Factor G for the Effective Period.
- RA represents the dollar amount due the Company (+RA) or the customers (-RA) arising from adjustments under this tariff that were under-billed or over-billed in the prior Fiscal Year.

The adjustment components above shall be summed together for billing purposes. If either component of the adjustments computes to $0.0001 per 100 gallons or more, any fraction of $0.0001 in the computed per 100 Gallons adjustment amount shall be dropped if less than $0.00005 or, if $0.00005 or more, shall be rounded up to the next full $0.0001.

Section C - Reports and Reconciliations

The Company shall file with the Commission on or before January 31 of each year, the RSM calculation and support for any annual adjustments to be effective under this tariff. The Commission Staff will have 60 days to review. The reconciliation amount will be surcharged from April1 through December 31 of each calendar year. Any credit will be issued as soon as administratively possible.

Rate Components: In addition to the other charges provided for in the company's tariffs, a separate charge for the RSM will apply for service rendered on and after the effective date.

Surcharge Rate (1) $.0000 per hundred gallons

(1) Exclusive of every tax or payment imposed upon the Company by any political subdivision for the State of Missouri, for the right to do business in such political subdivision.

DATE OF ISSUE: ______________ DATE OF EFFECTIVE: ______________

ISSUED BY: Cheryl Norton, President
727 Craig Road, St. Louis, MO 63141

FORM NO. 26 | P.S.C MO NO. 26 | Original Sheet No. ______
Sheet No. ______

Missouri-American Water Company
Name of Issuing Corporation

For ______________________
Community, Town or City

Revenue Stabilization Mechanism (RSM)

Applicable to All residential ("domestic"), commercial, other public authority and sale for resale metered sewer customers.

Section A - Definitions

The terms below are defined to mean:

Actual Revenue (AR) shall mean the actual dollar amount of revenues billed to customers for the identified Service Classifications, excluding revenues arising from adjustments under this tariff and any other tariff, which were billed for the applicable Fiscal Year.

Actual Production Costs (APC) shall mean the actual dollar amount of power, chemicals and waste disposal incurred by the Company in the Fiscal Year.

Effective Period shall mean the period for which the adjustments in Section B are to be billed to customers, and shall be the nine-month period April through December after the Filing Month.

Effective Period Usage (G) shall mean the number of 100 gallon units delivered to customers by the Company, including the number of 100 gallon units for the applicable Effective period.

Filing Month shall mean the month in which an adjustment is determined by the Company and submitted to the Commission, on or before January 31.

Fiscal Year shall mean the Fiscal Year of the Company that ended as of the most recent December 31.

Previous Amortization Period shall mean the nine-month reconciliation amortization period that ended as of the most recent Fiscal Year.

Rate Case Revenue (RCR) shall mean the dollar amount of revenues reflected in the revenue requirements approved by the Commission for the applicable Service Classifications in the Company's most recent general rate case. In a month or year in which new rates come into effect, the RCR shall be prorated based upon the number of days in the month or year under the old rates and the number of days in the month or year under the new rates. If the dollar amount of revenues is expected to change as a result of the Commission's approval of one or more sewer system acquisitions by the Company, then the RCR will be adjusted to reflect the additional revenue as determined in the acquisition case. In a month or year in which the Commission approves a sewer acquisition by the Company, the RCR shall be prorated based upon the number of days in the month or year that do not reflect the revenues billed to customers in the acquired system(s) and the number of days in the month or year that do reflect the revenues billed to customers in the acquired system(s).

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ISSUED BY: Cheryl Norton, President
727 Craig Road, St. Louis, MO 63141

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Sheet No. ______

Missouri-American Water Company
Name of Issuing Corporation

For ______________________
Community, Town or City

Section A - Definitions – continued

Rate Case Production Costs (RPC) shall mean the dollar amount of power, chemicals and waste disposal expenses reflected in revenue requirements approved by the Commission in the Company's most recent general rate case. In a month or year in which new rates come into effect, the RPC shall be prorated based upon the number of days in the month or year under the old rates and the number of days in the month or year under the new rates. If the dollar amount of production costs is expected to change as a result of the Commission's approval of one or more sewer system acquisitions by the Company, then the RPC will be adjusted to reflect the additional production costs as determined in the acquisition case. In a month or year in which the Commission approves a sewer acquisition by the Company, the RPC shall be prorated based upon the number of days in the month or year that do not reflect the production costs in the acquired system(s) and the number of days in the month or year that do reflect the production costs in the acquired system(s).

Upcoming Amortization Period shall mean the nine-month reconciliation amortization period commencing on April 1 following the Fiscal Year.

Section B - Determination of Adjustment

$$\frac{((RCR-RPC) - (AR-APC)) + RA}{G}$$

Where:

- RCR represents the Rate Case Revenue for the Fiscal Year.
- RPC represents the Rate Case Production Costs for the Fiscal Year.
- AR represents the Actual Revenue for the Fiscal Year.
- APC represents the Actual Production Costs for the Fiscal Year.
- G represents the Factor G for the Effective Period.
- RA represents the dollar amount due the Company (+RA) or the customers (-RA) arising from adjustments under this tariff that were under-billed or over-billed in the prior Fiscal Year.

The adjustment components above shall be summed together for billing purposes. If either component of the adjustments computes to $0.0001 per 100 gallons or more, any fraction of $0.0001 in the computed per 100 Gallons adjustment amount shall be dropped if less than $0.00005 or, if $0.00005 or more, shall be rounded up to the next full $0.0001.

Section C - Reports and Reconciliations
The Company shall file with the Commission on or before January 31 of each year, the RSM calculation and support for any annual adjustments to be effective under this tariff. The Commission Staff will have 60 days to review. The reconciliation amount will be surcharged from April1 through December 31 of each calendar year. Any credit will be issued as soon as administratively possible.

Rate Components: In addition to the other charges provided for in the company's tariffs, a separate charge for the RSM will apply for service rendered on and after the effective date.

Surcharge Rate (1) $.0000 per hundred gallons

(1) Exclusive of every tax or payment imposed upon the Company by any political subdivision for the State of Missouri, for the right to do business in such political subdivision.

DATE OF ISSUE: ______________ DATE OF EFFECTIVE: ______________

ISSUED BY: Cheryl Norton, President
727 Craig Road, St. Louis, MO 63141

Schedule JMW-3

Authorized Revenues (1)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water	$145,679,828	$173,186,571	$197,280,769	$206,532,238	$213,962,106	$232,142,413	$237,054,075	$237,054,075	$237,054,075	$247,349,919
Sewer	111,479	459,306	564,469	1,114,166	1,558,273	2,668,437	2,969,039	2,969,039	2,969,039	5,301,244
	$145,791,307	$173,645,877	$197,845,238	$207,646,404	$215,520,379	$234,810,850	$240,023,114	$240,023,114	$240,023,114	$252,651,163

Actual Revenues	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water	$147,187,689	$155,236,743	$176,814,412	$192,614,238	$207,389,279	$243,652,841	$229,023,141	$227,138,052	$218,000,520	$233,128,505
Sewer	109,743	418,503	584,552	725,300	1,637,183	2,711,814	3,034,304	3,012,739	3,043,806	5,539,309
	$147,297,432	$155,655,246	$177,398,964	$193,339,538	$209,026,462	$246,364,655	$232,057,445	$230,150,791	$221,044,326	$238,667,814

Variance - Surcharge (Credit)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water	($1,507,861)	$17,949,828	$20,466,357	$13,918,000	$6,572,827	($11,510,428)	$8,030,934	$9,916,023	$19,053,555	$14,221,414
Sewer	1,736	40,803	(20,083)	388,866	(78,910)	(43,377)	(65,265)	(43,700)	(74,767)	(238,065)
	($1,506,125)	$17,990,631	$20,446,274	$14,306,866	$6,493,917	($11,553,805)	$7,965,669	$9,872,323	$18,978,788	$13,983,349

Note (1): Classes of customers include Residential, Commercial, OPA and Sale for Resale

Authorized Production Costs (1)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water	$12,345,504	$14,684,085	$18,474,873	$18,739,529	$18,952,075	$20,004,431	$20,288,740	$20,288,740	$20,288,740	$20,018,222
Sewer	12,450	83,007	111,156	128,559	142,535	219,038	239,706	239,706	239,706	909,967
	$12,357,954	$14,767,092	$18,586,029	$18,868,088	$19,094,610	$20,223,469	$20,528,446	$20,528,446	$20,528,446	$20,928,189

Actual Production Costs	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water	$15,368,394	$15,607,118	$17,215,075	$18,409,894	$19,140,166	$20,275,212	$19,050,403	$19,792,061	$20,132,948	$20,542,707
Sewer	95,533	141,707	114,124	134,483	228,851	787,771	232,540	532,769	934,841	1,295,278
	$15,463,927	$15,748,825	$17,329,199	$18,544,377	$19,369,017	$21,062,983	$19,282,943	$20,324,830	$21,067,789	$21,837,985

Production Costs Variance - Surcharge (Credit)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water	$3,022,890	$923,033	($1,259,798)	($329,635)	$188,091	$270,781	($1,238,337)	($496,679)	($155,792)	$524,485
Sewer	83,083	58,700	2,968	5,924	86,316	568,733	(7,166)	293,063	695,135	385,311
	$3,105,973	$981,733	($1,256,830)	($323,711)	$274,407	$839,514	($1,245,503)	($203,616)	$539,343	$909,796

Revenues net of Expenses Variance - Surcharge (Credit)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water	$1,515,029	$18,872,861	$19,206,559	$13,588,365	$6,760,918	($11,239,647)	$6,792,597	$9,419,344	$18,897,763	$14,745,899
Sewer	84,819	99,503	(17,115)	394,790	7,406	525,356	(72,431)	249,363	620,368	147,246
	$1,599,848	$18,972,364	$19,189,444	$13,983,155	$6,768,324	($10,714,291)	$6,720,166	$9,668,707	$19,518,131	$14,893,145