

*Exhibit No.:*  
*Issue:* Rate of Return  
*Witness:* David Murray  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* True-up Direct Testimony  
*Case No.:* WR-2007-0216  
*Date Testimony Prepared:* July 19, 2007

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**TRUE-UP DIRECT TESTIMONY**

**OF**

**DAVID MURRAY**

**MISSOURI-AMERICAN WATER COMPANY**

**CASE NO. WR-2007-0216**

*Jefferson City, Missouri*  
*July 2007*

**\*\*Denotes Proprietary Information\*\***

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OF  
DAVID MURRRAY**

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1 able to analyze this information and update my recommendation based on information as of  
2 the true-up date.

3 Q. Have the financial statements that you relied upon for your updated  
4 recommendation been audited?

5 A. No. Therefore, it is possible that these financial statements may be revised in  
6 the future.

7 **CAPITAL STRUCTURE**

8 Q. Did you perform an analysis of American Water's capital structure  
9 (your recommended ratemaking capital structure for MAWC) as of May 31, 2007?

10 A. Yes, I did.

11 Q. What was the result of your analysis?

12 A. As of May 31, 2007, American Water's capital structure was as follows:

13 \*\*

14 \*\*

15 Q. What is the primary difference in the capital structure as of the true-up  
16 date compared to the test year?

17 A. \*\*

18  
19 \*\* compared to less than 30 percent  
20 in the capital structure I recommended in my direct testimony.

21 Q. What caused such a significant change in American Water's capital  
22 structure?

1           A.       \*\*

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14           Q.       Are there any other possible changes that may occur to American Water's  
15 capital structure after it is spun-off?

16           A.       Yes. Based on MAWC's response to Staff Data Request No. 101.1, American  
17 Water plans to refinance \*\*                               \*\* that Staff currently has in its  
18 recommended capital structure (the rest of the preferred stock is held at American Water's  
19 subsidiaries). However, because the timing and the terms of this event are uncertain, Staff  
20 has decided to use the known capital components at May 31, 2007, the Commission ordered  
21 true-up cut-off date, in its capital structure recommendation.

**EMBEDDED COST OF LONG-TERM DEBT**

Q. Did you perform an analysis of the embedded cost of long-term debt as of May 31, 2007?

A. Yes, I did.

Q. What was the result of your analysis?

A. As of May 31, 2007, Staff recommends an embedded cost for long-term debt of \*\* \*\* (see Schedule 2).

**EMBEDDED COST OF PREFERRED STOCK**

Q. Did you perform an analysis of the embedded cost of preferred stock as of May 31, 2007?

A. Yes, I did.

Q. What was the result of your analysis?

A. As of May 31, 2007, Staff recommends an embedded cost for preferred stock of \*\* \*\* (see Schedule 3).

**OVERALL RATE OF RETURN**

Q. What effect did your changes to capital structure and embedded costs have on your recommended ROR for MAWC?

A. My recommended ROR for MAWC has increased. Staff recommends a ROR range of \*\* \*\* (see Schedule 4) based on my original estimated cost of common equity of 8.60 percent to 9.60 percent with a midpoint of 9.10 percent.

Q. How has this ROR recommendation been incorporated in the determination of revenue requirement in this case?

True-Up Direct Testimony of  
David Murray

1           A.     The Supplemental True-up Direct Testimony of Staff witness  
2 Stephen M. Rackers discusses the revenue requirement resulting from this ROR  
3 recommendation.

4           Q.     Does this conclude your prepared true-up direct testimony?

5           A.     Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**

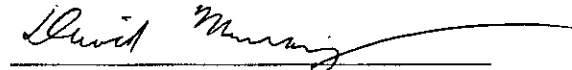
**OF THE STATE OF MISSOURI**

In the Matter of Missouri-American Water )  
Company's request for Authority to ) Case No. WR-2007-0216  
Implement a General Rate Increase for )  
Water Service provided in Missouri )  
Service Areas )

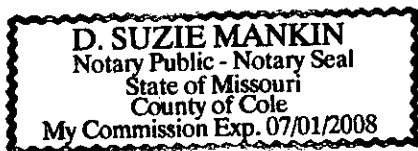
**AFFIDAVIT OF DAVID MURRAY**

STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

David Murray, being of lawful age, on his oath states: that he has participated in the preparation of the following True-up Testimony in question and answer form, consisting of 5 pages to be presented in the above case; that the answers in the following True-up Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

  
David Murray

Subscribed and sworn to before me this 19th day of July, 2007.



  
Notary Public



**SCHEDULES 1 through 4**

**HAVE BEEN DEEMED**

**PROPRIETARY**

**IN ITS ENTIRETY**