

BEFORE THE PUBLIC SERVICE COMMISSION

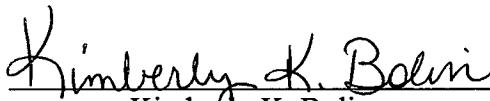
OF THE STATE OF MISSOURI

In the Matter of the General Rate Increase for)
Natural Gas Service Provided by Missouri) Case No. WR-2008-0311
American Water Company.) & SR-2008-0312
)

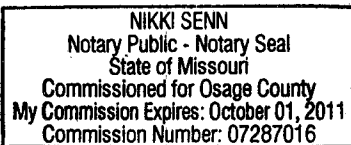
AFFIDAVIT OF KIMBERLY K. BOLIN


STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Kimberly K. Bolin, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Revised Page 10, line 22 and Revised Page 11, line 5 of her Direct Testimony; that she has knowledge of the matters set forth in such Revised Pages 10 and 11; and that such matters are true to the best of her knowledge and belief.


Kimberly K. Bolin

Subscribed and sworn to before me this 28th day of August, 2008.




Notary Public

1	Net Income Required based upon Staff's Rate Base and Rate of Return	\$ 1,000,000
2	Net Income Available based upon Existing Rates	<u>\$ 600,000</u>
3	Additional Net Income Required	\$ 400,000
4	Tax Gross Up Factor based upon a 38.39% Effective Tax Rate	<u>x 1.6231</u>
5	Recommended Revenue Requirement Increase	<u>\$ 649,240</u>

6 In this example, the utility must increase its revenues \$649,240 in order to generate an
7 additional \$400,000 in after-tax net income required to provide the return on investment
8 considered reasonable by the Staff. The example reflects \$249,240 in additional revenue to
9 pay the current income tax which applies to any increase in the utility's operating revenue.
10 Another illustration, using the same assumptions will clarify the need for this proforma
11 adjustment for additional income tax:

12	Additional Revenue Collected in Rates from Rate Increase	\$ 649,240
13	Less Income Tax Due the IRS Based Upon a 38.39% Tax Rate	\$ (249,240)
14	Additional Net Income for Return on Investment	\$ 400,000

15 The above examples represent the normal proforma factoring up for income taxes
16 associated with a Commission approved rate increase.

17 Q. Please describe the Staff's direct revenue requirement filing in this proceeding.

18 A. The results of the Staff's audit of Missouri-American's rate case request
19 can be found in the Staff's filed Accounting Schedules, and is summarized on
20 Accounting Schedule 1, Revenue Requirement. This Accounting Schedule shows the Staff's
21 recommended revenue requirement for Missouri-American in this proceeding ranges from
22 approximately \$25,478,378 to \$29,956,886 based upon a recommended rate of return range of
23 7.52% to 7.95%. Staff's recommended revenue requirement includes an estimated true-up

1 allowance of approximately \$14.3 million. The Staff based its true-up allowance on
2 information provided by the Company indicating the districts in which plant additions were to
3 occur before September 30, 2008 and the amount of plant additions for each. The Staff's
4 recommended revenue requirement at the midpoint of the rate of return range (7.773%) is
5 \$27,712,413 (including true-up allowance).

6 Q. What revenue increase did the Company request from the Commission in this
7 case?

8 A. Missouri-American requested that its annual revenues be increased by
9 approximately \$49,622,515 for water revenues and \$133,012 for sewer revenues.

10 Q. What return on equity range is the Staff recommending for Missouri-American
11 in this case?

12 A. The Staff is recommending a return on equity range of 9.60% to 10.60%, with
13 a midpoint return on equity of 10.10%, as calculated by Staff Witness Barnes. The Staff's
14 recommended capital structure for Missouri-American is 42.85% common equity, 0.32%
15 preferred stock, 3.58% short-term debt and 53.24% long-term debt, based upon the
16 Company's consolidated actual capital structure as of March 31, 2008. When
17 Missouri-American's cost of debt, cost of preferred stock and above-referenced cost of equity
18 are input into this capital structure, the Company's resulting cost of capital to apply to rate
19 base is in a range of 7.52% to 7.95%, with 7.73% the midpoint value. The Staff's
20 recommended weighted cost of capital is explained in more detail in Section V of the Staff's
21 Cost of Service Report.