

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

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| 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.) | |

**UNANIMOUS
STIPULATION AND AGREEMENT**

COME NOW Missouri-American Water Company (MAWC or Company), the Staff of the Missouri Public Service Commission (Staff), the Office of the Public Counsel (Public Counsel), AG Processing Inc. (AGP), Missouri Energy Group (MEG), Public Water Supply District Nos. 1 and 2 of Andrew County and Public Water Supply District No. 1 of DeKalb County (Water Districts), Missouri Industrial Energy Consumers (MIEC), Metropolitan St. Louis Sewer District (MSD), City of Joplin (Joplin), City of Riverside (Riverside), Missouri Gaming Company (MGC) and the Utility Workers Union of America Local 335, AFL-CIO (Local 335), 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.

1. **Issues Settled.** This Stipulation and Agreement is intended to settle among the Signatories for purposes of the above captioned cases all issues previously identified by some or all of the Signatories through testimony and or schedules in both Case No. WR-2008-0311 and Case No. SR-2008-0312, except for the MSD Rate

issue.¹ If this Stipulation and Agreement is approved by the Commission, the Nonunanimous Stipulation and Agreement as to Certain Issues filed on October 29, 2008, and the Second Nonunanimous Stipulation and Agreement as to Certain Issues filed on October 31, 2008, are superseded by this Stipulation and are of no effect. The Signatories recommend that the Commission accept this Stipulation and Agreement as a fair compromise of their respective positions on all issues.

2. **Party Not Objecting.** While it is not a Signatory, the City of Jefferson has affirmatively stated to the Signatories that it has no objection to this Stipulation and Agreement and does not request a hearing concerning the matters resolved by this Stipulation and Agreement.

3. **Annual Revenue Requirement.** In settlement of the above issues, the Parties agree that the Company's annual revenue requirement for purposes of these cases is \$225,271,638. In order to achieve this revenue requirement, the Parties agree that the Company's base rates shall be increased by \$34,471,092 annually, for service rendered on and after November 28, 2008, or as soon thereafter as is reasonably practicable. Revenue amounts referenced in this paragraph are exclusive of any applicable license, occupation, franchise, gross receipts taxes or other similar tax or taxes.

¹ The MSD Rate issue is addressed by the Stipulation and Agreement Between MAWC and MSD, filed with the Commission on September 17, 2008. Public Counsel filed an objection to the Stipulation and Agreement Between MAWC and MSD, but has since filed an amended response and statement of no objection. No other party objected to Stipulation and Agreement Between MAWC and MSD. If this Stipulation and Agreement is approved by the Commission, the Signatories agree that the Commission may treat the Stipulation and Agreement Between MAWC and MSD as unanimous.

4. **Rate Design/Cost of Service.** Rates will be designed using the following parameters:

A) The Signatories agree that the revenue increase established in this case shall be allocated to each District as shown in **Appendix A** attached hereto.

B) Class revenues, to include fire services, shall be increased or decreased in equal percentages within each district, except for information services provided to MSD, the rate paid by Triumph Foods in St. Joseph, Rates H and G-1 in St. Louis and all non-tariff revenues.

C) For purposes of Rate Design, the Signatories will use the agreed to billing determinants attached hereto as **Appendix B**.²

D) The Signatories agree that the St. Louis and St. Charles rate districts shall be merged using St. Louis County's rate structure and shall thereafter be known as the St. Louis Metro District.

E) The new rates to be filed as a result of this Stipulation and Agreement will reflect an equal percentage increase or decrease, as appropriate, for both customer charge revenues and volumetric revenues for Residential and Commercial rates for all districts.

F) Equal percentage adjustments shall be made to existing customer charges within each district.

G) The Parkville water district will retain uniform rates across customer classes.

² **Appendix E** attached hereto identifies the present rate revenues to be used for the St. Joseph District and the percentage reduction to be applied to each of the rate elements; provided, however, that the residential volumetric charges will be further modified to a single rate block.

H) In all water districts, other than the Parkville District, the Residential class rates will move to a single block rate.

I) In all water districts, other than the Parkville District, non-Residential customer classes will receive an equal percentage increase or decrease to the current block rates (to include Rate A in the St. Louis Metro District).

J) The usage block descriptions found in MAWC's tariffs shall be adjusted, as necessary, to reflect consistent units of measure.

5. **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 C**. 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 cost 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 cost for FAS 106 of \$4,315,012 (after application of a 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.

6. **OPEB Permanent Investment.** The Signatories agree that MAWC will amortize the OPEB "permanent investment" from Case No. WR-95-205 to expense for ratemaking purposes over a period of not less than five years. The amortization will begin with the first month that new rates become effective as a result of Case No. WR-2008-0311.

7. **Tank Painting Tracker.** The Signatories agree that MAWC will continue the regulatory asset or liability for tank painting and inspection expense previously established in Case No. WR-2007-0216. The regulatory asset or liability will increase or decrease each year by the same amount that actual tank painting and inspection expense is either greater than or less than \$1,000,000. The tracker will be maintained through the effective date of the rates established in the next general rate proceeding. The method of recovery of any amounts accumulated (under or over) will be determined in the next general rate proceeding.

8. **Call Center Records.** MAWC agrees to begin reporting monthly all data it presently reports to the Staff and the Office of the Public Counsel on a quarterly basis, including all call center performance metrics beginning with January 2009 data. In addition, the Company agrees to inform the Staff and the Office of the Public Counsel of all future operational and technological changes that may be utilized by either of its call centers in Alton, Illinois or in Pensacola, Florida such as the implementation of virtual hold technology, the ability to record all calls coming into the centers, enhancements in the call routing process or other significant changes.

9. **Customer Records Information.** MAWC agrees to retain, through each subsequent rate case, monthly customer records information that would provide to the parties the number of customers for each customer class and meter size. This information will be made available to any party requesting such information in the context of a rate case. The company will not object to Staff, Public Counsel or any other requesting party retaining such information for use in future rate cases provided the designated level of confidentiality of the information is maintained.

10. **Bad Debt/Recovery Tracking.** MAWC agrees to track actual bad debt write-offs and recoveries separately for each operating district within MAWC.

11. **Infrastructure System Replacement Surcharge (ISRS).** As required by statute and Commission rule, MAWC's current ISRS shall be reset to zero upon the effective date of new rates in this proceeding. The Signatories agree that, for any ISRS filings implemented between the date new rates are established in this proceeding and the effective date of new rates established in the Company's next general rate case proceeding, the overall rate of return shall be computed by utilizing a 10% return on

common equity and the Company's capital structure filed in this case. Plant in service additions to be included in a future ISRS may include those additions placed in service after September 30, 2008.

12. **Depreciation.** The Signatories agree that MAWC shall be authorized to continue to use the depreciation rates authorized by the Commission in Case No. WR-2007-0216 (attached hereto as **Appendix D**), as to all of its operating districts.

13. **Class Cost of Service Studies.** The Company will perform a Class Cost of Service study for each district and file it as part of the Company's next rate filing.

14. **Work Papers.** The Company will provide to Staff, Public Counsel and any other requesting signatories with its next rate filing, complete copies of the work papers relating to any cost studies submitted as a part of its rate filing. The Company will also make copies of any or all of these work papers available upon request to other parties to this agreement.

The work papers provided will include both the input data and the computations in sufficient detail that the Company's results are replicable. The work papers shall be provided in executable, electronic format, that is accessible by readily and commercially available software, preferably EXCEL.

To the extent the Company does not functionalize costs consistent with the NARUC USOA, the Company will provide a schedule matching the accounts used to the NARUC USOA accounts.

15. **City of Riverside.** MAWC and the City of Riverside agree to work together informally to address issues relating to infrastructure and fire flows in the City of Riverside.

16. **Triumph Foods, LLC.** MAWC agrees to not oppose a Public Counsel or Staff request for a Commission review of the continued appropriateness of the alternative rate set forth in the Contract for Retail Sale and Delivery of Potable Water between MAWC and Premium Pork, LLC (now known as Triumph Food, LLC), with the purpose of such review being to determine whether the alternative rate continues to be in the best interest of all customers in the Company's St. Joseph service area.

17. **Customer Classifications and Cost Studies.** The Company shall agree to participate in a collaborative working group formed in order to perform a review of cost of service issues. This review will be completed within ninety (90) days of the effective date of new rates in this case. The review will identify information and studies the Company shall provide with the filing of the next rate case or upon completion of the studies as agreed to by the collaborative working group or ordered by the Commission. This will include the following issues:

A) The collaborative working group will consider the appropriate tariff classifications and customer classes to use for the purposes of class cost of service for districts other than the St. Louis Metro district. Class descriptions as determined by the collaborative shall be added to tariffs.

B) The collaborative working group will address the availability and cost of providing district specific information for all districts on:

- Class average use by class, by existing districts;
- Maximum factor use by class, by existing districts; and,
- Peak factor use by class, by existing districts.

C) The collaborative working group will address the availability and cost of providing district specific cost studies for all districts including:

- Meter cost study;
- Service Line cost study;
- Meter Reading cost study;
- Billing cost study; and,
- Customer Promotion and Advertising cost study.

D) The collaborative working group will address the availability and cost of providing an Outside Contractor Work cost study limited to the St. Louis County operations of MAWC.

Any stakeholder may participate in the collaborative working group. Participants shall make good faith efforts to reach consensus regarding the issues to be reviewed by the collaborative working group. If consensus cannot be reached within ninety (90) days of the effective date of new rates in this case, any unresolved matter may be brought to the Commission for resolution. In such situation, the parties agree to ask the Commission to consider the matter in dispute in an expedited manner.

Parties to the collaborative working group agree not to oppose recovery of prudently incurred costs associated with any studies that are ultimately conducted as a result of the agreement of the collaborative working group or as may be ordered by the Commission.

Contingent Waiver of Rights

18. This Stipulation and Agreement is being entered into solely for the purpose of settling the identified issues in the cases 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 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 these or any other proceeding regardless of whether this Stipulation and Agreement is approved.

19. 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.

20. If the Commission does not approve this Stipulation and Agreement without condition or 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

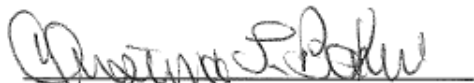
and shall be stricken from and not be considered as part of the administrative or evidentiary record before the Commission for any purpose whatsoever.

21. In the event the Commission accepts the specific terms of this Stipulation and Agreement without condition or 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. Further, in the event the Commission accepts the specific terms of this Stipulation and Agreement, all prefiled testimony not yet admitted into evidence shall be received into evidence without the necessity of the witnesses taking the stand. The waivers contained in this paragraph apply only to a Commission order approving this Stipulation and Agreement without condition or modification 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 nor any matters not explicitly addressed by 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

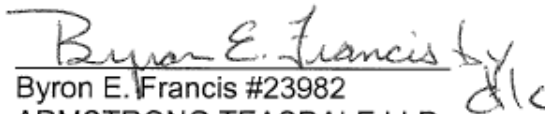
conditions of this Stipulation and Agreement.

Respectfully submitted,



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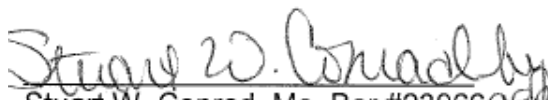
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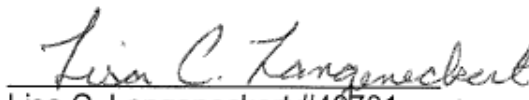
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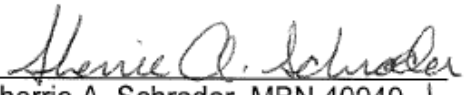
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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been sent by electronic mail this 10th day of November, 2008, to:

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