Exhibit No.:

Issues: AWR Adjustment, Regulatory Asset-Security Costs, MSD Billing Data Revenues, Brunswick Sale for Resale Revenues, Amortization OPEB Asset, Pension/OPEB Methodology, Main Break Expense, Insurance Other Than Group, Capitalized Software, Belleville Lab, Management Fees, Rate Case Expense, Shared Services and Call Center, Cash Working Capital-Management Fees, Consolidated Billing

Witness: Edward J. Grubb
Exhibit Type: Rebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2007-0216
SR-2007-0217
Date: July 13, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2007-0216
CASE NO. SR-2007-0217

REBUTTAL TESTIMONY

OF

EDWARD J. GRUBB

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

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-2007-0216** **CASE NO. SR-2007-0217**

AFFIDAVIT OF EDWARD J. GRUBB

Edward J. Grubb, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Rebuttal Testimony of Edward J. Grubb"; that said testimony and schedules were prepared by him and/or under his direction and supervision; that if inquires 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.

Edward J. Grubb

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 17th day of July 2007.

Notary Public

My commission expires:

Staci A. Olsen
Notary Public - Notary Seal
State of Missouri
St. Charles County
Commission # 05519210
My Commission Expires: March 20, 2009

REBUTTAL TESTIMONY
EDWARD J. GRUBB
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2007-0216

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REBUTTAL TESTIMONY

EDWARD J. GRUBB

WITNESS INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.

A. Edward J. Grubb, Director Rates and Revenue for American Water, 727 Craig Road, St. Louis, Missouri 63141.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?

A. Yes, I have submitted direct testimony in this proceeding.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to discuss on behalf of MAWC:

1) AWR Adjustment;
2) Regulatory Asset – Security Costs;
3) MSD Billing Data Revenues;
4) Brunswick Sale for Resale Revenues;
5) Amortization OPEB and Pension Asset;
6) Pension/OPEB Methodology;
7) Main Break Expense;
8) Insurance Other than Group;
9) Capitalized Software;
10) Belleville Lab;
11) Management Fees;
12) Rate Case Expense;
13) Shared Services and Call Center;
14) Cash Working Capital – Management Fees;

15) Consolidated Billing.

AWR ADJUSTMENT

Q. Staff Witness John Cassidy sponsors Staff Adjustment S-8.1, which imputes revenues of $137,449 associated with certain service line protection programs managed by American Water Resources. Do you agree with this adjustment?

A. No. I do not. The imputed revenues proposed by Mr. Cassidy are far in excess of what MAWC receives for providing much greater assistance for a similar program operated by St. Louis County.

Q. What is the subject of Mr. Cassidy's proposed adjustment?

A. American Water Resources, Inc. (AWR), an unregulated subsidiary of American Water Works Company, Inc., provides service line protection programs. These protection programs, for a fee, will reimburse the participant for certain repairs to the water and sewer service lines owned by the customer. AWR currently has programs that apply to water lines, sewer lines and in-home plumbing. Mr. Cassidy takes the total revenue associated with the Missouri customers served by AWR, assumes half of that revenue is profit and then "splits" the profit between MAWC and AWR. That amount, or $137,449, is then imputed as revenue to MAWC.

Q. Has this subject been an issue in the past?

A. Yes. Staff raised an issue concerning the water line protection program in MAWC's last rate case (Case No. WR-2003-0500).

Q. Did MAWC modify its conduct as a result of that last case?

A. Yes. MAWC took note of the Staff's concerns and, as a result, prohibited the use of the MAWC name or logo on service line protection communications.

Q. When did the use of MAWC's name and logo cease?

A. The last mailing that contained the MAWC name was sent in March of 2004, over three years ago.

Q. What association does MAWC have with the AWR offerings?

A. The only association MAWC has with the mailings is that AWR uses the mailing list compiled by MAWC.

Q. Does this mailing list include all of MAWC's customers?

A. No. St. Louis County, where the great majority of MAWC's customers are located, has its own line protection program administered by the County government. Thus, AWR will not mail information to approximately 312,000 of MAWC's 424,000 residential customers.

Q. Does the mailing list AWR does receive have value?

A. Not a great amount. A mailing list by zip code can be purchased from third party vendors for the areas where AWR sends advertisements.

Q. What would be the cost of such a list?

A. Our research shows that customer lists can be purchased for approximately $37 to $75 per 1,000 customers. For MAWC, with 112,000 residential customers outside of the St. Louis district, that would result in a charge of between $4,100 and $8,400.

Q. Would the purchased list be the same as the list obtained from MAWC?

A. No. It would be somewhat larger. However, the cost of having more names would merely be the mailing and production cost associated with mailing some number of extra advertisements.

Q. Would the third party vendor list in some situations provide a better list in terms of potential purchasers of the plan?

A. Yes. In the case of a tenant customer, MAWC's list would contain a person (tenant) without much incentive to participate in AWR program. The third party vendor list would be more likely to reach the desired audience in that situation, the owner of the property.

Q. You mentioned that St. Louis County operates its own service line protection program. Please describe that program.

A. Section 66.405 RSMo (along with a subsequent vote of the people) authorized St. Louis County to operate its own mandatory service line protection program. This program operates in a similar manner to the AWR program. That is, the customer pays a periodic fee and, in exchange, St. Louis County is responsible for certain repairs associated with customer-owned lines.

Q. What services does MAWC perform in regard to the St. Louis County program?

A. MAWC performs all billing and collection functions associated with the St. Louis County program. This necessarily includes the use of MAWC's mailing list.

Q. Is MAWC compensated for these services?

A. Yes. MAWC has an agreement with the County that was negotiated by the parties. This agreement identifies the services to be performed by MAWC and the compensation to be received by MAWC.

Q. How is MAWC compensated?

A. MAWC receives one percent (1%) of the gross revenues collected in exchange for its services.

Q. If this method of compensation were applied to the AWR revenues identified by Mr. Cassidy, what compensation would MAWC receive?

A. Mr. Cassidy used gross annual revenues of $750,087. One percent of those revenues would be $7,500.87.

Q. If one percent of gross revenues is the market rate for the services provided to St. Louis County, what would be the fair market value of MAWC's relationship with AWR?

A. Something less. MAWC provides all billing and collection services for St. Louis County. MAWC provides no billing and collection services for AWR.

Q. If the Commission decides to impute some amount of revenue associated with the line protection programs for ratemaking purposes, what amount should be used?

A. I believe that the compensation received by MAWC for administering the St. Louis County (one percent of gross revenue) represents a ceiling for any such adjustment. The services provided to St. Louis County are far greater than anything provided to AWR. Accordingly, any imputed revenue should be something less than $7,500.87.

REGULATORY ASSET – SECURITY COSTS

Q. What is the purpose of your rebuttal testimony on this issue?

A. The Company included in rate base the unamortized balance of the regulatory asset associated with security costs. The deferral of security costs was approved by the Commission in an Accounting Authority Order case.

Q. Please briefly discuss the Security AAO.

A. In Case No. WO-2002-273, the Commission authorized the Company to defer certain costs associated with security measures taken by the Company in the aftermath of the September 11, 2001 terrorist attacks. The Company was authorized to defer the costs for a two-year period ending on September 11, 2003. The Company was also authorized to amortize the costs over a 10-year period. The Company began amortizing the costs in December 2002 upon receipt of the Commission's Report and Order.

Q. What is the Staff's position regarding the inclusion of the unamortized balance in rate base?

A. No Staff witness addressed the Company's proposal. However, since Staff did not include the unamortized balance in rate base in their direct case filing, I would have to conjecture that they oppose the inclusion and would expect to see rebuttal testimony on the issue.

Q. Why do you believe that the Company should be afforded rate base treatment for the unamortized balance of the regulatory asset for security costs?

A. The Company incurred the costs to provide security to its production and distribution systems, its offices, its customers, and its employees. The sole purpose of these efforts was to provide safe and adequate service to its customer. The security expenditures were made to protect our customers and the assets that serve them. Therefore, rate base treatment of the unamortized balance is appropriate.

MSD BILLING DATA REVENUES

Q. What is the issue regarding the St. Louis Metropolitan Sewer District ("MSD") billing data revenues?

A. The Company provides water usage data of its customers to MSD to allow MSD to bill their customers for sewer service. In accordance with an approved tariff the Company provides the data to MSD at an annual cost of approximately $760,000.

The Company and MSD have been parties to various proceedings over the last couple of years, including a proceeding before this Commission regarding the appropriate fee to be paid by MSD for the billing data provided by the Company.

Q. Have the Company and MSD come to a resolution of the issue?

A. The Company and MSD have tentatively agreed to a stipulation agreement that will be presented to the Commission in the next week or so. The parties are still addressing a few provisions of the agreement at this time.

Q. If the existing usage data tariff is modified per the stipulation, what impact will it have on revenue requirement to be ultimately determined in this case?

A. The impact will be to reduce present rate revenues by $406,162.

BRUNSWICK SALE FOR RESALE REVENUES

Q. Please explain the issue surrounding the Brunswick District's Sale for Resale Revenues.

A. At the time the rate case was filed, the Company anticipated losing Chariton County Water District #2 as a customer. Negotiations with the Water District have continued and it now appears that the Company may not be losing them as a customer, at least through the end of 2007. It is possible that the Company may lose the water district as a customer in 2008.

In its original filed case, the Company proposed a reduction to revenues in the amount of $54,852. Since the Company will not be losing the Water District in the foreseeable future, revenues at present rates for the Brunswick District should be increased by $54,852.

AMORTIZATION OPEB AND PENSION ASSET

Q. Mr. Grubb, what is the issue in regard to the OPEB and Pension asset amortization?

A. MAWC received authority from the Commission to defer certain transition costs associated with OPEB and Pension Costs. These deferrals occurred in the mid-nineties. The Company has been amortizing these costs since that time and, to the best of my knowledge, has been recovering them in rates.

Q. Can you point to some specific testimony and/or schedules that would support your view that these costs have been recognized by the Commission in prior cases?

A. Attached to my Rebuttal Testimony is Rebuttal Schedule EJG-2 which is a copy of the Direct Testimony of Staff Witness Thomas M. Imhoff from Case No. WR-95-205 (pages 13-15) and the workpapers of the Staff from Case No. WR-2003-0500. I have underlined the relevant parts to highlight the parts indicating that the inclusion of these costs in rates was made.

Q. Did the Staff exclude these costs in its Direct Testimony case?

A. Yes, I believe the Staff excluded these costs inadvertently because the Company also did not include the cost. The Company's proforma cost of pension and OPEBs should have included these amortizations as was done in prior cases. However, due to an oversight on our part, the Company's proforma adjustment for pensions and OPEBs excluded the amortization.

PENSION/OPEB METHODOLOGY

Q. What is the Staff proposing in the current case for Pension and OPEB costs and does the Company agree with the proposal?

A. The Staff is proposing to recognize in rates an amortization of the unrecognized gains and losses over a ten-year period as part of the pension and OPEB costs. The Company currently uses detailed actuarial reports prepared by Towers Perrin to record its pension and OPEB costs. The preparation of these reports are guided by SFAS 87 for pension costs and SFAS 106 for OPEBs. These two guidelines are Statement of Financial Accounting Standards that were issued by the Financial Accounting Standards Board.

The Staff's proposed ten-year amortization period for unrecognized gains and losses eliminates the "corridor" approach to the handling of the unrecognized gains and losses as utilized by SFAS 87 and SFAS 106.

The Company does not agree with the Staff's recommendation.

Q. Please explain the "corridor" approach.

A. As noted by Staff Witness Hagemeyer, part of the calculation of pension and OPEB expense according to FAS 87 and 106 is the amortization of unrecognized gains and losses. The "corridor" approach defines the minimum amount of amortization of unrecognized gains and losses required during the year. The "corridor" is equal to ten percent of the greater of the projected benefits that a company is obligated to pay an employee after retirement (PBO for pensions and APBO for OPEBs) or the market-related value of the assets in the pension or OPEB fund. Only the amount of gains and losses that exceed the corridor are required to be amortized during the year. The amount of gains and losses identified by the corridor is then amortized over the remaining life of the plan participants.

Q. What is the purpose of the "corridor" approach for recognizing gains and losses?

A. The purpose of the "corridor" approach is to recognize in current pension and OPEB cost gains and/or losses that fall outside the corridor. In other words, this approach will smooth out any volatility in the calculations of pension and OPEB costs. One must keep in mind that one of the factors that drives the level of these costs is the actual return generated by the financial markets which impacts the plan's asset values. There will always be up years and down years in the market. The "corridor" approach will smooth the impacts of the financial markets.

Q. What is Staff's rationale for using the ten-year amortization approach?

A. On page 7, line 3, Mr. Hagemeyer states that the Staff believes that it is important to recognize costs and benefits in rates in a timely manner. The Company believes that the Staff approach simply moves cost recovery above or below the level dictated by the "corridor" approach and that over a longer horizon, the two approaches should be equal.

Q. If this is the case, why does the Company oppose the Staff's approach?

A. First, the Staff is also recommending that the Company initiate a tracker mechanism for the difference between the Company's actuary costs and the amounts calculated using Staff's recommendation. And second, the Company believes that this added level of monitoring is unnecessary since the use of the "corridor" approach allows costs to be properly recorded on the books.

Q. What is the impact on the revenue requirement of the Staff's proposal in this case?

A. Because of the losses in the financial markets during 2000-2002 time period, the Staff is proposing to recognize these losses over a ten-year period. This proposal has increased the Staff proposed revenue increase by approximately $650,000 versus what is indicated by the actuarial studies. This highlights the volatile nature of the Staff's approach.

Q. What is the Company's recommendation on this issue?

A. The Company recommends using the actuarial reports that are prepared by Towers Perrin and in accordance with SFAS 87 and SFAS 106. This would reduce the Staff's revenue requirement by approximately $650,000.

MAIN BREAK EXPENSE

Q. What is the issue regarding Main Break Expense?

A. The Company proposed a proforma level of main break expense that used a five-year average of actual main breaks for the period July 2001 through June 2006. A two-year average for a cost per break was used to calculate the proforma expenses.

Staff used only one year of actual main breaks for the year 2006 and used the actual 2006 cost per break to calculate its proforma cost.

While these two methodologies create a different end result for a proforma level of expense, the major difference between the Company and Staff is created by Staff using cost data from the Company's books and records that includes other types of maintenance costs not associated with main break expense.

Q. What caused the Staff to use the incorrect data?

A. In Staff data request #199, the Company was asked to provide the balance in specific maintenance accounts (Refer to Rebuttal Schedule EJG-3). The Company provided the information and I believe Staff believed that all costs recorded to object accounts 620000.24, 675000.24, 675650.24, 635000.24, and 675655.24 were for main break expense. Because of this, Staff's proforma level of main break expense is overstated and its resulting proforma adjustment which is applied to the actual test year understates the appropriate level of main break expense to be recovered in rates.

Q. Putting aside the issue you described above, do you agree with the Staff's use of only one year of main break data to calculate a proforma level of expense?

A. No, I do not. Staff Witness Hagemeyer, on page 4 of his Direct Testimony, states that the Staff believes the ISRS program has caused a general decline in main breaks since 2000. However, the impact of the infrastructure replacements program has not been determined with specificity. Weather can still have a significant impact on the level of main breaks even with the infrastructure replacement program being in place since 2004.

Q. Can you elaborate on this point?

A. In January 2007, the Company experienced 149 main breaks. This is the highest level for January since 2003. In February 2007, the Company experienced 431 main breaks. This is the highest level for the month of February ever. In March 2007, the Company experienced 87 main breaks. This is the highest level since 2003.

The point I am trying to make is that even with the infrastructure program in place, the level of main incidents can spike. Thus the use of an average of recent history is more appropriate to determine the level of main break expense. The Company believes its proforma adjustment of $263,707 is appropriate.

INSURANCE OTHER THAN GROUP

Q. What is the purpose of your rebuttal testimony regarding insurance other than group?

A. The Company has three issues with the Staff's calculation of its level of proforma Insurance Other Than Group.

First is the exclusion of the cost of the Kidnap and Ransom policy. Second is the application of the payroll O&M percentage. And third is the exclusion of any cost for directors and officers coverage.

Q. What reason did Staff give for excluding the cost for the Kidnap and Ransom coverage?

A. Staff Witness Hagemeyer, on page 5 of his direct testimony, states that the operations of MAWC would most likely not be materially affected in the unlikely event that a Company employee was ever kidnapped and held for ransom.

The Kidnap and Ransom coverage is a prudent business expenditure and should be allowed in rates.

The cost of the coverage is $662 and should be allowed.

Q. What is the issue regarding the application of the O&M percentage to the various insurance costs?

A. The rationale is to reflect that a portion of the cost of insurance is to be capitalized as construction overhead related to placing assets in Utility Plant in Service.

The Staff has taken the position that with the exception of property insurance, a portion of all other insurance policies should be capitalized.

Q. Does the Company agree with the Staff's proposal to capitalize the cost of a portion of all insurance with the exception of property?

A. No. The Company believes that only that portion of cost that relates to the cost of placing utility plant assets in service should be capitalized.

Q. What insurance coverages should have a portion of their cost capitalized?

A. Workers compensation, auto liability, and surety collateral. The remaining insurance policies cannot be readily tied to the cost of placing utility assets into service. For example, the highest cost insurance policy is liability insurance. It is estimated that over 90% of the claims for liability relate to either main breaks or trip and fall accidents. These claims are not related to the cost of placing utility assets into service. Thus, none of this cost should be capitalized.

Q. Why did the Staff exclude the cost of the Directors and Officers coverage?

A. A cost of $241,744 was included in the Company's proforma calculation. However, this cost was paid for by RWE in its global policy for Directors and Officers. Starting in 2007, RWE will no longer pay for this cost. Therefore, the cost will be directly borne by MAWC. The Company believes that the current costs of $241,744 is appropriate and should be reflected in rates.

Q. Mr. Grubb, your discussion has covered three points. What is the value of each point?

A. The total Staff proforma cost of insurance is $3,852,500. Based on my rebuttal, the revised level of insurance cost should be $4,657,506 or $805,006 greater than Staff, as calculated below.

Staff Recommended Level		$3,852,500
Kidnap and Ransom	$662	
Capitalization Issue	662,600	
Directors and Officers	241,744	805,006
Company Recommended Level		$4,657,506

CAPITALIZED SOFTWARE

Q. Mr. Grubb, what is the issue regarding capitalized software?

A. The Staff proposed a proforma adjustment to annualize certain annual leases for expensed software. Staff reduced the amount of the software lease for the percent that it proposes should be capitalized.

The Company believes that the software lease, which includes maintenance agreements, should be 100% expense. Thus, the Staff's revenue requirement for this adjustment should be increased by $30,887,

BELLEVILLE LAB

Q. Staff witness John Cassidy sponsors Staff Adjustment S-14.6, which reduces MAWC's expense to reallocate the indirect portion of the Belleville Lab Service Company costs based on an average of the number of test analyses performed as opposed to an allocation of costs based on the number of customers. What is the Belleville Lab Service Company?

A. The Belleville Lab is a testing facility located in Belleville, Illinois that is operated by American Water Works Service Company. This facility performs sample testing for the AWW operating companies, to include MAWC.

Q. Does the use of the Belleville Lab provide savings for MAWC and its customers?

A. Yes. Every year the Belleville Lab conducts a survey to compare its testing costs to those of outside testing laboratories. Outside labs have been found to be from 18% to 43% more expensive in each of the last 6 years. Also, outside testing labs will charge higher fees for evaluation of "rush" samples. The Belleville Lab does not.

Q. How does the Belleville Lab allocate costs to MAWC?

A. Those costs directly attributable to MAWC are charged accordingly. The indirect costs are allocated to each of the operating companies based on customer count.

Q. How does Mr. Cassidy propose to allocate the indirect costs for ratemaking purposes?

A. Mr. Cassidy proposes an adjustment that will represent an allocation of the indirect costs based on an average of the number of test analyses performed on all samples that were submitted to the Belleville Lab over the last five calendar years.

Q. Why does Mr. Cassidy allege that numbers of tests is a more appropriate method for the allocation of these indirect costs?

A. Mr. Cassidy is concerned that MAWC is receiving an allocation of indirect costs of approximately 14.5%, while MAWC's portion of test analyses represents about 7.04% of the total tests performed.

Q. Are these percentages likely to be the same every year?

A. No. An operating company's total samples can vary from one year to the next because of source water conditions, contamination events and regulations. Thus, an operating company's portion of Belleville Lab costs could vary widely from one year to the next.

Q. **Is the use of customer counts more stable?**

A. Yes. Customer counts are much less variable and do not change dramatically from year to year on a system-wide basis.

Q. **Does AWW allocate costs differently from state to state?**

A. No. It is system-wide policy to allocate Service Company expenses that cannot be direct charged to operating companies on the basis of the number of customers. Doing so is easy to apply and provides for system-wide consistency over multiple jurisdictions. Customer numbers are currently used to allocate service company costs related to accounting, administration, communications, corporate secretarial and legal, customer services, engineering, financial human resources, information systems, operations, rate and revenues and risk management. If each of these services is examined on a Missouri-only basis for an alternative allocation methodology, I suspect that some alternatives would increase costs currently allocated to MAWC.

Q. **Why is consistency from state to state important?**

A. Applying different allocation methods from one jurisdiction to another will undoubtedly lead to a situation where AWW is unable to recover all of its Belleville Lab costs. Such a loss would either drive up the cost of service to operating companies or, in the alternative, encourage the use of outside labs whose costs, while higher, would likely be recovered in total.

Q. **Does the use of test samples incent any other behavior?**

A. It would create a situation where an operating company could directly reduce its costs by reducing the number of sample tests it asks to be performed. Such an operating incentive is not in the best interests of public safety and one that is discouraged by allocating costs based on customer counts.

Q. **What is the consequence of Mr. Cassidy's Belleville Lab reallocation?**

A. Mr. Cassidy's reallocation would reduce MAWC's expense by $336,129.

Q. What is your recommendation?

A. The current allocation method for Belleville Lab costs is functioning effectively and is widely accepted by regulators. Any perceived benefits from changing to multiple allocation methods would be off set by the overall impact on a service company system that is providing benefits for MAWC's customers. The Commission should not accept Mr. Cassidy's proposal to reallocate Belleville Lab costs based on test analyses performed.

MANAGEMENT FEES

Q. Please discuss the Issue of Management Fees.

A. The Staff made a number of adjustments to the Company's proforma level of Management Fees. Some of these are as follows:

- Belleville Lab Costs
- PWC Audit Fees
- Incentive Compensation
- Miscellaneous Expense
- One-Time Costs for SOX
- Capitalized Costs
- External Affairs

Due to the nature of the adjustments, I have addressed the Belleville Lab costs as a separate issue within my rebuttal testimony. I will address the PWC Audit Fees, the capitalized costs and the External Affairs costs here. The incentive compensation and miscellaneous expenses will be addressed by Mr. Petry in his rebuttal testimony. The one-time costs for SOX were provided to the parties in a data request where the Company indicated that it was not asking for recovery.

Q. Please discuss the PWC Audit Fees.

A. American Water uses PriceWaterhouse Coopers ("PWC") to perform the annual independent audit. The Company included in its original case $141,000 for additional audit fees associated with the annual audit and being Sarbanes-Oxley compliant. Since the time of the filing, we have been advised by our auditors that we could expect to incur additional annual audit fees of $155,000 associated with being SOX compliant (a slight increase over the initial estimate of $141,000).

Q. Please discuss the capitalized management fee costs.

A. Staff is recommending that $168,390 of management fees associated with the Fixed Asset group be capitalized as part of the Company's capital expenditure program.

The Company opposes this adjustment because it does not necessarily lead to a cost of placing an asset into service. The cost that Staff is recommending to capitalize relates to the management of the Company's Fixed Asset and Task Order system. These are accounting functions which should properly be recorded as period expenses.

Q. Please discuss the Staff's adjustment to Management Fees for the salary and associated benefits of the Regional Vice President of External Affairs.

A. Staff eliminated half of the costs for this employee in the amount of $29,297. At page 10 of her testimony, Staff Witness Hanneken indicates that, given the employee's job description and that the employee performs ***some*** [emphasis added] lobbying-related duties, as well as directs employees that perform lobbying duties, it is appropriate to eliminate half of the costs.

No where in the job description does it indicate that the employee spends half of his time devoted to lobbying activities. Staff's adjustment is arbitrary and should be rejected.

RATE CASE EXPENSE

Q. What is the issue regarding Rate Case Expense?

A. At this time, the issue does not relate to the level that the Staff has included in its direct case. The issue relates to the level that will ultimately be allowed in rates.

Q. Please elaborate.

A. As we move forward in time during the processing of this case, the Company will continue to incur costs associated with various aspects of this case. For example, costs related to responding to additional data requests, preparing rebuttal and surrebuttal testimony, litigating the case, and preparing legal briefs. While this is not an all inclusive list, it provides for the larger costs that are yet to be incurred. The Company wants to make sure all the parties are aware of the additional costs that will be needed to complete this proceeding.

SHARED SERVICES AND CALL CENTER

Q. Staff witness Lisa Hanneken recommended removal of costs associated with building the capability and opportunity to create the Alton Call Center (Call Center) and the National Shared Services Center (SSC). These costs relate to the planning, development and implementation of the Call Center and SSC. What is the impact of this Staff recommendation?

A. MAWC has capitalized $5,263,822 of investment that was made to plan, design and implement the Call Center. MAWC has capitalized $4,488,826 of investment that was made to plan, design and implement the SSC. Removal of these amounts from rate base and denial of recovery would reduce MAWC's revenue requirement by approximately $728,930 (the return on and return of associated with the investment). Perhaps more significantly, denial of recovery would result in a write-off of these amounts for MAWC.

Q. Why does Ms. Hanneken believe that capitalizing these costs is inappropriate?

A. Ms. Henneken states that the "key point is that MAWC owns none of the assets."

Q, Who owns the assets?

A. The costs incurred by MAWC to plan, develop, and implement the CSC and SSC were expenditures for labor, travel expense, consulting fees, and other related costs such as recruiting and training for the design and implementation of the CSC and SSC. While there are no real "hard" assets resulting from the planning, developing, and implementation of the SSC and CSC, MAWC owns these costs because 1) MAWC paid for those costs and 2) more importantly, MAWC and its customer are deriving a direct benefit from the SSC and CSC. As noted earlier, these assets are not "hard" assets such as building, land, pipe, etc., but they represent a value to the Company in that the asset has contributed to the utility service that is renders to the customers.

Q. **Is this a significant point in regard to the question of recovery?**

A. I believe it is a distinction without a difference as it relates to possible recovery. MAWC believes it would have spent much more on a per customer basis than it did to build its own SSC or CSC, or to upgrade an existing CSC, to install the same level of customer service found in the Alton Call Center and the Shared Services. However, under the Staff approach, all those costs would have been recoverable because MAWC would have recorded the costs directly on its books rather than through an allocation of costs for the Service Company. Instead, by combining its efforts with other operating companies in order to provide economies of scale, MAWC is being denied recovery of its investment in these projects.

Q. **Ms. Hanneken also states that recovery of these costs should be denied because they are "one-time, non-recurring expenses." Do you agree that this is a reason to deny recovery?**

A. No. These are capital investments. Such investments are always "one-time, non-recurring expenses." The question is whether the capital assets acquired through the investment are used and useful in providing service to the customers. In this case, they are used and useful given the fact that without the involvement, neither the Call Center nor the Shared Service Center would exist today.

Q. **Have the customers benefited from the Call Center?**

A. Yes. The Call Center has provided twenty-four hour a day service and an advance in technology associated with the interactive voice response system that allows the Call Center to handle a greater number of calls. Improvements in the customer information system allows for detailed and flexible account management, more accurate bill management, and increases in the sophistication of management reporting related to customer care. Improvements in the call monitoring and training systems also help maintain a high level of customer care.

Q. Do similar factors exist in regard to the SSC?

A. Yes. The SSC has allowed MAWC to make use of a national organization for certain financial and accounting functions.

Q. Has it resulted in savings to MAWC?

A. Yes. Use of the SSC has resulted in reduced operation and maintenance costs associated with these services.

Q. What savings is estimated to have resulted from the use of the SSC?

A. The original business case that was prepared to make a decision on the project estimated that annual of savings would be $2.5 million.

Q. Does Ms. Hanneken acknowledge that savings may have resulted from the conversion to the SSC?

A. Ms. Hanneken assumes that the annual savings have resulted in an amount equal to approximately $2.5 million, based on a MAWC data request response from Case No. WR-2003-0500. However, she then uses these savings to allege that MAWC has already received a return of its capital investments through the combination of savings and regulatory lag.

Q. How do you respond to this argument?

A. You cannot make the broad statement, such as Ms. Hanneken has made, regarding the fact that MAWC has already received a return of its capital investments through the combination of savings and regulatory lag.

Q. Please explain.

A. First, by only focusing on the savings and the regulatory lag, Staff has focused on just one issue. In regulatory terms, this is viewed as single issue rate making. In other words, Staff has decided to only look at the costs and savings of the SSC during the time frame of 2003 to the present without taking into consideration all revenues, expenses, and investments of the Company. During the years 2003 through 2005, the Company's actual earned returns on equity were 10.8%, 9.23%, 6.76%, and 9.41%, or an average of 9.05%.

Second, Staff's logic could be further applied to any investment of the Company that generated revenues or reduces expenses. One must ask how is the above issue surrounding the SSC costs different from an investment in a main that serves a large customer? It is not different. The normal regulatory process and regulatory lag recognizes that an investment, its costs and revenues are the shareholders' responsibility until the Company goes through the regulatory process. Once this occurs, all revenues, expenses and investments are trued-up in the rate making process with new rates to be charged to ratepayers being the result.

Q. Why did the Company capitalize the costs of these two projects?

A. The accumulation of the costs associated with the planning, design, and implementation of the CSC and SSC represent an asset to the Company. Costs incurred for the purpose of starting up the CSC and SSC include American System labor and overheads, travel costs, consultants, and other incidentals. These costs represent a probable future benefit that involves other assets within the Company, which is expected to contribute directly or indirectly to either future net cash inflows and/or increased customer service. Since the Company believes the benefits created by the CSC and SSC will span years into the future, these costs are to be classified as Utility Plant in Service.

The USOA discusses Account 101 as follows: Account 101, Utility Plant in Service, shall include the original cost of utility assets, included in the plant accounts prescribed herein and in similar accounts for other utility departments, owned and used by the utility in its utility operations, and having an expectation of life in service of more than one year from the date of installation.

In Missouri, the applicable sub-account 340 – Office Furniture and Equipment was used to recover these expenditures. This account shall include the cost of office furniture and equipment owned by the utility and devoted to utility service. This account also includes computer equipment and software. Due to technological changes, many items being capitalized into the office furniture and equipment account may not fit exactly with the descriptions or instructions from the 1976 USOA chart of accounts. The key factor here is that the business initiative costs relate more to this account than any other account. Also Accounting Instruction 26 of the USOA for Class A Water Utilities indicates that this utility plant account is assumed to include a broad range of costs related to equipment. The CSC and SSC make use of many different types of equipment. Even though the Company may not own the equipment, the CSC and SSC costs were spent in order to receive the benefits of not only new equipment and technology at the Call Center and Shared Services, but also new business processes that use the equipment. The instruction also states in part that the "cost of equipment chargeable to the utility plant accounts, unless otherwise indicated in the text of an equipment account, includes the net purchase price thereof, sales taxes, investigation and inspection expenses necessary to such purchases, expenses of transportation when borne by the utility, labor employed, material and supplies consumed, and expenses incurred by the utility in unloading and placing the equipment in readiness to operate."

Another possible sub-account 101 is account 303 – Miscellaneous Intangible Plant. This account shall include the cost of patent rights, licenses, privileges and other intangible property necessary or valuable in the conduct of utility operations and not specifically chargeable to any other account. The CSC and SSC costs may also fall under this category since the formation of the CSC and SSC is necessary and valuable to conduct the Company's operations. At the time, account 340 was used by Missouri-American Water Company because there is no MoPSC authorized depreciation rate available for account 303.

All costs incurred for the CSC and SSC business initiatives fall within the framework for components of costs for assets to be capitalized to utility plant. MAWC believes that many of the costs associated with the projects should be capitalized and that this is an appropriate approach to recognize for both the financial impact and rate impact in terms of benefits to our customers. It is known that the concept of Call Centers and Shared Service Centers has been around for over 10 years and that these assets can be viewed as having a life of 20 or more years.

Q. Is there an alternative to MAWC's original proposal to receive a return on and return of the amount and Staff's complete removal of the costs?

A. Yes. First, if Staff's recommendation is accepted by the Commission, it would require the Company to write-off approximately $8.3 million. As an alternative to the Staff and Company position, MAWC would propose that the Commission authorize a forty

(40) year amortization of the subject investments without a return on the investments. Doing so would follow a part of the Staff's recommendation by not requiring customers to provide a return on the investment, provide the Company with a return of the investment that has benefited customers and avoid the necessity of a complete write-off of this investment. This amortization would add $209,463 to Staff's revenue requirement (total investment ($9,752,649) minus accumulated depreciation ($1,374.148) divided by 40 years).

CASH WORKING CAPITAL – MANAGEMENT FEES

Q. Mr. Grubb, please discuss the issues regarding working capital.

A. There is one issue regarding working capital. The issue is the appropriate lag for Management Fees in the Lead/Lag Study.

Q. What is the issue related to the lag for Management Fees?

A. Both the Company and Staff used a Lead/Lag Study approach in determining the level of working capital in rate base. The determination of the amount of working capital for a specific item in the study is calculated by multiplying the daily expense requirement by the difference between the revenue lag and the expense lag for the category. For the expense category Management Fees, the Company disagrees with the Staff position related to the expense lag. The Company's adjusted expense lag for Management Fees is a negative 8.99 days, as shown on Rebuttal Schedule EJG-1 and the Staff's lag is a positive 21.41 days.

The Staff calculated its lag based on a review of the payment dates of the management fees and did not determine what the actual period of time the payments were applicable to in the payment process. The management fees are paid in advance and the invoice clearly states this fact.

Q. Have you calculated the lag utilizing this information?

A. Yes. Marked as Schedule EJG-1 and attached to my rebuttal testimony is the Company's recalculated lag of a negative 8.99 days. This lag is based on the

Company's payment of Management Fees on the sixth day of the month for the previous month.

Q. Does the Staff's lag of 21.41 days for Management Fee assume that the payments are paid in arrears?

A. Yes. As I stated earlier, the Management Fees paid to American Water Works Service Company are paid in advance. These payments are needed to help pay the services that will be performed for MAWC during the month. This payment process/agreement is not uncommon.

Q. Are there any other expenses where costs are paid in advance and the Staff has recognized a negative lag in its calculation of working capital?

A. Yes. The PSC Fee Assessment that is issued by the Commission represents costs to be incurred by the Commission for service it will provide in the regulation of utilities in the State of Missouri. The PSC gives the Commission the option of paying the entire yearly amount in one lump sum or quarterly. MAWC chooses to pay quarterly installments. However, each quarterly payment is made in advance of the applicable quarter. The Staff, in its Working Capital requirements, reflects a negative expense lag 31.63 days for the assessment. This reflects the payment of the PSC Fees to the Commission in a manner that will allow the Commission to have the necessary funds to operate and provide its services in the regulation of Missouri utilities. Management fees are paid in advance for the same reason.

CONSOLIDATED BILLING

Q. Which parties in the case have suggested changes to the Company's proposed consolidated billing tariff?

A. Only one party has proposed changes to the Company's tariff. Mr. Gorman, who represents the Missouri Industrial Energy Consumers, has recommended a few changes.

Q. What are his recommended changes and do you agree with those?

A. First, Mr. Gorman recommends modifying the language of the tariff. As I read his change, it would allow customers qualifying for bill consolidation to be charged for each meter and to consolidate all usage from those meters and use the 60% demand ratchet to calculate the bills.

At this time, I do not understand the additional text of "except for Rate J" as shown on line 8, page 6 of Mr. Gorman's direct testimony.

Second, Mr. Gorman recommends that the tariff should be made available to qualifying customers at the conclusion of this case. He suggests that the Company should make an estimate for customers that are likely to ask for consolidating billing.

The Company does not necessarily oppose this, but at this time, we are not sure which customers are likely to ask for consolidated billing. Without knowing which ones will ask, an adjustment to the billing determinants cannot be made that is known and measurable.

Q. What do you propose?

A. If any of Mr. Gorman's clients who do qualify for the tariff and wish to be placed on the tariff, we should be notified now so that the Company and Staff can make the appropriate adjustments to the billing determinants.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

Missouri American Water Company
Working Capital - Management Fees

Staff Mgmt Fee Lag		21.41
Avg Service Period		15.20
Staff Payment Lag		6.21
Staff Payment Lag		6.21
Average Service Lag		15.20
Company Adjusted Mgmt Fee Lag		(8.99)
Revenue Lag Per Staff		55.75
Company Adjusted Mgmt Fee Lag		(8.99)
Total Lag		64.74
Staff Mgmt Fee Expense	$	23,123,732
Daily Cash Requirement		63,353
Adjusted Lag		64.74
Working Capital Requirement	$	4,101,473
Staff Working Capital Requirement	$	2,175,373
Difference	$	1,926,100

A. The Staff believes that a five year amortization of deferred gains and losses is superior to the corridor approach used by the Company. A five year amortization period does provide some smoothing to reduce volatility in pension expense caused by gains or losses. More importantly, it provides a better picture of the true level of pension expense because relatively current market conditions and revised actuarial assumptions are considered and included in pension expense. Under the example described above, using a five year amortization period, a company with $150,000 in deferred gains would reduce pension expense by $30.000 ($150,000/5) in the current year. More importantly, by adopting the Staff's position, the Commission will be taking the appropriate steps to minimize the accumulated deferred gains and losses subject to amortization.

DEFERRED PENSION COSTS

Q. Please describe adjustment S-17.11.

A. Adjustment S-17.11 allows the recovery of deferred pension costs over the average remaining service period of active employees. In Case No. WO-93-154, the Commission authorized the Company to record the difference between FAS 87 costs and the cash contribution to the pension fund as a regulatory asset through an Accounting Authority Order (AAO). The Staff believes that these deferred pensions costs should be recovered by the Company and has proposed to amortize these costs over the average remaining service period of active employees, a 15.4 year period.

OPEBs

Q. Please describe adjustment S-17.5.

A. Adjustment S-17.5 adjusts OPEBs to a current level of expense. The Staff is proposing to allow a level of OPEBs expense as determined by FAS 106 in the American 1995 interim actuarial report filed with the Company in February 1995. Staff consultant David Q. Wells of AACGI will address the FAS 106 actuarial assumptions and recommendations concerning the allocation of American OPEBs expense to the Company for the Staff in this case.

DEFERRED OPEB COSTS

Q. Please describe adjustment S-17.8 in the St. Joseph and Joplin divisions.

A. Adjustment S-17.8 allows the recovery of deferred OPEB costs over a 17.5 year period. These adjustments are only reflected for the St. Joseph and Joplin divisions because they were the only two divisions for which OPEB costs were deferred. In Case No. WO-93-155, the Commission authorized the Company to record the FAS 106 costs in excess of the pay-as-you-go (PAYGO) amount as a regulatory asset through an AAO and allowed the deferral of this difference from July 1, 1994 up through the effective date of the report and order in the Company's next general rate case. The Staff believes that these deferred OPEB costs should be recovered by the Company. The Commission's Report & Order in Case No. WO-93-155 stated: "That the Commission intends to allow Missouri-American Water Company's current prudently incurred FAS 106 benefits other than pensions to be recovered in Missouri-American Water Company's next general rate proceeding, in accordance with House Bill 1405 as well as an amortization of Missouri-American Water

Company's prudently incurred FAS 106 costs deferred pursuant to this accounting authority order over a period of time ending no later than December 31, 2012."

Q. Does the 17.5 year recovery period of the deferred OPEB regulatory asset costs proposed by the Staff meet the financial accounting standard set for the recovery period on OPEB expense deferrals?

A. Yes. The Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) Pronouncement No. 92-12 requires the use of a period, not to exceed twenty years, for rate recovery of any deferred OPEB expenses. The 17.5 year period is the time remaining of this twenty year period, if that period is assumed to have begun on January 1, 1993, the implementation date of FAS 106.

Q. Did the Staff allow any rate base treatment for the FAS 106 and PAYGO differences the Company funded prior to July 1, 1995?

A. Yes. The Staff allowed these differences in rate base because the Staff believes that these contributions will benefit the customers. These funded amounts will serve to reduce the overall revenue requirement associated with FAS 106 for the Company in the future due to the accumulation of earnings on the amounts in the trust fund.

Q. Does this conclude your discussion of pensions and OPEBs?

A. Yes.

INSURANCE OTHER THAN GROUP

Q. Please describe adjustment S-17.9.

Staff Last Rate Case W/P

Missouri American Water Company
WR-2003-0500

Pension Expense

	B'wick	Jefferson City	Joplin	Mexico	Parkville	St. Charles	St. Joseph	St. Louis	W'burg	Parkville Sewer	Corporate	Total
Per book	230	(6,667)	(13,740)	(2,083)	(3,049)	(17,262)	(16,448)	(408,041)	(4,453)	12	1,749,453	1,277,952
FAS 87 expense for 2003: [1]												
FAS 87 expense for 2003:[1]												
Missouri allocated AWW												4,261,363
O&M % (per Staff witness Hagemeyer)												70.81%
O&M FAS 87 MAWC Pension expense											3,017,471	3,017,471
MAWC allocation of Service Company FAS 87 expense											496,793	496,793
MAWC pension amortization											37,425	37,425
Hartung monthly pension								7,500				7,500
STL supplemental pension								62,000				62,000
Total annual pension excl (gain)/loss amortizations	0	0	0	0	0	0	0	69,500	0	0	3,551,689	3,621,189
Staff adjustment for FAS 87net of gain/loss amort	(230)	6,667	13,740	2,083	3,049	17,262	16,448	477,541	4,453	(12)	1,802,236	2,343,237
Cash Basis												
Hartung monthly pension [3]								7,500				7,500
STL supplemental pension [3]								44,004				44,004
MAWC allocated portion of 2003 ERISA contribution [2]											377,248	377,248
MAWC allocated portion of Svc Co 2003 ERISA contribution [4]											50,834	
WR-95-205 pension amort											37,425	37,425
Annalized pay-as-you-go basis	0	0	0	0	0	0	0	51,504	0 #	0 #	465,507	466,177
Adjustment (pay-as-you-go)	(230)	6,667	13,740	2,083	3,049	17,262	16,448	459,545	4,453	(12)	(1,283,946)	(760,941)

Adjustment S- -

Amort

[1] Per Company Pension Liability workpapers (Pension Liab 1- 2)
[2] Zero in 2002. Co pension liability workpaper indicates $377,247 anticipated funding during 2003. Use subject to receipt of 2003 actuarial.
[3] Amounts per response to DR 333.
[4] Amount per response to DR 412.

File: opeb&pensions.xls
Tab: pension expense

Staff Last Rate Case w/p

Missouri Amecrican Water Company
WR-2003-0500

OPEB Expense

	B'wick	Jefferson City	Joplin	Mexico	Parkville	St. Charles	St. Joseph	St. Louis	W'burg	Parkville Sewer	Corporate	Total
Per book	0	38,239	(14,705)	(2,562)	(2,558)	(13,544)	(9,716)	981,337	(4,427)	0	575,511	1,547,575
OPEB amortization incl in book								44,056			30,801	74,857
Expense net of amortization	0	38,239	(14,705)	(2,562)	(2,558)	(13,544)	(9,716)	937,281	(4,427)	0	544,710	1,472,718
FAS 106 expense for 2003:												
Missouri allocated AWW												1,402,928
STLCo												1,400,000
												2,802,928
O&M % (per Staff witness Hagemeyer)												70.81%
O&M FAS 106 OPEB expense											1,984,753	1,984,753
Staff adjustment for FAS 106 OPEB's Adjustment S- -	0	(38,239)	14,705	2,562	2,558	13,544	9,716	(937,281)	4,427	0	1,440,043	512,035
Adjmt to amort "perm" OPEB asset Adjustment S- -											75,292	75,292
Total annualized expense (incl book amort)												2,134,902

Note: "Current" FAS 106 allocated to all districts on Corp A&G factor based on composite labor (5). Amortizations not directly assigned allocated on Corporate A&G factor excluding StJ & JC districts (12).

Amrt

File: opeb&pensions.xls
Tab: opeb expense

No. S0199 update

DATA INFORMATION REQUEST
Missouri American Water Company
CASE NO. WR-2007-0216

Requested From: Don Petry
Date Requested: 4/12/07
Information Requested:

Please provide the balance of the following accounts/subaccounts by month since January 2001 (Account - Subaccount): 620000 - 24; 675000 - 24; 675650 - 24; 635000 - 24; 675655 – 24

(additional comment from Jeremy 4/13/07 - please read data request 199 to mean from Jan 2001 to Dec 31, 2006.

Requested By: Jeremy Hagemeyer, MoPSC - jeremy.hagemeyer@psc.mo.gov - 314-340-4680 x225

Information Provided:

Please see attached.

5-3-07 update
Excel spreadsheet attached.
S0199 support.xls

Hyperlink: S0199-R1.pdf

Signed By: ______________________

Date Response Provided:

Prepared By: Lori O'Malley

Exhibit No.:	
Issues:	True-Up
Witness:	Edward J. Grubb
Exhibit Type:	Rebuttal
Sponsoring Party:	Missouri-American Water Company
Case No.:	WR-2007-0216
	SR-2007-0217
Date:	July 13, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2007-0216
CASE NO. SR-2007-0217

TRUE-UP DIRECT TESTIMONY

OF

EDWARD J. GRUBB

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

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-2007-0216 CASE NO. SR-2007-0217

AFFIDAVIT OF EDWARD J. GRUBB

Edward J. Grubb, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "True-Up Direct Testimony of Edward J. Grubb"; that said testimony were prepared by him and/or under his direction and supervision; that if inquires were made as to the facts in said testimony, he would respond as therein set forth; and that the aforesaid testimony are true and correct to the best of his knowledge.

Edward J. Grubb

Edward J. Grubb

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 13th day of July 2007.

Notary Public

My commission expires:

Staci A. Olsen
Notary Public - Notary Seal
State of Missouri
St. Charles County
Commission # 05519210
My Commission Expires: March 20, 2009

TRUE-UP DIRECT TESTIMONY

EDWARD J. GRUBB

WITNESS INTRODUCTION AND PURPOSE

Q. Please state your name, title and business address.

A. Edward J. Grubb, Director Rates and Revenue for American Water, 727 Craig Road, St. Louis, Missouri 63141.

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

A. I am employed by American Water as the Manager Rates and Regulations for the Central Region and I am also the Assistant Treasurer for Missouri-American Water Company ("Company" or "MAWC").

Q. Would you please describe your educational background and business experience?

A. My background and qualifications are summarized in Schedule EJG-1 of my Direct Testimony.

Q. Have you previously participated in regulatory matters?

A. Yes, I have prepared rate cases and presented testimony before the Maryland Public Service Commission, West Virginia Public Service Commission, Tennessee Public Service Commission, Illinois Commerce Commission, Kentucky Public Service Commission, Iowa Utilities Board, Indiana Utility Regulatory Commission, and this Commission.

Q. What is the purpose of your True-Up Direct Testimony?

A. The purpose of my True-Up Direct Testimony is to support the Company's proposed true-up of items identified in its Recommendation Concerning Test Year and Request for True-Up Audit and Hearing (filed on December 22, 2006). The Commission's Order Adopting Procedural Schedule, issued Ferbaury 22, 2007, called for true-up direct testimony to be filed along with rebuttal testimony.

Q. What items were identified for true-up in the rate case?

A. The following items were identified:

- Utility Plant in Service;
- Accumulated Depreciation;
- Contributions in Aid of Construction;
- Customer Advances;
- Deferred Income Taxes, Including ITC;
- Regulatory Asset;
- Property Taxes;
- Labor and Benefits (MAWC and AWWS);
- Rate Case Expense;
- MSD Revenue, if necessary;
- Capital Structure;
- Postage;
- PSC Fee Assessment;

- Depreciation Expense;
- Other items as the parties may agree to in the proceeding.

Q. Has the staff completed their true-up for the period ending May 2007?

A. The Company has provided all of the information needed by the Staff to complete the true-up. I have had a number of discussions with the Staff regarding the elements of the true-up. On July 10, 2007, I received a copy of the Staff's Revenue Requirement (EMS Run) which included the true-up information. The Company is currently reviewing this information. Should we discover any issues, we will alert the Staff as quickly as possible.

Q. Will the Company be filing any additional documents with your true-up direct testimony?

A. No.

Q. Does this complete your true-up direct testimony?

A. Yes, it does.