

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

Staff Exhibit No. 20
Case No(s) WR-2007-0216
Date 8-14-07 Rptr PC

Jefferson City, Missouri
July 2007

Denotes Proprietary Information

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OF
DAVID MURRRAY**

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TRUE-UP DIRECT TESTIMONY
OF
DAVID MURRAY
MISSOURI AMERICAN WATER COMPANY
CASE NO. WR-2007-0216

Q. Please state your name.

A. My name is David Murray.

Q. Are you the same David Murray who filed direct and rebuttal testimony in this proceeding on behalf of the Staff of the Missouri Public Service Commission (Staff)?

A. Yes, I am.

Q. What is the purpose of your true-up direct testimony?

A. The purpose of this true-up direct testimony is to update my recommended capital structure for Missouri-American Water Company (MAWC) and provide a revised overall rate of return (ROR) as of May 31, 2007. It is also to update the embedded costs of long-term debt, short-term debt and preferred stock to reflect the actual costs as of May 31, 2007.

Q. Could your true-up direct testimony have been filed on the same date as rebuttal testimony (July 13, 2007), which is when it was supposed to be filed according to the procedural schedule?

A. No. MAWC did not provide me with American Water's financial statements as of the update period (December 31, 2006) or the true-up period (May 31, 2007) until July 12 and July 13 respectively. This did not allow me adequate time to review this information and still file rebuttal and true-up direct testimony. However, I have now been

True-Up Direct Testimony of
David Murray

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?

True-Up Direct Testimony of
David Murray

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.

NP

1 **EMBEDDED COST OF LONG-TERM DEBT**

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

4 A. Yes, I did.

5 Q. What was the result of your analysis?

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

8 **EMBEDDED COST OF PREFERRED STOCK**

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

11 A. Yes, I did.

12 Q. What was the result of your analysis?

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

15 **OVERALL RATE OF RETURN**

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

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

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

NP

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.

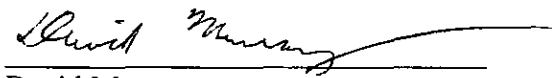
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

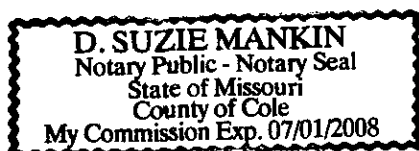
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

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