

Exhibit No.:
Issues: Capital Structure
Embedded Cost of Preferred Stock
American Water Capital Corp,
Customer Rate Design

Witness: James M. Jenkins
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

JAMES M. JENKINS

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

MAWC Exhibit No. 14-NP
Case No(s) WR-2007-0216
Date 8-14-07 Rptr. PJ


NP

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
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AFFIDAVIT OF JAMES M. JENKINS

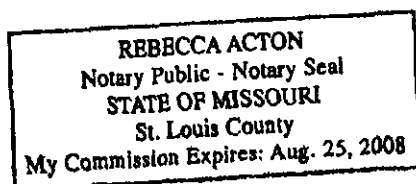
James M. Jenkins, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of James M. Jenkins"; that said testimony and schedules were prepared by him and/or under his direction and supervision; that if inquires were made as to 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.


James M. Jenkins

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 10th day of July 2007.


Notary Public

My commission expires:



**REBUTTAL TESTIMONY
JAMES M. JENKINS
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2007-0216**

TABLE OF CONTENTS

I.	Introduction.....	1
II.	Rebuttal to Michael Gorman	
	A. Capital Structure	2
	B. Embedded Cost of Preferred Stock.....	4
III.	Rebuttal to David Murray	
	A. Capital Structure.....	6
	B. American Water Capital Corp.....	8
	C. Authorized Returns From Other Jurisdictions	13
IV.	Rebuttal Regarding Rate Design	14
V.	Rebuttal Regarding Sewer Plant Investments in Warren County and Cedar Hill.....	17

REBUTTAL TESTIMONY

JAMES M. JENKINS

I. INTRODUCTION

1

2

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

4 A. James M. Jenkins, 727 Craig Road, St. Louis, Missouri 63141.

5

6 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
7 **PROCEEDING?**

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

9

10 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

11 A. The purpose of my rebuttal testimony is to rebut certain aspects of the direct
12 testimony of Michael Gorman, witness for the Missouri Industrial Energy
13 Consumers ("MIEC") and David Murray, witness for the Missouri Public
14 Service Commission Staff ("Staff") concerning capital structure, preferred
15 stock, American Water Capital Corporation ("AWCC"), and authorized returns
16 from other jurisdictions. I will also address the Company's rate design
17 position based on the direct testimony of Staff and Office of Public Counsel
18 (OPC), as well as positions expressed by other parties at the
19 prehearing/settlement conference. Finally, I will respond to James Merciel,
20 witness for Staff, regarding the proposed disallowance of certain investments
21 in sewer plant in Warren County and Cedar Hill.

1 **II. REBUTTAL TO MICHAEL GORMAN**

2 **A. CAPITAL STRUCTURE**

3

4 **Q. What is Mr. Gorman's position regarding an appropriate capital**
5 **structure in this proceeding?**

6 **A. It appears Mr. Gorman accepts the Company's proposed capital structure as**
7 **shown in Schedule JMJ-1 of my direct testimony.**

8

9 **Q. Does Mr. Gorman propose any adjustments to the Company's proposed**
10 **capital structure?**

11 **A. Mr. Gorman does not propose any adjustments to the Company's proposed**
12 **capital structure as shown in Schedule JMJ-1 of my direct testimony and**
13 **summarized in Table 1 on page 5 of Mr. Gorman's testimony.**

14

15 **Q. How did you arrive at the capital structure reflected in Schedule JMJ-1?**

16 **A. As discussed on page 8 of my direct testimony in this proceeding, I started**
17 **with the actual capital structure that existed at June 30, 2006. I then adjusted**
18 **the capital structure to reflect changes expected to occur by the end of the**
19 **true-up period.**

1 Q. When was the end of the true-up period?

2 A. The end of the true-up period in this proceeding was May 31, 2007.

3

4 Q. Is the capital structure shown in Schedule JMJ-1 of your direct
5 testimony and in Table 1 of Mr. Gorman's testimony consistent with the
6 actual capital structure as of May 31, 2007?

7 A. No, it is not. As discussed above, the capital structure shown in Schedule
8 JMJ-1 of my direct testimony and in Table 1 of Mr. Gorman's testimony
9 included changes that were expected to occur by May 31, 2007. As with any
10 pro forma, the actual results may differ slightly from the expected changes.
11 The actual May 31, 2007 capital structure is shown in Schedule JMJ-5
12 attached to this testimony. The following is a summary of the actual May 31,
13 2007 capital structure:

Missouri-American's
Capital Structure at 5/31/2007

14

Description	Percent
Short-Term Debt	7.26%
Long-Term Debt	44.50%
Preferred Stock	0.44%
Common Equity	47.81%
Total	100.00%

1

2 **Q. Why does the actual May 31, 2007 capital structure include short-term**
3 **debt?**

4 **A. The Company expected to place \$47,000,000 of long-term debt by May 31,**
5 **2007 and use the proceeds to repay short-term debt. However, the Company**
6 **did not complete this transaction by May 31, 2007. The short-term debt**
7 **reflected in Schedule JMJ-5 is the net short-term debt adjusted for items not**
8 **included in rate base in this proceeding.**

9

10 **B. EMBEDDED COST OF PREFERRED STOCK**

11 **Q. On pages 5-6 of Appendix B, attached to his Direct Testimony, MIEC**
12 **witness Michael Gorman expressed concern regarding Missouri-**
13 **American's cost of preferred stock. Please comment.**

14 **A. Mr. Gorman noted that MAWC's embedded cost of preferred stock is 9.16%**
15 **in this proceeding. Although he did not propose an adjustment to this cost,**
16 **Mr. Gorman stated that this cost is "inordinately high" and "well above**
17 **market." He recommended that the "Commission direct Missouri-American to**
18 **explain and justify its preferred stock cost."**

19

1 **Q. With respect to Mr. Gorman's recommendation, what is the justification**
2 **for Missouri-American's preferred stock cost?**

3 A. The preferred stock issuance that drives the overall cost of preferred is a
4 9.18% series with a face amount outstanding of \$2,500,000. While this
5 issuance represents 95% of total preferred stock outstanding, it comprises
6 less than one-half of one percent of the Company's total capitalization. This
7 stock was issued in 1991, in accordance with the approval of the Commission
8 in its Case No. WF-92-5. Though the interest rate of 9.18% on this series
9 may seem high, given current market conditions, the rate reflects market
10 conditions at the time it was issued. In addition, Mr. Gorman acknowledged
11 that there may be restrictions that preclude Missouri-American from
12 redeeming this issuance, which is indeed the case. Although this issuance
13 carries a mandatory redemption in 2031, it is not callable prior to 2011. Thus,
14 Missouri-American does not have the ability to retire any portion of this
15 issuance until 2011. At that time the Company will consider redemption of
16 this issuance in accordance with the terms of the Preferential Stock Purchase
17 Agreement, if doing so will produce a net cost savings.

18

19

20

21

1 capital structure. Among other considerations, Mr. Murray disregards the fact
2 that the majority of the Company's present debt is issued under its own
3 indentures and not through AWCC.

4

5 **Q. Do you have any comments on Schedule 8 of Mr. Murray's direct**
6 **testimony?**

7 A. Yes. Notwithstanding my objection to Mr. Murray's use of American Water's
8 capital structure, I have updated the consolidated capital structure for Thames
9 Water Aqua US Holdings, Inc., the Company's ultimate United States parent.
10 The following table shows the parent company consolidated capital structure,
11 based on May 31, 2007 financial information.

Thames Water Aqua US Holdings, Inc.
and Consolidated Subsidiaries
Consolidated Capital Structure
As of 5/31/2007

<u>Capital Component</u>	<u>Amount (\$'s)</u>	<u>Percent</u>
Common Stock Equity	\$	
Preferred Stock		
Long-Term Debt		
Short-Term Debt **		
	<u>\$</u>	<u>-</u>

12

1 **B. AMERICAN WATER CAPITAL CORP.**

2 **Q. In his direct testimony, MoPSC witness David Murray states that**
3 **"MAWC is not operating as an independent entity at least when**
4 **considering MAWC's procurement of financing and the cost of that**
5 **financing." Do you agree with Mr. Murray?**

6 **A. No, I do not. Mr. Murray attempts to support this argument by citing MAWC's**
7 **response to Staff Data Request No. 0102, which noted that AWCC is the**
8 **primary source of long and short-term debt for MAWC. (Murray DT, p. 16).**
9 **While it is true that MAWC utilizes AWCC for much of its debt financing, it is**
10 **important to note that MAWC does not issue Notes to AWCC unless it can**
11 **determine that, based on market conditions applicable at the time, such**
12 **issuance will result in the lowest overall cost available to MAWC when**
13 **compared to securities of comparable type, maturity, and terms.**

14

15 **Q. Are there other factors involved in MAWC's financing decisions that**
16 **suggest MAWC manages its capital structure independently of its**
17 **parent?**

18 **A. Yes, there are. In conjunction with all of its financing requirements, MAWC**
19 **considers the appropriate mix of debt, preferred stock and common equity**
20 **appropriate for its capital structure. This decision is made independently of its**
21 **parent's target capital structure. Thus, the decision of whether to issue equity**
22 **or debt, and the type of debt, is made based on MAWC's target capital**

1 structure and capital market conditions at the time the security is to be issued.
2 In addition, MAWC attempts to obtain the most favorable financing terms
3 possible.
4

5 **Q. Please describe AWCC.**

6 A. AWCC is a corporation organized under Delaware law with its principal office
7 in Voorhees, New Jersey. AWCC is a wholly-owned subsidiary of American
8 dedicated to providing financial services to American's water and wastewater
9 service subsidiaries by pooling the financing requirements of such
10 subsidiaries, and creating larger and more cost efficient debt issues at more
11 attractive interest rates and lower transaction costs than would otherwise be
12 available for the subsidiaries.

13
14 **Q. Does Missouri-American have an agreement with AWCC for the**
15 **provision of financial services?**

16 A. Yes. Missouri-American and AWCC have executed a Financial Services
17 Agreement (the "Agreement") dated as of June 15, 2000.

18
19 **Q. Please describe the types of financial services provided to Missouri-**
20 **American under the Agreement.**

21 A. The Agreement enables the Company to participate in a financial services
22 program (the "AWCC Program") in which American's utility subsidiaries,

1 American, and American Water Works Service Company ("Participants")
2 participate. Under the AWCC Program, AWCC provides Missouri-American
3 and the other Participants with access to short-term and long-term debt.

4
5 **Q. Please describe how Missouri-American and the other Participants**
6 **obtain access to short-term and long-term debt under the AWCC**
7 **Program.**

8 A. Under their respective agreements with AWCC, each Participant (including
9 Missouri-American) provides AWCC with an estimate of its borrowing
10 requirements for the coming year and, on a rolling basis, for one to three
11 years in advance. On the basis of this information, AWCC arranges to obtain
12 funds necessary to meet the Participants' short- and long-term debt
13 requirements. AWCC loans the proceeds of its borrowings and debt
14 issuances to the Participants, including Missouri-American, on the same
15 terms (including maturity and interest rates) as those obtained by AWCC.
16 The indebtedness of Missouri-American to AWCC is evidenced by notes in
17 one of the two forms attached to the Agreement. The form of short-term note
18 in the amount of the maximum anticipated short-term borrowings over the
19 course of a year evidences Missouri-American's obligation in respect to short-
20 term indebtedness. The form of long-term note attached to the Agreement
21 evidences long-term borrowings, which have a specific maturity, amount and
22 payment schedule. The debt of each Participant, including Missouri-
23 American, to AWCC is unsecured.

1

2 **Q. Does the AWCC Program provide a cost-effective means for Missouri-**
3 **American to engage in short-term and long-term financing?**

4 A. Yes. AWCC is able to arrange for the issuance of short- and long-term debt
5 on terms more favorable than Missouri-American could obtain if it issued its
6 own debt outside of the AWCC Program. Missouri-American also incurs
7 lower transaction costs because of its participation in the AWCC Program.

8

9 **Q. Does the Agreement require Missouri-American to obtain all of its short-**
10 **term and long-term debt financing from AWCC?**

11 A. No. The Agreement gives Missouri-American the option to borrow from any
12 source. However, Missouri-American expects to continue its participation in
13 the AWCC Program because of the benefits mentioned above.

14

15 **Q. How does the Company determine which source to use for its financing**
16 **needs?**

17 A. The Company seeks to match its financing needs with the types of financing
18 that are available at the time and that will produce the lowest overall cost of
19 debt available to Missouri-American.

20

1 **Q. Why would the Company issue Notes to AWCC rather than do a**
2 **separate financing with an unrelated lender?**

3 A. Missouri-American does not have as ready access to capital markets as does
4 AWCC. AWCC funds the Notes it issues to Missouri-American through long-
5 term senior unsecured debt instruments ("AWCC Securities") issued in a
6 public offering or private placement by AWCC. In addition, the AWCC
7 Securities are typically issued in a transaction of a sufficient size to ensure
8 that AWCC is able to obtain the most favorable market rate possible given the
9 circumstances. The interest rate or rates that Missouri-American pays in
10 connection with the Notes issued to AWCC, which are in turn funded by
11 AWCC through the AWCC Securities, are usually no greater, and may be
12 lower, than the rate or rates it can obtain if it issues its own securities.
13 Further, the total transaction costs incurred by MAWC in a transaction
14 through AWCC are typically lower than the total transaction costs incurred by
15 MAWC in a transaction where MAWC issues its own securities. In any event,
16 as previously noted, Missouri-American does not issue Notes to AWCC
17 unless it believes at the time of issuance that doing so will result in the lowest
18 overall cost to MAWC when compared to securities of comparable type,
19 maturity, and terms.

20

21

22

1 **C. AUTHORIZED RETURNS FROM OTHER JURISDICTIONS**

2 **Q. On pages 31 and 32 of his direct testimony, Mr. Murray discusses his**
3 **examination of the returns on equity and overall rates of return that**
4 **have been authorized or agreed to in American Water's other**
5 **jurisdictions since January 1, 2004. Please comment.**

6 **A. While I might question the relevance of considering, in this proceeding, the**
7 **returns of companies for which the risk profile has not been assessed relative**
8 **to that of MAWC's, I would note that a number of the returns reviewed by Mr.**
9 **Murray are from cases whose final Orders or Stipulations occurred 2 to 3**
10 **years ago. If historical authorized or agreed-to returns in American Water**
11 **districts outside of Missouri are to be analyzed, it may be more appropriate to**
12 **focus on a more recent time period.**

13
14 **Q. Have you done such an analysis of returns for other American Water**
15 **operating companies?**

16 **A. Yes, I have. I have modified and updated Mr. Murray's sample by including**
17 **cases that were completed in 2006 and 2007¹. Using that time period results**
18 **in a sample of seven cases, for which the average authorized or agreed-to**
19 **return on common equity is 10.19%, with a range of 9.63% to 10.70%. The**

¹ It should be noted that Mr. Murray's sample does not include the authorized returns from four rate orders entered in 2007. The Company provided Mr. Murray with the latest information available in response to his data request No. 104, but at that time the Company did not yet have the results of those 2007 cases. The Company will be submitting an updated response to Mr. Murray's data request which includes those four cases.

1 average authorized overall rate of return is 7.95%, with a range of 7.24% to
2 8.85%. The results of this analysis are shown on Schedule JMJ-6.

3
4 **Q. How do your results compare to those of Mr. Murray's?**

5 A. The average return on common equity from Mr. Murray's sample was 10.04
6 percent and the average overall rate of return was 7.81 percent.

7 **IV. REBUTTAL REGARDING RATE DESIGN**

8
9 **Q. Please explain the Company's position on rate design.**

10 A. In its initial filing, the Company proposed an across-the-board increase of
11 approximately 25% applied to the existing base rates for each district and
12 customer classification. This was proposed to avoid large increases for
13 certain districts that otherwise would be required under district specific
14 pricing. An across-the-board increase recovers the full cost of service
15 proportionately among all districts and classes of users without any undue
16 hardship to any one class or district and maintains the revenue distribution
17 that was approved in the last rate case. The reasons for the Company's
18 across-the-board proposal are further described in more detail in my direct
19 testimony.

1 **Q. What do you understand Staff's and OPC's positions to be regarding**
2 **rate design?**

3 A. It is my understanding that both Staff witness Jim Russo and OPC witness
4 Barb Meisenheimer generally propose district specific pricing. It is also my
5 understanding that most of the other parties to the case prefer district specific
6 pricing as well.

7
8 **Q. What is the impact of strict district specific pricing in this case?**

9 A. Attached to my rebuttal testimony is a schedule marked JMJ-7, which I asked
10 Mr. Paul Herbert to prepare, that shows the impact of moving from existing
11 revenues by district and customer classification to the cost of service by
12 district and classification, based on the \$41 million increase proposed by the
13 Company and the allocation of cost of service set forth in Company Exhibit
14 PRH-1, attached to Mr. Herbert's rebuttal testimony. The attached schedule
15 illustrates the effect strict district specific pricing would have on each
16 classification within each district. Four of the districts would require triple-digit
17 percentage increases to recover their full cost of service.

18

19 **Q. Are there rate design alternatives other than an across-the-board**
20 **increase or strict district specific pricing?**

21 A. Yes. Single-tariff pricing (STP) is one option that was approved by this
22 Commission several proceedings ago. However, I am aware that district
23 specific pricing is the over-all choice among most, if not all, of the

1 representatives of the various districts in this case. District specific pricing
2 was also the direction the Commission decided to pursue in the Company's
3 2000 rate case.
4

5 **Q. Is there an option to an across-the-board increase and strict district**
6 **specific pricing that reduces the total number of districts, mitigates the**
7 **large impacts on some districts and still maintains, as much as**
8 **possible, the concept of district specific pricing?**

9 **A. Yes. As an alternative to the across-the-board increase proposed and strict**
10 **district specific pricing, I propose the following for the Commission to**
11 **consider:**

12 Since the St. Louis County and St. Charles districts are physically connected,
13 I propose a single tariff applicable to both districts. This single tariff will be
14 sufficient to recover the cost of service for those combined districts and also
15 cover the deficits (approximately \$1.9 million) projected for Brunswick, Cedar
16 Hill Sewer and Warren County Water and Sewer operations, after the
17 proposed 25% increase is applied to these districts. This proposal will
18 mitigate the extremely large increases that otherwise would be required under
19 strict district specific pricing for these districts. All other districts would
20 receive district specific pricing.
21

1 **Q. Have you prepared schedules that show the proposed single-tariff rate**
2 **structure for St. Louis and St. Charles Districts and the revenues**
3 **generated for each?**

4 **A. Yes, I asked Mr. Herbert to prepare these schedules and they are attached as**
5 **Schedules JMJ-8, JMJ-9, and JMJ-10. JMJ-8 shows the cost of service for**
6 **St. Louis County, St. Charles, Brunswick, Cedar Hill Sewer, Warren County**
7 **Water and Warren County Sewer in column 2, the proposed revenues**
8 **originally filed for in column 3, and the deficit between the cost of service and**
9 **proposed revenue for Brunswick, Cedar Hill, Warren County Water and**
10 **Sewer totaling \$1,897,302 in column 4. Column 5 shows the revised revenue**
11 **based on a single tariff for St. Louis County and St. Charles that generates**
12 **sufficient revenue to recover the total cost of service from these districts in**
13 **column 2, including the deficit in column 4. Schedules JMJ-9 and JMJ-10**
14 **show the application of the single-tariff rates for St. Louis County and St.**
15 **Charles, respectively, and support the revenues shown in column 5 of**
16 **Schedule JMJ-8.**

17 **V. REBUTTAL REGARDING SEWER PLANT INVESTMENTS**

18 **IN WARREN COUNTY AND CEDAR HILL**

19
20 **Q. Have you reviewed the Direct Testimony of Staff witness James Merciel**
21 **in regard to the Company's waste water treatment improvements in the**
22 **Warren County and Cedar Hill districts?**

1 A. Yes, I have.

2

3 Q. What has Mr. Merciel recommended in regard to the investments that
4 have been made in those systems?

5 A. Mr. Merciel recommends that plant in service related to the Warren County
6 sewer treatment facilities be reduced by 60%. He also recommends that the
7 entire cost of the Sand Creek waste water treatment plant expansion in the
8 Cedar Hill district be removed from plant in service.

9

10 Q. If those recommendations are followed by the Commission, what is the
11 impact for MAWC?

12 A. The proposed Staff disallowance concerns approximately \$3.8 million of
13 investment that has been made by MAWC in these wastewater systems (\$1.6
14 million in Warren County and \$2.2 million in Cedar Hill). In addition to the
15 Company not receiving a return on or of this investment, Staff's
16 recommendation would require the Company to write-off this amount of
17 investment.

18

19 Q. Why did the Company make the investments in these systems?

1 A. A more technical explanation of why the expansions were needed, as well as
2 why the expansions were sized the way they were, will be provided by MAWC
3 witness Alan DeBoy.

4

5 **Q. Generally, what were the circumstances surrounding the Warren County**
6 **system at the time it was acquired?**

7 A. In the case of Warren County, MAWC purchased from a receivership a
8 system that was in dire need of repair. The details of this situation can be
9 found in Commission Case No. WM-2004-0122. The customers of MAWC's
10 predecessor were found to not be receiving safe, adequate, and reliable
11 water and sewer service. The Commission stated, in part, that "The
12 Commission would not find the sale to be in the public interest unless it were
13 assured that Missouri-American is capable of operating the system in a safe
14 and adequate manner. The parties all agree that the system cannot be
15 operated adequately without some improvements being made and that the
16 major improvements will be made no matter what entity owns the system."
17 One of the improvements contemplated in the Report and Order was a new
18 sewer treatment plant.

19

20 **Q. What were the circumstances surrounding the Cedar Hill system at the**
21 **time of acquisition?**

1 A. MAWC purchased this system in 2004. The transaction was approved by the
2 Commission in Case No. SM-2004-0275. The plant, while handling the
3 existing customers, did not have any capacity for growth and an expansion of
4 the plant was contemplated at the time of the transaction. As the need for
5 expansion of the system presented itself, MAWC was able to invest the
6 dollars necessary to expand the Cedar Hill waste treatment facility so that it
7 would continue to have sufficient capacity.

8

9 **Q. Are both the Warren County and Cedar Hill waste water treatment plants**
10 **currently in service and being used to serve customers?**

11 A. Yes.

12

13 **Q. Does the Staff's proposed disallowance of this Company investments**
14 **create cause for concern?**

15 A. Yes, it does. The proposed disallowance provides a fine example of a classic
16 problem for a utility. If a utility is unable, or decides not, to build needed
17 capacity, it is subject to complaints related to its ability, or inability, to provide
18 safe and adequate service, either now or in the future when growth takes
19 place. On the other hand, if a utility takes advantage of economies of scale
20 and willingly builds sufficient capacity for both the present and the future, the

1 utility's investment stands a reasonable chance of being disallowed as
2 unnecessary or having created excess capacity.

3 **Q. What would you ask of the Commission in regard to this issue?**

4 A. I would ask the Commission to be mindful of the fact that capacity cannot be
5 added in infinite increments. It is much cheaper to add capacity in blocks with
6 a view toward growth. Balancing this relationship effectively results in
7 situations where there may be excess capacity for periods of time, but the
8 investments are still the most prudent course of action for the company and
9 the customer. A utility should not be penalized for taking actions that are in
10 the long term best interest of the utility's customers. This is especially true in
11 an environment where there is limited interest in making investments in small
12 water and sewer systems.

13 **Q. Does this conclude your rebuttal testimony?**

14 A. Yes, it does.

15

16

17

Missouri-American Water Company
Capital Structure at 5/31/2007
Case No. WR-2007-0216

<u>Class of Capital</u>	<u>Amount</u>	<u>Percent to Total</u>	<u>Cost Rate</u>	<u>Weighted Cost of Capital</u>
Short-Term Debt	\$ 43,891,343	7.26%	5.39%	0.39%
Long-Term Debt	269,045,000	44.50%	5.87%	2.61%
Preferred Stock	2,644,000	0.44%	9.17%	0.04%
Accumulated Deferred ITC Post 1970	-	0.00%	0.00%	0.00%
Common Equity	<u>289,077,389</u>	<u>47.81%</u>	11.30%	<u>5.40%</u>
Total Capitalization	<u>\$ 604,657,732</u>	<u>100.00%</u>		<u>8.44%</u>

Note: The actual short-term debt balance at 5/31/2007 is \$56.9 million. This balance has been reduced to account for Construction Work in Progress.

**Comparison of Rate Awards versus Filing Amount for American Water
Subsidiaries for Rate Cases Since January 1, 2006**

Final Orders

<u>Company/State</u>	<u>Case ID Number</u>	<u>Order Date</u>	<u>Authorized/ Agreed-To ROE</u>	<u>Requested ROE</u>	<u>Awarded Overall Return</u>	<u>Requested Overall Return</u>
Hawaii-American	D&O 05-0103	July-06	10.60%	10.60%	8.85%	8.85%
Arizona-American	Decision No. 68858	July-06	10.40%	12.00%	7.24%	7.84%
California-American Monterey/Felton	D06-11-050	November-06	9.97%	11.00%	8.33%	8.72%
Ohio-American	06-0433-WS-AIR	March-07	10.00%	11.00%	7.65%	8.03%
New Jersey-American	WR 06030257	March-07	10.00%	11.23%	8.00%	8.61%
Tennessee-American	06-00290	April-07	9.63%	11.00%	7.89%	8.46%
Arizona-American	Decision No. 69440	May-07	10.70%	11.50%	7.71%	8.03%
Average			10.19%		7.95%	

MISSOURI-AMERICAN WATER
COMPARISON OF REVENUE TO COST OF SERVICE

	Residential	Commercial	Industrial	Public Authorities	Sales for Resale	Fire Protection Private	Public	Other Revenues	Total
BRUNSWICK									
PRESENT REVENUES	101,775	24,244	522	3,682	0	4,762	0	3,065	138,050
COST OF SERVICE	456,704	111,486	1,343	14,606	0	11,795	0	3,065	599,000
INCREASE REQUIRED	354,930	87,242	821	10,924	0	7,033	0	0	460,950
% INCREASE REQUIRED	348.74%	359.85%	157.29%	296.70%	0.00%	147.69%	0.00%	0.00%	333.90%
JEFFERSON CITY									
PRESENT REVENUES	2,191,791	1,241,210	207,426	334,917	0	120,054	0	23,272	4,118,670
COST OF SERVICE	3,256,090	1,549,461	281,511	406,743	0	80,742	0	23,272	5,597,820
INCREASE REQUIRED	1,064,299	308,252	74,085	71,826	0	-39,312	0	0	1,479,150
% INCREASE REQUIRED	48.56%	24.83%	35.72%	21.45%	0.00%	-32.75%	0.00%	0.00%	35.91%
JOPLIN									
PRESENT REVENUES	4,079,112	1,597,510	1,370,588	187,361	200,198	244,802	0	239,184	7,918,755
COST OF SERVICE	6,266,720	2,863,942	2,625,729	339,749	463,650	198,447	0	239,184	13,017,423
INCREASE REQUIRED	2,207,609	1,266,432	1,255,141	152,388	263,452	-46,355	0	0	5,098,667
% INCREASE REQUIRED	54.12%	79.28%	91.58%	81.33%	131.60%	-18.94%	0.00%	0.00%	64.39%
MEXICO									
PRESENT REVENUES	1,223,689	330,756	372,292	185,910	289,296	102,835	0	47,986	2,552,764
COST OF SERVICE	1,975,601	510,593	524,480	287,328	427,864	58,661	0	47,986	3,832,513
INCREASE REQUIRED	751,912	179,837	152,188	101,419	138,568	-44,174	0	0	1,279,750
% INCREASE REQUIRED	61.45%	54.37%	40.88%	54.55%	47.90%	-42.96%	0.00%	0.00%	50.13%
PARKVILLE WATER									
PRESENT REVENUES	2,313,628	654,724	29,634	47,145	159,292	85,380	0	35,193	3,324,996
COST OF SERVICE	3,013,232	755,998	27,618	57,634	208,382	80,528	0	35,193	4,178,585
INCREASE REQUIRED	699,603	101,274	-2,016	10,489	49,090	-4,852	0	0	853,589
% INCREASE REQUIRED	30.24%	15.47%	-6.80%	22.25%	30.82%	-5.68%	0.00%	0.00%	25.67%
ST. CHARLES									
PRESENT REVENUES	7,749,744	921,076	2,429	165,791	0	136,606	0	265,173	9,240,819
COST OF SERVICE	10,112,716	952,783	2,072	167,045	0	186,315	0	265,173	11,686,102
INCREASE REQUIRED	2,362,971	31,707	-357	1,254	0	49,709	0	0	2,445,284
% INCREASE REQUIRED	30.49%	3.44%	-14.71%	0.76%	0.00%	36.39%	0.00%	0.00%	25.46%
ST. JOSEPH									
PRESENT REVENUES	7,789,999	3,092,963	2,211,762	610,802	1,871,755	201,248	0	389,356	16,167,885
COST OF SERVICE	10,600,587	3,903,818	2,921,721	851,423	2,408,757	229,087	0	389,356	21,304,750
INCREASE REQUIRED	2,810,588	810,855	709,959	240,621	537,002	27,839	0	0	5,136,865
% INCREASE REQUIRED	36.08%	26.22%	32.10%	39.39%	28.69%	13.83%	0.00%	0.00%	31.77%

Missouri-American Water Company
Combined St. Louis Co. and St. Charles Rate Design Required to Recover
Shortfall in Brunswick, Cedar Hill Sewer and Warren Co Water & Sewer

<u>District</u> (1)	<u>Proposed COS</u> <u>@ \$41 million</u> <u>Increase</u> (2)	<u>As-filed</u> <u>Proposed</u> <u>Revenue</u> <u>(uniform 25 %)</u> (3)	<u>Deficit to be</u> <u>Recovered</u> (4)	<u>Revenues From</u> <u>Revised Combined</u> <u>STL & SCH Rates</u> (5)
St. Louis County	\$ 142,909,008	\$ 150,384,107		\$ 144,602,738
St. Charles	11,696,828	11,507,046		11,899,403
Brunswick	598,999	172,138	(426,861)	172,138
Cedar Hill Sewer	843,992	202,760	(641,232)	202,760
Warren Co. Water	302,902	141,412	(161,490)	141,412
Warren Co. Sewer	<u>763,720</u>	<u>96,001</u>	<u>(667,719)</u>	<u>96,001</u>
Total	\$ 157,115,449	\$ 162,503,464	\$ (1,897,302)	\$ 157,114,451

**Test Year Operating Revenues at Present Rates vs Proposed Rates
For the Test Year Ended June 30, 2006**

Missouri Public Service Commission
 Company: Missouri-American Water Company
 District: St. Louis

Case No. WPR-2007-0216
 Schedule JMJ-9
 Page 1 of 1

Line #	Class/ Description	Present Pro Forma Rates		Proposed Pro Forma Rates		
		Sales (CCF)	Total Revenue	Sales (CCF)	Total Revenue	Dollar Change
1						
2						
3						
4	Rate A	53,131,878	\$100,079,339	53,131,878	\$119,603,874	\$19,524,535
5	Rate B	2,389,846	1,987,396	2,389,846	2,448,397	461,001
6	Rate G	1,927,376	753,418	1,927,376	753,932	514
7	Rate F and E	81,303	7,407,936	81,303	9,868,266	2,460,330
8	Rate H	1,526,413	2,055,276	1,526,413	2,055,276	0
9	Rate J	8,056,832	6,158,095	8,056,832	7,811,345	1,653,250
10	Rate K	165,501	369,949	165,501	466,516	96,567
11						
12	Total	67,279,149	118,811,409	67,279,149	143,007,606	\$24,196,197
13						
14						
15	Miscellaneous Revenues:					
16						
17	Reconnect Charges		251,871		251,871	0
18	Returned Check Charge		39,912		39,912	0
19	Application Fee		0		0	0
20	Miscellaneous Other Revenue		889,752		889,752	0
21	Rents from Water Property		265,010		265,010	0
22	Misc Sales Unmetered		148,587		148,587	0
23						
24						
25			\$120,406,541		\$144,602,738	\$24,196,197
26						
27						
28						
29						
30						
31						
32						
33						
34						
35						
36						
37						
38						
39						
40						

20.37%

20.10%

**Test Year Operating Revenues at Present Rates vs Proposed Rates
For the Test Year Ended June 30, 2006**

Missouri Public Service Commission
Company: Missouri-American Water Company
District: St. Charles

Case No. WR-2007-0216
Schedule JMJ-10
Page 1 of 1

Line #	Class/ Description	Present Pro Forma Rates		Proposed Pro Forma Rates		
		Sales ('000 Gal)	Total Revenue	Sales ('000 Gal)	Total Revenue	Percentage Change
1						
2	Monthly Billing:					
3						
4	Residential	2,791,896	\$7,749,744	2,791,896	\$10,032,133	29.45%
5	Commercial	418,058	921,076	418,058	1,232,389	33.80%
6	Industrial	1,362	2,429	1,362	1,991	(438) -18.03%
7	Other Public Authority	66,512	165,791	66,512	196,895	31,104 18.76%
8	Other Water Utilities	0	0	0	0	0.00%
9	Miscellaneous	0	0	0	0	0.00%
10	Private Fire	0	136,606	0	170,822	34,216 25.05%
11	Public Fire	0	0	0	0	0.00%
12	Total	3,277,827	8,975,646	3,277,827	11,634,230	29.62%
13						
14						
15	Miscellaneous Revenues:					
16						
17	Reconnect Charges		8		8	0.00%
18	Returned Check Charge		2,988		2,988	0.00%
19	Application Fee		0		0	0.00%
20	Miscellaneous Other Revenue		137,382		137,382	0.00%
21	Rents from Water Property		104,554		104,554	0.00%
22	Misc Sales Unmetered		20,240		20,240	0.00%
23						
24			\$9,240,819		\$11,899,403	28.77%
25						
26						
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