Exhibit No.	
Issues:	Reasons for rate request, Overall Rate of Return, Capital Structure, Joplin Plant Improvement Charge, Rate Design
Witness:	James M. Jenkins
Type of Exhibit:	Direct
Sponsoring Party:	Missouri-American Water Company
Case No.	WR-2007-XXXX SR-2007- XXX
Date:	December 15, 2006

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2007-XXXX
SR-2007-XXX

DIRECT TESTIMONY

OF

JAMES M. JENKINS

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-XXXX** **CASE NO. SR-2007-XXX**

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 13 **day of** December **2006.**

Notary Public

My commission expires: 8/28/08

REBECCA ACTON
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: Aug. 25, 2008

DIRECT TESTIMONY
JAMES M. JENKINS
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR.2007.XXXX
SR.2007.XXX

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DIRECT TESTIMONY
OF
JAMES M. JENKINS
MISSOURI-AMEIRCAN WATER COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

WITNESS INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. James M. Jenkins, 727 Craig Road, Creve Coeur, Missouri 63141.

Q. WHAT POSITION DO YOU HOLD IN REGARD TO MISSOURI-AMERICAN WATER COMPANY?

A. I hold the position of Vice President and Chief Financial Officer for Missouri-American Water Company (MAWC or Company). I am also Vice President, Finance for American Water's Central Region. The subsidiaries within the Central Region include utilities in Indiana, Illinois, Iowa, Missouri, and Ohio. My primary focus is to direct the Company's finance, accounting, budgeting and rate administration functions within the Central Region.

Q. PLEASE DESCRIBE YOUR QUALIFICATIONS AND EXPERIENCE IN THE FIELDS OF GENERAL ACCOUNTING, UTILITY ACCOUNTING AND RATE REGULATION.

A. I graduated from the University of Illinois, at Urbana/Champaign in 1983 with a Bachelor of Science Degree in Accounting and in 1992 received a M.B.A. Degree, with highest honors, from the University of Illinois, at Springfield. I have been a Certified Public Accountant since 1985, and currently hold a license to practice in the States of Illinois and Missouri.

Between 1983 and 1984, I was employed by McGladrey and Pullen as a staff accountant participating in financial audits and completing tax returns for firm clients.

Between 1984 and 1993, I was employed by the Illinois Commerce Commission and worked on a wide range of regulatory issues in the electric, gas, telephone and water industries. I joined the Illinois Commerce Commission's Accounting Department as a staff accountant in November 1984. In April 1987, I was promoted to the position of Auditing Section Chief responsible for directing the Auditing Staff's review of rate case filings, fuel reconciliation clauses and miscellaneous regulatory accounting issues. In November 1989, I was promoted to Director of Accounting responsible for all administrative, policy and supervisory functions within the Accounting Department. I held the position of Director of Accounting until joining St. Louis County Water Company in June 1993.

I began my career with St. Louis County Water Company in June, 1993 as an Assistant Manager in the Corporate Accounting Department. In December 1994, I was promoted to Manager of Rates within the Rates and Operations Analysis Department. At St. Louis County Water Company, I was responsible for the numerous accounting and financial areas contained within Company rate case filings performing both technical and supervisory functions.

I was elected to Vice President and Treasurer for both Missouri-American Water Company and St. Louis County Water Company in June 1999. I was elected Vice President and Treasurer for Jefferson City Water Works Company, Inc. in May 2000. All

of these Companies were subsequently merged, with Missouri-American Water Company becoming the surviving Company. In these positions, I was responsible for directing the finance, treasury, business development and rate administration functions of all three companies. In 2004, after RWE acquired American Water, I was elected to my current position.

I am a member of the American Institute of Certified Public Accounts and past member of the NARUC Staff Subcommittee on Accounts. I have also served as the Vice Chairperson of the Rates and Revenue Committee of the National Association of Water Companies.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. I will provide an overview of the relief MAWC is requesting as well as identify the witnesses who will testify. I will generally describe the reasons why MAWC is seeking rate relief at this time. I will further discuss the Company's overall rate of return and expected capital structure. I will also address an optional Joplin Plant Improvement Charge related to the Joplin (Blendville) Water Treatment Plant Rehabilitation and Improvement Project (the "Project"). Finally, I will discuss the Company's proposal as to rate design.

RELIEF REQUESTED AND SUMMARY OF WITNESSES

Q. WHAT RELIEF IS MAWC SEEKING IN THIS CASE?

A. MAWC is seeking a rate increase to produce additional annual water revenues of $41.4 million, or an overall 24.8% increase, and additional annual sewer revenues of $74,000, or

an overall 25.7% increase. In addition, MAWC is seeking the approval of certain tariff changes.

Q. WHAT WITNESSES WILL BE FILING DIRECT TESTIMONY IN SUPPORT OF MAWC'S PROPOSED TARIFF SHEETS AND WHAT SUBJECTS WILL THEY BE ADDRESSING?

A. 1) James M. Jenkins, Vice President and Chief Financial Officer, will testify regarding the need for the rate increase, overall rate of return, proposed capital structure, Joplin Plant Improvement Charge and rate design.

2) Edward J. Grubb, Manager of Rates and Regulation, will testify concerning revenues, pensions, OPEBs, Support Services (Management Fees), other selected pro forma expense adjustments, income taxes, Consolidated Bill Tariff, ISRS Information, Customer Class Definitions, Depreciation Rates and the Minimum Filing Requirements.

3) Alan J. DeBoy, Director of Engineering, will testify concerning capital additions since the last rate case and the cost of the Joplin Production Improvements.

4) Donald Petry, Senior Financial Analyst, will testify concerning rate base, labor and other selected pro forma expense adjustments.

5) Pete Thakadiyil, Financial Analyst, will testify to selected proforma expense adjustments.

6) Greg Weeks, General Manager, will testify concerning operating facilities throughout the state.

7) Pauline Ahern, Consultant with AUS, will testify concerning cost of equity.

8) John Spanos, Consultant with Gannett Fleming, will testify concerning the proposed depreciation rates.

9) Professor Edward Spitznagel, Consultant, will testify on weather normalization and the continued decrease in customer utilization for the St. Louis County, St. Joseph, St. Charles and Joplin Districts.

REASONS FOR RATE REQUEST

Q. WHEN WERE MAWC'S BASE RATES LAST ADDRESSED IN A GENERAL RATE CASE?

A. The Commission addressed the Company's base rates by its Order issued in Case No. WR-2003-0500 on April 6, 2004, over two and a half years ago. The Commission Order approved a decrease of $350,000 for MAWC's Joplin district and all other districts' total revenues remained unchanged.

Q. WHEN DID THIS COMMISSION LAST AUTHORIZE AN INCREASE IN BASE RATES FOR THE COMPANY?

A. Prior to the merger, the Company consisted of three separate legal entities doing business as MAWC. Theses entities consisted of MAWC, which included Brunswick, Joplin, Mexico, Parkville Water and Sewer (Platte County), St. Charles, St. Joseph, and Warrensburg Districts; St. Louis County Water Company; and Jefferson City Water Works Company. MAWC's last rate increase was effective September 20, 2000. St. Louis County's last rate increase was effective May 18, 2001. Jefferson City's last rate increase was effective December 1, 2000. All three entities were formally merged on December 31, 2001. The merger was approved by the Commission in Case No. WM-2001-309.

Q. SINCE BASE RATES WERE ADDRESSED IN CASE NO. WR-2003-0500, HAVE THERE BEEN ADJUSTMENTS TO MAWC'S RATES?

A. Yes. An infrastructure system replacement surcharge (ISRS) was authorized by the Missouri General Assembly in 2003 for the Company's St. Louis District only. Since the last base rate case (WR-2003-0500) or April 6, 2004, MAWC pursuant to Commission approval has adjusted the ISRS charge two times such that the Company's rates in the St. Louis District today for residential customers, in total, are 6.21% or $1.27 per month higher than their current base rates at present rates.

Q. WOULD YOU COMMENT ON THE IMPACT THIS RECENT RATE HISTORY HAS HAD ON THE COMPANY'S RETURNS?

A. Yes. First, by statute, the ISRS is tied directly to actual increased costs associated with specific eligible infrastructure replacements that produce no revenues. Therefore, the ISRS addresses costs associated with eligible infrastructure replacements. It does not address all investments made by Company since its last rate case, and it does not eliminate or address existing deficiencies in MAWC's returns.

Q. PLEASE DESCRIBE THE RATE INCREASE REQUESTED BY MAWC IN THIS PROCEEDING.

A. MAWC seeks a rate increase that would produce additional annual water revenues of approximately $41.4 million, or approximately 24.8%. The Company also seeks an increase in sewer rates to produce additional annual revenues of approximately $74,000 or a 25.7% increase.

Q. WHY DOES THE COMPANY SEEK A RATE INCREASE?

A. In 2006, the Company's expects to earn approximately 8% on book equity. This equity return is 330 basis points below the current cost of common equity recommended by Ms. Ahern in this case. We have filed this case to reverse this deficiency and to start earning

better and appropriate returns. The Company's ability to provide water service is dependent on a consistent level of adequate earnings. Adequate earnings are those which justify the investment of capital in the Company. Revenues must be sufficient to cover operating expenses, such as employee payroll and benefits, taxes, depreciation, and costs associated with maintenance and operation, and, thereafter, provide for the payment of capital costs which include interest and dividends. Revenues generated by the current rates the Company is authorized to charge for water and sewer service will not adequately accomplish this task. On a pro forma present rates basis, the Company's earned return on its rate base investment is only 4.44% versus the proposed level of 8.52%. Therefore, a water rate increase of approximately $41.4 million and a sewer rate increase of approximately $74,000 is being requested.

Q. WHAT ARE THE REASONS FOR THE COMPANY FILING A REQUEST FOR AN INCREASE IN RATES?

A. The water rate increase is primarily due to the following factors:

- **Infrastructure investments** - Across the state, the company has invested almost $200 million in our communities -- including replacing and installing water lines, meters, hydrants and improvements at water treatment, pumping and storage facilities, all of which enhance customer service and support local economic development.

- **Property taxes and Depreciation** – Increases in utility plant contribute to the rate increase because such investments drive higher property tax and deprecation charges.

- **Increases in operations costs** - MAWC has experienced significant increased costs for chemicals, fuel, labor and liability insurance over the past two years. The cost of chemicals alone has increased by approximately 80% in the last three years.

- **Rate of Return** - Like all water utilities, MAWC must continually invest in the water plants, towers and pipelines that serve our communities. In order to attract the capital needed to fund these improvements, the Company must earn a fair rate of return. This rate increase will allow MAWC to earn a fair rate of return which will allow us to continue with infrastructure investment needs across the state.

RATE OF RETURN AND CAPITAL STRUCTURE

Q. WHAT CAPITAL STRUCTURE IS THE COMPANY PROPOSING TO UTILIZE TO DETERMINE THE COST OF CAPITAL FOR RATEMAKING PURPOSES?

A. The Company is proposing a capital structure which reflects the expected sources of capital during the first year rates will be in effect. The recommended capital structure consists of 46.91% of common equity, 0.42% of preferred stock and 52.67% of long-term debt. The Company requests an 8.52% overall rate of return which is calculated by adding the component costs of the capital structure, weighted by their respective proportions to total capitalization. The Company's capital structure is set forth on Schedule JMJ-1.

Q. HOW DID YOU ARRIVE AT THIS STRUCTURE?

A. The beginning point was the actual capital structure that existed at June 30, 2006. The capital structure was then adjusted to reflect changes expected to occur by the end of the true-up period.

Q. WHAT ADJUSTMENTS DID THE COMPANY MAKE TO ARRIVE AT 6.04% AS THE EMBEDDED COST OF LONG-TERM DEBT?

A. The Company began with its long-term debt capital in place as of June 30, 2006 and made adjustments to 1) retire five tax-exempt debt issues early and replace them with one lower coupon tax-exempt debt issue and 2) replace short-term bank debt with long-term debt in the normal course of business. These adjustments are reflective of the expected debt to be in place during the first year of new rates. As a result of these expected adjustments and other actual changes, and depending upon changing interest rates, the Company's embedded costs of debt will be 6.04%

Q. PLEASE EXPLAIN THE ADJUSTMENTS TO RETIRE FIVE TAX-EXEMPT DEBT ISSUES.

A. As approved in WF-2006-0331, the Company expects to retire five tax-exempt debt issues which have coupon rates ranging from 5.50% to 5.85%. Depending on market interest rates, the Company expects to retire these tax-exempt debt issues in December 2006 in order to lower the Company's overall embedded cost of debt. Assuming the Company replaced this debt at 4.85%, the ratepayers would save approximately $380,105 in interest expense on an annual basis. The $380,105 in annual savings would extend through January 1, 2023, or the natural maturity date of the 5.50% bond with a current principal amount of $4,835,000. From that time until November 1, 2026, the ratepayers would continue to receive savings in decreasing amounts until the natural maturity dates of the five tax-exempt issues to be retired. The Company's calculation of the annual savings is set forth on Schedule JMJ-2.

Q. HOW DOES THE COMPANY PROPOSE TO TREAT THE UNAMORTIZED DEBT ISSUANCE COSTS RELATED TO THE FIVE TAX-EXEMPT DEBT ISSUES THAT ARE BEING RETIRED EARLY?

A. The Company proposes to continue recovering these costs in the capital structure using the existing amortization schedules for each of the five tax-exempt debt issues. Such costs are in the public interest and the Company is entitled to full recovery.

Q. PLEASE EXPLAIN THE FIRST LONG-TERM DEBT INSTRUMENT THE COMPANY INTENDS TO ISSUE.

A. As approved in Commission Case No. WF-2006-0331, the Company intends to issue up to $57,480,000 of long-term debt in December 2006. The purpose of this debt issue is to

fund the retirement of the five tax-exempt debt issues previously discussed in this testimony. This debt instrument will be a tax-exempt instrument issued through the State of Missouri (EIERA). The Company has included the proposed debt issue within the embedded cost of debt calculation at an annual coupon rate of 4.85%. In addition, the Company proposes to recover the expected $1,519,905 of debt issuance costs over the thirty-year life of this new issuance consistent with prior practice of the MOPSC. The debt rate and issuance costs can easily be adjusted to actual amounts before the operation of law date in this proceeding.

Q. PLEASE EXPLAIN THE SECOND LONG-TERM DEBT INSTRUMENT THE COMPANY INTENDS TO ISSUE.

A. The Company intends to issue up to $47,000,000 of long-term debt by March 2007. The purpose of this debt issue is to help finance used and useful utility property that will be devoted to public service. The Company has included the proposed debt issue within the embedded cost of debt calculation at an annual coupon rate of 6.149%. In addition, the Company proposes to recover the expected $340,750 of debt issuance costs over the expected life of this new issuance consistent with prior practice of the MOPSC. The debt rate, life and issuance costs can easily be adjusted to actual amounts before the operation of law date in this proceeding.

Q. WHAT ADJUSTMENTS DID THE COMPANY MAKE TO ARRIVE AT 9.16% AS THE EMBEDDED COST OF PREFERRED STOCK?

A. The Company began with its preferred stock in place as of June 30, 2006 and made adjustments to remove all of the mandatory redemptions through the true-up period.

Q. PLEASE EXPLAIN THE COMMON EQUITY INFUSION THE COMPANY IS PROPOSING.

A. The Company intends to receive an equity infusion of $68,000,000 before the true-up period in this case. The Company will sell shares of stock to its parent, American Water Works Company, in exchange for the equity infusion. American Water Works Company currently owns 100% of the outstanding common stock of the Company. The funds from this equity infusion will be used to help finance used and useful utility property that will be devoted to public service and to pay down short-term debt. This equity infusion is necessary to maintain a reasonable level of equity in the Company.

Q. PLEASE EXPLAIN ANY OTHER ADJUSTMENTS THE COMPANY MADE TO THE COMMON EQUITY BALANCE.

A. The Company began with its common equity balance in place as of June 30, 2006 and made adjustments to reflect the expected retained earnings balance at the end of the true-up period. This adjustment is necessary in order to ensure the common equity balance is consistent with going-level operations.

Q. **WHAT IS THE BASIS OF THE 11.30% RATE ASSIGNED TO MAWC'S COMMON EQUITY COMPONENT?**

A. The common equity cost component has been developed based upon a recommendation by Ms. Pauline Ahern of AUS Consultants – Utility Services, MAWC's consultant in this area, who has concluded that MAWC should be afforded an opportunity to earn a return on common equity between 11.025% and 11.575, with a midpoint of 11.30%.

JOPLIN PLANT IMPROVEMENT CHARGE

Q. PLEASE SUMMARIZE THE JOPLIN PLANT IMPROVEMENT CHARGE OPTION PROPOSED IN THIS PROCEEDING.

A. The Company has initiated the planning and construction of a three-year, $44 million Water Treatment Plant Rehabilitation and Improvement Projects located in the Joplin District. The Company expects to place the raw water transmission piping, the intakes and a pump station into service by April 2007 at a cost of approximately $10 million. The remaining $34 million attributable to the Joplin Project is expected to be completed and in-service by December 2008. Under traditional rate of return rate ratemaking, once the Project is in service and included in rate base, Joplin District customers would experience a significant rate increase as the construction costs plus accrued financing costs (AFUDC, or Allowance for Funds Used During Construction) begin to be recovered. In order to mitigate the possible rate shock, the Company is presenting the Commission with an option for Joplin customers to pay for improvements to the Joplin Plant over time instead of all at once upon completion of this project in December 2008. The Joplin Plant Improvement Charge option will allow the Company to earn a current return on a portion of the construction work in progress ("CWIP") related to the Project in lieu of accruing AFUDC on the entire project cost. The Joplin Plant Improvement Charge would be filed quarterly with the Commission to reflect updated CWIP on the Project. This Plant Improvement Charge would continue until the Project is included in rate base and reflected in the Company's base rates. In addition to mitigating customer rate shock, the Joplin Plant Improvement Charge would also be a less costly alternative than traditional ratemaking with AFUDC treatment, because there would be no need to include 100% of the AFUDC in rate base.

Q. DOES THE OPTIONAL JOPLIN PLANT IMPROVEMENT CHARGE EXHIBIT SIMILARITIES WITH OTHER COMMISSION-APPROVED COST RECOVERY MECHANISMS?

A. Yes. This charge would be calculated in a manner that is similar to the Infrastructure System Replacement Surcharge ("ISRS") in its components and application, except there would be no depreciation expense or property tax components in the Plant Improvement Charge. This charge would apply only to the Joplin district. The mechanics and schedules of the Joplin Plant Improvement Charge will be described later in my testimony.

Q. PLEASE DESCRIBE THE ANTICIPATED TIMING OF THE JOPLIN PLANT IMPROVEMENT CHARGE.

A. The initial charge would go into effect on January 1, 2008, based on the applicable CWIP balance for the Project at December 31, 2007. At the beginning of each quarter through 2008, the improvement charge would be increased based on the applicable CWIP balance at the end of the preceding three months. Once construction is completed, and the capital investment for the project is reflected in base rates, the Joplin Plant Improvement Charge would cease.

Q. PLEASE DESCRIBE THE JOPLIN PROJECT.

A. As more fully described by Company witness Alan DeBoy in his direct testimony, the Company has initiated the planning and construction of the Water Treatment Plant Rehabilitation and Improvement Project, located in the Joplin District. The construction timetable calls for completion of the three-year Project by the end of 2008. Total projected cost of the Project is estimated to be $44 million, including AFUDC. The Joplin (Blendville) Water Treatment Plant last received significant improvements in 1959. The

property and some of the structures date back to a much earlier period, in fact, before 1900. The reliability, age and condition of the production infrastructure raise concerns. The planned improvements will address the reliability concerns and meet all applicable environmental requirements. Plant improvements planned include design and construction of an Ultra Violet (UV) Disinfection system to meet current environmental regulations. Existing clarification and filtration facilities will be updated with new controls and instrumentation. The Chemical Building and chemical mixing system will also be updated as part of this project. Additional clarification and filtration facilities will also be constructed to increase water treatment capacity to 21 million gallons per day (MGD) from the current plant capacity of 16 MGD. A one million gallon ground storage tank will be added to increase treated water storage capacity.

Q. PLEASE DESCRIBE THE CUSTOMARY BASE RATE TREATMENT OF LARGE CAPITAL PROJECTS SUCH AS THAT DESCRIBED HERE.

A. The Uniform System of Accounts provides for the capitalization of financing costs on a utility's investment in projects under construction in the form of AFUDC (Allowance for Funds Used During Construction). When utility plant previously under construction is placed in service, the accrual of AFUDC on the utility plant ceases and depreciation expense commences. The AFUDC accumulated during the construction period is included in the original cost of utility plant for rate base and depreciation purposes. Upon placing the utility plant in rate base and subsequent approval by the PSC, customers begin paying in rates for the return on and the return of the cost of the plant (including accrued AFUDC). Customers pay for the plant costs, including the accrued AFUDC, over the life of the plant.

Since the Company advances the funds during the lengthy construction period, it is allowed to recover the carrying cost of these funds over the entire service life of the plant.

Q. PLEASE EXPLAIN THE EFFECTS ON THE CUSTOMER OF BASE RATE TREATMENT OF THE PROJECT COSTS UTILIZING AFUDC.

A. Under traditional utility ratemaking procedures, the customers experience no impact on their water bills in the years during which a project such as this one is being constructed, because the Company does not earn a return on plant that is not "in service." In return for advancing the funds during the construction period, financing costs are allowed to accrue until the plant is placed in service. For the Joplin Project, it is estimated that AFUDC would add approximately $3.1 million, or 9% to the plant improvements scheduled to be placed into service by December 2008.

Q. ONCE THE PROJECT IS PLACED IN SERVICE, WHAT IS THE ESTIMATED INCREASE TO THE JOPLIN DISTRICT CUSTOMERS UNDER THE TRADITIONAL RATE BASE AFUDC APPROACH?

A. The Joplin District customers would experience an estimated increase of 64.5% solely attributable to the inclusion of the Project (and its accrued AFUDC) in rate base. At present rates this project alone would require the average residential customer to pay an additional $10.51 per month solely for this project.

Q. WILL THIS INCREASE RESULT IN RATE SHOCK TO THE JOPLIN DISTRICT CUSTOMERS?

A. It could. Also, it is important to recognize the 64.5% increase is solely for the Joplin project and this district like all other MAWC districts will encounter additional increases attributable to continued infrastructure investments and inflationary increases that will be

captured in future rate filings. The Company is proposing its Joplin Plant Improvement Charge option to allow Joplin customers to pay for these improvements over time instead of all at once upon the expected completion of this project in December 2008.

Q. PLEASE DESCRIBE THE CONCEPT OF INCLUDING CWIP IN RATE BASE RELATED TO THE JOPLIN PLANT IMPROVEMENT CHARGE.

A. Including CWIP in rate base is an alternative to capitalizing AFUDC. Both approaches are simply alternatives to the payment and recovery of the Company's financing costs. In essence, the Improvement Charge enables the utility to be compensated for the use of its funds on a current basis by allowing the utility to earn a return on the invested funds through inclusion in the utility's rate base.

Q. DOES THE USE OF EARNING A RETURN ON CWIP RATHER THAN ACCRUING AFUDC MITIGATE A ONE-TIME RATE SPIKE TO CUSTOMERS?

A. The use of CWIP would certainly help mitigate the one-time rate spike to customers. The Joplin Plant Improvement Charge will also send the right price signals to Joplin customers and allow customers to adjust to rising prices over time as opposed to a one-time 64.5% increase. With AFUDC, the financing costs continue to accrue during the construction period. Once in service, the entire cost of the project including the accrued AFUDC is assessed to customers.

Q. HAVE YOU ESTIMATED THE RATE IMPACT ON JOPLIN DISTRICT CUSTOMERS OF THE PLANT IMPROVEMENT CHARGE OPTION?

A. Yes. The initial January, 2008 charge to the average Joplin District residential customer is estimated to be $1.95 on a monthly basis, resulting in a 12% increase to those customers (based on present rates). The April, 2008 Improvement Charge is estimated to be an

additional $1.95 per month, or 11 % increase; in July, 2008 an additional $1.95 per month, or 10% increase; and in October, 2008 an additional $1.95 per month or a 9% increase. The Company's calculations are set forth on Schedule JMJ-3.

Q. HAVE YOU ESTIMATED THE RATE IMPACT ON THE JOPLIN DISTRICT CUSTOMERS ONCE THE PLANT IS PLACED INTO SERVICE?

A. Yes. As discussed previously, under the traditional rate base approach, customers would experience an estimated rate increase of 64.5% for the Joplin Project improvements scheduled to be placed into service by December 2008. Moreover, the rate base associated with this project would be $34 million, which includes $3.1 million of AFUDC. In contrast, the cumulative effect of the series of smaller increases plus recognizing the final increase for depreciation, property taxes, and the reduced AFUDC under the Improvement Charge approach is 61.2%, less than the 64.5% increase under the traditional ratemaking approach. Moreover, with the Improvement Charge, the rate base would be $32.2 million, approximately $1.7 million less than the project cost with the total accrual of AFUDC. The Company's calculations are set forth on Schedule JMJ-4.

Q. WHICH APPROACH IS LESS COSTLY TO CUSTOMERS OVER THE LIFE OF THE PROJECT?

A. The Joplin Plant Improvement Charge option is less costly to customers over the life of the Project. If the Improvement Charge is placed in effect as the Company proposes, the long term water rates to Joplin customers will be lower than they would be otherwise. Since the customers would begin financing this cost earlier than under normal ratemaking circumstances, the amount of AFUDC recorded as utility plant will be reduced, and the final

impact is expected to be $1.7 million less than the rate base number would otherwise be, with attendant lower water rates.

Q. PLEASE COMMENT ON THE FACT THAT THE CUSTOMERS WILL BEGIN PAYING THE FINANCING COSTS ON THE PLANT BEFORE IT IS IN SERVICE.

A. First, it is important to re-emphasize that both alternatives are simply dealing with the recovery of financing costs on the plant. Under the Improvement Charge option, prior to the in-service date, customers would be paying only the financing costs of the project, not the principal cost of the project itself. A fundamental utility regulatory concept is that customers should be charged only for those costs of facilities from which benefit is derived. Implied in this idea is the principle that costs incurred by a utility in financing construction must be charged to the ultimate beneficiaries, that is, the customers who actually will benefit from the use of the facilities. In the past, it has been argued that the allowance of CWIP in rate base violates this concept because the burden of payments is shifted partially from future to present customers. This argument was most often presented in the context of electric generating plants being constructed to serve future load growth, often ten years in the future. However, that argument has less validity where the construction work is short-term and is primarily designed to improve present service, as is the case here. There is clearly a nexus between the present Joplin District customers and the Joplin Project, which purpose is to refurbish and modernize the water treatment plant, increase its efficiency, and update it to comply with environmental requirements. Bottom line, this "pay-as-you go" strategy would result in a savings of $1.7 million dollars to the Joplin ratepayers.

Q. DOES THE JOPLIN PLANT IMPROVEMENT CHARGE ALTERNATIVE TRANSFER SOME OF THE RISK OF OWNERSHIP OF THE NOT YET COMPLETED WATER TREATMENT PLANT TO CUSTOMERS?

A. No. The Company has the resources and capability to see a project such as this through to completion. Moreover, given the fact that the construction is on an existing plant, the chances of the customers paying for facilities that do not end up in service are minimal.

RATE DESIGN

Q. WHAT PERCENTAGE INCREASE IS MAWC PROPOSING?

A. MAWC is proposing that the increased revenue requirement be recovered through an across the board increase of approximately 25% on water and sewer revenues.

Q. IS THIS INCREASE BASED ON A DISTRICT COST OF SERVICE STUDY?

A. No. The Company believes there are other factors that should be taken into account when determining district and class revenue requirements and designing rates.

Q. WHAT FACTORS ARE THOSE?

A. Rate stability, affordability, and customer acceptability.

Q. HOW DOES THE COMPANY'S PROPOSAL ADDRESS THESE FACTORS?

A. MAWC's proposal for an across the board increase places an equal cost responsibility on each customer – that is, every customer's bill will receive approximately the same percentage increase over their existing bill at the same usage level. This proposal is supported by the concept of gradualism which means that rates should increase on a gradual basis and avoid drastic changes when possible. The Company believes the across the board

increase is affordable and recovers the same level of revenue, but does not adversely affect any specific group of customers.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Missouri-American Water Company
Proforma Capital Structure
Case No. WR-2007-XXXX

Class of Capital	Amount	Percent to Total	Cost Rate	Weighted Cost of Capital
Long-Term Debt	331,235,000	52.67%	6.04%	3.18%
Preferred Stock	2,644,000	0.42%	9.16%	0.04%
Common Equity	295,030,381	46.91%	11.30%	5.30%
Total Capitalization	628,909,381	100.00%		8.52%

Missouri-American Water Company
Cost Savings From Refinancing Tax-Exempt Debt
Case No. WR-2007-XXXX

General Mortgage Bonds Debt Issue Subledger	Rate	Issue Date	Maturity Date	Principal Amount	Unamortized Issuance Expense	Pro Forma Adjustments	Monthly Amortization	Unamortized Issuance Expense 4/30/2007	Net Proceeds	Annual Debt Exp	Annual Interest Expense	Total Cost
BD170008	5.500%	05/18/93	01/01/23	4,835,000	214,182		1,082	203,364	4,631,636	12,981	265,925	278,906
BD170010	5.850%	07/26/96	07/01/26	6,000,000	297,769		1,241	285,362	5,714,638	14,889	351,000	365,889
BD350009 - T	5.500%	02/01/93	02/01/23	14,890,000	431,223		2,167	409,553	14,480,447	26,004	818,950	844,954
BD350010 - U	5.700%	06/01/95	06/01/25	11,885,000	373,302		1,645	356,857	11,528,143	19,734	677,445	697,179
BD350011 - V	5.500%	11/01/96	11/01/26	19,880,000	645,646		2,646	619,186	19,260,814	31,752	1,093,400	1,125,152
				57,490,000	1,962,122		8,780	1,874,322	55,615,678	105,360	3,206,720	3,312,080
				Cost of Long-Term Debt [Total Annual Cost/Net Proceeds] - Before Refinancing								5.955%
BD170008	5.500%	05/18/93	01/01/23		214,182		1,082	203,364	(203,364)	12,981	-	12,981
BD170010	5.850%	07/26/96	07/01/26		297,769		1,241	285,362	(285,362)	14,889	-	14,889
BD350009 - T	5.500%	02/01/93	02/01/23		431,223		2,167	409,553	(409,553)	26,004	-	26,004
BD350010 - U	5.700%	06/01/95	06/01/25		373,302		1,645	356,857	(356,857)	19,734	-	19,734
BD350011 - V	5.500%	11/01/96	11/01/26		645,646		2,646	619,186	(619,186)	31,752	-	31,752
BD170016	**4.850%**	**12/20/06**	**12/20/07**	**57,480,000**	**1,519,905**	**39,044**	**3,236**	**1,506,960**	**55,973,040**	**38,835**	**2,787,780**	**2,826,615**
				57,480,000	3,482,027		12,016	3,381,282	54,098,718	144,195	2,787,780	2,931,975
				Cost of Long-Term Debt [Total Annual Cost/Net Proceeds] - After Refinancing								5.420%
										(38,835)	418,940	380,105
				Cost of Long-Term Debt [Total Annual Cost/Net Proceeds] - Change due to Refinancing								-0.536%

Schedule JMJ-3

Missouri-American Water
Joplin Plant Improvement Charge

	Rate Effective 01/01/08 As of Dec 07	Rate Effective 04/01/08 As of Mar 08	Rate Effective 07/01/08 As of Jun 08	Rate Effective 10/01/08 As of Sep 08
CWIP Balance (1)	$ 7,909,504	$ 7,909,504	$ 7,909,504	$ 7,909,504
Less Accum Depreciation	0	0	0	0
Less Deferred Income Tax	0	0	0	0
Net Rate Base	7,909,504	7,909,504	7,909,504	7,909,504
Overall return	8.52%	8.52%	8.52%	8.52%
Utility operating income	673,890	673,890	673,890	673,890
Tax Gross-up Factor	1.64179	1.64179	1.64179	1.64179
Rev Req on Investment	1,106,386	1,106,386	1,106,386	1,106,386
Interest Deduction	(251,522)	(251,522)	(251,522)	(251,522)
Income Tax Rate	38.38863%	38.38863%	38.38863%	38.38863%
Income Tax Reduction	(96,556)	(96,556)	(96,556)	(96,556)
Tax Gross-up Factor	1.64179	1.64179	1.64179	1.64179
Rev Req on Interest Ded	(158,525)	(158,525)	(158,525)	(158,525)
Depreciation Expense	0	0	0	0
Property Taxes	0	0	0	0
Operating Expenses	0	0	0	0
Annual Rev Requirement	**$947,861**	**$947,861**	**$947,861**	**$947,861**
Cumulative Rev Req	**$947,861**	**$1,895,722**	**$2,843,583**	**$3,791,444**
Percent Increase	**11.97%**	**10.69%**	**9.66%**	**8.81%**
Cumulative % Increase	**11.97%**	**23.94%**	**35.91%**	**47.88%**
Quarterly Increment				
Residential Incr / Month	$1.95	$1.95	$1.95	$1.95
Residential Incr / Day	$0.07	$0.07	$0.07	$0.07
Cumulative Increase				
Residential Incr / Month	$1.95	$3.90	$5.85	$7.80
Residential Incr / Day	$0.07	$0.14	$0.21	$0.28

(1) To the extent actual capital expenditures exceed the levelized CWIP included in the Plant Improvement Charge, AFUDC will continue to accrue on this difference.

Schedule JMJ-4

Missouri-American Water
Joplin Plant Improvement Charge

	Rate Effective Full Increase W/ Charge As of Dec 08	Rate Effective Full Increase W/O Charge As of Dec 08	AFUDC Savings
Total Cost of Project	$ 32,192,456	$ 33,925,962	$ 1,733,506
Less Accum Depreciation	433,365	456,767	
Less Deferred Income Tax	(86,508)	(91,166)	
Net Rate Base	31,845,599	33,560,362	
Overall return	8.52%	8.52%	
Utility operating income	2,713,245	2,859,343	
Tax Gross-up Factor	1.64179	1.64179	
Rev Req on Investment	4,454,579	4,694,441	
Interest Deduction	(1,012,690)	(1,067,220)	
Income Tax Rate	38.38863%	38.38863%	
Income Tax Reduction	(388,758)	(409,691)	
Tax Gross-up Factor	1.64179	1.64179	
Rev Req on Interest Ded	(638,259)	(672,627)	
Depreciation Expense	866,729	913,533	
Property Taxes	163,715	172,556	
Operating Expenses	1,030,444	1,086,089	
Annual Rev Requirement	**$4,846,764**	**$5,107,903**	
Percent Increase	**61.21%**	**64.50%**	
Residential Incr / Month	$9.97	$10.51	
Residential Incr / Day	$0.33	$0.35	