Exhibit No.:	
Issues:	Rate Base, Income Statement, Allocation of Corporate Expenses, Labor Expenses, Fuel and Power, Chemicals, Purchased Water, Waste Disposal, Tank Painting Expense, Uncollectible Expense
Witness:	Donald J. Petry
Exhibit Type:	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
CASE NO. SR-2007-XXX

DIRECT TESTIMONY

OF

DONALD J. PETRY

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 DONALD J. PETRY

Donald J. Petry, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Donald J. Petry"; 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.

Donald J. Petry

Donald J Petry

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 8th day of December 2006.

Staci A. Olsen

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

DIRECT TESTIMONY
DONALDJ. PETRY
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR.2007.XXXX
SR.2007.XXX

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DIRECT TESTIMONY

DONALD J. PETRY

WITNESS INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Donald J. Petry, 727 Craig Road, St. Louis, Missouri 63141.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am a Senior Financial Analyst in the Rates and Regulation Department of the Central Region of American Water Works Service Company, Inc. ("Company").

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. My background and qualifications are summarized in Schedule DJP-1 of this testimony.

PURPOSE AND SCOPE

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to introduce and explain the financial information supporting Missouri American Water Company's ("Company") rate request to the Missouri Public Service Commission (MOPSC). I will cover the following topics: the financial schedules that calculate the revenue deficiency, adjustments supporting the rate base, and the operating income statement. Specific accounting adjustments to the operating statement will include: Labor and Labor Related Expenses, Fuel & Power, Chemicals, Purchased Water, Waste Disposal, Tank Painting, and Uncollectibles.

Q. PLEASE EXPLAIN THE NUMBERING OF ACCOUNTING SCHEDULES CAS-1 THROUGH CAS-15.

A. The first three digits are the abbreviation for Company Accounting Schedules (CAS). Schedule CAS-1 is a summary schedule for the Overall Rate Increase Calculation, Rate Base, and Income Statement for the Company. For Schedules CAS-2 through CAS-15, the numeric digits of 2 through 15 represent specific components of the revenue requirement calculation. For example, Schedule 2 calculates the overall revenue deficiency; 3 through 7 calculates rate base; 8 through 12 is the income statement, revenues, O&M, O&M detail, and income taxes. Schedule 13 and 14 is the bill analysis summary and the detail at present and proposed rates. And finally, Schedule 15 provides detailed income adjustments for all districts. The last three digits of Schedules 2 through 14 are alphabetized and provide specific detail for each district. For example, BRU is for the Brunswick District; JOP is for the Joplin District. Schedule DJP-2 contains a more detailed listing of the schedules and the alphabetical abbreviation for the each district. Some schedules have multiple pages. Included on each page of Schedule CAS-15 is the name of the Company Witness who will provide testimony on that particular schedule.

Q. WHAT TEST YEAR DOES THE COMPANY PROPOSE TO UTILIZE AS THE BASIS FOR THIS WATER RATE INCREASE?

A. The rate filing is based upon a historic test year ending June 30, 2006, with adjustments through May 31, 2007. The May 31, 2007 cut-off was selected to provide the parties ample opportunity to audit capital additions that have been closed to plant-in-service, prior to the operation of law date.

WATER ADJUSTMENTS

Q. ARE YOU SPONSORING ANY SCHEDULES THAT DEPICT THE MAJOR COMPONENTS OF THE RATE REQUEST?

A. Yes. Schedules CAS-2-BRU, CAS-2-JFC, CAS-2-JOP, CAS-2-MEX, CAS-2-PKW CAS-2-SCH CAS-2-SJO CAS-2-STL CAS-2-WAR, CAS-2-WCW calculates the overall revenue deficiency in this rate case. The schedule titled, "Overall Revenue Requirement Summary for the Test Year Ended June 30, 2006," is the lead schedule and summarizes the financial information needed to calculate the Company's revenue deficiency by district.

Q. PLEASE EXPLAIN THE REVENUE REQUIREMENT CALCULATION PRESENTED IN SCHEDULE CAS-2 FOR EACH DISTRICT.

A. The revenue requirement calculation was determined by multiplying the Company's pro forma rate base by the requested rate of return to derive the required operating income. The recommended 8.52% overall rate of return is based upon an 11.3% common equity return requirement as supported by Company Witnesses Jenkins and Ahern. Company Witness Jenkins discusses the Cost of Capital schedule in detail in his Direct Testimony. The operating income requirement is then compared to pro forma earnings at present rates to determine the Company's operating income deficiency. When multiplied by the gross revenue conversion factor that adjusts for income taxes and uncollectibles, the result is a revenue deficiency. When added to the adjusted operating revenue, the result is the total revenue requirement for the district.

RATE BASE-WATER

Q. PLEASE DISCUSS THE CALCULATION OF EACH COMPONENT OF RATE BASE.

A. The Company's rate base is shown on CAS-3 for each district that includes the actual June 30, 2006 balance for Utility Plant in Service (UPIS), Accumulated Reserve, Customer Advances, Contributions in Aid of Construction ("CIAC"), and Deferred ITC. Schedule CAS-4 through 7 for each district contains detailed schedules for UPIS, Accumulated

Reserve, Customer Advances, CIAC, and Working Capital. UPIS is updated for true-up additions and retirements through May 31, 2007. Accumulated Reserve is updated for true-up retirements and depreciation through May 31, 2007, utilizing depreciation rates approved in Case No. WR-2003-0500. Customer Advances and CIAC were updated for true-up advances and contributions through May 31, 2007. The CIAC and Deferred ITC were updated for the amortization through May 31, 2007. Prepayments and Material and Supplies are based on a 13-month average. The post-employment benefits ("OPEBs") contributed to external funds included permanent investment recognized by the Commission in Case No. WR-95-205. Also included is investment as of June 30, 2006, updated with amortizations through May 31, 2007. Deferred taxes were calculated based on all plant in service at May 31, 2007, which is the proposed true-up date, and the deferred taxes associated with the pension liability costs. Pension Liability reflects the amount of pensions accrued reduced for any payments.

RATE BASE ELEMENTS-WATER

Q. WHAT RATE BASE ELEMENTS DO YOU WISH TO DISCUSS?

A. The first is the deferred cost associated with the Company's security efforts. These costs are being amortized over a ten year period as approved in Case No. WO-2002-273.

Q. WHAT OTHER RATE BASE ELEMENT WOULD YOU LIKE TO DISCUSS?

A. Working capital is included in a utility's rate base to help compensate investors for the lag between the time water service is rendered to the customer and the time it takes to collect revenues from the customer to pay for the service. In other words, investors had to provide "upfront" capital to fund the daily operations of the business before customers paid their bills. The working capital calculation can also properly reflect the impact of the delay in receiving revenues from customers on depreciation and deferred taxes as a rate base deduction.

The Company has used a Lead/Lag method to calculate its working capital requirement. The Company and the Missouri Staff have used this method in the last several rate cases. The Company's Lead/Lag calculation has incorporated the Staff's calculation from the previous MAWC rate case. A few changes have been made.

Q. WERE ANY OF THE CHANGES A DEPARTURE FROM THE STAFF'S METHODOLOGY?

A. Yes. One change was made to the expense lags for depreciation and deferred taxes. The Company is proposing to use an expense lag of zero days.

The purpose of using a zero lag is to recognize that 1) there is a lag in the collection of the revenues associated with depreciation and deferred taxes, and 2) because rate base is reduced by accumulated depreciation and deferred taxes, the level of the accumulated depreciation and deferred taxes does not properly reflect the level that has been collected from the customers. Therefore, using a zero expense lag for depreciation and deferred taxes properly states the appropriate level of working capital.

INCOME STATEMENT-WATER

Q. PLEASE EXPLAIN THE STATEMENTS PRESENTED IN SCHEDULE CAS-8 THROUGH CAS-12 FOR EACH DISTRICT.

A. These schedules were developed by accumulating the 12-month operating period ended June 30, 2006. The first adjustment column reflects the pro forma adjustments made to the test year operating income statement. The next column is the pro forma operating income statement at present rates, which includes the pro forma adjustments. The next column reflects the necessary pro forma revenue increase (i.e. grossed up for income taxes and uncollectible expense) to account for the change in operating income to obtain the required earnings level. The last column presents the pro forma operating income statement, at proposed rates, which includes the Company requested increase for that district and supports an operating income level before taxes.

Schedule CAS-9 for each district is a summary of the test year revenues by classification, the adjustments to these amounts, and the pro forma revenue at present rates.

Schedule CAS-10 for each district is a summary of the operating and maintenance expense and general taxes for the test year, the adjustments to those amounts, and the pro forma expense levels under present rates. Schedule CAS-11 for each district shows the detail of these pro forma adjustments in a chart format. Along the top horizontal edge are the individual schedules that support the adjustments. Down the left vertical edge are the line items as shown on Schedule CAS-10 for each district. The chart is very useful since some of the pro forma adjustments affect more than one line on the summary in Schedule CAS-10 for each district. Company Witness Grubb explains in his Direct Testimony the income tax calculation in Schedules CAS-12 for each district. Schedule CAS-15 contains a detailed explanation of the various pro forma adjustments requested in this case.

SEWER ADJUSTMENTS

Q. ARE YOU SPONSORING ANY SCHEDULES THAT DEPICT THE MAJOR COMPONENTS OF THE RATE REQUEST?

A. Yes. Schedules CAS-2-PKS, CAS-2-CDH, and CAS-2-WCS calculate the overall revenue deficiency in this rate case. The schedule titled, "Overall Revenue Requirement Summary for the Test Year Ended June 30, 2006," is the lead schedule and summarizes the financial information needed to calculate the Company's revenue deficiency.

Q. PLEASE EXPLAIN THE REVENUE REQUIREMENT CALCULATION PRESENTED IN SCHEDULE CAS-2 FOR EACH DISTRICT.

A. The revenue requirement calculation was determined by multiplying the Company's pro forma rate base by the requested rate of return to derive the required operating income. The recommended 8.52% overall rate of return is based upon an 11.3% common equity return requirement as supported by Company Witnesses Jenkins and Ahern. Company Witness Jenkins discusses the Cost of Capital schedule in detail in his Direct Testimony. The operating income requirement is then compared to pro forma earnings at present rates to determine the Company's operating income deficiency. When multiplied by the gross revenue conversion factor that adjusts for income taxes and uncollectibles, the result is a revenue deficiency. When added to the adjusted operating revenue, the result is the total revenue requirement for the district.

RATE BASE - SEWER

Q. PLEASE DISCUSS THE CALCULATION OF EACH COMPONENT OF RATE BASE.

A. The Company's rate base is shown on CAS-3 that includes the actual June 30, 2006 balance for UPIS, Accumulated Reserve, Customer Advances, Contributions in Aid of Construction ("CIAC"), and Deferred ITC. Schedule CAS-4 through CAS-7 contains detailed schedules for UPIS, Accumulated Reserve, Customer Advances, CIAC, and Working

Capital. UPIS is updated for true-up additions and retirements through May 31, 2007. Accumulated Reserve is updated for true-up retirements, depreciation, and net cost of removal through May 31, 2007, utilizing depreciation rates approved in Case No. WR-95-205. Customer Advances and CIAC were updated for true-up advances and contributions through May 31, 2007. The CIAC and Deferred ITC were updated for the amortization through May 31, 2007. Prepayments and Materials and Supplies are based on a 13-month average. The post-employment benefits ("OPEBs") contributed to external funds included permanent investment recognized by the Commission in Case No. WR-95-205. Also included is investment of June 30, 2006, updated with amortizations through May 31, 2007. Deferred taxes were calculated based on all plant in service at May 31, 2007, which is the proposed true-up date, and the deferred taxes associated with the pension liability and security costs. Pension Liability reflects the amount of pensions accrued reduced for any payments.

Company Witness Jenkins explains in his Direct Testimony the rate base adjustments related to cash working capital.

RATE BASE ELEMENTS-SEWER

Q. WHAT RATE BASE ELEMENTS DO YOU WISH TO DISCUSS?

A. The first is the deferred cost associated with the Company's security efforts. These costs are being amortized over a ten year period as approved in Case No. WO-2002-273.

Q. WHAT OTHER RATE BASE ELEMENT WOULD YOU LIKE TO DISCUSS?

A. Working capital is included in a utility's rate base to help compensate investors for the lag between the time water service is rendered to the customer and the time it takes to collect revenues from the customer to pay for the service. In other words, investors had to provide "upfront" capital to fund the daily operations of the business before customers paid their bills. The working capital calculation can also properly reflect the impact of the delay in receiving revenues from customers on depreciation and deferred taxes as a rate base deduction.

The Company has used a Lead/Lag method to calculate its working capital requirement. The Company and the Missouri Staff have used this method in the last several rate cases. The Company's Lead/Lag calculation has incorporated the Staff's calculation from the previous MAWC rate case. A few changes have been made.

Q. WERE ANY OF THE CHANGES A DEPARTURE FROM THE STAFF'S METHODOLOGY?

A. Yes. One change was made to the expense lags for depreciation and deferred taxes. The Company is proposing to use an expense lag of zero days.

The purpose of using a zero lag is to recognize that 1) there is a lag in the collection of the revenues associated with depreciation and deferred taxes, and 2) because rate base is reduced by accumulated depreciation and deferred taxes, the level of the accumulated depreciation and deferred taxes does not properly reflect the level that has been collected from the customers. Therefore, using a zero expense lag for depreciation and deferred taxes properly states the appropriate level of working capital.

INCOME STATEMENT-SEWER

Q. PLEASE EXPLAIN THE STATEMENTS PRESENTED IN SCHEDULE CAS-8 THROUGH CAS-12.

A. These schedules were developed by accumulating the 12-month operating period ended June 30, 2006. The first adjustment column reflects the pro forma adjustments made to the test year operating income statement. The next column is the pro forma operating income statement at present rates, which includes the pro forma adjustments. The next column reflects the necessary pro forma revenue increase (i.e. grossed up for income taxes and uncollectible expense) to account for the change in operating income to obtain the required earnings level. The last column presents the pro forma operating income statement at proposed rates, which includes the Company requested increase for that district and supports an operating income level before taxes.

Schedule CAS-9 is a summary of the test year revenues by classification, the adjustments to these amounts, and the pro forma revenue at present rates.

Schedule CAS-10-PKS is a summary of the operating and maintenance expense categories for the test year, the adjustments to those amounts, and the pro forma expense levels under present rates.

Schedule CAS-11-PKS shows the detail of these pro forma adjustments in a chart format. Along the top horizontal edge are the individual schedules that support the adjustments. Down the left vertical edge are the line items as shown on Schedule CAS-10-PKS. The chart is very useful since some of the pro forma adjustments affect more than one line on the summary in Schedule CAS-10-PKS.

Company Witness Grubb explains in his Direct Testimony the income tax calculation in Schedule CAS-12-PKS.

A detailed explanation of the various pro forma adjustments requested in this case contained in Schedule CAS-15.

ALLOCATION OF CORPORATE EXPENSES

Q. PLEASE DISCUSS THE ALLOCATION OF CORPORATE EXPENSES.

A. Corporate expenses include Missouri American employees that have statewide responsibilities and expenses paid at the state level (Insurance Other Than Group, PSC Assessment, Franchise Tax, etc.) These expenses are primarily allocated to the operating districts based on the number of customers. Workers Compensation is allocated based on payroll percentage.

LABOR AND LABOR-RELATED EXPENSES

Q. PLEASE EXPLAIN THE COMPANY'S PRO FORMA ADJUSTMENT TO THE LABOR AND LABOR-RELATED EXPENSES.

A. The Company has proposed adjustments to its Labor Expense, Group Insurance, Pension Expense, 401K, and Payroll Taxes.

Shown below is a list of the expense adjustment categories and their corresponding schedule within the Company's filing. Each of the schedules provides an explanation of the adjustment. Company Witness Grubb explains in his testimony the adjustments to Pensions and OPEBs related to Group Insurance.

Expense Adjustment	Schedule Reference
Labor/Incentive Plan	CAS-15, page 1
Group Insurance	CAS-15, page 2
Pensions	CAS-15, page 3
401K	CAS-15, page 4
Payroll Taxes	CAS-15, page 5

FUEL AND POWER

Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES RELATED TO FUEL AND POWER.

A. The purpose of this adjustment is to annualize fuel and power expense for changes that have occurred, or are expected to occur, by the true-up date. The details of this adjustment can be found at Schedule CAS-15, page 6.

CHEMICALS

Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES RELATED TO CHEMICALS.

A. The purpose of this adjustment is to annualize chemical expense to achieve a normal level needed to treat water produced by the Company under normal conditions and demands at current contract prices. The details of this adjustment can be found at Schedule CAS-15, page 7.

PURCHASED WATER

Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES RELATED TO PURCHASED WATER.

A. The purpose of this adjustment is to annualize the Company's expense associated with water purchases and recognize that the St. Louis District supplies nearly 100% of the water demand for the St. Charles District. The details of this adjustment can be found at Schedule CAS-15, page 8.

Q. **DO THE FUEL AND POWER, CHEMICALS, AND PURCHASED WATER ADJUSTMENTS YOU HAVE DISCUSSED INCLUDE A PRO FORMA SALES ADJUSTMENT?**

A. Yes. For all three adjustments noted above, each expense was also adjusted to incorporate the pro forma sales adjustment as discussed by Mr. Grubb in his Direct Testimony.

WASTE DISPOSAL

Q. **PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES RELATED TO WASTE DISPOSAL.**

A. The purpose of this adjustment is to annualize the Company's expense related to waste disposal. The details of this adjustment can be found at Schedule CAS-15, page 9.

TANK PAINTING EXPENSE

Q. **PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES RELATED TO TANK PAINTING EXPENSE.**

A. The purpose of this adjustment is to reflect tank painting expenses on an annualized level. The adjustment estimates the cost of interior and exterior painting and inspection for all Missouri-American tank sites. These costs are then amortized primarily over an eight-year life for interior and a twelve-year life for exterior painting. The details of this adjustment can be found at Schedule CAS-15, page 19.

UNCOLLECTIBLE EXPENSE

Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES RELATED TO UNCOLLECTABLE EXPENSE.

A. The purpose of this adjustment is to annualize uncollectible expense to a two-year average ratio of net charge-offs to present billed water rates. The two-year average is then applied to the pro forma present rate water revenues. The details of this adjustment can be found at Schedule CAS-15, page 21.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

Schedule: DJP-1

DONALD J. PETRY

Mr. Petry's main responsibilities as Senior Financial Analyst, Rates & Regulations involve providing the following services to American Water utility subsidiaries in the Central Region, including Missouri American Water Company, Inc. ("Missouri American" or "Company"):

1) Preparing and presenting all rate increase applications and supporting documents and exhibits as prescribed by management policies, guidelines and regulatory commission requirements;
2) Preparing rate analyses and studies to evaluate the effect of proposed rates on the revenues, rate of return and tariff structures;
3) Executing the implementation of rate orders, including development of the revised tariff pricing necessary to produce the proposed revenue level;
4) Overseeing the preparation of revenue and capital requirements budgets and analyses;
5) Providing support for financial analysis of proposed acquisitions and expansion of service territory, including preparation of applicable regulatory commission filings.

In May 1981, Mr. Petry was awarded a Bachelor of Science Degree in Accounting from Manchester College. In May 1995, he completed a Masters of Business Administration from Tiffin University. He attended the NARUC Utility Rate School sponsored by the National Association of Regulatory Utility Commissioners in September, 2005.

Mr. Petry began his career in 1981 with American Water Works Service Co., Inc. as an Internal Auditor. As an Internal Auditor, he conducted financial and procedural audits of American System operating companies. In 1983, he was promoted to Business Manager of Ohio-American Water Company, Tiffin District. His responsibilities included preparation and management of the annual budget, cash forecasting, and customer service (customer billing, payments and inquiries, meter readers, and field service representatives) for the District. In 1994, he was promoted to Customer Service Superintendent. Responsibilities there included customer billing, cash collections, and the call center for all Ohio-American Districts and supervision of the meter readers and field service representatives of the Marion District.

In January 2001, Mr. Petry was promoted to Manager – Operations and Performance of the national Customer Service Center (CSC) for American Water Works Service Company, Inc. His responsibilities included preparation of the CSC budget, analysis and reporting of the CSC performance, scheduling of the workforce, and operation of the facility. December, 2002, he was promoted to Manager – Billing & Collections for the CSC where he was responsible for the processing of all billing and collection activities. In November, 2004, he transferred to Manager – Operations for the CSC to become responsible for the budgeting, workforce management, and facilities for the CSC.

In September, 2005, Mr. Petry was appointed to his current position. He has prepared testimony for the Public Utilities Commission of Ohio.

Schedule: DJP-2

Witness: Donald J. Petry

LISTING OF SCHEDULES AND ABBREVIATIONS IN COMPANY ACCOUNT SCHEDULES (CAS)

CAS-1	Company Total Rate increase Calculation, Rate Base and Income Statement
CAS-2	Overall Revenue Deficiency
CAS-3	Rate Base Summary
CAS-4	Utility Plant in Service Detail
CAS-5	Accumulated Reserve Detail
CAS-6	Advances and CIAC Detail
CAS-7	Working Capital Detail
CAS-8	Operating Income Statement
CAS-9	Revenue by Classification
CAS-10	Operating and Maintenance Expense
CAS-11	O&M Expense – Chart Style
CAS-12	Income Taxes
CAS-13	Bill Analysis Summary
CAS-14	Bill Analysis Detail
CAS-15	Pro Forma Detail

ALPLABETICAL CHARACTERS FOR ABBREVIATIONS FOR DISTRICTS

BRU	Brunswick
CDH	Cedar Hill
JFC	Jefferson City
JOP	Joplin
MEX	Mexico
PKW	Parkville Water
PKS	Parkville Sewer
SCH	St. Charles
SJO	St. Joseph
STL	St. Louis County
WAR	Warrensburg
WCW	Warren County Water
WCS	Warren County Sewer