

Exhibit No.:
Issues: Test Year, Revenues, Pensions,
OPEBs, Regulatory Expense, Insurance
Other Than Group, Support Services,
Main Break Expense, STEP Expenses,
Property Taxes, Income Taxes,
Depreciation Rates, Consolidated
Bill Tariff, Customer Class Definition,
ISRS Information and MFR
Witness: Edward J. Grubb
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

EDWARD J. GRUBB

ON BEHALF OF


MISSOURI-AMERICAN WATER COMPANY

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

IN THE MATTER OF MISSOURI-AMERICAN) WATER COMPANY FOR AUTHORITY TO) FILE TARIFFS REFLECTING INCREASED) RATES FOR WATER AND SEWER) SERVICE)	CASE NO. WR-2007-XXXX CASE NO. SR-2007-XXX
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AFFIDAVIT OF EDWARD J. GRUBB

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



Edward J. Grubb

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 11th day of December 2006.



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
EDWARD J. GRUBB
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR.2007.XXXX
SR.2007.XXX**

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DIRECT TESTIMONY

EDWARD J. GRUBB

WITNESS INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Edward J. Grubb, and my business address is 727 Craig Road,
St. Louis, Missouri 63141.

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

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

**Q. WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND
AND BUSINESS EXPERIENCE?**

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

Q. HAVE YOU PREVIOUSLY PARTICIPATED IN REGULATORY MATTERS?

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

1

2 **PURPOSE OF TESTIMONY**

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

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

5 1) The test year and the Company's request for a true-up;

6 2) Revenues;

7 3) Pensions;

8 4) OPEBs;

9 5) Regulatory Expense;

10 6) Insurance Other Than Group;

11 7) Service Company Support Services;

12 8) Main Break Expense;

13 9) STEP Project Costs;

14 10) Property Taxes;

15 11) Income Taxes;

16 12) Depreciation Rates;

17 13) Consolidated Bill Tariff;

18 14) Customer Class Definitions;

19 15) ISRS Information;

20 16) Minimum Filing Requirements (MFR).

21

22 **Q. MR. GRUBB, ARE YOU SPONSORING ANY SCHEDULES?**

23 **A.** In addition to Schedule EJG-1, I am sponsoring Appendix A, which is the
24 Company's Minimum Filing Requirements; Schedule EJG-2, which sets forth

1 the Company's proposed depreciation rates; and, Schedule EJG-3, which
2 contains a bill consolidation study.

3
4 **Q. WILL YOU BE TESTIFYING TO ANY OTHER SCHEDULES?**

5 A. Yes. Don Petry is sponsoring all of the Company's Accounting Schedules
6 (CAS). These schedules consist of a Rate Increase Summary, Rate Base,
7 Income Statement, Summary of Adjustments, and a Bill Analysis at Present
8 and Proposed Rates. I will be testifying in support of specific schedules
9 within the CAS, which will be identified later in my testimony.

10
11 **Q. WERE THESE SCHEDULES PREPARED BY YOU OR UNDER YOUR**
12 **SUPERVISION?**

13 A. Yes, they were.

14
15 **Q. WHAT IS THE SOURCE OF THE INFORMATION FOUND ON THE**
16 **SCHEDULES?**

17 A. The historical and pro forma information contained in these schedules is
18 taken from MAWC's financial books and records at June 30, 2006, and other
19 Company sources. The books and records are maintained in accordance
20 with the Uniform System of Accounts for Class A water utilities prescribed by
21 the National Association of Regulatory Utility Commissioners (NARUC), and
22 are audited annually by an independent accounting firm which certifies that
23 such books and records are maintained in accordance with generally
24 accepted accounting principals.

1
2 **(1) TEST YEAR AND TRUE-UP REQUEST**

3 **Q. MR. GRUBB, WHAT TEST YEAR HAS MAWC USED IN THIS RATE**
4 **CASE?**

5 A. MAWC has used a historical test year ending June 30, 2006, adjusted for
6 changes that are known and measurable at this time and will be effective by
7 the time new rates are anticipated to go into effect.

8
9 **Q. IS THE COMPANY PROPOSING A TRUE-UP IN THIS CASE?**

10 A. Yes. If rates are to be set properly reflecting the cost of providing service, a
11 true-up of rate base and related operating revenue and costs at a point in
12 time as close as possible to the operation of law date should be permitted.
13 Otherwise, the new rates will not be sufficient to cover all of MAWC's
14 expenses and investments which have been incurred or made to provide safe
15 and adequate service. In this case, the Company is proposing a true-up at
16 May 31, 2007. The Company is proposing to true-up the following
17 components of its revenue requirement: rate base, capital structure,
18 revenues using customers at May 2007 and labor workforce level and wage
19 rates. Other expenses MAWC proposes to true-up are fuel and power,
20 chemical, purchased water, waste disposal, rate case expense, property
21 taxes, depreciation expense, PSC Assessment Fees and income taxes.

22
23 **(2) REVENUES**

1 **Q. PLEASE EXPLAIN THE COMPANY'S ADJUSTMENT TO THE TEST YEAR**
2 **LEVEL OF REVENUES.**

3 A. The adjustments to the test year level of revenues can be characterized as
4 follows:

5 1) Eliminate from or adjust the test year for items that will not recur or are
6 reflected in other adjustments.

7 2) Annualize for the level of residential and commercial customers as of the
8 end of the true-up period.

9 3) Normalize the sales level for the residential and commercial class for
10 weather and to reflect in rates the sales trends for these classes in the St.
11 Louis, St. Charles, St. Joseph, and Joplin districts.

12 4) Adjust for known and measurable changes for specific large customers
13 whose sales need to be annualized, reduced, or eliminated.

14 5) Adjust for the level of current rates associated with the Infrastructure
15 System Replacement Surcharge.

16
17 **Q. BEFORE YOU BEGIN EXPLAINING THE ADJUSTMENTS TO REVENUES,**
18 **PLEASE BRIEFLY DESCRIBE SCHEDULE CAS-13 and CAS-14.**

19 A. Schedules CAS-13 and CAS-14 present to the Commission a summary and
20 detail by district of the Company's pro forma test year revenues at both
21 present and proposed rates. Since the Company's current tariffs are based
22 on district-specific rates, included in the schedule reference is a three-digit
23 alpha abbreviation that identifies the district. Attached to the testimony of Mr.
24 Petry is a schedule that identifies and matches the district to the alpha

1 abbreviation. Schedule CAS-13 for each district is a summary by revenue
2 class with CAS-14 providing the detail by revenue class. The proposed rates
3 are based on an across the board increase as discussed by Mr. Jenkins in his
4 direct testimony.

5
6 **Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE REVENUE**
7 **ADJUSTMENTS.**

8 A. As shown on Schedule CAS-9 for each of the districts, unbilled revenue is
9 being eliminated to reflect the Company's adjustment for the annualizing and
10 normalizing of customers and sales as of the true-up.

11 The next adjustment shown on the schedule is labeled Bill Analysis and Other
12 Adjustments. These adjustments are related to the bill analysis and will
13 adjust the per book revenues to the bill analysis. One example of an
14 adjustment is to adjust and eliminate correcting journal entries made in the
15 books.

16 The next level of adjustments shown and labeled Normalization and
17 Customer Adjustments reflects the number of customers anticipated at the
18 true-up date and the use of a normalized level of sales based on normal
19 weather and the current trend of customer usage per day anticipated for 2007
20 for the St. Louis, St. Charles, St. Joseph and Joplin Districts. For Jefferson
21 City, Parkville Water, Brunswick, Mexico and Warrensburg, a simple four or
22 five year average for residential and commercial usage per customer was
23 used. For Warren County Water, actual test year sales were used. These
24 smaller districts only represent 6% of the customer base of the Company and

1 thus calculating a full weather and utilization study would not have a material
2 impact on the rate request.

3 The Company has contracted the services of Professor Edward Spitznagel
4 from Washington University. Professor Spitznagel has performed a detailed
5 statistical analysis of the residential and commercial class customers for St.
6 Louis, St. Charles, St. Joseph, and Joplin districts. Based on his analysis,
7 Professor Spitznagel has made recommendations to the Company regarding
8 the appropriate level of usage per day, per customer for the revenue classes
9 noted above. Professor Spitznagel has provided a detailed discussion in his
10 direct testimony in this proceeding. As noted, the remaining districts' usage
11 per day was based on an historical average or actual test year level.

12 The final level of adjustments shown on CAS-9 for each of the districts is
13 labeled Other Adjustments. These adjustments reflect specific impacts on the
14 Company's revenues based on known and measurable changes for specific
15 customers, number of days in the test year and for the impact of
16 implementing ISRS surcharges during 2006. Shown below is a discussion of
17 the adjustments by District.

18 1) The Brunswick District has identified the loss of Chariton County Water
19 District No. 2 as a Sale for Resale customer. This adjustment eliminates
20 its revenues at present rates in the amount of \$54,853. The adjustment is
21 incorporated in Schedule CAS-9-BRU. The Company anticipates losing
22 this customer to another water supplier who can offer softened water.

23 2) The St. Louis District has identified the loss of Ford Motor Company as a
24 customer due to its closing. The adjustment eliminates this customer from

1 revenues at present rates. Additionally, the City of Kirkwood (a Sale for
2 Resale, Rate G customer) closed its water treatment plant in November
3 2006 and now purchases all of its water needs from the Company. The
4 total amount of these two adjustments increases present rate revenues by
5 \$470,355. The Company also received Final Orders in two Infrastructure
6 System Replacement Surcharge filings during 2006. The Company has
7 annualized the impact of these surcharges which increases present rate
8 revenues by \$5,970,491. These adjustments are incorporated into
9 Schedule CAS-9-STL.

10 3) The St. Joseph District lost the City of Wathena as a Sale for Resale
11 customer. The adjustment eliminates the revenues at present rates.
12 Triumph Foods is being adjusted for a rate change in accordance with
13 their contract. The total amount of these adjustments reduces revenues at
14 present rates by \$58,002. These adjustments are incorporated in
15 Schedule CAS-9-SJO and are detailed in the workpapers.

16 4) In 2003, Missouri American Water changed from a monthly calendar
17 accounting period closing schedule to a 4-4-5 accounting period closing
18 schedule. In a 4-4-5 accounting period closing schedule,
19 accounting cycles for a three month quarter are set up to cover four
20 weeks, four weeks, and five weeks. As a result, the closing day for the
21 accounting period may not correspond to the last day of the calendar
22 month. In 2006, Missouri American Water reverted to the calendar month
23 end close but still used the 4-4-5 concept by accruing revenues and
24 expenses to the end of the month. The test period for this rate case is for

1 the twelve months ending June 30, 2006; however, because of the 4-4-5
2 accounting period that was in effect prior to June, 2006, the test year
3 actually covers the period of June 25, 2005, through June 30, 2006 for
4 billed revenues, or a total of 371 days. Since the test period includes an
5 extra six days of billed revenue that would not normally be a part of a
6 twelve month test period, the Company has calculated a pro forma
7 adjustment to eliminate the six extra days. An Orcom billing data report
8 was downloaded and generated to determine the actual billing
9 determinants for the period of June 24, 2005 through June 30, 2005, and
10 those billing determinants were removed from the test year. The
11 adjustment for those six extra days of billed revenue reduces the test year
12 revenue by \$2,347,075. Consistent with this adjustment is the elimination
13 of unbilled revenues in the amount of \$1,984,498, which increased
14 revenues at present rate revenues.

15 16 **(3) PENSION**

17 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
18 **RELATED TO PENSION.**

19 **A.** Missouri American has included in its pro forma pension expense the actual
20 cost related to the FAS 87 accrual which is supported by American Water's
21 latest actuarial report. Starting in 2006, nonunion employees hired before
22 January 1, 2006, and union employees hired before January 1, 2001, are
23 included as participants in the Company's defined benefit pension plan. The
24 FAS 87 Pension cost is based on actuarial studies conducted annually by

1 Towers Perrin for the defined benefit participants. For employees in the
2 defined contribution plan, a rate of 5.25% of base salary is used to calculate
3 the expense. The total costs for pension were reduced by the amounts
4 anticipated to be capitalized based on the payroll adjustment supported by
5 Mr. Petry. A copy of the pension actuarial study is included in the
6 workpapers. The pro forma expense is \$2,533,747. Additional details and
7 comments are found on Schedule CAS-15, page 3.

8
9 **(4) OPEBs**

10 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
11 **RELATED TO OPEBs.**

12 A. The Company used the most recent actuarial report prepared for
13 American Water by Towers Perrin to calculate the pro forma cost and like
14 pension, the percent to be capitalized from the labor adjustment was applied
15 to arrive at the pro forma expense. As a result of the recent union
16 negotiations, union employees who are not eligible for post-retirement
17 benefits were provided an annual \$500 contribution that is to be paid into a
18 VEBA account for the employee to pay for medical costs after retirement.
19 The proforma OPEB expense is \$969,689 and is included on Schedule CAS-
20 15, page 2 as a part of the Group Insurance expense adjustment.

21
22 **(5) REGULATORY EXPENSE**

23 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
24 **RELATED TO REGULATORY EXPENSE.**

1 A. The purpose of this adjustment is to annualize rate case expense for the
2 costs related to this rate filing. Estimated costs related to the rate filing
3 include legal fees, consultant's cost, travel expenses, and other expenses.
4 It is being proposed that these costs be amortized over a three-year
5 period. Should the actual time period between the current case and the
6 next case be less than three years, the Company will propose and
7 adjusted recovery period in the next rate case. The pro forma expense is
8 \$267,747. The details of this adjustment can be found at Schedule CAS-
9 15, page 10.

10
11 **(6) INSURANCE OTHER THAN GROUP**

12 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
13 **RELATED TO INSURANCE OTHER THAN GROUP.**

14 A. The purpose of this adjustment is to annualize the Insurance Other than
15 Group to the latest annual insurance premium levels received by the
16 Company. The pro forma expense is \$4,874,160. The details of this
17 adjustment can be found at Schedule CAS-15, page 11.

18
19 **(7) SERVICE COMPANY SUPPORT SERVICES**

20 **Q. WHAT ADJUSTMENT WAS MADE TO THE COMPANY'S TEST YEAR**
21 **LEVEL OF SUPPORT SERVICES?**

22 A. Test year Support Services from American Water Works Service
23 Company were adjusted to eliminate specific one-time costs and other
24 costs related to donations, memberships and lobbying expenses. Also

1 eliminated were the costs of two External Affairs employees who are
2 included in the calculation of the Company's labor adjustment. It has been
3 determined that these employees dedicate 100% of their time to the
4 Company. Additional adjustments were performed to annualize employee
5 wage costs and to include the costs associated with vacancies and new
6 positions in the ITS and Shared Services functions, costs associated with
7 the purchase of assets at the Service Company and the additional auditing
8 costs by the independent auditors as a result of Sarbanes-Oxley. The
9 total pro forma expense is \$26,097,225. The details of this adjustment
10 can be found at Schedule CAS-15, page 12
11

12 **Q. MR. GRUBB, DO YOU HAVE ANY OTHER COMMENTS REGARDING THE**
13 **SUPPORT SERVICES RECEIVED FROM AMERICAN WATER WORKS**
14 **SERVICE COMPANY?**

15 A. Yes. American Water initiated a reorganization in late 2003 that was
16 completed at the end of 2004. As result of the reorganization, the Central
17 Region of American Water was formed. The Central Region includes not only
18 Missouri American, but also Illinois American, Iowa American, Indiana
19 American, Ohio American and Michigan American. The reorganization
20 reduced direct costs at the operating company level by eliminating
21 management positions. It also shifted employees who previously worked for
22 Missouri American Water to American Water Works Service Company.
23 These employees now provide the same or similar services to the Company,
24 but are employees of the Service Company. For example, I was the Director

1 of Rates and Planning for Missouri American Water prior to the
2 reorganization. After the reorganization, I assumed the duties as Manager
3 Rates and Regulation for the Central Region Service Company. As a Service
4 Company employee, I perform many of the same functions as I did when I
5 was an employee of the Company. However, I also provide those same
6 services to the other companies in the Central Region. My time is billed to
7 Missouri American based on the Service Agreement between the Company
8 and American Water Works Service Company.

9
10 **(8) MAIN BREAK EXPENSE**

11 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
12 **RELATED TO MAIN BREAK EXPENSE.**

13 A. The purpose of this adjustment is to annualize main break expense to an
14 estimated/normal pro forma expense based on a two-year average. The
15 periods averaged are for the twelve months ended June 30, 2005 and
16 December 31, 2006. The details of this adjustment can be found at
17 Schedule CAS-15, page 14.

18
19 **(9) STEP COSTS**

20 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
21 **RELATED TO STEP.**

22 A. The Company is eliminating the expense associated with the write-off of
23 the Standardized Technology Enabled Processes ("STEP") costs because
24 they are deemed to be a nonrecurring expense.

1
2 **(10) PROPERTY TAX EXPENSE**

3 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
4 **RELATED TO PROPERTY TAX EXPENSE.**

5 A. The purpose of this adjustment is to annualize property tax expense to a
6 pro forma expense based on the level of Utility Plant in Service included in
7 the Companies' pro forma rate base. The pro forma expense is
8 \$10,294,594. The details of this adjustment can be found at Schedule
9 CAS-15, page 17.
10

11 **(11) INCOME TAXES**

12 **Q. PLEASE EXPLAIN THE COMPANY'S CALCULATION OF ITS PRO**
13 **FORMA LEVEL OF INCOME TAXES.**

14 A. The Company's pro forma level of current income taxes at present rates is
15 based on deducting from revenues all operating expenses and interest
16 expense. Additional add-backs and deducts are reflected for tax over book
17 depreciation, non-deductible meals and preferred stock expense. The
18 resulting taxable income is then multiplied by the state and federal statutory
19 rates of 5.21% and 35%, respectively.

20 Deferred income taxes for the temporary timing difference related to tax over
21 book depreciation was calculated at the statutory rates. The per books level
22 of the amortization of the Deferred ITC and the Deferred Taxes associated
23 with the amortization of the regulatory assets and liabilities was also included
24 in the calculation of income taxes.

1 Income taxes at proposed rates reflect the impact of the Company's request
2 for additional revenues.

3
4 **(12) DEPRECIATION RATES**

5 **Q. DO YOU HAVE ANY COMMENTS REGARDING THE PROPOSED**
6 **DEPRECIATION RATES?**

7 A. Yes. John Spanos of Gannett Fleming has performed a depreciation study
8 using plant data as of December 31, 2005. The current depreciation rates
9 were approved by the Commission in Case No. WR-2003-0500. Those
10 depreciation rates reflected adjustments to the service lives and the
11 elimination of a component related to net negative salvage. As a result of
12 recent Commission decisions, the Company's Depreciation Study is
13 proposing to update the service lives and to include a component for net
14 negative salvage.

15
16 **Q. IS THE COMPANY PROPOSING TO IMPLEMENT THE DEPRECIATION**
17 **RATES AS RECOMMENDED BY MR. SPANOS?**

18 A. No. The Company is proposing to implement water depreciation rates that
19 reflect a transition towards Mr. Spanos' recommended water depreciation
20 rates. If Mr. Spanos' recommended rates were fully implemented, then the
21 Company's revenue increase request would have been increased by
22 approximately an additional \$4.5 million. The Company is proposing to
23 transition to the recommended depreciation rates over this rate case and the
24 next general rate case.

1
2 **Q. DO YOU HAVE A SCHEDULE SHOWING WHAT THE COMPANY'S**
3 **PROPOSED DEPRECIATION RATES ARE IN THIS CASE?**

4 A. Attached to my direct testimony is Schedule EJG-2. It provides a list of the
5 proposed depreciation rates by Company plant account. As noted earlier,
6 these depreciation rates reflect a move of one-half of the difference
7 between the current water depreciation rates and the recommended water
8 depreciation rates of Mr. Spanos.

9
10 **(13) CONSOLIDATED BILL TARIFF**

11 **Q. HAS THE COMPANY PROPOSED A CONSOLIDATED BILL TARIFF FOR**
12 **THE ST. LOUIS DISTRICT?**

13 A. Yes. As a result of Stipulations in the last MAWC rate case (Case WR-2003-
14 0500), the Company agreed to prepare a study to determine the feasibility of
15 consolidating customer's bills for contiguous, owner-occupied properties to
16 allow for an aggregation of usage to take advantage of lower rates. MAWC
17 also agreed to propose such a tariff for the St. Louis district. I have attached
18 to my direct testimony as Schedule EJG-3, a copy of the study. The
19 Company has also included a tariff that proposes bill consolidation for the St.
20 Louis District.

21
22 **Q. ARE THERE ANY SPECIFIC POINTS THAT YOU WOULD LIKE TO**
23 **DISCUSS REGARDING THE TARIFF.**

1 A. I believe it is important to note that for a customer to have multiple account
2 usages aggregated, the accounts must have contiguous, owner occupied
3 properties. Under the current cost structure and operations, consolidation
4 would not be appropriate in circumstances other than contiguous, owner
5 occupied properties.

6
7 **(14) CUSTOMER CLASS DEFINITION**

8 **Q. HAS THE COMPANY COLLECTED ANY INFORMATION REGARDING**
9 **THE DEFINITION OF CUSTOMER CLASSES FOR A WATER UTILITY?**
10

11 A. Per the Rate Design Stipulation in Case No. WR-2003-0500, the Company
12 agreed to collect data sufficient to allow a study to evaluate current customer
13 class definitions and to share the data with the parties for their review. The
14 Company provided the data that is found in the American Water Works
15 Association Manual of Water Supply Practices, pages 63-65. Based on a
16 review of this information, the Company believes that its current customer
17 classifications are appropriate at this time based on the current cost
18 structures and rates of Missouri-American.

19
20 **(15) ISRS INFORMATION**

21 **Q. MR. GRUBB, YOU DISCUSSED EARLIER IN YOUR TESTIMONY THAT**
22 **THE COMPANY IMPLEMENTED TWO CHANGES TO ITS ISRS TARIFF**
23 **DURING 2006. IS THE COMPANY REQUIRED TO PROVIDE TO THE**
24 **COMMISSION INFORMATION REGARDING THE ISRS FILINGS?**

1 A. Yes. Commission Rule 4 CSR 240-3.650(20) requires the Company to
2 provide to the Commission specific information if it is not provided at the time
3 of the ISRS filing.
4

5 **Q. WHAT INFORMATION IS THE COMPANY PROVIDING AT THIS TIME TO**
6 **MEET THE ISRS REQUIREMENTS?**

7 A. First, the Company is required to explain the efforts to quantify and seek
8 reimbursements for any costs associated with facility relocations. Second, to
9 identify any financing arrangements directed specifically to the projects. And
10 third, an explanation of the request for proposal (RFP) process used, or the
11 reasons that an RFP process was not used, to select the entity that
12 performed the infrastructure replacement projects associated with the ISRS.
13

14 **Q. PLEASE EXPLAIN THE EFFORTS TO QUANTIFY AND SEEK**
15 **REIMBURSEMENTS FOR ANY COSTS ASSOCIATED WITH FACILITY**
16 **RELOCATIONS.**

17 A. The Company sometimes receives reimbursement from either private
18 developers or governmental agencies. In the case of a private developer, the
19 Company will enter into an agreement that requires the developer to advance
20 to the Company the money based on an estimated cost to relocate facilities.
21 Once the project is complete, the Company prepares a reconciliation of the
22 actual cost to the estimated cost. If the actual cost exceeds the estimate, the
23 developer is required to reimburse the Company. If the actual cost is less

1 than the estimate, then the Company will refund the difference to the
2 developer.

3 In the case where a governmental agency requires a relocation of Company
4 facilities, no advance funding is received. Once the project is complete, the
5 Company will bill the governmental agency for the amount of the cost of the
6 relocated facilities that were located in easements.

7 In all cases, reimbursements are based on actual construction costs.

8
9 **Q. WERE ANY FINANCING ARRANGEMENTS DIRECTED SPECIFICALLY**
10 **TO THE ISRS PROJECTS?**

11 **A. No.**

12
13 **Q. PLEASE EXPLAIN THE RFP PROCESS OR, IF ONE WAS NOT USED,**
14 **WHY IT WAS NOT USED.**

15 **A.** Generally, the Company does not issue a request for proposal (RFP) for the
16 construction projects related to ISRS. The Company uses its own union
17 workforce to complete ISRS eligible projects. However, there were two ISRS
18 eligible projects that required specialized construction skills which the
19 Company does not possess. In those two instances, an outside contractor
20 was used. One project required the installation of a main using a slip lining
21 method of main installation. The second project required a method known as
22 Horizontal Directional Drilling. In each case, there only existed one contractor
23 in the St. Louis metropolitan area who had the expertise, manpower and the
24 tools and equipment to perform these specialized main replacements.

1

2

(16) MINIMUM FILING REQUIREMENTS (MFRs)

3

Q. HAS THE COMPANY INCLUDED IN ITS FILING THE REQUIRED MFRs?

4

A. Yes. Attached to my testimony is Appendix A, which contains the required information for filing a request to change rates and charges before this Commission.

7

8

Q. HAS THE COMPANY INCLUDED A COPY OF THE PROPOSED TARIFFS IN THE MINIMUM FILING REQUIREMENTS WHICH IS ATTACHED TO YOUR TESTIMONY AS APPENDIX A?

10

11

A. Yes. All tariffs that the Company is proposing to change have been included in the Minimum Filing Requirements. The Company has not included a revised tariff for the Infrastructure System Replacement Surcharge (ISRS). Per 4 CSR 240-3-650(17), the Company will file a revised ISRS tariff schedule which will reset the ISRS rates to zero when new base rates and charges become effective following a Commission order establishing customer rates in a general rate proceeding that incorporates eligible costs previously reflected in an ISRS into the Company's base rates.

12

13

14

15

16

17

18

19

20

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

21

A. Yes, it does.

EDWARD J. GRUBB

Edward J. Grubb is the Rates and Regulation Manager for the Central Region of American Water. Mr. Grubb is also the Assistant Treasurer for Missouri American Water Company.

As Rates and Regulation Manager, his main responsibilities are to:

- 1) Plan and oversee the preparation and presentation of all rate increase applications and supporting documents and exhibits as prescribed by management policies, guidelines and regulatory commission requirements;
- 2) Oversee rate analyses and studies to evaluate the effect of proposed rates on the revenues, rate of return and tariff structure of the company;
- 3) Oversee the implementation of rate orders, including development of the revised tariff pricing necessary to produce the proposed revenue level;
- 4) Oversee the preparation of Company budgets and analyses;
- 5) Oversee the review of Company financial statements;
- 6) Oversee employee relations in the Regional Finance Department, including the recommendation regarding personnel changes and the training and evaluation of assigned personnel;
- 7) Provide support for financial analysis of proposed acquisitions and expansion of service territory, including preparation of applicable Commission filings;
- 8) Assure that policies, procedures, programs, standards of performance, and approved objectives are adhered to and/or achieved including those involving safety, affirmative action, community relations, and labor relations.

Mr. Grubb has prepared rate cases and presented testimony before the Maryland Public Service Commission, West Virginia Public Service Commission, Tennessee Public Service Commission, Illinois Commerce Commission, Kentucky Public Service Commission, Iowa Utilities Board, Public Utility Commission of Ohio, Missouri Public Service Commission, Indiana Utility Regulatory Commission and the Virginia State Corporation Commission.

In June 1978, Mr. Grubb was awarded a Bachelor of Science Degree in Business Administration from Drexel University with a major in accounting. In May 1989, he was awarded a Masters of Business Administration from the University of West Virginia College of Graduate Studies. In September 1993, Mr. Grubb successfully completed the Certified Management Accounting program and received his certificate as a Certified Management Accountant (CMA). And, in January 1998, he successfully completed the Certified in Financial Management (CFM) program and received his certificate as a CFM from the Institute of Management Accountants.

Mr. Grubb began his career in 1978 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, Mr. Grubb was promoted to Rate Analyst. In 1984, he was promoted to Revenue Requirement Specialist and in 1988, Mr. Grubb was promoted to Assistant Director - Rates and Revenue. In these three positions, he has assisted, prepared and presented testimony and accounting exhibits before regulatory bodies concerning rate increase applications and other matters.

In January 1998, Mr. Grubb was promoted to the position of Comptroller of Kentucky-American Water Company. In his capacity as Comptroller, Mr. Grubb was responsible for all aspects of the accounting and regulation for the Company, including the preparation of financial statements, tax returns, and regulatory filings. In October 2000, Mr. Grubb was promoted to the Director, Rates and Revenue with Missouri-American Water. In August 2004, Mr. Grubb was appointed to his current position.

Missouri-American Water Company - Proposed Depreciation Rates (Moves half way to Spanos Recommended Rates)
For the Test Year Ended June 30, 2006 and Case No. WR-2007-XXXX

Line No (A)	Account Title (B)	NARUC (C)	JDE Account Number (D)	Proposed Depr Rate STL (E)	Proposed Depr Rate JFC (F)	Proposed Depr Rate MAWC (G)	Proposed Depr Rate WCW (H)	Proposed Depr Rate WCS (I)	Proposed Depr Rate PKS (J)	Proposed Depr Rate CDH (K)
1	Organization	301	301000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2	Franchises	302	302000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
3	Land & Ld Rights SS	310	303200	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
4	Land & Ld Rights P	320	303300	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
5	Land & Ld Rights WT	330	303400	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
6	Land & Ld Rights TD	340	303500	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
7	Land & Land Rights AG	389	303600	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
8	Struct & Imp SS	311	304100	2.31%	2.31%	2.31%	1.31%	1.31%	1.31%	1.31%
9	Struct & Imp P	321	304200	2.99%	2.99%	2.99%	2.50%	2.50%	2.50%	2.50%
10	Struct & Imp Pumps (STL)	321	304201	2.99%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
11	Struct & Imp Pump Boosters	321	304202	2.78%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
12	Struct & Imp WT	331	304300	1.84%	1.84%	1.84%	3.78%	1.28%	1.28%	1.28%
13	Struct & Imp WT Nth Plt (ST	331	304320	1.84%	1.28%	1.28%	1.28%	1.28%	1.28%	1.28%
14	Struct & Imp WT Ctrl Plt 1	331	304330	1.84%	1.28%	1.28%	1.28%	1.28%	1.28%	1.28%
15	Struct & Imp WT Ctrl Plt 3	331	304340	1.84%	1.28%	1.28%	1.28%	1.28%	1.28%	1.28%
16	Struct & Imp WT Sth Plt (ST	331	304350	1.84%	1.28%	1.28%	1.28%	1.28%	1.28%	1.28%
17	Struct & Imp WT Meramec (ST	331	304360	1.84%	1.28%	1.28%	1.28%	1.28%	1.28%	1.28%
18	Struct & Imp TD	341	304400	2.13%	2.13%	2.13%	2.22%	1.22%	1.22%	1.22%
19	Struct & Imp TD Spec Cross	341	304410	6.22%	1.22%	1.22%	1.22%	1.22%	1.22%	1.22%
20	Struct & Imp Offices	390.1	304600	1.38%	2.63%	2.63%	1.38%	1.38%	1.38%	1.38%
21	Struct & Imp Leasehold	390.1	304620	3.60%	2.35%	8.60%	2.35%	2.35%	2.35%	2.35%
22	Struct & Imp Leasehold	390.1	304621	7.35%	2.35%	2.35%	2.35%	2.35%	2.35%	2.35%
23	Struct & Imp Store,Shop,Gar	390	304700	5.25%	4.31%	5.56%	4.31%	4.31%	4.31%	4.31%
24	Struct & Imp Misc	390.3	304800	2.01%	1.07%	1.07%	3.07%	1.07%	1.07%	1.07%
25	Collect & Impounding	312	305000	1.02%	1.02%	1.52%	1.02%	1.02%	1.02%	1.02%
26	Lake, River & Other Intakes	313	306000	9.58%	10.58%	10.58%	9.58%	9.58%	9.58%	9.58%
27	Wells & Springs	314	307000	0.94%	0.94%	1.94%	2.94%	0.94%	0.94%	0.94%
28	Infiltration Galleries & Tunnels	315	308000	0.86%	0.86%	0.86%	0.86%	0.86%	0.86%	0.86%
29	Supply Mains	316	309000	0.74%	0.74%	1.61%	0.74%	0.74%	0.74%	0.74%
30	Supply Mains Nth Plt (STL)	316	309100	1.61%	0.74%	0.74%	0.74%	0.74%	0.74%	0.74%
31	Supply Mains Ctrl Plt (STL)	316	309200	1.61%	0.74%	0.74%	0.74%	0.74%	0.74%	0.74%
32	Supply Mains Sth Plt (STL)	316	309300	1.61%	0.74%	0.74%	0.74%	0.74%	0.74%	0.74%
33	Supply Mains Meramec Plt (S	316	309400	1.61%	0.74%	0.74%	0.74%	0.74%	0.74%	0.74%
34	Power Generation Equip Othe	323	310100	3.08%	1.08%	2.43%	1.08%	1.08%	1.08%	1.08%
35	Boiler Plant Equipment P	322	310200	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%	5.32%
36	Pump Equip Steam	324	311100	1.17%	1.17%	1.17%	1.17%	1.17%	1.17%	1.17%
37	Pump Equip Electric	325	311200	1.17%	2.03%	2.03%	2.42%	1.17%	1.17%	1.17%
38	Pump Equip Elec Pre46 (STL)	325	311210	1.17%	1.17%	1.17%	1.17%	1.17%	1.17%	1.17%
39	Pump Equip Elec Post46 (STL)	325	311220	2.03%	1.17%	1.17%	1.17%	1.17%	1.17%	1.17%
40	Pump Equip Elec Boosters Po	325	311230	1.17%	1.17%	1.17%	1.17%	1.17%	1.17%	1.17%
41	Pump Equip Diesel	326	311300	1.17%	1.17%	1.17%	1.17%	1.17%	1.17%	1.17%
42	Pump Equip Diesel Stratman\	326	311310	2.52%	1.17%	1.17%	1.17%	1.17%	1.17%	1.17%
43	Pump Equip Diesel Ctrl Plt	326	311320	2.52%	1.17%	1.17%	1.17%	1.17%	1.17%	1.17%
44	Pump Equip Hydraulic	327	311400	1.17%	1.17%	1.17%	1.17%	1.17%	1.17%	1.17%
45	Pump Equip Other	328	311500	1.17%	1.17%	1.17%	1.17%	1.17%	1.17%	1.17%
46	WT Equip Non-Media	332	320100	2.13%	2.13%	2.13%	2.13%	1.20%	1.20%	1.20%
47	WT Equip Non-Med North (STL	332	320120	2.13%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
48	WT Equip Non Media Ctrl 1 &	332	320130	2.13%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
49	WT Equip Non Media Ctrl 3 (332	320140	2.13%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
50	WT Equip Non Media Sth (STL	332	320150	2.13%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
51	WT Equip Non Media Mer (STL	332	320160	2.13%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
52	WT Equip Filter Media	332.4	320200	2.13%	1.20%	2.13%	1.20%	1.20%	1.20%	1.20%
53	Dist Reservoirs & Standpipe	342	330000	1.28%	1.28%	2.21%	1.28%	1.28%	1.28%	1.28%
54	Elevated Tanks & Standpipes	342	330100	2.21%	1.28%	2.21%	2.28%	1.28%	1.28%	1.28%
55	Ground Level Facilities	342	330200	2.21%	2.21%	2.21%	1.28%	1.28%	1.28%	1.28%
56	TD Mains Not Classified by	343	331001	1.39%	1.39%	1.39%	0.74%	0.74%	0.74%	0.74%
57	TD Mains 4 & Less "	343.1	331100	0.74%	1.39%	1.39%	1.99%	0.74%	0.74%	0.74%
58	TD Mains 6 to 8" "	343.2	331200	0.74%	1.39%	1.39%	1.99%	0.74%	0.74%	0.74%
59	TD Mains 8 to 10in (TN)"	343.2	331210	0.74%	0.74%	0.74%	1.99%	0.74%	0.74%	0.74%
60	TD Mains 10 to 16" "	343.3	331300	0.74%	1.39%	1.39%	1.99%	0.74%	0.74%	0.74%
61	TD Mains 18 & Grtr "	343.3	331400	0.74%	0.74%	1.39%	0.74%	0.74%	0.74%	0.74%
62	TD Mains AC 4 (STL) "	343.1	331601	1.16%	0.74%	0.74%	0.74%	0.74%	0.74%	0.74%
63	TD Mains CI <10 1900-28 (S"	343.2	331602	1.13%	0.74%	0.74%	0.74%	0.74%	0.74%	0.74%
64	TD Mains CI <10 1929-56 (S"	343.2	331603	1.41%	0.74%	0.74%	0.74%	0.74%	0.74%	0.74%
65	TD Mains CI <10 1957-93 (S"	343.2	331604	1.31%	0.74%	0.74%	0.74%	0.74%	0.74%	0.74%
66	TD Mains CI 12 (STL) "	343.3	331605	1.16%	0.74%	0.74%	0.74%	0.74%	0.74%	0.74%

Missouri-American Water Company - Proposed Depreciation Rates (Moves half way to Spanos Recommended Rates)
For the Test Year Ended June 30, 2006 and Case No. WR-2007-XXXX

Line No (A)	Account Title (B)	NARUC (C)	JDE Account Number (D)	Proposed Depr Rate STL (E)	Proposed Depr Rate JFC (F)	Proposed Depr Rate MAWC (G)	Proposed Depr Rate WCW (H)	Proposed Depr Rate WCS (I)	Proposed Depr Rate PKS (J)	Proposed Depr Rate CDH (K)
67	TD Mains CI 16 (STL) "	343.3	331606	1.24%	0.74%	0.74%	0.74%	0.74%	0.74%	0.74%
68	TD Mains DI 6-8 (STL) "	343.2	331607	1.58%	0.74%	0.74%	0.74%	0.74%	0.74%	0.74%
69	TD Mains DI 12 (STL) "	343.3	331608	1.42%	0.74%	0.74%	0.74%	0.74%	0.74%	0.74%
70	TD Mains DI 16 & >(STL)	343.3	331609	1.32%	0.74%	1.32%	0.74%	0.74%	0.74%	0.74%
71	TD Mains Galve 1 (STL) "	343.1	331610	0.74%	0.74%	0.74%	0.74%	0.74%	0.74%	0.74%
72	TD Mains LJ 20 (STL) "	343.3	331611	1.10%	0.74%	0.74%	0.74%	0.74%	0.74%	0.74%
73	TD Mains PL 8-8in (STL) "	343.2	331612	1.94%	0.74%	0.74%	0.74%	0.74%	0.74%	0.74%
74	TD Mains PL 12in (STL) "	343.3	331613	1.89%	0.74%	0.74%	0.74%	0.74%	0.74%	0.74%
75	Fire Mains	344	332000	0.75%	0.75%	1.40%	0.75%	0.75%	0.75%	0.75%
76	Services	345	333000	2.71%	2.71%	2.71%	2.71%	1.71%	1.71%	1.71%
77	Meters Bronze Case	346.1	334110	1.37%	1.37%	2.59%	3.37%	1.37%	1.37%	1.37%
78	Meters Plastic Case	346.2	334120	1.37%	1.37%	2.59%	1.37%	1.37%	1.37%	1.37%
79	Meters Other	346.3	334130	2.59%	2.59%	2.59%	3.37%	1.37%	1.37%	1.37%
80	Meters Other-Rem Rdr Unts	346.3	334131	2.65%	1.37%	1.37%	1.37%	1.37%	1.37%	1.37%
81	Meter Installations	347	334200	1.81%	1.81%	2.59%	3.37%	1.37%	1.37%	1.37%
82	Meter Installation Other	347	334201	2.62%	1.37%	1.37%	1.37%	1.37%	1.37%	1.37%
83	Hydrants	348	335000	1.57%	1.57%	1.57%	1.90%	0.90%	0.90%	0.90%
84	Other P/E Intangible	303	339100	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
85	Other P/E SS	317	339200	2.14%	2.14%	2.14%	2.14%	2.14%	2.14%	2.14%
86	Other P/E WT Res Hand Equip	332	339400	1.79%	1.79%	1.79%	1.79%	1.79%	1.79%	1.79%
87	Other P/E TD	349	339500	1.81%	1.81%	2.46%	1.81%	1.81%	1.81%	1.81%
88	Other P/E CPS	303	339600	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
89	Office Furniture & Equip	391	340100	3.54%	3.54%	3.54%	2.62%	2.62%	2.62%	2.62%
90	Comp & Periph Equip	391.2	340200	27.41%	26.16%	26.16%	26.16%	25.23%	25.23%	25.23%
91	Computer Software	391.25	340300	18.49%	16.31%	23.46%	16.31%	16.31%	16.31%	16.31%
92	Comp Software Personal	391.26	340320	16.31%	16.31%	16.31%	16.31%	16.31%	16.31%	16.31%
93	Data Handling Equipment	391.3	340400	4.05%	4.05%	6.23%	4.05%	4.05%	4.05%	4.05%
94	Other Office Equipment	391.3	340500	6.23%	4.05%	6.23%	4.05%	4.05%	4.05%	4.05%
95	Trans Equip Lt Duty Trks	392.11	341100	0.00%	6.25%	6.25%	0.00%	0.00%	0.00%	0.00%
96	Trans Equip Hvy Duty Trks	392.12	341200	7.34%	1.09%	7.34%	1.09%	1.09%	1.09%	1.09%
97	Trans Equip Autos	392.2	341300	0.00%	12.50%	12.50%	0.00%	0.00%	0.00%	0.00%
98	Trans Equip Other	392.3	341400	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
99	Stores Equipment	393	342000	7.52%	7.52%	7.52%	6.39%	6.39%	6.39%	6.39%
100	Tools,Shop,Garage Equip	394	343000	4.18%	4.18%	4.18%	4.18%	4.18%	2.01%	2.01%
101	Tools,Shop,Garage Equip Oth	394	343100	4.39%	2.01%	2.01%	2.01%	2.01%	2.01%	2.01%
102	Laboratory Equipment	395	344000	8.32%	8.32%	8.32%	6.71%	6.71%	6.71%	6.71%
103	Laboratory Equip Other	395	344100	6.71%	6.71%	6.71%	6.71%	6.71%	6.71%	6.71%
104	Power Operated Equipment	396	345000	6.25%	6.25%	6.25%	0.70%	0.70%	0.70%	0.70%
105	Comm Equip Non-Telephone	397	346100	5.75%	5.75%	5.75%	5.75%	5.75%	3.37%	3.37%
106	Comm Equip Telephone	397.2	346200	2.34%	2.34%	4.72%	2.34%	2.34%	2.34%	2.34%
107	Misc Equipment	398	347000	5.70%	5.70%	9.09%	9.09%	9.09%	4.09%	4.09%
108	Other Tangible Property	399	348000	28.91%	28.91%	31.29%	28.91%	28.91%	28.91%	28.91%
109	WW Franchises	302	352000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
110	WW Land & Ld Rights Gen	370.1	353500	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
111	WW Struct & Imp Coll	351	354200	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.50%
112	WW Collection Sewers Forced	352.1	360000	0.00%	0.00%	0.00%	0.00%	2.50%	0.00%	0.00%
113	WW Collecting Mains	352.2	361100	0.00%	0.00%	0.00%	0.00%	2.50%	2.00%	2.00%
114	WW Collecting Mains Other	352.2	361101	0.00%	0.00%	0.00%	0.00%	1.67%	0.00%	0.00%
115	WW Services Sewer	353	363000	0.00%	0.00%	0.00%	0.00%	2.50%	2.00%	0.00%
116	WW Pump Equip Elect	353	371100	0.00%	0.00%	0.00%	0.00%	4.00%	0.00%	0.00%
117	WW TD Equipment	372	380000	0.00%	0.00%	0.00%	0.00%	4.00%	0.00%	4.50%
118	WW TD Equip Influent Lift S	372	380650	0.00%	0.00%	0.00%	0.00%	4.00%	0.00%	0.00%
119	WW Outfall Sewer Lines	374	382000	0.00%	0.00%	0.00%	0.00%	0.00%	2.00%	0.00%
120	WW Office Furniture & Equip	391	390000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	14.29%
121	WW Trans Equipment	392	391000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	20.00%
122	WW Misc Equipment	398	397000	0.00%	0.00%	0.00%	0.00%	10.00%	0.00%	20.00%

**Missouri American Water Company
St. Louis District
Feasibility of Consolidated Customer Billing**

Introduction

Pursuant to the Stipulation and Agreement as to Rate Design (Stipulation) reached in Missouri American Water Company's (Company) last rate case at Case No. WR-2003-0500, paragraph No. 6 of the Stipulation required the Company to perform a study to determine the reasonableness of bill consolidation for contiguous, owner occupied properties in the St. Louis District, and will share the results with the Parties for their review and comment. Such customers could benefit from consolidated billing which would price more of their usage at a different rate schedule with a lower rate.

Cost of Service Considerations.

The feasibility of billing customers on a consolidated basis is supported on cost of service principles. The company uses the base extra capacity method of cost allocation as explained in AWWA Water Rates Manual M1. Based on this methodology, a customer with contiguous properties does not require additional distribution mains or other distribution facilities to provide service to two or more accounts at the same location. The only additional cost to serve a customer with multiple connections at the same location (contiguous properties) is the cost of the additional service line(s), meter(s) and meter reading(s). Such additional cost would be recovered by charging a minimum or customer charge for each

connection based on the size meter serving the connection. Therefore, the Company would recover the total cost to serve such customers by charging a customer charge for each connection and applying the consumption rates to the total aggregated usage through the rate blocks to arrive at the total bill for service.

An additional consideration in support of consolidated billing is the fact that the use of multiple connections serving a customer can be at the convenience of the Company. Depending on the way contiguous properties are situated and the demands of the customer, the use of multiple connections may be the most efficient way to serve such customers. In these cases, the customer should not have their usage priced at a higher rate just so the service can be provided in the most efficient manner.

In contrast to customers with contiguous properties described above, customers who may have multiple water accounts that are not located on contiguous properties should not benefit from consolidated billing. Such customers would require additional distribution mains, and possibly other distribution facilities in order to serve the multiple locations. Therefore, the additional costs required to serve accounts at non-contiguous locations would have to be recovered through the application of the rate structure for each separate location.

Rate and Implementation Impacts and Considerations

The implementation of bill consolidation billing will result in less revenue generated for the Company, since the usage for each customer will be priced at

a lower rate. The Company will require existing customers in its St. Louis District to apply for this service and if eligible, the service will start at the conclusion of the next general rate case. For new customers in the St. Louis District who are not replacing an existing customer, this service can be initiated immediately upon requesting service from the Company as long as they are eligible.