DES MOINES WATER WORKS

COST OF SERVICE STUDY

FOR THE YEAR ENDING

DECEMBER 31, 2012

Des Moines Water Works
Water You Can Trust for Life

This report has been prepared by:

Donna Heckman, and members
of the Des Moines Water Works
Finance Staff

EXECUTIVE SUMMARY

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The Des Moines Water Works performs cost of service studies to determine the cost of providing a water supply to a variety of service areas and customer classes. The studies review costs for a one-year period in order to estimate the revenue required to fund future operating expenses and capital replacements. To that end this isn't traditional accounting analysis but rather one that considers non-cash elements such as replacement cost depreciation and return on investment in addition to cash outlays. Des Moines Water Works uses the methodology developed in the American Water Works Association's "Principles of Water Rates, Fees, and Charges". This is commonly referred to as the M1 Manual. The base-extra capacity method and the commodity-demand method are two accepted approaches of analyzing the cost to serve various customer classes. Historically, the Des Moines Water Works has used the base-extra capacity method as the basis for setting rates. However, we also analyze costs using the commodity-demand method, which is more sensitive to the relationship between the peak and average demand characteristics of each customer class. Higher costs are assigned to the residential user by the commodity-demand method compared with the base-extra capacity method, demonstrating the extreme demand placed on our system by residential irrigation of lawns and gardens during the summer months. The focus of this Executive Summary is the base-extra capacity method; however, there is more information on the commodity-demand method in the full Cost of Service Report.

In the base-extra capacity method, costs of service are separated into four primary cost components: (1) base costs, (2) extra-capacity costs, (3) customer costs, and (4) direct fire-protection costs. Base costs are those that vary with the total quantity of water produced plus operation and maintenance expenses and capital costs associated with average demand characteristics. Extra-capacity costs are the operation and maintenance expenses and capital costs for system capacity beyond the average rate of use. Extra capacity costs are further divided between maximum-day demand and maximum-hour

demand. Customer-related costs stem from services to customers, regardless of the amount of water used or the demand on the system. They include meter reading, billing, and customer service activities. Finally, fire protection costs include the maintenance and replacement costs of public fire hydrants and the mains and valves that serve them.

In addition to the Des Moines service area, the Des Moines Water Works provides water under total service agreements to the Polk County, Windsor Heights, Warren County, Pleasant Hill, Runnells, Cumming and Alleman service areas. The Des Moines service area is further divided into Inside City, Outside City (accounts outside Des Moines' city limits but not in one of the other five service areas) and Wholesale (accounts that buy water on a wholesale basis and resell it to their own customers). The base-extra capacity method distributes costs to each service area and to three progressive rate steps in service areas with significant commercial and industrial consumption. The first and second rate steps have consumption thresholds that result in a tiered or step-like rate structure - when a customer's consumption exceeds the first step threshold, the customer progresses to the second step and so on. It is presumed that most residential customers will remain in the first step. While commercial and industrial customers have consumption in the first step, many have consumption in the second and third steps.

The allocation of replacement cost depreciation is based upon a combination of percent of total consumption, percent of total customer accounts and percent of total hydrants. Since Des Moines (Inside & Outside) and Wholesale accounts are 92% of total consumption, the majority of the shared asset replacement cost depreciation gets allocated to these areas.

The table below shows the previous 4 years costs compared with the 2012 cost per thousand gallons.

COSTS PER 1,000 GALLONS
Base-Extra Capacity Method

	2008	2009	2010	2011	Average Yearly Increase	2012	% Inc/(Dec) 2011 to 2012	Current Rate
Des Moines Inside								
Residential (Step 1)	2.86	3.05	3.06	3.12	3.03%	3.01	-3.53%	3.03
Commercial (Step 2)	1.96	2.01	2.01	2.04	1.36%	1.92	-5.88%	2.03
Industrial (Step 3)	1.29	1.40	1.45	1.53	6.20%	1.45	-5.23%	1.56
Des Moines Outside								
Residential (Step 1)	3.11	3.29	3.29	3.33	2.36%	3.16	-5.11%	3.29
Commercial (Step 2)	2.34	2.39	2.32	2.32	-0.28%	2.22	-4.31%	2.47
Industrial (Step 3)	1.49	1.57	1.60	1.68	4.25%	1.57	-6.55%	1.76
Wholesale								
Purchased Capacity	1.16	1.26	1.30	1.35	5.46%	1.27	-5.93%	1.40
With Storage	2.55	2.77	2.83	2.94	5.10%	2.82	-4.08%	3.05
Off Peak	1.32	1.42	1.47	1.52	5.05%	1.43	-5.92%	1.58
Polk County								
Residential (Step 1)	5.14	5.49	5.64	5.70	3.63%	5.11	-10.35%	5.95
Commercial (Step 2)	3.09	3.45	3.43	3.30	2.27%	2.92	-11.52%	3.65
Industrial (Step 3)	2.33	2.47	2.50	2.61	4.01%	2.35	-9.96%	2.85
Windsor Heights	3.03	3.22	3.10	3.05	0.22%	2.88	-5.57%	3.08
Warren County								
Residential (Step 1)	8.62	10.06	13.00	13.20	17.71%	10.96	-16.97%	11.16
Commercial (Step 2)	7.35	8.40	10.94	11.25	17.69%	9.32	-17.16%	8.20
Pleasant Hill								
Residential (Step 1)	3.47	3.73	5.43	5.47	19.21%	4.65	-14.99%	5.54
Commercial (Step 2)	2.49	2.57	5.03	4.98	33.33%	4.30	-13.65%	4.68
Runnells								
Water	5.18	4.54	4.93	4.35	-5.34%	4.24	-2.53%	5.26
Sewer	3.69	5.61	5.41	3.60	-0.81%	3.83	6.39%	5.70
Cumming	2.16	1.86	2.25	2.57	6.33%	2.04	-20.62%	5.17
Alleman	3.08	4.72	5.56	5.23	23.27%	4.35	-16.83%	5.87

In the 2012 Study, overall operating and maintenance costs increased 4.0% following 6.6% higher costs in 2011. All operational areas saw an increase in expenses during 2012. Water Production saw a 6.1% increase in costs in 2012 over 2011. The Pipelines operational area had a cost increase in 2012 with costs increasing 7.7%. Customer Service costs remained flat with a slight increase of 0.9%. Administrative costs changed slightly from 2011 with a 0.3% decrease in costs. There was a 1.7% increase in the Consumer Price Index for 2012. A chart on page 16 in the Trends and Highlights section shows cost detail for the years 2009 thru 2012.

Capital replacement costs increased 2.55% from 2011 to 2012. The Construction Cost Index used to measure the relative change in cost increased 2.62% in 2012 after a 2.46% increase in 2011.

The summary on page 6 compares the total costs for each service area and customer class. The results of the study show that after adjusting both cost and revenue for the effect of monthly availability charges, total revenue from the rate structure for 2012 was 4.2% above costs compared to 2011 when costs exceeded revenue by 4.1% and 2010 when costs exceeded revenue by 13.0%. This significant improvement is a result of 2012 being a record pumpage year and rate increases in some service areas. Nearly all service areas produced revenue above costs in 2012.

Total Cost and Revenue Comparison
(Availability charge revenue and corresponding costs are excluded)
2010 Through 2012

	2010			2011			2012		
	Consumption (1,000 gallons)	Base-Extra Cap. Costs	TOTAL REVENUE	Consumption (1,000 gallons)	Base-Extra Cap. Costs	TOTAL REVENUE	Consumption (1,000 gallons)	Base-Extra Cap. Costs	TOTAL REVENUE
Inside City:									
Step 1 (Residential):		$14,493,548	$13,084,278		$14,896,116	$14,066,220		$14,621,954	$13,366,408
Step 2 (Commercial):		1,272,509	1,198,963		1,306,477	1,275,993		1,302,467	1,374,482
Step 3 (Industrial):		1,672,934	1,525,943		1,836,744	1,798,568		1,901,308	3,122,041
Subtotal	6,510,740	$17,438,991	$15,809,184	6,615,312	$18,039,337	$17,140,781	6,847,407	$17,825,729	$17,862,931
Outside City:									
Step 1 (Residential):		$261,805	$226,923		$269,434	$256,472		$264,470	$274,827
Step 2 (Commercial):		17,550	17,712		22,258	23,549		14,963	16,648
Step 3 (Industrial):		6,727	7,263		6,229	6,526		4,289	4,808
Subtotal	91,363	$286,082	$251,898	94,213	$297,921	$286,547	93,165	$283,722	$296,283
Wholesale:									
With Storage:		$1,732,438	$1,647,903		$2,081,108	$2,110,697		$2,343,395	$2,534,523
Off Peak:		225,981	213,391		149,747	152,407		250,955	277,279
Purchased Capacity:		8,018,832	6,918,184		8,842,462	8,773,032		9,788,434	10,776,035
Subtotal	6,903,542	$9,977,251	$8,779,478	7,356,350	$11,073,317	$11,036,136	8,713,912	$12,382,784	$13,587,837
Polk County:									
Step 1 (Residential):		$2,396,286	$2,042,492		$2,467,849	$2,407,218		$2,416,938	$2,610,409
Step 2 (Commercial):		109,185	84,431		125,447	121,189		124,608	147,194
Step 3 (Industrial):		548,461	458,228		557,130	530,327		573,322	653,512
Subtotal	676,629	$3,053,932	$2,585,151	692,590	$3,150,426	$3,058,734	759,623	$3,114,868	$3,411,115
Windsor Heights:	124,073	$384,664	$327,795	124,669	$380,240	$377,901	132,058	$380,327	$411,901
Warren County:									
Step 1 (Residential):		$44,984	$33,424		$43,811	$32,062		$40,190	$38,184
Step 2 (Commercial):		5,318	2,877		8,831	5,369		13,915	11,574
Step 3 (Industrial):		1,127	306		0	0		0	0
Subtotal	4,049	$51,429	$36,607	4,104	$52,642	$37,431	5,160	$54,105	$49,758
Pleasant Hill:									
Step 1 (Residential):		$984,438	$739,370		$983,398	$741,962		$812,585	$877,857
Step 2 (Commercial):		213,964	149,413		402,824	291,008		404,892	394,831
Subtotal	236,942	$1,198,402	$888,783	249,084	$1,386,222	$1,032,970	268,375	$1,217,477	$1,272,688
Runnells:									
Water		$46,922	$42,072		$41,466	$44,777		$42,335	$49,772
Waste Water		51,547	37,964		34,293	42,589		38,245	48,191
Subtotal	9,522	$98,469	$80,036	9,530	$75,759	$87,366	9,953	$80,580	$97,963
Cumming:	9,256	$20,833	$42,262	11,059	$26,036	$51,343	14,075	$28,766	$67,967
Alleman	10,061	$55,919	$47,775	10,672	$55,825	$55,376	11,419	$49,675	$62,743
	14,576,177	$32,613,265	$28,848,969	15,167,583	$34,537,725	$33,164,585	16,855,147	$35,418,033	$37,121,186

Costs were 13.0% > revenue in 2010 | Costs were 4.1% > revenue in 2011 | Costs were 4.6% < revenue in 2012

Des Moines Water Works had a record pumpage year in 2012. Overall, the utility had an increase in consumption of 11.13%. The most significant increase over 2011 was by the Wholesale, who saw an increase of 18.45% in consumption. Des Moines Inside City consumption increased by 3.51%. A more detailed analysis of trends in cost, revenue and consumption patterns over the past five years is presented in the following section.

TRENDS AND HIGHLIGHTS

TRENDS AND HIGHLIGHTS

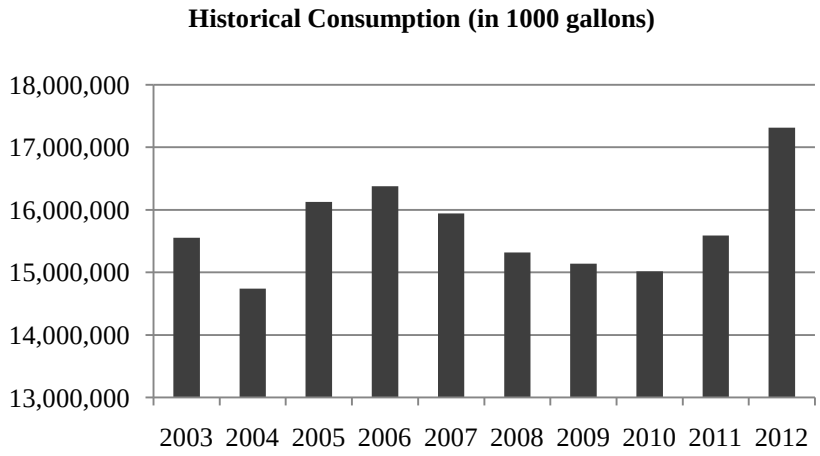
Consumption increased in all service areas in 2012. This, along with increases in per 1000 gallon rates for some service areas, increased our revenue for 2012. A series of rate increases from 2009 through 2012 has decreased the gap between costs and revenue. For the first time since 2003, DMWW revenues covered operating costs of the utility. Because of their small relative size, statistics for the Warren County, Runnells, Cumming and Alleman service areas are included with Outside City in these illustrations unless noted otherwise.

Consumption

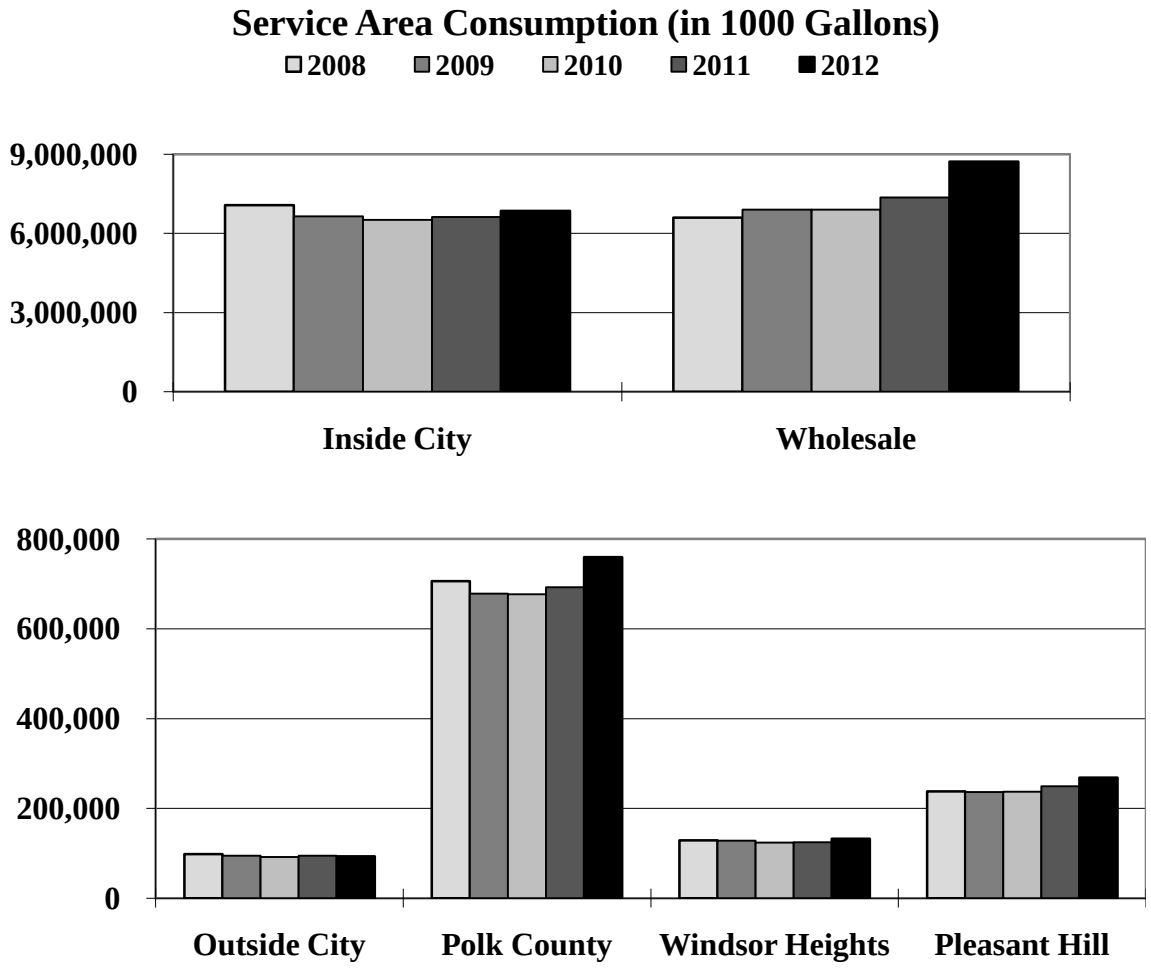
Total consumption growth had been moderate but steady until 2004, when it dropped 5.2%. After rebounding in 2005 and 2006, consumption decreased in 2007 through 2010. There was an increase in consumption across all service areas in 2012. After seeing hotter than normal temperatures and below average precipitation, 2012 was a record pumpage year.

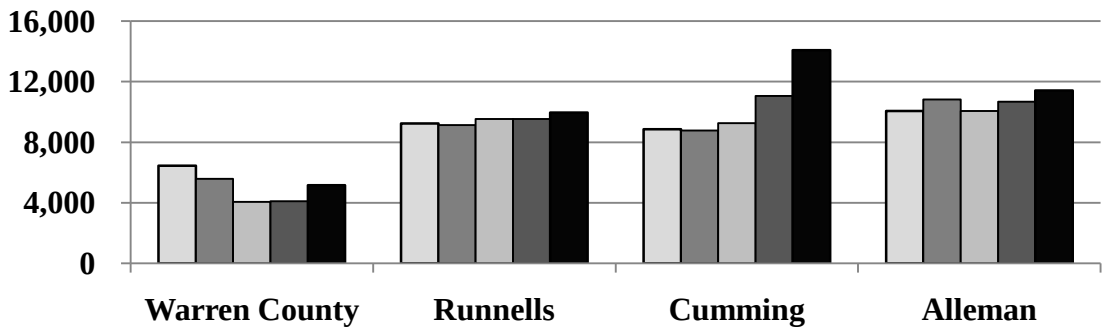
According to the National Weather Service, Des Moines experienced above normal precipitation from 2007 thru 2010. This likely contributed to lower consumption. Due to lower precipitation, 2011 was not nearly as wet as the prior four years resulting in a 4.1% increase in consumption over 2010. During 2012, Des Moines experienced lower than average precipitation with May – September precipitation being 11.47 inches less than the average for those months. Consumption in 2012 was 11.13% higher than 2011.

The chart on the following page illustrates the increased consumption in 2012 with a total of over 17.3 billion gallons of water consumed.

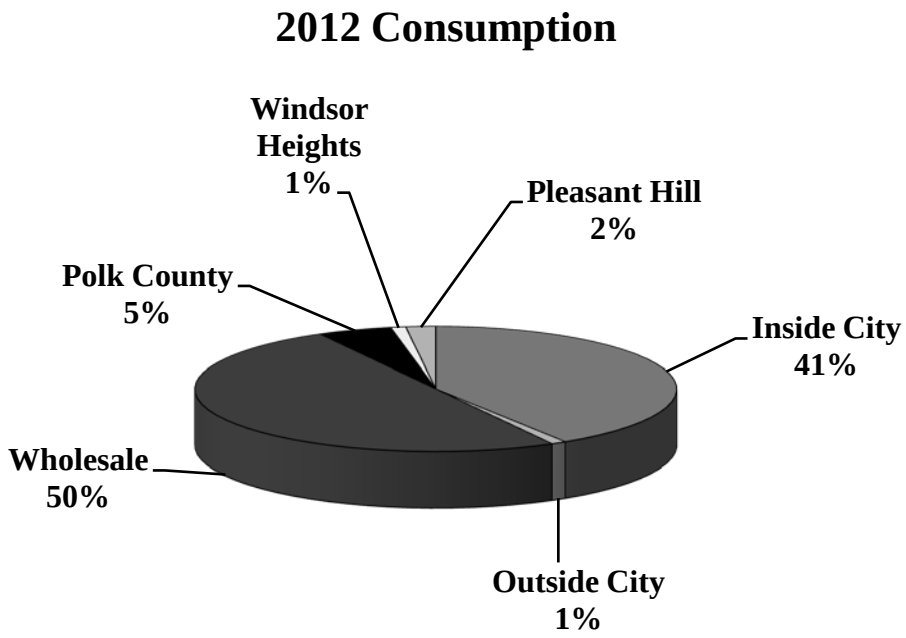


Again in 2012, there was an increase in consumption across all service areas. The charts below illustrate the consumption patterns from 2008 thru 2012.

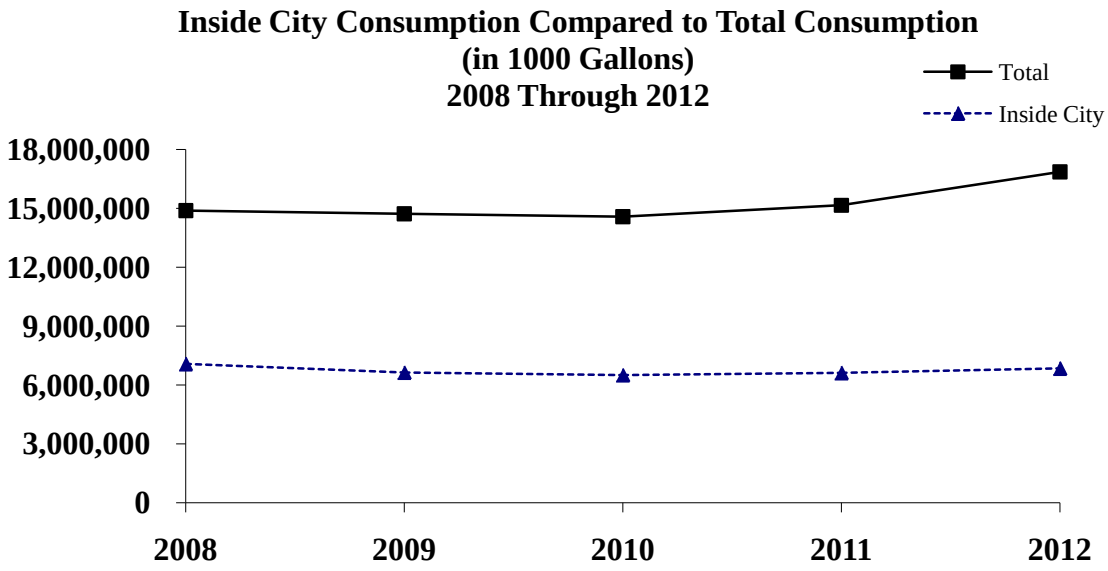




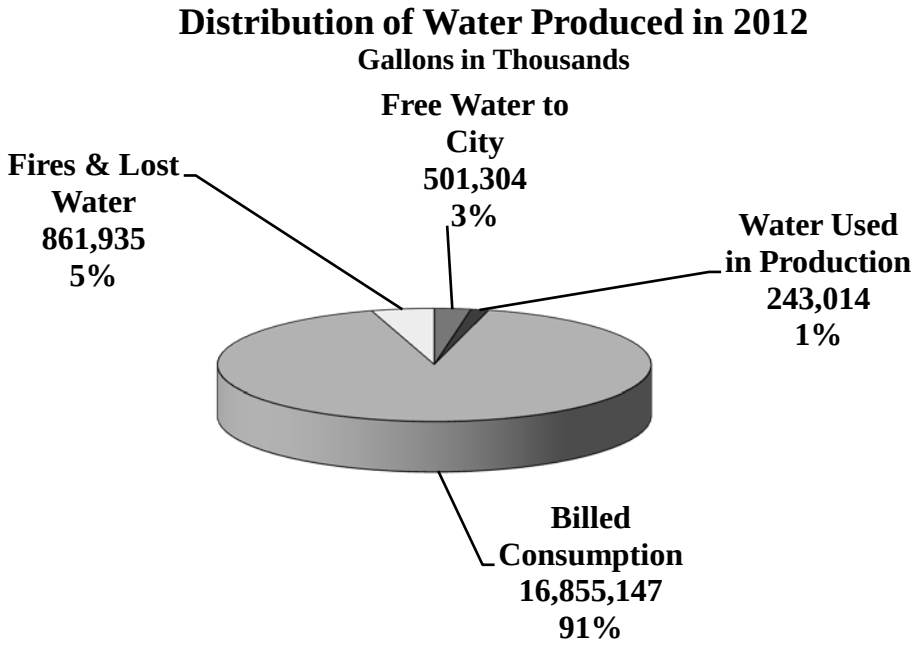
In 2012, the percentage of water billed to Wholesale customers increased 3% over 2011, up to an overall percentage of 50% of total water billed.



At 59%, sales to the aggregate of all areas outside Des Moines exceeded Inside City billed consumption which was 41% of the total. In comparison, 2011 consumption was comprised of 56% to Outside City and 44% of consumption was Des Moines Inside City.

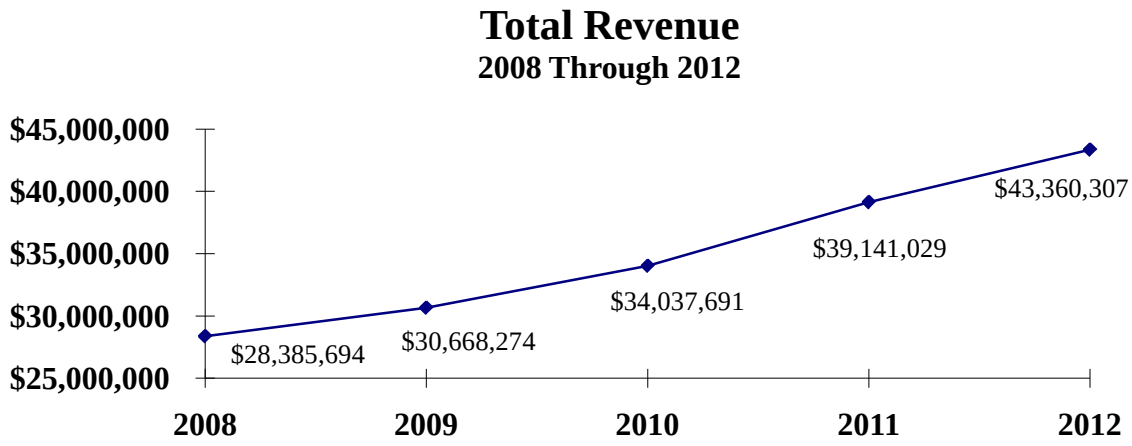


A total of 91% of water produced and pumped from the three treatment plants was billed to customers. Free water supplied to the City of Des Moines was 3% of the total and water used in production was 1% of the total. The remaining unbilled water (5%) was used in fighting fires or lost to main breaks and other leakage. This percentage is kept to a minimum by leak detection efforts. The average annual fire/lost water percentage from 2008 thru 2012 has been 7% of the total pumpage.

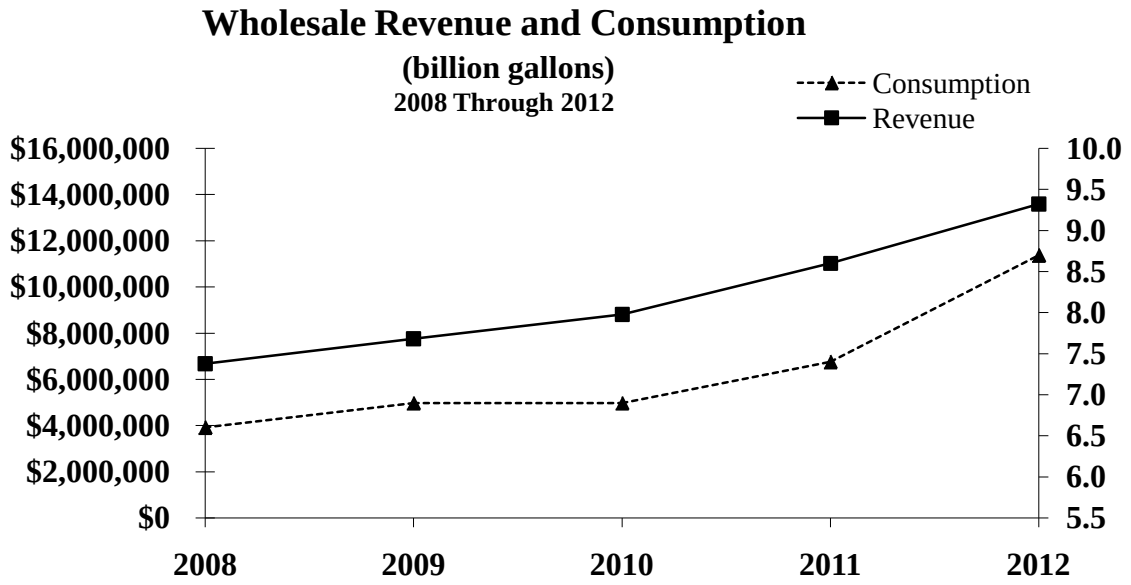


Revenue

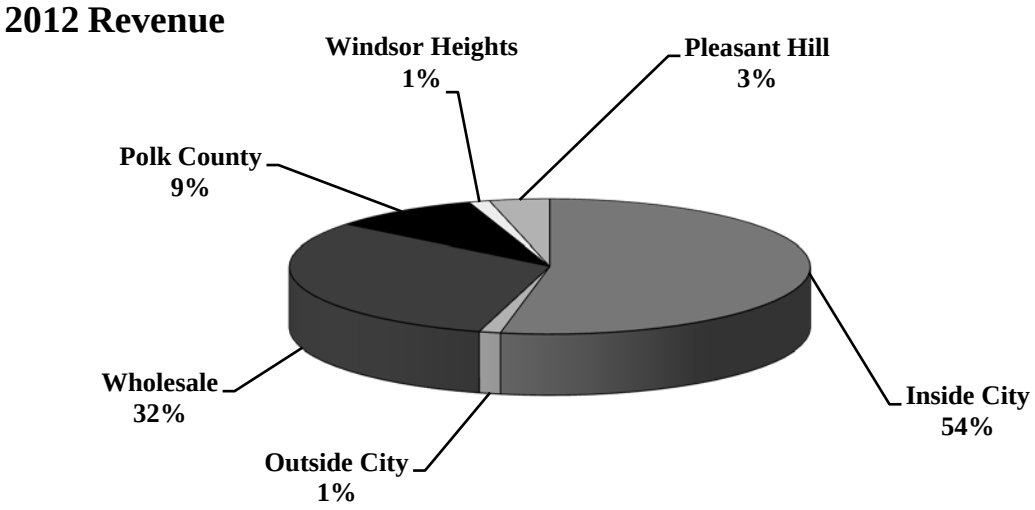
Consumption being 11.13% above 2011 coupled with rate increases in 2012 resulted in revenue that was 10.8% higher than 2011.



Revenue patterns generally follow consumption, deviating only due to changes in rates and in the relative mix of sales to each service area and rate class. The effect of the mix of consumption among rate classes was also evident for the Wholesale class. While Wholesale consumption posted an 18.5% increase for 2012, revenue for this group was 23.1% higher due to 9 months of increased rates and higher consumption. In 2012 the Purchased Capacity rate class accounted for 88.5% of Wholesale consumption at 7.7 billion gallons and with revenue of $10.8 million, nearly 80% of Wholesale total revenue.



Inside City revenue, at 54% still dominated the revenue picture in 2012. Although volume is higher outside the city (primarily in Wholesale), revenue is higher Inside City. For customers inside the City of Des Moines, as well as our other full service customers, the revenue collected covers expenses related to providing all services to these areas. This includes water production, customer service, distribution services, and administrative services. Political Subdivisions are charged a wholesale rate that includes an appropriate allocation of costs based upon the lesser level of service we provide to them. For example, we do not maintain the distribution system inside the city limits of wholesale customers and we do not provide direct customer service (such as reading meters and billing) to their customers.



Operating and Maintenance Costs

Annual operating and maintenance costs increased 4.0% in 2012 compared with the increase of 6.6% seen in 2011. All operating and maintenance costs are allocated to operational areas of cost of service; Water production, Pipelines, Customer Service and Administrative.

Water Production costs increased 6.1% in 2012. Most of this was due to an increase in treatment chemicals ($228K) and electricity ($121K) due to higher pumpage. Pipeline costs increased 7.73% during 2012, which was due in part to increases in costs ($328K) associated with higher volumes of water main breaks, including labor related costs. Administrative costs remained flat with a 0.07% decrease in expenses over 2011. Customer Service costs also remained flat with a slight increase of 0.88% over 2011. The average annual increase in total cost from 2009 to 2012 was 5.0%. The Consumer Price Index increased an average of 1.6% yearly over the same period. The table on the following page shows annual operating and maintenance costs by function from 2009 through 2012:

OPERATING & MAINTENANCE COST ALLOCATION

	2009	2010	2011	2012	% Increase 09 - 12	% Increase 11 - 12
Water Production						
Power	$1,271,814	$1,151,946	$1,192,107	$1,446,755	13.76%	21.36%
Chemicals	3,776,864	3,581,300	3,872,475	4,073,656	7.86%	5.20%
Ops, Maint.	5,124,983	5,192,814	5,391,785	5,573,439	8.75%	3.37%
Total	$10,173,661	$9,926,060	$10,456,367	$11,093,850	9.04%	6.10%
Pipelines						
Des Moines	$3,965,807	$4,139,981	$4,810,050	$5,239,247	32.11%	8.92%
Polk County	385,324	376,873	432,064	394,013	2.25%	-8.81%
Windsor Heights	41,836	31,570	34,736	40,549	-3.08%	16.73%
Pleasant Hill	68,070	58,984	74,164	88,915	30.62%	19.89%
Runnells	41,652	46,207	34,020	40,845	-1.94%	20.06%
Cumming	4,153	5,348	7,856	7,274	75.15%	-7.41%
Alleman	4,326	4,399	5,213	4,272	-1.25%	-18.05%
Total	$4,511,168	$4,663,362	$5,398,103	$5,815,115	28.90%	7.73%
Customer Service						
Des Moines	$2,762,617	$3,127,864	$3,159,432	$3,215,620	16.40%	1.78%
Polk County	294,078	321,938	335,493	341,680	16.19%	1.84%
Windsor Heights	68,525	79,779	78,973	78,903	15.14%	-0.09%
Pleasant Hill	251,820	172,333	189,296	166,242	-33.98%	-12.18%
Runnells	7,134	8,691	9,046	6,788	-4.85%	-24.96%
Cumming	3,021	5,539	6,011	4,890	61.87%	-18.65%
Alleman	4,161	9,622	8,899	6,308	51.60%	-29.12%
Total	$3,391,356	$3,725,766	$3,787,150	$3,820,431	12.65%	0.88%
General & Admin	$6,874,678	$6,992,395	$7,330,872	$7,325,816	6.56%	-0.07%
PILOT	$0	$612,680	$647,645	$675,381		4.28%
TOTAL	$24,950,863	$25,920,263	$27,620,137	$28,730,593	15.15%	4.02%

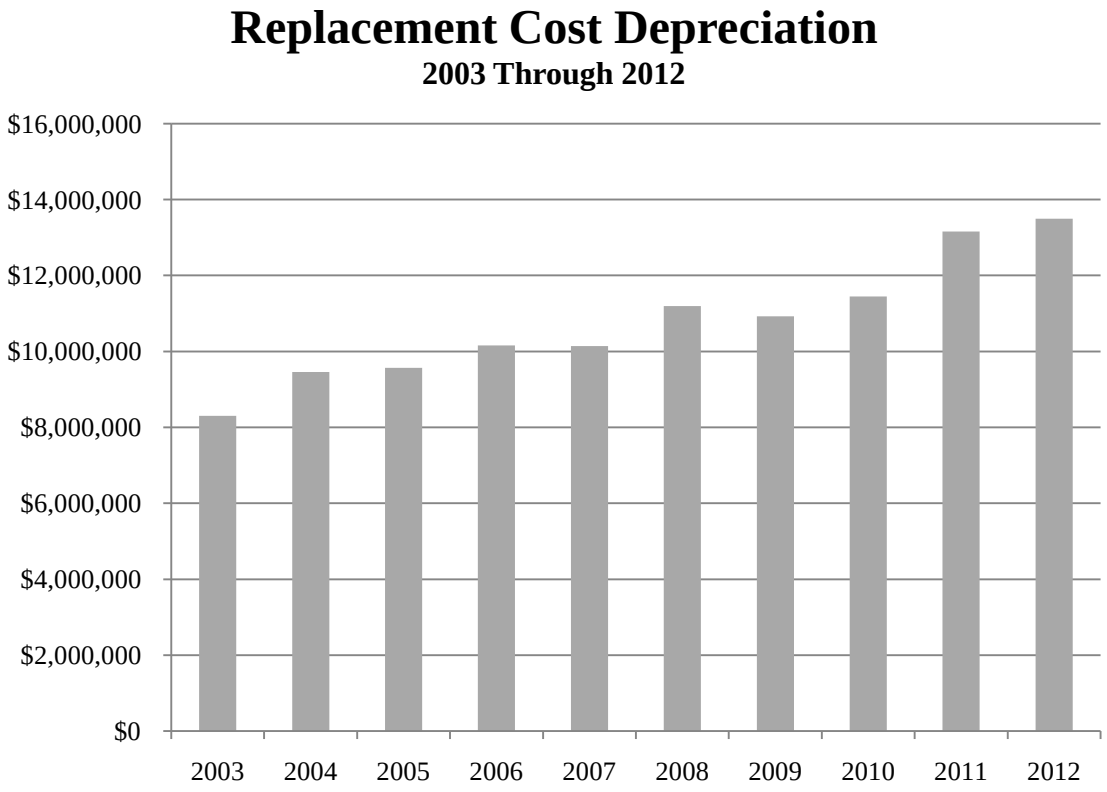
Total costs increased during the four-year period by $3.8 million and as stated above were an average 5.0% higher annually. Water Production costs were $0.9 million higher than at the beginning of the four-year period, a 3.0% average annual increase. Administrative costs, including Finance, Insurance, Information Services, Human

Resources, Engineering and Office of the CEO averaged 2.2% higher, an increase of $0.5 million from 2009 to 2012. Pipelines costs increased $1.3 million, averaging a 9.6% increase annually. Customer Service costs were $0.4 million higher over the period, increasing at an average rate of 4.2% annually.

Replacement Cost Depreciation

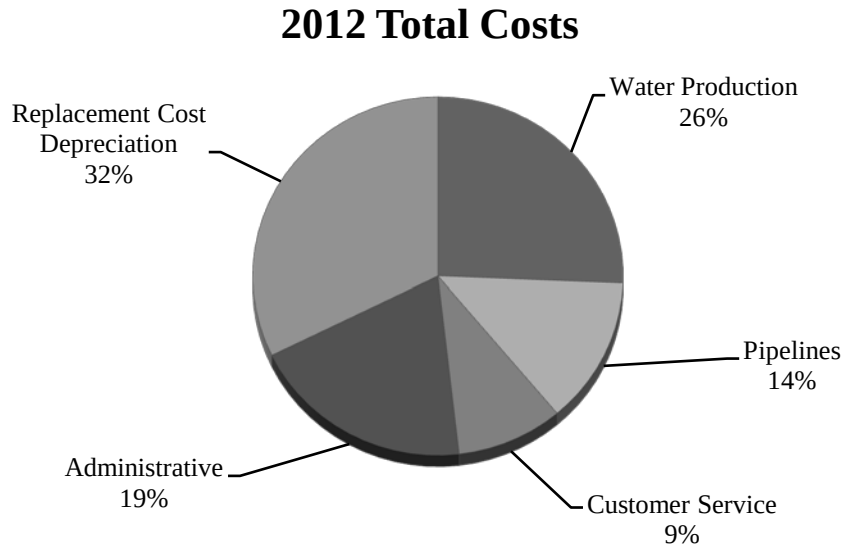
Historically the largest component of the costs to provide water to our customers has been replacement cost depreciation. DMWW includes replacement cost depreciation in our rate structure to collect funds on an ongoing basis to replace assets as opposed to borrowing money to pay for asset replacement.

The chart on the following page shows replacement cost depreciation for the years 2003 through 2012. Over this period, replacement cost depreciation has grown from $6 million to approximately $13 million and it will likely continue to grow. Two factors contribute to the continued increases: the addition of assets and the increase in the *Engineering News Record* Construction Cost Index (ENR CCI). The ENR CCI has increased every year since 1935. Over the last 10 years, we have averaged over $10 million dollars in yearly asset additions. The water industry relies heavily on infrastructure and keeping the infrastructure in good condition requires ongoing reinvestment.

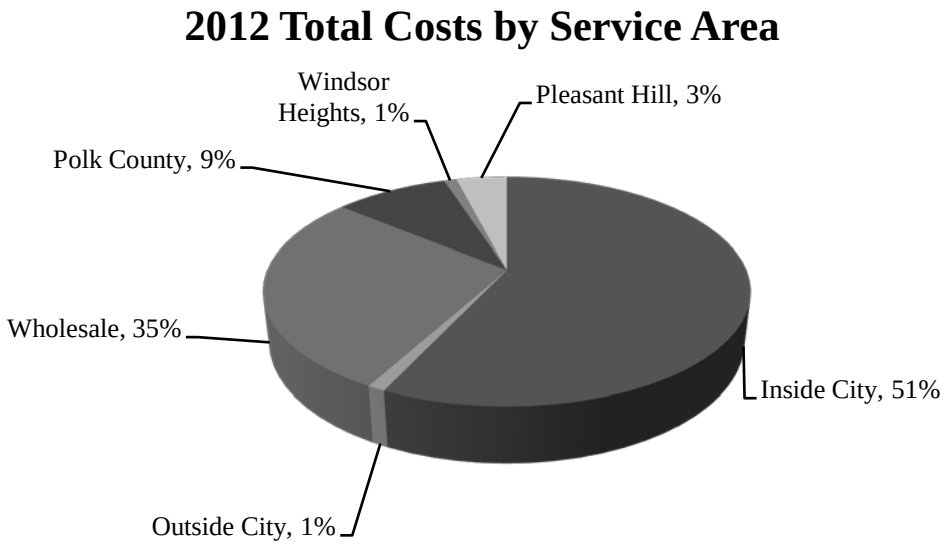


Overall Cost Analysis

The total distribution of costs in 2012 changed slightly, with an increase in pipeline cost up 1% to 14% of total. Water Production, Customer Service and Replacement Cost Depreciation all remained flat for 2012. Administrative costs went down 1% to 19% of total costs.



The following chart shows the 2012 Total Costs allocated to the various service areas. This chart is similar to the 2012 Revenue chart on page 14. This is to be expected as rates are established based on costs.



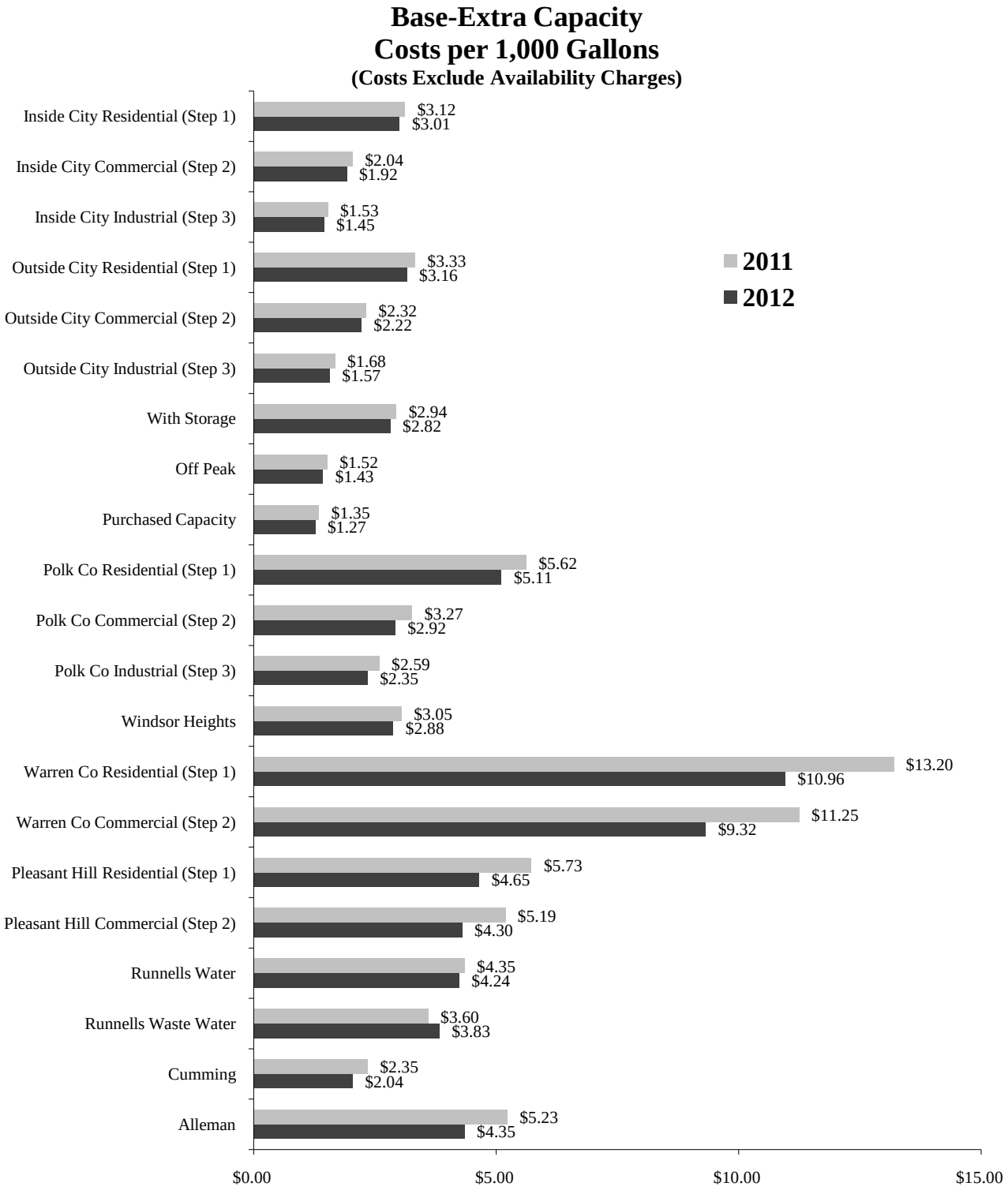
Costs per 1,000 Gallons

The 4.02% increase in operating and maintenance costs along with a 2.55% increase in capital replacement costs results in a net 3.54% increase in overall costs. The Construction Cost Index used to measure the relative change in capital replacement costs increased 2.62% in 2012.

Earnings on invested reserves influenced the return on invested capital. For 2012, the rate of return used in this study is 5.00%.

The chart (on page 21) of costs per 1,000 gallons compares the complete results of the base extra capacity allocation method from the 2012 Study with the corresponding results from the 2011 Study. As previously stated costs per 1,000 gallons were lower across the board because of increased consumption.

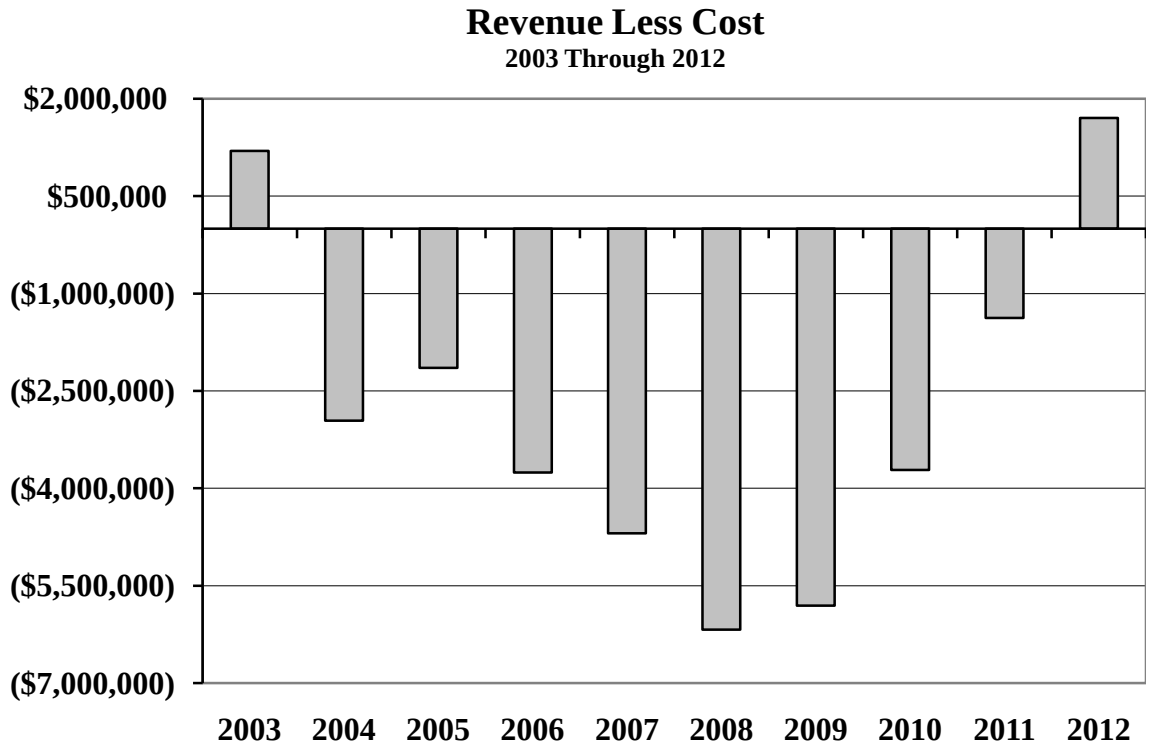
Costs in the Residential rate class ranged from 3.5% lower for Des Moines Inside City to 18.8% lower for Pleasant Hill. Costs in the Commercial rate class per 1,000 gallons saw lower costs as well from Outside City being 4.3% lower and Pleasant Hill having 17.1% lower costs. The Industrial rate class showed decreases with Des Moines Inside City down 5.2%. Wholesale costs per 1,000 gallons were lower by 5.9% for Purchased Capacity, 5.9% for Off Peak and 4.1% for With Storage.


Base-Extra Capacity
Costs per 1,000 Gallons
(Costs Exclude Availability Charges)
2011
2012
Inside City Residential (Step 1) $3.12 $3.01
Inside City Commercial (Step 2) $2.04 $1.92
Inside City Industrial (Step 3) $1.53 $1.45
Outside City Residential (Step 1) $3.33 $3.16
Outside City Commercial (Step 2) $2.32 $2.22
Outside City Industrial (Step 3) $1.68 $1.57
With Storage $2.94 $2.82
Off Peak $1.52 $1.43
Purchased Capacity $1.35 $1.27
Polk Co Residential (Step 1) $5.62 $5.11
Polk Co Commercial (Step 2) $3.27 $2.92
Polk Co Industrial (Step 3) $2.59 $2.35
Windsor Heights $3.05 $2.88
Warren Co Residential (Step 1) $13.20 $10.96
Warren Co Commercial (Step 2) $11.25 $9.32
Pleasant Hill Residential (Step 1) $5.73 $4.65
Pleasant Hill Commercial (Step 2) $5.19 $4.30
Runnells Water $4.35 $4.24
Runnells Waste Water $3.60 $3.83
Cumming $2.35 $2.04
Alleman $5.23 $4.35
$0.00
$5.00
$10.00
$15.00

FUTURE CONSIDERATIONS

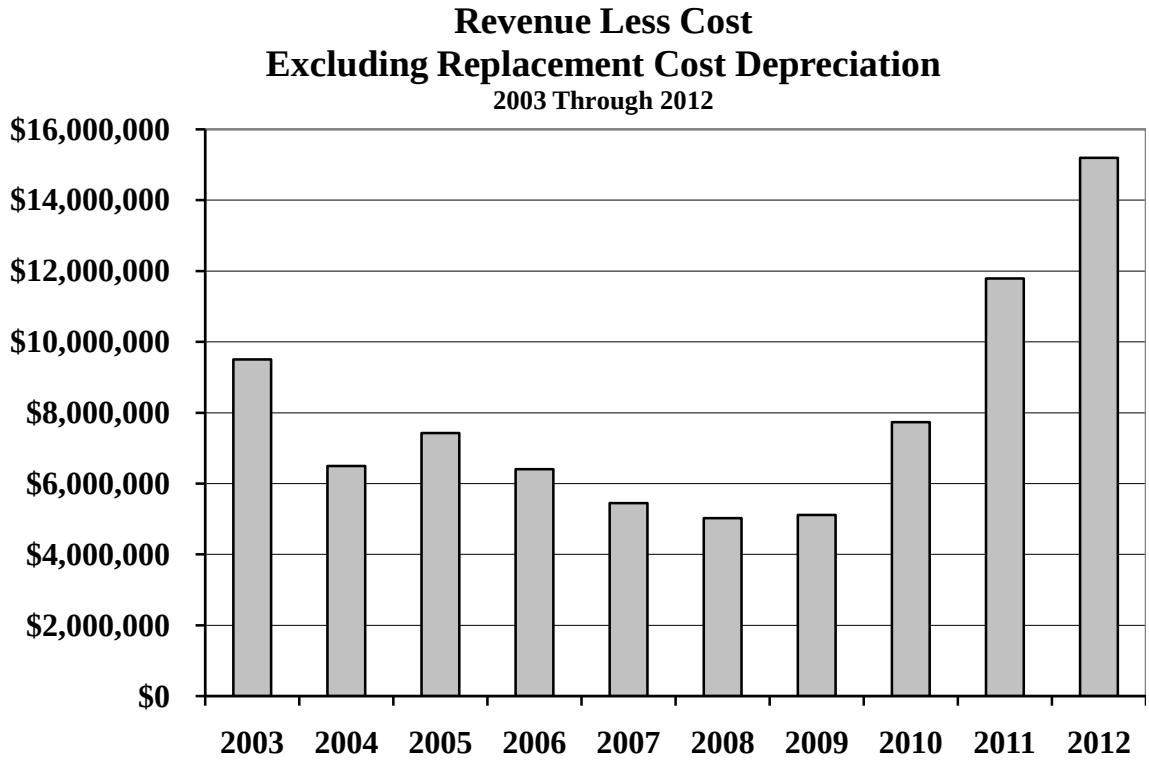
FUTURE CONSIDERATIONS

For the first time since 2003, revenues exceeded costs. The chart below shows that the gap between revenue and expenses grew in the years 2006 through 2008. A series of rate increases decreased the gap in the years 2009 through 2011. In 2012, the combination of increased pumpage and a rate increase (implemented in April) were contributing factors in no longer having a deficit.



The deficit amounts include replacement cost depreciation. Although replacement cost depreciation is a key component of our strategic objective to maintain our infrastructure, it should be noted that in the years where there was an overall deficit, our revenue more than covered our operating costs.

By comparison, the chart below shows revenue less costs, excluding replacement cost depreciation.



To look ahead at estimated 2013 cost of service, we normalized 2012 by removing increases in O & M expenses that are impacted by increased pumpage, primarily treatment chemicals and energy. We then took this normalized 2012 cost and multiplied it by the average increase in O & M expenses for the prior three years. This is simply an estimate based on recent history.

Service Area	2012 COS	2013 Rate	Estimated 2013 COS
Inside City			
Step 1	3.01	3.03	3.33
Step 2	1.92	2.03	2.18
Step 3	1.45	1.56	1.64
Outside City			
Step 1	3.16	3.29	3.56
Step 2	2.22	2.47	2.48
Step 3	1.57	1.76	1.80

Service Area	2012 COS	2013 Rate	Estimated 2013 COS
Wholesale			
Purch. Capacity	1.27	1.40	1.44
With Storage	2.82	3.05	3.14
Off Peak	1.43	1.58	1.63
Polk County			
Step 1	5.11	5.95	6.10
Step 2	2.92	3.65	3.53
Step 3	2.35	2.85	2.79
Windsor Heights	2.88	3.08	3.26
Warren County			
Step 1	10.96	11.16	14.11
Step 2	9.32	8.20	12.03
Pleasant Hill			
Step 1	4.65	5.54	5.52
Step 2	4.30	4.68	5.33
Runnells			
Water	4.24	5.26	4.65
Waste Water	3.83	5.70	3.85
Cumming	2.04	5.17	5.26
Alleman	4.35	5.87	5.97

Another component to anticipated costs is the availability costs and their associated charges to customers. The chart on the following page illustrates the variances between the Availability Charges and Availability Costs for 5/8" meters. The difference between the charge and cost are allocated in the per thousand gallon rate to the individual service areas.

Comparison of Availability Charges to Availability Costs 5/8" Meters

Service Area	Current Availability Charge*	2012 Availability Cost
Des Moines Inside City	$6.00	$8.96
Des Moines Outside City	8.00	14.63
Polk County	7.00	12.70
Windsor Heights	6.00	8.11
Warren County	8.00	10.85
Pleasant Hill	10.00	8.57
Runnells	6.00	13.21
Cumming	9.00	7.39
Alleman	6.00	6.49

*Based upon rates effective 4/1/13

Conclusion

The 2012 reduction in cost per 1000 gallons is a result of record pumpage. We do not expect to see this level of pumpage from year to year. Operating costs continue to increase, including in areas not directly impacted by increased pumpage, such as Pipelines and Customer Service. Capital replacement costs will continue to increase as a result of asset additions and continued increases in the ENR cost index.