

Exhibit No.: 124
Issues: Rate Base, Income Statement
Adjustment, Regulatory Expense, Lease
Expense, Main Break Expense,
Transportation Expense, Property Tax
Expense, PSC Assessment Expense,
Depreciation Expense, Postage
Expense, Hydrant Painting Costs
Witness: Regina C. Tierney
Exhibit Type: Direct
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2010-XXXX
SR-2010-XXX
Date: October 30, 2009

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2010-XXXX
CASE NO. SR-2010-XXX**

DIRECT TESTIMONY

OF

REGINA C. TIERNEY

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

MAWC Exhibit No. 124
Date 5-17-10 Reporter KF
File No. WR-2010-0131

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-2010-XXXX CASE NO. SR-2010-XXX
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AFFIDAVIT OF REGINA C. TIERNEY

Regina C. Tierney, being first duly sworn, deposes and says that she is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Regina C. Tierney"; that said testimony and schedules were prepared by her and/or under her direction and supervision; that if inquires were made as to the facts in said testimony and schedules, she would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of her knowledge.

Regina C. Tierney
Regina C. Tierney

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 20th day of October 2009.

Stacia A. Olsen
Notary Public

My commission expires:



**DIRECT TESTIMONY
REGINA C. TIERNEY
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR.2010.XXXX
SR.2010.XXX**

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DIRECT TESTIMONY

Regina C. Tierney

I. WITNESS INTRODUCTION

1

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Regina C. Tierney, and my business address is 727 Craig Road,
4 St. Louis, Missouri 63141.

5

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

7 A. I am employed by American Water Works Service Company ("Service
8 Company") as a Financial Analyst II in Rates & Regulation. The Service
9 Company is a subsidiary of American Water Works Company, Inc.
10 ("American") that provides support services to American's water utility
11 subsidiaries.

12

13 **Q. WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL
14 BACKGROUND?**

15 A. I graduated from the University of Missouri, Columbia in 1989 with a Bachelor
16 of Science Degree in Accountancy.

17

18 **Q. PLEASE ELABORATE UPON YOUR DUTIES AS A FINANCIAL ANALYST,
19 RATES AND REGULATION.**

20 A. My responsibilities as a Financial Analyst, Rates & Regulation involve
21 providing the following services to American's water utility subsidiaries in the

1 Central Region, including Missouri-American Water Company ("MAWC" or
2 "Company"):

3 1) Preparing and presenting rate increase applications and supporting
4 documents and exhibits in conformance with management policies, guidelines
5 and regulatory commission requirements;

6 2) Preparing rate analyses and studies to evaluate the effect of proposed
7 rates on the revenues, rate of return and tariff structures;

8 3) Executing the implementation of rate orders, including development of
9 the revised tariff pricing necessary to produce the proposed revenue level;

10 4) Preparation of Data Request responses.

11

12 **Q. HAVE YOU PREVIOUSLY PARTICIPATED IN REGULATORY MATTERS?**

13 **A.** Yes. I have presented testimony before the Iowa Utilities Board.

14

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

16 **A.** The purpose of my testimony is to support and explain certain pro forma
17 accounting adjustments to pro forma Rate Base and to the statement of
18 income.

19

20

21 **II. ACCOUNTING ADJUSTMENTS**

22 **(1) RATE BASE**

23

Q. WHAT SCHEDULES WILL YOU BE DISCUSSING?

1 A. I will be discussing and providing support for certain aspects of Schedules
2 CAS-1, and CAS-3 through CAS-7, which are sponsored by Company
3 Witness Petry.

4
5 **Q. WHICH COMPONENTS OF RATE BASE WILL YOU BE SUPPORTING?**

6 A. I will be supporting Working Capital, Utility Plant In Service (UPIS),
7 Accumulated Reserve, Customer Advances, Contributions In Aid of
8 Construction (CIAC), Deferred Investment Tax Credit (ITC), Prepayments,
9 Materials and Supplies, OPEBs, Deferred Income Taxes, Pension
10 Liability, and deferred Security Asset Costs.

11
12 **Q. PLEASE DISCUSS THE CALCULATION OF EACH OF THE ABOVE**
13 **MENTIONED RATE BASE COMPONENTS.**

14 A. The Company's rate base is shown on CAS-3 for each district and
15 includes the actual June 30, 2009 balance for Utility Plant in Service
16 (UPIS), Accumulated Reserve, Customer Advances, Contributions in Aid
17 of Construction (CIAC), and Deferred ITC. Schedules CAS-4 through
18 CAS-7 for each district contain additional detail for UPIS, Accumulated
19 Reserve, Customer Advances, CIAC, and Working Capital. UPIS is
20 updated for true-up additions and retirements through April 30, 2010 as
21 shown on CAS-4. Accumulated Reserve is updated for true-up
22 retirements and depreciation through April 30, 2010, utilizing depreciation
23 rates prepared in a study by Mr. John Spanos. The adjustments for
24 Accumulated Reserve are summarized on schedule CAS-5. Customer

1 Advances and CIAC were updated for true-up advances and contributions
2 through April 30, 2010. The Customer Advances and CIAC proforma
3 adjustments are summarized on schedule CAS-6. The CIAC and
4 Deferred ITC were updated for the amortization through April 30, 2010. In
5 addition, expired Customer Advances were moved to CIAC within the true-
6 up period. Prepayments and Material and Supplies are based on a 13-
7 month average of actuals ending June 30, 2009. The post-employment
8 benefits ("OPEBs") contributed to external funds included permanent
9 investment recognized by the Commission in Case No. WR-95-205. Also
10 included is investment for additional contributed OPEBS as of June 30,
11 2009, updated with amortizations through April 30, 2010. Deferred taxes
12 were calculated based on all UPIS at April 30, 2010, which is the
13 proposed true-up date. Pension Liability reflects the amount of pensions
14 accrued, and reduced for any payments. Finally, the unamortized
15 deferred cost associated with the Company's security efforts was included
16 in Rate Base. These costs are being amortized over a ten year period as
17 directed in Case No. WO-2002-273.

18
19 **Q. PLEASE DISCUSS WORKING CAPITAL.**

20 A. Working capital is included in a utility's rate base to help compensate
21 investors for the lag between the time utility service is rendered to the
22 customer and the time it takes to collect revenues from the customer to
23 pay for the service. In other words, investors had to provide "upfront"
24 capital to fund the daily operations of the business before customers pay

1 their bills. The working capital calculation can also properly reflect the
2 impact of the delay in receiving revenues from customers and the
3 disbursement of cash for expenses.

4 The Company has used a Lead/Lag method to calculate its working capital
5 requirement. The Company and the Missouri Staff have used this method in
6 the last several rate cases. The Lead/Lag calculation utilized in this case
7 came from a study performed this year. Working capital can be found on
8 schedule CAS-7 for each district.

9
10 **INCOME STATEMENT ADJUSTMENTS**

11 **Q. WHAT SCHEDULE WILL YOU BE DISCUSSING?**

12 A. I will be discussing certain aspects of Schedule CAS-15, which is sponsored
13 by Company Witness Petry. Specific operating and maintenance accounting
14 adjustments that I will sponsor are Regulatory Expense, Lease Expense,
15 Mainbreak Expense, Transportation Expense, Property Tax Expense, PSC
16 Assessment Expense, Depreciation Expense, Postage Expense, and Hydrant
17 Painting Costs.

18
19 **(2) REGULATORY EXPENSE**

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

22 A. The purpose of this adjustment is to annualize rate case expense for the
23 costs related to this rate filing. Estimated costs related to the rate filing
24 include legal fees, consultant's cost, travel expenses, and other expenses.

1 It is being proposed that these costs be amortized over a two-year period.
2 The pro forma expense is \$64,883. The pro forma cost includes the
3 unamortized balance of the costs from Case No. WR-2007-0216, Case
4 No. WR-2008-031 and an estimate for the new rate case costs. The
5 details of this adjustment can be found at Schedule CAS-15, page 10.
6

7 **(3) LEASE EXPENSE**

8 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
9 **RELATED TO LEASES.**

10 **A.** The Company pays rental on railroad crossings, rights of way, and various
11 office and plant equipment. The pro forma adjustment is to annualize lease
12 expenses expected to be in effect by April 30, 2010. The summary of this
13 adjustment can be can be found on Schedule CAS-15, page 13.
14

15 **(4) MAIN BREAK EXPENSE**

16 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
17 **RELATED TO MAIN BREAK EXPENSE FOR THE ST. LOUIS**
18 **DISTRICT.**

19 **A.** The purpose of this adjustment is to annualize main break expense to a
20 normalized, pro forma level based on a review of historical main breaks
21 and the cost to repair the breaks. The Company is proposing an increase
22 of test year main break expense for the St. Louis District in the amount of
23 \$225,561. The Company is proposing an increase in main break incidents
24 in the test year from 819 to 1,208, but the cost for the paving of main

1 breaks has decreased. Actual test year paving cost per main break that
2 requires paving was \$2,257. The Company is proposing a decrease in
3 paving cost per break that requires street repair to be \$1,717. The details
4 of this adjustment can be found at Schedule CAS-15, page 14.
5

6 **(5) TRANSPORTATION EXPENSE**

7 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
8 **RELATED TO TRANSPORTATION.**

9 A. The Company has calculated its pro forma Transportation expense based on
10 changes in leased vehicle levels expected to occur by April 30, 2010. Gross
11 vehicle cost was applied to the O&M percentage to obtain the O&M expense
12 used in the adjustment. The summary of this adjustment can be can be found
13 on Schedule CAS-15, page 15.
14

15 **(6) PROPERTY TAX EXPENSE**

16 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
17 **RELATED TO PROPERTY TAX EXPENSE.**

18 A. The purpose of this adjustment is to annualize property tax expense to a
19 pro forma expense based on the level of Utility Plant in Service included in
20 the Companies' pro forma rate base. The details of this adjustment can
21 be found at Schedule CAS-15, page 17.
22
23
24

1 **(7) PSC ASSESSMENT EXPENSE**

2 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
3 **RELATED TO PSC ASSESSMENT.**

4 **A.** The purpose of this adjustment is to annualize the PSC assessment. The pro
5 forma amount is based on the latest known assessment rate applied to the
6 pro forma present rate water revenues. The summary of this adjustment can
7 be can be found on Schedule CAS-15, page 18.

8
9 **(8) DEPRECIATION EXPENSE**

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

12 **A.** The calculation is based on a true-up of Utility Plant In Service (UPIS) through
13 April 30, 2010. Depreciation rates from a study performed by Mr. John
14 Spanos were used to calculate the depreciation on the true-up UPIS. The
15 summary of this adjustment can be can be found on Schedule CAS-15, page
16 22.

17
18 **(9) POSTAGE EXPENSE**

19 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
20 **RELATED TO POSTAGE EXPENSE.**

21 **A.** The purpose of this adjustment is to annualize postage expense of mailing
22 bills and customer notices. The Pro Forma adjustment for Postage
23 Expense was calculated by applying the current postal rates to the

1 number of test year mailings. The summary of this adjustment can be
2 found on Schedule CAS-15, page 23.

3
4 **(10) HYDRANT PAINTING COSTS**

5 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
6 **RELATED TO HYDRANT PAINTING COSTS.**

7 A. The purpose of this adjustment is to reflect an annual level of hydrant
8 painting costs necessary to sand blast and paint one-third of the hydrants
9 in the St. Louis County District that were installed prior to 1980. There are
10 approximately 17,000 hydrants that were painted with a lead based paint
11 that the Company is proposing to remove and repaint. The annual
12 expense we expect to incur by April 30, 2010 is \$200,000. The details of
13 this adjustment can be found at Schedule CAS-15, page 25.

14
15 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

16 A. Yes it does.