

Exhibit No.:
Issue: *Rate Case Expense; PSC
Assessment CWC-STL Metro*
Witness: *Jermaine Green*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *WR-2010-0131*
Date Testimony Prepared: *April 15, 2010*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

JERMAINE GREEN

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2010-0131

Jefferson City, Missouri
April, 2010

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OF
JERMAINE GREEN
MISSOURI-AMERICAN WATER COMPANY,
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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **JERMAINE GREEN**

4 **MISSOURI-AMERICAN WATER COMPANY**

5 **CASE NO. WR-2010-0131**

6 Q. Please state your name and business address.

7 A. Jermaine Green, P.O. Box 360, Jefferson City, Missouri 65102.

8 Q. Are you the same Jermaine Green who also prepared testimony on various
9 issues in the Staff's Cost of Service Report filed in relation to this proceeding?

10 A. Yes I am.

11 Q. What is the purpose of your rebuttal testimony?

12 A. The purpose of this rebuttal testimony is to address the direct testimony of
13 Missouri-American Water Company's (MAWC or Company) witness Regina C. Tierney
14 regarding rate case expense and Missouri Public Service Commission (Commission or PSC)
15 Assessment expense. I will also address the direct testimony of the
16 Office of Public Counsel's (OPC) witness Ted Robertson regarding rate case expense.
17 Finally, I will address a change in the Missouri Public Service Commission Staff's (Staff)
18 calculation of the revenue lag for the St. Louis Metro District.

19 **RATE CASE EXPENSES**

20 Q. What costs are included in rate case expense?

1 A. Rate case expense includes legal fees from outside counsel, expert witness
2 fees, postage expenses and the costs incurred by Company personnel to attend case related
3 activities, including meals and lodging.

4 Q. What is the Staff's position regarding rate case expenses?

5 A. The Staff believes a company should be allowed to include in its cost of
6 service expenses that are both known and measurable, reasonable, necessary and prudently
7 incurred as they relate to the current case before the Commission.

8 Q. What is the Company's position?

9 A. It is the Staff's understanding that the Company is proposing a two-year
10 amortization of their estimated current rate case expenses, as well as the inclusion of the
11 unamortized balance for rate case expenses from Case No. WR-2007-0216 and
12 Case No. WR 2008-0311.

13 Q. Does the Staff agree with the Company's position?

14 A. The Staff only agrees with the first part of the Company's proposal, which is to
15 perform a review of their estimated current rate case expenses. The Staff proposes a two-year
16 normalization of the estimated current rate case expenses allowed, verses the Company's
17 proposal to amortize their estimated current rate case expenses.

18 Q. What is the difference between normalization and amortization?

19 Normalizing is to restate abnormal test year results to a normal ongoing level, while
20 amortization is to provide a recovery of the expense over a set time period.

21 Q. Does the Staff support the Company's proposal to recover the unamortized
22 balances of rate case expense from the previous rate cases, Case Nos. WR-2007-0216 and
23 WR-2008-0311?

1 A. No. The Staff does not believe that it is appropriate to allow the inclusion of
2 past rate case expenses in calculation of current rates. The Staff believes rate case expense
3 was a normalized expense in both Case No. WR-2007-0216 and WR-2008-0311 instead of an
4 expense which was to be amortized and recovered over a certain time.

5 Q. Specifically, how does the Staff arrive at their recommendation for the
6 recovery of rate case expense?

7 A. The Staff recommends recovery in rates by performing a two-year
8 normalization of rate case expenses that are known and measurable, reasonable, necessary and
9 prudent, and disallows the Company's amounts related to past rate proceedings.

10 Q. What has been the Commission's past precedent concerning the recovery of
11 rate case expense?

12 A. The Commission in a number of past proceedings has agreed with the Staff's
13 normalized rate case expense methodology, specifically in the Report and Order in
14 Case No. WR-83-14 (Missouri Cities Water), the Commissions stated that:

15 Rate case expenses are not extraordinary expenses which should be
16 amortized, but are ordinary expenses which should be included in a
17 Company's cost of service at a reasonable level calculated upon
18 historic data, adjusted if necessary for known and measurable changes.

19 The order also went on to state the following:

20 To provide for the recovery of past rate case expenses, as proposed by
21 the company, could constitute retroactive ratemaking, which is
22 prohibited by State ex rel. Utilities Consumer Council of Missouri v.
23 Public Service Commission of Missouri, 585 S.W.2d 41, 59
24 (Mo. En banc 1979). See also Martigney creek Sewer Company, Mo.
25 PSC Case No. SR-83-166 (Report and Order issued March 4, 1983).

26 Q. What is OPC witness Ted Robertson's position regarding rate case expense?

27 A. Mr. Robertson advocates that all costs incurred by MAWC in this proceeding
28 for outside consultant and legal counsel be disallowed. Then, 50% of the remainder of the

1 Company's prudent, reasonable and necessary rate case expenses should be recovered in
2 rates, with the remaining half being treated below-the-line as the responsibility of
3 MAWC's shareholders.

4 Q. What is the Staff's position on rate case expense?

5 A. The Staff understands that a regulated utility is entitled, under traditional
6 ratemaking concepts, to rates that allow an opportunity for recovery of all reasonable and
7 prudent amounts expended in providing utility service to customers. This opportunity extends
8 to costs incurred by the utility to set new rates within the established regulatory process in
9 Missouri. The general rules governing rate case expense provide that those expenses that are
10 known and measureable, reasonable, necessary and prudently incurred in the preparation and
11 presentation of a company's rate case may be included in the allowable expenses of the
12 company. Staff typically normalizes rate case expenses for a rate case over a time period,
13 depending on the average time between a company's prior and future rate case filings. The
14 Staff, however, believes it is inappropriate to allow specific recovery in rates of amounts
15 related to prior case proceedings. The Staff's position is to recommend recovery in rates of
16 normalized rate case expenses only on a prospective basis.

17 Q. Does Staff believe MAWC should not be allowed to use outside consultants
18 and legal counsel to support its rate case?

19 A. No, as long as the expenses incurred are known and measurable, reasonable,
20 necessary and prudently incurred. Utilities should have reasonable discretion to hire outside
21 consultants and legal counsel in rate proceedings before this Commission.

22 Q. Does the Staff believe that rate case expenses should be assigned in part to
23 utility shareholders by denying the cost recovery in rates?

1 A. No. The Staff believes that, under the regulatory system in this jurisdiction,
2 the overriding purpose of which is to protect the public interest, a utility is required to incur
3 certain costs in attempting to establish new rates, which reflect the Company's cost of
4 providing service to its customers. Given this fact, rate case expenses are just one of the
5 many necessary costs for utilities to incur in providing utility service, and prudent rate case
6 expenses should be included in a utility's cost of service for purposes of setting rates.

7 **PSC ASSESSMENT**

8 Q. What is the Company's position on PSC Assessment?

9 A. The Company is proposing an adjustment to the PSC Assessment by using the
10 most current PSC Assessment ratio which is then applied to their proposed revenues in
11 this case.

12 Q. Does the Staff agree with the Company's position?

13 A. No. The Staff believes there is no exact correlation between revenues and the
14 PSC Assessment. The calculation of the PSC Assessment for each utility is determined by
15 many factors other than just revenues.

16 Q. How is the PSC Assessment calculated?

17 A. First an estimate of the expenses the Commission will incur in the next fiscal
18 year is determined. Then, the total expense of the Commission is generally allocated to each
19 industry (electric, gas, water, telecommunications and sewer) based upon the total number of
20 hours worked in those industries by the Commission's Staff. Then the amount generally
21 allocated to each industry is specifically allocated by the revenues of each company within
22 the industry.

1 There are certain hours worked that cannot be attributed to any given industry. These
2 hours are considered a “common” cost and are re-allocated to the industries based on the
3 percentage of revenues collected by each industry.

4 Q. Is it possible for a company’s PSC Assessment to increase at the same time
5 the company’s revenues decrease?

6 A. Yes. For example, the Commission allocates its estimated expenses based
7 upon the total number of hours worked in each industry, thus if the Staff incurred more hours
8 in one industry due to changes regarding the regulation of such industry the company’s PSC
9 Assessment may increase. With such, a company’s percentage of the allocation of the costs
10 for that industry may decrease due to another company’s increasing revenues within
11 that industry.

12 **METHODOLOGY CHANGE IN CWC REVENUE LAG FOR ST. LOUIS METRO**

13 Q. Have there been any modifications to the Staff’s position on the
14 Cash Working Capital (CWC) Revenue Lag for the St. Louis Metro District (St. Louis County
15 and St. Charles County)?

16 A. Yes. St. Louis Metro District (SLM) differs from the other districts because
17 they currently have monthly and quarterly billed customers, whereas the others districts only
18 have monthly. Therefore, after discussions with Company, and reviewing the service
19 information, the Staff has changed its service lag to account for the Company’s quarterly
20 billing and service periods. The service lag is only one component of the revenue lag. For a
21 complete description of the components of a revenue lag, please see the
22 Staff’s Cost of Service Report at page 41. The Staff used a weighted average based upon the
23 percentage of revenues for the SLM District’s monthly and quarterly billed customers to

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1 arrive at 37.43 service lag days. In Staff's direct Cost of Service Report, the Staff used
2 15.21 service lag days, which was based upon the monthly billings and did not include the
3 quarterly billings.

4 Q. Does this conclude your rebuttal testimony?

5 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

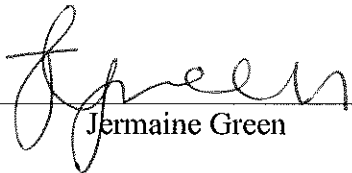
In the Matter of Missouri-American Water)
Company's Request for Authority to Implement a)
General Rate Increase for Water and Sewer)
Services Provided in Missouri Service Areas)

Case No. WR-2010-0131

AFFIDAVIT OF JERMAINE GREEN

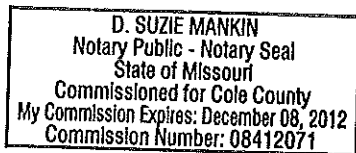
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

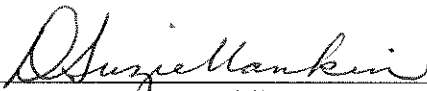
Jermaine Green, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



Jermaine Green

Subscribed and sworn to before me this 15th day of April, 2010.





Notary Public