Exhibit No.:	
Issue:	*Cash Working Capital (CWC) PSC Assessment, Property Tax Telephone Expense, Insurance Other than Group, Fuel & Power Chemicals Expense, Rate Case Expense*
Witness:	*Jermaine Green*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal Testimony*
Case No.:	*WR-2010-0131*
Date Testimony Prepared:	*May 6, 2010*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

JERMAINE GREEN

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2010-0131

Jefferson City, Missouri
May 2010

****Denotes Highly Confidential Information**

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Q. Please state your name and business address.

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

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

A. Yes, I am.

Q. What is the purpose of your Surrebuttal Testimony?

A. The purpose of this Surrebuttal Testimony is to address the rebuttal testimony of Missouri-American Water Company's (MAWC or Company) witnesses Ms. Regina C. Tierney, Mr. Donald J. Petry, and Mr. Dennis R. Williams regarding cash working capital (CWC), PSC assessment, property tax, telephone expense, insurance other than group, fuel and power, chemicals expense and rate case expense. I will also address the rebuttal testimony of the Office of Public Counsel's (OPC) witness Ted Robertson regarding rate case expense.

CASH WORKING CAPITAL

Q. In what areas of CWC does the Staff and the Company disagree?

A. It is the Staff's understanding that the Company disagrees with the Staff's calculation of the expense lags for tax withholding, service company fees, cash vouchers, FICA - employer portion, FUTA, SUTA taxes, as well as the revenue lag for the St. Louis Metro, Brunswick and Cedar Hills Districts. The Company believes that the lags calculated for the aforementioned issues in their original filing are more reflective of their ongoing level of CWC.

Q. Have there been any modifications to the Staff's position on the CWC issues mentioned above?

A. Yes. After communicating with the Company's witness Ms. Tierney via e-mail, the Staff has reviewed the Company's workpapers and made modifications to it's calculation of the tax withholding, FICA, FUTA and SUTA expense lags. The modification to the revenue lag for the St. Louis Metro District was addressed in my Rebuttal Testimony on pages 6 through 7. The Staff has not changed its position on the expense lag calculations for the service company, cash vouchers and the revenue lag calculation for the Brunswick and Cedar Hill Districts.

Q. Can you please explain the modifications that were made to the tax withholding, FICA, FUTA and SUTA expense lags?

A. The Staff has agreed to accept the Company's calculation for the tax withholding expense lag of 15.50 days for all twelve (12) districts. In its direct filing, the Staff used the payroll expense lag days for the tax withholding expense lag, but a review of the Company's documentation showed this was not the correct lag to use. For FICA, FUTA, and SUTA, the Staff was provided workpapers by the Company showing lag days of 11.32, 48.48 and 73.09, respectively. In its adjustment for all twelve (12) districts the

Staff used the 11.32 expense lag for FICA, and took a weighted average based upon the percentage of total payments for FUTA and SUTA to arrive at 60.78 expense lag days. The Staff's calculated weighted average of 60.78 is more of an accurate reflection of the number of days it takes to pay these taxes instead of the Company's weighted average of less than one day. Once all these adjustments were made, the Staff's total of CWC required for rate base was reduced by $46,830.

Q. Does the Staff agree with the statement Ms. Tierney made in her rebuttal testimony on page 6, which states that the expense lag for management fees supplied by an affiliated service company should be negative 10.98 days, versus the positive 23.99 days utilized in the Staff's Accounting Schedule 8 – Cash Working Capital?

A. No. Contrary to the statement of Ms. Tierney, the Staff does not agree that ratepayers should provide the excess cash working capital requirements of an affiliated company who provides services to the utility. This situation results from requiring the utility to prepay management fees to the affiliated service company, while the utility obtains the majority of its goods and services from third party vendors in arrears (i.e., the utility is normally provided an opportunity to pay for goods and services on credit). Affiliated companies should not receive preferential treatment. The affiliate should be treated like other third-party vendors who supply goods and services to the utility on an arm's-length basis. Therefore, the Staff has assigned the same expense lag to the disbursement for management fees from an affiliated service company that it has utilized for general cash vouchers for goods and services from third-party vendors (i.e. positive 23.99 days).

Q. Does the Staff agree with the Company's example of equating the service company fees to the PSC assessment?

A. No. As mentioned in Ms. Tierney's rebuttal testimony, the Commission gives regulated utilities the option of paying the entire yearly amount in one lump sum up until April 15th of the following year or paying in quarterly installments. It must be noted that Missouri-American Water (MAWC) chooses to make quarterly payments which results in the negative 45 day expense lag.

Q. Does the Staff agree with the Company's assertion that the Staff's calculation of the cash vouchers lag creates a variance among the twelve (12) districts?

A. No. It is the Staff's belief that a cash vouchers lag of 23.99 justifies the operations at MAWC, since the payment of third-party invoices are handled by MAWC's affiliate service company for all twelve (12) districts each month. The calculation of the cash voucher expense lag used in the Company's direct filing suggests that each district independently handles the payment of their monthly invoices and as such, different cash vouchers lag were created. The Staff's calculation involved taking an average of those individual lags calculated for each district.

Contrary to what Ms. Tierney asserts, the Staff's cash vouchers lag of 23.99 favors the Company, as there is an inverse relationship between the cash voucher lags and the dollar amount applied to rate base. Frankly speaking, as the lag days increase, the amount applied to rate base decreases. Additionally, to reflect the level of consistency in the Staff's cash vouchers lag of 23.99 days, the prior two cases (WR-2007-0216 and WR-2008-0311) MAWC brought before the Commission each had a lag of 21.41 days, which was applied to all twelve (12) districts.

Q. Does the Staff agree with the statement made by Ms. Tierney on pages 4 through 5 of her rebuttal testimony that MAWC is being unfairly penalized in the Staff's calculation of the Revenue Lag for the Brunswick, Cedar Hills and Warrensburg Districts?

A. No. The Staff proposed a 50% reduction to its collection lag for the Brunswick and Cedar Hills Districts to reflect a normal collection pattern. There was no reduction to the collections lag for Warrensburg as stated by Company witness Ms. Tierney on page 4 of her rebuttal testimony. The collection lag is a component of the revenue lag and is the period of time between the day the bill is placed in the mail by the Company and the day the Company receives payment from the ratepayer for the services provided. In their direct filing, the Company proposed a collection lag of 67.28 days for Brunswick and 46.04 days for Cedar Hill. When added to the other components of the revenue lag, the Company proposed a total revenue lag of 86.83 days for Brunswick and 65.70 days for Cedar Hill. To put this into perspective, MAWC is recommending a timeframe of three (3) months to collect its revenues from Brunswick and a period of two (2) months to collect revenues from Cedar Hill. The Staff considers this situation unacceptable when compared to the other districts and similar utilities.

In the Staff's revised workpapers dated April 9th, 2010, a collection lag of 57.92 days was calculated for Brunswick and 39.78 days for Cedar Hill. The Staff then reduced the lags calculated above by 50% to arrive at 28.96 days for Brunswick and 19.89 days for Cedar Hill. The Staff's total revenue lag for Brunswick was 49 days and 39.24 days for Cedar Hill. The Staff's position to reduce the collection lag for these districts by 50% is to serve as a motivator for MAWC to enhance their collection practices, instead of enabling poor collection practices by increasing the amount required through an increase in the revenue lag and thus, an increase in its rate base. After reviewing information provided by the Company in response to Staff Data Request No. 47.1, the Company demonstrated poor recovery practices of outstanding balances in the Brunswick and Cedar Hill Districts from July 2006 through June 2009. The Company went for several months without making an attempt to recover while performing write-offs month after month. The Staff believes the Company should be held accountable for such practices, hence the justification for the Staff's adjustment. Please see the table below.

*Brunswick

	2006 - 2007		2007 - 2008		2008 - 2009	
Month	**Recoveries**	**Net Charge-Offs**	**Recoveries**	**Net Charge-Offs**	**Recoveries**	**Net Charge-Offs**
Jul	$0.00	$114.79	$0.00	$145.60	$0.00	$245.54
Aug	$0.00	$95.49	($40.52)	$17.77	$0.00	$71.68
Sep	$0.00	$256.18	$0.00	$41.85	$0.00	$34.04
Oct	$0.00	$54.56	$0.00	$400.33	$0.00	$477.07
Nov	$0.00	$37.79	$0.00	($231.10)	$0.00	$351.52
Dec	$0.00	$423.76	$0.00	$806.60	($260.26)	($86.41)
Jan	$0.00	$198.77	($24.84)	($24.84)	$0.00	$174.43
Feb	$0.00	$59.46	$0.00	$0.00	($49.82)	$363.81
Mar	($51.84)	$108.43	$0.00	$174.51	($118.17)	$176.86
Apr	$0.00	$67.63	$0.00	$150.33	$0.00	$262.21
May	$0.00	$221.23	$0.00	$62.01	$0.00	$0.00
Jun	($166.33)	($77.29)	$0.00	$51.86	($33.30)	$517.22

*Cedar Hills

	2006 - 2007		2007 - 2008		2008 - 2009	
Month	**Recoveries**	**Net Charge-Offs**	**Recoveries**	**Net Charge-Offs**	**Recoveries**	**Net Charge-Offs**
Jul	$0.00	$646.00	$0.00	$642.00	$0.00	$437.73
Aug	$0.00	$64.80	$0.00	($558.60)	$0.00	$0.00
Sep	$0.00	($256.60)	($50.88)	$79.32	$0.00	$0.00
Oct	$0.00	$0.00	$0.00	$1,789.20	$0.00	$0.00
Nov	$0.00	$371.77	$0.00	$217.00	($182.66)	($166.19)
Dec	$0.00	$44.40	$0.00	$111.60	$0.00	$0.00
Jan	$0.00	$252.60	$0.00	$0.00	$0.00	$0.00
Feb	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Mar	$0.00	$374.00	$0.00	$23.52	$0.00	$4.51
Apr	$0.00	$434.00	$0.00	$836.04	$0.00	$43.81
May	$0.00	$0.00	$0.00	$119.75	$0.00	$0.00
Jun	$0.00	$0.00	$0.00	$1,756.53	$0.00	$732.61

*Source: Excerpt from DR0047.1 provided by MAWC.

PSC ASSESSMENT

Q. Does the Staff agree with the Company's method of calculating the PSC assessment as discussed in Ms. Tierney's rebuttal testimony?

A. No. It is the Staff's position to use the PSC assessment that is known and measureable for its adjustment. The Company's witness Ms. Tierney appears to have the notion that MAWC revenue forms the basis of the Company's annual PSC Assessment, which is false. As discussed in my Rebuttal Testimony, there is no exact correlation between revenues and the PSC Assessment. Indeed, revenues form part of the PSC Assessment among other factors, such as the amount of time spent by the Staff in the regulation of each industry. The Staff failed to mention in its rebuttal testimony that utilities receive a refund in the calculation of their estimated PSC assessment based on their percentage of revenue and the amount that remains in the Commission's budget at the end of each fiscal year. This further illustrates that the PSC assessment is not solely based on a utility's percentage of revenues.

PROPERTY TAX

Q. What is the issue regarding property tax between the Company and the Staff?

A. It is the Staff's understanding that the Company is expecting to place an additional $32,466,606 of plant in service after December 31, 2009, and has proposed to include the estimated property taxes for this amount in the April 30, 2010 true-up of property tax expense. Whereas, it is the position of the Staff to use the value of the utility plant in service as of January 1st of the taxing year to calculate the property tax expense.

Q. How are property taxes assessed by the taxing authority and paid by the utility?

A. Utilities are required to file with the taxing authorities a valuation of its utility plant/property based on the January 1 assessment date the first of each year. The utility will later receive property tax bills from the authorities based on the plant/property values assessed, and the utility is required to pay the property taxes by the last day of the same calendar year in which the assessment is made. For example, a utility will pay property taxes on or before December 31, 2010, based upon an assessment made of its asset values as of January 1, 2010.

Q. When will MAWC begin to incur the property taxes associated with the plant that is placed in service during 2010?

A. Contrary to the statement of company witness Ms. Tierney in her rebuttal testimony on page 22, the Staff does not agree that MAWC will incur the property tax expense associated with this property on its books as January 2011. In fact, any plant that is placed in service as of December 31, 2010 will be assessed its value as of January 1, 2011, with payment expected to be made on or before December 31, 2011. This is approximately one year and three (3) months from the operation of law date in this case.

Q. Will MAWC recognize any expense on its books in 2010 associated with the plant additions in 2010?

A. No. As mentioned above, payment for taxes assessed on the plant additions in 2010 is not expected until December 31, 2011.

<u>TELEPHONE EXPENSE</u>

Q. Does the Staff agree with the recommendation made by the Ms. Tierney on page 25 of her rebuttal testimony regarding telephone expense?

A. Yes. The Staff made adjustments to include expenses that were incorrectly coded under telephone expense by the Company. The Staff's adjustment to the test year telephone expenses only consists of the removal of accrued, not actual expenses.

INSURANCE OTHER THAN GROUP – DIRECTORS & OFFICERS (D&O) AND KIDNAP & RANSOM (K&R)

Q. Have there been any modifications to the Staff's position on insurance other than group?

A. Yes. After discussions with the Company, and reading its rebuttal testimony, the Staff has changed the capitalization rate for the general liability related insurance to 10%, from the 58.05% proposed in the Staff's direct filing.

Q. Does the Staff agree with the statement made by Mr. Petry on pages 8 through 9 of his rebuttal testimony that, the insurance expense for directors & officers is appropriate and reasonable?

A. No. It is the position of the Staff that ratepayers should not pay for the litigation or fines and penalties in the form of an insurance premium for MAWC Board members involved in civil or criminal proceedings. The Company's witness Mr. Petry mentioned "increased legislature and regulations from the Securities Exchange Commission (SEC), Sarbanes Oxley (SOX) and other federal and state agencies as the reason for this insurance; in order to indemnify and defend its Boards of Directors and corporate officers, as it would be difficult to recruit qualified persons for these positions if not in place." The Staff believes if the Company's Board of Directors abides by the regulations of these various regulatory entities and is competent in the performance of its duties, then there is no need for this type of insurance. The Staff considers this expense imprudent and of no direct benefit to ratepayers in the provision of safe and reliable service.

Q. Does the Staff oppose including any expenses relating to kidnap and ransom insurance?

A. Yes. The Staff believes that the operations of MAWC would remain materially unaffected in the unlikely event that a Company employee were ever kidnapped and held for ransom. Due to this lack of benefit to MAWC's customers, the Staff disputes Mr. Petry's claim that this insurance is a prudent cost.

Q. ** **

A. ** **

TRUE UP ITEMS (FUEL & POWER AND CHEMICALS EXPENSE)

Q. What ongoing modifications will the Staff make to the fuel & power and chemicals adjustment?

A. For chemicals expense, the Staff will make an adjustment to reflect the Company's chemical contract prices that have gone into effect after October 31, 2009, but prior to the true-up date of April 30, 2010. The Staff will also make an adjustment to reflect any increased or decreased fuel & power costs that have occurred during the same time period of October 31, 2009, through April 30, 2010.

RATE CASE EXPENSE

Q. What is Mr. Williams position regarding rate case expense?

A. Mr. Williams disputes the Staff's normalization methodology of rate case expense and the Staff's failure to include rate case expenses from prior rate cases.

Mr. Williams also expressed concern with the Staff's ability to capture rate case expense after the April 30, 2010 true-up date.

Q. Please explain the Staff's rate case expense recovery process and how it differs from the Company.

A. Rate case expenses are extraordinary in nature, i.e. they only occur when the utility files a rate case with the Commission. The Staff's normalization of this expense is aimed at restating test year expense to a normal ongoing level. It is not a recovery of prior rate case expense, which the Company's proposed amortization method entails. The Staff includes in rate case expense all reasonable, necessary and prudent expenses incurred by the Company in presenting the current rate case before the Commission.

Q. Has the Staff ever recommended an amortization of rate case expense for Missouri-American Water Company in a previous rate cases?

A. No. The Staff has never recommended an amortization for rate case expense in any prior MAWC rate cases.

Q. Does the Staff agree with the statement made by Mr. Williams in his rebuttal testimony on pages 28 through 29, that the Staff's adjustment to normalize rate case expense in this case is not reflective of normalization ratemaking?

A. No. Contrary to the statement by Mr. Williams, the Staff's method of normalization in this case is, in fact, reflective of normalization in ratemaking. There are instances where a 2-5 year average of an expense is not relevant due to the cost trend upward or downward, in which case the Staff would use the latest known and measurable amount. Rate case expense is unique when compared to other items on the income statement, because it is not an actual annual cost that will be incurred every year. There might be lapses of time in between when a utility files a rate case with the Commission. In order to reflect a normalized annual cost level, the Staff typically performs a two to three year normalization of rate case expenses that are known and measurable, reasonable, necessary and prudent. Because of the unique expense situation involved with rate case expense, Mr. Williams is attempting to equate the Staff's normalization methodology to amortization, when in fact it is not an amortized cost.

Q. Will the Staff be able to account for rate case expense incurred after the April 30, 2010 true-up date?

A. Yes. The Staff is aware that some rate case expenses will not be invoiced or paid until after the proceedings are completed. Therefore, the Staff will submit a data request to the company asking for a detailed estimate of additional rate case expenses, and will include in its true-up recommendation such parts of the estimate for rate case expense that are reasonable, necessary and prudent.

Q. Has OPC witness Mr. Robertson changed his position regarding rate case expense since his direct testimony?

A. It is the Staff's understanding that Mr. Robertson still maintains the same position as he filed in his direct testimony regarding rate case expense.

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

A. The Staff maintains its position on rate case expense of performing a two year normalization of rate case expenses that are known and measurable, reasonable, necessary and prudent. The Staff also reaffirms that a regulated utility is entitled, under traditional ratemaking concepts, to rates that allow an opportunity for recovery of all reasonable and prudent amounts expended in providing utility service to customers, which includes the costs associated with rate cases. However, the Staff agrees with OPC witness Mr. Robertson that it is inappropriate to allow specific recovery in rates of amounts related to prior rate case proceedings.

Q. Does the Staff agree with Mr. Robertson that rate case expenses are beneficial to MAWC shareholders and not the ratepayers?

A. No. The Staff does not believe MAWC shareholders attain any incentive from rate case expenses. Please refer to page 5 of my Rebuttal Testimony for a more detailed answer.

Q. Does this conclude your Surrebuttal Testimony?

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 Surrebuttal Testimony in question and answer form, consisting of 13 pages to be presented in the above case; that the answers in the foregoing Surrebuttal 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.

J Green
Jermaine Green

Subscribed and sworn to before me this 6th day of May, 2010.

Nikki Senn
Notary Public

NIKKI SENN
Notary Public - Notary Seal
State of Missouri
Commissioned for Osage County
My Commission Expires: October 01, 2011
Commission Number: 07287016