

Exhibit No.:
Issues: Labor Related Costs, Overtime, Annual Incentive Compensation Costs, External Affairs and Business Development, Other Post-Retirement Benefit Costs, AWR Revenues, Rate Case Expense, Cedar Hill Wastewater Plant, Comprehensive Planning Study, Allocation of Belleville Lab Costs, Security Costs-AAO, Security Costs-Deferred Taxes, St. Joseph Economic Development Rates, MSD Contract, Tank Painting Maintenance Tracker
Witness: Dennis R. Williams
Exhibit Type: Rebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2010-0131
SR-2010-0135
Date: April 15, 2010

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2010-0131
CASE NO. SR-2010-0135**

REBUTTAL TESTIMONY

OF

DENNIS R. WILLIAMS

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-2010-0131 CASE NO. SR-2010-0135
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AFFIDAVIT OF DENNIS R. WILLIAMS

Dennis R. Williams, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Rebuttal Testimony of Dennis R. Williams"; that said testimony and schedules were prepared by him and/or under his direction and supervision; that if inquires 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.



Dennis R. Williams

State of Missouri
County of St. Louis

SUBSCRIBED and sworn to
Before me this 14th day of April 2010.



Notary Public

My commission expires:



**REBUTTAL TESTIMONY
DENNIS R. WILLIAMS
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2010-0131
SR-2010-0135**

TABLE OF CONTENTS

	Witness Introduction and Purpose.....	1
1.	Labor Related Costs.....	2
2.	Overtime.....	3
3.	Annual Incentive Compensation Costs.....	7
4.	External Affairs and Business Development.....	11
5.	Other Post-Retirement Benefit Costs	20
6.	AWR Revenues.....	21
7.	Rate Case Expense.....	26
8.	Cedar Hill Wastewater Plant.....	33
9.	Comprehensive Planning Study	34
10.	Allocation of Belleville Lab Costs.....	36
11.	Security Costs - AAO.....	40
12.	Security Costs – Deferred Taxes.....	41
13.	St. Joseph Economic Development Rates	43
14.	MSD Contract.....	46
15.	Tank Painting Maintenance Tracker	48

1 **REBUTTAL TESTIMONY**

2
3 **DENNIS R. WILLIAMS**

4
5 **WITNESS INTRODUCTION AND PURPOSE**

6
7 **Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.**

8 A. My name is Dennis R. Williams, and my title is Senior Manager - Rates and
9 Regulation for the Western District of American Water Works. My business
10 address is 727 Craig Road, St. Louis, Missouri 63141.

11
12 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?**

13 A. Yes, I have submitted direct testimony in this proceeding on behalf of Missouri-
14 American Water Company ("MAWC" or "Company").

15
16 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

17 A. The purpose of my rebuttal testimony is to respond to the Staff Report and/or the
18 direct testimony of OPC and Interveners on the following issues:

- 19 1) Labor Related Costs;
20 2) Overtime;
21 3) Annual Incentive Compensation Costs;
22 4) External Affairs and Business Development;;
23 5) Other Post-Retirement Benefit Costs;
24 6) AWR Revenues;
25 7) Rate Case Expense;
26 8) Cedar Hill Wastewater Plant;
27 9) Comprehensive Planning Study;
28 10) Allocation of Belleville Lab Costs;
29 11) Security Costs – AAO;

- 12) Security Costs – Deferred Taxes;
- 13) St. Joseph Economic Development Rates;
- 14) MSD Contract; and,
- 15) Tank Painting Maintenance Tracker.

1) LABOR RELATED COSTS

Q. WHAT DIFFERENCES EXIST BETWEEN THE COMPANY AND STAFF IN REGARD TO THE ANNUALIZED LEVEL OF PAYROLL?

A. The approximate dollar values of the differences are as follows:

<u>Issue</u>	<u>Value</u>
1. Estimated Overtime Hours	\$1,400,000
2. Annual Incentive Compensation	335,000
3. External Affairs and Business Development	105,000
4. Number of Employees	1,140,000
5. Wage Rates	720,000
Total	\$3,700,000

Q. WHAT WAS MAWC’S GENERAL APPROACH TO ANNUALIZATION AND NORMALIZATION OF THE TEST YEAR PAYROLL?

A. The Company’s filing was based upon a test year ended June 30, 2009. In order to annualize and normalize the test year payroll levels, the Company began with the most current payroll period at that time and updated for the number of positions and wage rates the Company anticipated would be in effect at the end of the true-up period (April 30, 2010). In addition, because capitalization ratios and overtime hours can vary from year to year, a three year average was used to normalize those items. Finally, the Company made an additional adjustment to the capitalization ratio to reflect the permanent transfer of eight employees from construction to maintenance positions.

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Q. HOW WAS THE COMPANY’S APPROACH DIFFERENT THAN THAT OF THE PSC STAFF?

A. The two approaches were very similar. Staff began with the most current payroll period that was available at the beginning of its audit. However, Staff made no adjustment for wage rates or employee levels that would exist at the true-up date. This is simply a matter of timing and the differences between the Staff and Company positions for items 3 and 4 in the table above should be eliminated when these items are adjusted in the true-up process. Staff also utilized three year averages to normalize capitalization ratios and overtime. Finally, Staff made two additional adjustments - one to eliminate a sizeable portion of incentive payments made to employees and another to eliminate payroll Staff considered to be related to lobbying or nonregulated activities.

2) OVERTIME

Q. IF THE STAFF AND COMPANY BOTH USED A THREE YEAR AVERAGE TO DETERMINE NORMALIZED OVERTIME LEVELS, WHY IS THERE AN APPROXIMATE \$1.4 MILLION DIFFERENCE IN ADJUSTED PAYROLL BETWEEN THE TWO PARTIES?

A. The disparity is attributed to the difference in the three-year period selected. The Company used a weighted average of the three, twelve month periods ended June 30, 2007, 2008 and 2009 to determine a percentage of overtime to be applied to pro forma base payroll rates. The calculation resulted in a 13.82 percent overtime rate. This was a slightly lower rate than would have resulted had a simple average of

1 those three years been used. The Staff used a simple three year average of the
2 calendar years 2006, 2007 and 2009, but excluded the year 2008. Both the
3 Company and Staff calculations were made on a district by district basis.
4

5 **Q. WHY DID THE STAFF EXCLUDE THE YEAR 2008 FROM ITS THREE YEAR**
6 **CALCULATION?**

7 A. Staff indicated that 2006 was substituted for 2008 in the three-year average
8 calculation because overtime in 2008 was “abnormally high.”
9

10 **Q. WAS 2008 OVERTIME ABNORMALLY HIGH?**

11 A. No. Overtime hours in 2008 were lower than those in calendar year 2007 and
12 roughly equivalent to those in 2006. I believe the Staff came to its conclusion
13 because the data Staff used from year to year was inconsistent.
14

15 **Q. HOW WAS IT INCONSISTENT?**

16 A. Staff’s adjustment was made by computing an average test year wage rate and
17 applying that rate to the simple average of total overtime hours for 2009, plus
18 overtime hours charged to maintenance expense only for the years 2006 and 2007,
19 and then multiplying the result by an expense to capitalization ratio. The use of total
20 overtime hours in 2009 and only overtime hours charged to expense for the other two
21 years is inconsistent.
22

23 Moreover, when the starting point was already using only those overtime hours
24 charged to expense, it was not appropriate to further reduce the adjustment by
25 applying an expense factor. Doing so, substantially understates overtime labor

1 charged to expense. I believe it is likely that this was simply an error and that Staff
2 intended to utilize total overtime hours for all years in their selection.

3
4 **Q. OTHER THAN WHAT YOU BELIEVE TO BE AN ERROR IN THE SOURCE**
5 **NUMBERS, IS THERE ANY OTHER PROBLEM WITH THE STAFF**
6 **CALCULATION?**

7 A. Yes. The purpose of this adjustment is to normalize the level of overtime expense.
8 The Company accomplished this by determining an average ratio of expensed
9 overtime to total labor and applied that ratio to normalized base wages. Staff
10 attempted to develop a test year wage rate to apply to average overtime hours. Had
11 the Staff used the correct three year period and the correct number of overtime
12 hours, Staff's adjustment would still have been understated because it used test year
13 wage rates. Normalized wage rates should have been used instead.

14
15 **Q. IS IT SURPRISING THAT THERE IS VARIANCE FROM YEAR TO YEAR IN THE**
16 **OVERTIME PERCENTAGE?**

17 A. No. That is the primary reason why it is appropriate to use a three-year average in
18 order to normalize annual overtime by levelizing the variances.

19
20 **Q. WHY DO OVERTIME HOURS DIFFER FROM YEAR TO YEAR?**

21 A. There are many different reasons, but one of the primary drivers of overtime hours is
22 repair of main breaks. Main breaks are unpredictable, vary widely from year to year,
23 can occur at any time of day or night, and are largely dependent upon the weather
24 and soil conditions. In 2009, for example, the Company experienced an unusually
25 low number of main breaks and the resulting number of overtime hours to repair

1 those breaks was, as a result, lower than normal. It appears that Staff failed to
2 recognize this fact, and instead incorrectly concluded that 2008 overtime hours were
3 abnormally high. However, that should have been no reason to exclude the actual
4 overtime costs incurred in 2008 from the normalized levels.

5
6 **Q. PLEASE EXPLAIN.**

7 A. There are two reasons typically given for averaging costs from several years
8 experience for variable expense items, rather than simply using test year levels in
9 setting rates. The first argument is that if the test year alone is utilized, the Company
10 is given a perverse incentive to increase those variable costs during the test year so
11 as to maximize rate recovery. The second argument is that utilizing an average
12 smooths the variances that exist from year to year so as to build into rates a more
13 normalized level of expense. Staff's arbitrary exclusion of 2008 overtime hours from
14 the determination of what is average, simply because this amount was believed to
15 be higher than normal, appears to be designed solely to reduce the calculated
16 revenue requirement in this case. The fact is that 2009 overtime hours were lower
17 than normal, far more so than were 2008 overtime hours abnormally high; yet, Staff
18 did not exclude those hours from the average calculation.

19
20 **Q. WHAT KIND OF ANALYSIS HAVE YOU PREPARED TO SUPPORT THAT**
21 **STATEMENT?**

22 A. I reviewed actual overtime hours over the past ten years. That information is
23 summarized on Schedule DRW – 1. Overtime hours for calendar year 2009 were by
24 far the lowest of any other year during that ten-year period. However, during that
25 same ten-year period, there were three other years in which the 2008 expensed

1 overtime hour levels were exceeded.

2
3 In fact, 2009 overtime maintenance hours were so low that they approximated total
4 overtime hours from 2006 and 2007. That may well have been a reason for Staff's
5 exclusion of 2008 overtime labor hours as being too high. It is possible the Staff
6 mistook the total 2009 labor hours as being equivalent to 2006 and 2007 because
7 they were comparing to expensed hours only in the earlier two years. Clearly, it is
8 the year 2009 that is abnormal – not 2008.

9
10 **Q. WHAT ARE THE IMPLICATIONS OF THIS FACT?**

11 A. If Staff is consistent in its logic, that the traditional averaging of historical information
12 should be adjusted to exclude outliers; it is the calendar year 2009 that should be
13 removed from their average – not 2008. This approach would increase the Company
14 adjustment for overtime labor expense, not decrease it.

15
16 **Q. IS A THREE YEAR AVERAGE AN ACCEPTABLE PERIOD OVER WHICH TO**
17 **DETERMINE AN ONGOING NORMALIZED LEVEL OF EXPENSE?**

18 A. Yes, a three year average is reasonable. While, one could use a two-year or even
19 four-year average and still achieve reasonable results, a three-year average has
20 consistently been used in past rate cases by both Staff and the Company.

21
22 **3) ANNUAL INCENTIVE COMPENSATION COSTS**

23
24 **Q. WHAT ISSUE EXISTS REGARDING THE ANNUAL INCENTIVE COMPENSATION**
25 **PLAN (“AIP”)?**

1 A. The Staff is recommending disallowance of a portion of AIP costs associated with the
2 achievement of financial, customer satisfaction and individual goals in the amount of
3 approximately \$335,000. The Staff is also proposing similar disallowances relative to
4 Shared Services employees in the amount of approximately \$830,000.

5

6 **Q. DID STAFF ELIMINATE ANY OTHER SHARED SERVICES EXPENSES?**

7 A. Adjustments were made to reduce Belleville Laboratory costs and to impute revenue
8 from American Water Resources, Inc. ("AWR"). These two issues are addressed
9 separately. Otherwise, the differences between the Staff and Company filings are
10 due to wage rate differences that should be resolved in true-up.

11

12 **Q. WHY DID THE STAFF PROPOSE TO DISALLOW A PORTION OF MAWC AND**
13 **SHARED SERVICES AIP?**

14 A. Staff indicated that it eliminated the financial goals and certain individual goals, such
15 as community involvement activities, due to its belief that there was no resulting
16 benefit to MAWC's customers. Staff also indicated that the elimination of the
17 financial goal was supported by a Commission decision in a prior Southwestern Bell
18 Telephone rate case. Finally, while Staff did not object to a customer service goal, it
19 did express a concern that the sample size used in the customer service survey was
20 too small.

21

22 **Q. DO YOU AGREE WITH THE STAFF'S CONCLUSIONS?**

23 A. I do not for a number of reasons. The AIP was designed to attract and retain
24 competent personnel, reduce expenses, maintain the financial health of the
25 Company, encourage positive interaction with our customers, improve service and

1 increase operational efficiencies. All of these features of the AIP plan directly benefit
2 our customers.

3
4 **Q. IN WHAT WAY DO EACH OF THE STAFF DISALLOWED FEATURES OF THE AIP**
5 **PLAN BENEFIT CUSTOMERS?**

6 A. The financial element of the incentive plan provides incentives to Company personnel
7 related to meeting the overall financial goals of the Company. As such, employees
8 are encouraged to operate efficiently and manage costs so as to achieve the
9 financial goals. Although the Company has in place an infrastructure replacement
10 program that will necessitate rate increases, operational efficiencies and cost controls
11 serve to keep these increases lower than they would otherwise be. That is a direct
12 benefit to our customers. Moreover, a financially healthy company is better able to
13 meet its public service obligations as it can raise capital at comparatively lower cost,
14 better respond to unanticipated economic conditions, more rapidly respond to water
15 quality regulations, and meet other emergencies that happen from time to time.

16
17 MAWC believes that both its employees and customers in the communities they
18 serve benefit from community involvement and interaction. The individual goals
19 related to participation in community events provide benefits on several levels. Not
20 only does such interaction directly benefit customers MAWC serves through
21 participation in local events, it also provides an opportunity to identify problems or
22 issues that the Company otherwise might not have known exist as well as a chance
23 to educate customers in regard to programs provided by MAWC.

24
25 Finally, the elimination of customer service related goals is especially confusing. By

1 definition, employee performance that results in high customer satisfaction is a direct
2 benefit to the customer. The Company expects and trusts its employees to achieve a
3 high standard of performance, but knowledge that an independent survey of a
4 statistical sampling of our customers regarding their performance exists, for which
5 they can be rewarded, can provide that extra edge toward exceptional customer
6 service.

7
8 **Q. DO YOU AGREE WITH THE STAFF'S ASSERTION THAT THE SURVEY**
9 **CONDUCTED BY THE COMPANY WAS "TOO SMALL"?**

10 A. No. The customer service portion of the AIP is based on two surveys, the
11 Service Quality Survey and the Customer Satisfaction Survey. The Company's
12 annual Service Quality Survey is conducted by Opinion Research Corporation,
13 an independent survey firm. This firm provided a report to the Company
14 indicating that the sampling of 800 customers conducted in their survey resulted
15 in a statistical significance at a 95% confidence level of a sample tolerance of
16 plus or minus 3 percent. RKM Research and Communications, Inc. conducted
17 the annual Customer Satisfaction Survey. That firm reported a sampling of 400
18 customers resulting in a statistical significance at a 95% confidence level of a
19 sample tolerance of plus or minus 4.9%. The Company presented these reports
20 to Professor Spitznagel and he agreed that they are statistically significant.

21 Further, the Staff raised this same issue in the Company's last rate case, WR-
22 2008-0311, which used a 2007 customer survey. In that case the Staff did not
23 provide any indication that they had conducted any scientific analysis of the
24 statistical sample size or method used by the Company to determine customer
25 satisfaction levels. The same remains true in this case even though the

1 Company more than tripled its sample size compared to the earlier survey.

2
3 **Q. THE STAFF CITED A SOUTHWESTERN BELL CASE TO SUPPORT ITS**
4 **ELIMINATION OF INCENTIVE PAYMENTS. DO YOU BELIEVE THAT CITE TO BE**
5 **PERTINENT TO THIS CASE?**

6 A. No, I do not. The subject Report and Order indicated that the Commission's decision
7 in that case applied only to exclusion of a parent company's senior management
8 incentive programs. There was no exclusion of any local or state related incentives.
9 In MAWC's current case, the Company did not request any recovery of its parent
10 company's senior management AIP.

11
12 **4) EXTERNAL AFFAIRS AND BUSINESS DEVELOPMENT**

13
14 **Q. PLEASE EXPLAIN THE DISAGREEMENT BETWEEN STAFF AND MAWC**
15 **RELATING TO THE RECOVERY OF PAYROLL EXPENSE FOR MEMBERS OF**
16 **THE EXTERNAL AFFAIRS DEPARTMENT.**

17 A. The Staff excluded the wages and benefits associated with MAWC's Director of
18 Government Affairs, who spends a majority, although not the entirety, of his time
19 monitoring legislation that impacts the water industry in general and MAWC in
20 particular. Although his duties are similar to those performed by employees on the
21 Missouri Commission Staff and the Office of the Public Counsel, the Company has
22 not taken issue with Staff's exclusion in this case.

23
24 However, the Company does take strong exception to the exclusion of portions of the
25 compensation and benefits for other individuals who have absolutely no association

1 with what the Staff refers to as “lobbying” or “nonregulated” activities. These Staff
2 disallowances include: a) 100 percent of the compensation and benefits of the
3 Manager of Government and Regulatory Affairs; b) 50% of the compensation and
4 benefits of the Senior Manager of Business Development; and c) 10% of the
5 compensation and benefits of the Manager of External Affairs.

6
7 **Q. ARE YOU AWARE WHY THESE ADJUSTMENTS WERE MADE?**

8 A. Staff indicated that these costs were eliminated based upon the review of job
9 descriptions.

10
11 **Q. HOW ARE JOB DESCRIPTIONS DEVELOPED AT THE COMPANY?**

12 A. Generic job descriptions are developed by the corporate Human Resources
13 department of American Water. They are, by design, consistent from state to state in
14 order to assist in the grading of job classifications, job correlation, salary surveys and
15 initial position inquiries. There may be modifications in the actual job functions at the
16 local level that depart to some degree from the generic job description. For example,
17 I have attached as Schedule DRW – 2 the position description of the Manager of
18 Governmental and Regulatory Affairs. There are several references to influencing
19 legislation and other legislative activities. However, within MAWC those activities are
20 performed by the Director of Government Affairs. The referenced job description is a
21 dated corporate position description, approved in 2002, that does not accurately
22 reflect the incumbent’s current role; but, exists solely because it is an established job
23 code that has been previously graded and approved for job classification purposes.

24
25 **Q. WHAT IS THE ROLE OF THE MAWC MANAGER OF GOVERNMENTAL AND**

1 **REGULATORY AFFAIRS?**

2 A. I have attached as Schedule DRW – 2 the most recent job description for that
3 position. The job description, as explained previously, is a generic description that,
4 for purposes of establishing position grades, is standard within the American Water
5 corporate system. It has evolved locally but has not been changed to reflect some of
6 the activities of the existing role. Still, it serves as a reference point for a discussion
7 of the duties performed by the incumbent.

8
9 This position operates in a liaison role among the 91 St. Louis area municipalities and
10 St. Louis County government. It is responsible for implementing and maintaining
11 procedures that are in compliance with local governmental regulations. Because of
12 the importance of water service, fire protection infrastructure and rights-of-way
13 issues, there is a need for a central contact point for local governmental officials, and
14 this position fills that role. The Manager of Governmental and Regulatory Affairs is a
15 key Company representative in acquiring and renewing municipal franchise
16 agreements, renewal of Sales for Re-sale contracts, involvement with county water
17 and sewer authorities for current and long range planning, responding to government
18 officials inquiries on behalf of their citizenry, involvement in resolution of issues
19 between municipalities for water infrastructure projects, participation in negotiations
20 on major construction projects impacting a city or fire protection district, interfacing
21 with emergency response agencies, coordinating plant security coverage, meeting
22 with local government officials on source of supply issues, acting as liaison to large
23 commercial and industrial users to provide for future water requirements,
24 coordination with St. Louis County's highway department on construction standards,
25 and representing MAWC on homeland security matters. Finally, there is an

1 educational aspect to this role through the presentation of environmental and
2 conservation discussions to various civic organizations and to elementary school
3 students.

4
5 **Q. CAN YOU GIVE EXAMPLES OF THE TYPES OF ISSUES THIS POSITION**
6 **HOLDER ATTEMPTS TO ADDRESS?**

7 A. Yes. The first example would be coordination of highway expansion efforts that
8 involve movement of water main, coordination among various state and local
9 agencies and provision of information to municipalities. During the expansion of
10 Highway 141 in St. Louis County, for example, the incumbent in this position is
11 responsible for contacting and working with local officials regarding the curtailment of
12 water service while main is removed and replaced; for coordination of efforts among
13 the highway department, municipalities, private contractors and the Company in
14 timing of the replacement work; and participation in negotiation of rights-of-way
15 matters as necessary.

16
17 Another example is the ongoing involvement in the need to replace a major bridge in
18 the St. Louis area, on which our water main was located. Disagreement among
19 state, county and local officials as to what party legally controlled the right-of-way for
20 our line actually threatened completion of this project until MAWC's employee
21 negotiated a settlement.

22
23 A third example would be the past educational effort conducted with members of a
24 County Highway Department after a proposal was made to change existing code
25 regulations. The Department, in a well meaning effort to maintain and improve

1 county roads, had proposed changing backfill requirements upon completion of a
2 main repair to require replacement of dirt removed with concrete. The MAWC
3 employee was able to provide support that not only would the repairs be five times
4 more expensive for our customers, it would also limit access in the event of the need
5 for future repairs.

6
7 Those are just three of the many examples that have occurred that demonstrate the
8 importance of this position to our customers.

9
10 **Q. LOOKING AT THE JOB DESCRIPTION YOU HAVE ATTACHED AS SCHEDULE**
11 **DRW – 2, DOES THE FIRST ITEM REFER TO ARTICULATING POSITIONS ON**
12 **LEGISLATIVE ISSUES?**

13 **A.** Yes. That pertains to local governmental issues such as those I have described.
14 Likewise, the second item referring to shaping and influencing legislative programs
15 and business issues is focused on local municipal and county governments for the
16 reasons (and with the resulting customer benefits) I have already described.

17
18 **Q. WHAT IS MEANT BY ESTABLISHING CONSTRUCTIVE RELATIONSHIPS WITH**
19 **OFFICIALS AT VARIOUS LEVELS OF GOVERNMENT?**

20 **A.** Again, that is the generic language utilized in the corporate job description. For
21 MAWC, this would include such activities as the primary contact for Homeland
22 Securities issues, as a key contact for officials who request information or have
23 concerns regarding water quality, service or conservation issues, and communicating
24 compliance and other issues to management. In short, while a limited review of a job
25 description might leave an impression that lobbying activities were part of this

1 position's duties, the fact of the matter is that the incumbent did not lobby on behalf
2 of MAWC during the test year.

3
4 **Q. DID YOU CONFIRM THAT FACT THROUGH DISCUSSIONS WITH THE
5 MANAGER OF GOVERNMENTAL AND REGULATORY AFFAIRS?**

6 A. I did.

7
8 **Q. DID THE STAFF INTERVIEW THE MANAGER OF GOVERNMENTAL AND
9 REGULATORY AFFAIRS TO DETERMINE WHAT ACTIVITIES HE PERFORMED
10 DURING THE YEAR BEFORE EXCLUDING 100% OF HIS WAGES AND
11 BENEFITS?**

12 A. No.

13
14 **Q. DID THE STAFF SUBMIT ANY DATA REQUESTS TO DETERMINE HIS ACTUAL
15 JOB RELATED DUTIES CONDUCTED DURING THE YEAR?**

16 A. No.

17
18 **Q. OTHER THAN READING THE JOB DESCRIPTION, DID STAFF SEEK ANY
19 INFORMATION FROM MAWC IN ORDER TO VERIFY ITS ASSUMPTION?**

20 A. They did not.

21
22 **Q. PLEASE DESCRIBE THE JOB DESCRIPTION FOR THE MANAGER OF
23 EXTERNAL AFFAIRS.**

24 A. The job description for that position is attached as Schedule DRW – 3. It clearly
25 indicates that this position is focused on internal and external communication issues,

1 strategies and support; development of the communications budget; and acting as
2 company spokesperson for local and state media inquiries. The only reference that
3 could potentially have been attributed to any form of lobbying activity is that this
4 position “works closely with the state government relations lead to provide
5 communications counsel, support and all necessary materials. Interfaces with local
6 elected officials and develops and sustains strong working relationship with these
7 targets.” If Staff has interpreted these activities as lobbying, they have done so in
8 error.

9
10 **Q. TO WHAT POSITION WOULD THE JOB DESCRIPTION BE REFERRING WHEN**
11 **IT REFERS TO THE STATE GOVERNMENT RELATIONS LEAD?**

12 A. In this case, it would be the Company’s Manager of Governmental and Regulatory
13 Affairs.

14
15 **Q. DOES THE MANAGER OF GOVERNMENTAL AND REGULATORY AFFAIRS**
16 **PERFORM ANY LOBBYING ACTIVITIES?**

17 A. As noted earlier, he does not.

18
19 **Q. IN WHAT CONTEXT DOES THE MANAGER OF EXTERNAL AFFAIRS**
20 **INTERFACE WITH LOCAL ELECTED OFFICIALS?**

21 A. She would do so in the context of communications in the event of significant water
22 main breaks, scheduled and unscheduled service outages, public health events such
23 as boil orders and any other issues of general concern to local officials. The
24 incumbent in this position also coordinates the scheduling of speakers and
25 presentations when local officials or organizations request educational presentations

1 regarding water and wastewater topics

2
3 **Q. ARE ANY OF THESE ACTIVITIES WHAT WOULD BE CONSIDERED LOBBYING?**

4 A. No, they are not.

5
6 **Q. DID YOU CONFIRM THAT FACT THROUGH DISCUSSIONS WITH THE**
7 **MANAGER OF EXTERNAL AFFAIRS?**

8 A. I did.

9
10 **Q. DID THE STAFF INTERVIEW THE MANAGER OF EXTERNAL AFFAIRS TO**
11 **DETERMINE WHAT ACTIVITIES SHE PERFORMED DURING THE YEAR?**

12 A. No.

13
14 **Q. DID THE STAFF SUBMIT ANY DATA REQUESTS TO DETERMINE HER ACTUAL**
15 **JOB RELATED DUTIES CONDUCTED DURING THE YEAR?**

16 A. No.

17
18 **Q. OTHER THAN READING THE JOB DESCRIPTION, DID STAFF SEEK ANY**
19 **INFORMATION FROM MAWC IN ORDER TO VERIFY ITS ASSUMPTION?**

20 A. They did not.

21
22 **Q. STAFF HAS ALSO PROPOSED ELIMINATION OF 50% OF THE PAYROLL AND**
23 **BENEFITS OF THE SENIOR MANAGER OF BUSINESS DEVELOPMENT. WHY**
24 **WAS THAT?**

25 A. Through a reading of a job description, attached as Schedule DRW – 4, Staff

1 concluded that 50% of the time spent by the individual holding this position was spent
2 on non-regulated activities.

3
4 **Q. WAS THAT A CORRECT CONCLUSION?**

5 A. No. About 50% of the incumbent's position is associated with responding to inquiries
6 from municipalities and private owners of water and wastewater facilities, and in
7 some instances to Staff, in regard to various issues and problems pertaining to
8 existing systems. The incumbent in this position investigates those issues, discusses
9 options, attempts to provide solutions and, at times, will analyze and discuss the
10 possibility of taking ownership of the systems. The remainder of the incumbent's
11 time is spent in analytical work including bulk water sales, opportunity development,
12 analysis of existing contractual agreements and review of contracts that are close to
13 expiration. However, MAWC does not provide nor investigate non-regulated
14 business services and this position holder does not work on non-regulated matters.

15
16 **Q. DID YOU CONFIRM THAT FACT THROUGH DISCUSSIONS WITH THE SENIOR
17 MANAGER OF BUSINESS DEVELOPMENT?**

18 A. I did.

19
20 **Q. DID THE STAFF INTERVIEW THE SENIOR MANAGER OF BUSINESS
21 DEVELOPMENT TO DETERMINE WHAT ACTIVITIES HE PERFORMED DURING
22 THE YEAR BEFORE EXCLUDINGG 50% OF HIS WAGES AND BENEFITS?**

23 A. No.

24
25 **Q. DID THE STAFF SUBMIT ANY DATA REQUESTS TO DETERMINE HIS ACTUAL**

1 **JOB RELATED DUTIES CONDUCTED DURING THE YEAR?**

2 A. No.

3
4 **Q. OTHER THAN READING THE JOB DESCRIPTION, DID STAFF SEEK ANY**
5 **INFORMATION FROM MAWC IN ORDER TO VERIFY ITS ASSUMPTION?**

6 A. They did not.

7
8 **5) OTHER POST-RETIREMENT EMPLOYEE BENEFIT COSTS**

9
10 **Q. DO DIFFERENCES ALSO EXIST BETWEEN THE STAFF AND COMPANY IN THE**
11 **DETERMINATION OF EMPLOYEE BENEFIT COSTS?**

12 A. Yes, except for other post retirement employee benefits (“OPEB”), these differences
13 exist only as a result of the historical time period utilized or because of the difference
14 in the level of annualized payroll. The Company and Staff methods for determining
15 the valuation of pro-forma employee benefits were the same. Assuming that these
16 methods are not altered, once the Commission makes a determination of the
17 appropriate payroll levels and after the true-up takes place, there should be no
18 difference between the Company and Staff position. The same is true for pro-forma
19 payroll taxes.

20
21 **Q. WHAT IS THE ISSUE REGARDING THE STAFF’S PROPOSED LEVEL OF OPEBS**
22 **EXPENSE?**

23 A. Both the Company and Staff have included \$31,901 for annual amortization of a
24 regulatory asset associated with a deferral of OPEB costs for the St. Joseph and
25 Joplin Districts from July 1, 1994 up through the effective date of the Report and

1 Order in Case No. WR-95-205. This deferral resulted from the issuance of Statement
2 #106 by the Financial Accounting Standards Board moving the accounting for post
3 retirement benefits from a pay-as-you-go to the accrual method. The change in
4 method resulted in unrecovered book expenses that were approved by the
5 Commission for deferral and twenty year amortization in the referenced case. At
6 about the same time, the Company also deferred the same type of unrecovered
7 OPEB expenses for the then St. Louis County Water Company and began amortizing
8 the deferral over a twenty year period from the date FAS 106 was first adopted for
9 financial reporting purposes. In Case No. WR-94-166, St. Louis County Water
10 proposed to include the amortization of the deferral over 19.33 years. That case was
11 settled and the Order issued did not specifically reference the OPEB deferral and
12 amortization. The amortization continues and the Company believes that recovery of
13 the \$44,056 annual amortization is appropriate. Likewise, rate base treatment of the
14 unamortized deferral of \$117,483 at April 30, 2010 is appropriate. Such treatment
15 has never been disallowed by previous Commission Order and is consistent with the
16 precedent established by the Commission's treatment and approval of the St. Joseph
17 and Joplin deferrals mentioned earlier. Exclusion of this item from rate base would
18 result in the Company having to write-off to expense the deferred amount at the time
19 new rates become effective, which is estimated will be \$99,126.

20 21 **6) AWR REVENUES**

22
23 **Q. STAFF IMPUTES REVENUES OF \$75,635 ASSOCIATED WITH CERTAIN**
24 **SERVICE LINE AND IN-HOME PLUMBING PROTECTION PROGRAMS**
25 **MANAGED BY AMERICAN WATER RESOURCES (AWR). DO YOU AGREE**

1 **WITH THIS ADJUSTMENT?**

2 A. No, I do not. The imputed revenues proposed by Staff are not supported and the
3 logic on which Staff bases its adjustment is flawed.

4
5 **Q. HOW HAS STAFF JUSTIFIED THEIR ADJUSTMENT?**

6 A. Staff apparently assumes that AWR earns a 50 percent profit on every dollar it
7 makes. Staff then assumes that 25% of the implicit profit of one line of AWR
8 business is attributable to actions taken by MAWC and that 12.5% of the other two
9 lines of business is attributable to the Company. While no explanation for the level of
10 profit margin or attribution to MAWC is made, the general justification appears to be
11 based largely on discontinued practices and a stretch of logic.

12
13 **Q. PLEASE EXPLAIN.**

14 A. Three pages of the Staff Report are dedicated to explaining AWR business practices
15 that are performed for MAWC customers. Emphasis is placed on the fact that AWR
16 markets to MAWC customers with little comment given to the other markets that
17 AWR serves and with no indication that any business relationship exists between the
18 Company and AWR. While the two are affiliates, they operate completely
19 independently and neither has access to the other's non-public information. The
20 service performed by AWR is very similar to that provided by St. Louis County, where
21 the great majority of MAWC's customers are located, except that it is a private
22 enterprise subject to market competition. The only substance to the Staff's argument
23 seems to be that seven years ago AWR sent mailings using the Missouri American
24 logo to individuals on the MAWC customer list from AWR and that about one-third of
25 those mailings included a letter of endorsement from the Company's president.

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Q. DOES MAWC STILL PROVIDE CUSTOMER LISTS OR PROVIDE LETTERS OF ENDORSEMENT?

A. As noted in the Staff Report, the Company has not done so for over six years.

Q. DO YOU BELIEVE THERE WAS VALUE GAINED BY AWR THROUGH USE INFORMATION FROM THE MAWC CUSTOMER LIST?

A. I believe there was little value then and even less, if any, today. The service territory of MAWC is public information. Zip codes associated with that service territory are and were publicly available. Likewise, mailing lists by zip code were available at little or no cost and other more targeted mailing lists were available from outside vendors at low cost. Staff's allegation that the AWR marketing campaign by mail could not have taken place without the MAWC captive customer list is simply erroneous. Use of the MAWC customer information was a matter of convenience rather than necessity. AWR could have easily had the same level of success in meeting business objectives without the MAWC customer list. Moreover, according to Staff's reported income figures and estimated profit margins, AWR is apparently succeeding in attracting customers today without access to any MAWC customer information.

Q. WHY DO YOU BELIEVE THAT ANY BENEFIT RECEIVED WOULD HAVE LESS VALUE TODAY?

A. Staff argues that the customer list and endorsements led to market penetration that would not otherwise have been achieved. As explained above, I do not believe this to be the case. But even if Staff's assumption was true, given the fact that people move, that people die and that people discontinue their services, it is unlikely that the

1 majority of today's AWR customers are the same that were theoretically influenced
2 by the original mailings.

3
4 **Q. DO YOU BELIEVE THERE ARE AREAS OF THE STAFF'S REPORT REGARDING**
5 **AWR THAT ARE MISLEADING?**

6 A. Yes, I do. In its discussion of the AWR program, Staff indicates that if a customer
7 experiences a water leak, they must contact MAWC to investigate. The Report goes
8 on to say that AWR does not compensate MAWC for the use of its employees who
9 were dispatched to determine the source of water leaks. The statement might just as
10 well have read that customers who drive Ford pick-up trucks must contact MAWC to
11 investigate water leaks, but that Ford does not compensate MAWC for investigating.
12 While the statement itself is true, there is a perceived implication that AWR is
13 receiving some kind of inappropriate benefit or special treatment. However, it is
14 MAWC's obligation to check every water leak to determine whether or not the leak is
15 on Company owned property. This is true no matter who the customer and no matter
16 whether they have purchased a service or product from any outside vendor, including
17 AWR.

18
19 Another example is the Staff Report statement that, "According to the brochure
20 mailed to MAWC customers, this program provides...". While the statement is
21 correct, it is equally correct that the brochure mailed to AWR prospects that are not
22 MAWC customers contains that same information.

23
24 **Q. WHAT IS THE RELATIONSHIP BETWEEN MAWC AND AWR?**

25 A. None, other than the fact that they are both subsidiaries of American Water.

1

2 **Q. YOU MENTIONED THAT ST. LOUIS COUNTY OPERATES ITS OWN SERVICE**
3 **LINE PROTECTION PROGRAM. PLEASE DESCRIBE THAT PROGRAM.**

4 A. Section 66.405, RSMo (along with a subsequent vote of the people) authorized St.
5 Louis County to operate its own mandatory service line protection program. This
6 program operates in a manner similar to the AWR program. That is, the customer
7 pays a periodic fee and, in exchange, St. Louis County is responsible for certain
8 repairs associated with customer-owned lines.

9

10 **Q. WHAT SERVICES DOES MAWC PERFORM IN REGARD TO THE ST. LOUIS**
11 **COUNTY PROGRAM?**

12 A. MAWC performs all billing and collection functions associated with the St. Louis
13 County program. This necessarily includes the use of MAWC's customer list.

14

15 **Q. DOES THE COUNTY PAY FOR THE USE OF THE CUSTOMER LIST?**

16 A. Perhaps implicitly. MAWC receives one percent (1%) of the gross revenues
17 collected in exchange for its services. Obviously, most, if not all, of this payment is to
18 reimburse MAWC for the direct costs associated with billing and collection. MAWC
19 does not perform a billing and collection function for AWR. Thus, if one were to
20 assume that only 90% of the payment was for billing and collection services and the
21 remaining was due to use of the customer list, only one tenth of one percent (.1%) of
22 the gross revenues would be assumed to be for the customer list.

23

24 **Q. WHAT IS .1% OF THE GROSS REVENUES OF AWR?**

25 A. According to Staff figures that would amount to about \$836.

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7) RATE CASE EXPENSE

Q. WHAT IS THE ISSUE REGARDING RATE CASE EXPENSE?

A. There are two issues. The first relates to the recovery of unamortized rate case expense.

Q. WHAT IS THE COMPANY'S POSITION IN REGARD TO UNAMORTIZED RATE CASE EXPENSE?

A. MAWC has proposed deferral of the actual costs incurred to prepare and process this rate case and to amortize those costs over a two year period. In addition, as a result of the timing and settlement in the last two rate cases, \$140,872 of rate case expense from prior cases will remain unamortized at the end of September 2010. This balance represents cost expended by the Company that they have not had the opportunity to recover. MAWC's proposed solution to this problem is to amortize the unamortized balance of rate case expense over the next two years.

Q. ARE THERE ALTERNATIVE PROPOSALS IN REGARD TO RECOVERY OF UNAMORTIZED RATE CASE EXPENSE BALANCES?

A. Yes, both Staff and the Office of the Public Counsel ("OPC") argue that the Company should not be allowed to recover the uncollected portion of the deferred rate case expense, thus denying the Company the opportunity to recover some of the costs of prior rate cases. The Staff Report states that it is now the policy of Staff to allow recovery of "normalized" rate case expense and not amounts related to past proceedings. Staff's proposal would require the Company to currently write-off to

1 expense the \$140,872 of unrecoverable rate case expense.

2
3 **Q. CAN YOU EXPLAIN THE DIFFERENCE BETWEEN NORMALIZATION OF**
4 **EXPENSES AS PROPOSED BY STAFF AND AMORTIZATION AS PROPOSED**
5 **BY THE COMPANY?**

6 A. Yes. Normalization is the process of estimating what costs or revenues will be in the
7 future and establishing rates accordingly. Amortization is the process of taking a
8 known amount and spreading it over a fixed period of time in the future.

9
10 **Q. IN A RATEMAKING CONTEXT, WHEN IS IT APPROPRIATE TO USE**
11 **NORMALIZATION?**

12 A. It is often necessary to normalize income statement items when setting rates. That is
13 because revenues and expenses can fluctuate and are unpredictable. For example,
14 a wet summer can drastically reduce revenues; increased water turbidity can cause
15 chemical usage to increase; and economic conditions can cause operating and
16 maintenance costs to fluctuate. Therefore, the parties to rate case proceedings often
17 develop methods to establish a normal level of revenue and expenses that is
18 different from the test year – to “normalize” the income statement to reflect costs that
19 are expected to occur at the time rates are in effect.

20
21 On the other hand, there are certain costs that can be measured and do not require
22 estimation. Rate case expense has historically been treated in this manner.
23 Because it is difficult to predict the cost to develop, prepare and present a rate case
24 and because those costs may differ substantially depending upon whether a
25 settlement is reached or a hearing with its requisite expert witnesses and legal briefs

1 are required, parties have typically waited until near the end of the case to establish a
2 more exact measure of actual costs incurred. After the fact, those costs are deferred
3 on the balance sheet and amortized to expense over a period of time.

4
5 **Q. IS THE STAFF “NORMALIZATION” APPROACH AN ACCEPTABLE METHOD?**

6 A. I do not believe so. However, if the Commission chose to move toward a
7 normalization approach, it should do so on a prospective basis only.

8
9 **Q. WHY?**

10 A. As a result of its settlements in the last two rate cases and in accordance with
11 precedent established in prior cases, MAWC booked an asset expecting to be able to
12 receive full recovery through the ratemaking process. That has not occurred to date
13 and under the Staff’s approach would never occur. If the Staff’s recommendation to
14 disallow previously unrecovered rate case expenses is adopted, it will require MAWC
15 to write-off the recorded asset, thereby reflecting a loss and denying the Company a
16 valid opportunity to earn its authorized rate of return.

17
18 **Q. DO YOU BELIEVE STAFF’S ADJUSTMENT IN THIS CASE IS REFLECTIVE OF**
19 **NORMALIZATION RATEMAKING?**

20 A. No. Staff may be calling their methodology normalization now in order to justify
21 exclusion of unamortized costs from recovery, but Staff has not changed its
22 approach. In other words, the amortization technique has remained the same but the
23 name has changed.

24
25 If Staff followed its typical method of normalization, Staff would select some period,

1 perhaps three years, over which to develop a normalized rate case expense. They
2 have not done so in this case. Instead, for recovery of costs associated with the
3 current case, Staff has used the same approach historically employed by
4 recommending amortization over a two year period of actual costs incurred. By
5 definition, that is not normalization.

6
7 **Q. COULD AN AVERAGE BE USED TO DEVELOP A NORMALIZED ANNUAL RATE**
8 **CASE EXPENSE?**

9 A. It is a technique that could be used. However, there are complexities in approaching
10 the determination of the appropriate level of expense in that manner. First, prior rate
11 cases may have been settled while the current case goes to trial, or vice versa, with
12 vast cost differentials as a result. Second, one of the items the Company considers
13 when settling a case is the cost savings of avoiding hearings. Normalization through
14 the traditional averaging concept would give the Company a perverse incentive
15 toward avoiding settlements in order to sustain as high a going forward revenue
16 requirement as possible.

17
18 **Q. ARE THERE ANY OTHER ITEMS OF CONCERN REGARDING THE STAFF'S**
19 **APPROACH TO THIS ISSUE?**

20 A. Yes. As noted previously, it has been the practice to "true-up" or identify actual rate
21 case expense as late in the process as possible so as to incorporate the majority of
22 costs that are associated with the rate case proceedings. It is not clear from the
23 Staff's testimony whether that will continue to be the case or whether costs to be
24 considered will be cut-off at April 30th, the true-up date established by the
25 Commission in this case. If the latter is the case, the Company would obviously have

1 no opportunity to ever recover its prudently incurred costs because a significant
2 portion of rate case expenses are always incurred after the normal true-up date.

3
4 **Q. WHAT IS THE SECOND ISSUE IN REGARD TO RATE CASE EXPENSE?**

5 A. OPC Witness Ted Robertson has filed testimony indicating that it is his belief that the
6 costs associated with outside consultants and outside legal counsel should be
7 excluded from recovery. He then states that remaining rate case expenses should
8 be reduced by 50% and amortized over a two year period.

9
10 **Q. WHAT IS THE VALUE OF THIS REDUCTION?**

11 A. He does not indicate that in his testimony, but I believe that if his suggestions were
12 followed, the Company would recover about \$224,000 over the two year rate case
13 amortization period. That is compared to the \$862,000 the Company has estimated it
14 will incur to process this rate case to hearing.

15
16 **Q. WHAT WOULD BE THE FINANCIAL RESULT IF THE OPC RECOMMENDATION
17 WAS ADOPTED BY THE COMMISSION?**

18 A. The Company would be required to write-off almost \$640,000 of the costs.

19
20 **Q. DO YOU BELIEVE THE OPC ARGUMENT HAS MERIT?**

21 A. No, I believe it is substantially flawed in both theory and practicality.

22
23 **Q. WHAT IS YOUR THEORETICAL DISAGREEMENT?**

24 A. Mr. Robertson asserts that there should be a sharing of prudent expenditures
25 incurred to prepare and present a rate case because both ratepayers and

1 shareholders benefit from rate cases. In making this assertion, Mr. Robertson is
2 demonstrating either a lack of knowledge of or choosing to ignore the history of
3 regulation. Distribution utilities exist as monopolies because of economic and other
4 advantages to the public to be organized in that manner. Because they are
5 monopolies, they are regulated for the protection of the customer. In fact, the
6 mission statement of this Commission refers to the protection of the consumer. The
7 Commission fulfills this mission of customer protection, in part, through the
8 establishment of fair prices using the rate case process. It is difficult to conceive of a
9 business entity that would desire to have its prices set by an outside party; however,
10 that is a process to which regulated utilities are subjected in return for their monopoly
11 status. Regulation of utilities came into existence in large part because of the pricing
12 policies of public utility holding companies and rightly so. It is true that utilities must
13 file a rate request to have a chance to increase rates; however, they do so because
14 the regulatory process and rate cases are established by law and that law was
15 established for the protection of the customer.

16
17 **Q. WHAT ARE YOUR PRACTICAL ISSUES WITH THE OPC RECOMMENDATION?**

18 A. In practice, the recommendation is unfeasible. Mr. Robertson suggests that because
19 MAWC has many employees with college degrees and work experience, that the
20 Company's existing work force can be utilized to prepare and prosecute a rate case.
21 MAWC attempts to operate a lean workforce. Employees are already fully engaged
22 in their daily responsibilities of providing water and wastewater services to the
23 Company's customers. They are not sitting around idly, as Mr. Robertson apparently
24 believes, but are carrying out their duties on a daily basis. Diversion of existing
25 employees to address the peak workloads of rate cases could result in lower

1 customer service and jeopardize meeting legal obligations.

2
3 **Q. WHY DOES MAWC UTILIZE OUTSIDE COUNSEL AND CONSULTANTS RATHER**
4 **THAN HIRING ADDITIONAL PERSONNEL?**

5 A. MAWC has made a conscious decision to hire outside counsel and consultants for
6 those projects that are specialized and do not occur on an annual basis. This allows
7 the Company to employ persons with greater expertise and a wider skill-set than in-
8 house employees would normally possess. Moreover, this approach is more cost
9 effective because it allows for the employment of individuals on an as-needed basis
10 rather than hiring individuals at the salary and benefit levels of full-time employees
11 even though some of their time would be non-productive.

12
13 **Q. DOES MAWC ATTEMPT TO CONTROL THE COSTS OF ITS OUTSIDE**
14 **CONSULTANTS AND ATTORNEYS?**

15 A. Yes, it does. The Company issued requests for proposals for its consultants in the
16 present case except for the depreciation witness who already had a distinct price
17 advantage because he was updating a previous depreciation study rather than
18 building one from scratch. All legal bills and consulting fees are closely scrutinized
19 and employee expenses associated with the rate case are monitored to insure that all
20 expenses are reasonable and prudent. In addition, the Company makes use of in-
21 house personnel where possible. For example in-house legal counsel are actively
22 involved in rate cases in a variety of areas (e.g. coordinating discovery, public
23 hearings, and rate issues). However, retaining a sufficient number of regulatory
24 lawyers in-house on a permanent basis is less efficient and ultimately more
25 expensive than using outside counsel.

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Q. DO YOU HAVE OTHER COMMENTS ON THIS MATTER?

A. Yes. I would like to note that in a number of instances the rate case costs incurred are outside the control of the Company. The number of data requests, number of issues, complexity of issues, and other matters are often driven by the number of intervening parties, Staff, and the OPC (17 total parties in this proceeding).

Finally, it is my understanding that the Company is entitled to a reasonable opportunity to recover all prudently incurred costs used to provide utility service to customers. This would include the opportunity to recover all prudent costs incurred in the development and prosecution of this rate case.

8) CEDAR HILL WASTEWATER PLANT

Q. PLEASE EXPLAIN THE ISSUE YOU WISH TO ADDRESS REGARDING THE CEDAR HILL WASTEWATER FACILITIES.

A. Company Witness Kevin Dunn has addressed why the Cedar Hill Wastewater facilities are used and useful and should not be disallowed from rate base in this case as proposed by Staff. My testimony is limited to the accounting treatment that would be required if the Commission adopted the Staff recommendation.

Q. PLEASE DESCRIBE THE ACCOUNTING TREATMENT THAT WOULD RESULT.

A. The Company is required to follow generally accepted accounting principles (“GAAP”) in reporting its financial results. It also is subject to outside audit and must comply with the findings of its external auditors or face the possibility of a qualified

1 auditors' report on the Company's annual financial statements. Subsequent to the
2 Sarbanes Oxley legislation passed several years ago, outside auditors' will not make
3 recommendations as to the appropriate accounting treatment for individual
4 transactions. They will only review the Company's accounting in the course of their
5 annual audit and opine after the Company has preliminarily closed its books.
6 Therefore, the Company has not received an opinion from its outside auditors as to
7 the appropriate accounting treatment of such a disallowance. However, an internal
8 review of this issue and outside counsel from a member of the Financial Accounting
9 Standards Board committee at the time of approval of Statement of Financial
10 Accounting Standards No. 90, entitled "Regulated Enterprises – Accounting for
11 Abandonments and Disallowances of Plant Costs," both conclude that if the
12 Commission accepts the Staff's position, the Company would be required to write off
13 to expense the net plant balance less contributions at the date new rates go into
14 effect. This amount would be approximately \$1,140,000.

15 16 **9) COMPREHENSIVE PLANNING STUDY**

17
18 **Q. HAS ANY PARTY IN DIRECT TESTIMONY TAKEN A POSITION AGAINST THE**
19 **INCLUSION OF THE COMPREHENSIVE PLANNING STUDY ("CPS") IN RATE**
20 **BASE IN THIS CASE AND SUBSEQUENT CAPITALIZATION OF BUSINESS**
21 **TRANSFORMATION COSTS?**

22 **A.** Yes, although OPC indicated that further review of the costs and purpose of the
23 comprehensive planning study was necessary before that office could give its support
24 to the recovery of the CPS costs. Company witness John Young has provided
25 testimony supporting the purpose of the comprehensive planning study. Again, my

1 comments are limited to the accounting impact if the costs of this study were
2 disallowed from recovery.

3
4 **Q. WHAT WOULD BE THE ACCOUNTING IMPACT?**

5 A. Disallowance of the comprehensive planning study would result in an immediate
6 write-off to expense of the \$825,466 currently incurred and capitalized and another
7 \$105,396 expected to be incurred by April 30th. From a more practical standpoint, it
8 would also be sending a message to the Company that the Commission does not see
9 the need for budget billing, internet billing capabilities, secure transfer of personal
10 information, self service inquiries or any of the other myriad customer service
11 improvements, not to mention necessary internal improvements and efficiencies, that
12 would be available through completion of the project. These and all other project
13 solutions addressed by the Comprehensive Planning Study would be jeopardized if
14 the business transformation project is not considered appropriate.

15
16 **Q. YOU HAVE IDENTIFIED UNAMORTIZED PRIOR RATE CASE EXPENSE,
17 UNAMORTIZED ST. LOUIS COUNTY OPEB COSTS, ELIMINATION OF CURRENT
18 RATE CASE COSTS FROM RECOVERY, AND EXCLUSION OF THE CEDAR HILL
19 PLANT AND COMPREHENSIVE PLANNING STUDY AS ISSUES THAT WOULD
20 RESULT IN COMPANY WRITE-OFFS IF THE COMMISSION DOES NOT ACCEPT
21 THE COMPANY POSITION. WHAT WOULD BE THE FINANCIAL IMPACT OF
22 THOSE WRITE-OFFS?**

23 A. If it was necessary to recognize all these losses as a result of a Commission
24 decision, the write-offs would amount to almost \$3,000,000. A write-off of that
25 amount represents approximately 17% of MAWC's 2009 net income. A loss in net

1 income to that extent would have reduced the Company's 2009 equity return by
2 about 20 percent.

3
4 **10) ALLOCATION OF BELLEVILLE LAB COSTS**

5
6 **Q. STAFF PROPOSES A REDUCTION OF MAWC'S EXPENSE TO REALLOCATE**
7 **THE INDIRECT PORTION OF THE BELLEVILLE LAB SERVICE COMPANY**
8 **COSTS BASED ON AN AVERAGE OF THE NUMBER OF TEST ANALYSES**
9 **PERFORMED AS OPPOSED TO AN ALLOCATION OF COSTS BASED ON THE**
10 **NUMBER OF CUSTOMERS. WHAT IS THE BELLEVILLE LAB SERVICE**
11 **COMPANY?**

12 A. The Belleville Lab is a water quality testing facility located in Belleville, Illinois that is
13 operated by American Water Works Service Company. This facility performs sample
14 testing for the American Water operating companies including MAWC.

15
16 **Q. DOES THE USE OF THE BELLEVILLE LAB PROVIDE SAVINGS FOR MAWC**
17 **AND ITS CUSTOMERS?**

18 A. Yes. The Belleville Lab conducts a survey to compare its testing costs to those of
19 outside testing laboratories. Past studies have found outside labs to be consistently
20 more expensive. Also, outside testing labs will charge higher fees for evaluation of
21 "rush" samples. The Belleville Lab does not.

22
23 **Q. HOW DOES THE BELLEVILLE LAB ALLOCATE COSTS TO MAWC?**

24 A. Those costs directly attributable to MAWC are charged accordingly. The indirect
25 costs are allocated to each of the operating companies in the American Water

1 system based on customer count.

2

3 **Q. HOW DOES STAFF PROPOSE TO ALLOCATE THE INDIRECT COSTS FOR**
4 **RATEMAKING PURPOSES?**

5 A. The Staff Report proposes an adjustment that would represent an allocation of the
6 indirect costs based on an average of the number of test analyses performed on all
7 samples that were submitted to the Belleville Lab over the last five calendar years.

8

9 **Q. WHY DOES STAFF BELIEVE THAT NUMBERS OF TESTS IS A MORE**
10 **APPROPRIATE METHOD FOR THE ALLOCATION OF THESE INDIRECT**
11 **COSTS?**

12 A. Staff is concerned that MAWC is receiving an allocation of indirect costs of
13 approximately 15.29%, while MAWC's portion of test analyses represents about
14 5.64% of the total tests performed.

15

16 **Q. ARE THESE PERCENTAGES LIKELY TO BE THE SAME EVERY YEAR?**

17 A. No. An operating company's total samples can vary from one year to the next
18 because of source water conditions, contamination events and regulations. Thus, an
19 operating company's portion of Belleville Lab costs could vary widely from one year
20 to the next. I will discuss this later in my rebuttal testimony.

21

22 **Q. IS THE USE OF CUSTOMER COUNTS MORE STABLE?**

23 A. Yes. Customer counts are much less variable and do not change dramatically from
24 year to year on a system-wide basis.

25

1 **Q. DOES AWW ALLOCATE COSTS DIFFERENTLY FROM STATE TO STATE?**

2 A. No. It is system-wide policy to allocate Service Company expenses on the basis of
3 the number of customers that cannot be direct charged to operating companies.
4 Doing so makes practical sense, is easy to manage and administer and it provides
5 for system-wide consistency over multiple jurisdictions. Customer numbers are
6 currently used to allocate service company costs related to accounting,
7 administration, communications, corporate secretarial and legal, customer services,
8 engineering, financial human resources, information systems, operations, rate and
9 revenues and risk management. If each of these services is examined on a Missouri-
10 only basis for an alternative allocation methodology, I suspect that some alternatives
11 would increase costs currently allocated to MAWC.

12

13 **Q. WHY IS CONSISTENCY FROM STATE TO STATE IMPORTANT?**

14 A. Applying different allocation methods from one jurisdiction to another will undoubtedly
15 lead to a situation where AW is unable to recover all of its Belleville Lab costs. Such
16 a loss would either drive up the cost of service to operating companies or, in the
17 alternative, encourage the use of outside labs whose costs, while higher, would likely
18 be recovered in total.

19

20 **Q. ARE THERE SIGNIFICANT SWINGS IN THE LEVEL OF TEST ANALYSES**
21 **PERFORMED BY THE VARIOUS STATES THAT HIGHLIGHT THE NEED FOR**
22 **CONSISTENCY?**

23 A. Yes. Attached is Rebuttal Schedule DRW – 5, which shows the percentage of test
24 analyses for each state to the total AW system by year since 2003. The minimum
25 and maximum percentage values for each state over the five year period are

1 identified and a percentage variance is calculated. As shown the percentage
2 variances are extremely significant. For example, MAWC's minimum and maximum
3 percentages vary by 38.14%. For the state of New Mexico, the percentage variance
4 in the minimum and maximum is over 1,800%. In fact, eight out of the total of 17
5 states have a percentage variance that exceeded 80%.

6
7 **Q. DOES THE USE OF TEST SAMPLES INCENT ANY OTHER BEHAVIOR?**

8 A. Focusing on the number of samples could create a situation where an operating
9 company would have the opportunity to directly reduce its costs by reducing the
10 number of sample tests it asks to be performed. Such an operating incentive is not in
11 the best interests of public safety and one that is discouraged by allocating costs
12 based on customer counts.

13
14 **Q. WHAT IS THE CONSEQUENCE OF STAFF'S BELLEVILLE LAB
15 REALLOCATION?**

16 A. Staff's reallocation would reduce MAWC's expense by \$356,498.

17
18 **Q. WHAT IS YOUR RECOMMENDATION?**

19 A. The current allocation method for Belleville Lab costs is functioning effectively and is
20 widely accepted by regulators. Any perceived benefits from changing to multiple
21 allocation methods would be off set by the overall impact on a service company
22 system that is providing benefits for MAWC's customers. The Commission should
23 not accept Staff's proposal to reallocate Belleville Lab costs based on test analyses
24 performed.

1 **11) SECURITY COSTS – AAO**

2

3 **Q. WHAT IS THE NATURE OF THE SECURITY COSTS AAO ISSUE?**

4 A. The Company included in rate base the unamortized balance of the regulatory
5 asset associated with security costs. Both Staff and OPC oppose inclusion of the
6 unamortized balance in rate base.

7

8 **Q. PLEASE BRIEFLY DISCUSS THE SECURITY AAO.**

9 A. In Commission Case No. WO-2002-273, the Commission authorized the Company to
10 defer certain costs associated with security measures taken by the Company in the
11 aftermath of the September 11, 2001 terrorist attacks. The Company was authorized
12 to defer the costs it incurred during a two-year period ending on September 11, 2003.
13 The Company was also authorized to amortize the costs over a 10-year period. The
14 Company began amortizing the costs in December 2002, upon receipt of the
15 Commission's Report and Order.

16

17 **Q. WHAT IS THE RESULT OF INCLUDING AN ITEM IN RATE BASE IN THE**
18 **DETERMINATION OF REVENUE REQUIREMENTS?**

19 A. Amortization of an asset account provides for the return of the amount expended
20 over a period of time. Inclusion of the unrecovered portion of costs in rate base
21 provides for a return on that investment. Recovery of only the amortization over a
22 long period of time does not allow a Company to be made whole. Not only does the
23 Company receive no return on its investment, the recovery through amortization over
24 a long period of time returns the Company's investment in dollars that are less
25 valuable than when they were invested.

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Q. DO YOU BELIEVE THAT THE COMPANY SHOULD BE AFFORDED RATE BASE TREATMENT FOR THE UNAMORTIZED BALANCE OF THE REGULATORY ASSET FOR SECURITY COSTS?

A. Yes. The Company incurred the costs to provide security to its production and distribution systems, its offices, its customers, and its employees. The sole result of this investment of capital was the continued provision of safe and adequate service to MAWC's customers as the security expenditures were made to protect customers and the assets that serve them. Therefore, rate base treatment of the unamortized balance is appropriate. Just because costs are treated on the balance sheet as deferred items rather than as plant investment is no reason for different treatment in terms of allowing the Company to earn a fair return on its money invested. Capital dollars were invested in security measures for the benefit of the system and its customers and the Company should be allowed to earn a return on that capital just as it would have been had the investment been recorded to a plant account. The manner in which an item is treated for accounting purposes should not dictate what is appropriate for recovery in rates.

12) SECURITY COSTS – DEFERRED TAXES

Q. IS THERE ANOTHER ISSUE REGARDING THE SECURITY AAO ASSET?

A. Yes, there is a difference in opinion regarding the treatment of deferred taxes associated with the Security AAO costs that have been deferred. In its direct filing, Staff excluded the AAO from rate base and consistently excluded the associated deferred taxes as well. OPC takes the position that the rate base item was properly

1 excluded but that the related deferred taxes should be used to reduce rate base
2 further. The Company, of course, believes that both the costs and associated
3 deferred taxes should be included in rate base. Staff and Company positions, while
4 at odds, are internally consistent. OPC's position is not internally consistent.

5
6 **Q. IF THE COMMISSION DOES NOT ALLOW MAWC TO EARN A RETURN ON THE**
7 **UNAMORTIZED BALANCE OF THE SECURITY AAO, WHAT IS YOUR**
8 **RECOMMENDATION IN REGARD TO THE DEFERRED TAX RATE BASE**
9 **REDUCTION?**

10 A. If the Company is not allowed to earn a return on the unamortized balance of the
11 Security AAO asset, then the deferred taxes associated with the AAO asset should
12 not be used to reduce rate base. If the Company is allowed a return on the
13 remaining Security AAO balance, then the associated deferred taxes should be
14 included as a rate base reduction. It is neither fair nor reasonable to include a rate
15 base reduction for the deferred taxes associated with the Security AAO asset without
16 recognizing the very same asset as an addition to rate base. This treatment would
17 cause a mismatch in the revenue requirement model in that the customers will
18 receive the benefit of the deferred tax deduction without having to pay for the
19 Security AAO asset in rate base.

20
21 **Q. IS OPC CORRECT THAT THE COMPANY HAS RECEIVED A CASH FLOW**
22 **BENEFIT FROM THE DEFERRAL OF TAXES ASSOCIATED WITH THE AAO?**

23 A. Certainly, but OPC ignores the fact that the Company has also invested capital on
24 which they will not receive any return given Public Counsel's position. By way of
25 example, assume that the deferred security assets were the only investments made

1 by the Company. OPC's recommendation would mean that the Company would
2 receive no revenue as a return on their invested capital, but instead would be
3 required to make payments to its customers for the privilege and expense of making
4 the water system more safe and secure. No prudent business person would continue
5 to make investments under that scenario.

6
7 **13) ST. JOSEPH DISTRICT ECONOMIC DEVELOPMENT RATES**

8
9 **Q. PLEASE DESCRIBE THE ECONOMIC DEVELOPMENT TARIFF THAT IS IN**
10 **PLACE IN THE ST. JOSEPH DISTRICT.**

11 A. The St. Joseph District has in place two economic development contracts that have
12 been approved by the Commission. The Triumph Foods (Premium Pork) contract
13 was approved in Case No. WT-224-0192 on November 3, 2003, with the tariff sheets
14 becoming effective for service rendered on and after November 25, 2003. The
15 Nestle Purina Petcare contract was approved in Case No. WO-2009-0043 on
16 September 3, 2008, for service on and after September 12, 2008. As part of its
17 application in those cases, the Company submitted specific cost information to justify
18 the proposed contract rates.

19
20 **Q. WHAT IS THE ISSUE REGARDING THESE RATES?**

21 A. AGP witness Donald Johnstone asserts that those two companies on an economic
22 development rate tariff in St. Joseph are paying rates that are not cost based and are
23 therefore discriminatory. He proposes as a solution to that perceived issue either an
24 imputation of revenues at the existing industrial rates or the establishment, in effect,
25 of a special customer class. Company witness Paul Herbert will address Mr.

1 Johnstone's latter recommendation. My testimony will address the imputation of
2 revenue.

3
4 **Q. WHAT IS IMPUTED REVENUE?**

5 A. It is revenue that does not actually exist. For purposes of determining the revenue
6 requirements in this case, the parties would pretend that MAWC is earning revenue
7 that it does not really receive. Mr. Johnstone's recommendation is that the
8 Commission should pretend that the economic development contract customers are
9 paying the same rates as other industrial customers and therefore would add
10 \$1,069,623 to the revenues MAWC actually received for the twelve months ending
11 March 31, 2010.

12
13 **Q. IS THE IMPUTATION OF REVENUE APPROPRIATE?**

14 A. Certainly not in this case.

15
16 **Q. PLEASE EXPLAIN.**

17 A. Mr. Johnstone's conclusions are based upon the assumption that the economic
18 development contract customers are currently on the water distribution system and
19 that as a result they should pay the same rates as other industrial customers with
20 similar costs. What he ignores, however, is the history of the development of the
21 economic development tariff. Prior to 2003 MAWC was approached by officials of
22 the City of St. Joseph and members of the St. Joseph Chamber of Commerce. They
23 suggested that if MAWC could institute an economic development tariff, new
24 industrial customers would be attracted to the area, benefitting the St. Joseph
25 economy. Moreover, as long as the rates were established at a level to generate

1 revenue in excess of marginal costs, existing customers would benefit from the
2 additional revenue contribution toward fixed costs.
3

4 **Q. DID THE COMPANY ACCEPT THIS PROPOSAL?**

5 A. The Company developed an economic development tariff and, first with the arrival of
6 Triumph, then with the expansion of Nestle-Purina, analyzed the impact and
7 determined that entering into economic development contracts was in the best
8 interests of all MAWC's customers in the applicable district. The Company took this
9 recommendation to the Commission, which approved the contracts as noted
10 previously. In entering into these contracts, the Company has been mindful of the
11 best interests of its customers and complied with the Orders of this Commission.
12 Even if the Commission was to determine that the economic development tariffs are
13 no longer necessary, it would not be right to punish the Company through imputation
14 of revenue.
15

16 **Q. IS IT YOUR OPINION THAT AGP AND OTHER INDUSTRIAL CUSTOMERS HAVE**
17 **BENEFITTED FROM THE PRESENCE OF NEW LOAD IN ST. JOSEPH?**

18 A. Yes. Company witness Herbert has calculated that the economic development tariff
19 revenues are in excess of the marginal costs of the new customer loads. Therefore,
20 a lower revenue contribution is required from other customers than would have
21 existed without the additional load. In short, while other industrial customer rates are
22 not as low as they would be if Triumph and Nestle-Purina were paying rates at the
23 higher industrial rates, those other industrial customers are still paying lower rates
24 than would have been the case had Triumph not come to town and Nestle not
25 expanded its operations.

1
2 **14) METROPOLITAN SEWER DISTRICT ("MSD") CONTRACT**
3

4 **Q. PLEASE EXPLAIN THE CONTRACT BETWEEN MSD AND MAWC?**

5 A. MAWC provides billing data services to MSD at a flat fee. Revenue received is
6 recorded above the line and, therefore, as long as it exceeds the marginal cost of
7 providing the services, benefits other customers in the St. Louis district.
8

9 **Q. HAS THE COMPANY PREPARED AN INCREMENTAL COST STUDY
10 PERTAINING TO THE MSD CONTRACT?**

11 A. Yes, prior to the filing of the Company's last rate case, MAWC contracted for the
12 completion of an incremental cost study that showed that the revenues received were
13 well in excess of the marginal cost of providing the billing data. In addition, the study
14 determined that based upon an allocation of operating costs between MAWC and
15 MSD on which utility directly benefits from the data, the annual amount to be charged
16 to MSD would be in excess of what is currently charged.
17

18 **Q. WHAT WAS THE TREATMENT OF THE MSD CONTRACT IN THE LAST RATE
19 CASE?**

20 A. No party objected to a settlement between MSD and MAWC leaving the contract rate
21 constant.
22

23 **Q. WAS THE EXISTING MSD CONTRACT LATER APPROVED BY THE
24 COMMISSION?**

25 A. Yes. It was approved in Case No. WO-2008-0240 (issued April 1, 2008).

1

2 **Q. WHAT IS MAWC'S PROPOSAL IN THIS CASE?**

3 A. MAWC is proposing no change in the existing amount it charges to MSD for the
4 provision of water usage and customer billing data. For purposes of this case,
5 MAWC has included the full contract price in annualized revenues.

6

7 **Q. HAVE PARTIES IN THIS CASE TAKEN ISSUE WITH THE MSD CONTRACT?**

8 A. OPC believes the annual amount should be based on an allocation of fully distributed
9 cost, not incremental or negotiated costs to produce the information. Public Counsel
10 would have the rate increased from \$350,000 per year to \$545,535.

11

12 **Q. WHAT IF THE COMMISSION DETERMINES THAT MSD SHOULD BE CHARGED
13 SOMETHING DIFFERENT THAN IT IS CURRENTLY BEING CHARGED FOR
14 THESE SERVICES?**

15 A. If the Commission believes that the MSD contract rate is inappropriate, it should
16 indicate that to be the case, but should make no adjustment to revenue requirement
17 in this case. The contractual amount established and currently being paid is
18 appropriately included in the revenue requirement request in this case. The contract
19 rate can only be changed in conjunction with the Company's next rate case. Of
20 course, MSD would also have the option not to renew the contract.

21

22 **Q. WHY DO YOU BELIEVE THAT ADDITIONAL REVENUE SHOULD NOT BE
23 IMPUTED TO MAWC IF THE COMMISSION BELIEVES THE CONTRACT
24 SHOULD BE AMENDED AND THE RATE INCREASED?**

25 A. For many of the same reasons noted in the discussion regarding economic

1 development tariffs, there should be no imputation of additional revenue from MSD
2 above the level that is currently being received. The Company entered into this
3 contract only after receiving authority to do so from the Commission, it cannot be
4 amended except through application to the Commission and the contract provides for
5 revenue greater than the cost of providing billing services to MSD, thereby providing
6 benefit to all other St. Louis County customers.

7
8 **15) TANK PAINTING MAINTENANCE TRACKER**

9
10 **Q. ARE TANK PAINTING EXPENSE LEVELS AT ISSUE IN THIS PROCEEDING?**

11 A. Not at this time. Tank painting maintenance will be trued up as of April 30, 2010, and
12 it will be determined at that time whether there is a disagreement among the parties.
13

14 **Q. IS IT CORRECT, HOWEVER, THAT THE TANK PAINTING TRACKER
15 MECHANISM IS AT ISSUE?**

16 A. I do not believe that the establishment of a regulatory asset or liability in accordance
17 with the past settlement agreements are at issue. Neither is the amortization period
18 for that regulatory asset or liability. There is disagreement between Staff and the
19 Company as to whether the tracker mechanism should be continued on a going
20 forward basis.
21

22 **Q. WILL THE COMMISSION'S DECISION ON THE CONTINUATION OF THE
23 TRACKER IMPACT THE REVENUE REQUIREMENT DETERMINATION IN THIS
24 CASE?**

25 A. No, it will not.

1

2 **Q. ARE THERE OTHER TRACKER MECHANISMS IN PLACE FOR MAWC?**

3 A. Yes. Trackers also exist for MAWC employees' pension expense and post-
4 retirement medical benefits.

5

6 **Q. DOES THIS CONCLUDE YOUR PREFILED REBUTTAL TESTIMONY?**

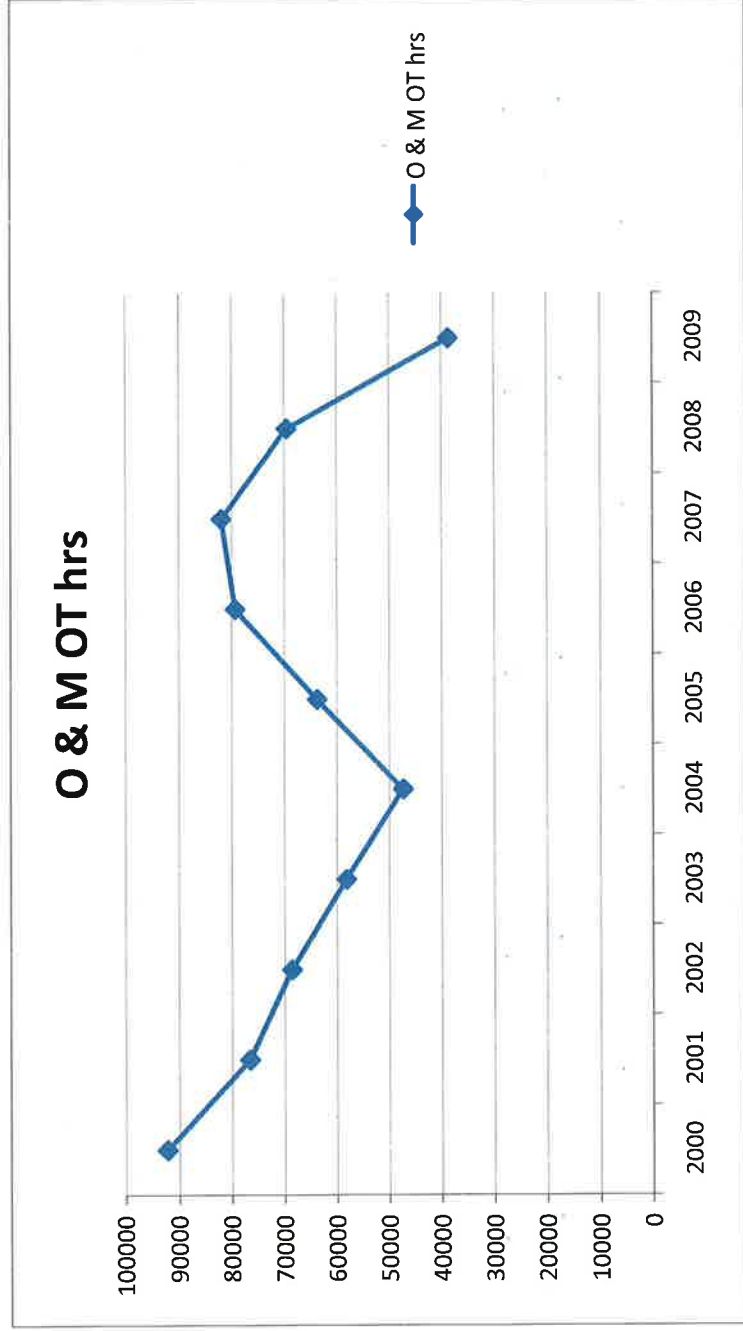
7 A. Yes, it does.

8

Missouri-American Water Company

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
O & M OT hrs	92192.86	76,609.41	68,560.40	58,177.27	47,286.56	63,708.19	79,269.63	81,863.21	69,457.31	38,648.01
Cap & Other OT hrs	22258.94	35,575.99	44,196.07	45,619.24	58,466.06	65,686.72	83,193.01	100,476.87	94,030.95	48,397.61
Total	114451.8	112185.4	112756.47	103796.51	105752.62	129394.91	162462.64	182340.08	163488.26	87045.62

O & M OT	80.6%	68.3%	60.8%	56.0%	44.7%	49.2%	48.8%	44.9%	42.5%	44.4%
Cap & Other OT	19.4%	31.7%	39.2%	44.0%	55.3%	50.8%	51.2%	55.1%	57.5%	55.6%



Numbers utilized in Staff overtime adjustment



JOB DESCRIPTION			
Job Title: Mgr Govt & Regulatory Affairs		Job Code: <u>450902</u>	
	Grade: <u>L07</u>	FLSA: <u>Exempt</u>	EEO: <u>1. Officials and Managers</u>
Salary Plan:	Level:		
Reports To:	Regional External Affairs Director		
Status: Active			
Approved: <input checked="" type="checkbox"/> 3/3/2004		Revised: <input type="checkbox"/>	
Primary role: Improve business climate for the Company through positive interactions with legislators and regulators and external opinion formers. Influence at state level to promote initiatives that support Company and other stakeholder goals and objectives.			
Key Accountabilities			Percentage of Time
Understand and articulate in a compelling way the Company position on key legislative issues.			10
Shape and influence legislative programs and other critical business issues in alignment with Company goals and objectives.			10
Establish constructive relationships with elected and appointed officials on a federal, state and local level and invest considerable time and energy in prioritized networking activity.			10
Prepare briefing documents that can be cascaded to key stakeholders (employees, public officials, etc.) to communicate pertinent issues (legislative, Company investment projects, business change, etc.)			10
Apprise senior management relative to pertinent legislative issues and other external facts which impact on the business.			10
Work cooperatively with affiliated industry, trade or consumer groups to accomplish company goals and benefit our stakeholders.			10
Education:	B.S. Degree, preferably in Communications, Political Science, Business Administration.		
Skills:	Strong verbal and written communication skills, Strong interpersonal skills. Sophisticated influencing skills, personal network, and ability to gain access to decision makers and opinion formers.		
Knowledge:	Knowledge of water industry issues and trends. Good knowledge of local and state legislative and political		



	functioning. Broad business knowledge (operational, financial, regulatory).												
Scope: (Minimum)	<table border="0"> <tr> <td>Total Supervised:</td> <td>Exempt</td> <td>Non-Exempt:</td> <td></td> </tr> <tr> <td>Direct Budget:</td> <td><u>\$0.00</u></td> <td>Indirect Budget:</td> <td><u>\$0.00</u></td> </tr> <tr> <td>Direct Revenue:</td> <td><u>\$0.00</u></td> <td>Indirect Revenue:</td> <td><u>\$0.00</u></td> </tr> </table>	Total Supervised:	Exempt	Non-Exempt:		Direct Budget:	<u>\$0.00</u>	Indirect Budget:	<u>\$0.00</u>	Direct Revenue:	<u>\$0.00</u>	Indirect Revenue:	<u>\$0.00</u>
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Direct Revenue:	<u>\$0.00</u>	Indirect Revenue:	<u>\$0.00</u>										
Experience:	Undetermined												
Certifications & Licenses:	Undetermined												
Work Environment:	Undetermined												
Travel Requirements:	Undetermined												
Key Interfaces:	Employees, elected and appointed public officials at federal, state and local level, regulators, business leaders, chambers of commerce, economic development councils, special interest groups.												
Other:	<p>Key Accountabilities (cont.):</p> <p>Track and monitor legislative bills and trends which will have an impact on our current business.</p> <p>Support our business development projects as required and provide potential new business leads to developers.</p> <p>Build knowledge and skills (external communication and influence) with the Senior Management team to build their capabilities.</p> <p>Contribute to effective communication by listening and providing constructive feedback; supporting the creation of an open and honest work environment; cascading and sharing knowledge and information relevant to other members of the team and colleagues across the business. (40%)</p>												



JOB DESCRIPTION			
Job Title: Mgr Ext Affairs (State)		Job Code: <u>450391</u>	
	Grade: <u>L07</u>	FLSA: <u>Exempt</u>	EEO: <u>1.2 First/Mid Level Officials a</u>
Salary Plan:	Level:		
Reports To:	Dir Comm & EA (State)		
Status: Active		Approved: <input checked="" type="checkbox"/> 10/31/2007	Revised: <input type="checkbox"/>
<p>Primary role: The primary role of this position is to provide senior-level communications counsel to the state president and the state senior management team and to develop, coordinate, implement and manage all external communications activities to support the success of the state business plan and operating objectives. The primary areas of responsibility include media relations, public relations, community relations, corporate social responsibility and local support to government relations activities and meeting the information needs of customers. This professional is poised to respond rapidly and tactically to unanticipated events and critical issues such as main breaks and other critical incidents, and is equally focused on providing proactive and strategic communications counsel and advise to the state senior management team. This role is focused on anticipating and managing local communications issues and effectively positioning the company with key opinion leaders and key constituencies.</p> <p>The External Affairs Manager is the critical communications resource maximizing the company's communications effectiveness, flexibility and responsiveness within the communities we serve. This professional has a comprehensive depth of communications knowledge and experience with demonstrated expertise in implementing integrated, strategic communications programs. While not directly responsible for customer communications or internal communication, the External Affairs Manager is an active and vital component of an integrated communications team operating through a matrix management model that is responsible for functional excellence reaching all audiences with a full array of internal and external communications messages, tactics and activities.</p> <p>This role is responsible for identifying, developing, nurturing and sustaining strong and enduring relationships with the media not only during unanticipated events but also to proactively to leverage media coverage. This function ensures that American Water is aligned with key community groups and organizations and well regarded and respected as a "good corporate citizen". Leads and directs all communications activities to reflect American Water's commitment to its customers and communities. Working closely with the State President and the state senior management team, the manager ensures that the company is effectively aligned and positioned to develop and sustain key relationships with community leaders, government and regulatory authorities, as well as elected and appointed officials.</p> <p>The External Affairs Manager will report to the Director of Communications and External Affairs and indirectly to the State President and to the Director of External Affairs at corporate.</p>			



Key Accountabilities	Percentage of Time
<p>Directly supports the strategic communications needs of a state and the state senior management team. Provides senior-level communications counsel and ensures the effective implementation of external affairs and related communications activities. Assists in strategy development and the proactive development of communications materials/tactics that produce cost, time and resource efficiencies across the business as well as ensures consistent messaging for all audiences. Ensures wise budget management.</p> <p>Works directly and closely with the State President to equip the state management team to develop and sustain key relationships - with community leaders, the media, elected/appointed officials, regulators and their staff members, and to manage and advance important communications objectives to these target constituencies. Employs a keen awareness and knowledge of community resources and contacts; understands the attitudes and concerns of the community. Implements communications strategies, tactics and activities to ensure ongoing, consistent and targeted communications before, during and after rate case filings.</p>	20
<p>Develops, manages and directs comprehensive strategic communications plans and supporting materials for public communications including media relations, conference participation, community relations/events, local government relations and sponsorship/memberships and executes in a proactive manner. Interacts and provides communications counsel on communications-related issues, challenges and opportunities. Develops effective crisis plans, crisis communications and serves as a spokesperson in a crisis situation. Is highly effective when developing messages for American Water during a crisis.</p> <p>Effectively manages internal and external resources, such as public relations agencies and other communications consultants, and adheres to all budget management requirements.</p> <p>Monitors internal/external business developments, as well as identifies connections between business activities and industry trends, that may pose a threat or benefit to the company's reputation. Works closely with the Customer Communications Manager, the Internal Communications Manager and the Customer Service Center Communications Manager to ensure that materials are anticipated, planned for and developed on a timely basis to meet the needs of state operations. Provides communications support to business development activities, when needed.</p>	20
<p>Effectively establishes and maintains relationships with key media outlets and educates the media on issues of interest to American Water.</p> <p>Develops, executes and measures the effectiveness of media relations strategies in support of the state's capital investment program.</p> <p>Predicts and anticipates the needs of the news media/reporters and is cognizant of meeting these needs. Plans and manages large press and community events.</p>	35



<p>Develops talking points and corresponding media materials, invitations to the media, media pitching and coaches the State President and the state senior management team on how to convey key messages effectively when dealing with the media (during an interview or when attending an editorial board meeting) or when speaking before community groups, elected or municipal leaders, or other target audiences.</p>	
<p>Works collaboratively to develop strategic communications plans and time lines. Develops plans that anticipate and deliver ahead of needs. Develops plans and oversees implementation of activities and communications tactics in support of the company's Corporate Responsibilities (CR) initiatives. Works with state and corporate legal teams to ensure consistent and appropriate language is in all materials.</p> <p>Works closely, collaboratively and seamlessly with peer communications professionals supporting the state including Customer Communications Manager, the Internal Communications Manager, the Director of Communications and External Affairs, the Customer Service Center Communications Manager and the entire Corporate Communications team in corporate to ensure communication integration and maximum effectiveness. Regularly communicates and discusses best practices with peer communications positions. Works in a seamless and integrated manner to ensure the effective strategic alignment and coordination of all communications, both internal and external, within each state and between each state and corporate.</p>	15
<p>Works closely with the state government relations lead to provide communications counsel, support and all necessary materials. Interfaces with local elected officials and develops and sustains strong working relationships with these targets.</p>	10
<p>Undetermined</p>	0
<p>Education:</p>	<p>Bachelor's degree in journalism, communications, public relations, English, advertising or related field preferred, or demonstrated experienced commensurate with the requirements of the position.</p>
<p>Skills:</p>	<p>Proactively provides senior-level strategic communications counsel to State President and other members of the state senior management team.</p> <p>Advises and manages crisis communications issues to minimize brand and reputation damage. Experienced serving as a spokesperson under normal and crisis situations. Compelling and effective public speaker and spokesperson.</p> <p>Has an unrelenting customer and market focus.</p> <p>Is a highly accomplished writer. Develops effective talking points for State Presidents and state senior management teams; Develops and writes effective press releases; researches and develops white papers; supports the speech writing needs for the State President and other</p>



	<p>state senior management team members; drafts complex proposals; develops compelling PowerPoint presentations.</p> <p>Works effectively and productively in a matrix environment.</p> <p>Able to work as part of an integrated team supporting the communications needs of the entire company within the state, while interfacing effectively with all departments within corporate communications</p> <p>Able to effectively influence, analyze, persuade and problem solve.</p> <p>Proven ability to operate with cross-cultural sensitivity and ability to maintain the highest of ethical standards.</p> <p>Possesses creativity, initiative, good judgment, and the ability to communicate thoughts clearly and simply.</p> <p>Shows empathy for the community and employee needs, while recognizing company resource limitations.</p> <p>Self-confident and an enthusiasm for motivating people with excellent relationship-building skills and savvy.</p> <p>Flexible and adaptable to recognize others views and work in varied environments.</p> <p>Strong influencing and persuasion skills to work with senior management team, and an ability to effectively communicate with diverse employee and community populations.</p> <p>Self-motivated professional who can succeed both autonomously and as part of a team with an ability to establish credibility and support the organization's preferences and priorities.</p> <p>Ability to deal with ambiguity and effectively manage multiple projects at one time and during an emergency situation.</p>
<p>Knowledge:</p>	<p>Has a thorough knowledge of strategic communications. Extensive experience in developing, implementing and measuring all related tactics and activities in support of effective integrated communications strategies.</p> <p>Displays a thorough knowledge and understanding of the media and the ability to assess a reporter's focus/beat. Is highly adept at developing and placing media materials including press releases, letters to the editor, and op-eds. Confident and experienced in arranging and conducting editorial boards.</p> <p>Possesses strong written and verbal communication skills.</p> <p>Is knowledgeable of community-based organizations, the political</p>



	<p>background and agendas of these groups, and other grassroots initiatives. Understands local and state political issues and is knowledgeable about the key players.</p> <p>Understands Reg FD disclosure requirements pertaining to publicly-traded companies and understands the difference between material and non-material information.</p> <p>Demonstrated ability to handle multiple tasks and produce quality materials while achieving results and meeting deadlines.</p> <p>Demonstrated ability to prioritize and re-prioritize quickly. Ability to multi-task and meet strict deadlines.</p> <p>Has excellent and efficient working knowledge of PowerPoint, Word, Excel and Access databases.</p> <p>Is familiar with project management work and has experience managing vendors and vendor contracts.</p> <p>Has experience planning and executing trade show and client hospitality events.</p>																				
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Experience:	Seven to ten years of experience in public relations, media relations, media reporting, marketing and community relations in a fast-paced corporate and/or agency environment.																				
Certifications & Licenses:	Undetermined																				
Work Environment:	Located in a state supporting the full array of external affairs and communications needs of the company's operations within that state.																				
Travel Requirements:	20% within the state and in the United States																				
Key Interfaces:	Internal Interfaces/Relationships: State President and state senior management team, Director of Communications and External Affairs, Customer Communications Managers, Internal Communications Managers, Government Relations Manager, Customer Service Center Communications Manager, Corporate Communications Department (specifically the External Affairs Department), Business Development, Division Management, Senior Management. External Interfaces/Relationships articulated in job description.																				
Other:	<table> <thead> <tr> <th></th> <th>Equiv Pop Svd</th> <th>Communs Svd</th> <th>Emps</th> </tr> </thead> <tbody> <tr> <td>Area 1 (NJ/NY/PA/OH)</td> <td>5.9 M</td> <td>668</td> <td>2999</td> </tr> <tr> <td>Area 2 (KY/TN/VA/WV/MD)</td> <td>1.8 M</td> <td>342</td> <td>586</td> </tr> <tr> <td>Area 3 (MO/IL/IN/IA/MI)</td> <td>4.7 M</td> <td>432</td> <td>2341</td> </tr> <tr> <td>Area 4 (CA/AZ/HI/NM/TX/WA)</td> <td>2.3 M</td> <td>120</td> <td>576</td> </tr> </tbody> </table>		Equiv Pop Svd	Communs Svd	Emps	Area 1 (NJ/NY/PA/OH)	5.9 M	668	2999	Area 2 (KY/TN/VA/WV/MD)	1.8 M	342	586	Area 3 (MO/IL/IN/IA/MI)	4.7 M	432	2341	Area 4 (CA/AZ/HI/NM/TX/WA)	2.3 M	120	576
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	<p>Direct Budget: AVG 1 - 4 1(NJ/NY/PA/OH) \$508K 2(KY/TN/VA/WV/MD) \$300K 3(MO/IL/IN/IA/MI) \$337K 4(CA/AZ/HI/NM/TX/WA) \$1.0M</p> <p>Direct Revenue: AVG 1 - 4 1(NJ/NY/PA/OH) \$112M 2(KY/TN/VA/WV/MD) \$59M 3(MO/IL/IN/IA/MI) \$132M 4(CA/AZ/HI/NM/TX/WA) \$83M</p>
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JOB DESCRIPTION			
Job Title: Sr Mgr Business Dev		Job Code: <u>552708</u>	
	Grade: <u>L06</u>	FLSA: <u>Exempt</u>	EEO: <u>1.2 First/Mid Level Officials a</u>
Salary Plan:	Level:		
Reports To:	State President/Dir Bus Dev (Div/Region)		
Status Active			
Approved: <input checked="" type="checkbox"/> 10/31/2007		Revised: <input type="checkbox"/>	
<p>Primary role: To pro-actively identify and secure suitable new business, lead the deal structuring & bid management process in the allocated territory and support the Director Business Developer in developing, updating the Regional business development plan and implementing the plan to secure profitable and sustainable business growth in line with the company's business plan targets and strategy.</p>			
Key Accountabilities			Percentage of Time
Build the business development pipeline and target opportunities to help maintain a steady flow of projects and secure those within plan timescales, Identify, qualify and prioritize leads through the use of appropriate tools, local market data and active targeted prospecting; Negotiate and close deals in line with the agreed commercial parameters and which contribute to business plan targets.			40
Develop, shape & track potential opportunities and match service and product offerings with customer needs. Combine service offerings to create commercially viable solutions to meet customer needs.			25
Manage the end to end business development cycle; Effectively project manage the business development process from deal structuring through to commercial operation for major contract services, tuck-ins and service offerings; Identify creative approaches to developing & structuring new opportunities which accurately reflect client needs & support business plan priorities.			15
Lead the development of the bid strategy, deal structuring, project financing and credit assessment of opportunities and champion projects through the Division/Regional/Corporate investment appraisal process; Identify, secure and manage cross functional and Regional resources to help evaluate, risk assess, develop & structure bids and develop implementation plans which outline resource & capability requirements to deliver the deal.			10
Create market awareness and interest in American Water, and develop and maintain American Water brand image with the key industry stakeholders within the designated territory.			5



Ensure effective and timely deal documentation from the qualification process through the development of the project & contract negotiation history data and ensure this data is updated in the relevant databases in order to enable efficient transition to the Operational teams.	5												
Education:	Bachelor Degree required.												
Skills:	<p>Strong team management & communication skills Ability to follow-through, converting long term relationships into value adding deals Highly developed relationship management & communication skills Ability to follow-through, converting long term relationships into value adding deals Project, bid structuring & negotiation skills. High levels of integrity and ability to operate within established company frameworks</p>												
Knowledge:	<p>Water and wastewater utility infrastructure Strong financial and commercial acumen.</p>												
Scope: (Minimum)	<table border="0" style="width: 100%;"> <tr> <td>Total Supervised: Exempt</td> <td style="text-align: center;"><u>5</u></td> <td>Non-Exempt:</td> <td style="text-align: center;"><u>0</u></td> </tr> <tr> <td>Direct Budget:</td> <td style="text-align: center;"><u>\$0.00</u></td> <td>Indirect Budget:</td> <td style="text-align: center;"><u>\$0.00</u></td> </tr> <tr> <td>Direct Revenue</td> <td style="text-align: center;"><u>\$0.00</u></td> <td>Indirect Revenue:</td> <td style="text-align: center;"><u>\$0.00</u></td> </tr> </table>	Total Supervised: Exempt	<u>5</u>	Non-Exempt:	<u>0</u>	Direct Budget:	<u>\$0.00</u>	Indirect Budget:	<u>\$0.00</u>	Direct Revenue	<u>\$0.00</u>	Indirect Revenue:	<u>\$0.00</u>
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Direct Revenue	<u>\$0.00</u>	Indirect Revenue:	<u>\$0.00</u>										
Experience:	Accomplished business developer with a minimum of 10 years experience and a proven track record of success in the water and waste water utility services in the regulated and non-regulated markets.												
Certifications & Licenses:	Undetermined												
Work Environment:	Office												
Travel Requirements:	40%												
Key Interfaces:	<p>State President (Regulated BD) and state leadership team Division/Regional Business Development Director Bid support team State and Corporate functional experts: Operations, HR, Legal, Finance Business Developers within & across the Division/Region SVP, Sales and Business Development External Affairs (Marketing Communications) AWE VP Business Development</p>												
Other:	<ol style="list-style-type: none"> 1. Combines two current jobs Client Executive (#550902) and Business Developer (#550802). 2. Depending on a State's business development strategy/opportunities the "client executive" or "business developer" aspects of this position may be emphasized. 3. The title of Director can be used for external business. <p>Total Supervised: Exempt 2-8 (Deal Team)</p>												

**Missouri American Water Company
 Belleville Labs - Five Year Review
 Summary of Test Analysis by Operating Company
 Showing % Min and Max of Test Analyses**

State	2005	2006	2007	2008	2009	Min	Max	% Var
Arizona	5.52%	6.06%	4.29%	5.59%	6.88%	4.29%	6.88%	60.37%
California	15.89%	17.86%	11.48%	14.46%	19.13%	11.48%	19.13%	66.67%
Iowa	0.64%	0.88%	0.69%	0.51%	0.66%	0.51%	0.88%	73.45%
Illinois	9.96%	6.31%	5.87%	7.37%	5.73%	5.73%	9.96%	73.78%
Indiana	4.57%	3.78%	7.33%	6.85%	7.52%	3.78%	7.52%	99.02%
Kentucky	1.33%	1.64%	1.65%	4.07%	1.89%	1.33%	4.07%	204.74%
Maryland	0.49%	0.32%	0.31%	0.29%	0.21%	0.21%	0.49%	134.29%
Michigan	0.15%	0.07%	0.05%	0.21%	0.10%	0.05%	0.21%	310.83%
Missouri	6.40%	6.04%	6.02%	5.51%	4.63%	4.63%	6.40%	38.14%
New Jersey	33.27%	34.89%	33.06%	34.13%	33.48%	33.06%	34.89%	5.54%
New Mexico	0.03%	0.42%	0.25%	0.60%	0.23%	0.03%	0.60%	1800.90%
New York	1.78%	2.21%	2.04%	1.82%	1.56%	1.56%	2.21%	41.95%
Ohio	2.22%	1.93%	4.15%	3.53%	2.93%	1.93%	4.15%	115.32%
Pennsylvania	11.45%	11.70%	15.06%	9.44%	11.21%	9.44%	15.06%	59.53%
Puerto Rico	0.75%	0.93%	0.00%	0.00%	0.00%	0.00%	0.93%	
Tennessee	1.14%	1.05%	1.50%	1.12%	1.99%	1.05%	1.99%	89.18%
Texas	0.00%	0.03%	0.08%	0.00%	0.01%	0.00%	0.08%	
Virginia	1.74%	1.18%	3.35%	1.84%	1.84%	1.18%	3.35%	184.89%
West Virginia	2.68%	2.70%	2.82%	2.65%	0.00%	0.00%	2.82%	
Total	100.00%	100.00%	100.00%	100.00%	100.00%			