

Exhibit No.:
*Issues: Regulatory Deferral- Security AAO,
Comprehensive Planning Study and
Overtime*
Witness: Amanda C. McMellen
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: WR-2010-0131
Date Testimony Prepared: April 15, 2010

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

AMANDA C. McMELLEN

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2010-0131

Jefferson City, Missouri
April 2010

1
2
3
4
5
6
7
8
9

TABLE OF CONTENTS
REBUTTAL TESTIMONY OF
AMANDA C. McMELLEN
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2010-0131

REGULATORY DEFERRAL – SECURITY AAO..... 1
COMPREHENSIVE PLANNING STUDY 3
OVERTIME 4

1 **REBUTTAL TESTIMONY OF**

2 **AMANDA C. McMELLEN**

3 **MISSOURI-AMERICAN WATER COMPANY**

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

5 Q. Please state your name and business address.

6 A. Amanda C. McMellen, 200 Madison Street, Suite 440, Jefferson City,
7 MO 65102.

8 Q. Are you the same Amanda C. McMellen that was responsible for certain
9 sections of the Staff Cost of Service Report filed in this case?

10 A. Yes, I am.

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

12 A. The purpose of this rebuttal testimony is to address certain aspects of
13 Missouri-American Water Company's (MAWC or Company) direct filing regarding its
14 regulatory deferral-security accounting authority order (AAO), comprehensive planning study
15 and calculation of employee overtime.

16 **REGULATORY DEFERRAL – SECURITY AAO**

17 Q. Please describe the "Security AAO."

18 A. In Case No. WO-2002-273, the Missouri Public Service Commission
19 (Commission) approved the deferral of costs related to the improvement and enhancement of
20 security at MAWC's facilities. The Company was allowed to accumulate the deferral for two
21 years following the terror attacks of September 11, 2001, and continuing through
22 September 11, 2003. The Commission ordered that MAWC immediately begin the
23 amortization of the deferral over a ten-year period.

Rebuttal Testimony of
Amanda C. McMellen

1 Q. Has the Commission's Staff (Staff) made any changes to the regulatory
2 deferrals since the direct filing?

3 A. Yes. In its' direct filing, the Staff, in error, included this deferral in rate base
4 for the following districts: Brunswick, Jefferson City, Joplin, Mexico, Parkville Water,
5 St. Louis Metro and Warrensburg. These items are no longer included in rate base for any of
6 MAWC's operating districts.

7 Q. Does the Staff's Cost of Service include the amortization of the deferred
8 security costs?

9 A. Yes.

10 Q. Does the Staff agree with the Company's inclusion of the unamortized balance
11 of the Security AAO in rate base?

12 A. No. The Staff proposes to follow the treatment prescribed by this Commission
13 for other AAOs regarding the unamortized deferral balance. This treatment was first
14 prescribed by the Commission in its Order in Case No. GR-98-140 involving
15 Missouri Gas Energy's (MGE's) service line replacement deferrals. In that case, the
16 Commission's Order noted that by using a 10-year amortization period to reflect the deferral
17 in rates, it was recognizing a shorter amortization period than the 20 years the Staff had
18 recommended, and had been approved by the Commission for MGE, in prior cases. Given
19 this reduced amortization period, the Commission deemed it proper for the ratepayers and
20 shareholders to share the effect of the regulatory lag by allowing MGE to earn a return of, but
21 not a return on, the deferred balance. The Staff believes this regulatory treatment, which has
22 been accepted by the Commission for other AAOs, should be adopted in this case as well. As
23 previously mentioned, consistent with the treatment ordered for MGE in

1 Case No. GR-98-140, and the period prescribed in WO-2002-273, the Staff is recommending
2 a ten-year amortization of deferred security costs and exclusion of the unamortized balance
3 from rate base in this proceeding.

4 **COMPREHENSIVE PLANNING STUDY**

5 Q. What is the Comprehensive Planning Study (CPS or study)?

6 A. The CPS is a study that began in late 2008 by American Water Works
7 (MAWC's parent company) as a process to review the Company's business systems and
8 processes, as explained in the direct testimony of company witness Dennis R. Williams on
9 pages 16 through 19.

10 Q. Has the CPS been completed?

11 A. The Staff has not received any information from the Company that the CPS nor
12 any related implementations from the study have been completed to date.

13 Q. Did the Company include any amounts for the CPS in its case?

14 A. Yes. MAWC included over \$900,000 in plant in service for the costs
15 associated with the CPS in its direct filing.

16 Q. Has the Staff included any costs for the CPS?

17 A. No. The CPS is a massive project and the results of the study could amount to
18 significant increases to MAWC's plant in service. To date, the information provided to the
19 Staff has not indicated that the CPS is completed or that any of the results of the study have
20 been implemented. So, any costs associated with the CPS or implementations from the study
21 are not in service and are not considered used and useful in the present case. In addition,
22 information concerning the prudence of the study still needs to be reviewed and analyzed by

1 the parties in this case. For these reasons, the Staff has not included any costs associated with
2 the CPS.

3 **OVERTIME**

4 Q. What is the method the Staff used to calculate the Company's compensation
5 related to overtime in this case?

6 A. The Staff normalized overtime hours and associated dollars and taxes.

7 Q. Please describe why normalization is often necessary for the calculation of
8 overtime compensation includable in rates?

9 A. Overtime hours for the Company tend to vary from year to year based on
10 several factors, such as current level of employees, scheduled and unscheduled construction
11 and maintenance projects, customer usage patterns and other environmental factors, not
12 necessarily in the control of the Company. Because of this variability, it is important to
13 attempt to smooth-out overtime hours worked in the test year to better reflect an ongoing level
14 or normal level of expense.

15 Q. What normalization approach did the Staff use in its direct filed position?

16 A. The Staff chose a three-year (2006, 2007 and 2009) normalization period by
17 district in an effort to best reflect an ongoing level of overtime hours multiplied by the current
18 average hourly overtime rate. The Staff excluded the year 2008 because it seemed skewed as
19 compared to the other years.

20 Q. Has the Staff updated its position on the normalization period used since its
21 direct filing?

22 A. Yes. After discussion with the Company, the Staff reviewed the information
23 again and discovered an error. In its calculation, the Staff initially used total overtime hours,

1 which included overtime hours that were capitalized and included in the rate base, for the
2 normalization, instead of using total operation and maintenance (O&M) overtime hours. The
3 Staff re-analyzed the data and decided to use a five-year normalization period
4 (2005 through 2009).

5 Q. Does MAWC use the same method for normalization of overtime?

6 A. No. MAWC's witness, Mr. Williams, in his direct testimony on page 9 and
7 10, explains the Company's position as follows: "The Company's adjustment for overtime
8 was calculated by taking the three year average of overtime in relation to total payroll."

9 Q. Why does the Staff believe this is not the appropriate method to calculate
10 overtime in this case?

11 A. The Staff believes that by using an average of overtime as a relation to total
12 payroll does not accurately reflect a normalized level of ongoing overtime compensation for
13 the Company because the amount of overtime incurred is dependent upon many factors other
14 than the current payroll level as discussed above. By doing a separate analysis of the
15 overtime hours and then applying the current average overtime rate, the Staff has accurately
16 calculated a normalized level of expense for the Company.

17 Q. Does this conclude your rebuttal testimony?

18 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI


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

Case No. WR-2010-0131

AFFIDAVIT OF AMANDA C. MCMELLEN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

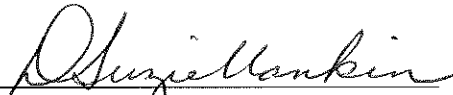
Amanda C. McMellen, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 5 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.



Amanda C. McMellen

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

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071



Notary Public