

Exhibit No.:

*Issues: Overtime; External Affairs and
Business Development; AWR
Revenues; Allocation of Belleville
Costs; and Comprehensive Planning
Study*

Witness: Amanda C. McMellen

Sponsoring Party: MoPSC Staff

Type of Exhibit: Surrebuttal Testimony

Case No.: WR-2010-0131

Date Testimony Prepared: May 6, 2010

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

AMANDA C. McMELLEN

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2010-0131

*Jefferson City, Missouri
May, 2010*

1
2
3
4
5
6
7
8
9
10
11
12

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

OVERTIME 1

EXTERNAL AFFAIRS AND BUSINESS DEVELOPMENT 4

AWR REVENUES 5

ALLOCATION OF BELLEVILLE LAB COSTS 9

SECURITY COSTS AAO 16

COMPREHENSIVE PLANNING STUDY 17

1 **SURREBUTTAL 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 and Rebuttal Testimony filed in this case?

10 A. Yes, I am.

11 Q. What is the purpose of this Surrebuttal Testimony?

12 A. The purpose of this Surrebuttal Testimony is to address the
13 Rebuttal Testimony of Missouri-American Water Company's (MAWC or Company) witness
14 Dennis R. Williams regarding labor related costs (overtime and external affairs and business
15 development), American Water Resources, Inc. (AWR) revenues, allocation of Belleville Lab
16 costs and the regulatory deferral-security accounting authority order (security costs-AAO).
17 My Surrebuttal Testimony also addresses MAWC's witnesses Mr. Williams and
18 John S. Young in regards to the comprehensive planning study (CPS).

19 **OVERTIME**

20 Q. What differences still exist between the Commission Staff (Staff) and the
21 Company regarding overtime expense?

22 A. The difference between the Company and the Staff regarding overtime expense
23 is valued at around \$660,000 currently.

1 Q. What makes up this difference?

2 A. There are two parts of the difference between the Staff and the Company in
3 regard to overtime expense. The first relates to the annualization of all labor related costs.
4 The Staff annualized all labor costs (including overtime) based on the update period ordered
5 in this case, October 31, 2009. The Company, however, annualized the wages and employee
6 levels through the true-up period, April 30, 2010. As stated on page 3 of the
7 Rebuttal Testimony of witness Mr. Williams, "This is simply a matter of timing and the
8 differences between the Staff and Company positions for items 3 and 4 in the table above
9 should be eliminated when these items are adjusted in the true-up process."

10 Q. Does the Staff agree with the Company?

11 A. Yes. The Staff agrees with the Company that the timing differences should no
12 longer be an issue after the true-up audit is complete for wages and employee levels.

13 Q. Please explain the second part of the difference between the Staff and the
14 Company relating to overtime expense.

15 A. The second part of the difference for overtime is based on the method used to
16 normalize the expense. In my Rebuttal Testimony, I explained the error that was found in the
17 Staff's overtime calculation, which changed the Staff's average from a three-year average of
18 all overtime hours to a five-year average of only operation and maintenance (O&M) hours.
19 The Staff then applied the test year average overtime rates by district. This change also
20 addresses the Staff's inconsistencies as addressed in witness Mr. Williams'
21 Rebuttal Testimony (pages 4 and 5).

22 Q. Will the Staff look at overtime wage rates again in this case?

Surrebuttal Testimony of
Amanda C. McMellen

1 A. Yes. The overtime wage rates will be analyzed again in the true-up period to
2 represent the most current ongoing rates.

3 Q. What method did the Company use to normalize overtime expense?

4 A. The Company used a three-year average percentage of overtime dollars as
5 compared to total payroll dollars.

6 Q. Why does the Staff believe the Company's method of normalizing overtime
7 is inappropriate?

8 A. Overtime hours for the Company tend to vary from year to year based on
9 several factors, such as current level of employees, scheduled and unscheduled construction
10 and maintenance projects, customer usage patterns and other environmental factors not
11 necessarily in the control of the Company. With these factors in mind, the Staff feels that
12 there is not a direct correlation between the amount of overtime dollars and total payroll
13 dollars. By doing a separate analysis of the overtime hours, the Staff calculated a more
14 appropriate normalized level of ongoing overtime expense.

15 Q. Why did the Staff change to a five-year average?

16 A. The Staff changed to a five-year average after making the changes discussed
17 above. After reanalyzing the overtime data, the Staff did see what seemed like a downward
18 trend in O&M overtime hours from 2007 through 2009. This was explained in the
19 Rebuttal Testimony of witness Mr. Williams (page 5 and 6), as follows: "In 2009, for
20 example, the company experienced an unusually low number of main breaks and the resulting
21 number of overtime hours to repair those breaks was, as a result, lower than normal." As a
22 result of this information, the Staff believes this downward trend will not continue and

1 therefore a three-year average (2007 through 2009) of total O&M hours is too low. A
2 five-year average reflects a more normalized level of overtime hours.

3 **EXTERNAL AFFAIRS AND BUSINESS DEVELOPMENT**

4 Q. Please briefly explain this issue.

5 A. The Staff removed the labor and benefits for the employees of MAWC as
6 follows: 1) 100% of the Director of Governmental Affairs (which the Company did not take
7 issue with), 2) 100% of the Manager of Government and Regulatory Affairs, 3) 50% of the
8 Senior Manager of Business Development; and 4) 10% of the Manager of External Affairs.
9 The Company contends in its Rebuttal Testimony from Mr. Williams starting on page 11, line
10 24, continuing through page 12, line 1, as follows: “However, the Company does take strong
11 exception to the exclusion of portions of the compensation and benefits for other individuals
12 who have absolutely no association with what the Staff refers to as “lobbying” or
13 “nonregulated” activities.”

14 Q. Do you agree with Mr. Williams?

15 A. No. As a response to Staff Data Request No. 63.3, the Company identified the
16 Director of Governmental Affairs, the Manager of Government and Regulatory Affairs and
17 the Manager of Business Development as registered lobbyists with the State of Missouri.
18 Also, the Staff was not provided with any additional information other than the general
19 American Water Works Company, Inc. (American Water or AWW) job descriptions for these
20 positions until Mr. Williams’ Rebuttal Testimony. This additional information, concerning
21 specific job duties that are different than the actual job descriptions provided, should have
22 been provided to the Staff earlier as responses to data requests.

23 Q. Does this new information change the Staff’s position?

1 A. No. The Staff still believes that the duties described in the Rebuttal Testimony
2 of Mr. Williams, for the positions listed above, are not all inclusive of the duties performed
3 by these employees and that there are still duties provided by data response that are related to
4 lobbying/legislative efforts and non-regulated activities that provide no benefit to
5 Missouri ratepayers.

6 Q. Should the Company update or revise their job descriptions for the positions
7 mentioned above?

8 A. Yes. The Staff feels that updating these job descriptions to more accurately
9 reflect the employees' actual job duties would be beneficial in the future. Even if they are not
10 revised or updated at the American Water (parent company) level, maybe MAWC can create
11 more specific job descriptions for these employees.

12 **AWR REVENUES**

13 Q. Does the fact that MAWC no longer provides customer lists or letters of
14 endorsement to customers about AWR offerings somehow absolve MAWC from its
15 responsibility to seek compensation for these endorsements and marketing activities?

16 A. No. As the Staff has already described in its direct testimony, MAWC has
17 made it possible for AWR to successfully offer the water-line, sewer-line and in-home
18 plumbing protection programs not only because it has supplied updated customer lists to
19 AWR through June 2007, but because of the endorsements Company officials provided for
20 AWR programs in the past. MAWC has provided on six occasions a signed letter of
21 endorsement by Mr. Thornburg, a previous MAWC President, promoting AWR's water line
22 protection program. The letterhead the endorsement was placed on, as well as the mailing
23 envelope, contained the trusted name of MAWC and its logo. The Staff contends that these

1 MAWC marketing activities have created a significant amount of credibility for the services
2 offered by AWR. This establishment of credibility and trust lends tremendous value to
3 AWR's offerings for which MAWC should be fairly compensated. Just because MAWC
4 stopped engaging in those promotional activities in March 2004, does not undo the linkage
5 that has been created in the Missouri utility customer's mind between AWR and MAWC, nor
6 does it diminish the trust and credibility that has been established between the two entities.
7 The Staff maintains that the credibility and trust established with the water line protection
8 plan naturally extends to AWR's sewer line protection plan, as well as its in-home plumbing
9 protection plan. Furthermore, MAWC continued to provide AWR with updated mailing lists
10 that were used for marketing all three of these programs up through June 2007.

11 Q. Why did the Company stop providing updated mailing lists after June 2007?

12 A. The Company stopped providing updated mailing lists after the Staff noted its'
13 concerns in previous cases.

14 Q. Please respond to Mr. Williams' comment that imputed revenues for
15 ratemaking purposes to MAWC "would amount to about \$836." (Williams Rebuttal,
16 page 25, line 25).

17 A. The Staff disagrees with Mr. Williams' proposal. His quantification is based
18 upon a contract MAWC currently has with the St. Louis County Public Works Department
19 (SCPWD) for billing and collection services. Mr. Williams is attempting to compare the
20 billing and collection assistance that MAWC performs for the SCPWD with the promotional
21 assistance that MAWC has provided to its affiliate AWR. The Staff believes that these two
22 programs are significantly different. The SCPWD program is mandated by
23 Section 66.405 RSMO (along with a subsequent vote of the people) and requires no marketing

1 by the Company. AWR would likely not have realized the market penetration it experienced
2 from Missouri ratepayers if not for the endorsements provided by MAWC.

3 The Staff contends that AWR is in the business of offering its water and sewer service
4 line and in-home plumbing protection programs in order to earn a profit. For this reason, the
5 firm is soliciting thousands of MAWC customers. Many have already signed up for the
6 various programs. However, AWR would not have generated a profit as easily without the use
7 of the MAWC logo, MAWC endorsements and its customer lists that MAWC ultimately
8 provided free of charge. MAWC has never sought any compensation for all of its assistance.
9 Although requested through DRs, the Staff has not received any information from the
10 Company regarding any amount of compensation received or contracts for these services. If
11 MAWC was truly acting in its own best financial interests, and that of its ratepayers, it would
12 have negotiated a better deal than to receive absolutely no compensation for all of the
13 marketing services it provided to AWR. The Staff is hard pressed to believe that MAWC
14 would voluntarily give this information or this type of assistance to a non-affiliated company
15 without seeking compensation.

16 Q. What would be the impact if American Water was to offer this protection plan
17 program to its customers instead of allowing AWR to offer it?

18 A. The Staff believes, from its perspective, that American Water would rather
19 have its non-regulated affiliate company AWR offer the program instead of the regulated
20 MAWC. This would allow AWR to charge unregulated prices and keep all of the profits, and
21 at the same time use the time and resources of the utility to target its service offerings free of
22 charge. If MAWC were to offer the program, the profits it earned from such a program would
23 help to reduce rates that ratepayers in Missouri would have to pay. As it stands, by offering

1 the program through an affiliate, AWR can shield all of the profits from MAWC's ratepayers.
2 The Staff contends that since the program is offered through an affiliated company and
3 MAWC is not acting in the best interests of its ratepayers, some adjustment needs to be made
4 to properly compensate MAWC and its ratepayers. The Staff believes that MAWC should not
5 have provided the customer lists and all of the aforementioned services without compensation
6 from AWR for the Missouri ratepayers who have been solicited for the program. Certainly, all
7 of the MAWC assistance and the continually updated customer lists have much more value
8 than the approximate \$836 that is suggested by Mr. Williams.

9 Q. What compensation is the Staff attempting to recover in making
10 its adjustment?

11 A. The Staff adjustment to increase MAWC's revenues by \$75,635 annually is
12 attempting to recover a portion of the profits that AWR will generate annually from offering
13 the water line, sewer line and in-home plumbing protection programs in Missouri. To date, the
14 Staff has only received information regarding the revenues that AWR generated from MAWC
15 customers. MAWC objected to providing the Staff with the level of expenses AWR has
16 experienced in relation to serving MAWC customers for the three programs. This prevented
17 the Staff from determining the exact AWR profits that have resulted from transactions with
18 MAWC customers. In the absence of the objected-to-AWR expense and profit information
19 relevant to MAWC customers, the Staff assumed a 50% profit margin for the water, sewer
20 and in-home plumbing protection programs that are being offered to MAWC customers. The
21 Staff believes that MAWC is fairly entitled to 25% of AWR's estimated profits associated
22 with the water line program and 12.5% of AWR's estimated profit associated with its sewer
23 line and in home plumbing programs. The Staff's proposal attempts to more equitably share

1 profits between AWR and MAWC ratepayers so they will both profit from these programs.
2 The Staff does not believe that Mr. Williams' proposal to include only one-tenth of one
3 percent of gross revenues received by AWR represents fair compensation to MAWC and the
4 ratepayers for opening the door for AWR to potentially earn significant unregulated profits.

5 **ALLOCATION OF BELLEVILLE LAB COSTS**

6 Q. Why did the Staff propose its allocation methodology of distributing non-direct
7 Belleville Lab costs by using a five-year average of actual test analyses performed?

8 A. The Staff's test analysis allocation methodology best represents the true nature
9 of work that is performed at Belleville Lab for MAWC and for all of the other
10 American Water operating companies. The Staff used an average of the test analyses that
11 Belleville Lab performed on water samples over the last five calendar years ending
12 December 31, 2009. As will be explained later in this Surrebuttal Testimony, the Company's
13 proposed method of allocating Belleville Lab costs using customer counts results in the
14 situation where Missouri ratepayers are forced to subsidize the testing work that is being
15 performed for customers of operating companies located in other states. The Staff's proposed
16 methodology of allocating non-direct Belleville Lab costs using an average of actual test
17 analysis for all of the operating companies taking service from Belleville Lab results is a more
18 accurate assignment of cost to each operating company. This methodology appropriately
19 reflects the actual work that Belleville Lab performed per operating company. Using a
20 measure of the actual work performed at Belleville Lab will result in a more accurate
21 matching of cost-causers to costs than simply using customer counts, which is an indirect
22 measurement of relative cost responsibility at best.

1 Q. In making its adjustment is the Staff suggesting that MAWC reduce the
2 amount of testing and sampling that is now performed at Belleville Lab?

3 A. No. The Staff is in no way suggesting that MAWC, or any other operating
4 company, reduce its level of testing and sampling that is required by the
5 Environmental Protection Agency's federal water quality standards that are duly enforced by
6 the Missouri Department of Natural Resources. The Staff encourages the Company to
7 maintain strict adherence to all of its water quality testing requirements. The Staff's
8 recommendation only addresses the allocation of cost among the entities receiving service
9 from Belleville Lab, not the performance or quantity of testing for any specific entity.

10 Q. How does the Staff respond to Mr. Williams' assertion that "An operating
11 company's total samples can vary from one year to the next because of source water
12 conditions, contamination events and regulations. Thus, an operating company's portion of
13 Belleville Lab costs could vary widely from one year to the next." (Williams' Rebuttal,
14 page 37, lines 17-20)?

15 A. The Staff disagrees with Mr. Williams' implication that the potential
16 variability in allocation percentages from year to year makes the Staff's test analysis method
17 incorrect. The Staff believes that these types of conditions clearly underscore why the Staff's
18 methodology is more appropriate. The Company's customer count methodology will never
19 take into account conditions such as source water conditions, state specific regulations or
20 contamination events because customer counts have nothing to do with these types of events.
21 Similarly, they do not address differences in the source of supply and the numbers of
22 connections to the systems that exist between operating companies. However, the Staff's

1 methodology of using the number of testing analyses performed is directly correlated to each
2 of these specific conditions.

3 Q. Does Belleville Lab currently track test analyses to be performed for each
4 operating company?

5 A. Yes. Belleville Lab requires each operating company to submit a list of the
6 number and frequency of water analyses that each operating company expects the lab to
7 perform during the upcoming calendar year. These lists are received by the lab in the
8 mid-November through early December time period. During a tour of the lab in January 2010,
9 the Staff learned that these lists are used to send out sample bottles and to prepare for the
10 work to be performed by the lab in the upcoming year. In addition, it was indicated to the
11 Staff that the lab maintains historic data of actual test analysis that it performs. The existence
12 of this test analysis history demonstrates that this basis for the allocation of the Belleville Lab
13 costs is readily available and more indicative of the work performed than a basis that relies on
14 customer counts.

15 Q. Please respond to Mr. Williams' assertion that there are "significant swings in
16 the level of test analyses performed by the various states that highlight the need for
17 consistency" (Williams Rebuttal, page 38, lines 20, through page 39, line 5) and that the use
18 of "customer counts are much less variable" (Williams Rebuttal, page 37, lines 22-24).

19 A. The Staff recognizes that its method could result in more variability and used a
20 five-year average of test analyses to alleviate this concern in its recommended test analyses
21 allocation percentage. However, the consequences of continuing to use the Company's
22 method of relying on customer counts results in a significant and continuous overcharge for
23 MAWC's customers. This continued significant subsidy of other systems by MAWC erodes

1 the savings that the Company's customers are supposed to achieve as a result of centralizing
2 the laboratory function. The following chart reflects the test analyses allocations for
3 California-American Water Company (California American) for the five years listed, as well
4 as the customer allocation percentages for the same time period:

| 12 Months | Test Analyses | Customer Count |
|----------------------|-------------------------------------|-------------------------------------|
| <u>Ending</u> | <u>Allocation Percentage</u> | <u>Allocation Percentage</u> |
| 12/31/05 | 15.9% | 5.3% |
| 12/31/06 | 17.9% | 5.4% |
| 12/31/07 | 11.5% | 5.2% |
| 12/31/08 | 14.5% | 5.2% |
| 10/31/09 | 18.6% | 5.2% |
| 5-Year Average | 15.7% | 5.2% |

14 As can be seen from the chart above, California-American has consistently required
15 Belleville Lab to perform more test analyses and use more laboratory resources than would be
16 indicated by an allocation method that relies on customer counts. This example demonstrates
17 that using the Company's proposed customer allocation method results in
18 California-American ratepayers consistently paying less for Belleville Lab costs than is
19 appropriate. This means that all other American Water operating companies, including
20 MAWC, are put in the position of subsidizing California-American's testing requirements.
21 Using MAWC's approach, California-American customers will continue to receive a discount
22 for water testing at the expense of ratepayers from other American Water
23 operating companies.

24 Q. Do you have another example that would demonstrate that the use of
25 customers as an allocation basis is improper?

26 A. Yes. In January 2002, MAWC purchased the City of Florissant Water System
27 (Florissant). Prior to this, Florissant operated as a wholesale customer of MAWC. Upon

Surrebuttal Testimony of
Amanda C. McMellen

1 completion of the sale, Florissant customers became retail ratepayers of MAWC. The sale
2 resulted in a change in MAWC's customer numbers from one wholesale customer to
3 approximately 14,500 retail customers. As a result of this sale, MAWC was allocated more
4 Belleville Lab cost based on the Company's method of using customer counts as the basis for
5 allocation. However, the actual number of test analyses required for MAWC did not change.
6 This is a good example of how MAWC's proposed allocation method is not based upon actual
7 cost causation principles.

8 Q. What has Missouri's historical test analyses experience been in comparison to
9 customer counts?

10 A. The following chart shows a historical comparison of the MAWC percent of
11 test analyses versus customers for the five years listed.

| <u>Period</u> | <u>Staff Test Analyses Allocation</u> | <u>Company Customer Count Allocation</u> |
|-----------------------------|---|--|
| 12 12 months Ended 12/31/05 | 6.40% | 14.14% |
| 13 12 months Ended 12/31/06 | 6.04% | 14.10% |
| 14 12 months Ended 12/31/07 | 6.75% | 14.08% |
| 15 12 months Ended 12/31/08 | 5.51% | 13.76% |
| 16 12 months Ended 10/31/09 | 4.51% | 13.73% |
| 17 5-Year Average | 5.84% | 13.96% |

18 The Staff proposes to use the five-year test analyses average to smooth out any
19 variability that may exist from year to year for purposes of setting rates. On the other hand,
20 the Company's customer count methodology consistently allocates around 14% of non-direct
21 Belleville Lab costs to Missouri during the test year. By using the customer count
22 methodology, the Company is forcing MAWC ratepayers to pay for around 14% of non-direct
23 Belleville Lab costs, while on average only 5.84% of the testing work at Belleville Lab is
24
25
26

1 actually performed for MAWC. The Staff's chart also reveals that MAWC has been
2 consistently overcharged for Belleville Lab costs based on the Company's customer count
3 methodology in comparison to actual test analyses.

4 Again, the Staff believes that the fact that test analyses results do vary from year to
5 year simply reflects an approach that appropriately allocates these costs based on what is
6 actually taking place, namely the number of test analyses for MAWC customers.
7 Mr. Williams has suggested in his Rebuttal Testimony, allocating costs based on customer
8 counts is "more stable" and will provide much less variability in the allocation of
9 Belleville Lab non-direct costs. However, Mr. Williams' "more stable" approach does not
10 justify continuing to significantly overcharge MAWC ratepayers for these costs. An entity
11 that requires the performance of less work should receive less cost. Unfortunately, customer
12 counts have nothing to do with testing expenses and therefore result in an inappropriate
13 amount of non-direct Belleville Lab costs being assigned to MAWC. Furthermore, the effect
14 of using the Company's methodology results in MAWC's ratepayers paying for testing and
15 sampling costs that relate to ratepayers who are located in states other than Missouri. As the
16 Staff has pointed out, MAWC's customer counts do not correlate to the work that is being
17 performed at Belleville Lab. Furthermore, the Staff believes that a method using the number
18 of test analyses instead of the number of customers is also very straight forward
19 and understandable.

20 Q. How does the Staff respond to Mr. Williams point that a "system-wide policy
21 to allocate Service Company expenses on the basis of the number of customers that cannot be
22 direct charged to operating companies. Doing so makes practical sense, is easy to manage

1 and administer and it provides for system-wide consistency over multiple jurisdictions.”
2 (Williams Rebuttal, page 38, lines 2-5)?

3 A. The Staff believes that by adopting the approach of allocating non-direct
4 Belleville Lab charges based on the number of actual test analyses, American Water can
5 improve upon its current allocation process by making it more reflective of the work that is
6 performed at the Lab. Using the method proposed by Mr. Williams results in a system wide
7 inconsistency between the work being performed at the Belleville Lab and the amount being
8 charged to individual operating companies.

9 Q. How does the Staff respond to Mr. Williams’ contention that consistency from
10 state to state is important (Williams Rebuttal, page 38, lines 13-18)?

11 A. Mr. Williams claims that by using number of tests as its allocation
12 methodology, American Water will be unable to recover all of its Belleville Lab costs.
13 However, Mr. Williams fails to point out the same problem can exist with the current
14 customer allocation methodology. Customer growth and the purchase or sale of water systems
15 at other operating companies in between various rate cases can create the same situation
16 Mr. Williams uses to rebut the Staff’s proposal. Furthermore, Mr. Williams’ claim ignores the
17 fact that customer counts have no correlation to testing and sampling expense. Mr. Williams’
18 position would force MAWC customers to pay for costs that were not incurred to serve them,
19 but are incurred to serve customers in another state. Therefore, using customer counts
20 consistently results in an inaccurate cost assignment and a subsidy between the various
21 operating companies in each state. In contrast, the Staff’s proposed allocation methodology
22 tracks actual test analyses, which represents the majority of the resources and work that is
23 performed at Belleville Lab. If a test analyses based allocation was to be used consistently by

1 American Water for all of its water divisions, this approach would allow American Water an
2 opportunity for full cost recovery based upon a fair and cost-driven allocation basis. The Staff
3 believes that MAWC's current allocation methodology is creating a situation where MAWC
4 is being forced to pay more than twice as much for testing costs, as compared to its actual cost
5 using the Staff's test analyses allocation process. In addition, this would suggest that the
6 Company's allocation methodology creates inter-company subsidies and is inappropriate. The
7 Staff recommends that the Commission adopt the test analyses allocation methodology to
8 determine the non-direct Belleville Lab Service Company costs included in MAWC's
9 cost of service.

10 **SECURITY COSTS AAO**

11 Q. Please briefly explain this issue.

12 A. The Company proposes to include the unamortized balance of the
13 Security AAO costs in rate base and receive a "return on" these deferred costs, as well as a
14 "return of" the deferred costs through an amortization. The Staff opposes any "return on" the
15 unamortized balance and has not included it in rate base. The Staff is recognizing a
16 "return of" the deferred Security AAO costs through an amortization.

17 Q. On page 41 of his Rebuttal Testimony, Mr. Williams says that the sole result of
18 this investment of capital was the continued provision of safe and adequate service to
19 MAWC's customers. Do you agree with his characterization?

20 A. No. As Mr. Williams states on page 41 of his Rebuttal Testimony,
21 immediately preceding the statement referenced above, the Company incurred these costs to
22 provide security to its operating facilities and employees. The assets are owned exclusively by
23 the shareholder. These assets represent investments made by the shareholder in the Company's

1 plant facilities. Therefore, costs incurred to protect shareholder investments are clearly benefiting
2 shareholders. In addition, if employees are hurt while at these facilities, the company will be
3 liable, not the customers.

4 Also, AAOs protect shareholder earnings, not customers. Costs are deferred so that the
5 expenses do not reduce earnings in the year they are incurred. These costs, if allowed, increase
6 earnings in a subsequent year.

7 As a result, the Commission's standard of sharing the cost of amounts deferred through an
8 AAO by allowing only a "return of" the amounts deferred and not a "return on" the amounts
9 deferred is entirely appropriate in this situation. This treatment was first prescribed by the
10 Commission in its Order in Case No. GR-98-140 involving Missouri Gas Energy's service line
11 replacement deferrals, as explained in my Rebuttal Testimony on pages 2 and 3. In that case, the
12 Commission deemed it proper for the ratepayers and shareholders to share the effect of regulatory
13 lag by allowing the Company to earn a return of, but not a return on, the deferred balance.

14 **COMPREHENSIVE PLANNING STUDY**

15 Q. Has the Company completed the comprehensive planning study (CPS)?

16 A. Yes. Company witness Mr. Young provided the completed CPS as an attachment
17 to his Rebuttal Testimony (Schedule JSY-2).

18 Q. What is the date on the CPS report?

19 A. The report is dated April 13, 2010. Because this date is outside of the ordered
20 update period in this case of October 31, 2010, the Staff will review the entire report and all
21 related expenses as part of the true-up audit (period ending April 30, 2010).

22 Q. Does this conclude your Surrebuttal Testimony?

23 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)
)
COUNTY OF COLE) ss.

Amanda C. McMellen, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 17 pages to be presented in the above case; that the answers in the foregoing Surrebuttal 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 6th day of May, 2010.


Notary Public

