

Exhibit No.:
Issue: *Materials and Supplies,
Bad Debt Factor-up,
Main Break Paving Expenses*
Witness: *Paula Mapeka*
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

PAULA MAPEKA

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2010-0131

Jefferson City, Missouri
May 2010

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PAULA MAPEKA
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2010-0131**

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1 A. “Materials and supplies” are materials that are purchased primarily for use in
2 the construction, operation and maintenance of utility plant, but are not directly assignable to
3 specific plant accounts. For the purpose of setting rates, these items are included in the
4 calculation of rate base because they are typically purchased with investor’s funds. The
5 Company has proposed a 12-month average of Material and Supplies be used in calculating
6 the rate base.

7 Q. What method does Staff normally apply to materials and supplies?

8 A. When analyzing materials and supplies or a utility company’s working capital,
9 the Staff generally uses a 13-month average of the ending account balances when the monthly
10 balances fluctuate and show no discernible upward or downward trend.

11 Q. What method does the Staff use if the 13-month balances being analyzed show
12 an upward or downward trend?

13 A. If there is an upward or downward trend, the Staff uses the updated test year
14 monthly ending balance, or even the true-up period monthly ending balance.

15 Q. What approach did the Staff use for PKW?

16 A. As indicated in Schedule MS1, the 13-month balances ending October 31,
17 2009, clearly showed a downward trend. Therefore, the Staff used the October 31, 2010
18 ending balance.

19 Q. If the Staff eliminates the abnormal balance of \$1,095,789 on October 31,
20 2009, will the remaining 12 months ending October 31, 2009 still show a downward trend?

21 A. Yes, please refer to schedule MS2. The remaining 12-month balances still
22 show a downward trend.

1 Q. Is the Staff applying a normal rate making concept by including the ending
2 monthly balance of material and supplies as of October 31, 2009, in the amount of \$6,845 in
3 rate base?

4 A. Yes. Even, if the ending balance had reflected a normal upward trend for
5 material and supplies as of October 31, 2009, then the Staff would still have built into rate
6 base, the ending monthly balance of material and supplies.

7 Q. What method did the Staff use for the other districts to determine the level of
8 material and supplies in rate base and why?

9 A. Please refer to Schedules MS3 to MS10 which represent all the individual
10 districts material and supplies. The 13-month balances ending October 31, 2009, clearly
11 show fluctuations in the monthly balances therefore, a 13-month average is appropriate to use
12 by the Staff to determine the appropriate level of material and supplies for rate base.

13 Q. Did the Staff analyze each district individually?

14 A. Yes. The Staff analyzed each district's 13-month balances individually,
15 because the Company accumulates and books, materials and supplies in inventory for each
16 district.

17 Q. Is the Staff going to perform another analysis of materials and supplies for this
18 rate case?

19 A. In the true-up audit through April 30, 2010, the Staff will be updating materials
20 and supplies because it is a rate base issue. The Staff will again analyze the 13-month
21 balances ranging from April 2009 to April 2010 for all the MAWC districts. If the 13-month
22 ending balances in a district fluctuate, the Staff will then use a 13-month average to determine
23 the level of material and supplies to include in rate base. If the 13-month ending balances in a

1 district show an upward trend, the Staff will apply the ending balance at April 30, 2010,
2 which will reflect an increase in rate base. In the event that a district shows a downward
3 trend, the Staff will apply the ending balance at April 30, 2010, which will reflect a decrease
4 in rate base for the district.

5 Q. Does the Staff believe this issue is worth a significant amount of money?

6 A. No. Using the Staff's mid point rate of return, the Staff believes, at most, this
7 issue is worth \$1,419 using the Company's 12-month average proposal and \$511 using the
8 Staff's October 31, 2009 ending balance.

9 **MAINBREAK EXPENSE**

10 Q. What is the difference between the Staff and the Company regarding main
11 break expenses, in particular, the paving expenses?

12 A. The Staff used a 3-year average to normalize this expense and the Company
13 used a 2-year average.

14 Q. Why is the Company opposed to the Staff's method?

15 A. Ms. Tierney states in her rebuttal testimony on page 18, lines 3 - 6:

16 The costs incurred for paving after a main break have increased
17 significantly over the past several years. Utilizing a longer
18 period for average costs does not account for the current higher
19 cost that would be incurred in paving after a main break
20 expense.

21 Q. Does the Staff agree with Ms. Tierney's statement?

22 A. No. Please refer to the Staff's Schedule SUR-MAP-1. This schedule clearly
23 demonstrates that for the 12-month totals ending June 2007, June 2008 and June 2009, that
24 the costs per main break fluctuate. The schedule goes on to show a breakdown on a monthly
25 basis. Also, the graph clearly show that the costs per main break fluctuate.

1 Q. Do the graph on the Staff's Schedule SUR-MAP-1 show a constant increase in
2 main break expenses from July 2006 to June 2009?

3 A. No. All the months in the Staff's analysis on Surrebuttal Schedule
4 SUR-MAP-1 show variations in the costs of paving per main break. For example, the cost of
5 paving per main break in March 2007 was on average \$1,483; March 2008 was \$2,318, and
6 March 2009 was \$1,946. The 36-months or 3-year analysis clearly indicates fluctuations in
7 the paving costs per main break. The Staff believes Ms. Tierney's statement in her rebuttal
8 testimony on page 18 lines 3 – 6, as well as in the Table RTC-5, contradicts the Company's
9 position because her 36-month average cost per paving for main breaks is actually higher than
10 her 24-month average cost per paving for main breaks, per her analysis. The chart below was
11 created using information from Ms. Tierney's Schedule RCT-5 of her rebuttal testimony,
12 showing the Company's 5-year analysis of paving per main break expense.

13 **Information Derived from Ms. Tierney's Rebuttal Sch. RCT - 5**

Average amount of paving expense on main breaks

# of months	Total paid	Total # of breaks	Avg. amt per break	Avg. # of breaks
60	\$ 6,112,826	3,071	\$ 1,991	51
48	\$ 5,370,544	2,626	\$ 2,045	55
36	\$ 4,226,224	1,971	\$ 2,144	55
24	\$ 2,583,362	1,244	\$ 2,077	52

14 *Company's analysis is based on 60 months from November 2005 through October 2009.*

15 Q. Why did the Staff recommend a 36-month or 3-year average for paving costs
16 to main break expense?

17 A. The Staff believes the paving costs per main break fluctuate from month to
18 month. Therefore, the Staff recommends a 3-year average to normalize this expense.

1 Q. Why is the Staff opposed to a 24-months or 2-year average as proposed by the
2 company?

3 A. The 12 months ending June 2008 reflect a high amount in paving expenses
4 compared to the 12 months ending June 2009. The Staff believes that there is a clear
5 indication that paving costs per main break expense are not constantly going up, but rather
6 fluctuating, and a 3-year average would be a better representation of a normalized level on a
7 going forward basis. In any event, if the paving costs per main break expense were going up,
8 this would be apparent in the test year, which was actually lower than the prior year.
9 Therefore, neither the Staff nor the Company would have had a need to make an upward
10 adjustment to paving expenses using a 3- or 2-year average as the expenses would have been
11 represented at their maximum known and measurable levels in the test year.

12 **BAD DEBT EXPENSES**

13 Q. Does the Staff agree with Mr. Petry's rebuttal testimony at page 6 line 33, and
14 at page 7, lines 1 through 7, where he states:

15 There is a direct relationship between revenues and bad debt
16 expense. In other words, as revenues increase, bad debt expense
17 increase as well. Attached is Rebuttal Schedule DJP-2 which
18 demonstrates this direct relationship in all but one of the past five
19 years. The 2006 to 2007 trend was impacted due to a change in the
20 methodology for calculating the uncollectible reserve and a one
21 time write off of accounts over 180 days. By applying the bad debt
22 ratio to pro-forma or anticipated revenues resulting from this case,
23 the bad debt expense will be more accurately reflected for the
24 period of time rates set in this case will be in effect.

25 A. No. As indicated in the Staff's Rebuttal Testimony, in principle, the Staff
26 agrees that bad debts may increase to some extent as a result of an increase in MAWC's
27 revenue requirement. However, the Staff does not subscribe to the position that any increase
28 in the Company's revenue requirement should cause bad debt expense to increase

1 proportionally, or on a dollar-for-dollar basis. Attached to my rebuttal testimony in this case,
2 as Schedule MAP-1, is a 36-month analysis from July 2006 through June 30, 2009, of the
3 Company's historical bad debts and historical retail revenue levels for the total company, and
4 by individual operating districts. The Staff reviewed the changes or variations that occurred
5 for each MAWC water and sewer district's retail revenues and actual historical bad debt
6 write-offs. This information does not support the position that there is always a proportional
7 or corresponding direct relationship between revenues and bad debt expense; whereby any
8 revenue increase will always result in an automatic increase in bad debt expense in the same
9 magnitude and proportion.

10 Q. What is the difference in the Staff's bad debt analysis Schedule
11 MAP-1 submitted with your Rebuttal Testimony and the Company's analysis rebuttal
12 Schedule DJP-2?

13 A. The Staff's analysis of bad debts is based on an analysis of actual historical
14 bad debt write-offs, while the Company's analysis of bad debts is based on uncollectible
15 reserves.

16 Q. What is the difference between uncollectible reserves and actual bad debt
17 write-offs?

18 A. The uncollectible reserve, otherwise known as an allowance for bad debts, is
19 the Company's **estimated** percentage of each period's sales/revenue or ending accounts
20 receivable that will eventually become uncollectible. Thus, the expenses are estimated and
21 recorded to match revenues and expenses in a given period – satisfying the matching
22 principle. **Actual** bad debt write-offs on the other hand, occur when a company determines,

1 **after all appropriate recovery actions have been used**, that a debt is non-recoverable and
2 recovery activities are terminated.

3 Q. Does the uncollectible reserve shown on Mr. Petry's rebuttal Schedule DJP-2
4 reflect a direct relationship between revenues and bad debts?

5 A. Yes. A direct relationship will be reflected because as indicated above, the
6 allowance for the bad debts is based on a percentage of sales/revenues or accounts
7 receivables. Therefore, the percentage ratio will show a bad debt to revenue graph that will
8 be in proportion.

9 Q. Is the Staff in agreement with this analysis?

10 A. No. The Staff does not agree with this analysis, because the uncollectible
11 reserve is based on an estimated percentage of the sales/revenues or accounts receivables.
12 The Staff's analysis is based on the actual bad debt write offs after all appropriate recovery
13 actions have been taken. The Staff's analysis included in my Rebuttal Schedule MAP-1 shows
14 that there is no direct relationship between bad debts and revenues.

15 Q. Does this conclude your Surrebuttal Testimony?

16 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 PAULA MAPEKA

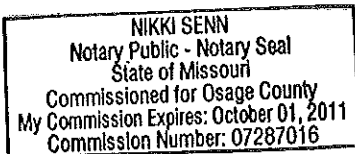
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.


Paula Mapeka, 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 8 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.



Paula Mapeka

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





Notary Public

MISSOURI AMERICAN WATER COMPANY
WR-2010-0131

Main break - Paving Expenses

ST. LOUIS OPERATIONS

Actual Paving invoices paid

	12 MONTH ENDING JUNE...			
	2006	2007	2008	2009
Jul	\$ 34,903	\$ 46,864	\$ 238,857	\$ 154,474
Aug	\$ 50,931	\$ 28,418	\$ 239,874	\$ 166,836
Sep	\$ 29,633	\$ 111,486	\$ 107,976	\$ 77,039
Oct	\$ 73,138	\$ 20,404	\$ 134,759	\$ 87,948
Nov	\$ 84,017	\$ 27,775	\$ 94,167	\$ 41,700
Dec	\$ 43,825	\$ 52,926	\$ 144,703	\$ 73,432
Jan	\$ 73,381	\$ 74,112	\$ 40,855	\$ 64,356
Feb	\$ 158,228	\$ 58,761	\$ 63,109	\$ 49,967
Mar	\$ 222,395	\$ 47,472	\$ 190,054	\$ 282,181
Apr	\$ 99,978	\$ 290,886	\$ 62,822	\$ 147,783
May	\$ 191,855	\$ 177,428	\$ 233,834	\$ 76,601
Jun	\$ 63,470	\$ 192,036	\$ 235,958	\$ 74,167
TOTAL	\$ 1,125,753	\$ 1,128,567	\$ 1,786,969	\$ 1,296,483

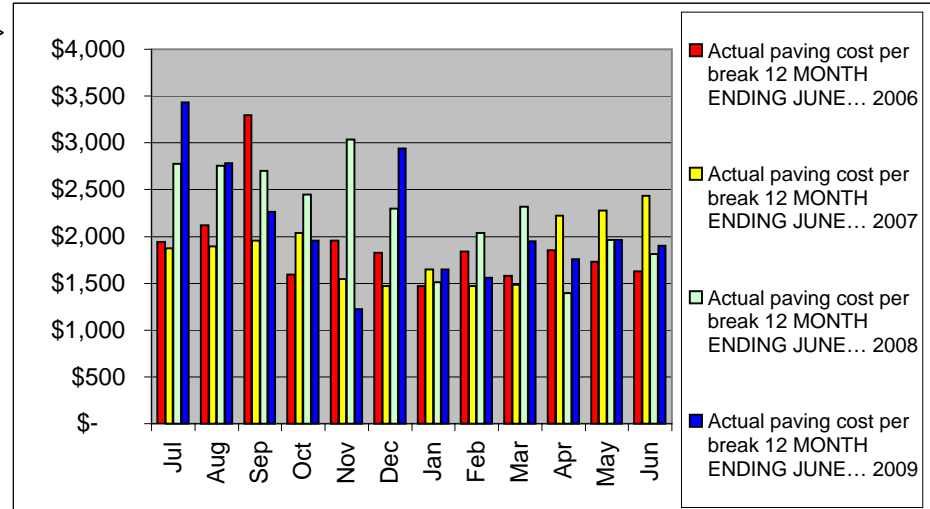
of breaks per invoice

	12 MONTH ENDING JUNE...			
	2006	2007	2008	2009
Jul	18	25	86	45
Aug	24	15	87	60
Sep	9	57	40	34
Oct	46	10	55	45
Nov	43	18	31	34
Dec	24	36	63	25
Jan	50	45	27	39
Feb	86	40	31	32
Mar	141	32	82	145
Apr	54	131	45	84
May	111	78	119	39
Jun	39	79	130	39
TOTAL	645	566	796	621

Actual paving cost per break

	12 MONTH ENDING JUNE...			
	2006	2007	2008	2009
Jul	\$ 1,939	\$ 1,875	\$ 2,777	\$ 3,433
Aug	\$ 2,122	\$ 1,895	\$ 2,757	\$ 2,781
Sep	\$ 3,293	\$ 1,956	\$ 2,699	\$ 2,266
Oct	\$ 1,590	\$ 2,040	\$ 2,450	\$ 1,954
Nov	\$ 1,954	\$ 1,543	\$ 3,038	\$ 1,226
Dec	\$ 1,826	\$ 1,470	\$ 2,297	\$ 2,937
Jan	\$ 1,468	\$ 1,647	\$ 1,513	\$ 1,650
Feb	\$ 1,840	\$ 1,469	\$ 2,036	\$ 1,561
Mar	\$ 1,577	\$ 1,483	\$ 2,318	\$ 1,946
Apr	\$ 1,851	\$ 2,221	\$ 1,396	\$ 1,759
May	\$ 1,728	\$ 2,275	\$ 1,965	\$ 1,964
Jun	\$ 1,627	\$ 2,431	\$ 1,815	\$ 1,902
TOTAL	\$ 22,816	\$ 22,304	\$ 27,061	\$ 25,380

Yearly average	\$ 1,901	\$ 1,859	\$ 2,255	\$ 2,115
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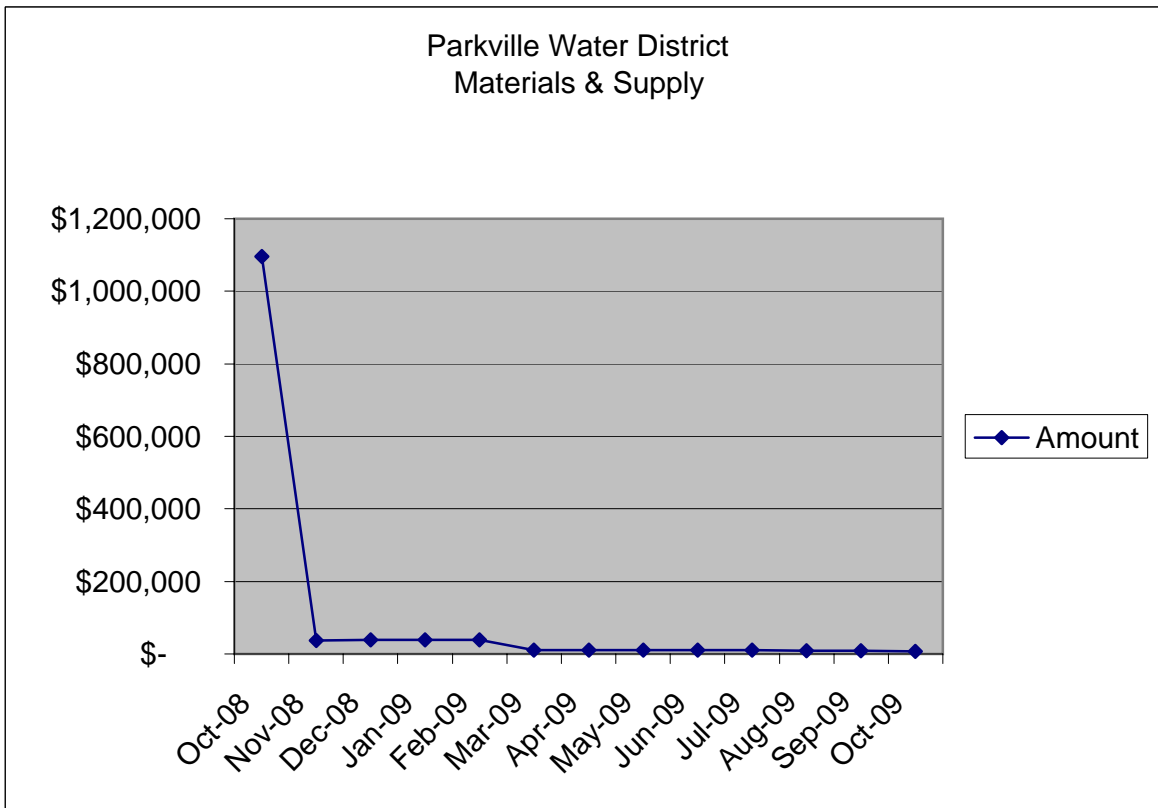


MAWC
WR-2010-0131

Average Balance of Materials and Supplies
For the Test Year Ended October 31, 2009

Missouri American Water Company
Parkville Water District

Month:	Stock C	Stock E	Amount
	A/C 151300	A/C 151100	
October-08	4,509	\$ 1,091,280	\$1,095,789
November-08	5,047	31,389	36,436
December-08	7,749	31,389	39,138
January-09	7,533	31,389	38,922
February-09	8,017	31,136	39,153
March-09	7,138	3,471	10,609
April-09	6,888	3,471	10,359
May-09	7,116	3,471	10,587
June-09	6,278	3,471	9,749
July-09	6,460	3,471	9,931
August-09	4,679	3,471	8,150
September-09	5,391	2,707	8,098
October-09	4,138	2,707	6,845
Total	80,943	1,242,823	1,323,766
Test Year Average	\$ 6,226	\$ 95,602	\$ 101,828

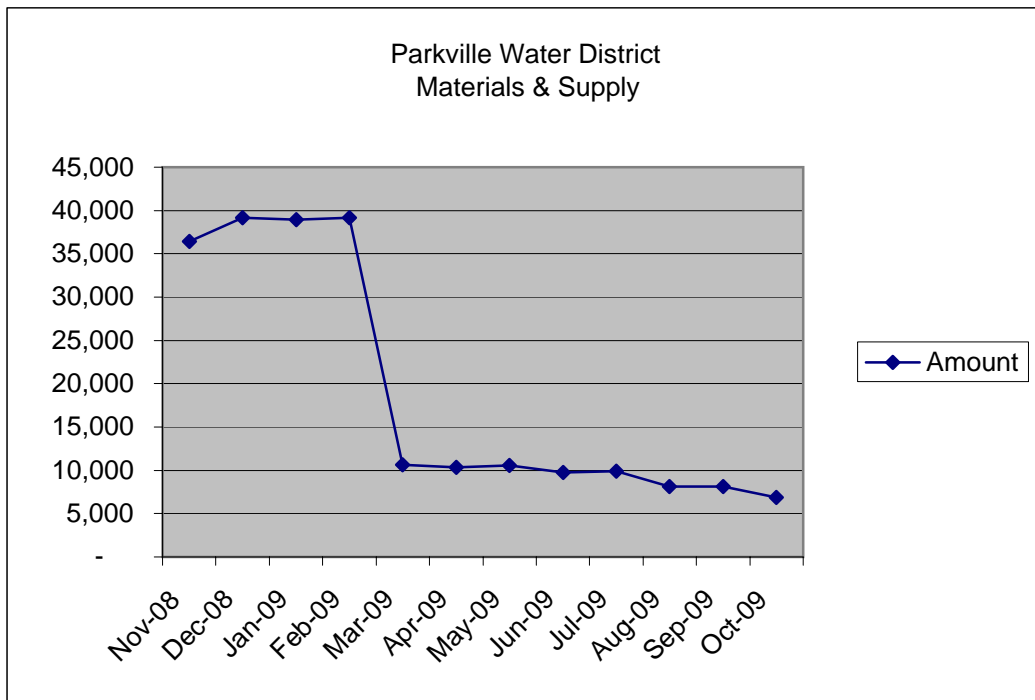


MAWC
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Average Balance of Materials and Supplies
For the Test Year Ended October 31, 2009

Missouri American Water Company
Parkville Water District

Month:	Stock C	Stock E	Amount
	A/C 151300	A/C 151100	
November-08	5,047	31,389	36,436
December-08	7,749	31,389	39,138
January-09	7,533	31,389	38,922
February-09	8,017	31,136	39,153
March-09	7,138	3,471	10,609
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Total	80,943	1,242,823	1,323,766
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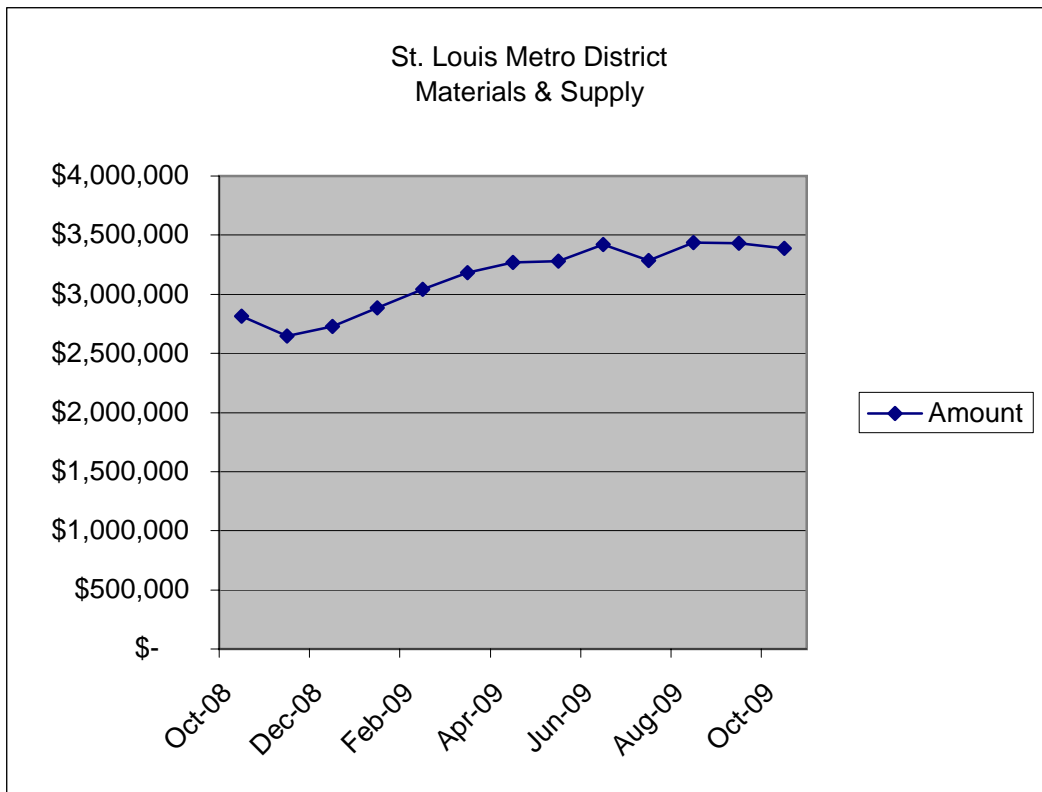


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Average Balance of Materials and Supplies
For the Test Year Ended October 31, 2009

Missouri American Water Company
St. Louis Metro District

Month:	Stock A A/C 151200	Stock C A/C 151300	Stock E A/C 151100	Amount
October-08	\$ 123,595	\$ 848,379	\$1,843,417	\$ 2,815,391
November-08	105,394	746,386	1,797,408	2,649,188
December-08	93,054	865,780	1,767,078	2,725,912
January-09	96,360	923,213	1,866,777	2,886,350
February-09	82,009	1,099,650	1,858,501	3,040,160
March-09	92,769	1,154,263	1,937,982	3,185,014
April-09	70,645	1,369,551	1,831,259	3,271,455
May-09	87,705	1,365,959	1,824,301	3,277,965
June-09	88,571	1,423,275	1,906,817	3,418,663
July-09	82,842	1,460,587	1,744,028	3,287,457
August-09	177,118	1,458,034	1,802,305	3,437,457
September-09	83,080	1,535,265	1,813,895	3,432,240
October-09	92,154	1,482,990	1,811,002	3,386,146
Total	1,275,296	15,733,332	23,804,770	40,813,398
Test Year Average	\$ 98,100	\$ 1,210,256	\$1,831,136	\$ 3,139,492

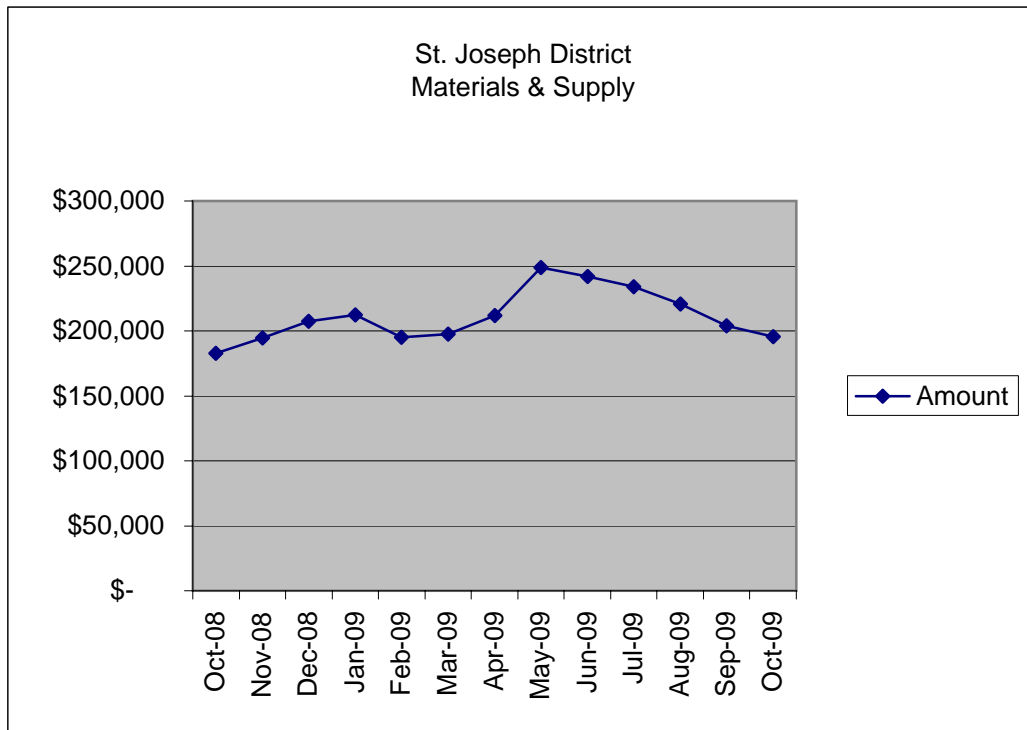


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Average Balance of Materials and Supplies
For the Test Year Ended October 31, 2009

Missouri American Water Company
St. Joseph District

Month	Stock C	Stock E	Amount
	A/C 151300	A/C 151100	
October-08	\$ 71,680	\$ 111,090	\$ 182,770
November-08	83,928	110,570	194,498
December-08	97,172	110,392	207,564
January-09	98,133	114,076	212,209
February-09	86,727	108,443	195,170
March-09	77,010	120,395	197,405
April-09	91,832	120,008	211,840
May-09	128,484	120,236	248,720
June-09	120,583	121,066	241,649
July-09	123,457	110,393	233,850
August-09	109,593	110,897	220,490
September-09	71,624	108,863	203,952
October-09	87,680	107,747	195,427
Total	1,247,903	1,474,176	2,745,544
Test Year Average	\$ 95,993	\$ 113,398	\$ 211,196

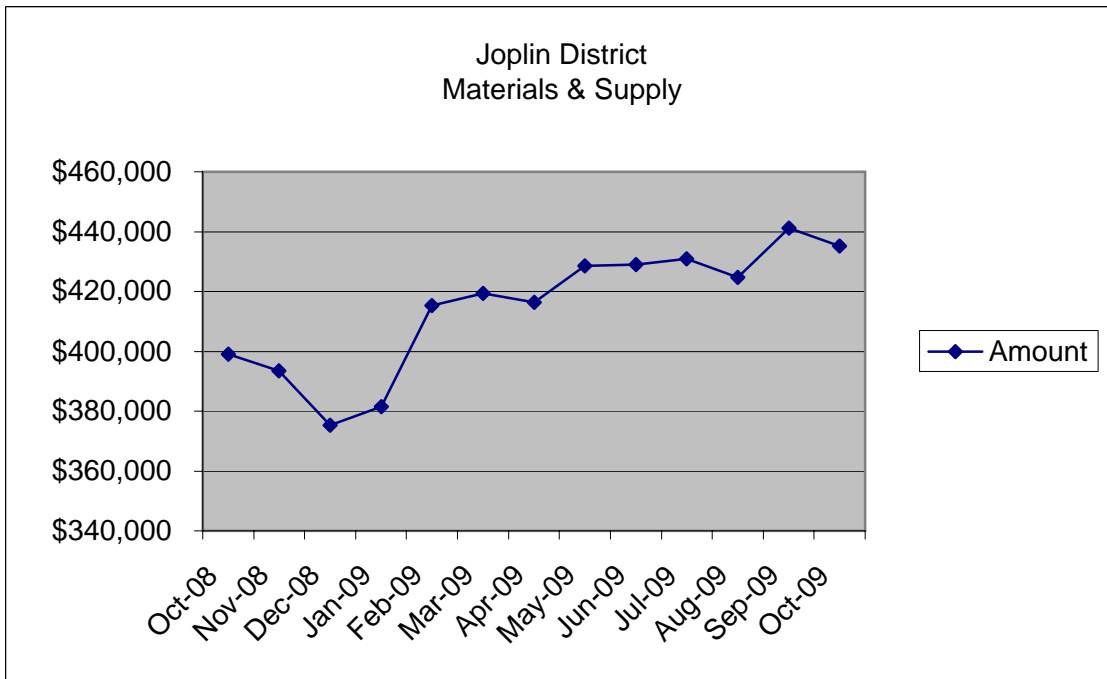


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Average Balance of Materials and Supplies
For the Test Year Ended October 31, 2009

Missouri American Water Company
Joplin District

Month:	Stock C A/C 151300	Stock E A/C 151100	Amount
October-08	\$ 59,126	\$ 339,897	\$ 399,023
November-08	66,662	326,715	393,377
December-08	45,826	329,537	375,363
January-09	68,418	313,009	381,427
February-09	72,880	342,312	415,192
March-09	78,877	340,567	419,444
April-09	74,679	341,678	416,357
May-09	73,270	355,356	428,626
June-09	79,963	348,999	428,962
July-09	81,557	349,376	430,933
August-09	85,290	339,340	424,630
September-09	92,469	348,792	441,261
October-09	92,774	342,493	435,267
Total	971,791	4,418,071	5,389,862
Test Year Average	\$ 74,753	\$ 339,852	\$ 414,605

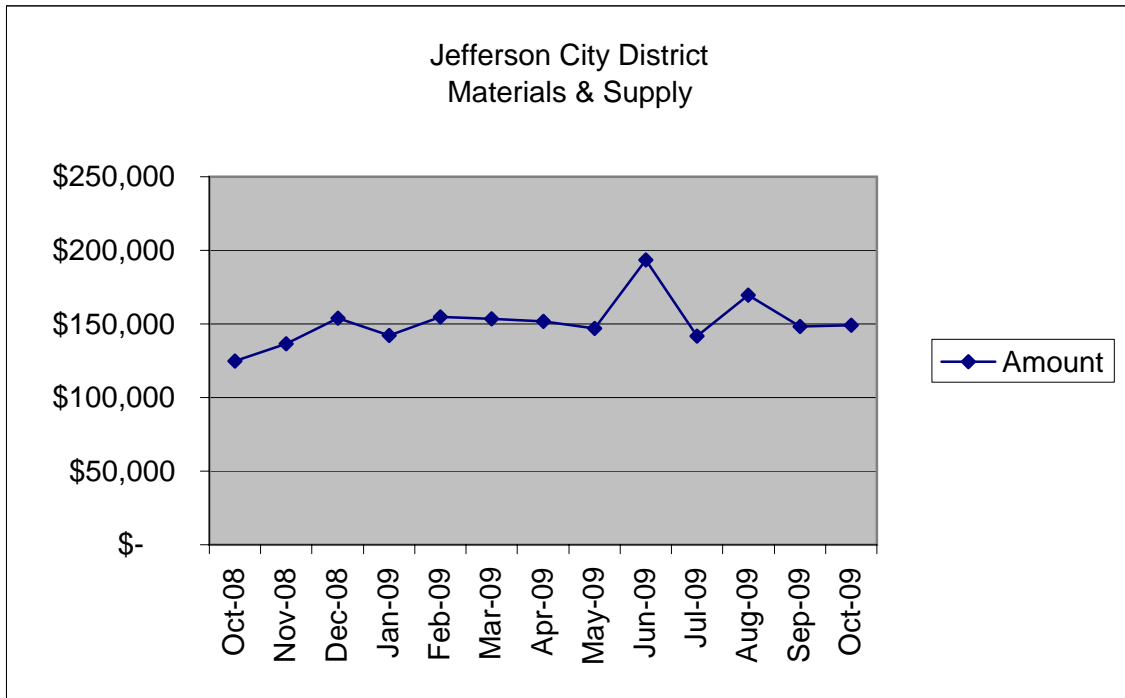


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Average Balance of Materials and Supplies
For the Test Year Ended October 31, 2009

Missouri American Water Company
Jefferson City District

Month:	Stock C A/C 151300	Stock E A/C 151100	Amount
October-08	\$ 26,085	\$ 98,567	\$ 124,652
November-08	36,107	100,494	136,601
December-08	29,782	124,013	153,795
January-09	29,356	112,722	142,078
February-09	42,046	112,782	154,828
March-09	40,731	112,782	153,513
April-09	37,504	114,119	151,623
May-09	32,785	114,119	146,904
June-09	32,839	160,849	193,688
July-09	28,950	112,724	141,674
August-09	45,686	124,006	169,692
September-09	36,136	111,908	148,044
October-09	31,240	118,002	149,242
Total	449,247	1,517,087	1,966,334
Test Year Average	\$ 34,557	\$ 116,699	\$ 151,256

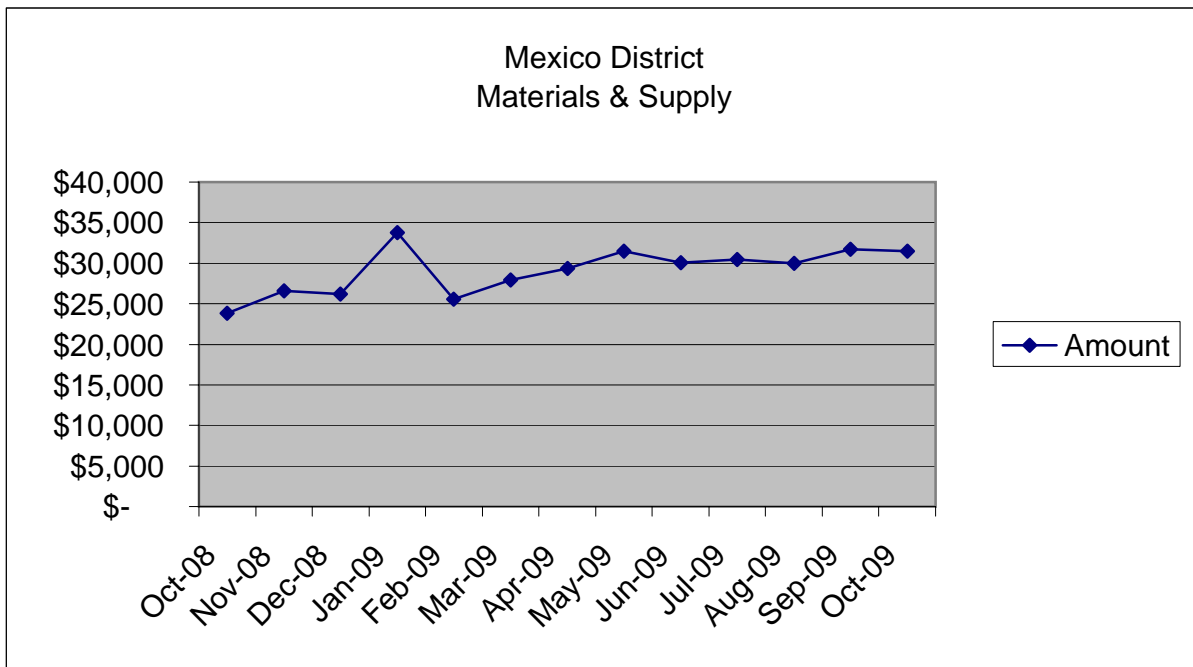


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Average Balance of Materials and Supplies
For the Test Year Ended October 31, 2009

Missouri American Water Company
Mexico District

Month:	Stock C A/C 151300	Stock E A/C 151100	Amount
October-08	\$ 3,419	\$ 20,416	\$ 23,835
November-08	2,796	23,778	26,574
December-08	3,161	22,998	26,159
January-09	3,508	30,292	33,800
February-09	4,827	20,731	25,558
March-09	4,399	23,529	27,928
April-09	3,766	25,573	29,339
May-09	5,885	25,573	31,458
June-09	4,718	25,371	30,089
July-09	5,066	25,371	30,437
August-09	4,837	25,169	30,006
September-09	6,735	24,998	31,733
October-09	6,473	24,998	31,471
Total	59,590	318,797	378,387
Test Year Average	\$ 4,584	\$ 24,523	\$ 29,107

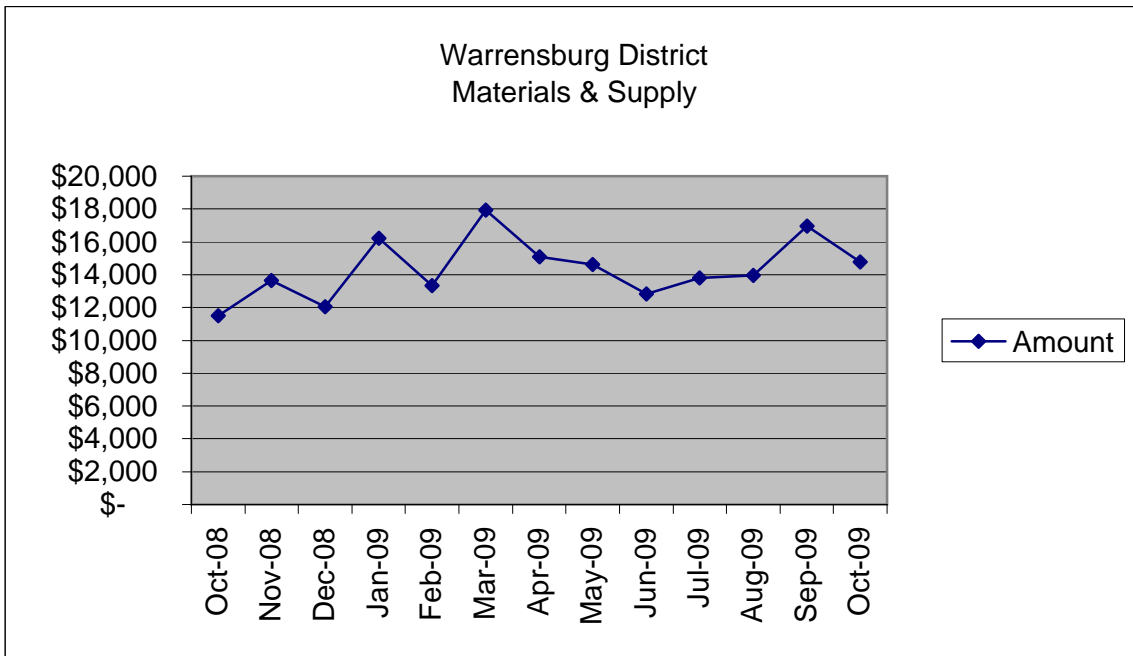


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Average Balance of Materials and Supplies
For the Test Year Ended October 31, 2009

Missouri American Water Company
Warrensburg District

Month:	Stock C A/C 151300	Stock E A/C 151100	Amount
October-08	\$ 3,797	\$ 7,706	\$ 11,503
November-08	4,271	9,381	13,652
December-08	2,650	9,381	12,031
January-09	7,447	8,790	16,237
February-09	4,546	8,790	13,336
March-09	6,499	11,449	17,948
April-09	3,720	11,358	15,078
May-09	3,245	11,358	14,603
June-09	2,710	10,136	12,846
July-09	4,428	9,392	13,820
August-09	4,252	9,708	13,960
September-09	4,637	12,331	16,968
October-09	3,155	11,608	14,763
Total	55,357	131,388	186,745
Test Year Average	\$ 4,258	\$ 10,107	\$ 14,365

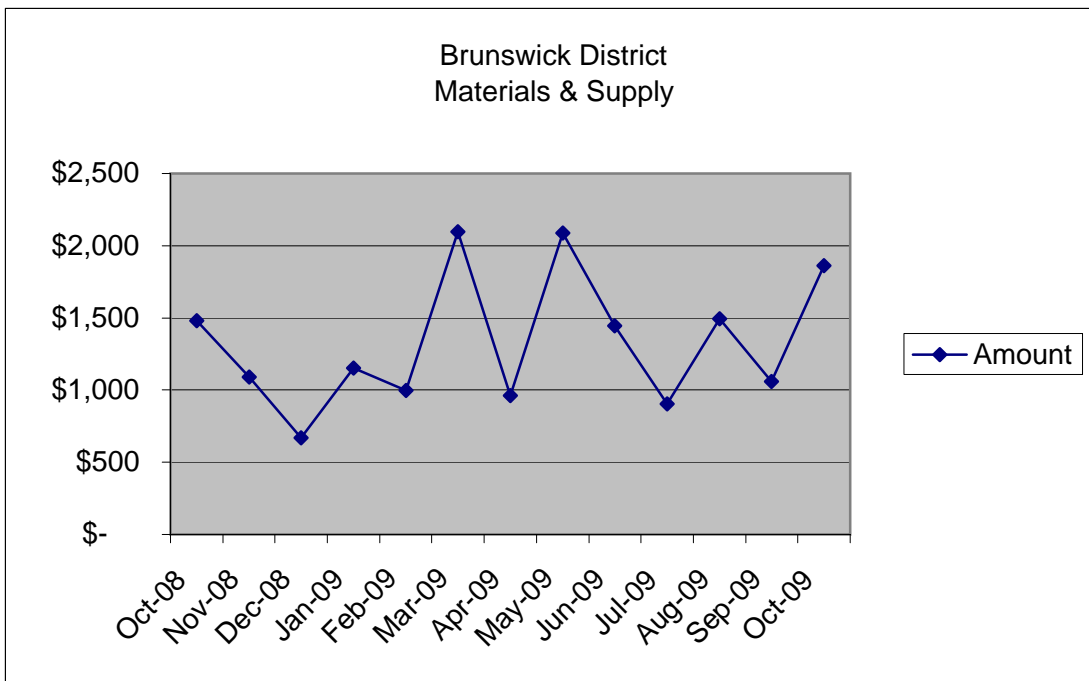


MAWC
WR-2010-0131

Average Balance of Materials and Supplies
For the Test Year Ended October 31, 2009

Missouri American Water Company
Brunswick District

Month:	Stock C A/C 151300	Stock E A/C 151100	Amount
October-08	\$ 1,482	\$ -	\$ 1,482
November-08	1,091	-	1,091
December-08	670	-	670
January-09	1,154	-	1,154
February-09	998	-	998
March-09	1,443	652	2,095
April-09	961	-	961
May-09	737	1,352	2,089
June-09	1,444	-	1,444
July-09	905	-	905
August-09	1,493	-	1,493
September-09	1,060	-	1,060
October-09	1,862	-	1,862
Total	15,300	2,004	17,304
Test Year Average	\$ 1,177	\$ 154	\$ 1,331



MAWC
WR-2010-0131

Average Balance of Materials and Supplies
For the Test Year Ended October 31, 2009

Missouri American Water Company
Warren County Water District

Month:	Stock C A/C 151300		Amount
October-08	\$	147	\$ 147
November-08		295	295
December-08		240	240
January-09		252	252
February-09		269	269
March-09		255	255
April-09		221	221
May-09		227	227
June-09		298	298
July-09		187	187
August-09		514	514
September-09		181	181
October-09		123	123
Total		3,209	3,209
Test Year Average	\$	247	\$ 247

