

Exhibit No.:
Issues: Present Rate Revenues (Sales and Customers), Pension and Other Post-Retirement Employee Benefits Costs, Annual Incentive Compensation Costs, AWR Revenues, Allocation of Belleville Lab Costs, Special Contract Rates in St. Joseph District, Customer Class Definitions, Inter-District Subsidies, Presentation & Documentation Methods
Witness: Edward J. Grubb
Exhibit Type: Rebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2008-0311
SR-2008-0312
Date: September 30, 2008

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2008-0311
CASE NO. SR-2008-0312**

REBUTTAL TESTIMONY

OF

EDWARD J. GRUBB

ON BEHALF OF

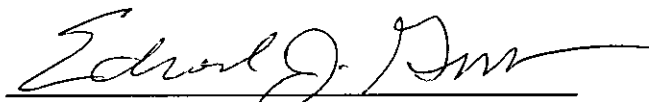
MISSOURI-AMERICAN WATER COMPANY

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

<u>IN THE MATTER OF MISSOURI-AMERICAN)</u>	
<u>WATER COMPANY FOR AUTHORITY TO)</u>	
<u>FILE TARIFFS REFLECTING INCREASED)</u>	CASE NO. WR-2008-0311
<u>RATES FOR WATER AND SEWER)</u>	CASE NO. SR-2008-0312
<u>SERVICE)</u>	

AFFIDAVIT OF EDWARD J. GRUBB

Edward J. Grubb, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Rebuttal Testimony of Edward J. Grubb"; 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.



Edward J. Grubb

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 29~~th~~ day of September 2008.



Notary Public

My commission expires:

Staci A. Olsen
Notary Public - Notary Seal
State of Missouri
St. Charles County
Commission # 05519210
My Commission Expires: March 20, 2009

**REBUTTAL TESTIMONY
EDWARD J. GRUBB
MISSOURI-AMERICAN WATER COMPANY
CASE NO.WR-2008-0311
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1 **REBUTTAL TESTIMONY**

2

3 **EDWARD J. GRUBB**

4

5 **WITNESS INTRODUCTION AND PURPOSE**

6

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

8 A. My name is Edward J. Grubb, my title is Director Rates and Revenue for

9 American Water and my business address is 727 Craig Road, St. Louis,

10 Missouri 63141. I am also the Assistant Treasurer of Missouri American

11 Water ("MAWC" or "Company").

12

13 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**

14 **PROCEEDING?**

15 A. Yes, I have submitted direct testimony in this proceeding.

16

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

18 A. The purpose of my rebuttal testimony is to respond to the Staff Report and/or

19 the direct testimony of OPC and Intervenors on the following issues:

- 20 1) Present Rate Revenues (Sales and Customers);
- 21 2) Pension and Other Post-Retirement Employee Benefits Costs;
- 22 3) Annual Incentive Compensation Costs;
- 23 4) AWR Revenues;
- 24 5) Allocation of Belleville Lab Costs;
- 25 6) Special Contract Rates in St. Joseph District;
- 26 7) Customer Class Definitions;
- 27 8) Inter-District Subsidies; and
- 28 9) Presentation & Documentation Methods
- 29

1
2 **(1) PRESENT RATE REVENUES (SALES AND CUSTOMERS)**

3
4 **Q. PLEASE DISCUSS THE ISSUES THAT YOU HAVE WITH REGARD TO**
5 **THE CALCULATION OF PRESENT RATE REVENUES.**

6 **A.** I will address two issues surrounding Staff's calculation of present rate
7 revenues related to sales and customers. They are as follows:

8 1) Staff's approach to annualization and normalization of non-residential
9 and non-commercial customer class sales.

10 2) Staff's approach to residential and commercial customers' sales
11 usage per customer per day.

12 In addition, I will respond to the Missouri Industrial Energy Consumers'
13 (MIEC") recommendation regarding two adjustments to revenues. One is for
14 the level of residential customers in the St. Louis District and the second is to
15 the usage per customer per day for the residential quarterly customer class.

16
17 **Q. PLEASE DISCUSS THE ISSUE REGARDING ANNUALIZATION AND**
18 **NORMALIZATION OF NON-RESIDENTIAL AND NON-COMMERCIAL**
19 **CUSTOMER CLASS SALES.**

20 **A.** The Staff adjusted the test year sales for the Industrial, Sale for Resale, and
21 other Public Authority customer classes in all districts to reflect actual sales
22 through March 31, 2008. This adjustment on a total Company basis
23 decreased revenues at present rates by \$213,242. This is consistent with
24 the Staff's approach of updating specific segments of the revenue
25 requirement through March 2008. As part of the Company's proposed true-
26 up, the Company will provide Staff with the required data for the Industrial,

1 Sales for Resale, and Other Public Authority customer classes for the twelve
2 months ended September 2008. Using this data will maintain the matching
3 of revenues, expenses, investments, and capital in the revenue requirement
4 determination.

5
6 **Q. PLEASE DISCUSS THE ISSUE REGARDING RESIDENTIAL AND**
7 **COMMERCIAL CUSTOMER SALES USAGE PER DAY.**

8 A. The Company and Staff both calculated present rate revenues for the
9 Residential and Commercial customer classes by applying a sales usage per
10 customer per day ("UCD") to a level of customers for each district. While the
11 Company and Staff has different levels of customers, this difference should
12 be eliminated when the true-up of customers at September 2008 is applied to
13 the appropriate level of UCD.

14
15 The remaining difference between the Company and Staff for the calculation
16 of the UCD results from differing methodologies I have attached a summary
17 schedule (Rebuttal Schedule EJG-1) that compares each district's UCD and
18 the methodology used for each district for the Residential and Commercial
19 customer classes. This schedule also quantifies the differences between the
20 Company and the Staff where different methodologies were utilized.

21
22 **Q. WHAT METHODOLOGY DID THE STAFF EMPLOY IN DEVELOPING ITS**
23 **USAGE PER CUSTOMER PER DAY?**

24 A. The Staff used a straight six year average of actual UCD for all districts with
25 the exception of St. Louis residential monthly and Warren County Water

1 residential and commercial customers. For those exceptions, Staff used
2 actual test year levels. The Company does not oppose Staff's use of actual
3 test year sales level for the St. Louis residential monthly customer class or
4 the Warren County Water residential and commercial customer classes.

5
6 **Q. DOES THE COMPANY OPPOSE THE STAFF'S POSITION OF USING A**
7 **SIX YEAR AVERAGE FOR ALL DISTRICTS' RESIDENTIAL AND**
8 **COMMERCIAL CUSTOMERS?**

9 A. Yes. The Company believes that a thorough review and analysis of
10 residential and commercial customer sales usages needs to be performed
11 when determining the level of present rate revenues which is the basis for
12 the setting of rates. This analysis and review should include appropriate
13 statistical evaluation and testing to determine what is considered to be a
14 normal level of sales when setting rates.

15
16 **Q. IS THERE SUPPORT FOR THE COMPANY'S POSITION IN THE STAFF**
17 **REPORT?**

18 A. Yes. In the direct testimony of Staff Witness Ms. Bolin, she identifies at
19 pages 8 and 9 four types of adjustments that are made to the unadjusted test
20 year results in order to reflect the Company's current annual level of
21 operating revenues. One of those adjustments is the Normalization
22 Adjustment. Ms. Bolin states "Utility rates are intended to reflect normal
23 ongoing operation." The purpose of the Company and Staff's adjustments
24 for the test year level of UCD for residential and commercial customers is to
25 set rates at a level that reflects normal ongoing operations. We believe the

1 Company's approach more appropriately accomplishes this goal.

2
3 **Q. WHAT METHODOLOGY DID THE COMPANY PROPOSE IN**
4 **DEVELOPING ITS USAGE PER CUSTOMER PER DAY?**

5 A. The Company performed a detailed weather normalization study for the St.
6 Louis, St. Joseph, Joplin, and St. Charles Districts. These four districts
7 represent over 91% of the total revenues of the Company. Professor Edward
8 Spitznagel was hired by the Company to perform the studies. His studies
9 and conclusions are contained in his direct testimony that has been filed with
10 the Missouri Public Service Commission. In summary, he found strong
11 statistical significance and correlation between sales and weather using the
12 Palmer Drought Severity Index ("PDSI") in predicting UCD for the following
13 customer classes:

- 14 • St. Louis Residential Quarterly
- 15 • St. Louis Commercial Quarterly
- 16 • St. Joseph Residential
- 17 • Joplin Commercial
- 18 • St. Charles Residential

19
20 When the Company did not rely on a weather normalization analysis, the
21 Company, with the assistance of Professor Spitznagel, performed a six year
22 historical trend line analysis. The purpose of this analysis was to use six
23 years of historical information and to statistically analyze the data to
24 determine if there was a current trend in the usage per customer per day,
25 either upwards or downwards. Using this analysis and analyzing the
26 significance of an F-test for the slope parameter, Professor Spitznagel

recommended that the following customer classes show a significant statistical trend to use in determining a level of sales UCD:

- Joplin Residential
- Jefferson City Commercial
- Parkville Water Commercial
- Warrensburg Commercial

During the preparation of rebuttal testimony, the Company noted that the F-test for the slope parameter for Parkville Water Residential is not considered to be statistically significant. The Company inadvertently used the trend line analysis for this customer class. Since the F-test for the slope parameter was not statistically significant, the Company agrees that a six year average is more appropriate. The list in the next paragraph will include the Parkville Water Residential class. The effect of this correction is to increase revenues by \$148,435 at present rates.

When the Company determined that the significance of the F-test for the slope parameter was not appropriate, then the Company relied upon a six year average of UCD. The Company's use of the six year average for the following customer classes matches the Staff's recommendation:

- St. Louis Commercial Monthly
- St. Joseph Commercial
- St. Charles Commercial
- Mexico Residential and Commercial
- Jefferson City Residential
- Parkville Water Residential
- Warrensburg Residential
- Brunswick Residential and Commercial

1
2 In summary, of the twenty-two residential and commercial customer
3 classifications across all the water districts, the Company and the Staff agree
4 on thirteen of the twenty-two UCD's. Rebuttal Schedule EJG-1 shows where
5 the Company and Staff agree and disagree. I have placed a check mark in a
6 box next to the customer classifications where the Company and the Staff
7 disagree.

8
9 **Q. HAS THE COMPANY CHANGED ITS METHODOLOGY SINCE THE**
10 **PRIOR RATE CASE?**

11 A. The Company has used a weather normalization approach in each rate case
12 since the 2003 rate case. In the current case, the Company is utilizing an
13 additional statistical analysis. As discussed above, when a customer class
14 was not weather normalized, a trend line analysis was performed. If the
15 trend line analysis was not statistically significant, the average historical UCD
16 was used. Thus, the only difference in the Company's approach in this case
17 was to use an additional statistical tool before using a simple average of
18 UCD.

19
20 **Q. HAS THE STAFF CHANGED ITS METHODOLOGY SINCE THE PRIOR**
21 **RATE CASE?**

22 A. The Staff, in my opinion, has made a significant departure from its position in
23 prior rate cases. In at least the last five MAWC rate cases, the Staff has
24 either utilized a weather normalization approach to develop its UCD or used
25 a weather normalization analysis to validate the use of a ten-year average of

1 UCD.

2
3 In the current case, the Staff has now reversed its position. In its Report,
4 Staff states that the Company utilized weather normalization to indicate that
5 customer water usages drop during years of greater precipitation for five of
6 the nineteen customer types. Staff's Report concludes that because only five
7 of the nineteen customer types show a correlation between UCD and
8 precipitation, the data does not consistently support a definitive correlation
9 between UCD and precipitation.
10

11 **Q. DO YOU AGREE WITH THIS ASSESSMENT?**

12 A. No. Staff's assertion and conclusion here is incorrect for two reasons. First,
13 the Company requested Professor Spitznagel to perform a weather
14 normalization study for only nine of the customer types in four districts: St.
15 Louis, St. Joseph, Joplin, and St. Charles. Of those nine, five of the
16 customer types showed a correlation between UCD and weather (Palmer
17 Drought Severity Index).
18

19 The Company did not perform a weather normalization analysis in this case
20 (or the previous rate case) for the smaller districts. As noted earlier, the
21 districts that were evaluated using a weather normalization statistical
22 analysis represented over 91% of the Company's revenues. Of the four
23 districts that were evaluated, five of the nine customer classes within those
24 districts exhibited a correlation between weather and UCD.
25

1 Second, just because some of the customer classes that were evaluated did
2 not exhibit a correlation between weather and UCD, it does not mean that
3 other customer classes' water usage is unaffected by weather. For example,
4 each of the ten service areas is located in separate geographic parts of the
5 state (except St. Louis, St. Charles, and Warren County Water) and the
6 customer base, size and usage levels within a district are unique. The fact
7 that some customer class' sales within a district are correlated to weather
8 while others are not is not sufficient evidence or reason to reject the
9 statistical analysis of Professor Spitznagel.

10
11 **Q. HAS THE COMPANY ASKED PROFESSOR SPITZNAGEL TO DISCUSS**
12 **THE REASONS WHY A STATISTICAL ANALYSIS FOR WEATHER**
13 **NORMALIZATION IS BETTER THAN A SIMPLE SIX YEAR HISTORICAL**
14 **AVERAGE CALCULATION OF UCD AND A STATISTICAL ANALYSIS**
15 **USING A TREND LINE APPROACH IS ALSO BETTER THAN USING A**
16 **SIMPLE SIX YEAR HISTORICAL AVERAGE CALCULATION OF UCD?**

17 **A.** Yes, we have. Professor Spitznagel in his rebuttal testimony will offer
18 detailed support, analysis and reasons for using the weather normalization
19 method over a simple six year average of UCD or a statistical trend line
20 analysis over a simple six year average of UCD.

21
22 **Q. DO YOU HAVE ANY COMMENTS THAT WILL SUPPLEMENT**
23 **PROFESSOR SPITZNAGEL'S REBUTTAL TESTIMONY?**

24 **A.** Yes, I do. As noted by Professor Spitznagel, the UCD for five of the
25 Company's service classes are impacted by weather. The Staff has used a

1 historical six year average to calculate revenues at present rates for those
2 five service classes. The Company believes that the Staff's six year average
3 of UCD overstates the level of sales at present rates because the Staff has
4 ignored the impact of weather on those six years. A review of actual weather
5 for the months of April through October for the years used by the Staff to
6 calculate its UCD, indicates that for all four service areas where the
7 Company has utilized a weather normalized study to calculate UCD, the
8 actual weather conditions were on average both hotter and drier. In other
9 words, because the actual weather was hotter and drier (as measured by
10 temperature, cooling degree days and PDSI) than normal based on thirty
11 years of data and because the UCD is impacted by weather, using the Staff's
12 six year average for calculating its UCD significantly overstates sales and
13 revenues at present rates.

14
15 **Q. DOES THE COMPANY HAVE ANY ADDITIONAL COMMENTS**
16 **REGARDING THE STAFF'S USE OF A SIX YEAR AVERAGE?**

17 **A.** Yes. As noted in its Report, the Staff used a six year historical average for
18 the years 2000, 2001, 2002, 2004, 2005 and 2007. The years 2003 and
19 2006 were not used due to issues surrounding the start and stop of using a
20 4-4-5 closing process and its impact on billing data. The use of the 6 years
21 of data by Staff has been additionally overstated because the years 2000
22 and 2001 did not include the customers of Florissant or Webster Groves.
23 Those acquisitions occurred in January 2002.

24
25 **Q. WHY IS THIS AN ISSUE?**

1 A. The reason this is an issue is because the customers in Florissant and
2 Webster Groves are lower users of water. Thus by excluding the impact of
3 those customers from the 2000 and 2001 data, the average six year UCD as
4 calculated by Staff is overstated. In other words, since Florissant and
5 Webster Groves acquisitions occurred in January 2002, the UCD for 2000
6 and 2001 would have been lower.

7
8 **Q. WHAT IS THE UCD FOR THE FOR THE FLORISSANT AND WEBSTER**
9 **GROVES QUARTERLY RESIDENTIAL AND COMMERCIAL**
10 **CUSTOMERS?**

11 A. The UCD for the quarterly residential customers for Florissant and Webster
12 Groves is 197.52 gallons per day and 202.13 gallons per day, respectively.
13 This compares to the 252.16 for St. Louis residential quarterly customers.
14 This is a significant difference. The UCD for the quarterly commercial
15 customers for Florissant and Webster Groves is 796.60 gallons per day and
16 869.27 gallons per day, respectively. This compares to the 1,155.72 for St.
17 Louis commercial quarterly customers. This too is a significant difference.
18 And finally, the UCD for the monthly commercial customers for Florissant and
19 Webster Groves is 5,586.60 gallons per day and 16,226.04 gallons per day,
20 respectively. This compares to the 13,859.12 for St. Louis commercial
21 monthly customers. By incorporating the effect of the lower average
22 Florissant and Webster Groves customers' UCD for the residential and
23 commercial quarterly customer classes and the commercial monthly
24 customer class into the Staff's calculation of the six year average UCD, the
25 result is to lower the residential quarterly use by two gallons per day, lower

1 the commercial quarterly by six gallons per day and lower the commercial
2 monthly by 25 gallons per day. The total revenue impact associated with my
3 discussion above is to reduce Staff's revenue at present rates by
4 approximately \$658,000.

5
6 **Q. ARE YOU ASKING THE COMMISSION TO CONSIDER BOTH THE**
7 **ADJUSTMENT FOR FLORISSANT AND WEBSTER GROVES AND THE**
8 **COMPANY'S APPROACH TO THE CALCULATION OF UCD?**

9 A. I am not asking the Commission to reduce the Company's weather
10 normalized residential quarterly customer class in St. Louis by the effect of
11 the Florissant and Webster Groves lower customer UCD. I am, however,
12 making two corrective adjustments to the Company's original filing. The
13 Company has already incorporated this impact into its UCD for residential
14 quarterly in St. Louis. However, the Company has not incorporated this
15 impact into its commercial quarterly or commercial monthly UCD calculation
16 for St. Louis. The impact on the commercial quarterly class will reduce the
17 UCD by 25 gallons per day with a revenue decrease impact of \$355,000.
18 The impact on the commercial monthly is also 25 gallons per day resulting in
19 a decrease in revenues of \$10,400.

20
21 **Q. PLEASE DISCUSS THE ISSUES RAISED BY MIEC REGARDING**
22 **CUSTOMER LEVELS IN ST. LOUIS AND THE APPROPRIATE UCD FOR**
23 **ST. LOUIS QUARTERLY CUSTOMERS.**

24 A. First the issue of the proper number of residential quarterly customers in St.
25 Louis will be a moot point when we perform the true-up. The MIEC has

1 attempted to estimate the appropriate level of quarterly residential customers
2 at September 30th. Since the Company and Staff will perform a true-up of
3 the actual number of residential quarterly customers in St. Louis as of
4 September 30th (among other things), there will be no need to estimate that
5 number.

6
7 **Q. PLEASE DISCUSS THE UCD FOR THE RESIDENTIAL QUARTERLY**
8 **CUSTOMERS.**

9 A. MIEC has recommended a UCD of 263 gallons per day for the residential
10 quarterly customer class in the St. Louis District. This estimate is based on a
11 simple average of actual historical information without adjusting for weather
12 impacts or the impacts of a continued sales decline in water utilization. MIEC
13 provides a table showing a 2, 3, 4, 5, 6, 7, 8, 9 and 10 year simple average.
14 By using this table, MIEC attempts to simplify the issue by ignoring any
15 impacts of weather or sales decline trends. Professor Spitznagel addresses
16 both of these issues in his direct and rebuttal testimony.

17
18 **(2) PENSION AND OTHER POST-RETIREMENT EMPLOYEE BENEFITS COSTS**
19

20 **Q. WHAT RATE TREATMENT IS THE STAFF PROPOSING IN THE CURRENT**
21 **CASE FOR PENSION AND OPEB COSTS AND DOES THE COMPANY**
22 **AGREE WITH THE PROPOSAL?**

23 A. The Staff is proposing to recognize in rates an amortization of the
24 unrecognized gains and losses over a ten-year period as part of the pension
25 and OPEB costs. The Company currently uses detailed actuarial reports

1 prepared by Towers Perrin for American Water to record its pension and
2 OPEB costs. The preparation of the reports is guided by SFAS 87 for
3 pension costs and SFAS 106 for OPEBs. These two guidelines are
4 Statement of Financial Accounting Standards that was issued by the
5 Financial Accounting Standards Board.

6
7 The Staff's proposed ten-year amortization period for unrecognized gains and
8 losses eliminates the "corridor" approach to the handling of the unrecognized
9 gains and losses as utilized by SFAS 87 and SFAS 106.

10
11 The Company does not agree with the Staff's recommendation.

12
13 **Q. PLEASE EXPLAIN THE "CORRIDOR" APPROACH.**

14 **A.** A part of the calculation of pension and OPEB expense according to FAS 87 and
15 106 is the amortization of unrecognized gains and losses. The "corridor"
16 approach defines the minimum amount of the amortization of unrecognized gains
17 and losses required during the year. The "corridor" is equal to ten percent of the
18 greater of the projected benefits that a company is obligated to pay an employee
19 after retirement (PBO for pensions and APBO for OPEBs) or the market-related
20 value of the assets in the pension or OPEB fund. Only the amount of gains and
21 losses that exceed the corridor are required to be amortized during the year. The
22 amount of gains and losses identified by the corridor is then amortized over the
23 remaining life of the plan participants.

1 **Q. WHAT IS THE PURPOSE OF THE “CORRIDOR” APPROACH FOR**
2 **RECOGNIZING GAINS AND LOSSES?**

3 A. The purpose of the “corridor” approach is to recognize in current pension and
4 OPEB cost gains and/or losses that fall outside the corridor. In other words, this
5 approach will smooth out volatility in the calculations of pension and OPEB costs.
6 One must keep in mind that one of the factors that drives the level of these costs
7 is the impact actual return generated by the financial markets has on the plan’s
8 asset values. There will always be up years and down years in the market. The
9 “corridor” approach will smooth the impacts of the financial markets.

10
11 **Q. WHAT IS STAFF’S RATIONALE FOR USING THE TEN-YEAR**
12 **AMORTIZATION APPROACH?**

13 A. The Staff, based on its prior case testimony (Staff in this case is adopting its prior
14 MAWC case approach) indicated that it is important to recognize costs and
15 benefits in rates in a timely manner. The Company believes that the Staff
16 approach simply moves cost recovery above or below the level dictated by the
17 “corridor” approach and that over a longer horizon, the two approaches should be
18 equal.

19
20 **Q. IF THIS IS THE CASE, WHY DOES THE COMPANY OPPOSE THE STAFF’S**
21 **APPROACH?**

22 A. First, the Staff is also recommending that the Company continue to utilize a
23 tracker mechanism for the difference between the Company’s actuary costs and
24 the amounts calculated using Staff’s recommendation. And second, the

1 Company believes that this added level of monitoring is unnecessary since the
2 use of the "corridor" approach allows costs to be properly recorded on the books.
3

4 **Q. WHAT IS THE IMPACT ON THE REVENUE REQUIREMENT OF THE STAFF'S**
5 **PROPOSAL IN THIS CASE?**

6 A. Because of the losses in the financial markets over the last few years, the Staff is
7 proposing to recognize these losses over a ten-year period. This proposal has
8 increased the Staff's proposed revenue requirement by approximately \$873,000
9 versus what is indicated by the actuarial studies. This highlights the volatile
10 nature of the Staff's approach.
11

12 **Q. WHAT IS THE COMPANY'S RECOMMENDATION ON THIS ISSUE?**

13 A. The Company recommends using the actuarial reports that are prepared by
14 Towers Perrin, in accordance with SFAS 87 and SFAS 106. This would reduce
15 the Staff's revenue requirement by approximately \$873,000.
16

17 **Q. IS THE STAFF PROPOSING TO AMORTIZE THE CURRENT TRACKER**
18 **BALANCE FOR PENSION AND OPEB EXPENSE THAT WAS CREATED**
19 **FROM THE LAST RATE CASE?**

20 A. The Staff is recommending a five year amortization. The Company does not
21 oppose this recommendation.
22

23 **Q. DO YOU HAVE ANY COMMENTS REGARDING THE STAFF'S PROPOSED**
24 **LEVEL OF OPEB EXPENSE?**

1 Y. The Staff has included \$31,901 for an amortization of a regulatory asset
2 associated with a deferral of OPEB costs for the St. Joseph and Joplin Districts
3 from July 1, 1994 up through the effective date of the Report and Order in Case
4 No. WR-95-205. This deferral was approved by the Commission in Case No.
5 WR-95-205. In addition to this deferral, the Company deferred OPEB costs for
6 the then St. Louis County Water Company between January 1, 2003 through
7 August 31, 2003 and began amortizing the deferral over a period of 20 years
8 from the date FAS 106 was first adopted for financial reporting purposes. In
9 Case No. WR-94-166, St. Louis County Water proposed to amortize the deferral
10 over approximately 19.33 years. The amortization continues and the Company
11 believes that recovery of the \$43,696 annual amortization is appropriate. Such
12 recovery has not been disallowed by previous Commission Orders and is
13 consistent with the Commission's treatment and approval of the old St. Joseph
14 and Joplin deferrals.

15
16 **(3) ANNUAL INCENTIVE COMPENSATION COSTS**
17

18 **Q. WHAT IS THE ISSUE REGARDING THE ANNUAL INCENTIVE**
19 **COMPENSATION COSTS ("AIP")?**

20 A. The Staff is recommending disallowance of a portion of AIP costs associated
21 with the Company achieving financial goals \$207,669 and the AIP cost
22 associated with the Company achieving certain customer satisfaction goals
23 \$96,075.
24

25 **Q. WHY IS THE STAFF RECOMMENDING DISSALLOWCE OF THE AIP**
26 **ASSOCIATED WITH FINANCIAL GOALS AND THE CUSTOMER**

SATISFACITON GOALS?

A. Staff states that it is its policy not to allow recovery of the portion of the AIP associated with achieving certain financial goals because Staff finds no connection between such financial results and a benefit to MAWC's ratepayers. In addition Staff indicates it is supported by prior commission decisions. In support of this, Staff cites a Southwestern Bell Telephone case on page 39 of its Report.

Regarding the AIP cost associated with Customer Satisfaction goals, Staff is recommending disallowance because the Company sampled only 119 water customers in its annual Customer Satisfaction Survey out of approximately 447,000 customers regarding customer service. The Staff believes the sample size was too small to award an AIP.

Q. DO YOU AGREE WITH THE STAFF'S POSITION ON AIP COSTS?

A. No, I do not. First, the AIP benefits ratepayers by helping MAWC to attract and retain competent personnel, reduce expenses, maintain the financial health of the Company, improve service to customers and increase operational efficiencies. The financial element of the AIP provides incentives to Company personnel related to meeting the overall financial goals of the Company

Q. DESCRIBE THE RATEPAYER BENEFITS PROVIDED BY THE FINANCIAL GOALS OF THE AIP.

A. The financial element of the incentive plan provides incentives to Company personnel related to meeting the overall financial goals of the Company, such as

1 operating income. This is beneficial to ratepayers because a financially healthy
2 company is in a better position to meet its public service obligations. A financially
3 healthy company will be able to (i) raise capital at relatively lower cost, (ii) better
4 respond to changes in business conditions or to additional water quality
5 regulations, and (iii) meet the challenges of emergencies that occur from time to
6 time. Therefore it is in the customer's interest to have a compensation plan that
7 motivates employees to support the Company's sound financial performance.
8

9 **Q. THE STAFF CITED A SOUTHWESTERN BELL ("SWB") CASE TO**
10 **SUPPORT ITS POSITION. DO YOU BELIEVE THAT CITE TO BE**
11 **RELEVANT TO THE INSTANT CASE?**

12 A. No, I do not. The cite indicated that the Commission's decision in that case
13 only applied to parent company's senior management's long-term and short-
14 term incentive plans. In the current rate case, MAWC is not requesting any
15 recovery of its Parent Company's senior management's AIP. The Company
16 is requesting recovery of MAWC AIP. These employees work directly for the
17 benefit of the Company's ratepayers.
18

19 **Q. PLEASE COMMENT ON THE STAFF'S RECOMMENDATION TO**
20 **DISALLOW AIP COSTS ASSOCIATED WITH CUSTOMER SERVICE.**

21 A. The Staff has recommended disallowing AIP costs associated with customer
22 service because the sample size of 119 used by the Company in its Annual
23 Customer Satisfaction Survey was deemed to be "too small". The Staff used
24 a reference to the Company response to Data Request 47.1 which provided
25 AIP information. In the response, the Company also provided survey results

1 for the Service Quality Study performed in 2007. In that survey, there were
2 211 respondents to the survey. Staff did not include these respondents in its
3 discussion of the AIP disallowance. The customer service portion of the AIP
4 is based on both of the surveys that measure customer satisfaction and
5 overall customer service.

6
7 The Company issued Data Request 176 to the Staff which asked "does the
8 Staff believe that there are alternatives to statistical sampling that would
9 validly support recovery of the customer service quality portion of the
10 Company's AIP?" The Staff did not respond directly to the question but,
11 rather, stated that to the extent the Company could demonstrate tangible
12 benefits to customers from a customer survey for which statistical accuracy
13 concerns were irrelevant, the Staff would be willing to consider inclusion in
14 rates of such a sample. The Staff further stated that they did not perform any
15 scientific analysis of the statistical sample size or methodology used by the
16 Company to determine customer satisfaction levels.

17
18 The Company believes that the two customer service samples (of which the
19 Staff only commented on one) are statistically meaningful. We have
20 provided Professor Spitznagel a copy of the data related to the samples and
21 he has confirmed in his rebuttal testimony that the surveys are statistically
22 meaningful and that the results of the survey do represent the Company's
23 customer sentiments regarding service quality.

24
25 **(4) AWR REVENUES**

1
2 **Q. STAFF IMPUTES REVENUES OF \$67,826 ASSOCIATED WITH CERTAIN**
3 **SERVICE LINE AND IN-HOME PLUMBING PROTECTION PROGRAMS**
4 **MANAGED BY AMERICAN WATER RESOURCES. DO YOU AGREE WITH**
5 **THIS ADJUSTMENT?**

6 A. No. I do not. The imputed revenues proposed by Staff are far in excess of what
7 MAWC receives for providing much greater assistance for a similar program
8 operated by St. Louis County.
9

10 **Q. WHAT IS THE SUBJECT OF STAFF'S PROPOSED ADJUSTMENT?**

11 A. American Water Resources, Inc. (AWR), an unregulated subsidiary of American
12 Water Works Company, Inc., provides water and sewer service line protection
13 and in-home plumbing programs. For these protection programs, for a fee, AWR
14 will be responsible for certain repairs to the water and sewer service lines and in-
15 home plumbing owned by the customer. AWR currently has programs that apply
16 to water lines, sewer lines and in-home plumbing. Staff takes the total revenue
17 associated with the water line plan for the Missouri customers served by AWR,
18 assumes half of that revenue is profit and then assigns twenty-five percent (25%)
19 of the profit to MAWC. For the sewer and in-home plumbing programs, Staff
20 again assumes that half of the revenue is profit and then assigns twelve and a
21 half percent (12.5%) of the assumed profit to MAWC. The total amount, or
22 \$67,826, is then imputed as revenue to MAWC.
23

24 **Q. HAS THIS SUBJECT BEEN AN ISSUE IN THE PAST?**

25 A. Yes. Staff raised an issue concerning the protection programs in MAWC's last

two rate case (Case No. WR-2003-0500 and WR-2007-0216).

Q. DID MAWC MODIFY ITS CONDUCT OF BUSINESS AS A RESULT OF THE LAST TWO CASES?

A. Yes. MAWC took note of the Staff's concerns in each of these cases and, as a result, has over time taken steps to prohibit the use of the MAWC name or logo on service line protection communications and to stop the AWR's use of MAWC customer lists.

Q. WHEN DID THE USE OF MAWC'S NAME AND LOGO CEASE?

A. The last mailing that contained the MAWC name was sent in March of 2004, over four years ago.

Q. WHEN DID MAWC STOP PROVIDING MAILING LISTS TO AWR?

A. MAWC stopped providing mailing lists to AWR in June 2007.

Q. DID THE MAILING LIST PROVIDED TO AWR IN THE PAST INCLUDE ALL OF MAWC'S CUSTOMERS?

A. No. St. Louis County, where the great majority of MAWC's customers are located, has its own line protection program administered by the County government. Thus, AWR will not mail information to approximately 315,000 of MAWC's 418,000 residential customers.

Q. WHAT ASSOCIATION DOES MAWC NOW HAVE WITH THE AWR OFFERINGS?

1 A. MAWC has no association with AWR other than the fact that they are both
2 subsidiaries of American Water.

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

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

12
13 **Q. WHAT SERVICES DOES MAWC PERFORM IN REGARD TO THE ST. LOUIS**
14 **COUNTY PROGRAM?**

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

17
18 **Q. IS MAWC COMPENSATED FOR THESE SERVICES?**

19 A. Yes. MAWC has an agreement with the County that was negotiated by the
20 parties. This agreement identifies the services to be performed by MAWC and
21 the compensation to be received by MAWC.

22
23 **Q. HOW IS MAWC COMPENSATED?**

24 A. MAWC receives one percent (1%) of the gross revenues collected in exchange
25 for its services.

1
2 **Q. IF THIS METHOD OF COMPENSATION WERE APPLIED TO THE AWR**
3 **REVENUES IDENTIFIED BY STAFF, WHAT COMPENSATION WOULD**
4 **MAWC RECEIVE?**

5 A. The Staff Report – Cost of Service identifies gross annual revenues of \$755,943.
6 One percent of those revenues would be \$7,559.

7
8 **Q. IF ONE PERCENT OF GROSS REVENUES IS THE MARKET RATE FOR THE**
9 **SERVICES PROVIDED TO ST. LOUIS COUNTY, WHAT WOULD BE THE**
10 **FAIR MARKET VALUE OF MAWC’S RELATIONSHIP WITH AWR?**

11 A. Substantially less. MAWC provides all billing and collection services for St. Louis
12 County. MAWC provides no billing and collection services for AWR.

13
14 **Q. IF THE COMMISSION DECIDES TO IMPUTE SOME AMOUNT OF REVENUE**
15 **ASSOCIATED WITH THE LINE PROTECTION PROGRAMS FOR**
16 **RATEMAKING PURPOSES, WHAT AMOUNT SHOULD BE USED?**

17 A. I believe that the compensation received by MAWC for administering the St.
18 Louis County (one percent of gross revenue) represents a ceiling for any such
19 adjustment. The services provided to St. Louis County are far greater than
20 anything provided to AWR. Accordingly, any imputed revenue should be
21 something less than \$7,559.

22
23 **(5) ALLOCATION OF BELLEVILLE LAB COSTS**

24
25 **Q. STAFF PROPOSES A REDUCTION OF MAWC’S EXPENSE TO**
26 **REALLOCATE THE INDIRECT PORTION OF THE BELLEVILLE LAB**

1 **SERVICE COMPANY COSTS BASED ON AN AVERAGE OF THE NUMBER**
2 **OF TEST ANALYSES PERFORMED AS OPPOSED TO AN ALLOCATION OF**
3 **COSTS BASED ON THE NUMBER OF CUSTOMERS. WHAT IS THE**
4 **BELLEVILLE LAB SERVICE COMPANY?**

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

8
9 **Q. DOES THE USE OF THE BELLEVILLE LAB PROVIDE SAVINGS FOR MAWC**
10 **AND ITS CUSTOMERS?**

11 A. Yes. The Belleville Lab conducts a survey to compare its testing costs to those
12 of outside testing laboratories. Outside labs have been found to be from 6% to
13 52% more expensive. Also, outside testing labs will charge higher fees for
14 evaluation of “rush” samples. The Belleville Lab does not.

15
16 **Q. HOW DOES THE BELLEVILLE LAB ALLOCATE COSTS TO MAWC?**

17 A. Those costs directly attributable to MAWC are charged accordingly. The indirect
18 costs are allocated to each of the operating companies based on customer
19 count.

20
21 **Q. HOW DOES STAFF PROPOSE TO ALLOCATE THE INDIRECT COSTS FOR**
22 **RATEMAKING PURPOSES?**

23 A. The Staff Report – Cost of Service proposes an adjustment that will represent an
24 allocation of the indirect costs based on an average of the number of test
25 analyses performed on all samples that were submitted to the Belleville Lab over

the last five calendar years.

Q. WHY DOES STAFF ALLEGE THAT NUMBERS OF TESTS IS A MORE APPROPRIATE METHOD FOR THE ALLOCATION OF THESE INDIRECT COSTS?

A. Staff is concerned that MAWC is receiving an allocation of indirect costs of approximately 14.08%, while MAWC's portion of test analyses represents about 6.85% of the total tests performed.

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

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

Q. IS THE USE OF CUSTOMER COUNTS MORE STABLE?

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

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

A. No. It is system-wide policy to allocate Service Company expenses on the basis of the number of customers that cannot be direct charged to operating companies. Doing so makes practical sense, is easy to manage and administer and it provides for system-wide consistency over multiple jurisdictions. Customer numbers are currently used to allocate service company costs related to

1 accounting, administration, communications, corporate secretarial and legal,
2 customer services, engineering, financial human resources, information systems,
3 operations, rate and revenues and risk management. If each of these services is
4 examined on a Missouri-only basis for an alternative allocation methodology, I
5 suspect that some alternatives would increase costs currently allocated to
6 MAWC.

7
8 **Q. WHY IS CONSISTENCY FROM STATE TO STATE IMPORTANT?**

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

14
15 **Q. ARE THERE SIGNIFICANT SWINGS IN THE LEVEL OF TEST ANALYSES**
16 **PERFORMED BY THE VARIOUS STATES THAT HIGHLIGHT THE NEED FOR**
17 **CONSISTENCY?**

18 A. Yes. Attached is Rebuttal Schedule EJG-2 which shows the percentage of test
19 analyses for each state to the total AW system by year since 2003. As shown on
20 this schedule, I have identified the minimum and maximum percentage values for
21 each state over the five year period and calculated a % variance. As shown the
22 % variances are extremely significant. For example, MAWC's minimum and
23 maximum percentages vary by 48.53%. For the state of New Mexico, the %
24 variance in the minimum and maximum is over 10,000%. In fact, there are nine
25 out of the total of 17 states that have a % variance calculated that exceeded

1 100%.

2
3 **Q. DOES THE USE OF TEST SAMPLES INCENT ANY OTHER BEHAVIOR?**

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

9
10 **Q. WHAT IS THE CONSEQUENCE OF STAFF'S BELLEVILLE LAB**
11 **REALLOCATION?**

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

13
14 **Q. WHAT IS YOUR RECOMMENDATION?**

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

21
22 **(6) SPECIAL CONTRACT RATES IN ST. JOSEPH DISTRICT**

23
24 **Q. ON PAGE 2 OF THE DIRECT TESTIMONY OF AG PROCESSING WITNESS**
25 **DONALD E. JOHNSTONE, HE STATES THAT "MAWC SUBMITTED NO**
26 **COST STUDY IN SUPPORT OF THE SPECIAL CONTRACT RATES". WHAT**

IS YOUR RESPONSE?

A. As of the end of the test year (i.e., December 31, 2007), the St. Joseph District had one special contract that was approved by the Commission in its Order Concerning Agreement and Tariffs, Application to Intervene and Motions to Suspend Tariffs, issued November 20, 2003, in Case No. WT-2004-0192. As part of its application in that case, the Company submitted specific cost information to justify the proposed contract rate. For purposes of this case, the Company is not proposing to change that rate. Thus, it was not necessary to resubmit the cost information that was previously filed with the Commission.

(7) CUSTOMER CLASSIFICATION DEFINITIONS

Q. WHAT DOES AGP WITNESS JOHNSTONE SAY ABOUT THE CUSTOMER CLASSIFICATIONS USED BY THE COMPANY IN ITS COST STUDIES?

A. Mr. Johnstone "continues to be concerned with the use of the rate classes (i.e., residential, commercial, industrial public authority and sales for resale)." He complains that the tariff does not define what it takes to be assigned to one of those classes.

Q. WHAT IS YOUR RESPONSE?

A. I believe this issue was first raised in the Company's 2003 rate case, Case No. WR-2003-0500. As a result of a Stipulation in that case, the Company agreed to collect data sufficient to allow a study to evaluate current customer class definitions and to share the data with the parties for their review. The Company provided data that is found in the American Water Works Association Manual of Water Supply Practices (Manual), pages 63 and 67 prior to the filing of its last

1 rate case (WR-2007-0216). It was the Company's position in the last case (and it
2 continues to be its position in this case) that the current customer classifications
3 as defined in the Manual are appropriate based on current cost structures and
4 rates of Missouri American.

5 **Q. HOW DOES THE MANUAL DEFINE CUSTOMER CLASSES?**

6 **A.** The Manual defines the various customer classes as follows:

- 7 • Residential – One and two-family dwellings, usually
8 separate.
- 9 • Commercial – Multifamily apartment buildings and non-
10 residential, non-industrial business enterprises.
- 11 • Industrial – Manufacturing and processing establishments.
- 12 • Public Authority – Public schools, hospitals, colleges,
13 municipal or other governmental offices or operations.
- 14 • Resale – Sales of water to another water utility for resale.
- 15 • Fire Protection – Private fire lines for businesses and public
16 fire hydrants paid for by municipalities.

17 The Company uses these classifications for purposes of classifying customers.

18 Each customer of the Company is assigned into one of the above categories
19 based on the characteristics of the customer. This has been standard operating
20 procedure for the Company for at least the last 30 years and is common practice
21 in the water industry.

22
23 **(8) INTER-DISTRICT SUBSIDIES**

24
25 **Q. WHAT DO YOU UNDERSTAND TO BE THE ISSUE REGARDING INTER-**
26 **DISTRICT SUBSIDIES?**

27 **A.** In the Company's initial filing, it proposed that the rates for the St. Louis
28 Metro District, which includes St. Louis County, St. Charles and Warren

1 County Water, reflect a revenue contribution of approximately \$2,029,000.
2 This revenue contribution flows to the Brunswick, Parkville Water, Cedar Hill
3 Sewer and Warren County Sewer Districts and allows rates in those Districts
4 to be less than they otherwise would be if they were based on their full
5 district specific costs. If this revenue contribution was not permitted then the
6 increases for those four districts would have been 217.7%, 46.24%, 156.8%
7 and 526.7%, respectively. By proposing the revenue contribution, the
8 percent increases for these four districts are 29.7% for all four.

9
10 **Q. WHICH PARTIES IN THE CASE HAVE FILED DIRECT TESTIMONY IN**
11 **THE CASE OPPOSING THE COMPANY ON THIS ISSUE?**

12 A. MIEC witness Mr. Collins is the only witness to address this proposal in his
13 direct testimony and he opposes it.

14
15 **Q. WHAT REASON DOES MR. COLLINS GIVE TO SUPPORT HIS**
16 **OPPOSITION TO THE REVENUE CONTRIBUTION?**

17 A. Mr. Collins cites two reasons for MIEC opposing the revenue contribution or
18 subsidy as he calls it. The first is that the subsidy is not cost justified. And
19 second, that the subsidy provided by the St. Louis Metro District is
20 inappropriate because of the impact it would have on St. Louis area
21 businesses.

22
23 **Q. DO YOU HAVE ANY COMMENTS REGARDING MIEC'S POSITION?**

24 A. Yes. I agree that the revenue contribution is not reflective of any costs
25 directly attributable to the St. Louis District. That, however, does not mean

1 that it is not appropriate. A subsidy in the setting of rates can address a
2 number of goals including: 1) avoiding rate shock, 2) promoting gradualism
3 towards cost based rates, 3) promoting fairness and 4) avoiding the impact of
4 a drastic change in the existing rate structure. In the current case, the
5 Company's proposal attempts to avoid rate shock and to gradually move
6 towards cost based rates for the four districts.

7
8 **Q. DO YOU AGREE WITH MIEC THAT THE SUBSIDY IS INAPPROPRIATE**
9 **BECAUSE OF THE IMPACT IT WOULD HAVE ON ST. LOUIS AREA**
10 **BUSINESSES?**

11 A. No, while I agree that the subsidy would have some impact on St. Louis
12 Metro businesses, its impact on the Company's Rate J and Rate B
13 customers (which represent the largest customers in the St. Louis Metro
14 District) is minimal. The average impact per day for the 167 Rate J
15 customers is \$1.53. The average impact of the subsidy per day for the
16 17,900 customers of Jefferson County Water District #'s 1, 3 and 10 is a half
17 a penny per day. For the Rate A (i.e. residential) customers in St. Louis
18 County, the impact would be a penny per day for a customer using 32 CCF
19 or 24,000 gallons of water per quarter. Thus, the economies of scale of the
20 St. Louis Metro District allow the subsidy to be spread over a large customer
21 base.

22
23 **(9) PRESENTATION & DOCUMENTATION METHODS**

24 **Q. THE CITY OF JOPLIN THROUGH ITS WITNESS, MR. MICHAEL J. ILEO,**
25 **RAISES THE ISSUE OF PRESENTATION & DOCUMENTATION**

1 **METHODS. WOULD YOU PLEASE ADDRESS THIS ISSUE?**

2 A. Yes. Mr. Ileo has identified a number of concerns in his direct testimony. I
3 believe that many of his concerns are a result of the City of Joplin waiting
4 until mid-August to hire a consultant to review the Company's rate
5 application. Because of the City of Joplin's delay in hiring a consultant, it
6 would appear that Mr. Ileo has not had sufficient time to review and
7 understand the Company's rate filing.

8
9 I would like to comment on several specific issues that the City of Joplin
10 raised in Mr. Ileo's direct testimony. They are as follows:

- 11 1. Service Company charges and cost assignments
12 2. Use of the Uniform System of Accounts ("USAO") and Reporting

13
14 **Q. PLEASE DISCUSS THE ISSUE OF SERVICE COMPANY CHARGES AND**
15 **COST ASSIGNMENTS.**

16 A. This issue had been raised in prior rate cases. In Case No-WR-2003-0500,
17 the Company presented to the parties a Cost Allocation Manual ("CAM") and
18 it has been submitted annually to the Staff since that case. The City of Joplin
19 was a party to the 2003 rate case and thus should have been aware of and
20 received a copy of the CAM. The Company is willing to provide to the City of
21 Joplin a copy of the CAM should they require one for review. In addition,
22 Service Company charges are allocated based on a contractual agreement
23 between the Company and the Service Company that has been in effect and
24 subject to regulatory scrutiny since 1989. The allocation of the costs is
25 consistent with the CAM.

1 **Q. ON PAGES 13 THROUGH 16, MR. ILEO MAKES NUMEROUS**
2 **COMMENTS REGARDING THE COMPANY'S LACK OF USING THE**
3 **USOA IN DEVELOPING ITS CASE. WOULD YOU PLEASE COMMENT?**

4 **A.** I have several comments. First, the Company's CAS-3 schedules for rate
5 base are reflected using the USOA (1976 version) for utility plant in service,
6 accumulated depreciation and customer advances and CIAC. Other
7 elements of rate base are presented as a summary and are referenced to the
8 Company's workpapers, which were available to the parties shortly after the
9 rate case was filed on March 31, 2008. Mr. Ileo states that the Company's
10 proforma adjustments to utility plant are not referenced by specific
11 adjustment number or workpapers. However, the Company's workpapers
12 include all of the appropriate documentation and had Mr. Ileo asked
13 assistance from the Company, we would have gladly assisted him in his
14 review and understanding of the workpapers.

15
16 Second, the Company's CAS-10-JOP reflects the per books test year and
17 proforma operation and maintenance expenses. Mr. Ileo states that these
18 amounts and the support on CAS-15 are not in USOA format. What Mr. Ileo
19 fails to realize is that the Company in its workpapers has an electronic file
20 that supports the CAS-10-JOP schedule in the USOA format. In fact, the
21 City of Joplin on August 22, 2008, requested the Company's workpapers that
22 were provided to the Staff as Data Request 001. The City of Joplin has all
23 the requisite information in the workpapers to support the Company's rate
24 filing.

1 Third, Mr. Ileo is critical of the numerical differences between the Company's
2 filing and Mr. Herbert's cost of service study. He cites differences between
3 total operation and maintenance expenses as shown on CAS-10-JOP in the
4 amount of \$5,964,572 and Mr. Herbert's total operation and maintenance
5 expenses of \$6,011,890. The difference of \$47,318 is the amount of
6 uncollectibles expense included in Mr. Herbert's number at proposed rates.
7 The amount on CAS-10-JOP is a present rates level of operation and
8 maintenance expenses and does not include adjustment for uncollectibles
9 expense at proposed rates. In addition, he cites a difference in the amount
10 of customer accounting expense in Mr. Herbert's Schedule B-JOP in the
11 amount of \$472,028 and the Company's amount for customer accounting
12 costs on CAS-10-JOP in the amount of \$231,499. Again, the difference is
13 easily explained by noting that the labor expense associated with customer
14 accounting is included in Mr. Herbert's number but is not included in the
15 Company customer accounting number. It is included in the line labeled
16 LABOR on line 7 of CAS-10-JOP. In summary, the Company believes that
17 its filing is organized appropriately and in the USOA format and that the City
18 of Joplin's criticism is unwarranted.
19

20 **Q. DO YOU HAVE ANY COMMENTS REGARDING MR. ILEO'S SUMMARY**
21 **AND RECOMMENDATIONS ON PAGE 16 OF HIS DIRECT TESTIMONY?**

22 A. Yes, I do. As discussed above his criticisms are erroneous and/or
23 unwarranted and therefore his recommendations should be rejected.

24 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

25 A. Yes.

Missouri-American Water Company
Case No. WR-2008-0311
Usage per Customer per Day - Company Compared to MoPSC Staff

District	Customer Class	Per Company		Diff (3)	Per Staff	
		Usage Per Customer Per Day (1)	Revenue Methodology		Usage Per Customer Per Day (1)	Revenue Methodology
St. Louis	Res Monthly	9,440	Actual Test Year		9,473	Actual Test Year
St. Louis	Res Quarterly	248	Weather Norm	☒	269	6 YR AVG
St. Louis	Com Monthly	15,022	6 YR AVG		15,022	6 YR AVG
St. Louis	Com Quarterly	1,156	Weather Norm	☒	1,115	6 YR AVG
St. Joseph	Residential	158	Weather Norm	☒	172	6 YR AVG
St. Joseph	Commercial	841	6 YR AVG		841	6 YR AVG
Joplin	Residential	179	6 YR TREND	☒	193	6 YR AVG
Joplin	Commercial	1,087	Weather Norm	☒	945	6 YR AVG
St. Charles	Residential	270	Weather Norm	☒	272	6 YR AVG
St. Charles	Commercial	1,277	6 YR AVG		1,277	6 YR AVG
Mexico	Residential	150	6 YR AVG		150	6 YR AVG
Mexico	Commercial	620	6 YR AVG		620	6 YR AVG
Jefferson City	Residential	161	6 YR AVG		161	6 YR AVG
Jefferson City	Commercial	710	6 YR TREND	☒	811	6 YR AVG
Parkville Water	Residential	266	6 YR TREND	(2)	285	6 YR AVG
Parkville Water	Commercial	1,126	6 YR TREND	☒	979	6 YR AVG
Warrensburg	Residential	172	6 YR AVG		172	6 YR AVG
Warrensburg	Commercial	677	6 YR TREND	☒	783	6 YR AVG
Brunswick	Residential	123	6 YR AVG		123	6 YR AVG
Brunswick	Commercial	202	6 YR AVG		202	6 YR AVG
Warren County	Residential	209	Actual Test Year		210	Actual Test Year
Warren County	Commercial	643	Actual Test Year		643	Actual Test Year
		Difference Amount (4)				
St. Louis	Res Quarterly	\$ 5,585,240				
St. Louis	Com Quarterly	(613,562)				
St. Joseph	Residential	618,718				
Joplin	Residential	276,972				
Joplin	Commercial	(293,083)				
St. Charles	Residential	42,550				
Jefferson City	Commercial	165,689				
Parkville Water	Commercial	(83,542)				
Warrensburg	Commercial	68,238				

(1) Gallons per day

(2) As noted in Mr. Grubb's rebuttal testimony, the F-test parameter was not significant thus a 6 YR AVG should be used to calculate UCD at present rates.

(3) As indicated by a check, the Company and Staff disagree on the methodology to calculate UCD

(4) Revenue difference at present rates between Company and Staff using Company customers at September 2008. Difference represents Staff present rate revenues over or (under) Company.

