

Exhibit No.:
Issues: Cash Working Capital-Service Company
Fee (Lead)/Lag, Security Costs-AAO
Witness: Tyler T. Bernsen
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

TYLER T. BERNSEN

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

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

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

AFFIDAVIT OF TYLER T. BERNSEN

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



Tyler T. Bernsen

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 29th 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
OF
TYLER T. BERNSEN
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR.2008.0311
SR.2008.0312**

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REBUTTAL TESTIMONY
OF
TYLER T. BERNSEN

I. WITNESS INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Tyler T. Bernsen, and my business address is 727 Craig Road,
St. Louis, Missouri 63141.

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

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

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to discuss on behalf of MAWC:

- 1) The appropriate lag to be reflected in the Lead/Lag Study for the
Service Company Expense; and,
- 2) The appropriate rate treatment of the unamortized balance of the
regulatory asset associated with security costs.

II. CASH WORKING CAPITAL

Q. WHAT IS THE FUNCTION OF CASH WORKING CAPITAL?

1 A. Cash working capital is included in a utility's rate base to help compensate
2 investors for the lag between the time utility service is rendered to the
3 customer and the time it takes to collect revenues from the customer to
4 pay for the service. Investors are required to provide "upfront" capital to
5 fund the daily operations of the business before customers pay their bills.
6 The cash working capital calculation can also properly reflect the impact of
7 the delay in receiving revenues from customers on deferred taxes as a
8 rate base deduction.
9 The timing difference between incurring expenses and the receipt of the
10 revenue will result in either a net (lead) or lag. This net (lead) or lag is
11 multiplied by the average daily expense resulting in the net cash working
12 capital requirement of the Company.

13 14 **III. SERVICE COMPANY EXPENSE (LEAD)/LAG**

15 **Q. MR. BERNSEN, PLEASE DISCUSS THE ISSUE REGARDING THE**
16 **SERVICE COMPANY LEAD/LAG EXPENSE ITEM.**

17 A. The issue is the appropriate lag for Service Company expenses in the
18 Lead/Lag Study. Both Company and Staff used a Lead/Lag Study approach
19 in determining the level of working capital to be reflected in rate base.

20
21 **Q. HOW WAS THE LEVEL OF WORKING CAPITAL DETERMINED?**

22 A. The determination of the amount of working capital for a specific item in the
23 study is calculated by multiplying the daily expense requirement by the
24 difference between the revenue lag and the expense lag for the category.

1 **Q. DO THE COMPANY AND STAFF RESULTS DIFFER?**

2 A. Yes. For the expense category "Service Company Fees," the Company
3 disagrees with the Staff position related to the lag for this expense item. The
4 Company's revised lag for Service Company fees is -2.65 days (as opposed
5 to the -3.48 days found in the Company's direct testimony). The Staff's lag is
6 a positive 21.41 days.

7
8 **Q. WHY DOES MAWC BELIEVE THAT THE APPROPRIATE SERVICE**
9 **COMPANY FEE LAG IS A NEGATIVE 2.65 DAYS?**

10 A. MAWC is billed in advance for services to be provided by the Service
11 Company. This allows the Service Company to have the necessary funds to
12 operate and provide its services to MAWC. For example, MAWC was billed
13 on January 11, 2007 for an estimated level of Service Company charges to
14 be incurred in the month of January 2007. In the following month's bill, the
15 January estimate is trued up to the actual amount of expense incurred.

16
17 **Q. HAVE YOU CALCULATED THE LAG UTILIZING THE FACT THAT MAWC**
18 **PAYS IN ADVANCE?**

19 A. Yes. Marked as Schedule TTB-1 and attached to my rebuttal testimony is the
20 Company's calculated lag of a negative 2.65 days. This lag is based on the
21 actual payments to the Service Company for services provided in 2007. The
22 Company has also taken into account the true up of the estimated bill to
23 actual as previously described.

1 The rate base and revenue requirement impacts of this issue have been
2 calculated at approximately \$1.628 million and \$173,000 respectively, as
3 shown on page 2 of Schedule TTB-1.
4

5 **Q. DOES MAWC HAVE ANY OTHER EXPENSES WHERE COSTS ARE PAID**
6 **IN ADVANCE AND FOR WHICH THE STAFF HAS RECOGNIZED A**
7 **NEGATIVE LAG IN ITS CALCULATION OF WORKING CAPITAL?**

8 A. Yes. The PSC Fee Assessment that is issued by the Commission represents
9 costs to be incurred by the Commission for service it will provide in the
10 regulation of utilities in the State of Missouri. The Commission gives the
11 regulated utilities the option of paying the entire yearly amount in one lump
12 sum or of paying in quarterly installments. MAWC chooses to pay through
13 quarterly installments. However, each quarterly payment is made in advance
14 of the applicable quarter. As a result, the Staff, in the calculation of its
15 Working Capital requirements, reflects a negative expense lag of 31.63 days
16 for the assessment. This reflects the payment of PSC Fees to the
17 Commission in a manner that will allow the Commission to have the
18 necessary funds available to operate and provide its services in the regulation
19 of Missouri utilities. MAWC management fees are paid in advance for the
20 same reason.
21

22 **IV. SECURITY COSTS - AAO**

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

1 **A.** The Company included in rate base the unamortized balance of the
2 regulatory asset associated with security costs. Staff did not include the
3 unamortized balance in rate base.

4
5 **Q. PLEASE BRIEFLY DISCUSS THE SECURITY AAO.**

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

14
15 **Q. WHAT IS THE STAFF'S POSITION REGARDING THE INCLUSION OF THE**
16 **UNAMORTIZED BALANCE IN RATE BASE?**

17 **A.** No Staff witness addressed the Company's proposal in testimony. However,
18 because Staff did not include the unamortized balance in rate base in its
19 direct case filing, I assume that Staff opposes the inclusion and would expect
20 to see rebuttal testimony on the issue.

21
22 **Q. DO YOU BELIEVE THAT THE COMPANY SHOULD BE AFFORDED RATE**
23 **BASE TREATMENT FOR THE UNAMORTIZED BALANCE OF THE**
24 **REGULATORY ASSET FOR SECURITY COSTS?**

1 A. Yes. The Company incurred the costs to provide security to its production
2 and distribution systems, its offices, its customers, and its employees. The
3 sole result of this investment of capital was the continued provision of safe
4 and adequate service to MAWC's customers as the security expenditures
5 were made to protect our customers and the assets that serve them.
6 Therefore, rate base treatment of the unamortized balance is appropriate.
7

8 **Q. IS THERE ANOTHER ISSUE REGARDING THE SECURITY AAO ASSET**
9 **THAT YOU WOULD LIKE TO DISCUSS?**

10 A. Yes, I would like to discuss the deferred taxes associated with the Security
11 AAO costs that have been deferred.
12

13 **Q. IF THE COMMISSION DOES NOT ALLOW MAWC TO EARN A RETURN**
14 **ON THE UNAMORTIZED BALANCE OF THE SECURITY AAO, WHAT IS**
15 **YOUR RECOMMENDATION IN REGARD TO THE DEFERRED TAX RATE**
16 **BASE REDUCTION?**

17 A. If the Company is not allowed to earn a return on the unamortized balance of
18 the Security AAO asset, then the deferred taxes associated with the AAO
19 asset should not be used to reduce rate base. If the Company is allowed a
20 return on the remaining Security AAO balance, then the impact on deferred
21 taxes should be included as a rate base reduction. It is neither fair nor
22 reasonable to include a rate base reduction for the deferred taxes associated
23 with Security AAO asset without recognizing the very same asset as an
24 addition to rate base. This treatment would cause a mismatch in the revenue

1 requirement model in that the customers will receive the benefit of the
2 deferred tax deduction without having to pay for the Security AAO asset in
3 rate base.

4
5 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

6 **A. Yes.**

Missouri-American Water Company
For the Test Year Ended December 31, 2007
Management Fee (Lead) Lag Days

Rebuttal Schedule TTB-1
Page 1

Average Period	Bill Month	Current Prior	Transaction Amount	Transaction Date	Net Lag (Lead)	Dollar Days
15.50	Jan-07	Current	5,848,155	01/11/07	(4.50)	(26,316,698)
15.50		Prior	3,079,622	01/11/07	26.50	81,609,983
14.00	Feb-07	Current	2,781,009	2/13/2007	(1.00)	(2,781,009)
15.50		Prior	(3,067,146)	2/13/2007	28.50	(87,413,661)
15.50	Mar-07	Current	2,843,030	3/10/2007	(5.50)	(15,636,665)
14.00		Prior	62,021	3/10/2007	24.00	1,488,504
15.00	Apr-07	Current	2,445,555	4/7/2007	(8.00)	(19,564,440)
15.50		Prior	(397,475)	4/7/2007	22.50	(8,943,188)
15.50	May-07	Current	2,722,404	5/14/2007	(1.50)	(4,083,606)
15.00		Prior	276,849	5/14/2007	29.00	8,028,621
15.00	Jun-07	Current	3,087,525	6/12/2007	(3.00)	(9,262,575)
15.50		Prior	365,121	6/12/2007	27.50	10,040,828
15.50	Jul-07	Current	2,671,297	7/18/2007	2.50	6,678,243
15.00		Prior	(416,229)	7/18/2007	33.00	(13,735,557)
15.50	Aug-07	Current	2,902,686	8/17/2007	1.50	4,354,029
15.50		Prior	231,389	8/17/2007	32.50	7,520,143
15.00	Sep-07	Current	2,741,803	9/11/2007	(4.00)	(10,967,212)
15.50		Prior	(160,883)	9/11/2007	26.50	(4,263,400)
15.50	Oct-07	Current	2,784,468	10/8/2007	(7.50)	(20,883,510)
15.00		Prior	42,665	10/8/2007	23.00	981,295
15.00	Nov-07	Current	2,821,241	11/1/2007	(14.00)	(39,497,374)
15.50		Prior	36,773	11/1/2007	16.50	606,755
15.50	Dec-07	Current	2,844,874	12/31/2007	15.50	44,095,547
15.00		Prior	23,633	12/31/2007	46.00	1,087,118
		Total 2007	36,570,387		(2.65)	(96,857,830)

Missouri American Water Company Working Capital - Management Fees

Staff Mgmt Fee Lag	21.41
Avg Service Period	<u>15.21</u>
Staff Payment Lag	<u>6.20</u>
Company Adjusted Mgmt Fee Lag	(2.65)
Average Company Revenue Lag Per Staff	56.09
Company Adjusted Mgmt Fee Lag	<u>(2.65)</u>
Total Lag	<u>58.74</u>
Staff Mgmt Fee Expense	\$ 24,702,668
Daily Cash Requirement	67,679
Adjusted Lag	58.74
Working Capital Requirement	\$ 3,975,438
Staff Working Capital Requirement	<u>\$ 2,347,061</u>
Rate Base Difference	<u>\$ 1,628,377</u>
Staff Case Revenue Requirement Impact	<u>\$ 172,948</u>