

Exhibit No.:
Issues: Security Costs – AAO, Chemicals.
Insurance Other Than Group, Bad Debt
Expense, Advertising, Dues and
Donations, Promotional Items,
Franchise Tax, Roark Sewer Plant
Operating Expenses
Witness: Peter J. Thakadiyil
Exhibit Type: Rebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2011-0337
SR-2011-0338
Date: January 19, 2012

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2011-0337
CASE NO. SR-2011-0338**

REBUTTAL TESTIMONY

OF

PETER J. THAKADIYIL

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) RATES FOR WATER AND SEWER) SERVICE)	CASE NO. WR-2011-0337 CASE NO. SR-2011-0338
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AFFIDAVIT OF PETER J. THAKADIYIL

Peter J. Thakadiyil, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Rebuttal Testimony of Peter J. Thakadiyil"; that said testimony was prepared by him and/or under his direction and supervision; that if inquires were made as to the facts in said testimony, he would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of his knowledge.

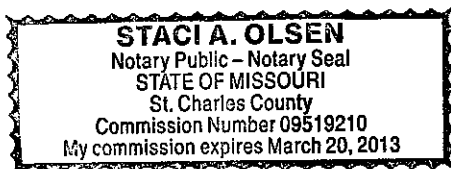

Peter J. Thakadiyil

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 17th day of January 2012.



Notary Public

My commission expires:



**REBUTTAL TESTIMONY
PETER J. THAKADIYIL
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2011-0337
SR-2011-0338**

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1 **REBUTTAL TESTIMONY**

2 **PETER J. THAKADIYIL**

3 **WITNESS INTRODUCTION**

4
5 **Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.**

6 A. Peter J. Thakadiyil, Financial Analyst II for American Water Works Service
7 Company ("Service Company"), 727 Craig Road, St. Louis, Missouri 63141.
8

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

10 A. Yes, I submitted direct testimony in this proceeding on behalf of Missouri-
11 American Water Company ("MAWC" or "Company").
12

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

14 A. The purpose of my rebuttal testimony is to respond to MIEC witness Collins'
15 testimony concerning chemicals as well as the Staff Report regarding the
16 following issues on behalf of MAWC:

- 17 1) Security Costs – AAO;
18 2) Chemicals;
19 3) Insurance Other Than Group;
20 4) Bad Debt Expense;
21 5) Advertising;
22 6) Dues and Donations;
23 7) Promotional Items;
24 8) Franchise Tax; and,
25 9) Roark Sewer Plant Operating Expenses.
26

27 **(1) Security Costs - AAO**

28
29 **Q. WHAT IS THE NATURE OF THE SECURITY COSTS AAO ISSUE?**

30 A. The Company included in rate base the unamortized balance of the regulatory
31 asset associated with security costs. Staff did not include the unamortized
32 balance of the Security AAO in rate base.
33

34 **Q. PLEASE BRIEFLY DISCUSS THE SECURITY AAO.**

35 A. In Commission Case No. WO-2002-273, the Commission authorized the
36 Company to defer certain costs associated with security measures taken by the

1 Company in the aftermath of the September 11, 2001 terrorist attacks. The
2 Company was authorized to defer the costs it incurred during a two-year period
3 ending on September 11, 2003. The Company was also authorized to amortize
4 the costs over a 10-year period. The Company began amortizing the costs in
5 December 2002, upon receipt of the Commission's Report and Order.
6

7 **Q. WHAT IS THE RESULT OF INCLUDING AN ITEM IN RATE BASE IN THE**
8 **DETERMINATION OF REVENUE REQUIREMENT?**

9 A. Amortization of an asset account provides for the return of the amount expended
10 over a period of time. Inclusion of the unrecovered portion of costs in rate base
11 provides for a return on that investment. Recovery of only the amortization over
12 a long period of time does not allow a Company to be made whole. Not only
13 does the Company receive no return on its investment, the recovery through
14 amortization over a long period of time returns the Company's investment in
15 dollars that are less valuable than when they were invested.
16

17 **Q. DO YOU BELIEVE THAT THE COMPANY SHOULD BE AFFORDED RATE**
18 **BASE TREATMENT FOR THE UNAMORTIZED BALANCE OF THE**
19 **REGULATORY ASSET FOR SECURITY COSTS?**

20 A. Yes. The Company incurred the costs to provide security to its production and
21 distribution systems, its offices, its customers, and its employees. The sole result
22 of this investment of capital was the continued provision of safe and adequate
23 service to MAWC's customers, as the security expenditures were made to
24 protect our customers and the assets that serve them. Therefore, rate base
25 treatment of the unamortized balance is appropriate. Just because costs are
26 treated on the balance sheet as deferred items rather than as plant investment is
27 no reason for different treatment in terms of allowing the Company to earn a fair
28 return on the money it has invested. Capital dollars were invested in security
29 measures for the benefit of the system and its customers and the Company
30 should be allowed to earn a return on that capital just as it would have been had
31 the investment been recorded to a plant account. The manner in which an item
32 is treated for accounting purposes should not dictate what is appropriate for
33 recovery.

1
2 **(2) CHEMICALS**
3

4 **Q. WHAT ARE THE ISSUES REGARDING CHEMICAL EXPENSE?**

5 A. One issue is Staff's adjustment to Chemical expense. Staff utilized 2011
6 chemical prices as the basis for the pro forma adjustment to chemicals. Another
7 issue is MIEC's assertion that historical chemical quantities should not be used in
8 the development of the pro forma chemical expense.
9

10 **Q. HOW DID STAFF CALCULATE THE PRO FORMA ADJUSTMENT TO
11 CHEMICALS?**

12 A. Staff calculated the pro forma adjustment to chemicals by applying 2011
13 chemical prices to Staff's pro forma system delivery. This methodology is
14 consistent with the Company's calculation of chemical expense.
15

16 **Q. DID STAFF UTILIZE THE LATEST AVAILABLE INFORMATION?**

17 A. No. At the time of its filing in June 2011, the Company utilized chemical prices
18 from contracts in effect at that time. Subsequently, new purchase orders have
19 been finalized and are effective. MAWC provided to Staff copies of the purchase
20 orders of chemicals that were accepted by the Company's vendors when Staff
21 was conducting its on-site audit of the Company's books and records on
22 September 28, 2011.
23

24 **Q. WHY DO YOU BELIEVE THESE NEW CHEMICAL PRICES SHOULD BE
25 INCLUDED IN THE PRO FORMA ADJUSTMENT?**

26 A. The purchase orders are currently effective and reflect chemical prices that are
27 now fixed, known to occur and are a measurable amount. The Company has
28 provided Staff with supporting documentation and is willing to provide further
29 documentation, if necessary
30

31 **Q. WHAT IS THE IMPACT OF INCLUDING CHEMICAL PRICES FROM THE
32 CURRENT PURCHASE ORDERS?**

33 A. The result is an increase of \$100,005 in chemical expense, which is supported by

1 Rebuttal Schedule PJT-1.

2
3 **Q. PLEASE ADDRESS MIEC’S ISSUE WITH CHEMICAL EXPENSE.**

4 A. When calculating the pro forma adjustment to chemicals, the Company and Staff
5 used a three year historical average of chemical quantities per thousand gallons
6 of system delivery and applied this to the pro forma system delivery. MIEC
7 contends that the Company should be using test year quantities per system
8 delivery applied to the pro forma system delivery as the basis for chemical
9 expense for the period when rates in this case will be in effect.

10
11 **Q. WHY IS IT NECESSARY TO USE A THREE YEAR AVERAGE OF CHEMICAL
12 QUANTITIES?**

13 A. By using a three year average of chemical quantities, the Company and Staff
14 have appropriately normalized the amount of chemicals used in the test year.
15 Chemical quantities not only depend upon the amount of water treated, but also
16 on the conditions of the water being treated. For example, when there is
17 increased raw water turbidity, the Company will treat the water with more
18 coagulants. The system delivery may still be low, but the amount of chemicals
19 used will be higher than normal. It is therefore necessary to account for the
20 variations in chemical quantities used in the pro forma adjustment in order to
21 reflect a normal year. Illustrated in Rebuttal Schedule PJT-1, the Company has
22 provided an example of chemical quantities that can vary depending on system
23 delivery

24
25 **(3) INSURANCE OTHER THAN GROUP**

26
27 **Q. TO WHAT ASPECT OF THE STAFF REPORT REGARDING INSURANCE
28 OTHER THAN GROUP WOULD YOU LIKE TO RESPOND?**

29 A. The Company has an issue with the Staff’s calculation of its level of pro forma
30 Insurance Other Than Group expense. Staff has excluded the allocated cost of
31 the Directors & Officers (“D & O”) liability coverage in the amount of \$51,624.

1 **Q. IS D&O INSURANCE A NECESSARY AND CUSTOMARY BUSINESS**
2 **EXPENSE FOR MAWC?**

3 A. Yes. Without a policy of insurance to indemnify and defend its Board of Directors
4 and its corporate officers, it would be extremely difficult to recruit qualified
5 persons to serve on a Board of Directors or in the capacity of executive
6 management.

7
8 **Q. WHY IS D & O COVERAGE AN APPROPRIATE AND REASONABLE**
9 **EXPENSE FOR MAWC?**

10 A. As a publicly traded company, AWW, as well as MAWC's directors and officers
11 are subject to the Securities Exchange Commission (SEC) Act, the Sarbanes
12 Oxley (SOX) Act, and many other federal and state regulations. The SOX Act
13 established new or enhanced standards for all U.S. public company boards,
14 management, and public accounting firms. The SOX Act contains 11 titles, or
15 sections, ranging from additional Corporate Board responsibilities to criminal
16 penalties, and requires the SEC to implement rulings on requirements to comply
17 with the new law. The SOX Act also covers issues such as auditor
18 independence, corporate governance, internal control assessment, and
19 enhanced financial disclosure. Prospective internal and external candidates,
20 who are invited to be a member of a company board, are subject to potential
21 litigation in civil and criminal courts. These many complex and demanding
22 corporate governance obligations are accompanied by potential fines and
23 penalties and possible civil and even criminal liabilities. Any individual taking on
24 such risks will expect and demand insurance coverage for claims that may arise
25 as a result of being in such a position.

26
27 **Q. SHOULD D&O COVERAGE EXPENSE BE INCLUDED IN THE COMPANY'S**
28 **REVENUE REQUIREMENT?**

29 A. Yes. This type of expense is crucial to the Company's ability to recruit and
30 maintain qualified individuals to serve on its Board of Directors and in the
31 capacity as senior Company officers. These expenses are considered
32 customary, particularly for large, publicly traded corporations.

33

1 **(4) BAD DEBT EXPENSE**

2
3 **Q. WHAT IS THE ISSUE REGARDING BAD DEBT EXPENSE?**

4 A. The Company and Staff used the same methodology to calculate the pro forma,
5 present rate bad debt expense. However, the Company also calculated an
6 adjustment for bad debt expense based on pro forma, proposed rates. This
7 adjustment is necessary to account for the Company's proposed rate increase.
8 Staff chose not to make an adjustment for bad debt expense based on the
9 proposed rate increase.

10
11 **Q. PLEASE DESCRIBE THE METHODOLOGY USED TO CALCULATE THE PRO
12 FORMA PRESENT RATE ADJUSTMENT TO BAD DEBT EXPENSE.**

13 A. The Company and Staff calculated a three year average bad debt expense ratio.
14 The ratio is based on net charge-offs divided by billed water revenue. This ratio is
15 then applied to pro forma, present rate revenues.

16
17 **Q. IS STAFF BEING CONSISTENT WITH ITS METHODOLOGY OF APPLYING THE
18 BAD DEBT EXPENSE RATIO TO PRO FORMA REVENUES?**

19 A. No. Staff applies the bad debt ratio to present rates, but not to the proposed
20 rates the Company will collect as a result of this case. The regulatory process is
21 designed so that the Company will recover in rates the normalized level of
22 expenses it incurs on a going forward basis. It is illogical for Staff to use
23 revenues in its calculation of bad debt expense if it does not recognize that pro
24 forma revenues will change based on any rate increase arising from this case.

25
26 **Q. IS STAFF'S CALCULATION OF BAD DEBT EXPENSE REPRESENTATIVE OF A
27 NORMALIZED LEVEL OF EXPENSE?**

28 A. No. Given the fact that Staff bases its pro forma adjustment on present rates, the
29 level of bad debt expense will be understated because of the lower level of
30 revenues used in the calculation. Staff's level of revenues is not representative
31 of a normalized year, when rates set in this case will be effective, because the
32 rates used in Staff's calculation will no longer be in effect. The bad debt expense
33 ratio should be applied to any rate increase awarded in this case in order to

1 calculate a normalized level of expense for bad debt.

2
3 **Q. WHAT IS THE IMPACT OF USING PRO FORMA PROPOSED RATES FOR**
4 **THE CALCULATION OF BAD DEBT EXPENSE?**

5 A. Based on the Staff report, bad debt expense would increase by \$274,274, if the
6 Company's rate increase was approved as filed.

7
8 **(5) ADVERTISING**

9
10 **Q. WHAT IS THE ISSUE REGARDING ADVERTISING?**

11 A. Staff has disallowed recovery of the cost of several advertisements that MAWC
12 believes should be allowed.

13
14 **Q. WHAT TYPES OF ADVERTISEMENTS MAY BE INCLUDED IN THE**
15 **COMPANY'S REVENUE REQUIREMENT?**

16 A. According to the Staff Report there are three categories of advertisements
17 recognized by the Commission that can be included in the revenue
18 requirement. The categories that may be included are:

- 19 1. General: informational advertising that is useful in the provision of adequate
20 service;
- 21
22 2. Safety: advertising which conveys the ways to safely use electricity [water] and
23 to avoid accidents; and,
- 24
25 3. Promotional: advertising used to encourage or promote the use of electricity
26 [the efficient use of water].

27
28 **Q. WHAT TYPES OF ADVERTISEMENTS WERE EXCLUDED?**

29 A. There were several advertisements that were disallowed based on Staff's
30 workpapers. The Company agrees with Staff's interpretation of prior
31 Commission orders that certain advertisements should be disallowed because
32 these ads would be considered Institutional in nature. However, the Company
33 does not agree with Staff's interpretation on ads relating to the Rivermiles

1 Public Education Video, Watershed Education and World Bird Community
2 programs.

3
4 **Q. WHY SHOULD THESE ADVERTISEMENTS BE INCLUDED IN THE**
5 **COMPANY'S REVENUE REQUIREMENT?**

6 A. The Rivermiles Public Education Video explains how a water treatment plant
7 works, how water comes to customers' homes and what individuals can do
8 everyday to preserve the quality of water in our rivers. This information
9 increases understanding among customers and supports our provision of
10 service. It is airing, free of charge on PBS stations throughout Missouri. The
11 Watershed and World Bird Community programs advertisements encourage
12 customers to attend our watershed educational programs. These programs
13 educate customers on how to keep rivers clean through simple steps such as
14 recycling and not overusing lawn chemicals etc. These steps to clean
15 sourcewaters will, over time, help to reduce the cost of some chemicals, such as
16 carbon, helping us provide more efficient water treatment. Customers may not
17 realize that fertilizers, herbicides, and pollution can end up in the water system,
18 and that these pollutants can dramatically impact water quality. This information
19 is valuable to customers because they need to understand the role they play in
20 the provision of water service.

21 For the reasons noted above, the advertising that has been disallowed by
22 Staff should be classified as General Informational and/or Safety and allowed as
23 part of the Company's revenue requirement.

24
25 **Q. WHAT IS THE IMPACT OF INCLUDING ADDITIONAL GENERAL AND SAFTEY**
26 **ADVERTISING?**

27 A. Advertising expense will increase by \$14,288 with the inclusion of the
28 advertisements for Rivermiles Public Education Video, Watershed Education and
29 World Bird Community programs. The support for this additional advertising
30 expense can be found in Rebuttal Schedule PJT-2.

31
32 **(6) DUES AND DONATIONS**

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY REGARDING DUES AND**
2 **DONATIONS?**

3 A. Staff has excluded some Company Dues and Donations from its Revenue
4 Requirement. The Company believes many of the excluded Dues and
5 Donations provide a benefit to the customer and should therefore be included
6 in its revenue requirement.

7
8 **Q. WHAT DUES AND DONATIONS HAVE BEEN EXCLUDED BY STAFF?**

9 A. Staff has excluded donations to local charitable organizations, membership
10 dues to the Missouri Chamber of Commerce, membership dues to rotary
11 clubs, and dues to professional organizations.

12
13 **Q. DID STAFF DISALLOW ALL DUES AND DONATIONS RELATING TO**
14 **CHAMBERS OF COMMERCE?**

15 A. No. The Staff allowed recovery of dues for local chamber of commerce
16 organizations, however the Staff disallowed dues for the Missouri Chamber of
17 Commerce.

18
19 **Q. WHY DID STAFF DISALLOW MISSOURI CHAMBER OF COMMERCE DUES?**

20 A. Staff disallowed these dues because they believe the Missouri Chamber of
21 Commerce dues are duplicative of the dues paid to the local Chamber of
22 Commerce organizations.

23
24 **Q. WHY IS IT IMPORTANT FOR MAWC TO BE A MEMBER OF THE**
25 **MISSOURI CHAMBER OF COMMERCE?**

26 A. The Missouri Chamber of Commerce provides companies with the resources
27 to manage their business effectively and efficiently. Members have access to
28 cutting-edge information, leadership and professional development programs,
29 and business products, services and networking opportunities to help a
30 business grow.

31
32 **Q. HOW DOES THE STATE CHAMBER DIFFER FROM LOCAL CHAMBERS**
33 **OF COMMERCE?**

1 A. The two are very different in scope and application. Local chambers are
2 oriented to local communities and the Missouri Chamber is focused on issues
3 impacting the entire state. Therefore the efforts are not duplicative. Local
4 chambers understand the needs and resource availability on a local level and
5 work to improve local working and business conditions. MAWC's participation
6 in local chambers helps enables the Company to stay in touch with and be
7 accessible to its customers. The Missouri Chamber of Commerce deals with
8 larger scope issues and industries such as aerospace, biotechnology and
9 financial services, and is dedicated to creating a stronger environment for
10 business growth and economic development. The State Chamber of
11 Commerce is focused on broader educational and economic development
12 issues that impact the state or region as a whole.

13

14 **Q. CAN YOU PROVIDE EXAMPLES OF THE EDUCATION AND ECONOMIC**
15 **DEVELOPMENT PROGRAMS SPONSORED BY THE MISSOURI**
16 **CHAMBER OF COMMERCE AND EXPLAIN HOW THEY BENEFIT**
17 **CUSTOMERS?**

18 A. Yes. The Missouri Chamber of Commerce sponsors the Show Me Scholars
19 Program, Missouri Mathematics and Science Coalition and the Leadership
20 Missouri Program. The Staff has proposed disallowance of the costs of all
21 programs, such as these, that are organized or funded by the State Chamber.
22 The educational programs mentioned help improve existing students' and
23 leaders' productivity, lead to better public awareness, and develop employees
24 and future leaders more capable of dealing with issues of statewide
25 importance. The Show Me Scholars Program's curriculum enables students to
26 better prepare for the future by enrolling in challenging courses. Missouri
27 Mathematics and Science Coalition is a partnership of state businesses,
28 education and community leaders that are developing programs to boost
29 student achievement in math, engineering, technology and science. These
30 students are part of the future workforce that may someday come to work in
31 the field of water production. It is imperative that the students of today have
32 the skills to understand the engineering, math, and science that are necessary
33 to operate these facilities. Founded in 1990, Leadership Missouri allows

1 participants to take a close look at topics of interest that are important to
2 Missouri, such as transportation, health care, and economic development.
3 Having current leaders that are knowledgeable and who exchange ideas with
4 top state agency personnel can only provide a better understanding of the
5 operation of our state's government and serve to strengthen the recognition of
6 problems and identify solutions important to the state. A more educated
7 workforce and a better understanding of statewide problems strengthen the
8 competitive position of the state and results in growth which, in turn, tends to
9 stabilize utility rates. Growth can stabilize utility rates by spreading fixed costs
10 over a larger customer base. The Missouri Chamber of Commerce also
11 participates in trade missions and works with state agencies to attract and
12 retain industry within the state. Success in that effort would provide growth in
13 manufacturers in the state, and specifically within the MAWC service territory.
14 Such economic development efforts are essential to a viable, growing
15 economy and go hand in hand with financially strong utilities and adequate
16 utility infrastructure.

17
18 **Q. WHAT IS THE IMPACT OF INCLUDING MISSOURI CHAMBER OF**
19 **COMMERCE DUES?**

20 A. Dues and Donations expense will increase by \$11,535. This amount is
21 supported by Rebuttal Schedule PJT-3.

22
23 **(7) PROMOTIONAL ITEMS**

24
25 **Q. WHAT ISSUE WOULD YOU LIKE TO DISCUSS REGARDING PROMOTIONAL**
26 **ITEMS?**

27 A. I would like to discuss the Staff's adjustment that limited recovery of costs for
28 promotional items. MAWC believes certain items coded to the Promotional Items
29 Expense should be allowed for recovery. Staff states that these "giveaways" are not
30 necessary for the provision of safe and adequate service and provide no benefit to
31 the ratepayer. However, many of the promotional items carry informational
32 messages to remind water consumers of how to conserve on water usage and how
33 the water systems are impacted by ground pollutants. More efficient water usage by

1 customers can have a direct impact on their bill. Better education about the impact of
2 ground pollutants such as fertilizers and herbicides on the watersheds may convince
3 consumers to use different methods of treating their lawns. This would have a direct
4 affect on the water quality in rivers and lakes.
5

6 **Q. WHY DOES MAWC PURCHASE PROMOTIONAL ITEMS?**

7 A. MAWC purchases inexpensive promotional items as part of its community outreach
8 program. Every year, MAWC employees volunteer their time at river clean-ups,
9 watershed preservation and water-related educational events in collaboration with a
10 variety of community organizations. These community events give our customers an
11 opportunity to talk with and ask questions of a broad cross-section of water company
12 employees. In 2011, Missouri American Water deployed 271 volunteers to 35
13 community service events across the state. Many of the promotional items that we
14 distribute are educational in nature or are supportive of the environmental mission of
15 these community activities.
16

17 **Q. WHAT PROMOTIONAL ITEMS DO YOU CONSIDER TO BE EDUCATIONAL IN
18 NATURE?**

19 A. Staff disallowed the expense for purchasing water bottles. Missouri American Water
20 distributes water bottles at multiple community events. These bottles promote the use
21 of tap water (over bottled water) which helps support our mission and provision of
22 service. The bottles also provide our web address so customers can get additional
23 information from our website.
24

25 **Q. HOW DO PROMOTIONAL ITEMS HELP SUPPORT THE MISSION OF
26 COMMUNITY OUTREACH EVENTS?**

27 A. The water bottles that are provided as part of the Company's community outreach
28 speak to the environmental stewardship mission of the community events that MAWC
29 supports, largely through our employees' volunteer time. The organizers of these
30 community events are also dedicated to minimizing the environmental impact of their
31 community activities. To achieve this goal, these community groups frequently ask
32 MAWC to contribute water bottles to help keep event volunteers and attendees
33 hydrated, and reduce the need for bottled water.

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Q. WHAT ARE THE ENVIORNMENTAL AND HEALTH CONCERNS WITH PLASTIC WATER BOTTLES?

A. The production of bottled water creates waste, there has been no evidence that bottled water is superior to tap water and most importantly plastic bottles may pose a health risk when chemicals in the plastic break down. For additional information please see the article “Water Bottle Pollution Facts” attached to my Rebuttal testimony as Schedule PJT-4.

Q. WHAT IS THE IMPACT OF INCLUDING THE PROMOTIONAL ITEMS?

A. Staff has excluded \$36,348 from the revenue requirement. The Company seeks to include \$14,164 in the revenue requirement, which is supported by Rebuttal Schedule PJT-5.

(8) FRANCHISE TAX

Q. WHAT IS THE ISSUE WITH THE FRANCHISE TAX?

A. Staff based the franchise tax amount on the 2009 assessment of \$415,000. The pro forma level of franchise tax expense should be based on the latest payment. The Company has already paid \$440,000 for the 2010 assessment. The Staff should utilize the most current information available and base their pro forma adjustment of franchise tax expense on the 2010 assessment.

Q. WHAT IS THE IMPACT OF INCLUDING THE 2010 FRANCHISE TAX ASSESSMENT?

A. Franchise tax expense will increase by \$25,000.

(9) ROARK SEWER PLANT OPERATING EXPENSES

Q. WHAT IS THE ISSUE WITH ROARK SEWER PLANT OPERATING EXPENSES?

A. In MAWC’s filing, the Company included \$393,946 in chemical expenses related to Roark Sewer. This amount was disallowed by Staff because the Company could not provide support for the chemical expense.

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Q. HAS THE COMPANY DETERMINED THE ORIGIN OF THE ROARK SEWER PLANT OPERATING EXPENSES?

A. Yes. After further research it was learned that the Company misclassified plant operation expense as chemicals. Based on the 2010 Roark Water & Sewer, Inc. annual report that was filed with the Commission, \$393,946 of plant operation expense was incurred during the test year. The expenses include contracted maintenance expenses, repairs of sewer plant and utility bills.

Q. ARE THE TEST YEAR COSTS OF \$393,946 REFLECTIVE OF THE LEVELS OF EXPENSE THAT WILL BE INCURRED DURING THE PERIOD WHEN RATES ARE IN EFFECT?

A. Yes. Roark does not treat its wastewater. The Company pays to have its wastewater treated. The City of Branson treats the wastewater from the Roark sewer district and charges the Company \$4.80 per thousand gallons for residential service and \$9.23 per thousand gallons for commercial service. Based on the usage included in the Company's filing for Roark Water, the annualized level of expense for this contracted maintenance service alone would be \$288,739 or more than 70% of the total test year plant operation expenses. An ongoing level for all plant operation expense, based on test year expense of \$393,946, is reasonable.

Q. WILL THESE EXPENSES CONTINUE WITH MAWC'S OWNERSHIP OF THE ROARK PROPERTIES?

A. Yes. They are normal operating expenses and will continue to be incurred under MAWC ownership.

Q. WHAT IS YOUR RECOMMENDATION REGARDING ROARK SEWER PLANT OPERATING EXPENSES?

A. Staff recognized that these costs were recorded in the wrong expense account and have properly reduced chemical expenses. However, Staff has inappropriately assumed that no plant operation expense will be incurred in the future. The Staff should reclassify the expenses in their respective accounts and allow the Company recovery of plant operation expense in the amount of \$393,946.

1

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

3 A. Yes.

District	Part # / Remark	Part Description	Units	Expense	System Delivery	Units/Sys Del	Units/Sys Del	System Delivery	Units/Sys Del	Price	Expense
1702	170A-BULK	Ammonia - Aqua,19%-Bulk	2,133,698	199,332	59,312,310	0.03597	0.03424	58,914,543	0.03424	0.11	221,883
	170A-BULK	Ammonia - Aqua,19%-Bulk	435,264	40,776	59,312,310	0.00734	0.00736	58,914,543	0.00736	0.115	49,838
	180C-100LB	Calcium Hypo,65%-100LB	4,750	7,879	59,312,310	0.00008	0.00005	58,914,543	0.00005	1.55	4,394
	200A-40LB	Carbon - PAC,Lignite-40LB	78,355	60,228	59,312,310	0.00132	0.00000	58,914,543	0.00132	0.795	61,874
	200A-40LB	Carbon - PAC,Lignite-40LB	68,057	56,132	59,312,310	0.00115	0.00000	58,914,543	0.00115	0.865	58,475
	200A-BULK	Carbon - PAC,Lignite-Bulk	254,989	168,756	59,312,310	0.00430	0.00396	58,914,543	0.00396	0.686	160,195
	200A-BULK	Carbon - PAC,Lignite-Bulk	692,549	464,657	59,312,310	0.01168	0.01385	58,914,543	0.01385	0.685	558,969
	220A-2000LB	Chlorine ,100%-2000LB	1,730,342	383,245	59,312,310	0.02917	0.03134	58,914,543	0.03134	0.2	369,288
	230A-50LB	Copper Sulfate,100%-50LB	6,100	10,416	59,312,310	0.00010	0.00013	58,914,543	0.00013	1.93	14,385
	230A-50LB	Copper Sulfate,100%-50LB	3,375	6,696	59,312,310	0.00006	0.00003	58,914,543	0.00003	2.05	3,445
	250A-BULK	Ferric Chloride,38%-Bulk	5,163,198	504,805	59,312,310	0.08705	0.00000	58,914,543	0.08705	0.0798	409,260
	260A-BULK	Ferric Sulfate - Dry,100%-Bulk	3,125,116	849,016	59,312,310	0.05269	0.08969	58,914,543	0.08969	0.2098	1,108,648
	270A-BULK	Ferric Sulfate - Liq,60%-Bulk	4,810,952	410,397	59,312,310	0.08111	0.13695	58,914,543	0.13695	0.0698	563,154
	300A-BULK	HFS Acid,23%-Bulk	1,642,618	464,641	59,312,310	0.02769	0.02840	58,914,543	0.02840	0.24	401,547
	300A-BULK	HFS Acid,23%-Bulk	540,983	153,306	59,312,310	0.00912	0.00929	58,914,543	0.00929	0.24	131,314
	350G-BULK	Ortho-Poly P,Aqua Mag 9100 Bulk.	124,960	70,681	59,312,310	0.00211	0.00000	58,914,543	0.00211	0.49	60,820
	350G-BULK	Ortho-Poly P,Aqua Mag 9100 Bulk.	108,814	54,702	59,312,310	0.00183	0.00000	58,914,543	0.00183	0.49	52,961
	360A-BULK	Pebble Lime,100%-Bulk	46,051,125	2,994,023	59,312,310	0.77642	0.77176	58,914,543	0.77176	0.0695	3,160,015
	360A-BULK	Pebble Lime,100%-Bulk	10,747,964	694,913	59,312,310	0.18121	0.23803	58,914,543	0.23803	0.0695	974,634
	400C-50LB	Polymr,An,Superfloc a110,A3333P	696	1,244	59,312,310	0.00001	0.00001	58,914,543	0.00001	2.75	1,975
	400W-50LB	Polymer,An,CedarFloc 566	92	206	59,312,310	0.00000	0.00000	58,914,543	0.00000	2.75	251
	410V-BULK	Polymr,Cat,Neat(pDADMAC)	187,281	66,051	59,312,310	0.00316	0.00460	58,914,543	0.00460	0.56	151,684
	410V-BULK	Polymr,Cat,Neat(pDADMAC)	640,284	224,638	59,312,310	0.01080	0.01220	58,914,543	0.01220	0.48	345,075
	511A-BULK	Sodium Chloride,100% Pure-BULK	2,555,536	194,721	59,312,310	0.04309	0.03748	58,914,543	0.03748	0.076	167,796
	570A-MINI BULK	Sodium Hypo,13%- Mini Bulk	(7,652)	(1,672)	59,312,310	(0.00013)	0.00000	58,914,543	(0.00013)	0.095	(722)
	570A-MINI BULK	Sodium Hypo,13%- Mini Bulk	(3,900)	(852)	59,312,310	(0.00007)	0.00000	58,914,543	(0.00007)	0.095	(368)
	570A-Mini Bulk	Sodium Hypo,13%- Mini Bulk	13,358	2,857	59,312,310	0.00023	0.00000	58,914,543	0.00023	0.095	1,260
	570A-Mini Bulk	Sodium Hypo,13%- Mini Bulk	17,470	3,835	59,312,310	0.00029	0.00000	58,914,543	0.00029	0.095	1,649
1702 Total			81,126,374	8,085,629							9,033,699
1703	150A-BULK	Ammonia - Anhyd,100%-Bulk	32,773	22,840	6,395,498	0.00512	0.00452	6,403,834	0.00452	0.75	21,692
	220A-2000LB	Chlorine ,100%-2000LB	325,477	72,974	6,395,498	0.05089	0.04990	6,403,834	0.04990	0.245	78,295
1703	250A-BULK	Ferric Chloride,38%-Bulk	10,096	1,667	6,395,498	0.00158	0.06101	6,403,834	0.06101	0.075	29,302
	290B-15GA	Hydrochloric Acid 31%	7,435	2,499	6,395,498	0.00116	0.00126	6,403,834	0.00126	0.28	2,252
1703	300A-BULK	HFS Acid,23%-Bulk	59,846	21,009	6,395,498	0.00936	0.01708	6,403,834	0.01708	0.3	32,818
	300A-MINI BULK	HFS Acid,23%-Mini Bulk	50,530	17,307	6,395,498	0.00790	0.00000	6,403,834	0.00790	0.3	15,179
	350G-BULK	Ortho-Poly P,Aqua Mag 9100 Bulk.	84,849	60,766	6,395,498	0.01327	0.00000	6,403,834	0.01327	0.49	41,630
	350G-BULK	Ortho-Poly P,Aqua Mag 9100 Bulk.	15,931	8,002	6,395,498	0.00249	0.00000	6,403,834	0.00249	0.49	7,816
	360A-BULK	Pebble Lime,100%-Bulk	6,590,562	476,832	6,395,498	1.03050	1.05829	6,403,834	1.05829	0.077	521,835
	400AA-42LB	Polymr,An,Robin, A-30	174	400	6,395,498	0.00003	0.00000	6,403,834	0.00003	4	697
1703	400W-50LB	Polymer,An,CedarFloc 566	574	300	6,395,498	0.00009	0.00000	6,403,834	0.00009	4	2,299
	510A-50LB	Sodium Chloride,90% Pure-50LB	35,608	4,063	6,395,498	0.00557	0.00478	6,403,834	0.00478	0.1	3,063
1703 Total			7,213,855	688,659							756,878
1704	150A-150LB	Ammonia - Anhyd,100%-150LB	4,522	7,074	757,078	0.00597	0.00556	734,384	0.00556	1.55	6,333
	220A-150LB	Chlorine ,100%-150LB	25,660	12,052	757,078	0.03389	0.03380	734,384	0.03380	0.47	11,667
1704	350G-BULK	Ortho-Poly P,Aqua Mag 9100 Bulk.	509	233	757,078	0.00067	0.00000	734,384	0.00067	0.59	291
	350A-55GA	Ortho-Poly P,Carus 8500-55GA	2,371	1,179	757,078	0.00313	0.00000	734,384	0.00313	0.59	1,357
	350G-55GA	Ortho-Poly P,Aqua Mag 9100 55GA.	5,016	3,060	757,078	0.00663	0.00000	734,384	0.00663	0.59	2,871
	360A-BULK	Pebble Lime,100%-Bulk	1,272,000	89,757	757,078	1.68014	1.90533	734,384	1.90533	0.0709	99,206
1704 Total			1,310,078	113,354							121,725
1706	220A-150LB	Chlorine ,100%-150LB	17,291	7,988	884,427	0.01955	0.01414	888,815	0.01414	0.47	5,908
1706	350G-BULK	Ortho-Poly P,Aqua Mag 9100 Bulk.	3,530	2,249	884,427	0.00399	0.00000	888,815	0.00399	0.59	2,093
	350G-55GA	Ortho-Poly P,Aqua Mag 9100 55GA.	6,387	3,847	884,427	0.00722	0.00000	888,815	0.00722	0.59	3,787
	700A-BULK	Liquid Oxygen - Bulk	204,555	15,993	884,427	0.23129	0.29153	888,815	0.29153	0.0571	14,795
1706 Total			231,763	30,077							26,583
1708	220A-150LB	Chlorine ,100%-150LB	1,118	509	27,215	0.04108	0.04187	26,401	0.04187	0.47	520
	280A-50LB	Hydrated Lime,72% CaO-50LB	10,900	2,545	27,215	0.40051	0.34197	26,401	0.34197	0.19	1,715
	480A-700LB	Sodium Alum,5% caustic-700LB	1,030	588	27,215	0.03785	0.08914	26,401	0.08914	0.57	1,341
1708 Total			13,048	3,643							3,576
1710	210A-BULK	Carbon Dioxide,100%-Bulk	29,632	1,345	672,206	0.04408	0.05165	682,677	0.05165	0.0438	1,544
	220A-150LB	Chlorine ,100%-150LB	25,436	11,640	672,206	0.03784	0.03848	682,677	0.03848	0.44	11,559
	270A-55GA	Ferric Sulfate - Liq,60%-55GA	38,574	10,346	672,206	0.05738	0.00000	682,677	0.05738	0.23	9,010

Missouri American Water Historical Chemical Usage

Carbon-Powdered Activated Bulk

	Chemical Units	System Delivery	Chemical Units per System Delivery
2002	1,349,410	63,956,549	0.0211
2003	741,768	59,373,244	0.0125
2004	985,999	62,206,420	0.0159
2005	1,182,724	67,530,680	0.0175
2006	1,171,657	69,216,108	0.0169
2007	1,381,495	68,646,221	0.0201
2008	947,984	60,033,821	0.0158
2009	789,196	57,148,400	0.0138
2010	702,613	59,312,310	0.0118

Pebble Lime

	Chemical Units	System Delivery	Chemical Units per System Delivery
2002	32,349,396	63,956,549	0.5058
2003	33,358,435	59,373,244	0.5618
2004	31,078,350	62,206,420	0.4996
2005	38,280,217	67,530,680	0.5669
2006	38,189,332	69,216,108	0.5517
2007	38,639,433	68,646,221	0.5629
2008	33,510,283	60,033,821	0.5582
2009	31,748,159	57,148,400	0.5555
2010	34,482,329	59,312,310	0.5814

Description	Amount	Disallowed	Doc Type	Doc Number	Remark	Name	Explanation	Ad Type
CORP-External A	\$ 4,000	\$ (4,000)	PS	42552269	Public Education Vid	Rivermiles LLC	Rivermiles public education video	Environmental Educ
STLC-Admin & Ge	\$ 3,612	\$ (3,612)	PV	42612057	ACCT # J104439	St Louis Post Dispat	Watershed education ad St. Louis	Environmental Educ
STLC-Admin & Ge	\$ 70	\$ (70)	CC	7174	ALICE ANN DETTMER	Alice A. Dettmer	Zvents watershed educ. Pgm ad	Environmental Educ
STLC-Admin & Ge	\$ 1,806	\$ (1,806)	CC	7198	ALICE ANN DETTMER	Alice A. Dettmer	Watershed education ad St. Louis	Environmental Educ
STJO-Admin & Ge	\$ 190	\$ (190)	PV	42532791	ID # 4192	Eagle Communications	30 sec. World Bird Community Prog Ad	Environmental Educ
STJO-Admin & Ge	\$ 298	\$ (298)	PV	42532802	ID # 4192	Eagle Communications	30 sec. World Bird Community Prog Ad	Environmental Educ
JOPL-Admin & Ge	\$ 485	\$ (485)	PS	42451213	TV Advertising	KODE TV 12	30 sec. World Bird Community Prog Ad	Environmental Educ
JOPL-Admin & Ge	\$ 125	\$ (125)	PV	42502279	4-20-10 SERVICE	Sunrise Media Group	30 sec. World Bird Community Prog Ad	Environmental Educ
JOPL-Admin & Ge	\$ 242	\$ (242)	PV	42502283	4-10 SERVICES	Zimmer Radio Group I	30 sec. World Bird Community Prog Ad	Environmental Educ
JOPL-Admin & Ge	\$ 375	\$ (375)	PV	42502286	4-10 SERVICES	Zimmer Radio Group I	30 sec. World Bird Community Prog Ad	Environmental Educ
JOPL-Admin & Ge	\$ 730	\$ (730)	PV	42502288	CONTRACT # 2980	KODE TV 12	30 sec. World Bird Community Prog Ad	Environmental Educ
JOPL-Admin & Ge	\$ 750	\$ (750)	PV	42502291	CONTRACT # 2980	KODE TV 12	30 sec. World Bird Community Prog Ad	Environmental Educ
JOPL-Admin & Ge	\$ 615	\$ (615)	PV	42502294	CONTRACT # 2981	KODE TV 12	30 sec. World Bird Community Prog Ad	Environmental Educ
JOPL-Admin & Ge	\$ 388	\$ (388)	PV	42532808	ACCT # 10507	The Joplin Globe	Ad World Bird Community Prog Ad	Environmental Educ
JOPL-Admin & Ge	\$ 135	\$ (135)	PV	42545568	CONTRACT # 2981	KODE TV 12	30 sec. World Bird Community Prog Ad	Environmental Educ
JOPL-Admin & Ge	\$ 20	\$ (20)	PV	42545573	CONTRACT # 2980	KODE TV 12	30 sec. World Bird Community Prog Ad	Environmental Educ
JOPL-Admin & Ge	\$ 448	\$ (448)	CC	7064	CHRISTIE L BARNHART	Christie L. Barnhart	Zimmer Radio Group	Environmental Educ
Total	\$ 14,288							

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The Rivermiles Public Education Video is available for review at the Data Center of the Missouri Public Service Commission office.

<u>District</u>	<u>Account</u>	<u>Amount</u>	<u>Organization</u>	<u>Benefit to Company</u>	<u>Benefit to Ratepayer</u>
170122	170122.575140.16	\$ 500	Missouri Chamber of Commerce	Economic Development Partnership	Joint-effort to bring business and industry to improve the local economy and ultimately reduce rate increases
170122	170122.575740.16	\$ 1,000	Missouri Chamber of Commerce	Economic Development Partnership	Joint-effort to bring business and industry to improve the local economy and ultimately reduce rate increases
170122	170122.575280.16	\$ 7,835	Missouri Chamber of Commerce	Dues - Economic Development Partnerships	Joint-effort to bring business and industry to improve the local economy and ultimately reduce rate increases
170122	170122.575281.16	\$ 2,200	Missouri Chamber of Commerce	Dues - Economic Development Partnerships	Joint-effort to bring business and industry to improve the local economy and ultimately reduce rate increases
Total		\$ 11,535			

Water Bottle Pollution Facts

by Suzanna Didier, Demand Media



Over 80 percent of empty water bottles end up in the nation's landfills.

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In 1976 Americans drank an average of 1.6 gallons of bottled water every year. Roughly 30 years later consumption increased to 30 gallons per person, according to the Earth Policy Institute --- despite the fact that bottled water can cost anywhere from 240 to 10,000 times more than tap water, which is brought right to your home for pennies a gallon. Bottled water also creates its own share of pollution --- the production of plastic bottles requires millions of barrels of oil per year and the transportation of bottled water from its source to stores releases thousands of tons of carbon dioxide. (See References 1)

Oil Consumption

According to "National Geographic," Americans drink more bottled water than any other nation, purchasing an impressive 29 billion bottles every year. Making all the plastic for those bottles uses 17 million barrels of crude oil annually. That is equivalent to the fuel needed to keep 1 million vehicles on the road for 12 months. If you were to fill one quarter of a plastic water bottle with oil, you would

be looking at roughly the amount used to produce that bottle. (See References 2)

Recycling

The recycling rate for those 29 billion bottles of water is low; only about 13 percent end up in the recycling stream where they are turned into products like fleece clothing, carpeting, decking, playground equipment and new containers and bottles. In 2005, that meant approximately 2 million tons of water bottles ended up in U.S. landfills, according to the National Resources Defense Council (NRDC) (see References 3, Question 7). Plastic bottles take centuries to decompose and if they are incinerated, toxic byproducts, such as chlorine gas and ash containing heavy metals, are released into the atmosphere.

Transportation

Bottled water often takes a long journey to U.S. markets. In 2006, the equivalent of 2 billion half-liter bottles arrived in U.S. ports, according to the NRDC. Fiji shipped 18 million gallons of bottled water to California, releasing about 2,500 tons of transportation-related pollution. Western Europe's shipment of bottled water to New York City that year released 3,800 tons of pollution. (See References 3, Question 7) The Earth Policy Institute estimates that the energy used to pump, process, transport and refrigerate bottled water is over 50 million barrels of oil annually (see References 4).

Contaminants

Bottled water isn't always as safe as tap water. The NRDC conducted a four-year study of the bottled water industry and concluded that while most bottled water is safe to drink, there are areas of concern. Roughly 22 percent of the water tested contained contaminant levels that exceeded strict state health limits. One study found that hormone-disrupting phthalates had leached into bottled water that had been stored for 10 weeks. (See References 3, Questions 2 & 3)

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2. ["National Geographic"; Drinking Water: Bottled or From the Tap?; Catherine Clarke Fox; 2011](#)
3. [Natural Resources Defense Council; Bottled Water; 2008](#)
4. [Earth Policy Institute; Bottled Water: Pouring Resources Down the Drain; Emily Arnold and Janet Larsen; February 2006](#)

Resources

1. [Worldwatch Institute: Bottled Water Pricey in More Ways than One \(2011\)](#)

About the Author

Suzanna Didier's work appears in various online publications, including the National Geographic website and Local.com. She lives on a hobby farm, direct-markets her organic produce to local restaurants and has taught at the preschool, elementary and college levels. Didier holds a Master of Arts in education from the University of Oregon.

Photo Credits

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Description	Obj Acct	G/L Date	Amount	Doc Type	Doc Number	Remark	Name	Explanation
CORP-External A	575220	12/27/2010	\$ 13,446	PV	42683275	CUST # 116783	Axis Enterprises Inc	Logo water bottles
STJO-Admin & Ge	575220	9/7/2010	\$ 718	PV	42593034	SALES ORDER # 1	Identity Links Inc	Water bottles - Cancer walk
		Total	\$ 14,164					