

Exhibit No.:
Issues: Relocation Expenses, and
Employee Expenses
Witness: Douglas M. Lehman, CFA
Exhibit Type: Surrebuttal Testimony
Sponsoring Party: Missouri-American Water Company

Case No.: WR-2003-0500
Date Filed: December 5, 2003

MISSOURI-AMERICAN WATER COMPANY

SURREBUTTAL TESTIMONY

OF

**DOUGLAS M. LEHMAN, CFA
SENIOR FINANCIAL ANALYST**

MISSOURI-AMERICAN WATER COMPANY

CASE NOS. WR-2003-0500

JEFFERSON CITY, MISSOURI

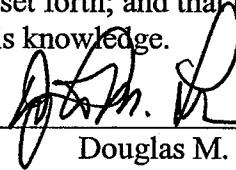
BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

IN THE MATTER OF MISSOURI-AMERICAN	)	CASE NO. WR-2003-0500
WATER COMPANY FOR AUTHORITY TO FILE	)	
TARIFFS REFLECTING INCREASED RATES	)	
FOR WATER SERVICE	)	

AFFIDAVIT OF DOUGLAS M. LEHMAN

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



Douglas M. Lehman

State of Missouri

County of St. Louis

SUBSCRIBED and sworn to

before me this 2nd day of December 2003.



Notary Public

My commission expires:

STACI A. OLSEN Notary Public - Notary Seal STATE OF MISSOURI St. Charles County My Commission Expires: Mar. 20, 2005
--

TABLE OF CONTENTS
SURREBUTTAL TESTIMONY OF
DOUGLAS M. LEHMAN, CFA
SENIOR FINANCIAL ANALYST
MISSOURI-AMERICAN WATER COMPANY
CASE NOS. WR-2003-0500

TABLE OF CONTENTS

I.	Witness Introduction	1
II.	Employee Expenses	2
III.	Employee Relocation Expenses.....	3

WITNESS INTRODUCTION

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29

Q: PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A: Douglas M. Lehman, 535 N. New Ballas Road, St. Louis, MO 63141.

Q: BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A: I am an employee of Missouri American Water, and my job title is Senior Financial Analyst.

Q: ARE YOU THE SAME DOUGLAS M. LEHMAN WHO PROVIDED REBUTTAL TESTIMONY FOR MISSOURI AMERICAN WATER IN THIS CASE?

A: Yes.

Q: IS IT OUR UNDERSTANDING THAT MR. ROBERT D. MAUL IS UNAVAILABLE TO TESTIFY IN THE HEARING OF THIS MATTER?

A: Yes.

Q: ARE YOU FAMILIAR WITH THE DIRECT TESTIMONY FILED BY MR. MAUL IN THIS CASE?

A: Yes I am.

Q: ARE YOU SEEKING TO ADOPT MR. MAUL’S TESTIMONY FOR THE PURPOSE OF STANDING CROSS-EXAMINATION AS TO THE MATTERS DISCUSSED BY MR. MAUL?

A: Yes.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27

Q: IF YOU WERE ASKED THE SAME QUESTIONS AS THOSE POSED TO MR. MAUL, WOULD YOUR ANSWERS HAVE BEEN SUBSTANTIALLY THE SAME?

A: Yes.

Q: WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A: My Surrebuttal Testimony will address the Rebuttal Testimony of Staff witness Jeremy K. Hagemeyer regarding Employee Expenses and Employee Relocation Expense.

EMPLOYEE EXPENSES

Q: WHAT IS THE NATURE OF THE COMPANY’S DISAGREEMENT WITH STAFF AS TO EMPLOYEE EXPENSES?

A: I believe there are two fundamental issues in this area. One, we need to clarify the definition of the term employee expenses. It’s a broad term that could be interpreted in many ways. The Company defines the category as the sum of the expenses booked to four object accounts: 1.) 575340—Employee Expenses; 2.) 575342—Employee Expenses: Conference and Registration; 3.) 575350—Meals and Travel Expenses Deductible; and 575351-- Meals and Travel Expenses Non-Deductible. With that clarification, the Company’s primary difference with Staff is on the nature of employee expenses and the choice of the best methodology for including such expenses in rates.

Q: WHAT DOES THE COMPANY BELIEVE IS THE BEST WAY TO REFLECT THESE

1 **EXPENSES IN RATES?**

2

3 A: Employee Expenses fluctuate up and down significantly from year to year depending on a number

4 of factors that influence employee travel. New accounting standards, new water treatment

5 standards, new environmental regulations, changes in procurement, new software, and software

6 updates for example are all changes that do not occur every year, but require in most cases

7 additional employee training. Frequently, that training requires travel, or expenses to conduct

8 training internally. Precisely because employee expenses can fluctuate on an annual basis, a

9 methodology that includes only a test year amount puts the ratepayer at risk of paying for all of a

10 test year when employee expenses happen to be abnormally high. The Company believes a longer-

11 term average of five years provides a much more appropriate amount to include in rates. Using a

12 five year average produces a pro forma level of \$472,791.

13

14 **EMPLOYEE RELOCATION EXPENSES**

15

16 **Q: WHAT IS THE DISPUTE RELATED TO RELOCATION EXPENSES?**

17

18 A: The dispute relative to relocation expenses is very similar to that concerning employee expenses.

19 The primary difference is that the Company does not have five years of good data in this area and

20 has instead proposed a four-year average of relocation expense. If the data was available, the

21 Company would be arguing for a five-year average in this area as well.

22

23 **Q: WHY DOESN'T THE COMPANY HAVE A FIFTH YEAR OF HISTORICAL DATA FOR**

24 **RELOCATION EXPENSES?**

25

1 A: At that point in time, the entity that is now Missouri American Water was three separate entities.
2 The ability to find prior entity accounting detail that far back in time is limited. Using a four year
3 average produces a pro forma level of \$168,299.
4

5 **Q: DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**
6

7 A: Yes.