

Exhibit No.:
Issues: Cedar Hill Plant Disallowance,
Consolidated and Revised Tariff
(Company Participation and Fair Share),
City of Riverside Fire Protection
Witness: Kevin H. Dunn
Exhibit Type: Surrebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2010-0131
SR-2010-0135
Date: May 6, 2010

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2010-0131
CASE NO. SR-2010-0135**

SURREBUTTAL TESTIMONY

OF

KEVIN H. DUNN

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-2010-0131 CASE NO. SR-2010-0135
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AFFIDAVIT OF KEVIN H. DUNN

Kevin H. Dunn, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of Kevin H. Dunn"; that said testimony and schedules were prepared by him and/or under his direction and supervision; that if inquiries 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.



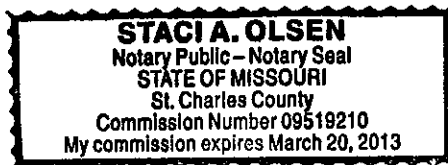
Kevin H. Dunn

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 20th day of April 2010.



Notary Public

My commission expires:



**SURREBUTTAL TESTIMONY
KEVIN H. DUNN
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR.2010.0131
SR.2010.0135**

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1 **SURREBUTTAL TESTIMONY**

2
3 **KEVIN H. DUNN**

4
5
6 **WITNESS INTRODUCTION AND PURPOSE**

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

9 A. My name is Kevin H. Dunn, my title is Director Engineering for American
10 Water, and my business address is 727 Craig Road, St. Louis, Missouri
11 63141.

12
13 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
14 **PROCEEDING?**

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

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

19 A. The purpose of my surrebuttal testimony is to discuss on behalf of Missouri-
20 American Water Company (MAWC or Company) the issue of the Cedar Hill
21 Plant Disallowance; Consolidated and Revised Tariff issues concerning
22 Company Participation Amount and Fair Share Amount; and the City of
23 Riverside Fire Protection, as presented in the Rebuttal Testimony of Staff
24 witness James A. Merciel, Jr.

25
26 **CEDAR HILL PLANT DISALLOWANCE**

1 **Q. HAVE YOU REVIEWED THE STAFF'S REBUTTAL RECOMMENDATION**
2 **IN REGARD TO THE CEDAR HILL PLANT DISALLOWANCE?**

3 A. Yes, I have.
4

5 **Q. WHAT DOES THE STAFF RECOMMEND?**

6 A. The Staff now proposes a disallowance of \$1,050,282 that it believes is
7 associated with the part of the expansion project that Staff alleges is not used
8 and useful.
9

10 **Q. IS THIS A CHANGE FROM THE RECOMMENDATION CONTAINED IN**
11 **STAFF'S DIRECT TESTIMONY?**

12 A. Yes. Staff's proposed disallowance related to the Cedar Hill Plant has been
13 reduced from \$2,179,908 to \$1,050,282.
14

15 **Q. WHAT IS THE STATED BASIS FOR THIS CHANGE IN RECOMMENDATION?**

16 A. The revised recommendation is based on Staff's view that some of the upgrades
17 to the new plant were required to meet the latest standards of the Missouri
18 Department of Natural Resources and with the actual addition of new customers
19 the plant expansion is now necessary, used and useful. Thus, Staff recommends
20 that rather than dividing the cost of the new plant by future customers (the
21 recommendation found in Staff's Direct Testimony), the new plant's total cost
22 should be calculated by dividing it by the total number of existing and new
23 customers and allowing the Company recovery of the cost of the portion of plant
24 utilized by existing customers. Staff continues to recommend that the portion of

1 the plant it believes to be necessary for the service of future customers be
2 disallowed until the future customers become a part of the system.

3
4 **Q. DO YOU AGREE WITH THE STAFF RECOMMENDATION?**

5 A. No, as stated earlier in my Rebuttal Testimony, MAWC not only prudently
6 planned and constructed this Wastewater Treatment Facility, but it also
7 required and accepted contributions in aid of construction (CIAC) from new
8 developers that will use the plant as required by its approved tariffs.

9
10 **Q. HAS THE STAFF PREVIOUSLY STATED AN OPINION CONCERNING**
11 **MAWC'S DECISION TO CONSTRUCT THE PLANT?**

12 A. Staff witness James A. Merciel, Jr. stated in his Surrebuttal Testimony in the
13 Company's last rate case (Case No. WR-2008-0311) on page 2, lines 12 – 14, "I
14 believe that the expansion project was prudently undertaken. I also believe that it
15 is necessary for future growth, which appeared imminent at the time the project
16 was undertaken"

17
18 **Q. GIVEN THAT SITUATION, HOW DOES MAWC BELIEVE THE PLANT**
19 **SHOULD BE TREATED FOR RATEMAKING PURPOSES?**

20 A. The Company should be granted full recovery of the treatment plant cost.
21 Partial recovery for prudent, necessary plant should not be an option. The
22 Company built the plant in a reasonable increment and should not be forced
23 to recover its investment in individual increments of customer additions to the
24 plant.

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Q. DOES THE STAFF APPROACH PROPERLY SPREAD THE COST BETWEEN THE EXISTING AND FUTURE CUSTOMERS?

A. Not in my opinion. The Staff divides the total plant cost at 85% volume by the average usage amount of the existing customers to determine the total number of expected customers. I believe the use of the total plant cost is not reasonable for this calculation, as this cost not only represents items for the treatment facility expansion, but also represents items associated with basic improvements needed to operate the Cedar Hill District. The calculation should only include those costs involved with the treatment capacity of the newly installed facility. As discussed in my Rebuttal Testimony, a portion of the total cost includes costs for construction of an office and storage building on the site, installation of the HVAC system for the office, installation of roadway and fencing, and the cost associated with an Inflow and Infiltration study. These costs represent \$469,405 of the total project cost of \$2,022,005. (See attached **Schedule KHD-1**). I believe the Staff's total cost of the plant should be reduced by the \$469,405, and these costs recovered from existing customers.

Q. STAFF WITNESS MERCIEL STATES THAT PORTIONS OF THE PLANT ARE NOT IN USE AND USEFUL. HOW DO YOU RESPOND?

A. As stated above and in previous testimony, the Company believes that it prudently designed and constructed a plant in accordance with its obligation to serve. This plant was required to be built at an increment that took into the consideration the expected addition of the O'Brien Place subdivision.

1

2 **Q. DID THE O'BRIEN PLACE SUBDIVISION CONTRIBUTE TO THE**
3 **CONSTRUCTION OF THE PLANT?**

4 A. Contributions in aid of construction were made by the developer of this
5 subdivision.

6

7 **Q. IS THERE SOME PORTION OF THE PLANT THAT IS NOT OPERATING**
8 **AT THIS TIME?**

9 A. No. The whole treatment plant is operating and treating waste.

10

11 **Q. HAVE ANY RECENT EVENTS CHANGED THE ACTUAL USAGE LEVEL**
12 **OF THE PLANT?**

13 A. Yes. During the week of April 26, 2010, MAWC connected fifty-three (53)
14 additional customers from the Lake Tamarack subdivision to this plant.

15

16 **Q. WHAT IS THE IMPACT OF THESE ADDITIONAL CUSTOMERS?**

17 A. With the addition of the Lake Tamarack customers' projected usage, the
18 existing customers' usage, and the usage associated with the contributions
19 made by O'Brien Place, volumes will now exceed 85% of the total plant
20 capacity (See attached Schedule KHD-1).

21

22 **Q. HAVE YOU REVISED THE STAFF'S CALCULATION TO TAKE INTO**
23 **ACCOUNT THE FACTORS YOU HAVE IDENTIFIED?**

24 A. Yes. I revised Staff Witness Merciel's work paper by removing the items that
25 were not directly related to the treatment capacity facility, added ten (10) new

1 customers that were not previously taken into account by Mr. Merciel (who had
2 identified one (1) new customer), and added the 53 Lake Tamarack customers.
3 This leaves a potential disallowance of \$470,865. This cost is more than offset
4 by the contributions in aid of construction related to this project (\$491,820) (See
5 attached **Schedule KHD-2**). Accordingly, even utilizing Staff approach, there
6 should be no disallowance related to the Cedar Hill Treatment Plant.

7
8 **CONSOLIDATED AND REVISED TARIFF**

9 **(Company Participation and Fair Share)**

10
11 **Q. STAFF WITNESS MERCIEL CLAIMS THAT THE COMPANY PROPOSES**
12 **TO ELIMINATE COMPANY PARTICIPATION, REFUNDS, AND FAIR**
13 **SHARE AMOUNTS RELATED TO MAIN EXTENSIONS IN THE**
14 **PROPOSED CONSOLIDATED TARIFF. PLEASE EXPLAIN COMPANY'S**
15 **REASONS FOR THIS ELIMINATION?**

16 **A.** First, MAWC is not fully eliminating Company Participation, as it will continue
17 to review mains to be upgraded for improvements to the system beyond the
18 existing development. However, this being said, MAWC is proposing a
19 change in approach. MAWC believes that its current infrastructure
20 replacement requirements are a higher priority for the limited funds that
21 MAWC has for its capital budget than are main extensions. The Refund or
22 Customer Fair Share amounts make more sense for small growing systems
23 that have limited rate base. The MAWC systems are well developed with a
24 substantial rate base in each district. Also, the current refund policy requires
25 a pay out over a long period of time (7-10 years), which is difficult to

1 administer. The Company would like to eliminate the time, effort and costs it
2 incurs in tracking the advances, making refunds/fair share payments, and
3 lapsing the accounts.

4
5 **Q. WILL THESE CHANGES IMPEDE FUTURE DEVELOPMENT?**

6 A. MAWC believes that the Refund or Customer Fair Share amounts paid would
7 not impede future development in its service areas. As stated in my Rebuttal
8 Testimony, there are currently districts in MAWC that do not have Customer
9 Participation/Fair Share or have a small Customer Participation and we have
10 not noticed any reduction in growth.

11
12 **Q. WHAT DISTRICTS HAVE A CUSTOMER FAIR SHARE AMOUNT IN THE
13 CURRENT TARIFFS?**

14 A. Only the “old” St. Louis County and St. Charles Districts and the Warren
15 County District have a tariff that describes a Customer Fair Share. While the
16 Company shares Mr. Merciel’s concern for an individual customer who might
17 pay to extend piping to his lot only to see subsequent customers get to tap
18 on to this main extension free of charge, we also find that the subsequent
19 customers have, in many cases, waited out the time period to make a fair-
20 share payment to the original customer and thus avoided the payment
21 anyway. Administering these actions hardly seems reasonable as the lack of
22 this provision in other districts has not seemed to have caused a hardship.

23
24 **CITY OF RIVERSIDE FIRE PROTECTION**

1 **Q. DO YOU AGREE WITH STAFF WITNESS MERCIEL THAT IT MAY BE**
2 **DESIRABLE IN COMMUNITIES WITH OLDER PARTS OF TOWN AND**
3 **OLDER WATER SYSTEMS TO IMPROVE WATER FLOW AND**
4 **PRESSURE TO MEET THE NEEDS OF MODERN FIRE PROTECTION?**

5 A. Yes, many fire departments/districts would find it desirable to improve fire
6 flow in older sections of water systems and have had discussions with
7 MAWC concerning this issue.

8
9 **Q. SHOULD INFRASTRUCTURE IMPROVEMENTS BE MADE IN EACH OF**
10 **THESE SITUATIONS?**

11 A. Not necessarily. The Company does not believe it to be prudent to replace
12 such older water mains based simply on the change of fire flow requirements
13 set in a new Ordinance. The existing system has provided adequate
14 pressure and flow throughout its years of service and continues to perform at
15 such conditions today. The funding to replace mains in MAWC systems or
16 other water systems is not unlimited and therefore, priority projects must
17 carefully selected to match the available funds. Mains are normally selected
18 to be replaced based on criteria such as multiple main break history,
19 insufficient pressure, pavement replacement, etc. Lower fire flow is a
20 consideration that helps to increase the prioritization for replacement of
21 sections of main, but it is not the sole consideration.

22
23 **Q. WOULD REPLACEMENT OF MAINS TO MEET EVER CHANGING FIRE**
24 **FLOWS HAVE AN IMPACT ON THE RATES OF A DISTRICT'S**
25 **CUSTOMERS?**

1 A. Yes, Company main replacements would increase the rate base upon which
2 rates are set. Replacing mains that are not displaying other service issues
3 would potentially result in premature retirement of mains that are still capable
4 of providing the service for which they were designed.

5
6 **Q. COULD REPLACEMENT BE FAR REACHING IN SOME**
7 **CIRCUMSTANCES?**

8 A. Yes. Depending on the new flow requirements, many mains may be required
9 to be replaced. An example is the Houston Lakes area (near Riverside)
10 where it was determined that almost all of the mains in this area would need
11 to be replaced with a larger diameter main if the system is retrofitted to meet
12 the new Ordinance. The preliminary estimate of the cost to replace these
13 mains is over \$1 million.

14
15 **Q. WHAT IS THE CONSEQUENCE OF SUCH GLOBAL REPLACEMENT?**

16 A. Replacing large sections of mains will require additional rate increases.

17
18 **Q. WHAT IS MAWC'S BELIEF AS TO THE ADEQUACY OF ITS EXISTING**
19 **SYSTEM?**

20 A. The Company believes these existing mains are adequate as they provide
21 the flow for which they were designed. The Company does not believe it is a
22 good use of its limited capital to retrofit its system based solely on fire flow
23 requirements that are normally needed for newly constructed buildings. The
24 Company believes it is more reasonable to concentrate its funds on replacing

1 infrastructure of higher priority where other service issues need to be
2 addressed.

3

4 **Q. WHAT APPROACH DOES MAWC BELIEVE IT TAKES IN REGARD TO**
5 **INFRASTRUCTURE REPLACEMENTS?**

6 A. The Company prudently expends its available funds to meet its many
7 infrastructure and service needs throughout the State of Missouri, and, as a
8 result, provides safe and adequate service that meets the many regulatory
9 and customer requirements.

10

11 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

12 A. Yes, it does.

**Missouri-American Water
Cedar Hill Plant Improvement Project UPIS and CIAC**

subacct	naruc	acct	description	3/31/2008 accum cost	non-treatment related plant	treatment related plant	in service date
361100	352.100		Pipe and Fittings - PVC 8"	51,910	51,910		5/31/2007 0:00
361100	352.200		Structure - Manhole/Catch Basin	51,910	51,910		5/31/2007 0:00
355200	356.000		Electrical - Generator (Alternator - AC, DC)	20,928		20,928	4/23/2007 0:00
371200	365.000		Electrical - Motor Starter/Motor Control Center (Oil, Adjustable Speed, Vacuum, Star Delta, Soft Start, Resistance, Air, Auto Transformer, Direct On Line, Variable HV Air)	49,304		49,304	4/23/2007 0:00
371200	365.000		Electrical - Power Supply Equipment (DC Supply, Fuel Cells, Hydroelectric, Phase Converter, Portable Light Plant, Power Inverter, Solar Panel, Uninterruptible Power Supply, Voltage Regulator, Wind Generator)	3,990		3,990	4/23/2007 0:00
371200	365.000		Process Pumping Equipment - Submersible Centrifugal Pump	39,900		39,900	4/23/2007 0:00
354400	371.000		HVAC/Plumbing - HVAC Equipment (Air Condition Unit/Air Chiller, Heat Pump)	17,100	17,100		4/23/2007 0:00
354400	371.000		Structure - Manhole/Catch Basin	22,800		22,800	4/23/2007 0:00
354400	371.000		Structure - Paving (Parking Lot, Sidewalk, Driveway, Road)	45,600	45,600		4/23/2007 0:00
354400	371.000		Structure - Vault/Chamber/Pit (Concrete, Fiberglass, Plastic, Steel)	155,040		155,040	4/23/2007 0:00
354400	371.000		Structure - Wood Building	228,001	228,001		4/23/2007 0:00
354400	371.000		Structure - Fence (Barrier, Gate, Masonry, Palisade, Wire Mesh, Wooden)	33,028	33,028		4/23/2007 0:00
354400	371.000		Structure - Vault/Chamber/Pit (Concrete, Fiberglass, Plastic, Steel)	52,320		52,320	4/23/2007 0:00
354400	371.000		Structure - Wood Building	41,856	41,856		4/23/2007 0:00
380000	372.000		Electrical - Generator (Alternator - AC, DC)	45,600		45,600	4/23/2007 0:00
380000	372.200		INSTALL TREATMENT EQUIPMENT sand creek WWTP	43,172		43,172	4/23/2007 0:00
380000	372.300		INSTALL TREATMENT EQUIPMENT sand creek WWTP	776,852		776,852	4/23/2007 0:00
380000	372.400		Meters - Process (Closed Pipe Time of Flight, Magnetic, Multi-jet, Programmable, Open Channel, Ultrasonic, Paddle, Propeller, Thermal Mass Flow, Ultrasonic, Vortex, Rotameter)	19,380		19,380	4/23/2007 0:00
380000	372.400		INSTALL TREATMENT EQUIPMENT sand creek WWTP	43,051		43,051	4/23/2007 0:00
380000	372.500		Pipe and Fittings - Ductile Iron 6"	5,292		5,292	4/23/2007 0:00
380000	372.500		Treatment - Clarification - Clarification Tank (Steel, Concrete)	52,320		52,320	4/23/2007 0:00
381000	373.000		Pipe and Fittings - Ductile Iron 8"	43,949		43,949	4/23/2007 0:00
381000	373.000		Flow Control - Other Valve (Air, Altitude, Backflow Preventor, Ball, Check, Cone, Diaphragm, Flap (Outfall), Float, Foot, Globe, Knife, Needle, Open Chanel Gate, Pinch, Piston, Plug, Pressure/Vacuum Release, Pressure Relief, Solenoid, Telescopic)	40,795		40,795	4/23/2007 0:00
381000	373.000		Pipe and Fittings - Ductile Iron 4"	24,110		24,110	4/23/2007 0:00
381000	373.000		Pipe and Fittings - Ductile Iron 6"	15,289		15,289	4/23/2007 0:00
381000	373.000		Pipe and Fittings - Ductile Iron 8"	52,630		52,630	4/23/2007 0:00
381000	373.000		Pipe and Fittings - Ductile Iron 10"	12,937		12,937	4/23/2007 0:00
382000	374.100		Structure - Vault/Chamber/Pit (Concrete, Fiberglass, Plastic, Steel)	14,701		14,701	4/23/2007 0:00
396000	396.000		Instrumentation - Control System - Modem	7,410		7,410	4/23/2007 0:00
396000	396.000		Instrumentation - Control System - Programmable Logic Controller	10,830		10,830	4/23/2007 0:00

Total UPIS

\$2,022,005 \$469,405 \$1,552,600

CIAC

		CIAC Amount	non-treatment related ciac	treatment related ciac	CIAC GL Date
271160	O'Brien	106,823		106,823	1/3/2007 0:00
271160	O'Brien	100,000		100,000	6/22/2006 0:00
271160	O'Brien	118,865		118,865	7/9/2007 0:00
271160	O'Brien	6,820		6,820	9/12/2006 0:00
271160	Northwest HS *	159,312		159,312	12/2/2004 0:00

Total CIAC

491,820 - 491,820

* Northwest HS CIAC was transferred to the Company's books at the time of acquisition.

Plant less CIAC	\$1,060,780
New Plant Cost/Gal	\$10
2009 Existing Avg Daily Usage	75,150
Existing Usage Cost of Plant	\$777,853
Remaining Plant not Contributed	\$282,928
Lake Tamarack Capacity Charge Paid	\$79,500
Remaining Plant less CIAC less Capacity Charge	\$203,428
Capacity not yet Paid or Used	19,654 gallons
% Capacity Remaining	13.10%

WR-2010-0131
Cedar Hill Sand Creek Plant Adjustment

Merciel - Rebuttal
KHD Adj for Treatment Only and Lake Tamarack

CHUC	Expanded plant capacity		
	gpd	\$	
185 pre-existing customers	66,000		357 gal/customer
old plant	75,000	\$ 100,000	
		88%	
Treatment Cost Only			
expansion	75,000	\$ 1,552,600	10.35 per gallon
total capacity	150,000		
15% reserve cushion	22,500		
capacity limit for ratemaking	127,500		357 customer limit for ratemaking

=====

Total capacity	150,000 gal	\$	540.54	rate base per existing customer, plant
capacity used	66,000			(entire pre-existing plant)
reserve cushion	22,500 gal			
Available capacity limit	61,500	\$	1,552,600	Plant expansion cost
total customer capacity for rates	357	\$	4,344	cost per all customers to 85% capacity
potential new customers	172			(all new customers, existing and future share in plant expansion)
actual new customers	64 with Lake Tamarack	ciac	\$ 1,500	residential
plant disallowance for rate case is				
cost per future customer	108 new customer			
Capital Disallowance		\$	470,865	CIAC from O'Brien Place and NW HS
				CIAC from Lake Tamarack Capacity Fee
				\$ 491,820
				\$ 79,500
				\$ 571,320