

Exhibit No.:
Issues: Water Use Normalization, Bad Debt
Expense
Witness: Donald J. Petry
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

DONALD J. PETRY

ON BEHALF OF

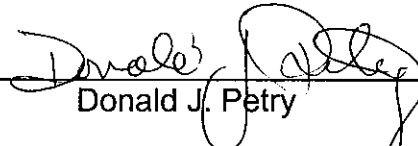
MISSOURI-AMERICAN WATER COMPANY

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 DONALD J. PETRY

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



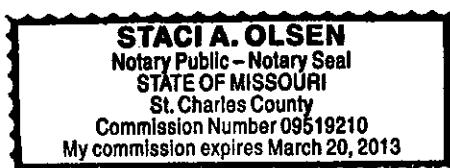
Donald J. Petry

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 6th day of May 2010.



Notary Public

My commission expires:



**SURREBUTTAL TESTIMONY
DONALD J. PETRY
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2010-0131
SR-2010-0135**

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1 **SURREBUTTAL TESTIMONY**

2
3 **DONALD J. PETRY**

4
5 **WITNESS INTRODUCTION AND PURPOSE**

6
7
8 **Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.**

9 A. My name is Donald J. Petry, Financial Analyst III for American Water and my
10 business address is 727 Craig Road, St. Louis, Missouri 63141.

11
12 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
13 **PROCEEDING?**

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

15
16 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

17 A. The purpose of my surrebuttal testimony is to respond to the rebuttal
18 testimony of the Missouri Commission Staff ("Staff") on the following issues:

19 1) Water Use Normalization;

20 2) Bad Debt Expense;

21
22 **(1) WATER USE NORMALIZATION**

23
24 **Q. IS THE COMPANY PROPOSING WATER USE NORMALIZATION FOR**
25 **ALL THE COMPANY'S WATER DISTRICTS?**

26 A. No. The Company performed a detailed weather normalization study for the
27 residential and commercial classes of St. Louis, St. Joseph, Joplin, St.
28 Charles, and Jefferson City service areas. Since these five districts

1 represent over 94% of the total revenues of the Company, the Company did
2 not feel the additional expense of analyzing the remaining service areas
3 would warrant the cost.

4
5 **Q. PLEASE DISCUSS THE REBUTTAL TESTIMONY OF MR. SCHEIBLE OF**
6 **THE MISSOURI COMMISSION STAFF ON THE ISSUE OF WATER USE**
7 **NORMALIZATION.**

8 A. Mr. Scheible discusses the Staff's position on water use normalization in his
9 rebuttal testimony. He discusses and compares the Staff's position and the
10 Company's position regarding water use normalization. In my rebuttal
11 testimony, I have used the term Usage per Customer per Day or "UCD" when
12 referring to the amount of water used by the residential and commercial class
13 customers in the Company's service areas. In total for the Company, there
14 are 22 customer classes or types for residential and commercial. The
15 Company and the Staff agree on using actual test year usage for three of the
16 customer classes and the Company and Staff agree on using a six year
17 average for three other customer classes. Thus, the disagreement between
18 the Company and Staff revolves around the remaining sixteen customer
19 classes. The disagreement lies in the methodology in calculating the UCD.
20 Attached to my Rebuttal Testimony is Rebuttal Schedule DJP-1 which
21 provides a comparison of the Company's and Staff's position on the issue of
22 UCD.

23
24 **Q. WHAT IS MR. SCHEIBLE'S MAIN POINT OF DISAGREEMENT ON THE**
25 **COMPANY'S USE OF WATER USE NORMALIZATION TO DETERMINE**

1 **THE UCD USED IN CALCULATING PRESENT RATE REVENUES?**

2 A. Staff does not believe that the Company's approach to calculating UCD using
3 a weather normalization method is appropriate. Staff indicated that neither
4 the Company, nor the Staff is attempting to recommend a usage based upon
5 specific test-year data, which could potentially require adjustment for any
6 effect due to "non-typical" weather during the test year. Therefore, Staff
7 believes utilizing an average of actual usage data for a recent time period is
8 the most reliable method of prediction. Staff states that averaging of the
9 most current actual usage data available, accounts for varying rainfall
10 amounts and temperatures, in any given combination. Staff also claims that
11 trends in water usage due to conservation practices or lawn size/irrigation
12 practices could be unique to any given service area and would be accounted
13 for in an average of actual usages.

14
15 **Q. DO YOU AGREE WITH THE STAFF'S ARGUMENT RELATED TO WATER**
16 **USE NORMALIZATION?**

17 A. No, I do not. First, Staff has based its position solely on the basis that
18 averaging of the most current actual usage data accounts for varying rainfall
19 amounts and temperatures in any given combination. Staff has reached a
20 flawed conclusion that trends in water usage due to conservation practices or
21 lawn size/irrigation practices would also be accounted for in an average of
22 actual usages. Staff has not performed any statistical analysis or provided
23 any evidence to rebut the Company's calculation of UCD using Professor
24 Spitznagel's weather normalization approach. Second, Staff's use of an
25 average does not reflect the downward trend of usage per customer per day

1 and actually overstates that figure. In his surrebuttal testimony, Professor
2 Spitznagel has taken the data for St Louis quarterly customers for the last 20
3 years and employed an XY Scatterplot graph. This XY Scatterplot graph
4 shows a clear downward trend in the UCD. Professor Spitznagel's
5 methodology is more reflective of the impact of decreased usage trends and
6 weather impacts. For the service areas not included in Professor
7 Spitznagel's study, the Company used a three year average while the Staff
8 used a six year average. The Company believes the three year average
9 better captures the downward trend in customer usage. Surrebuttal
10 Schedule DJP-1 summarizes the average residential customer monthly
11 usages comparing data three years apart. This information was provided to
12 customers at the public hearings for those cases, has never been disputed
13 by Staff and is clearly reflective of a long-term and continual decline in
14 usage. By utilizing a six-year average, Staff is, in effect, arguing that the
15 decline in average customer usage is temporary. By equally weighting each
16 year and not reflecting the impacts of weather, the Staff has pegged its
17 consumption levels at the midpoint for the years selected and ignored the
18 fact that there is a component of consumer water consumption that has
19 permanently declined.

20
21 **Q. DOES THIS APPLY TO MIEC'S SIX YEAR AVERAGE ALSO?**

22 **A.** Yes, but even more so. MIEC's six year average was for the years 2002
23 through 2007. Their calculation does not reflect the most current trend
24 through 2009.

1 **Q. WHY DO YOU BELIEVE THAT PERMANENT DECLINES IN**
2 **CONSUMPTION HAVE OCCURRED OVER THE YEARS IN ADDITION TO**
3 **THE TEMPORARY VARIATIONS ATTRIBUTABLE TO WEATHER**
4 **FACTORS?**

5 **A.** Consumers have been better educated over the years not only by MAWC
6 efforts, but by efforts on the part of a number of organizations at a national
7 level. Building codes have changed in places to require use of low-flow
8 shower heads. Laws have been passed mandating the installation of only
9 low-consumption toilets. Most importantly, environmental awareness has
10 been raised in general and consumers have responded through conservation
11 efforts. These are logical results that are not only observable by the lay
12 person, but are statistically supported as reflected in the testimony of Dr.
13 Spitznagel. To deny this readily observable trend misstates existing
14 revenues and understates the revenue requirement in this case.

15

16 **(2) BAD DEBT EXPENSE**

17

18 **Q. WHAT IS STAFF'S POSITION ON BAD DEBT EXPENSE?**

19 **A.** On page 2, Lines 1 through 4, Witness Mapeka's rebuttal testimony states that
20 Staff agrees that bad debts may increase to some extent as a result of an
21 increase to MAWC's revenue requirement. However, Staff does not subscribe to
22 the theory that any increase in the Company's revenue requirement should
23 cause bad debt expense to increase proportionately.

24

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

1 A. The issue between Staff and Company regarding bad debt expense is
2 whether or not there should be a bad debt expense attributable to the
3 additional revenues that result from a rate increase in this case.

4

5 **Q. DID STAFF CALCULATE A BAD DEBT EXPENSE ASSOCIATED WITH THE**
6 **ADDITIONAL REVENUES TO BE RECEIVED AS A RESULT OF A RATE**
7 **INCREASE IN THIS CASE?**

8 A. No, even though Staff agrees that bad debt may increase.

9

10 **Q. WHY DOES THE COMPANY APPLY A BAD DEBT RATIO TO THE**
11 **PROFORMA REVENUES AT PROPOSED RATES?**

12 A. There is a direct relationship between revenues and bad debt expense. In other
13 words, as revenues increase, bad debt expense increases as well. Attached to
14 by rebuttal testimony is Rebuttal Schedule DJP-2 that demonstrates this direct
15 relationship in all but one of the past five years. The 2006 to 2007 trend was
16 impacted due to a change in the methodology for calculating the uncollectible
17 reserve. By applying the bad debt ratio to proforma or anticipated revenues
18 resulting from this case, the bad debt expense will be more accurately reflected
19 for the period of time rates set in this case will be in effect.

20

21 **Q. DID STAFF PERFORM ANY ANALYSIS ON RELATIONSHIP OF BAD DEBT**
22 **TO REVENUE?**

23 A. Yes. Staff analyzed the ratio of bad debt to revenues similar to the method the
24 Company used in my rebuttal testimony. The difference between the two
25 methods was that my analysis was based on annual figures while Staff's analysis

1 was based on monthly figures. Witness Mapeka states on Page 2, lines 6
2 through 7 of her surrebuttal testimony that Staff found there were several times in
3 which revenues increased and bad debts actually declined. This is expected
4 when comparing the revenues and bad debts on a monthly basis due to lags
5 from when the customers are billed and when the accounts are actually charged
6 off. The Company charges accounts off after they become 90 days old.
7 Charge-offs of large industrial and commercial customers would also make the
8 monthly comparison difficult. For these reasons, the Company's analysis of
9 annual revenues and bad debts gives a truer picture of the relationship between
10 revenues and bad debt expense.

11
12 **Q. WHAT IS THE COMPANY'S BASIS FOR THE BAD DEBT INCREASE ON THE**
13 **ADDITIONAL REVENUES FROM THE RATE INCREASE?**

14 A. The Company is using a ratio of a three year average of net write offs to water
15 revenues which is the same method Staff used for calculating bad debt on
16 present rates.

17
18 **Q. WHY IS THIS THE APPROPRIATE METHODOLOGY?**

19 A. By using a three year average (July 2006 – July 2009), the calculation includes
20 two rate increases, WR-2007-0216 and WR-2008-0311, whose effective dates
21 were October 22, 2007 and November 28, 2008, respectively. The Company's
22 calculation, therefore, reflects the change in charge-offs resulting from actual rate
23 increases. This is consistent with Staff Witness Mapeka's rebuttal testimony,
24 page 2 lines one and two, which states bad debts may increase to some extent
25 as a result of an increase in MAWC's revenue requirement.

1

2 **Q. WHAT IS THE IMPACT OF THE COMPANY'S METHOD OF CALCULATING**
3 **BAD DEBT EXPENSE OVER THAT UTILIZED BY STAFF?**

4 A. Staff's bad debt adjustment of \$(161,763) would increase by \$396,939 to
5 \$235,176 using the Company's method.

6

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

8 A. Yes.

Missouri-American Water Company
WR-2010-0131

Average Residential Customer Usage in gallons

Service Area	*	WR-2007-0216	WR-2010-0131
Brunswick	m	4,000	3,500
Mexico	m	4,600	4,500
Parkville	m	8,800	8,000
Warrensburg	m	5,300	5,000
Warren County	m	5,300	5,500

* m = monthly

Missouri-American Water Company Proposed Rates by Operating District		
District	Present Rate	Proposed Rate
Brunswick	\$22.58 per month -- Based on 4,000 gallons	\$28.28 per month
Jefferson City	\$20.55 per month -- Based on 5,000 gallons	\$25.74 per month
Mexico	\$23.92 per month -- Based on 4,600 gallons	\$29.96 per month
Parkville	\$38.39 per month -- Based on 8,800 gallons	\$48.08 per month
St. Charles County	\$22.58 per month -- Based on 8,200 gallons	\$28.28 per month
St. Joseph	\$22.63 per month -- Based on 4,800 gallons	\$28.72 per month
St. Louis County	\$61.21 quarterly -- Based on 23,800 gallons	\$76.49 quarterly
Warrensburg	\$18.57 per month -- Based on 5,300 gallons	\$23.26 per month
Warren County	\$20.33 per month -- Based on 5,300 gallons	\$25.45 per month
Joplin	<p>\$16.29 per month -- Based on 5,700 gallons</p> <p>For Joplin District customers, the water company is also proposing a Plant Improvement Charge related to a three-year, \$44 million water treatment plant rehabilitation and improvement project in the Joplin District.</p> <p>According to Missouri-American, the initial charge of \$1.95 a month would take effect on January 1, 2008. It would be followed by quarterly increases of \$1.95 a month for a cumulative effect of \$7.80 a month at the end of the first year.</p>	\$20.40 per month

Missouri-American Water Company Proposed Rates by Operating District

District	Present Rate	Proposed Rate	Staff Rec.
Brunswick	\$45.74 per month Based on 3,500 gallons	\$60.08 per month	\$99.82 per month
Jefferson City	\$31.26 per month Based on 5,000 gallons	\$35.43 per month	\$32.78 per month
Joplin	\$32.58 per month Based on 5,500 gallons	\$38.41 per month	\$35.23 per month
Mexico	\$33.23 per month Based on 4,500 gallons	\$43.59 per month	\$34.21 per month
Parkville	\$55.27 per month Based on 8,000 gallons	\$70.63 per month	\$64.01 per month
St. Louis Metro (Monthly)*	\$30.78 per month Based on 7,500 gallons	\$37.71 per month	\$34.07 per month
St. Joseph	\$29.59 per month Based on 5,000 gallons	\$38.40 per month	\$29.80 per month
St. Louis Metro (Quarterly)	\$74.82 quarterly Based on 22,500 gallons	\$91.00 quarterly	\$83.66 quarterly
Warrensburg	\$27.50 per month Based on 5,000 gallons	\$32.79 per month	\$28.55 per month
Warren County	\$45.83 per month Based on 5,500 gallons	\$57.21 per month	\$75.80 per month
Parkville (Sewer)	\$53.41 per month Flat Rate	\$66.42 per month	\$62.90 per month
Cedar Hills (Sewer)	\$33.81 per Month Flat Rate-Single Family	\$42.66 per month	\$47.18 per month
Warren County (Sewer)	\$29.81 per month Flat Rate	\$50.24 per month	\$173.20 per month

NOTE - St. Charles, St. Louis and Warren County water bills contain a public fire charge in addition to the customer and commodity charges.

*Former St. Charles District