

Exhibit No.:
Issues: Capital Structure
Witness: William D. Rogers
Exhibit Type: Surrebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2011-0337
SR-2011-0338
Date: February 2, 2012

MISSOURI PUBLIC SERVICE COMMISSION

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

SURREBUTTAL TESTIMONY

OF

WILLIAM D. ROGERS

ON BEHALF OF

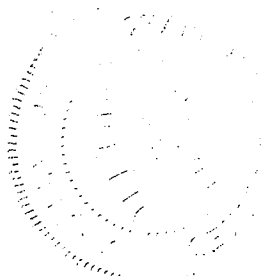
MISSOURI-AMERICAN WATER COMPANY

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-2011-0337
RATES FOR WATER AND SEWER)	CASE NO. SR-2011-0338
SERVICE)	

AFFIDAVIT OF WILLIAM D. ROGERS

William D. Rogers, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of William D. Rogers"; 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.



William D. Rogers
William D. Rogers

State of New Jersey
County of Camden

SUBSCRIBED and sworn to
Before me this 1st day of February, 2012.

Charlotte R. Guckes
Notary Public

My commission expires:

CHARLOTTE R. GUCKES
Notary Public of New Jersey
My Commission Expires:
October 27, 2013

1 **SURREBUTTAL TESTIMONY**

2 **WILLIAM D. ROGERS**

3
4 **I. WITNESS INTRODUCTION AND PURPOSE**

5
6 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.**

7 A. My name is William D. Rogers. My business address is 1025 Laurel Oak Road,
8 Voorhees, New Jersey 08043.

9
10 **Q. ARE YOU THE SAME WILLIAM D. ROGERS WHO PREVIOUSLY**
11 **SUBMITTED PREPARED REBUTTAL TESTIMONY IN THIS PROCEEDING?**

12 A. Yes, I am.

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

15 A. The purpose of this testimony is to respond to certain statements by Mr.
16 Matthew J. Barnes in his rebuttal testimony prepared January 19, 2012 for Case
17 No. WR-2011-0337.

18
19 **Q. ON PAGE 6 OF HIS REBUTTAL TESTIMONY, MR. BARNES ASSERTS**
20 **THAT IF STANDARD AND POOR'S ("S&P") "DID ASSIGN A CREDIT**
21 **RATING TO MAWC, IT WOULD BE BASED ON THE CONSOLIDATED**
22 **OPERATIONS OF AMERICAN WATER." DO YOU AGREE WITH THAT**
23 **ASSERTION?**

1 A. No, I do not. Neither S&P nor any other nationally recognized rating agency
2 rates Missouri-American Water Company (“MAWC”) as an issuer or any of its
3 specific borrowings. Neither MAWC nor American Water has engaged S&P, or
4 any other credit rating agency, to provide a rating on MAWC or its specific debt.
5 More generally, there been no conversations with rating agencies on the credit
6 rating of MAWC. Mr. Barnes’ assertion is, therefore, little more than conjecture.

7

8 **Q. DO YOU BELIEVE THAT MAWC AND AMERICAN WATER HAVE THE SAME**
9 **CREDIT RISK PROFILE?**

10 A. No, I do not. The lenders to MAWC have the benefit of a stronger balance
11 sheet and stronger interest coverage metrics at MAWC relative to AWW.
12 Further, any lender to MAWC would have a stronger structural position in that
13 the lender has an obligation from an operating entity that is highly regulated.
14 Using these criteria, MAWC presents a better credit risk than American Water.

15

16 **Q. DO STRONGER CREDIT METRICS NECESSARILY RESULT IN LOWER**
17 **COSTS OF DEBT?**

18 A. No, they do not. As I stated in my testimony, American Water Capital Corp
19 (“AWCC”) is able to achieve low cost debt capital through its size and access to
20 debt capital markets.

21

22 **Q. AT PAGE 6 OF HIS REBUTTAL TESTIMONY, MR. BARNES STATES THAT**
23 **“CONSOLIDATION OF FINANCING NEEDS THROUGH AWCC MAKE**

1 **MAWC’S CAPITAL STRUCTURE INAPPROPRIATE FOR PURPOSES OF**
2 **RECOMMENDING A FAIR AND REASONABLE ROR FOR**
3 **MAWC...BECAUSE AWCC IS MORE OR LESS ACTING LIKE A TREASURY**
4 **FOR AMERICAN WATER...” DO YOU AGREE WITH HIS STATEMENT?**

5 A. No, I do not. Mr. Barnes implies that because MAWC is able to benefit from the
6 scale and expertise of AWCC treasury services, that the capital structure of
7 MAWC is no longer relevant to its cost of capital. There is, however, a
8 difference between achieving low cost financing and reducing costs of treasury
9 operations through the service that AWCC provides to MAWC and the cost of
10 capital actually used to finance MAWC’s operations. These are distinct topics
11 and it is wrong to equate the two.

12
13 **Q. AT PAGE 6 OF HIS REBUTTAL TESTIMONY, MR. BARNES SUGGESTS**
14 **THAT AMERICAN WATER BORROWS FROM AWCC IN ORDER TO INVEST**
15 **EQUITY CAPITAL INTO ITS SUBSIDIARIES. WHAT IS AMERICAN**
16 **WATER’S USE OF PROCEEDS FROM ITS BORROWINGS FROM AWCC?**

17 A. As I explained in my rebuttal testimony, American Water borrowed from AWCC
18 in order to repay debt obligations to affiliates of RWE, American Water’s prior
19 shareholder. These debt obligations were incurred to refinance preferred
20 shares owned by affiliates of RWE. American Water’s borrowings from AWCC
21 were not and have not been used as a source of equity capital for subsidiaries
22 of American Water.

23

1 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

2 A. Yes.