

Exhibit No.:
Issues: AAO
Witness: Edward J. Grubb
Exhibit Type: Direct
Sponsoring Party: Missouri-American Water
Company
Case No.: WO-2002-273
Date: January 31, 2002

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WO-2002-273

FILED²

JAN 31 2002

**Missouri Public
Service Commission**

DIRECT TESTIMONY

OF

EDWARD J. GRUBB

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

JEFFERSON CITY, MISSOURI

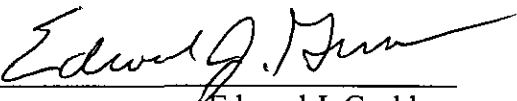
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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

IN THE MATTER OF THE JOINT APPLICATION)	CASE NO. WO-2002-273
OF MISSOURI-AMERICAN WATER COMPANY,)	
ST. LOUIS COUNTY WATER COMPANY d/b/a)	
MISSOURI-AMEICAN WATER COMPANY AND)	
JEFFERSON CITY WATER WORKS COMPANY)	
d/b/a MISSOURI-AMERICAN WATER COMPANY)	
FOR AN ACCOUNTING AUTHORITY ORDER)	
RELATING TO SECURITY COSTS)	

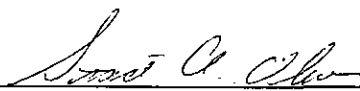
AFFIDAVIT OF EDWARD J. GRUBB

Edward J. Grubb, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Edward J. Grubb"; 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.



Edward J. Grubb

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
before me this 29th day of January 2002.



Notary Public

My commission expires:

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

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DIRECT TESTIMONY

EDWARD J. GRUBB

WITNESS INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Edward J. Grubb and my business address is 535 N. New Ballas
3 Road, St. Louis, Missouri 63141.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by Missouri-American Water Company ("MAWC") as the Director
6 Rates and Revenues and as the Assistant Treasurer.

7 **Q. PLEASE ELABORATE UPON YOUR DUTIES AS DIRECTOR RATES AND**
8 **REVENUES.**

9 A. As Director Rates and Revenues, the main responsibilities are as follows:

10 1) Plan and oversee the preparation and presentation of all rate increase
11 applications and supporting documents and exhibits as prescribed by
12 management policies, guidelines and regulatory commission requirements;

13 2) Oversee rate analyses and studies to evaluate the effect of proposed
14 rates on the revenues, rate of return and tariff structure of the company.

15 3) Oversee the implementation of rate orders, including development of the
16 revised tariff pricing necessary to produce the proposed revenue level.

17 4) Oversee the preparation of Company budgets and analyses.

18 5) Oversee the review of Company financial statements.

19 6) Oversee employee relations in the Rates and Planning Department,
20 including the recommendation regarding personnel changes and the training and
21 evaluation of assigned personnel.

1 7) Provide support for financial analysis of proposed acquisitions and
2 expansion of service territory, including preparation of applicable Commission
3 filings.

4 8) Assure that policies, procedures, programs, standards of performance,
5 and approved objectives are adhered to and/or achieved including those
6 involving safety, affirmative action, community relations, and labor relations.

7 **Q. HAVE YOU PREVIOUSLY PARTICIPATED IN REGULATORY MATTERS?**

8 A. Yes, I have prepared rate cases and presented testimony before the Maryland
9 Public Service Commission, West Virginia Public Service Commission,
10 Tennessee Public Service Commission, Illinois Commerce Commission,
11 Kentucky Public Service Commission, Iowa Utilities Board and this Commission.

12 **Q. WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND**
13 **AND BUSINESS EXPERIENCE?**

14 A. In June 1978, I was awarded a Bachelor of Science Degree in Business
15 Administration from Drexel University with a major in accounting. In May 1989, I
16 was awarded a Masters of Business Administration from the University of West
17 Virginia College of Graduate Studies. In September 1993, I successfully
18 completed the Certified Management Accounting program and received my
19 certificate as a Certified Management Accountant (CMA). In January 1998, I
20 successfully completed the Certified in Financial Management (CFM) program
21 and received my certificate as a CFM from the Institute of Management
22 Accountants.

1 I began my career in 1978 with American Water Works Service Co., Inc. as an
2 Internal Auditor. As an Internal Auditor, I conducted financial and procedural
3 audits of American System operating companies.

4 In 1983, I was promoted to Rate Analyst. In 1984, I was promoted to Revenue
5 Requirement Specialist and in 1988, I was promoted to Assistant Director -
6 Rates and Revenue. In these three positions, I have assisted, prepared and
7 presented testimony and accounting exhibits before regulatory bodies
8 concerning rate increase applications.

9 In January 1998, I was promoted to the position of Comptroller of Kentucky-
10 American Water Company. In my capacity as Comptroller, I was responsible for
11 all aspects of the accounting for the Company, including the preparation of
12 financial statements and tax returns. In October 2000, I was promoted to my
13 current position with Missouri-American Water Company as Director Rates and
14 Revenues.

15 **PURPOSE**

16 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

17 A. I will provide testimony describing the Missouri-American Water Company
18 ("MAWC") and the financial aspects of MAWC's Application for Accounting
19 Authority Order ("AAO") relating to security costs.

20 **APPLICANT**

21 **Q. PLEASE DESCRIBE MAWC.**

22 A. MAWC is a Missouri corporation with its principal office and place of business at
23 535 N. New Ballas Road, St. Louis, Missouri 63141. MAWC is a Missouri

1 corporation in good standing. MAWC provides water service to approximately
2 97,623 customers in and around the cities of St. Joseph, Joplin, Brunswick,
3 Mexico, Warrensburg, Parkville and parts of St. Charles County, Missouri.
4 Consistent with the Commission's Order Approving Stipulation and Agreement in
5 Case No. WM-2001-309, St. Louis County Water Company and Jefferson City
6 Water Works Company were merged into Missouri-American Water Company
7 effective December 31, 2001. Through the former St. Louis County Water
8 Company properties, MAWC provides water service to approximately 309,799
9 customers in all of St. Louis County and parts of Jefferson County, Missouri.
10 Through the former Jefferson City Water Works Company properties, MAWC
11 provides water service to approximately 10,667 customers in the city of Jefferson
12 City, Missouri. MAWC is a "water corporation" and a "public utility" as those
13 terms are defined in Section 386.020 RSMo. 2000, and is subject to the
14 jurisdiction and supervision of the Commission as provided by law.

15 **REQUEST**

16 **Q. WHAT DOES MAWC REQUEST OF THE COMMISSION BY WAY OF ITS**
17 **APPLICATION IN THIS CASE?**

18 A. MAWC requests that the Commission issue an AAO, which includes the
19 following language:

20 a) MAWC is authorized to maintain on their books a regulatory asset which
21 represents the operation and maintenance expenses, carrying costs, and
22 depreciation expenses associated with the adoption of new procedures, updating
23 existing procedures, and installation of facilities to further safeguard its water
24 plant continuing until the effective date of a Report and Order in MAWC's next

1 general rate proceeding, a period of no longer than four (4) years from the
2 issuance of this AAO; and,

3 b) That the Commission intends that rates established in MAWC's next
4 general rate case will include, among other things, treatment of MAWC's
5 prudently incurred costs pertaining to security of water plant, as described
6 above, and, if amortized, an amortization of MAWC's prudently incurred costs
7 deferred pursuant to this AAO, over a period of time ending no later than three
8 years after rates become effective in MAWC's next rate case.

9 **Q. WHAT IS THE MOST IMPORTANT ASPECT OF THIS REQUEST TO MAWC?**

10 A. The grant of the AAO, which is contained in paragraph a.

11 **Q. WHEN DOES MAWC PLAN TO FILE ITS NEXT GENERAL RATE CASE?**

12 A. The Company has tentatively set June 2003, as its date to file its next rate case.

13 **Q. MAWC HAS REQUESTED THAT THE AAO CONTINUE FOR A FOUR (4)**
14 **YEAR PERIOD. IS IT CRITICAL THAT THE AAO LAST FOR THIS PERIOD**
15 **OF TIME?**

16 A. No. As stated above, MAWC plans a rate case in 2003. Thus, as long as the
17 AAO lasts for a period of at least three years, it should be well within MAWC's
18 planning horizon.

19 **Q. IS THE LANGUAGE CONTAINED IN PARAGRAPH B CRITICAL TO MAWC'S**
20 **REQUEST?**

21 A. No. MAWC is aware of the Western District Court of Appeals decision in
22 *Missouri Gas Energy v. Public Service Commission*, 978 S.W.2d 434, 438
23 (Mo.App.W.D., 1998) which indicates that AAO's create no expectation of
24 recovery. However, MAWC was hoping that the Commission would use this

1 opportunity to express its support for public security efforts and, for this reason,
2 continues to make this request of the Commission.

3 **MATERIALITY**

4 **Q. HAVE YOU REVIEWED THE AMOUNT OF EXPENDITURES THAT HAVE**
5 **BEEN MADE FOR SECURITY MEASURES IN THE AFTERMATH OF THE**
6 **EVENTS OF SEPTEMBER 11, 2001, AND THE EXPENDITURES THAT ARE**
7 **PLANNED?**

8 A. Yes, I have. A summary of those costs is marked as Schedule FLK-3 and
9 attached to the Direct Testimony of MAWC witness Frank L. Kartmann.

10 **Q. ARE THESE COSTS AND THE UNDERLYING EVENT OF AN**
11 **EXTRAORDINARY NATURE TO THE COMPANY?**

12 A. Yes. MAWC witness Kartmann in his Direct Testimony has addressed this issue.
13 He points out the Company's response to the events of September 11, 2001,
14 and how it has impacted the Company operationally.

15 **Q. IN PRIOR PROCEEDINGS BEFORE THIS COMMISSION, THE COMMISSION**
16 **HAS SOMETIMES USED A 5% MATERIALITY TEST IN REGARD TO**
17 **ELECTRIC AND GAS CORPORATIONS. ARE YOU AWARE OF THIS?**

18 A. Yes I am. It is my understanding from an earlier Commission Staff filing in this
19 case that the Uniform System of Accounts adopted by the Commission in regard
20 to the accounting requirements of its regulated electric and gas utilities generally
21 holds that an impact of 5% of net income from an extraordinary item is presumed
22 to be material.

23 **Q. IS THAT STANDARD STRICTLY APPLICABLE TO WATER**
24 **CORPORATIONS?**

25 A. It is my understanding that it is not.

1 Q. WHILE THAT STANDARD IS NOT NECESSARILY APPLICABLE TO MAWC,
2 WHAT WOULD BE THE RESULT OF SUCH A TEST?

3 A. ** _____

4 _____ **

5 Q. WILL MAWC HAVE AN OPPORTUNITY TO RECOVER ALL OF THE
6 AMOUNTS EXPENDED WITHOUT THE REQUESTED AAO?

7 A. No. Under the current law, all of these expenditures may not be recoverable.

8 Q. ARE AMOUNTS CURRENTLY INCLUDED IN MAWC'S RATES WHICH
9 PROVIDE FOR RECOVERY OF THESE EXPENDITURES?

10 A. No. MAWC filed its last rate case with the Commission on October 15, 1999.
11 The resulting rates were effective September 17, 2000. The former St. Louis
12 County Water Company filed its last rate case with the Commission on June 23,
13 2000. The resulting rates were effective May 18, 2001. The former Jefferson
14 City Water Works Company filed its last rate case in with the Commission on
15 February 2, 1999. The resulting rates were effective January 1, 2000 and
16 December 1, 2000. All three rate cases were initiated and resulted in effective
17 rates that predated the events of September 11, 2001.

18 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

19 A. Yes, it does.