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**Before the Public Service Commission
of the State of Missouri**

Direct Testimony

of

Jeanne M. Tinsley

on behalf of

Missouri-American Water Company

May 13, 2015

MAWC Exhibit No. 1
Date 6/3/15 Reporter AT
File No. WO-2015-0211

DIRECT TESTIMONY OF
JEANNE M. TINSLEY
ON BEHALF OF
MISSOURI-AMERICAN WATER COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. WO-2015-0211

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

2 A. My name is Jeanne M. Tinsley. I am employed by American Water Works Service
3 Company ("Service Company") as Manager of Rates and Regulation for Iowa-American
4 Water Company ("Iowa-American") and Missouri-American Water Company ("Missouri-
5 American" or "MAWC"). The Service Company is a subsidiary of American Water
6 Works Company, Inc. ("American Water") and provides support services to American
7 Water subsidiaries, including Missouri-American. My business address is 727 Craig Road,
8 St. Louis, MO, 63141.

9 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
10 **PROFESSIONAL EXPERIENCE.**

11 A. I graduated from Maryville University, St. Louis, with a Bachelor of Science degree in
12 accountancy and a Masters Degree in business administration. I attended the Utility Rate
13 Seminar sponsored by the National Association of Regulatory Utility Commissioners
14 ("NARUC") Water Committee in May of 2010. I began my professional employment in
15 1989, when I was hired by Maritz Travel Company as an Accounting Coordinator. I was
16 responsible for preparing financial statements and annual budgets for four regions. In
17 1993, I was hired by Mississippi River Transmission Corporation, a regulated interstate
18 natural gas pipeline company. I was responsible for monthly revenue projections, journal
19 entries, and profit and loss statements. In 1996, I became employed by Cardinal Carberry

1 Senior Living Center as the Accounting Manager, a nonprofit organization providing
2 retirement living, assisted living, and nursing care to the elderly and disabled. I was
3 responsible for the supervision and oversight of all accounting, finance, billing, budget,
4 and payroll functions. In September of 1997, I accepted the position of Budget and Rate
5 Analyst for the Metropolitan St. Louis Sewer District. I was promoted to Manager of
6 Financial Planning in January of 2000 and became responsible for the annual budget,
7 overhead cost allocations, tax rates, impact fees, and rate increase proposals. In October of
8 2008, I began my work for the Service Company as a Financial Analyst III – Financial
9 Planning and Analysis. I was promoted to my current position, Manager of Rates and
10 Regulation, in November of 2012. In this position, I am responsible for all rate and
11 regulatory issues for Missouri-American and Iowa-American operations in the states of
12 Missouri and Iowa.

13 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC**
14 **SERVICE COMMISSION (“COMMISSION”)?**

15 A. Yes. I have previously provided testimony in Commission Cases Nos. WR-2011-0337 and
16 WC-2014-0260.

17 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS CASE?**

18 A. On behalf of Missouri-American, I am providing testimony in support of Missouri-
19 American’s most recent Infrastructure System Replacement Surcharge (“ISRS”)
20 application/petition.

21 **Q. PLEASE DESCRIBE MISSOURI-AMERICAN’S APPLICATION/PETITION.**

22 A. On February 27, 2015, Missouri-American filed a document titled “MAWC’s Petition to
23 Change Its Infrastructure System Replacement Surcharge.” The purpose of this filing was

1 to implement a change in Missouri-American's ISRS pursuant to Sections 393.1003 and
2 393.1006, RSMo. This filing was designed to produce ISRS revenues of \$1,919,991.

3 **Q. WAS THE INFORMATION PROVIDED WITH THE APPLICATION/PETITION**
4 **PREPARED BY YOU OR UNDER YOUR SUPERVISION?**

5 A. Yes. I hereby incorporate by reference the Application/Petition and the associated
6 appendices.

7 **Q. WAS THIS APPLICATION/PETITION REVIEWED BY THE STAFF OF THE**
8 **COMMISSION ("STAFF")?**

9 A. Yes. Thereafter, on April 28, 2015, the Staff filed its Staff Recommendation To Reject
10 Tariff And Proposed Increase To The Infrastructure Replacement Surcharge.

11 **Q. PLEASE SUMMARIZE THE STAFF RECOMMENDATION.**

12 A. As the name of the document suggests, Staff recommended that MAWC be denied
13 recovery of certain ISRS revenues. This was based upon Staff's assertion that the ISRS
14 increase requested by MAWC is in violation of the 10% cap established by Section
15 393.1003, RSMo.

16 **Q. WHAT DID STAFF IDENTIFY AS THE 10% CAP?**

17 A. Staff identified the 10% base revenue cap referred to by Section 393.1003, to be
18 \$25,892,662, which reflects 10% of the base revenue authorized in case WR-2011-0337 of
19 \$258,926,618.

20 **Q. DO YOU AGREE WITH THIS CALCUALTION OF THE 10% BASE REVENUE**
21 **CAP?**

22 A. Yes, I do.

23 **Q. HOW DOES STAFF SUGGEST THIS CAP APPLIES TO MAWC'S REQUEST?**

1 A. Staff takes the position that this cap limits MAWC's recovery to \$254,789 ("25,892,662
2 10% cap less current ISRS of \$25,637,873 = \$254,789").

3 **Q. DO YOU AGREE WITH THAT RESULT?**

4 A. No. Staff's approach would result in MAWC's non-recovery of \$1,665,202 in revenues
5 associated with completed and in-service ISRS plant investment.

6 **Q. IS THIS A RESULT OF MAWC'S INVESTING "TOO MUCH" IN ITS
7 INFRASTRUCTURE??**

8 A. No. The current ISRS of \$25,637,873, is made up of both recovery of revenues associated
9 with MAWC's investment in plant and "true-up," or revenue reconciliation, amounts
10 associated with prior under recovery. Using those "true-up" amounts to limit MAWC's
11 ability to recover amounts associated with its plant investment effectively lowers the cap
12 for no other reason than deficiencies of the rate design process.

13 **Q. TO WHAT DEFICIENCIES DO YOU REFER?**

14 A. The authorized annual ISRS amount must be converted to a volumetric rate. To do this,
15 one must assume a certain number of gallons will be sold in the period of time during
16 which the ISRS rate will be in effect. Section 393.1003.5(1), RSMo indicates that an
17 "ISRS shall be calculated based upon the amount of ISRS costs that are eligible for
18 recovery during the period in which the surcharge will be in effect and upon the applicable
19 customer class billing determinants utilized in designing the water corporation's customer
20 rates in its most recent general rate proceeding."

21 **Q. DOES THE STATUTE CONTEMPLATE THAT THE ACTUAL RECOVERIES
22 MAY BE DIFFERENT FROM WHAT IS ASSUMED BASED UPON THE
23 BILLING DETERMINENTS FROM THE LAST RATE CASE?**

1 A. Yes, the statute recognizes that the rate design may not be exact and makes provision for
2 an annual reconciliation. Section 3931003.5(1), RSMo, states as follows:

3 At the end of each twelve-month calendar period that an ISRS is in effect,
4 the water corporation shall reconcile the differences between the revenues
5 resulting from an ISRS and the appropriate pretax revenues as found by
6 the commission for that period and shall submit the reconciliation and a
7 proposed ISRS adjustment to the commission for approval to recover or
8 refund the difference, as appropriate, through adjustment of an ISRS.
9

10 Q. HAVE THE BILLING DETERMINANTS FROM MAWC'S LAST RATE CASE
11 ACURATELY REFLECTED MAWC'S EXPERIENCE DURING THAT TIME IN
12 REGARD TO WATER SALES?

13 A. No.

14 Q. WHAT HAS BEEN MAWC'S EXPERIENCE?

15 A. MAWC has experienced declining usage within its customer base over this time period.

16 The following table identifies the billing determinants for St. Louis County from MAWC's
17 last rate case and compares them to MAWC's actual experience in St. Louis County since
18 that time:

St. Louis County Usage Data by Customer Class (T-Gals)			
	WR-2011-0337	Oct '12 - Sep '13	Oct '13 - Sep '14
Rate A	36,466,849	35,382,577	35,557,547
Rate B	1,773,806	1,610,985	1,685,780
Rate J	4,314,461	3,600,012	3,694,505
TOTAL	42,555,117	40,593,574	40,937,832

19

20

21 Q. WHAT IMPACT HAS THIS DECLINING USAGE HAD ON THE ISRS
22 RECOVERIES?

23 A. MAWC has failed to recover the Commission authorized revenues in each of the periods
24 reconciled since the last rate case. Thus, other than the first ISRS after the last rate case,

1 each of the amounts authorized by the Commission have included both recovery of
2 amounts associated with new ISRS plant investment and amounts associated with
3 reconciliation of under recovery from prior periods.

4 **Q. WOULD YOU PROVIDE A HYPOTHETICAL THAT ILLUSTRATES THE**
5 **SITUATION YOU HAVE DESCRIBED?**

6 A. Yes. If we assume an ISRS filed on the same day of the year for three years, each year
7 justifying \$1M in ISRS associated with new ISRS plant, and under recovery of 10% each
8 year (or 90% of the authorized amount) as a result of less usage than utilized in the last rate
9 case, and an ISRS cap of \$3M, the ISRS numbers would look like this:

ISRS CASE	Effective Date	Amount Associated With New ISRS Plant	Recovery from Prior Period (90% of Authorized)	Authorized Amount
1	January 1, 2013	\$1,000,000	N/A	\$1,000,000
2	January 1, 2014	\$1,000,000	\$900,000 (\$1,000,000*.9)	\$2,100,000
3	January 1, 2015	\$1,000,000	\$1,890,000 (\$2,100,000*.9)	\$3,210,000
TOTAL		\$3,000,000		

10
11 In this example, by the third ISRS, the utility's ISRS plant investment would drive an ISRS
12 equal to its ISRS cap. However, under Staff's approach, because of the under recovery in
13 years 1 and 2, the utility would be denied recovery of \$210,000 associated with that ISRS
14 investment.

15 **Q. IS THAT SIMILAR TO WHAT HAS HAPPENED TO MAWC?**

16 A. Yes.

17 **Q. PLEASE IDENTIFY EACH OF MAWC'S ISRS APPLICATIONS/PETITIONS**
18 **SINCE ITS LAST RATE CASE, THE AMOUNT AUTHORIZED BY THE**

1 COMMISSION IN EACH CASE, AND HOW MUCH OF THAT AMOUNT WAS
2 ASSOCIATED WITH RECONCILIATION OF PRIOR UNDER RECOVERIES.

3 A.

ISRS CASE	Effective Date	Authorized Amount (as adjusted) *	Under Recovery from Prior Period	Amount Associated With New ISRS Plant
WO-2012-0401	September 25, 2012	\$3,989,867	\$253,280	\$3,736,587
WO-2013-0406	June 21, 2013	\$5,827,176	0	\$5,827,176
WO-2014-0055	December 14, 2013	\$4,815,317	\$1,841,374	\$2,973,943
WO-2014-0237	May 30, 2014	\$4,113,382		\$4,113,382
WO-2015-0059	December 31, 2014	\$8,986,785	\$1,665,202	\$7,321,583
Total		\$27,732,527		\$23,972,670
Less Prior Reconciliation (WO-2012-0401)		\$(253,280)		
Less Prior Reconciliation (WO-2014-0055)		\$(1,841,374)		
ISRS Including Under Recovery from WO-2015-0059		\$25,637,872		

4 *Note: In case WO-2015-0059, Staff made adjustments to prior ISRS filings for bonus
5 depreciation, property taxes, and the rate of return calculation.

6 **Q. IF THE RATE DESIGN HAD CREATED THE DESIGNED RESULTS (I.E. NO**
7 **UNDER RECOVERY OR OVER RECOVERY), WHAT WOULD MAWC'S**
8 **CURRENT ISRS BE?**

9 A. If the ISRS were based solely on MAWC's ISRS plant investment since its last rate case,
10 the current ISRS would be \$23,972,670. MAWC's request in this case (\$1,919,991)
11 equals the difference between this number and the 10% cap.

12 **Q. ARE THERE ANY UNDER RECOVERIES ASSOCIATED WITH THE \$1,919,991**
13 **MAWC SEEKS TO RECOVER IN THIS CASE?**

14 A. No. As stated above, reconciliation is performed at the end of each twelve-month calendar
15 period that an ISRS is in effect. MAWC's next reconciliation will not be until September,
16 2015.

1 **Q. IF THE COMMISSION SHOULD DETERMINE IN THIS CASE THAT**
2 **RECOVERY OF SOME AMOUNTS ASSOCIATED WITH NEW ISRS PLANT**
3 **WOULD EXCEED THE CAP, DOES THE COMMISSION'S RULE PROVIDE AN**
4 **ALTERNATIVE?**

5 A. Yes. Commission Rule 4 CSR 240-3.650(17) states as follows:

6 An eligible water utility that has implemented an ISRS shall file revised ISRS rate
7 schedules to reset the ISRS to zero when new base rates and charges become
8 effective following a commission order establishing customer rates in a general rate
9 proceeding that incorporates eligible costs previously reflected in an ISRS into the
10 subject utility's base rates. If an over or under recovery of ISRS revenues, including
11 any commission ordered refunds, exists after the ISRS has been reset to zero, the
12 amount of over or under recovery shall be tracked in an account and considered in
13 the water utility's next ISRS filing that it submits pursuant to the provisions of
14 section (2) of this rule.
15

16 MAWC requests that if Staff's approach to the ISRS cap is followed by the Commission,
17 the Commission authorize MAWC to record its under recovery in a regulatory asset
18 account for consideration in the MAWC's next ISRS filing after its ISRS has been set to
19 zero.

20 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

21 A. Yes, at this time.
22

AFFIDAVIT

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS) ss

I, Jeanne M. Tinsley, state that the Direct Testimony attached hereto has been prepared by me or under my direction and supervision; and, that the answers to the questions posed therein are true to the best of my knowledge, information and belief.

Jeanne M. Tinsley

Subscribed and sworn to before me this 13th day of May, 2015.

Stacia Olsen
Notary Public

My Commission Expires:

