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Issue: *Expense; Payroll*
Witness: *Casey Westhues* FILED
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MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

UTILITY SERVICES

REBUTTAL TESTIMONY

OF

CASEY WESTHUES

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2011-0337

Jefferson City, Missouri
January 2012

Staff Exhibit No. 9
Date 2-21-12 Reporter JL
File No WR-2011-0337

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REBUTTAL TESTIMONY
OF
CASEY WESTHUES
MISSOURI AMERICAN WATER COMPANY
CASE NO. WR-2011-0337

Q. Please state your name and business address.

A. Casey Westhues, 200 Madison Street, Suite 440, Jefferson City, MO 65102.

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Auditor with the Missouri Public Service Commission (“Commission”).

Q. Are you the same Casey Westhues who has previously contributed to the preparation of the Missouri Public Service Commission Staff’s (“Staff’s”) Cost of Service Report, filed November 17, 2011 in this case?

A. Yes, I am.

Q. What is the purpose of your Rebuttal Testimony?

A. The purpose of this Rebuttal Testimony is to address certain aspects of Missouri-American Water Company’s (MAWC or Company) direct filing regarding Cash Working Capital (CWC) and Transportation Expense and to correct Staff’s position on payroll.

CASH WORKING CAPITAL

Q. Have there been any modifications to Staff’s position on calculation of the CWC Revenue Lag?

Rebuttal Testimony of
Casey Westhues

1 A. Yes. In the Cedar Hill District an error was made in the calculation of the
2 collection lag in Staff's Direct filing. Once Staff corrected the Cedar Hill collection lag, Staff
3 noticed that the lag was unusually high as compared to the other districts. In the previous
4 MAWC rate case, Case No. WR-2010-0131, Staff proposed to reduce Cedar Hill's collection
5 lag by 50% because the collection lag was abnormally high. In the current case, Staff is again
6 proposing to reduce Cedar Hill's collection lag by 50% because it is still abnormally high as
7 compared to the other MAWC districts.

8 Q. What is a collection lag?

9 A. The collection lag is a component of the revenue lag and it measures the period
10 of time between the day the bill is placed in the mail by the Company and the day the
11 Company receives payment from the ratepayer.

12 Q. What information supports Staff's decision that a reduction to the Cedar Hill
13 collection lag by 50% was appropriate?

14 A. Staff asserts that by reducing the Cedar Hill collection lag 50%, it more
15 accurately reflects a normal collection pattern when compared to other districts within
16 MAWC and other Missouri regulated utilities. The Company proposed a collection lag of
17 54.02 days in their filed work papers. When this collection lag is added to the other
18 components of the revenue lag, the total revenue lag proposed by MAWC is 76.78 days. The
19 Company's proposed collection lag recommends a timeframe of two and a half months to
20 collect revenues from Cedar Hill customers. Staff considers this length of time to be
21 excessive when compared to the other districts and other Missouri regulated utilities.

22 In Staff's revised workpapers, a collection lag of 48.35 days was calculated for
23 Cedar Hill which was then reduced by 50% to arrive at a collection lag of 24.17 days.

1 The collection lag, as proposed by Staff, makes the Cedar Hill collection lag more comparable
2 with the other districts' collection lags. Staff calculated the total revenue lag for Cedar Hill at
3 45.66 days.

4 **TRANSPORTATION EXPENSE**

5 Q. What are the known differences between Staff and the Company for
6 transportation (gasoline) expense?

7 A. The Company made an adjustment to transportation expense for the fuel costs
8 of their leased vehicles. Staff has proposed no adjustment to fuel costs. Staff asserts that the
9 test year level of the fuel costs of MAWC's leased vehicles is appropriate.

10 Q. Why does Staff determine that the Company's adjustment for the fuel costs is
11 unnecessary and that test year levels are appropriate?

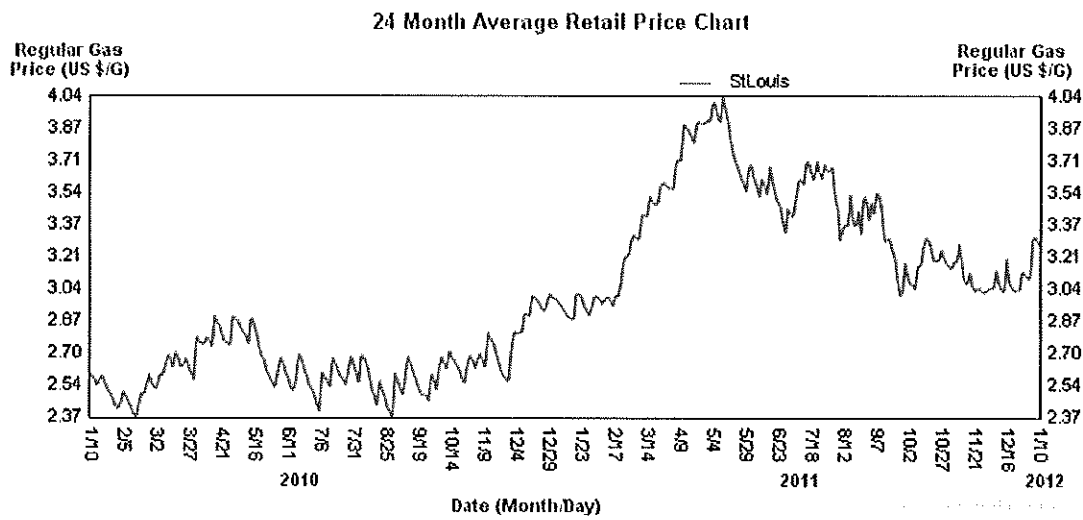
12 A. First, Staff disagrees with the Company's adjustment for fuel costs because the
13 Company based the adjustment on estimated fuel usage for 2011. Staff recommends that
14 "known and measurable" historical usage should be used for considering the need for an
15 adjustment instead of estimated usage or costs.

16 Secondly, Staff disagrees with MAWC's proposed fuel adjustment because the
17 adjustment was based on an average price of \$3.89 per gallon in the St. Louis area, a price
18 which occurred at one particular time in the past year. There are several things wrong with
19 this particular application. It first assumes that this price is constant. The price of gas is very
20 volatile, and without an analysis to determine the price of gas over an extended period of
21 time, there is no way the Company can determine what the normal price per gallon of gas
22 should be throughout an entire year. Another fault with the Company's application of the
23 St. Louis gas price is it used the same price for all of the districts. The MAWC districts are

1 spread all over the state of Missouri and it would be inappropriate to determine the fuel price
2 for all of the districts in Missouri based upon the St. Louis metro area. Prices for gasoline can
3 vary significantly from one location to another in Missouri.

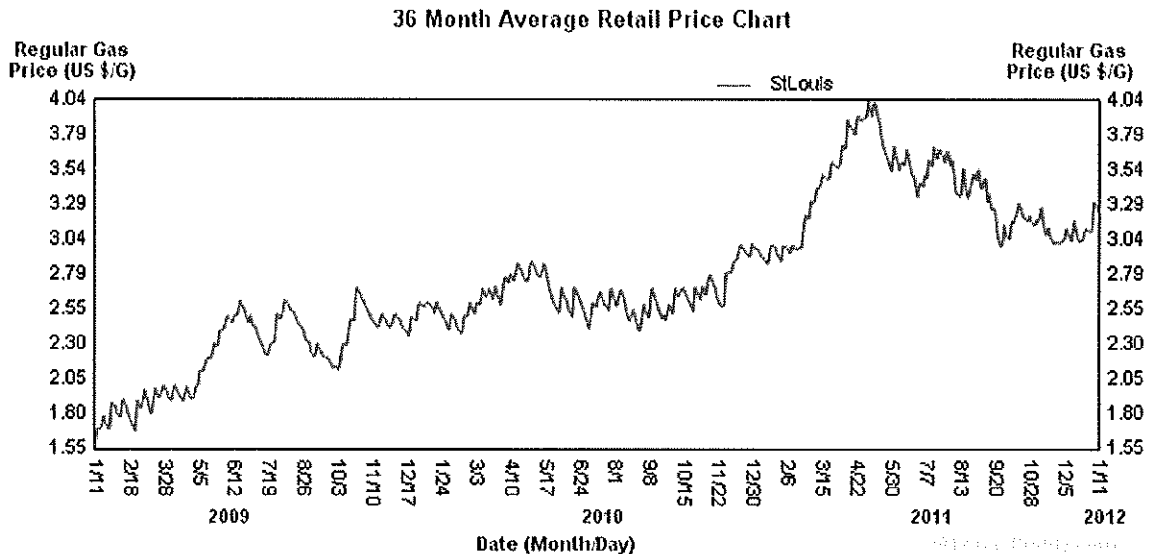
4 Futhermore, Staff used the same web reference site as the Company,
5 www.gasbuddy.com, to do its own comparison of gas prices in the St. Louis area. Using this
6 website, Staff was able to view a chart of gas prices for different time periods and perform a
7 comparison. Staff analyzed gas prices for calendar years 2010 and 2011. Staff found that
8 gas prices did not reach the \$3.89 a gallon price proposed by MAWC at any point during the
9 test year. The website provided a chart that shows that only briefly during April and
10 May 2011, which is beyond the test year, that gas prices were \$3.89 or above, but have not
11 reached that level since.

12 Below is the two year comparison chart:



13
14 Q. How did Staff determine that it was appropriate to use test year numbers for
15 the transportation fuel costs?

1 A. Staff, once again, used the website www.gasbuddy.com to do a three year
2 analysis of gas prices in the St. Louis area. Staff found that since January 1, 2009, gas prices
3 have generally increased. Staff also found that during the last three years there have been a
4 variety of swings in the price of gas, with both increases and decreases on a monthly basis.
5 Staff recommends that the use of the test year gas prices will best reflect the general increase
6 in gas prices over the last three years, while also considering the monthly increases and
7 decreases. Below is the chart that Staff used in its analysis of gas prices:



8

9 Q. In looking at the above graph, the 2011 gas prices appear to have increased
10 from test year levels. Does Staff assert that transportation gasoline cost should be reviewed in
11 the true-up for this proceeding?

12 A. Yes. While transportation costs were not included in the original agreed upon
13 true-up list of items, Staff now asserts that transportation gasoline costs should be included in
14 the true-up because of the upward trend in the true-up period shown by the graph.
15 Staff proposes to make a filing with the Commission that adjusts the True-Up item list to

1 include the transportation cost. Any such inclusion would be based upon data for all areas of
2 MAWC's service territory, not just the St. Louis area.

3 **PAYROLL**

4 Q. Has Staff changed its position on payroll expense concerning the number of
5 hours that a MAWC employee is assumed to work in a calendar year?

6 A. Yes, Staff has decided to include 2,088 hours for each MAWC employee
7 instead of 2,080 hours that was included in Staff's payroll annualization in its direct filing.

8 Q. Why has Staff changed its position on the 2,088 hours versus 2,080 hours?

9 A. Staff performed an analysis concerning how many normal work hours were in
10 each year over the past six years and the analysis showed that on average there was
11 2,088 work hours per year.

12 Q. Does this conclude your Rebuttal Testimony?

13 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water)
Company's Request for Authority to)
Implement A General Rate Increase for Water)
and Sewer Service Provided in Missouri)
Service Areas)

Case No. WR-2011-0337

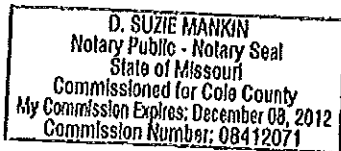
AFFIDAVIT OF CASEY WESTHUES

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Casey Westhues, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

Casey Westhues
Casey Westhues

Subscribed and sworn to before me this 18th day of January, 2012.



D. Suzie Mankin
Notary Public