No.:
Witness: Michael Gorman
Type of Exhibit: Direct Testimony
Issues: Cost of Service, Rate Design
Sponsoring Party: Missouri Industrial Energy Consumers
Case No.: WR-2010-0131

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 Services Provided in Missouri Service Areas	))))))))	**Case No. WR-2010-0131**

Direct Testimony and Schedule of

Michael Gorman

On behalf of

Missouri Industrial Energy Consumers

March 26, 2010

BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

Project 9233

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 Services Provided in Missouri Service Areas	Case No. WR-2010-0131

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

Affidavit of Michael Gorman

Michael Gorman, being first duly sworn, on his oath states:

1. My name is Michael Gorman. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Missouri Industrial Energy Consumers in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes are my direct testimony and schedule which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. WR-2010-0131.

3. I hereby swear and affirm that the testimony and schedule are true and correct and that they show the matters and things that they purport to show.

Michael Gorman

Subscribed and sworn to before me this 25th day of March, 2010.

MARIA E. DECKER
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis City
My Commission Expires: May 5, 2013
Commission # 09706793

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION
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In the Matter of Missouri-American Water Company's Request for Authority to Implement a General Rate Increase for Water and Sewer Services Provided in Missouri Service Areas	))))))))	**Case No. WR-2010-0131**

Direct Testimony of Michael Gorman

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and a Managing Principal of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A This information is included in Appendix A to my testimony.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A This testimony is presented on behalf of the Missouri Industrial Energy Consumers (MIEC). Member companies purchase substantial amounts of water from Missouri-American Water Company (Missouri-American or Company).

Q PLEASE SUMMARIZE THE ISSUES YOU WILL ADDRESS IN YOUR TESTIMONY.

A I will respond to the Company's class cost of service study sponsored by Missouri-American witness Mr. Paul Herbert. I believe Mr. Herbert has inappropriately allocated purchased power expense in his class cost of service study. A more accurate allocation of purchased power cost, on the basis of demand and energy billing components for customers, will more accurately assign cost of service to customer classes.

Cost of Service Study

Q DID YOU REVIEW MISSOURI-AMERICAN'S COST OF SERVICE STUDY SPONSORED BY MISSOURI-AMERICAN WITNESS MR. HERBERT?

A Yes, I did. His cost of service study utilizes the widely accepted Base-Extra Capacity method for *functionalizing, classifying* and *allocating* costs to Missouri-American's various customer classes. Investment in water utility plant and operating costs are first *functionalized* according to the role they play in providing water service: water supply, pumping, treatment, transmission, distribution, metering and billing. Next, these costs are *classified* into cost categories that reflect the causation of these costs: Base, or average day rates of flow; Extra Capacity-Maximum Day and Extra Capacity-Maximum Hour rates of flow; and Customer-related costs, such as metering and billing.

Q IS MR. HERBERT'S COST OF SERVICE STUDY FOR THE ST. LOUIS METRO DISTRICT REASONABLE?

A I generally agree with the classifications and cost allocations in Missouri-American's cost of service study. However, I would propose a different allocation factor be used

for purchased power costs. The Company has not properly differentiated between the costs it incurs for these items based on its average daily usage on the one hand, and its peaking requirements on the other. These costs vary in part based on the Company's customer peak demands, and they should be allocated on a corresponding basis.

Q CAN YOU CITE ANY AUTHORITY FOR YOUR PROPOSED CLASSIFICATION OF ELECTRIC POWER EXPENSE?

A Yes, I can. American Water Works Association's Manual M-1, *Principles of Water Rates, Fees and Charges*, states on page 54 that the demand portion of power costs should be allocated to extra capacity to the degree that it varies with demand pumping requirements.

Q WHICH ALLOCATION FACTOR DO YOU RECOMMEND BE USED FOR PURCHASED POWER IN MR. HERBERT'S COST STUDY?

A I recommend the same allocation factor used to allocate the cost of pumps, or Factor 6. The Company apparently agreed because on Schedule C-SLM of the Company's cost of service study, Factor 6 is shown as "Allocation of Costs Associated with Power and Pumping Facilities." However, the Company did not apply Factor 6 to power costs. Instead, the Company used Factor 1, which is associated with average daily consumption. Factor 6 is tied primarily to average flow, and peak day and peak hour demand requirements. This is a more appropriate allocation factor to reflect the seasonal pricing differential of power, as well as the increased cost for peak periods that normally coincide with peak demands on the water utility system.

Q WHY DO YOU BELIEVE THAT FACTOR 6 MORE ACCURATELY ALLOCATES PURCHASED POWER COST BETWEEN CUSTOMER CLASSES RELATIVE TO THE COMPANY'S FACTOR 1?

A Factor 6 allocates cost based on customers' monthly demands, and average flow or volume. Also, AmerenUE's commercial rates are broken out for seasonal variation in energy charges. The energy rates during the summer period, a period where water demand is highest, reflect significantly higher demand and energy charges than rates in the winter period. Variation in rates reflects higher demands during the summer during average annual flow conditions. As such, the Company's cost of purchased power is impacted by customers' peak monthly demands, seasonal demand, and energy purchased for base volume.

Q WHAT IS THE RESULT OF MODIFICATIONS TO THE COMPANY'S CLASS COST OF SERVICE STUDY AS YOU PROPOSE?

A A modified class cost of service study for the St. Louis Metro District is shown on my Schedule MPG-1. As shown on that schedule, with the adjustments described above, Rate A residential and commercial customers should get approximately a system average increase in order to increase their rates to the Company's cost of service, using the Company's claimed revenue deficiency as a surrogate for testing this cost of service model accuracy. In contrast, Rate B and Rate J should get a below system average increase, and Rate E, Public Fire Hydrant Service, should get an above system average increase.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes, it does.

Appendix A

Qualifications of Michael Gorman

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation and a Managing Principal with Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A In 1983 I received a Bachelors of Science Degree in Electrical Engineering from Southern Illinois University, and in 1986, I received a Masters Degree in Business Administration with a concentration in Finance from the University of Illinois at Springfield. I have also completed several graduate level economics courses.

In August of 1983, I accepted an analyst position with the Illinois Commerce Commission (ICC). In this position, I performed a variety of analyses for both formal and informal investigations before the ICC, including: marginal cost of energy, central dispatch, avoided cost of energy, annual system production costs, and working capital. In October of 1986, I was promoted to the position of Senior Analyst. In this position, I assumed the additional responsibilities of technical leader on projects, and my areas of responsibility were expanded to include utility financial modeling and financial analyses.

In 1987, I was promoted to Director of the Financial Analysis Department. In this position, I was responsible for all financial analyses conducted by the staff. Among other things, I conducted analyses and sponsored testimony before the ICC on rate of return, financial integrity, financial modeling and related issues. I also supervised the development of all Staff analyses and testimony on these same issues. In addition, I supervised the Staff's review and recommendations to the Commission concerning utility plans to issue debt and equity securities.

In August of 1989, I accepted a position with Merrill-Lynch as a financial consultant. After receiving all required securities licenses, I worked with individual investors and small businesses in evaluating and selecting investments suitable to their requirements.

In September of 1990, I accepted a position with Drazen-Brubaker & Associates, Inc. In April 1995 the firm of Brubaker & Associates, Inc. (BAI) was formed. It includes most of the former DBA principals and Staff. Since 1990, I have performed various analyses and sponsored testimony on cost of capital, cost/benefits of utility mergers and acquisitions, utility reorganizations, level of operating expenses and rate base, cost of service studies, and analyses relating industrial jobs and economic development. I also participated in a study used to revise the financial policy for the municipal utility in Kansas City, Kansas.

At BAI, I also have extensive experience working with large energy users to distribute and critically evaluate responses to requests for proposals (RFPs) for electric, steam, and gas energy supply from competitive energy suppliers. These analyses include the evaluation of gas supply and delivery charges, cogeneration and/or combined cycle unit feasibility studies, and the evaluation of third-party asset/supply management agreements. I have also analyzed commodity pricing

indices and forward pricing methods for third party supply agreements, and have also conducted regional electric market price forecasts.

In addition to our main office in St. Louis, the firm also has branch offices in Phoenix, Arizona and Corpus Christi, Texas.

Q HAVE YOU EVER TESTIFIED BEFORE A REGULATORY BODY?

A Yes. I have sponsored testimony on cost of capital, revenue requirements, cost of service and other issues before the Federal Energy Regulatory Commission and numerous state regulatory commissions including: Arkansas, Arizona, California, Colorado, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Michigan, Missouri, Montana, New Jersey, New Mexico, New York, North Carolina, Oklahoma, Oregon, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, Wyoming, and before the provincial regulatory boards in Alberta and Nova Scotia, Canada. I have also sponsored testimony before the Board of Public Utilities in Kansas City, Kansas; presented rate setting position reports to the regulatory board of the municipal utility in Austin, Texas, and Salt River Project, Arizona, on behalf of industrial customers; and negotiated rate disputes for industrial customers of the Municipal Electric Authority of Georgia in the LaGrange, Georgia district.

Q PLEASE DESCRIBE ANY PROFESSIONAL REGISTRATIONS OR ORGANIZATIONS TO WHICH YOU BELONG.

A I earned the designation of Chartered Financial Analyst (CFA) from the CFA Institute. The CFA charter was awarded after successfully completing three examinations which covered the subject areas of financial accounting, economics, fixed income and

equity valuation and professional and ethical conduct. I am a member of the CFA Institute's Financial Analyst Society.

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MISSOURI-AMERICAN WATER COMPANY

ST. LOUIS METRO DISTRICT

COST OF SERVICE STUDY - ADJUSTED
(JUNE 30, 2009)

Customer Classification	Revenues, Present Rates		Cost of Service**		Increase Necessary for Cost of Service	
	Amount	Percent	Amount	Percent	Amount	Percent
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Rate A - Res/Com/Ind/OPA	$ 136,795,310	88.2%	$ 166,212,623	87.1%	$ 29,417,313	21.5%
Rate B - Sales for Resale	2,418,389	1.6%	2,523,227	1.3%	104,838	4.3%
Rate J - Manufacturing	5,928,260	3.8%	6,799,683	3.6%	871,423	14.7%
Rate F - Private Fire	2,070,724	1.3%	1,931,158	1.0%	(139,566)	-6.7%
Rate E - Public Fire	8,001,215	5.1%	13,340,454	7.0%	5,339,239	66.7%
Total Sales	155,213,898	100.0%	190,807,146	100.0%	35,593,248	22.9%
Other Revenues*	4,361,115		5,309,208		948,093	21.7%
Total	$ 159,575,013		$ 196,116,354		$ 36,541,341	22.9%

* Includes Rate G and H Contract Sales.
** Cost of Service includes a revenue contribution to the Brunswick, Parkville Water, Warren County Water, Warren County Sewer and Cedar Hill Sewer Districts.
Includes an adjustment of Purch Fuel / Power for Pump from Factor 1 to Factor 6.