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SR-2011-0338
Date: June 30, 2011

MISSOURI PUBLIC SERVICE COMMISSION

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

DIRECT TESTIMONY

OF

REGINA C. TIERNEY

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

MAWR Exhibit No. 216
Date 2-21-12 Reporter JL
File No. WR-2011-0337

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

AFFIDAVIT OF REGINA C. TIERNEY

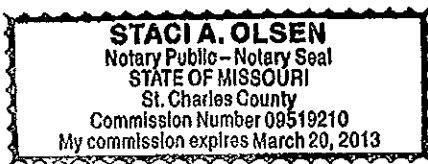
Regina C. Tierney, being first duly sworn, deposes and says that she is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Regina C. Tierney"; that said testimony was prepared by her and/or under her direction and supervision; that if inquiries were made as to the facts in said testimony, she would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of her knowledge.

Regina C. Tierney
Regina C. Tierney

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 24th day of June 2011.

Stacia Olsen
Notary Public

My commission expires:



**DIRECT TESTIMONY
REGINA C. TIERNEY
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2011-0337
SR-2011-0338**

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DIRECT TESTIMONY

Regina C. Tierney

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I. WITNESS INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Regina C. Tierney, and my business address is 727 Craig Road, St. Louis, Missouri 63141.

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

A. I am employed by American Water Works Service Company, Inc. ("AWWS") as a Financial Analyst II in Rates & Regulation. The Service Company is a subsidiary of American Water Works Company, Inc. ("American Water") that provides support services to American Water's water utility subsidiaries.

Q. WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND?

A. I graduated from the University of Missouri, Columbia in 1989 with a Bachelor of Science Degree in Accountancy.

Q. PLEASE ELABORATE UPON YOUR DUTIES AS A FINANCIAL ANALYST, RATES AND REGULATION.

A. My responsibilities as a Financial Analyst II, Rates & Regulation involve providing the following services to American Water's water utility subsidiaries in the Central Region, including Missouri-American Water Company ("MAWC" or "Company"):

- 1 1) Preparing and presenting rate increase applications and supporting
2 documents and exhibits in conformance with management policies, guidelines
3 and regulatory commission requirements;
- 4 2) Preparing rate analyses and studies to evaluate the effect of proposed
5 rates on the revenues, rate of return and tariff structures;
- 6 3) Executing the implementation of rate orders, including development of
7 the revised tariff pricing necessary to produce the proposed revenue level;
8 and,
- 9 4) Preparation of Data Request responses.

10

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

12 A. Yes. I have presented testimony before the Iowa Utilities Board and the
13 Missouri Public Service Commission ("PSC").

14

15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

16 A. The purpose of my testimony is to support and explain the following pro forma
17 accounting adjustments to pro forma Rate Base (Working Capital) and to the
18 statement of income.

19 (1) Rate Base – Working Capital;

20 (2) Labor and Labor Related Expenses;

21 (3) Pension Expense;

22 (4) Fuel and Power Expense;

23 (5) Purchased Water Expense;

- 1 (6) Regulatory Expense;
2 (7) Transportation Expense;
3 (8) PSC Assessment Expense; and,
4 (9) Heating and Electricity Expense.
5

6 **II. ACCOUNTING ADJUSTMENTS**

7 **(1) RATE BASE – WORKING CAPITAL**

8 **Q. WHAT SCHEDULES WILL YOU BE DISCUSSING?**

9 A. I will be discussing and providing support for certain aspects of Schedule
10 CAS-7, which is sponsored by Company Witness Williams.
11

12 **Q. WHICH COMPONENTS OF RATE BASE WILL YOU BE SUPPORTING?**

13 A. I will be supporting Working Capital.
14

15 **Q. PLEASE DISCUSS WORKING CAPITAL.**

16 A. Working Capital is included in a utility's rate base to help compensate
17 investors for the lag between the time utility service is rendered to the
18 customer and the time it takes to collect revenues from the customer to
19 pay for the service. In other words, investors had to provide "upfront"
20 capital to fund the daily operations of the business before customers pay
21 their bills. The working capital calculation can also properly reflect the
22 impact of the delay in receiving revenues from customers and the
23 disbursement of cash for expenses.

1 The Company has used a Lead/Lag method to calculate its working capital
2 requirement. The Company and the Missouri Staff have used this method in
3 the last several rate cases. The Lead/Lag calculation utilized in this case
4 came from a study performed this year. Working capital can be found on
5 Schedule CAS-7 for each district.

6

7 **Q. WHAT SCHEDULE WILL YOU BE DISCUSSING?**

8 A. I will be discussing certain aspects of Schedule CAS-14, which is sponsored
9 by Company Witness Williams. Specific operating and maintenance
10 accounting adjustments that I will sponsor are Labor and Labor-Related
11 Expenses, Pension Expense, Fuel and Power Expense, Purchased Water
12 Expense, Regulatory Expense, Transportation Expense, PSC Assessment
13 Expense, Depreciation Expense, and Heating and Electricity Expense.

14

15 **(2) LABOR AND LABOR-RELATED EXPENSES**

16 **Q. PLEASE EXPLAIN THE COMPANY'S PRO FORMA ADJUSTMENT TO**
17 **LABOR AND LABOR-RELATED EXPENSES.**

18 A. The Company has proposed adjustments to its Labor Expense (including
19 Incentive Plan), Group Insurance Expense, Pension Expense, 401K, and
20 Payroll Tax Expense.

21

22 **Q, PLEASE EXPLAIN THE COMPANY'S PRO FORMA ADJUSTMENT TO**
23 **LABOR.**

1 A. The expenses associated with the labor adjustment include salary,
2 overtime, incentive pay, and shift premium pay. Base salary is calculated
3 by the number of work hours in a normal year multiplied by the appropriate
4 wage rate. The Company used 2,088 hours to calculate an hourly
5 employee's annual salary. The wage rate for a union employee is
6 determined by the contract rate that will be in effect by June 2012. Non-
7 union employees' wage rates were based upon actual rates in effect at
8 December 31, 2011 and were not increased by an annual wage
9 adjustment. The Operating and Maintenance expense percentage used to
10 allocate each employee's salary was based on the three year average of
11 capital charged by district and total labor. The Company's adjustment for
12 overtime was calculated by taking the three year average of overtime in
13 relation to total payroll. Incentive pay was calculated based on the
14 employee's pro forma salary level incentive payout percentage. The labor
15 adjustment is summarized on CAS – 14, page 1.

16
17 **Q. PLEASE EXPLAIN THE COMPANY'S ADJUSTMENT TO GROUP**
18 **INSURANCE.**

19 A. The purpose of this adjustment is to annualize the Company's expense
20 associated with Group Insurance. Except for other post employment
21 benefits ("OPEB"), these expenses were adjusted by applying historical
22 group insurance expense as a percentage of payroll to current payroll
23 expense.

24

1 **Q. HOW WERE OPEBS ANNUALIZED?**

2 A. The Company used the most recent actuarial report prepared for
3 American Water by Towers Perrin to calculate the pro forma cost. The
4 capitalization rate from the labor adjustment was applied to arrive at the
5 pro forma expense. As a result of union negotiations, union employees
6 who are not eligible for post-retirement benefits are provided an annual
7 \$500 contribution that is to be paid into a Voluntary Employees Beneficiary
8 Association ("VEBA") account for the employee to pay for medical costs
9 after retirement. The current OPEBS funding levels were added to
10 existing amortization levels for prior OPEBS deferrals. Finally, the level of
11 amortization of the current OPEBS tracker was estimated based upon the
12 deferred balance at December 31, 2011. This balance could increase or
13 decrease based upon market conditions and should be updated at the
14 time of true-up in this case. The pro forma OPEBS expense is included
15 on Schedule CAS -14, page 2 as a part of the Group Insurance expense
16 adjustment.

17

18 **Q. PLEASE EXPLAIN THE COMPANY'S ADJUSTMENT TO 401K**
19 **EXPENSE.**

20 A. The purpose of the 401K adjustment is to annualize the Company's
21 expense associated with 401K. The Company portion of 401K expense
22 was adjusted on a district by district basis by multiplying the Company
23 match percentage for each employee by the employee's annual salary.

1 This amount then is further adjusted by applying an appropriate
2 capitalization rate. This adjustment is summarized on CAS – 14, page 4.

3
4 **Q. PLEASE EXPLAIN THE COMPANY'S ADJUSTMENT TO PAYROLL
5 TAX.**

6 A. The purpose of this adjustment is to annualize the Company's expense
7 associated with Payroll Tax. The employer portion of the tax rate for state
8 unemployment tax, Federal unemployment tax, FICA, and Medicare,
9 respectively, was applied to the lower of each individual's total pro forma
10 payroll or the maximum individual taxable wage. An appropriate
11 capitalization rate was applied to the result to determine pro forma payroll
12 tax expense. A summary of this adjustment is shown on page 5 of CAS –
13 14.

14
15 **(3) PENSION**

16 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES
17 RELATED TO PENSION.**

18 A. MAWC has included in its pro forma pension expense the actual cost related
19 to the FAS 87 accrual which is supported by American Water's latest actuarial
20 report. Starting in 2006, nonunion employees hired before January 1, 2006,
21 and union employees hired before January 1, 2001, are included as
22 participants in the Company's defined benefit pension plan. The FAS 87
23 pension cost is based on actuarial studies conducted annually by Towers
24 Perrin for the defined benefit participants. For employees in the defined

1 contribution plan, a rate of 5.25% of base salary is used to calculate the
2 expense. The total costs for pension were reduced by the amounts
3 anticipated to be capitalized based on the payroll adjustment. The current
4 pension funding levels were added to existing amortization levels for prior
5 pension deferrals. Finally, the level of amortization of the current pension
6 tracker was estimated based upon the deferred balance at December 31,
7 2011. This balance could increase or decrease based upon market
8 conditions and should be updated at the time of true-up in this case. A
9 summary of this adjustment is found on Schedule CAS-14, page 3.

10
11 **(4) FUEL AND POWER EXPENSE**

12 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
13 **RELATED TO FUEL AND POWER EXPENSE.**

14 A. The purpose of this adjustment is to annualize fuel and power expense that is
15 associated with the costs of pumping and delivering water. The details of this
16 adjustment can be found at Schedule CAS-14, page 6.

17
18 **(5) PURCHASED WATER EXPENSE**

19 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
20 **RELATED TO PURCHASED WATER EXPENSE.**

21 A. The purpose of this adjustment is to annualize the costs incurred to purchase
22 water from outside sources. The pro forma costs are based on contract
23 purchase requirements and cost per thousand gallons. The details of this
24 adjustment can be found at Schedule CAS-14, page 8.

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(6) REGULATORY EXPENSE

Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES RELATED TO REGULATORY EXPENSE.

A. The purpose of this adjustment is to annualize rate case expense for the costs related to this rate filing. Estimated costs related to the rate filing include legal fees, consultant's cost, travel expenses, and other expenses. It is being proposed that these costs be amortized over a two-year period. The pro forma cost includes the unamortized balance of the costs from Case No. WR-2008-0311 and an estimate for the new rate case costs. The details of this adjustment can be found at Schedule CAS-14, page 10.

(7) TRANSPORTATION EXPENSE

Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES RELATED TO TRANSPORTATION LEASES.

A. The Company has calculated its pro forma Transportation Lease expense based on changes in leased vehicle levels expected to occur by December 31, 2011. Gross vehicle cost was applied to the operation and maintenance ("O&M") percentage to obtain the O&M expense used in the lease portion of the adjustment. The summary of this adjustment can be can be found on Schedule CAS-14, page 14.

(8) PSC ASSESSMENT EXPENSE

1 Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES
2 RELATED TO PSC ASSESSMENT.

3 A. The purpose of this adjustment is to annualize the PSC assessment. The pro
4 forma amount is based on the latest known assessment rate applied to the
5 pro forma present rate water revenues. The summary of this adjustment can
6 be can be found on Schedule CAS-14, page 17.

7

8 **(9) HEATING AND ELECTRICITY EXPENSE**

9 Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES
10 RELATED TO FUEL/HEAT.

11 A. The purpose of this adjustment is to increase the Heating and Electricity
12 expense. During the test year these costs were posted to the Fuel and Power
13 expense category in error. This adjustment is to increase the Pro Forma
14 expense for Electricity by the amount posted to the Fuel and Power account
15 during the test year. The offset to this adjustment is in the Fuel and Power
16 Expense Adjustment. The summary of this adjustment can be can be found
17 on Schedule CAS-14, page 23.

18

19 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

20 A. Yes it does.