

Exhibit No.:
Issues: *Billing Services; and
Rate Case Expense*
Witness: *Jermaine Green*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
Case No.: *WR-2011-0337*
Date Testimony Prepared: *February 2, 2012*

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

UTILITY SERVICES

SURREBUTTAL TESTIMONY

OF

JERMAINE GREEN

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2011-0337

*Jefferson City, Missouri
February 2012*

Staff Exhibit No. *22*
Dated *2-21-12* Reporter *JL*
File No *WR-2011-0337*

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JERMAINE GREEN
MISSOURI -AMERICAN WATER COMPANY
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1 **EXECUTIVE SUMMARY**

2 Q In summary, what does your Surrebuttal Testimony cover?

3 A. My testimony will respond to Company witness Dennis R. Williams' proposal
4 to eliminate test year billing service revenues from Staff's Cost of Service. Mr. Williams
5 proposes that MAWC's billing service revenues should not be reflected as a source of
6 operating income because revenue from the provision of billing service to municipalities will
7 be negligible during the time that new rates are in effect, as the Company intends to exit the
8 billing service business during the calendar year 2012.

9 I will also respond to Company witness Regina Tierney's position that Staff's
10 rate case expense adjustment should include current rate case expenses incurred after
11 October 18, 2011, and should include the unamortized portion from the prior rate case
12 proceeding (Case No. WR-2010-0131). Furthermore, my testimony will also address
13 Ms. Tierney's proposal that rate case expense should be amortized over two years.

14 **BILLING SERVICES**

15 Q. How long has MAWC provided billing services to the municipalities in the
16 districts in which it operates?

17 A. In Mr. Williams' Rebuttal Testimony at page 7, lines 28 through 31 he states,
18 "For over twenty-years, MAWC or its predecessor companies, as a service to the communities
19 it serves has also provided billing services for city operated services as sewer and trash
20 collection." Until this current rate case, Staff was unaware of this unregulated service by
21 MAWC for which they collect revenues using regulated resources. This issue was brought to
22 Staff's attention by a complaint from a customer in the Jefferson City area, which prompted
23 Staff's investigation into provision of this service. Company witness Williams has provided

1 written correspondence outlining, and also mentioned in his Rebuttal Testimony, that the
2 Company intends to discontinue this billing arrangement between MAWC and the various
3 municipalities during calendar year 2012.

4 Q. Are there any current contracts between MAWC and the municipalities as it
5 relates to MAWC providing billing services?

6 A. Yes. The Company is still bound by contract to provide billing service for
7 various municipalities; many of the contracts expire during calendar year 2012, with the last
8 contract expiring on January 1, 2013. As a result, the Company has sent out written
9 correspondence to the various municipalities informing them of its intention to terminate the
10 billing agreement at the end of the contract life. The Company recently entered into a contract
11 with the City of Jefferson in which MAWC will provide to the City its usage data for billing
12 purposes at a rate of \$3,000 annually.

13 Q. Did Staff perform an annualization or normalization of these billing services
14 revenues?

15 A. No. Staff did not perform a normalization or annualization of these billing
16 services revenues. Staff's adjustment consisted of inclusion in cost of service of test year
17 billing service revenues that are known and measureable to offset the associated test year
18 expenses.

19 Q. Where did MAWC book the revenues and expenses associated with this billing
20 service?

21 A. The expenses associated with these billing services were being booked "above-
22 the-line" whereas the revenues were booked "below-the-line" which violates the matching

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1 principle concept between revenues and expenses for the test year which is more fully
2 described below.

3 Q. What is the Company's position on the treatment of billing services revenues
4 in this case?

5 A. The Company proposes that the revenues generated from their billing services
6 during the test year ending December 31, 2010, should not be included in Staff's Cost of
7 Service. Mr. Williams states in his Rebuttal Testimony on page 8, lines 4 through 6, that the
8 revenue generated is at little or no incremental cost and that ratepayers are paying their actual
9 cost of service and are not being disadvantaged by the service provided to the municipalities.
10 The argument used by Mr. Williams that the costs associated with these billing services are
11 not incremental is unsubstantiated because the direct costs cannot be identified or traced by
12 the Company. Staff refutes the Company's position as they have failed to provide any analysis
13 to prove otherwise.

14 Q. Does Staff subscribe to the Company's position?

15 A. No. Staff does not agree with the Company's position. The Company's
16 position violates the matching principle of accounting. Under this principle, expenses for a
17 period are determined by associating or matching them with specific revenues over a
18 particular time period as they are incurred. If the Company's position to omit these revenues
19 from Staff's Cost of Service for ratemaking purposes is adopted, the costs associated with
20 providing these billing services will be included in cost of service while the associated
21 revenues will be treated below-the-line and excluded from the case. This is not appropriate
22 matching of cost of service elements.

1 Q. What amount of billing service revenues has Staff included in this case?

2 A. Staff has included test year billing service revenues totaling \$684,243 in
3 this case.

4 Q. Has the Company provided Staff with the dollar amount of the expenses that is
5 included in the test year that is associated with the generation of these billing service
6 revenues?

7 A. No. It is Staff's understanding that the Company has not performed any
8 analysis to identify these costs.

9 **RATE CASE EXPENSE**

10 Q. What costs are included in rate case expense?

11 A. Rate case expense includes legal fees for outside counsel, consulting fees for
12 expert witness, postage expenses and the costs incurred by Company staff to attend case
13 related activities, including meals and lodging.

14 Q. What is the Company's position regarding rate case expense?

15 A. Company witness Regina Tierney disputes Staff's normalization of rate case
16 expense and Staff's decision to not include rate case expenses from prior rate cases in cost of
17 service, specifically Case No.WR-2010-0131. Ms. Tierney also expressed concern with
18 Staff's ability to capture rate case expense after October 18, 2011 for purposes of setting rates
19 in this proceeding.

20 Q. What is Staff's position regarding rate case expense?

21 A. Staff asserts that a company should be allowed to include in its cost of service
22 a normalized level of rate case expenses that are known and measurable, reasonable,
23 necessary and prudently incurred as they relate to the current case before the Commission.

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1 Q. Please explain Staff's rate case expense recovery approach and how it differs
2 from the Company.

3 A. Rate case expenses are nonrecurring in nature; i.e. they only occur when the
4 utility files a rate case with the Commission and hence are not necessarily incurred every
5 year. Staff's normalization of this expense is aimed at restating test year expense to a normal
6 ongoing level. It is not intended to allow for recovery of prior rate case expense, which the
7 Company's proposed amortization method entails. Staff includes in rate case expense all
8 measurable, reasonable, necessary and prudent expenses incurred by the Company in
9 presenting the current rate case before the Commission.

10 Q. What is the difference between normalization and amortization?

11 A. Normalization is an adjustment to abnormal test year results to reflect a normal
12 ongoing level of the cost; in effect, a leveling out. Whereas, an amortization is the spreading
13 out of the recovery of a specific cost over a certain period of time.

14 Q. Has Staff ever recommended an amortization of rate case expense for MAWC
15 in previous rate cases?

16 A. No. Staff has never recommended an amortization for rate case expense in any
17 prior MAWC rate cases.

18 Q. Does Staff support the Company's proposal to recover the unamortized
19 balance of rate case expense from the previous rate case, Case No. WR-2010-0131?

20 A. No. Staff asserts that it is not appropriate to allow the inclusion of past rate
21 case expenses in the calculation of current rate case expenses. Ratemaking is prospective, or
22 forward-looking, in nature. Staff contends that rate case expense was a normalized expense in

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1 Case No. WR-2010-0131, instead of an expense which was to be amortized and recovered
2 over a certain time, as contended by the Company.

3 Q. Will Staff be able to account for rate case expense incurred after
4 October 18, 2011?

5 A. Yes. As stated in Staff's Cost of Service Report filed in this case, page 55,
6 lines 10 through 17, Staff will work with the Company through the duration of this case to
7 establish a reasonable and ongoing normalized level of rate case expense for inclusion in
8 rates. This means that any additional prudently incurred expenses associated with the
9 processing of this rate case filing by MAWC will be examined to determine appropriateness
10 for inclusion in this case. This will allow reasonable and normalized costs such as consulting
11 fees, employee travel expenditures, and legal representation, which are directly associated
12 with the length of the case through the settlement conference and hearing process, to be
13 properly included in this rate case. Additionally, Staff has submitted a data request to the
14 company to provide an update of any additional rate case expenses that are measurable,
15 reasonable, necessary and prudent, that needs to be included in Staff's true-up
16 recommendation.

17 Q. Does this conclude your Surrebuttal Testimony?

18 A. Yes, it does.

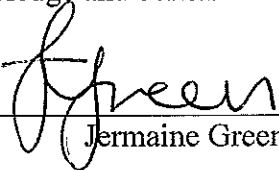
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water)
Company's Request for Authority to) Case No. WR-2011-0337
Implement A General Rate Increase for Water)
and Sewer Service Provided in Missouri)
Service Areas)

AFFIDAVIT OF JERMAINE GREEN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

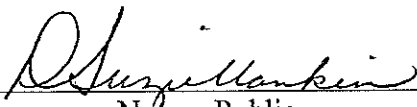
Jermaine Green, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



Jermaine Green

Subscribed and sworn to before me this 1st day of February, 2012.

D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: December 08, 2012 Commission Number: 08412071
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Notary Public