Exhibit No.:	
Issues:	Rate Base Adjustments, excluding Deferred Security Costs and Pension Asset; Labor; Rate Case Expense; Fuel and Power; Transportation
Witness:	Regina C. Tierney
Exhibit Type:	Rebuttal
Sponsoring Party:	Missouri-American Water Company
Case No.:	WR-2011-0337 SR-2011-0338
Date:	January 19, 2012

MISSOURI PUBLIC SERVICE COMMISSION

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

REBUTTAL TESTIMONY

OF

REGINA C. TIERNEY

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

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 RATES FOR WATER AND SEWER SERVICE	)))))	**CASE NO. WR-2011-0337** **CASE NO. SR-2011-0338**

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 "Rebuttal Testimony of Regina C. Tierney"; that said testimony was prepared by her and/or under her direction and supervision; that if inquires 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 17th **day of** January **2012.**

Staci A. Olsen

Notary Public

My commission expires:

STACI A. OLSEN
Notary Public – Notary Seal
STATE OF MISSOURI
St. Charles County
Commission Number 09519210
My commission expires March 20, 2013

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

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REBUTTAL TESTIMONY

REGINA C. TIERNEY

WITNESS INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.

A. Regina C. Tierney, Financial Analyst II for the American Water Works Service Company. My business address is 727 Craig Road, St. Louis, Missouri 63141.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?

A. Yes, I submitted direct testimony in this proceeding on behalf of Missouri-American Water Company (MAWC or Company).

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond, on behalf of MAWC, to the Staff Report regarding the following issues:

1) Rate Base Adjustments, excluding Deferred Security Costs and Pension Asset;
2) Labor;
3) Rate Case Expense;
4) Fuel and Power; and,
5) Transportation.

(1) RATE BASE ADJUSTMENTS

Q. DOES MAWC AGREE WITH THE RATE BASE COMPUTED BY THE STAFF IN ITS REPORT?

A. No. MAWC has issues with Staff's calculation of a Cash Working Capital allowance, which I will address in this testimony. In addition, Rate Base components for Pension Assets will be addressed by Dennis R. Williams and Deferred Security Costs will be addressed by Peter Thakadiyil in their rebuttal testimonies. Finally, Staff and MAWC's Rate Base calculations have some inconsistency.

Q. WHAT DO YOU BELIEVE HAS CAUSED THIS INCONSISTENCY?

A. Staff used a December 31, 2010 Rate Base with no adjustment for changes occurring through December 31, 2011, while Company used a December 31, 2010 Rate Base with pro forma adjustments to rate base through December 31, 2011. Rate Base items that should be included as a result of true-up to December 31, 2011 are Utility Plant in Service, Accumulated Depreciation, Customer Advances, Contributions in Aid of Construction, Materials and Supplies, Prepayments, OPEBs Contributed to External Fund, Security Deferrals, Tank Painting Tracker, Pension/OPEB Trackers, Deferred Taxes, Deferred ITC, and Pension Liability. Based on discussions with Staff, MAWC believes these items will be trued up and, at that time, there will no longer be an inconsistency in Staff's and Company's Rate Base calculation.

CASH WORKING CAPITAL

Q. WHAT IS THE FUNCTION OF CASH WORKING CAPITAL?

A. Often Investors are required to provide "upfront" capital to fund the daily operations of the business before customers pay their bills. The cash working capital calculation reflects the impact of the time difference in receiving revenues from customers after the Company has paid operating expenses. A positive cash working capital allowance is included in a utility's rate base to help compensate investors for this lag between the time utility service is rendered to the customer and the time it takes to collect revenues from the customer to pay for the service. A negative cash working capital allowance reflects the fact that in some instances customers provide revenue to the Company before it has to expend funds. The timing difference between incurring expenses and the receipt of the revenue can result in either a net (lead) or lag.

Q. HOW WAS THE LEVEL OF WORKING CAPITAL DETERMINED?

A. The determination of the amount of working capital for a specific item in the study was calculated by multiplying the daily expense requirement by the difference between the revenue lag and the expense lag for the category.

Q. DO THE COMPANY AND STAFF RESULTS DIFFER?

A. Yes. There is a discrepancy in the expense lag calculation for Service Company fees (Management Fees) lag days. In addition, the Company does not agree with Staff's calculation of the Revenue Lag days for each district.

REVENUE LAG CALCULATION

Q. PLEASE DISCUSS THE ISSUE REGARDING THE REVENUE LAG CALCULATION.

A. While both Company and Staff used a Lead/Lag Study approach in determining the level of working capital to be reflected in rate base, Company believes the Staff's revenue lag calculation is inappropriate and therefore its cash working capital allowance is understated.

Q. WHY IS THE STAFF'S REVENUE LAG CALCULATION INAPPROPRIATE?

A. Staff is unfairly penalizing MAWC in the calculation of the Revenue Lag. Staff has used its pro-forma annualized revenue in the calculation of Collection Lag Days. Staff's Collection Lag Days are calculated by taking the total pro-forma annualized revenues and dividing them by 365 to arrive at the average daily revenues. Then the average test year daily accounts receivable balance is divided by the pro-forma average daily revenues resulting in the Collection Lag Days. Staff's calculation is not consistent in its approach. Pro-forma annualized revenues have little correlation to the test year average daily accounts receivable balance used in its calculation. By dividing test year accounts receivable balances that are based on current rates, by pro-forma revenues that are based on future rates, Staff creates a mismatch that mathematically results in an assumption of declining numbers of day that receivables are outstanding. Staff's annualized revenues are an estimate based on pro-forma water delivery.

The Company's Collection Lag Days are calculated by taking the total test year revenues and dividing it by 365 to arrive at the average daily revenues. Then the average test year daily accounts receivable balance is divided by the test year average daily revenues resulting in the Collection Lag Days. As a result, the Company's test year revenues have a direct correlation to the test year daily accounts receivable balance. Please see Rebuttal Schedule RCT – 1 which shows how the Collection Lag days were calculated by the Company and Staff.

While the amounts may be close in dollar figures, Staff uses a higher revenue amount that would result in a higher expected daily accounts receivable balance. MAWC uses the actual revenues that resulted in the average Daily Accounts Receivable Balance. These amounts have a direct correlation; therefore Company's Collection Lag Days should be used. The dollar impact on Rate Base is $1,092,168. Please see Rebuttal Schedule RCT – 1.

In addition, an error was identified in the calculation of the Cedar Hill Collection Lag Days. Staff divided the Average Daily Accounts Receivable Balance by the Average Daily Revenues. Staff should have used the total annual billed revenues and divided it by 365 to arrive at the average daily revenues. Then the average daily accounts receivable balance is divided by the average daily revenues resulting in the Collection Lag Days. MAWC has notified Staff of the error and MAWC believes this has been corrected in the most recent revenue requirement calculation. The dollar impact on Rate Base is $76,055. Please see Rebuttal Schedule RCT – 2.

EXPENSE LAG FOR SERVICE COMPANY FEES

Q. WHAT SERVICE COMPANY FEE LAG DOES STAFF USE?

A. The Staff's lag is a positive 40.27 days. This indicates that Staff believes that MAWC receives Service Company services before it is required to pay for those services.

Q. WHAT LAG DID MAWC USE FOR SERVICE COMPANY FEES?

A. The Company's lag for Service Company fees is a negative 10.61 days, which reflects the fact that these services are required to be prepaid by the Company.

Q. WHY DOES MAWC BELIEVE THAT THE APPROPRIATE SERVICE COMPANY FEE LAG IS A NEGATIVE 10.61 DAYS?

A. MAWC is billed in advance for services to be provided by the Service Company. Such arrangement allows the Service Company to have the necessary funds to operate and provide its services to MAWC and results in a lower cost to the Company than if these services were billed in arrears. For example, MAWC was billed in January 2011 for an estimated level of Service Company charges to be incurred in the month of January 2011. In the February bill, the January estimate is trued up to the actual amount of expense incurred. The Company should be allowed the negative 10.61 days as the Service Company fees are paid in advance.

Q. IS THERE AN EXAMPLE OF A SIMILAR PAYMENT ARRANGEMENT THAT

WILL BE FAMILIAR TO THE COMMISSION?

A. Yes. The PSC Fee Assessment that is issued by the Commission represents costs to be incurred by the Commission for services it will provide in the regulation of utilities in the State of Missouri. The Commission gives the regulated utilities the option of paying the entire yearly amount in one lump sum or of paying in quarterly installments. MAWC chooses to pay through quarterly installments. However, each quarterly payment is made in advance of the applicable quarter. As a result, the Staff, in the calculation of its Working Capital requirements, reflects a negative expense lag of 45 days for the assessment. This reflects the payment of PSC Fees to the Commission in a manner that will allow the Commission to have the necessary funds available to operate and provide its services in the regulation of Missouri utilities. MAWC management fees are paid in advance for the same reason.

Q. WHAT IS THE DOLLAR IMPACT BY CATEGORY TO THE COMPANY'S RATE BASE FOR CASH WORKING CAPITAL?

A. The Company has calculated a negative impact relating to Revenue Lag of $1,092,168, a negative impact for the Cedar Hill Revenue Lag of $76,055, and a negative impact for Management Fees lag of $16,640,547.

The total impact on the Company's rate base relating to Staff's lag day variances is a $17,808,770 reduction. This negative adjustment to the Company's Cash Working Capital allowance proposed by Staff does not adequately compensate the Company for its investment and could impair the Company's ability to make the timely payments. The Revenue lag days and Expense lag days should reflect the Company's previously calculated days. Please see Rebuttal Schedule RCT – 1 for a breakdown by district and category of the different impact calculations.

Q. DOES THIS CONCLUDE YOUR DISCUSSION OF RATE BASE ISSUES?

A. Yes.

(2) LABOR

Q. WHAT DIFFERENCES EXIST BETWEEN THE COMPANY AND STAFF IN REGARD TO THE ANNUALIZED LEVEL OF PAYROLL?

A. The differences, and the approximate revenue requirement dollar values of the differences, are as follows:

Open Positions	$1,035,120
Union Wage Increase	$374,952
Overtime	$795,565

OPEN POSITIONS AND UNION WAGE INCREASE

Q. WHAT WAS YOUR GENERAL APPROACH TO ANNUALIZATION AND NORMALIZATION OF THE TEST YEAR PAYROLL?

A. The Company's filing was based upon a test year ended December 31, 2010. In order to annualize and normalize the test year payroll levels, the Company began with the most current payroll period at that time and updated for the number of positions and wage rates the Company anticipated would be in effect at the end of the true-up period, which is December 31, 2011. In addition, because capitalization ratios and overtime hours can vary from year to year, a three year average was used to normalize the allocation of those items between capital and expense.

Q. HOW WAS YOUR APPROACH DIFFERENT THAN THAT OF THE STAFF?

A. The two approaches were very similar. Staff began with the most current payroll period that was available at the beginning of their audit. However, Staff made no adjustment for union wage rate increases or employee levels that would exist at the true-up date. This is simply a matter of timing and the differences between the Staff and Company positions for Union Wage Increase and Open Positions should be eliminated when these items are reflected in the true-up process. The dollar impact to the revenue requirement of these true-up items is $374,952 for Union Wage Increase and $1,035,120 for Open Positions.

<u>**OVERTIME**</u>

Q. WHAT TYPE OF AVERAGE WAS USED TO NORMALIZE CAPITALIZATION RATIOS AND OVERTIME?

A. Staff and MAWC utilized a three year average to normalize capitalization ratios and overtime.

Q. IF THE STAFF AND COMPANY BOTH USED A THREE YEAR AVERAGE TO DETERMIINE NORMALIZED OVERTIME LEVELS, WHY IS THERE AN APPROXIMATE $796,000 DIFFERENCE IN THE REVENUE REQUIREMENT IN ADJUSTED OVERTIME EXPENSE BETWEEN THE TWO PARTIES?

A. The difference between the Company and Staff after capitalization is $796,000. Overtime hours do not flow directly to the revenue requirement. Payroll expenses are capitalized and only a portion of the total expense flows through to calculate the revenue requirement.

The driver of the difference in overtime lies in the three years selected. The Company used an average of the three twelve month periods ended December 31, 2008, 2009 and 2010, to determine a percentage of overtime to be applied to pro forma base payroll rates. This calculation resulted in a 10.84 percent overtime rate. The Company's adjustment reduced test year expense by approximately $148,000. Staff created their own adjustment based upon a work paper that included a listing of the years 2003 to 2008 overtime hours. Of those years, the Staff used only a simple three year average of the calendar years 2006, 2007 and 2009. Also, Staff's calculation includes an error. The hours listed on its work paper for the years 2008 to 2010 were total overtime hours, while expensed hours were listed in years 2003 to 2007. This results in an inconsistency in the Staff's calculation in that Staff utilized the total overtime hours for 2009 but only expensed hours in 2006 and 2007. This error results in Staff's negative Overtime Adjustment of $1,492,430.

Q. WHY DID THE STAFF EXCLUDE THE YEARS 2008 AND 2010 FROM ITS THREE YEAR CALCULATION?

A. Staff indicated that 2006 and 2007 were substituted for 2008 and 2010 in its three-year average calculation because overtime in 2008 and 2010 was abnormally high.

Q. WERE 2008 AND 2010 OVERTIME HOURS ABNORMALLY HIGH?

A. No. Expensed overtime hours in 2008 and 2010 were lower than those in calendar years 2007 and 2006. I believe the Staff came to its conclusion because the expensed overtime hours it used in its analysis from 2008 to 2010 were incorrect.

Q. HOW WAS IT INCORRECT?

A. Staff's adjustment was made by computing an average test year wage rate and applying that rate to the simple average of total overtime hours for 2009, plus overtime hours charged to maintenance expense only for the years 2006 and 2007, and then multiplying the result by an expense to capitalization ratio. The use of total overtime hours in 2009, and only overtime hours charged to expense for the other two years, is inconsistent and incorrect. I believe it is likely that this was simply an error and that Staff intended to utilize expensed overtime hours for all years in its selection. The Company brought this same error in average overtime hours' calculation to Staff's attention in the previous rate case, but this was apparently overlooked in the current rate case.

When the Overtime Hours for 2008 – 2010 are corrected to match the Expensed overtime hours, a positive adjustment of $1,454,507 is calculated, assuming that the Staff still intends to use only the year 2006, 2007 and 2009 in its adjustments. Please see Rebuttal Schedule RCT – 3.

Q. IS IT SURPRISING THAT THERE IS VARIANCE FROM YEAR TO YEAR IN THE EXPENSED OVERTIME HOURS?

A. No. That is the primary reason why it is appropriate to use a three-year average in order to normalize annual overtime by levelizing the variances.

Q. WHY DO OVERTIME HOURS DIFFER FROM YEAR TO YEAR?

A. There are many different reasons, but one of the primary drivers of overtime hours is the repair of main breaks. Main breaks are unpredictable, vary widely from year to year, can occur at any time of day or night, and are largely dependent upon the weather and soil conditions. In 2009, for example, the Company experienced an unusually low number of main breaks and the resulting number of expensed overtime hours to repair those breaks was, as a result, lower than normal. In 2008 and in 2010, there were more main breaks than 2009, which resulted in more expensed overtime hours than 2009.

Q. PLEASE EXPLAIN THE USE OF AVERAGE OVERTIME HOURS OVER A PERIOD OF THREE YEARS.

A. There are two reasons typically given for averaging costs from several years experience for variable expense items, rather than simply using test year levels in setting rates. The first reason is that if the test year alone is utilized, the Company may have experienced an usually high number of main breaks that required an excessive amount of expensed overtime hours and in turn a much larger than necessary expense requiring a larger revenue requirement. The second reason is that utilizing an average levelizes the variances that exist from year to year so as to build into rates a more normalized level of expense. Excluding 2008 or 2010 overtime hours from the average simply because they were believed to be higher than normal appears arbitrary and designed solely to reduce the calculated revenue requirement in this case. As a matter of fact, expensed overtime hours for 2009 were lower than normal, far more so than expensed overtime hours for 2008 and 2010 were higher than normal; yet, Staff did not exclude those hours from its average calculation. In fact, expensed overtime hours for calendar year 2009 were the lowest by far of any other year during the years 2003 to 2010. On the other hand, during that same eight-year period, there were two years in which the 2008 expensed overtime hours were exceeded and there were five years that expensed overtime hours exceeded the 2010 level.

Q. HAVE YOU PREPARED ANY ANALYSIS TO QUANTIFY THE IMPACT OF STAFF'S ERROR AND ADJUSTMENT?

A. Yes. I started with Staff's adjustment schedule of the actual expensed overtime hours over the past eight years. That information is summarized on Schedule RCT–3. The top section of the analysis shows Staff's calculation with the incorrect expense overtime hours for 2008 to 2010, resulting in the negative pro-forma adjustment of $1,492,429.

The middle section shows the adjustment with the corrected expensed overtime hours for 2008 to 2010, but still using years 2006, 2007, & 2009 to calculate the overtime average. Using this method, a positive pro-forma adjustment of $1,454,507 is calculated.

The final section of the analysis shows what the adjustment would be with the corrected expensed overtime hours and using the years 2008 to 2010 to calculate an average. This would result in a positive pro-forma $143,378 adjustment to test year expense.

Q. WHAT ARE THE IMPLICATIONS OF STAFF'S AVERAGING APPROACH?

A. If Staff is consistent in the usage of traditional averaging of historical information, it would not exclude outliers. However, Staff's analysis has been adjusted to exclude outliers. If it is appropriate to remove outliers (and I don't believe it is), then Staff should have removed the calendar year 2009 from its three year average – not 2008 or 2010. As stated earlier, 2009 is much lower and clearly not consistent with the other years. A more reasonable approach is to utilize the calculation in the bottom section of Rebuttal Schedule RCT – 3. This calculation incorporates the years 2008, 2009, & 2010 and results in the $143,378 positive overtime adjustment. Although this calculation incorporates the abnormally low overtime hours in 2009, it is consistent because it is using the three most recent years to determine the average.

Q. IS A THREE YEAR AVERAGE AN ACCEPTABLE PERIOD OVER WHICH TO DETERMINE AN ONGOING NORMALIZED LEVEL OF EXPENSE?

A. Yes, a three year average is reasonable. One could use a two-year or even four-year average and still achieve reasonable results, but a three year average has consistently been used in past rate cases by both Staff and the Company. What would not make sense would be to change the periods utilized from case to case just to manipulate the level of costs to be included in rates.

EMPLOYEE BENEFITS IMPACTED BY PAYROLL EXPENSE VARIANCES

Q. DO THE VARIANCES IN THE TOTAL PAYROLL EXPENSE CALCULATION HAVE AN IMPACT ON OTHER EMPLOYEE BENEFIT EXPENSES?

A. Yes. Total payroll has a direct impact on the calculation of 401 K expense, Group Insurance expense, and Payroll Taxes.

Q. PLEASE EXPLAIN.

A. Group Insurance expense is calculated by taking the test year Group Insurance expense as a percentage of payroll expense. This ratio is then multiplied by the current pro-forma payroll expense to arrive at the pro-forma Group Insurance expense. If the current payroll expense has been decreased by items that should have been included in total payroll, Group Insurance will in turn be decreased by a proportionate amount. Also, Staff has not included an adjustment for the acquisition properties employees. This creates an additional expense for the Company that would not be recovered in rates. The dollar impact on revenue requirement is $347,885. However, this should no longer be an issue after the true-up of payroll.

401K expense is also based on the employee payroll expense. The annual expense is then multiplied by the Company contribution factor for each employee. The factor varies by employee, as employees select their percentage contribution to their 401K account, which in turn determines the Company match percentage. Generally, the first 0 to 3 percent is 100 percent matched by the Company. The next 2 percent is matched at fifty percent. If the employee payroll is reduced due to the various payroll exclusions, the 401K expense is also reduced for the amount that the Company would match.

Also, Staff has not included overtime in the 401K calculation. Company believes this exclusion was in error as the Company bases its contribution on overtime wages as well.

The full impact of the 401K expense variance on revenue requirement is $99,246.

The impact of the exclusion of payroll items on the Payroll Taxes on revenue requirement is $351,644. This amount is calculated by taking the tax rate and multiplying it by the total excluded payroll expense.

(3) <u>RATE CASE EXPENSE</u>

Q. DOES MAWC AGREE WITH THE RATE CASE EXPENSE COMPUTED BY THE STAFF IN ITS REPORT?

A. No. The Company has several issues with the method Staff used to compute Rate Base.

Q. WITH WHAT ITEMS IS MAWC CONCERNED?

A. MAWC has issues concerning the elimination of the amortization of prior rate case expenses and the exclusion of current rate case expenses incurred after October 18, 2011.

Q. PLEASE DISCUSS THE ISSUE REGARDING EXCLUSION OF THE AMORTIZATION OF PRIOR RATE CASE EXPENSES.

A. Staff has not included unamortized (and therefore unrecovered) amounts of rate case expense from the prior rate cases in its current cost of service for this case. Staff states that it is inappropriate to allow specific recovery in rates of amounts related to past rate proceedings.

Q. DOES MAWC AGREE WITH THE EXCLUSION OF PRIOR RATE CASE EXPENSES FROM THE CURRENT COST OF SERVICE FOR THIS CASE?

A. No. The Company believes that it has not had the opportunity to recover the full amount of prior rate case expenses in rates. The unamortized balance for rate case expenses relating to WR-2010-0131 will be $47,859 in May 2012, the estimated date that the new rates will go into effect. Staff has not provided a reasonable explanation as to why it is inappropriate to allow recovery in rates of amounts related to past rate case proceedings. The Company has not yet recovered the full amount of rate case expenses relating to WR-2010-0131 in revenues and should be allowed to recover the full amount of the expenses related to that proceeding.

Q. DOES MAWC AGREE WITH THE LEVEL OF RATE CASE EXPENSE PROPOSED BY STAFF IN THE COST OF SERVICE STUDY?

A. No. MAWC has incurred (and will continue to incur) significant expenses relating to this rate case (WR-2011-0337) past Staff's October 18', 2011 cut-off date. Work continues to be performed by MAWC, its outside consultants, and legal team relating to the case. These expenses include mailing of local public hearing notices and comment cards, attendance at local public hearings, responses to data requests, preparation of rebuttal and surrebuttal testimony, responses to other parties' legal pleadings, participation in pre-hearings and hearings, preparation of post-hearing briefs, along with numerous other activities. The Company seeks to recover all expenses related to this rate case in rates.

Staff has only included the expenses incurred as of October 18, 2011, totaling $379,881. This amount varies significantly from the estimated total cost of the rate case of $1,066,994, and MAWC's past experience. For example, the Company spent $871,648 on its 2007 rate case (WR-2007-0216), $740,017 on its 2008 rate case (WR-2008-0031), and $938,801 on its 2010 rate case (WR-2010-0331). All three of these rate cases were settled without lengthy hearings. Please see Rebuttal Schedule RCT – 4 for a detailed breakdown of the expenses. MAWC is concerned that the normalization amount would not include all current rate case expenses. In prior cases, the practice has been to allow all rate case expenses incurred up to the final conclusion of the rate case amortized over two (2) years.

(4) <u>HEATING EXPENSE (FUEL AND POWER)</u>

Q. PLEASE DISCUSS THE ISSUE REGARDING EXCLUSION OF THE HEATING EXPENSE RECLASSIFICATION.

A. Staff has erroneously excluded the reclassification of heating expenses posted to the fuel and power expense account during the test year. MAWC discovered, while calculating the fuel and power pro-forma adjustment, that heating expense incurred during the 2010 test year had been posted to the fuel and power expense account. An adjustment was made to reclassify the expenses from fuel and power to heating. Staff accepted the Company's adjustment to reduce fuel expense, but ignored the adjustment require to increase heating expense in the same amount. The Company has discussed this error with Staff, however, to date, Staff has not included this reclassification in their revenue requirement.

Q. DO YOU AGREE WITH THE FUEL AND POWER ADJUSTMENT PROPOSED BY MIEC?

A. No. There are discrepancies between the percentages used by MAWC and MIEC for the Ameren Electric general increase. Also MIEC excluded the October 2010 fuel adjustment charge which was included in MAWC's pro-forma adjustment . At the time the initial rate case was filed, the actual rate increase for Ameren Missouri was not yet known. An estimate of 11% was utilized in the adjustment workpapers with the expectation that the true rate increase would be known and adjusted for at the time of true-up. MAWC will be utilizing the 5.2% increase that was approved in July 2010 in the true-up adjustment. Mr. Collins has included the 5.2% increase and the 1.5% fuel adjustment charge change provided by MAWC in the pro-forma adjustment in his proposal. However, Mr Collins has not included the 3% fuel adjustment charge (FAC) increase authorized by the Public Service Commission in October of 2010. This increase is included in the test year expense for October to December of 2010, but is not included prior to October. To properly annualize the test year, it is necessary to adjust for the 3% charge in the test year prior to October 2010. Mr Collins failure to include this price increase in his adjustment is incorrect because the fuel adjustment charge is not reset to zero upon the authorization of the general rate increase. Finally, since the initial filing, the estimated amount for the January 2011 FAC adjustment has changed. The actual increase in January 2011 was a different amount than what was included in the original pro-forma adjustment. There were two subsequent fuel adjustments charges authorized by the Public Service Commission in April 2011 and September 2011 that were not included in the pro-forma adjustment but will be included in the true-up adjustment.

(5) TRANSPORTATION EXPENSE

Q. PLEASE DISCUSS THE ISSUE REGARDING TRANSPORTATION EXPENSE.

A. Staff has not included an adjustment for fuel price inflation. MAWC believes an adjustment should be made to allow the Company to recover the fuel price inflation in transportation expense.

Q. WHY DOES MAWC BELIEVE A FUEL PRICE INFLATION ADJUSTMENT IS NECESSARY?

A. The Company believes a fuel price adjustment is necessary as the fuel costs experienced during the 2010 test year resulted in an average price of only $3.15 per gallon. On January 6, 2012, the average price per gallon in the St Louis area was $3.31, but is expected to increase significantly in 2012 due to issues in the Middle East. $3.31 per gallon is $.33 per gallon or 10% higher than it was on January 6, 2011. Given these facts, MAWC believes an adjustment to recognize a 10% increase in fuel costs is reasonable. In its original filing, MAWC asked for a transportation adjustment related to fuel costs of $120,230. This pro-forma adjustment was based upon an average price per gallon of $3.89, or the average price per gallon in the St. Louis area at the time of filing the rate case. MAWC believes that the price per gallon at the time rates to into effect could be close to that amount or could possibly exceed that amount. Rates will go into effect at the beginning of the summer season, traditionally when the price per gallon is at the highest during the year. However, MAWC recognizes that the known and measureable price for fuel at the true-up date was $.3.31 per gallon and would accept that rate in connection with the true-up in this case. Although gas prices in outlying areas tend to be more expensive, the majority of gasoline usage is concentrated in the St. Louis Metro District. Gas prices are not expected to decline in the future; instead, they are expected to increase in the upcoming months as the summer travel time approaches.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

Schedule RCT - 1

Analysis of variance in Cash Working Capital - Revenue Lag Days (Collection Lag)

	JFC	MEX	SLM	WCW	BRU	PKW	SJO	JOP	WAR	WCS	CDH	PKS	Total
MAWC calculated													
Avg. Daily Balance Accts. Receivable	306,847.00	218,905.00	11,233,999.00	31,941.00	21,524.00	257,529.00	1,123,785.00	1,022,202.00	200,548.00	31,941.00	63,577.00	257,529.00	
Total Annual Billed Revenues	5,629,906.00	3,290,355.00	150,811,662.00	494,393.00	316,263.00	4,830,115.00	19,776,464.00	16,545,523.00	3,585,272.00	494,393.00	429,589.00	4,830,115.00	
Average Daily Revenues	15,424.40	9,014.67	413,182.64	1,354.50	866.47	13,233.19	54,182.09	45,330.20	9,822.66	1,354.50	1,176.96	13,233.19	
Avg. No. Days of Revenue Receivable(Collection Lag Days)	19.89	24.28	27.19	23.58	24.84	19.46	20.74	22.55	20.42	23.58	54.02	19.46	
PSC Staff calculated													
Avg. Daily Balance Accts. Receivable	306,847.00	218,905.00	11,233,999.00	31,941.00	21,524.00	257,529.00	1,123,785.00	1,022,202.00	200,548.00	31,941.00	63,577.00	257,529.00	
Total Annual Billed Revenues	5,850,705.00	3,559,325.00	176,149,467.00	609,688.00	384,280.00	5,390,024.00	20,928,031.00	18,224,033.00	3,781,627.00	609,688.00	479,979.00	5,390,024.00	
Average Daily Revenues	16,029.33	9,751.58	482,601.28	1,670.38	1,052.82	14,767.19	57,337.07	49,928.86	10,360.62	1,670.38	1,315.01	14,767.19	
Avg. No. Days of Revenue Receivable(Collection Lag Days)	19.14	22.45	23.28	19.12	20.44	17.44	19.60	20.47	19.36	19.12	48.35	17.44	
MAWC - PSC Staff Collection Lag Days Variance	**0.75**	**1.84**	**3.91**	**4.46**	**4.40**	**2.02**	**1.14**	**2.08**	**1.06**	**4.46**	**5.67**	**2.02**	
TOTAL OPERATION AND MAINT. EXPENSE - per PSC CWC calc	4,138,190.00	1,761,125.00	88,843,277.00	316,148.00	567,496.00	1,965,681.00	10,541,730.00	8,226,213.00	1,792,584.00	563,944.00	575,757.00	82,847.00	
Cash Working Capital variance due to Collection Lag Days	**8,511.77**	**8,854.00**	**951,944.61**	**3,862.51**	**6,836.08**	**10,887.01**	**32,961.53**	**46,809.67**	**5,206.42**	**6,889.93**	**8,945.57**	**458.85**	**1,092,167.95**
Note: Cedar Hill Collection Lag calculation for PSC has been corrected											76,054.61		76,054.61
Management Fees Lag Days - MAWC	(10.61)	(10.61)	(10.61)	(10.61)	(10.61)	(10.61)	(10.61)	(10.61)	(10.61)	(10.61)	(10.61)	(10.61)	
Management Fees Lag Days - PSC Staff	40.27	40.27	40.27	40.27	40.27	40.27	40.27	40.27	40.27	40.27	40.27	40.27	
Variance	(50.88)	(50.88)	(50.88)	(50.88)	(50.88)	(50.88)	(50.88)	(50.88)	(50.88)	(50.88)	(50.88)	(50.88)	
Dollar impact of Management Fees Lag Day variance	576,852.35	245,496.00	12,384,509.41	44,070.17	79,107.39	274,010.55	1,469,488.28	1,146,711.55	249,881.30	78,612.25	80,258.95	11,548.64	16,640,546.83
Total Cash Working Capital Impact on Rate Base	585,364.12	254,350.00	13,336,454.02	47,932.67	85,943.47	284,897.55	1,502,449.81	1,193,521.23	255,087.72	85,502.18	165,259.13	12,007.50	17,808,769.39

Schedule RCT - 2

	CDH
PSC Staff calculated	
Avg. Daily Balance Accts. Receivable	63,577.00
Total Annual Billed Revenues	479,979.00
Average Daily Revenues	1,315.01
Avg. No. Days of Revenue Receivable(Collection Lag Days)	48.35
PSC Staff original calculation	
Avg. Daily Balance Accts. Receivable	63,577.00
Total Annual Billed Revenues	479,979.00
Average Daily Revenues	0.13
Avg. No. Days of Revenue Receivable(Collection Lag Days)	0.13
MAWC - PSC Staff Collection Lag Days	48.21
TOTAL OPERATION AND MAINT. EXPENSE - per PSC CWC calc	575,757.00
Cash Working Capital variance due to incorrect calculation	76,054.61

Schedule RCT - 3
Per PSC Workpapers

Year	1708 BRU	1712 JFC	1711 JOP	1710 MEX	1704 PKW	1709 SCH	1703 SJO	1702 STL	1706 WAR	1705 PKS	1707 CDH	1714 WCW	1715 WCS	1701 Corp	Total per Year
2010	211	2,604	2,421	880	1,400	6,309	3,876	101,023	457	6	58	190	464	1,971	121,870
2009	176	2,605	1,765	692	1,240	2,277	3,303	71,881	348	3	67	114	468	2,111	87,046
2008	259	3,703	4,726	785	1,951	3,345	2,921	142,182	438	21	144	142	611	2,262	163,488
2007	701	3,386	1,994	839	1,275	1,812	2,291	68,220	377	21	175	76	540	159	81,863
2006	149	4,381	2,227	831	816	2,048	1,376	67,561	321	24	292	132	608	0	80,766
2005	131	3,289	2,119	772	692	1,985	1,467	53,081	364	21	158	102	593	7	64,781
2004	161	1,291	1,065	628	739	1,246	1,099	40,988	392	0	0	11	176	52	47,848
2003	137	1,279	1,187	577	833	1,443	1,439	51,864	531	0	0			56	59,346
Average	342	3457	1995	787	1110	2046	2323	69221	348	16	178	107	539	756	83225
Test Year Hours	211	2,604	2,421	880	1,400	6,309	3,876	101,023	457	6	58	190	464	1,971	121,870
Adj. Hours	131	853	-426	-93	-290	-4,263	-1,553	-31,802	-109	10	120	-83	75	-1,215	-38,645
Test Year Dollars	$ 7,953	$ 93,337	$ 81,354	$ 29,720	$ 47,043	$ 231,133	$ 123,946	$ 3,966,599	$ 15,582	$ 203	$ 2,194	$ 7,554	$ 18,913	$ 76,458	$ 4,701,989
Avg. Rate	$ 37.69	$ 35.84	$ 33.60	$ 33.77	$ 33.60	$ 36.64	$ 31.98	$ 39.26	$ 34.10	$ 33.83	$ 37.83	$ 39.76	$ 40.76	$ 38.79	
Adj. $	$ 4,925.08	$ 30,580.65	$ (14,305.22)	$ (3,138.05)	$ (9,739.02)	$ (156,190.32)	$ (49,658.88)	$ (1,248,697.39)	$ (3,705.13)	$ 332.69	$ 4,533.01	$ (3,289.97)	$ 3,038.44	$ (47,115.74)	$ (1,492,429.84)

With corrections to 2008, 2009, & 2010 O & M hours - using years 2006, 2007, & 2009 to determine average hours

Year	1708 BRU	1712 JFC	1711 JOP	1710 MEX	1704 PKW	1709 SCH	1703 SJO	1702 STL	1706 WAR	1705 PKS	1707 CDH	1714 WCW	1715 WCS	1701 Corp	Total per Year
2010	195	2,257	1,842	773	1,195	1,473	2,073	40,290	399	6	53	190	456	601	51,800
2009	175	2,215	1,397	597	1,167	1,326	1,843	28,134	309	3	67	113	458	844	38,648
2008	216	2,922	3,054	723	1,307	1,691	1,665	55,428	349	21	142	135	585	1,221	69,457
2007	701	3,386	1,994	839	1,275	1,812	2,291	68,220	377	21	175	76	540	159	81,863
2006	149	4,381	2,227	831	816	2,048	1,376	67,561	321	24	292	132	608	0	80,766
2005	131	3,289	2,119	772	692	1,985	1,467	53,081	364	21	158	102	593	7	64,781
2004	161	1,291	1,065	628	739	1,246	1,099	40,988	392	0	0	11	176	52	47,848
2003	137	1,279	1,187	577	833	1,443	1,439	51,864	531	0	0			56	59,346
Average	341	3327	1873	755	1086	1729	1837	54638	336	16	178	107	535	334	67092
Test Year Hours	195	2,257	1,842	773	1,195	1,473	2,073	40,290	399	6	53	190	456	601	51,800
Adj. Hours	146	1,071	31	-18	-109	256	-236	14,348	-63	10	125	-82	80	-267	15,292
Test Year Dollars	$ 7,953	$ 93,337	$ 81,354	$ 29,720	$ 47,043	$ 231,133	$ 123,946	$ 3,966,599	$ 15,582	$ 203	$ 2,194	$ 7,554	$ 18,913	$ 76,458	$ 4,701,989
Avg. Rate	$ 40.78	$ 41.36	$ 44.17	$ 38.45	$ 39.37	$ 156.94	$ 59.81	$ 98.45	$ 39.10	$ 33.83	$ 41.79	$ 39.86	$ 41.52	$ 127.12	
Adj. $	$ 5,968.15	$ 44,293.54	$ 1,363.70	$ (676.04)	$ (4,278.72)	$ 40,184.42	$ (14,109.01)	$ 1,412,591.50	$ (2,463.40)	$ 332.69	$ 5,237.74	$ (3,285.36)	$ 3,309.67	$ (33,961.84)	$ 1,454,507.04

With corrections to 2008, 2009, & 2010 O & M hours - using years 2008, 2009, & 2010 to determine average hours

Year	1708 BRU	1712 JFC	1711 JOP	1710 MEX	1704 PKW	1709 SCH	1703 SJO	1702 STL	1706 WAR	1705 PKS	1707 CDH	1714 WCW	1715 WCS	1701 Corp	Total per Year
2010	195	2,257	1,842	773	1,195	1,473	2,073	40,290	399	6	53	190	456	601	51,800
2009	175	2,215	1,397	597	1,167	1,326	1,843	28,134	309	3	67	113	458	844	38,648
2008	216	2,922	3,054	723	1,307	1,691	1,665	55,428	349	21	142	135	585	1,221	69,457
2007	701	3,386	1,994	839	1,275	1,812	2,291	68,220	377	21	175	76	540	159	81,863
2006	149	4,381	2,227	831	816	2,048	1,376	67,561	321	24	292	132	608	0	80,766
2005	131	3,289	2,119	772	692	1,985	1,467	53,081	364	21	158	102	593	7	64,781
2004	161	1,291	1,065	628	739	1,246	1,099	40,988	392	0	0	11	176	52	47,848
2003	137	1,279	1,187	577	833	1,443	1,439	51,864	531	0	0			56	59,346
Average	195	2,465	2,098	698	1,223	1,497	1,860	41,284	352	10	87	146	499	889	53,302
Test Year Hours	195	2,257	1,842	773	1,195	1,473	2,073	40,290	399	6	53	190	456	601	51,800
Adj. Hours	0	208	256	-75	28	24	-212	994	-47	4	35	-44	44	287	1,502
Test Year Dollars	$ 7,953	$ 93,337	$ 81,354	$ 29,720	$ 47,043	$ 231,133	$ 123,946	$ 3,966,599	$ 15,582	$ 203	$ 2,194	$ 7,554	$ 18,913	$ 76,458	$ 4,701,989
Avg. Rate	$ 40.78	$ 41.36	$ 44.17	$ 38.45	$ 39.37	$ 156.94	$ 59.81	$ 98.45	$ 39.10	$ 33.83	$ 41.79	$ 39.86	$ 41.52	$ 127.12	
Adj. $	$ -	$ 8,607.08	$ 11,297.40	$ (2,899.59)	$ 1,115.62	$ 3,727.32	$ (12,698.61)	$ 97,838.01	$ (1,818.23)	$ 135.33	$ 1,441.77	$ (1,740.68)	$ 1,825.28	$ 36,547.14	$ 143,377.85

Missouri-American Water Company
Regulatory Expense
Rebuttal Schedule RCT - 4

Rate Case # WR-2007-0216 Expense

Task Order	Description	Amount	
42449700			
50095799	Legal Costs For Missouri Rate	$	211,825
50095807	SSC Service Company		288,182
50095809	Rate of Return Consultant		40,196
50095811	Cost of service Study		62,266
50095813	Depreciation Study		37,715
50095817	Weather Normalization Costs		20,850
50095819	Other Related Rate Case Costs		209,613
		$	870,648

Rate Case # WR-2008-0031 Expense

Task Order	Description	Amount	
44330700			
42621800	Revenue Requirements	$	176,364
42621900	Legal Costs for Missouri Rate case		195,127
42622100	Rate of Return Consultant		28,899
42622200	Cost of service Study		74,426
42622300	Demand Weather		15,360
42622400	Rate Case Other		147,537
42622500	Staff Data Requests		76,065
42622600	OPC Data Requests		4,645
42622700	Other Data Requests		4,494
43144300	Rate Case MSD Study		17,100
		$	740,017

Rate Case # WR-2010-0331

Task Order	Description	Amount	
46849400			
45313800	2009 Rate Case - Service Co	$	533,602
45332800	2009 Rate Case- Legal	$	5,722
45334800	2009 Rate Case Legal	$	176,832
45334900	2009 Rate Case ROR	$	38,776
45335200	2009 Rate Case Other	$	5,699
45335400	2009 Rate Case Demand/Weather	$	18,720
45335500	2009 Rate Case Data Requests	$	73,135
45335600	2009 Rate Case COS	$	58,946
45864800	2009 Rate Case Depreciation	$	27,368
		$	938,801