

FILED
March 8, 2012
Data Center
Missouri Public
Service Commission

Exhibit No.:
Issues: Cedar Hill Collection Lag Days,
Transportation Expense (Fuel Price
Adjustment)
Witness: Regina C. Tierney
Exhibit Type: Surrebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2011-0337
SR-2011-0338
Date: February 2, 2012

MISSOURI PUBLIC SERVICE COMMISSION

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

SURREBUTTAL TESTIMONY

OF

REGINA C. TIERNEY

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

MAWC Exhibit No. 28
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-2011-0337
RATES FOR WATER AND SEWER)	CASE NO. SR-2011-0338
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 "Surrebuttal Testimony of Regina C. Tierney"; that said testimony and schedules were prepared by her and/or under her direction and supervision; that if inquires were made as to the facts in said testimony and schedules, she would respond as therein set forth; and that the aforesaid testimony and schedules are 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 1st day of February 2012.

Julie M. Polzin
Notary Public

My commission expires: 6/11/2012

JULIE M. POLZIN
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires 6/11/2012
Commission # 08575308

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

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1 **SURREBUTTAL TESTIMONY**

2
3 **REGINA C. TIERNEY**

4
5
6 **I. WITNESS INTRODUCTION AND PURPOSE**

7
8 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

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

11
12 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

13 A. I am employed by American Water Works Service Company as a Financial Analyst II
14 in Rates and Regulation.

15
16 **Q. ARE YOU THE SAME REGINA TIERNEY WHO FILED DIRECT AND REBUTTAL**
17 **TESTIMONY ON BEHALF OF MISSOURI-AMERICAN WATER COMPANY**
18 **(“MAWC” OR “COMPANY”) IN THIS PROCEEDING?**

19 A. Yes, I am.

20
21 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

22 A. The purpose of my surrebuttal testimony is to respond on behalf of MAWC to the
23 following issues:

- 24 1) Staff's proposed adjustment to reduce Cedar Hill's collection lag; and,
25 2) Staff's disagreement with MAWC's transportation fuel cost adjustment.

26
27 **II. CEDAR HILL COLLECTION LAG DAYS**

1 Q. WHAT IS STAFF'S POSITION ON THE CEDAR HILL COLLECTION LAG?

2 A. Staff has proposed to reduce Cedar Hill's collection lag by 50%. Proposed in
3 Staff's revised workpapers is the reduction of the collection lag from 48.35 days
4 to 24.17 days. This is reflected in the Rebuttal Testimony of Staff witness Casey
5 Westhues.

6

7 Q. IS THERE AN INCONSISTENCY IN HOW MAWC AND STAFF CALCULATED
8 THE COLLECTION LAG DAYS FOR THE CEDAR HILL DISTRICT?

9 A. Yes. Staff's calculation is inconsistent with MAWC's for two reasons. The first is
10 the use of pro-forma billed revenues in the calculation of collection lag days.
11 This has been discussed in my Rebuttal Testimony and refers to all districts
12 including the Cedar Hill district. The second inconsistency is the 50% reduction
13 of the calculated collection lag days in the Cedar Hill District.

14

15 Q. DO YOU AGREE WITH STAFF'S REDUCTION ADJUSTMENT TO
16 COLLECTION LAG DAYS?

17 A. No.

18

19 Q. WHY DID STAFF MAKE THIS REDUCTION?

20 A. Staff believes that the Cedar Hill district's collection lag was abnormally high.
21 The collection lag and revenue lag in the previous case were 46.04 and 65.70,
22 respectively. The lag has not decreased from the previous case to the current
23 case. In fact, the amount of lag days has increased for both the collection lag
24 and the revenue lag. It appears that Staff believes MAWC has some degree of

1 control in the ability to influence the customers to pay their bills by turning off
2 their water.

3

4 **Q. DOES MAWC HAVE THIS ABILITY?**

5 A. This has not been the case in the past. Cedar Hill is a sewer only system where
6 water is provided by another source that will not agree to turn off the water on
7 delinquent accounts (Cedar Hill Public Water Supply District #8). MAWC is
8 unable to disconnect the water service and previously did not disconnect the
9 sewer service.

10

11 **Q. HAS MAWC TAKEN OTHER STEPS TO ATTEMPT TO INFLUENCE**
12 **PAYMENTS?**

13 A. Yes. Measures have been put into place regarding a dig-up procedure. The first
14 dig-ups are scheduled to begin in February 2012. By starting the dig-up
15 procedure, it is MAWC's desire to collect on many of the outstanding accounts.

16

17 **Q. WHEN WILL MAWC BE ABLE TO DETERMINE IF THIS APPROACH HAS**
18 **HAD THE DESIRED IMPACT?**

19 A. It will not be known until later in 2012 if the dig up procedure will have any impact
20 on customers making payments on their outstanding balances. Payment plans
21 may be stretched out to help the customers make payments on their outstanding
22 balance. It will take many months or perhaps years to see a significant change in
23 the receivables aging report.

24

1 Q. WHAT IS THE CURRENT STATUS OF ACCOUNTS IN THE CEDAR HILL
2 DISTRICT?

3 A. According to MAWC's accounts receivable aging report dated January 23, 2012,
4 there were 96 of 688 accounts with a receivable balance over 90 days. Non or
5 slow pay customers represent 14% of all customers in the aging report. Please
6 see Surrebuttal Schedule RCT – 1.

7

8 Q. PLEASE EXPLAIN THE INFORMATION PROVIDED IN SURREBUTTAL
9 SCHEDULE RCT-1.

10 A. The schedule includes 96 customers with an outstanding receivable balance over
11 90 days. These customers owe \$5,000 in the 91 to 120 days outstanding,
12 \$8,000 in the 121 to 180 days outstanding, and \$32,000 in the over 180 days
13 outstanding categories. This summation of the 3 categories equals over \$45,000
14 or 45% of the total receivable balance of \$101,000 on January 23, 2012. Of
15 those 96 customers, 47 have not made payment on their sewer bills for over a
16 year, resulting in an outstanding receivables balance of \$36,000.

17

18 Q. WHAT IMPACT DOES THIS LAG IN ACCOUNTS RECEIVABLE COLLECTION
19 HAVE ON MAWC?

20 A. MAWC must operate without the cash from billed services that is due to the
21 Company, in this case \$36,000. Even though customers are not paying their
22 bills, the Company is still incurring costs to provide safe and adequate sewer
23 service. The lack of cash inflow from these outstanding bills can impact MAWC's
24 own ability to pay bills on time.

25

1 Q. WHAT IS MAWC'S CURRENT PRACTICE REGARDING EXCESSIVE
2 RECEIVABLES BALANCES?

3 A. MAWC has recently revised its procedures regarding sewer accounts with
4 excessive receivable balances. If the customer fails to respond to Notices of
5 Delinquency, the customer is put on a 30 day dig-up notification list. The first
6 step after putting the customer on the 30 day dig-up list is for MAWC to contact
7 the customer via a certified letter which states the customer has 30 days to make
8 payment in full or make payment arrangements with the Company. A copy of
9 this letter is sent to the Missouri Public Service Commission, Jefferson County
10 Health Department, Office of the Public Counsel, and Missouri Department of
11 Natural Resources. If the customer does not comply by paying in full or setting
12 up a payment plan, the next step is to place a door hanger notifying the customer
13 that a dig up will be performed in 24 hours. After these 24 hours have passed
14 and the customer has not paid or set up their payment plan, the worker will knock
15 on the door and notify the customer that their service will be dug up using a
16 backhoe on site. If the customer does not answer the door, another door hanger
17 is placed on the door advising them that they no longer have sewer service. See
18 Surrebuttal Schedule RCT-2 for examples of 30 day notice, door hanger notice,
19 and disconnection notice.

20 After disconnection of the customer's sewer line, a list will be provided to
21 Missouri Public Service Commission of customers that are dug up and
22 disconnected. This list will be updated and provided to the Public Service
23 Commission as customers pay and are re-connected. Reconnection will only
24 occur after payment is received in full including costs for disconnect and
25 reconnection.

1

2 **Q. DO YOU AGREE WITH THESE PROCEDURES?**

3 A. Yes. During the test year ending December 31, 2010, the daily outstanding
4 balance increased. This is mainly due to the 47 customers that refuse to pay
5 their sewer bills. Prior to the revised policy, there was no incentive for these
6 customers to pay their outstanding balance. Some Customers were taking
7 advantage of MAWC's inability to disconnect their water service. During
8 MAWC's last rate case, WR-2010-0131, an adjustment was made by Staff to
9 reduce the collection lag days. Staff stated that the collection lag was too long
10 and would not allow MAWC the additional lag days due to their inability to collect
11 on the outstanding accounts. MAWC felt compelled to implement dig-up
12 procedures to be more aggressive in the collection of outstanding bills. After all
13 efforts to secure payment from the customer have been exhausted, MAWC will
14 now disconnect the customer's service line. These customers may feel obligated
15 to come to a payment resolution when faced with the possibility of sewage
16 remaining on their property.

17

18 **Q. WILL MAWC DEMAND IMMEDIATE PAYMENT OF THE TOTAL AMOUNT**
19 **OWED?**

20 A. No. MAWC acknowledges that some customers have had financial difficulties
21 and will work with all customers to seek a payment plan that is agreeable to the
22 customer and the Company.

23

24

25 **III. TRANSPORTATION EXPENSE (FUEL PRICE ADJUSTMENT)**

1

2 **Q. HAS STAFF CHANGED ITS POSITION ON THE FUEL PRICE ADJUSTMENT?**

3 A. Yes. On page 5 of Staff witness Ms. Westhues' Rebuttal Testimony, she states,
4 "While transportation costs were not included in the original agreed upon true-up
5 list of items, Staff now asserts that transportation gasoline costs should be
6 included in the true-up because of the upward trend in the true-up period shown
7 by the graph." My understanding of this statement is that Staff has
8 acknowledged that fuel prices have increased year over year and are likely to
9 continue to do so.

10

11 **Q. WHAT DISTRICTS WILL THIS CHANGE IMPACT?**

12 A. Ms. Westhues states on page 5, continuing on to page 6, "Staff proposes to
13 make a filing with the Commission that adjusts the True-Up item list to include
14 the transportation cost. Any such inclusion would be based upon data for all
15 areas of MAWC's service territory, not just the St. Louis area."

16

17 **Q. HAVE YOU TAKEN STEPS TO SUPPLY SIMILAR INFORMATION FOR ALL
18 OF MAWC'S DISTRICTS?**

19 A. Yes. I have supplied data for 2011 for all areas of MAWC's service territory.
20 Please see Surebuttal Schedule RCT - 3.

21

22 **Q. DO YOU STILL AGREE WITH YOUR PRO-FORMA TRANSPORTATION
23 EXPENSE ADJUSTMENT OF \$120,000 USED IN MAWC'S INITIAL FILING?**

24 A. Yes. I analyzed the transportation (gasoline) expense in 2011. The average
25 price paid per gallon during 2011 was \$3.39. Please see Surrebuttal Schedule

1 RCT – 3. MAWC is requesting an adjustment in the transportation expense
2 relating to gasoline of \$120,000. This adjustment would allow MAWC to recover
3 closer to the actual expense incurred relating to transportation fuel. MAWC used
4 approximately 188,000 gallons of gas in 2011 and paid approximately \$642,000
5 for that gas. Test year fuel expense was \$436,000. The increase in expense
6 from 2010 to 2011 is \$206,000 or 47%.

7 The pro-forma adjustment is \$120,000 and actually the adjustment would
8 be higher if you only compared the fuel expense from 2010 to 2011. However,
9 there was not enough information about actual gasoline usage or price per gallon
10 in 2011 when the pro-forma adjustment was calculated.

11
12 **Q. ARE THERE OTHER FACTORS THAT HAVE INCREASED OR THAT YOU**
13 **EXPECT TO INCREASE THE ACTUAL TRANSPORTATION (GASOLINE)**
14 **EXPENSE IN THE FUTURE?**

15 A. Yes. Another factor that increased the fuel expense during 2011 was the
16 acquisition of the Aqua America Water and Waste Water systems. More driving
17 was required due to investigation of the treatment properties and customer sites,
18 initial contact with customers, and normal monthly travel relating to meter reads
19 and service issues. This additional travel relating to the new properties was only
20 recognized during the later part of 2011. I fully expect gasoline usage to
21 increase during 2012 due to additional service requirements.

22 Also to be considered is the future price of a gallon of gasoline. According
23 to the U.S. Energy Information Administration, the forecast price of regular grade
24 gasoline for 2012 is \$3.48 per gallon. This estimate supports my assertion that
25 \$3.15 per gallon of gasoline is too low to use in calculating the pro-forma

1 adjustment for gasoline transportation expense. During the true-up period of
2 year ending December 31, 2011 the average price paid per gallon by MAWC was
3 \$3.39. If prior year statistics hold true, this price could increase or at the very
4 least remain constant throughout the year.

5

6 **Q. DO YOU BELIEVE THE REQUESTED PRO FORMA ADJUSTMENT IS**
7 **REASONABLE?**

8 A. Yes. The pro-forma adjustment is asking for only a modest increase to transportation
9 expense, even less that what was incurred by the Company in 2011. This will allow
10 MAWC to make up some of the additional expense incurred relating to the increased
11 transportation expenses.

12

13 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

14 A. Yes, it does.

Surrebuttal Schedule
RCT - 2

December 29, 2011

RE: Notice of Delinquency – Sewer Service
30 Day Dig Up Notification of your Service
Account Number:
Service Address:

Dear Customer:

Due to your failure to respond to Notices of Delinquency and lack of payment, payment arrangements, or payment in full on your account, which now stands at \$ **past due amount only**, we are forced to terminate your sewer service.

Failure to receive payment in full or payment arrangements before (give 30 days from date of the letter above) will result in disconnection of your sewer service at the main after this 30 days period has expired.

If your sewer service is disconnected from our sewer main you will be responsible for all monies due the Company **current, past due and all fees** and payment shall become immediately due and payable per the tariff regulation, on file with the Missouri Public Service Commission. You will also be responsible for payment of the disconnection and reconnection fees, per the tariff regulation, on file with the Missouri Public Service Commission; the Company shall have the right to disconnect and plug the customer's service sewer at its point of connection to the lateral or Company main, in which event the total cost of disconnection and re-establishment of service shall be at the expense of the customer.

Since the disconnection and reconnection fees are based on actual cost to perform these functions it may not appear immediately on your account and or mailed notifications, however, it is still payable before reconnection can occur and will be provided to you in a timely fashion for reconnection of the service.

It is **VERY** important for you to respond to our customer service department at 877-987-2782. Payment and payment arrangements may be made by you contacting this number immediately. If you choose to mail the payment please contact 877-987-2782 prior to mailing as it must be received by the date given above.

Sincerely,

Missouri American Water, Inc.

CC: Jim Busch, Missouri Public Service Commission
Jefferson County Health Department
Office of Public Counsel
Jim Rhodes, Missouri Department of Natural Resources

Door Hanger notification of certified letter

January 17, 2012

Dear Customer:

This location has been sent a certified letter informing you that the sewer connection to this location is due to be dug up for non-payment. Please pick up your certified letter when you receive notice from your post office. This letter contains account information and balance due. A copy is attached as well for your review, but the letter will still be sent certified mail for your pick up.

You need to contact our customer service department at 1-866-430-0820 ASAP to pay your bill or make payment arrangements.

If you are a new owner of this location please contact our customer service department at 1-866-430-0820 to have the service set up in your name and prevent disconnection of service.

Sincerely,

Missouri American Water

Door Hanger -- Notification of Service dig up

Date:

Your sewer has been dug up and disconnected from Missouri American Water sewer system for non-payment and failure to make arrangements to pay your sewer account.

Continuance of use of the sewer piping in your home could result in a back up of your own sewage into your own home as you are no longer connected to our system.

All proper State and Local Agencies have been notified of your sewer disconnection from Missouri American Water.

To restore your sewer service with our Company please contact us at 1-866-430-0820.

Surrebuttal Schedule RCT - 3

Amount in Gallons

Row Labels	1/31/2011	2/28/2011	3/31/2011	4/1/2011	5/1/2011	6/1/2011	7/1/2011	8/1/2011	9/1/2011	10/1/2011	11/1/2011	12/1/2011
Brunswick	139.70	108.20	134.60	114.20	141.80	99.30	109.90	116.00	102.40	143.20	52.90	98.80
Cedar Hill	81.30	105.30	101.10	104.10	127.50	104.00	154.00	110.20	136.00	111.40	135.40	83.10
corporate	848.40	749.20	1,006.00	857.70	1,366.10	1,094.60	1,368.00	952.70	1,005.40	1,248.50	951.80	926.00
Jefferson City	1,233.10	928.90	914.70	804.10	1,072.10	828.20	2,835.90	2,541.20	2,549.50	2,628.80	2,073.90	2,130.20
Joplin	2,945.70	1,957.40	2,744.70	2,596.40	2,962.00	2,616.60	3,712.10	2,592.80	2,897.40	3,599.60	2,875.00	3,075.60
Mexico	318.20	232.60	281.50	262.70	355.10	288.90	431.80	390.40	281.60	360.10	260.00	317.00
Platte County	379.10	425.40	437.50	445.50	468.70	418.10	533.80	424.00	522.10	523.50	532.30	489.30
Service Company	106.10	127.90	147.20	167.80	162.30	168.30	144.70	72.90	123.40	119.40	71.20	17.80
St. Joseph	2,950.70	2,633.40	3,028.90	2,688.60	3,503.60	3,257.50	3,539.40	2,971.60	3,379.30	3,872.70	3,451.40	2,989.50
St. Louis Metro	5,738.00	4,019.50	5,105.50	4,488.60	5,747.60	4,362.80	6,012.20	4,901.00	5,225.00	5,918.30	4,605.30	4,662.80
Tri-County							205.40	226.40	241.80			
Warrensburg	499.70	354.10	450.10	346.60	545.30	456.90	661.30	454.50	514.80	562.60	514.80	372.90
Grand Total	15,240.00	11,641.90	14,351.80	12,876.30	16,452.10	13,695.20	19,708.50	15,753.70	16,978.70	19,088.10	15,524.00	15,163.00

Amount in \$

	1/31/2011	2/28/2011	3/31/2011	4/1/2011	5/1/2011	6/1/2011	7/1/2011	8/1/2011	9/1/2011	10/1/2011	11/1/2011	12/1/2011
Brunswick	401.85	318.29	445.21	355.98	488.24	368.91	399.57	397.73	358.33	495.74	169.84	315.51
Cedar Hill	236.12	320.22	346.86	335.24	462.97	410.62	557.37	383.50	475.92	382.30	421.34	262.03
corporate	2,481.09	2,267.27	3,412.01	2,767.61	4,840.39	4,184.68	4,912.43	3,316.13	3,527.94	4,266.26	3,029.57	2,966.34
Jefferson City	3,757.13	2,878.67	3,138.12	2,665.11	3,823.20	3,185.71	10,276.74	8,975.16	9,080.02	9,208.27	6,775.29	7,109.57
Joplin	8,916.60	6,108.39	9,416.87	8,606.41	10,492.45	9,927.60	13,258.83	9,067.86	10,366.57	12,594.74	9,461.50	10,212.80
Mexico	939.37	698.45	952.46	828.89	1,240.93	1,085.02	1,549.13	1,349.86	986.61	1,255.15	830.93	1,044.61
Platte County	1,102.87	1,284.71	1,471.78	1,430.83	1,635.18	1,562.87	1,931.28	1,482.31	1,850.46	1,849.55	1,719.96	1,546.39
Service Company	326.81	386.66	511.74	518.04	601.19	676.91	544.37	267.64	450.01	437.77	236.01	59.88
St. Joseph	8,808.65	8,134.34	10,255.01	8,818.44	12,329.82	12,350.92	12,798.64	10,345.78	11,983.40	13,501.44	11,331.29	9,794.27
St. Louis Metro	16,956.58	12,128.73	17,589.82	14,400.66	20,881.38	17,004.85	21,644.90	17,111.18	18,352.47	19,964.25	14,321.04	14,711.87
Tri-County							738.40	774.33	846.47			
Warrensburg	1,433.40	1,040.96	1,478.09	1,091.30	1,871.03	1,685.21	2,317.61	1,548.41	1,793.03	1,929.10	1,648.72	1,199.76
Grand Total	45,360.47	35,566.69	49,017.97	41,818.51	58,666.78	52,443.30	70,929.27	55,019.89	60,071.23	65,884.57	49,945.49	49,223.03

Price per gallon

	1/31/2011	2/28/2011	3/31/2011	4/1/2011	5/1/2011	6/1/2011	7/1/2011	8/1/2011	9/1/2011	10/1/2011	11/1/2011	12/1/2011	Grand Total
Brunswick	2.88	2.94	3.31	3.12	3.44	3.72	3.64	3.43	3.50	3.46	3.21	3.19	3.32
Cedar Hill	2.90	3.04	3.43	3.22	3.63	3.95	3.62	3.48	3.50	3.43	3.11	3.15	3.37
corporate	2.92	3.03	3.39	3.23	3.54	3.82	3.59	3.48	3.51	3.42	3.18	3.20	3.36
Jefferson City	3.05	3.10	3.43	3.31	3.57	3.85	3.62	3.53	3.56	3.50	3.27	3.34	3.43
Joplin	3.03	3.12	3.43	3.31	3.54	3.79	3.57	3.50	3.58	3.50	3.29	3.32	3.42
Mexico	2.95	3.00	3.38	3.16	3.49	3.76	3.59	3.46	3.50	3.49	3.20	3.30	3.36
Platte County	2.91	3.02	3.36	3.21	3.49	3.74	3.62	3.50	3.54	3.53	3.23	3.16	3.36
Service Company	3.08	3.02	3.48	3.09	3.70	4.02	3.76	3.67	3.65	3.67	3.31	3.36	3.48
St. Joseph	2.99	3.09	3.39	3.28	3.52	3.79	3.62	3.48	3.55	3.49	3.28	3.28	3.39
St. Louis Metro	2.96	3.02	3.45	3.21	3.63	3.90	3.60	3.49	3.51	3.37	3.11	3.16	3.37
Tri-County							3.59	3.42	3.50				3.51
Warrensburg	2.87	2.94	3.28	3.15	3.43	3.69	3.50	3.41	3.48	3.43	3.20	3.22	3.30
Grand Total	2.96	3.03	3.39	3.21	3.55	3.82	3.61	3.49	3.53	3.48	3.22	3.24	3.39