

**Exhibit No.:** \_\_\_\_\_  
**Issue(s):** Fire Hydrant Painting Project/  
Unamortized Security AAO Balance  
And Accumulated Deferred Income Tax/  
Tank Painting Expense and Tracker/  
Rate Case Expense  
**Witness/Type of Exhibit:** Robertson/Rebuttal  
**Sponsoring Party:** Public Counsel  
**Case No.:** WR-2010-0131

**REBUTTAL TESTIMONY**

**OF**

**TED ROBERTSON**

Submitted on Behalf of the Office of the Public Counsel

**MISSOURI-AMERICAN WATER COMPANY**

**CASE NO. WR-2010-0131**

April 15, 2010

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**REBUTTAL TESTIMONY  
OF  
TED ROBERTSON**

**MISSOURI AMERICAN WATER COMPANY  
CASE NO. WR-2010-0131**

9 **I. INTRODUCTION**

10 Q. ARE YOU THE SAME TED ROBERTSON THAT HAS PREVIOUSLY FILED  
11 DIRECT TESTIMONY IN THIS CASE?

12 A. Yes.

13  
14 **II. PURPOSE OF TESTIMONY**

15 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

16 A. I intend to rebut the Direct Testimony of Company witness Ms. Regina C.  
17 Tierney regarding the appropriate level of Fire Hydrant Painting Project cost to  
18 include in the cost of service and the regulatory treatment of the Unamortized  
19 Security AAO along with its associated Accumulated Deferred Income Taxes. I  
20 will also address the MPSC Staff's Ms. Kimberly K. Bolin regarding her Tank  
21 Painting Expense recommendation and her proposal to discontinue the Tank  
22 Painting Tracker, and Mr. Jermaine Green regarding his proposal for normalized  
23 Rate Case Expense.

24  
25 **III. FIRE HYDRANT PAINTING PROJECT**

26 Q. WHAT IS THE ISSUE?

1 A. On page 9, lines 3 - 13, of the Direct Testimony of Company witness, Ms. Regina  
2 C. Tierney, she discusses that Company has made an expense adjustment to  
3 reflect an annual level of hydrant painting costs necessary to sandblast and paint  
4 1/3 of the hydrants in St. Louis County District that were installed prior to 1980.  
5 Furthermore, she identifies and describes a pro forma expense increase  
6 adjustment of \$200,000 as the total cost (source: Company Schedule CAS-15,  
7 page 25) Company expects to incur by April 30, 2010. However, Ms. Tierney's  
8 testimony is somewhat confusing in that she identifies the number of hydrants  
9 requiring treatment as approximately 17,000, but when multiplied by the  
10 individual treatment cost of \$250 identified in her Schedule CAS-15, page 25, the  
11 total project cost would be \$4,250,000 and 1/3 of that amount is \$1,416,667. Ms.  
12 Tierney's testimony is that Company only seeks to include \$200,000 in the cost  
13 of service for the instant case.

14  
15 Q. WHAT IS PUBLIC COUNSEL'S POSITION ON THIS ISSUE?

16 A. In Company's last general rate increase case, Case No. WR-2008-0311, it  
17 proposed to include 1/3 of the total estimated cost for the hydrant painting project  
18 in expense prior to the costs actually being incurred. In that prior case, Public  
19 Counsel recommended that the Commission reject the Company's proposal;  
20 however, in the current case, Company has included in its case an estimate of  
21 the costs it expects to actually incur through the end of the true-up period. Thus,

1 to the extent the costs are actually incurred within the defined period and booked  
2 to a normal maintenance account Public Counsel does not oppose recovery of  
3 the costs. The true portion of the instant case will pick up the actual costs  
4 incurred and to the extent they are different from Company's estimate the  
5 amount included in the cost of service will be adjusted accordingly.  
6

7 **IV. UNAMORTIZED SECURITY AAO BALANCE AND ACCUMULATED DEFERRED**  
8 **INCOME TAXES**

9 Q. WHAT IS THE ISSUE?

10 A. According to page 3, line 10, of her Direct Testimony, Ms. Tierney is supporting  
11 rate base treatment for the unamortized balance of the Security AAO authorized  
12 in Case No. WO-2002-273. Company proposes to include in rate base  
13 \$1,397,046. This balance represents the unamortized Security AAO authorized  
14 as of April 30, 2010. If rate base treatment of the unamortized balance is  
15 disallowed, I believe Company recommends that the associated accumulated  
16 deferred income taxes also be removed from the rate base calculation.  
17

18 Q. DOES PUBLIC COUNSEL AGREE WITH COMPANY'S CALCULATION OF THE  
19 UNAMORTIZED SECURITY AAO BALANCE AS OF APRIL 2010?

20 A. Yes.  
21

1 Q. IF COMPANY'S PROPOSAL TO INCLUDE THE UNAMORTIZED SECURITY  
2 AAO BALANCE IN RATE BASE IS DISALLOWED, DOES PUBLIC COUNSEL  
3 RECOMMEND THAT THE ASSOCIATED ACCUMULATED DEFERRED  
4 INCOME TAXES STILL BE INCLUDED AS AN OFFSET IN THE RATE BASE  
5 CALCULATION?

6 A. Yes, for the reasons I discussed in my Direct Testimony beginning on page 32,  
7 line 18.

8  
9 Q. WHAT IS THE BALANCE OF THE SECURITY AAO ACCUMULATED  
10 DEFERRED INCOME TAXES AS OF APRIL 2010?

11 A. Company's deferred income tax workpapers do not appear to break out the  
12 amount from the total Company accumulated deferred income taxes balance so I  
13 have prepared a calculation of the approximate accumulated deferred income  
14 taxes associated with the Security AAO.

15  
16 Based on a beginning balance of \$5,362,854, as of December 31, 2002,  
17 approximately \$4,010,874 of the amounts deferred per the AAO will have been  
18 expensed by the Company as of the end of April 2010. Multiplying the  
19 \$4,010,874 expensed by the combined federal and state tax rate of 38.3865%  
20 shown in Company's instant case rate base workpapers (i.e., I utilized the  
21 Company's combined tax rate as a proxy rate for all years that the expensing of

1 the costs occurred) yields an approximate balance of \$1,539,634 for the  
2 accumulated deferred income taxes associated with the Security AAO. The  
3 \$1,539,634 (or the actual amount recorded in Company's financial records if  
4 different and supportable) should be utilized to reduce Company's rate base in  
5 the instant case determination of cost of service whether the Commission  
6 authorizes the Company's or OPC's rate base recommendation for the  
7 unamortized Security AAO balance.

8  
9 Q. BEGINNING ON PAGE 34, LINE 19, OF YOUR DIRECT TESTIMONY YOU  
10 DISCUSS A DIFFERENCE IN THE AMORTIZATION AMOUNT AUTHORIZED  
11 BY THE COMMISSION AND THE COMPANY'S FINANCIAL RECORDS. HAVE  
12 YOU IDENTIFIED THE REASON FOR THE DIFFERENCE?

13 A. Yes. Company's response to OPC Data Request No. 1114 identified that it had  
14 booked certain costs for the replacement of damaged equipment to the expense  
15 account.

16  
17 Q. WAS IT APPROPRIATE FOR THE COMPANY TO BOOK THE DAMAGED  
18 EQUIPMENT REPLACEMENT COSTS TO THE SECURITY AAO  
19 AMORTIZATION ACCOUNT?

20 A. No. Company's inclusion of those costs in the Security AAO amortization  
21 account causes some confusion regarding the tracking of the recovery of the

1 unamortized Security AAO balance; however, Public Counsel does not oppose  
2 Company's recovery of those costs provided they are reassigned to an  
3 appropriate capital or maintenance expense account for the period in which they  
4 were incurred.

5  
6 **V. TANK PAINTING EXPENSE AND TRACKER**

7 Q. WHAT IS THE ISSUE?

8 A. Beginning on page 45, line 23, and page 68, line 15, of the MPSC Staff's *Staff*  
9 *Report Cost of Service* Ms. Kimberly K. Bolin discusses the Staff's position  
10 regarding these costs. In essence, she identifies that a liability has been  
11 recorded pursuant to the tracker and she recommends that it be included in rate  
12 base and amortized to expense over a three year period. Furthermore, she  
13 recommends that the tank painting tracker be discontinued because with proper  
14 planning the Company should be able to keep tank painting costs at a constant  
15 level from year to year. She also states Staff used a two year average of tank  
16 painting costs that were completed in the calendar years 2008 and 2009, to  
17 arrive at a level of tank painting expense to be included in the test year. Staff  
18 reviewed five years of tank painting history and believes a two year average is  
19 appropriate. The two year period reflects the time period in which the tank  
20 painting tracker was in effect. Staff included the amortization of the tank painting  
21 liability in its annualized level of tank painting expense.



1 Q. WHAT IS PUBLIC COUNSEL'S POSITION ON THIS ISSUE?

2 A. Public Counsel agrees with Staff that the tank painting tracker should be  
3 discontinued and that a two year average of tank painting costs adjusted for an  
4 amortization of any remaining tracker asset or liability is a reasonable amount to  
5 include in the cost of service as an annualized level of expense; however,  
6 regarding the proposal for rate base treatment of the tracker liability identified (or  
7 an asset or liability as determined in the true-up) Public Counsel believes it is not  
8 appropriate.

9  
10 The *Order Approving Stipulations And Agreements* (Effective Date: November  
11 24, 2008), Case No. WR-2008-0311, does not state that rate base treatment will  
12 be authorized for either an asset or a liability that results from the tank painting  
13 tracker. It states, on page 5:

14  
15 Tank Painting Tracker

16  
17 As is set out in the Agreement; "The Signatories agree that  
18 Missouri-American will continue the regulatory asset or liability for  
19 tank painting and inspection expense previously established in  
20 Case No. WR-2007-0216. The regulatory asset or liability will  
21 increase or decrease each year by the same amount that actual  
22 tank painting and inspection expense is either greater or less than  
23 \$1,000,000. The tracker will be maintained through the effective  
24 date of the rates established in the next general rate proceeding.  
25 The method of recovery of any amounts accumulated (under or  
26 over) will be determined in the next general rate proceeding."  
27

1 (Emphasis added by OPC.)  
2  
3

4 Thus, regulatory treatment of the tracker asset or liability is to be determined in  
5 the instant case. Language similar to the above was also included in the  
6 Stipulation & Agreement authorized by the Commission in MAWC Case No. WR-  
7 2007-0216.  
8

9 Q. WHY DOES PUBLIC COUNSEL OPPOSE RATE BASE TREATMENT OF ANY  
10 AMOUNT ABOVE OR BELOW THE AUTHORIZED TRACKER LIMIT?

11 A. Public Counsel considers the trackers of the prior two general rate increase  
12 cases to have been an experiment in regulatory ratemaking. To the extent that  
13 trackers are used at all, we do not believe that they should be used for costs  
14 which are within the realm of management's capabilities to oversee and manage;  
15 particularly, when the costs are of a nature that are historically normalized.  
16 Public Counsel was a party to the Stipulation & Agreements of the Company's  
17 prior two general rate increase cases, but now that Staff and OPC both  
18 recommend that the tank painting tracker be discontinued, with any difference  
19 being included in the development of the proposed annual expense level, OPC  
20 sees no reason to complicate the issue further. In fact, if rate base treatment of  
21 any amount related to the tank painting tracker is authorized, Public Counsel

1 views the recovery as a guaranteed return on the cost for either the Company or  
2 ratepayers.

3  
4 Including an amortization of any over or under balance related to the tracker in  
5 annual expense allows shareholders or ratepayers to recover all funds they  
6 expended or paid. Whereas, also allowing a rate base return would provide the  
7 benefiting party with a return on the balance until rates are again changed based  
8 on a period wherein the over or under amount becomes fully amortized.

9 Regulatory ratemaking theory states that Company is provided the opportunity to  
10 earn its authorized return; it is not guaranteed. Allowing a return on any over  
11 balance related to the tracker would provide the Company with a guaranteed  
12 return on the amount. Further, to be fair, ratepayers should bear the same  
13 burden in that they too benefit from a rate structure that does not include all costs  
14 Company is incurring, if its cost structure is higher than that upon which the  
15 current rates were developed, until such time as rates are again changed to  
16 reflect the actual costs currently being incurred by a utility. Thus, ratepayers  
17 should not be allowed, in this instance, to recover a return on any under balance  
18 related to the tracker.

1 **VI. RATE CASE EXPENSE**

2 Q. WHAT IS THE ISSUE?

3 A. Beginning on page 69, line 17, of the MPSC Staff's *Staff Report Cost of Service*  
4 Mr. Jermaine Green discusses the Staff's position regarding these costs. He  
5 states:

6  
7 1. Rate Case Expenses

8  
9 The Staff has included the actual rate case costs incurred by  
10 Missouri-American as of February 16, 2010, for this rate case  
11 (Case No. WR-2010-0131). The Staff will include rate case  
12 expenses on a going forward basis as the actual expenses are  
13 incurred by the Company. The Staff's rate case adjustment is  
14 based upon a two-year normalization.

15  
16 The Staff is not recommending the inclusion of prior rate case  
17 expenses in the current cost of service for this case. The Staff's  
18 policy is to recommend recovery in rates of normalized rate case  
19 expenses only on a prospective basis. The Staff believes it is  
20 inappropriate to allow specific recovery in rates of amounts related  
21 to past rate proceedings. The Staff will work with the Company  
22 through the duration of this case to establish a reasonable and  
23 ongoing normalized level of rate case expense for inclusion in  
24 rates. This means that any additional expenses associated with the  
25 processing of this rate filing by Missouri-American will be examined  
26 to determine their appropriateness for inclusion in this case. This  
27 will allow reasonable and normalized costs such as consulting fees,  
28 employee travel expenditures and legal representation, which are  
29 directly associated with the length of the case through the  
30 settlement conference and hearing process, to be properly included  
31 in this rate case.

32  
33 The Staff does not recommend that rate case expense is an item  
34 that should be "amortized" in a rate case, as that implies an

1 obligation to allow recovery of any unamortized costs in the utility's  
2 next rate proceeding.  
3  
4

5 Q. WHAT IS PUBLIC COUNSEL'S POSITION ON THIS ISSUE?

6 A. Public Counsel agrees with Staff that it is inappropriate to allow specific recovery  
7 in rates of amounts related to past rate proceedings; however, I disagree with  
8 Staff's position to recommend recovery of costs incurred by Company for the  
9 instant case just because the utility chose to incur them.  
10

11 Q. TO YOUR KNOWLEDGE, DOES STAFF'S POSITION RECOMMEND THE  
12 DISALLOWANCE OF ANY OF THE COSTS COMPANY HAS INCURRED FOR  
13 THE INSTANT CASE?

14 A. It is my understanding that Staff has not proposed or recommended any  
15 disallowance for costs Company has incurred for the instant case.  
16

17 Q. WHY DOES PUBLIC COUNSEL DISAGREE WITH THE STAFF'S POSITION?

18 A. Beginning on page 6, line 18, of my Direct Testimony (which I will not belabor  
19 here) I discuss Public Counsel's reasons for the position that I have taken  
20 regarding this issue. However, I firmly believe that Staff has failed to recognize  
21 that Company likely could have significantly reduced its overall cost for this issue  
22 had it chose to utilize its own, and its affiliates', resources to process the case

1           rather than those of expensive outside legal assistance and consultants. I also  
2           believe that Staff has further failed to recognize that a portion of the related costs  
3           are incurred by Company purely to pursue positions which are beneficial to its  
4           shareholders and not necessarily to ratepayers, and that both shareholders and  
5           ratepayers benefit from the cost of service review.

6

7   Q.    DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

8   A.    Yes, it does.

9

10

11

12

**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 Service Provided in )  
 Missouri Service Areas. )


**Case No. WR-2010-0131**

**AFFIDAVIT OF TED ROBERTSON**

STATE OF MISSOURI   )  
                                   )   **ss**  
 COUNTY OF COLE       )

Ted Robertson, of lawful age and being first duly sworn, deposes and states:


1. My name is Ted Robertson. I am a Public Utility Accountant for the Office of the Public Counsel.
  
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.
  
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

  
 \_\_\_\_\_  
 Ted Robertson, C.P.A.  
 Public Utility Accountant III

Subscribed and sworn to me this 15<sup>th</sup> day of April 2010.



**JERENE A. BUCKMAN**  
 My Commission Expires  
 August 23, 2013  
 Cole County  
 Commission #09754037

  
 \_\_\_\_\_  
 Jerene A. Buckman  
 Notary Public

My Commission expires August 23, 2013.