

Exhibit No.:
Issues: Revenue deficiency; financial statements, including income statement and various adjustments; and minimum filing requirements
Witness: Donald J. Petry
Exhibit Type: Direct
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2008-XXXX
SR-2008-XXX
Date: March 31, 2008

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2008-XXXX
CASE NO. SR-2008-XXX**

DIRECT TESTIMONY

OF

DONALD J. PETRY

ON BEHALF OF

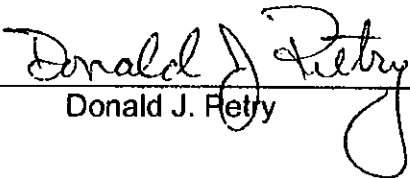
MISSOURI-AMERICAN WATER COMPANY

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-2008-XXXX CASE NO. SR-2008-XXX
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AFFIDAVIT OF DONALD J. PETRY

Donald J. Petry, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Donald J. Petry"; that said testimony and schedules were prepared by him and/or under his direction and supervision; that if inquires were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge.



Donald J. Petry

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 14th day of March 2008.



Notary Public

My commission expires:

Staci A. Olsen
Notary Public - Notary Seal
State of Missouri
St. Charles County
Commission # 05519210
My Commission Expires: March 20, 2009

**DIRECT TESTIMONY
DONALD J. PETRY
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR.2008.XXXX
SR.2008.XXX**

TABLE OF CONTENTS

I.	Witness Introduction	1
II.	Purpose and Scope	1
III.	Water Revenue Requirement	3
IV.	Income Statement-Water.....	4
V.	Sewer Revenue Requirement.....	6
VI.	Income Statement-Sewer	7
VII.	Fuel and Power	8
VIII.	Chemicals.....	8
IX.	Purchased Water.....	9
X.	Waste Disposal.....	9
XI.	Amortization of Regulatory Assets.....	9
XII.	Telephone Expense.....	10
XIII.	Insurance Other Than Group.....	10
XIV.	Property Tax Expense	10
XV.	Franchise Tax Expense	11
XVI.	Nonrecurring Expense	11
XVI.	Minimum Filing Requirements	11

DIRECT TESTIMONY

DONALD J. PETRY

WITNESS INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. Donald J. Petry, 727 Craig Road, St. Louis, Missouri 63141.

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

4 A. I am a Financial Analyst III in the Rates and Regulation Department of the
5 Central Region of American Water Works Service Company, Inc.
6 (“Company”).

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
8 **BUSINESS EXPERIENCE.**

9 A. My background and qualifications are summarized in Schedule DJP-1 of
10 this testimony.

11

12

PURPOSE AND SCOPE

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

15 A. The purpose of my testimony is to introduce and explain the financial
16 information supporting Missouri-American Water Company’s (“MAWC” or
17 “Company”) rate request to the Missouri Public Service Commission
18 (MOPSC). Specifically, I will sponsor: the financial schedules that
19 calculate the revenue deficiency and adjustments supporting the operating
20 income statement. I will also sponsor the following specific accounting

1 adjustments to the operating statement: Fuel & Power, Chemicals,
2 Purchased Water, Waste Disposal, Insurance Other Than Group,
3 Amortization of Regulatory Assets, Telephone Expense, Various One
4 Time write-offs, Property Taxes, and Franchise Taxes. Lastly, I will
5 sponsor the minimum filing requirements that are called for by
6 Commission Rule 4 CSR 240-3.030.

7 **Q. WERE THESE SCHEDULES PREPARED BY YOU OR UNDER YOUR**
8 **SUPERVISION?**

9 A. Yes, they were.

10 **Q. WHAT IS THE SOURCE OF THE INFORMATION FOUND ON THE**
11 **SCHEDULES?**

12 A. The historical and pro forma information contained in these schedules is
13 taken from MAWC's financial books and records at December 31, 2007, and
14 other Company sources. The books and records are maintained in
15 accordance with the Uniform System of Accounts for Class A water utilities
16 prescribed by the National Association of Regulatory Utility Commissioners
17 (NARUC), and are audited annually by an independent accounting firm which
18 certifies that such books and records are maintained in accordance with
19 generally accepted accounting principals.

20 **Q. PLEASE EXPLAIN THE NUMBERING OF ACCOUNTING SCHEDULES**
21 **CAS-1 THROUGH CAS-15.**

22 A. The first three digits (i.e. CAS) are the abbreviation for Company
23 Accounting Schedules. Schedule CAS-1 is a summary schedule for the
24 Overall Rate Increase Calculation, Rate Base, and Income Statement for

1 the Company. For Schedules CAS-2 through CAS-15, the numeric digits
2 of 2 through 15 represent specific components of the revenue requirement
3 calculation. For example, Schedule 2 calculates the overall revenue
4 deficiency; Schedules 3 through 7 calculate rate base; Schedules 8
5 through 12 show the income statement, revenues, O&M, O&M detail, and
6 income taxes. Schedules 13 and 14 are the bill analysis summary and the
7 detail at present and proposed rates. And finally, Schedule 15 provides
8 detailed income adjustments for all districts. The last three digits of
9 Schedules 2 through 14 are alphabetized and provide specific detail for
10 each district. For example, BRU is for the Brunswick District; JOP is for
11 the Joplin District; etc. Schedule DJP-2 contains a more detailed listing of
12 the schedules and the alphabetical abbreviation for the each district.
13 Some schedules have multiple pages. Included on each page of
14 Schedule CAS-15 is the name of the Company Witness who will provide
15 testimony on that particular schedule.

16
17 **WATER REVENUE REQUIREMENT**

18 **Q. WHICH SCHEDULES DEPICT THE MAJOR COMPONENTS OF THE**
19 **RATE REQUEST FOR MAWC'S WATER OPERATIONS?**

20 A. Schedules CAS-2-BRU, CAS-2-JFC, CAS-2-JOP, CAS-2-MEX, CAS-2-
21 PKW, CAS-2-SJO CAS-2-SLM, and CAS-2-WAR calculate the overall
22 revenue deficiency by district in this rate case. The schedule titled,
23 "Overall Revenue Requirement Summary for the Test Year Ended
24 December 31, 2007," is the lead schedule and summarizes the financial

1 information needed to calculate the Company's revenue deficiency by
2 district. In this case, the Company is proposing to merge the rates of St
3 Louis, St. Charles, and Warren County Water into a new district called St
4 Louis Metro.

5 **Q. PLEASE EXPLAIN THE REVENUE REQUIREMENT CALCULATION**
6 **PRESENTED IN SCHEDULE CAS-2 FOR EACH DISTRICT.**

7 A. The revenue requirement calculation was determined by multiplying the
8 Company's pro forma rate base by the requested rate of return to derive
9 the required operating income. The recommended 8.60% overall rate of
10 return is based upon an 11.25% common equity return requirement as
11 supported by Company Witnesses Rungren and Ahern. Company
12 Witness Rungren discusses the Cost of Capital schedule in detail in his
13 Direct Testimony. The operating income requirement is then compared to
14 pro forma earnings at present rates to determine the Company's operating
15 income deficiency. When multiplied by the gross revenue conversion
16 factor that adjusts for income taxes and uncollectibles, the result is a
17 revenue deficiency. When added to the adjusted operating revenue, the
18 result is the total revenue requirement for the district.

19
20 **INCOME STATEMENT-WATER**

21 **Q. PLEASE EXPLAIN SCHEDULES CAS-8 THROUGH CAS-12 FOR**
22 **EACH DISTRICT.**

23 A. These schedules were developed by accumulating the 12-month
24 operating period ended December 31, 2007. The first adjustment column

1 reflects the pro forma adjustments made to the test year operating income
2 statement. The next column is the pro forma operating income statement
3 at present rates, which includes the pro forma adjustments. The next
4 column reflects the necessary pro forma revenue increase (i.e. grossed up
5 for income taxes and uncollectible expense) to account for the change in
6 operating income to obtain the required earnings level. The last column
7 presents the pro forma operating income statement, at proposed rates,
8 which includes the Company requested increase for that district and
9 supports an operating income level before taxes.

10 Schedule CAS-9 for each district is a summary of the test year revenues
11 by revenue classification, the adjustments to these amounts, and the pro
12 forma revenue at present rates.

13 Schedule CAS-10 for each district is a summary of the operating and
14 maintenance expense and general taxes for the test year, the adjustments
15 to those amounts, and the pro forma expense levels under present rates.

16 Schedule CAS-11 for each district shows the detail of these pro forma
17 adjustments in a chart format. Along the top horizontal edge are the
18 individual schedules that support the adjustments. Down the left, vertical
19 edge are the line items as shown on Schedule CAS-10 for each district.

20 The chart is very useful since some of the pro forma adjustments affect
21 more than one line on the summary in Schedule CAS-10 for each district.

22 Company Witness Grubb explains in his Direct Testimony the income tax
23 calculation in Schedules CAS-12 for each district.

1 Schedule CAS-15 contains a detailed explanation of the various pro forma
2 adjustments requested in this case.

3
4 **SEWER REVENUE REQUIREMENT**

5 **Q. WHICH SCHEDULES DEPICT THE MAJOR COMPONENTS OF THE**
6 **RATE REQUEST FOR MAWC'S SEWER OPERATIONS?**

7 A. Schedules CAS-2-PKS, CAS-2-CDH, and CAS-2-WCS calculate the
8 overall revenue deficiency by district in this rate case. The schedule titled,
9 "Overall Revenue Requirement Summary for the Test Year Ended
10 December 31, 2007," is the lead schedule and summarizes the financial
11 information needed to calculate the Company's revenue deficiency.

12 **Q. PLEASE EXPLAIN THE REVENUE REQUIREMENT CALCULATION**
13 **PRESENTED IN SCHEDULE CAS-2 FOR EACH DISTRICT.**

14 A. The revenue requirement calculation was determined by multiplying the
15 Company's pro forma rate base by the requested rate of return to derive
16 the required operating income. The recommended 8.60% overall rate of
17 return is based upon an 11.25% common equity return requirement as
18 supported by Company Witnesses Rungren and Ahern. Company
19 Witness Rungren discusses the Cost of Capital schedule in detail in his
20 Direct Testimony. The operating income requirement is then compared to
21 pro forma earnings at present rates to determine the Company's operating
22 income deficiency. When multiplied by the gross revenue conversion
23 factor that adjusts for income taxes and uncollectibles, the result is a

1 revenue deficiency. When added to the adjusted operating revenue, the
2 result is the total revenue requirement for the district.

4 INCOME STATEMENT-SEWER

5 **Q. PLEASE EXPLAIN SCHEDULES CAS-8 THROUGH CAS-12.**

6 A. These schedules were developed by accumulating the 12-month
7 operating period ended December 31, 2007. The first adjustment column
8 reflects the pro forma adjustments made to the test year operating income
9 statement. The next column is the pro forma operating income statement
10 at present rates, which includes the pro forma adjustments. The next
11 column reflects the necessary pro forma revenue increase (i.e. grossed up
12 for income taxes and uncollectible expense) to account for the change in
13 operating income to obtain the required earnings level. The last column
14 presents the pro forma operating income statement at proposed rates,
15 which includes the Company requested increase for that district and
16 supports an operating income level before taxes.

17 Schedule CAS-9 is a summary of the test year revenues by revenue
18 classification, the adjustments to these amounts, and the pro forma
19 revenue at present rates.

20 Schedule CAS-10-PKS is a summary of the operating and maintenance
21 expense categories for the test year, the adjustments to those amounts,
22 and the pro forma expense levels under present rates.

23 Schedule CAS-11-PKS shows the detail of these pro forma adjustments in
24 a chart format. Along the top horizontal edge are the individual schedules

1 that support the adjustments. Down the left vertical edge are the line
2 items as shown on Schedule CAS-10-PKS. The chart is very useful since
3 some of the pro forma adjustments affect more than one line on the
4 summary in Schedule CAS-10-PKS.

5 Company Witness Grubb explains in his Direct Testimony the income tax
6 calculation in Schedule CAS-12-PKS.

7 A detailed explanation of the various pro forma adjustments requested in
8 this case contained in Schedule CAS-15.

9
10 **FUEL AND POWER**

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

13 A. The purpose of this adjustment is to annualize fuel and power expense for
14 changes that have occurred, or are expected to occur, by the true-up date.
15 The details of this adjustment can be found at Schedule CAS-15, page 6.

16
17 **CHEMICALS**

18 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
19 **RELATED TO CHEMICALS.**

20 A. The purpose of this adjustment is to annualize chemical expense to achieve a
21 normal level needed to treat water produced by the Company under normal
22 conditions and demands at current contract prices. The details of this
23 adjustment can be found at Schedule CAS-15, page 7.

1 **PURCHASED WATER**

2 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
3 **RELATED TO PURCHASED WATER.**

4 A. The purpose of this adjustment is to annualize the Company's expense
5 associated with water purchases. The details of this adjustment can be found
6 at Schedule CAS-15, page 8.

7 **Q. DO THE FUEL AND POWER, CHEMICALS, AND PURCHASED WATER**
8 **ADJUSTMENTS YOU HAVE DISCUSSED INCLUDE A PRO FORMA**
9 **SALES ADJUSTMENT?**

10 A. Yes. For all three adjustments noted above, each expense was also adjusted
11 to incorporate the pro forma sales adjustment as discussed by Mr. Grubb in
12 his Direct Testimony.

13
14 **WASTE DISPOSAL**

15 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
16 **RELATED TO WASTE DISPOSAL.**

17 A. The purpose of this adjustment is to annualize the Company's expense
18 related to waste disposal. The details of this adjustment can be found at
19 Schedule CAS-15, page 9.

20
21 **AMORTIZATION OF REGULATORY ASSETS**

22 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
23 **RELATED TO AMORTIZATION OF REGULATORY ASSETS.**

1 A. The purpose of this adjustment is to annualize the amortization of the
2 National Call Center and National Shared Services Center regulatory
3 assets. This amortization was approved in the Stipulation in Case No.
4 WR-2007-0216. The details of this adjustment can be found at Schedule
5 CAS-15, page 20.

6

7

TELEPHONE EXPENSE

8 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
9 **RELATED TO TELEPHONE EXPENSE.**

10 A. The purpose of this adjustment is to annualize the Company's expense
11 related to telephones. The details of this adjustment can be found at
12 Schedule CAS-15, page 16.

13

14

INSURANCE OTHER THAN GROUP

15 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
16 **RELATED TO INSURANCE OTHER THAN GROUP.**

17 A. The purpose of this adjustment is to annualize the expense for Insurance
18 Other than Group to the latest annual insurance premium levels received
19 by the Company. The details of this adjustment can be found at Schedule
20 CAS-15, page 11.

21

22

PROPERTY TAX EXPENSE

23 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
24 **RELATED TO PROPERTY TAX EXPENSE.**

1 A. The purpose of this adjustment is to annualize property tax expense to a
2 pro forma expense based on the level of Utility Plant in Service included in
3 the Companies' pro forma rate base. The details of this adjustment can
4 be found at Schedule CAS-15, page 17.

5

6

FRANCHISE TAX EXPENSE

7 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
8 **RELATED TO FRANCHISE FEES.**

9 A. The purpose of this adjustment is to annualize franchise fee expense. The
10 details of this adjustment can be found at Schedule CAS-15, page 26.

11

12

NONRECURRING EXPENSE

13 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
14 **RELATED TO NONRECURRING EXPENSE.**

15 A. The Company is eliminating the expenses associated with the write-off of
16 certain construction costs because they are deemed to be nonrecurring
17 expenses. Additionally, one time expenses related to the National Call
18 Center and Shared Services Center transition costs being transferred to a
19 regulatory asset are eliminated. The details of these adjustments can be
20 found at Schedule CAS-15, page 24.

21

22

MINIMUM FILING REQUIREMENTS (MFRs)

23 **Q. HAS THE COMPANY INCLUDED IN ITS FILING THE MINIMUM FILING**
24 **REQUIREMENTS IDENTIFIED BY COMMISSION RULE 4 CSR 240-3.030?**

1 A. Yes. Attached to my testimony is Appendix A, which contains the required
2 information for filing a request to change rates and charges before this
3 Commission.

4

5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 A. Yes, it does.

DONALD J. PETRY

In May 1981, Mr. Petry was awarded a Bachelor of Science Degree in Accounting from Manchester College. In May 1995, he completed a Masters of Business Administration from Tiffin University. He attended the NARUC Utility Rate School sponsored by the National Association of Regulatory Utility Commissioners in September, 2005.

Mr. Petry began his career in 1981 with American Water Works Service Co., Inc. as an Internal Auditor. As an Internal Auditor, he conducted financial and procedural audits of American System operating companies. In 1983, he was promoted to Business Manager of Ohio-American Water Company, Tiffin District. His responsibilities included preparation and management of the annual budget, cash forecasting, and customer service (customer billing, payments and inquiries, meter readers, and field service representatives) for the District. In 1994, he was promoted to Customer Service Superintendent. Responsibilities there included customer billing, cash collections, and the call center for all Ohio-American Districts and supervision of the meter readers and field service representatives of the Marion District.

In January 2001, Mr. Petry was promoted to Manager – Operations and Performance of the national Customer Service Center (CSC) for American Water Works Service Company, Inc. His responsibilities included preparation of the CSC budget, analysis and reporting of the CSC performance, scheduling of the workforce, and operation of the facility. December, 2002, he was promoted to Manager – Billing & Collections for the CSC where he was responsible for the processing of all billing and collection activities. In November, 2004, he transferred to Manager – Operations for the CSC to become responsible for the budgeting, workforce management, and facilities for the CSC.

In September, 2005, Mr. Petry was appointed to his current position as Financial Analyst III, Rates & Regulations. He has prepared testimony for the Missouri Public Service Commission, Public Utilities Commission of Ohio, and Iowa Utilities Board.

Mr. Petry's main responsibilities involve providing the following services to American Water utility subsidiaries in the Central Region, including Missouri American Water Company, Inc. ("Missouri-American" or "Company"):

- 1) Preparing and presenting all rate increase applications and supporting documents and exhibits as prescribed by management policies, guidelines and regulatory commission requirements;
- 2) Preparing rate analyses and studies to evaluate the effect of proposed rates on the revenues, rate of return and tariff structures;
- 3) Executing the implementation of rate orders, including development of the revised tariff pricing necessary to produce the proposed revenue level;
- 4) Overseeing the preparation of revenue and capital requirements budgets and analyses;
- 5) Providing support for financial analysis of proposed acquisitions and expansion of service territory, including preparation of applicable regulatory commission filings.

Missouri-American Water Company

Schedule: DJP-2

Witness: Donald J. Petry

LISTING OF SCHEDULES AND ABBREVIATIONS IN COMPANY ACCOUNTING SCHEDULES (CAS)

CAS-1	Company Total Rate increase Calculation, Rate Base and Income Statement
CAS-2	Overall Revenue Deficiency
CAS-3	Rate Base Summary
CAS-4	Utility Plant in Service Detail
CAS-5	Accumulated Reserve Detail
CAS-6	Advances and CIAC Detail
CAS-7	Working Capital Detail
CAS-8	Operating Income Statement
CAS-9	Revenue by Classification
CAS-10	Operating and Maintenance Expense
CAS-11	O&M Expense – Chart Style
CAS-12	Income Taxes
CAS-13	Bill Analysis Summary
CAS-14	Bill Analysis Detail
CAS-15	Pro Forma Detail

ALPHABETICAL CHARACTERS FOR ABBREVIATIONS FOR DISTRICTS

BRU	Brunswick
CDH	Cedar Hill
JFC	Jefferson City
JOP	Joplin
MEX	Mexico
PKW	Parkville Water
PKS	Parkville Sewer
SCH	St. Charles
SJO	St. Joseph
SLM	St. Louis Metro
STL	St. Louis County
WAR	Warrensburg
WCW	Warren County Water
WCS	Warren County Sewer