

Exhibit No.:

Issues: Revenues, Purchased Water,
Power, Chemicals, Uncollectibles,
Rate Case Expense, Commission
Assessment, Tank Painting Expense

Witness: MARK D. GRIGGS

Sponsoring Party: MoPSC Staff

Type of Exhibit: Direct Testimony

Case Nos.: WR-2000-281 and SR-2000-282

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

MARK D. GRIGGS

FILED

APR 3 2000

Missouri Public
Service Commission

MISSOURI-AMERICAN WATER COMPANY

CASE NOS. WR-2000-281 and SR-2000-282

Jefferson City, Missouri
March, 2000

TABLE OF CONTENTS

REVENUES	3
PURCHASED WATER	3
POWER	4
CHEMICALS	4
UNCOLLECTIBLES	5
RATE CASE EXPENSE	5
COMMISSION ASSESSMENT.....	5
TANK PAINTING EXPENSE	6

1

2

3

4

5

7

8

10

11

13

14

19

2

Direct Testimony of
Mark D. Griggs

1 Q. What has been the nature of your duties while in the employ of this
2 Commission?

3 A. I have assisted with audits and examinations of the books and records of
4 public utility companies operating within the state of Missouri.

5 Q. Have you previously filed testimony before this Commission?

6 A. Yes. I filed testimony in Case Nos. GR-98-374 and GR-99-315 regarding
7 the last two general rate cases involving Laclede Gas Company. In addition, I have
8 worked on three informal water and sewer cases.

9 Q. With reference to Case Nos. WR-2000-281 and SR-2000-282, have you
10 made an examination of the books and records of Missouri-American Water Company
11 (MAWC or Company)?

12 A. Yes, in conjunction with other members of the Staff.

13 Q. Please describe your areas of responsibility in this case.

14 A. My areas of responsibility in this case are revenues, power and fuel costs,
15 chemical costs, purchased water, uncollectibles, Commission assessment, rate case
16 expense and tank painting.

17 Q. What Accounting Adjustments to the Income Statement are you
18 sponsoring?

19 A. I am sponsoring the following Accounting Adjustments to the Income
20 Statement, which are listed on Accounting Schedule 10:

21 Revenues	S-1.1 & S-2.1
22 Purchased Water	S-8.2
23 Power	S-9.2

1	Chemicals	S-10.2
2	Uncollectibles	S-12.2
3	Rate Case Expense	S-13.12
4	Commission Assessment	S-16.5
5	Tank Painting Expense	S-11.2

6 **REVENUES**

7 Q. Please explain adjustments S-1.1 and S-2.1.

8 A. Adjustments S-1.1 and S-2.1 annualize and normalize residential and
9 commercial sales revenue by district based on an average usage per customer and the
10 level of customers at December 31, 1999. The average use per customer was determined
11 by Staff Witness Dennis Patterson of the Economic Analysis Department and is discussed
12 in his direct testimony. The annualized consumption using the average usage per
13 customer developed by Mr. Patterson was distributed to the various rate blocks based on
14 a bill frequency analysis that was provided by the Company. This calculation will be
15 updated based on the level of customers at April 30, 2000, at the time of the Staff's true-
16 up.

17 **PURCHASED WATER**

18 Q. Please explain adjustment S-8.2.

19 A. Adjustment S-8.2 adjusts operating expenses to reflect the annualized
20 level of purchased water expense for the St. Charles and Parkville districts. The current
21 actual cost per million gallons (Mgal) for each of these two districts was multiplied by
22 the annualized level of water production for sales within each of the districts. This

1 adjustment, along with the Staff's adjustments for chemicals, power and uncollectibles,
2 will be trued-up consistent with the Staff's revenue adjustments.

3 Q. Is annualized water production the same as annualized sales volume?

4 A. No. Annualized water production includes water volumes resulting from
5 company use and losses. The annualized water production was calculated by dividing the
6 Staff's annualized sales volume for each of the districts by the actual test year ratio of
7 water sales to water produced for each district. The percentage of company use and
8 losses varied by district during the Staff's test year.

9 **POWER**

10 Q. Please explain adjustment S-9.2.

11 A. Adjustment S-9.2 annualizes power cost for each district based on the
12 current electric rates in effect and the annualized volume of water production. The Staff
13 developed an average power cost per Mgal of water production for each district during
14 the test year. The average district-specific cost was applied to the annualized level of
15 water production to calculate the annualized power cost for each district.

16 **CHEMICALS**

17 Q. Please explain adjustment S-10.2.

18 A. Adjustment S-10.2 annualizes chemical expense for each district based on
19 the current cost of chemicals used in the water treatment process and the annualized
20 volumes of water produced. The Staff determined a ratio based on the current cost of
21 chemicals used in relation to the volumes of water produced by each district during the
22 test year. The resulting ratio was applied to the Staff's annualized level of water
23 production.

1 **UNCOLLECTIBLES**

2 Q. Please explain adjustment S-12.2.

3 A. Adjustment S-12.2 normalizes uncollectible (bad debt) expense for each
4 district. The Staff developed a three-year average ratio of actual accounts written off in
5 relation to gross revenues. Use of the three-year average was consistent with the past
6 Staff position and the method used by the Company in the current rate case. This ratio
7 was multiplied by the total annualized revenues (less miscellaneous revenues) to
8 determine a normalized level of write-offs. The adjustment reflects the difference
9 between this calculated level and the test year recorded uncollectible expense.

10 **RATE CASE EXPENSE**

11 Q. Please explain adjustment S-13.12.

12 A. This is the Staff's adjustment for rate case expense. As an approximation
13 of the total costs of the current case, the Staff has used the total cost of the Company's
14 prior rate case, Case No. WR-97-237. The amount used by the Staff includes service
15 company charges, legal fees and other miscellaneous costs. Rate case expense will be
16 reexamined during the Staff's true-up. Based upon the past history of MAWC, the
17 Company files a rate case, on average, every two years. Therefore, the Staff has divided
18 its determination of the cost of this rate case by two to reflect the normal annual level of
19 rate case expense. This amount was then compared to the amount charged to operating
20 expense during the test year to calculate the adjustment.

21 **COMMISSION ASSESSMENT**

22 Q. Please explain Adjustment S-16.5.

1 A. Adjustment S-16.5 reflects the current annual Commission assessment.
2 Each year the Commission charges an annual assessment fee to the Company for
3 expenses that will be incurred by the agency. On approximately July 1 of each year, an
4 order is issued notifying each utility of its portion of the total assessment. For the fiscal
5 year beginning July 1, 1999, the Company's Commission Assessments were \$187,462 for
6 water operations and \$4,744 for sewer operations. These amounts were compared to the
7 amount charged to operating expenses during the test year to determine the amount of the
8 adjustments.

9 **TANK PAINTING EXPENSE**

10 Q. Please explain adjustment S-11.2.

11 A. Adjustment S-11.2 represents the normalization for interior and exterior
12 tank painting expense.

13 Q. How were the normalized levels for interior and exterior tank painting
14 expense determined?

15 A. Tank Industry Consultants (Consultant) developed an average cost per
16 square foot for each type of tank in the Company's system: elevated, ground and
17 standpipe. Recent painting costs for the Mexico Plant Tank and the Joplin Rex Street
18 Tank confirmed the reasonableness of the costs developed by the Consultant and were
19 used for these tanks. For all other tanks, the applicable cost per square foot, as
20 determined by the Consultant, was applied to each tank to calculate the cost of painting
21 all the tanks in the Company's system. The cost of two inspections per tank was added to
22 the total tank painting cost for each district.

23 Q. How was the level of tank inspection expense determined?

1 A. In response to Staff Data Request No. 86, the Company provided invoices
2 supporting the cost of recent tank inspections. The average cost of these recent
3 inspections was doubled and multiplied by the number of tanks in each district to arrive
4 at the district level of tank inspection expense. The total cost for each district, including
5 inspections, was then divided by 15 to determine the annualized level of tank painting
6 expense. Fifteen years was the amortization period agreed to in the settlement of the
7 Company's last rate case, WR-97-237 and represents the average time period between
8 tank paintings.

9 Q. The Staff has used a test year ending September 30, 1999, updated through
10 December 31, 1999. As stated in the Direct Testimony of Staff Witness Doyle L. Gibbs,
11 the Staff is proposing a true-up through April 30, 2000. Regarding your areas of
12 responsibility, what areas will be trued-up?

13 A. The Staff will annualize revenues based upon changes in customer levels
14 and corresponding sales volumes through April 30, 2000. Any change in revenues will
15 also affect purchased water, power costs, chemical costs and uncollectible expense, as
16 these costs are based upon the Staff's annualized sales volumes. The Staff will also
17 review any changes to chemical, power and/or purchased water costs associated with new
18 plant placed in service by April 30, 2000.

19 Q. Does this conclude your direct testimony?


20 A. Yes, it does.

In the Matter of Missouri-American Water Company's Tariff Sheets designed to implement general rate increases for water and sewer service provided to customers in the Missouri area of the company.)))))	Case No. WR-2000-281
In the Matter of Missouri-American Water Company for a general sewer rate increase))	Case No. SR-2000-282

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Mark D. Griggs

his 28 day of March, 2000.


Toni M. Willmeno
Notary Public, State of Missouri
County of Callaway
My Commission Expires June 24, 2000

