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Case No.:

New plant, Quality of Service

Merciel

Direct Testimony

MO PSC Staff

WR-2000-281

SR-2000-282

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

FILED

APR 3 2000

Missouri Public
Service Commission

DIRECT TESTIMONY

of

JAMES A. MERCIEL, JR.

Missouri-American Water Company

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

Jefferson City, Missouri
April 3, 2000

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Of
JAMES A. MERCIEL, JR.

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1 THE COMPANY'S CONSTRUCTION PROJECTS

2 Q. Regarding the matter of new construction, what projects has
3 Missouri-American Water Company ("Company") undertaken since its last
4 rate case?

5 A. The Company has completed or is nearing completion of major
6 construction projects in most of its service areas. New supply and
7 treatment facilities are under construction in St. Joseph to replace
8 the existing facilities and increase supply. A dam on Shoal Creek,
9 which creates an impoundment used as a source of supply for the water
10 treatment plant at Joplin, has been reinforced and refurbished. A new
11 storage tank and booster station are under construction in the Platte
12 County (Parkville) district to increase total water storage. A new
13 well has been constructed to supply adequate source quantity in
14 Warrensburg. Also in Warrensburg treatment plant components are under
15 construction to improve certain "aesthetic" water quality
16 characteristics. A new well and replacement or expansion of some
17 treatment facility components are under construction in Mexico to
18 increase supply and refurbish or improve the facility. Finally,
19 construction activity in the St. Charles service area is primarily
20 focused on various distribution system piping projects.

21 Q. Is it your opinion that the construction projects
22 undertaken by the Company are reasonable and necessary?

23 A. Yes, I believe the projects are reasonable and necessary.
24 Many of the plant components are aging and in need of replacement or

1 improvement. I also agree that the capacity increases in Mexico and
2 St. Joseph are appropriate, considering that the required capacities
3 of the treatment facilities are projected to exceed existing plant
4 capacities within the next ten (10) years. The St. Joseph plant is
5 over 100 years old, and many of the plant components are from forty
6 (40) to 100 years old. The Mexico plant is approximately fifty (50)
7 years old. Since these facilities and/or their components are in need
8 of replacement or refurbishment now, it is also an opportune time to
9 increase capacity. The reason for this is that I would expect the
10 incremental costs to increase capacity now, while repairs, replacement
11 and reconstruction are being done, will likely be less than the total
12 costs of undertaking improvements for today's needs, and then
13 undertaking another expansion project within a few years.

14 Q. Specifically regarding the new St. Joseph plant, have you
15 evaluated the construction of a new facility versus refurbishment or
16 reconstruction of the existing facility?

17 A. Yes. The Staff studied this matter in the context of Case
18 No. WA-97-46, the certificate case in which the Commission
19 certificated additional service area for the Company. The Company had
20 presented comparisons of water supply alternatives in that case. I
21 recommended that the Company should be granted the additional service
22 area in order for it to proceed in its planning and construction of a
23 new ground water source of supply and a new treatment facility at a
24 location remote from the Missouri River flood plain. While

1 recognizing that there was no "pre-approval" of the costs of
2 constructing such new facilities and that actual construction costs
3 would need to be audited after the construction was complete, my
4 conclusion in the above case was that construction of the new proposed
5 facilities were in the public interest. While I noted that by a cost
6 comparison alone, utilizing river water at the existing plant site
7 appeared to be a reasonable choice, I also believed it was important
8 to consider factors other than just cost. Those factors included such
9 items as: the day-to-day fluctuation of river water quality
10 characteristics; the future of drinking water regulations pertaining
11 to the use of surface water supplies (which include river water
12 supplies); the unresolved issue of lime treatment waste disposal; the
13 continued risk of low river water levels; the risks associated with
14 river flooding that would exist even if flood protection measures were
15 taken; and, the Missouri Department of Natural Resources' policies
16 regarding plant siting in flood plains. Once these factors were taken
17 into consideration, I believed the construction of the new source of
18 supply and treatment facilities was a reasonable and appropriate
19 approach to assuring good water service in St. Joseph for many years
20 into the future.

21 Q. Did any of the other parties to Case No. WA-97-46 reach the
22 conclusion that the Company should refurbish or reconstruct the
23 existing supply and treatment facilities rather than embark upon the
24 construction of the new supply and treatment facilities?

1 A. No, they did not. My impression from the written and oral
2 testimony in that case was that there was support for the proposed
3 new, relocated facilities. None of the parties opposed the Company's
4 choice to construct the new, relocated facilities, though there were
5 concerns expressed on exactly how to implement the use of such
6 facilities, and how the "single tariff pricing" issue would impact
7 rates for all of the Company's customers. The Commission, in its
8 Report and Order, concluded that granting the Company the requested
9 additional certificated service area for the well field and raw water
10 transmission pipelines, and for the purpose of constructing the new,
11 relocated water treatment facility, was in the public interest. Even
12 though the Commission specifically did not "pre-approve" the costs
13 associated with the project, and specifically reserved any review of
14 the prudence of actual expenses associated with the project for the
15 future, the evidence in the case did include estimates of capital
16 expenditures, projected operating expenses and other factors
17 associated with the various alternatives considered by the Company.

18 Q. Is it the Staff's position that Case No. WA-97-46 was the
19 appropriate time and forum to address the questions surrounding the
20 Company's choice to construct the new supply and treatment facilities?

21 A. Yes, it is. The Staff's position was, and continues to be,
22 that the best time to evaluate that choice was a point in time as
23 close as possible to the time the Company made its decision. In this
24 instance, that was Case No. WA-97-46.

1 Q. Are you aware of any information regarding the
2 reasonableness of the Company's choice that was not available at the
3 time Case No. WA-97-46 was being considered, but which is now
4 available for further evaluation of the Company's choice?

5 A. No, I am not.
6

7 **STATUS OF THE COMPANY'S CONSTRUCTION PROJECTS**

8 Q. Are all of the Company's new facilities in service and
9 "used and useful" as of the time this testimony is being prepared?

10 A. No, they are not. As a result, the Staff will need to
11 verify that the new facilities that are to be included in the rates to
12 be approved in this case are in service and used and useful by April
13 30, 2000. Additionally, the Staff will need to verify that the costs
14 of the new facilities are reasonable and thus should be reflected in
15 rates.

16 To the extent the necessary information is available in a
17 timely manner, the Staff will provide verification of the "used and
18 useful status" of the new facilities and will also address the "cost
19 reasonableness" matters through its rebuttal testimony in this case.
20 If all such information is not available in a timely manner, the Staff
21 will also address these matters through its testimony in the "true-up
22 phase" of this case.

23 Q. Has the Staff developed the "in-service criteria" it will
24 use in making its determination of whether the new facilities should

1 be considered used and useful and included in the rates resulting from
2 this case?

3 A. Yes, particularly with regard to the new supply and
4 treatment facilities in St. Joseph. I expect to evaluate the facility
5 generally based on the following requirements:

- 6 1. All designer/manufacturer prescribed pre-operational
7 tests of the plant and all components shall have
8 successfully been completed;
- 9 2. All major mechanical components such as pumps, standby
10 generators and chemical feeders shall be operational;
- 11 3. The plant shall be connected to and supplying water to
12 the distribution system;
- 13 4. The successful completion of at least 100 hours of
14 uninterrupted service to the system while meeting the
15 appropriate water quality standards as measured by water
16 quality monitoring tests;
- 17 5. A demonstration that the plant can be run at full
18 capacity for at least one hour; and
- 19 6. The Company shall have passed or completed all licensing
20 requirements.

21
22 However, I should also note that there may be incomplete
23 items that are not critical to supplying safe and adequate water
24 service, which may not cause the Staff to determine that the

1 facilities are not "in-service," or that it is not "used and useful."
2 Examples of such items include final landscaping, parking lot or
3 driveway paving and non-safety related building features such as doors
4 or trim work within the facility. As noted previously, the Staff will
5 address the question of whether or not the facilities are in service
6 will be covered when it files its rebuttal testimony and/or in its
7 true-up testimony.

8
9 **GENERAL OPERATIONS AND QUALITY OF SERVICE**

10 Q. Are you familiar with the Company's overall operation of
11 its water systems and its sewer system?

12 A. Yes. Inspections of the Company's systems are periodically
13 conducted by individuals from the W/S Department who are under my
14 direct supervision and/or by me. The W/S Department Staff conducts
15 such inspections to evaluate the conditions of the Company's
16 facilities, to evaluate the Company's operation of the facilities and
17 to review the various records that the Company maintains about its
18 system operations. The Company has programs such as valve exercising,
19 meter replacements, hydrant exercising and flushing, pump maintenance
20 and leak detection. Records are maintained for these programs, as are
21 operational records pertaining to plant performance, volume of water
22 pumped and storage tank levels. All of these programs and records
23 contribute toward maintaining good water service. I am not aware of
24 any routine or unresolved matters pertaining to deficient water or

1 sewer service, or to the Company's operation and maintenance of its
2 water and sewer facilities.

3
4 **SUMMARY**

5 Q. Would you please summarize your testimony?

6 A. Yes. It is my opinion that the Company is providing good
7 service to its customers, is adequately operating and maintaining its
8 existing plant facilities and is adequately planning for facility
9 improvements and future needs. It is also my opinion that the capital
10 improvement projects that the Company is seeking to include in rates
11 through this case are reasonable and appropriate. However, as noted
12 previously, matters pertaining to the "used and useful status" and the
13 "cost reasonableness" of the capital projects will be addressed
14 further in rebuttal testimony and/or true-up testimony.

15 Q. Does this conclude your testimony at this time?

16 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water)
Company's Tariff Sheets Designed to)
Implement General Rate Increases for) Case No. WR-2000-281
Water and Sewer Service Provided to) Case No. SR-2000-282
Customers in the Missouri Service Area of)
the Company.)

AFFIDAVIT OF JAMES A. MERCIEL, JR.

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

James A. Merciel, Jr., of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony, in question and answer form, consisting of 9 pages, to be presented in the above case; that he has knowledge of the matters set forth in such answers; and that such answers are true to the best of his knowledge and belief.


James A. Merciel, Jr.

Subscribed and sworn to before me this 31st day of March 2000.


Notary Public

My commission expires _____

SHARON S WILES
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP. AUG. 23, 2002