

Exhibit No.:  
Issues: Rate base components, adjustments  
and working capital. Uncollectible,  
lease, transportation, PSC assessment  
and depreciation expense.  
Witness: Tyler T. Bernsen  
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-XXXX**

**DIRECT TESTIMONY**

**OF**

**Tyler T. Bernsen**

**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

**AFFIDAVIT OF TYLER T. BERNSEN**

Tyler T. Bernsen, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Tyler T. Bernsen"; that said testimony and schedules were prepared by him and/or under his direction and supervision; that if inquiries 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.

  
Tyler T. Bernsen

State of Missouri  
County of St. Louis  
SUBSCRIBED and sworn to  
Before me this 19<sup>th</sup> 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**  
**Tyler T. Bernsen**  
**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.	Rate Base Components and Adjustments .....	3
IV.	Working Capital .....	4
V.	Uncollectible Expense .....	5
VI.	Lease Expense.....	6
VII.	Transportation Expense .....	7
VIII.	PSC Assessment Expense.....	7
IX.	Depreciation Expense .....	8

## **DIRECT TESTIMONY**

**Tyler T. Bernsen**

### **WITNESS INTRODUCTION**

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

A. My name is Tyler T. Bernsen, and my business address is 727 Craig Road,  
St. Louis, Missouri 63141.

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

A. I am employed by American Water Works Service Company ("Service  
Company") as a Financial Analyst II in Rates & Regulation. The Service  
Company is a subsidiary of American Water Works Company, Inc.  
("American") that provides support services to American's water utility  
subsidiaries.

**Q. WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND  
AND BUSINESS EXPERIENCE?**

A. I was graduated from the University of Missouri, Columbia in 2004 with a  
Bachelor of Science Degree in International Business and an emphasis in  
Finance.

**Q. PLEASE ELABORATE UPON YOUR DUTIES AS A FINANCIAL ANALYST,  
RATES AND REGULATION.**

1 A. My responsibilities as a Financial Analyst, Rates & Regulation involve  
2 providing the following services to American's water utility subsidiaries in the  
3 Central Region, including Missouri-American Water Company, Inc. ("MAWC"  
4 or "Company"):

5 1) Preparing and presenting rate increase applications and supporting  
6 documents and exhibits in conformance with management policies, guidelines  
7 and regulatory commission requirements;

8 2) Preparing rate analyses and studies to evaluate the effect of proposed  
9 rates on the revenues, rate of return and tariff structures;

10 3) Executing the implementation of rate orders, including development of  
11 the revised tariff pricing necessary to produce the proposed revenue level;

12 4) Preparation of Data Request responses.  
13

14 **Q. HAVE YOU PREVIOUSLY PARTICIPATED IN REGULATORY MATTERS?**

15 A. Yes. I have presented testimony before the Iowa Utilities Board. In addition, I  
16 have participated in regulatory matters in Illinois.  
17

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

19 A. The purpose of my testimony is to support and explain certain pro forma  
20 accounting adjustments to the income statement and pro forma Rate Base.  
21  
22  
23

1 **ACCOUNTING ADJUSTMENTS**

2 **RATE BASE**

3 **Q. WHAT SCHEDULES WILL YOU BE DISCUSSING?**

4 A. I will be discussing and providing support for certain aspects of Schedules  
5 CAS-1, and CAS-3 through CAS-7, which are sponsored by Company  
6 Witness Petry.

7  
8 **Q. WHICH COMPONENTS OF RATE BASE WILL YOU BE SUPPORTING?**

9 A. I will be supporting Working Capital, Utility Plant In Service (UPIS),  
10 Accumulated Reserve, Customer Advances, Contributions In Aid of  
11 Construction (CIAC), Deferred Investment Tax Credit (ITC), Prepayments,  
12 Materials and Supplies, OPEBs's Contributed, Deferred Income Taxes,  
13 Pension Liability, and deferred Security Asset Costs.

14  
15 **Q. PLEASE DISCUSS THE CALCULATION OF EACH OF THE ABOVE**  
16 **MENTIONED RATE BASE COMPONENTS.**

17 A. The Company's rate base is shown on CAS-3 for each district and  
18 includes the actual December 31, 2007 balance for Utility Plant in Service  
19 (UPIS), Accumulated Reserve, Customer Advances, Contributions in Aid  
20 of Construction (CIAC), and Deferred ITC. Schedules CAS-4 through  
21 CAS-7 for each district contain additional detail for UPIS, Accumulated  
22 Reserve, Customer Advances, CIAC, and Working Capital. UPIS is  
23 updated for true-up additions and retirements through September 30,  
24 2008 as shown on CAS-4. Accumulated Reserve is updated for true-up

1 retirements and depreciation through September 30, 2008, utilizing  
2 depreciation rates approved in Case No. WR-2007-0216. The  
3 adjustments for Accumulated Reserve are summarized on schedule CAS-  
4 5. Customer Advances and CIAC were updated for true-up advances and  
5 contributions through September 30, 2008. The Customer Advances and  
6 CIAC proforma adjustments are summarized on schedule CAS-6. The  
7 CIAC and Deferred ITC were updated for the amortization through  
8 September 30, 2008. In addition, expired Customer Advances were  
9 moved to CIAC within the true-up period. Prepayments and Material and  
10 Supplies are based on a 13-month average of actuals ending December  
11 31, 2007. The post-employment benefits ("OPEBs") contributed to  
12 external funds included permanent investment recognized by the  
13 Commission in Case No. WR-95-205. Also included is investment for  
14 additional contributed OPEBS as of December 31, 2007, updated with  
15 amortizations through September 30, 2008. Deferred taxes were  
16 calculated based on all UPIS at September 30, 2008, which is the  
17 proposed true-up date. Pension Liability reflects the amount of pensions  
18 accrued, as reduced for any payments. Finally, the unamortized deferred  
19 cost associated with the Company's security efforts was included in Rate  
20 Base. These costs are being amortized over a ten year period as  
21 approved in Case No. WO-2002-273.

22  
23 **Q. PLEASE DISCUSS WORKING CAPITAL**

1 A. Working capital is included in a utility's rate base to help compensate  
2 investors for the lag between the time utility service is rendered to the  
3 customer and the time it takes to collect revenues from the customer to  
4 pay for the service. In other words, investors had to provide "upfront"  
5 capital to fund the daily operations of the business before customers pay  
6 their bills. The working capital calculation can also properly reflect the  
7 impact of the delay in receiving revenues from customers on deferred  
8 taxes as a rate base deduction.

9 The Company has used a Lead/Lag method to calculate its working capital  
10 requirement. The Company and the Missouri Staff have used this method in  
11 the last several rate cases. The Company's Lead/Lag calculation has  
12 incorporated the Staff's calculation from the previous MAWC rate case.  
13 Working capital can be found on schedule CAS-7 for each district. One  
14 change has been made to the lead/lag days as described below.

15  
16 **Q. WHAT CHANGE WAS MADE TO THE LEAD/LAG DAYS?**

17 A. The Company is proposing to use an expense lag of -3.48 days. This lag was  
18 calculated using actual 2007 Service Company charge data.

19  
20 **ACCOUNTING ADJUSTMENTS**

21 **INCOME STATEMENT ADJUSTMENTS**

22 **Q. WHAT SCHEDULE WILL YOU BE DISCUSSING?**

23 A. I will be discussing certain aspects of Schedule CAS-15, which is sponsored  
24 by Company Witness Petry. Specific operating and maintenance accounting



adjustments that I will sponsor are Uncollectibles Expense, Lease Expense, Transportation Expense, PSC Assessment Expense, and Depreciation Expense.

#### **UNCOLLECTIBLE EXPENSE**

**Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES RELATED TO UNCOLLECTIBLES.**

A. The purpose of this adjustment is to annualize uncollectible expense to a three-year average ratio of net charge-offs to present billed water and waste water revenues. The three year average ratio is applied to pro forma water and waste water revenues in order to calculate the pro forma uncollectible expense. The summary of this adjustment can be can be found on Schedule CAS-15, page 21.

#### **LEASE EXPENSE**

**Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES RELATED TO LEASES.**

A. The Company pays rental on railroad crossings, rights of way, and various office and plant equipment. The pro forma adjustment is to annualize lease expenses expected to be in effect by September 30, 2008. Building rents increased by \$92,416 state wide. Jefferson City storage rent has been reduced by \$21,600, as the Company will be purchasing this facility and eliminating rent expense at this location. Rent for the Craig Road office location will increase by \$114,016. This is due to the re-allocation of building

1 space to Missouri-American employees in 2008. Each district received an  
2 allocation of the proforma rent increase for the Craig Road office consistent  
3 with the methodology described in the Direct Testimony of Edward Grubb.  
4 Equipment leases will increase by \$9,570 state wide, primarily due to  
5 annualizing leases signed in 2007. The summary of this adjustment can be  
6 can be found on Schedule CAS-15, page 13.

7  
8 **TRANSPORTATION EXPENSE**

9 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**  
10 **RELATED TO TRANSPORTATION.**

11 A. The Company has calculated its pro forma Transportation expense based on  
12 changes in leased vehicle levels expected to occur by September 30, 2008.  
13 Gross vehicle cost was applied to the O&M percentage to obtain the O&M  
14 expense used in the adjustment. For vehicles not yet ordered, costs were  
15 based on recently ordered vehicles of the same type. The summary of this  
16 adjustment can be can be found on Schedule CAS-15, page 15.

17  
18 **PSC ASSESSMENT EXPENSE**

19 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**  
20 **RELATED TO PSC ASSESSMENT.**

21 A. The purpose of this adjustment is to annualize the PSC assessment. The pro  
22 forma amount is based on the latest known assessment rate applied to the  
23 pro forma present rate water revenues. The summary of this adjustment can  
24 be can be found on Schedule CAS-15, page 18.

1

2

**DEPRECIATION EXPENSE**

3

**Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**

4

**RELATED TO DEPRECIATION.**

5

A. The calculation is based on a true-up of Utility Plant In Service (UPIS) through

6

September 30, 2008. Depreciation rates stipulated in WR-2007-0216 were

7

used to calculate the depreciation on the true-up UPIS. The summary of this

8

adjustment can be can be found on Schedule CAS-15, page 22.

9

10

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

11

A. Yes it does.