

Exhibit No.:
Issues: Accounting Adjustments, Revenues,
Uncollectibles, Chemicals, Insurance
Other Than Group, Postage Expense,
Depreciation Expense, Amortization
Expense, Property Tax Expense, Rate
Base
Witness: Peter J. Thakadiyil
Exhibit Type: Direct
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2011-0337
SR-2011-0338
Date: June 30, 2011

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2011-0337
CASE NO. SR-2011-0338**

DIRECT TESTIMONY

OF

PETER J. THAKADIYIL

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-2011-XXXX CASE NO. SR-2011-XXXX
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AFFIDAVIT OF PETER J. THAKADIYIL

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



Peter J. Thakadiyil

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 14th day of June 2011.



Notary Public

My commission expires:



**DIRECT TESTIMONY
PETER J. THAKADIYIL
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2011-0337
SR-2011-0338**

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DIRECT TESTIMONY

PETER J. THAKADIYIL

I. WITNESS INTRODUCTION

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

2 A. My name is Peter J. Thakadiyil, and my business address is 727 Craig Road,
3 St. Louis, Missouri 63141.

4

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

6 A. I am employed by American Water Works Service Company (“Service
7 Company”) as a Financial Analyst II in Rates & Regulation. The Service
8 Company is a subsidiary of American Water Works Company, Inc.
9 (“American”) that provides support services to American’s water utility
10 subsidiaries.

11

12 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

13 A. I graduated from the University of Missouri – Columbia, Trulaske College of
14 Business with a Bachelor of Science degree in Business Administration with a
15 major in Finance in 2005.

16

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

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

5 1) Preparing and presenting rate applications and supporting documents
6 and exhibits in conformance with management policies, guidelines and
7 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) Assisting with the preparation of budgets and analyses;

13 5) Providing support for financial analysis for other matters, including
14 preparation of applicable regulatory commission filings.

15

16 **Q. HAVE YOU PREVIOUSLY PARTICIPATED IN REGULATORY**
17 **PROCEEDINGS?**

18 A. Yes. I have presented testimony to the Missouri Public Service Commission,
19 the Indiana Utility Regulatory Commission and the Public Utilities Commission
20 of Ohio. In addition, I have assisted with the preparation of rate cases before
21 the Illinois Commerce Commission and the Iowa Utilities Board.

22

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

2 A. The purpose of my testimony is to support and explain the pro forma
3 accounting adjustments to the operating statement that affect revenue,
4 uncollectibles, chemicals, insurance other than group, postage, depreciation,
5 amortization and property tax expense. In addition, my testimony will also
6 support pro forma adjustments related to rate base for Utility Plant in Service,
7 Accumulated Depreciation, Customer Advances, Contributions in Aid of
8 Construction, Deferred Investment Tax Credit, Prepayments, Materials and
9 Supplies, Deferred Income Taxes and Deferred Security Asset Costs.

10

11

II ACCOUNTING ADJUSTMENTS

12 **Q. WHAT SCHEDULE WILL YOU BE SUPPORTING?**

13 A. I will be supporting certain aspects of Schedule CAS-14, which is sponsored
14 by Company Witness Williams.

15

16

III. REVENUES

17 **Q. PLEASE EXPLAIN THE COMPANY'S ADJUSTMENT TO THE TEST YEAR**
18 **LEVEL OF REVENUES.**

19 A. The adjustments to the test year level of revenues can be characterized as
20 follows:

21 1) Eliminate from or adjust the test year for items that will not recur or are
22 reflected in other adjustments.

- 1 2) Annualize revenues for the level of residential and commercial customers
- 2 as of the end of the true-up period.
- 3 3) Normalize the sales level for the residential customer class and usage
- 4 declines as supported by a detailed analysis performed by Company
- 5 Witness Dunn.
- 6 4) Adjust for the level of current rates associated with the Infrastructure
- 7 System Replacement Surcharge (“ISRS”).
- 8 5) Reflect the impact of annualizing revenues for the change in base rates
- 9 authorized by the Commission in Case No. WR-2010-0131.
- 10 6) Adjust for the level of current rates of competitive tariff customers.
- 11 7) Adjust for the level of current rates associated with miscellaneous other
- 12 revenue (i.e. reconnect fees, temporary water service fees, etc).

13

14 **Q. BEFORE YOU BEGIN EXPLAINING THE ADJUSTMENTS TO REVENUES,**
15 **PLEASE BRIEFLY DESCRIBE SCHEDULES CAS-12 and CAS-13.**

16 A. Schedules CAS-12 and CAS-13 present a summary and detail by district of
17 the Company’s pro forma test year revenues at both present and proposed
18 rates. Schedule CAS-12 for each district is a summary by revenue class with
19 CAS-13 providing the detail by revenue class. The proposed rates are
20 primarily based on a cost of service study and other rate design adjustments
21 that are addressed in Company Witness Herbert’s testimony.

22

1 **Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE REVENUE**
2 **ADJUSTMENTS.**

3 A. As shown on Schedule CAS-8 for each of the districts, unbilled revenue is
4 being eliminated to reflect the Company's adjustment for annualizing and
5 normalizing customers and sales as of the true-up date.

6 The next adjustment shown on the schedule is labeled Bill Analysis and Other
7 Adjustments. These adjustments are related to the bill analysis and will
8 adjust the per book revenues to the bill analysis. One example of such an
9 adjustment is to eliminate correcting journal entries made in the Company's
10 books. This column for the St. Louis Metro District also reflects the
11 elimination of \$2,107,561 of revenues from per books related to ISRS. These
12 surcharges were set to zero by the Company when the Commission
13 authorized an increase in base rates in its Final Order in Case No. WR-2010-
14 0131, dated June 16, 2010.

15 The next level of adjustments shown and labeled Normalization and
16 Customer Adjustments reflects the number of customers anticipated at the
17 Company's proposed true-up date and the use of a normalized level of sales.
18 The Company adjusted the residential customer class based on Company
19 Witness Dunn's water usage analysis. Mr. Dunn provided the usage per
20 customer per day used in the revenue normalization. The usage per
21 customer per day adjusted the test year usage to reflect normalized water
22 usage for the residential customer class.

1 The Company only performed a study on the water usage patterns of the
2 residential customer class, and therefore made no adjustment to the
3 remaining customer classes. In the past, the Company has used a simple
4 average for the commercial class. However, with the continued downward
5 trend in overall sales, it would be illogical to use an average. By using an
6 average of water sales, the Company would be artificially inflating water
7 sales.

8 The final level of adjustments shown on CAS-8 for each of the districts is
9 labeled Other Adjustments. These adjustments reflect specific impacts on the
10 Company's revenues based on known and measurable changes for specific
11 customers.

12 The Company has competitive tariffs with Triumph Foods and Nestle Purina
13 in St. Joseph, and with C-1 Water District and the City of Kirkwood in the St.
14 Louis Metro District. During the test year, the Company changed the rates to
15 these customers based on the contracts. The Company is proposing to
16 annualize the revenues based on the latest known rate. The Company has
17 increased revenues by \$12,793 for Triumph Foods, and by \$4,425 for Nestle
18 Purina. For C-1 and Kirkwood, the Company has increased revenues by
19 \$20,010 and \$42,315, respectively.

20

21 **Q. DID THE COMPANY ANNUALIZE OTHER OPERATING REVENUES TO**
22 **REFLECT NEW RATES IN CASE NO. WR-2010-0131?**

1 A. Yes. The Company annualized other operating revenue fees to reflect
2 changes in rates as a result of Case No. WR-2010-0131. The changes in
3 rates are for activity charges, such as reconnection fees, temporary water
4 service fees and returned payments.

5
6 **Q. IS THE COMPANY PROPOSING TO ADJUST OTHER OPERATING**
7 **REVENUE RATES IN THE CURRENT CASE?**

8 A. Yes. The Company has updated its fees to reflect a more current fee
9 structure. In addition, the new structure reflects a move to consolidate fees
10 by district and replace them with a single fee structure for the entire
11 Company. Currently, the Company has a set of fees for the St. Louis Metro
12 district and another set for those districts outside of the metro service area.
13 The Company is proposing to eliminate fees for Meter Testing, Service Line
14 Inspection, Temporary Service, Rescheduled Taps and Leaking Service Line.
15 With the exception of Meter Testing Fees, the fees that the Company is
16 proposing to eliminate are only in effect in the St. Louis Metro area. The
17 proposed rates are discussed in the testimony of Company Witness Weeks.
18 The summary of this adjustment can be found on Schedule CAS-12.

19

20

IV. UNCOLLECTIBLES

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

1 A. The purpose of this adjustment is to annualize uncollectible expense to a
2 three-year average ratio of net charge-offs to present billed water and
3 waste water revenues. The three year average ratio is applied to pro
4 forma water and waste water revenues in order to calculate the pro forma
5 uncollectible expense. The summary of this adjustment can be found on
6 Schedule CAS-14, page 20.

7

8

V. CHEMICALS

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

11 A. The purpose of this adjustment is to annualize chemical expense to achieve a
12 normal level needed to treat water produced by the Company under normal
13 conditions and demands at current contract prices. The details of this
14 adjustment can be found at Schedule CAS-14, page 7.

15

16

VI. INSURANCE OTHER THAN GROUP

17 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
18 **RELATED TO INSURANCE OTHER THAN GROUP.**

19 A. The purpose of this adjustment is to annualize the expense for Insurance
20 Other than Group to the latest annual insurance premium levels received
21 by the Company. The details of this adjustment can be found at Schedule
22 CAS-14, page 11.

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VII. POSTAGE EXPENSE

Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES RELATED TO POSTAGE EXPENSE.

A. The pro forma adjustment for Postage Expense was calculated by applying 2011 anticipated postal rates from the latest rate filing by the United States Postal Service to the number of test year mailings. The details of this adjustment can be found at Schedule CAS-14, page 22.

VIII. DEPRECIATION EXPENSE

Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES RELATED TO DEPRECIATION.

A. The calculation is based on a true-up of Utility Plant In Service (UPIS) through December 31, 2011. The current depreciation rates were applied to the pro forma utility plant in service to arrive at the pro forma depreciation expenses. The summary of this adjustment can be can be found on Schedule CAS-14, page 21.

IX. AMORTIZATION EXPENSE

Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES RELATED TO AMORTIZATION.

A. The Company records Net Negative Salvage to the amortization expense account for book purposes. In the rate case, the Company has included Net Negative Salvage in the pro forma depreciation adjustment. Thus, it was

1 necessary to remove Net Negative Salvage from the amortization expense
2 line in order to represent a normal test year. The summary of this adjustment
3 can be found on Schedule CAS-14, page 15.
4

5 **X. PROPERTY TAX EXPENSE**

6 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**
7 **RELATED TO PROPERTY TAX EXPENSE.**

8 A. The purpose of this adjustment is to annualize property tax expense to a
9 pro forma expense based on the level of Utility Plant in Service included in
10 the Company's pro forma rate base. The details of this adjustment can be
11 found at Schedule CAS-14, page 16.
12

13 **XI. RATE BASE**

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

15 A. I will be discussing and providing support for certain aspects of Schedules
16 CAS-1, and CAS-3 through CAS-6, which are sponsored by Company
17 Witness Williams.
18

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

20 A. I will be supporting Utility Plant In Service ("UPIS"), Accumulated Reserve,
21 Customer Advances, Contributions In Aid of Construction ("CIAC"),
22 Deferred Investment Tax Credit ("ITC"), Prepayments, Materials and
23 Supplies, Deferred Income Taxes and Deferred Security Asset Costs.

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Q. PLEASE DISCUSS THE CALCULATION OF EACH OF THE ABOVE MENTIONED RATE BASE COMPONENTS.

A. The Company's rate base is shown on Schedule CAS-3 and includes the actual December 31, 2010 balance for Utility Plant in Service, Accumulated Reserve, Customer Advances, Contributions in Aid of Construction and Deferred ITC. Schedules CAS-4 through CAS-6 contain additional detail for UPIS, Accumulated Reserve, Customer Advances and CIAC. UPIS is updated for true-up additions and retirements through December 31, 2011 as shown on CAS-4. Accumulated Reserve is updated for true-up retirements and depreciation through December 31, 2011, based on the current depreciation rates. The adjustments for Accumulated Reserve are summarized on schedule CAS-5. Customer Advances and CIAC were updated for true-up advances and contributions through December 31, 2011. The Customer Advances and CIAC pro forma adjustments are summarized on schedule CAS-6. The CIAC and Deferred ITC were updated for amortization through December 31, 2011. In addition, expired Customer Advances within the true-up period were moved to CIAC. Prepayments and Material and Supplies are based on a 13-month average of actuals ending December 31, 2010. Deferred taxes were calculated based on all UPIS at December 31, 2011, which is the proposed true-up date. Finally, the unamortized deferred cost associated with the Company's security efforts was included in Rate Base. These

1 costs are being amortized over a ten year period as directed in Case No.
2 WO-2002-273.

3

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

5 A. Yes, it does.