Exhibit No.:	
Issue:	*Bad Debt Expense* *Chemical Expense,* *Fuel & Power Expense,* *Unaccounted for Water*
Witness:	*Roberta A. Grissum*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal Testimony*
Case No.:	*WR-2007-0216*
Date Testimony Prepared:	*July 31, 2007*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

ROBERTA A. GRISSUM

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2007-0216

Jefferson City, Missouri
July 2007

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water Company's request for Authority to Implement a General Rate Increase for Water Service provided in Missouri Service Areas	))))	Case No. WR-2007-0216

AFFIDAVIT OF ROBERTA A. GRISSUM

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Roberta A. Grissum, of lawful age, on her oath states: that she has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

Roberta A. Grissum

Roberta A. Grissum

Subscribed and sworn to before me this 31st day of July 2007.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
County of Cole
My Commission Exp. 07/01/2008

D Suzie Mankin
Notary Public

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ROBERTA A. GRISSUM

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2007-0216

Q. Please state your name and business address.

A. My name is Roberta A. Grissum and my business address is 9900 Page Avenue, Suite 103, Overland, Missouri 63132.

Q. Are you the same Roberta A. Grissum who previously filed direct testimony in this proceeding on behalf of the Staff of the Missouri Public Service Commission (Staff)?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of Company witnesses Donald L. Petry regarding bad debt expense (i.e., uncollectibles), and Greg A. Weeks regarding chemical expense and fuel & power expense related to unaccounted for water. Finally, I will respond to the rebuttal testimony of Leslie Jones filed on behalf of the City of Joplin regarding chemical expense.

BAD DEBT EXPENSE (i.e, UNCOLLECTIBLES)

Q. On page 1, at lines 28 through 30, Mr. Petry states in his rebuttal testimony that Staff "calculated the net write-off amount based on a five year average, with the exception of St. Louis and St. Joseph. For those two Districts, Staff used the 2006 actual numbers." Does Staff agree with this characterization of Staff's calculation?

A. Yes, with the exception of the Warren County and Cedar Hill districts. Since only two years of data was available, the Staff used a two-year average to determine the normal ongoing level of bad debt expense in those districts.

Q. Company believes a two-year average should be used for the calculation of bad debt expense in all districts. Does Staff agree with this methodology?

A. No. Staff believes a two-year average is not a sufficient basis on which to determine a normal ongoing level of bad debt expense for Missouri-American Water Company (MAWC).

Q. Please explain.

A. Staff believes that two years is an insufficient period of time to use to normalize fluctuating costs and/or identify trends. For this reason, the Staff examined five-years of data where available. Based on this examination, the Staff was able to identify trends in the St. Joseph and St. Louis operating districts and fluctuations that required normalization in the remaining districts, except for Cedar Hill and Warren County. The St. Joseph operating district shows a three-year downward trend while the St. Louis operating district shows a three-year upward trend in bad debt expense. As a result, the actual net write-offs in these two districts for the twelve-months ending December 2006 are more reflective of the ongoing levels of bad debt expense. This trend could not have been identified using Mr. Petry's method of only using two years of data. The remaining districts showed fluctuating levels of bad debt write-offs during the five-year period making the average of this period the best indicator of the ongoing level of bad debt expense. In the Warren County and the Cedar Hill operating districts, Staff simply used an average of the data available to determine the ongoing levels of bad debt expense.

Q. Mr. Petry states in his direct testimony at page 2, lines 9-10, that "Staff used a three year average" in Case Nos. WR-2003-0500 and WC-2004-0168. Do you agree with this characterization of Staff's methodology for those two cases?

A. Yes. Staff did utilize a three-year average of net write-offs to estimate bad debt expense in Case Nos. WR 2003 0500 and WC-2004-0168. However, Staff utilized a three-year average due to a lack of available data necessary to perform a five-year examination of the merged entities of MAWC, United Missouri Water (UMW) and St. Louis County Water Company (SLCWC). The Jefferson City water operating district, formerly UMW, and St. Louis County water operating district, formerly SLCWC, were purchased in 2000 and 2001, respectively.

Q. Does Staff believe an increase in bad debt expense should be recognized for the change in revenues associated with the new rates in this case as proposed by Mr. Petry?

A. No. Staff does not believe there is a linear relationship between an increase in revenues and an increase in the level of bad debt expense. As such, Staff believes its method is superior and recognizes the actual experience of the Company.

Q. Mr. Petry states at page 5, lines 30-33, and page 6, lines 1, that:

A. In a Report and Order issued on December 21, 2006, in Case No. ER-2006-0314 (Kansas City Power & Light), the Commission found it 'more probable, and therefore just and reasonable, that an increase in the amount of revenue that KCPL is allowed to collect from its Missouri retail ratepayers will result in a corresponding increase in bad debt expense.'

Q. How do you respond to this statement?

A. Staff has reviewed the Report and Order (R&O) identified in Mr. Petry's rebuttal testimony and agrees that this in part is the Commission's finding. But, the R&O also states at page 63, paragraph 3:

The Commission finds that the competent and substantial evidence supports KCPL's position and finds this issue in favor of KCPL. The Commission understands Staff's argument that there is not a perfect positive correlation between retail sales and the percentage of bad debts. [Emphasis Added]

MAWC has not provided competent and substantial evidence in this proceeding that shows a linear relationship between a rate increase and an increase in bad debt expense. Therefore, Staff believes utilization of its method, which is based on an examination of the actual experience of the Company, is more reliable for establishing the ongoing level of bad debt expense.

Q. Has the Staff compiled data that shows there is not a linear relationship between an increase in revenues and an increase in bad debt expense?

A. Yes. Schedule 1 attached to this testimony illustrates that bad debt expense does not always rise in a linear relationship with total company revenues. In fact, in 2004, bad debts increased while revenues declined. As such, Staff believes it is inappropriate to apply a bad debt write-off factor to revenues to determine the ongoing level of bad debt expense.

CHEMICALS, FUEL AND POWER – UNACCOUNTED FOR WATER

Q. MAWC witness Greg Weeks states at page 4, lines 10 through 12 of his rebuttal testimony that "The Staff disallowed a portion of MAWC's fuel & power and

chemical expenses because Staff arbitrarily assigned a 15% loss factor cap in its calculation of system delivery." How do you respond to this statement?

A. Staff has taken the position that water losses in excess of 15 % are abnormal. This standard has been used as a benchmark in prior cases when examining water losses. Schedule 2 attached to this testimony illustrates the water loss percentages reported by the Company at Test Year 12-months Ending June 30, 2006, Update 12-months Ending December 31, 2006 and True-Up 12-months Ending May 31, 2007.

Schedule 2 further illustrates, with the exception of the Brunswick and St. Louis districts, all other operating districts have been able to meet or exceed the standard of 15% recommended by the Staff. Therefore, the Staff believes its reliance of the 15% limit is appropriate.

Q. Do you have any documentation to support the 15% benchmark?

A. Yes. Information obtained from the American Water Works Association (http://www.awwa.org/WaterWiser/waterloss/) states the following:

> Many drinking water utilities around the world respond to leaks only after they have received a report of water erupting from a street or a complaint from a customer about a damp basement. Utilities that employ this type of reactive leakage response most likely have excessive leakage that will never be reliably contained. Controlling leakage effectively relies upon a proactive leakage management program that includes a means to identify hidden leaks, optimize repair functions and upgrade piping infrastructure before its useful life ends. Effective technologies have been developed in recent years including nightflow analysis to quantify leakage amounts, leak noise correlators and loggers to pinpoint leaks and pressure management to reduce leakage systematically under the right conditions. Many effective strategies now exist to allow water utilities to identify, measure, reduce or eliminate leaks in a manner that is consistent with their cost of doing business.

Q. Does MAWC employ any of the practices described above for controlling leaks?

A. Based on my discussions with individuals in the Staff's Water and Sewer Department, MAWC does not use any of these practices proactively. The Company employs leak noise correlators, but only in a reactive manner once a lead has been identified.

Q. Has Mr. Weeks identified what he considers appropriate loss factors?

A. Mr. Weeks states in his rebuttal testimony that "Unbilled water can be less than 10% in a relatively new, well-managed system. It is not uncommon to find unbilled water to be over 20% in an older system." The benchmark used by the Staff regarding water losses reflects an average of those two levels.

Q. The City of Joplin's witness, Ms. Leslie Jones, states in her rebuttal testimony that:

> The test year was a heavy water usage year, due to the drought in the Joplin area. As a result, the chemical usage for water treatment in the test year should have been above the average for a "normal year". Therefore, if any normalization is required of the chemicals used for treatment, the amount should be reduced thus resulting in lower costs after normalization and annualization.

Q. How do you respond to this statement?

A. Staff's calculation of chemical expense for the Joplin operating district is based on 3,969,981 Mgallons of water usage, which reflects normalized and annualized water usage for the Joplin operating district for the twelve-months ending May 31, 2007 as determined through Staff's normalized and annualized revenues calculation. The Company reported that the Joplin operating district experienced a water loss of 15.09% during the test year. Applying this water loss percentage to the normalized and annualized water usage referenced above, Staff determined the *pro forma* system delivery to be 4,675,516 Mgallons.

Multiplying the *pro forma* system delivery by a cost per one thousand gallons of $0.09824, representing the current price of chemicals necessary to treat one thousand gallons of water, the chemical expense for the Joplin operating calculated to be $459,323 for the twelve-months ending May 31, 2007. Staff derived its adjustment of chemical expense in the Joplin operating district by subtracting the test year level of chemical expense of $234,636 from the normalized and annualized chemical expense of $459,323 calculated by Staff to arrive at Staff's adjustment of an additional $224,687 of chemical expense to treat the normalized and annualized water usage for the Joplin operating district for the twelve-months ending May 31, 2007. The Company has experienced significant price increases in chemical costs.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

Comparison of Bad Debt Expense to Total Company Revenues

District	2002	2003	2004	2005	2006	2-Yr Avg	5-Yr Avg
Brunswick	$1,828.25	$1,182.23	$2,091.13	$1,322.38	$,1726.91	$1,525	$1,630[1]
Jeff City	$45,682.99	$46,774.98	$36,657.79	$38,947.29	$40,312.20	$39,630	$41,675[1]
Joplin	$162,878.04	$119,281.35	$105,864.97	$114,829.15	$96,480.65	$105,655	$119,867[1]
Mexico	$32,661.92	$21,167.56	$24,504.59	$23,351.46	$19,530.48	$21,441	$24,243[1]
Parkville Water & Sewer	$12,598.85	$13,283.21	$11,751.12	$15,243.04	$14,959.51	$15,101	$13,567
St. Charles	$26,937.53	$25,037.78	$25,468.72	$24,985.16	$28,717.17	$26,851	$26,229[1]
St. Joseph	$164,296.13	$167,426.42	$155,251.18	$145,401.70	$130,401[1]	$137,902	$152,555
St. Louis	$774,268.33	$771,932.91	$1,178,487.60	$1,222,518.64	$1,262,520[1]	$1,242,519	$1,041,945
Warren County Water & Sewer	$0	$0	$0	$2,187.88	$3,133.70	$2,661[1]	$1,064
Warrensburg	$24,005.06	$20,326.41	$15,775.77	$21,309.22	$13,189.46	$17,249	$18,921[1]
Cedar Hill Sewer	$0	$0	$0	$775.80	$1,682.77	$1,229[1]	$491
Total Bad Debt	$1,245,157	$1,186,413	$1,555,853	$1,610,872	$1,612,654	$1,611,763	$1,642,944[1]
% Change		-4.72%	31.14%	3.54%	0.11%		
Total Revenues	$162,035,847	$156,996,994	$154,968,916	$164,047,256	$170,853,331		
% Change		-3.11%	-1.29%	5.86%	4.15%		

Source: Bad Debt Expense obtained from Company's Response to Staff DR 74
Source: Total Revenues obtained from Company's Annual Report filings for 2002-2006

[1] Denotes Staff's filed position in Direct Testimony

Schedule 1

Water Loss Percentages of Missouri-American Water

District	Test Year Ending 6/30/06[1]	5-Year Average 12/31/06[2]	5-Year Average 5/31/07[3]	Calendar Year 2006
Brunswick	26.69%	21.88%	22.18%	16.65%
Jefferson City	22.34%	15.22%	15.41%	17.58%
Joplin	15.09%	8.36%	9.31%	9.57%
Mexico	15.61%	10.87%	11.02%	19.48%
Parkville Water	10.66%	4.59%	4.39%	4.62%
St. Charles	8.51%	3.52%	3.65%	4.18%
St. Joseph	18.66%	15.52%	15.88%	13.81%
St. Louis	20.40%	18.08%	19.19%	16.48%
Warrensburg	13.23%	9.63%	9.76%	11.51%
Warren Co. Water	5.56%	9.00%	4.18%	15.27%
System Average	**15.68%**	**11.67%**	**11.50%**	**12.92%**

[1] Denotes Test Year Water Losses provided by Company on 2/7/07 in Filename: Cust Annual, Tab: Sys Del

[2] Denotes a 5-year average of Water Losses for CY2002-CY2006 provided by Company on 6/1/07 without credits

[3] Denotes a revised 5-year average of Water Losses for CY2002-CY2006 provided by Company on 7/1/07 with credits