

Exhibit No.:	
Issues:	Operations, Meter Reading, Costs, Revenue, etc.
Witness:	Thomas M. Deters
Exhibit Type:	Direct
Sponsoring Party:	Missouri-American Water Company
Case No.:	WC-2007-0040
Date:	January 17, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WC-2007-0040

DIRECT TESTIMONY

OF

THOMAS M. DETERS

ON BEHALF OF

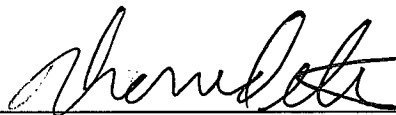
MISSOURI-AMERICAN WATER COMPANY

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

Metropolitan St. Louis Sewer District,)		
Complainant,)		
v.)		Case No. WC-2007-0040
Missouri-American Water Company,)		
Respondent.)		

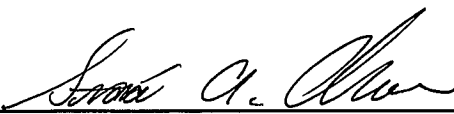
AFFIDAVIT OF THOMAS M. DETERS

Thomas M. Deters, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Thomas M. Deters"; 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.



Thomas M. Deters

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
before me this 12th day of January, 2007.



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
THOMAS M. DETERS
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WC-2007-0040**

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DIRECT TESTIMONY
OF
THOMAS M. DETERS
CASE NO. WC-2007-0040

BACKGROUND AND EXPERIENCE

Q. Please state your name and business address.

A. My name is Thomas M. Deters and my business address is 1050 Research Blvd,
St. Louis, Missouri 63132.

Q. What is your position with Missouri-American Water Company (“Missouri-American” or “Company”)?

A. I am Manager–Network for Missouri-American’s Eastern Operations, which includes
St. Louis County.

Q. Please describe your educational background.

A. I received a Bachelor of Science degree in Business Administration in 1985 from
Missouri State University – Springfield, Missouri and a minor in Spanish at the same
time.

Q. Are you a member of any professional organizations?

A. Yes, I am a member of the American Water Works Association.

Q. Please describe your business experience.

A. In 1985, I began my career with Laclede Gas Company located in St. Louis,
Missouri. I worked as a Budget Analyst and as an Internal Auditor from 1985

1 through 1987 along with being the treasurer of the Laclede Gas Credit Union from
2 1986 through 1987. I went to work for St. Louis County Water Company, MAWC's
3 predecessor, in 1987 as a Corporate Accountant and Rates/Internal Auditor. In
4 1992, I was promoted to the position of Manager, Customer Accounting, and
5 managed the office customer services functions until 1999. At this time, I was
6 promoted to Director of Customer Service, managing all field customer service
7 functions in addition to the office functions. In 2002, I was promoted to Manager of
8 Distribution Operations, becoming responsible for all aspects of the distribution
9 system including all customer service functions as well as all the construction and
10 maintenance activities. In 2004, I was promoted to my current position, Manager–
11 Network, which includes all of my prior responsibilities, plus the added
12 responsibilities of the Eastern Operations including St. Charles and subsequently
13 Warren County and Cedar Hill.

14 **Q. What are your responsibilities as Manager–Network?**

15 A. I am responsible for the day-to-day management and operations of water and
16 wastewater operations in the Company's Eastern Operations of Missouri, which
17 includes the St. Louis County, St. Charles, Warren County and Cedar Hill
18 operations. My duties include: the furnishing of potable water to customers through
19 the Company's distribution system; the safety, continuity and maintenance of
20 operations; development of annual budgets covering capital investments,
21 construction of facilities, and operations and maintenance expenditures; control of
22 such expenditures upon their authorization by the Board of Directors; supervision of
23 inventory control along with production and distribution procedures; and

1 management of the Company's Network personnel in the Eastern Operations of
2 Missouri. Approximately 408 MAWC employees report to me directly or indirectly,
3 including St. Louis County meter readers. I have ultimate responsibility for the meter
4 reading function in St. Louis County, ensuring that reads are performed on schedule
5 and properly. I also oversee the provision of water usage data to the Metropolitan
6 St. Louis Sewer District ("MSD").

7 **Q. What are the subjects for which you will be sponsoring testimony?**

8 A. I will discuss the following subjects: Missouri-American Water's meter reading
9 operations and the costs involved in such operations; Missouri-American Water's
10 relationship with MSD in providing water usage data for a fee since 1993; MSD's
11 continuing payments for water usage data after §249.645.1 RSMo became
12 applicable to MSD in 1999; MSD's acknowledgments that Missouri-American has a
13 right to charge a fee; how MSD payments for water usage data reduce water rates
14 for Missouri-American customers; and the contracts that Missouri-American has
15 with other sewer districts in Missouri pursuant to which Missouri-American provides
16 water usage data for a fee.

17
18 **DESCRIPTION OF METER READING OPERATIONS**

19 **Q. Do your duties include management of the Company's meter reading**
20 **operations in St. Louis County?**

21 A. Yes.

1 **Q. Can you describe the meter reading operations?**

2 A. MAWC deploys 21 meter readers to read approximately 349,000 meters in St. Louis
3 County. Except for about 1,000 "large user" accounts whose meters are on a
4 monthly-read schedule, the meters are on a quarterly-read schedule, for a total of
5 approximately 1,404,000 reads per year. All of these reads, whether they involve a
6 manual reading or an electronic reading, require that a meter reader physically visit
7 each meter location.

8 **Q. How much does it cost Missouri-American annually in operational expenses**
9 **to collect the water usage data?**

10 A. The budgeted cost for meter reading in St. Louis County for 2007 is \$1,926,210, as
11 shown on the schedule attached as Schedule TMD-1. This includes labor and labor
12 related expenses of \$1,792,506, vehicle expense of \$107,256, and meter reading
13 equipment expense of \$26,448.

14 **Q. How much has it cost Missouri-American in capital expenditures to install its**
15 **St. Louis County water meters, from which it collects the water usage data?**

16 A. It has cost \$35,100,770 to install its St. Louis County water meters, as shown on the
17 schedule attached as Schedule TMD-1.

18
19 **RELATIONSHIP WITH MSD**

20 **Q. What is MSD?**

21 A. MSD is the wastewater treatment provider for much of the St. Louis area.

1 **Q. Did MSD approach Missouri-American (f/k/a St. Louis County Water) in the**
2 **early 1990's and ask that Missouri-American provide water usage data?**

3 A. Yes, MSD asked the Company to provide water usage data so MSD could use the
4 data in calculating its customers' sewer bills.

5 **Q. Did Missouri-American enter into an agreement with MSD in 1993 for the**
6 **provision of water usage data to MSD?**

7 A. Yes. Schedule TMD-2 is a copy of the Agreement dated June 21, 1993 between
8 Missouri-American and MSD ("1993 Agreement").

9 **Q. What was the purpose of the 1993 Agreement?**

10 A. The 1993 Agreement stated that "Company and MSD desire to enter into a contract
11 detailing the terms and conditions under which the aforementioned information can
12 be provided by Company to MSD, subject to the approval of" the Missouri Public
13 Service Commission (the "Commission"). In its subsequent order approving the
14 1993 Agreement, the Commission stated that the purpose of the 1993 Agreement
15 was to allow MSD "to use the information to develop a new billing procedure for
16 residential sewer service based on water usage rather than a flat rate," which had
17 previously been used. I am attaching as Schedule TMD-3 a copy of the
18 Commission's *Order Approving Agreement and Tariff*, Case No. WO-93-349.

19 **Q. What was the charge MSD agreed to pay for acquisition of the water usage**
20 **data?**

21 A. The 1993 Agreement provided that the "price to be charged to MSD by Company for
22 providing the aforementioned information shall approximate 50% of Company's cost

1 of obtaining the necessary data and shall be set by rate tariff attached hereto as
2 Exhibit 'A' which must be approved by the Commission."

3 **Q. What was the rationale for the agreed-upon price of 50% of Missouri-**
4 **American's meter reading costs in St. Louis County?**

5 A. The rationale for the 50% percent was as follows. MSD bases its customers' sewer
6 charges on winter quarter water usage. Accordingly, MSD requires two water meter
7 reads – one at the beginning of the winter quarter and one at the end of the winter
8 quarter – in order to establish winter quarter usage. Because Missouri-American
9 reads each St. Louis County residential customer's meter four times per year, and
10 MSD needs two of those reads to calculate its sewer bill, the 50% cost sharing
11 arrangement reflected the fact that MSD was obtaining the benefit of 50% of
12 Missouri-American's costs to acquire the water usage data.

13 **Q. Did the parties propose a tariff to reflect this 50% rate?**

14 A. Yes. The parties proposed a tariffed rate of \$1.24 per residential customer per year,
15 which proposed tariff was attached as an exhibit to the 1993 Agreement when it was
16 filed with the Commission for approval. A copy of the tariff, Sheet RT 14.0, is
17 attached as an exhibit to Schedule TMD-2.

18 **Q. Did Commission Staff recommend approval of the 1993 Agreement and the**
19 **\$1.24 per residential customer tariff?**

20 A. Yes. A Staff Memorandum recommending approval of the 1993 Agreement and
21 tariff, which I am attaching as Schedule TMD-4, stated that the \$1.24 per residential
22 customer rate was "based on one half the cost of providing two meter readings for a

1 residential customer." The Commission approved the 1993 Agreement and tariff
2 effective August 15, 1993, as shown in Schedule TMD-3.

3 **Q. What was the term of the 1993 Agreement?**

4 A. The term of the 1993 Agreement was from July 1, 1993 to July 1, 1995, to continue
5 from year to year thereafter subject to termination by either party on 30 days notice.

6 **Q. Did the parties amend the 1993 Agreement?**

7 A. Yes. MAWC filed a supplemental application on December 30, 1993 requesting that
8 the Commission approve an amendment to the 1993 Agreement, in order to provide
9 MSD with additional water usage information. According to the Commission's *Order*
10 *Approving Amended Agreement*, Case No. WO-93-349, January 25, 1994, which I
11 am attaching as Schedule TMD-5, MSD had "determined that the limited winter
12 usage data being provided for residential customers [was] inadequate for equitable
13 billing." The Commission approved a new tariff on February 25, 1994, which
14 provided that non-residential and residential multi-family water usage data and
15 customer billing information could be acquired by MSD for \$0.622 per meter
16 reading. I am attaching a copy of the new tariff, Original Sheet RT 16.0, as
17 Schedule TMD-6.

18 **Q. Did the Commission later approve amended tariffs for MSD's acquisition of**
19 **the water usage data?**

20 A. Yes. The rates charged pursuant to Sheets RT 14.0 and RT 16.0 were changed
21 during the course of Missouri-American rate cases as of January 9, 1997 and as of
22 January 1, 1998. I am attaching the Third Revised Sheets RT 14.0 and 16.0 as

1 Schedule TMD-7. The new rates were \$1.31 per residential customer per year and
2 \$0.655 per meter reading for non-residential and multi-family customers.

3
4 **MSD CONTINUES PAYMENTS AFTER STATUTE BECOMES APPLICABLE**

5 **Q. Are you familiar with a Missouri statute that concerns the provision of water**
6 **usage data to sewer districts by private water companies?**

7 A. Yes. Section 249.645.1 RSMo states in part: "Any private water company, public
8 water supply district or municipality supplying water to the premises located within a
9 district shall, upon reasonable request, make available to such sewer district its
10 records and books so that such sewer district may obtain therefrom such data as
11 may be necessary to calculate the charges for sewer service."

12 **Q. Do you understand that §249.645.1 RSMo applies to MSD?**

13 A. Yes, I understand that before 1999, §249.645.1 RSMo applied only to public sewer
14 districts created under the provisions of §§249.430 to 249.660 RSMo. An
15 amendment in 1999 made the statute applicable also to sewer districts "established
16 pursuant to article VI, section 30(a) of the Missouri Constitution" – that is, MSD.

17 **Q. Did MSD continue to pay the charge for water usage data provided by**
18 **Missouri-American after 1999?**

19 A. Yes. MSD continued to pay a fee for the usage data: \$444,059.91 in 1999,
20 \$445,415.75 in 2000, and \$447,830.09 in 2001, as shown in the schedule I've
21 attached as Schedule TMD-8.

1 **Q. Did MSD ever assert during these years that Missouri-American was required**
2 **to give the water usage data to MSD for free pursuant to the statute?**

3 **A. No.**

4 **Q. In fact, did MSD enter into a new agreement with Missouri-American in 2002 in**
5 **which it continued to agree to pay 50% of Missouri-American's meter reading**
6 **costs?**

7 **A. Yes.** In February 2002, Missouri-American and MSD entered into an agreement,
8 which I am attaching as Schedule TMD-9, again agreeing to pay 50% of Missouri-
9 American's costs in collecting water usage data from their joint customers (the
10 "2002 Agreement"). The 2002 Agreement is virtually identical to the 1993
11 Agreement, with certain changes in the type and timing of the data requested and
12 the billing procedures therefor. The term of the 2002 Agreement was from
13 December 1, 2001 to December 1, 2003, to continue from year to year thereafter
14 subject to termination by either party on 30 days.

15 **Q. Did the Commission approve the 2002 Agreement?**

16 **A. Yes.** Per the agreement of the parties, the 2002 Agreement and a new tariff were
17 filed with the Commission. On April 9, 2002, the Commission issued its *Order*
18 *Approving Agreement and Approving Tariff* in Case No. WO-2002-431, which I am
19 attaching as Schedule TMD-10. In its order, the Commission found: "Staff states
20 that the data furnished by the Company shows that the rate requested is based on
21 one half the cost of providing two meter readings for a residential customer. ... The
22 Commission is of the opinion that the revenue generated for Company from the

1 proposed original tariff will offset the Company's own costs of meter reading, and
2 will to that extent, benefit Company's customers."

3 **Q. Did the Commission act on the recommendation of Staff in approving the 2002**
4 **Agreement?**

5 A. Yes. Wendell R. Hubbs authored the *Staff Recommendation Regarding Application*
6 *for Approval of Agreement and Tariff* dated April 2, 2002 in connection with
7 Missouri-American's rate case, Case No. WO-2002-431. I am attaching the
8 Recommendation as Schedule TMD-11. In the Recommendation, Mr. Hubbs stated:
9 "The Staff has reviewed the Agreement that the Company submitted with its
10 Application and does not object to the Commission authorizing the Company to
11 enter into the Agreement with MSD. ... The Agreement is to the benefit of all
12 affected parties. The Company benefits in that it is compensated for the meter
13 reading service it provides for the MSD, which reduces the meter reading costs that
14 are paid for by its customers. The MSD benefits in that it does not have to incur
15 costs to read meters and perform duplicative reading functions for its billing system.
16 The Company's customers who receive service from both systems benefit from the
17 economies generated by not having to pay the costs of two meter-reading systems
18 and benefit from having a more equitable sewer billing system." In addition, Mr.
19 Hubbs stated: "Contained in the proposed Agreement is the provision that the
20 Company will bill the MSD to recover certain monies, which are to represent 50% of
21 the Company's meter-reading costs. ... This new recovery mechanism and rate [in
22 the 2002 Agreement] will generate approximately \$228,000 greater revenue than
23 the existing MSD rates. This additional amount of revenue serves to bring the

1 MSD's contribution to the meter reading costs to a figure that is more currently
2 representative of approximately one-half of the Company's total meter reading
3 costs."

4 **Q. Did the Commission approve new tariff sheets in connection with the 2002**
5 **Agreement?**

6 A. Yes. Two new tariff sheets were approved for service effective April 11, 2002. Third
7 Revised Sheet 14.0 was cancelled and replaced by Fourth Revised Sheet 14.0,
8 which provided: "Reserved for future filing." Third Revised Sheet 16.0 was also
9 cancelled and replaced by Fourth Revised Sheet 16.0, which I am attaching as
10 Schedule TMD-12. Sheet 16.0, which is still in effect, states: "Availability: This rate
11 is available to The Metropolitan St. Louis Sewer District, for all water usage meter
12 reading data and customer billing information. Rate: \$.54 per account read. This
13 rate is available to the Metropolitan St. Louis Sewer District, under the terms and
14 conditions of the contract on file with the Missouri Public Service Commission."
15 Accordingly, there was no longer any rate distinction between residential reads on
16 the one hand, and non-residential and multi-family reads on the other hand. All
17 reads would be charged at \$0.54 per read.

18 **Q. How was the \$0.54 per read rate arrived at?**

19 A. The \$0.54 rate was "backed into" – that is, Missouri-American calculated its annual
20 meter reading costs, and then figured a per read charge that would total
21 approximately 50% of its meter reading costs in St. Louis County.

1 **Q. How much has MSD paid annually for the water usage data since entering into**
2 **the 2002 Agreement?**

3 A. MSD paid the following in annual fees to MAWC after executing the 2002
4 Agreement, as shown on the attached Schedule TMD-8: \$701,860.68 in 2002,
5 \$759,823.74 in 2003, \$756,194.40 in 2004, \$754,900.56 in 2005, and \$766,930.14
6 in 2006. Because the fees for calendar year 2006 have not all been paid yet,
7 \$766,930.14 represents the amount invoiced to MSD for water usage data.

8 **Q. Did the parties agree to renegotiate the 2002 Agreement at the end of 2003?**

9 A. Yes. Near the end of 2003, the parties entered into negotiations regarding a revised
10 agreement, and exchanged correspondence agreeing to terminate the 2002
11 Agreement. I have attached the correspondence as Schedule TMD-13. However,
12 the parties continued to abide by the terms of the 2002 Agreement pending the
13 execution of a new agreement. MSD still pays \$0.54 per read for the usage data to
14 this day.

15
16 **MSD ACKNOWLEDGES RIGHT TO CHARGE FEE**

17 **Q. Did Missouri-American file a new tariff in 2004, which was subsequently**
18 **withdrawn?**

19 A. Yes. In 2004, in connection with its rate case, MAWC submitted a revised tariff to
20 the Commission seeking approval for a flat annual rate of \$760,000 for the usage
21 data, based on MSD's payment of \$759,823.74 for the data in 2003. MAWC
22 withdrew the tariff after a hearing on MSD's objection.

1 **Q. Did MSD representatives make any statements during that hearing**
2 **acknowledging Missouri-American's right to charge a fee for the water usage**
3 **data?**

4 A. Yes. At an April 19, 2004 hearing concerning the MAWC tariff, MSD's attorney Paul
5 S. DeFord stated: "The company [MSD] is statutorily entitled to the data that we're
6 seeking here upon reasonable request. And I think that it's appropriate to
7 compensate the company [MAWC] for that data" (*In the Matter of Missouri-*
8 *American Water Company's Tariff to Revise Water and Sewer Rate Schedules,*
9 Case No. WR-2003-0500, p. 2904 of transcript.) I've attached the relevant portion of
10 the transcript as Schedule TMD-14. Again, DeFord said: "We'd love to have it for
11 free, but I do think a reasonable request would include compensation to the
12 company." (Schedule TMD-14, p. 2906.) Later in the hearing, Commissioner Connie
13 Murray had the following exchange with Randy Hayman, MSD's General Counsel:
14 COMMISSIONER MURRAY: "And the history is that there has been a contractual
15 agreement including a fee for doing?" MR. HAYMAN: "That's correct. That's correct.
16 And as long as it's reasonable, we're in line with that." (Schedule TMD-14, p. 2906.)

17 **Q. Does an internal e-mail communication produced by MSD in this matter also**
18 **acknowledge MSD's understanding that Missouri-American's right to charge a**
19 **fee for the water usage data?**

20 A. Yes. Theresa Bellville, MSD's Assistant Director of Finance, stated in a November
21 19, 2003 e-mail to Rich Ellington of Orcom: "Our legal counsel has advised us that
22 since the statute does not prohibit them from charging us [for] the data it is assumed

1 they can charge us a reasonable amount.” I am attaching the document, MSD
2 Bates No. 00407, as attached hereto as Schedule TMD-15.

3
4 **MSD PAYMENTS REDUCE WATER RATES FOR**
5 **MISSOURI-AMERICAN CUSTOMERS**
6

7 **Q. Does the compensation that MSD pays for receipt of the water usage data**
8 **serve to reduce the rates paid by Missouri-American’s customers?**

9 A. Yes. The revenue that Missouri-American receives from MSD is “above-the-line” –
10 that is, it operates to reduce Missouri-American’s operating expenses and therefore
11 reduces its revenue requirement and corresponding rates to customers. If that
12 income stream stops because MSD no longer pays for the usage data, Missouri-
13 American’s revenue requirement, and rates to customers, would increase.
14 Furthermore, there is no guarantee that MSD would pass along its savings to its
15 customers. In fact, MSD has refused to state that it would decrease its rates
16 correspondingly. In response to data requests, MSD objected to and refused to
17 answer the following question: “If MSD is successful in eliminating or reducing the
18 charges it pays to MAWC for water usage data, will MSD pass those savings along
19 to its customers by decreasing its rates?” (Data Request No. 8, attached hereto as
20 Schedule TMD-16.) If Missouri-American were required to give away its usage data
21 for free, it would cause Missouri-American’s rates for water service to increase and
22 would therefore force Missouri-American’s ratepayers to subsidize MSD.

1 **Q. In what format has Missouri-American provided the water usage data to MSD?**

2 A. My recollection, in connection with the 1993 Agreement, is that Missouri-American
3 provided a data tape by May 10 of each year that contained the usage of all
4 quarterly residential customers, and a monthly data tape that contained usage of all
5 commercial and multi-family residential customers. After Missouri-American's
6 conversion to a new account management system in November 2001, the Company
7 was able to provide water usage data to MSD directly from the database via a
8 secured FTP site over the Internet, which is updated weekly. There is no access
9 limitation to the data, and MSD accesses the customer's name, address, mailing
10 address with usage and dates.

11
12 **OTHER SEWER DISTRICTS PAY FOR WATER USAGE DATA**

13 **Q. Does Missouri-American provide water usage data to other sewer districts**
14 **around the state of Missouri for a fee?**

15 A. Missouri-American provides water usage data for a fee to other sewer districts
16 throughout Missouri pursuant to §249.645.1 RSMo as well as to several municipal
17 water systems – including City of Mexico, City of O'Fallon, City of Platte Woods, City
18 of St. Charles, City of St. Peters, Duckett Creek Sewer District, East Central
19 Missouri Sewer Authority, and Platte County Regional Sewer District.

20 **Q. What fee does MAWC charge these entities for this service?**

21 A. \$0.54 per read.

1 **Q.** Has any of these sewer districts ever complained that a fee is being charged,
2 and that Missouri-American must provide the water usage data for free?

3 **A.** No.

4 **Q.** Given a 2007 budgeted cost of \$1,926,210 to collect the water usage data in
5 St. Louis County, what amount would MSD be responsible for under the 50%
6 cost arrangement?

7 **A.** Under the 50% arrangement between the parties, MSD would be responsible for
8 \$963,105 of the cost to collect the water usage data in St. Louis County.

9 **Q.** Does this conclude your prefiled direct testimony?

10 **A.** Yes, at this time.