

Exhibit No.:
Issues: Bad Debt Expense-Present Rates,
Uncollectibles-Future Rates, Tank
Painting Expense, Labor and Labor
Related Expenses, Advertising
Expense, Dues and Donations
Witness: Donald J. Petry
Exhibit Type: Rebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2007-0216
SR-2007-0217
Date: July 13, 2007

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2007-0216
CASE NO. SR-2007-0217**

REBUTTAL TESTIMONY

OF

DONALD J. PETRY

ON BEHALF OF

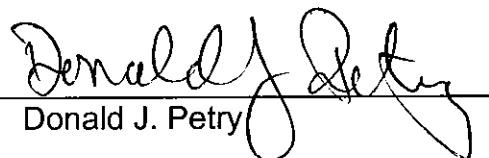
MISSOURI-AMERICAN WATER COMPANY

**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)	CASE NO. WR-2007-0216
RATES FOR WATER AND SEWER)	CASE NO. SR-2007-0217
SERVICE)	

AFFIDAVIT OF DONALD J. PETRY

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


Donald J. Petry

State of Missouri
County of St. Louis

SUBSCRIBED and sworn to

Before me this 9th day of July 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

**REBUTTAL TESTIMONY
DONALD J. PETRY
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2007-0216
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3 **REBUTTAL TESTIMONY**
4

5 **DONALD J. PETRY**
6

7 **WITNESS INTRODUCTION**
8

9 **Q. Please state your name, title and business address.**

10 A. Donald J. Petry, Senior Financial Analyst for American Water, 727 Craig Road, St.
11 Louis, Missouri 63141.
12

13 **Q. Have you previously submitted testimony in this proceeding?**

14 A. Yes, I submitted direct testimony in this proceeding.
15

16 **Q. What is the purpose of your rebuttal testimony?**

17 A. The purpose of my rebuttal testimony is to discuss on behalf of MAWC:

- 18 1) Bad Debt Expense – Present Rates;
19 2) Uncollectibles – Future Rates;
20 3) Tank Painting Expense;
21 4) Labor and Labor Related Expenses;
22 5) Advertising Expense; and,
23 6) Dues and Donations.
24

25 **BAD DEBT EXPENSE – PRESENT RATES**
26

27 **Q. What is the issue with bad debt expense?**

28 A. Staff witness Roberta Grissum sponsors Staff Adjustment S-13.4, which calculated
29 the net write-off amount based on a five year average, with the exception of St Louis
30 and St Joseph. For these two Districts, Staff used the 2006 actual numbers.
31

32 **Q. How did the Company compute bad debt expense?**

33 A. The Company used a two year average for its calculation.

1
2 **Q. Why does MAWC propose the use of a two year average?**

3 A. Bad debts have steadily increased over the last several years. They have increased
4 by approximately \$404,000, \$55,000 and \$191,000 for the years 2004, 2005 and
5 2006, after a slight decrease of \$175,000 in 2003. A shorter normalization period
6 (such as two years) will more accurately track an increasing trend than the longer
7 period used by the Staff.
8

9 **Q. Has Staff utilized a five year period in the past?**

10 A. No. In Cases WR-2003-0500 and WC-2004-0168, Staff used a three year average.
11

12 **UNCOLLECTIBLES – FUTURE RATES**
13

14 **Q. What is the issue with Uncollectibles?**

15 A. As stated above, Staff witness Roberta Grissum used a five year average of net
16 write-offs and the per books amount to calculate an adjustment to uncollectibles.
17 However, taking this approach ignores the fact that uncollectibles will increase with
18 an increase in rates. There is no provision for an increase in uncollectibles resulting
19 from an increase in revenues associated with the rate case.
20

21 **Q. How did MAWC address this issue?**

22 A. The Company calculated a two year average of net charge-offs and water revenue to
23 arrive at a percentage of net charge-offs to revenue. This percentage was then
24 applied to proposed water revenue.
25

26 **Q. What is the advantage of this approach?**

27 A. This method more accurately reflects the impact of rate increases on uncollectibles.
28

29 **Q. Has the Commission recognized the probability of such an increase?**

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

bad debt expense.”

Q. What is your recommendation as to this issue?

A. The Commission should apply a weighted average bad-debt write-off factor of 1.09% to the actual Missouri jurisdictional revenue that the Commission finds appropriate for this case.

Q. How did you determine the bad-debt write-off factor you suggest be applied?

A. By District, net charge offs were divided into billed revenues to arrive at the write-off factor. It was base on a two year average using the years ending June, 2005 and June, 2006.

TANK PAINTING EXPENSE

Q. What is the issue regarding Tank Painting Expense?

A. Staff witness Hagemeyer proposed an adjustment to tank painting expense that included an average of the five prior years’ actual tank painting expense and annualization of the level of inspection costs.

Q. What was the basis for the Company’s recommendation?

A. The Company’s figures were based on a projected painting schedule based on the expected life of the coatings. This is the same methodology used in Cases WR-2003-0500 and WC-2004-0168.

Q. What specific factors and information was taken into account by MAWC?

A. The Company considered manufacturers data and industry experience of the type of tank, materials the tank are made of, type of paint, process used to apply the paint, and tank location to determine the projected painting schedule.

Q. Why is the Company’s proposal a more reasonable representation of the tank painting expenses to be experienced by MAWC?

A. The Staff method ignores the current condition of the tanks and the work that must be performed to keep those tanks in good working order. The Company’s approach has

1 the advantage of taking into account the impact of all the tanks and not just the ones
2 painted in the last five years. And, therefore, is a reasonable representation of the
3 frequency of tank painting to be experienced during the time rates resulting from this
4 case will be in effect.

5
6 **LABOR AND LABOR RELATED EXPENSES**
7

8 **Q. What is the purpose of your rebuttal testimony as to labor and labor related**
9 **expenses?**

10 A. The issues I will be addressing are overtime hours, external affairs, and incentive
11 compensation.
12

13 **Q. What is the issue with overtime hours?**

14 A. Staff witness Hanneken calculated her adjustment for overtime hours by utilizing a
15 four year average for the Brunswick, Joplin, Parkville Water, St. Charles, St. Joseph,
16 and St. Louis districts. She used a two year average of the years 2003 and 2004 for
17 Jefferson City. Staff based the remaining districts' overtime hours on 2006 totals.
18

19 **Q. What approach did the Company take concerning overtime hours?**

20 A. The Company used the overtime hours experienced during the test year.
21

22 **Q. Why did Staff utilize the assortment of approaches described above?**

23 A. Staff found that in several districts, there was an upward trend. In these districts,
24 Staff adjusted the amount of test year overtime to the amount known for the 2006
25 calendar year as an ongoing level. However, in other districts, Staff saw fluctuation
26 in the amount of overtime. In these districts, Staff calculated a 4-year average
27 amount of overtime. In Jefferson City, Staff determined that overtime had extreme
28 fluctuations from year to year and concluded an average of 2003 and 2004 was a
29 more normal level.
30

31 **Q. Does the Staff approach seem reasonable?**

32 A. No it does not. Use of different methods from one district to another appears to drive
33 toward finding the lowest revenue requirement.

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Q. Why is the use of 2003 and 2004 data for Jefferson City not indicative of the hours to be experienced by MAWC?

A. In 2005, two salaried positions were change to hourly positions which made them eligible for overtime.

Q. What is the impact on revenue requirement resulting from the use of MAWC's recommendation?

A. The impact would be an increase of \$519,005.

Q. What is the next labor Issue?

A. Staff witness Lisa Hanneken eliminated all the labor and related expenses for a particular external affairs employee, Manager Governmental and Regulatory Affairs. On page 20 of her Direct Testimony, Ms. Hanneken states that that employee, according to his job description, participates in lobbying activities.

Q. Does the employee in question spend all his time on lobbying activities such that a complete elimination of his costs is appropriate?

A. No. Neither his job description, nor actual practice, indicate that the employee spends all of his time devoted to lobbying activities. In actuality, he is not involved in lobbying in his day-to day duties.

Q. What does his job description indicate?

A. His job description is as follows:
Understand and articulate in a compelling way the Company position on key legislative issues.
Shape and influence legislative programs and other critical business issues in alignment with Company goals and objectives.
Establish constructive relationships with elected and appointed officials on a federal, state, and local level and invest considerable time and energy in prioritized networking activity.
Prepare briefing documents that can be cascaded to key stakeholders (employees, public officials, etc.) to communicate pertinent issues (legislative, Company

1 investment projects, business changes, etc.)

2 Apprise senior management relative to pertinence legislative issues and other
3 external facts which impact on the business.

4 Work cooperatively with affiliated industry, trade or consumer groups to accomplish
5 company goals and benefit our stakeholders.

6 Track and monitor legislative bills and trends which will have an impact on our current
7 business; support our business development projects as required and provide
8 potential new business leads to developers; build knowledge and skills (external
9 communication and influence) with the Senior Management team to build their
10 capabilities; contribute to effective communication by listening and providing
11 constructive feedback; supporting the creation of an open and honest work
12 environment; cascading and sharing knowledge and information relevant to other
13 members of the team and colleagues across the business.

14
15 **Q. In practice, what types of duties are performed by this employee?**

16 A. This employee spends 65% of his time responding to customer issues and
17 complaints, maintaining a relationship with our large customers, working
18 cooperatively with affiliated industry, trade or consumer groups, and local emergency
19 response officials for training. Approximately 5% are legislative efforts and
20 communications regarding company goals and objectives. His remaining time is
21 communicating with stakeholders and colleagues regarding pertinent company
22 issues.

23
24 **Q. What is the Company's recommendation as to the treatment of this employee's
25 labor and related expenses?**

26 A. Labor and related expenses for this employee in the amount of \$115,218 should be
27 allowed.

28
29 **Q. Are there any other labor issues?**

30 A. Yes. Staff Hanneken_ removed individual incentive compensation payments of
31 \$432,662 from the Service Company's and \$126,028 from Missouri-American's AIP
32 (Annual Incentive Plan).

1 **Q. Upon what are these payments based?**

2 A. The individual portion of the AIP is based on the employee and his or her supervisor
3 establishing agreed upon targets/goals for the employee to achieve during a calendar
4 year. These targets are derived from Regional/Functional performance targets
5 founded on Company-wide Performance Targets.

6
7 **Q. What is the nature of the targets?**

8 A. The targets fit into 4 quadrants of the employee's balanced scorecard – financial,
9 customer, process, and employee. The incentive then drives employee
10 development, and improved process and financial results, and improved customer
11 service.

12
13 **Q. Did the Staff disallow these payments in total?**

14 A. Yes

15
16 **Q. Why should the Commission include in the revenue requirement the disputed
17 amounts associated with the AIP?**

18 A. These incentives assist the Company to provide better service to the customers.
19

20 **ADVERTISING EXPENSE**

21
22 **Q: How has the Missouri Commission traditionally addressed advertising
23 expenses?**

24 A: The Missouri Commission has generally utilized five categories of advertising--1.)
25 General advertising that is useful in the provision of adequate service; 2.) Safety
26 advertising which conveys the ways to safely use the substance and avoid accidents;
27 3.) Promotional advertising used to encourage or promote the use of the substance;
28 4.) Institutional advertising used to improve the Company's public image; and' 5.)
29 Political advertising associated with political issues—in assessing the recovery of
30 advertising expenses.

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Q: Does MAWC dispute the categories assigned to its advertisements?

A: No. The primary issue here relates to expense documentation. Staff disallowed a large number of paid invoices in allowable categories because the advertising item was not easily obtainable.

Q: What evidence of these advertisements can MAWC provide?

A: The Company is able to produce paid invoices with descriptions of the advertisement topic. MAWC believes that should be adequate documentation to include the expense in rates

Q. What impact will it have on the revenue requirement in this case?

A. The impact to the revenue requirement would be \$13,193.

DUES AND DONATIONS

Q: What is the issue with Dues and Donations?

A: Staff disallowed expenses that I feel are appropriate for recovery.

Q. What position did the Staff take?

A. Staff witness Hanneken stated that in the past the Commission's position is to disallow dues and donations that; (1) provide no direct, quantifiable benefit to the ratepayer; (2) were not necessary in providing safe and adequate service to the ratepayer, and (3) represented an involuntary contribution on the part of the ratepayer to an organization.

1 **Q. Why do you believe these expenses should be recovered?**

2 A. Our customers want us to be active members of the communities we serve. This is
3 evidenced by the continual requests we receive for participation by Missouri
4 American Water in the communities we serve.

5
6 **Q. How does Missouri American Water address these requests?**

7 A. The following are several examples of Missouri American Water's participation:

8 Charitable Donations: Charitable donations are provided to organizations like United
9 Way and for community event sponsorships.

10 Civic & Social Clubs: Districts have joined local organizations like Home Builders'
11 Associations and Rotary Clubs.

12 Economic Development Organizations: MAWC has a broad range of memberships in
13 local and state level chambers of commerce. Several utility cases over the years
14 have supported the inclusion in rates of growth-oriented advertising or economic
15 development expenses. One of the primary tenets in the Commission's Mission
16 Statement is to support economic development: "We will....Support economic
17 development, through either traditional rate of return regulation or competition, as
18 required by law;"

19 Professional Organizations: Our employees provide our customers with value by
20 participating in and enhancing local professional societies in the fields of engineering,
21 accounting, human resources, and law:

22 Water Industry Associations: Memberships in water utility industry groups such as the
23 American Water Works Association provide customers with large-scale value far in
24 excess of membership costs through shared-research and training. These expenses
25 should be allowed.

- 1
- 2 **Q. What would be the revenue requirement impact of included these expenses in**
3 **the rates to be set in this proceeding?**
- 4 A. The revenue requirement would increase \$37,603.
- 5
- 6 **Q. Does this conclude your rebuttal testimony?**
- 7 A. Yes.