

Exhibit No.:
Issues: Operations, Quality of Service,
Construction Projects, Rate
Adjustment, Plant in Service
Witness: James A. Merciel, Jr.
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case No.: WR-2007-0216
Date Testimony Prepared: June 05, 2007

FILED
August 27, 2007
Data Center
Missouri Public
Service Commission

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

JAMES A. MERCIEL, JR.

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2007-0216, et al.

Jefferson City, Missouri
June 2007

STAFF Exhibit No. *15*
Case No(s). *WR-2007-0216*
Date *8-14-07* Rptr *PC*

STAFF-15

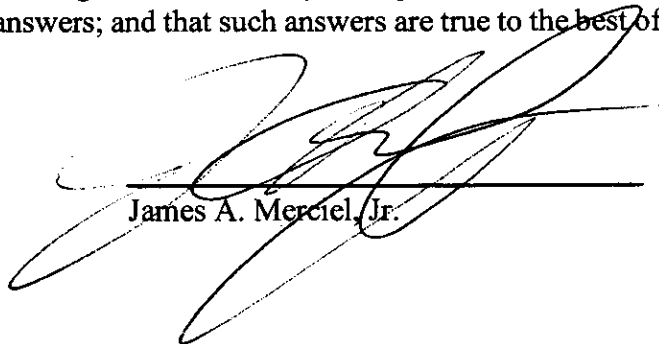
**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

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

AFFIDAVIT OF JAMES A. MERCIEL, JR.

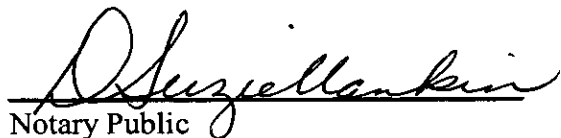
STATE OF MISSOURI)
) ss
COUNTY OF COLE)

James A. Merciel, Jr., of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony, in question and answer form, consisting of 6 pages, to be presented in the above case; that the answers in the following Direct Testimony were given by him, that he has knowledge of the matters set forth in such answers; and that such answers are true to the best of his knowledge and belief.



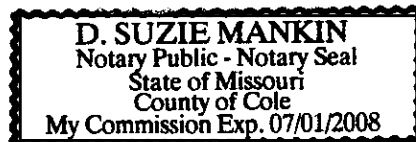
James A. Merciel, Jr.

Subscribed and sworn to before me this 4th day of June 2007.



Notary Public

My commission expires 07-01-2008



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DIRECT TESTIMONY
OF
JAMES A. MERCIEL, JR.
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2007-0216, *et al.*

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GENERAL OPERATIONS AND QUALITY OF SERVICE

Q. Are you familiar with the Company's overall operation of its water systems and its sewer systems?

A. Yes. Inspections of the Company's systems are periodically conducted by individuals from the W/S Department who are under my direct supervision and/or by me. The W/S Department Staff conducts such inspections to evaluate the conditions of the Company's facilities, to evaluate the Company's operation of the facilities and to review the various records that the Company maintains about its system operations. The Company has programs such as valve exercising, meter replacements, hydrant exercising and flushing, pump maintenance, and leak detection. Records are maintained for these programs, as are operational records pertaining to plant performance, water quality and characteristics, volume of water pumped, and storage tank levels. All of these programs and records contribute toward providing quality water and sewer service.

Q. Does the Company have any customer service issues?

A. I believe that the Company is addressing, or has already addressed, significant recurring customer service issues. One of the most notable issues involves the Warren County service area, which the Company acquired from a regulated utility that was in receivership. For several years, the Missouri Department of Natural Resources (DNR) and the Warren County health department, overseeing homebuilding permits, have had a prohibition on new construction due to inadequate sewage treatment capacity. After some effort, and cost, additional sewage treatment capacity is now in place at both facility locations in this service area. The cost of expanding sewage treatment capacity is an issue within this case as well as a tariff filing the Company has proposed with regard to charges to new customers making new service connections.

1 Many of the complaints and inquiries the Staff gets involving the Company pertain to
2 leaks in the St. Louis County service area. Individual complaints might involve a customer-
3 owned service line, a very small leak that is visible to the customer but not a high priority job
4 for the Company, or occasionally a matter that indeed does need attention. I don't consider
5 this to be a new issue or an increasing problem, in that leaks and main breaks have been an
6 issue for a number of years, and will always continue to be an issue that this and many other
7 water utilities will need to pursue. I believe that the Company is managing this issue on a
8 long term basis by replacing its poorest quality pipelines, and using the Infrastructure System
9 Replacement Surcharge or "ISRS."

10 **CONSTRUCTION PROJECTS**

11 Q. Are there major plant items that have been recently constructed in any of the
12 Company's service areas?

13 A. Yes, there are several projects that substantially impact rates. Besides the
14 aforementioned Warren County sewage treatment facilities, the Company constructed a water
15 storage tank in that same area in order to address water pressure and storage needs.

16 Also, another sewage treatment facility is being expanded. It is referred to as the Sand
17 Creek facility, and is one of two plants in the Company's Cedar Hill service area in Jefferson
18 County. However, that facility is being constructed entirely for future customer growth.

19 Finally, the water plant facilities in the Joplin service area are undergoing major
20 rehabilitation, replacement and expansion. Of an approximately \$44 million project, the
21 Company has spent approximately \$10 million placing a new river intake into service. This
22 new intake increases reliability from several aspects, and has increased capacity for the

1 expanded treatment plant capacity that is a part of the rehabilitation and replacement project
2 at the plant site.

3 Q. Do you believe these new facilities are reasonable and necessary?

4 A. Yes. The Warren County projects are vital for existing customers, for property
5 owners who were prohibited from building new homes, and for future growth. The Joplin and
6 Cedar Hill facilities are necessary for increasing capacity due to growth, and in the case of
7 Joplin also due to aging of existing facilities. Although the sewage treatment facilities seem
8 to be rather expensive plants, the Company accepted the best bids, and I believe the Company
9 has prudently planned and carried out these projects.

10 **RATE ADJUSTMENTS FOR PLANT IN SERVICE**

11 Q. Do you believe that the entire capital amount of plant projects should be
12 included in rate calculations for this case?

13 A. No. I believe that there should be a plant capacity adjustment for the Warren
14 County service area, specifically for the water storage tank and the two new sewage treatment
15 facilities; and also for the Cedar Hill Sand Creek sewage treatment facility expansion. The
16 reasons for this are that the plant expansions are quite massive in relation to existing plant,
17 and that the expansions are mostly intended to serve future customers.

18 Of these projects, only the Warren County storage tank is included in the 2006 test
19 year. All of the sewage treatment plant projects were or will be placed in service in 2007, and
20 need not be addressed until True-Up.

21 Q. What specific adjustments you are recommending?

22 A. The adjustment to plant for the 200,000 gallon Warren County Storage Tank,
23 in my opinion, should be 70% of its cost, based on current average-day water usage of 88,000

1 gallons, and the fact that the existing storage tank is in use as a ground storage tank with
2 electric pumps.

3 Q. For True-Up, I believe that 60% of the Warren County sewage treatment
4 facilities should be adjusted out of current rate base, the other 40% representing capacity that
5 is necessary for existing customers. The entire amount of the Cedar Hill Sand Creek facility
6 should be adjusted out of current rate base since this plant is necessary only for future
7 customers.

8 Q. Is this plant capacity adjustment intended to deny the Company a return "of
9 and on" its investment in the subject facilities?

10 A. No, it is not intended to disallow plant levels from rate base on a permanent or
11 any long-term basis, nor to deny any revenue except that which would otherwise be paid by
12 existing customers for plant that is needed in the future. The only purpose of this proposed
13 plant capacity adjustment is to postpone collection of revenue until the expected new
14 customers are connected. Since many of these new customers could connect within the next
15 year or two, not making this adjustment could result in over-collections and over-earnings,
16 and also would add to an already substantial rate impact upon some existing customers.

17 Q. Do the Company's tariff filings that are being addressed in Case No.
18 ST-2007-0443 present any impact upon these proposed plant adjustments?

19 A. No. Whether or not the tariff filings are addressed in the context of this rate
20 case, the Contribution-in-aid-of-Construction charges, or CIAC, proposed in those tariff
21 filings, which would be paid by new customers upon application to connect to the sewer
22 systems, have no impact upon current expenses, current rate base, or current plant capacity

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James A. Merciel, Jr.

1 usage levels. The collection of the proposed CIAC charges would only impact future rate
2 base as additional customers connect, with that impact being a reduction to rate base.

3 **SUMMARY**

4 Q. Would you please summarize your testimony?

5 A. Yes. It is my opinion that the Company is providing quality service from a
6 technical standpoint to its customers, is adequately operating and maintaining its existing
7 plant facilities and is adequately planning for facility improvements and future needs. It is
8 also my opinion that the new capital improvement projects that the Company is seeking to
9 include in rates through this case are reasonable and appropriate, except that from a practical
10 standpoint adjustments are needed for the major capital improvements in the Warren County
11 and Cedar Hill service areas since the projects are massive and are necessary for a substantial
12 amount of customer growth.

13 Q. Does this conclude your Direct testimony at this time?

14 A. Yes.