Exhibit No. 19

Confluence Rivers – Exhibit 19
Thies Surrebuttal
File No. WR-2023-0006

Exhibit No. _______
Issues: Revenue Requirement
Witness: Brent Thies
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Confluence Rivers Utility Operating Company, Inc
File Nos.: WR-2023-0006 / SR-2023-0007
Date: July 21, 2023

Missouri Public Service Commission

Surrebuttal Testimony

of

Brent Thies

On Behalf of

Confluence Rivers Utility Operating Company, Inc

July 21, 2023

Table of Contents

SURREBUTTAL TESTIMONY OF
BRENT THIES
CONFLUENCE RIVERS UTILITY OPERATING COMPANY, INC.

I. WITNESS INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Brent G. Thies. My business address is 1630 Des Peres Road, Suite 140, St. Louis, Missouri, 63131.

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

A. I am employed by CSWR, LLC ("CSWR"). My current position is Vice President & Corporate Controller.

Q. ARE YOU THE SAME BRENT THIES WHO PREVIOUSLY SUBMITTED DIRECT AND REBUTTAL TESTIMONY IN THIS PROCEEDING ON BEHALF OF CONFLUENCE RIVERS UTILITY OPERATING COMPANY ("CONFLUENCE" OR "COMPANY")?

A. Yes.

II. OVERVIEW

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

A. The purpose of my Surrebuttal Testimony is to respond to the rebuttal testimony filed by the Missouri Public Service Commission Staff ("Staff") and to the rebuttal testimony of the Office of the Public Counsel ("OPC") on the following topics:

- Cost of Third-Party Operators;
- Capitalized Legal and Preliminary Costs;

- Net Operating Losses; and
- Third Party Customer Service Disallowance.

III. REVENUE REQUIREMENT

Q. HAS CONFLUENCE RIVERS UPDATED ITS REVENUE REQUIREMENT?

A. Yes. Confluence Rivers has updated its revenue requirement from June 30, 2022 to January 31, 2023 to account for changes in plant in service; rate base; revenues and expenses. As a result, the Confluence Rivers combined water and sewer revenue requirement has increased from $8,165,188 to $8,553,855.

Q. DID STAFF PRESENT AN UPDATED REVENUE REQUIREMENT IN ITS REBUTTAL TESTIMONY FILED ON JUNE 29, 2023?

A. Yes. Based upon its midpoint return on equity, Staff now recommends a combined increase of $844,467. This compares to the combined increase presented in its direct case of $1,669,494.

Q. WHAT CHANGES WERE MADE TO STAFF'S REVENUE REQUIREMENT BETWEEN ITS DIRECT FILING AND ITS REBUTTAL FILING?

A. Staff made numerous changes. In its rebuttal testimony, Staff specifically mentions:

- Correction of depreciation reserve;[1]
- Update of plant in service balances to January 31, 2022;[2]
- Call center cost disallowances;[3]

[1] Majors Rebuttal, page 1.
[2] *Id.*
[3] Dhority Rebuttal, page 2

- Elimination of liveVoice costs;[4]
- Adjustments for customer billing expense, DNR costs and PSC assessment;[5]
- Adjustment for sanitation expense;[6]
- Elimination of sponsorship expenses;[7] and
- Inclusion of homeowner's association dues.[8]

In addition to these items that were specifically referenced in Staff's rebuttal testimony, it appears that there were other changes made to the revenue requirement that were not explained in the testimony but were contained in the Accounting Schedules.

Q. WHAT ARE THE PRIMARY DRIVERS BEHIND THE DIFFERENCES BETWEEN THE COMPANY'S REVENUE REQUIREMENT AND STAFF'S UPDATED REVENUE REQUIREMENT?

A. The revenue requirement differences between Staff and Confluence Rivers primarily fall into four categories. ***First***, there is a difference of approximately $454,738 associated with Staff's use of Net Operating Losses. As a result of its proposed recognition of Net Operating Losses, Staff has excluded a significant portion of income tax expense in its revenue requirement calculation. ***Second***, despite Staff's corrections for certain rate base errors that it had made, there is still a difference in rate base of approximately $2,592,938, associated with the reclassification of capitalized items as a repair expense and the exclusion of acquisition costs including capitalized legal costs. At Staff's pre-tax cost of

[4] *Id.*
[5] *Id.* at page 8.
[6] *Id.*
[7] *Id.*
[8] *Id.*

capital, this rate base difference amounts to approximately $208,752 of the revenue requirement difference. ***__Third__***, there is a difference associated with Staff's capital structure and return on equity. When applying the Staff's pre-tax cost of capital (8.05%) to the Company's rate base, the cost of capital difference results in a revenue requirement that is approximately $333,146 lower. ***__Fourth__***, Staff has proposed numerous changes to the level of expense requested by the Company including a disallowance of $833,954 for allocated administrative expenses. In addition, while not reflected in Staff's revenue requirement, in its rebuttal testimony, OPC proposed a large $1,094,026 disallowance of third-party operator costs.

Q. HOW IS CONFLUENCE RIVERS ADDRESSING THESE ISSUES?

A. As detailed by Mr. Cox, Confluence Rivers is filing the rebuttal testimony of six experts. Relative to these four large issues I mentioned, I will be addressing the rate base differences and net operating losses. Also, in conjunction with Mr. Cox, I will be addressing OPC's unwarranted disallowance of third-party operator costs. Additionally, Dylan D'Ascendis will be filing surrebuttal testimony on the cost of capital differences between Confluence Rivers and both Staff and the Office of the Public Counsel. In addition to these witnesses, I will be providing surrebuttal testimony on a variety of other less significant revenue requirement issues.

__IV. COST OF THIRD-PARTY OPERATORS__

Q. PLEASE COMMENT ON OPC WITNESS MARKE'S RECOMMENDATION THAT THE COMMISSION DISALLOW A MAJORITY OF CONTRACT OPERATIONS EXPENSE?

A. Company witness Josiah Cox discusses Dr. Marke's proposal in significant detail in his Surrebuttal Testimony. Mr. Cox discusses the feasibility of Dr. Marke's proposal to use 9 system operators to perform all of the Confluence Rivers operations functions across the State of Missouri. Dr. Marke has estimated a total cost of $600,000 annually to cover the payroll and associated expenses that the Company would incur to employ these operators. I believe that Dr. Marke's estimation lacks detail and significantly underestimates the costs not only of employing an individual operator but of the costs that are and would be required to run an internal operations department.

Q. ARE THERE PROBLEMS WITH DR. MARKE'S SUGGESTED SALARY FOR AN INTERNAL OPERATOR?

A. Yes, as I'll discuss, there are two fundamental problems with the depressed compensation figure used by Dr. Marke.

First, Dr. Marke uses MERIC to estimate the salary for a water and wastewater operator. I commented in my Rebuttal Testimony (pages 16-18) that the Company disagrees with the use of MERIC as the sole and only data set for setting salaries and will refrain from further discussion here. At the most basic level, however, I would like to note that the current data available on MERIC uses 2021 salary levels as a data source. Staff witness Sarver recognized this shortcoming in her salary expense workpaper and applied cost of living adjustment factors of 5.9% and 8.7% respectively for 2022 and 2023. Doing this to MERIC's estimate of an operator salary would result in an average salary of $55,508 rather than the $48,220 quoted by Dr. Marke.

Second, Dr. Marke's analysis estimated a total salary and benefits package of $60,000 per water and wastewater operator. Given the estimate of salary, this implies a total cost for payroll taxes and benefits of $11,780 or 19.6% of the total compensation package. An analysis of statistics provided by the Bureau of Labor Statistics suggest that the proportion of a total compensation package for private company employees that comprises taxes and benefits is 29.5%.[9] Therefore, Dr. Marke's estimate is low not only due to the outdated salary number but also the low estimate of taxes and benefit costs. Correcting for both of these errors, Dr. Marke's compensation level, even with the problems inherent in MERIC, would be $78,734 for the entry level operator.

Q. ARE THERE PROBLEMS WITH DR. MARKE'S ANALYSIS THAT GO BEYOND COMPENSATION?

A. Yes. The primary problem in his analysis, other than the glaring compensation issues, is that Dr. Marke does not include any costs besides salary and benefits in his analysis. Especially given that in the analysis provided, individual operators would cover large geographic areas (some as large as 3,000 square miles), a cost for vehicle expense, supplies, tools and personal protective equipment must be included.

Q. HOW MANY EMPLOYEES DID YOU ASSUME FOR YOUR ANALYSIS?

A. As Mr. Cox indicates in his testimony, the total internalized operations workforce needed to cover the Confluence Rivers systems is 22 employees. As he further indicates, however, not all employees will have the same duties. Instead, as with any organization, there will

[9] Bureau of Labor Statistics: "Employee Costs for Employee Compensation – March 2023", p 3. Accessed July 20, 2023 at https://www.bls.gov/news.release/pdf/ecec.pdf

be varying levels of responsibility that correspond to increasing experience and, as a result, increasing levels of compensation. For this reason, I assumed 17 operators; 4 senior certified operators; and 1 director of utility operations. As described in my exhibit, there is an assumed 50% compensation increase from operator to senior certified operator. Similarly, there is a 50% increase to director of utility operations. These increases not only reflect the increased level of responsibility, but are also consistent with

Schedule BT-SR-1 attached to this testimony aggregates the costs I've described and using the employee number and structure described by Company witness Cox, calculates a total annual cost estimate of $2,248,018 to accomplish Dr. Marke's suggestion.

V. CAPITALIZED LEGAL AND PRELIMINARY COSTS

Q. DID STAFF MAKE ANY CORRECTIONS TO ITS RATE BASE CALCULATIONS IN ITS REBUTTAL TESTIMONY?

A. Yes. As described in Mr. Majors Rebuttal Testimony (page 1), Staff updated plant in service to January 31, 2023. In addition, Staff corrected an error in the depreciation reserve.

Q. DID STAFF'S CORRECTIONS IN ITS REBUTTAL TESTIMONY RESOLVE THE RATE BASE DIFFERENCES BETWEEN THE COMPANY AND STAFF?

A. No. While Staff corrected some of its errors, the revenue requirement contained in its rebuttal testimony is still mistaken. Specifically, Staff continues to disregard the necessary legal and preliminary costs associated with the Confluence Rivers acquisitions.

Q. HOW HAS STAFF TREATED CAPITALIZED LEGAL AND PRELIMARY COSTS IN THE COMPANY'S RATE BASE?

A. As part of any acquisition, Confluence Rivers incurs significant costs prior to acquiring many of the water and wastewater systems that it owns. Among other necessary expenditures, these costs were incurred for title, survey and other similar costs necessary to provide proper knowledge of property ownership and to secure easements and rights of way to support utility operations. These expenditures also include engineering costs for system mapping and initial assessment of the operation and capital requirements for bringing the plants into compliance. In many ways then, these costs would be comparable to the legal and other preliminary costs associated with an electric utility acquiring land for the construction of a generating unit or transmission lines.

Confluence Rivers accounted for these costs in accordance with accounting instructions provided in the NARUC Uniform System of Accounts. Specifically, Section 183 of the USOA discusses the treatment of preliminary survey and investigation charges.

> This account shall be charged with all expenditures for preliminary surveys, plans, investigations, etc. made for the purpose of determining the feasibility of project under contemplation. If construction results, this account shall be credited and the appropriate utility plant account charged.

While the Company's position is consistent with the USOA, Staff has disallowed these costs from rate base.

VI. NET OPERATING LOSSES

Q. PLEASE GENERALLY DESCRIBE STAFF'S USE OF NET LOSSES IN CALCULATING THE REVENUE REQUIREMENT.

A. As described in detail elsewhere, Confluence Rivers purchases systems that are distressed both from a system operations and assets perspective but also from the perspective of financial and managerial performance. Many of the systems have not increased rates in decades. As a result, the rates did not keep up with increases in operations costs and the need to reinvest in system assets. When Confluence Rivers purchases systems, partially due to the demands of the regulatory process, it most often initially keeps the tariffed rates that had been in place prior to ownership. This causes the Company to incur financial losses which are often described as net operating losses (NOLs). Based on certain conditions, these NOLs may be used to offset future taxable income. In its revenue requirement, Staff has used the NOLs that the Company incurred dating back to at least 2017 to partially offset future income expense. Company witness Seltzer addressed this issue conceptually in Rebuttal Testimony.

Q. IN ADDITION TO THOSE DESCRIBED IN THE TESTIMONY OF COMPANY WITNESS SELTZER, DO YOU SEE OTHER ISSUES WITH STAFF'S USE OF NET OPERATING LOSSES IN STAFF'S REBUTTAL REVENUE REQUIREMENT?

A. Yes. Company witness Seltzer's argues that NOLs should not be used in the manner recommended by Staff. While this continues to be the Company's position, it now appears that Ms. Bolin has misapplied the NOLs in her application of them to proposed income. In its workpapers, Staff calculated the revenue requirement, including income tax expense, at the level of tariffed rate districts. This involves a single calculation for all systems within a tariff district. An example of this would be the legacy Confluence Rivers tariffed rate district which includes all of the systems acquired by Confluence Rivers and taken through a rate case together under Case No. WR-2020-0053. Logically then, Staff calculated revenue requirements for each tariffed rate district, keeping both newly acquired systems and the systems that comprised other Missouri entities prior to consolidation (Hillcrest, Indian Hills, Raccoon Creek, Osage and Elm Hills) as their own districts. Given the approach of calculating revenue requirements by tariffed rate districts, it would seem that NOLs should also be calculated by tariffed rate district. Instead, Ms. Bolin applied historic NOLs accumulated by Confluence Rivers to recently acquired systems that did impact the creation of the NOLs. The practical effect of Staff's NOL allocation is to inappropriately reduce the amount of income tax included in the revenue requirement. This approach effectively assumes full consolidation, although Staff has opposed such an approach as to rate design. This is inconsistent and artificially reduces income tax included in the revenue requirement.

VII. THIRD-PARTY CUSTOMER SERVICE COSTS

Q. WHAT HAS STAFF RECOMMENDED REGARDING THIRD-PARTY CUSTOMER SERVICE COSTS?

A. In its rebuttal testimony and filings, Staff recommends that the Commission disallow 50% of the costs that the Company incurs from its use of Nitor Billing Services ("Nitor") as a third-party customer service and call center vendor. Staff justifies this disallowance on the basis of "amended services, quality of service issues, and Confluence's failure to submit a Request for Proposal prior to engaging Nitor."[10]

Q. PLEASE COMMENT ON STAFF'S DISALLOWANCE OF THIRD-PARTY CUSTOMER SERVICE COSTS.

[10] Dhority Rebuttal, page 2.

A. Staff's recommendation primarily stems from its understanding of Confluence Rivers' historic operations and the services provided by Nitor pursuant to that contract. Historically, the Company used Nitor as its customer service and billing vendor. Beginning in fall 2022, Confluence Rivers internalized billing services. As such, these services are no longer performed by Nitor but, instead, by CSWR, LLC, Confluence Rivers' parent. When billing services were internalized at CSWR, LLC, the move coincided with increased services provided by Nitor including increasing call center hours to 24 x 7 x 365. These services are described in the testimony of Company witness Todd Thomas. Because Nitor is no longer performing all of the services reflected in the original Nitor agreement (i.e., billing services), Staff recommended a 50% disallowance of costs paid to Nitor. The Company believes that this number is arbitrary and punitive. The disallowance ignores the additional services that are being provided by Nitor (increased call center coverage) and also fails to recognize the critical nature of the call center and customer service functions.

Q. PLEASE COMMENT ON THE FAILURE TO IMPLEMENT A BIDDING PROCESS PRIOR TO ENGAGING NITOR.

A. Nitor was originally retained when CSWR was largely just a Missouri utility. Nitor was an attractive customer service solution as it was located in St. Louis. This allowed for easier and more frequent communications between the parties. Nitor also provided the ability to rapidly scale to provide these services as the Company grew to numerous systems in numerous states. Today, Nitor provides customer service functionality to all of the CSWR-affiliated systems in eleven states. That history with the Company, understanding of the Company systems and tariffs, and familiarity with the Company's senior leadership provides a level of institutional memory that would be virtually impossible to replace.

Moreover, as I mentioned, Nitor provides customer service for all CSWR states. As such, there are economies of scale that result from Nitor providing services for all of these states. If CSWR were to retain another party to provide customer service just for the Confluence operations, these economies of scale would be reduced. As a result, if Confluence Rivers were to change customer service vendors at this point, I have no doubt that customer service would suffer and costs for Missouri operations would increase. For this reason, CSWR has not moved towards a bidding process for the services provided by Nitor.

Q. DOES THAT NECESSARILY MEAN THAT CONFLUENCE RIVERS WILL ALWAYS CONTRACT WITH THIS VENDOR?

A. No. CSWR has recently engaged a third-party expert to review the services provided by Nitor and provide any recommendations they may have to improve customer service. That third-party review is not yet complete.

Q. HAS CONFLUENCE RIVERS PROVIDED A MORE SUBSTANTIVE RESPONSE TO CONCERNS ABOUT ALLEGED QUALITY OF SERVICE ISSUES?

A. Yes. In his Surrebuttal Testimony, Mr. Cox analyzes any quality-of-service concerns that may be perceived as a result of comments filed with the Commission and testimony at local public hearings. While Confluence Rivers always looks to improve performance throughout the Company, including with quality of service, the Company disagrees with Staff's punitive disallowance based upon unspecified "quality of service issues."

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Confluence Rivers Utility Operating Company, Inc.'s Request for Authority to Implement a General Rate Increase for Water Service and Sewer Service Provided in Missouri Service Areas.	)))))	**File No. WR-2023-0006** **File No. SR-2023-0007**

AFFIDAVIT OF BRENT THIES

**STATE OF MISSOURI) **
) ss
COUNTY OF ST. LOUIS)

Brent Thies, of lawful age and being first duly sworn, deposes and states:

1. My name is Brent Thies. I am the Vice President and Corporate Controller for CSWR, LLC.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Brent Thies

Subscribed and sworn to me this 21st day of July, 2023

Notary Public

My commission expires 5/4/24.

DANIEL RYAN JANOWIAK
Notary Public, Notary Seal
State of Missouri
St. Charles County
Commission # 20374795
My Commission Expires 05-04-2024

Confluence Rivers Utility Operating Company, Inc.
Internalized Operations Annual Cost Scenario **BT-SR-1**

	Water/Wastewater Operator	Water/Wastewater Certified Operator	Missouri Director of Utility Operations
Salary (Average)	55,508	83,261	124,892
Payroll Tax & Benefits Costs	23,227	31,383	46,028
Equipment Costs:			
Vehicle*	10,729	10,729	10,729
Job Supplies & Personal Protective Equipment	1,000	1,000	1,000
Other Costs (training, office supplies, misc)	1,000	1,000	1,000
	91,463	**127,373**	**183,650**
Number of Employees	17	4	1
Total Annual Cost	**1,554,875**	**509,494**	**183,650**
Total Employee Cost	**2,248,018**		

** Per Bureau of Transportation Statistics https://www.bts.gov/content/average-cost-owning-and-operating-automobilea-assuming-15000-vehicle-miles-year*