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Witness: *Caroline Newkirk*
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MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL & BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

SUREBUTTAL TESTIMONY

OF

CAROLINE NEWKIRK

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2020-0344

Jefferson City, Missouri
February 2021

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CAROLINE NEWKIRK
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1 witness Kimberly K. Bolin will address MAWC's proposed use of projected financial data to
2 set rates in her surrebuttal testimony.

3 Q. Have there been any modifications to Staff's position on uncollectibles?

4 A. Yes.

5 Q. What objections did MAWC have in regards to Staff's normalization of
6 uncollectible expense?

7 A. In rebuttal testimony, MAWC witness Mr. Wright disagreed with Staff using six
8 months of 2020 in its three-year-average due to 2020 not being indicative of past and future
9 trends. Mr. Wright also disagreed with Staff for not incorporating an increase in net charge-offs
10 due to changes in the Company's revenue as a result of this proceeding.

11 Q. Does Staff agree with MAWC's methodology regarding the use of 2020 data to
12 calculate its average for uncollectibles?

13 A. Due to MAWC's response to the COVID-19 public health emergency, Staff
14 takes no issue with removing the 2020 data from its calculation of normalizing uncollectible
15 expense. Staff originally used July 2017-June 2020 for its calculations. Staff has revised its
16 workpapers to use January 2017- December 2019 instead. This change resulted in a change in
17 expense of \$173,115.

18 Q. Does Staff agree with MAWC witness Wright's position that projected
19 revenue increases should affect the calculation of uncollectible expense as explained on
20 page 13, lines 9-14 of his rebuttal testimony?

21 A. No. As reflected in my rebuttal testimony¹, there is not a direct correlation
22 between revenue levels and net write-offs when analyzing data from the past ten years.

¹ Newkirk Rebuttal Testimony, Pages 2-4, Case No. WR-2020-0344

1 Q. Does MAWC use a 3rd party for collection services for delinquent accounts?

2 A. Yes. On page 15, lines 4-7 of Mr. Wright's rebuttal testimony, he mentions that
3 once a customer is delinquent past 90 days, the account is placed with a 3rd party collection
4 service. Although he fails to mention that only customers with balances more than \$50,000 will
5 be pursued further. If a customer has a balance of less than \$50,000 and has reached the 90 day
6 mark, their account balance is automatically written off.²

7 **INSURANCE EXPENSE**

8 Q. Have there been any modifications to Staff's position on insurance other than
9 group since its direct filing?

10 A. Yes.

11 Q. Does Staff agree with MAWC witness Bowen's position on the
12 10% capitalization rate being applied to all other insurance policies with the exception of
13 Workmen's Compensation as explained on page 12, lines 9-17 of her rebuttal testimony?

14 A. Yes. Staff has updated its workpapers to remove this reduction. This change
15 resulted in an increase in expense of \$531,324.

16 Q. Does Staff agree with MAWC witness Bowen's position on the
17 Directors & Officers premium as explained on page 11, lines 17-23 and page 12, lines 1-2 of
18 her rebuttal testimony?

19 A. No. Ratepayers should not pay for costs associated with litigation or fines and
20 penalties in the form of an insurance premium for MAWC board members who may become
21 involved in civil or criminal proceedings. Staff contends that if the American Water Works

² MAWC's response to Staff Data Request No. 0032

1 Company, Inc. (AWWC) or MAWC Board of Directors abides by the regulations of the
2 Sarbanes-Oxley Act (SOX) and the U.S. Securities and Exchange Commission (SEC) and is
3 competent in the performance of its duties, then there is no need for this type of insurance.

4 Q. Does Staff agree with MAWC witness Bowen's position on the consultation fee
5 expense as explained on page 12, lines 3-8 of her rebuttal testimony?

6 A. Yes. The exclusion of the consultation fee was an error. In the past, Staff
7 has only disallowed consultation fees associated with the Directors and Officers policy. Since
8 the fee in question is directly related to auto liability, general liability, and workmen's
9 compensation- it should be allowed. Staff has updated its workpapers to correct this error. This
10 change resulted in an increase in expense of \$36,770.

11 **RATE CASE EXPENSE**

12 Q. What issue regarding rate case expense are you addressing in your testimony?

13 A. I am addressing the 50/50 sharing mechanism for rate case expense. Staff
14 witness Paul K. Amenthor will address the inclusion of Service Company labor, outside
15 consultants, and customer notice costs.

16 Q. Have there been any modifications to Staff's position on the 50/50 sharing
17 mechanism for rate case expense?

18 A. Staff is still recommending the 50/50 sharing mechanism for the majority of rate
19 case expense. Staff witness Paul K. Amenthor will be addressing specific items that will be
20 excluded from the sharing mechanism in his surrebuttal testimony.

21 Q. What was agreed to in the Stipulation and Agreement in Case No.
22 WR-2015-0301, a previous MAWC general rate case?

1 A. The Stipulation and Agreement stated the following:

2 MAWC will recover in rates 50% of its expenditures for this case,
3 amortized over 30 months; however, 100% of the costs associated with
4 the Pricewaterhouse Cooper's ("PwC") audit and Customer Notices will
5 be amortized over 30 months and 100% of the costs for MAWC's
6 depreciation study will be amortized over 60 months.

7 Q. On page 44, lines 10-11 of MAWC witness Brian LaGrand's rebuttal testimony,
8 he says that Staff's recommendations are nothing more than an approach to reduce the
9 Company's recovery of legitimate and prudently incurred costs. Do you agree with
10 Mr. LaGrand's theory?

11 A. No. Staff's sharing mechanism is based upon the Commission's decision in
12 previous cases. The decisions of those cases are outlined in detail in Staff's Cost of Service
13 Report on pages 57-58. Staff's recommendation isn't based off a desire to penalize the
14 Company. Staff's sharing recommendation is based on aligning with previous
15 Commission's decisions.

16 Q. Is Staff's rate of return sufficient for MAWC to compete for capital?

17 A. Yes. Staff's rate design department recommends a range for rate of return that
18 is sufficient to compete for capital. Anything over and above a sufficient rate of return for that
19 purpose would only benefit shareholders.

20 **CORPORATE ALLOCATIONS**

21 Q. What is MAWC's position on allocating corporate costs to the water and sewer
22 districts in this proceeding?

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1 A. MAWC’s position is that only two allocation factors should be used to allocate
2 corporate costs. As stated on page 2, lines 13-15 of Brian W. LaGrand’s rate design rebuttal
3 testimony:

4 The Company used two different factors to allocate costs. First, the number of
5 customers was used to allocate depreciation and amortization. Second, for all other operating
6 expenses, the number of service orders was used as the allocation factor.

7 Q. Had the Company previously used service orders as a factor for allocating
8 corporate costs to the water and sewer districts?

9 A. Yes, in its last rate case. According to Mr. LaGrand’s rate design
10 rebuttal testimony from Case No. WR-2017-0285) on page 2, lines 9-10, where he stated:
11 “this is the first time.”

12 Q. In this rate case, did Staff change its approach to allocating corporate costs from
13 the method used in the last rate case (WR-2017-0285)?

14 A. No. In fact, Staff has been consistent in allocating corporate costs according to
15 no less than nine allocation factors based on cost causation factors since at least 2008 in the
16 WR-2008-0311 rate case.

17 Q. Has MAWC used the Staff approach to allocating corporate costs in previous
18 rate cases?

19 A. Yes. In fact, in 2012 and 2013, MAWC employees met with Staff several times
20 to help MAWC determine the allocation factors to assign to specific accounts for allocating
21 corporate costs according to cost causation. The results of these meetings were reflected in the
22 corporate allocations included in the Company’s next rate case filing, WR-2015-0301.

1 Q. What percentage of Corporate costs has Staff allocated to sewer?

2 A. As shown in table CNN-1, Staff's average allocation percentage for sewer
3 is 2.47%:

Staff's Corporate Allocation Factors			
	Allocation Factor	Water %	Sewer %
1	Customer Account	96.95%	3.05%
2	Operating Revenue	96.61%	3.39%
3	O&M Expense	96.63%	3.37%
4	Employee Count	96.88%	3.12%
5	# of Bills	96.42%	3.58%
6	Length of Mains	100.00%	0.00%
7	Net Utility Plant	97.26%	2.74%
8	Massachusetts (Hybrid Formula)	97.03%	2.97%
9	Water Samples	100.00%	0.00%
	Average of Allocations	97.53%	2.47%

4
5 Q. How do Staff's Corporate Allocations compare to the Company's?

6 A. As shown in table CNN-2, Staff has approximately 2% more corporate costs
7 allocated to sewer than the Company.

8

Average Corporate Allocation Comparison			
	Staff	Company	Difference
Water	97.53%	99.55%	2.02%
Sewer A	1.18%	0.03%	-1.15%
Sewer B	1.29%	0.43	-.86%

9

1 Q. Is the consolidation of tariff groups relevant to the specificity of which corporate
2 costs should be allocated between water and sewer?

3 A. No. The methodology used by Staff to allocate a large lump sum of corporate
4 costs across more than 200 accounts is not dependent on a number of tariff groups. A 97/3 split
5 for water and sewer is still a 97/3 split whether there is one tariff group or ten. On page 4, lines
6 18-19, MAWC witness LaGrand says “The biggest advantage of the Company’s proposal is
7 simplicity.” Staff does not agree that simplicity should be the biggest driver in the determination
8 of appropriate corporate allocation methods. The primary driver should be cost causation.

9 Q. Has Staff used 12 allocation factors as stated in MAWC witness LaGrand’s
10 testimony on page 5, line 5?

11 A. No. Staff has used nine allocation factors in this case- two of which allocate
12 0.00% to sewer.

13 Q. What would the monthly allocated costs per customer be under the Company’s
14 proposal for allocations and how does that compare to Staff’s proposal?

15 A. Refer to the table below (CNN-3), for the monthly allocated costs per customer per
16 month under both the Company’s and Staff’s proposal for corporate allocations:

17

Monthly Allocated Costs Per Customer Per Month		
District	Company’s Proposal	Staff’s Proposal
Water District 1	\$ 14.16	\$ 13.86
Water District 2	\$ 14.65	\$ 14.11
Sewer District A	\$ 1.36	\$ 12.69
Sewer District B	\$ 3.66	\$ 15.52

18

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1 Q. In your opinion, did Mr. LaGrand's rate design rebuttal testimony provide any
2 information that would change Staff's position on corporate allocations?

3 A. No, it did not. Staff stands behind its original corporate allocation
4 factors as presented in the Cost of Service Report filed on November 24, 2020 on page 41,
5 lines 23-29 and page 42, lines 1-2 with one exception. Staff used nine total allocation
6 factors-not 12 as stated in the Cost of Service Report.

7 Q. Would Staff be open to meeting with the Company after the conclusion of the
8 rate case to further evaluate cost drivers for corporate costs and the individual accounts for
9 corporate costs?

10 A. Yes. As mentioned previously, Staff met with MAWC personnel in 2012 and
11 2013 and would be open to doing it again. Staff would need to evaluate the drivers of each
12 specific account with the help of the Company. Evaluating drivers for corporate costs would
13 require a sizeable time investment for both parties to get together and discuss. As an example
14 of a possible topic for discussion, this type of evaluation would require the Company to pinpoint
15 the accounts that it believes are primarily driven by service order management.

16 Q. Does this conclude your surrebuttal testimony?

17 A. Yes, it does.

