Exhibit No.:	
Issues:	Production Costs and Uncollectibles
Witness:	Todd P. Wright
Exhibit Type:	Surrebuttal
Sponsoring Party:	Missouri-American Water Company
Case No.:	WR-2020-0344
Date:	February 9, 2021

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2020-0344

SURREBUTTAL TESTIMONY

OF

TODD P. WRIGHT

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Todd P. Wright, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am a Senior Manager of Regulatory Services for American Water Service Company, that the accompanying testimony has been prepared by me or under my direction and supervision; that if inquiries were made as to the facts in said testimony, I would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of my knowledge and belief.

Todd P. Wright

Todd P. Wright

February 9, 2021

SURREBUTTAL TESTIMONY
TODD P. WRIGHT
MISSOURI-AMERICAN WATER COMPANY
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SURREBUTTAL TESTIMONY
TODD P. WRIGHT

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Todd P. Wright, and my business address is 1 Water Street, Camden, NJ, 08102.

Q. Did you previously submit direct and rebuttal testimony in this proceeding on behalf of Missouri-American Water Company ("MAWC" or "Company")?

A. Yes.

Q. What is the purpose of your surrebuttal testimony in this proceeding?

A. The purpose of my Surrebuttal Testimony is to respond to the Staff Rebuttal Testimony filed by the Missouri Public Service Commission ("Commission") Staff ("Staff") on the following topics: 1) Production costs and, 2) Uncollectible Expense.

II. PRODUCTION COSTS

Q. What are the elements of Production Costs?

A. Production costs include purchased water, fuel and power, chemicals, and waste disposal. Production costs vary depending on the amount of water purchased or produced by the Company's treatment plants, i.e., system delivery or water obtained and delivered to MAWC's network of water mains.

Q. Did Staff adjust its production cost expense in its rebuttal testimony?

A. Yes. Staff witness Sarver clarified Staff's position on how they normalized the percentage of water loss to derive system delivery included in production costs. (Sarver

RT, pages 6-7).

Q. Please summarize the water loss percentage utilized in Staff's direct filing.

A. Staff included up to a ten-year average of historical water loss to derive normalized system delivery from their pro forma test year usage in its fuel and power expense. At the same time, Staff included up to a five-year average of historical water loss to derive normalized system delivery from their pro forma test year usage in its chemical expense. Please refer to Company Witness Greg Roach for surrebuttal testimony on pro forma test year usage.

Q. Did Staff decide which normalized percentage of water loss is best to use?

A. Yes. Staff updated its fuel and power expense to utilize a five-year average of historical water loss as it is a more reasonable approach, and that Staff used that approach in the previous Missouri-American rate case. (Sarver RT, page 6, lines 15-18)

Q. Did the Company utilize a five-year normalized percentage of water loss in its filing?

A. No. The Company has continued to utilize a three-year average of historical water loss.

Q. Have the different methodologies produced material differences in the normalized percentage of water loss?

A. No. Staff's five-year average and the Company's three-year average have produced a similar overall normalized percentage of water loss.

Q. What is the Company's recommendation?

A. Even though the Company does not agree with the five-year average methodology, the

Company is willing to accept Staff's normalized percentage of water loss.

Q. Did the Company include the most recent chemical price changes in its chemical expense?

A. Yes. Chemical price changes effective on December 31, 2020 have been included in the December 31, 2020 true-up.

III. UNCOLLECTIBLE EXPENSE

Q. Did Staff address uncollectible expense in its rebuttal testimony?

A. Yes. Staff witness Caroline Newkirk reiterated Staff's position of using a three-year average of actual net charge-offs from July 1, 2017 through June 30, 2020. Staff intends to examine the true-up data through December 31, 2020. Staff also has emphasized that the Company's methodology of deriving a three-year average uncollectible percentage to apply to revenue authorized in this case is "erroneous" as she does not believe there is a direct correlation between actual net charge-offs and billed revenues. (Newkirk ST, pages 1-4).

Q. Does the Company agree with Staff's three-year average of net charge-offs, incorporating 2020 data?

A. No. As stated in my rebuttal testimony, the Company does not agree with incorporating 2020 actual net-charge-offs in the three-year average due to the suspension of disconnections for non-payment and tariff-authorized late fees as the result of the response to the COVID-19 public health emergency[1].

[1] Wright RT, pp. 11-12.

Q. Please explain how suspension of disconnections impacts actual net charge-offs.

A. Without executing disconnections, customers will never receive a final bill. Final bills are typically generated seven days after disconnection. The due date for the final bill is the trigger to the third-party collections process and ultimately the actual write-off that Missouri-American will record on its books for non-payment.

Q. Is it evident that the suspension of disconnections has impacted net charge-offs?

A. Yes. Per my rebuttal testimony, the rising amount of the accounts receivable ("A/R") balance greater than 90 days indicates the impact of the suspension of disconnections.[2] The average balance of A/R greater than 90 days grew by $818K or 46.76% in 2020.

Q. What is the Company's position on incorporating 2020 actual net charge-offs in any three-year average methodology?

A. With the suspension of disconnections and the issuance of final bills during 2020, due to the response to the COVID-19 public health emergency, the Company believes that 2020 should not be incorporated in the any three-year average of actual net charge-offs.

Q. Please explain Staff's position of applying the historical average uncollectible rate to revenues.

A. Staff does not believe that net charge-offs have a direct correlation to billed revenues. To support this claim Staff has presented Company data provided in response to Staff data request 0031 in this case and similar discovery requests in prior cases. The data requests provided net charge-offs and billed revenues from 2010 to present. (Newkirk

[2] Wright RT, pp. 15-16.

RT, p. 3).

Q. Has the Company updated Staff data request 0031 since Staff's rebuttal testimony?

A. Yes. The Company discovered some recoveries missing from the data provided in the Staff data request 0030 which is referenced in Staff data request 0031 for the monthly net charge-off amounts. See below for the additional recoveries by year.

Year	MoPSC 0030
2014	($94,839)
2015	($80,321)
2016	($77,280)
2017	($39,933)
2018	($25,287)
2019	($9,221)
2020	($10,921)

Q. How much does the three-year average from 2017-2019 change with the additional recoveries above?

A. The three-year average of actual net-charge-offs for the years 2017-2019 has changed from $3.052M to $3.027M, or by about $25,000.

Q. How did Staff present the Company's net charge-off and billed revenue data provided in data request 0030 and 0031?

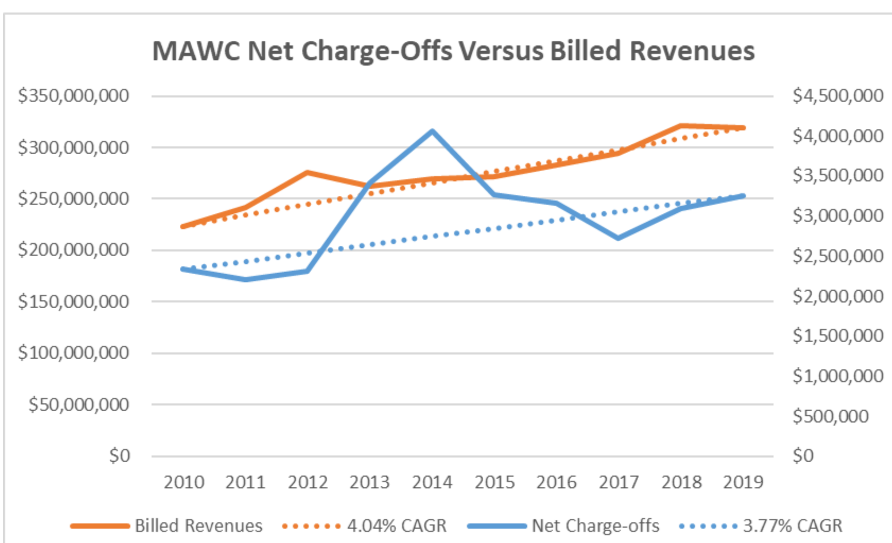
A. Staff plotted a line chart comparing net charge-offs and billed revenues for each year from 2010 to 2020 ended June 30th. Since the respective lines for each do not resemble the same exact pattern and trajectories, Staff has concluded that they do not correlate.

Q. Do you agree with Staff's assertion that net charge-offs do not correlate with billed revenues?

A. No. Ms. Newkirk's graph verifies that multiple factors do impact the level of net charge-offs each year, which she acknowledges in her rebuttal testimony (Newkirk RT, p. 3, lines 1-5). Fluctuations will occur from year to year. However, the fluctuations do not necessarily lead to the conclusion that there is no correlation.

Q. Do you believe there is a correlation between net charge-offs and billed revenues over the last ten years?

A. Yes. Please refer to the chart below. The Company replicated a similar chart using the same data request as Staff, to include the update provided above. The chart is uses annual fiscal year amounts, excluding 2020 as discussed above. In addition, the Company included a cumulative average growth rate ("CAGR") line for both billed revenues and net charge-offs from the year 2010 to 2019. Billed revenue is 4.04% and net charge-offs is 3.77% showing that over time both have increased in a similar direction with net charge-offs lagging billed revenues.



Q. What could be the basis of the correlation?

A. Net-charge-offs are billed revenues that have been written-off. Over time, when billed revenues increase, then accounts receivables will increase. If disconnections for non-payment happen at a similar rate, naturally net charge-offs will increase.

Q. What percentage of revenues did the Company present to apply against the annual level of revenues going forward?

A. Missouri-American presented a three-year average of 0.9828% in the original petition. This three-year average has been updated, per the data request update referenced above, to 0.9746%.

Q. From the updated historical data set, what is the average of net charge-offs per annual revenue from 2010-2019?

A. The average is 1.08% which is higher than the proposed three-year average.

Q. Do you agree with Staff's assertion that fluctuations will occur from time to time?

A. Yes. Straight averages could fluctuate some due to anomalies, depending on the data set. Using a median versus a mean represents the deviations of the small number of outliers as irrelevant. The median from 2010-2019 is 1.03%, which is very much in line with the base year of 2019 at 1.02%.

Q. Did Missouri-American include a discrete adjustment related to the proposed revenue requirement ending May 31, 2021?

A. Yes. The Company has included a discrete adjustment of $34,800 from the Company's December 31, 2020 true-up amounts, that is based on the uncollectible rate included in its revenue gross-up factor.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.