Exhibit No.:	_______________
Issue(s):	Ratemaking Theory/ Single-Issue Ratemaking/ Regulatory Lag/ Water Revenues/ Environmental Cost Adjustment Mechanism (ECAM)/ Revenue Stability Mechanism (RSM)/ Stock Issuance Expense/ Miscellaneous
Witness/Type of Exhibit:	Hyneman/Rebuttal
Sponsoring Party:	Public Counsel
Case No.:	WR-2015-0301

REBUTTAL TESTIMONY

OF

CHARLES R. HYNEMAN

Submitted on Behalf of the Office of the Public Counsel

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2015-0301

February 11, 2016

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 General Rate Increase for Water and Sewer Service Provided in Missouri Service Areas.	)))))	Case No. WR-2015-0301 Case No. SR-2015-0302

AFFIDAVIT OF CHARLES R. HYNEMAN

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Charles R. Hyneman, of lawful age and being first duly sworn, deposes and states:

1. My name is Charles R. Hyneman. I am the Chief Public Utility Accountant for the Office of the Public Counsel.

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

Charles R. Hyneman, C.P.A.
Chief Public Utility Accountant

Subscribed and sworn to me this 11th day of February 2016.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

JERENE A. BUCKMAN
My Commission Expires
August 23, 2017
Cole County
Commission #13754037

Jerene A. Buckman
Notary Public

My Commission expires August 23, 2017.

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REBUTTAL TESTIMONY

OF

CHARLES R. HYNEMAN

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2015-0301

I. INTRODUCTION

Q. Please state your name and business address.

A. Charles R. Hyneman, PO Box 2230, Jefferson City, Missouri 65102

Q. By whom are you employed and in what capacity?

A. I am the employed by the Missouri Office of the Public Counsel (OPC or Public Counsel) as Chief Public Utility Accountant.

Q. Are you the same Charles Hyneman who filed direct testimony on behalf of the Public Counsel in this case?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. In this testimony I address some of the positions taken by Missouri American Water Company ("MAWC") witnesses in their direct testimonies in this case.

As it relates to MAWC witness Fran Kartmann's direct testimony, in this testimony I will:

1. Address and discuss Mr. Kartmann's position concerning basic ratemaking theory of utility expense rate recovery.
2. Rebut Mr. Kartmann's representation of the utility ratemaking structure currently employed in Missouri.
3. Discuss Mr. Kartmann's one-sided view of the impact of regulatory lag on price regulation of monopolies. I will offer a more transparent and comprehensive view including the problems

> associated with the employment of single-issue ratemaking mechanisms.
>
> 4. Describe, not only the shift in Missouri ratemaking of risk in the ratemaking process from utilities to ratepayers, but also the apparent shift in the burden of proof from utility management to the regulatory auditor (whether it be of the Public Counsel, Staff or intervener) in rate cases in general and in cases involving single-issue ratemaking mechanisms in Missouri.
>
> 5. Explain why MAWC's' proposal to add two new single-issue ratemaking mechanisms to its current inventory of single-issue ratemaking mechanisms should not be accepted by the Commission in this rate case.

In my rebuttal testimony I also will address the testimony of MAWC witness Greg Roach as it relates to MAWC's growth in revenues over the past few years.

Finally, I will address the method used by MAWC witness Roger Morin in the recovery of MAWC's stock issuance expenses and discuss the inconsistency between MAWC and Mr. Morin on the treatment of MAWC as a standalone entity versus a part of the consolidated parent company group.

Finally, I will address some changes in Public Counsel's cost of service adjustments that are a result of the technical conference held on January 26, 2016.

II. REBUTTAL OF MAWC WITNESS KARTMANN

Q. Does Mr. Kartmann's testimony portray an accurate and true picture of ratemaking theory in general and, in particular, the current ratemaking structure in Missouri?

A. No. In his direct testimony Mr. Kartmann makes the following statement:

> We anticipate that by January 31, 2016 the Company will invest more than $436 million in capital improvements since the last rate case without realizing any capital cost recovery or depreciation expense on $215 million in capital investment, which represents the non ISRS qualified investments during that time. (Kartmann direct page 10 line 6).

This testimony ignores the basic principle of cost recovery in general ratemaking theory. This principle holds that once rates are set in a rate case by a regulatory body, those rates are deemed to be fair and reasonable until a new rate case is filed by the utility (or earnings complaint case filed by a party), and new rates are set. In rates set in a rate case, the utility is given an opportunity to earn a reasonable return on the equity dollars shareholders have invested in the utility.

The first step in calculating this return on equity ("ROE") is to subtract all expenses incurred in the period from the revenues received from ratepayers. The remaining revenue dollars are then classified on the income statement as net income. This net income amount is then divided by the dollar equity investment in the utility by shareholders to calculate the monetary return on this dollar equity investment. This monetary return is then referred to as the actual earned ROE and is compared to the authorized ROE granted in rate cases by regulatory bodies such as the Commission.

Q. **Does the calculation of actual earned ROE that is greater than zero reflect the fact that each and every expense incurred by the utility during that period has been recovered in rates paid by utility ratepayers?**

A. Yes, it does reflect that fact.

Q. How does Mr. Kartmann's testimony contradict this basic principle of ratemaking theory?

A. Mr. Kartmann testifies that since MAWC's last rate case, the Company has not realized any capital cost recovery or depreciation expense on non-ISRS capital investment. However, since MAWC earned a positive ROE every year during this period, MAWC has recovered each and every dollar of capital costs, depreciation expense, and all other expenses it incurred during this period.

Q. Why does Mr. Kartmann make a distinction between recovery of Infrastructure System Replacement Surcharge "(ISRS") capital costs and other Non-ISRS capital costs?

A. The majority of MAWC's plant-related costs (depreciation expense, property taxes, interest, income taxes, and profit) are directly tracked and recovered in its single-issue ratemaking mechanism, known as an ISRS. This is an example of "direct rate recovery", where expenses are incurred, separately identified and tracked, and recovered dollar for dollar from ratepayers through an additional charge on their monthly bills. This is the $221 million portion of the $436 million capital improvements referred to by Mr. Kartmann. This $221 million is being recovered in MAWC's ISRS.

MAWC's other $215 million portion of the $436 million in capital costs for which MAWC does not have an approved single-issue ratemaking mechanism have been recovered and are currently being recovered in rates set in MAWC's 2011 rate case. MAWC recovers these non-tracked ISRS capital costs under the basic ratemaking concept known as "indirect rate recovery".

While MAWC has been successful in recovering all of its costs and earning a reasonable ROE since its last rate case, it has also been allowed to transfer the risk of not recovering all of its expenses and earning a reasonable ROE from its shareholders to its customers through the use of its ISRS – which can be viewed as "no risk rate recovery". This explicit and direct shift of expense recovery risk from the utility to the ratepayers is one of the problems with the adoption and use of single issue ratemaking mechanisms.

Q. Does Mr. Kartmann's testimony reflect how utility ratemaking actually works?

A. No. The problem with this testimony lies in a common misunderstanding of utility ratemaking. I have experienced Missouri utility witnesses testify to the Commission that since the specific dollars of an actual incurred expense were not directly included in a revenue requirement used to set rates (such as the Staff's Accounting Schedules) in its last rate case, that these specific expenses are not being recovered in current rates. Mr. Kartmann's testimony echoes this misunderstanding of basic ratemaking theory.

Q. Earlier you mentioned the concepts of "indirect rate recovery" and "direct rate recovery". Please briefly differentiate the two concepts.

A. Cost of service rate regulation of public utilities has historically been based on the principle of indirect rate recovery. In a rate case, the utility's cost structure is matched with the utility's rate base investments and rates are designed based on this cost structure to recover future expenses and produce a reasonable level of profit for the company to pay shareholder dividends or for the utility to reinvest back into utility operations.

This rate structure created in a rate case is developed through what is referred to as the ratemaking matching principle. By matching revenues, expenses, gains and losses with plant in service and other rate base investments, the rates that are created from this matching allow for changes, up or down, in these revenue requirement components in the future and still provide the opportunity for the utility to earn a reasonable level of net income for shareholders.

For example, post-test year increases in the number of utility customers create additional revenues that were not included in the calculation of the utility's revenue requirement. However, these additional revenues are now available to cover potential increases in utility expenses. In addition, savings from decreases in other expenses, such as lower interest expense from debt refinancing, can be used to pay higher fuel costs. Technological advances in meter reading, which reduce the necessary number of meter reading employee positions, create cost savings in employee compensation and benefits costs that can be applied to other cost increases. Improvements in the economy may lead to lower bad debt expense and higher revenues due to increased average customer usage. Savings from decreases in gasoline prices used in utility transportation and oil costs used as a fuel source can be applied to other cost increases.

All of these revenue requirement components that were matched in the rate-setting process are in a constant flux. Increases or decreases in one component offsets the increases or decreases in other components.

This is why the ratemaking matching principle is so important to maintain when setting utility rates. It develops a relationship or structure between the utility's balance sheet (rate base) and income statement (revenues and expenses). When one of the ratemaking components (revenues, expenses or rate base) diverges substantially from the basis of current rates, and the changes in other ratemaking components cannot sufficiently offset this one issue, then it is time for the utility to file a rate case and readjust the revenue requirement components to account for the new economic conditions that caused the existing rates to no longer be just and reasonable.

In contrast, Mr. Kartmann and other utility witnesses in past cases before the Commission do not seem to accept the concept of indirect rate recovery. These individuals espouse a flawed concept referred to as the "direct rate recovery" view of utility ratemaking. The "direct rate recovery" concept apparently was named after a naive and self-serving belief that a cost has to be directly included in the specific revenue requirement calculation used to set current rates to be considered as actually or "directly" recovered in utility rates.

Q. Can you provide a simple real-world example which proves the fallacy of the "direct rate recovery" concept?

A. Yes. From about 1985 to 2006, a period of approximately 20 years, Kansas City Power & Light Company ("KCPL") did not seek to increase its electric utility rates in Missouri. It goes without saying that during this period, when KCPL installed over 800 MW of new electric capacity (Staff witness Elliott direct testimony Case No. ER-2016-0314, Exhibit No. 112), KCPL incurred millions of dollars of capital costs, depreciation expense and other expenses that were not specifically included in the calculation of KCPL's revenue requirement in the Staff's Accounting Schedules in its 1985 rate case, KCPL's rate case prior to its 2006 rate case.

However, under the "direct rate recovery" theory espoused by Mr. Kartmann, one would have to believe that KCPL did not recover any of these capital costs from its ratepayers in utility rates over this 20-year period since they were not directly included in the Staff's accounting schedules in the 1985 rate case.

This simple real-world example illustrates the flaws in Mr. Kartmann's direct testimony, at page 10, where he states that MAWC did not realize any capital cost recovery or depreciation expense on its non-ISRS capital investment since its last rate case, four years ago. MAWC has not only recovered in utility rates all of its expenses since its last rate case but also earned a reasonable ROE during this period.

Q. What was MAWC's actual earned ROE in 2014?

A. MAWC's actual earned ROE or profit level for 2014 was 9 percent. In its Annual Report to the Commission for the calendar year ended December 31, 2014, MAWC reported net income of $42,794,880 and a beginning equity capital amount of $476,155,832.

Q. Do the majority of ROE expert witnesses in this rate case consider 9 percent to be a reasonable ROE for MAWC?

A. Yes. MAWC witness Morin is recommending a range of 10.1% to 10.7% ROE. However, if you remove his 30 basis point adder for MAWC's stock issuance costs (which have not been incurred), his range drops to 9.8% to10.4%. Public Counsel witness Michael Gorman is recommending a range of 8.8% to 9.2% percent. Staff witness Murray is recommending a range of 8.5% to 9.5%. While Mr. Morin's range is an outlier, in my opinion, and in the opinion of the majority of experts in this rate case, the range of reasonable ROEs for this company, at this time, is consistent with what MAWC actually has been earning.

Q. Is MAWC's 2014 earned ROE of 9% consistent with the earnings of its parent company, American Water Works Company?

A. Yes.

Q. Briefly describe American Water Works Company's ("AWWC") regulated business.

A. AWWC in headquartered in New Jersey and is the largest, investor-owned water and wastewater utility company in the United States. AWWC's regulated utilities provide water and wastewater services in 16 U.S. states.

AWWC's 15 state regulated utility subsidiaries are: California American Water, Hawaii American Water, Illinois American Water, Indiana American Water, Iowa American Water, Kentucky American Water, Maryland American Water, Michigan American Water, Missouri American Water, New Jersey American Water, New York American Water, Pennsylvania American Water, Tennessee American Water, Virginia American Water, and West Virginia American Water.

Q. Does AWWC have substantial non-regulated business operations?

A. Yes. AWWC provides services through what it refers to as its "Market-Based" businesses. AWWC's nonregulated operations include three lines of business: 1) Contract Services, which provides outsourced operations and maintenance services for municipalities; 2) Military Services, which works with the United States Military to treat and supply water and to collect and treat wastewater for military installations; and 3) Homeowner Services, which provides services to homeowners and smaller commercial establishments to protect against the cost of repairing broken or leaking water pipes and clogged or blocked sewer pipes on their property.

Q. Explain why you believe MAWC's 2014 earned ROE of 9% is consistent with the earnings of its parent company, AWWC?

A. In an analyst report on AWWC, Morningstar Inc. (Morningstar) reported that AWWC's ROE for 2012 was 8.25%, 2013, 8.05% and 2014, 8.78%. It also reported that AWWC's TTM (Trailing 12 Month Yield) ROE for 2015 is 9.33%. My review of AWWC's SEC Form 10-K shows that AWWC's net income before discontinued operations resulted in an ROE of 8.82% in 2012, 8.83% in 2013 and 9.10% in 2014.

	AWWC	Ind Avg
Key Stats AWK		
Price/Earnings TTM	25	26.3
Price/Book	2.3	2
Price/Sales TTM	3.8	4
Rev Growth (3 Yr Avg)	4.1	-5.1
Net Income Growth (3 Yr Avg)	11	-17
Operating Margin % TTM	34.3	20.8
Net Margin % TTM	15.1	10.4
ROA TTM	2.9	2.4
ROE TTM	9.3	7.2
Debt/Equity	1.2	0.9

Q. Describe Morningstar.

A. Morningstar is an independent investment research firm.

Q. Is Morningstar a widely-cited research firm in utility rate cases?

A. Yes. Morningstar is often cited by financial analysts in utility rate cases as an authoritative source. Morningstar is cited as an authoritative source by MAWC ROE witness Roger Morin in his direct testimony in this rate case.

Q. Does the Morningstar analyst report on AWWC indicate how well AWWC's current ROE of 9.3% compares to an industry average?

A. Yes. Morningstar's analyst report shows that AWWC's current ROE of 9.3% is significantly higher than the industry average ROE of 7.2%. Also, while the time period is not exactly the same, MAWC's 2014 ROE of 9% compares very favorably with the current industry average ROE of 7.2%.

Q. Did you perform an analysis of the companies included in Morningstar's industry average to see if they were directly comparable to MAWC?

A. No. My analysis was performed at a high level and is meant to provide an additional indication that, when compared with other evidence; MAWC currently is earning a reasonable ROE.

In fact, MAWC's solid utility earnings, as reflected in its earned ROE and its positive increase in revenues over the past three years, shows that MAWC is performing well in a difficult economic environment. Among other reasons, given this current solid financial performance, MAWC does not need the two additional single-issue ratemaking mechanisms it is seeking in this case, the Environmental Cost Adjustment Mechanism ("ECAM") and Revenue Stability Mechanism ("RSM").

Q. Do you agree with Mr. Kartmann's testimony at page 13 line 8 of his direct testimony where he states "While timely cost recovery remains a challenging proposition in Missouri's historic test year regulatory environment, ISRS has helped to reduce some of the regulatory lag that is otherwise present"?

A. No. Missouri does not have a "historic test year regulatory environment" for a very high percentage of utility costs, especially much of the types of costs incurred by MAWC.

Q. Please explain.

A. The use of regulatory mechanisms such as trackers, fuel adjustment clauses, ISRS and others which are all too common in Missouri ratemaking do not employ the use of a historic test year. Currently, MAWC recovers significant revenues from its ratepayers in the form of pension trackers, tank painting trackers, OPEB trackers, and the ISRS. In its December 29, 2015 filing, Staff showed that MAWC currently bills its customers $25.9 million dollars in ISRS charges on an <u>annual basis</u>. The ISRS single-issue surcharge mechanism that allows for these rate increases does not include a historic test year.

The fact that MAWC charges its customers millions of dollars in additional surcharges under its ISRS shows that, consistent with Mr. Kartmann's expressed desire at page 10 of his direct testimony, utility ratemaking in Missouri has already adapted to MAWC's circumstances.

Q. Mr. Kartmann seems to indicate a "historic test year" is a bad thing. Do you agree?

A. No. Most assets, liabilities gains and losses and revenues and expenses of U.S. business entities are recorded at historical cost. The Financial Accounting Standards Board ("FASB") and the Accounting profession has found that historical-cost accounting is more reliable than other forms of accounting, such as fair value accounting. The FASB has retained historical cost accounting as the basis of U.S.

generally accepted accounting principles ("GAAP"). GAAP are the Accounting standards that all U.S. companies, including MAWC, must comply with in the preparation of financial records. As a result, significantly all accounting for business operations, both regulated and nonregulated are based on historical costs.

Q. Has any utility in Missouri proposed a method of accounting and ratemaking that is not based on historical cost test year?

A. Not that I am aware. While Missouri utilities may have suggested the use of a future test year, and proposed recovery of certain estimated future costs, no Missouri utility to my knowledge has proposed a future test year in a rate case and explained how this future test year would be superior to the Commission's historical cost test year method which relies heavily on the ratemaking matching principle to create rates that are fair and reasonable.

However, as noted, none of the single-issue ratemaking mechanisms currently employed in Missouri use a historical test year as the basis for its calculation. That is just one of the reasons why these mechanisms are flawed. Some of these mechanisms are calculated under restrictions which appear to be designed to produce the highest levels of rates possible while ignoring, for the most part, other economic events experienced by the utility that would reduce the revenue increase calculation.

Q. Explain how MAWC's ISRS rate increase calculation does not include any potential offsets to the ISRS surcharge.

A. In Missouri, all relevant factors must be considered in establishing rates for a public utility. This ratemaking requirement in Missouri was put in place to make sure that rates were fair and reasonable. This important ratepayer protection, however, was significantly lessened in Missouri due to the proliferation of single-issue ratemaking mechanisms, including those with restrictions and prohibitions on what ratemaking factors may be considered by auditors in the calculation of rate increases from the mechanism.

For example, the ISRS prohibits all but a very limited number of ratemaking factors from being considered in establishing ISRS rates. The law authorizing a water ISRS states that:

> The staff of the commission may examine information of the water corporation to confirm that the underlying costs are in accordance with the provisions of sections 393.1000 to 393.1006, and to confirm proper calculation of the proposed charge, and may submit a report regarding its examination to the commission not later than sixty days after the petition is filed. <u>No other revenue requirement or ratemaking issues shall be examined in consideration of the petition or associated proposed rate schedules filed pursuant to the provisions of sections 393.1000 to 393.1006. (emphasis added)</u>

This audit prohibition on the parties to the ISRS case from considering "all relevant factors" is clear.

As the chart below shows, under its ISRS MAWC collected $44 million dollars from its customers over a short three-year period. This includes over $23 million in 2015 alone. The ISRS law and Commission Rule restrictions placed on an ISRS audit prevent any meaningful reflection of MAWC's actual revenues needed to cover its ISRS plant investments. The ISRS revenue requirement, as currently calculated under significant ratemaking restrictions, is artificial. Revenue requirements are by definition, the amount of revenues required for the utility to earn a reasonable ROE. Under an ISRS, a utility may be earning at or above a reasonable ROE and still generate an ISRS revenue requirement.

Q. Given these facts about MAWC's ISRS, it is possible to give any consideration to Mr. Kartmann's complaints about Missouri utility ratemaking?

A. No. The ISRS law prohibits the Public Counsel and the Commission's Staff and other parties from including in its ISRS audit scope any ratemaking factor that may mitigate increased costs due to ISRS plant investments. Under this structure, a Missouri utility can earn significantly over its authorized ROE, even earn double digit ROE levels, and still be allowed to charge its customers increased utility rates for costs that they already recover in current rates.

So, given the fact that MAWC is charging Missouri ratepayers, in ISRS rates, $44 million dollars over three years, it is difficult for me to give Mr. Kartmann's complaints about Missouri ratemaking any legitimacy at all.

The following charts reflect MAWC's ISRS charges under its current ISRS:

ISRS #	Case No	MAWC Plant	ISRS Rate Increase
10	WO-2012-0401	$32,666,495	$4,073,205
11	WO-2013-0406	$48,524,037	$5,288,318
12	WO-2014-0055	$22,302,155	$2,389,096
13	WO-2014-0237	$26,325,790	$3,137,508
14	WO-2015-0059	$53,474,342	$11,221,435
15	WO-2015-0211	$16,595,039	$1,919,991
	Total	$199,887,858	$28,029,553

	MAWC ISRS Surcharge
2013	$6,033,887
2014	$14,283,168
2015 Est	$23,682,945
Total	$44,000,000

Q. How significant are Missouri ISRS revenues to the total ISRS revenues recognized by MAWC's parent company, AWWC's utility divisions?

A. AWWC's SEC Form 10-K page 52 shows that only 6 of 16 states have allowed any ISRS charges, and in only 4 of AWWC's 16 states has the regulated utility surcharges been material in amount.

Over the period 2012 through 2014, 4 of the 6 states that had ISRS-type surcharges accounted for 84% of AWWC ISRS, with MAWC accounting for almost 30 percent of this amount.

In 2012, MAWC represented \$4.2 million out of \$18.4 million in total company ISRS revenues or 22%. In 2013, MAWC represented \$7.9 million out of \$36 million or 22%, and in 2014 MAWC represented \$12.7 million out of \$34.6 million or 37% of total company ISRS revenues. (AWWC 2014 Annual Report page 52).

Q. Mr. Kartmann states at page 9 line 12 of his direct testimony that it is important for a regulated utility to file for rate relief when its ability to earn a fair rate of return is compromised. Do you agree with that statement?

A. Yes. If a regulated utility is unable to earn a reasonable ROE, despite efforts to operate the utility efficiently and effectively, it should file for a rate increase. However, it should be noted that Mr. Kartmann did **<u>not</u>** say that MAWC's ability to earn a fair rate of return is compromised. I suspect the reason he did not say it was compromised is because it is not compromised.

MAWC in 2014 earned an ROE of 9%, which is very close to what two of the three ROE expert witnesses in this case are recommending. In addition, there is no indication that MAWC's earnings in 2015 resulted in an ROE that would not be considered reasonable.

Q. Mr. Kartmann states at page 9 line 13 of his direct testimony that if MAWC's ability to earn a fair return is compromised, then its ability to invest in maintaining and improving the water system is impaired. Please comment.

A. Again, I noted that Mr. Kartmann did not say that MAWC has not been earning a fair rate of return. To my knowledge, MAWC provided no indication that it was not satisfied with its current earned ROE and provided no evidence in this case that its recent earned ROE levels were not fair and reasonable. It is also important to note that Mr. Kartmann provided no evidence, especially with the continuation of its ISRS that MAWC will not continue to earn a fair rate of return without the assistance of additional single-issue ratemaking mechanisms such as the proposed ECAM and RSM.

Q. Does Mr. Kartmann address the issue of revenue growth in this direct testimony?

A. Yes. However, he does not address MAWC's actual water revenue growth or MAWC's actual earnings. His testimony on this point is that the Commission needs to change its ratemaking structure to fit MAWC's circumstances. At page 10 he makes the following statement:

> Ms Tinsley's testimony shows that the current ratemaking structure is not well adapted to a declining usage, no growth, high investment utility environment. If the Company is to have a fair and reasonable opportunity to earn its authorized revenue requirement, that structure must be adapted to the Company's circumstances.

Q. Are MAWC's revenues decreasing?

A. No, data provided to the Commission from MAWC shows that revenues are increasing at an impressive level. Mr. Kartmnann testimony about declining revenues does not agree with actual revenues reflected in MAWC's financial books and records. MAWC's revenues for the years 2011 through 2014 as reflected in its Annual Report are reflected below:

ANNUAL REPORT	MAWC WATER REVENUES PER MPSC ANNUAL REPORT	WATER REVENUE INCREASE
2011	$241,414,416	-
2012	$276,704,900	15%
2013	$261,404,269	-6%
2014	$266,542,507	2%
	3-year Revenue Growth	10%

What this chart shows is that MAWC's revenue growth in the period 2011 through 2014 have averaged greater than 3% per year.

Q. Does Public Counsel recommend that the Commission approve MAWC's ECAM proposal in this case?

A. No. Public Counsel witness Lena Mantle discusses this issue in her rebuttal testimony in this case. In her testimony she provides Public Counsel's recommendation that the Commission not grant MAWC an ECAM single-issue ratemaking mechanism in this case and provides support for this position.

Q. What support does Ms. Mantle provide in her rebuttal testimony?

A. In her rebuttal testimony she explains that MAWC has done little or nothing to support its need for an ECAM. She explains that MAWC has not even shown that it expects to incur costs of the nature covered by the Commission's ECAM Rule. She explains that MAWC did not meet the rule requirements regarding the application for approval of an ECAM. Finally, she explains to the Commission that the ECAM proposed by MAWC lacks the details necessary for implementation.

Q. What support do you provide in this testimony to support Public Counsel's position that the Commission not approve MAWC's proposed ECAM?

A. In this testimony I explain the serious negative impact on Missouri ratemaking caused by the many new single-issue ratemaking mechanisms being approved for use by Missouri utilities. I explain that due to these serious negative impacts on the ability of this Commission to set just and reasonable rates, the approval of new single-issue ratemaking mechanisms such as an ECAM should only be granted in times when the utility requesting the single-issue ratemaking mechanisms is in serious financial hardship and its ability to provide safe and adequate utility service is in question.

In additions to expressing Public Counsel's concern about the serious negative impact and ratepayer detrimental impact of single-issue ratemaking mechanisms, I also provide evidence in this testimony that MAWC is currently earning a reasonable ROE. Thus, there is no need to provide MAWC with an additional way to charge its customers for costs that it has and is currently recovering in utility rates that exist today. As I explain in my testimony, when a utility is already earning a reasonable ROE, any additional rate increase mechanism facilitates MAWC's double-recovery of costs and also encourages MAWC to charge its customers rates that are not just and reasonable. I do not believe the Commission has that desire and I believe a review of Public Counsel's position on this issue and the evidence it is providing to the

Commission, the Commission will recognize that granting an ECAM to MAWC in this case will be detrimental to MAWC's customers.

Q. Does Public Counsel recommend that the Commission approve MAWC's Revenue Stability Mechanism ("RSM") proposal in this case?

A. No.

Q. Why does Public Counsel not support MAWC's RSM proposal?

A. One reason as I have explained earlier is that there is no need. MAWC's revenues are strong and growing. This issue will be addressed in the Class Cost of Service Rebuttal Testimony of Public Counsel witness Geoff Marke

Q. How would you characterize MAWC's RSM proposal?

A. It is simply another attempt by MAWC to eliminate all shareholder risk in the running of its utility operations. By attempting to eliminate all shareholder risk, MAWC is making the intentional decision to place all risk of running the utility on its customers. As I discuss in this testimony, one of the Commission's essential roles as utility regulators is to ensure that the forces of competition exist and function as required for monopolies, such as MAWC and other Missouri utilities. MAWC's RSM and ECAM proposals seek to eliminate more risk than it has already eliminated through its ISRS and other expense trackers.

Q. Should the level of risk that a utility has eliminated through single-issue ratemaking mechanisms be considered in the authorized ROE issued by the Commission in its rate case Report and Orders?

A. Yes. A reading of the ROE expert witness testimonies in this case reveals that the cost of equity is based significantly on the individual company's risk in running its business. MAWC has had a significant level of risk eliminated through the adoption of its ISRS and other expense trackers. If the Commission approves either MAWC's ECAM or RSM, or both, the Commission should reflect its best judgment on the level of risk eliminated through MAWC's inventory of single-issue ratemaking mechanisms. Its authorized ROE in this case should reflect the significant level of risk that has already been eliminated from MAWC's operations and any additional risk elimination from its decision on MAWC's ECAM and RSM.

III. SINGLE-ISSUE RATEMAKING

Q. Describe what is meant by single-issue ratemaking.

A. Single-issue ratemaking involves "singling out" certain expenses, or revenue requirement components, from a company's overall cost of service and allowing a utility to recover those single specific costs from ratepayers separately, while ignoring all other factors necessary to determine fair and reasonable rates charged to ratepayers.

Q. How are utility expenses recovered under single-issue ratemaking?

A. The primary means of recovery of expenses under single issue ratemaking, at least in Missouri, are customer surcharges and expense trackers.

Q. Has the Missouri Court of Appeals addressed the issue of single-issue ratemaking?

A. Yes. In a January 15, 2012 Opinion in Case No. WD74676, the Missouri Court of Appeals Western District describes how single issue ratemaking is generally prohibited in Missouri due to its inherent potential for inequitable ratemaking actions by the Commission.

> In reliance upon § 393.270.4, Missouri courts have traditionally held that the Commission's "determination of the proper rate for [utilities] is to be based on all relevant factors rather than on consideration of just a single factor." ***Midwest Gas Users'***, 976 S.W.2d at 479.
>
> Thus, when a utility's rate is adjusted on the basis of a single factor, without consideration of all relevant factors, it is known as single-issue ratemaking. *See* ***id.***
>
> Single-issue ratemaking is generally prohibited in Missouri "because it might cause the [Commission] to allow [a] company to raise rates to cover increased costs in one area without realizing that there were counterbalancing savings in another area." Id.

Q. Does the utility industry consider trackers to be single-issue ratemaking?

A. Yes, I believe it does. American Electric Power ("AEP"), one of the largest electric utilities in the country specifically refers to trackers as single-issue ratemaking on its website. The following discussion of trackers is currently included on AEP's website:

> A tracker allows rapid recovery of an expenditure without waiting for a lengthy, fullblown rate case. However, it also creates a narrow, non-fungible bucket of funds that can only be used for one purpose.
>
> Additionally, when costs of any expenditure are approved in a base rate case, the utility (and its ratepayers, when shared savings mechanisms are incorporated) can benefit from efficiencies. In the straight pass-through process of a tracker, this doesn't happen.
>
> Not all state regulatory commissions (or legislatures) embrace the concept - some feel that single-issue ratemaking diminishes their authority and ability to regulate in a transparent

environment.(https://www.aep.com/about/IssuesAndPositions/Financial/Regulatory/AlternativeRegulation/Trackers.aspx)

Q. Does AEP describe its position on how it uses trackers?

A. Yes. On its website AEP describes its position on trackers as follows "*AEP has been a supporter of trackers in situations where immediate cash flow is an issue. However, we also are cognizant of the issues associated with single-issue ratemaking tools*." (https://www.aep.com/about/IssuesAndPositions/Financial/Regulatory/AlternativeRegulation/Trackers.aspx)

Q. What is the overall concern associated with the use of single-issue ratemaking mechanisms such as expense trackers, fuel adjustment clauses, ISRS, ECAMs RSMs and AAOs?

A. Single-issue ratemaking as a practice is generally prohibited in Missouri because it is bad ratemaking. The overall problem with the use of single-issue ratemaking mechanisms is that they allow for the charging of utility rates that are just and reasonable, the very reason why their use in Missouri was prohibited.

Q. What are the individual concerns about single-issue ratemaking mechanisms like trackers and surcharges?

A. There are several. The National Energy and Utility Affordability Coalition (NEUAC) describes itself as a broad-based coalition of diverse organizations dedicated to heightening awareness of the energy needs of low-income energy consumers, fostering public-private partnerships and engaging in other activities to address these needs. Mr. Ralph C. Smith, CPA of Larkin & Associates, PLC, and a witness for the Public Counsel in this rate case, made a presentation entitled "Increasing Use of Surcharges on Consumer Utility Bills" to NEUAC's 2012 Conference.

At the end of his presentation Mr. Smith reached the following five conclusions concerning the current use of single-issue ratemaking mechanisms such as trackers and surcharges.

Public Counsel agrees with each of the concerns listed below. Public Counsel recommends that the Commission consider each of these concerns prior to reaching any conclusion on the additional single-issue ratemaking mechanisms proposed by MAWC in this rate case:

1. In the past, surcharges were only permitted in limited circumstances for costs that were substantial, volatile and uncontrollable, and that could harm the utilities' financial health if not addressed outside of a general rate case base rate proceeding.

2. In recent years, however, requests for surcharges and tracking mechanisms by utilities have significantly increased, for many different types of costs, including capital investments, for specific operating and maintenance expenses and even for revenue losses.

3. The excessive use of special ratemaking mechanisms such as surcharges and other tracking mechanisms can proliferate to the point of becoming difficult and burdensome for regulators to monitor.

4. The use of surcharges can reduce utility incentives to control costs.

5. Whenever new or expanded utility surcharges are proposed, care must be taken to protect ratepayers.

<u>IV. REGULATORY LAG</u>

Q. In Mr. Smith's concern number 4 above, he states that the use of surcharges can reduce the utility incentives to control costs. Please discuss Public Counsel's concern with this particular negative effect on utility management cost control incentives from the use of single-issue ratemaking mechanisms.

A. In this concern, Mr. Smith was addressing a very common concern with single-issue ratemaking mechanisms among regulatory commissions, regulatory agencies such as the Office of the Public Counsel, and some of the leading experts in the field of utility regulation. This concern is that single-issue ratemaking mechanisms remove or significantly degrade one of the essential positive elements of regulatory lag, which is the incentive placed on utility management to control cost increases between rate cases.

Q. Please describe regulatory lag.

A. "Regulatory lag" has often been defined much too simply as "the time between the incurrence of a cost or revenue by a utility and the reflection of that cost or revenue in rates". A more descriptive definition is provided by Mr. Alfred E. Kahn in his book *The Economics of Regulation: Principles and Institutions.* Here, in distinct contrast to how Missouri utilities characterize regulatory lag, Mr. Kahn in refers to regulatory lag as a "positive advantage" of regulation.

Mr. Kahn, likely the most widely recognized and often-cited expert on the economics of regulation, provides this definition of regulatory lag:

> The regulatory lag - the inevitable delay that regulation imposes in the downward adjustment of rate levels that produce excessive rates of return and in the upward adjustments ordinarily called for if profits are too low - is thus to be regarded not as a deplorable imperfection of regulation but as a positive advantage. (Kahn, A.E., The Economics of Regulation: Principles and Institutions (New York: John Wiley & Sons,1970, Chapter 2, p.48).

Q. How did Mr. Kahn describe his understanding of the role of regulatory lag?

A. Mr. Kahn describes how regulatory lag is a ratemaking tool by which a regulatory body (Commission) incents positive utility management behavior. In *The Economics of Regulation: Principles and Institutions (chapter 2, page 48)* he states that "freezing rates for the period of the lag imposes penalties for inefficiency, excessive conservatism, and wrong guesses, and offers rewards for their opposites: companies can for a time keep the higher profits they reap from a superior· performance and have to suffer the losses from a poor one."

Roger Sherman, another well-respected expert in the field of regulation wrote an article in 2003 entitled *Restructuring Industries: The Carrot and the Stick* in which he cited William Baumol as the first economist to recognize the benefits of regulatory lag. William Baumol was a professor at New York University and an emeritus professor at Princeton University:

> The idea of using "regulatory lag", the delay between rate cases, for incentive benefits came from Baumol (1968). He argued that the regulated firm would have incentive to control its costs while it was stuck with unchanging prices between rate cases, the fixed prices essentially serving as a stick. So he proposed a specific time period between rate cases, such as three years or five years, when prices would remain fixed. [Review of Network Economics Vol.2, Issue 4 – December 2003]

Q. Does regulatory lag benefit utilities?

A. Yes. Not only does regulatory lag act as a necessary incentive to prudent and efficient management behavior as described by Messrs. Kahn and Baulmol, it also allows for utility shareholders to benefit financially during periods of excessive earnings and higher-than-authorized returns on equity.

Q. How do Missouri utility companies typically address regulatory lag when it is positive to its shareholders?

A. It has been my experience that when utility earnings are higher than an amount the utility believes would be found reasonable by the Commission; the utility will take whatever actions are necessary to retain that high level of earnings. This is the primary way utilities seek to enjoy, to the maximum extent possible, all the aspects of regulatory lag that benefit it and its shareholders.

In addition, it has also been my experience that when utility earnings are higher than what would be considered reasonable, utilities will oppose any attempt to lower rates to a reasonable level.

Finally, I have not experienced or even heard of one instance where a Missouri utility filed a for a rate decrease with the Commission stating that its rates were too high and its actual earned ROE was excessive.

Q. How do Missouri utility companies typically address regulatory lag when it does not specifically benefit its shareholders?

A. It is a completely different story. This scenario usually occurs when expenses rise faster than revenues and/or other expense reductions and faster than efficiencies from technological advancements. When this is the case, utilities in Missouri - through legislative efforts and rate case proposals - seek approval of a myriad of single-issue ratemaking mechanisms to shelter shareholders.

The adoption of these many single-issue ratemaking mechanisms has changed fundamentally the structure of utility ratemaking in Missouri. It also has shifted a significant amount of risk from the utility (where it belongs under traditional cost of service ratemaking) to the ratepayers.

Utility companies in Missouri have been successful in facilitating this transfer of risk to customers. But no matter how much risk is transferred through single-issue ratemaking mechanisms, it never appears to be enough. This is evidenced by MAWC, a company with a very one-sided and bloated ISRS charge, currently earning a reasonable ROE, seeking additional single-issue ratemaking mechanisms in the form of an ECAM and a RSM from the Commission.

With Missouri utility companies appearing to be on the path to seeking even more single-issue ratemaking mechanisms, there is a real possibility the beneficial aspects of regulatory lag will be so distorted that utility rates will no longer be based on the utility's cost of providing service. Under this regulatory structure and the removal of critical regulatory lag cost control incentives, there is a good possibility that utility expenses and utility rates will continue to grow rapidly without the necessary incentives to keep costs down between rate cases.

Q. Please continue

A. My fear is that with the continued escalation in the adoption and use of more and more single-issue ratemaking mechanisms, utility management's focus will change dramatically. With this slide away from traditional regulation, all relevant factors principles, and regulatory lag cost control incentives, the only question that utility management will ask itself is, "why should we keep costs down and sacrifice when we can automatically pass through these costs through one of the many available single-issue ratemaking mechanisms"? The truthful answer is that there is no reason why they should seek to control costs.

The regulatory lag incentives, which seek to emulate the cost reduction incentives of actual business competition, are all but eliminated. In this instance, while the Commission may say that one of its roles is to act as the force of competition on utility management, it will not have the power or the authority to be that force of competition. The vast array of single issue-ratemaking mechanisms that replaced traditional ratemaking in Missouri will not allow it.

Q. Is it the role of the Commission to serve as a substitute for a competitive marketplace?

A. It is incumbent on the Commission, through the use and application of ratemaking policies and procedures, to allow regulatory lag to operate as naturally as possible to ensure that a proxy for competitive pressures exist in the operation of regulated utilities in Missouri.

The essential purpose of rate regulation is to emulate the results that might be achieved by competitive firms in a competitive business environment. Utilities should not be shielded from experiencing lower earnings in disadvantageous environments just as utilities should be allowed to retain, for a period of time, the benefits of higher earnings in advantageous environments. That is the role of regulatory lag and it is the responsibility of the Commission to ensure that regulatory lag continues to play this role in utility regulation in Missouri.

Q. Do you agree that it is important for the Commission to seek a level of balance and fairness both to utility ratepayers and shareholders when it addresses the issues of regulatory lag in a utility rate case?

A. Yes. To achieve this level of balance and fairness, I believe it is important to approach the regulatory lag issues being raised by utilities today from an historical perspective. A historical perspective of how regulatory lag was allowed to operate naturally in Missouri will show that Missouri utilities enjoyed the benefits of regulatory lag during certain periods and enjoyed very high ROEs. There was no negative discussion of regulatory lag by Missouri utilities during this period and they took no action to ensure ratepayers were protected from paying utility rates that were not just and reasonable. Moving forward to recent years when the very positive impacts of regulatory lag on utility earnings have somewhat dissipated, there is a very strong push by Missouri utilities to eliminate the part of regulatory lag that they do not consider shareholder-friendly. This has led to the many various single-issue ratemaking mechanisms that are in effect today. A proper perspective would allow for the recognition that there were no individual ratepayer protection mechanisms put in place during the period of time when Missouri utilities experienced very high ROE levels.

Q. Were there any single-issue ratemaking mechanisms put in place by the Commission during the 20 year period (1985-2005) that KCPL had very high earnings due to regulatory lag?

A. No, there were none. Regulatory lag has always existed in the Missouri regulatory framework. The difference now is that when the business environment in which MAWC operates no longer produces positive regulatory lag (from the shareholder perspective) and excess earnings, MAWC calls for strong and drastic regulatory lag mitigation measures, primarily single-issue ratemaking mechanisms. But during the periods when utility earnings are in excess of authorized ROEs, there were no ratemaking mechanisms to protect ratepayers. That inherent inconsistency and lack of consideration to utility customers should be addressed by the Commission.

If these regulatory lag mitigation measures are not carefully controlled, and if they are allowed to remain in place for the long term, they have a very high probability of significantly skewing the Missouri regulatory framework, which has worked very well in the past and hopefully will continue going forward.

It is important to view each one of the myriad of single-issue ratemaking mechanisms with a keen awareness and understanding of the past. Taking into consideration the past regulatory environments in Missouri allows for an understanding that regulatory lag is a naturally occurring phenomenon and is the cornerstone of effective regulation of firms with monopolistic power such as regulated utilities.

Viewing all of these new single-issue ratemaking mechanisms with an understanding of the past helps prevent bad decisions being made in a vacuum. It allows for an understanding that regulatory lag is affected by changes in economic conditions and regulatory lag benefits, depending on the current economic and market conditions, both shareholders and ratepayers. Any attempt to adjust this symmetrical nature of regulatory lag should be done very carefully and on a very limited and short-term basis so as not to significantly alter the inherent fairness and balance in naturally occurring regulatory lag.

Q. Is it in the public interest to create and approve inflexible and long-lasting single-issue ratemaking mechanisms during times when MAWC's earnings, as reflected in its actual earned ROE, are reasonable?

A. The Public Counsel does not believe it is in the public interest to do so and it recommends to the Commission that it make this same finding. The Public Counsel believes that if the Commission compares the detriments to ratepayers of the proliferation of single-issue ratemaking mechanisms to any potential benefits, it will conclude that it is no contest.

The evidence I have provided in this testimony shows that MAWC's earnings are healthy and it has been and is currently earning a reasonable ROE. MAWC's earnings are healthy in large part due to its ISRS. MAWC has made maximum use of its ISRS to the point where its annual ISRS charges have exceeded 10% of its annual revenues determined in its previous rate case.

Q. Please summarize your testimony on regulatory lag.

A. In a 2009 rate case hearing in Case No. ER-2010-0036, the Commission' Chief Staff Counsel Kevin Thompson made the following statement to the Commission: "regulatory lag is a normal and inevitable part of utility regulation. You know that regulatory lag cuts both ways, sometimes to the benefit of the customer and sometimes to the benefit of the utility." (Tr. 214-215) While I agree with Mr. Thompson, I would go further and state that regulatory lag is not only inevitable, but necessary as it plays a vital role in making rate of return regulation work fairly and equitably. This is not only my opinion but the opinion of some of the most well-respected experts in the field of utility regulation.

Regulatory lag is necessary and essential in setting prices for a monopoly. It is only through regulatory lag that cost reduction incentives are created and provide the most significant, if not the only, incentive for utility management to operate the utility at its lowest reasonable cost between rate cases.

As to the many single-issue ratemaking mechanisms that are currently in place and are currently distorting regulatory lag, the Public Counsel believes these mechanisms require great scrutiny today and in the future by the Commission. Public Counsel believes that due to the increasing number of regulatory lag mitigation measures currently in place and continuously being proposed by utilities, the potential for distortion of the important role of regulatory lag and the threat to effective utility regulation is real and serious.

Distortion of the nature and beneficial role of regulatory lag through modification and elimination of the essential ratemaking policies and principles that have served the Missouri regulatory framework over many years is a real possibility if the constant barrage of regulatory lag mitigation measures is not given greater scrutiny and important countervailing safeguards put in place. This greater scrutiny should be given with solid understanding of the role of regulatory lag and how regulatory lag has been allowed to operate in the past, when utilities were operating in a more favorable economic environment.

V. BURDEN OF PROOF

Q. What is the typical utility responses when issues are raised about the negative impact of single-issue ratemaking mechanisms on Missouri ratepayers?

A. My experience has been that the utilities typically respond that Staff and other parties have the ability to do a prudence audit and that this opportunity to do a prudence audit is a sufficient ratepayer protection.

Q. Do you believe that the Staff and other parties have a reasonable opportunity to do a prudence audit on the many rate increases passed through to ratepayers under single issue ratemaking mechanisms?

A. No. I was previously employed as a Staff auditor for over 23 years. During this period I became convinced that Staff prudence audits provide little or no ratepayer protections in most if not all of the single-issue ratemaking mechanism that exist today.

Q. On what do you base this belief?

A. There are several factors, but in this testimony I will address just the primary factor. The primary factor why Staff and other parties' prudence audits provide no ratepayer protection is the very subtle but real shift in the burden of proof that utility costs are reasonable and prudent. This burden of proof has shifted somehow from utility management, where it belongs, to Commission Staff and Public Counsel auditors and other regulatory auditors.

Q. Mr. Hyneman, in your experience as an auditor and expert witness with the Public Counsel and the Commission Staff, what types of utility cases have you been involved with and filed testimony before this Commission?

A. I have been involved in many utility rate cases, and other cases including merger cases, ISRS cases, fuel adjustment clause cases, rate complaint cases, affiliate transaction case complaint cases, certificate cases, accounting authority order (AAO) cases, and construction audit and prudence reviews.

Q. Given your experience, are you clear as to the standards the Commission has developed and enforced related to the burden of proof in these utility cases?

A. No, I am not. I have a concern that over the past several years there has been a shift in the application of the burden of proof statute. Just as there is a real and tangible shift in regulatory risk away from the utility to the ratepayer through the proliferation of single-issue ratemaking mechanisms, there also appears to be a shifting of the burden of proof of utility costs being reasonable and prudent away from the utility even in traditional utility rate cases.

Q. In this testimony are you expressing any legal opinion or making any legal conclusions about the legal standards applicable to the burden of proof in the Commissions ratemaking authority?

A. No, I am not. I am not an attorney and in this testimony I do not address any legal analysis or determinations. I am an experienced regulatory auditor and a Certified Public Accountant ("CPA"). My point in this testimony as a regulatory auditor and CPA is simply to express my concerns. The change in the burden of proof has affected the work of Staff auditors, has affected the design of the Staff audit scope and audit plans, and has affected decisions about whether or not to even propose utility cost adjustments in cases before the Commission.

Q. What is your knowledge of the standards the Commission must apply as it relates to burden of proof in utility cases?

A. I am aware that there is a statute that specifically addresses the burden of proof and places that burden on the utility in utility rate cases at any hearing involving a rate increase. Missouri Revised Statutes Chapter 393 Gas, Electric, Water, Heating and Sewer Companies August 28, 2015, Section 393.150.2 states that <u>at any hearing involving a rate sought to be increased, the burden of proof to show that the increased rate or proposed increased rate is just and reasonable shall be upon the utility company.</u>

> 393.150.2. If any such hearing cannot be concluded within the period of suspension, as above stated, the commission may, in its discretion, extend the time of suspension for a further period not exceeding six months. <u>At any hearing involving a rate sought to be</u>

> increased, the burden of proof to show that the increased rate or proposed increased rate is just and reasonable shall be upon the gas corporation, electrical corporation, water corporation or sewer corporation, and the commission shall give to the hearing and decision of such questions preference over all other questions pending before it and decide the same as speedily as possible. (emphasis added)

Q. Has the Commission recognized in utility rate cases that the burden of proof is on the utility?

A. Yes. At page 14, paragraph 7 of its April 12, 2011 Report and Order in File No. ER-2010-0355 ("2010 Report and Order"), the Commission cited Section 393.150.2 and described that the burden of proof at a rate case hearing is on the utility, in that case, KCPL, to show that the rate increase KCPL proposes is just and reasonable:

Burden of Proof

> 7. At any hearing involving a rate sought to be increased, the burden of proof to show that the increased rate or proposed increased rate is just and reasonable shall be upon the . . . electrical corporation . . . and the commission shall give to the hearing and decision of such questions preference over all other questions pending before it and decide the same as speedily as possible.

Q. Have past Commissions, in your non-legal opinion, shifted the burden of proof away from the utility to the Staff and other parties in cases where utility rates were sought to be increased?

A. Yes. This has been my experience as a member of the Commission Staff. In fact, I addressed this point in my True-Up Direct testimony in Case No. ER-2014-0370, KCPL's last rate case. In this testimony I provided the standards set by the Commission on auditors in construction audits and prudence review cases, even when the rate increase from the construction project is sought by the utility in a general rate case.

In this testimony I described the standards the Commission places on regulatory auditors to support adjustments in construction audits and prudence reviews, and explained that these standards are much more stringent than other rate case adjustments, where the burden of proof is on the utility to prove the reasonableness and prudence of costs included in proposed rate increases.

In its April 12, 2011 Report and Order in File No. ER-2010-0355 ("2010 Report and Order"), the Commission placed the following standards (burden) of proof on the Staff. The Commission stated that Staff must meet a specific four-pronged test in any proposed adjustment to exclude a particular construction cost from the utility's cost of service in that rate case:

> 1. Identify that a specific imprudent action was not based upon construction industry standards;
> 2. Identify that the specific imprudent action was based on the circumstances that existed at the time the decision to incur the imprudent cost was made;
> 3. Provide proof that increased costs resulted from the imprudent decisions;
> 4. Provide substantive, competent evidence that establishes a causal connection between the utility's imprudent action and the cost incurred as a result of the action.

Q. In KCPL's 2010 rate case, were the construction costs of the Iatan construction project part of the cost increases that KCPL proposed to include in its rate increase filing in that rate case?

A. Yes. However, despite the costs being sought in a rate increase case, in its 2010 Report and Order at paragraph 25, the Commission summarized its much higher burden of proof on the Staff as it applies to any proposed adjustments to utility construction audits that the utility seeks to include in its rate increase hearing:

> 25. In other words, Staff or the other parties must satisfy the following two-pronged evidentiary test to support a disallowance: 1) identify the imprudent action based upon industry standards and the circumstances at the time the decision or action was made; and 2) provide proof of the increased costs caused by KCP&L's imprudent decisions. To meet this standard, a party must provide substantive, competent evidence establishing a causal connection or ―nexus between the alleged imprudent action and the costs incurred.

Q. Does the Public Counsel have concerns that the Commission has shifted the burden to prove that cost increases included in rate increase proposals are reasonable and prudent from the utility to the regulatory auditors who audit these cost increases?

A. Yes. The Public Counsel recommends that the Commission review its standards on the burden of proof in various types of cases, including FAC cases, construction audits, and other rate increase cases, and issue guidelines to its Staff, Public Counsel and other parties that are clear, understandable and consistent with the requirements of Section 393.150.2.

VI. REBUTTAL OF MAWC WITNESS ROACH

Q. Did you read the direct testimony of MAWC witness Greg Roach?

A. Yes, I did.

Q. Do you have any concerns with his direct testimony?

A. Yes, I do.

Q. What are your concerns?

A. Mr. Roach at page 19 line 11 of his direct testimony refers to a term "allowed Total Revenue and Water Sales" and states that such levels were set in Case WR-2011-0337, MAWC's last rate case.

Q. Have you ever heard of the Commission "allowing" a certain level of water sales and revenue levels?

A. No. The Commission does not allow any certain revenue levels or water sales. It is not clear how Mr. Roach came up with this information. I have reviewed the Commission's Report and Order from Case No. WR-2011-0337 and did not see any reference at all to any allowed total revenues or allowed water sales. At page 19 of his direct testimony Mr. Roach refers again to a term "allowed revenue" and "allowed total water sales" with no explanation of what these terms mean.

Q. Do you have any additional concerns with Mr. Roach's direct testimony?

A. Yes. The revenue numbers reflected at page 20 of his direct testimony are not consistent with what MAWC reported to the Commission in its recent annual reports.

Q. Did you compare the water revenue numbers provided by Mr. Roach in his chart at page 20 of his direct testimony to the water revenue numbers provided by MAWC to the Commission in its annual report filings during the period 2011 through 2014?

A. Yes. In the chart below the annual water revenues reported by MAWC in its Annual Reports to the Commission were compared to the annual water revenues for 2012, 2013, and 2014 provided by Mr. Roach at page 20 of his direct testimony. It is a concern that the numbers reported by Mr. Roach do not match the numbers reported by MAWC to the Commission in its Annual Report. However, the numbers provided by Mr. Roach in his direct testimony show a greater average annual increase during the period 2012 through 2014.

The revenue growth numbers provided by Mr. Roach show a robust increase in revenue growth from 2011 through 2014 of 12%, with an average annual increase during this period of 4%.

ANNUAL REPORT	MAWC WATER REVENUES PER MPSC ANNUAL REPORT	WATER REVENUE INCREASE	ROACH DIRECT P. 20	MAWC WATER REVENUES ROACH DIRECT P. 20	WATER REVENUE INCREASE
2011	$241,414,416	-	2011 **	$241,414,416	-
2012	$276,704,900	15%	2012	$279,467,636	16%
2013	$261,404,269	-6%	2013	$264,778,072	-5%
2014	$266,542,507	2%	2014	$270,239,218	2%
	3-year Revenue Growth	10%		3-year Revenue Growth	12%

Q. Did you also compare MAWC's average increase in water revenues with its parent company AWWC's average increase in water revenues?

A. Yes. The chart below shows that MAWC's average annual growth in revenues is consistent with AWWC's regulated utility water sales growth over the period 2010-

2014. I also included a comparison with the revenue growth of a Missouri utility, KCPL. This comparison shows that water sales growth over the period 2010-2014 is almost identical with electric sales growth over the same period. While these sales growth increases are affected by several factors, they show that MAWC's revenues are solid compared to other water utility sales (other AWWC water utilities) and other Missouri utility revenue growth.

Average Revenue Growth	MAWC	AWWC	KCPL
2010 - 2014	5.8%	4.1%	5.7%
2012- 2014	3.7%	4.0%	3.6%

Q. Did Mr. Roach file Supplemental Direct Testimony on February 10, 2016, the day before rebuttal testimony was required to be filed in this case?

A. Yes, he did.

Q. Did you have time to review the merits of his Supplemental Direct Testimony prior to filing rebuttal testimony in this case?

A. No, I did not. If necessary, I plan to address Mr. Roach's Supplemental Direct Testimony in my Surrebuttal testimony in this rate case.

Q. Do you have any immediate concerns with Mr. Roach's Supplemental Direct Testimony?

A. Yes, I do. At page 4 Mr. Roach uses the term "authorized revenues". I personally have never heard this term used in Missouri regulation and I do not believe this term has any real meaning. With the exception of ROW, unless a revenue requirement component is a part of a tracker or another tacked single-issue mechanism, there is no authorized level issued by the Commission. Also, the chart at page 4 of his Supplemental Direct Testimony states that it includes actual revenues. However, the revenues in this his chart for 2015 are not actual revenues. As footnoted by Mr. Roach, the number in the chart for 2015 reflects revenues that are based on some historical average of prior revenues going back to 2010.

VII. REBUTTAL OF MAWC WITNESS MORIN

Q. Did you read the direct testimony of MAWC witness Roger Morin?

A. Yes, I did.

Q. Do you have any concerns with his direct testimony?

A. Yes, I do.

Q. What are your concerns?

A. Mr. Morin, at pages 53 through 58 and in Appendix B of his direct testimony addresses the issue of a "flotation cost" adder to MAWC's ROE. A more correct term for "flotation costs" is "stock issuance expenses" and I will use that term in this testimony. My concern is that if Mr. Morin's proposal on stock issuance expense prevails, MAWC's ratepayers will pay in utility rates expenses MAWC has never incurred, and its parent company, AWWC, did not incur in the test year.

Q. What are stock issuance expenses?

A. Stock issuance expenses are expenses of issuing company stock to the public. These expenses are similar to other administrative and general ("A&G") expenses incurred by a utility and charged to A&G expenses in the income statement. Some of the types of expenses included in this administrative cost are:

> *Professional Fees: includes those for attorneys, as well as certified public accountants.
> *Commissions: underwriters that place the securities with investors will charge both fees for this service as well as sales commissions.
> *Clerical: includes both administrative and clerical costs associated with preparing regulatory filings as well as registrations.
> *Filings: expenses and fees associated with filing the issue with the Securities and Exchange Commission.
> *Marketing: advertising, mailing, and marketing costs associated with promoting the securities to investors.

Q. What is MAWC's position on stock issuance costs?

A. MAWC, through Mr. Morin's direct testimony, seeks to add 30 basis points to what MAWC witness Morin calculates to be MAWC's actual cost of equity.

Q. What is the revenue requirement impact of adding 30 basis points to MAWC's ROE to account for stock issuance expense?

A. Using MAWC's proposal I calculate that amount to be approximately $3.6 million.

Q. Does MAWC as a company actually issue common stock?

A. No, the issuance of common stock is made by MAWC's parent company, AWWC.

Q. Does that mean that AWWC's cost to issue common stock would be allocated to all of AWWC's regulated subsidiaries and non-regulated operations throughout the company?

A. Yes. It is a type of expense that would be allocated to all of the Company's operations.

Q. By charging MAWC's ratepayers $3.6 million annually through a 30 basis point stock issuance expense adder to ROE, how much is MAWC witness Morin suggesting that AWWC incurs on an annual basis?

A. I am not aware of an allocation percentage that would be most appropriate for this calculation. However, using a very conservative allocation factor of 14.24%, which is the allocation factor AWWC uses to allocate its Business Transformation Project ("BT" project) to its regulated operations, Mr. Morin's testimony suggests that AWWC incurs $25.4 million of stock issuance expenses each and every year.

Q. Why is a 14.24 percent allocation very conservative?

A. This is an allocation used by MAWC to allocate what it considers a regulated project to regulated operations. The expense incurred in issuing common stock would benefit AWWC's regulated operations as well as its substantial nonregulated operations. This would make the allocation to MAWC of AWWC stock issuance expense much lower than 14.24%.

Q. What level of stock issuance expense did AWWC incur in the test year in this case?

A. AWWC, and thus MAWC, did not incur any stock issuance expenses in the test year in this case.

Q. Is stock issuance expense a cost of equity that should be reflected in a cost of equity study?

A. No. Stock issuance expense is an expense of operating a company and it should be treated for accounting and ratemaking purposes as any other expense that is deferred and amortized to future periods.

Q. What is the appropriate accounting and ratemaking treatment for stock issuance expenses for a public utility?

A. First, the cost has to be incurred and specifically identified. Once this occurs, a reasonable allocation of the cost to the regulated operations of the utility should be determined. This cost would be deferred on the utility's balance sheet as a deferred charge and amortized to expense over a period of time that is determined by the Commission to be reasonable based on the facts and circumstances of the rate case where the expenses are addressed.

Q. Does MAWC witness Morin's position on stock issuance expense contradict other parts of his testimony?

A. Yes. At page 5 line 21 of his direct testimony Mr. Morin states that his recommended rate of return reflects the application of his professional judgment. I would question his judgment about charging MAWC's ratepayers $3.6 million annually for an expense that was not incurred in the test year, is not known and measurable, and is clearly overstated. Mr. Morin's 30-basis point adder is arbitrary and is not based on any business operations of MAWC or its parent company, AWWC.

Q. In Appendix B to his direct testimony Mr. Morin cites the studies he relied upon to support his 30 basis point adder for stock issuance costs. Are any of those current?

A. No. A review of the studies cited by Mr. Morin show that most occurred more than 20 years ago and some almost 40 years ago. Dates referenced were 1978, 1986, 1980, 1987, 1986, 1973, 1969, 1996 and 2000. No study was conducted in the last 15 years.

Q. Even if the studies relied upon by Mr. Morin were current, would they be relevant to this rate case?

A. No. Studies of the type Mr. Morin relies upon can only be used as a check on the reasonableness of an actual cost. That would be their only value. However, since stock issuance expense is an accounting expense – dollars paid to attorneys and underwriters to sell the company's stock to the public – and not a cost of equity, it does not belong in a calculation of ROE.

Stock issuance expenses should be calculated by utility personnel and proposed as an amortization adjustment to the cost of service in the same manner as many other expenses. Embedding stock issuance expense in a ROE recommendation distorts the amount of the expense and, as it does in this rate case, ignores the fact that the expense was not actually incurred in the test year.

Mr. Morin's testimony did not indicate that he took the time to review AWWC's actual stock issuance costs in the past. Mr. Morin does not testify that he made an attempt to calculate what a reasonable level of stock issuance costs would be for MAWC, but merely relied upon some generic studies performed 30-40 years ago.

Q. What is Public Counsel's position on stock issuance expense in this case?

A. Since no stock issuance expense was incurred by AWWC and none was allocated to MAWC, there should be no recognition of stock issuance expense in MAWC's cost of service in this rate case.

Q. Does Mr. Morin take a position on the ratemaking treatment of MAWC's stand-alone capital structure and ROE that is different from how AWWC treats MAWC for income tax purposes?

A. Yes. At page 16 of his direct testimony Mr. Morin states that an estimation of a fair and reasonable ROE should not take into account MAWC's relationship with its parent company, AWWC. Public Counsel is concerned with the significant level of inconsistency between the stand-alone ratemaking treatment position taken by Mr. Morin and the position of AWWC treating MAWC on a consolidated basis for certain bonus depreciation income tax deductions.

Public Counsel witness Ralph C. Smith describes in his direct testimony in this case how MAWC did not opt to take available bonus tax depreciation deductions in 2011 and 2013. This decision by AWWC caused MAWC's rate base and revenue requirement in this case to be higher than it would be if AWWC allowed MAWC to take these bonus depreciation tax deductions.

Q. What reasons were provided by MAWC as to why it did not take the bonus depreciation tax deductions it was entitled to take in 2011 and 2013?

A. MAWC's response to Public Counsel data request 5038 stated:

> MAWC and American Water Works opted out of bonus depreciation in tax years 2011 and 2013. In 2011, the bonus depreciation allowed by the IRS to deduct was 100% of qualifying property. It was determined that because the consolidated group already had sufficient net operating losses (NOL's), adding to that would jeopardize its ability to use them in the future, even though the carryforward is 20 years. In 2013, the consolidated group had charitable contribution carryforwards that were going to expire unused if the Company was in a taxable loss position. That would have been an additional tax expense to the Company. Therefore, it was decided to opt out of taking the bonus depreciation.

By not allowing MAWC to take the bonus depreciation tax deductions it was entitled to take on a stand-alone basis and creating a higher revenue requirement for MAWC, AWWC is treating MAWC on a consolidated basis for an isolated part of its consolidated tax operations. AWWC, for this one tax deduction, which is beneficial to shareholders, is treating MAWC as part of its consolidated tax operations. But for other deductions that were actually taken at the consolidated level that could have lowered MAWC's cost of service in this case, no such compensating ratemaking treatment was proposed by AWWC.

AWWC's inconsistent treatment of treating MAWC on a stand-alone basis where it likely benefits the shareholders and is detrimental to ratepayers (capital costs and capital structure) while treating MAWC on a consolidated tax basis for bonus depreciation is inconsistent ratemaking treatment that is of concern to the Public Counsel.

Q. Would the fact that MAWC did not reflect bonus depreciation tax deductions due to its affiliate relationship with its parent company, AWWC, be considered a violation of the Commission's Affiliate Transaction Rules if MAWC was subject to those rules?

A. Yes, it would. In this case, MAWC is subsidizing the operations of its affiliate AWWC by not objecting to AWWC's forced increase in MAWC's cost of service by not reflecting bonus tax depreciation deductions that belong to MAWC in its cost of service in this rate case. The Commission's Affiliate Transaction Rule was created to prevent just the types of transactions, affiliate subsidization, that AWWC and MAWC are engaging in related to MAWC's bonus depreciation income tax deductions.

Q. Is Public Counsel requesting any specific action by the Commission in this case to address this issue?

A. Public Counsel is not proposing any specific ratemaking treatment at this time. Unfortunately, as explained by Public Counsel witness Smith in his direct testimony, if Public Counsel imputed the past bonus depreciation deductions that MAWC should have reflected for ratemaking purposes in this case, a concern about a potential violation of the IRS' Normalization requirements would be raised. Because of this issue, Public Counsel has decided that for the purpose of this rate case, no ratemaking adjustment to reflect the imputation of the bonus depreciation deductions should be made.

Q. In future rate cases, if MAWC continues to subsidize its affiliate parent company, what actions are available for Public Counsel?

A. Public Counsel is aware that other rate jurisdictions of AWWC have adopted the calculation of income tax expense on a consolidated tax basis. There is significant justification why some form of this income tax treatment is superior from a fairness standpoint than the detriments suffered from treating income tax expense on a stand-alone basis as has been the position of the Commission Staff and the Commission for many years. This is a position that the Public Counsel will consider and evaluate in MAWC's next rate case and in other rate cases before the Commission.

However, Public Counsel is requesting the Commission address this issue by ordering MAWC to file a Cost Allocation Manual ("CAM") based on the requirements of the Commission's Affiliate Transaction Rule for Missouri electric and gas utilities. In addition, the Public Counsel is requesting that the Commission open a docket to address the creation of Affiliate Transaction Rules for large water companies in Missouri similar to the rules created for electric and natural gas utilities.

VIII. ADJUSTMENTS TO DIRECT TESTIMONY

A. PAYROLL

Q. Did the Public Counsel propose an adjustment to MAWC's payroll in its direct filing in this case?

A. Yes, it did.

Q. Based on the technical conference session held January 26, 2016 does the Public Counsel propose a change to its payroll adjustment?

A. Yes. Based on information obtained at the technical conference, Public Counsel adjusted its proposed payroll adjustment. Based on this adjustment the Public Counsel now supports the Staff's recommended level of payroll in Staff's direct filing. The Public Counsel recognizes that the Staff adjustment did not annualize payroll costs past the test year or true-up date in this case as proposed by MAWC in its direct testimony. The Public Counsel does not support any adjustment to payroll expense past the test year or true-up date in this rate case.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

Missouri American Water Company

Company Full Certificated Name

(Do not abbreviate and include any Commission approved AKA/DBA/Fictitious Name, if applicable)

WATER and/or SEWER ANNUAL REPORT

LARGE COMPANY

(with 8,000 or more customers)

TO THE

MISSOURI PUBLIC SERVICE COMMISSION

For the calendar year of

January 1 - December 31, 2014

Please select how the company is certificated with the Commission under the Company Name as shown above (check all that apply):

[X] Water Service Provider

[X] Sewer Service Provider

Please choose **one** of the following filing options:

[X] **Public Submission** (NOT Highly Confidential)

[ ] **Non-Public Submission** **(Highly Confidential / Filed Under Seal)**
For this filing to be considered Highly Confidential, additional submission of materials is required pursuant to Commission rule 4 CSR 240-3.335 and/or 4 CSR 240-3.640, Section 392.210, RSMo., and/or Section 393.140, RSMo.

Excel Issue Date: 12/17/2014

(To be used when filing under seal.)

Report of Missouri American Water Company | For the calendar year of January 1 - December 31, 2014

STATEMENT OF INCOME FOR THE YEAR

Account No. (a)	Account Description (b)	Schedule Page No. (c)	Total Current Year (d)	Sewer Current Year (e)	Water Current Year (f)
	Utility Operating Income				
400	Operating Revenues	S-1 W-1	$ 270,159,538.62	$ 3,617,031.63	$ 266,542,506.99
401	Operation Expense	S-3 W-6	$ 111,315,942.95	$ 1,811,901.00	$ 109,504,041.95
402	Maintenance Expense	S-3 W-6	$ 14,008,930.00	$ 299,330.00	$ 13,709,600.00
403	Depreciation Expense	S-7 W-11	$ 33,077,590.22	$ 754,373.42	$ 32,323,216.80
404-405	Amortization of Limited Term/Other Utility Plant	-	$ (4,876,207.00)	$ 4,450.00	$ (4,880,657.00)
406	Amortization of Utility Plant Acquisition Adjustments	F-16	$ 5,257,427.00	$ 12,779.00	$ 5,244,648.00
407	Amortization of Property Losses	-	$ 160,659.00	$ 1,816.00	$ 158,843.00
408.1	Taxes Other Than Income Taxes-Utility Operating Income	F-31	$ 16,652,361.00	$ 57,575.00	$ 16,594,787.00
409.1	Income Taxes, Utility Operating Income	F-31	$ 2,554,368.00		$ 2,554,368.00
410.1	Provision for Deferred Income Taxes-Utility Operating Income	F-36	$ 25,859,726.00		$ 25,859,726.00
411.1	Income Taxes Deferred in Prior Years-Credit Utility Operating Income	F-36	$ -		
412.1	Investment Tax Credits-Utility Operations, Deferred to Future Periods	F-33	$ (130,410.00)		$ (130,410.00)
412.2	Investment Tax Credits-Utility Operations, Restored to Operating Income	F-33	$ -		
	Total Utility Operating Expenses		$ 203,880,387.17	$ 2,942,224.42	$ 200,938,163.75
	Net Utility Operating Income		$ 66,279,151.45	$ 674,807.21	$ 65,604,343.24
413	Income from Utility Plant Leased to Others	F-38	$ -		
414	Gains (Losses) from Disposition of Utility Property	F-40	$ -		
	Total Net Utility Operating Income		$ 66,279,151.45	$ 674,807.21	$ 65,604,343.24
	Other Income				
415-418	Nonutility Operating Income	F-39	$ 208,655.00	$ -	$ 208,655.00
419	Interest and Dividend Income (Net)	F-39	$ 1,067.00		$ 1,067.00
420	Allowance for Funds Used During Construction	F-41	$ 1,796,506.00	$ 14,287.00	$ 1,782,219.00
421	Miscellaneous Non-operating Income	F-41	$ (5,062.00)		$ (5,062.00)
422	Gains (Losses) from Disposition of Non-Utility Property	F-40	$ 443,092.00	$ -	$ 443,092.00
	Total Other Income		$ 2,444,258.00	$ 14,287.00	$ 2,429,971.00
	Other Income Deductions				
425	Miscellaneous Amortization	F-41	$ 101,550.00		$ 101,550.00
426	Miscellaneous Income Deductions	F-41	$ 134,323.00		$ 134,323.00
	Total Other Income Deductions		$ 235,873.00	$ -	$ 235,873.00
	Taxes Applicable to Other Income				
408.2	Taxes Other than Income Taxes, Other Income and Deductions	F-31	$ -		
409.2	Income Taxes, Other Income and Deductions	F-31	$ -		
410.2	Provision for Deferred Income Taxes, Other Income and Deductions	F-36	$ -		
411.2	Income Taxes Deferred in Prior Years - Credit, Other Income and Deductions	F-36	$ -		
412.3	Investment Tax Credits-Utility Operations Restored to Non-operating Income	F-33	$ -		
412.4	Investment Tax Credits, Non-utility Operations, Net	F-33	$ -		
	Total Taxes on Other Income and Deductions		$ -	$ -	$ -
	Net Other Income and Deductions		$ 2,208,385.00	$ 14,287.00	$ 2,194,098.00
	Interest Charges				
427	Interest on Long-Term Debt	F-41	$ 24,600,428.00		$ 24,600,428.00
428	Amortization on Debt Discount and Expense	F-21	$ 945,934.00		$ 945,934.00
429	Amortization of Premium on Debt - Credit	F-21	$ -		
430	Interest on Debt to Associated Companies	F-41	$ 146,294.00		$ 146,294.00
431	Other Interest Expense	F-41	$ -		
	Total Interest Charges		$ 25,692,656.00	$ -	$ 25,692,656.00
	Income Before Extraordinary Items		$ 42,794,880.45	$ 689,094.21	$ 42,105,785.24
	Extraordinary Items				
433	Extraordinary Income	-	$ -		
434	Extraordinary Deductions	-	$ -		
499.3	Income Taxes, Extraordinary Items	-	$ -		
	Extraordinary Items After Taxes		$ -	$ -	$ -
	Net Income		$ 42,794,880.45	$ 689,094.21	$ 42,105,785.24

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Indicates formula cell

Report of	Missouri American Water Company		For the calendar year of January 1 - December 31,		2014

NOTE: Please do not type over formulas. Totals will calculate automatically in this spreadsheet.

COMPARATIVE BALANCE SHEET - UTILITY PLANT, ASSETS AND OTHER DEBITS

Account No. (a)	Account Description (b)	Schedule Page No. (c)	Balance at Beginning of Year (d)	Balance at End of Year (e)	Increase or (Decrease) (f)
	Utility Plant				
101-107	Utility Plant	F-16	$ 1,857,686,534.00	$ 1,964,196,259.00	$ 106,509,725.00
108-113	Less: Accumulated Provisions for				
	Depreciation and Amortization	F-16	$ 443,651,339.00	$ 450,794,676.15	$ 7,143,337.15
	Net Utility Plant		$ 1,414,035,195.00	$ 1,513,401,582.85	$ 99,366,387.85
114-115	Utility Plant Acquisition Adjustments (Net)	F-16	$ 7,570,753.00	$ 7,250,264.00	$ (320,489.00)
116	Other Utility Plant Adjustments				$ -
	Total Net Utility Plant		$ 1,421,605,948.00	$ 1,520,651,846.85	$ 99,045,898.85
	Other Property and Investments				
121	Nonutility Property	F-18	$ 15,000.00	$ 15,000.00	$ -
122	Less: Accumulated Provisions for				
	Depreciation and Amortization of Nonutility				
	Property	F-18	$ -	$ -	$ -
	Net Nonutility Property		$ 15,000.00	$ 15,000.00	$ -
123	Investment in Associated Companies	F-19		$ -	$ -
124	Other Investments	F-19	$ 429,511.00	$ 729,006.00	$ 299,495.00
125-128	Special Funds	F-19		$ -	$ -
	Total Other Property & Investments		$ 444,511.00	$ 744,006.00	$ 299,495.00
	Current and Accrued Assets				
131	Cash	-	$ 1,142,745.00	$ 702,803.00	$ (439,942.00)
132-134	Special Deposits	-	$ 5,452.00	$ 5,452.00	$ -
135	Working Funds	-	$ 5,296.00	$ 3,400.00	$ (1,896.00)
136	Temporary Cash Investments	-			$ -
141-143	Notes and Accounts Receivable	F-20	$ 23,141,939.00	$ 24,016,959.00	$ 875,020.00
144	LESS: Accumulated Provision for				
	Uncollectible Accounts	F-20	$ (2,496,119.00)	$ (2,898,938.00)	$ (402,819.00)
145-146	Receivable from Associated Companies	F-20	$ 901,154.00	$ 15,010,345.00	$ 14,109,191.00
151-157	Materials and Supplies	F-21	$ 4,870,345.00	$ 4,984,348.00	$ 114,003.00
163	Stores Expense	F-21	$ -	$ -	$ -
166	Prepayments	F-21	$ 916,896.00	$ 598,643.00	$ (318,253.00)
171	Interest and Dividends Receivable	-			$ -
172	Rents Receivable	-			$ -
173	Accrued Utility Revenues	-	$ 27,626,554.00	$ 28,426,170.00	$ 799,616.00
184	Miscellaneous Current and Accrued Assets	-	$ 1,105,161.00	$ 1,102,025.00	$ (3,136.00)
	Total Current and Accrued Assets		$ 57,219,423.00	$ 71,951,207.00	$ 14,731,784.00
	Deferred Debits				
181	Unamortized Debt Discount and Expense	F-21	$ 9,579,435.00	$ 8,633,501.00	$ (945,934.00)
182	Extraordinary Property Losses	F-21	$ -	$ -	$ -
183	Preliminary Survey and Investigation Charges	-	$ 10,868.00	$ 10,868.00	$ -
184	Clearing Accounts	F-22	$ -	$ -	$ -
185	Temporary Facilities	-			$ -
186	Miscellaneous Deferred Debits	F-21	$ 36,041,868.00	$ 42,695,357.00	$ 6,653,489.00
187	Research and Development Expenditures	-			$ -
	Total Deferred Debits		$ 45,632,171.00	$ 51,339,726.00	$ 5,707,555.00
	Total Utility Plants, Assets and Other Debits	*	$ 1,524,902,053.00	$ 1,644,686,785.85	$ 119,784,732.85

* Difference between Assets and Equity & Liabilities (from PgF-11) $ - 0

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Indicate formula cells

NOTE: Please do not type over formulas. Totals will calculate automatically in this spreadsheet.

COMPARATIVE BALANCE SHEET - EQUITY CAPITAL, LIABILITIES AND OTHER CREDITS

Account No. (a)	Account Description (b)	Schedule Page No. (c)	Balance at Beginning of Year (d)	Balance at End of Year (e)	Increase or (Decrease) (f)
	Equity Capital				
201	Common Stock Issued	F-24	$ 95,994,075.00	$ 95,994,075.00	$ -
204	Preferred Stock Issued	F-24	$ 1,750,000.00	$ 1,500,000.00	$ (250,000.00)
202, 205	Capital Stock Subscribed	F-24		$ -	$ -
203, 206	Stock Liability for Conversion	F-24		$ -	$ -
207	Premium on Capital Stock	F-25	$ -	$ -	$ -
208-211	Other Paid in Capital	F-25	$ 196,371,330.00	$ 196,529,923.00	$ 158,593.00
212	Installments Received on Capital Stock	F-24		$ -	$ -
213	Discount on Capital Stock	-			$ -
214	Capital Stock Expense	F-24	$ (25,111.00)	$ (23,690.00)	$ 1,421.00
215, 216	Retained Earnings	F-25	$ 182,065,538.00	$ 192,797,509.45	$ 10,731,971.45
217	Reacquired Capital Stock	F-24		$ -	$ -
	Total Equity Capital		$ 476,155,832.00	$ 486,797,817.45	$ 10,641,985.45
	Long-Term Debt				
221-222	Bonds LESS Reacquired Bonds	F-26	$ 468,449,965.00	$ 468,460,654.00	$ 10,689.00
223	Advances from Associated Companies	F-26		$ -	$ -
224	Other Long-Term Debt	F-26		$ -	$ -
	Total Long-Term Debt		$ 468,449,965.00	$ 468,460,654.00	$ 10,689.00
	Current and Accrued Liabilities				
231	Notes Payable	F-25		$ -	$ -
232	Accounts Payable	-	$ 22,539,516.00	$ 30,020,900.00	$ 7,481,384.00
233, 234	Payables to Associated Companies	F-27	$ 42,481,540.00	$ 101,069,889.00	$ 58,588,349.00
235	Customer Deposits	-			$ -
236	Taxes Accrued	F-28	$ (5,222,299.00)	$ (1,284,397.00)	$ 3,937,902.00
237	Interest Accrued	F-27	$ 4,148,603.00	$ 4,359,818.00	$ 211,215.00
238	Dividends Declared	-			$ -
239	Matured Long-Term Debt	-			$ -
240	Matured Interest	-			$ -
241	Tax Collections Payable	-	$ 1,325,805.00	$ 1,330,437.00	$ 4,632.00
242	Miscellaneous Current and Accrued Liabilities	F-27	$ 8,931,454.00	$ 13,677,550.00	$ 4,746,096.00
	Total Current and Accrued Liabilities		$ 74,204,619.00	$ 149,174,197.00	$ 74,969,578.00
	Deferred Debits				
251	Unamortized Premium on Debt	F-21	$ -	$ -	$ -
252	Advances for Construction	F-30	$ 57,779,068.00	$ 58,162,733.00	$ 383,665.00
253	Other Deferred Credits	-	$ 485,924.00	$ 4,104,273.00	$ 3,618,349.00
255	Accumulated Deferred Investment Tax Credits	F-33	$ 5,380,491.00	$ 5,172,657.00	$ (207,834.00)
281-283	Accumulated Deferred Income Taxes	F-36	$ 240,680,350.00	$ 269,110,543.00	$ 28,430,193.00
	Total Deferred Debits		$ 304,325,833.00	$ 336,550,206.00	$ 32,224,373.00
261-265	Operating Reserves	F-37	$ (3.00)	$ (4.00)	$ (1.00)
271	Contributions in Aid of Construction	F-37	$ 201,765,807.00	$ 203,703,915.00	$ 1,938,108.00
	Total Equity Capital, Liabilities and Other Debits	*	$ 1,524,902,053.00	$ 1,644,686,785.45	$ 119,784,732.45

	* Difference between Equity & Liabilities and Assets (from PgF-10)	$ -	$ (0)

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