the utility's recovery of this expense in rates is not tracked against its actual rate case expense for consideration for over or under recovery. Staff recommends this cost be "normalized" by including an annual level in the cost of service. In the current case, Staff recommends a three-year normalization of rate case expense due to the historical frequency of large utility rate case filings.

Staff also included the full cost of the depreciation study, amortized over a five (5) year period as the Commission requires a depreciation study be conducted every five (5) years.

Q. Does Staff have any further comments regarding rate case expense?

A. Yes. Staff submitted Data Request 0271 which requested all expenses incurred by Confluence for customer notices and Data Request 0272 requesting information regarding outside consultants engaged by Confluence for the purpose of this rate case. The responses to these data requests are not due until after Staff's direct testimony is filed, therefore, an adjustment for these expense may be possible at rebuttal.

CASH WORKING CAPITAL

Q. Please explain cash working capital.

A. Cash working capital ("CWC") represents the amount of cash Confluence requires for day-to-day expenses to provide service to ratepayers. When a utility expends funds to pay for an expense necessary to the provision of service before it receives any corresponding payment for that expense from ratepayers, the utility's shareholders are the source of the funds. This shareholder funding represents a portion of each shareholder's total investment in the utility. The shareholders are compensated by including these funds in rate base. By including these funds in rate base, the shareholders earn a return on the CWC-related funding they have invested.

Ratepayers supply CWC when they pay for services received before the utility pays expenses incurred in providing that service. Ratepayers are compensated for the CWC they provide by a reduction to the utility's rate base. By removing these funds from rate base, the utility earns no return on that funding which customers supplied as CWC.

To determine the amount of CWC provided by both the ratepayers and shareholders, Staff performs a lead/lag study. The lead/lag study involves analysis of the timing of when expenses are paid to suppliers, employees, etc., and when the utility receives revenues from customers for the services it provides. A positive cash working capital requirement indicates that the shareholders provided the working capital for the test year. This means, on average, the utility paid the expenses incurred to provide the utility service to the ratepayers before the ratepayers paid for the service. A negative CWC requirement indicates that the ratepayers provided the working capital during the test year. This means, on average, the ratepayers paid for their utility service before the utility paid the expenses incurred to provide that service.

Q. How did Confluence determine the amount of cash working capital to include in their revenue requirement?

A. Confluence did not perform a lead/lag study to determine its working capital requirements, but rather opted to use the 45-day convention, also known as the 1/8 convention or the formula method. Confluence multiplied operating expenses (excluding depreciation, overhead allocation and taxes) by 45/365 to produce the working capital amount included in rate base.[4] According to Confluence witness Brent Thies' direct testimony, the use of a

[4] Brent Thies Direct, pg. 16, ll 2-4

45-day convention produces a reasonable cash working capital adjustment without needing to conduct an expensive lead/lag study.[5]

Q. Is it necessary for companies to hire consultants to perform lead/lag studies?

A. It is not required that a utility obtain an outside consultant to perform a lead/lag study as many Missouri utilities perform CWC studies in house for their rate cases.

Q. What has been the Commission's position regarding the 45-day convention method to calculate a utility's cash working capital?

A. According to the Commission's Report and Order in Case No. ER-78-252 regarding the use of the formula method:

> Accurately referred to as a rule of thumb, the method does no more than provide a gross amount that has, in the past, been accepted as a workable figure for want of anything better.
>
> A lead-lag study, on the other hand, offers much greater precision by specifically identifying the actual revenue and expense lags, which can then be netted to find a much more precise cash working capital requirement.[6]

The Commission further stated:

> The Commission does not intend to say that a lead-lag study is necessarily required in every case, but does hold that where such a study, properly conducted by staff and supported by the evidence, is before it, the Company does not sustain its burden of proof by simply presenting a formulistic determination of working capital requirement.[7]

Q. Did Staff perform a lead/lag study in this case?

A. Yes. Staff performed a lead/lag study to arrive at the CWC amount included in rate base.

Q. Did Staff encounter any issues while compiling its lead/lag study?

[5] Brent Thies Direct, pg. 15, ll 19-23
[6] ER-78-252 Report and Order, pg. 7.
[7] ER-78-252 Report and Order, pg. 8.

A. Yes.

Q. Please explain.

A. Staff believes it may be missing invoices. Additionally, Staff submitted Data Request No. 0110, which requested the day to day report used by Confluence that reflects actual cash collection patterns for customers' bills. Confluence's reply attached to my testimony as Schedule JCD-d3 stated that no such report is available.

Q. How did Staff resolve these issues?

A. Staff used the billing and collection lags from Missouri American Water Company's ("MAWC") revenue lags from its most recent rate case No. WR-2022-0303 as surrogates in order to calculate Confluence's revenue lag.

Q. What was the result of Staff's lead/lag study?

A. All of Staff's recommended revenue and expense leads can be found in Accounting Schedule 8. Staff's overall lead/lag study resulted in a positive CWC requirement for Confluence. This means that shareholders are currently providing the working capital, in the aggregate, to Confluence. Therefore, the shareholders will be compensated for the working capital provided through inclusion in rate base.

Q. Does Staff have any recommendations regarding cash working capital?

A. Yes. Staff recommends the Commission order Confluence maintain a day-to-day collection report by tariff rate district going forward for Staff to utilize in future cash working capital lead/lag studies. Additionally, Staff recommends the Commission order Confluence, going forward, to maintain all invoices supporting test year costs.

Q. Does Staff have any additional comments regarding this issue?

A. Yes. Staff has experienced great difficulty in obtaining accurate and reliable data from Confluence with which to analyze and develop issues in this case. As a result of this, Staff believes it may be missing some test year invoices on which the lead/lag study is based. In order to ensure the accuracy of Staff's lead/lag study, Staff plans to confirm that all invoices have been included. Staff will address any updates, if needed, to the CWC study calculations in rebuttal testimony.

MISCELLANEOUS EXPENSE

Q. Please explain this issue.

A. Confluence incurs costs related to various items such as easements, homeowner's association dues, trash removal and check printing.

Q. How did Staff approach this adjustment?

A. Staff reviewed invoices and Confluence's general ledger for all miscellaneous expenses not already being addressed as part of Staff's audit. Staff proposed adjustments to remove one-time costs and normalize levels of miscellaneous expenses in Confluence's revenue requirement.

DNR PERMITTING FEES

Q. Please explain this issue.

A. Confluence Rivers is required to obtain operating permits for its water and wastewater systems.

Q. How did Staff approach this issue?

A. Staff reviewed all invoices provided by Confluence Rivers from the Missouri Department of Natural Resources ("DNR"), the Company's general ledger, the DNR website, and various data request responses as part of its audit of this issue.