Exhibit No. 14

MAWC – Exhibit 14
Brian LaGrand
Rebuttal Testimony
File No. WR-2022-0303

Exhibit No.:	
Issues:	Revenue Requirement, Acquisitions, Test Year & Discrete Adjustments, Rate Case Expense, Certain Tax Matters, Customer Late Fees, Affiliate Transactions, Deferral Mechanisms, Low-Income Programs, EADIT Stub Period Amortization, District Allocations
Witness:	Brian W. LaGrand
Exhibit Type:	Rebuttal
Sponsoring Party:	Missouri-American Water Company
Case No.:	WR-2022-0303
Date:	January 18, 2023

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2022-0303

REBUTTAL TESTIMONY

OF

BRIAN W. LAGRAND

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Brian W. LaGrand, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am Director of Rates for Missouri-American Water, that the accompanying testimony has been prepared by me or under my direction and supervision; that if inquiries were made as to the facts in said testimony, I would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of my knowledge and belief.

____
Brian W. LaGrand

January 18, 2023
Dated

REBUTTAL TESTIMONY
BRIAN W. LAGRAND
MISSOURI-AMERICAN WATER COMPANY
CASE NO.: WR-2022-0303

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REBUTTAL TESTIMONY

BRIAN W. LAGRAND

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Brian W. LaGrand, and my business address is 727 Craig Road, St. Louis, Missouri 63141.

Q. Are you the same Brian LaGrand who previously submitted Direct Testimony in this proceeding on behalf of Missouri-American Water Company ("MAWC" or "Company")?

A. Yes.

II. OVERVIEW

Q. What is the purpose of your revenue requirement Rebuttal Testimony in this proceeding?

A. The purpose of my revenue requirement Rebuttal Testimony is to respond to the Direct Testimony filed by the Missouri Public Service Commission ("Commission") Staff ("Staff"), and to the Direct Testimony of the Office of the Public Counsel ("OPC") on the following topics:

1) Revenue Requirement; 2) Acquisitions; 3) Discrete Adjustments; 4) Rate Case Expense; 5) Certain Tax Matters; 6) Customer Late Fees; 7) Affiliate Transactions; 8) Deferral Mechanisms; 9) Low-Income Programs; 10) EADIT Stub Period Amortization; 11) District Allocations; and 12) Correction to Company Data.

III. REVENUE REQUIREMENT

Q. Did Staff propose a revenue requirement in their Direct Testimony filed on November

22, 2022?

A. Yes. Staff proposed a total MAWC revenue requirement of $410,931,568, which is an increase of $57,184,414 to Staff's calculated present rate revenues of $353,747,154, using Staff's mid-point after-tax return of 6.38%. Staff's proposed increase includes $20,147,532 for an estimate of items that will be included in the true up (through December 31, 2022)[1].

Q. How does Staff's revenue deficiency compare to the deficiency calculated by the Company and filed in Direct Testimony?

A. Staff's revenue deficiency of $57,184,414 is $76,853,338 less than the Company's calculated revenue deficiency of $145,304,864[2]. Please see Table BWL-1 below for a comparison.

Table BWL-1

	MAWC	Staff	Difference
Present Rate Revenues	$342,480,042	$353,747,154	($11,267,112)
Proposed Rate Increase	145,304,864	57,184,414	88,120,450
Total Revenue Requirement	**$487,784,906**	**$410,931,568**	**$76,853,338**

Q. What are the primary drivers behind the differences between Company's calculations and Staff's calculations?

A. The differences primarily fall into four categories. First, there is a difference of approximately -$11.3 million in the calculations of present rate revenues. This difference is driven by differences in assumptions about customer numbers and their corresponding usage. This difference is often overlooked, but is of critical importance as I describe further below. Second, there is a difference of approximately $22.9 million for rate base and

[1] Foster DT, p. 10, Staff Accounting Schedule 1, line 13.
[2] LaGrand DT, p. 19-20.

expense items occurring in the discrete adjustment period. Third, when applying the Company's pre-tax cost of capital to the Company's estimated true-up rate base, the revenue requirement is approximately $37.3 million higher than the same calculation using Staff's numbers. Lastly, the Company includes expenses through true up that are approximately $22.7 million higher than what Staff includes, as well as $0.5 million due to slight differences in true-up rate base. These differences are summarized in Table BWL-2 below.

Table BWL-2

MAWC Total Revenue Requirement	$487,784,906
Present Rate Revenues	11,267,112
Discrete Period Rate Base & Expenses	(22,892,589)
Pre-Tax Cost of Capital on True-Up Rate Base	(37,310,855)
True Up Rate Base & Expenses	(23,204,413)
Other Items	(4,712,593)
Staff Total Revenue Requirement	**$410,931,568**

Q. Do these differences agree with differences described in the Direct Testimony of Staff witness Keith Foster[3]?

A. The differences do not agree, but that is primarily due to the assumption differences. Staff identifies a difference of $26.3 million related to discrete adjustments, which includes the present rate revenue difference occurring in the discrete period. Removing the revenue impact from Staff's calculation leaves a difference of approximately $1.6 million which is due to the different pre-tax costs of capital being applied to the discrete adjustment period rate base. The Company calculates an impact from the cost of capital differences of $37.3 million, which is $4.8 million higher than Staff's calculation of $32.6 million. Staff's calculation attributes the entire $20.1 true up adjustment to a cost of capital difference in

[3] Foster DT, pp. 12-13.

their calculation. This understates the cost of capital differences, as the true-up estimate also includes depreciation expense.

Q. How does Staff's total recommended revenue requirement compare to the revenues MAWC is currently authorized by the Commission to collect?

A. The Commission has authorized MAWC to collect $398,284,484 annual revenues, as detailed in Table BWL-3 below. This total consists of revenues authorized in the Company's most recent general rate case and three WSIRA cases currently in effect.

Table BWL-3

Case Number	Revenues
Authorized Base Revenues	
WR-2020-0344	$348,000,000
Authorized WSIRA Revenues	
WO-2021-0428	$19,002,780
WO-2022-0176	17,812,512
WO-2023-0008	13,469,192
WSIRA Subtotal	**$50,284,484**
Total Authorized	**$398,284,484**

Q. Earlier you mentioned the importance of present rate revenues. Can you further explain the importance of that calculation?

A. Yes. Based primarily on assumptions related to customer usage, MAWC estimates that current base rates, excluding WSIRA, will generate approximately $342.5 million in annual revenues. Staff uses different usage assumptions, which result in estimated annual revenues of $353.7 million. When discussing rate case outcomes only in terms of the rate change, it is important to remember the base level from which that change is made.

Q. What does this mean in terms of total revenues that MAWC will actually collect?

A. This difference in billing determinants means that for any rate increase authorized by the Commission, the actual revenues collected will be $11.3 million less if Staff's billing determinants are used rather than the Company's.

Q. How is MAWC addressing these revenue concerns in this case?

A. Please see the Rebuttal Testimony of Company witness Charles Rea for discussions about present rate revenue and customer usage. Additionally, the Company has proposed a Revenue Stabilization Mechanism ("RSM") in this case. Please see the Direct Testimony of Company witnesses Charles Rea and John Watkins for more information about the proposed RSM. The RSM would essentially eliminate the argument about the proper customer usage, as it would ensure that the revenues collected by the Company are neither more, nor less, than what the Commission authorized.

Q. Will the Company be addressing the revenue requirement differences between it and other parties in Rebuttal Testimony?

A. Yes. As noted above, the largest difference is in regard to the cost of capital and capital structure. MAWC witness Ann Bulkley will be discussing cost of capital, and addressing Staff witness Randell Jennings' recommended 9.73% return on equity and Office of the Public Counsel ("OPC") witness David Murray's recommended 9.00% return on equity. Ms. Bulkley and MAWC witness J. Cas Swiz[4] will address both Staff and OPC's recommendation to utilize the consolidated national capital structure of American Water, rather than that of MAWC. MAWC witnesses John Watkins, Matthew Mason, and Michael Schwarzell will be addressing most of the operating expense issues. As also noted above, MAWC witness Charles Rea will be discussing both present rate revenues and declining customer usage. MAWC witness Jennifer Grisham will address any rate base

[4] MAWC witness J. Cas Swiz will be adopting the Direct Testimony of MAWC witness James Merante that was filed previously in this case.

issues along with depreciation and amortization expense.

IV. ACQUISITIONS

Q. In your Direct Testimony, you discuss certain acquisitions that are expected to close prior to the effective date of rates in this case[5]. Can you provide an update on the status of those transactions?

A. The following acquisitions closed prior to the true-up date of December 31, 2022:

- City of Eureka Water & Sewer – closed August 4, 2022
- Monsees Lake Estates – closed October 14, 2022
- City of Purcell Water & Sewer – closed October 28, 2022
- Pom-Osa Heights – closed December 19, 2022

Q. Are there other acquisitions approved by the Commission that are expected to close prior to the effective date of rates in this case?

A. Yes. Both the City of Stewartsville and the City of Smithton are expected to close in February 2023.

Q. Did Staff include any of these acquisitions in their revenue requirement?

A. No. Since these closed after the June 30, 2022 test year, Staff did not include them. However, as noted in the Direct Testimony of Staff witness Kim Bolin, and consistent with past cases, the acquisitions will be included as part of the true up process.

Q. What items will be included in true up related to the acquisitions?

A. The Company expects rate base, revenues and annualized expenses to be included in the

[5] LaGrand DT, p. 25-26.

true up for acquisitions.

Q. In the Company's revenue requirement, what items were included for these acquisitions?

A. The Company included rate base of approximately $31.3 million, annualized expenses of $3.8 million, and present rate revenues of $6.8 million.

V. TEST YEAR & DISCRETE ADJUSTMENTS

Q. What did the Commission order as a test year in this case?

A. The Commission ordered parties to "use a test year of the 12 months ending June 30, 2022, as trued-up through December 31, 2022. Additionally, the parties may submit discrete adjustments for the period through May 31, 2023."[6]

Q. In the Direct Testimony of Staff witness Kimberly Bolin, did she address the test year and discrete adjustments?

A. Yes. Ms. Bolin stated that Staff has "used a test year of the twelve months ending June 30, 2022, with a true up for known and measurable changes through December 31, 2022."[7]

Q. Did Staff include any discrete adjustments?

A. No. Staff said they have made no adjustments beyond December 31, 2022, at this time.

Q. Staff proposes a list of items they plan to update as part of the true up audit. Is this list comparable to items trued up in the Company's prior cases?

A. Generally, yes. The Company requests that Staff also include deferred lead service lines, the pension asset, customer usage, and maintenance expense. These items have also been

[6] Order Setting Procedural Schedule, p. 2.
[7] Bolin DT, p. 4.

included in prior true up periods.

Q. When will the Company provide the data necessary for Staff to complete their true-up audit?

A. The Company will provide the information no later than January 31, 2023.

Q. Ms. Bolin states that, "in almost all cases, ratemaking allowances have been restricted to those qualifying under the known and measurable cost standard."[8] How does Ms. Bolin define the known and measurable standard?

A. Ms. Bolin says "the known and measurable standard requires that only costs associated with events that have actually occurred or are certain to occur, and for which the financial impact can be accurately quantified, should be reflected in utility rates." Ms. Bolin further says that this standard excludes the use of budgeted, forecasted, or projected information in setting utility rates.

Q. Does the Company agree with Ms. Bolin's definition of the known and measurable standard?

A. No. When discussing the true-up process, the Commission has noted the consideration of all relevant factors to establish a "reasonable expected level of earnings, expenses and investments" "**<u>at a time as close as possible to the period when the rates in question will be in effect.</u>**"[9] This is precisely what the discrete adjustments proposed by the Company do in this case.

Q. What concerns does Ms. Bolin have with the Company's proposed discrete adjustments for rate base items?

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[8] Bolin DT, p. 7.
[9] In re *Kansas City Power & Light Company*, 26 Mo. P.S.C. (N.S.) 104, 110 (1983) (emphasis added).

A. There are a few. First, Ms. Bolin is concerned that the Company's discrete adjustments for plant additions are problematic because they will include estimates at the time the new rates take effect. Additionally, she is concerned that Staff will not have time to audit the plant in-service data and any proposed budgeted amounts after the true-up date to verify the prudency or final costs of the new plant. Second, she is concerned that including these plant additions would violate the used and useful standard. Lastly, she is concerned that including the rate base adjustments would violate the matching principle.

Q. How does the Company respond to Ms. Bolin's concerns about the proposed discrete adjustments to rate base items?

A. First, the concern about utilizing estimates is overstated. By the time new rates take effect at the end of May 2023, all investments placed in service through April, are actual and include no estimates. Plant placed in service in May will be the only estimated plant additions when the new rates take effect. The Company is willing to file a reconciliation in this case after the May investment is finalized to demonstrate that the actual investments were equal to or greater than those included in rates. Additionally, the investment projects included in the discrete adjustments could be reviewed by Staff now for prudency. There is no need for Staff to wait until these items are placed in service to begin their examination. Second, the concern about the used and useful standard is also overstated. All utility plant in service included in the Company's proposed discrete adjustments will be used and useful at the time new rates take effect. We are not proposing to include any investments in rates that have not been already placed in service. Lastly, the matching principle remains intact. The Company is proposing adjustments to rate base, the cost of capital, and expenses in the discrete adjustment period. I discuss the matching principle further in my testimony below.

Q. If the Commission were to grant the discrete adjustments related to plant investments, Ms. Bolin recommends that the Company submit a reconciliation in the next rate case showing the actual levels of investment compared to any estimates included in rates in this case. Would the Company agree to provide a reconciliation in its next rate case?

A. Yes. As recommended by Ms. Bolin, in MAWC's next rate case the Company agrees to submit a reconciliation to demonstrate that the actual investments made were at least equal to amount of any estimates included in rates. Alternatively, as described above, the Company would agree to provide a reconciliation in this case, shortly after any estimated months are finalized.

Q. What concerns does Ms. Bolin have about the other proposed adjustments?

A. Those concerns are similar to her concerns for the rate base items. She cites the violation of the known and measurable standard and does not think Staff will have enough time to evaluate the appropriateness of these items for inclusion in the cost of service.

Q. How does the Company respond to those concerns?

A. Many of the discrete adjustments, especially those related to expenses, would meet Staff's definition of known and measurable. For example, there are signed contracts for chemical purchases in 2023 that were in place and known and measurable prior to the end of the true-up period and are now effective. New 2023 pricing for insurance other than group will be finalized in January 2023. Known Merit increases for employees that will take effect in March of 2023 will soon be finalized. Staff should not object to including these items, and any other similarly situated items. However, as discussed above, the Company's proposed adjustments are made to establish a reasonable expected level of earnings, expenses and investments, at a time as close as possible to the period when the rates in question will be in effect. Therefore, all adjustments through the operation of law date in this case should be included in the Company's cost of service.

Q. Ms. Bolin is also concerned about having enough time to evaluate these items. Is that a concern?

A. I don't think so. For many of these items, the Company intends to provide the evidence supporting the adjustments at the same time we provide the other true-up information – January 31, 2023. As Staff is able to evaluate the true-up information provided by that date, Staff should also be able to evaluate these discrete adjustments.

Q. Did the Commission specifically authorize parties to submit discrete adjustments through May 31, 2023?

A. Yes. As noted above, the Commission authorized the submission of discrete adjustments.

Q. What is your recommendation to the Commission?

A. I continue to recommend the Commission approve the discrete adjustments proposed by the Company.

VI. RATE CASE EXPENSE

Q. Please describe the adjustments Staff made to Rate Case Expense.

A. As described in the Direct Testimony of Staff witnesses Courtney Horton and Ashley Sarver, Staff examined costs incurred through June 30, 2022. After sharing 50% of costs related to this case, Staff included $83,394 of eligible costs in its calculation. Staff intended to normalize this cost over 3 years, but inadvertently include the entire amount in their annual cost. The Company understands Staff will be revising their calculation as part of their Rebuttal Testimony. Staff also included 100% of the costs of the depreciation study, which are amortized over 60 months, resulting in an additional $20,571 of expense, for a total of $103,965, in annual Rate Case Expense. Staff did not include any other costs related to Case No. WR-2020-0344.[10]

Q. Did Staff include the correct amount of amortization related to the depreciation study?

A. No. The total cost of the depreciation study performed for Case No. WR-2020-0344 was $117,485. Amortizing that cost of 60 months results in an annual expense of $23,497. Staff's annual rate case expense is understated by $2,926.

Q. How does this compare to the Company's requested treatment of rate case costs?

A. It is quite different. The Company proposed a total of $1,039,653 of total costs, amortized over 3 years, for a total regulatory expense of $346,551. The Company's proposed cost inadvertently excluded $150,000 of legal expenses, and the annual amortization including those expenses would increase to $396,551.

Q. Staff describes normalizing the costs, whereas the Company describes the costs as amortized. Can you explain the differences between those approaches?

A. Yes. The difference is significant. Normalizing the costs essentially adjusts the costs to a level that would be typical. This would exclude any large one-time items, and likely use a historical average of the annual costs over a 3-year or 5-year period. Amortizing the costs means accumulating the costs as they are incurred in a regulatory asset or liability, and then amortizing those regulatory accounts over a period that recognizes a portion of those costs

[10] Horton DT, p. 11.

each year.

Q. Why is that different treatment significant?

A. Normalization is reasonable for costs that regularly occur every year – maintenance costs, or transportation costs, for example. Rate case expenses are different, as they are not regularly occurring in every year. MAWC will incur these costs during the preparation and administration of a rate case, but not otherwise. Staff's normalization approach would require the Company to recognize as expense the entirety of rate case expense as it is incurred. This will create a mismatch of when the cost is incurred and when it is included in rates.

Q. Can you provide a simple example to demonstrate the differences?

A. Yes. As an example, assume the Company incurs $300,000 of recoverable rate case expense during the rate case. Staff's proposal would normalize those costs over 3 years, and include $100,000 of annual rate case expense in the revenue requirement. The Company's approach would defer the $300,000 to a regulatory asset, amortize those costs over 3 years, and recognize $100,000 of expense annually. While the annual expense allowed in rates is the same in both cases, Staff's approach would require the Company to recognize 100% of the expenses as they are incurred, while there is no expense on the Company's books in each of the 3 years after the rate case. This would create a mismatch on the company books between when the expense is recognized vs. when the revenue is recognized..

Q. Does the Company agree with Staff's calculation of rate case expense?

A. No, we do not.

Q. Why does Staff recommend the sharing of rate case costs?

A. Staff's cost sharing proposal is discussed in the Direct Testimony of Staff witness Ashley Sarver. Ms. Sarver states that Staff's recommendation is based upon the following:

> 1) Rate case expense sharing creates an incentive for the utility to control rate case expenses to a reasonable level, while eliminating the disincentive for the utility to control the rate case expenses.
>
> 2) Ratepayers and shareholders both benefit from the rate case process. While ratepayers receive safe and adequate service at just and reasonable rates, shareholders are afforded the opportunity to earn an adequate return on their investment.
>
> 3) Ratepayers will continue to pay for the majority of the rate case expenses regardless of any sharing mechanism when including the internal labor costs that are not included in the sharing mechanism, therefore it is fair and equitable to allocate a portion of the rate case expenses to the shareholders.
>
> 4) It is highly probable that some recommendations advocated by the utility through the rate case process will ultimately be determined to be not in the public interest by the Commission.[11]

Q. Do you agree with Staff's proposed sharing of costs?

A. No, I do not. The Company should not be penalized for needing to seek a rate increase. There are a large variety of factors that go into setting rates. A significant deviation in any one of them could necessitate the Company's request to update rates to recover its actual cost of service. Declining consumption levels is a good example of such a deviation and is one that is out of the Company's control.

Q. In point 1, Staff claims that this arbitrary disallowance "provides an incentive for the Company to control its costs." Does the Company need any such incentive?

A. No. We are quite cautious and careful when we submit our rate case expense, and no party has offered evidence to the contrary. All the Staff proposal does is to disallow expenses

[11] Sarver DT, p. 17.

that we have proven to be prudently and reasonably incurred in order to present our rate case claims.

Q. Has Staff or any other party demonstrated that any element of MAWC's rate case expense is overstated or unreasonable?

A. No, they have not. There is no evidence questioning the reasonableness of the Company's costs to litigate this rate case. Staff's recommendations are nothing more than an approach to reduce the Company's recovery of legitimate and prudently incurred costs.

Q. In point 2, Staff suggests that through rate cases, shareholders are afforded an opportunity to earn an adequate return on their investments. Is this true?

A. Perhaps in theory, but not in practice. The regulatory construct in Missouri makes it virtually impossible for a water or sewer utility to earn the return authorized by the Commission under ordinary circumstances and business conditions. While the rate case expense costs being considered for sharing here are less significant than other proposed exclusions in this case, it is yet another example of a regulatory treatment that erodes the Company's ability to earn a reasonable return.

Q. In her Direct Testimony, Ms. Sarver states that Staff's approach is consistent with prior cases, which "included full recovery of depreciation study costs and a 50/50 split of all other incremental rate case expenses."[12] Is that statement accurate?

A. Not entirely. In prior cases, Staff has also included full recovery for costs related to required customer notices and costs related to Staff viewing workpapers of the Company's external auditor. It is my understanding that Staff is not changing their past approach to

[12] Sarver DT, p. 19.

these costs.

Q. Did any other party address rate case expense?

A. Yes. OPC witness John Riley discusses rate case expense. Mr. Riley proposes that the Company bear two-thirds of the costs and that one-third of the costs be included in the cost of service, that all costs related to Case No. WR-2020-0344 are excluded, and that $150,000 of outside legal fees be excluded entirely.[13]

Q. Does the Company agree with OPC's proposals?

A. No, we do not.

Q. Why does the Company disagree with OPC's proposal for only one-third of rate case expense to be included in the cost of service?

A. As noted above, the Company does not believe any rate case expense should be shared. This is further explained below. The basis for Mr. Riley's proposal appears to be that Company has the WSIRA mechanism, experiences no regulatory lag, and is seeking an increase to base rates sooner than he thinks is warranted. Each of these claims is either incorrect, irrelevant or both.

The Company does collect additional revenues in between rate cases utilizing the WSIRA. Mr. Riley concludes that because of these WSIRA revenues, "there is little adverse regulatory lag."[14] This is absolutely untrue. These revenues help to mitigate regulatory lag to an extent, but do not eliminate it. As a simple example, consider the two most recent WSIRA cases approved by the Commission. In Case No. WO-2022-0176, the Commission

[13] Riley DT, p. 2-4.
[14] Riley DT, p. 2.

approved $17.8 million of annual revenue, or approximately $1.5 million per month. Given that WSIRA investments are placed in service, on average, approximately 6 months prior to being included in rates[15], the Company experienced approximately $8.9 million of regulatory lag on investments made in that case. Similarly in Case No. WO-2023-0008, the Commission authorized $13.5 million of annual revenue, or approximately $1.1 million per month. The Company experienced approximately $6.7 million of regulatory lag on investments made in that case. That is a total of $15.6 million of lag in the last year on just investments included in WSIRA cases. Mr. Riley ignores the lag on other investments that are not eligible for WSIRA, as well as increased operating costs. While $15.6 million may not be significant to Mr. Riley, it certainly is to the Company.

Mr. Riley's assertion that too little time has passed since the Company's last rate case is irrelevant, for a number of reasons. First, as OPC is well aware, the Company has reached the maximum authorized WSIRA water revenues, thus additional WSIRA cases are no longer an option for the Company until the Company completes a general rate case and the WSIRA rates are reset. Second, in the Company's six most recent general rate cases, the average time between cases was 27 months, and 4 of the 6 cases were shorter than 24 months. OPC cannot credibly claim that 24 months is a departure from the Company's past practice.

Q. Mr. Riley states that the Company is proposing to include approximately $300,000 of unamortized costs from Case No. WR-2020-0344 in this case. Is that accurate?

A. While that is true, it is important to note this is the total amount the Company is proposing

[15] Investments included in WSIRA cases will typically be placed in service between 4 and 9 months prior to the effective date of rates. (4 + 9) / 2 = 6.5.

to amortize over three years. The annual amount of costs related to WR-2020-0344 is $99,884. Mr. Riley fails to recognize that $23,497 of that annual cost is related to the depreciation study performed in that case, and that $30,399 is for the required customer notice communications. The remaining $45,988 are costs related to other aspects of preparing and completing a rate case.

Q. Did Mr. Riley offer any basis for his recommendation to exclude $150,000 of outside legal expenses from rate case expense?

A. No. He offered no evidence those costs were in any way imprudent. He simply believes the costs are "unnecessary".

VII. TAX MATTERS

Q. Are there tax matters you would like to address?

A. Yes, there are two. First, I would like to respond to Staff witness Courtney Horton's testimony regarding property taxes. Second, I would like to address an issue related to deferred taxes raised by OPC witness John Riley.

a. Property Taxes

Q. Please explain the issue related to property taxes.

A. In her Direct Testimony, Ms. Horton stated that Staff is recommending to include property taxes of $29,750,494, which is the amount the Company paid in December 2021, based on plant in service at January 1, 2021. The Company believes that amount is understated. Staff excluded the property taxes for St. Charles County and Callaway County. In the Company's response to Staff DR 119, the documentation supporting these property tax payments was inadvertently excluded. Including those counties would increase property tax expense by $1,226,728.

Q. Are there other issues related to Staff's level of property taxes?

A. Yes. A tax bill from Jasper County related to 2021 taxes was not received from the County until midway through 2022. The Company believes this amount should also be included in Staff's property tax expense.

Q. Has the Company discussed this issue with Staff?

A. Yes. Staff requested the Company submit an update to Staff DR 119 including the additional documentation, which we have done. It our understanding that Staff will include these additional amounts in property tax expense.

b. Deferred Taxes & Tax Reimbursements

Q. Please explain the issue related to deferred taxes.

A. In his Direct Testimony, Mr. Riley discussed "Income Tax Compensation" and suggests several alternatives to account for such compensation.

Q. What is the "Income Tax Compensation" referred to by Mr. Riley?

A. Mr. Riley is correct that within a consolidated tax return, there are companies in a taxable income position and companies in a loss position. The companies with losses are offset against the companies with income to determine the total company taxable income or loss. Mr. Riley is referring to this offset as income tax compensation to the loss company, in this case MAWC.

Q. If MAWC was not paid or compensated for the net operating loss generated, how would the loss be accounted for in MAWC financial books?

A. Assuming American Water did not have a tax sharing policy, and MAWC is not paid for their net operating loss, then the net operating loss is recorded on the MAWC books as a deferred tax asset.

Q. How does the deferred tax asset impact ratemaking?

A. Unlike deferred tax liabilities, which reduce rate base, and therefore reduce the revenue requirement, the deferred tax assets increase rate base and would result in higher customer rates.

Q. What is the ratemaking impact of American Water's payment to MAWC for the utilization of that tax benefit?

A. American Water reimbursing MAWC returns the deferred taxes to the same level they were prior to the utilization of the net operating loss. Because of the reimbursement, there is no increase to rate base – and no increase to customer rates. Mr. Riley's testimony is only addressing the aspect that American Water reimburses MAWC for the value of the net operating loss benefits and does not take into consideration the impact on the increase in rate base impacts if this did not occur.

Q. How does Mr. Riley suggest this issue could be addressed?

A. Mr. Riley proposes three alternatives. 1) Create a deferred liability to offset rate base; 2) Include an additional amount in the cash working capital calculations; and 3) Include the reimbursements from American Water as revenue and reduce the revenue requirement by those amounts.

Q. How does the Company respond to Mr. Riley's alternatives?

A. I will address each of the alternatives individually, but it's important to note overall that none of these alternatives are necessary. Mr. Riley is not providing a complete picture of what is currently happening, as he excludes the fact that without the reimbursement, MAWC's rate base would increase.

<u>OPC Option 1: Create a deferred liability to offset rate base</u> - This is essentially what is

currently happening, if you include all aspects of the transaction. The utilization of the tax benefit increases rate base, and the reimbursement decreases the rate base by an equal amount.

<u>OPC Option 2: Adjust cash working capital</u> - The Company does not include income taxes in the cash working capital calculations, so this type of adjustment would not be necessary.

<u>OPC Option 3: Reduce the revenue requirement by the amounts received</u> - This option is completely nonsensical and does not follow any ratemaking principle that I am aware of. Mr. Riley is suggesting that a decrease in rate base, which as I've explained isn't what is actually happening, should be remedied with a dollar-for-dollar reduction to the Company's total revenue requirement. To demonstrate the absurdity of that suggestion, consider another type of change to rate base. The Company makes approximately $400 million of capital investments each year, which increases rate base. Using Mr. Riley's logic, we should increase the Company's revenue requirement by $400 million to account for this.

Q. What does the Company recommend the Commission order related to the tax reimbursements?

A. The Company recommends the Commission reject all three of OPC's options. The impact of the tax reimbursements as currently handled by the Company is neutral to both rate base and to the Customer.

<u>VIII. CUSTOMER LATE FEES</u>

Q. What recommendation does OPC witness Geoff Marke make about late fees?

A. Dr. Marke recommends the Commission reduce late fees from the currently authorized level of 1.50% per month to 0.25% per month. Additionally, he recommends the

Commission order the Company to " . . . update its website so that it is abundantly clear to customers what they will be charged for a late payment."[16]

Q. Does the Company agree with OPC's first recommendation to reduce the late payment charge?

A. No. The Company does not see any reason to change the late fee that was agreed to by all parties in Case. No. WR-2017-0285, including OPC, and has been in place since 2018[17].

Q. Does Dr. Marke provide any evidence supporting his recommendation that the late payment fee should be reduced?

A. No. He states that "Such an amount would more accurately reflect the cost of service, minimize the punitive pressure on struggling customers, and still incentivize timely payments by having the 'threat' of a late payment charge." However, Dr. Marke provides no evidence supporting either his claim that 0.25% more accurately reflects the cost of service, or that the lower fee will still incentivize timely payments.

Q. What level of late fees does the Company include in this case?

A. The Company has included $1,157,625 for late fees in this case.

Q. If Dr. Marke's recommended reduction were made, what impact would that have on late fee?

A. Dr. Marke recommends late fees that are 1/6 of the current amount, so it is reasonable to conclude that the late fees would be reduced to $192,938.

Q. What would happen to the other $964,687 of late fees?

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[16] Marke DT, p. 26.
[17] Case No. WR-2017-0285, Stipulation and Agreement, p. 7.

A. Those revenues would be collected from other customers through a higher base rate.

Q. So customers that are paying their bills on time would pay more to allow customers who pay their bills late to pay a lower fee for doing so?

A. Yes, that is the effect of Dr. Marke's proposal.

Q. Does the Company agree with OPC's second recommendation that the Commission order the Company to clarify the website?

A. To an extent, yes. The Company has absolutely no intention to hide fees from the customer and is always looking for ways to communicate information more clearly. However, that isn't something the Commission needs to order the Company to do. We are happy to work with OPC and Staff to make sure the late fees are clearly communicated to customers.

Q. Is it difficult for customers to find the late fee, or any other fees, on the MAWC website?

A. No. A customer simply selects "Water and Wastewater Rates" from the Customer Service and Billing drop down menu on the home page. On the Water and Wastewater Rates[18] page, there is a link to open the most recent rates approved by the Commission. For example, Tariff Sheet No. RT 9.1 which provides the Miscellaneous Charges for water service, includes the 1.50% per month late fee charge. From the MAWC website home page, it only takes the customer two clicks to be looking at the Commission approved rates. However, as stated above, the Company is happy to work with OPC and Staff to make sure the customers can find the information they need.

[18] This page is directly accessible at https://www.amwater.com/moaw/Customer-Service-Billing/Water-and-Wastewater-Rates/ .

IX. AFFILIATE TRANSACTIONS

Q. What recommendations do OPC witnesses Geoff Marke and Angela Schaben make about affiliate transactions?

A. Dr. Marke recommends that the Commission order MAWC to create a cost allocation manual ("CAM") for Commission approval within six months of the date of its Report and Order in this rate case. Additionally, he asks the Commission to close Case No. AW-2018-0394, and open a "WX" rulemaking docket that adopts rules put forth by Staff in Case No. WR-2003-0500.[19] Similar to Dr. Marke, Ms. Schaben recommends " . . . the finalization of affiliate transaction rules so that investor-owned water and sewer utilities are held to the same enforceable standards as investor-owned electric and natural gas utilities."[20]

Q. Is MAWC currently required to provide a CAM to the Commission?

A. As part of the Stipulation and Agreement in Case No. WR-22003-0500, the Company agreed to provide a CAM to Staff and OPC by March 16th of each year.[21]

Q. Has the Company provided the CAM as required?

A. Yes.

Q. Is there a need for MAWC to create a new cost allocation manual?

A. No, there is no need. The Service Company's allocation manual is a set of criteria, guidelines and procedures for the Service Company cost allocations to MAWC and its affiliates.[22] The costs of support services, including wages, employee benefits, professional services, and other expenses, are based on, or are an allocation of, actual costs incurred.

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[19] Marke DT, p. 13.
[20] Schaben DT, p. 31.
[21] Case No. WR-2003-0500, Stipulation and Agreement, p. 5.
[22] The 2022 allocation manual was provided in response to Staff DR 0018. Allocation manuals from 2007 through 2021 are available on EFIS.

MAWC affiliate transactions have been scrutinized in all of its rate cases, including this one.

Q. Is there currently an open case that considers changes to the Commission's affiliate rules?

A. Yes, Case No. AW-2018-0394 is currently open to address changes to the affiliate rules. MAWC is a participant in that case, and that is the appropriate venue to determine if the affiliate rules should be expanded to include water and sewer companies.

X. DEFERRAL MECHANISMS

Q. Did MAWC propose deferral mechanisms related to plant in service in this case?

A. Yes. The Company proposed two mechanisms. The first would capture depreciation expense on assets that have been placed in service but are not yet in rates. The second would capture the pre-tax return on those same assets. Any unamortized amounts would earn a rate base return and would be amortized over 25 years.

Q. What recommendation does OPC witness John Robinett make regarding MAWC's proposed deferral mechanisms?

A. Mr. Robinett recommends the Commission deny the Company's requested deferral mechanisms.

Q. What was Mr. Robinett's reason for that recommendation?

A. He stated that, in his opinion, the Company's responses to OPC discovery requests 8500, 8501 and 8502 were vague and that there was a lack of clarity around the proposals.[23]

Q. What types of investment would be eligible for the deferral mechanisms?

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[23] Robinett DT, p. 3.

A. The Company acknowledges that the WSIRA mechanism does help mitigate regulatory lag to an extent. This is why I proposed that the only investments eligible for the deferral mechanisms would be those that didn't have another option for addressing regulatory lag. The Company's tariffs[24] lists the types of investments that would qualify for WSIRA as follows:

1) Replacement of or cleaning and relining of existing mains, hydrants, meters, service lines, laterals, sewer taps, curbstops and manholes,
2) Replacement of lead mains, goosenecks, lead service lines and associated valves and meters,
3) Replacement of booster station and lift station pumps, with equipment of similar capacity and operation, as well as related pipes, valves and meters,
4) Facilities relocations required due to construction or improvement of a highway, road, street, public way, or other public work by or on behalf of the United States, this state, a political subdivision of this state, or another entity having the power of eminent domain; provided that the costs related to such projects have not been reimbursed to the water or sewer corporation;
5) Replacement of water and wastewater treatment mechanical equipment with equipment of similar capacity and operation, including well and intake pumps, transfer pumps, high service or discharge pumps, and metering pumps,
6) Replacement of Supervisory Control and Data Acquisition Systems (SCADA) components necessary for the operation and monitoring of remote installations including radio and cellular communication equipment, and programmable logic controllers.

The types of investments that do not qualify for WSIRA include any investments that are not replacements, electrical work, water storage tanks, river crossings, vehicles, office buildings & equipment, and operations centers. In this case, the Company is seeking to include $769.0 million of utility plant in rates. Of that amount, $527.6 million, or about two-thirds, has been included in a Commission approved WSIRA case. Therefore, $241.4 million, or about one-third, has no path available to reduce regulatory lag. While it will

[24] P.S.C. Mo. No. 13, Sheets RT 11.1 & RT 11.2; P.S.C. Mo. No. 26, Sheets RT 11.1 & RT 11.2.

vary from year to year, it is reasonable to assume that approximately one-third of the Company's capital spending will not be eligible for WSIRA.

Q. What amortization period did the Company recommend, and why?

A. The Company recommended a 25-year amortization period. This period was proposed because, as I stated in OPC discovery request 8502, I thought it was reasonable. There is no definitive method for selecting an amortization period for this purpose. Given the proposal covers assets spanning various lives, the proposed 25-year amortization period was the Company's attempt to arrive at a reasonable period that balanced various options. For example, one option would be to amortize the regulatory asset over the life of the related assets. Given the Company composite depreciation rate is approximately 2.0%, that would mean a 50-year amortization period. Had we proposed that life, some parties would likely have argued that the Company did so just to maximize their rate base return on the unamortized balance. Alternatively, we could also have proposed a shorter period, say 5 years. The annual amortization would be much higher in that case, and would have a bigger impact on customer rates in the near term. My goal was to find a reasonable balance between the options, which is why I chose 25 years.

Q. Would the Company be open to other amortization period recommendations?

A. Yes. The Company will work with parties to determine the most appropriate amortization period.

Q. Mr. Robinett commented in his testimony that there was a lack of clarity around these proposals. Have you provided examples of how the mechanisms would work?

A. Yes. In my Direct Testimony, I describe the mechanisms in detail and provide example calculations. Additionally, I estimate the maximum impact on residential customers between rate cases to be approximately $0.85 per month.[25]

Q. Did Mr. Robinett identify any other reasons why he would not support the Company's proposals?

A. No, he did not.

Q. If the Commission were to approve the Company's proposed deferral mechanisms, Mr. Robinett says "it needs to make an adjustment to the rate of return to recognize the near elimination of regulatory lag related to placing plant in-service."[26] Do you agree with Mr. Robinett's directive to the Commission?

A. No, I do not. First, the idea that these mechanisms would result in the "near elimination" of regulatory lag from placing plant in-service, is incorrect. Earlier in this testimony, I addressed a similar claim made by OPC witness John Riley in his discussion of rate case expense. Would these mechanisms significantly reduce regulatory lag? Yes, they would, but only for a portion of the Company's capital investments. Second, Mr. Robinett's recommendation that the Commission adjust the rate of return is unnecessary. As discussed in my Direct Testimony[27], the Company earns far below its authorized return. These proposed mechanisms will not eliminate the shortfall the Company experiences year after year. A further reduction to the rate of return would only serve to exacerbate this problem.

XI. LOW-INCOME PROGRAMS

Q. What recommendation does OPC witness Geoff Marke make regarding low-income programs?

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[25] LaGrand DT, p. 14-17.
[26] Robinett DT, p. 3.
[27] LaGrand DT, p. 7-11.

A. Dr. Marke describes two programs. The first is the Critical Needs program, which is a startup program modeled off a similar program in Baltimore, MD. Several MO utilities are already participating, and MAWC has discussed this program with OPC and has participated as an observer in the initial meetings. The second is a Rehousing Pilot Program, which is an Ameren program targeting transitional housing customers. MAWC has not discussed this program previously with OPC or anyone else. Additionally, Dr. Marke recommends that MAWC contribute $500,000 annually to each program, with the costs being shared equally between customers and the Company.

Q. Does the Company agree with these recommendations?

A. The Company agrees in part. As noted above, we have discussed the Critical Needs Program with OPC, and MAWC agrees to join the other Missouri utilities participating in that program. The Company is engaging with other participating utilities to learn more about the Rehousing Pilot Program before determining the appropriate level of participation. The Company disagrees with OPC's recommended funding level. While the Company understands OPC's recommendation is to share the costs equally with customers, we feel the level of requested funding is too high. MAWC is significantly smaller than the regulated energy utilities, and any annual contribution commitment from MAWC should reflect that disparity.

Q. Does the Company have any other reservations about these programs?

A. Yes. Given these are new programs, we don't yet know how effective they will be.

Q. Does the Company have any suggestions on how to address that concern?

A. Yes. The OPC should provide Staff and all participating utilities with periodic performance metrics, annual status reports, and a full review after three years to evaluate the performance of these programs. OPC should coordinate with Staff and the participating utilities to determine the parameters and timing of such reporting.

XII. EADIT STUB PERIOD AMORTIZATION

Q. What recommendation does Staff witness Keith Foster make regarding the Amortization of the EADIT stub period?

A. Mr. Foster is not opposed to the Company's proposal to return the remaining portion of the stub period amortization through customer bills. Mr. Foster does recommend that the Commission order the Company to complete the refund within six months of the effective date of rates in this case, and to provide notice to Staff upon completion.

Q. Does the Company agree with Mr. Foster's additional recommendation?

A. Yes, the Company agrees to both provide the refund within six months of the effective date of rates in this, and to provide Staff notice upon completion.

Q. Did any other parties provide Direct Testimony about the EADIT stub period amortization?

A. No. At this point, Staff is the only other party to provide testimony on this topic.

XIII. DISTRICT ALLOCATIONS

Q. What are district allocations?

A. This is the allocation of centrally recorded costs to MAWC's four operating districts – St. Louis County Water, All Other Water, Arnold Sewer, and All Other WW.

Q. What types of costs are centrally recorded by MAWC?

A. These are costs that benefit the entire state, and are not specifically attributable to a specific operation or location. For example, labor costs for MAWC employees who support the entire state, or general liability insurance.

Q. Why do these costs need to be allocated to the districts?

A. The costs are allocated to the four districts, to allow for a complete view of the cost of service in each of those districts.

Q. How did the Company allocate these costs?

A. The Company used the number of service orders to allocate the costs.

Q. Did Staff witness Ashley Sarver use the same approach to allocate these costs?

A. No. For the vast majority of items Ms. Sarver used the Hybrid Massachusetts formula. This formula calculates a simple average of three other allocation factors – Customers, Employees, and Net Plant. Other allocation factors Staff used include Revenues, Water Samples, Miles of Main, Net Plant, Number of Bills, Number of Employees and Total O&M Expense.

Q. Did Staff allocate the same amount of costs as the Company?

A. No. The Company base year included $60.1 million of Corporate costs, while Staff only allocated $56.2 million of Corporate costs. The difference of $3.9 million are adjustments that are addressed by various witnesses in the Company's Rebuttal Testimony.

Q. Is Staff's method incorrect?

A. No, it is just a different approach. I think Staff's method adds needless complexity to an already complicated rate case. A simpler allocation factor, such as service orders, would be a better choice.

Q. What impact do the different methodologies have on the outcome in this case?

A. The choice of allocation factors has no impact on the overall revenue requirement, however it does impact the revenue for individual districts. Total impact on each district from both Staff's adjustments and different allocation methodology is shown in Table BWL-4.

Table BWL-4

District	MAWC Allocations Service Orders	Staff Allocations Various	Difference
St. Louis	67.29%	70.37%	3.08%
All Other Water	32.29%	26.36%	(5.93%)
Arnold	0.04%	1.11%	1.07%
Other All WW	0.38%	2.16%	1.78%
Total	**100.00%**	**100.00%**	**0.00%**
St. Louis	$40,439,288	$39,559,747	($879,541)
All Other Water	19,405,329	14,819,987	(4,585,342)
Arnold	24,039	624,706	600,667
Other All WW	228,369	1,214,134	985,766
Total Corporate	**$60,097,024**	**$56,218,574**	**($3,878,450)**

Q. Can you isolate the impact of just the allocation methodology differences?

A. Yes. As shown in Table BWL-5, Staff's approach results in the shifting of $1.6 million from water customers to sewer customers.

Table BWL-5

District	Price Difference	Volume Difference	Total Difference
St. Louis	$1,730,268	($2,609,809)	($879,541)
All Other Water	(3,332,991)	(1,252,352)	(4,585,342)
Subtotal Water	**($1,602,722)**	**($3,862,161)**	**($5,464,883)**
Arnold	602,218	(1,551)	600,667
Other All WW	1,000,504	(14,738)	985,766
Subtotal Sewer	**$1,602,722**	**($16,289)**	**$1,586,433**
Total	**($0)**	**($3,878,450)**	**($3,878,450)**

Q. What impact would this shift have on the water customers compared to the sewer customers?

A. To understand the relative impact of Staff's methodology, it is useful to simply look at the total revenues Staff is recommending in this case. Staff is currently recommending total water revenues of $393.2 million and sewer revenues of $17.8 million[28]. Were the $1.6 million of costs shifted back to water customers, the total water revenues would increase by 0.4%[29]. If these costs are removed from sewer, then total sewer revenues would be $16.2 million. Therefore, Staff's choice of allocation methodology increases the costs to sewer customers by nearly 10%[30]. Using the Company's allocation methodology would increase the costs to water customers by 0.4%. When these costs are shifted to sewer customers, the impact is 25 times greater[31] than the impact to water customers.

XIV. CORRECTION TO COMPANY DATA

Q. Does the Company have a correction to make to data previously provided in this case?

A. Yes. It has recently come to our attention that nine general ledger accounts had been inadvertently excluded from the Company revenue requirement workpapers provided in this case. The Company has discussed this with Staff, and agreed to provide this revised information in my Rebuttal Testimony. Please see Table BWL-6 for detail of the line items.

Table BWL-6

G/L Account	G/L Description	Total MAWC	Total Water	Total Sewer	St. Louis County	Other Water	Arnold Wastewater	Other Wastewater
40172000	Misc Sales Unbilled	$61	$61	$0	$0	$61	$0	$0
40221200	Commercial WW Service Billed DSIC	8,387	0	8,387	0	0	2,830	5,557
40231100	Industrial WW Service Billed Surcharge	69	0	69	0	0	0	69
Total Revenue Items		**$8,517**	**$61**	**$8,457**	**$0**	**$61**	**$2,830**	**$5,626**
50111520	Labor Oper Non-scheduled OT - CA Cust Serv & Info	302	302	0	0	302	0	0
50450012	Other Welfare - Pumping	17	17	0	0	17	0	0
52535100	Meals Non-Deductible	2,495	2,495	0	2,490	5	0	0
52572000	Telemetering - Source of Supply	5,488	0	5,488	0	0	0	5,488
53151011	Contract Svc-Temp Empl - Source of Supply	1,185	1,185	0	0	1,185	0	0
Total Operating Expense Items		**$9,487**	**$3,999**	**$5,488**	**$2,490**	**$1,509**	**$0**	**$5,488**
68011110	Depreciation Expense -Capitalized Credits	(357,749)	(350,345)	(7,404)	(272,247)	(78,099)	(2,563)	(4,841)
Total Expense Items		**($348,262)**	**($346,347)**	**($1,916)**	**($269,757)**	**($76,590)**	**($2,563)**	**$647**

[28] Staff Accounting Schedules – Total Water Revenues: $393.2M ($54.2M revenue requirement + $338.9 present rate revenues); Total Sewer Revenues: $17.8M ($2.9M revenue requirement + $14.8M present rate revenues).
[29] $1.6M / $393.2M = 0.4%.
[30] $1.6M/($17.8M - $1.6M) = 9.9%.
[31] 9.9% / 0.4% = 24.8.

Q. What impact would this have on any of Staff's numbers in this case?

A. For the revenue and operating expense line items, their inclusion would have a relatively minimal impact. Including capitalized depreciation would have a more substantive impact.

Q. How would Staff's proposed adjustments for capitalized depreciation change?

A. Currently, Staff is proposing a reduction to depreciation expense of $1,225,229 to account for capitalized depreciation. As discussed further in the Rebuttal Testimony of Company witness Jennifer Grisham, Staff has indicated they will be changing their recommended reduction to $982,133. Since it appears the Company has not capitalized any depreciation, Staff makes an adjustment for the entire amount. Once the Company's test year amount of ($357,749) is included, Staff will only need to make a further reduction of $624,384 to remove their total recommended amount from depreciation expense.

Q. Does this conclude your Rebuttal Testimony?

A. Yes.