# Exhibit No. 117

Staff – Exhibit 117
Courtney Horton
Rebuttal Testimony (Cost of Service)
File No. WR-2022-0303

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|---|---|
| *Exhibit No.:* | |
| *Issue(s):* | *Rate Case Expense; Bad Debt Expense; Amortization of Regulatory Asset; Payroll, Payroll Taxes, and Employee Benefits; Property Tax Expense; Capitalized Depreciation; Credit Card Fees* |
| *Witness:* | *Courtney Horton* |
| *Sponsoring Party:* | *MoPSC Staff* |
| *Type of Exhibit:* | *Rebuttal Testimony* |
| *Case No.:* | *WR-2022-0303* |
| *Date Testimony Prepared:* | *January 18, 2023* |

# MISSOURI PUBLIC SERVICE COMMISSION

## FINANCIAL AND BUSINESS ANALYSIS DIVISION

## AUDITING DEPARTMENT

# REBUTTAL TESTIMONY

# OF

# COURTNEY HORTON

# MISSOURI-AMERICAN WATER COMPANY

# CASE NO. WR-2022-0303

***Jefferson City, Missouri***
***January 2023***

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**REBUTTAL TESTIMONY OF**

**COURTNEY HORTON**

**MISSOURI-AMERICAN WATER COMPANY**

**CASE NO. WR-2022-0303**

**REBUTTAL TESTIMONY OF**

**COURTNEY HORTON**

**MISSOURI-AMERICAN WATER COMPANY**

**CASE NO. WR-2022-0303**

Q. Please state your name and business address.

A. My name is Courtney Horton, and my business address is 200 Madison St., Jefferson City, Missouri 65101.

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

A. I am employed by the Missouri Public Service Commission ("Commission") as a Senior Utility Regulatory Auditor.

Q. Are you the same Courtney Horton who previously provided direct testimony on November 22, 2022, in this case?

A. Yes I am.

## EXECUTIVE SUMMARY

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to discuss Staff's normalization of rate case expense and Staff's correction to rate case expense. I will also respond to the direct testimony of Missouri-American Water Company ("MAWC") witness Matthew S. Mason regarding bad debts (uncollectible) expense. In addition, I will address Staff's correction and modification to bad debts (uncollectible) expense, amortization of regulatory assets, employee benefits, property tax expense, capitalized depreciation, and credit card fees.

## RATE CASE EXPENSE

Q. Did Staff normalize or amortize rate case expense in this case?

A. Staff normalized rate case expense. It is and has been Staff's consistent position for all utilities that rate case expense be normalized, and not amortized, over a period of 36 months.

Q. What is the difference between amortization and normalization?

A. Normalization is an adjustment to smooth over a period of time the effects of costs that are subject to fluctuation from year to year. Amortization refers to the full recovery of costs or full refund of costs over a period of time. Comparing normalization to amortization, the annual amount in the cost of service would be the same. However, amortization refers to guaranteed recovery of an item in rates for the amortization period set, while normalization does not guarantee recovery by the end of the recovery period set. In a rate case, rates are set to best reflect what a utility's cost of service will be in the future by adjusting historical costs based on known and measureable data at the time. The actual revenue, expense, and investment between rate cases will more than likely differ from that in base rates because of cost control, additional investment, weather effects on revenue, etc. This means that, among other things, a utility could have higher revenue, lower expense, or vice versa, which are built into base rates.

Q. What effects does this have, if any?

A. These effects are called regulatory lag. Regulatory lag can be positive or negative for a utility. Sometimes it can be positive for various cost of service items, and at the same time, negative for other cost of service items. Due to regulatory lag, it is necessary to consider all relevant factors in the cost of service to determine whether a utility needs a rate increase or decrease. The Commission has allowed a utility to amortize costs when it found it necessary for a utility to fully recover a cost or refund an amount to customers without consideration of regulatory lag. Normalization assumes that the cost was smoothed and that, depending on when a utility files its next rate case, it can recover the full or partial amount, of the expense through regulatory lag.

Q. Why does Staff recommend rate case expense be normalized?

A. MAWC files a general rate case approximately every 36 months, as required by the water and sewer infrastructure rate adjustment ("WSIRA") statute.[1] Therefore, it incurs rate case expense disproportionately each of those three years because rate case expense is incurred specifically through a petition to change rates – which does not happen every year. Staff recommends normalization of rate case expense to smooth out that cost over the three-year period. However, rate case expense is not a unique cost for MAWC, or any utility, that ensures guaranteed recovery without regard to regulatory lag. In fact, normalizing rate case expense provides an incentive to control rate case expense, because a utility may or may not recover all of those costs through the normalized amount. Normalizing rate case expense rewards a utility for efficient operations that avoids the need to file rate cases more often than anticipated.

Q. Did Staff make a correction to its original filing for rate case expense?

A. Yes. In its direct filing for this rate case, Staff inadvertently included the total rate case expense incurred thus far, instead of normalizing the costs over the appropriate amount of time. As previously stated, MAWC usually files for a general rate increase every three years. Therefore, Staff divided MAWC's total rate case expense incurred thus far for this rate case, by three years, in order to normalize the cost over that time period.

[1] Sections 393.1500 to 393.1509, RSMo, known as the "Missouri Water and Sewer Infrastructure Act."

**BAD DEBT EXPENSE**

Q. What issue regarding uncollectible expense are you addressing in this rebuttal testimony?

A. I am addressing MAWC's proposal to tie ratemaking recovery of this item to projected revenues. Staff witness Kimberly K. Bolin will address MAWC's proposed bad debt expense tracker in her rebuttal testimony.

Q. How did MAWC witness Mr. Mason adjust uncollectible expense as part of MAWC's direct filing in this rate case?

A. MAWC calculated an uncollectible rate for the years 2018, 2019, and 2021 by taking actual net charge-offs divided by annual billed revenue. MAWC then applied a three-year average of those amounts to determine an uncollectible percentage of 1.0094%.[2] MAWC calculated its uncollectible expense amount by applying that uncollectible percentage to the total present and total projected revenues in its case.[3]

Q. How did Staff normalize uncollectible expense?

A. Staff reviewed 11 years of net charge-offs from July 2010 through June 2022. Staff excluded the 2020 net charge-offs from its review due to the impacts of the COVID-19 pandemic. Staff analyzed the data to determine whether there was a trend over the most current five years of data. After its review, Staff determined that a three year average of the most current net charge-offs for calendar years 2018, 2019, and 2021, was appropriate, due to bad debt expense varying greatly from 2014 to 2022. Staff's overall adjustment for bad debt expense resulted in an increase of $1,286,307 over the test year amount. Staff intends to examine

[2] Direct Testimony of Matthew S. Mason, WR-2022-0303, page 11, line 22 to page 12, line 2 and page 14, line 4.
[3] Direct Testimony of Matthew S. Mason, WR-2022-0303, page 12, lines 1-2, states, parenthetically, "2020 was excluded in the calculation due to COVID pandemic impacts making 2020 not indicative of a 'normal' year."

updated actual net charge-offs amounts through December 31, 2022, as part of its true-up audit in this case.

Q. Why is Staff's method to normalize uncollectible expense more appropriate than MAWC's method to adjust for uncollectible expense?

A. Staff's method is more appropriate because it uses the actual level of net charge-offs over a period of time to determine the normalized level of uncollectible expense. MAWC's method of calculating the ratio of net charge-offs over annual billed revenues and applying it to projected revenues that may result from this case erroneously emphasizes MAWC's assumption that there is always a direct correlation of actual net charge-offs with billed revenues.

Q. Does Staff agree that the actual level of net charge-offs directly correlates to the level of revenues that MAWC billed, as MAWC witness Mr. Mason's uncollectible expense adjustment suggests?

A. No. Many other factors can affect the level of uncollectible expense that a utility incurs. The state of the economy, the impacts of weather, the existence of low income assistance programs, and the nature of a utility's customer service policies, such as those regarding customer payment arrangements and use of debt collection agencies, are a few examples of factors that typically affect the level of uncollectible expense.

Q. Has Staff compared a history of MAWC's billed revenues to the actual amounts of net charge-offs recorded by MAWC?

A. Yes. Please refer to the table below. Staff compiled this table using data MAWC provided in Case Nos. WR-2017-0285 and WR-2020-0344, and in its response to Staff

Data Request ("DR") Nos. 0028 and 0029 in the current case. This table shows the yearly comparison of billed revenue to net charge-offs for the years 2016, 2017, 2018, 2019, and 2021.

| Year | Uncollectible | % Change from Previous | Revenue | % Change from Previous |
|---|---|---|---|---|
| **2016** | $3,160,806 | | $282,869,986 | |
| **2017** | $2,726,373 | -14% | $294,678,592 | 4% |
| **2018** | $3,096,392 | 14% | $320,863,608 | 9% |
| **2019** | $3,258,110 | 5% | $319,063,292 | -1% |
| **2021** | $3,541,621 | 9% | $343,179,496 | 8% |

Q. Does Staff's analysis support MAWC's position that there is a correlation between billed revenues and net charge-offs?

A. No. As shown in the table above, Staff's analysis does not indicate a proportional or corresponding direct relationship between billed revenues and net charge-offs. In fact, billed revenues have increased some years while at the same time uncollectible expense has decreased and vice versa. Also, for years in which both increased, the percentage change from the previous year did not change at the same percentage. Hence, there is no direct correlation between billed revenues and net charge-offs.

Q. Did Staff make any corrections to its direct filing for bad debt (uncollectible) expense?

A. Yes. Staff inadvertently omitted the net charge-offs for the Arnold Sewer District in its direct filing. Staff corrected this error in its rebuttal by adding the Arnold Sewer District net charge-offs to Staff's three year average calculation of bad debt expense.

Q. What is the overall impact of including the Arnold Sewer District net charge-offs in Staff's three year average calculation now?

A. The bad debt expense adjustment increased by $19,603 compared to the direct filing.

Q. What is Staff's annualized level for bad debt (uncollectible) expense for rebuttal?

A. Staff's annualized level for bad debt (uncollectible) expense is $3,298,708.

**AMORTIZATION OF REGULATORY ASSETS**

Q. Did Staff correct the amount in its direct filing for amortization of regulatory assets?

A. Yes. In its direct filing, Staff inadvertently included calculations for a property tax tracker. Staff removed the property tax tracker calculations from its amortization expense. Please see Staff witness Kimberly K. Bolin's rebuttal testimony for further details on the property tax tracker.

Q. Did Staff also modify the amount in its direct filing for amortization of regulatory assets?

A. Yes. In response to Staff DR No. 0131.2, MAWC provided the supporting documentation for the additional costs incurred for its low income program. Staff requested, and MAWC provided, this information after Staff filed its direct testimony. Staff reviewed the supporting documentation and included the additional cost in its amortization expense.

**PAYROLL, PAYROLL TAXES, AND EMPLOYEE BENEFITS**

Q. Did Staff correct the amount in its direct filing for employee benefits?

A. Yes. In its direct filing, Staff did not include the test year amounts for the defined compensation plan in its MAWC test year total when determining its 401(k) and defined compensation plan adjustments. Staff has since added the test year amounts for the defined compensation plan and recalculated its adjustment.

Q. What are those test year amounts for the 401(k) and defined compensation plan and the resulting adjustments?

A. In direct, Staff's test year amount was $927,713 and the adjustment amount was $942,999. In rebuttal, Staff's test year amount is $1,947,940 and the adjustment amount is a negative $77,228 after adding the test year amounts and recalculating its adjustment.

Q. Did Staff correct its Exhibit Modeling System ("EMS") adjustments for payroll?

A. Yes. Staff's workpapers for payroll were correct; however, the adjustments applied to the EMS to calculate Staff's Revenue Requirement did not match the workpapers. Staff corrected these adjustments to match the workpapers and reapplied the corrected adjustments to the EMS.

Q. What is the difference between Staff's payroll adjustment for its direct filing and Staff's payroll adjustment for this rebuttal filing?

A. Staff's payroll adjustment in direct was $4,448,414. Staff's revised payroll adjustment for rebuttal is $4,001,239. The difference between the two is $447,175.

**PROPERTY TAX EXPENSE**

Q. Did Staff modify the amount in its direct filing for property taxes?

A. Yes. Subsequent to Staff's direct filing, and in response to Staff DR No. 0119, MAWC provided Staff the 2021 property tax assessments for St. Charles, Jasper, and Callaway Counties. MAWC did not originally provide these assessments during the direct filing. As a result, Staff revised its property tax expense to include the St. Charles, Jasper, and Callaway County 2021 property tax assessments.

Q. What is Staff's annualized level of property tax expense for rebuttal?

A. Staff's annualized level of property tax expense is $31,053,157.

**CAPITALIZED DEPRECIATION**

Q. Did Staff correct the amount in its direct filing for capitalized depreciation?

A. Yes. Staff inadvertently disallowed the Operations and Maintenance ("O&M") portion of depreciation expense. Staff revised its workpaper disallowing only the capitalized portion of depreciation expense.

**CREDIT CARD FEES**

Q. Did Staff correct the amount in its direct filing for credit card fees?

A. Yes. In its direct filing, Staff used the total test year amount for account number 52510015 to determine its adjustment. However, in addition to credit card fees, account number 52510015 includes other fees, such as bank services fees, e-check fees, etc. Staff inadvertently adjusted out all fees MAWC incurred during the test year, except for credit card fees. Staff corrected this error to include e-check fees in its revised adjustment.

Q. What is Staff's rebuttal adjustment for credit card and e-check fees?

A. Staff rebuttal adjustment for credit card and e-check fees is $101,727.

Q. Does this conclude your rebuttal testimony?

A. Yes it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

| | | |
|---|---|---|
| In the Matter of Missouri-American Water Company's Request for Authority to Implement General Rate Increase for Water and Sewer Service Provided in Missouri Service Areas | ) ) ) ) ) | Case No. WR-2022-0303 |

## AFFIDAVIT OF COURTNEY HORTON

| | | |
|---|---|---|
| STATE OF MISSOURI | ) | |
| | ) | ss. |
| COUNTY OF COLE | ) | |

**COMES NOW COURTNEY HORTON** and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Rebuttal Testimony of Courtney Horton*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Courtney Horton

**COURTNEY HORTON**

## JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 11th day of January 2023.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070

D Suzie Mankin

Notary Public