

# Exhibit No. 105

Staff – Exhibit 105  
Courtney Horton  
Direct Testimony (Cost of Service)  
File No. WR-2022-0303

*Exhibit No.:*

*Issue(s):* *Employee Expenses; Lobbying Expense; Payroll Expense, Payroll Taxes, and Employee Benefits; Incentive Compensation; Property Tax Expense; Rate Case Expense; Customer Commodity Revenues; Amortization of Regulatory Assets; Advertising Expense; Bad Debt Expense; Capitalized Depreciation; Outside Services Expense; Credit Card Fees*

*Witness:* *Courtney Horton*

*Sponsoring Party:* *MoPSC Staff*

*Type of Exhibit:* *Direct Testimony*

*Case No.:* *WR-2022-0303*

*Date Testimony Prepared:* *November 22, 2022*

**MISSOURI PUBLIC SERVICE COMMISSION**

**FINANCIAL AND BUSINESS ANALYSIS DIVISION**

**AUDITING DEPARTMENT**

**DIRECT TESTIMONY**

**OF**

**COURTNEY HORTON**

**MISSOURI-AMERICAN WATER COMPANY**

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

*Jefferson City, Missouri*

*November 2022*

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**DIRECT TESTIMONY OF**

**COURTNEY HORTON**

**MISSOURI-AMERICAN WATER COMPANY**

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**DIRECT TESTIMONY OF**  
**COURTNEY HORTON**  
**MISSOURI-AMERICAN WATER COMPANY**  
**CASE NO. WR-2022-0303**

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4  
5 Q. Please state your name and business address.

6 A. My name is Courtney Horton, 200 Madison St., Jefferson City, Missouri 65101.

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

8 A. I am a Senior Utility Regulatory Auditor with the Missouri Public Service  
9 Commission (“Commission”).

10 Q. Please describe your educational background and work experience.

11 A. I earned a Bachelor of Accountancy degree from Central Methodist University  
12 in Park Hills, Missouri in December 2016. I completed many courses in accounting and  
13 business. Prior to my work at the Commission, I worked in tax accounting, auditing, and  
14 record keeping.

15 Q. What are your responsibilities with the Commission?

16 A. I conduct audits and examinations of the books and records of regulated utility  
17 companies operating within the State of Missouri.

18 Q. Have you previously filed testimony before this Commission?

19 A. Yes. I have attached a list of the cases in which I have filed testimony before  
20 this Commission as Schedule CH-d1.

21 Q. With respect to Case No. WR-2022-0303, have you made an examination of the  
22 books and records of the Missouri-American Water Company (“MAWC”)?

23 A. Yes, with the assistance of other members of Commission Staff (“Staff”).

1 Q. What knowledge, skills, experience, training, or education do you have in the  
2 issues to which you are testifying as an expert witness?

3 A. I have worked on many of these issues in other rate cases, including Case Nos.  
4 ER-2019-0374, WR-2020-0275, WR-2020-0344, GR-2021-0320, and ER-2021-0312, as  
5 described in Schedule CH-d1, attached to this testimony. I also attended the National  
6 Association of Regulatory Utility Commissioners (“NARUC”) rate school during the summer  
7 of 2022. I have worked closely with senior auditors and supervisors, who possess extensive  
8 regulatory knowledge. I have reviewed MAWC’s testimony, workpapers, and responses to data  
9 requests in this rate case, as well as the testimony and workpapers from MAWC’s most recent  
10 rate case, to gain an understanding of the issues I am addressing.

11 **EXECUTIVE SUMMARY**

12 Q. What is the purpose of your direct testimony?

13 A. The purpose of my direct testimony is to present Staff’s recommendations  
14 concerning employee expenses; lobbying expenses; payroll expense, payroll taxes, and  
15 employee benefits; incentive compensation; property tax expense; rate case expense; customer  
16 commodity revenues; amortization of regulatory assets; advertising expense; bad debt expense;  
17 capitalized depreciation; outside services expense; and credit card fees.

18 **EMPLOYEE EXPENSES**

19 Q. Please describe employee expenses.

20 A. Employee expenses are MAWC’s operating expenses associated with employee  
21 physical exams, tuition aid, training, employee expenses, conferences and registration fees,  
22 meals deductible, meals non-deductible, and relocation expenses.

Direct Testimony of  
Courtney Horton

1 Q. Did Staff review MAWC and American Water Works Service Company  
2 (“Service Company”) employee expenses for this rate case?

3 A. Yes. Staff reviewed MAWC’s responses to Data Request (“DR”) Nos. 0114,  
4 0114.1, and 0114.2. In its response to DR No. 0114, MAWC provided test year (the 12 months  
5 ending June 30, 2022) direct and allocated invoices for document types KR (Vendor Invoice),  
6 ZF (EDR), and RE (Invoice - Gross), but requested Staff to choose a sample of invoices for the  
7 ZI (PCard Inbound Interface) document type due to its voluminous nature. Staff randomly chose  
8 September 2021 and February 2022 for its sample of the ZI document type invoices to review.  
9 MAWC provided this sample of invoices in its response to DR No. 0114.2.

10 Q. How did Staff determine the level of employee expenses to include in its  
11 recommendation?

12 A. Staff reviewed all the invoices MAWC provided in response to DR Nos. 0114  
13 and 0114.2 (there were no invoices associated with DR No. 0114.1). Staff identified employee  
14 expenses that do not directly benefit ratepayers and are not required for MAWC to provide safe  
15 and reliable service. Staff disallowed \*\* [REDACTED]

16 [REDACTED]  
17 [REDACTED] \*\* Because these disallowed amounts were for only two months of invoices  
18 (September 2021 and February 2022), Staff used them to calculate separate disallowance ratios  
19 for MAWC and the Service Company. Staff then applied these disallowance ratios to the  
20 remaining test year employee expenses to determine an appropriate level of employee expenses  
21 to disallow from the test year and include in Staff’s cost of service.

22 Q. What is Staff’s proposed disallowance adjustment for employee expenses?

1           A.     Staff’s employee expense disallowance adjustment for MAWC is \$33,052 and  
2     \$7,646 for the Service Company.

3     **LOBBYING EXPENSES**

4           Q.     Please describe lobbying expenses.

5           A.     Lobbying expenses are MAWC’s cost to hire lobbyists to represent it and  
6     try to influence legislation, regulation, or other government decisions, actions, or policies on  
7     its behalf.

8           Q.     Did Staff review MAWC’s lobbying expenses for this rate case?

9           A.     Yes. Staff reviewed all the test year lobbying expenses that MAWC provided in  
10    response to DR Nos. 0117, 0118, and 0159.

11          Q.     How did Staff determine its adjustment for lobbying expense?

12          A.     Staff has a long-standing policy of excluding all amounts related to lobbying  
13    expenses by utilities, since these activities generally promote shareholder interests and are not  
14    expended in the interest of the ratepayers. Staff disallowed all costs related to lobbying  
15    expenses, including payroll, taxes, benefits, etc., in the amount of \$8,732.

16    **PAYROLL EXPENSE, PAYROLL TAXES, AND EMPLOYEE BENEFITS**

17          **Payroll Expense**

18          Q.     Please describe payroll expense.

19          A.     Payroll expense is the wages paid to employees by businesses in exchange for  
20    services. There are three classifications of employees at MAWC: Collective Bargaining Unit  
21    (“CBU”) hourly employees, non-union non-CBU hourly employees, and exempt employees.  
22    Staff reviewed the payroll expenses of employees that fall under these three classifications and

1 made the appropriate adjustments to MAWC’s test year payroll expense to reflect annualized  
2 levels of payroll as of June 30, 2022.

3 Q. How did Staff determine the level of payroll expense to include in its  
4 recommendation?

5 A. To determine the level of payroll expense that should be included, Staff  
6 reviewed MAWC’s response to DR No. 0111, which includes the confidential employee list as  
7 of June 30, 2022. Staff used the salary amount to determine the exempt employees’ payroll  
8 expense. Staff multiplied the CBU hourly employees’ and non-union non-CBU hourly  
9 employees’ hourly wage by 2,088 hours to determine the hourly employees’ payroll expense.

10 For the CBU hourly employees, Staff’s payroll expense includes base payroll, license  
11 rates, shift premiums, union employee meal allowances, and overtime. This is consistent with  
12 the collective bargaining agreements (“CBAs”). Section 386.315.1, RSMo, states the  
13 “commission shall not reduce or otherwise change any wage rate, benefit, working condition,  
14 or other term or condition of employment that is the subject of a collective bargaining agreement  
15 between the public utility and a labor organization.” \*\* [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

21 [REDACTED]

22 [REDACTED]

23 [REDACTED]



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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] \*\* Staff determined its union employee overtime adjustment by multiplying Staff's calculated overtime percentage by its annualized labor. Staff's overall adjustment for union employee overtime expense is \$610,084.

Staff's calculated level of labor payroll expense for the test year is \$38,624,106. Staff will continue to review this issue through December 31, 2022, as part of its true-up audit.

**Payroll Tax Expense**

Payroll tax expense is directly related to salaries and wages. Staff applied the current Federal Insurance Contributions Act ("FICA"), Federal Unemployment Tax Act ("FUTA"), and State Unemployment Tax Act ("SUTA") tax rates applicable to annualized payroll amounts to determine payroll taxes. Staff's annualized payroll tax expense for MAWC is \$2,963,578 and for the Service Company is \$787,090.

**Employee Benefits Other than Pensions and Other Post-Employment Benefits ("OPEBs")**

MAWC and the Service Company offer additional benefits to their employees, including a 401(k) employer match, Voluntary Employees' Beneficiary Association Plan ("VEBA"), Defined Contribution Plan ("DCP"), Employee Stock Purchase Plan ("ESPP"), and various types of insurance (medical, dental, vision, etc.). For each MAWC and Service Company employee, Staff annualized the benefits, with the exception of ESPP. Staff disallowed the ESPP expense in its payroll expense. Full- or part-time employees of MAWC and the Service Company are eligible to participate in the ESPP through payroll deductions. Employees who participate in the plan can contribute 1% to 10% of after-tax

1 compensation to purchase American Water Works Corporation, Inc. (“AWWC”) stock at a 15%  
2 discount with a maximum of \$25,000 a year. Staff disallowed the ESPP in its payroll expense  
3 because MAWC makes no actual cash outlay for this item. MAWC is simply offering a discount  
4 to its employees to purchase its parent company’s stock and is not providing them with an actual  
5 disbursement. Staff’s calculated level of employee benefits is \$9,619,542 for MAWC and  
6 \$1,592,692 for the Service Company. Staff witness Ashley Sarver addresses Pensions and  
7 OPEBs in her direct testimony in this case.

8 **INCENTIVE COMPENSATION**

9 Q. Please describe MAWC’s incentive compensation.

10 A. MAWC’s total incentive compensation is awarded under two performance  
11 plans, the Annual Performance Plan (“APP”) and the Long Term Performance Plan (“LTPP”).

12 \*\* [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

21 [REDACTED]

22 [REDACTED]

23 [REDACTED]

1 [REDACTED]  
2 [REDACTED]  
3 [REDACTED]  
4 [REDACTED]  
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9 [REDACTED]  
10 [REDACTED]  
11 [REDACTED]  
12 [REDACTED]  
13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED]  
16 [REDACTED] \*\*

17 Q. Did Staff review incentive compensation for this rate case?

18 A. Yes. In its response to DR No. 0123, MAWC provided a confidential list of  
19 MAWC and Service Company employees who received APP during 2022. In its response to  
20 DR No. 0125, MAWC provided copies of the confidential 2022 APP measures and metrics that  
21 apply to union and non-union employees. In response to DR No. 0180, MAWC provided copies  
22 of the confidential CBAs that pertain to its union employees. Staff reviewed MAWC's  
23 responses to these DRs and determined each employee's eligibility to participate in APP.

1 Q. How did Staff determine the level of incentive compensation to include in its  
2 recommendation?

3 A. Historically, Staff has recommended the removal of incentive compensation  
4 awards tied to company financial performance; there has been no connection found between  
5 the financial results for which incentives are awarded and tangible benefits to ratepayers.  
6 In recommending this, Staff applies the criteria the Commission established in *In re Union*  
7 *Electric Co.*, Case No. EC-87-114: “At a minimum, an acceptable management performance  
8 plan should contain goals that improve existing performance, and the benefits of the plan  
9 should be ascertainable and reasonably related to the incentive plan.” 29 Mo. P.S.C. 2nd 313,  
10 325 (1987).

11 Staff also relies upon guidance in the Commission’s order in *In re Southwestern Bell*  
12 *Telephone Company*, Case No. TC-89-14:

13 In the Commission’s opinion the results of the parent corporation,  
14 unregulated subsidiaries, and non-Missouri portions of SWB, are only  
15 remotely related to the quality of service or the performance of SWB in  
16 the state of Missouri. Achieving the goals of SBC [the parent company]  
17 and unregulated subsidiaries is too remote to be a justifiable cost of  
18 service for Missouri ratepayers. Accordingly, the Staff’s proposed  
19 disallowances in the senior management’s long term and short-term  
20 incentive plans...should be adopted.

21 Q. What is Staff’s recommendation regarding the Company’s incentive  
22 compensation plans?

23 A. Overall, Staff recommends removal of 50% of the APP paid in the test year to  
24 union and non-union MAWC employees in the amount of \$1,791,890 and to the Service  
25 Company employees in the amount of \$1,355,144, since 50% of the plan is related to MAWC’s  
26 and AWWC’s financial performance. Staff also recommends disallowing the entirety of the  
27 LTPP amount, as this plan is primarily tied to MAWC’s and AWWC’s financial performance.

1           Additionally, Staff made an adjustment to remove a similar percentage of the capitalized  
2 portion of the Service Company APP and LTTP from the plant-in-service and depreciation  
3 reserve balances from July 1, 2021, through June 30, 2022. Staff made this adjustment to remain  
4 consistent with the position that none of the incentive compensation costs relating to EPS should  
5 be borne by ratepayers. Since Staff was unable to allocate the total amount to specific plant  
6 accounts, Staff applied a composite depreciation rate based on the rates used in the current case  
7 to calculate the related accumulated depreciation amount associated with capitalized incentive  
8 compensation costs. Staff's calculation for capitalized APP is \$145,566. Staff will continue to  
9 review this issue through December 31, 2022, as part of its true-up audit.

10           **PROPERTY TAX EXPENSE**

11           Q.     Please describe property tax expense.

12           A.     Property tax expense is taxes paid on property owned by individuals or  
13 businesses. MAWC's Missouri property taxes are based (assessed) on the property it owns on  
14 January 1 of each year. Taxing authorities send MAWC their assessed values in April for every  
15 category of MAWC's plant in service as of January 1. Later in the year, the taxing authorities  
16 issue a property tax rate. And, late in the year the taxing authorities issue a property tax bill to  
17 MAWC with a due date of December 31.

18           Q.     What property tax documentation did Staff review relating to MAWC's property  
19 tax expense in this rate case?

20           A.     Staff reviewed all the 2021 property tax assessments and property taxes paid that  
21 MAWC provided in response to DR No. 0119.

22           Q.     How did Staff determine the level of property tax expense to include in its  
23 recommendation?

1           A.     After Staff reviewed MAWC’s original response to DR No. 0119, MAWC  
2 updated the DR with a revised list of 2021 property taxes paid. Staff used these revised amounts  
3 booked to each district to determine its allocation percentages. Staff then applied its  
4 allocation percentages to its total property taxes paid in 2021 to determine each district’s  
5 property tax amount.

6           Q.     What did Staff determine was the proper level of property tax expenses to  
7 include in its recommendation?

8           A.     Staff’s determined level of property tax expense is \$29,750,494.

9     **RATE CASE EXPENSE**

10          Q.     Please describe rate case expense.

11          A.     A utility incurs rate case expense to present and prosecute a rate case before the  
12 Commission. Rate case expenses typically incurred include legal fees from outside legal  
13 counsel, expert witness fees, copying fees, costs to publish rate case notices to the public, as  
14 well as costs incurred by utility personnel to attend rate case-related activities, including meals  
15 and lodging.

16          Q.     Did Staff perform a review of rate case expenses for this rate case?

17          A.     Yes. Staff reviewed all the invoices that MAWC provided in response to  
18 DR No. 0122 to determine rate case expenses.

19          Q.     How did Staff determine its level of rate case expenses to include in its  
20 recommendation?

21          A.     Staff included 50% of the rate case expense costs incurred thus far for the current  
22 rate case and 100% of the costs of the depreciation study performed in the last rate case (Case  
23 No. WR-2020-0344). Staff recommends a 50/50 sharing mechanism between ratepayers and

1 MAWC to normalize the level of rate case expense, which is discussed in more detail in Staff  
2 witness Ashley Sarver’s direct testimony. Staff excluded the depreciation study cost from the  
3 sharing mechanism and included the depreciation study expense normalized over five years in  
4 the cost of service. Staff will continue to update rate case expenses throughout this case as new  
5 information is available.

6 **CUSTOMER COMMODITY REVENUES**

7 Q. Please describe commodity revenues.

8 A. Currently, MAWC has two different types of utility charges for its water and  
9 sewer services, which include the customer charge and the commodity charge. The customer  
10 charge is the fixed cost that customers usually pay monthly, regardless of their actual utility  
11 usage. Please refer to Staff witness Ashley Sarver’s direct testimony for further detail on  
12 customer charges. The commodity charge is the variable charge that customers pay based upon  
13 their utility usage.

14 Q. Did Staff perform a review of customer usage for this rate case?

15 A. Yes. Staff reviewed the water and sewer usage data that MAWC provided in  
16 response to informal email requests and DR Nos. 0177 and 0186.

17 Q. How did Staff determine its normalized level of commodity revenues?

18 A. Staff developed the normalized volumetric (consumption) commodity revenues  
19 based on a normalized usage applied at the current volumetric rate per gallons. For commercial,  
20 industrial, and other public authority (“OPA”) customers’ water and sewer usage, Staff  
21 reviewed five years of usage data from July 1, 2017, through June 30, 2022, to determine if a  
22 usage trend existed. Staff then multiplied its normalized usage total, or consumption, by the  
23 applicable tariff rate per 1,000 gallons for each district to determine the normalized revenues.

1 Staff witness Jarrod J. Robertson discusses residential customer usage in his direct testimony  
2 in this rate case.

3 *Water Commodity Revenues*

4 Q. Did Staff perform a review of Rates A and J?

5 A. Yes. For commercial, industrial, and OPA customers' water usage, Staff  
6 determined the customer usage based on Rate A (meter rate for residential, commercial, and  
7 small industrial customers) or Rate J (meter rate for manufacturers and large quantity users of  
8 water) as of June 30, 2022.

9 Q. How did Staff determine the usage revenues for Rates A and J?

10 A. Staff reviewed five years of usage data from July 1, 2017, through June 30, 2022,  
11 to determine if a usage trend existed. Staff then multiplied its normalized usage total, or  
12 consumption, by the applicable tariff rate per 1,000 gallons for each district to determine the  
13 normalized revenues.

14 Q. Did Staff review resale usage?

15 A. Yes. Staff reviewed five years of usage data from July 1, 2017, through  
16 June 30, 2022, to determine if a usage trend existed. Staff used a five-year average for all the  
17 districts, except for the Public Water Supply District No. C-1, which had a declining usage  
18 trend. Staff used the most current usage for the 12 months ending June 30, 2022, for the  
19 Public Water Supply District No. C-1. Staff then multiplied its normalized usage total, or  
20 consumption, for each district by the applicable tariff rate per 1,000 gallons for each district to  
21 determine the normalized revenues.

22 Q. Did Staff review private fire usage?



1 A. Yes. Staff reviewed five years of usage data from July 1, 2017, through  
2 June 30, 2022, to determine if a usage trend existed. For St. Louis customers who pay their  
3 utility bills monthly, Staff used the most current 12 months usage ending June 30, 2022, since  
4 the usage had an increasing trend. For St. Louis customers who pay their utility bill quarterly,  
5 Staff used the most current 12 months usage ending June 30, 2022, since the usage had a  
6 decreasing trend. Staff used a four-year average for the All Other Water customer's usage from  
7 July 1, 2019, through June 30, 2022, since it did not have a trend. Staff excluded the 12 months  
8 ending June 30, 2018, data from its four-year average since it was an outlier compared to the  
9 other years analyzed.<sup>1</sup> Staff then multiplied its normalized usage total, or consumption, by the  
10 applicable tariff rate per 1,000 gallons for each district to determine the normalized revenues.

11 ***Sewer Commodity Revenues***

12 Q. Did Staff review sewer usage for residential, commercial, industrial, and OPA  
13 customers?

14 A. Yes. Staff reviewed five years of usage data from July 1, 2017, through  
15 June 30, 2022, to determine if a usage trend existed. Staff used a five-year average for the  
16 residential customers' usage, since there was not a trend in the usage data. Staff also used a  
17 five-year average for commercial customers for tariff No. 1.1 and tariff No. 2.1, since a usage  
18 data trend did not exist. Staff also included the Metal Container Corporation discount for  
19 commercial wastewater in the Arnold district. Metal Container Corporation receives a 15%  
20 discount based upon the amount of water used, as agreed to with the City of Arnold. Staff used  
21 the most current 12-months' usage, ending June 30, 2022, for tariff No. 3.1, since there was an

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<sup>1</sup> Average usage was 39,400 for years 2019, 2020, 2021, and 2022, but the usage for the 12 months ending June 30, 2018 was 10,343.

1 increasing trend in the usage data. Staff used the most current 12-months' usage, ending  
2 June 30, 2022, for the industrial customers, since there was an increasing trend. Staff used the  
3 most current 12-months' usage, ending June 30, 2022, for the public authority customers, since  
4 there was a decreasing trend in the usage data. Staff then multiplied these normalized usage  
5 totals, or consumption, by the applicable tariff rate per 1,000 gallons for each district to  
6 determine the normalized revenues.

7 **AMORTIZATION OF REGULATORY ASSETS**

8 Q. Did Staff review the amortization of regulatory assets in this rate case?

9 A. Yes. Staff reviewed MAWC's response to DR No. 0131, in which  
10 MAWC provided a list of all existing and proposed amortizations from July 1, 2020, through  
11 June 30, 2022. Staff also reviewed the Stipulation and Agreements in Case Nos. WR-2020-0344  
12 and WU-2020-0417.

13 Q. Which amortizations has MAWC requested to be included in the cost of service?

14 A. In its response to DR No. 0131, MAWC provided a list of existing amortizations  
15 for the St. Joseph premature property retirement, the City of Hollister pipeline, Arnold  
16 Metropolitan Sewer District ("MSD") sewage system agreement, Low Income Program costs,  
17 Lead Service Line Replacement ("LSLR") Program costs, and the acquisition of Rogue Creek  
18 Water and Sewer Systems. MAWC also provided a list of several new amortizations, such as  
19 the costs incurred as a result of the COVID-19 pandemic, a property tax tracker, additional costs  
20 for the LSLR Program, and additional costs for the acquisition of the Arnold sewer system, and  
21 the City of Purcell's water and sewer systems.

***St. Joseph***

1  
2 Q. Please explain the St. Joseph premature property retirement regulatory asset  
3 amortization.

4 A. In Case No. WR-2003-0500, MAWC proposed a 20-year amortization of the  
5 remaining book value of the old St. Joseph treatment plant. Essentially, the plant was not fully  
6 depreciated when it was retired. MAWC sought recovery of the under-depreciated amounts,  
7 which the Commission approved. Staff's monthly amortization for St. Joseph is \$13,241 and  
8 its unamortized balance as of June 30, 2022, is \$291,606.

***Low Income Program***

9  
10 Q. Please explain the Low Income Program regulatory asset amortization.

11 A. In its response to DR No. 0131, MAWC stated that the "Company was  
12 authorized to implement a residential low-income pilot program for the St. Joseph, Brunswick  
13 and Platte County Districts." According to the MAWC website, "Eligible customers in  
14 St. Joseph, Brunswick, Platte County, and Lawson Districts can reduce their monthly water  
15 bills by using the low-income rate. This rate was introduced as a pilot program in 2017,  
16 and reduces the customer charge, or fixed charge." The parties agreed to the following in  
17 paragraph 18 of the Commission-approved Stipulation and Agreement in MAWC's last rate  
18 case, Case No. WR-2020-0344:

19 MAWC shall be authorized to continue the Low Income Pilot Program  
20 as it is currently administered, with the inclusion of Lawson service area.  
21 In addition, the Signatories agree that MAWC shall be authorized to  
22 record on its books a regulatory asset that represents the actual discounts  
23 provided to those customers participating in the Pilot Program, along  
24 with any third-party administrative costs. MAWC shall maintain this  
25 regulatory asset on its books until the effective date of rates resulting  
26 from MAWC's next general rate proceeding. Deferred amounts as of  
27 December 31, 2020, will be amortized over three (3) years beginning  
28 with the effective date of new rates resulting from this case.



1 response to DR No. 0131, MAWC noted that it began amortizing the Rogue Creek systems on  
2 June 1, 2021. Staff calculated the amortization period based upon the May 28, 2021 tariff  
3 effective date.

4 Q. What are the proposed monthly amortization rates for water and sewer as a  
5 result?

6 A. Staff's Rogue Creek monthly amortization is \$2,606 for water and \$2,409  
7 for sewer. Staff's unamortized balance as of June 30, 2022, is \$122,482 for water and \$113,223  
8 for sewer.

9 *City of Hollister*

10 Q. Please explain the City of Hollister pipeline regulatory asset amortization.

11 A. In Case No. SR-2013-0016, Emerald Pointe Utility Company retired its sewer  
12 plant and constructed lift stations and a pipeline to transport wastewater to the City of Hollister  
13 for treatment. The lift stations and pipeline up to the Emerald Pointe flow meter were owned  
14 by Emerald Pointe, which was transferred to MAWC in Case No. SO-2014-0116.  
15 Emerald Pointe was required to contribute to the City of Hollister the portion of the pipeline  
16 within the Hollister city limits. The construction costs associated with that portion of pipeline  
17 were \$323,321. Staff amortized these costs over a 50-year period beginning January 1, 2013.  
18 Staff's monthly amortization amount is \$539, and its unamortized balance as of June 30, 2022,  
19 is \$262,426.

20 *Arnold Metropolitan Sewer District ("Arnold MSD")*

21 Q. Please explain the Arnold Metropolitan Sewer District ("Arnold MSD")  
22 regulatory asset amortization.

1           A.     In Case No. SA-2015-0150 the Commission authorized MAWC to acquire the  
2 sewer assets belonging to the City of Arnold. MAWC assumed responsibility for a sewage  
3 system agreement and a subsequent addendum between the Metropolitan St. Louis Sewer  
4 District and the City of Arnold. As part of that agreement, MAWC must pay for capital  
5 projects that were previously required by Arnold MSD. MAWC owns and maintains Arnold's  
6 sewer collection facilities, but St. Louis Metropolitan Sewer District treats the wastewater under  
7 that MAWC agreement assumed. MAWC's response to DR No. 0131, states this amortization  
8 "[r]epresents the MAWC's proportionate share of MSD's wholesale treatment cost  
9 facility located across the Meramec River from Arnold...." The Commission approved the  
10 Arnold MSD amortization in rate Case No. WR-2017-0285. Staff amortized these costs over a  
11 17-year period beginning May 22, 2015. Staff's monthly amortization for Arnold is \$74,245  
12 and its unamortized balance as of June 30, 2022, is \$9,188,473.

13           Q.     Is MAWC proposing a new amortization for the Arnold MSD?

14           A.     Yes it is. According to its response to DR No. 0131, MAWC is proposing to  
15 include \$685,971 of additional costs incurred for the treatment facility. MAWC is proposing to  
16 amortize these costs over a 20-year period.

17           Q.     What is Staff's recommendation in this case?

18           A.     Staff included these additional costs in its amortization expense and determined  
19 that the monthly amortization is \$2,858.

20                           ***Lead Service Line Replacement ("LSLR") Program***

21           Q.     Please explain the LSLR Program regulatory asset amortization.

22           A.     According to MAWC's response to DR No. 0131, the LSLR Program is the  
23 "[c]ost of replacing customer-owned lead service lines." On page 23 of its Report and Order

1 in Case No. WR-2017-0285, the Commission stated that it “will permit MAWC to amortize  
2 over ten years the \$1,668,796 incurred for the LSLR Program from January 1, 2017, through  
3 December 31, 2017.”

4 Q. What is Staff’s position with regard to the LSLR Program regulatory  
5 amortization?

6 A. Staff’s monthly amortization for the LSLR Program is \$171,790, and its  
7 unamortized balance as of June 30, 2022, is \$18,060,030. After reviewing MAWC’s direct  
8 amortization workpapers, Staff determined that MAWC is seeking a return on the LSLR  
9 Program expense. Staff agrees with MAWC receiving this return, which is consistent with  
10 Staff’s position, as stated in paragraph 37 of the Report and Order in Case No. WR-2017-0285.

11 *Purcell*

12 Q. Please explain the City of Purcell Water and Sewer System acquisition  
13 regulatory asset amortization.

14 A. In early 2021, a state senator, the Missouri Department of Natural Resources  
15 (“DNR”), and Commission Staff requested that MAWC operate the City of Purcell’s troubled  
16 water and sewer systems.<sup>2</sup> MAWC started operating the systems in February 2021, and on  
17 March 16, 2021, the City of Purcell and MAWC entered into an Operation and Management  
18 Agreement for the water and sewer Systems. Section 3 on page 2 of that agreement required  
19 the City of Purcell to pay MAWC \$6,500 a month for services provided and \$500 a month for  
20 “the costs associated with billing and collecting revenue.”

21 On April 21, 2022, in Case No. WA-2022-0293, MAWC filed an application for a  
22 Certificate of Convenience and Necessity (“CCN”) to purchase the unregulated water and sewer

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<sup>2</sup> See Staff Recommendation Appendix A, page 1, filed on July 28, 2022, in WA-2022-0293.

1 assets from the City of Purcell. Appendix A to the CCN application contained the  
2 aforementioned agreement. The Commission subsequently issued an Order Granting Certificate  
3 of Convenience and Necessity with a September 9, 2022, effective date.

4 Q. What is the Staff recommending in the current case?

5 A. In the current case, MAWC is proposing to amortize the cost it incurred for  
6 operating the City of Purcell's systems prior to its acquisition. According to MAWC's response  
7 to DR No. 0249, the City of Purcell did not make its obligated monthly payments to MAWC.  
8 Therefore, Staff included these costs in its amortization expense and determined that the  
9 monthly amortization is \$2,037.

#### 10 *COVID-19*

11 Q. Please explain the COVID-19 regulatory asset amortization.

12 A. MAWC is proposing to include an amortization for expenses incurred related to  
13 the COVID-19 pandemic Accounting Authority Order ("AAO"). MAWC proposes continuing  
14 to amortize the AAO. Please see Staff witness Kimberly K. Bolin's direct testimony for further  
15 information on the COVID-19 amortization.

#### 16 **ADVERTISING EXPENSE**

17 Q. Did Staff review advertising expense for this rate case?

18 A. Yes. Staff reviewed MAWC's responses to DR Nos. 0103 and 0104 that  
19 requested information about test year advertising expenses. In response to DR No. 0103,  
20 MAWC stated it "did not record any costs to advertising expense during the twelve months  
21 ending June 30, 2022." On August 22, 2022, Staff verified this information through an informal  
22 email request to MAWC witness Brian W. LaGrand who stated, "MAWC removed all  
23 advertising from the case."



1           However, in response to DR No. 0104, MAWC provided a list of direct and allocated  
2 customer education and community relations expenses incurred from January 1, 2021, through  
3 June 30, 2022. After review, Staff determined that some of these costs were recoverable  
4 advertising expenses and made necessary adjustments to include these costs in Staff's level of  
5 advertising expense. Some of the expenses that Staff included in advertising expense are press  
6 releases that promoted water conservation, door hangers associated with precautionary boil  
7 water advisories, and customer notices that provided general information that are useful for the  
8 provision of safe and reliable service. Some of the expenses that Staff disallowed include table  
9 cloths, press releases regarding grant programs, and candy for community events.

10           Q.     Does Staff recommend including any advertising expense in this rate case?

11           A.     Yes. Staff recommends a total of \$63,956 for advertising expense to be included  
12 in the cost of service.

13           **BAD DEBT EXPENSE**

14           Q.     Please describe bad debt expense.

15           A.     Uncollectible expense, or bad debt expense, is the portion of revenues MAWC  
16 is unable to collect from customers due to non-payment of customer bills. Per AWWC's bad  
17 debt policy, provided in response to DR No. 0030, after a certain period of time has passed,  
18 delinquent customer accounts that owe under \$50,000 are written-off, while accounts with a  
19 balance over \$50,000 are turned over to collection agencies to attempt to collect the  
20 delinquencies.

21           Q.     Does Staff consider bad debt when calculating its recommended revenue  
22 requirement?

1           A.     Yes. Staff’s task is to determine the appropriate level of uncollectible expense  
2 that should be included in Staff’s recommended revenue requirement. Uncollectible expense is  
3 a normalized level of actual bad debt net charge-offs (write-offs less collection agencies  
4 recoveries). Staff calculated uncollectible expense by analyzing five years of historical net  
5 charge-offs.

6           Q.     Did Staff review bad debt expense for this rate case?

7           A.     Yes. MAWC provided monthly net charge-offs from July 2010 through  
8 June 2022 in its response to DR No. 0028. Staff reviewed five years of net charge-offs for the  
9 January 2016 through December 2021 period. Staff excluded the 2020 net charge-offs from its  
10 review due to the impacts of the COVID-19 pandemic. Staff analyzed the data to determine  
11 whether there was a trend over the five years.

12          Q.     How did Staff determine the level of bad debt expense to include in its  
13 recommendation?

14          A.     Staff determined that a three year average of the net charge-offs was appropriate  
15 due to bad debt expense varying greatly from 2014 to 2022. Staff’s overall adjustment for bad  
16 debt expense resulted in an increase of \$1,266,703 over the test year amount.

17       **CAPITALIZED DEPRECIATION**

18          Q.     Please explain capitalized depreciation.

19          A.     Expenses related to construction projects are accumulated in  
20 construction-work-in-progress (“CWIP”) accounts that can be included in rates after the  
21 completion of each project. The capitalized expenses include depreciation expense associated  
22 with assets used in construction, such as power-operated equipment and transportation  
23 equipment. Capitalized depreciation expenses must be subtracted from the depreciation

1 expense calculated using MAWC's total plant-in-service balances to prevent double recovery  
2 in rates.

3 Q. Did Staff review capitalized depreciation for this rate case?

4 A. Yes. Staff reviewed MAWC's response to DR No. 0159 in Case No.  
5 WR-2017-0285, which requested a breakdown of the amount of depreciation expense for the  
6 12 months ending December 31, 2016, on transportation equipment and power-operated  
7 equipment that MAWC owned or purchased through a capitalized lease. Staff also reviewed  
8 MAWC's response to DR No. 0130 in the current case, which requested the same information  
9 but for the 12 months ending June 30, 2022.

10 Q. How did Staff determine capitalized depreciation to include in its  
11 recommendation?

12 A. After receiving MAWC's response to DR No. 0159 in Case No. WR-2017-0285,  
13 and after further discussion with MAWC in that rate case, Staff discovered that MAWC was  
14 not tracking the amount of time these assets are being used for construction versus expense.  
15 Based on MAWC's response to DR No. 0130 in this case, MAWC is still not keeping track of  
16 this information. Therefore, Staff deducted capitalized depreciation based on the overall  
17 capitalization ratio Staff calculated from its total depreciation expense to arrive at the amount  
18 of depreciation expense associated with operations and maintenance related functions.

19 Q. Does Staff propose an adjustment for capitalized depreciation?

20 A. Yes. Staff's adjustment for capitalized depreciation is \$1,225,229.

21 **OUTSIDE SERVICES EXPENSE**

22 Q. Please explain outside services expense.

1           A.     Outside services are the various outside (independent) contractors and vendors  
2 who provide legal, auditing, and other services to MAWC to carry out its operational activities  
3 as needed.

4           Q.     Did Staff perform a review of outside services expense for this rate case?

5           A.     Yes. Staff reviewed all the outside services expense booked to the general ledger  
6 from July 1, 2019, through June 30, 2022. Staff also reviewed a sample of invoices MAWC  
7 provided in response to DR No. 0171. Finally, Staff reviewed the engineered coating costs  
8 MAWC provided in response to DR No. 0198.

9           Q.     How did Staff determine the amount of outside services expense to include in  
10 its recommendation?

11          A.     In its response to DR No. 0198, MAWC provided the engineered coating costs  
12 that were booked to outside services expense for the 12 months ending June 30, for years 2020,  
13 2021, and 2022. Staff removed the engineered coating costs from its outside services expense  
14 data and then calculated a three-year average of the outside services expense incurred during  
15 the 12 months ending June 30, for years 2020, 2021, and 2022. Please see Staff witness Angela  
16 Niemeier's direct testimony for Staff's analysis of the engineering coating costs.

17          Q.     What is Staff's proposed level of outside services expense?

18          A.     Staff's proposed level of outside services expense to include in the cost of  
19 service is \$3,491,226.

20        **CREDIT CARD FEES**

21          Q.     Please explain credit card fees.

22          A.     MAWC's ratepayers currently have several options for paying their water and  
23 sewer bills. The payment options include credit card, direct debit/auto pay, E-checks, collection

Direct Testimony of  
Courtney Horton

1 agency, over-the-counter, and drop box. Transaction fees associated with credit cards are not  
2 charged to the ratepayers and are currently a recoverable expense.

3 Q. Did Staff review credit card fees in this rate case?

4 A. Yes. Staff reviewed MAWC's response to DR No. 0106, which requested the  
5 number of customers paying by credit card and the number of customers paying by E-check  
6 from January 2020 through June 2022. Staff also reviewed MAWC's response to DR No. 0174,  
7 which requested a copy of MAWC's current contract with its third party processor, Paymentus.

8 Q. What is the nature of MAWC's contract with Paymentus?

9 A. Currently, Paymentus is responsible for MAWC's payment processing.  
10 MAWC renewed its contract with Paymentus on March 1, 2022. Paymentus currently charges  
11 a \$1.50 fee for each credit card transaction and this has not changed from the previous rate case.

12 Q. How did Staff determine the amount of credit card fees to include in its  
13 recommendation?

14 A. Staff calculated its total credit card fees expense by multiplying the actual  
15 number of credit card payments that occurred during the test year by the \$1.50 fee that  
16 Paymentus charges. Staff included an annualized amount of \$930,242 for credit card processing  
17 fees in the cost of service.

18 Q. Does this conclude your direct testimony?

19 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 ) Case No. WR-2022-0303  
Implement General Rate Increase for Water )  
and Sewer Service Provided in Missouri )  
Service Areas )

**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 *Direct 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 17<sup>th</sup> day of November 2022.

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

# Courtney Horton

## Educational, Employment Background and Credentials

I am currently a Senior Utility Regulatory Auditor in the Auditing Department, Financial and Business Analysis Division for the Missouri Public Service Commission. I have held my position as a Utility Regulatory Auditor since June 2018.

I earned a Bachelor of Accounting degree from Central Methodist University in Park Hills, Missouri in December of 2016. I completed many courses in accounting and business. Prior to the Commission, I worked in tax accounting, auditing, and record keeping.

## Case Participation

Company Name	Case Number(s)	Testimony/Issues	Type of Case
Branson Cedars Resort Utility Company LLC Water & Sewer	WR-2018-0356	Staff Recommendation	Rate Case
S.K. & M Water & Sewer Company	SR-2019-0157	Staff Recommendation	Rate Case
Empire District Electric	ER-2019-0374	Staff Recommendation	Rate Case
Missouri American Water Company/Hillers Creek Sewer	SA-2019-0334	Staff Recommendation	CCN Case
Elm Hills	WR-2020-0275	Staff Recommendation	Rate Case
Missouri-American Water Company/Harbor View Estates Sewer	SA-2020-0073	Staff Recommendation	CCN Case
Missouri-American Water Company/Clinton Estates Sewer	SA-2020-0132	Staff Recommendation	CCN Case
Liberty Utilities/Saver's Farm Sewer	SA-2020-0067	Staff Recommendation	CCN Case
Liberty Utilities/Empire Water	WM-2020-0156	Staff Recommendation	CCN Case
Missouri-American Water Company	WR-2020-0344	Staff Recommendation	Rate Case
Missouri-American Water Company/City of Taos Sewer System	SA-2021-0120	Staff Recommendation	CCN Case

cont'd Courtney Horton

<b>Company Name</b>	<b>Case Number(s)</b>	<b>Testimony/Issues</b>	<b>Type of Case</b>
Missouri-American Water Company/Table Rock Estates Water System	WA-2021-0116	Staff Recommendation	CCN Case
Empire District Electric	ER-2021-0312	Staff Recommendation	Rate Case
Empire District Gas	GR-2021-0320	Staff Recommendation	Rate Case
Confluence/Missing Well, Shelton, Ozark, Prairie, Clemstone, Water & Sewer Systems	WA-2021-0425	Staff Recommendation	CCN Case
Missouri-American Water Company	WO-2022-0176	Staff Recommendation	WSIRA Case
Confluence Rivers Utility Operating Company/Deer Run Estates Sewer System	SA-2022-0299	Staff Recommendation	CCN Case
Argyle Estates Water Supply	WR-2022-0345	Staff Recommendation	Rate Case
Missouri-American Water Company/Monsees Lake Estates Subdivision Water & Sewer System	WA-2022-0229	Staff Recommendation	CCN Case
Missouri-American Water Company/Stewartsville Water & Sewer System	WA-2022-0311	Staff Recommendation	CCN Case
Missouri-American Water Company	WR-2022-0303	Staff Recommendation	Rate Case