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Sponsoring Party: Missouri Industrial Energy Consumers
Case No.: WR-2017-0285
Date Testimony Prepared: February 9, 2018

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Service Commission

**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-2017-0285

Surrebuttal Testimony of

Greg R. Meyer

On behalf of

Missouri Industrial Energy Consumers

February 9, 2018



BRUBAKER & ASSOCIATES, INC.

Project 10440

Exhibit No. 502
Date 3/8/18 Reporter *WR*
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STATE OF MISSOURI)
COUNTY OF ST. LOUIS)

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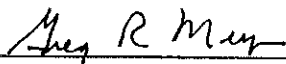
Affidavit of Greg R. Meyer

Greg R. Meyer, being first duly sworn, on his oath states:

1. My name is Greg R. Meyer. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by Missouri Industrial Energy Consumers in this proceeding on their behalf.

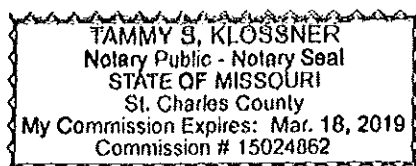
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. WR-2017-0285.

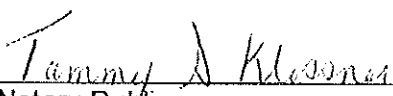
3. I hereby swear and affirm that the testimony is true and correct and that it shows the matters and things that it purports to show.



Greg R. Meyer

Subscribed and sworn to before me this 8th of February, 2018.





Notary Public

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)	Case No. WR-2017-0285
Water and Sewer Service Provided in)	
Missouri Service Areas)	

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**BEFORE THE PUBLIC SERVICE COMMISSION
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Missouri Service Areas**

Case No. WR-2017-0285

Surrebuttal Testimony of Greg R. Meyer

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Greg R. Meyer. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q ARE YOU THE SAME GREG R. MEYER WHO PREVIOUSLY FILED TESTIMONY**
5 **IN THIS CASE?**

6 A Yes. On November 30, 2017, I filed direct testimony on behalf of the Missouri
7 Industrial Energy Consumers ("MIEC") regarding Missouri-American Water
8 Company's ("MAWC" or "Company") revenue requirement. And, on January 24,
9 2018, I filed rebuttal testimony on cost of service / rate design issues.

10 **Q ON WHOSE BEHALF ARE YOU SPONSORING THIS TESTIMONY?**

11 A I am filing this surrebuttal testimony on behalf of MIEC.

12 **Q WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

13 A The purpose of my surrebuttal testimony is to respond to the MAWC rebuttal
14 testimonies concerning the issues of maintenance expense, employee levels, water
15 loss, ISRS future test year and tax reform. The fact that I do not address a particular

**Greg R. Meyer
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1 position or assumption of any witness in this proceeding should not be construed as
2 agreement with that position or assumption.

3 **Maintenance Expense**

4 Q DID MAWC WITNESS WILLIAM ANDREW CLARKSON FILE REBUTTAL
5 TESTIMONY CHALLENGING YOUR ADJUSTMENT TO MAINTENANCE
6 EXPENSE?

7 A Yes.

8 Q DO YOU STILL SUPPORT THE ADJUSTMENT TO MAINTENANCE EXPENSE
9 YOU PROPOSED IN YOUR DIRECT TESTIMONY?

10 A Yes.

11 Q ON PAGE 9 OF MR. CLARKSON'S REBUTTAL TESTIMONY, HE ASSERTS THAT
12 YOU ARE CUTTING MAWC'S MAINTENANCE EXPENSE. DO YOU AGREE WITH
13 MR. CLARKSON?

14 A No, I do not. I am proposing a level of annual maintenance expense (\$9,286,088)
15 that is higher than any amount of maintenance expense that MAWC has experienced
16 dating back to calendar year 2012. My adjustment is a reduction to the \$12.6 million
17 level of maintenance expense that MAWC claims it will spend in the future, during the
18 12 months ending May 31, 2019.

1 Q HAVE YOU PREPARED A TABLE WHICH SHOWS YOUR PROPOSED LEVEL OF
2 MAINTENANCE EXPENSE COMPARED TO THE HISTORICAL LEVELS
3 INCURRED BY MAWC?

4 A Yes. I have prepared Table 1 to show how the historical levels of maintenance
5 expense would compare to my proposed level of maintenance expenses.

<u>Year</u>	<u>Actual Maintenance Expense</u>	<u>Proposed Level of Maintenance</u>	<u>Difference</u>
2012	\$12,628,150	\$9,286,068	(\$3,342,062)
2013	\$ 9,094,897	\$9,286,088	\$ 191,191
2014	\$ 9,124,403	\$9,286,088	\$ 161,685
2015	\$ 7,272,878	\$9,286,088	\$2,013,210
2016	\$ 8,310,112	\$9,286,088	\$ 975,976

6 As can be seen from Table 1, above, my proposed maintenance expense
7 would surpass the actual amount incurred in 4 of the last 5 years. Notably, in 2015
8 my adjustment was greater than actual expenses by approximately \$2 million, and in
9 2016 my adjustment is approximately \$1 million more than actual expenses. It should
10 also be noted that I believe the 2017 expense level is also less than my proposed
11 level of maintenance expense.

12 Q WHAT INFORMATION DO YOU HAVE REGARDING THE CURRENT LEVEL OF
13 MAINTENANCE EXPENSE?

14 A In response to MPSC Data Request 0208, MAWC provided historical maintenance
15 levels. However, that data request has not been updated to reflect 2017 totals.

Greg R. Meyer
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1 In response to MPSC Data Request 0231, the total operation expenses of
2 MAWC have only slightly changed from \$125.3 million in 2016 to \$125.4 million in
3 2017. Thus, I do not believe the 2017 level of maintenance expense will be greater
4 than the 2016 level.

5 **Q DO YOU HAVE ANY OTHER INFORMATION TO DEMONSTRATE THAT 2017**
6 **MAINTENANCE EXPENSES HAVE NOT SIGNIFICANTLY INCREASED?**

7 A Yes. In response to MPSC Data Request 0216, MAWC provided actual and
8 budgeted maintenance expenses for 2016 and September 2017 year to date ("YTD")
9 totals. I have prepared Table 2 which shows the actual and budgeted costs for these
10 periods.

<u>Year</u>	<u>Actual</u>	<u>Budgeted</u>	<u>Difference</u>
2016	\$8,310	\$8,851	(\$541)
September 2017	\$5,226	\$5,829	(\$603)

11 As can be seen from the above table, the level of 2017 maintenance
12 expenses will most likely not exceed the annual level experienced in 2016, and
13 certainly is unlikely to exceed the level I am proposing. MAWC would have to incur
14 an additional \$4 million of maintenance expense during the last three months of 2017
15 to achieve the level I am proposing (\$9,286 thousand less \$5,226 thousand). This
16 additional maintenance expense is 78% of the level MAWC achieved through the first
17 nine months of 2017 (\$4,060 thousand ÷ \$5,226 thousand). Furthermore, the actual
18 level of expenses for both 2016 and September year to date 2017 are below the
19 budgeted levels proposed by MAWC. The comparisons of maintenance expense

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1 levels I have provided in Tables 1 and 2 highlight the unreasonableness of MAWC's
2 proposal.

3 **Q IN HIS REBUTTAL TESTIMONY, DID MR. CLARKSON OFFER ANY UPDATED**
4 **INFORMATION REGARDING THE 2017 LEVEL OF MAINTENANCE EXPENSE?**

5 A No, to date, this information has not been provided. However, based on my analysis
6 of the information available, I am reasonably sure that if MPSC Data Request 0208
7 was updated for 2017, it would show an insignificant difference compared to the 2016
8 maintenance expense level.

9 **Q IF MR. CLARKSON DOES NOT DISCUSS THE ACTUAL LEVEL OF 2017**
10 **MAINTENANCE EXPENSE TO SUPPORT HIS ARGUMENT THAT YOUR**
11 **ADJUSTMENT IS UNJUSTIFIED, THEN WHAT INFORMATION DOES MR.**
12 **CLARKSON RELY ON TO SUPPORT HIS ADJUSTMENT?**

13 A Mr. Clarkson supports his adjustment with several arguments about future plans to
14 increase maintenance activities, including hydrants and valve inspections. However,
15 Mr. Clarkson fails to address the increased maintenance expense that I have
16 proposed, which is significantly higher than recent historical levels, approximately \$1
17 million above the actual 2016 level and approximately \$2 million above the actual
18 2015 level. He merely tries to convince the Commission that these projected
19 increases in maintenance activities should justify his proposal. However, Mr.
20 Clarkson's proposal would result in a 73% increase above the actual level incurred in
21 2015, a 52% increase above the actual level incurred in 2016, and a 36% increase
22 above the my proposed level.

1 Q PLEASE SUMMARIZE YOUR POSITION.

2 A I have seen nothing in Mr. Clarkson's testimony that would convince me to change
3 my adjustment. Mr. Clarkson tries to justify his increased maintenance expenses by
4 claiming potential future increases in maintenance activities. However, I am confident
5 that the increased spending has not materialized in 2017. Mr. Clarkson's level of
6 maintenance expense favorably compares to only the highest level of maintenance
7 expense incurred by MAWC dating back to 2010. Establishing rates based on the
8 highest level of historical maintenance expenses over a seven-year period is not
9 sound regulatory practice.

10 **Employee Level Adjustment**

11 Q HAVE YOU READ THE REBUTTAL TESTIMONY OF MAWC WITNESS
12 CLARKSON AS IT PERTAINS TO EMPLOYEE LEVELS?

13 A Yes, I have.

14 Q IN HIS REBUTTAL TESTIMONY MR. CLARKSON STATES THAT MAWC HAS 694
15 FULL TIME EQUIVALENTS ("FTE") AS OF DECEMBER 31, 2017. PLEASE
16 COMMENT.

17 A MAWC has operated with less than 694 FTEs dating back to September 2013. The
18 694 FTEs are the highest monthly level of employees for the last 51 months.

19 Q DID MR. CLARKSON PRESENT ANY REASONS WHY THIS LEVEL OF FTE'S IS
20 NEEDED?

21 A In his rebuttal testimony of January 17, 2018 on pages 13-14, Mr. Clarkson has the
22 following two statements regarding the need for such a high level of FTEs.

1 "For example, as I mentioned in my direct testimony, following the loss
2 of ISRS early in 2016, the Company decided that it would keep the
3 employee complement existing at that time but not fill open positions
4 arising throughout the year as a result of attrition.

5 * * *

6 This includes resources necessary to support the Company's
7 infrastructure replacement program and enhanced preventative
8 maintenance program, both of which are in the long-term interests of
9 our customers."

10 From the above statements, it is obvious that with the temporary loss of MAWC's
11 ISRS capability, the Company reduced its workforce. However, now that ISRS is
12 again available to MAWC, the Company's FTEs have reached a 51-month high level.

13 **Q DOES THAT LEVEL OF MAWC FTE'S AND THE REASON FOR THAT**
14 **INCREASED LEVEL PRESENT ANY CONCERNS?**

15 **A** Yes. If the level of FTEs that are currently employed at MAWC are going to be
16 reflected in the cost of service, then the O&M/Capitalization percentages applied to
17 labor and benefits must be adjusted.

18 **Q IN MAWC WITNESS NIKOLE L. BOWEN'S REBUTTAL TESTIMONY SHE**
19 **DISCUSSES THE O&M/CAPITALIZATION PERCENTAGES TO USE IN THE COST**
20 **OF SERVICE. PLEASE COMMENT ON THAT TESTIMONY.**

21 **A** MAWC witness Bowen discussed the O&M/Capitalization percentages for various
22 time periods in her rebuttal testimony. I have prepared Table 3 which shows the
23 O&M/Capitalization percentages at different time periods.

TABLE 3		
<u>O&M/Capitalization Percentages</u>		
<u>Period 12 Months Ended</u>	<u>O&M Percentages</u>	<u>Capitalization Percentages</u>
December 31, 2016	57.7%	42.3%
June 30, 2017	57.86%	42.14%
December 31, 2017	56.53%	43.47%

1 In her rebuttal testimony, Ms. Bowen proposes that the Staff should use the
2 12 months ended December 31, 2017 O&M/Capitalization percentages for purposes
3 of the true-up.

4 **Q DO YOU AGREE THAT THE DECEMBER 31, 2017 O&M/CAPITALIZATION**
5 **PERCENTAGES SHOULD BE REFLECTED IN COST OF SERVICE?**

6 **A No, I do not. I believe the December 31, 2017 O&M/Capitalization percentages**
7 **should change to reflect the effects of the new increase in FTEs to the level at**
8 **December 31, 2017.**

9 As I showed previously, MAWC witness Clarkson claims that the increase in
10 FTEs to 694 was directly related to the reinstatement of employees to address ISRS
11 infrastructure. If this is indeed the situation, the historic measures of the
12 O&M/Capitalization percentages will not be accurate or appropriate for the annual
13 level of payroll built into cost of service which supports 694 FTEs.

14 Since June 2017, MAWC has added 35 FTEs. If these FTEs are the result of
15 resuming increased ISRS activity, then the actual O&M/Capitalization percentages
16 are not accurate and the percentage of labor and benefits charged to Capitalization is
17 understated.

1 Therefore, I propose that the December 31, 2017 O&M/Capitalization
2 percentage must be adjusted to decrease the O&M percentage and increase the
3 capitalization percentage labor and benefits to more accurately reflect the ongoing
4 operations of the MAWC employees.

5 **Water Loss Percentage**

6 **Q WHAT MAWC WITNESSES FILED REBUTTAL TESTIMONY ADDRESSING**
7 **WATER LOSS PERCENTAGES?**

8 **A MAWC witnesses Clarkson and Bruce W. Aiton filed rebuttal testimony concerning**
9 **water loss.**

10 **Q HAVE YOU READ THESE TESTIMONIES AND COULD YOU PLEASE**
11 **COMMENT?**

12 **A Yes. Both Mr. Clarkson's and Mr. Aiton's rebuttal testimonies focus on my**
13 **recommendation that MAWC should document why the water loss percentages are**
14 **so high in the St. Louis County service area and whether the ISRS should be**
15 **discontinued until an adequate justification is provided. I will discuss the specific**
16 **water loss problem in St. Louis County in the next section of my surrebuttal testimony.**

17 However, neither witness specifically discusses my adjustment to the cost of
18 service to normalize the water loss percentage, nor dispute my findings. I continue to
19 support a reduction in the water loss percentage to annualize chemicals and
20 purchased power costs.

1 Q PLEASE BRIEFLY SUMMARIZE YOUR WATER LOSS PERCENTAGE
2 ADJUSTMENT.

3 A I have proposed to include a ten-year average of water losses in calculating MAWC's
4 cost of service. The water loss percentage has increased significantly since 2012. I
5 have included the same table I prepared for my direct testimony.

<u>District Water Loss Percentage</u>		
<u>District</u>	<u>Ten-Year Average Water Loss Percentage</u>	<u>MAWC Water Loss Percentage</u>
St. Louis	21.21%	23.70%
St. Charles	7.14%	23.70%
Mexico	17.71%	23.70%
Jefferson City	20.96%	23.70%
St. Joseph	16.34%	17.14%
Brunswick	21.25%	17.14%
Parkville	12.16%	17.14%
Joplin	18.83%	21.65%
Warrensburg	<u>14.47%</u>	<u>21.65%</u>
Total System	19.85%	22.86%

Sources: MAWC responses to Staff Data Requests 35 and 35.1, and MAWC Expense Workpapers.

6 These water loss percentages, as discussed in my direct testimony, were
7 used to annualize chemicals and electricity costs.

1 **Infrastructure System Replacement Surcharge (“ISRS”)**

2 Q WHICH MAWC WITNESS ADDRESSES YOUR CONCERN REGARDING THE
3 SIGNIFICANT WATER LOSS PERCENTAGES IN ST. LOUIS COUNTY AND THE
4 APPLICABILITY OF THE ISRS FOR THAT SPECIFIC AREA?

5 A As I previously stated, MAWC witnesses Aiton and Clarkson filed rebuttal testimony
6 concerning this issue.

7 Q IN THEIR REBUTTAL TESTIMONIES BOTH MR. AITON AND MR. CLARKSON DO
8 NOT ACCEPT YOUR RECOMMENDATION TO REQUIRE MAWC TO DOCUMENT
9 WHY THE WATER LOSS PERCENTAGES HAVE INCREASED SINCE 2012 WITH
10 THE ISRS RATE MECHANISM IN EFFECT IS APPROPRIATE. PLEASE
11 COMMENT.

12 A I find both of their responses very disturbing. The ISRS is a special regulatory
13 mechanism to allow surcharges in between rate cases (single-issue ratemaking) to
14 replace water mains to reduce the loss of water in the MAWC (St. Louis County)
15 system.

16 There is no argument that the water loss percentage in St. Louis County has
17 increased since 2012. The ISRS was originally implemented to address the concern
18 over large water losses in the St. Louis County service area. To now suggest that
19 customers should not be concerned about the continued increase in water losses
20 while paying higher rates in between rate cases for additional ISRS investment is
21 troublesome.

22 To suggest that customers should not be provided information about the
23 progress being made to address water losses in the St. Louis County water system,
24 as funded by these surcharges, is simply absurd. It is almost as if MAWC is saying,

1 "Keep paying those ISRS rates, but do not question whether your money is really
2 helping us make progress."

3 **Q MR. CLARKSON ACCUSES YOU OF WANTING TO HAVE IT BOTH WAYS BY**
4 **CRITICIZING THE INCREASED WATER LOSS PERCENTAGE WHILE**
5 **RECOMMENDING THAT THE COMMISSION DENY THE ISRS. DO YOU AGREE**
6 **WITH HIS STATEMENT?**

7 **A** No, I do not. I believe Mr. Clarkson is mischaracterizing my argument. In my direct
8 testimony, I determined that the service area with the largest water losses was St.
9 Louis County where an ISRS mechanism is in effect. Given the purposes of the ISRS
10 as I previously explained, I suggested that the Commission should discontinue the
11 ISRS until an adequate explanation has been presented why the ISRS should remain
12 in effect.

13 **Q DO YOU BELIEVE YOU HAVE BEEN GIVEN AN ADEQUATE EXPLANATION?**

14 **A** No. I will discuss some of the arguments that Mr. Clarkson and Mr. Aiton discuss.

15 **Q MR. CLARKSON STATES THAT THE INFRASTRUCTURE LEAKAGE INDEX**
16 **("ILI") IS A PERFORMANCE INDICATOR OF REAL (PHYSICAL) WATER LOSS**
17 **FROM WATER DISTRIBUTION SYSTEMS. HAVE YOU REVIEWED THE ILI**
18 **INDICATORS?**

19 **A** Yes, I have. I requested the ILI index for the main service areas of MAWC. I have
20 prepared Table 4, which compares those ILI indices for the Joplin, St. Joseph, and St.
21 Louis County service areas.

<u>Service Area</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Joplin	4.3	4.6	4.4	4.7	5.1	4.1
St. Joseph	3.1	3.5	3.3	3.3	3.3	3.7
St. Louis County	3.6	3.3	3.7	3.9	4.2	4.0

1 Mr. Clarkson explains that a rating under 2 has minimal leakage. A rating
2 under 4 denotes that the system has moderate leakage and there is potential to
3 improve leakage.

4 I have also included the table below which shows the water loss percentages
5 for the Joplin, St. Joseph and St. Louis County service areas.

<u>Service Area</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Joplin	17.7%	18.4%	19.4%	20.2%	19.9%
St. Joseph	15.5%	17.5%	17.9%	17.6%	17.4%
St. Louis County	19.2%	21.2%	23.8%	23.3%	25.0%

6 By comparing Tables 4 and 5, I found that Joplin has always had a higher ILI
7 rating, yet its percentage losses are significantly less than St. Louis County. St.
8 Joseph's ratings are slightly less than St. Louis County's, yet its losses are much less
9 than St. Louis County. The ILI ratings do not help to explain the significant water
10 losses in St. Louis County.

1 Q IN HIS REBUTTAL TESTIMONY, MR. AITON DISCUSSES CERTAIN THINGS
2 THAT NEED TO BE CONSIDERED TO MEASURE WATER LOSSES.
3 SPECIFICALLY, HE MENTIONS TYPE OF PIPE AND WEATHER. PLEASE
4 COMMENT.

5 A I have compared the distribution of the age and the associated number of breaks of
6 iron pipes between the St. Louis County and St. Joseph districts. The tables below
7 compare the St. Louis County and St. Joseph cast iron pipes by decade of
8 placement.

<u>Decade</u>	<u>Miles Installed</u>	<u>Breaks</u>	<u>Breaks Per Mile</u>
1900-1909	13	28	2.2
1910-1919	33	112	3.4
1920-1929	199	887	4.5
1930-1939	125	1,259	10.1
1940-1949	178	1,758	9.9
1950-1959	657	4,838	7.4
1960-1969	721	1,819	3
1970-1979	212	1,135	5
1980-1989	11	86	8
1990-1999	9	95	11

<u>Decade</u>	<u>Miles Installed</u>	<u>Breaks</u>	<u>Breaks Per Mile</u>
1800-1889	23	68	3
1890-1899	16	150	9
1900-1909	35	128	4
1910-1919	23	63	3
1920-1929	17	92	5
1930-1939	14	175	13
1940-1949	9	60	7
1950-1959	17	258	15
1960-1969	21	212	10
1970-1979	4	57	13
1980-1989	3	20	8
1990-1999	2	12	5

1 As these tables show, the breaks per mile track closely between the two
2 service areas, even though St. Joseph has older cast iron pipe in service than St.
3 Louis County. However, St. Joseph's water loss percentage is much lower than St.
4 Louis County's (Table 5).

5 Regarding weather, I don't believe this should come as great surprise, but St.
6 Joseph is usually colder in the winter and cooler in the summer than St. Louis
7 County. The colder winters should cause greater main breaks, yet St. Joseph's
8 losses are less than St. Louis County's.

9 **Q PLEASE SUMMARIZE YOUR POSITION.**

10 **A** I am very disappointed in the level of concern the Company appears to have
11 regarding this issue and I am troubled by their response to my direct testimony. If a

1 utility has a special regulatory mechanism like an ISRS, there should be an obligation
2 to show how those surcharges have benefitted customers.

3 I am also not convinced that MAWC has adequately documented why St.
4 Louis County has a higher loss water percentage than other service areas. The
5 examples provided by MAWC do not correlate when compared with data from other
6 service areas. I am still concerned about the effectiveness of the ISRS for St. Louis
7 County and stand by my direct testimony regarding its continuance.

8 **Future Test Year**

9 **Q HAVE YOU READ THE REBUTTAL TESTIMONY OF MAWC WITNESS JAMES M.**
10 **JENKINS REGARDING THE FUTURE TEST YEAR PROPOSED BY MAWC?**

11 **A** Yes.

12 **Q ON PAGES 11-12 OF MR. JENKINS' REBUTTAL TESTIMONY, HE ASSERTS**
13 **THAT THE COMPANY IS COMPLIANT WITH THE COMMISSION'S ORDER**
14 **REGARDING TEST YEAR OF AUGUST 9, 2017. DO YOU AGREE MAWC IS**
15 **COMPLIANT WITH THAT COMMISSION ORDER?**

16 **A** No, I do not. I have included that section of the Commission Order below:

17 THE COMMISSION ORDERS THAT:

- 18 1. The parties shall use a test year of the 12 months ending
19 December 2016, with an update period of the six months ending
20 June 2017, and a true-up period of the six months ending
21 December 2017.
- 22 2. All parties shall use actual historic financial data for Missouri-
23 American Water Company to present their positions based upon
24 the periods set in Ordered Paragraph 1.
- 25 3. Parties may present further adjustments for the Commission's
26 consideration based upon projected or forecasted data past
27 December 2017. No party shall be precluded from opposing such
28 adjustments.

1 Mr. Jenkins is ignoring the progression of the different steps in the
2 Commission Order. The first paragraph lists out the different measurement dates for
3 this rate case; test year-December 2016, updated period-June 2017; and
4 true-up-December 2017. Next, Paragraph 2 says that all parties will use historical
5 financial data to present their positions in conjunction with the periods just identified.
6 Finally, the Commission Order says that parties may present adjustments beyond
7 December 2017. However, those adjustments must be based on the true-up data.
8 Currently, MAWC's forecasted adjustments are not in compliance with the
9 Commission Order.

10 Furthermore, the Staff filed suggestions to allow parties to present discrete
11 revenue, expense, and rate base adjustments based on projected or forecasted data
12 for the period after December 31, 2017. The Commission concluded that Staff's
13 suggestions would allow the parties to thoroughly present their positions, while not
14 adversely impacting the case procedurally.

15 These discrete adjustments must be made to the December 31, 2017 data in
16 order for the Commission to determine the value of the issues. MAWC's use of test
17 year results (December 2016) means that the issues cannot be accurately reconciled.

1 Q MR. JENKINS SUGGESTS THAT THE RATEMAKING PROCESS IS TO
2 DETERMINE THE EXPENSE REVENUE AND INVESTMENT THAT WILL BE IN
3 EFFECT DURING THE YEAR RATES ARE IN EFFECT. IN ADDITION, HE
4 ASSERTS THAT THE HISTORICAL TEST YEAR CANNOT SHOW WITH
5 CERTAINTY THAT THOSE LEVELS OF EXPENSES OR EMPLOYEES WILL BE
6 HIGHER OR LOWER. PLEASE COMMENT.

7 A As Mr. Jenkins is aware, the historical test year (including update period, or true-up)
8 is used to establish the proper **relationship** between revenues, expenses and rate
9 base. It is not meant to establish the actual level of each component that regulators
10 believe will be in effect the year rates are in effect. I am not suggesting that specific
11 components that are derived for that relationship, such as payroll, will not change.

12 Q MR. JENKINS, AT PAGE 14 OF HIS REBUTTAL TESTIMONY, DISCUSSES THE
13 USE OF A 13-MONTH AVERAGE RATE BASE. DO YOU AGREE WITH HIS
14 COMMENTS?

15 A No, I do not. Mr. Jenkins misses the point of my argument. I am not criticizing the
16 use of a 13-month rate base methodology. I am arguing that the use of a future
17 13-month rate base will require MAWC customers to pay for plant additions that will
18 not be in service prior to the effective date of rates from this rate case. I am not aware
19 of any time that the Commission has allowed a utility to earn a return on and of an
20 investment that was not serving customers at the time a rate increase is put into
21 effect.

1 Q MR. JENKINS, ON PAGE 17 OF HIS DIRECT TESTIMONY, TRIES TO REFUTE
2 THE ARGUMENT THAT MAWC'S FUTURE TEST YEAR EXPENSES ARE
3 CONSIDERABLY HIGHER THAN THE PERIOD OF 2010-2016. DO YOU AGREE
4 THAT COMPARISON IS UNWARRANTED?

5 A No. This is exactly one of the main problems with future test years. Historical costs
6 are low and future costs are predicted to be higher. The incentives to inflate future
7 expenses is obvious and no mechanism exists to look-back, or true-up, these
8 expenses in the future. Historical cost analysis cannot be ignored and has been the
9 basis for setting rates in Missouri for decades.

10 Q PLEASE SUMMARIZE YOUR POSITION.

11 A Historical test years have worked and continue to work for setting rates in Missouri.
12 The Commission's use of the known and measurable standard has provided
13 assurance that Missouri customers are paying just and reasonable rates. Future test
14 years are projections of expenses, revenues, and rate base, and provide an incentive
15 for utilities to forecast greater levels of spending. Finally, a future test year would
16 require customers to pay for investments that are not in service at the time rates are
17 established. MAWC has operated, and can continue to operate, without a future test
18 year.

1 **Tax Cut and Jobs Act of 2017 ("TCJA")**

2 Q IN HIS REBUTTAL TESTIMONY, MR. JENKINS DISCUSSES THE IMPACTS
3 FROM THE TCJA. MR. JENKINS PROPOSES TWO ACCOUNTING AUTHORITY
4 ORDERS ("AAO") FOR SOME OF THE IMPACTS OF THE TCJA. DO YOU
5 AGREE WITH MAWC'S PROPOSED TREATMENT OF INCOME TAXES?

6 A I agree that the effects on current income taxes from the change in the federal
7 income tax rate from 35% to 21% should be reflected in current rates.

8 I propose that the differences in the TCJA from January 1, 2018 until new
9 rates are changed in this rate case should be captured in an AAO and addressed in
10 MAWC's next rate case. The proposal I am recommending would include the effects
11 on current income taxes payable as well as the amortization of excess Accumulated
12 Deferred Income Taxes ("ADIT").

13 Q PLEASE DESCRIBE THE ADIT AND WHAT EFFECT THE TCJA WILL HAVE ON
14 THIS BALANCE.

15 A Deferred income taxes arise when there is a difference between deductions that can
16 be claimed for tax purposes (tax) and financial (book) purposes. For example, a
17 major contributor to the ADIT balance is the availability of accelerated tax
18 depreciation. The IRS has allowed utilities to claim accelerated depreciation as a
19 deduction to net income for tax purposes. The depreciation resulting from
20 Commission authorized rates, not accelerated depreciation, is used for financial
21 (book) purposes. Thus, the levels of tax depreciation is greater than book
22 depreciation.

23 The IRS allowed this to create an incentive for utilities to continue to invest
24 capital in their operations. In order to accomplish this goal, the IRS requires utilities

1 to normalize the difference between tax depreciation and book depreciation. For
2 example, if tax depreciation was \$50 million and book depreciation was \$25 million,
3 deferred taxes would be calculated on the \$25 million difference.

4 These deferred taxes are provided by customers and represent a payment of
5 income taxes, in advance, that will be owed to the Federal government at some point
6 in the future. Since customers paid these taxes in advance, the deferred taxes are
7 treated as an offset to rate base.

8 Prior to the TCJA, utilities were deferring this difference at a 35% federal tax
9 rate. However, after enactment of the TCJA, the effective federal tax rate is now
10 21%. This means that when those taxes are paid to the Federal government, at
11 some point in the future, the taxes will be paid at the lower 21% federal tax rate.
12 Thus, there needs to be a mechanism to return those excess deferred taxes that
13 were collected from customers at 35%, but will be paid at the lower 21%.

14 **Q TO REFLECT THE PROPER RATEMAKING TREATMENT OF THE ADIT, DO YOU**
15 **NEED TO HAVE MORE INFORMATION ABOUT THE ADIT BALANCE?**

16 **A** Yes. As MAWC witness Mr. John R. Wilde states in this testimony, the ADIT balance
17 must be broken down between the protected balance which is amortized according to
18 the Average Rate Assumption Method ("ARAM") and the unprotected balance which
19 may be amortized over a shorter period of time. Thus, MAWC should provide its best
20 estimate of this breakdown.

21 In addition, the unprotected balance needs a Commission established
22 amortization period. I would propose a ten-year amortization period for the
23 unprotected ADIT balance. Ten years is a reasonable time to return customers'
24 prepayments of those excess deferred taxes.

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1 Q HOW DO YOU PROPOSE THAT THE FLOWBACK OF THE EXCESS ADIT FROM
2 THE PROTECTED BALANCE BE TREATED FOR RATEMAKING?

3 A I propose that after the information is gathered for the ADIT balance that it be
4 amortized over the average remaining service lives of the investments that gave rise
5 to the deferred income taxes. I recognize that the annual flow back of these excess
6 deferred taxes may vary from year to year. Therefore, I propose that an excess ADIT
7 tracker be established to track the actual flow back of excess ADIT against the
8 balance included in MAWC's current rate case.

9 Q PLEASE SUMMARIZE YOUR POSITION ON HOW TO ADDRESS THE EFFECTS
10 FROM THE TCJA.

11 A I would recommend the following action be taken regarding the TCJA.

- 12 ➤ Reduce current income taxes to reflect the federal tax rate change from 35% to
13 21%.
- 14 ➤ Amortize the unprotected portion of the ADIT balance over ten years.
- 15 ➤ Amortize the protected portion of the excess ADIT balance using the ARAM
16 method based on MAWC's current best estimates. Establish an excess ADIT
17 tracker to track the difference between the amortization included in rates and the
18 actual amount of amortization.
- 19 ➤ Establish an AAO for the total effects of the TCJA from January 1, 2018 until new
20 rates are effective from this rate case. This AAO would be addressed in MAWC's
21 next rate case.

22 Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

23 A Yes, it does.