

Exhibit No.:  
Issue: Revenue Requirement  
Witness: Greg R. Meyer  
Type of Exhibit: Direct Testimony  
Sponsoring Party: MIEC  
Case No.: WR-2017-0285  
Date Testimony Prepared: November 30, 2017

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

FILED  
March 23, 2018  
Data Center  
Missouri Public  
Service Commission

\_\_\_\_\_  
)  
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

Direct Testimony of

**Greg R. Meyer**

On behalf of

**Missouri Industrial Energy Consumers**

November 30, 2017



BRUBAKER & ASSOCIATES, INC.

Project 10440

Exhibit No. 500  
Date 3/8/18 Reporter MM  
File No. WR-2017-0285







1 Q WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS  
2 PROCEEDING?

3 A The purpose of my testimony is to address various aspects of MAWC's rate case.  
4 Specifically, I am responding to the Company's request to use a future test year. I am  
5 also proposing adjustments to MAWC's level of expenses for payroll and related  
6 costs, electricity, chemicals, maintenance, and property taxes. Finally, I discuss the  
7 continued use of the Infrastructure System Replacement Surcharge ("ISRS").

8 The fact that I do not address any particular issue should not be interpreted as  
9 tacit approval of any position taken by MAWC.

#### 10 Revenue Requirement Summary

11 Q PLEASE SUMMARIZE THE REVENUE REQUIREMENT POSITIONS OFFERED BY  
12 MIEC WITNESSES IN THIS PROCEEDING.

13 A As summarized below in Table 1, MIEC witnesses have reduced MAWC's claimed  
14 water utility revenue deficiency of \$89 million, to not more than \$53 million.

Greg R. Meyer  
Page 2

<b>TABLE 1</b>		
<b><u>Revenue Requirement Adjustments - Water</u></b>		
<b><u>Description</u></b>	<b><u>Amount (\$Millions)</u></b>	<b><u>MIEC Witness</u></b>
MAWC's Claimed Deficiency - Water	\$89.0	
<b><u>Adjustments - Water:</u></b>		
Return on Equity at 9.00%	\$19.8	Gorman
<b><u>Expenses:</u></b>		
Water Loss Percentage	\$1.0	Meyer
Employee Levels Payroll	\$2.9	Meyer
Maintenance Expense	\$3.3	Meyer
Property Taxes	<u>\$9.4</u>	Meyer
Total Adjustments	\$36.4	
<b>Adjusted Revenue Deficiency - Water</b>	<b>\$52.6</b>	

1           The above adjustments are discussed in testimony sponsored by the following MIEC  
2           witnesses: Michael P. Gorman and Greg R. Meyer. Mr. Gorman is participating in  
3           this case on behalf of both the MIEC and the Missouri Office of Public Counsel.

4           In addition to the adjustments to revenue requirement, MIEC witnesses  
5           Jessica York and Brian Collins are providing testimony regarding class cost of service  
6           and rate design, respectively. Mr. Collins will also address the continued use of water  
7           district specific pricing.

Greg R. Meyer  
Page 3

1 **Future Test Year**

2 Q IS MAWC PROPOSING A FUTURE TEST YEAR FOR DETERMINING ITS  
3 REVENUE REQUIREMENT IN THIS RATE CASE?

4 A Yes. MAWC proposes to include costs incurred through May 31, 2019 to calculate its  
5 revenue requirement for this rate case.

6 Q HAS THE COMMISSION ADOPTED A TRUE-UP PERIOD FOR THIS RATE CASE?

7 A Yes. On September 6, 2017, the Commission adopted an Order Scheduling  
8 Evidentiary Hearings and Setting Procedural Schedule. Within that Order on page 7,  
9 the Commission stated the following:

10 "The true-up process and hearing shall be for the sole purpose of  
11 updating various known and measurable cost of service components  
12 to December 31, 2017. This will be accomplished by making specific  
13 (discreet) adjustments to the June 30, 2017 known and measurable  
14 revenue requirement calculation."

15 Q PLEASE DESCRIBE MAWC'S FUTURE TEST YEAR PROPOSAL.

16 A On June 30, 2017, MAWC filed a Motion to Establish Future Test Year with the  
17 Commission. In that motion, on page 5, MAWC provided the following:

18 "The extrapolation process through the future test year includes a  
19 forecast of revenue, and expenses. **Expenses are adjusted for**  
20 **changes to categories of expenses where they can be forecasted.**  
21 **For other expenses, an inflation factor is used to adjust costs for**  
22 **the future period. The Company's future test year also employs a**  
23 **13-month average of planned changes to rate base.** The forecast  
24 is composed of both specific projects that are scheduled to be in  
25 service during the future test year and projected levels of other activity  
26 such as main and service replacements, meter replacements and  
27 similar such project groupings. Further, the Company is using a  
28 13-month average of rate base additions for the future test year rate  
29 base. The use of this convention means that, if plant was added in  
30 equal increments in every month, only approximately one-half of the  
31 ending plant balance would be in rate base. For large projects, MAWC

1 has added the plant to rate base on the projected in-service date of the  
2 additions." [Emphasis added.]

3 **Q DOES MAWC'S PROPOSED FUTURE TEST YEAR COMPLY WITH THE**  
4 **COMMISSION'S DIRECTIVE FOR THE TRUE-UP PERIOD?**

5 A No. MAWC has not proposed discreet adjustments to the June 30, 2017 known and  
6 measurable revenue requirement. MAWC's future test year proposal is a "wholesale"  
7 departure from the known and measurable revenues, expenses and rate base that  
8 will be measured at the true-up period of December 31, 2017.

9 **Q IS MAWC'S FUTURE TEST YEAR MORE AGGRESSIVE THAN THE**  
10 **TRADITIONAL TRUE-UP PROCESS THAT THIS COMMISSION HAS ACCEPTED**  
11 **HISTORICALLY?**

12 A Yes. The true-up process does not completely update all aspects of the revenue  
13 requirement to a more recent period of time. The true-up process is supposed to  
14 update those cost components that have changed as a result of additional information  
15 becoming available later in the rate case timeline. The true-up process however does  
16 not suggest that the entire test year totals are updated to a new 12-month period in  
17 the future. The true-up process allows for discreet adjustments to the costs reflecting  
18 test year or updated test year operations.





1 Q DOES MAWC'S PROPOSED FUTURE TEST YEAR COMPLY WITH THE  
2 COMMISSION STAFF'S LONG-STANDING POLICY OF KNOWN AND  
3 MEASURABLE?

4 A No. The known and measurable standard requires that an event must have occurred  
5 or be known. In addition, that known event must be measurable with certainty. The  
6 true-up process does not contemplate the use of forecasts and inflation factors to  
7 determine costs.

8 Q CAN YOU PROVIDE AN EXAMPLE OF A KNOWN EVENT THAT CANNOT BE  
9 MEASURABLE?

10 A Yes. In this case, the true-up period ends December 31, 2017. If the next  
11 management wage increase was set to occur at June 30, 2018, that wage increase  
12 may be considered known with regard to the increase percentage and the date of  
13 occurrence. However, it is not measurable for purposes of this rate case because  
14 one would not know, with certainty, the number of employees to apply the wage  
15 increase to, nor the salary levels to apply the increase to due to employee churn.

16 Q ARE YOU AWARE OF ANY OTHER PROBLEMS THAT MAWC'S FUTURE TEST  
17 YEAR PRESENTS?

18 A Yes. As previously described, MAWC's future test year contains adjustments to  
19 include a 13-month average rate base ending May 31, 2019. Rates in the current  
20 case will go into effect sometime around May 31, 2018. Thus, under MAWC's future  
21 test year proposal, customers will be paying rates for investment that is not used and  
22 useful. It has been the long-standing policy of this Commission to only include in  
23 customer rates, investment that is used and useful. The Commission would have to

Greg R. Meyer  
Page 6

1 abandon this principle if it adopted MAWC's future test year. Furthermore, my  
2 testimony does not address the legal questions regarding whether rates in Missouri  
3 can include plant that is not in service.

4 **Q IN ITS MOTION TO ESTABLISH FUTURE TEST YEAR, DID MAWC PROVIDE A**  
5 **REASON WHY IT WAS REQUESTING A FUTURE TEST YEAR?**

6 **A** Yes. In its motion on page 1, MAWC stated the following:

7 "MAWC's rate base and expenses are increasing while revenues are  
8 declining as it moves forward in time. Therefore, the relationship  
9 between revenues, expenses and rate base that may exist in an  
10 historical test year will not exist in the first year rates will be in effect."

11 **Q IN REGARD TO EXPENSES, DO YOU HAVE ANY COMMENTS?**

12 **A** Yes. In MAWC's witness William Andrew Clarkson's direct testimony (page 5,  
13 lines 12-15) he states:

14 "Missouri-American has successfully controlled costs over the past  
15 several years. The Company's 2016 operating expenses were only  
16 one percent (1%) higher than 2010 operating expenses (exclusive of  
17 the additional O&M expense related to new acquisitions), and we are  
18 continuing our cost mitigation efforts."

19 **Q HAVE YOU PREPARED AN ILLUSTRATION OF THE OPERATION AND**  
20 **MAINTENANCE ("O&M") COSTS THAT MR. CLARKSON REFERS TO IN HIS**  
21 **TESTIMONY?**

22 **A** Yes. I have prepared Table 2 that shows the O&M costs referenced by Mr. Clarkson.

<b>TABLE 2</b>	
<b>MAWC's O&amp;M Expenses Excluding Acquisitions</b>	
<u>Year</u>	<u>Amount (\$/Millions)</u>
2010	\$120.2
2011	\$121.8
2012	\$130.1
2013	\$125.0
2014	\$123.6
2015	\$122.7
2016	\$121.4

Source: MAWC response to  
Staff Data Request  
0208 - Attachment 1.

1 Note the increase in spending from 2010 (\$120.2 million) to 2016 (\$121.4 million)  
2 represents a 1% increase in O&M costs.

3 **Q WHAT LEVEL OF O&M EXPENSE IS MAWC PROPOSING IN ITS FUTURE TEST**  
4 **YEAR?**

5 **A** MAWC is proposing \$133 million in O&M expense for the future test year. This  
6 amount includes O&M expenses for acquisitions that MAWC has executed since  
7 2011.

8 **Q HOW DOES THE PROPOSED \$133 MILLION IN O&M EXPENSES COMPARE**  
9 **WITH THE HISTORIC LEVELS OF O&M EXPENSE INCURRED BY MAWC?**

10 **A** I have prepared Table 3 that shows the historic level of O&M expenses for MAWC.  
11 The difference between Table 2 and Table 3 is that Table 3 also includes O&M  
12 expenses for systems acquired by MAWC.

<u>Year</u>	<u>Amount (\$/Millions)</u>
2010	\$120.2
2011	\$122.1
2012	\$131.1
2013	\$126.4
2014	\$125.5
2015	\$125.6
2016	\$125.3

Source: MAWC response to Staff Data Request 0208 - Attachment 1.

1 As can be seen from the above table, MAWC's requested \$133 million of O&M  
2 expenses for the future test year is significantly higher than past levels. Including  
3 acquisition-related O&M only added \$4 million to the 2016 expense level from Table 2  
4 to Table 3. Yet MAWC proposed an additional \$8 million above the 2016 total O&M  
5 to \$133 million. In one instance, MAWC boasts how it has limited O&M expenses to  
6 only a 1% increase over a seven-year period and will continue cost mitigation efforts,  
7 but then inflates the projected O&M expenses by \$8 million through May 2019. This  
8 is equivalent to an annual increase of 2.5%.

9 **Q ARE YOU AWARE OF ANY POTENTIAL EXPENSE SAVINGS THAT MAY OCCUR**  
10 **IN THE FUTURE TEST YEAR PERIOD PROPOSED BY MAWC?**

11 **A** Yes. Tax reform is currently being negotiated in Congress. If tax reform is instituted,  
12 it would significantly lower corporate tax rates. This should result in a decline in  
13 customer rates.

1 Q HOW WOULD TAX REFORM BE IMPLEMENTED IF A FUTURE TEST YEAR HAD  
2 ALREADY BEEN ADOPTED AS A RESULT OF THIS CASE?

3 A I do not know. I could foresee a situation wherein MAWC would argue that reflecting  
4 tax reform before the end of the future test year period would be inappropriate  
5 because the Commission had already established just and reasonable rates through  
6 May 31, 2019.

7 Q IN ITS REQUEST FOR A FUTURE TEST YEAR, MAWC STATES THAT IT IS  
8 SEEING A DECLINE IN REVENUES. HAVE YOU PERFORMED ANY ANALYSIS  
9 OF CURRENT REVENUES?

10 A Yes. I have calculated the annual water sales volumes for MAWC for the 12 months  
11 ending December 31, 2016, July 31, 2017 and September 30, 2017. Table 4 shows  
12 those results.

<b><u>12-Month Period Ending</u></b>	<b><u>Sales Volumes (1,000 Gallons)</u></b>
December 31, 2016	55,699,557
July 31, 2017	56,204,652
September 30, 2017	57,383,345

Sources: MAWC response to Staff Data Request  
0035.1 and Company Revenue Workpapers.

1 Q WHAT SALES VOLUMES HAS MAWC PROJECTED FOR ITS PROPOSED TEST  
2 YEAR?

3 A I have prepared Table 5, which shows the different sales volumes for MAWC's  
4 proposed future test year.

<b><u>12-Month Period Ending</u></b>	<b><u>Sales Volumes (1,000 Gallons)</u></b>
December 31, 2016 (Base Year) Normalized	55,985,134
May 31, 2018	55,348,520
May 31, 2019	55,122,757

Source: Company Revenue Workpapers.

5 As can be seen from Tables 4 and 5, MAWC is projecting a decline in the sale  
6 of water while it is actually selling more water than the actual sales volumes for the  
7 12 months ending December 31, 2016.

8 Q ISN'T ONE EXPLANATION FOR THIS SIGNIFICANT DIFFERENCE BETWEEN  
9 ACTUAL AND PROJECTED SALES, THE CONCEPT OF NORMALIZATION?

10 A Yes. I completely understand and accept the theory of normalizing water sales.  
11 However, I am merely trying to illustrate the increased risk associated with predicting  
12 future sales levels.

13 Actual sales volumes may change for many reasons and can affect earnings  
14 of the utility. Projecting declining sales volumes into the future for the 2019 test year  
15 when actual sales are increasing should cause concern for the Commission. Limiting  
16 the calculation of revenues to customer data from the test year true-up period will

Greg R. Meyer  
Page 11

1 decrease the uncertainty associated with variables that may affect revenues in the  
2 future.

3 **Q IF MAWC'S ASSUMPTION IS CORRECT REGARDING ITS INABILITY TO EARN**  
4 **ITS AUTHORIZED RATE OF RETURN DUE TO A CHANGE IN THE**  
5 **RELATIONSHIP BETWEEN REVENUES, EXPENSES AND RATE BASE WHILE**  
6 **RATES FROM THIS CASE ARE IN EFFECT AND BEYOND, WHAT REMEDY DO**  
7 **YOU BELIEVE WOULD BE APPROPRIATE?**

8 **A** If MAWC determines that it is not earning an appropriate rate of return, it is free to file  
9 a rate case at any time.

10 **Q WHAT IS YOUR RESPONSE TO THE COST OF FREQUENT RATE CASES?**

11 **A** I know this argument has been presented to both the Commission and the  
12 Legislature. However, the cost of a rate case compared to the total O&M expenses  
13 of a utility is miniscule. Furthermore, a rate case will address all of the operations of  
14 the utility at a specific point in time based on known and measurable costs and  
15 investments that are providing service to customers. The use of future test years,  
16 however, relies on many assumptions that are not known and measurable.

17 **Q PLEASE SUMMARIZE YOUR POSITION REGARDING MAWC'S PROPOSED**  
18 **FUTURE TEST YEAR.**

19 **A** I am proposing that the Commission reject MAWC's proposed future test year.  
20 MAWC has not provided compelling arguments to persuade the Commission to  
21 change the way it has traditionally determined the cost of service in rate cases for  
22 MAWC and other utilities.

Greg R. Meyer  
Page 12



1 **Water Loss Percentage**

2 Q PLEASE EXPLAIN YOUR ADJUSTMENT FOR THE WATER LOSS  
3 PERCENTAGE.

4 A The water loss percentage reflects the difference between the amount of water  
5 leaving MAWC's treatment system ("system delivery") and the amount of customer  
6 usage ("metered usage") divided by system delivery. As a percent of system delivery,  
7 much of the difference between metered usage and system delivery is due to main  
8 leaks and breaks in the water distribution system. The average total system water  
9 loss percentage reflected in the Company's calculations for chemicals and electricity  
10 expense is 22.86%. This percentage is overstated and, as a result, the expense  
11 levels for chemicals and electricity included in the cost of service in this case are  
12 excessive.

13 Q HAVE YOU PREPARED AN ANALYSIS THAT DEMONSTRATES A 22.86%  
14 WATER LOSS PERCENTAGE IS EXCESSIVE?

15 A Yes. Below is Table 6, which shows the average annual water loss percentage for  
16 the MAWC system for 2007 through 2016. The table also reflects the 2017 average  
17 water loss percentage through September of 2017.<sup>1</sup>

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<sup>1</sup>Table 6 reflects the St. Louis, St. Joseph, Parkville, Warrensburg, Brunswick, St. Charles, Mexico, Joplin and Jefferson City service territories.

**TABLE 6**

**Total System Water Loss Percentage**

<u>Year</u>	<u>Metered Usage</u>	<u>System Delivery</u>	<u>Water Loss</u>	<u>Water Loss Percentage</u>
2007*	68,045,076	83,904,492	15,859,416	18.90%
2008*	60,462,915	74,914,001	14,451,086	19.29%
2009	58,144,902	71,593,699	13,448,797	18.78%
2010	60,275,866	74,270,470	13,994,604	18.84%
2011	60,491,987	74,353,589	13,861,602	18.64%
2012	64,738,705	79,124,148	14,385,443	18.18%
2013	57,923,363	72,465,107	14,541,744	20.07%
2014	56,548,716	72,569,804	16,021,088	22.08%
2015	55,289,166	70,226,045	14,936,879	21.27%
2016	<u>55,353,866</u>	<u>71,808,109</u>	<u>16,454,243</u>	<u>22.91%</u>
Cumulative	597,274,562	745,229,464	147,954,902	19.85%
Sep 2017 YTD	43,194,070	57,421,050	14,226,980	24.78%

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

\*2007 and 2008 results in the Joplin territory were adjusted for data abnormalities.

1           As Table 6 shows, for the ten-year average ending 2016, the water loss  
 2           percentage was 19.85%. While the 2016 water loss percentage of 22.91% was very  
 3           close to the 22.86% reflected in the Company's calculations, as recently as 2012 it  
 4           was significantly less, 18.18%.

1 Q HAVE YOU ALSO COMPARED THE HISTORICAL AVERAGE WATER LOSS  
2 PERCENTAGE TO THE PERCENTAGE REFLECTED IN MAWC'S  
3 CALCULATIONS, ON A DISTRICT BASIS?

4 A Yes. Table 7 below shows the ten-year average ending 2016 for water loss  
5 percentage in comparison to the percentage reflected in the Company's calculations.

<b><u>District</u></b>	<b><u>Ten-Year Average Water Loss Percentage</u></b>	<b><u>MAWC Water Loss Percentage</u></b>
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 As illustrated in the above table, except for the very small Brunswick District,  
7 MAWC's calculations reflect a higher water loss percentage than has actually been  
8 experienced, on average, during the last ten years.

1 Q YOU STATED EARLIER THAT MUCH OF THE WATER LOSS IS THE RESULT OF  
2 MAIN LEAKS AND BREAKS. HAS MAWC BEEN ALLOWED TO USE A SPECIAL  
3 REGULATORY MECHANISM TO ADDRESS AGING MAINS IN ITS WATER  
4 DELIVERY SYSTEM?

5 A Yes. Since 2007, MAWC has been using the ISRS special regulatory mechanism to  
6 address the cost of replacing its aging mains. This mechanism is only allowed in the  
7 St. Louis County District, which in 2016, accounted for approximately 73% of the  
8 metered water sold by MAWC.

9 Q IS IT APPROPRIATE TO ALLOW RATES TO BE ESTABLISHED BASED ON THE  
10 INFLATED WATER LOSS PERCENTAGE REFLECTED IN MAWC'S  
11 CALCULATIONS?

12 A. No. If the goal of the special regulatory ISRS mechanism is being accomplished, the  
13 water loss percentage should be improving. Instead, the 2016 percentage is the  
14 highest in ten years and the September 2017 year to date percentage is even higher.

15 Q WHAT IS YOUR RECOMMENDATION FOR THE APPROPRIATE WATER LOSS  
16 PERCENTAGE?

17 A I recommend using the water loss percentage that reflects the ten-year average  
18 ending 2016. In addition, I would propose to update the ten-year average when the  
19 full 2017 calendar year data becomes available at true-up. My recommendation  
20 reflects an average of actual results, over a long horizon, which smoothes out  
21 variations.

1 Q HOW WILL USING YOUR PROPOSED TEN-YEAR AVERAGE WATER LOSS  
2 PERCENTAGE AFFECT THE REVENUE REQUIREMENT IN THIS CASE?

3 A My recommendation decreases the revenue requirement in this case associated with  
4 chemicals and electricity expense by \$0.4 million and \$0.7 million, respectively.

5 **Maintenance Expense**

6 Q IS MAWC PROPOSING TO INCREASE MAINTENANCE EXPENSE IN THIS  
7 CASE?

8 A Yes. MAWC is proposing to increase its 2016 maintenance expense level by  
9 \$4.4 million for its future test year.

10 Q WHAT FUNCTIONS COMPRISE MAWC'S MAINTENANCE EXPENSE?

11 A MAWC's test year maintenance expense includes main breaks, maintenance supplies  
12 and services, and tank painting functions.

13 Q DO YOU AGREE WITH THE PROPOSED INCREASE IN TOTAL MAINTENANCE  
14 EXPENSE PROPOSED BY MAWC?

15 A No. I believe MAWC's proposed level of maintenance expense is excessive when  
16 compared with historic levels. I have included Table 8, which compares the level of  
17 maintenance expense MAWC has incurred from 2010-2016 and the level proposed  
18 by MAWC for its future test year.

<b><u>MAWC Maintenance Expense</u></b>	
<b><u>Year</u></b>	<b><u>Level</u></b>
2010	\$9,157,320
2011	\$7,311,340
2012	\$12,628,150
2013	\$9,094,897
2014	\$9,124,403
2015	\$7,272,878
2016	\$8,310,112
MAWC Proposed	\$12,595,886

Source: MAWC response to Staff Data Request 0208, Company Workpapers.

1                   As can be seen from the table above, MAWC's proposed level of maintenance  
2                   expense is the second highest annual level dating back to 2010. Furthermore, there  
3                   is no discernible trend in maintenance expenses since 2010.

4   **Q   WHAT LEVEL OF MAINTENANCE EXPENSE DO YOU PROPOSE?**

5   **A**   I propose a \$9.3 million (\$9,286,088) level of maintenance expense based on a five-  
6           year average of maintenance expenses from 2012-2016. The five-year average I  
7           have proposed includes both a higher year (2012) and a lower year (2015) of  
8           maintenance expense that was incurred by MAWC. Eliminating the high and low  
9           years from the five-year average would have resulted in an even larger reduction to  
10          MAWC's revenue requirement. Using my recommended five-year average results in  
11          a revenue requirement reduction of \$3.3 million.

1 **Employee Level Adjustment**

2 Q PLEASE EXPLAIN YOUR ADJUSTMENT FOR EMPLOYEE LEVELS.

3 A In the calculation of its labor, payroll tax and benefits adjustments MAWC included  
4 employee positions that were listed as vacant. These calculations show that the  
5 number of vacant positions for the water system, 58, is over 9% of total actual water  
6 system employees.<sup>2</sup> Including these employee vacancies in MAWC's calculations  
7 results in an unreasonable level of expense and overstates the Company's cost of  
8 service.

9 Q WHY DO YOU BELIEVE THE INCLUSION OF VACANT EMPLOYEE POSITIONS  
10 WILL RESULT IN AN UNREASONABLE LEVEL OF EXPENSE AND  
11 OVERSTATES MAWC'S COST OF SERVICE?

12 A Inclusion of the vacant employee positions would reflect a significant increase in the  
13 number of employees, when in fact, employee levels are declining. In addition, if the  
14 58 vacancies are included, MAWC's 2019 cost of service will increase by nearly  
15 \$3 million based on an assumption that its workforce will increase significantly.

16 Q WHAT EVIDENCE DO YOU HAVE THAT EMPLOYEE LEVELS ARE DECLINING?

17 A Below is Table 9, which shows the monthly and average annual number of  
18 employees for 2012 through 2016 and September 2017 year to date.<sup>3</sup> Since  
19 employee levels vary throughout the year I believe an annual average provides a  
20 more accurate illustration of employee levels for comparison.

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<sup>2</sup>These numbers reflect water system employees and corporate employees. Less than 1% of corporate labor cost is allocated to wastewater operations.

<sup>3</sup>The employee data reflected in Table 9 did not separate water and wastewater employee levels. MAWC's calculations reflect only 17 actual wastewater employees out of 646 total actual employees.

**TABLE 9**

**Employee Levels**

<b><u>Month</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>
Jan	741	709	675	649	666	646
Feb	738	707	672	645	663	646
Mar	729	701	670	643	658	642
Apr	725	703	673	641	651	646
May	752	718	673	651	651	655
Jun	762	731	676	652	655	659
Jul	764	729	678	656	652	
Aug	731	714	671	653	653	
Sep	707	695	669	655	644	
Oct	707	692	661	653	642	
Nov	708	687	657	659	643	
Dec	710	681	655	660	642	
Average	731	706	669	651	652	649

Source: MAWC response to Staff Data Request 0043.

1           As the table above shows, on average from 2012 through September 2017,  
2           the level of employees is declining. During the last five completed calendar years,  
3           the level of employees has declined by almost 100 employees, over 13%, from 741 in  
4           January 2012 to 642 in December 2016.

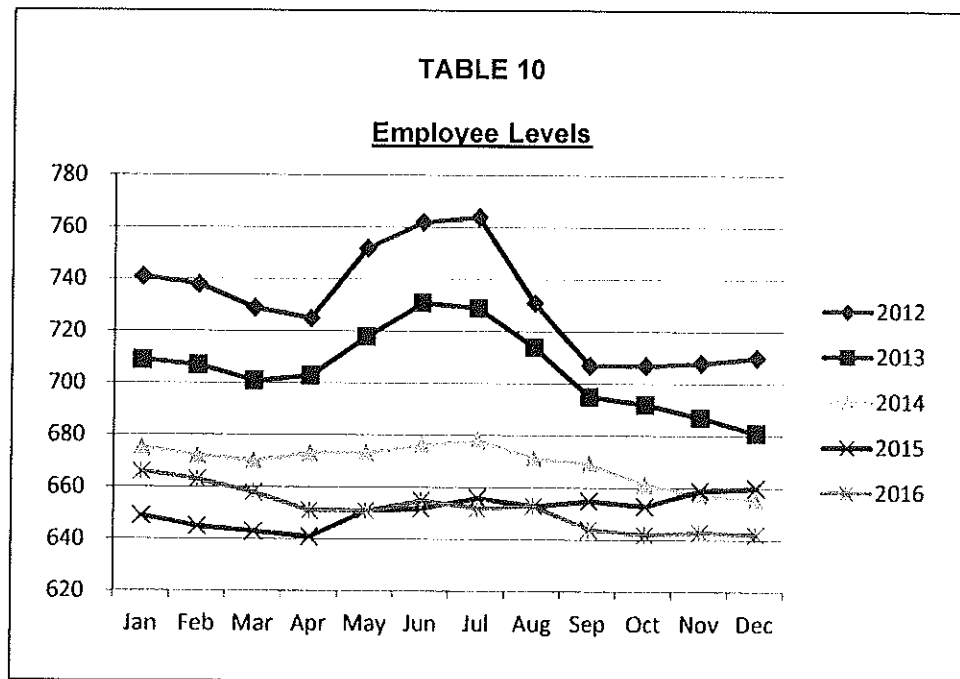
5   **Q   WHEN WAS THE LAST TIME MAWC EXPERIENCED THE EMPLOYMENT**  
6   **LEVELS REFLECTED IN ITS LABOR ADJUSTMENT?**

7   **A   MAWC's labor adjustment calculations reflect 708 total Company employees. The**  
8   **Company has not experienced that level of employees since August of 2013.**



1 Q THE 2017 EMPLOYEE LEVELS IN TABLE 9 ARE INCREASING. DO YOU  
2 EXPECT THAT TREND TO CONTINUE?

3 A No. Except for 2015, the employee levels generally decline during the year. Table 9  
4 shows that in 2012, 2013, 2014 and 2016, the number of employees is lower at the  
5 end of the year than at the beginning of the year. This shift in the number of  
6 employees during the year and the general decline in annual employee levels during  
7 the most recently completed five calendar years are graphically illustrated in Table 10  
8 below.



1 Q WHAT IS YOUR RECOMMENDATION FOR THE APPROPRIATE LEVEL OF  
2 EMPLOYEES TO REFLECT IN THIS CASE?

3 A I recommend including only employees that have actually been hired as of the true-up  
4 cut-off date in this case. In my opinion, it is unreasonable to include in the cost of  
5 service a fictitious level of employees that MAWC appears unlikely to achieve based  
6 on recent manpower levels.

7 Q HOW DOES YOUR RECOMMENDATION AFFECT THE REVENUE  
8 REQUIREMENT IN THIS CASE?

9 A Based on MAWC's calculations, if the vacant positions are removed from expense,  
10 the water revenue requirement declines by \$2.9 million for the May 2019 future test  
11 year.

12 Q ARE REDUCTIONS TO PAYROLL TAXES AND BENEFITS INCLUDED IN YOUR  
13 ADJUSTMENT?

14 A Yes. Labor is reduced by \$2.2 million, payroll taxes are reduced by \$0.2 million and  
15 benefits decline by \$0.5 million.

16 **Property Taxes**

17 Q PLEASE EXPLAIN THIS ISSUE.

18 A MAWC is proposing to increase water property tax expense by \$10.5 million from the  
19 December 2016 test year level of \$13.9 million to the May 31, 2019 future year level  
20 of \$24.4 million. This reflects an increase in property taxes of 76%.

1 Q IS MAWC PROJECTING A SIGNIFICANT INCREASE IN INVESTMENT THROUGH  
2 MAY OF 2019 THAT WOULD SUPPORT SUCH AN INCREASE IN PROPERTY  
3 TAXES?

4 A No. While MAWC is projecting significant increases in plant, this level does not  
5 support a 76% increase in property taxes. Property taxes paid in the tax year are  
6 based on investment at the beginning of the calendar year. MAWC is projecting an  
7 increase in plant of 23% from December 2015 to December 2018. Therefore, the  
8 significant increase in property taxes is primarily the result of estimated changes in  
9 the rate and/or the assessment method.

10 Q HAS MAWC CITED ANY CHANGES IN TAX RATES OR ASSESSMENT  
11 METHODOLOGY?

12 A Yes. However, it is not clear from MAWC's testimony whether these changes will  
13 actually occur. In addition, MAWC has not adequately explained and provided  
14 supporting documentation to justify all the estimated changes it cites.

15 Q WHAT ARE THE CHANGES THAT MAWC CITES IN ITS TESTIMONY?

16 A In his direct testimony, MAWC witness John R. Wilde identifies changes in the way  
17 property will be assessed in St. Louis County and Platte County that he believes will  
18 increase future property tax payments. In his brief description of the St. Louis County  
19 change, Mr. Wilde states that:

20 "St Louis County has indicated [emphasis added] that it will move a  
21 significant portion of property to a 20 year Modified Accelerated Cost  
22 Recovery (MACRs) class life from the seven year MACRs class life."

1           The property tax workpapers include a \$6.1 million increase associated with  
2 this change. However, there are no calculations or documentation supporting either  
3 the stated change or the associated \$6.1 million estimated effect.

4           For the Platte County changes Mr. Wilde states that:

5           "Platte County has indicated [emphasis added] that it will move a  
6 significant portion of property to a 50 year life from the 20 year MACRs  
7 class life it had been using for over 10 years. Platte County also  
8 indicated its intent [emphasis added] to assess the value of  
9 Construction Work In Progress ("CWIP") as of January 1, 2017 of the  
10 tax year, which is a departure of past practice."

11           The workpapers do identify amounts associated with these changes and  
12 provide supporting calculations. However, there is no documentation from Platte  
13 County supporting its intention to make these changes.

14           I do not believe MAWC has adequately supported these changes in property  
15 taxes. As part of its true-up documentation, MAWC should provide documentation  
16 from the counties showing that the changes have in fact occurred and detailed  
17 calculations supporting the resulting effects on property taxes.

18   **Q    WHAT IS YOUR PROPOSAL REGARDING PROPERTY TAXES?**

19   **A**   Consistent with my recommendation not to accept MAWC's future test year  
20 calculations in this case, I recommend including only the amount of property taxes  
21 actually paid in 2017. If any of the changes discussed in the direct testimony of  
22 Mr. Wilde affect the 2017 property tax payments, the amounts will be captured in the  
23 true-up process.

1 Q HAVE YOU CALCULATED AN ADJUSTMENT TO PROPERTY TAXES?

2 A Yes. Subject to the true-up information regarding the actual 2017 property taxes, I  
3 have calculated an amount of property taxes based on the 2016 property tax rates  
4 applied to the January 1, 2017 (December 31, 2016) water plant. I determined the  
5 2016 property tax rates by dividing the actual taxes paid by the January 1, 2016  
6 (December 31, 2016) plant.

7 Q HOW DOES YOUR ADJUSTMENT AFFECT THE WATER REVENUE  
8 REQUIREMENT IN THIS CASE?

9 A My adjustment reduces the May 2019 future test year revenue requirement by  
10 \$9.4 million.

11 Q IN CASE NO. WU-2017-0351, MAWC REQUESTED THAT ANY INCREASE IN  
12 2017 PROPERTY TAXES SHOULD BE DEFERRED THROUGH AN ACCOUNTING  
13 AUTHORITY ORDER ("AAO"). WOULD YOU SUPPORT SUCH A REQUEST IN  
14 THIS CASE?

15 A No. An increase in property taxes is not an extraordinary expense that should qualify  
16 for deferral in an AAO.

17 **Infrastructure System Replacement Surcharge ("ISRS")**

18 Q IS MAWC ALLOWED TO CHANGE RATES IN BETWEEN RATE CASES FOR  
19 ISRS INVESTMENTS?

20 A Yes. In its St. Louis County service area, MAWC is allowed to charge customers for  
21 ISRS investments placed in service in between rate cases. St. Louis County is the

1           only service area in MAWC's total service territory where MAWC is authorized to  
2           charge customers in between rate cases for ISRS investments for aging infrastructure  
3           made between the rate cases.

4   **Q   WHY WAS ISRS ORIGINALLY APPROVED FOR THE ST. LOUIS COUNTY**  
5           **SERVICE AREA?**

6   A   It is my understanding that ISRS was legislated because of the large percentages of  
7           lost water experienced in St. Louis County due to aging mains and other facilities.

8   **Q   IN YOUR OPINION, WHAT SHOULD THE ADOPTION OF ISRS ACCOMPLISH**  
9           **FOR ST. LOUIS COUNTY?**

10  A   Given that ISRS is a special regulatory tool which allows customer rates to be  
11           changed in between rate cases, specifically to replace aging infrastructure, I would  
12           expect the St. Louis County service area to experience lower lost water percentages.<sup>4</sup>

13  **Q   HAVE YOU CHECKED THE WATER LOSS PERCENTAGES FOR ST. LOUIS**  
14           **COUNTY?**

15  A   Yes, I have. Listed below in Table 11 are the water loss percentages for the St. Louis  
16           County service area from 2007-2016 and September 2017 year to date.

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<sup>4</sup>Water loss percentage would be the result of dividing the difference between metered usage and system delivery by system delivery.

**TABLE 11**

**St. Louis County**  
**Water Loss Percentage**

<u>Year</u>	<u>Water Loss %</u>
2007	20.26%
2008	20.54%
2009	19.78%
2010	19.92%
2011	19.75%
2012	19.24%
2013	21.18%
2014	23.78%
2015	23.26%
2016	24.96%
9 months ended September 2017	27.39%

Source: MAWC response to Staff Data Request 0035.

1           As can be seen from the above table, water loss percentages have  
2 significantly increased since the 2012 percentage, reaching the highest annual level  
3 in 2016. Furthermore, the water loss percentage increased above the annual 2016  
4 level for the nine months ended September 2017.

5 **Q   HOW DO THESE WATER LOSS PERCENTAGES COMPARE WITH MAWC'S**  
6 **OVERALL WATER SYSTEM?**

7 **A**   The overall water loss percentages for the MAWC total system are less than the  
8 levels for St. Louis County. I have prepared Table 12 below that shows the St. Louis  
9 County, Total MAWC and Other MAWC Systems water loss percentages.

**TABLE 12**

**Comparison of Water Loss Percentages**

<u>Year</u>	<u>St. Louis County</u>	<u>Other MAWC Systems</u>	<u>Total MAWC System</u>
2007	20.26%	11.29%	18.23%
2008	20.54%	12.38%	18.59%
2009	19.78%	15.67%	18.78%
2010	19.92%	15.48%	18.84%
2011	19.75%	15.21%	18.64%
2012	19.24%	15.18%	18.27%
2013	21.18%	17.23%	20.20%
2014	23.78%	17.84%	22.31%
2015	23.26%	16.21%	21.48%
2016	24.96%	17.84%	23.16%

Source: MAWC response to Staff Data Request 0035.

1           As can be seen from the above table, despite the fact that the St. Louis  
2           County water system is the only water system eligible for ISRS rate changes in  
3           between rate cases, the St. Louis County water loss percentages are always higher  
4           than the Total MAWC system. All water systems besides St. Louis County have  
5           experienced more reasonable water loss percentage levels. It should be noted that  
6           the St. Louis County water system is significantly larger than any other MAWC water  
7           system.



1 Q GIVEN THE INCREASING WATER LOSS PERCENTAGES SINCE 2012 IN ST.  
2 LOUIS COUNTY, DO YOU HAVE ANY CONCERNS AND RECOMMENDATIONS  
3 TO ADDRESS THIS PROBLEM?

4 A Yes. My concern is the increase in water loss percentage for St. Louis County and its  
5 inclusion in rates, given its exclusive right to implement ISRS charges to customers in  
6 between rate cases. Given this concern, I have two recommendations for the  
7 Commission's consideration. I have listed those recommendations below:

8 1. Require MAWC to document why the water loss percentages have increased  
9 since 2012 with the ISRS rate mechanism in effect. Documentation would  
10 include, but not be limited to, why St. Louis County should have a higher water  
11 loss percentage compared to the other water systems of MAWC, and proposed  
12 steps by MAWC to reduce the water loss volumes in the next three years. MAWC  
13 should also provide semi-annual reports to the Staff, OPC and other intervening  
14 parties on the water loss percentages for each major operating water system in  
15 MAWC.

16 2. Suspend the ISRS rate mechanism for St. Louis County until it can be determined  
17 why water losses are increasing and if the ISRS mechanism is achieving its  
18 desired goals.

19 Q WHY DO YOU FEEL THESE RECOMMENDATIONS ARE REASONABLE?

20 A The St. Louis County District has reported higher water loss percentages than the  
21 overall MAWC system. These higher percentages are being experienced even  
22 though St. Louis County is the only MAWC operating system which has the ISRS  
23 special regulatory mechanism in effect. Given that customer rates are being changed  
24 between rate cases for additional ISRS investment, customers should be receiving  
25 the intended benefit of lower water loss volumes. Until this situation is adequately  
26 analyzed and explained, the Commission should suspend the ISRS special regulatory  
27 mechanism for St. Louis County customers and evaluate its future applicability.

Greg R. Meyer  
Page 29

1 Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

2 A Yes, it does.

**Qualifications 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    PLEASE STATE YOUR OCCUPATION.**

5    A    I am a consultant in the field of public utility regulation and a Principal with the firm of  
6        Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

7    **Q    PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND  
8        EXPERIENCE.**

9    A    I graduated from the University of Missouri in 1979 with a Bachelor of Science Degree  
10       in Business Administration, with a major in Accounting. Subsequent to graduation I  
11       was employed by the Missouri Public Service Commission. I was employed with the  
12       Commission from July 1, 1979 until May 31, 2008.

13           I began my employment at the Missouri Public Service Commission as a  
14       Junior Auditor. During my employment at the Commission, I was promoted to higher  
15       auditing classifications. My final position at the Commission was an Auditor V, which I  
16       held for approximately ten years.

17           As an Auditor V, I conducted audits and examinations of the accounts, books,  
18       records and reports of jurisdictional utilities. I also aided in the planning of audits and  
19       investigations, including staffing decisions, and in the development of staff positions in  
20       which the Auditing Department was assigned. I served as Lead Auditor and/or Case

1 Supervisor as assigned. I assisted in the technical training of other auditors, which  
2 included the preparation of auditors' workpapers, oral and written testimony.

3 During my career at the Missouri Public Service Commission, I presented  
4 testimony in numerous electric, gas, telephone and water and sewer rate cases. In  
5 addition, I was involved in cases regarding service territory transfers. In the context of  
6 those cases listed above, I presented testimony on all conventional ratemaking  
7 principles related to a utility's revenue requirement. During the last three years of my  
8 employment with the Commission, I was involved in developing transmission policy  
9 for the Southwest Power Pool as a member of the Cost Allocation Working Group.

10 In June of 2008, I joined the firm of Brubaker & Associates, Inc. as a  
11 Consultant. Since joining the firm, I have presented testimony and/or testified in the  
12 state jurisdictions of Florida, Idaho, Illinois, Indiana, Maryland, Missouri and  
13 Washington. I have also appeared and presented testimony in Alberta and Nova  
14 Scotia, Canada. These cases involved addressing conventional ratemaking  
15 principles focusing on the utility's revenue requirement. The firm Brubaker &  
16 Associates, Inc. provides consulting services in the field of energy procurement and  
17 public utility regulation to many clients including industrial and institutional customers,  
18 some utilities and, on occasion, state regulatory agencies.

19 More specifically, we provide analysis of energy procurement options based  
20 on consideration of prices and reliability as related to the needs of the client; prepare  
21 rate, feasibility, economic, and cost of service studies relating to energy and utility  
22 services; prepare depreciation and feasibility studies relating to utility service; assist  
23 in contract negotiations for utility services, and provide technical support to legislative  
24 activities.

1                    In addition to our main office in St. Louis, the firm has branch offices in  
2                    Phoenix, Arizona and Corpus Christi, Texas.

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**Appendix A**  
**Greg R. Meyer**  
**Page 3**