

Exhibit No.:
Issues: Rate Base, Depreciation Expense,
Amortization Expense
Witness: Jennifer M. Grisham
Exhibit Type: Direct
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2022-0303
SR-2022-0304
Date: July 1, 2022

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2022-0303
CASE NO. SR-2022-0304

DIRECT TESTIMONY

OF

JENNIFER M. GRISHAM

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Jennifer Brown Grisham, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am Sr. Manager Regulatory Services for Missouri American Water Company, that the accompanying testimony has been prepared by me or under my direction and supervision; that if inquiries were made as to the facts in said testimony, I would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of my knowledge and belief.


Jennifer Brown Grisham

July 1, 2022
Dated

**DIRECT TESTIMONY
JENNIFER M. GRISHAM
MISSOURI AMERICAN WATER COMPANY
CASE NO.: WR-2022-0303
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DIRECT TESTIMONY

JENNIFER M. GRISHAM

I. INTRODUCTION

1 **Q. Please state your name and business address.**

2 A. My name is Jennifer Grisham, and my business address is 1 Water Street, Camden, NJ,
3 08102.

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

5 A. I joined American Water Service Company, Inc. (“Service Company”) in April 2021, as a
6 Sr. Manager of Regulatory Services. Service Company is a wholly owned subsidiary of
7 American Water Works Company, Inc. (“American Water”) that provides services to
8 Missouri-American Water Company (“MAWC”, “Missouri-American” or “Company”)
9 and its affiliates.

10 **Q. Please summarize your educational background and business experience.**

11 A. I hold a Bachelor of Science degree in Business Administration from University of
12 Maryland, College Park and a Master’s in Business Administration from George
13 Washington University.

14 Prior to joining American Water, I worked for Pepco Holdings, an electric utility under the
15 parent company Exelon. I joined Pepco Holdings’ Regulatory Affairs department in 2008
16 as a Senior Analyst. Over the next 12 years, I held various principal and managerial
17 positions within the Rates, Asset Management and Strategic Initiatives departments.

18 **Q. What are your current employment responsibilities?**

19 A. My duties consist of preparing, assisting, and reviewing regulatory filings and related
20 activities for all the regulated subsidiaries of American Water. My responsibilities and my

1 team's responsibilities include the preparation of written testimony, exhibits, and work
2 papers in support of rate applications and other regulatory filings as well as responses to
3 data requests for Missouri-American and its regulated utility affiliates.

4 **Q. Are you generally familiar with the operations, books and records of MAWC?**

5 A. Yes.

6 **Q. What is the purpose of your Direct Testimony in this proceeding?**

7 A. The purpose of my Direct Testimony is to support and explain the Company rate base
8 levels and proposed recovery of these investments in this proceeding. I will discuss the
9 level of investments as well as the Company's pro forma adjustments associated with
10 depreciation and amortization expense.

11 **II. RATE BASE**

12 **a. Utility Plant in Service**

13 **Q. Please explain Schedule CAS-4 Utility Plant in Service.**

14 A. Schedule CAS-4 Utility Plant in Service ("UPIS") shows the UPIS balance as of June 30,
15 2022 and December 31, 2022 by account and by consolidated water tariff group and sewer
16 tariff groups. Historical information was taken from the Company's fixed asset and
17 Enterprise Resource Planning ("ERP") systems. Historical UPIS amounts that are recorded
18 at the corporate district location were allocated to the tariff groups. Adjustments for
19 projected capital spending, retirements, and transfers/adjustments were made through the
20 true-up period ending December 31, 2022 by account and by consolidated water tariff
21 group and sewer tariff groups. The pro forma UPIS balance is the summation of the
22 historical UPIS balance, and the adjustments calculated by account and by consolidated
23 water tariff group and sewer tariff groups. Additional Discrete Adjustments are included

1 for select capital projects that are not eligible for WSIRA and will be in service by May
2 31, 2023. These adjustments are discussed further in the Direct Testimony of Company
3 witness Wesley Selinger. These adjustments are reflected on Schedule CAS-4.

4 **Q. Please describe the MAWC corporate asset allocation.**

5 A. Missouri-American corporate asset balances as of June 30, 2022, with adjustments through
6 December 31, 2022 were allocated to the one water and two sewer tariff groups by
7 customer counts as of June 30, 2022. All corporate assets were recorded in water and sewer
8 utility accounts.

9 **Q. How were the adjustments calculated?**

10 A. Adjustments were computed by adding forecasted capital expenditures for assets placed
11 into service minus retirements through December 31, 2022. The capital expenditures came
12 from the Company's Strategic Capital Expenditure Plan for the years 2022-2026 ("SCEP")
13 with adjustments related to acquisitions. The Company observed accelerated retirements
14 relating to continuing property records for the most recent three years from 2019-2021,
15 which would have overstated forecasted retirements compared to historical figures. For this
16 reason, the Company is forecasting asset retirements using a 3-year average of retirements
17 for the years 2017-2019.

18 **Q. In Case No. WR-2020-0344, the Company included customer owned lead service lines
19 and engineered coatings in utility plant in service. Has the Company included these
20 items in utility plant in service in this case?**

21 A. No. For the customer owned lead service lines, the Company has included the deferral
22 consistent with the Commission's order in Case No. WR-2017-0285. Please see my later
23 discussion of amortization expense for more information about the treatment of customer

1 owned lead service lines. For engineered coatings, the Company has reflected those in
2 maintenance expense. However, the Company is proposing that the Commission authorize
3 the capitalization of the engineered coatings. Please see the Direct Testimony of Company
4 witness Rebecca Losli for further discussion of engineered coatings and the Company
5 proposed capitalization of those costs.

6 **b. Accumulated Depreciation Reserve**

7 **Q. Please explain Schedule CAS-5 Accumulated Depreciation Reserve.**

8 A. Schedule CAS-5 Accumulated Depreciation Reserve shows the reserve balances as of June
9 30, 2022 and December 31, 2022 by account and by consolidated water tariff group and
10 sewer tariff groups. Historical information was taken from the Company's fixed asset and
11 ERP systems. Historical depreciation reserve amounts that are recorded at the corporate
12 district location are allocated to the operating districts. Adjustments for projected
13 depreciation were made through the true-up period ending December 31, 2022 by account
14 and by consolidated water tariff group and sewer tariff groups. The pro forma accumulated
15 depreciation balance is the summation of the historical reserve balance and the adjustments
16 calculated by account and district. Additional Discrete Adjustments are included to reflect
17 any accumulated reserve through May 31, 2023 on the UPIS additions that occurred during
18 the discrete period. These adjustments are discussed further in the Direct Testimony of
19 Company witness Wesley Selinger.

20 **Q. Please describe the MAWC corporate reserve allocation.**

21 A. MAWC corporate accumulated depreciation balances as of June 30, 2022 were allocated
22 to the one water and two sewer tariff groups by customer count as of June 30, 2022. The
23 corporate assets reserve has been recorded using water utility accounts depreciation rates.

1 **Q. How were the adjustments calculated?**

2 A. Adjustments for the reserve were computed by adding monthly depreciation accruals, and
3 any transfers through December 31, 2022, minus retirements and net cost of removal
4 expenditures. Monthly depreciation accruals are calculated based on monthly UPIS
5 balances projected from the Company's SCEP as well as the adjustments related to
6 acquisitions. Asset retirements, net salvage and cost of removal were forecasted using a 3-
7 year average of retirements, net salvage and cost of removal for the years 2017-2019. The
8 depreciation accrual rates used are the rates approved by the Commission in Case No. WR-
9 2020-0344.

10 **c. Customer Advances & CIAC**

11 **Q. Please explain Schedule CAS-6 Customer Advances and CIAC.**

12 A. Schedule CAS-6 Customer Advances and Contribution in Aid of Construction ("CIAC")
13 shows balances for the base year as of June 30, 2022 and the true up period through
14 December 31, 2022, for the consolidated water tariff group and the sewer tariff groups.
15 Historical information was taken from the Company's fixed asset and ERP systems.
16 Additional Discrete Adjustments are made for CIAC related to the investments made in
17 the discrete period through May 31, 2023. These adjustments are discussed further in the
18 Direct Testimony of Company witness Wesley Selinger. These adjustments are reflected
19 on Schedule CAS-6.

20 **Q. How were the adjustments calculated?**

21 A. Adjustments were projected to include additional Customer Advances and CIAC for the
22 period of June 30, 2022 through December 31, 2022 as projected by the Company's SCEP
23 with adjustments related to acquisitions. The projection includes advances, contributions

1 and refunds for the stated period. The CIAC balances were amortized over the same period
2 as the corresponding assets at the rates approved in MAWC's last general rate case.
3 Adjustments through the discrete period for amortization of CIAC reflect only amortization
4 on the CIAC additions that occur in the discrete period.

5 **d. Deferred Income Taxes**

6 **Q. Please explain deferred income taxes in Schedule CAS-3.**

7 A. Schedule CAS-3, line 16 shows the historical balances for Deferred Income Taxes as of
8 June 30, 2022 by tariff group. Adjustments were made for tax over book depreciation and
9 repair deductions through December 31, 2022. Adjustments in the discrete period through
10 May 31, 2023 are included for plant additions that were made in the discrete period as
11 discussed above.

12 **e. Working Capital**

13 **Q. Please explain Schedule CAS-7 and how it was completed.**

14 A. Schedule CAS-7 shows the calculation of cash working capital for the consolidated water
15 tariff group and the sewer tariff groups. Cash working capital is included in a utility's rate
16 base to account for the lag between the time expenses are recorded for providing utility
17 service to the customer and the time it takes to collect the revenues associated with that
18 service. Please see the Direct Testimony of MAWC witness Harold Walker for further
19 discussion of this study.

20 **f. Pension Asset**

21 **Q. Please discuss the pension asset.**

22 A. The pension asset (Schedule CAS-3, line 26) measures the accumulated difference between

1 the pension expense accrued to date and the actual cash contributions to the pension fund
2 to date. Schedule CAS-3 shows the balance for the base year as of June 30, 2022 and the
3 true up period using the balance through December 31, 2022. The value for this asset is
4 forecasted by subtracting the expected accruals and adding the expected cash contributions,
5 based on documents from the Company's professional actuary, Willis Towers Watson.
6 Adjustments for the Discrete Adjustment Period ending May 31, 2023, discussed in the
7 direct testimony of Company witness Watkins, were also made. This adjustment is
8 reflected on Schedule CAS-3.

9 **g. Materials and Supplies**

10 **Q. Please discuss materials and supplies.**

11 A. Materials and supplies (Schedule CAS-3, line 23) include inventory accounts related to
12 plant materials, fuel, chemicals, and other materials, and are reflected for the consolidated
13 water tariff group and each sewer tariff group. MAWC presents the base year as of June
14 30, 2022 and the true up period using the 13-month average balance through December 31,
15 2022. All balances are the same and reflect the 13-month average balance during the base
16 year. Any inventories recorded at the corporate level are allocated to the consolidated
17 water tariff group and the two sewer groups using customer count.

18 **h. Regulatory Deferrals**

19 **Q. Please discuss regulatory deferrals.**

20 A. The Regulatory Deferrals entry on Schedule CAS-3, line 27 represents regulatory assets
21 acquired by the Company in a sewer system acquisition, and a deferral for the property tax
22 tracker recently passed by the Missouri General Assembly and signed into law by Governor
23 Parson on June 29, 2022. See the Direct Testimony of Company witness Wesley Selinger

1 for further discussion of the property tax tracker.

2 **III. DEPRECIATION EXPENSE**

3 **Q. Please describe the adjustments to operating expenses related to depreciation.**

4 A. Depreciation expense (Schedule CAS-9, line 32) is calculated based on the pro forma UPIS
5 balance on Schedule CAS-4 by account and by consolidated water tariff group and sewer
6 tariff groups. This balance, as discussed above, includes adjustments through December
7 31, 2022. The depreciation rates used for the calculation are the depreciation rates
8 authorized in Case. No. WR-2020-0344. Adjustments for the Discrete Adjustment Period
9 ending May 31, 2023, discussed in the Direct Testimony of Company witness Mr. Selinger,
10 were also made. This adjustment is reflected on Schedule CAS-9.

11 **IV. AMORTIZATION EXPENSE**

12 **Q. Please describe the adjustment to operating expenses related to amortization?**

13 A. The adjustments to amortization expense (Schedule CAS-9, line 33) are the annual
14 amortization expense on the items from MAWC's previous rate case that are included in
15 the current base year as well as new amortization expense items. The prior items include
16 the retirement of St. Joseph property, Hickory Hills water and sewer, lead service line
17 replacements, Arnold sewer, the Hollister pipeline, the low income program costs, Rogue
18 Creek water and sewer, and COVID-19 deferrals.

19 **Q. Is the Company including any new amortizations in this case?**

20 A. Yes. The Company is including amortizations for costs incurred to operate the City of
21 Purcell's Water & Sewer system and for the balance of the property tax tracker. Please see
22 the testimony of Company witness Wesley Selinger for further discussion of the property

1 tax tracker.

2 **Q. Can you describe the nature of the costs related to the City of Purcell's Water &**
3 **Sewer system?**

4 A. Yes. The City of Purcell's Water & Sewer system are troubled, and the City had been
5 unable to operate the systems. The Staff of the Commission and the Missouri Department
6 of Natural Resources encouraged MAWC to assist and the Company began operating the
7 system in early 2021. MAWC has since filed an Application with the Commission to
8 acquire the City's water & sewer system, and that case is currently pending. The costs
9 deferred are the costs MAWC has incurred during the operation of the systems, and will
10 continue to incur until it closes on the acquisition, assuming approval from the
11 Commission.

12 **Q. What amortization period is the Company proposing in this case?**

13 A. For both the City of Purcell costs and the property tax tracker, the Company is proposing
14 a 5-year amortization period.

15 **Q. Has the Company included deferred costs related to the replacement of customer**
16 **owned lead service lines?**

17 A. Yes. Consistent with the Commission Order in Case No. WR-2017-0285, the Company
18 has deferred costs associated with the replacement of customer owned lead lines. Deferred
19 costs that were addressed in Case Nos. WR-2017-0285 and WR-2020-0344 are being
20 amortized over 10 years. For deferred costs beginning in January 2021, the Company has
21 been applying carrying costs at the long-term debt rate, and the Company is proposing a
22 10-year amortization of those costs, consistent with prior deferrals.

1 **Q. Is the Company including a return on the unamortized balance of the customer owned**
2 **lead line deferrals?**

3 A. Yes. The Company is including a return at the long-term debt rate, applied to the entire
4 deferred balance, and had included that in the total revenue requirement.

5 **Q. Does this conclude your Direct Testimony?**

6 A. Yes, it does.