

Issue:
Witness: Greg R. Meyer
Type of Exhibit: Direct Testimony
Sponsoring Parties: Missouri Industrial Energy Consumers
Case Nos.: WO-2022-0176 & SO-2022-0177
Date Testimony Prepared: June 2, 2022

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

In the Matter of a Petition of Missouri-
American Water Company for Approval to
Change a Water and Sewer Infrastructure
Rate Adjustment (WSIRA))
Case Nos. WO-2022-0176
SO-2022-0177)

Direct Testimony and Schedule of

Greg R. Meyer

On behalf of

Missouri Industrial Energy Consumers

June 2, 2022



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STATE OF MISSOURI)
) SS
COUNTY OF ST. LOUIS)

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 on behalf of the Missouri Industrial Energy Consumers in this proceeding.

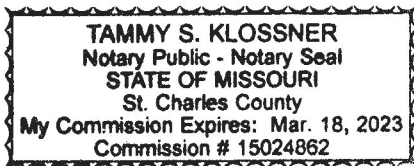
2. Attached hereto and made a part hereof for all purposes is my direct testimony and schedule which were prepared in written form for introduction into evidence in the Missouri Public Service Commission, Case Nos. WO-2022-0176 & SO-2022-0177.


3. I hereby swear and affirm that the testimony and schedule are true and correct and that they show the matters and things that they purport to show.



 Greg R. Meyer

Subscribed and sworn to before me this 2nd day of June, 2022.





 Notary Public

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<p>In the Matter of a Petition of Missouri- American Water Company for Approval to Change a Water and Sewer Infrastructure Rate Adjustment (WSIRA)</p>)))))))	<p>Case Nos. WO-2022-0176 SO-2022-0177</p>
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Direct 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 WHAT IS YOUR OCCUPATION?**

5 A I am a consultant in the field of public utility regulation and a Principal at Brubaker &
6 Associates, Inc., energy, economic and regulatory consultants.

7 **Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

8 A This information is included in Appendix A to my testimony.

9 **Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

10 A I am appearing on behalf of Missouri Industrial Energy Consumers (“MIEC”), a
11 non-profit corporation that represents the interests of large customers in Missouri utility
12 matters. The MIEC represents the interests of companies purchasing substantial
13 amounts of water from Missouri-American Water Company (“MAWC” or “Company”).

1 **Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 A My testimony will address the level of property taxes included in Missouri-American
3 Water Company's ("MAWC" or "Company") Water and Sewer Infrastructure Rate
4 Adjustment ("WSIRA"). I contend that the level of property taxes included in the filing
5 is excessive.

6 **Q HAVE YOU REVIEWED THE WSIRA PROPOSED BY MAWC?**

7 A Yes, I have.

8 **Q DO YOU HAVE ANY OBJECTION REGARDING MAWC'S WSIRA CALCULATION?**

9 A Yes. I object to the level of property taxes included in the filing. I contend that the level
10 of property taxes included in the WSIRA is excessive when compared to the actual
11 property taxes paid by MAWC. If this level of property taxes is approved, MAWC would
12 be collecting more property taxes from MAWC ratepayers than it is actually paying to
13 the taxing authorities. This methodology will allow for shareholders to obtain millions
14 of dollars of increased profits.

15 **Q PLEASE DESCRIBE HOW MAWC HAS CALCULATED PROPERTY TAXES FOR**
16 **THIS WSIRA FILING.**

17 A The Company begins with plant additions placed into service in 2021 for WSIRA Case
18 No. W0-2021-0428 and the current case (Case No. WO-2022-0176). This amounts to
19 approximately \$240 million. The Company excludes plant additions from 2022 as they
20 will not be taxed within 12 months as dictated by §393.1000(5) ISRS costs. Of these
21 2021 plant additions, the Company determines that 96.25%, or \$231 million, will be
22 included in the assessment. The Company refers to this total as "% Good."

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1 The Company then turns to retirements that took place in 2021, again excluding
2 the 2022 amount. This amounts to approximately \$20.1 million. The Company has
3 determined that 20% (again termed “% Good”), or \$4 million, of these retirements will
4 be considered in the current assessment for property taxes since that plant has been
5 retired.

6 The Company subtracts the retirements from the plant to determine the net
7 plant to be assessed, which is \$227 million. The Company assumes a 32%
8 assessment rate, resulting in an assessed value of \$72.6 million to be taxed at a rate
9 of 8.849%.¹ MAWC calculates that it will be required to pay \$6.4 million in taxes on
10 these net plant additions.

11 **Q PLEASE EXPLAIN WHY MAWC INCLUDES ONLY 96.25% OF THE PLANT AND**
12 **ONLY 20% OF THE RETIREMENTS IN ITS ASSESSED VALUE CALCULATION.**

13 **A**The 96.25% and 20% factors are meant to reflect the declining value of an asset as it
14 ages per the Company’s response to MIEC 0002. I have included the response to
15 MIEC 0002 as Schedule GRM-1. The 96.25% and 20% factors match the accelerated
16 depreciation rates (Modified Accelerated Cost Recovery System – MACRS) allowed by
17 the Internal Revenue Code.

18 **Q DO YOU AGREE WITH THIS CALCULATION?**

19 **A**No. At this point, the Company has not shown that its calculated property taxes
20 resemble the actual property taxes paid. To demonstrate this fact, I have created the
21 following table that looks at MAWC’s annual plant additions and retirements, and uses

¹8.849% is the weighted average tax rate. Calculated by determining taxes paid as a percent of assessed value of plant. The calculation supporting this percentage can be found in MAWC’s workpapers on the tab “Link In-General.”

1 the same calculations that the Company proposes for its WSIRA property taxes. If this
 2 calculation in any way reflected reality, the calculated property tax would approximate
 3 year-to-year change in property taxes actually paid. Clearly, it does not.

TABLE 1
Comparing Calculated Property Tax on Additions to Actual Property Tax

Year	Prior Year	Prior Year	Plant Adds	Retirements	Net Plant	Tax Calculated	Actual	Year to Year	Excess
	Additions ¹	Retirements ¹	% Good	% Good	Assessed		Property Tax	Change in	Calculated Tax
	(1)	(2)	(3) = (1) x 96.25%	(4) = (2) x 20%	(5) = [(3) + (4)] x 32%	(6) = (5) x 8.849%	For Current Year ²	Prop Tax	(9) = (6) - (8)
2017	\$143,403,761	\$11,335,321	\$138,026,120	\$2,267,064	\$43,442,898	\$3,844,262	\$21,521,785	\$5,287,973	-\$1,443,711
2018	193,485,086	7,505,148	186,229,395	1,501,030	59,113,077	5,230,916	25,378,972	3,857,187	1,373,729
2019	161,076,218	20,122,217	155,035,860	4,024,443	48,323,653	4,276,160	27,915,190	2,536,218	1,739,942
2020	222,848,543	32,031,078	214,491,723	6,406,216	66,587,362	5,892,316	30,319,135	2,403,945	3,488,371
2021	300,035,524	44,610,931	288,784,192	8,922,186	89,555,842	7,924,796	33,177,300	2,858,165	5,066,631
							\$27,168,450	\$16,943,488	\$10,224,962

Sources:
 1 - MAWC Annual Reports to the MOPSC Page W-10
 2 - MAWC Annual Reports to the MOPSC Page F-31

4 **Q PLEASE DESCRIBE YOUR TABLE.**

5 A The table starts with the prior year’s plant additions and retirements, as those will be
 6 the additions and retirements considered in the current year’s property tax calculation.
 7 The additions are deemed 96.25% “good,” and the retirements are factored “good” at
 8 a rate of 20%, then netted in the same way that the Company calculates the “Net Plant
 9 to be Assessed” in its worksheets. This net amount is assessed at 32% and the tax is
 10 calculated at the same 8.849% rate that the Company uses to calculate property tax
 11 for WSIRA purposes. In the final columns, I derive the change in property tax actually
 12 experienced, and then compare this amount to the calculated value for property tax.

13 **Q WHAT DOES THIS TABLE REVEAL?**

14 A This table reveals that the Company’s calculation provides excessive amounts of
 15 property tax—more than \$10.2 million over the course of five years. While this
 16 calculation relies on total Missouri plant additions and retirements, the relation between

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1 the Company's calculation method and the actual property tax paid on WSIRA
2 investment will almost assuredly produce similar excesses.

3 **Q IN THE CURRENT WSIRA FILING, WHAT LEVEL OF ESTIMATED PROPERTY**
4 **TAXES HAS MAWC INCLUDED?**

5 A MAWC has proposed to include \$6.4 million in estimated property taxes.

6 **Q HAVE YOU COMPARED HISTORICAL PROPERTY TAX PAYMENTS TO THE**
7 **ESTIMATED VALUE INCLUDED IN THIS FILING?**

8 A Yes. I have prepared Table 2 that shows historical property taxes paid.

<u>Year</u>	<u>Property Tax</u>	<u>Year Over Year Change in Property Tax</u>
2011	\$10,760,667	\$ ---
2012	10,905,079	144,412
2013	12,860,089	1,955,010
2014	12,509,206	-350,883
2015	16,594,787	4,085,581
2016	16,233,812	-360,975
2017	21,521,785	5,287,973
2018	25,378,972	3,857,187
2019	27,915,190	2,536,218
2020	30,319,135	2,403,945
2021	33,177,300	2,858,165

Source: MAWC Annual Reports to the MOPSC, Pg. F-31

9 As can be seen from Table 2, over the past 10 years, there was no year-over-year
10 increase in property taxes to the level estimated in this filing. MAWC is overstating
11 property taxes as payable by a significant amount.

1 **Q IS THE COMPANY REQUIRED TO PROVIDE A TRUE-UP OF ANY EXCESS**
2 **PROPERTY TAX COLLECTED AS A RESULT OF THIS CALCULATION?**

3 A No. MAWC is required to true-up the amount of WSIRA charges to be collected with
4 the WSIRA charges actually collected. If the property tax calculation as proposed by
5 MAWC is confirmed by the Commission, there is no remedy to true-up property taxes
6 to actual amounts paid. Given this, any excess property tax calculated would go toward
7 enhancing MAWC's profits.

8 **Q HAS THE COMPANY PROVIDED ANY SUPPORTING DOCUMENTATION FOR ITS**
9 **PROPERTY TAX CALCULATION ASSUMPTIONS USED IN THIS CASE?**

10 A No. MAWC has not provided any supporting documentation for the use of its MACRS
11 assumption for calculating property taxes or that the calculation reflects the values
12 assigned by county assessors upon which the 32% assessment is applied.

13 **Q WHAT METHOD FOR DETERMINING PROPERTY TAX WOULD YOU RELY ON?**

14 A I would propose that Company rely on a ratio of prior year investment to current
15 property tax paid (e.g., the ratio of 2020 investment to 2021 property tax paid) to
16 estimate property tax associated with the WSIRA investment. I have included Table 3
17 that shows the historical assessment ratios using this methodology.

TABLE 3

Calculating Property Tax as a Percentage of Beginning Plant

<u>Year</u>	<u>Beginning of Year Plant In Service</u>	<u>Property Tax</u>	<u>Prop Tax Rate</u>
2011	\$1,521,693,053	\$10,760,667	0.71%
2012	1,598,474,689	10,905,079	0.68%
2013	1,715,029,687	12,860,089	0.75%
2014	1,812,178,714	12,509,206	0.69%
2015	1,904,873,949	16,594,787	0.87%
2016	2,028,717,284	16,233,812	0.80%
2017	2,160,785,724	21,521,785	1.00%
2018	2,346,764,979	25,378,972	1.08%
2019	2,487,718,980	27,915,190	1.12%
2020	2,678,536,445	30,319,135	1.13%
2021	2,933,961,038	33,177,300	1.13%

Source: MAWC Annual Reports to the MOPSC.
Plant from Pg. W-10, Property Tax on Pg F-31

1 **Q HAS MAWC RELIED ON THIS METHODOLOGY OR SOMETHING SIMILAR IN THE**
2 **PAST TO ESTIMATE PROPERTY TAXES?**

3 **A** Yes. MAWC relied on a similar methodology in the following case numbers:

- 4 > WO-2011-0106
- 5 > WO-2012-0401
- 6 > WO-2013-0406
- 7 > WO-2014-0055
- 8 > WO-2014-0237
- 9 > WO-2015-0059
- 10 > WO-2015-0211
- 11 > WO-2017-0297
- 12 > WO-2018-0059

13 **Q DO YOU RECOMMEND ANY OTHER CHANGES TO THE WSIRA CALCULATION?**

14 **A** Yes. I would recommend that as part of the reconciliation process, property taxes
15 associated with WSIRA investment be trued-up and compared to the property taxes

1 estimated by MAWC. This would add a necessary protection to ensure that customers
2 are not harmed by mistakes or over estimation in the calculation of property tax.

3 **Q ARE YOU AWARE OF ANY CURRENT LEGISLATION THAT WOULD IMPACT THE**
4 **PROPERTY TAX ISSUE FOR FUTURE MAWC WSIRA FILINGS?**

5 A Yes. Senate Bill 745 contains a provision whereby sewer and water corporations shall
6 defer to a regulatory asset or liability account any differences in state or local property
7 taxes incurred compared to those levels contained in the revenue requirement used to
8 set rates. If this legislation is signed into law by Governor Parsons, then the need to
9 estimate WSIRA property taxes in the future should cease. If they do not cease,
10 ratepayers could be exposed to double taxation recoveries.

11 **Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

12 A Yes, it does.

1 **Qualifications of Greg R. Meyer**

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

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

5 **Q PLEASE STATE YOUR OCCUPATION.**

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

8 **Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND 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 was
11 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 Junior
14 Auditor. During my employment at the Commission, I was promoted to higher auditing
15 classifications. My final position at the Commission was an Auditor V, which I held for
16 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
21 Supervisor as assigned. I assisted in the technical training of other auditors, which
22 included the preparation of auditors' workpapers, oral and written testimony.

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

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

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

24 In addition to our main office in St. Louis, the firm also has branch offices in
25 Corpus Christi, Texas; Detroit, Michigan; Louisville, Kentucky and Phoenix, Arizona.

DATA INFORMATION REQUEST
Missouri-American Water Company
WR-2022-0176
WSIRA

Requested From: Brian LaGrand

Date Requested: 04/21/22

Information Requested:

In MAWC's last rate case, it proposed to include a pro forma amount of property taxes of \$30,945,739 applicable to plant in service of \$3,268,199,887. Please reconcile how the current ISRS filing requests approximately 20% ($\$6,427,965 \div 30,945,739$) of the property taxes included in the last MAWC rate case for approximately 7% ($\$226,965,655 \div \$3,268,199,887$) of the plant additions included in this current ISRS.

Requested By: Jamie Reifsteck – jreifsteck@chgolaw.com

Information Provided:

For purposes of this response, the Company will assume MIEC is referring to the Company's current WSIRA filing. The Company does not have a currently filed ISRS.

The comparison MIEC is making is not valid when considering property taxes on new investments. A significant driver of property taxes paid is the age of the asset. As shown on page 4 of Appendix C of the Application, 99.250% of the original cost of an asset is included for its first year in service when determining the "% Good". This declines as assets age, eventually reaching the 20.000% floor for assets that are 17 years old or older.

In this case, all the assets placed in service in 2021 receive a 96.250% "% Good", offset by all retirements from 2021, which receive a 20.000% "% Good". The 32.000% assessment rate is applied to this net amount to determine the Assessed Value. The property tax rate is then applied to the Assessed Value to determine the amount of property tax that will be due on those investments.

As an example, a \$1,000,000 asset will have Assessed Value that is approximately 5 times higher in its first year in service than in its 17th year.

Responsible Witness: Brian LaGrand