

Exhibit No.:
Issues: 2015 Flood Costs,
Regulatory Deferrals,
Capitalized Depreciation,
General Ledgers
Witness: Lisa M. Ferguson
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: WR-2015-0301
Date Testimony Prepared: March 4, 2016

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY

OF

LISA M. FERGUSON

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2015-0301

Jefferson City, Missouri
March 2016

**** Denotes Highly Confidential Information ****

NP

1
2
3
4
5
6
7
8
9
10
11
12
13

TABLE OF CONTENTS
SURREBUTTAL TESTIMONY
OF
LISA M. FERGUSON
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2015-0301

REGULATORY ASSET TREATMENT FOR FLOOD COSTS..... 2

OTHER REGULATORY DEFERRALS 5

 Hickory Hills – Receivership Costs 5

 Emerald Pointe – Pipeline Amortization..... 6

 Arnold - Pipeline 8

CAPITALIZED DEPRECIATION..... 9

GENERAL LEDGERS 11

1 **REGULATORY ASSET TREATMENT FOR FLOOD COSTS**

2 Q. Please generally describe the flood event that has caused additional expense to
3 be incurred by MAWC.

4 A. In late December 2015, heavy rainfall caused many rivers in the MAWC's
5 service territory to swell out of their bounds and cause severe flooding. MAWC incurred
6 expenses related to flood water cleanup as well as replacement of infrastructure at St. Louis
7 metro water facilities which included the St. Louis south plant intakes, the St. Louis Meramec
8 water plant, the Joplin water plant intake structure, the Meramec wastewater treatment plant
9 as well as the Arnold wastewater treatment plant.

10 Q. Has MAWC provided Staff with the actual expense documentation related to
11 the flood costs incurred?

12 A. Staff received a summary of all estimated expense and capital costs related to
13 the December 2015 flood in response to Staff Data Request No. 393. Staff has received a
14 limited amount of receipts and invoices for actual expenses incurred due to the flooding;
15 however, the majority of costs whether expense or capital cited in the response to Staff Data
16 Request No. 393 are estimates and quotes from numerous vendors as well as contract labor
17 and internal labor. Staff has asked for further detail in a supplemental Staff Data Request
18 No. 393.1 and based on the response to this data request, Staff will include known and
19 measureable costs as part of true-up direct on March 28, 2016.

20 Q. Does Staff propose recovery of these flood costs in rates set in this rate case?

21 A. Staff proposes recovery of all known and measureable expenses, exclusive of
22 internal labor costs, through a five year amortization while all known and measureable capital
23 expenditures through January 31, 2016, are included in rate base as a part of the Staff's

1 true-up audit that has reflected all plant in service through the January 31, 2016, true-up cutoff
2 that was approved by the Commission in this rate case.

3 Q. What amount of flood costs does Staff recommend for recovery in this case?

4 A. In response to Staff Data Request No. 393, MAWC provided actual invoice
5 data for approximately \$7,580 of costs to date. These costs will be updated with the response
6 to Data Request No. 393.1. It is unclear to Staff whether these costs pertain to construction
7 projects that are in service, if the costs are still in construction work in process or if some
8 portion is in expense. Once the Staff is able to determine the nature of these costs Staff would
9 propose to include all known and measureable expenses through a five-year amortization
10 period. All known and measureable capital costs that were in service as of the January 31,
11 2016, true-up will already be included investment as part of Staff's true-up audit. The Staff
12 will address the five-year amortization of actual expense in its true-up direct testimony.

13 Q. Has MAWC indicated how they propose to treat the flood expense for
14 regulatory purposes?

15 A. On February 22, 2016, Staff and MAWC personnel had a meeting to discuss
16 the flood costs and to determine how MAWC proposes to treat the flood costs that were not
17 known and measurable at the time of the true-up cutoff in this rate case. It is Staff's
18 understanding from this meeting that MAWC intends to seek recovery of all actual expenses
19 incurred and all investment costs that were in service as of January 31, 2016, as a part of rates
20 that would be established by the Commission in this rate proceeding. For expense that was
21 not known and measurable and for investment that was not in service by the January 31, 2016,
22 true-up cutoff date, MAWC has preliminarily indicated that they would seek deferral of these

1 costs through the establishment of a regulatory asset for potential recovery in a subsequent
2 general rate proceeding.

3 Q. How does Staff believe that any proposed deferral of flood costs should
4 be handled?

5 A. It is the Staff's position that MAWC should put forward a complete list of all
6 items that they propose to defer as part of a regulatory asset in testimony or as a separate
7 filing to this rate case. Once MAWC provides this complete list of items that it proposes for
8 deferral in the regulatory asset then the parties to the case can either agree to include some or
9 all of these items in a deferral through a stipulation, or have the Commission make the
10 determination of the costs that should be allowed deferral treatment. It is the Staff's position
11 that MAWC should completely itemize and quantify all known and measurable flood-related
12 costs, by month, by Uniform System of Accounts (USOA) related to the flood no later than by
13 June 30, 2016. The Staff recommends that MAWC begin amortizing, over a five year period,
14 the balance of the flood cost regulatory asset on July 1, 2016. This recommendation is
15 consistent with Staff's longstanding position of recommending that the amortization of
16 deferred regulatory assets should begin in close approximation to the time frame that the
17 expenses were actually incurred. The Staff opposes any proposal to defer the amortization of
18 any flood related regulatory asset to the effective date of rates MAWC's next rate proceeding.

19 Q. Why does Staff oppose deferring the starting point for the amortization of
20 flood costs as part of a regulatory asset to correspond to the effective date of rates in
21 MAWC's next rate proceeding?

22 A. Because it is highly doubtful that the ending point of the five-year amortization
23 period of the flood-related regulatory asset would ever be timed to coincide with the effective

1 date of rates of a second subsequent future rate case. For this reason, tying the beginning point
2 of the regulatory asset amortization to the effective date of new rates in MAWC's next rate
3 case will almost certainly result in the utility's over-recovery of the amortization expense in
4 rates that are collected from MAWC's customers.

5 **OTHER REGULATORY DEFERRALS**

6 **Hickory Hills – Receivership Costs**

7 Q. Please give a brief description of the receivership costs associated with the
8 Hickory Hills water and sewer systems.

9 A. The Hickory Hills water and sewer systems were transferred to MAWC as part
10 of Case No. WA-2016-0019. Prior to that case, Hickory Hills was in court-appointed
11 receivership, with Mr. Gary Cover as receiver. Mr. Cover was unable to fully recover all of
12 his court-approved fees for his receivership duties and Mr. Cover also personally took out a
13 loan to pay off Hickory Hills' debt that he inherited from the original owners and to
14 compensate two customers for sewer backup claims against Hickory Hills. The purchase
15 price that MAWC paid for Hickory Hills was the current net book value of the utility assets as
16 well as a portion of outstanding receivership costs (receiver fees and repayment of
17 Mr. Cover's personal loan). In Case No. WA-2016-0019, Staff maintained that the payment
18 made by MAWC to Hickory Hills that allowed the receiver reimbursement of a portion of the
19 outstanding receivership fees and to pay off the personal loan was a reasonable and necessary
20 investment by MAWC to enable transfer of the assets of a troubled utility under receivership
21 and the Commission agreed with Staff's assessment in their order in that case.

22 Q. What regulatory treatment did the Commission order for the receivership
23 costs?

1 ownership or responsibility for the maintenance of that section of pipeline when it acquired
2 Emerald Point. That section of pipeline is owned and maintained by the City of Hollister.

3 Q. Does the Staff believe that it is appropriate to include any amount of the
4 Emerald Pointe pipeline cost in rate base, that MAWC does not own and that MAWC does
5 not maintain?

6 A. No. Staff maintains that the Emerald Pointe pipeline in question is not owned
7 by MAWC and furthermore MAWC has no requirement to maintain the pipeline. The portion
8 of the pipeline that is located between the flow meter and the City of Hollister wastewater
9 treatment facility is actually owned and maintained by the City of Hollister. The costs for this
10 section of main were erroneously included in rate base by Staff in the Emerald Pointe rate
11 case (No. SR-2013-0016) and further erroneously kept in the calculation of rate base for the
12 asset transfer case from Emerald Pointe to MAWC (Case No. SO-2014-0116).

13 Q. Is the regulatory treatment that MAWC is seeking for the Arnold wastewater
14 pipeline similar to the Emerald Pointe pipeline situation?

15 A. Yes. As Staff said above, these assets do not belong to MAWC and as such
16 should not be included in MAWC rate base. Staff believes that the treatment that was
17 afforded in the Emerald Pointe case was done so in error and Staff believes that it is
18 appropriate to correct this mistake as part of this rate case. MAWC proposes to extend this
19 rate base treatment for assets that they do not own and do not maintain as part of their
20 recent acquisition of Arnold sewer facilities. In the next section of my surrebuttal testimony,
21 I will address MAWC's proposal to similarly include in the cost of service calculation a rate
22 base inclusion for a portion of the construction costs that the Metropolitan St. Louis Sewer
23 District ("MSD") requires MAWC to pay but for which MAWC retains no ownership.

1 In addition, MAWC is not obligated to provide any maintenance of the assets as they are
2 owned by MSD. The Staff believes that it is inappropriate to provide MAWC a return on
3 assets that it does not own and that it does not operate. However, if the Commission believes
4 that Staff is incorrect in reversing its treatment of Emerald Pointe costs, post transfer of assets
5 to MAWC, then Staff requests that the Commission not allow MAWC to recover a return on
6 the assets that MSD owns and operates.

7 **Arnold - Pipeline**

8 Q. What are the assets that MSD owns and that MAWC is currently paying for?

9 A. MSD owns and maintains the wastewater treatment plant and pipeline that runs
10 underneath the Meramec River between the MSD plant and the City of Arnold. The City of
11 Arnold was required to pay for a percentage of capacity that would be used on MSD's
12 pipeline and wastewater treatment plant. MAWC later acquired the City of Arnold and is
13 now requesting rate base treatment of the non-utility asset costs that are being paid pursuant to
14 a contract between MSD and MAWC. The asset costs are not investment, they are capacity
15 costs. MAWC does not own or maintain the Arnold pipeline. Staff does not agree with
16 MAWC's proposal of any rate base treatment for these costs.

17 Q. Does Staff propose to include rate recovery for the Arnold pipeline costs being
18 incurred by MAWC?

19 A. Yes. Staff proposes to include the amount of Arnold pipeline costs
20 commensurate with the percentage amount of capacity based on the repayment schedule and
21 sewerage agreement established with MSD. Staff is including approximately ** _____ **
22 through an annual amortization for recovery of these costs on a dollar for dollar basis that is
23 consistent with the amount that MAWC must pay MSD on annual basis based upon said

1 contract. Please refer to Schedule LMF-s1 attached to this surrebuttal for a copy of the
2 amortization payment that MAWC makes payment to MSD. Staff recommends that the
3 Commission provide no rate base treatment for any amount of the assets that are owned and
4 operated by MSD.

5 Q. On page 43 of MAWC witness Jeanne M. Tinsley's rebuttal testimony, at
6 lines 22-23, she states, "Spreading the costs over the life of the assets eliminates any
7 intergenerational inequity. Under Staff's approach, the current users of the system will pay
8 a higher cost for service than future customers who will also benefit from the asset."
9 How does Staff respond?

10 A. Staff has clear documentation through a signed agreement between MSD and
11 MAWC to base regulatory treatment of these costs. Staff is merely trying to match rates with
12 the cost causer, or the contractual agreement. MAWC witness Tinsley's argument would be
13 more appropriate if the assets were owned by MAWC; however it is owned by MSD and
14 MAWC is merely paying for capacity to treat wastewater from the City of Arnold.

15 **CAPITALIZED DEPRECIATION**

16 Q. Does MAWC capitalize any depreciation for its transportation equipment;
17 tools, shop and garage equipment and power operated equipment?

18 A. No. According to MAWC's response to Staff Data Request No. 363.1 and
19 Mr. Todd Wright's rebuttal testimony found on page 13, lines 16-19, MAWC does not
20 capitalize depreciation expense on these assets.

21 Q. Does MAWC believe it should capitalize depreciation?

22 A. According to MAWC witness Todd P. Wright's rebuttal testimony page 13,
23 lines 22-24, the Company does not believe it should capitalize depreciation because

1 “depreciation is related to the wear and tear on assets over their estimated useful lives and that
2 MAWC should be able to recover those costs over that same period.”

3 Q. Does Staff agree with MAWC’s position on the treatment of depreciation for
4 the above stated accounts?

5 A. No. Staff maintains that MAWC should follow the guidance given in the 1976
6 Revisions of Uniform System of Accounts for Class A & B Water Utilities 1973 National
7 Association of Regulatory Utility Commission guide (“USOA”). On page 98, under
8 account 403 Depreciation Expense, the USOA states: “Note B – Depreciation expense
9 applicable to transportation equipment, shop equipment, tools, work equipment and power
10 operated equipment and other general equipment may be charged to clearing accounts
11 as necessary in order to obtain a proper distribution of expenses between construction
12 and operation.”

13 Q. Is there additional guidance that confirms the above treatment for utilities in
14 other sectors?

15 A. Yes. The Federal Energy Regulatory Commission (FERC) Uniform System of
16 Accounts for Electric Utilities also states on page 399 under section 403 depreciation,
17 “Note B: Depreciation expense applicable to transportation equipment, shop equipment, tools,
18 work equipment and power operated equipment and other general equipment may be charged
19 to clearing accounts as necessary in order to obtain a proper distribution of expenses between
20 construction and operation.”

21 Q. Do other Missouri utilities under this Commission’s jurisdiction follow
22 this guidance?

1 A. Yes. As I stated in my rebuttal testimony, at a minimum, Union Electric
2 Company d/b/a Ameren Missouri, Liberty Midstates Natural Gas, Laclede Gas Company, and
3 Kansas City Power & Light Company also utilize this guidance and maintain documentation
4 showing what amount of time the assets in the above accounts are used for expense versus
5 capital purposes. The depreciation is then booked according to that division.

6 Q. Does Staff propose a capitalized depreciation adjustment in this case?

7 A. No. Due to the fact that MAWC has not been tracking the use of the assets in
8 USOA accounts 392 Transportation Equipment, 394 Tools, Shop and Garage Equipment, and
9 396 Power Operated Equipment; it would be difficult for either MAWC or Staff to determine
10 an accurate amount of depreciation to be removed from expense and capitalized. However,
11 Staff does recommend that the Commission order MAWC to begin tracking the amount of
12 time the assets in USOA accounts 392, 394, and 396 are being used for expense versus capital
13 purposes and capitalize the proportionate amount of depreciation expense associated with the
14 use of those assets in capital projects on a going forward basis. Staff recommends that the
15 Commission require MAWC to begin capitalizing depreciation based upon the actual usage of
16 these assets for capital project by January 1, 2017.

17 **GENERAL LEDGERS**

18 Q. On page 14 of Todd P. Wright's rebuttal testimony, lines 5-7, he states
19 "On page 89 of Staff's report, Staff contention with MAWC's general ledger can be separated
20 in two issues, general ledger data format and utilization of NARUC USOA Chart 1976 for
21 both water and sewer districts. Does Staff agree that this is a correct summary of the
22 problems Staff found with the general ledger?"

Surrebuttal Testimony of
Lisa M. Ferguson

1 A. Partially. Staff found that the original general ledger that was provided was a
2 monthly balance showing no activity between months and by System Application and
3 Products (“SAP”) accounts as developed by American Water Works Service Company
4 (“Service Company”). Staff understands that Service Company and MAWC just recently
5 updated their reporting system to an SAP-platform through the recent business
6 transformation; however, the code of state regulations for both water and sewer require the
7 use of the Uniform System of Accounts. Rule 4 CSR 240-61.020, Uniform System of
8 Accounts-Sewer Companies, subsection (1) states:

9 The Uniform Systems of Accounts For Class A and B Sewer
10 Utilities 1976, issued by the National Association of Regulatory
11 Commissioners and the Uniform Systems of Accounts For
12 Class C and D Sewer Utilities 1976, issued by the National
13 Association of Regulatory Utility Commissioners are adopted
14 and prescribed for use by all sewer companies under the
15 jurisdiction of the Public Service Commission.

16 Rule 4 CSR 240-50.030, Uniform Systems of Accounts-Water Companies, subsection (1)
17 states:

18 The uniform system s of accounts for Class A and B and for
19 Class C and D water companies, issued by the National
20 Association of Regulatory Utility Commissioners in 1973, as
21 revised July 1976, are adopted and prescribed for use by all
22 water companies under the jurisdiction of the Public Service
23 Commission.

24 MAWC has come before this Commission many times and should be well aware of the
25 Commission rules and regulations. MAWC may keep its records in another format for other
26 purposes, but for regulatory purposes, MAWC should maintain its records in the USOA
27 format and be able to provide them to Staff during a rate proceeding or upon request in other
28 proceedings.

Surrebuttal Testimony of
Lisa M. Ferguson

1 Q. Does the Staff have other concerns regarding MAWC's general ledger?

2 A. Yes. When Staff performed a standard check of MAWC's direct workpapers
3 as compared to its general ledger, the Staff encountered some difficulties matching the
4 account balances. Staff conducted a meeting with MAWC to determine what was causing
5 these differences. Staff was informed that MAWC keeps two different ledgers, a "leading
6 ledger" and a "non-leading ledger." The difference was explained that one ledger contains
7 total company information including correcting entries, but it is not separated by district.
8 The other ledger has district specific information but does not have correcting entries.

9 Q. What is Staff requesting the Commission do in regards to the general ledger?

10 A. Staff requests that the Commission order MAWC, beginning on January 1,
11 2017, to maintain a monthly general ledger separately by district that includes a beginning
12 monthly balance, all monthly activity and correcting entries, and an ending monthly balance.
13 Each general ledger entry must be by USOA account as issued by the National Association of
14 Regulatory Utility Commissioners in 1973, as revised July 1976.

15 Q. Does this conclude your surrebuttal testimony?

16 A. Yes, it does.

SCHEDULE LMF-s1

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY