

*Exhibit No.:*  
*Issue(s):* *Rate Case Expense*  
*Witness:* *Paul K. Amenthor*  
*Sponsoring Party:* *MoPSC Staff*  
*Type of Exhibit:* *Surrebuttal Testimony*  
*Case No.:* *WR-2020-0344*  
*Date Testimony Prepared:* *February 9, 2021*

**MISSOURI PUBLIC SERVICE COMMISSION**

**FINANCIAL & BUSINESS ANALYSIS DIVISION**

**AUDITING DEPARTMENT**

**SURREBUTTAL TESTIMONY**

**OF**

**PAUL K. AMENTHOR**

**MISSOURI-AMERICAN WATER COMPANY**

**CASE NO. WR-2020-0344**

*Jefferson City, Missouri*  
*February 2021*



1           Q.     What is the difference between amortization and normalization and why does  
2 Staff recommend rate case expense be normalized?

3           A.     Normalization is a ratemaking term that means that Staff is proposing an  
4 adjustment to smooth the effects of costs that are subject to fluctuation from year to year over  
5 a period of time. Amortization refers to the full recovery of a cost or full refund of a cost over  
6 a period of time. The annual amount in the cost of service would be the same; however  
7 amortization refers to guaranteed recovery of an item in rates for the amortization period set  
8 while normalization does not guarantee recovery by the end of the recovery period set. In a  
9 rate case, rates are set to best reflect what a utility's cost of service will be in the future by  
10 adjusting historical costs based on known and measureable data at the time. The actual revenue,  
11 expense and investment in between rate cases will more than likely differ from that in base rates  
12 because of cost control, additional investment, weather effects on revenue, etc. This means  
13 that, among other things, a utility could have higher revenue, lower expense, or vice versa than  
14 that built into base rates. These are effects called regulatory lag that can be positive or negative  
15 for a utility, sometimes both for the various cost of service items; but due to this it is necessary  
16 to take into account all relevant factors in the cost of service to see if a utility needs a rate  
17 increase or decrease. Amortization is used in certain circumstances when the Commission has  
18 found it necessary for a utility to have full recovery of a cost or it has been found necessary to  
19 refund an amount to customers without consideration of regulatory lag whether a new rate case  
20 is subsequently filed or not. Normalization assumes that the cost was smoothed and that,  
21 depending on when a utility files its next rate case, it can recover the full amount, more or less,  
22 of the expense through regulatory lag.

1 MAWC files its general rate cases approximately every 36 months due to the  
2 infrastructure system replacement surcharge (ISRS) statute, so it incurs rate case expense  
3 disproportionately each of those three years because rate case expense is incurred specifically  
4 for a petition to change rates – which doesn't happen every year. Staff recommends  
5 normalization of rate case expense to smooth that cost over the three year period. However,  
6 rate case expense is not a special circumstance for MAWC, or any utility, that should be ensured  
7 guaranteed recovery without regard to regulatory lag. In fact, normalizing rate case expense  
8 provides an incentive to control rate case expense because a utility may or may not recover all  
9 of those costs through the normalized amount. Normalizing rate case expense rewards a utility  
10 for efficient operations that avoid the need to file rate cases more often than anticipated.

11 Q. On page 41, line 18 and page 42, line 1 of his rebuttal testimony, MAWC witness  
12 LaGrand states that Staff excluded Service Company costs for work on the rate case. Did Staff  
13 exclude service company costs for rate case expense in its direct testimony?

14 A. Yes. The service company labor was described in the response to Staff Data  
15 Request No. 0217 as “rate case preparation” and “rate case discovery”. There was no reference  
16 to service company labor. As Staff did not know what costs those descriptions entailed, Staff  
17 followed up with further data requests and discovered that those costs consisted of service  
18 company labor related to work performed on the current rate case. During Staff's audits, Staff  
19 examines and annualizes all utility labor costs through its payroll adjustment. It was necessary  
20 to remove the service company labor costs until Staff could review the response to Staff Data  
21 Request No. 0217.3 in order to avoid a double inclusion of service company employees' labor  
22 cost in the payroll as well as rate case expense calculation. The response to Staff Data Request  
23 No. 0217.3 provided the total hours certain service employees worked for 2019 and 2020

1 allocated between rate case work, non-rate case work, work performed for MAWC, and work  
2 performed for other American Water affiliates. Staff has reviewed the response to Staff Data  
3 Request No. 0217.3, among others, and intends to include the rate case portion of the service  
4 company labor in Staff's cost of service calculation with Staff's already proposed 50% sharing  
5 and 36-month normalization. The remainder of the service company labor that is not devoted  
6 to rate case expense that is allocated to MAWC has been included in Staff witness Ali Arabian's  
7 updated payroll expense annualization. Staff has reflected these levels of service company labor  
8 expense in its cost of service.

9 Q. Has Staff removed any other rate case expense from the amounts proposed by  
10 MAWC in its direct case?

11 A. No.

12 Q. On page 44, lines 12-20 of MAWC witness LaGrand's rebuttal he states that  
13 even if a portion of the Company's rate case expense should be shared, there are certain rate  
14 case costs that should not be shared between shareholders and customers. Does Staff agree  
15 with Mr. LaGrand's position on any of the items that he lists as costs that should not be shared?

16 A. Staff agrees to not sharing certain costs related to the depreciation study and  
17 customer/public notices. Staff did not include the cost of the depreciation study in the sharing  
18 mechanism in its direct position. Staff requested that MAWC delineate all costs related to  
19 customer notices and Staff has received that information. Staff has reflected a 36 month  
20 normalization of those costs outside of the sharing mechanism in its cost of service.

21 Q. Does this conclude your surrebuttal testimony?

22 A. Yes, it does.

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

In the Matter of Missouri-American Water    )  
Company's Request for Authority to            )    Case No. WR-2020-0344  
Implement General Rate Increase for         )  
Water and Sewer Service Provided in         )  
Missouri Service Areas                         )

**AFFIDAVIT OF PAUL K. AMENTHOR**

STATE OF MISSOURI        )  
                                  )        ss.  
COUNTY OF COLE         )

**COME NOW PAUL K. AMENTHOR** and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Surrebuttal Testimony of Paul K. Amenthor*; and that the same is true and correct according to his best knowledge and belief, under penalty of perjury.

Further the Affiants sayeth not.

*/s/ Paul K. Amenthor*  
**PAUL K. AMENTHOR**