

MAWC 3

Exhibit No.:
Issues: Purchased Water, Electricity, Fuel
and Power, Chemicals,
Transportation Leases, Waste
Disposal
Witness: Nikole Bowen
Exhibit Type: Rebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2015-0301
SR-2015-0302
Date: February 11, 2016

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2015-0301
CASE NO. SR-2015-0302**

REBUTTAL TESTIMONY

OF

NIKOLE BOWEN

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

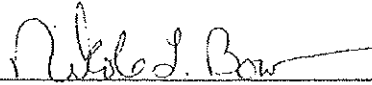
MAWC Exhibit No. 3
Date 2-21-16 Reporter YH
File No. WR-2015-0301

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

IN THE MATTER OF MISSOURI-AMERICAN) WATER COMPANY FOR AUTHORITY TO) FILE TARIFFS REFLECTING INCREASED) RATES FOR WATER AND SEWER) SERVICE)	CASE NO. WR-2015-0301 CASE NO. SR-2015-0302
---	--


AFFIDAVIT OF NIKOLE L. BOWEN

Nikole L. Bowen, being first duly sworn, deposes and says that she is the witness who sponsors the accompanying testimony entitled "Rebuttal Testimony of Nikole L. Bowen"; that said testimony was prepared by her and/or under her direction and supervision; that if inquiries were made as to the facts in said testimony, she would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of her knowledge.



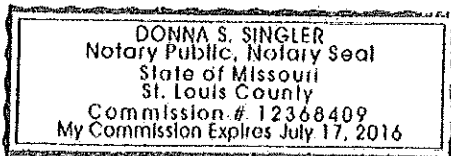
Nikole L. Bowen

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 27th day of January 2016.



Notary Public

My commission expires: July 17, 2016



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27

**REBUTTAL TESTIMONY
NIKOLE BOWEN
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2015-0301
CASE NO. SR-2015-0302**

TABLE OF CONTENTS

I. Introduction 2

II. Overview 2

 1) Purchased Water.....2

 2) Electricity.....4

 3) Fuel and Power4

 4) Chemicals.....5

 5) Transportation Leases.....6

 6) Waste Disposal.....7

REBUTTAL TESTIMONY

NIKOLE BOWEN

I. INTRODUCTION

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Nikole Bowen. My business address is 727 Craig Road, St. Louis, Missouri 63141. I am a Rates & Regulatory Analyst for American Water Works Service Company (“AWWSC” or “Service Company”).

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?

A. Yes, I have submitted direct testimony in this proceeding on behalf of Missouri American Water Company (“Missouri American,” “MAWC” or “the Company”).

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. I will address certain aspects of the Missouri Public Service Commission Staff Report regarding the following issues on behalf of MAWC:

- 1) Purchased Water;
- 2) Electricity;
- 3) Fuel and Power;
- 4) Chemicals;
- 5) Transportation Leases; and,

1 6) Waste Disposal.

2

3

(1) Purchased Water

4 **Q. PLEASE ADDRESS THE ISSUES REGARDING PURCHASED WATER.**

5 A. The Company calculated the expense for Purchased Water using a three
6 year average of purchased water usage. This average was then multiplied by
7 the current cost level to determine the purchased water expense by district.
8 The Company calculated a pro-forma adjustment in the amount of \$132,022,
9 with a total projected expense of \$983,579.

10 In its Purchased Water approach, Staff divided the test year purchased
11 water quantities by the test year system delivery. This resulted in a ratio of
12 Usage to System Delivery. Staff then took its calculated pro-forma system
13 delivery, multiplied by the percentage derived from usage to system delivery
14 in the test year, to determine an annualized usage amount for purchased
15 water. This calculated usage was then multiplied by the contract price to
16 determine the annualized purchased water expense by district. Staff's
17 adjustment for purchased water utilized the test year purchased water usage
18 as a basis for the calculation to develop the ratio/percentage outlined above.
19 This calculation, with an error in Spring Valley and Callaway County, which I
20 explain below, yielded an adjustment in the amount of \$101,033 for a total
21 annualized expense of \$952,588.

22

23 **Q. GIVEN THAT THE COMPANY'S AND STAFF'S NUMBERS ARE NOT**
24 **SIGNIFICANTLY DIFFERENT, WHICH METHOD SHOULD BE ADOPTED?**

1 A. MAWC is willing to accept Staff's approach for purposes of limiting the
2 contested issues in this case. However, Staff's adjustment should be
3 corrected for several matters.

4

5 **Q. WHAT CORRECTIONS SHOULD BE MADE TO STAFF'S ADJUSTMENT?**

6 A. Staff's adjustment for Spring Valley, in the supplied workpaper, was based on
7 the Parkville (Platte County) system sales. The adjustment amount
8 calculated by Staff for Spring Valley was a \$7,684 increase over the test year
9 expense. The amount, following Staff's logic for Spring Valley would have
10 been \$5,071, a difference of \$2,613. The total adjustment with this correction
11 in Staff's workpapers would have been \$98,420, with a total expense of
12 \$949,975. Additionally, Staff's adjustment did not include the service charge
13 primacy fee or demand charge for Callaway County - an annual amount of
14 \$886, so Staff's corrected Purchased Water expense should be \$950,861.

15

16

(2) Electricity

17 **Q. PLEASE EXPLAIN THE DIFFERENCE BETWEEN "ELECTRICITY" AND**
18 **"FUEL AND POWER."**

19 A. "Electricity," including Heating and Oil expenses, are recorded in a separate
20 account and are costs associated with electricity/heating for the Company's
21 office facilities. "Fuel and power" expenses, on the other hand, are those fuel
22 and electricity costs incurred for our production facilities. The costs, again,
23 are booked to different accounts and Staff only made an adjustment to the
24 latter, inaccurately calling it "electricity."

1

2 **Q. ARE THERE ISSUES REGARDING THE COMPANY'S ELECTRICITY**
3 **COSTS?**

4 A. Yes. Missouri American made an adjustment for Electricity, Heating and Oil
5 expense in the amount of \$37,421, for a total expense of \$712,940. These
6 expenses are associated with electricity, heating and oil for Missouri
7 American's office space. Staff did not include an adjustment for electricity
8 expense. The Company incurred a 4% increase from Ameren Missouri for
9 electricity expense, effective May 12, 2015, which should be considered in
10 future costs as it is a known and measurable increase.

11

12 **Q. WHAT IS THE BASIS FOR THAT 4% INCREASE?**

13 A. The 4% increase was based on Ameren Missouri's new tariffs that resulted
14 from Commission Case No. ER-2014-0258, which became effective May 30,
15 2015.

16

17 **Q. WHAT IS THE APPROPRIATE ADJUSTMENT ASSOCIATED WITH THIS**
18 **ISSUE?**

19 A. The total adjustment amount for Electricity, Heating and Oil should be an
20 increase of \$37,421, for an amount of \$712,940.

21

22

(2) Fuel and Power

23 **Q. PLEASE EXPLAIN THE ISSUES REGARDING FUEL AND POWER?**

1 A. Fuel and Purchased Power expense is largely a function of system delivery.
2 System delivery was calculated by Missouri American in total as 73,343,587,
3 while the pro-forma system delivery calculated by Staff was calculated in total
4 as 79,499,053. Staff's adjustment for Fuel and Power was based on the
5 higher volume of system delivery, thereby inflating the cost of Fuel and
6 Power. Staff calculated a pro-forma adjustment for Fuel and Power of
7 \$999,240 over the test year, for a total expense of \$13,317,028. Missouri
8 American calculated a pro-forma adjustment for Fuel and Power of \$406,905,
9 for a total expense of \$12,724,694.

10

11 **Q DOES THE COMPANY AGREE WITH STAFF'S USE OF SYSTEM**
12 **DELIVERY TO CALCULATE THIS EXPENSE?**

13 A. Yes, we do. However, the calculation of system delivery should be consistent
14 with the sales numbers ultimately adopted in this case. We believe that
15 MAWC witness Roach's sales figures should be used in developing the
16 system delivery number used in this adjustment.

17

18 **Q. IS THIS EXPENSE AFFECTED BY ANY VARIABLE OTHER THAN**
19 **SYSTEM DELIVERY?**

20 A. Yes, the expense is also affected by power costs.

21

22 **Q. DOES THE COMPANY AGREE WITH STAFF'S CALCULATION OF**
23 **POWER COSTS?**

1 A. Not entirely. Missouri American has three suppliers for Fuel and Power, all of
2 which implemented rate increases that were effective in 2015. Staff
3 calculated the effect of the rate change for fuel and power; however the rate
4 changes Staff recognized were only applied to a partial year. The rate
5 change calculation should have been applied to the full year as the rate
6 increases were effective in 2015, therefore none of the 2014 invoices from the
7 test year included this change.

8

9 **Q. DID STAFF CALCULATE THE PRO FORMA ADJUSTMENT TO FUEL AND**
10 **POWER USING CURRENT POWER COSTS?**

11 A. No. Staff took the actual invoice amounts for fuel and power and calculated a
12 variance between this amount and the test year expense. This amount
13 represents the accrual/reversal variance. The adjustment was added to the
14 test year amount, to arrive at an invoiced amount. Although Staff calculated a
15 higher pro-forma system delivery, Staff applied lower percentages, with the
16 exception of KCP&L, for the rate increases for the cost of fuel and power for
17 the electric utilities that supply power to Missouri American. For example,
18 the Ameren Missouri rate, which was effective May 30, 2015, allowed for a
19 4% overall increase, Staff applied an increase of 3.97%. Empire's rate
20 increase approval allowed for an overall increase of 3.9%, effective July 26,
21 2015, Staff used 3.88%. Finally, KCP&L' rate increase approval, effective
22 September 29, 2015, allowed for 11.6% increase; Staff used 11.69%. The
23 Missouri American calculation was based on increases of 4%, 3.9% and
24 11.6% respectively. In addition, Staff, only applied the rate change to a

1 partial year. The rate change calculation should have been applied to the full
2 year as the rate increases were effective in 2015 and applied to the 2014
3 invoices.

4 Consequently, Staff's approach should be updated to reflect 1) the sales
5 forecast ultimately adopted by the Commission, and 2) the latest effective
6 electricity rates of MAWC's power providers, annualized to reflect a full year
7 of expense.

8
9 **(4) Chemicals**

10 **Q. WHAT ARE THE ISSUES REGARDING CHEMICAL EXPENSE?**

11 A. The Company and Staff used different methodologies to calculate Chemical
12 expense. Missouri American used a three year average of chemical usage,
13 divided by a three year average of system delivery, to arrive at a dosage ratio.
14 This ratio was then multiplied by our pro forma system delivery, which is then
15 multiplied by the chemical cost per pound. Missouri American's three year
16 average approach produced a Chemical expense of \$8,949,154, with an
17 adjustment of (\$434,963) for a reduced system delivery.

18 Staff utilized its pro-forma amount for system delivery, adjusted for
19 water loss, times the chemical cost per 1000 gallons to arrive at a chemical
20 adjustment of \$1,005,613, and total expense of \$10,389,329. Staff and
21 Missouri American both utilized the 2015 cost per pound.

22
23 **Q. DOES THE COMPANY AGREE WITH STAFF'S APPROACH TO**
24 **CALUCLATE CHEMICAL EXPENSE?**

1 A. In the interest of reducing the contested issues in this case, the Company can
2 agree to use Staff's approach. The system delivery, however, should be
3 conformed to the sales forecast ultimately adopted by the Commission,
4 because Chemical expense is dependent upon system delivery.

5

6 **Q. DID STAFF'S APPROACH UTILIZE THE LATEST AVAILABLE**
7 **INFORMATION?**

8 A. At the time of their filings, Staff and Missouri American both utilized the 2015
9 cost per pound. The 2016 chemical costs per pound are now available.

10

11 **Q. DO YOU BELIEVE THESE NEW CHEMICAL PRICES SHOULD BE**
12 **INCLUDED IN THE PRO FORMA ADJUSTMENT?**

13 A. Yes. Utilization of the 2016 chemical costs more accurately represents the
14 costs that the Company will incur for Chemical Expense in an ongoing basis.

15

16 **(5) Transportation Leases**

17 **Q. PLEASE EXPLAIN THE ISSUES REGARDING TRANSPORTATION**
18 **LEASES?**

19 A. Missouri American calculated total expense for transportation at \$2,123,104,
20 with a pro-forma adjustment of (\$763,840). Staff calculated total expense for
21 transportation at \$2,177,144, with a pro-forma adjustment of (\$865,655). In
22 Staff's Transportation Lease workpaper, an adjustment in the amount of
23 \$66,275 was added by Staff. We believe this amount was meant to reallocate
24 charges from a corporate cost center, and should have had a net effect of

1 zero to the total Transportation Cost; however, the amount was added to the
2 total Transportation Expense. Missouri American does not believe this
3 amount should have been added to the expense.

4

5 **Q. WHY NOT?**

6 A. The net effect of the \$66,275 dollar adjustment was zero in the ledger.

7

8 **Q. IS THERE ANOTHER ISSUE WITH TRANSPORTATION LEASES?**

9 A. Yes. In addition, Staff calculated an adjustment for fuel costs. The
10 adjustment was based on an average calculation of the cost of diesel and
11 regular gas and the decreased amount applied to the overall test year
12 charges, for a total fuel cost adjustment of (\$64,993).

13

14 **Q. WHY IS THIS INAPPROPRIATE?**

15 A. Applying the average decrease over the entire test year would decrease the
16 expense when these decreased prices have already been accounted for in
17 the normalization of the test year data. In essence, this would duplicate the
18 reduction in expense over those periods in the test year where the reduction
19 already occurred, double counting Staff's adjustment.

20

21 **Q. HOW DOES MISSOURI AMERICAN BELIEVE THIS SHOULD BE**
22 **ADDRESSED?**

1 A. Missouri American believes that the adjustment for fuel should be calculated
2 by period for fuel cost reduction. This calculation would result in a fuel cost
3 adjustment of (\$53,477).
4

5 **(6) Waste Disposal**

6 **Q. PLEASE EXPLAIN THE ISSUES REGARDING WASTE DISPOSAL?**

7 A. Missouri American calculated total expense for Waste Disposal at
8 \$1,642,716. Staff calculated the total Waste Disposal expense at \$774,024.
9 Staff's adjustment for Waste Disposal includes only those costs incurred in
10 the 2014 test year and excludes any costs accrued for future scheduled
11 cleanings and waste disposal. In addition, there were two districts' charges
12 missing from Staff's adjustment.
13

14 **Q. HOW DID STAFF CALUCLATE THE PRO FORMA ADJUSTMENT TO
15 WASTE DISPOSAL?**

16 A. Staff calculated its adjustment based on vendor invoices of \$187,754, for the
17 test year (2014), plus Arnold waste water charges of \$586,270. Staff,
18 however, did not include actual charges for Stonebridge or Emerald Pointe,
19 which totaled \$197,979. These amounts should be restored to the expense
20 amount. Staff, furthermore, erroneously excluded all accrual amounts totaling
21 \$530,999 for the test year.
22

1 Q. **IS STAFF'S APPROACH REPRESENTATIVE OF THE WASTE DISPOSAL**
2 **EXPENSE MISSOURI AMERICAN WILL EXPERIENCE ON A GOING-**
3 **FORWARD BASIS?**

4 A. No. Missouri American is an accrual-based company. Therefore, when we
5 have known expenses, we have an obligation to create a liability for those
6 expenses. Waste Disposal and subsequent cleaning obligations represent
7 known expenses. Accordingly, even though the actual charges may not have
8 occurred in the test year, it would be inappropriate to fail to include the
9 accrual amounts that we anticipate incurring in future years and properly
10 accruing for those costs. Given that the facilities are providing service year in
11 and year out; the liabilities must be accrued over that service period rather
12 than simply recognizing them in the one year in which they're incurred.
13 Removing the accrual amounts from the test year data, as Staff has done,
14 would not capture these known expenses and liabilities for waste disposal.

15

16 Q. **WHAT IS A BETTER REPRESENTATION OF THE EXPENSE TO BE**
17 **EXPERIENCED?**

18 A. The accruals, plus other monthly expensed Waste Disposal Charges
19 recorded by Missouri American, are more representative of the total Waste
20 Disposal Expense. Accruals are recorded by the accounting department
21 using information provided by MAWC Operations Manager/Supervisors for
22 each respective district. On a quarterly basis, the operational managers are
23 provided with an updated accrual amount. The Operations
24 Managers/Supervisors then review this information, determine if this accrual

1 is reasonable and provide an expected cleaning date. In addition, the
2 Operations Managers communicate any anticipated changes that they are
3 aware of in the district that may justify any adjustments to the monthly accrual
4 on an ongoing basis. Accruals for monthly sewer service treatment systems
5 are reviewed on a monthly basis. These accruals are based on the actual
6 invoices that have been received and/or paid. Sludge removal and lagoon
7 cleaning for MAWC occurs on a cycle ranging from 5 to 600 months. The
8 cleaning schedule is based on the amount of waste and size of lagoon,
9 consistent with EPA standards. Some lagoons are cleaned on an annual
10 basis while others may only be cleaned every 240 months, with the average
11 cleaning cycle running 24 months.

12

13 **Q. WHY DOES MAWC BELIEVE ACCRUALS FOR WASTE DISPOSAL**
14 **SHOULD BE RECOGNIZED?**

15 A. The accruals for Waste Disposal are reasonable and should be included in
16 the adjustment calculation for Waste Disposal because Missouri American is
17 an accrual-based company and performs these accruals based on GAAP
18 standards. The Company reviews historical invoices, along with information
19 from the operational team in order to estimate the next cleaning costs. We
20 apply the projected cleaning date to these costs and accrue the amounts
21 accordingly. These amounts are reviewed on a monthly basis and adjusted
22 for any known changes. Again, customers receive service from these
23 facilities year in and year out, and cleaning and waste disposal expenses
24 accrue until the activity is physically accomplished. It is a basic tenet of

1 GAAP accounting to recognize liabilities as they accrue; not simply when they
2 are incurred. The failure to properly accrue for these expenses is akin to
3 saying that only customers in the year the expense was incurred should be
4 charged with the liability, even though the cleaning costs were accruing. This
5 is not consistent with proper ratemaking. For this reason the full expense of
6 \$1,642,716 that Missouri American calculated for Waste Disposal should be
7 recognized in rates.

8

9 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

10 **A.** Yes, it does.