

Exhibit No.:
Issues: AAO for LSLR
Emerald Pointe Rate Base Treatment,
Hickory Hills Rate Base Treatment
Witness: Amanda C. McMellen
Sponsoring Party: MoPSC Staff
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Case No.: WR-2017-0285
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MISSOURI PUBLIC SERVICE COMMISSION

**COMMISSION STAFF DIVISION
AUDITING DEPARTMENT**

REBUTTAL TESTIMONY

OF

AMANDA C. MCMELLEN

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2017-0285

*Jefferson City, Missouri
January 2018*

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TABLE OF CONTENTS
REBUTTAL TESTIMONY
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AMANDA C. MCMELLEN
MISSOURI-AMERICAN WATER COMPANY
GENERAL RATE CASE
CASE NO. WR-2017-0285

AAO FOR LEAD SERVICE LINE REPLACEMENTS (LSLR) 2
EMERALD POINTE 4
HICKORY HILLS 5

1 **AAO FOR LEAD SERVICE LINE REPLACEMENTS (LSLR)**

2 Q. Please provide a brief explanation of the AAO for LSLR.

3 A. In Case No. WU-2017-0296, MAWC requested an AAO to defer costs related
4 to the replacement of customer-owned lead service lines due to increasing concerns regarding
5 potential exposure to lead. MAWC began replacing service lines (both Company-owned and
6 customer-owned portions) as part of its ongoing main replacement program in January 2017.
7 Please see Staff witness Merciel's rebuttal testimony for a further explanation of the technical
8 aspects of LSLRs.

9 Q. What is MAWC's proposed regulatory treatment of the AAO for LSLR?

10 A. MAWC witness Mr. LaGrand explains on Page 22, Lines 5-16 of his direct
11 testimony that MAWC proposes to defer the costs of the LSLR in a regulatory asset, include a
12 monthly carrying charge equal to the weighted cost of capital from the last general rate case
13 as part of the deferral, reflect the deferred amounts on its books as a component of plant in
14 service, recover the associated amortization expense for the deferred amount based on the
15 approved depreciation rate for the Company-owned services account, No. 345 (2.92%), and
16 include future customer-owned service line replacements in plant in service.

17 Q. Has the AAO for LSLR been approved by the Commission?

18 A. Yes. The Commission's Report and Order in Case No. WU-2017-0296
19 approved the AAO effective December 10, 2017, which was after all parties filed direct
20 testimony in this rate case.

21 Q. What specific accounting treatment did the Commission order for the LSLR
22 AAO in its Report and Order?

23 A. The Commission ordered the costs associated with the LSLR program from
24 January 1, 2017 through May 31, 2018 be deferred and booked in Account 186,

Rebuttal Testimony of
Amanda C. McMellen

1 Miscellaneous Deferred Debits, include carrying costs in the deferred balance using its
2 short-term borrowing rate, and maintain these costs until the effective date of the Report and
3 Order in the current rate case, with amortization beginning the effective date of that Report
4 and Order.

5 Q. Did Staff include any costs in its direct case for the LSLR AAO?

6 A. No. Since the AAO for LSLR was not approved by the Commission at the
7 time of its direct filing, Staff did not include any of the costs in its direct case.

8 Q. Is Staff proposing to include any costs for the LSLR AAO in this rebuttal
9 filing?

10 A. Yes. Staff has included the June 30, 2017 balance of the AAO for LSLR costs
11 of \$1,071,559 in rate base. These costs should be amortized over a ten-year period beginning
12 with the effective date of the Report and Order issued in this case. The rate base balance of
13 these costs will be updated as part of the true-up audit in this case.

14 Q. Has Staff included any amounts in this rate case for any future LSLR
15 replacements?

16 A. No. In Staff's opinion, any recovery of future replacements should be
17 considered in future rate cases. Staff recommends the Commission authorize MAWC to
18 record these costs going forward, with the same accounting treatment approved in the Report
19 and Order in Case No. WU-2017-0296, but with a further recommendation that MAWC be
20 required to report on an annual basis their program replacement plans. Details of Staff's
21 recommended reporting are included in the rebuttal testimony of Staff witness Merciel. All
22 LSLR related costs will be reviewed in the next rate case for possible recovery.

1 **EMERALD POINTE**

2 Q. Please provide a brief history regarding the Emerald Pointe pipeline costs that
3 MAWC included in rate base as part of this rate case.

4 A. MAWC purchased the assets of Emerald Pointe in March 2014. As part of
5 Emerald Pointe's last rate proceeding Case No. SR-2013-0016, Emerald Pointe retired its
6 wastewater treatment plant and constructed two new lift stations and a pipeline to transport all
7 wastewater to the City of Hollister for treatment. The lift stations and section of pipeline up
8 to the Emerald Pointe flow meter were owned by Emerald Pointe, which was transferred to
9 MAWC. The section of pipeline from the Emerald Pointe flow meter to the City of Hollister
10 wastewater treatment plant is owned and maintained by the City of Hollister, but that section
11 was paid for by Emerald Pointe and one or more other parties. Emerald Pointe at that time
12 did not own or maintain that section of pipeline. MAWC did not assume ownership or
13 responsibility for the maintenance of the section of pipeline owned by Hollister, MO when it
14 acquired Emerald Pointe.

15 Q. Does Staff believe it is appropriate to include any amount of the Emerald
16 Pointe pipeline owned by Hollister in rate base, given that MAWC does not own and that
17 MAWC does not maintain that section of the pipeline?

18 A. No. Since these assets are not owned or maintained by MAWC, it is
19 inappropriate to include the regulatory deferral (unamortized balance) for these costs in rate
20 base. It is inappropriate for MAWC to earn a return on an item that they do not own, that was
21 contributed to another entity and for which MAWC has no outstanding investment and is not
22 an asset on the utility's books and records.

23 Q. Has Staff included an amortization of the Emerald Pointe regulatory asset in
24 the cost of service in this case?

1 A. Yes. Staff has included an annual level of amortization expense of \$6,466 in
2 the Emerald Pointe cost of service based on a 50 year amortization, which is also
3 recommended by MAWC witness LaGrand in his direct testimony on page 27, lines 14-15.

4 **HICKORY HILLS**

5 Q. Please give a brief description of the receivership costs associated with the
6 Hickory Hills water and wastewater systems.

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

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

Rebuttal Testimony of
Amanda C. McMellen

1 A. The Commission ordered MAWC to book a regulatory asset in the amount
2 recommended by Staff of \$41,098, split equally between water and sewer, with the regulatory
3 asset to be amortized over a five-year period, beginning the first month following the effective
4 date of the order, which was December 1, 2015.

5 Q. Has staff included the Hickory Hills regulatory asset in the cost of service in
6 this case?

7 A. Yes. Staff has included an annual level of amortization expense of \$4,110 in
8 both the Hickory Hills water and sewer cost of service based on a five year amortization,
9 which is also recommended by MAWC witness LaGrand in his direct testimony on page 27
10 line 18.

11 Q. Does Staff believe that it is appropriate to include any amount of the Hickory
12 Hills receivership fees and loan payoff in rate base?

13 A. No. Staff has generally only recommended rate base treatment of deferred
14 costs that are capital in nature, costs that are amortized over a long period of time, and
15 deferred balances that are significant.

16 Q. Do the costs included in the deferral balances for the Hickory Hills meet any of
17 the criteria mentioned above?

18 A. No. The costs included in the unamortized deferral balance for Hickory Hills
19 are associated with unpaid receivership fees and a personal loan taken out by the previous
20 receiver, not associated with capital costs. Also, Staff does not consider a five-year
21 amortization period to be an extended period of time. Lastly, Staff does not consider these
22 costs to be significant to MAWC.

Rebuttal Testimony of
Amanda C. McMellen

1 Q. Please summarize Staff's recommended accounting treatment for the deferred
2 costs for Hickory Hills.

3 A. Staff recommends including a five-year amortization of the deferred costs with
4 no rate base treatment.

5 Q. Does this conclude your rebuttal testimony?

6 A. Yes.

