

Exhibit No.:
Issues: Office Supply and Services Expense,
Promotional Items, PSC Assessment,
Employee Expense, Labor and Labor
Related Expenses, Bad Debt Expense,
Customer Accounting,
Telecommunications Expense,
Miscellaneous Expense; Lobbying
Expense, Charitable Contributions,
Penalties and Dues, and
Miscellaneous Expenses
Witness: Matthew S. Mason
Exhibit Type: Rebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2022-0303
Date: January 18, 2023

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2022-0303

REBUTTAL TESTIMONY

OF


MATTHEW S. MASON

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Matthew S. Mason, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am a Principal Regulatory Analyst for American Water Works Service Company, Inc, that the accompanying testimony has been prepared by me or under my direction and supervision; that if inquiries were made as to the facts in said testimony, I would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of my knowledge and belief.



Matthew S. Mason

January 18, 2023

Dated

**REBUTTAL TESTIMONY
MATTHEW S. MASON
MISSOURI-AMERICAN WATER COMPANY
CASE NO.: WR-2022-0303**

TABLE OF CONTENTS

I. INTRODUCTION.....	2
II. OFFICE SUPPLY AND SERVICES EXPENSE	3
III. PROMOTIONAL ITEMS	5
IV. PSC ASSESSMENT.....	6
V. EMPLOYEE EXPENSE.....	7
VI. LABOR AND LABOR RELATED EXPENSES.....	12
VII. BAD DEBT EXPENSE.....	17
VIII. CUSTOMER ACCOUNTING.....	18
IX. TELECOMMUNICATIONS EXPENSE	18
X. MISCELLANEOUS EXPENSE.....	19
a. Lobbying Expense.....	19
b. Charitable Contributions.....	19
c. Penalties and Dues	20
d. Miscellaneous Expenses	21

REBUTTAL TESTIMONY

MATTHEW S. MASON

I. INTRODUCTION

1

2 **Q. Please state your name and business address.**

3 A. My name is Matthew S. Mason, and my business address is 727 Craig Road, St. Louis,
4 MO, 63141.

5 **Q. Are you the same Matthew S. Mason who previously submitted Direct Testimony in**
6 **this proceeding?**

7 A. Yes.

8 **Q. What is the purpose of your Rebuttal Testimony in this proceeding?**

9 A. The purpose of my Rebuttal Testimony is to address certain aspects of Direct Testimony
10 filed by the Staff of the Missouri Public Service Commission (“Staff”) on the following
11 topics: 1) office supply and services expense; 2) promotional items; 3) Public Service
12 Commission (PSC) assessment expense; 4) employee expense; 5) labor and labor related
13 expense; 6) bad debt expense; 7) customer accounting expense; 8) telecommunications
14 expense; and 9) miscellaneous expense.

15 **Q. Please identify each Staff Witness and their corresponding sponsored testimony that**
16 **your Rebuttal Testimony will be addressing.**

17 A. The Staff Witnesses and their corresponding expense topics are as follows:

18 1) Alexis L. Branson – office supply and services, promotional items, and PSC
19 assessment expense.

20 2) Courtney Horton – employee expenses, lobbying expenses, payroll expense,

1 advertising expense, bad debt expense, and credit card fees.

2 3) Sherrye Lesmes – dues and donations expense, postage expense, and penalties
3 expense.

4 4) Angela Niemeier – miscellaneous expense and telecommunication expense.

5 **Q. How will you refer to Missouri-American Water Company in this Rebuttal Testimony**
6 **document?**

7 A. I will refer to Missouri-American Water Company as “MAWC”, the “Company”, or
8 “Missouri-American”.

9 **Q. Please clarify the time period that your Rebuttal Testimony will address.**

10 A. Staff’s Direct Testimony references the “test year,” while MAWC referred to a “base year”.
11 Both references represent the same twelve months ended June 30, 2022. For the purposes
12 of this Rebuttal Testimony, and for clarity, I will refer to the time period in question as
13 either “test year” or the twelve months ended June 30, 2022.

14 **II. OFFICE SUPPLY AND SERVICES EXPENSE**

15 **Q. What is included in the operating expenses related to office supply and services?**

16 A. The operating expense for office supply and services are those expenses related to software
17 licenses, bank fees, and various miscellaneous office supplies.

18 **Q. Does Staff address the Company’s test year office supply and services expense?**

19 A. Yes. Staff Witness Alexis L. Branson addressed office supply and services expense.¹ Staff
20 Witness Branson recommended adjusting MAWC’s office supply and services related
21 expenses by removing \$12,606 of total expense resulting in an on-going level of expense

¹ Brandon DT, p. 3.

1 of \$777,393.

2 **Q. Do you agree with Staff's recommended adjustment to office supply and services?**

3 A. No. I do not agree with the adjustment to office supply and services for the following
4 reasons:

5 1) Staff separated MAWC's office supply and services expenses into six
6 subcategories: Bank Charges, Books & Publications, Forms, Office &
7 Administrative Supplies, Software Licenses, and Uniforms. Staff then used trend
8 analyses for each subcategory as criteria to choose if they would apply a 3-year
9 average of costs or the test year as the proper calculation of the level of on-going
10 expense. First, Staff's workpaper reduced total uniform expense by \$13,837 by
11 applying a three-year average of expense versus the twelve months of actual
12 expenses. It is clear that uniform expenses are consistently rising over the prior 3-
13 year period, indicating that the actual cost would be, at minimum, the expected on-
14 going level of expense and therefore, no adjustment is needed.

15 2) Staff used a three-year average expense for their Books and Publications expense
16 subcategory reducing that expense by \$2,083. Those expenses were greatly affected
17 by the 2020 pandemic and the test year amount should be utilized as it provides a
18 better indicator of expenses during normal conditions.

19 3) Staff's workpaper reduced Office and Administration supplies expense by \$76,
20 which represented a purchase of paper towels. Staff did not supply a reason for the
21 removal indicating that it was most likely inadvertent. With that said, the Company
22 does not agree with removing the cost of paper towels as these are necessary for
23 health, sanitation, and safety.

1 **Q. Please summarize your above comments.**

2 A. Adjusting the referenced amounts in 1, 2, & 3 (\$13,837 + \$2,083 + \$76), I calculate a
3 reasonable on-going level of expense of \$793,388 to be included in MAWC's revenue
4 requirement.

5 **III. PROMOTIONAL ITEMS**

6 **Q. Does Staff address promotional items expense?**

7 A. Yes. Staff Witness Branson addresses promotional items in her Direct Testimony.²

8 **Q. What promotional items expense does Staff address in their testimony?**

9 A. Staff identified specific expenses as "promotional items" that were originally designated
10 by the Company to be in either the miscellaneous expense, community relations expense,
11 or office supplies and services expense categories. Staff stated that all "promotional" items
12 are affixed with MAWC's logo. I will first state that calling any of these expenses
13 "promotional items" is a misnomer and not a correct representation of what these expenses
14 actually are. I use the term "promotional items" in quotes to signify this belief.

15 **Q. Please describe the adjustment proposed by Staff to "promotional items" that are**
16 **included in either the Company's miscellaneous, community relations, or office**
17 **supplies and services expense workpapers.**

18 A. Staff is recommending the removal of \$225,609 of "promotional items" (Staff's term)
19 based on the determination that these items do not provide a direct benefit to the ratepayers.

20 **Q. Did Staff provide specific detail on each "promotional item" that it recommended to**
21 **be removed?**

² Branson DT, p. 4.

1 A. No. Staff did not specifically identify each excluded “promotional item” expense. Staff
2 provided an incomplete workpaper identifying approximately \$27K worth of “promotional
3 items” that Staff re-classified to be included in the Staff advertising expense workpaper
4 and \$3.4K of “promotional items” that they propose removing because they stated that
5 these expenses did not benefit customers.

6 **Q. Can you explain why the Company would include any of these expenses in the**
7 **Company’s revenue requirement?**

8 A. As stated above, the Company wasn’t supplied with each specific “promotional item”
9 expense that Staff Witness Branson recommends removing and we are therefore unable to
10 comment on each item. I will state that simply because an item is affixed with the name of
11 the Company or its logo does not make that item “promotional”. With that said, the
12 Company can generally state that customer material provided, either with the MAWC logo
13 or without the logo, benefits MAWC customers because these materials are used to educate
14 MAWC’s customers on specific topics such as: recycling, water safety, health, watershed
15 conservation, environmental protection, waste reduction, customer service contact
16 information, etc. It is for this reason that I believe removing these so called “promotional
17 item” expenses is incorrect and \$225,609 should be added back to Staff’s revenue
18 requirement model.

19 **IV. PSC ASSESSMENT**

20 **Q. Does Staff address the annual PSC assessment expense charged to the Company?**

21 A. Yes. Staff Witness Branson discusses the PSC assessment in her Direct Testimony.³

³ Branson DT, p. 4.

1 **Q. Please describe the issues related to Staff's position on the PSC assessment.**

2 A. Staff is proposing a reduction of \$1,350,257 to the Company's test year expense of
3 \$3,303,544 to equal the most recent PSC assessment of \$1,953,287. Staff's expense is
4 based solely on the most recent assessment and does not reflect any averaging or trend
5 analysis, nor does Staff describe the criteria used in determining the amount to be paid by
6 each utility and if any of those factors could reasonably trend higher in future periods.

7 **Q. What criteria did the Company use to calculate the PSC assessment expense to be**
8 **included in its revenue requirement?**

9 A. Please see the table below showing how volatile and inconsistent the PSC assessment has
10 been since 2016. Due to this volatility of the annual PSC assessment, the Company
11 proposes a 3-year average of PSC assessments to arrive at a reasonable on-going level of
12 annual expense of \$2,462,184.

PSC Assessment fees - Table

Fiscal Year	Water	Sewer	Total
2016-17	2,868,300	65,922	2,934,222
2017-18	2,070,055	62,544	2,132,599
2018-19	2,847,796	94,231	2,942,027
2019-20	1,963,263	66,511	2,029,774
2020-21	2,058,390	71,351	2,129,741
2021-22	3,199,867	103,657	3,303,524
2022-23	1,884,076	69,210	1,953,286
3yr average	2,380,778	81,406	2,462,184
5yr average	2,390,678	80,992	2,471,670

13

14

V. EMPLOYEE EXPENSE

15 **Q. What type of expenses are included in employee expense?**

16 A. The operating expenses related to employee expense include those expenses associated
17 with employee travel, relocation, physical exams, tuition aid, training, and various

1 miscellaneous employee costs.

2 **Q. Does Staff propose an adjustment to the Company’s calculated test year employee**
3 **expense?**

4 A. Yes. Staff Witness Courtney Horton proposes an adjustment in her Direct Testimony.⁴

5 **Q. What are the ZI document types (PCard Inbound Interface) in your accounting**
6 **system that Ms. Horton references in her testimony and why is it important to**
7 **delineate document types?**⁵

8 A. ZI document types is a Company accounting system designation to represent expenses that
9 Company employees purchase using a corporate purchasing credit card (PCard). Due to
10 the nature of travel expenses, there are many benefits of providing Company employees
11 with the ability to pay for travel costs as they occur, rather than reimburse employees at a
12 later date. The Company requested Staff to randomly sample a couple of months of ZI
13 invoices due to the voluminous amount of ZI/PCard data.

14 **Q. Please discuss Staff’s adjustment to employee expenses.**

15 A. According to Staff testimony, Staff reviewed test year invoices for all non-PCard expenses,
16 and Staff agreed to the Company’s sampling request by choosing two months of PCard
17 expenses to review; September 2021 and February 2022. Staff recommended disallowing
18 expenses that, in their words, “do not directly benefit ratepayers”, and their suggested
19 disallowances were identified in the two months sample of PCard expenses supplied by the
20 Company. Staff used these identified two months’ worth of PCard disallowances to
21 calculate separate disallowance ratios for MAWC and the Service Company. Staff states

⁴ Horton DT, p. 4.

⁵ *Id.* at 3.

1 that they identified \$1,751 of dis-allowable expenses attributed to MAWC and \$4,035 for
2 allocated Service Company expenses in the 2-month sample. Staff then applied these
3 disallowances to calculate ratios to the remaining test year employee expenses to determine
4 a calculated level of employee expense to disallow from the test year. Staff recommended
5 an employee expense disallowance for MAWC as \$33,052 and \$7,646 for the Service
6 Company.

7 **Q. Do you agree with Staff's assessment to remove \$33,052 of employee expenses for**
8 **MAWC?**

9 **A.** No, I do not. The bulk of the disallowance was Staff's incorrect assessment of employee
10 meal costs incurred while travelling for business purposes. The Company has two distinct
11 meal costs:

- 12 1) A meal stipend for employees employed under a Collective Bargaining Unit (CBU), and
- 13 2) direct meal purchases for employees not working under a Collective Bargaining Unit
14 (non-CBU).

15 Staff removed \$23,821 of meal cost as a result of non-CBU employees travelling because
16 of its misinterpretation of MAWC's CBU employee's meal cost. Staff believed that the
17 CBU meal expense, the meal stipend mentioned above that is paid to CBU employees
18 through payroll, would permit the Company to "double recover" non-CBU meal costs. As
19 stated above, these are separate costs and are not double recovered in the Company's filing.
20 The travelling meal expense included in the Company's employee expense workpaper is a
21 dollar-for-dollar meal cost for non-CBU employees. CBU employees receive a meal
22 stipend in their paychecks based on a "number of hours worked" criteria that is negotiated

1 in the collective bargaining agreement.

2 The remainder of the disallowance was driven by costs that Staff identified as those which
3 “do not directly benefit ratepayers”. While the Company could agree to an amount of
4 disallowance, Staff’s workpaper identified several expenses that were unreasonably
5 disallowed, and the Company is proposing that the following specific expenses be included
6 as a part of its revenue requirement:

7 1) A \$73.54 shipping cost for a package sent by UPS. Staff’s testimony said there was “no
8 description” on the receipt;

9 2) supplies purchased at Pic Supply Company for \$481.53 in Jefferson City. Staff also
10 indicated that there was “no description on the receipt”; and

11 3) a \$475 cost for an American Water Works Association (“AWWA”) conference
12 registration.

13 The receipt from UPS (\$73.54) shows shipping expense between MAWC locations. The
14 Pic Supply Company receipt (\$481.53) is a normal vendor of MAWC. That information
15 should represent to Staff that these are legitimate and reasonable business expenses. In
16 regard to the conference cost, the Company doesn’t agree with removing the \$475 AWWA
17 conference expense. Training costs, including conferences, are reasonable and just. Lastly,
18 while the Company agrees with Staff’s methodology of using a disallowance ratio for
19 PCard expenses in its determination of the remaining months adjustment, those ratios
20 should be re-calculated after reversing the dis-allowance of said reasonable expenses
21 (meals, UPS, Pic Supply, and conference training). I re-calculated Staff’s disallowance
22 using adjusted ratios and am proposing an employee expense reduction of \$7,358 for

1 MAWC versus Staff's proposal of \$33,052.

2 **Q. Do you agree with Staff's assessment to remove \$7,646 of expenses for Service**
3 **Company employee expense?**

4 A. No, I do not. Staff's workpaper identified many allocated expenses from the Service
5 Company that were unreasonably disallowed. These dis-allowances include transportation
6 costs, conference fees, UPS shipping fees, etc. As an example, Staff indicates they dis-
7 allowed twenty separate "Service Company" transportation costs: 19 flights and 1 train
8 ticket totaling \$1,339 of allocated Service Company expense. The Direct Testimonies of
9 MAWC Witnesses Watkins and Baryenbruch explain and demonstrate the value and
10 reasonableness of Service Company costs that are charged to the Company. To this
11 example specifically, Service Company employees reasonably travel within the footprint
12 of the Service Company for business needs, and these travel costs are valid and proper.
13 Furthermore, Service Company employees don't all live and work in Missouri, but they do
14 provide service work for MAWC. Allocating these expenses to MAWC is a fair
15 distribution of costs as compared to the services rendered.

16 Staff also disallowed two UPS shipping receipts, three separate conference registration
17 costs, legal training materials, AWWA dues, and they added a Service Company expense
18 to their total disallowance that had already been reversed in the Company's accounting
19 records. All of these Service Company allocated expenses should be allowed in MAWC's
20 revenue requirement as a fair calculation of an on-going level of allocated Service
21 Company expense.

22 We will accept Staff's Service Company disallowance, with the exception of the reasonable
23 expenses mentioned above. I recalculated Staff's allocated Service Company dis-

1 allowance (\$7646), adding back those above-mentioned expenses, which resulted in
2 reducing Staffs disallowance by \$3,387. Therefore, the Company will agree to a Test Year
3 disallowance of \$4,259 of allocated Service Company expense.

4 **VI. LABOR AND LABOR RELATED EXPENSES**

5 **Q. Discuss how Staff addresses the Company's labor and labor related expenses.**

6 A. Staff Witness Horton addresses the Company's labor and labor related expenses by
7 sponsoring testimony supporting Staff's adjustments to payroll, payroll taxes, incentive
8 compensation, employee benefits, and an adjustment to lobbying activities performed by
9 MAWC employees.

10 Staff's labor and labor related expense was based on annual wage rates as of June 30, 2022.

11 In addition, Staff applied an overtime adjustment based on a three-year average calculation
12 by district. The expense was applied against Staff's capitalization rate and calculated based
13 on labor dollars for the twelve months ended June 30, 2022 by district. Portions of specific
14 employee salaries and related expenses associated with lobbying were also removed.
15 Finally, Staff excluded 50% of the Company's Annual Performance Plan (APP) costs, all
16 of the Company's Long-Term Performance Plan (LTPP) costs, all costs associated with the
17 Company's Employee Stock Purchase Plan (ESPP), or any of the Company's severance
18 costs. MAWC also removed severance costs in its filed revenue requirement.

19 **Q. Did the Company identify any issues with Staff's labor and related amounts included
20 in their overall revenue requirement?**

21 A. Yes. It appears that the adjustments calculated in Staff's workpapers are not correctly
22 reflected in the Staff Accounting Schedules. The Company has discussed this with Staff,
23 and Staff has indicated that they will be correcting this as part of its Rebuttal Testimony.

1 The total increase to Staff's overall revenue requirement is expected to be approximately
2 \$5.5 million between Labor, Payroll Taxes, 401K, DCP, VEBA, and Group Insurance
3 expenses.

4 **Q. Do you agree with the Staff's recommended labor and labor related expense as**
5 **identified in Staff's workpaper?**

6 A. No. I don't agree with Staff's labor and labor related expense calculation for the following
7 reasons:

8 1) Staff disallowed a portion of wages for specific positions related to lobbying,

9 2) Staff disallowed 50% of the Company's APP expense,

10 3) Staff disallowed 100% of the Company's LTPP expense,

11 4) Staff did not include the portion of the expense related to the Employee Stock
12 Purchase Plan ("ESPP"), and

13 5) Staff included union meal expense (a stipend), shift premium, and the full salary
14 for temporary employees in its calculation of 401K expense, which overstated
15 401K expense by \$12,982. Additionally, Staff missed Defined Contribution Plan
16 (DCP) costs for 181 employees, assigning zero dollars of expense, understating
17 DCP expense by \$294,963.

18 **Q. Please address Staff's disallowance of a portion of labor and labor related expense**
19 **associated with lobbying.**

20 A. Staff eliminated \$8,732 of labor costs as they deemed those specific labor hours were

1 devoted to lobbying.⁶

2 **Q. Do you agree with Staff's removal of costs related to employee lobbying activities?**

3 A. No, I do not. This is not the amount that is booked to lobbying expense. Rather it relates
4 to the portion of time of Company employees which the Company estimated in discovery
5 responses was spent with elected legislative officials. Almost all companies, including
6 utilities, must work with legislators to ensure that their interests and their customers'
7 interests are being considered within the legislative process. Legislators must sort through
8 a myriad of competing interests and complicated issues affecting the utility and its
9 customers, and time with Company employees can serve as an educational resource for
10 understanding the industry and the laws and regulations that impact it. There is no
11 reasonable basis for denying recovery for activities that support the interests of the
12 Company and its customers, or to deny the recovery of the benefit these activities play in
13 helping to present research, facts, and education to the legislative process.

14 **Q. Please describe the adjustments proposed by Staff to the Company's performance-**
15 **based compensation costs.**

16 A. Staff recommends disallowing 50% of APP compensation for both MAWC and Service
17 Company employees. Staff also recommends disallowing 100% of LTPP compensation for
18 MAWC and Service Company employees. The Company refutes the recommendations of
19 Staff and supports the reasonableness of total compensation, including performance-based
20 compensation, in the Rebuttal Testimony of Company Witness Jeffrey Kaiser.

21 **Q. Please address Staff's elimination of the Company's ESPP costs from its labor and**

⁶ Horton DT, p. 4.

1 **labor related expense.**

2 A. Staff eliminated the amount associated with the Company’s ESPP for Missouri-American’s
3 labor expense. This resulted in a reduction of approximately \$180,631 in Missouri-
4 American’s revenue requirement. Staff recommends not allowing recovery of the ESPP
5 expense because there is no actual cash outlay for this item. As I discuss below, while there
6 may be no cash outlay, it is a compensation benefit to employees and there is a cost to the
7 Company, and it should be allowed to be recovered in the revenue requirement.

8 **Q. What is the ESPP (Employee Stock Purchase Plan)?**

9 A. The ESPP is open to all active, full, and part-time, employees of American Water Works
10 Company, Inc. (American Water) and its subsidiaries, including MAWC, through payroll
11 deductions. Employees who choose to participate in a purchase period elect a contribution
12 of 1% to 10% of after-tax compensation, for the discounted purchase of American Water
13 common stock, subject to a maximum of \$25,000 per year. Under the ESPP, participants
14 are granted shares of American Water stock at a discount. These shares are predominantly
15 American Water owned Treasury Stock, so there is no cash transaction when the shares are
16 granted.

17 **Q. How are these transactions accounted for?**

18 A. The discount portion of the transactions are accounted for as share-based payment
19 arrangements with employees under Accounting Standards Codification (ASC) Topic 718,
20 *Compensation – Stock Compensation*. The objective of accounting for transactions under
21 ASC 718 is to recognize in the financial statements the employee services received in
22 exchange for stock shares issued and the **related cost to the entity** as those services are
23 consumed. ASC Topic 718 requires the Company to record expense over the three-month

1 purchase period for the employees' participation in the ESPP.

2 **Q. How do you respond to the argument that there is no specific cash outlay?**

3 A. While there is no specific cash outlay by the Company for the ESPP expense, the stock
4 discount is a recorded expense on the books of the Company and a compensation benefit
5 to employees. Additionally, the discount on granted shares represents an opportunity cost
6 to American Water versus selling those same shares at full price on the open market. This
7 is the basis for why there is accounting guidance (ASC 718) from the Financial Accounting
8 Standards Board (FASB). I also note that the simple fact of having authoritative accounting
9 guidance represents that this type of expense is not unusual and is a recognized cost for the
10 Company as deemed by the foremost authority of establishing and interpreting generally
11 accepted accounting principles. The fact that there is not a cash disbursement from the
12 Company does not change the fact that it is an expense in the same manner of other
13 employee benefits. For these reasons, it is clear that the stock discount cost of the
14 Company's ESPP program is a normal and usual business expense and should be included
15 in the Company's labor and labor related expenses for this case.

16 **Q. Please describe the issue related to 401K expense and Defined Contribution Plan**
17 **expense.**

18 A. Staff overstated its 401K expense due to calculating the 401K expense using a base pay
19 number that was too large. The Company match portion of the 401K benefit expense should
20 be calculated multiplying the employee's "base pay" by the Company's applicable
21 matching percentage factor. Staff incorrectly included the meal stipend and/or annualized
22 shift premiums paid to union employees as "base pay" to calculate 401K expense. In other
23 words, Staff started with a higher base pay than would be appropriate. Additionally, Staff

1 used the full annualized salary for two temporary employees, who collect 401K benefits,
2 to calculate their on-going level of Company 401K expense. The Company adjusted these
3 temporary employees annualized base pay by reducing the base pay to half; or 26 weeks
4 of pay. The Company did this to normalize these temporary employees' pay to their
5 expected actual cost. These adjustments would reduce Staffs calculation of an on-going
6 level of 401K expense by \$12,982.

7 Lastly, in their calculation, Staff ignored the Defined Contribution Plan (DCP) expense for
8 181 employees. The Company believes this was a possible formula error or inadvertent
9 mistake. Including the DCP expense for these 181 employees increases Staffs DCP expense
10 number by approximately \$295,574.

11 **Q. Did Staff propose any adjustments to DCP?**

12 A. Yes. However, Staff's adjustments to DCP do not appear to capture all the eligible
13 employees. The Company has discussed this with Staff and our understanding is that Staff
14 is evaluating and will address this matter in Surrebuttal Testimony.

15 **VII. BAD DEBT EXPENSE**

16 **Q. Discuss Staff's calculation of bad debt expense?**

17 A. Yes. Staff Witness Horton's workpaper applied a three-year average of MAWC bad debt
18 expense consisting of 2018, 2019, and 2021 to calculate an on-going level of bad debt
19 expense. Due to the variability of the 2020 pandemic, Staff excluded 2020 in its calculation.
20 Staff calculated an on-going level of annual bad debt expense as \$3,279,104.

21 **Q. Did you find any issues that needed to be corrected in Staffs workpaper?**

22 A. Yes. Staff seemed to inadvertently exclude bad debt expense for the Arnold wastewater
23 District. I re-calculated Staff's number including the Arnold Bad Debt Expense and

1 computed an on-going level of annual bad debt expense to be \$3,298,708, an increase of
2 \$19,603. The Company has discussed this with Staff and our understanding is that Staff
3 will be including the expense for Arnold wastewater in Rebuttal Testimony. This
4 adjustment will increase Staff's uncollectible expense by \$19,603.

5 **VIII. CUSTOMER ACCOUNTING**

6 **Q. What adjustment does Staff make to customer accounting costs?**

7 A. Staff annualized the number of credit card payments made by customers at the current price
8 of \$1.50 per payment, including a total of \$930,242 for credit card fees.

9 **Q. Did you identify any issues with Staff's customer accounting adjustments?**

10 A. Yes. While Staff annualized credit card fees, they removed the other components of
11 customer accounting costs. The Company has discussed this with Staff and our
12 understanding is that this was not Staff's intent. Staff has indicated they will update their
13 adjustment in Rebuttal Testimony to include an annualized amount for the costs incurred
14 when customers pay their bill with an e-check, and to include other bank fees incurred for
15 activities such as check processing and lock box services. It is anticipated this will increase
16 Staff's overall revenue requirement by approximately \$0.6 million.

17 **IX. TELECOMMUNICATIONS EXPENSE**

18 **Q. Please describe the issues related to telecommunications expense?**

19 A. Telecommunications expense consists of costs related to telephone, telemetering,
20 cellphone, and data lines that the Company uses in its day-to-day business. Staff Witness
21 Niemeier testified, "the test year best represents the ongoing level of telecommunications
22 expense".⁷ One adjustment that Staff failed to make was annualizing the telemetering

⁷ Niemeier DT, p. 16.

1 expense for the Hallsville acquisition. Those expenses started being booked in April of
2 2022 (GL account number 52572000), hence only three months' worth of expenses are
3 represented in the test year. I calculated an additional \$16,464 should be added to the test
4 year expenses based on the annualization of the Hallsville telemetering expense starting in
5 April of 2022.

6 **X. MISCELLANEOUS EXPENSE**

7 **a. Lobbying Expense**

8 **Q. What adjustment did Staff make to lobbying expense?**

9 A. Staff and the Company both removed all booked lobbying expense.

10 **b. Charitable Contributions**

11 **Q. What adjustment did Staff make to the Charitable Contributions that MAWC made**
12 **during the test year?**

13 A. Staff Witness Lesmes addressed MAWC's charitable contributions in her dues and
14 donations expense Direct Testimony. Staff excluded all charitable contributions expense
15 totaling over \$200K.

16 **Q. Do you agree with Staff removing all of these expenses?**

17 A. No, I do not. First, the Company pro-actively removed sponsorships from its' original filed
18 revenue requirement, which included removing the sponsorship of programs for schools, a
19 cancer foundation, and the United Way. Staff overreached by proposing the removal of the
20 safety, educational, and environmental quality expenses included in this category. These
21 expenses include costs associated with Firefighter grant programs, a Hydration safety grant
22 program, and a contribution to Missouri River relief; a non-profit designed for cleanup of
23 the Missouri river. Staff's disallowed programs benefit the communities in which our

1 customers live and work. Staff should be encouraging more corporate community
2 engagement rather than discouraging it. I believe the adjusted test year amount of \$124,038
3 is a reasonable on-going level of these type of expenses.

4 **c. Penalties and Dues**

5 **Q. Please describe the issues related to penalties and dues expense.**

6 A. Penalties and dues expenses are included in MAWC's miscellaneous expense workpaper.
7 Staff Witness Lesmes states that dues expenses are costs MAWC incurs to join
8 organizations and pay for various subscriptions⁸. The Company removed all penalty
9 expenses and sponsorships prior to its rate request. Excluding those removed costs, Staff
10 is proposing an additional decrease of \$142,438 for this category of expense.

11 **Q. Do you agree with Staff's proposed exclusion of an additional \$142,438 of penalties
12 and dues expense**

13 A. No, I do not. Staff removed Chamber of Commerce dues and delineated lobbying activities
14 that are done by professional organizations in which MAWC pays membership dues.
15 Staff's dissection of these organizations activities is inordinately extreme and is not
16 consistent with other reasonable expenses.

17 **Q. Can you further discuss the Chamber of Commerce dues that have been disallowed
18 by Staff?**

19 A. Yes. First, MAWC has memberships to both local and state chambers of commerce. Local
20 chambers (as their distinction implies) are oriented to their respective local communities.
21 Local chambers of commerce understand business needs on a more municipal level and

⁸ Lesmes DT, p. 2.

1 work to improve the local business environment and employee working conditions. The
2 state chamber of commerce deals with larger scope issues and is dedicated to creating a
3 stronger environment for business growth and economic development throughout the state.
4 Members have access to cutting edge information, leadership programs, professional
5 development programs, business products, services, along with access to networking
6 opportunities. The Company's participation in the state chamber helps the Company stay
7 abreast of the state business environment, continue employee education, and learn from
8 other utilities throughout the state. Additional benefits of MAWC's participation in these
9 chambers include helping the Company to stay in touch with our customers, further
10 employee training, and to stay up to date on all aspects of the industry; all of which help to
11 provide excellent service to our customers.

12 **Q. How does MAWC, and its customers, benefit from the Company's membership in**
13 **AWWA?**

14 A. AWWA affords Missouri American employees the ability to expand their knowledge of
15 the water industry and interact with other water utilities across the country, sharing
16 knowledge and best practices. This association's members represent water treatment plant
17 operators, plant managers, scientists, environmentalists, manufacturers, and others that
18 discuss water supply and public health issues. Members get valuable information that could
19 be applied to current water treatment practices, which could result in improvements to the
20 service and quality of the water MAWC provides, which directly benefits our customers.

21 **d. Miscellaneous Expenses**

22 **Q. What are the other expenses that are included in MAWC's filed miscellaneous**
23 **expense workpaper?**

1 A. The operating expenses the Company delineates as miscellaneous expenses in its
2 miscellaneous expense workpaper include customer education, community relations,
3 community partnerships, hiring costs, and other varied expenses.

4 **Q. How did Staff address miscellaneous expense in its testimony and workpapers?**

5 A. Staff Witness Horton addresses MAWC’s customer education, community relations, and
6 community partnership expenses from the Company’s miscellaneous expense workpaper
7 and refers to these expenses as “advertising expenses”.⁹ Staff Witness Niemeier addresses
8 the bulk of the remaining miscellaneous expenses in her Direct Testimony.¹⁰

9 **Q. Did Staff Witness Horton recommend an adjustment to the customer education,
10 community relations, and community partnership expenses?**

11 A. Yes. Staff Witness Horton reviewed these expenses and recommended disallowing
12 \$36,961. Staff’s testimony identifies such items as tablecloths, grant program press
13 releases, and snacks for community events as the type of expenses they disallowed.

14 **Q. Do you agree with Staff’s disallowance of \$36,961 of selected MAWC costs?**

15 A. No, I do not. Staff’s testimony does not disclose the criteria used to choose what was an
16 allowed expense versus what was an excluded expense. MAWC reviewed Staff’s
17 workpaper to discover the following examples of excluded expenses: a press release for
18 firefighter grants, a sponsorship for a canoe race to benefit families that are enduring
19 childhood cancer, and a donation to the Parkville Missouri Economic Development
20 Council. MAWC invests in communities where our customers live and work. It is my
21 position that Staff should be encouraging more corporate community engagement rather

⁹ Horton DT, p. 22.

¹⁰ Niemeier DT, p. 11.

1 than discouraging these activities. It is my recommendation that the disallowed \$36,961 be
2 added back to Staff's revenue requirement.

3 **Q. Did Staff Witness Niemeier recommend an adjustment to miscellaneous expense in**
4 **her testimony and workpaper?**

5 A. Yes. Staff Witness Niemeier removed the cost associated with the Low Income Pay
6 Program in the same manner MAWC did in its filing workpaper.¹¹ Staff then compiled a
7 three-year average of expense for each remaining account to calculate a recommended on-
8 going level of total miscellaneous expenses. Using this averaging approach, Staff
9 recommended a reduction of \$482,680 of miscellaneous expense.

10 **Q. Do you agree with Staff's Miscellaneous Expense adjustment?**

11 A. No, I do not. Staff gives no explanation as to why the three-year average approach was
12 used or why it is a better representation of what an on-going level of expense would be.
13 Furthermore, given the inflationary pressures and rising prices in our current economy, the
14 minimum expected on-going level of expense should be the actual costs incurred in the test
15 year which were \$1,632,069.

16 **Q. Were there any other issues with MAWC's miscellaneous expense workpaper as**
17 **compared to Staff's miscellaneous expense workpaper?**

18 A. Yes. MAWC included \$68,406 of Business Development costs in its filed miscellaneous
19 expense workpaper. Staff ignores these costs in their miscellaneous expense workpaper
20 and there is no mention of these costs in Staff's testimony. Staff Witness McMellen
21 includes a one-off workpaper that indicates recommending removing these costs with a

¹¹ Niemeier DT, p. 11.

1 notation that states “All booked to Corporate”. Without further explanatory testimony, I
2 feel it prudent to include these costs as an on-going level of expense as the Company
3 continues to seek to develop and grow its business to the long-term benefit of its customers.

4 **Q. Does this conclude your Rebuttal Testimony?**

5 A. Yes.