

Exhibit No.:
Issue(s): *General Information &
Miscellaneous,
Certificates of
Convenience/Feasibility Analysis*
Witness: *Amanda C. McMellen*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *WA-2021-0376*
Date Testimony Prepared: *December 3, 2021*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

REBUTTAL TESTIMONY

OF

AMANDA C. MCMELLEN

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WA-2021-0376

*Jefferson City, Missouri
December 2021*

1 **REBUTTAL TESTIMONY**

2 **OF**

3 **AMANDA C. MCMELLEN**

4 **MISSOURI-AMERICAN WATER COMPANY**

5 **CASE NO. WA-2021-0376**

6 Q. Please state your name and business address.

7 A. Amanda C. McMellen, 200 Madison Street, Suite 440, Jefferson City, MO
8 65101.

9 Q. By whom are you employed and in what capacity?

10 A. I am employed by the Missouri Public Service Commission (“Commission”) as
11 a Utility Regulatory Supervisor.

12 Q. Please describe your educational background and work experience.

13 A. I graduated from the DeVry Institute of Technology in June 1998 with a
14 Bachelor of Science degree in Accounting. I commenced employment with the Commission
15 Staff in June 1999.

16 Q. Have you previously filed testimony before the Commission?

17 A. Yes, numerous times. Please refer to Schedule ACM-r1, attached to this rebuttal
18 testimony, for a list of the major audits in which I have assisted and filed testimony with the
19 Commission.

20 Q. What is the purpose of your rebuttal testimony?

21 A. The purpose of my rebuttal testimony is to respond to the direct testimony of
22 Missouri-American Water Company (“MAWC”) witness Mr. Joseph Batis regarding the
23 appropriate market value of the City of Eureka system.

1 Q. What is Staff's Recommendation regarding the net book value of the City of
2 Eureka assets in this case?

3 A. Staff's recommended calculation for the net book value of the City of Eureka
4 assets is a total of \$17,806,614 (\$10,709,736 for water and \$7,096,878 for sewer) which is
5 \$10,193,386 below the proposed purchase price and appraised value submitted by MAWC.

6 Q. How did Staff arrive at its net book value recommendation?

7 A. Staff reviewed and analyzed information provided by MAWC in its application
8 (including sale agreement documents), MAWC workpapers, responses to Staff's data requests,
9 on-site visits, and the appraisal included in MAWC's application (with supporting
10 documentation). Staff determined the net book value of the City of Eureka assets by studying
11 documentation related to the cost of constructing plant, associated depreciation expense, and
12 contributed plant facilities. Staff's net book value recommendation is explained in more detail
13 in the rebuttal testimony of Commission Staff witness Curt B. Gateley.

14 Q. How did MAWC determine its proposed purchase price and appraisal value?

15 A. As described in the appraisal attached to MAWC witness Joseph Batis' direct
16 testimony as Schedule JEB-2 pages 69 through 80, the proposed appraisal value was ultimately
17 determined based on the "sales comparison approach." This method is used to establish an
18 estimated market value for the property in question.

19 Q. What is the "sales comparison approach?"

20 A. As described in Mr. Batis' Schedule JEB-2, page 37, the sales comparison
21 approach is as follows:

22 The Sales Comparison Approach is based upon the theory that the
23 value of a property is determined by the actions of buyers and sellers in the
24 market for comparable types of property. Recognizing no two properties are

1 identical and that properties sell at different times under different market
2 conditions, the application of the Sales Comparison Approach requires the
3 appraiser to consider any differences between a respective sale and the
4 subject property which may affect value. After the relevant differences are
5 adjusted for, an indicated range of value results.

6 The theory of the Sales Comparison Approach also realizes that
7 buyers and sellers often have motivations that are unknown to the appraiser
8 and difficult to quantify in the adjustment process. Therefore, while this
9 approach has certain strengths and foundation, it must be carefully applied
10 in order to lead the appraiser to a realistic opinion of value.

11 Q. Does Staff agree with MAWC's recommended final determination of the
12 proposed value of the City of Eureka assets?

13 A. No. Staff determined that the result in this case of the sales comparison
14 approach, particularly for the water assets, was far outside the range of values included in
15 Mr. Batis' Schedule JEB-2, page 75 showing the purchase price per customer for other
16 properties. The unit value of \$4,500 per water customer on which MAWC's recommended City
17 of Eureka purchase price is based is above any sales price/customer included in the summary
18 table for Schedule JEB-2, including other cities that have more customers. Using a number
19 higher than any of the other comparable per water customer numbers for other properties is not
20 justified, especially since MAWC only intends to use the source of water assets as a backup
21 and will construct a new source of supply. Please see Staff witness Curt B. Gateley's rebuttal
22 testimony for additional details on these points.

23 Q. Did the appraisal provide justification for the higher value of the City of Eureka
24 assets on a per customer basis as compared to that value for other properties acquired by
25 MAWC?

26 A. No. There was no explanation in the appraisal for the higher value for the
27 City of Eureka assets as compared to the value of other properties acquired by MAWC.

1 Q. Why does Staff believe that Staff's estimate of net book value is a more
2 appropriate basis to establish the value of the acquired City of Eureka properties than the sales
3 comparison approach used by MAWC?

4 A. Staff is recommending the net book value estimation approach because it is
5 based on cost data associated with actual plant in service that is used and useful. Although it is
6 still an estimate, Staff's calculation of the net book value of the system assets is based on its
7 field observations, descriptions of various assets, and the age of each of the assets, as well as
8 information from the appraisal report included in MAWC's application.

9 Q. Does this conclude your rebuttal testimony?

10 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Missouri-)
American Water Company for a Certificate of)
Convenience and Necessity Authorizing it to)
Install, Own, Acquire, Construct, Operate,)
Control, Manage and Maintain a Water System)
and Sewer System in and Around the City of)
Eureka, Missouri)

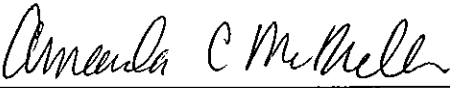
Case No. WA-2021-0376

AFFIDAVIT OF AMANDA C. MCMELLEN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW Amanda C. McMellen, and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Rebuttal Testimony of Amanda C. McMellen*; and that the same is true and correct according to her best knowledge and belief, under penalty of perjury.

Further the Affiant sayeth not.

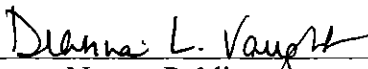


Amanda C. Mellen

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 1st day of December, 2021.

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2023
Commission Number: 15207377



Notary Public

Amanda C. McMellen

SUMMARY OF RATE CASE TESTIMONY FILED

<u>COMPANY</u>	<u>CASE NO.</u>	<u>ISSUES</u>
Osage Water Company	SR-2000-556	Plant in Service Depreciation Reserve Depreciation Expense Operation & Maintenance Expense
Osage Water Company	WR-2000-557	Plant in Service Depreciation Reserve Depreciation Expense Operation & Maintenance Expense
Empire District Electric Company	ER-2001-299	Plant in Service Depreciation Reserve Depreciation Expense Cash Working Capital Other Working Capital Rate Case Expense PSC Assessment Advertising Dues, Donations & Contributions
UtiliCorp United, Inc./ d/b/a Missouri Public Service	ER-2001-672	Insurance Injuries and Damages Property Taxes Lobbying Outside Services Maintenance SJLP Related Expenses
BPS Telephone Company	TC-2002-1076	Accounting Schedules Separation Factors Plant in Service Depreciation Reserve Revenues Payroll Payroll Related Benefits Other Expenses
Aquila, Inc. d/b/a Aquila Networks-MPS & Aquila Networks-L&P	ER-2004-0034	Revenue Annualizations Uncollectibles
Fidelity Telephone Company	IR-2004-0272	Revenue Revenue Related Expenses
Aquila, Inc. d/b/a Aquila Networks-MPS & Aquila Networks-L&P	ER-2005-0436	Revenue Annualizations Uncollectibles

**Continued Amanda C. McMellen
Summary of Rate Case Testimony Filed**

<u>COMPANY</u>	<u>CASE NO.</u>	<u>ISSUES</u>
Empire District Electric Company	ER-2006-0315	Payroll Payroll Taxes 401(k) Plan Health Care Costs Incentive Compensation Depreciation Expense Amortization Expense Customer Demand Program Deferred State Income Taxes Income Taxes
Aquila, Inc. d/b/a Aquila Networks-MPS & Aquila Networks-L&P	ER-2007-0004	Revenue Annualizations Uncollectibles Maintenance Expenses Turbine Overhaul Maintenance
Empire District Electric Company	ER-2008-0093	Revenues Bad Debts Employee Benefits Tree Trimming Storm Costs Customer Programs Amortizations Current Income Taxes Deferred Income taxes Jurisdictional Allocations Corporate Allocations
Missouri Gas Energy, a Division of Southern Union Company	GR-2009-0355	Staff Report Cost of Service Revenues-Customer Growth Corporate Allocations Other Rate Base Items Amortization Expense Interest expense on customer Deposits Rents and Leases
Missouri-American Water Company	WR-2010-0131	Staff Report Cost of Service Corporate and District Allocations Lobbying Costs Net Negative Salvage Amortization of Regulatory Assets Belleville Lab Expenses Comprehensive Planning Study Payroll Payroll Taxes

**Continued Amanda C. McMellen
Summary of Rate Case Testimony Filed**

<u>COMPANY</u>	<u>CASE NO.</u>	<u>ISSUES</u>
Kansas City Power & Light Company	ER-2010-0355	Staff Report Cost of Service Revenues-Customer Growth In-Field Service Fees Gross Receipts Taxes Forfeited Discounts Other Revenues Credit Card Acceptance Program Bad Debts
KCP&L Greater Missouri Operations Company	ER-2010-0356	Staff Report Cost of Service Revenues-Customer Growth Other Revenues Credit Card Acceptance Program Bad Debts
Empire District Electric Company	ER-2011-0004	Staff Report Cost of Service Plant in Service Depreciation Reserve Depreciation Expense Pensions & OPEBs Customer Programs Amortizations Carrying Costs Revenue Annualizations
Empire District Electric Company	ER-2012-0345	Staff Report Cost of Service Plant in Service Depreciation Reserve Depreciation Expense Prepayments Materials and Supplies Customer Demand Programs Amortization of Electric Plant Customer Deposits Customer Advances Carrying Costs Customer Programs Customer Deposit Interest Expense Franchise Taxes Amortizations Banking Fees Lease Expense Pay Station Fees Amortizations
Summit Natural Gas Company of Missouri, Inc.	ER-2014-0086	Corporate Allocations Capitalization Policy MGU Purchase Price SMNG Legacy Asset Valuation Energy Efficiency Programs

**Continued Amanda C. McMellen
Summary of Rate Case Testimony Filed**

<u>COMPANY</u>	<u>CASE NO.</u>	<u>ISSUES</u>
Empire District Electric Company	ER-2016-0023	Staff Report Cost of Service Test Year/Update/True-Up Accumulated Deferred Income Taxes SWPA Hydro Reimbursement SPP Revenues and Expenses SPP Transmission Expenses ASM Revenue and Expense Miscellaneous SPP Related Revenues and Expenses Off-System Sales Revenue and Expense Current Income Taxes Deferred Income Taxes Rate Case Expense-Sharing Advertising Dues and Donations SWPA Amortization Tornado AAO Amortization Corporate Expenses Capitalized Depreciation Proposed Acquisition
Terre Du Lac utilities Corporation	WR-2017-0110	Rate Base
Spire Missouri, Inc.	GR-2017-0215 GR-2017-0216	Bad Debts
Missouri-American Water Company	WR-2017-0285	Plant in Service Contributions in Aid of Construction Regulatory Deferrals Depreciation Reserve Depreciation Expense Amortization Expense Customer owned Lead Service Lines
Empire District Electric Company	ER-2019-0374	Fuel Inventories Fuel and Purchased Power
Missouri-American Water Company	WR-2020-0344	Plant in Service Contributions in Aid of Construction Other Rate Base Regulatory Deferrals Depreciation Reserve Depreciation Expense Amortization Expense Property Tax Tracker Customer owned Lead Service Lines