

Exhibit No.:
Issue(s): *Dues & Donations
Expense, Postage Expense,
Penalties Expense, Other
Rate Base Items*
Witness: *Sherrye Lesmes*
Sponsoring Party: *MO PSC Staff*
Type of Exhibit: *Direct Testimony*
Case No.: *WR-2022-0303*
Date Testimony Prepared: *November 22, 2022*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

DIRECT TESTIMONY

OF

SHERRYE LESMES

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2022-0303

*Jefferson City, Missouri
November 2022*

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SHERRYE LESMES

MISSOURI-AMERICAN WATER COMPANY

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1 **DIRECT TESTIMONY OF**

2 **SHERRYE LESMES**

3 **MISSOURI-AMERICAN WATER COMPANY**

4 **CASE NO. WR-2022-0303**

5 Q. Please state your name and business address.

6 A. Sherrye Lesmes, 200 Madison Street, Jefferson City, Missouri 65101.

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

8 A. I am employed by the Missouri Public Service Commission (“Commission”) as
9 a Utility Regulatory Auditor.

10 Q. Please describe your educational background and experience.

11 A. I graduated from Columbia College in June 2004 with a Bachelor of Science
12 degree in Accounting. While obtaining my degree and post-graduation, I worked as an
13 Accountant, including starting my own accounting office in March 2006. I began working for
14 the State of Missouri in July 2010 holding a position with the Missouri Department of Revenue
15 in the Tax Collections department. I accepted a position with the State Auditor’s Office in
16 January 2013 as an Auditor. I began employment with the Missouri Public Service Commission
17 in July 2022 as a Utility Regulatory Auditor.

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

19 A. No.

20 Q. What knowledge, skills, experience, training, and education do you have in the
21 areas of which you are testifying as an expert witness?

22 A. I have received continuous training at in-house and outside seminars on
23 auditing standards, and skills while employed with the Missouri State Auditor’s Office. I have

1 more than nine years of auditing experience of other state agencies, local municipalities, and
2 counties within the state of Missouri, several of which involved utilities owned and operated
3 by these entities. In addition, for this rate case, I reviewed the prior workpapers, prior cases,
4 prior testimony, and data presented by Missouri-American Water Company (“MAWC”) on
5 these issues.

6 **EXECUTIVE SUMMARY**

7 Q. What is the purpose of your direct testimony?

8 A. The purpose of my direct testimony is to provide Staff’s recommendation for
9 the following issues: dues and donations expense, postage expense, penalties expense, and other
10 rate base items (materials and supplies, customer advancements, and prepayments).

11 **DUES AND DONATIONS EXPENSE**

12 Q. Please describe dues and donations expense.

13 A. Dues and donations expense are the costs MAWC incurs to join organizations
14 (such as chambers of commerce), amounts paid for subscriptions (such as newspaper
15 subscriptions), and charitable donations made to organizations.

16 Regarding donations, the Commission stated in *In the Matter of Missouri Public*
17 *Service, a Division of UtiliCorp United, Inc.’s Tariff Designed to Increase Rates for Electric*
18 *Service to Customers in the Missouri Service Area of the Company*, Case No. ER-97-394,
19 *Report and Order*, 7 Mo.P.S.C.3d 178, 212 (1998):

20 The Commission has traditionally disallowed donations such as these.
21 The Commission finds nothing in the record to indicate any discernible
22 ratepayer benefit results from the payment of these donations. The
23 Commission agrees with the Staff in that membership in the various
24 organizations involved in this issue is not necessary for the provision of
25 safe and adequate service to the MPS ratepayers.

1 Q. Did Staff review dues and donations expense for this case and make an
2 adjustment based on that review?

3 A. Yes. Staff submitted Data Request (“DR”) No. 0099, which requested all
4 General Ledger (“GL”) entries for dues and donations expenses incurred for the calendar years
5 of 2020, 2021, and 2022. Staff also submitted DR No. 0187, which requested copies of support
6 documentation and additional information on Purchase Card transactions that were not
7 previously provided. Staff reviewed MAWC’s responses to DR Nos. 0099 and 0187. In its
8 response to DR No. 0099, MAWC stated that “All donation expenses billed to MAWC from
9 the [American Water Works] Service Company were removed for ratemaking purposes.
10 MAWC is not requesting recovery of donations expenses in the pro forma Support Services
11 expense.” Also included in its response to DR No. 0099, MAWC provided a list of direct and
12 allocated dues and donations expenses incurred from July 1, 2021, through June 30, 2022. Staff
13 determined donations do not provide a direct benefit to ratepayers and were, therefore, excluded
14 from Staff’s recommendation. Staff made no additional adjustment for donations above and
15 beyond MAWC’s adjustment.

16 Q. How did Staff determine which dues and memberships expenses to exclude in
17 its recommendation?

18 A. Staff reviewed the support documentation MAWC provided in its response to
19 DR Nos. 0099 and 0187 and determined that most expenses were for sponsorships (such as
20 paying to sponsor a golf team or for an advertisement in a flyer for a local community event)
21 and that a portion of dues and memberships were for lobbying or political activities.
22 The Commission’s position is that lobbying or political activities are not in ratepayers’ best
23 interest, as they do not provide a direct quantifiable customer benefit, and the Commission

1 consistently disallows these expenses. To determine how much of dues and memberships were
2 for lobbying or political activities, Staff contacted the organizations and received an email from
3 each stating the percentage of dues that go towards lobbying or political activities. Using those
4 percentages, Staff determined the lobbying/political activity portions of the dues for these
5 memberships to exclude. After removing the lobbying/political activity portion and the
6 sponsorship portion of dues, Staff's overall adjustment for dues and donations expense resulted
7 in a decrease of \$300,536.

8 **POSTAGE EXPENSE**

9 Q. Please describe postage expense.

10 A. Postage expense are costs incurred for postage, freight, shipping, and customer
11 billing.

12 Q. Did Staff review of postage expense and make an adjustment based on that
13 review?

14 A. Yes. Staff reviewed MAWC's response to DR No. 0098, in which the monthly
15 amounts for postage expense were provided for the period of July 1, 2021, through June 30,
16 2022. Staff used the total number of mailings for the twelve months ending June 30, 2022, and
17 applied the United States Postal Service's most recent postage rate (effective July 10, 2022), to
18 compute an annualized amount of \$2,170,484. Staff's overall adjustment for postage expense
19 resulted in an increase of \$177,671 to the test year expense level.

20 **PENALTIES EXPENSE**

21 Q. Please describe penalties expense.

1 A. Penalties expense are the costs MAWC incurred when paying certain expenses
2 late, such as county property taxes.

3 Q. Did Staff review penalties expense and make an adjustment based on that
4 review?

5 A. Staff performed a review of penalties expense, however, MAWC did not seek
6 recovery of penalties expense and there was no balance in its corresponding GL account for the
7 test year ending June 30, 2022. Therefore, no adjustment was necessary.

8 **OTHER RATE BASE ITEMS**

9 **Materials and Supplies**

10 Q. Please describe materials and supplies, which is included in rate base.

11 A. MAWC maintains an inventory of materials and supplies that are used in the
12 construction, operation, and maintenance of utility plant, but are not directly assignable to
13 specific plant accounts. For the purpose of setting rates, these items should be included in the
14 calculation of rate base because they are typically purchased with investors' funds.

15 Q. Did Staff review the materials and supplies inventory?

16 A. Yes. Staff reviewed and analyzed historical monthly balances for the period of
17 July 1, 2020, through June 30, 2022, for each materials and supplies account provided in
18 MAWC's response to DR No. 0096. Staff's analysis concluded there was not a significant
19 discernible trend, so Staff used the most recent 13-month average from June 2021 to June 2022
20 to normalize the month-end balances of the Materials and Supplies accounts. Staff included
21 \$10,456,680 as an addition to rate base for materials and supplies.

22 **Customer Advances**

23 Q. Please explain customer advances.

Direct Testimony of
Sherrye Lesmes

1 A. Customer advances are funds provided by individual customers to assist in the
2 construction and extension of mains, facilitating water and/or sewer service to them. No interest
3 is paid to customers for the use of this money. Since these funds are an interest-free source of
4 income to MAWC, they are included as a reduction to rate base.

5 Q. Did Staff review customer advances?

6 A. Yes. Staff reviewed historical balances for customer advances and since there
7 was a discernible downward trend, Staff determined the ending balance at June 30, 2022, the
8 end of test year, was the most appropriate amount to include for customer advances. As a result,
9 Staff recommends \$800,905 as an offset to rate base for customer advances.

10 **Prepayments**

11 Q. Please describe prepayments.

12 A. Prepayments are an investment of funds provided by MAWC investors.
13 Prepayments are made in advance of the period to which they apply and typically represent
14 items such as insurance, rents, income taxes, and other taxes. Because these are monies
15 purchased with investors' funds, it is appropriate to add the amount of prepayments to rate base.

16 Q. Did Staff review prepayments?

17 A. Yes. Staff reviewed and analyzed historical monthly balances from June 2021
18 to June 2022 for each prepayment account to determine the proper amounts to include in the
19 rate base. After analyzing the data, Staff used a thirteen-month average ending June 2022 to
20 normalize the monthly balances for the recommended amount of prepayments. Staff included
21 \$1,821,004 as an addition to rate base for prepayments.

22 Q. Does this conclude your direct testimony?

23 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-2022-0303
Implement General Rate Increase for Water)
and Sewer Service Provided in Missouri)
Service Areas)

AFFIDAVIT OF SHERRYE LESMES

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW SHERRYE LESMES and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Direct testimony of Sherrye Lesmes*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

S Lesmes
SHERRYE LESMES

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 17th day of November 2022.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070

D. Suzie Mankin
Notary Public