

EXHIBIT

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OPC #13
Atrazine Settlement Refund/
Insurance Other Than Group/
Equipment Lease Expense/
Payroll and Benefits /
Advertising Expense/
PSC Assessment Expense/
Postage Expense/
Tank Painting Tracker/Expense/
Emerald Pointe Pipeline Amortization/
Investment Tax Credit (ITC)/
Materials and Supplies/
Prepayments
Roth/Direct
Public Counsel
WR-2015-0301

Witness/Type of Exhibit:
Sponsoring Party:
Case No.:

DIRECT TESTIMONY

OF

KERI ROTH

Submitted on Behalf of the Office of the Public Counsel

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2015-0301

December 23, 2015

OPC Exhibit No. 13
Date 3-21-16 Reporter TM
File No. WR-2015-0301

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

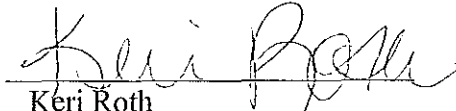
In the Matter of Missouri-American Water)
Company's Request for Authority to) Case No. WR-2015-0301
Implement a General Rate Increase for) Case No. SR-2015-0302
Water and Sewer Service Provided in)
Missouri Service Areas.)

AFFIDAVIT OF KERI ROTH

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Keri Roth, of lawful age and being first duly sworn, deposes and states:


1. My name is Keri Roth. I am a Public Utility Accountant II for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.


Keri Roth
Public Utility Accountant II

Subscribed and sworn to me this 23rd day of December 2015.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2017
Cole County
Commission #13754037


Jerene A. Buckman
Notary Public

My Commission expires August 23, 2017.

1 **TABLE OF CONTENTS**

2 **KERI ROTH**

3 **MISSOURI AMERICAN WATER COMPANY**

4 **CASE NO. WR-2015-0301**

5 I. Introduction.....3

6 II. Atrazine Settlement Refund.....5

7 III. Insurance Other Than Group.....7

8 IV. Equipment Lease Expense.....9

9 V. Payroll and Benefits.....9

10 a. Payroll and Payroll Taxes.....9

11 b. Defined Contribution Plan (DCP).....11

12 c. Annual Incentive Compensation (AIP).....12

13 d. 401(k) Employer Costs.....13

14 e. Group Insurance.....14

15 VI. Advertising Expense.....15

16 VII. PSC Assessment Expense.....16

17 VIII. Postage Expense.....17

18 IX. Tank Painting Tracker/Expense.....17

Direct Testimony of Keri Roth
Case No. WR-2015-0301

1	X. Emerald Pointe Pipeline Amortization.....	18
2	XI. Investment Tax Credit (ITC).....	19
3	XII. Materials and Supplies.....	20
4	XIII. Prepayments.....	21

1
2
3
4
5
6
7
8

**DIRECT TESTIMONY
OF
KERI ROTH**

**MISSOURI AMERICAN WATER COMPANY
CASE NO. WR-2015-0301**

9 **I. INTRODUCTION**

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

11 A. Keri Roth, P.O. Box 2230, Jefferson City, Missouri 65102-2230.

12
13 **Q. By whom are you employed and in what capacity?**

14 A. I am employed by the Missouri Office of the Public Counsel (“OPC” or “Public
15 Counsel”) as a Public Utility Accountant II.

16
17 **Q. What is the nature of your current duties at the OPC?**

18 A. My duties include performing audits and examinations of the books and records of
19 public utilities operating within the state of Missouri under the supervision of the Chief
20 Public Utility Accountant, Mr. Charles Hyneman.

21
22 **Q. Please describe your educational background.**

1 A. I graduated in May 2011, from Lincoln University, in Jefferson City, Missouri, with a
2 Bachelor of Science Degree in Accounting.

3

4 **Q. Have you received specialized training in utility ratemaking and public utility**
5 **accounting?**

6 A. Yes. In addition to being employed by the Missouri Office of the Public Counsel since
7 September 2012, I have also attended the NARUC Utility Rate School held by Michigan
8 State University in October 2013.

9

10 **Q. Have you previously filed testimony before the Missouri Public Service**
11 **Commission (“Commission” or “MPSC”)?**

12 A. Yes. Please refer to Schedule KNR-1, attached to this testimony, for a listing of cases in
13 which I have filed testimony before the Commission.

14

15 **Q. What is the purpose of this direct testimony?**

16 A. The purpose of this testimony is to sponsor Public Counsel’s positions regarding
17 Missouri American Water Company’s (“MAWC” or “Company”) atrazine settlement
18 refund, insurance other than group insurance expense, building lease expense, equipment
19 lease expense, payroll and benefits expense, advertising expense, PSC assessment,

1 postage expense, tank painting tracker/expense, Emerald Pointe pipeline amortization,
2 investment tax credit, materials and supplies, and prepayments.
3

4 **II. ATRAZINE SETTLEMENT REFUND**

5 **Q. Describe the atrazine class action lawsuit.**

6 A. As described in MAWC's response to Staff data request 196, the *Joint Motion for*
7 *Preliminary Approval of Settlement* ("Joint Motion"), the lawsuit involved several water
8 companies from primarily Midwestern states that alleged atrazine entered their water
9 supplies. The water companies alleged that they have had to continuously monitor, test,
10 and treat for atrazine in their water supplies. The Joint Motion goes on to describe
11 atrazine as one of the most widely used herbicides in the United States. The defendant
12 in the case, Syngenta, is the largest manufacturer and distributor of atrazine in the United
13 States. The total amount of the settlement awarded to the water companies was \$105
14 million. MAWC was awarded approximately \$1.2 million. The lawsuit is fully
15 described in the Joint Motion.
16

17 **Q. What is atrazine?**

18 A. Atrazine is an herbicide used to control broadleaf and grassy weeds in a variety of crops,
19 but is applied primarily to corn fields.
20

1 **Q. Did MAWC incur any expenses associated with the lawsuit or settlement?**

2 A. No, MAWC did not incur any additional costs. This has been confirmed in MAWC's
3 response to Staff data request 197.

4

5 **Q. How is Public Counsel proposing to treat the awarded settlement received by**
6 **MAWC of approximately \$1.2 million?**

7 A. Public Counsel's adjustment refunds 100 percent of the settlement amount to ratepayers
8 as a reduction to MAWC's cost of service over a five year period.

9

10 **Q. Why does Public Counsel propose to refund 100 percent of the settlement amount**
11 **to ratepayers?**

12 A. Public Counsel proposes to refund 100 percent of the settlement amount to ratepayers,
13 because ratepayers have already been charged the costs to test and treat for atrazine in
14 utility rates. Also, MAWC employees did not separately track their time related to the
15 atrazine settlement, but instead time spent on this issue was considered part of their
16 normal utility work responsibilities. There were also no additional expenses incurred by
17 MAWC as a result of the lawsuit. The burden of the cost of the atrazine issue placed
18 100 percent on the ratepayers; therefore, ratepayers are entitled to 100 percent of the
19 refund.

20

1 **III. INSURANCE OTHER THAN GROUP INSURANCE**

2 **Q. What adjustments has Public Counsel made to MAWC's insurance other than**
3 **group expense?**

4 A. Public Counsel's adjustments reflect the most current premiums in effect.
5

6 **Q. Has Public Counsel proposed any additional adjustments?**

7 A. Yes. Public Counsel recommends the cost of the Directors and Officers Liability
8 insurance coverage and the cost of the Special Contingency Risk insurance be allocated
9 to MAWC's shareholders and not its ratepayers.
10

11 **Q. Why has Public Counsel allocated the cost of these types of insurance to**
12 **shareholders?**

13 A. The cost of Directors and Officers Liability insurance is incurred to protect American
14 Water Works Company ("AWWC") Board of Directors' from liability related to
15 wrongful acts arising from any breach of duty, neglect, error, misstatement, misleading
16 statement omission or act. This definition has been confirmed through MAWC's
17 response to Staff data request 95. AWWC is MAWC's parent company and MAWC is a
18 subsidiary of AWWC.
19

1 The cost of the Special Contingency Risk insurance is incurred to provide coverage for
2 events which include kidnapping, extortion, detention, hijacking, or a series of connected
3 acts. This definition has been confirmed through MAWC's response to Staff data
4 request 95.

5
6 Public Counsel believes that ratepayers should not be charged for the cost of these types
7 of insurance. The cost of these types of insurance should be the responsibility of the
8 Company's shareholders, because the purpose of the insurance is to protect interests of
9 the Board of Directors, not ratepayers. Costs related to board member legal liability,
10 such as fines and penalties, and costs related to the protection of employees for extortion
11 or kidnapping, are not the types of costs that should be included in utility cost of service.
12 Therefore, insurance to protect against these costs should not be included in utility cost
13 of service.

14
15 **Q. What is the annualized level of insurance premiums Public Counsel has included**
16 **for MAWC?**

17 A. Public Counsel has included an annualized level of insurance premiums totaling
18 \$5,213,555, allocated by AWWC to MAWC. This results in a reduction to December
19 31, 2014 test year books and records of \$201,955.

20

1 **IV. EQUIPMENT LEASE EXPENSE**

2 **Q. What adjustments is Public Counsel proposing for equipment lease expense?**

3 A. Public Counsel has removed all annual expenses relating to equipment lease contracts
4 that have expired or have been cancelled as of January 31, 2016, which is the end of the
5 true-up period as ordered by the Commission in this case. Public Counsel has also
6 removed the costs of a building lease which is already included in Public Counsel's
7 building lease annualization.

8
9 **Q. What is the annualized level of equipment lease expense Public Counsel is
10 proposing for the current case?**

11 A. Public Counsel proposes to include an annualized level of equipment lease expense of
12 \$16,230. This results in a reduction to test year books and records of \$132,854.

13
14 **V. PAYROLL AND BENEFITS**

15 **a. Payroll & Payroll Taxes**

16 **Q. Is Public Counsel proposing any adjustments to the test year level of payroll and
17 benefits allocated to MAWC by AWWC's Service Company?**

18 A. No. AWWC's Service Company payroll and benefit allocations was not included in my
19 scope of work for MAWC's payroll annualization.

20

1 | **Q. What adjustments is Public Counsel proposing to MAWC's test year payroll**
2 | **expense?**

3 | A. Public Counsel has adjusted MAWC's test year payroll expense to reflect an annualized
4 | level of payroll and payroll taxes, as of September 30, 2015.

5 |
6 | **Q. How did Public Counsel calculate base payroll for MAWC?**

7 | A. Base payroll was calculated by multiplying the actual employee hourly wage as of
8 | September 30, 2015, by 2,088 hours for each employee.

9 |

10 | **Q. What is the total pro forma O&M wages Public Counsel has calculated?**

11 | A. Public Counsel has calculated pro forma O&M wages to total \$26,836,897. In
12 | comparison, this is \$3,403,803 less than MAWC's proposed level of pro forma O&M
13 | wages.

14 |

15 | **Q. How did Public Counsel calculate overtime wages for MAWC?**

16 | A. Overtime wages was calculated by multiplying a three-year average of actual overtime
17 | hours incurred by an average overtime hourly rate.

18 |

19 | **Q. What is the amount of overtime wages Public Counsel has included for MAWC?**

1 A. Public Counsel has calculated overtime wages of \$5,386,008. This is the result of a
2 decrease to test year books and records of \$155,973.
3

4 **Q. How did Public Counsel calculate payroll taxes for MAWC?**

5 A. Public Counsel calculated payroll taxes based on wage levels and current tax rates at
6 December 31, 2014.
7

8 **Q. Does MAWC anticipate any changes in the payroll tax rates in 2015?**

9 A. No. The Company does not anticipate any changes in 2015, as stated in MAWC's
10 response to Staff data request 123.
11

12 **Q. What is the amount of payroll taxes Public Counsel proposes to include in the
13 current case?**

14 A. Public Counsel has included pro forma O&M payroll tax's totaling \$1,996,458. In
15 comparison, this is \$254,687 less than MAWC's proposed level of pro forma O&M
16 payroll taxes.
17

18 **b. Defined Contribution Plan (DCP)**

19 **Q. What is MAWC's DCP?**

1 A. MAWC's DCP is a Company funded retirement savings program for certain employees
2 who are not eligible for the defined benefit pension program based on their hire date.
3 MAWC's change in its type of pension plan is described in MAWC witness Jeanne
4 Tinsley's direct testimony at page 40.

5
6 **Q. How has Public Counsel calculated the amount for its DCP?**

7 A. Public Counsel multiplied its calculated annualized payroll amount by 5.25 percent to
8 determine MAWC's annualized expense level for employees participating in the DCP.
9 Public Counsel then applied inter-district and corporate allocations to calculate O&M
10 DCP costs.

11
12 **Q. What is the amount of DCP that Public Counsel proposes to include in this rate
13 case?**

14 A. Public Counsel proposes to include O&M DCP expense totaling \$624,876. In
15 comparison, this is \$77,556 less than MAWC's proposed level of O&M DCP expense.

16
17 **c. Annual Incentive Compensation (AIP)**

18 **Q. Describe MAWC's AIP?**

1 A. The AIP allows MAWC employees to be rewarded for their knowledge and skills which
2 help MAWC meet or exceed certain business objectives. The reward is based upon an
3 employee's individual performance.

4
5 **Q. Has Public Counsel made any adjustments to MAWC's AIP?**

6 A. Yes. In its AIP adjustment, Public Counsel has not included the incentive compensation
7 dollars paid on the basis of MAWC's financial performance. Public Counsel has
8 included all AIP dollars paid on the basis of safety and customer service factors.

9
10 **Q. What is the amount of AIP that Public Counsel proposes to include in the current
11 case?**

12 A. Public Counsel proposes to include AIP expense totaling \$457,776. This results in a
13 decrease to test year books and records of \$386,911.

14
15 **d. 401(k) Employer Costs**

16 **Q. How did Public Counsel calculate 401(k) expense for MAWC?**

17 A. Public Counsel calculated 401(k) expense by multiplying MAWC's contribution
18 percentage by the participating employee's annual payroll, excluding any overtime or
19 incentive compensation. To arrive at total 401(k) expense for each district, Public
20 Counsel applied inter-district and corporate allocations. Public Counsel then applied its

1 O&M percentage to calculate total O&M 401(k) expense. Public Counsel's O&M
2 401(k) expense was compared to the test year O&M 401(k) expense to calculate
3 adjustments for each district.
4

5 **Q. What is the amount of 401(k) expense Public Counsel proposes to include in the**
6 **current case?**

7 A. Public Counsel proposes to include O&M 401(k) expense of \$691,527. In comparison,
8 this is \$8,570 higher than MAWC's proposed level of O&M 401(k) expense.
9

10 **e. Group Insurance**

11 **Q. Describe MAWC's Group Insurance?**

12 A. MAWC provides insurance for employee health, dental, vision, basic life, short and long
13 term disability, and accidental death and dismemberment (AD&D) costs.
14

15 **Q. How did Public Counsel calculate group insurance for MAWC?**

16 A. Public Counsel calculated a ratio based upon test year O&M costs and test year O&M
17 payroll expense. Public Counsel applied the ratio to Public Counsel's annualized payroll
18 expense to calculate the annualized O&M group insurance expense.
19

1 **Q. What is the amount of group insurance Public Counsel proposes to include in the**
2 **current case?**

3 **A. Public Counsel proposes to include O&M group insurance expense totaling \$1,342,123.**
4 **In comparison, this is \$3,422,639 less than MAWC's proposed level of O&M group**
5 **insurance.**

6
7 **VI. ADVERTISING EXPENSE**

8 **Q. What are the various categories of advertising expense?**

9 **A. There are five different categories of advertising expense:**

10 **General – advertising that is useful in the provision of adequate service;**

11 **Safety – advertising which conveys the ways to safely use the company's service**
12 **and to avoid accidents;**

13 **Promotional – advertising used to encourage or promote the use of a particular**
14 **commodity the utility is selling;**

15 **Institutional – advertising used to improve the company's public image; and**

16 **Political – advertising which is associated with political issues.**

17
18 **Q. Has Public Counsel proposed any adjustments to advertising expense?**

1 A. Yes. Public Counsel has removed costs related to any advertising considered to be
2 promotional, institutional, or political, because Public Counsel does not believe this type
3 of advertising is necessary to provide safe and reliable service to customers.
4

5 **Q. What is the amount of advertising expense Public Counsel recommends to include**
6 **in the current case?**

7 A. Public Counsel recommends including \$3,358 of advertising expense. This results in a
8 decrease of \$17,581 from the test year books and records of \$20,939.
9

10 **VII. PSC ASSESSMENT EXPENSE**

11 **Q. What is the most current amount of PSC assessment expense for MAWC?**

12 A. The current PSC assessment for MAWC water is \$1,936,902 and for MAWC sewer is
13 \$26,284. The water and sewer assessment total \$1,963,186.
14

15 **Q. Is Public Counsel proposing an adjustment to MAWC's PSC assessment expense?**

16 A. Yes. Public Counsel is proposing a decrease of \$217,061 from the test year books and
17 records of \$2,180,247. In comparison, MAWC is proposing to include PSC assessment
18 expense of \$2,391,470 from the 2014 – 2015 PSC assessment ledger. Public Counsel is
19 using the most current 2015 – 2016 PSC assessment ledger available.
20

1 | **VIII. POSTAGE EXPENSE**

2 | **Q. What adjustments is Public Counsel recommending for MAWC's postage expense?**

3 | A. Public Counsel has either used the test year amount of postage expense or made
4 | adjustments for each district based on the trends of the previous three years of data.

5 |
6 | **Q. How much postage expense is Public Counsel recommending for the current case?**

7 | A. Public Counsel recommends an annual level of \$1,273,857. This results in a decrease of
8 | \$19,522 to the test year books and records of \$1,293,379.

9 |
10 | **IX. TANK PAINTING TRACKER/EXPENSE**

11 | **Q. Does Public Counsel propose to continue the tank painting tracker in this rate**
12 | **case?**

13 | A. No. Public Counsel believes sufficient evidence is available to create a normalized level
14 | of expense.

15 |
16 | **Q. What is the balance of the tank painting tracker at test year-end December 31,**
17 | **2014?**

18 | A. The balance is \$1,434,973 at December 31, 2014.
19 |

1 | **Q. What is the amortization period that Public Counsel recommends for the balance**
2 | **of the tank painting tracker?**

3 | **A. Public Counsel recommends a three-year amortization, which results in an annualized**
4 | **level of \$478,324.**

5 |
6 | **Q. What is the amount of tank painting expense that Public Counsel recommends to**
7 | **include in the current rate case?**

8 | **A. Public Counsel recommends including an annual level of \$1,304,794 for tank painting**
9 | **expense.**

10 |

11 | **X. EMERALD POINTE PIPELINE AMORTIZATION**

12 | **Q. What is the Emerald Pointe pipeline amortization?**

13 | **A. The Emerald Pointe pipeline amortization is a regulatory asset acquired by MAWC from**
14 | **the purchase of the Emerald Pointe wastewater system in March 2014. Emerald Pointe**
15 | **funded the costs of the sewer pipeline running from the wastewater system to the City of**
16 | **Hollister treatment plant; however, the City of Hollister owns the pipeline. The**
17 | **regulatory asset was approved by the Commission in rate case SR-2013-0016 with a 50-**
18 | **year amortization period.**

19 |

20 | **Q. When did the amortization of the regulatory asset begin?**

1 A. The amortization of the regulatory asset began August 23, 2013, which is the date rates
2 became effective in rate case SR-2013-0016.

3
4 **Q. What is the balance of the regulatory asset at test year ending December 31, 2014?**

5 A. The balance was \$314,699 at December 31, 2014.

6
7 **Q. What will the balance of the regulatory asset be at the true-up date, January 31,
8 2016?**

9 A. The balance will be \$307,694 at January 31, 2016.

10
11 **Q. What is the regulatory asset balance Public Counsel is recommending to include in
12 rate base for this case?**

13 A. Public Counsel recommends including the balance at January 31, 2016 of \$307,694.

14
15 **XI. INVESTMENT TAX CREDIT (ITC)**

16 **Q. What is the balance of the ITC at test year ending December 31, 2014?**

17 A. The balance is \$11,375 at December 31, 2014.

18
19 **Q. What will the balance of the ITC be at the true-up date, January 31, 2016?**

20 A. The balance will be \$8,080 at January 31, 2016.

1 **Q. What is the balance Public Counsel is recommending to include in rate base for this**
2 **case?**

3 A. Public Counsel recommends including the balance at January 31, 2016 of \$8,080.
4

5 **XII. MATERIALS AND SUPPLIES**

6 **Q. Did Public Counsel use a 13-month average to determine a balance for materials**
7 **and supplies?**

8 A. Yes.
9

10 **Q. Did Public Counsel make any changes to the 13-month average balances for any of**
11 **the districts?**

12 A. Yes. Instead of using the 13-month average for District 1704 (Platte County Water),
13 Public Counsel used the balance at test year-end December 31, 2014, because the
14 balance in the account has been declining over the past 13 months.
15

16 **Q. What is the amount of materials and supplies that Public Counsel is recommending**
17 **to include in rate base in this case?**

18 A. Public Counsel recommends including \$5,067,507 for materials and supplies in rate
19 base. In comparison, this is \$12,425 less than MAWC's proposed level of materials and
20 supplies.

1 | **XIII. PREPAYMENTS**

2 | **Q. Did Public Counsel use a 13-month average to determine a balance for**
3 | **prepayments?**

4 | **A. Yes.**

5 |
6 | **Q. What is the amount of prepayments that Public Counsel is recommending to**
7 | **include in rate base in this case?**

8 | **A. Public Counsel recommends including \$1,952,201 for prepayments in rate base. In**
9 | **comparison, this is \$5,456 less than MAWC's proposed level of prepayments.**

10 |
11 | **Q. Does this conclude your direct testimony?**

12 | **A. Yes.**

**CASE PARTICIPATION
OF
KERI ROTH**

<u>Company Name</u>	<u>Case No.</u>
Empire District Electric Company	ER-2012-0345
Emerald Pointe Utility Company	SR-2013-0016
Lake Region Water & Sewer Company	WR-2013-0461
Summit Natural Gas of Missouri, Inc.	GR-2014-0086
Hickory Hills Water & Sewer Company, Inc.	WR-2014-0167/SR-2014-0166
Empire District Electric Company	ER-2014-0351
Laclede Gas Company	GO-2015-0178
Missouri Gas Energy	GO-2015-0179