

*Exhibit No.:*  
*Issues:* *Report on Revenue  
Requirement Cost of Service,  
Overview of the Staff's Filing*  
*Witness:* *John P. Cassidy*  
*Sponsoring Party:* *MoPSC Staff*  
*Type of Exhibit:* *Direct Testimony*  
*Case No.:* *WR-2015-0301*  
*Date Testimony Prepared:* *December 23, 2015*

**MISSOURI PUBLIC SERVICE COMMISSION**

**COMMISSION STAFF - AUDITING**

**DIRECT TESTIMONY**

**OF**

**JOHN P. CASSIDY**

**MISSOURI-AMERICAN WATER COMPANY**

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

*Jefferson City, Missouri  
December 23, 2015*

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1 **DIRECT TESTIMONY**

2 **OF**

3 **JOHN P. CASSIDY**

4 **MISSOURI-AMERICAN WATER COMPANY**

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

6 Q. Please state your name and business address.

7 A. John P. Cassidy, 111 North 7<sup>th</sup> Street, Suite 105, St. Louis, MO 63101.

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

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

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

12 A. I attended Southeast Missouri State University, receiving a Bachelor of  
13 Science degree in Business Administration, with a double major in Marketing and Accounting  
14 in 1989 and 1990, respectively. Since joining the Commission’s Staff in 1990, I have assisted  
15 with, directed and coordinated audits and examinations of the books and records of utility  
16 companies operating within the state of Missouri.

17 Q. Have you previously filed testimony before this Commission?

18 A. Yes, I have. Please refer to Schedule 1, which is attached to this direct  
19 testimony, for a list of cases in which I have previously filed testimony as well as the issues  
20 that I have addressed in testimony in each case.

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

1           A.     I have been employed by this Commission as a Utility Regulatory Auditor for  
2 over twenty-five years and have submitted testimony on ratemaking issues numerous times  
3 before the Commission. I have also been responsible for the supervision of other Commission  
4 employees in rate cases and other regulatory proceedings. Since the time I began my  
5 employment with the Commission, I have received continuous training with regard to  
6 technical ratemaking matters both in-house and through attending National Association of  
7 Regulatory Utility Commissioners (“NARUC”) sponsored regulatory seminars as well as  
8 other regulatory symposiums and conferences.

9           Q.     Have you participated in the Commission Staff’s audit of Missouri-American  
10 Water Company (MAWC), concerning its request for a rate increase in this proceeding?

11          A.     Yes, I have, with the assistance of other members of the Staff. I am the  
12 Commission Staff Division - Auditing Department co-case coordinator facilitating the  
13 work of Staff members within that department, and I interface and work with the Staff  
14 members from other Commission departments within the Commission Staff Division that  
15 are involved in the Staff’s direct case. James A. Busch is the Commission Staff Division –  
16 Water - Sewer Department co-case coordinator.

17          Q.     On what date were you first assigned to the MAWC rate case?

18          A.     I was not assigned to work on this rate case until November 18, 2015. Prior to  
19 that time I had been assigned to complete projects other than MAWC rate case.

20          Q.     Why were you first assigned to work on this case so late in the process?

21          A.     Initially, another individual was assigned to be the Auditing Department  
22 Co-Case Coordinator for this rate case. Due to unexpected circumstances, Mark L.  
23 Oligschlaeger, Manager of the Auditing Department, requested that I take over as co-case

1 coordinator of the MAWC rate case on November 18, 2015. In addition, certain Auditing  
2 Department issues were re-assigned to new auditors on that same date.

3 Q. Has MAWC responded to all of the Staff's outstanding data requests as of the  
4 direct filing date, and has the Staff had an adequate amount of time to review MAWC's data  
5 request responses?

6 A. Not in all instances. Upon first being assigned to the case on November 18,  
7 2015, and after conducting a review to determine the status of the issues, I have directed Staff  
8 witnesses to submit approximately 122 data requests in order to obtain necessary information  
9 and have conducted numerous meetings with MAWC officials since that time. MAWC has  
10 strived to provide the requested information to Staff but not all of this information has been  
11 made available as of the date of the Staff's direct filing and, in some instances, the Staff has  
12 not had adequate time to review and analyze all of the data and information that was provided.  
13 Staff will update all areas of its revenue requirement recommendation as appropriate as  
14 information is received through the true-up audit phase of this rate case.

15 **EXECUTIVE SUMMARY**

16 Q. Please summarize your direct testimony in this proceeding.

17 A. I am sponsoring the Staff's Revenue Requirement Cost of Service  
18 Report ("Report") in this proceeding that is being filed concurrently with this direct  
19 testimony. I also provide in this direct testimony an overview of the Staff's revenue  
20 requirement determination. The Staff has conducted a review of all the components  
21 (capital structure, return on rate base, rate base, operating revenues and operating expenses)  
22 that determine MAWC's revenue requirement. My testimony provides an overview of the  
23 Staff's work in each area.

1 **REVENUE REQUIREMENT COST OF SERVICE REPORT**

2 Q. Please explain the organizational format of the Staff's Revenue Requirement  
3 Cost of Service Report.

4 A. The Staff's Report has been organized by topic as follows:

5 I. Executive Summary

6 II. Background of MAWC

7 III. Test Year/True-Up Period

8 IV. Major Issues

9 V. Rate of Return

10 VI. Rate Base

11 VII. Allocations of Service Company Costs

12 VIII. Income Statement

13 IX. Service Quality and Customer Service

14 X. Consolidated Tariffs

15 XI. Rate Design

16 The Rate Base and Income Statement sections have numerous subsections which explain each  
17 specific area and/or adjustment made by the Staff to the proposed test year ending  
18 December 31, 2014. Rate Base has been reflected through September 30, 2015, but will be  
19 examined through January 31, 2016, as part of the proposed true-up audit for this case.  
20 The individual Staff member responsible for each area of the Staff's direct case and/or  
21 adjustment is identified in the Report following the written discussion he or she authored, and  
22 is the expert/witness with respect to that section of the Staff's Report. The Staff may have a

1 different or an additional expert/witness for rebuttal, surrebuttal and true-up testimony in a  
2 given area if this case proceeds to evidentiary hearings.

3 **OVERVIEW OF STAFF'S RECOMMENDED REVENUE REQUIREMENT**

4 Q. In its audit of MAWC for Case No. WR-2015-0301, has the Staff examined all  
5 of the cost of service components comprising the revenue requirement for MAWC's electric  
6 operations in Missouri?

7 A. Yes.

8 Q. What are the cost of service components that comprise the revenue  
9 requirement for a regulated, investor-owned public utility?

10 A. The revenue requirement for a regulated, investor-owned public utility can be  
11 defined by the following formula:

12 Revenue Requirement = Cost of Providing Utility Service (i.e., Cost of Service)

13 or

14  $RR = O + (V - D)R$  where,

15 RR = Revenue Requirement

16 O = Operating Costs (Fuel, Payroll, Maintenance, etc.),  
17 Depreciation and Taxes

18 V = Gross Valuation of Property Required for Providing  
19 Service (including plant and additions or subtractions of  
20 other rate base items)

21 D = Accumulated Depreciation Representing Recovery of  
22 Gross Depreciable Plant Investment

23 V - D = Rate Base (Gross Property Investment less Accumulated  
24 Depreciation = Net Property Investment)

25 (V - D)R = Return Allowed on Rate Base

1           The “revenue requirement” calculated by this formula is the utility’s total revenue  
2 requirement, or total cost of service. In rate cases, the term “revenue requirement” generally  
3 refers to the utility’s necessary incremental change in revenues based on the utility’s existing  
4 rates and total cost of service.

5           Q.     What is the objective of an audit of a regulated, investor-owned public utility  
6 for ratemaking purposes?

7           A.     The objective of an audit is to determine the appropriate level of the  
8 components identified in my previous answer in order to calculate the revenue requirement  
9 for such a regulated utility. All relevant factors are examined and a proper relationship of  
10 revenues, expenses, and rate base is maintained. The process for making that revenue  
11 requirement determination can be summarized as follows:

12                   (1)     Selection of a test year. The test year income statement represents the  
13 starting point for determining a utility’s existing annual revenues, operating costs and  
14 net operating income. Net operating income represents the return on investment based  
15 upon existing rates. “Annualization,” “normalization” and “disallowance” adjustments are  
16 made to the test year results when the unadjusted amounts do not fairly represent the utility’s  
17 most current, ongoing and appropriate annual level of revenues and operating costs.  
18 Annualization, normalization and disallowance adjustments are explained in more detail later  
19 in this direct testimony.

20           MAWC and the Staff propose a test year of the twelve months ending December 31,  
21 2014 for Case No. WR-2015-0301. *Staff’s Motion For Test Year And Consent To True-Up*,  
22 filed on December 8, 2015, requested that the Commission establish a test year ending  
23 December 31, 2014 with a true-up audit through January 31, 2016 consistent with the dates



1 proposed by MAWC. On December 15, 2015, the Commission ordered parties to the case to  
2 respond to Staff's motion by December 18, 2015. No party to the case filed a response to  
3 Staff's motion by that date. At the time of this direct filing the Commission had not yet issued  
4 an order to address Staff's motion. Also, as discussed below, additional information through  
5 January 31, 2016, will be considered for inclusion in the cost of service during the proposed  
6 true-up audit.

7 (2) Selection of a "test year update period." A proper determination of  
8 revenue requirement is dependent upon matching the rate base, return on investment,  
9 revenues, and operating costs components at the same point in time. This ratemaking  
10 principle is commonly referred to as the "matching" principle. It is a standard practice in  
11 ratemaking in Missouri to utilize a period beyond the established test year in which to match  
12 the major components of a utility's revenue requirement. By updating test year financial  
13 results to reflect information beyond the established test year, rates can be set based upon  
14 more current information. Although it is a common practice to update the test year, the  
15 parties to this case agreed that an update was not necessary, and that post-test year financial  
16 results for the determination of revenue requirement could be adequately reflected by  
17 performing a true-up.

18 (3) Selection of a "true-up date" or "true-up period." A true-up date  
19 generally is established when a significant change in a utility's cost of service occurs after  
20 the end of the test year update period, but prior to the operation-of-law date, and the  
21 significant change in cost of service is one the parties and/or Commission has decided  
22 should be considered for cost of service recognition in the current case. At the time of Staff's  
23 direct filing, no party has objected to a true-up cut-off date of January 31, 2016. MAWC has

1 indicated that it anticipates it will complete approximately \$158.9 million of capital  
2 investment from the end of the test year through the end of the true-up cutoff.<sup>1</sup> MAWC has  
3 further explained that approximately \$26.4 million of capital investment will be put into  
4 service during January 2016. The cost of these and other changes will be considered for  
5 inclusion in the cost of service during the true-up audit, once approved by the Commission for  
6 this case, but substantive issues that can be quantified within the timeframe of the main  
7 evidentiary hearings will be tried then, if possible, rather than in the true-up phase of the case.

8 (4) Determination of Rate of Return and Capital Structure. A cost-of-  
9 capital analysis must be performed to allow MAWC the opportunity to earn a fair rate of  
10 return on its net investment (“rate base”) used in the provision of utility service. Staff witness  
11 David Murray, of the Commission’s Financial Analysis Department, has performed a  
12 cost-of-capital analysis and is sponsoring a section of the Staff’s Revenue Requirement Cost  
13 of Service Report to explain and provide the results of his analysis.

14 (5) Determination of Rate Base. Rate base represents the utility’s  
15 net investment used in providing utility service, on which the utility is permitted the  
16 opportunity to earn a return. For its direct filing, the Staff has determined MAWC’s rate base  
17 through September 30, 2015, in order to minimize the movement of the Staff’s revenue  
18 requirement recommendation between the end of the proposed test year, December 31, 2014,  
19 and the end of the proposed true-up cut-off date, January 31, 2016, for plant, depreciation  
20 reserve, contributions in aid of construction (CIAC), materials and supplies, customer  
21 advances, prepayments and accumulated deferred income taxes (ADIT). The Staff will  
22 update its case for all of the rate base items with actual amounts following the true-up audit.

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<sup>1</sup> MAWC indicated to Staff that it will complete approximately \$158.9 million of total capital investment between January 1, 2015 and January 31, 2016. \$147.6 million of this total capital investment is non-ISRS eligible investment.

1           (6)    Net Operating Income from Existing Rates.    The starting point  
2 for determining net income from existing rates is the unadjusted operating revenues,  
3 expenses, depreciation, and taxes for the proposed test year which is the twelve-month period  
4 ending December 31, 2014, for this case. All of the utility's specific revenue and expense  
5 categories are examined to determine whether the unadjusted test year results require  
6 adjustments in order to fairly represent the utility's most current level of operating revenues  
7 and expenses. Numerous changes occur during the course of any year that will impact a  
8 utility's annual level of operating revenues and expenses. The December 31, 2014, proposed  
9 test year has been adjusted to reflect the Staff's determination of the appropriate ongoing  
10 levels of revenues and expenses through September 30, 2015, in most instances. These items  
11 will be re-examined based on actual data as part of the true-up process through January 31,  
12 2016, if approved by the Commission.

13           (7)    Determination of Net Operating Income Required.    The net income  
14 required for MAWC is calculated by multiplying the Staff's recommended rate of return by  
15 the rate base. Net income required is then compared to net income available from existing  
16 rates discussed in Item 6 above. The difference, when factored-up for income taxes,  
17 represents the incremental change in the utility's rate revenues required to cover its operating  
18 costs and to provide a fair return on investment used in providing utility service.

19           If a utility's current rates are insufficient to cover its operating costs and provide a fair  
20 return on investment, the comparison of net operating income required (Rate Base x  
21 Recommended Rate of Return) to net income available from existing rates (Operating  
22 Revenue less Operating Costs, Depreciation and Income Taxes) will result in a positive

1 amount which would indicate that the utility requires a rate increase. If the comparison  
2 results in a negative amount, this indicates that the utility's current rates may be excessive.

3 Q. Please identify the types of adjustments which are made to unadjusted test year  
4 results in order to reflect a utility's current annual level of operating revenues and expenses.

5 A. The types of adjustments made to reflect a utility's current annual operating  
6 revenues and expenses are:

7 (1) Normalization adjustments. Utility rates are intended to reflect normal  
8 ongoing operations. A normalization adjustment is required when the test year reflects the  
9 impact of an abnormal event. One example of this type of adjustment that is made in water  
10 rate cases is an adjustment to normalize the costs associated with main failures which may be  
11 impacted by severe weather conditions. In such instances a multi-year average is required in  
12 order to develop a normal level for the number of main breaks.

13 (2) Annualization adjustments. Annualization adjustments are required  
14 when changes have occurred during the test year, update and/or true-up period, which are not  
15 fully reflected in the unadjusted test year results. For example, a portion of MAWC's  
16 employees received a wage increase on July 1, 2014. As a result, only a part of the twelve  
17 months ending December 31, 2014, reflect the impact of this payroll increase. An adjustment  
18 was made to capture the financial impact of the payroll increase for the portion of the test year  
19 prior to the wage increase. The test year level of payroll as adjusted for the July 1, 2014,  
20 wage increase was then fully annualized to reflect another wage increase that occurred on  
21 July 1, 2015, for this same portion of MAWC employees.

22 (3) Disallowance adjustments. Disallowance adjustments are made to  
23 eliminate costs in the test year results that are not considered prudent, reasonable, appropriate,

1 and/or not of benefit to Missouri ratepayers and thus not appropriate for recovery from  
2 ratepayers. An example in this case is certain executive incentive compensation costs tied to  
3 earnings performance. In the Staff's view, these costs are incurred primarily to benefit  
4 shareholder interests and it is not appropriate policy to pass these costs onto customers in  
5 rates, since these costs do not benefit ratepayers. Therefore, these costs should be eliminated  
6 from the cost of service borne by ratepayers and the Staff has proposed to disallow these costs  
7 from recovery in rates.

8 (4) Pro forma adjustments. Pro forma adjustments reflect the impact of  
9 items and events that occur subsequent to the test year. These items or events significantly  
10 impact the revenue, expense and rate base relationship and should be recognized to address  
11 the forward-looking objective of the test year. Caution must be exercised when including  
12 pro forma adjustments in a recommended cost of service to ensure that all items and events  
13 subsequent to the test year are also examined and any appropriate offsetting adjustments are  
14 included as well. In addition, some post-test year items and events may not have occurred yet  
15 and/or may not be capable of adequate quantification at the time of the case filing. As a  
16 result, quantification of pro forma adjustments may be more difficult than the quantification  
17 of other adjustments. As a consequence, use of a true-up audit that considers a full range of  
18 auditable items and events that occur subsequent to the test year and attempts to address the  
19 maintenance of the proper relationship among revenues, expenses and investment at a  
20 consistent point in time is generally a superior approach than considering stand-alone pro  
21 forma adjustments for inclusion in cost of service.

22 Q. What rate increase amount, based on what return on equity (ROE) percentage,  
23 did the Company request from the Commission in this case?

1           A.     MAWC requested that its annual base rate revenues be increased by  
2 approximately \$51,028,321. The Staff notes that MAWC is already recovering approximately  
3 \$25,892,662 of this overall requested increase in base rates through its current Infrastructure  
4 System Replacement Surcharge (ISRS) as approved by this Commission. The investment and  
5 related costs being collected through ISRS will be reflected in the Staff's overall cost of  
6 service calculation and the ISRS rate will be reset to zero upon the effective date of rates in  
7 this rate case. Excluding ISRS revenues it is already collecting, MAWC is requesting an  
8 overall water and sewer rate increase of approximately \$25,135,659 annually. MAWC's  
9 \$51.0 million rate increase application, exclusive of ISRS, represents a requested increase  
10 in annual water revenues of \$23,384,396 and an increase in annual sewer revenues  
11 of \$1,751,263. MAWC's requested increase in rates is based upon a ROE recommendation  
12 of 10.7% which represents the high point of MAWC's recommended ROE range of 10.1%  
13 to 10.7%.

14           Q.     What is the Staff's recommended total company revenue requirement for  
15 MAWC at the time of direct case revenue requirement filing?

16           A.     The results of the Staff's audit of MAWC's rate increase request can be found  
17 in the Staff's filed Accounting Schedules in this proceeding. The Total Company Accounting  
18 Schedules shows that the Staff's recommended revenue requirement for both water and sewer  
19 for MAWC in this proceeding is \$18,648,232 based upon a recommended rate of return  
20 (ROR) of 7.29%. Staff's recommendation includes an estimated true-up allowance of  
21 \$12,303,226. Staff is recommending a ROE of 9.25% within a range of 8.50% to 9.50% as  
22 calculated by Staff witness David Murray. Staff's revenue requirement at the low and

1 the high end of Mr. Murray's recommended ROR range of 6.94% to 7.41% is \$12,833,790  
2 to \$20,534,340.

3 Q. What is Staff's recommended total water revenue requirement and total sewer  
4 revenue requirement?

5 A. At Staff's 9.25% recommended ROE, the Staff's proposed total water revenue  
6 requirement is \$17,581,527 and the Staff's total sewer revenue requirement is \$1,066,705.

7 Q. What items are included in the Staff's recommended rate base in this case?

8 A. The rate base items include: Plant-in-Service, Accumulated Depreciation  
9 Reserve, CIAC net of CIAC Reserve, Cash Working Capital, Materials and Supplies,  
10 Prepayments, Customer Advances for Construction, the unamortized balance of the tank  
11 painting tracker, unamortized Pension and OPEBs tracking assets, and the Accumulated  
12 Deferred Income Tax (ADIT) reserve. The majority of these rate base items are reflected  
13 through September 30, 2015. These rate base components will be trued-up through  
14 January 31, 2016, once the true-up data is made available on February 19, 2016 as reflected in  
15 the Commission approved procedural schedule in this case.

16 Q. What are some of the more significant income statement adjustments the Staff  
17 made in determining MAWC's revenue requirement for this case?

18 A. A summary of the Staff's significant income statement adjustments follows:

19 **Revenues**

- 20 • Staff adjusted revenues to reflect the elimination of unbilled revenues,  
21 ISRS surcharges, customer growth through September 30, 2015 and  
22 normalized usages. Staff has also reflected changes in usages for St.  
23 Louis district industrial customers who moved from tariff rate class J to  
24 tariff rate class A.

1           **Labor and Employee Benefit Costs**

- 2                     • Payroll expense was annualized to reflect all known wage increases  
3                     through December 31, 2015, all reductions in employee levels through  
4                     September 30, 2015, and adjustments to remove salary amounts  
5                     associated with lobbying activities.
- 6                     • Elimination of certain incentive compensation payouts from both  
7                     capital and expense.
- 8                     • Annualization of employee benefits including pensions and OPEBs.
- 9                     • Exclusion of employee stock savings plan.
- 10                    • Elimination of test year severance payouts resulting from recent and  
11                    significant reductions in employee levels.
- 12                    • Payroll taxes consistent with the payroll annualization.

13           **Other Non-Labor Expenses**

- 14                    • Normalization of main failure expense using a three average of main  
15                    breaks and the test year average cost per break.
- 16                    • Annualization of tank painting expense and proposed elimination of  
17                    tank painting tracker.
- 18                    • Rate case expense adjustment consistent with the Commission's  
19                    Report and Order in Kansas City Power & Light Company, Case No.  
20                    ER-2014-0370.
- 21                    • Insurance Expense.
- 22                    • Chemicals and purchase power expense as adjusted for water losses.
- 23                    • Uncollectibles Expense.
- 24                    • Disallowance of all institutional and promotional advertising expenses,  
25                    certain dues and donations, costs associated with lobbying activities  
26                    and certain miscellaneous expenses.
- 27                    • Removal of acquisition adjustment amortizations.
- 28                    • Depreciation rates and other matters as addressed by Staff witness John  
29                    A. Robinett.
- 30                    • Income Taxes

31           **Other Issues**



- 1 • Proposal to establish a regulatory liability amortization in order to  
2 return to MAWC ratepayers the full amount of the judgment that  
3 MAWC received as part of a class action lawsuit that dealt with the  
4 impacts of Atrazine on MAWC water treatment.
- 5 • MAWC proposed allocation of corporate and joint and common costs  
6 at \$20 rate cap for systems smaller than 3,000 customers. Staff has not  
7 reflected any cap for the allocations of these costs
- 8 • MAWC proposal to establish an Environmental Cost Adjustment  
9 Mechanism (“ECAM”). Staff will address MAWC’s ECAM proposal  
10 as part of its revenue requirement rebuttal testimony filing scheduled  
11 for February 11, 2016.

12 Staff has also addressed a number of other issues in greater detail in the Staff’s Revenue  
13 Requirement Cost of Service Report.

14 Q. What reliance did you place on the work or conclusions of other Staff members  
15 working on Staff’s behalf?

16 A. All of the Staff auditors, including myself, relied on the work from other Staff  
17 members in calculating a revenue requirement for MAWC in this case. Normalized usages  
18 for residential customers, depreciation rates and the recommended rate of return are some  
19 examples of data and analysis supplied to the Auditing Unit as inputs into the Staff’s revenue  
20 requirement cost of service calculation. Signed affidavits and the qualifications for all  
21 Staff members who are responsible for a section of the Staff’s Revenue Requirement  
22 Cost of Service Report and for whom that section constitutes direct testimony in this rate  
23 proceeding are attached in an appendix to the Report. Each Staff member who is responsible  
24 for a section of the Staff’s Revenue Requirement Cost of Service Report is identified at the  
25 conclusion of the section he or she authored as being the Staff expert/witness responsible for  
26 that section.

1 Q. What are the biggest differences between the rate increase request filed by the  
2 MAWC and the Staff revenue requirement recommendations being filed in this proceeding?

3 A. From the Staff's perspective, there are four primary revenue requirement  
4 differences.

- 5 • Return on Equity and Capital Structure (ROE) – Issue Value – (\$17.3 million).  
6 As previously stated, MAWC's ROE recommendation is 10.70%, while the  
7 Staff has developed a ROE recommendation of 9.25%. The dollar difference  
8 between the MAWC's recommended ROE and Staff's recommended, 10.70%  
9 compared to 9.25%, including differences in proposed capital structure, is  
10 approximately \$17.3 million in revenue requirement, based upon investment  
11 levels at September 30, 2015.
- 12 • Revenues – (\$5.7 million). Staff is recommending an annualized total  
13 company revenue amount that is \$5.7 million more than MAWC's  
14 recommendation. Staff's total revenues reflect historical averages of usages  
15 and actual customer levels that existed at September 30, 2015. MAWC's  
16 annualized revenues reflect a proposed declining customer adjustment which  
17 restate test year ending December 31, 2014 actual revenues. MAWC's  
18 annualized revenues also reflect customer levels that existed during the test  
19 year and do not take into account any customer growth that has occurred  
20 beyond the test year.
- 21 • Payroll Expense – (\$4.7 million). Staff has reflected the reductions in the level  
22 of employees at both MAWC and the Service Company through September 30,  
23 2015. The Service Company has significantly reduced headcounts since the  
24 starting point of the test year in this case. For the remaining employees  
25 Staff has factored up payroll for all wage and salary increases through  
26 December 31, 2016. In addition, Staff normalized the test year level of  
27 overtime costs for MAWC employees using a five year average. Finally, Staff

1 has disallowed a portion of salaries for those employees who regularly  
2 participate in lobbying activities.

- 3 • Incentive Compensation – Issue Value – (\$2.7 million). Staff recommends a  
4 disallowance from test year expense of approximately \$2.6 million in incentive  
5 compensation awards that are primarily and directly tied to earnings  
6 performance measurements. In addition, Staff recommends similar  
7 disallowance to exclude the capitalized portion of these same incentive  
8 compensation awards from rate base. Excluding these amounts from rate  
9 base reduces Staff’s overall revenue requirement by approximately an  
10 additional \$83,589.

11 There are other significant differences between the Staff and the Company, based upon their  
12 respective direct filings. However, these items are less significant than the differences  
13 discussed above.

14 Q. Is it possible that significant differences exist between the Staff’s revenue  
15 requirement positions and those of other parties besides MAWC in this proceeding?

16 A. Yes. However, the other parties are filing their prepared direct testimony,  
17 if any, concurrently with the Staff’s direct filing. Until the Staff has a chance to examine the  
18 direct testimony of the other parties, it is impossible for the Staff to determine what  
19 differences exist and how material they may be.

20 Q. Are there other significant differences that exist between the Staff and MAWC  
21 in their direct filings that are not specifically quantified on the Accounting Schedules?

22 A. Yes. On a going forward basis, Staff witness Jason Kunst is recommending  
23 discontinuance of the tank painting tracker. Staff witness Kimberly K. Bolin will  
24 address the appropriateness of MAWC’s proposed \$20 per customer cap for the allocation  
25 to any district with less than 3,000 customers in detail as part of Staff’s revenue

1 requirement rebuttal testimony filing. Staff will also address MAWC's proposed  
2 Revenue Stability Mechanism (RSM) as well as the proposal to implement an ECAM in its  
3 rebuttal testimony filing in this case on February 11, 2016.

4 Q. Please identify the Staff experts/witnesses responsible for addressing each area  
5 where there is a known and significant difference between the Staff and the Company that is  
6 addressed in this direct testimony or in the Staff Report in Section IV, Major Issues.

7 A. The Staff experts/witnesses for each listed issue are as follows:

8 <u>Issue</u>	9 <u>Staff Witness</u>
10 Return on Equity & Capital Structure	David Murray
11 Payroll Expense	Jason Kunst
12 Revenues	Erin M. Carle & James A. Busch
13 Incentive Compensation	Jason Kunst
14 Allocation of Corporate Costs	Kimberly K. Bolin

15 Q. When will the Staff be filing its customer class cost of service and rate design  
16 direct testimony and report in this proceeding?

17 A. The Staff's customer class cost of service and rate design direct testimony and  
18 report and schedules will be filed on January 20, 2016.

19 Q. Does this conclude your prepared direct testimony in this proceeding?

20 A. Yes, it does.



**RATE CASE PROCEEDING PARTICIPATION**

**JOHN P. CASSIDY**

**COMPANY**

**CASE NO.**

**Missouri Cities Water Company**

**WR-91-172**

Payroll and Related  
Pensions  
OPEBS  
Insurance Expense  
Advertising Expense  
Miscellaneous Expenses

Type of Testimony Filed: Direct and Surrebuttal

**St. Louis County Water Company**

**WR-91-361**

Tank Painting  
Main Failures  
Residue Removal  
General Insurance Expense  
PSC Assessment  
Miscellaneous Expenses

Type of Testimony Filed: Direct

**Southwestern Bell Telephone Company**

**TC-93-224**

Advertising Expenses  
Promotional Giveaways  
Miscellaneous Expenses

Type of Testimony Filed: Direct and Surrebuttal

**Laclede Gas Company**

**GR-94-220**

Payroll and Payroll Taxes  
Incentive Compensation  
401 (K)  
Dental and Vision Insurance  
Data Processing

Type of Testimony Filed: Direct

**RATE CASE PROCEEDING PARTICIPATION**

**JOHN P. CASSIDY**

**COMPANY**

**CASE NO.**

**The Empire District Electric Company**

**ER-95-279**

Revenues  
Uncollectibles Expense  
Municipal Franchise Taxes  
Postage Expense  
Emission Credits

Type of Testimony Filed: Direct

**Imperial Utility Corporation**

**SC-96-247**

Rate Base  
Depreciation Reserve  
Depreciation Expense  
CIAC  
Property Taxes  
Property Insurance  
Lab Testing Expense  
Sludge Removal Expense

Type of Testimony Filed: Rebuttal

**St. Louis County Water Company**

**WR-97-382**

Payroll and Payroll Taxes  
Employee Benefits  
Employee Savings  
Shared Employees

Type of Testimony Filed: Direct

**Laclede Gas Company**

**GR-98-374**

Payroll and Payroll Taxes  
401 (K)  
Health Care Costs  
Pension Plan  
Director's Pension Plan  
Trustee Fees  
SERP  
Outside Consulting  
Incentive Compensation  
Advertising Expense

**RATE CASE PROCEEDING PARTICIPATION**

**JOHN P. CASSIDY**

**COMPANY**

**CASE NO.**

Type of Testimony Filed: Direct

**United Water Missouri, Inc.**

**WR-99-326**

Payroll and Payroll Taxes

401 (K)

Health Care Costs

Employee Relocation

Corporation Franchise Tax

Advertising Expense

Dues and Donations

Miscellaneous Expenses

Type of Testimony Filed: Direct

**Union Electric Company**

**EC-2000-795**

Injuries and Damages

Legal Expense

Environmental Expense

Type of Testimony Filed: Direct

**Union Electric Company**

**GR-2000-512**

Revenues

Uncollectibles Expense

Customer Deposits

Type of Testimony Filed: Direct

**Laclede Gas Company**

**GR-2001-629**

Revenues

Gross Receipts Tax

Gas Supply Incentive Plan

Gas Costs

Uncollectibles Expense

Non-Utility Operations

Type of Testimony Filed: Direct



**RATE CASE PROCEEDING PARTICIPATION**

**JOHN P. CASSIDY**

**COMPANY**

**CASE NO.**

**Union Electric Company, d/b/a AmerenUE**

**EC-2002-01**

Fuel Expense  
Callaway Refueling  
Legal Expense  
Environmental Expense  
Capacity Purchases  
Midwest ISO  
Payroll and Related  
Incremental Overtime

Type of Testimony Filed: Direct and Surrebuttal

**Union Electric Company, d/b/a AmerenUE**

**EC-2002-1025**

Legal Expense  
Environmental Expense  
Midwest ISO

Type of Testimony Filed: Direct

**Laclede Gas Company**

**GR-2002-356**

Revenues  
Gross Receipts Tax  
Gas Supply Incentive Plan  
Gas Costs  
Uncollectibles Expense  
Income Taxes

Type of Testimony Filed: Direct

**Laclede Gas Company**

**GT-2003-0117**

Financial Aspects

Type of Testimony Filed: Direct

**RATE CASE PROCEEDING PARTICIPATION**

**JOHN P. CASSIDY**

**COMPANY**

**CASE NO.**

**Missouri-American Water Company**

**WR-2003-0500 & WC-2004-0168**

Allocation of Belleville Labs Cost to MAWC  
National Call Center  
Compensation for Services Provided from MAWC to AWR  
Information Technology Services  
Capitalization of Shared Services  
Transition Costs  
Cost Allocation Manual  
Affiliate Transactions  
Severance Costs  
National Call Center Transition Costs  
National Shared Services Transition Costs

Type of Testimony Filed: Direct & Surrebuttal

**Missouri-American Water Company**

**SM-2004-0275**

Acquisition Adjustment

Type of Testimony Filed: Direct

**The Empire District Electric Company**

**ER-2004-0572**

Interim Energy Charge  
Fuel Expense  
Purchased Power  
Off System Sales  
KCPL Transmission Expense  
Income Taxes

Type of Testimony Filed: Direct & Surrebuttal

**Union Electric Company d/b/a AmerenUE**

**GR-2007-0003**

Environmental Expense

Type of Testimony Filed: Direct

**RATE CASE PROCEEDING PARTICIPATION**

**JOHN P. CASSIDY**

**COMPANY**

**CASE NO.**

**Union Electric Company d/b/a AmerenUE**

**ER-2007-0002**

Fuel Expense  
Fuel Inventories  
Callaway Refueling Costs  
Combustion Turbine Maintenance Expense  
Environmental Expense  
Gains on the Sale of Sulfur Dioxide Emission Allowances

Type of Testimony Filed: Direct, Rebuttal and Surrebuttal

**Missouri-American Water Company**

**WR-2007-0216**

Belleville Labs Allocation  
Compensation for Services MAWC Provided to AWR  
Income Taxes

Type of Testimony Filed: Direct

**Union Electric Company d/b/a AmerenUE**

**ER-2008-0318**

Fuel and Purchased Power Expense  
Off System Sales  
Fuel Inventories  
Callaway Refueling Costs  
Generating Plant Outages  
Capacity Charges  
Entergy Refunds  
Non-Labor Storm Costs – Test Year  
Non-Labor Storm Cost AAO  
Non-Labor Storm Cost Amortization  
SO2 Emission Allowance Sales and Tracker  
Deferred Income Taxes for Rate Base  
Income Taxes  
Production Cost Model Issues

Type of Testimony Filed: Direct and Surrebuttal

**RATE CASE PROCEEDING PARTICIPATION**

**JOHN P. CASSIDY**

**COMPANY**

**CASE NO.**

**Union Electric Company d/b/a AmerenUE**

**ER-2010-0036**

Corporate Allocations  
Potential Refundable Entergy Charges  
Payroll and Payroll Taxes  
Employee Benefits  
Voluntary Separation Election  
Involuntary Separation Program  
Severance Costs  
Callaway Security Force

Type of Testimony Filed: Direct

**Laclede Gas Company**

**GR-2010-0171**

Report on Revenue Requirement Cost of Service  
Overview of Staff's Filing  
Revenue Associated with Propane Sale  
Insulation Financing  
Energy Wise  
NITEC Study  
Home Sales Reinspection Fees  
Gain on Sale of Property  
Emergency Cold Weather Rule AAO  
IFRS AAO  
Gas Safety AAOs  
Line of Credit Fees

Type of Testimony Filed: Direct, Rebuttal and Surrebuttal

**Union Electric Company d/b/a AmerenUE**

**ER-2011-0028**

Accumulated Deferred Income Taxes  
Potential Refundable Entergy Charges  
Payroll  
Payroll Taxes  
Voluntary Separation Election Plan  
Involuntary Separation Program  
Test Year Severance Costs  
Amortization of Severance Costs  
Other Employee Benefits  
Test Year Storm Costs  
Storm Cost AAO Case Nos. EU-2008-0141 and ER-2008-0318  
Rebranding Costs  
Income Tax

Type of Testimony Filed: Direct and Surrebuttal

**RATE CASE PROCEEDING PARTICIPATION**

**JOHN P. CASSIDY**

**COMPANY**

**CASE NO.**

**Union Electric Company d/b/a Ameren Missouri**

**ER-2012-0166**

Report on Revenue Requirement Cost of Service  
Overview of Staff's Filing  
Plant-in-Service Accounting  
Accumulated Deferred Income Taxes  
Employee Stock Ownership Plan Deduction  
Income Taxes  
Missouri Jurisdictional Allocation Factors  
Lake of the Ozarks Shoreline Management Program  
Storm Assistance Revenues and Expenses  
Renewable Energy Standard Costs

Type of Testimony Filed: Direct, Rebuttal and Surrebuttal

**Union Electric Company d/b/a Ameren Missouri**

**EA-2012-0281**

Costs Associated with Labadie Energy Center Expansion  
Alternative Site Studies

Type of Testimony Filed: Rebuttal, Cross-Surrebuttal and  
Supplemental-Surrebuttal

**Union Electric Company d/b/a Ameren Missouri**

**EC-2014-0223**

Complaint Case – Rate Levels

Type of Testimony Filed: Rebuttal and Surrebuttal

**RATE CASE PROCEEDING PARTICIPATION**

**JOHN P. CASSIDY**

**COMPANY**

**Union Electric Company d/b/a Ameren Missouri**

**CASE NO.**

**ER-2014-0258**

Report on Revenue Requirement Cost of Service

Overview of Staff's Filing

Demand Side Management Costs in Rate Base

Netting of Regulatory Assets and Liability Amortizations

New and Continuing Regulatory Asset and

Regulatory Liability Amortizations

Noranda Accounting Authority Order Lost Revenue Deferral

Energy Efficiency Regulatory Asset Amortizations

Renewable Energy Standard Costs

Renewable Energy Standard Accounting Authority Order –

Regulatory Asset/Liability Amortizations

Maryland Heights Energy Center Fuel Costs

Pioneer Prairie Wind Contract

Solar Rebates

Removal of Missouri Energy Efficiency Investment Act

Costs in Test Year

Callaway Nuclear Power Plant Relicensing Costs

Jurisdictional Allocations

Type of Testimony Filed: Direct, Rebuttal and Surrebuttal