

Exhibit No.:
Issue: *Infrastructure System
Replacement Surcharge*
Witness: *Caroline Newkirk*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Direct Testimony*
Case No.: *WO-2018-0059*
Date Testimony Prepared: *November 20, 2017*

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

DIRECT TESTIMONY

OF

CAROLINE NEWKIRK

MISSOURI AMERICAN WATER COMPANY

CASE NO. WO-2018-0059

*Jefferson City, Missouri
November, 2017*

1 **DIRECT TESTIMONY**

2 **OF**

3 **CAROLINE NEWKIRK**

4 **MISSOURI AMERICAN WATER COMPANY**

5 **CASE NO. WO-2018-0059**

6 Q. Please state your name and business address.

7 A. Caroline Newkirk, P.O. Box 360, Suite 440, Jefferson City, MO 65102.

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

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

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

12 A. I graduated from University of Central Missouri in Warrensburg, Missouri,
13 with a Bachelor of Science in Business Administration with an emphasis in Accounting, in
14 December 2011. I have previously worked in various jobs in the areas of bookkeeping, tax
15 preparation, and cost accounting since my graduation date. I began my employment with the
16 Commission in October 2016.

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

18 A. Yes, in Case No. GO-2016-0332 and Case No. WR-2017-0110

19 Q. What is the purpose of your testimony in this case?

20 A. I am sponsoring Staff’s recommendation for Missouri-American Water
21 Company’s (MAWC or “Company”) Infrastructure System Replacement Surcharge (ISRS)
22 application for Case No. WO-2018-0059 which is attached as Schedule CNN-d1.

Direct Testimony of
Caroline Newkirk

1 Q. Is the information contained in the Staff Recommendation still true and
2 accurate to the best of your knowledge?

3 A. Yes.

4 Q. What were your primary responsibilities in conducting this audit?

5 A. As part of its examination of MAWC's application, I reviewed supporting
6 workpapers, invoices, and other applicable documentation, such as work order authorizations.

7 Q. Of the topics at issue in this case, what topics are you responsible for?

8 A. I am addressing incentive compensation. Staff witness Kim Bolin addressed
9 the issues of the reconciliation and treatment of net operating losses.

10 Q. Does Staff agree with the removal of incentive compensation from the ISRS
11 plant additions that was proposed in Public Counsel's Response to Staff's Recommendation
12 filed on November 9, 2017?

13 A. While Staff is not including the removal of incentive compensation in our
14 recommendation, Staff is not opposed to this adjustment in concept in the circumstances of
15 this proceeding.

16 Q. Does this conclude your direct testimony in this proceeding?

17 A. Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

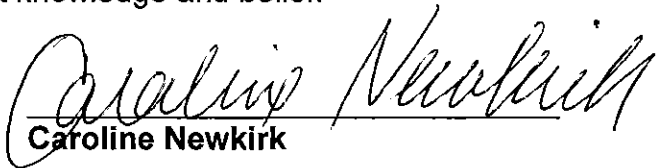
In The Matter of Missouri-American)	
Water Company for Approval to Establish an)	<u>Case No. WO-2018-0259</u>
Infrastructure System Replacement Surcharge)	Tariff No. JW-2018-0020
(ISRS))	

AFFIDAVIT OF CAROLINE NEWKIRK

State of Missouri)
) ss.
County of Cole)

COMES NOW Caroline Newkirk, and on her oath declares that she is of sound mind and lawful age; that she contributed to the attached *Direct Testimony*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.



Caroline Newkirk

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 20th day of November, 2017.



NOTARY PUBLIC

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: June 28, 2019
Commission Number: 15207377

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. WO-2018-0059, Tariff Tracking No. JW-2018-0020
Missouri-American Water Company

FROM: /s/ Caroline Newkirk 10/30/2017
Auditing Department Date

/s/ Matthew Barnes 10/30/2017
Water and Sewer Department Date

SUBJECT: Staff Report and Recommendation Regarding the Petition of Missouri-American
Water Company to Change its Infrastructure System Replacement Surcharge

DATE: 10/30/2017

BACKGROUND

On May 15, 2017, Missouri-American Water Company (“Company” or “MAWC”) filed its original **Petition to Change its Infrastructure System Replacement Surcharge** (“Petition”) with the Missouri Public Service Commission (“Commission”). The Company submitted its Petition pursuant to the provision of Sections 393.1000, 393.1003, 393.1006, RSMo, and Commission Rules 4 CSR 240-2.060(1) and 4 CSR 240-3.650. These sections provide eligible water corporations with the ability to recover certain infrastructure system replacement costs without the need to file a formal rate case. Such costs are recovered through an Infrastructure System Replacement Surcharge, or “ISRS”. MAWC submitted this application (Case No. WO-2017-0297) to reflect ISRS investments for the period from February 2016 through April 2017, with pro-forma ISRS costs updated through June 30, 2017. On August 16, 2017 the Commission granted OPC’s motion to dismiss the case, agreeing that MAWC could not seek a new ISRS until pending legislation became effective on August 28, 2017. On August 29, 2017, MAWC refiled their Petition with the Commission in this case. MAWC proposed in its Application that it was entitled to an incremental increase of ISRS revenues of \$8,127,145.

On August 29, 2017, the Commission issued its **Order Directing Notice, Setting Intervention Deadline and Directing Filing**, establishing September 13, 2017 as the deadline to intervene in the instant case. The Commission directed Staff to file a report regarding its examination of the ISRS filing no later than October 30, 2017. On September 11, 2017, Missouri Industrial Energy Consumers (MIEC) filed an application to intervene and the application to intervene was granted by the Commission on September 25, 2017.

STAFF’S INVESTIGATION

Commission Rule 4 CSR 240-3.650(2) states, “... an eligible water utility may file a petition with the commission to establish or change ISRS rate schedules that will allow for the adjustment of its rates and charges to provide for the recovery of costs for eligible infrastructure

system replacements; provided that an ISRS, on an annualized basis, must produce ISRS revenues of at least one (1) million dollars, but not in excess of ten percent (10%) of the subject utility's base revenue level approved by the commission in the utility's most recent general rate proceeding." This filing meets the criteria of at least one (1) million dollars and does not exceed ten percent of the base revenue levels of \$285,680,272 approved by the Commission in the last MAWC rate case.

In this Application, MAWC filed to recover ISRS qualifying infrastructure replacement costs incurred during the period of February 2016 through June 2017.

As part of its examination of MAWC's application, Auditing Staff reviewed supporting workpapers, invoices, and other applicable documentation, such as work order authorizations. Staff also communicated with MAWC personnel to clarify MAWC's application when necessary.

The following documentation was provided to Staff in Case No. WO-2017-0297 on the following dates:

- May 16, 2017 – MAWC's work papers provided for the months of February 2016 thru April 2016.
- June 15, 2017 – Work order authorization information "screenshots" for February 2016 to April 2017.
- June 28, 2017 – A sample of invoices for February 2016 to April 2017
- June 28, 2017 – Work order information "screenshots" & work order detail spreadsheets for May 2017
- July 7, 2017 – A sample of invoices for May 2017
- July 11, 2017 – Work order information "screenshots" & work order detail spreadsheets for June 2017
- July 20, 2017 – A sample of invoices for June 2017

Because the information had been requested and reviewed in the previous Case No. WO-2017-0297, no further data requests were sent by Staff for the current case.

THE PETITION

As stated in its Petition, MAWC "seeks to establish an ISRS rate to provide for the recovery of costs for infrastructure system replacements and relocations eligible for ISRS recognition. The proposed ISRS rate schedule should reflect the appropriate pre-tax ISRS revenues necessary to produce net operation income equal to MAWC's weighted cost of capital multiplied by the net original cost of the requested infrastructure replacements which are eligible for the ISRS, including recognition of accumulated deferred income taxes and accumulated depreciation associated with the aforesaid infrastructure system replacements. MAWC also seeks to recover all state, federal and local income or excise taxes applicable to such ISRS income and to recover all other ISRS costs such as depreciation expense and property taxes due within 12 months of this filing."

In its Petition, MAWC indicates that all of the eligible infrastructure system replacements meet the following criteria:

1. They replace and/or extend the useful life of existing infrastructure;
2. They are currently in service and used and useful;
3. They do not increase revenues by directly connecting to new customers since all ISRS projects represented replacements of existing facilities or relocations of existing facilities;
4. They were not included in MAWC's rate base in its most recently completed general rate case, File No. WR-2015-0301;
5. The costs related to such projects have not been reimbursed to the utility; and
6. They were not included in any other MAWC ISRS filing.

MAWC also indicates that the water utility plant projects on which it seeks to base the ISRS are either:

1. Mains and associated valves and hydrants installed as replacements for existing facilities that have worn out or were in a deteriorated condition; or
2. Main cleaning and/or relining projects; or
3. Infrastructure facility relocations due to the construction or improvement of a highway, road, street, public way or other public work required by or on behalf of the United States, the State of Missouri, a political subdivision of the State of Missouri, or another entity having the power of eminent domain.

Staff notes that any reimbursements MAWC received for these projects was recognized as a reduction of the ISRS investment in the calculation of the ISRS revenue requirement.

In its Petition, the Company requests an adjustment to its rates and charges through the implementation of an ISRS rate schedule. The Company indicates that its proposed rate schedule will "produce ISRS revenues of \$8,127,145 or an increase of 4.1% based on the base revenue level approved by the Commission in its most recently completed general rate proceeding" on an annualized basis.

STAFF'S REVENUE CALCULATION

Company's petition reflected the following changes proposed by Staff in its Recommendation filed in Case No. WO-2017-0297:

1. Replacement of any estimated costs included in the ISRS plant balances reflected in the Company's original filing with actual incurred amounts;
2. Correction of transposition error on February 2016 Invoice for \$2,215 that should have been \$2,115 (\$100 difference)
3. Rounding errors on depreciation expense and accumulated depreciation amounts
4. Removal of two work orders
 - a. R17-02B2.17-P-0002 "Bank repair where bank erosion due to Meramec River flooding caused main to be exposed which would cause the main to

deteriorate and fail.” Staff does not agree that costs to repair a bank for which a main has become exposed due to flooding and for which the main is believed to be subject to future damage falls under the ISRS guidelines of “worn out or deteriorated.”

- b. R17-02C1.16-P-1840 “Central Plant 30” Effluent Valve Replacement at Vault B located at 901 Hog Hollow Rd.” According to the statute, the costs associated with “Mains, and associated valves and hydrants, installed as replacements for existing facilities that have worn out or are in deteriorated condition” qualify for ISRS inclusion. It is Staff’s position that for the cost of a valve replacement to qualify for ISRS treatment it must be associated with a main that is also being replaced.

Except for the items listed and discussed below, the Staff agrees with and has adopted the methodology utilized by the Company for the calculation of the ISRS revenue requirement for purposes of this ISRS filing. Staff’s calculations utilized:

1. The inclusion of deferred taxes and accumulated depreciation through November 15, 2017, as explained below.
2. Removal of the net operating losses (NOLs) as an offset to accumulated deferred income taxes. Staff removed the NOLs because the Company has not demonstrated that the NOLs are related to the ISRS plant additions that recovery is being sought for in this case.

Staff is proposing to include additional deferred income tax reserves through November 15, 2017 in this ISRS case to better reflect the actual levels that will exist for these items at the time new ISRS rates go into effect as a result of this Application. In its original filing, the Company included additional depreciation reserves through October 15, 2017.

The Company has included as an offset to the current ISRS, accumulated depreciation and deferred taxes from the previous ISRS cases. Staff concurs that these amounts should be included, but Staff proposes to include accumulated depreciation and deferred taxes up through November 15, 2017.

THE ISRS RATE SCHEDULES

The proposed ISRS rate schedules include a volumetric rate for each affected customer class with the rate to be determined through the use of the customer class billing determinants from the Company’s last rate case, Case No. WR-2015-0301, and the ISRS revenues allocated to each affected customer class. Staff discovered that there was a difference in the volumetric rate of 23,906 gallons between the Company’s workpapers and the volumetric rates the Commission approved in Case No. WR-2015-0301. This was due to the Company inadvertently double counting Rate K in the filing. Rate K was eliminated in the last rate case and those volumes were already included in Rate A. This minor difference does not change Staff’s proposed ISRS rate. Staff has utilized the Company’s methodology for calculating the ISRS rates, based on the

Company's calculation of the revenue requirement. The ISRS rates are reflected in Appendix A to this Memorandum.

ASSESSMENTS AND ANNUAL REPORTS

In accordance with established practice regarding the submission of Staff recommendations to the Commission, the Staff reviewed the payment history for MAWC's annual assessment fees and the status of MAWC's annual report filings. Based on its review of this information, the Staff found that MAWC is current on its quarterly assessment payments and has no delinquencies for prior years' assessments. In addition, MAWC does not have any past due annual reports.

STAFF RECONCILIATION

Commission Rule 4 CSR 240-3.650(17) requires if an over or under recovery of ISRS revenues exists after the ISRS has been reset to zero, the amount of over or under recovery should be included in the water utility's next ISRS filing. Staff performed this reconciliation and found MAWC under-collected ISRS revenue by \$2,484,500, which is identical to the amount of under-collection calculated by the Company. As a result of the reconciliation, Staff recommends including this amount of undercollected ISRS revenue in MAWC's ISRS rates.

STAFF'S CONCLUSIONS

Based on its investigation and calculations, the Staff concludes that the Company's ISRS rates should be designed to recover annual ISRS revenues of \$7,105,389. The Staff's calculations reflect the overall pre-tax weighted average cost of capital of 10.35% (tax grossed up rate of return) and MAWC's current depreciation rates, all according to the Stipulation and Agreement as ordered by the Commission in Case No. WR-2015-0301, MAWC's last general rate proceeding. Staff's calculations reflect the actual ISRS investment placed in service from February 2016 through June 2017.

Staff based its conclusions on an examination of work orders and supporting documents for the projects included for recovery in the Company's proposed ISRS filing, as well as from a review of the Stipulation and Agreement in Case No. WR-2015-0301. As a result, it is Staff's opinion the project costs incorporated within this ISRS filing meet the requirements of the governing statutes as summarized previously in this Memorandum in the discussion of the Company's Petition.

STAFF RECOMMENDATIONS

Based on the above, the Staff recommends that the Commission issue an order that:

1. Rejects MAWC's ISRS tariff sheet (JW-2018-0020) P.S.C MO No. 13 8th Revised Sheet No. RT 10 cancelling 7th Revised Sheet No. RT 10 filed on August 29, 2017;
2. Approves the Staff's recommended ISRS surcharge revenues in this docket in the incremental pre-tax revenue amount of \$7,105,389

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Petition of Missouri-American)
Water Company for Approval to Establish an) **Case No. WO-2018-0059**
Infrastructure System Replacement Surcharge (ISRS)) **Tariff No. JW-2018-0020**

AFFIDAVIT

State of Missouri)
) ss.
County of Cole)

COMES NOW Matthew J. Barnes, and on her oath declares that she is of sound mind and lawful age; that she contributed to the attached Staff Recommendation; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.



Matthew J. Barnes

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 30th day of October, 2017.



NOTARY PUBLIC

DIANNA L. VAUGHT Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: June 28, 2019 Commission Number: 15207377

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

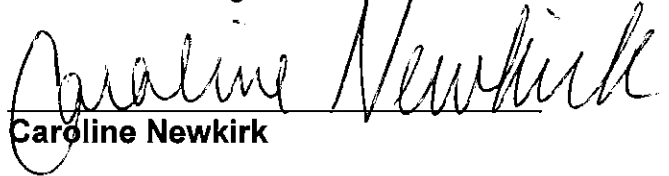
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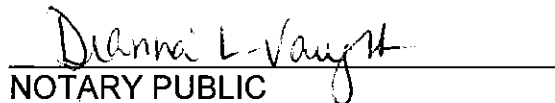
COMES NOW Caroline Newkirk, and on her oath declares that she is of sound mind and lawful age; that she contributed to the attached Staff Recommendation; and that the same is true and correct according to her best knowledge and belief;

Further the Affiant sayeth not.


 Caroline Newkirk

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 30th day of October, 2017.


 NOTARY PUBLIC

DIANNA L. VAUGHT Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: June 28, 2019 Commission Number: 15207377

	ISRS Recovery Revenue Requirement	2015 Bill Analysis Sales (100 Gal) (1)	Rate per 100 Gal.
Rate A & Oth	\$7,052,895	356,076,502	\$0.01981
Rate B	22,354	16,546,804	\$0.00135
Rate J	30,140	41,995,540	\$0.00072
	\$7,105,389		
 (1) Per billing determinants per the company view of the stipulation approved per Commission order in Case WR 2015-0301			
	Current Rate	Adjustment to Current Rate (2)	Proposed Rate Use on Tariff
Rate Per 100 Gal			
Rate A & Oth	\$0.00000	\$0.01981	\$0.01981
Rate B	\$0.00000	\$0.00135	\$0.00135
Rate J	\$0.00000	\$0.00072	\$0.00072
 (2) Calculated per above			

Missouri-American Water Company
ISRS Revenue Requirements Calculation
 St. Louis County Operations

<u>Line #</u>	<u>ISRS Activity:</u>	<u>Total for ISRS-16 Filing</u>
1		
2	<u>Water Utility Plant Projects--Replacement Mains, and Associated Valves and Hydrants (RM) RSMo 393.1000 (8a):</u>	
3	<u>Task Orders Placed in Service (TOPS):</u>	
4	STLC-Replacement Mains and Associated Valves and Hydrants	\$43,929,468
5	Net Contributions in Aid of Construction	(14,178)
6	Deferred Taxes	(8,491,157)
7	Accumulated Depreciation	(573,673)
8		
9	Total Net 393.1000 (8a)	<u>34,850,460</u>
10		
11	<u>Water Utility Plant Projects--Main Cleanings and Relinings (RM) RSMo 393.1000 (8b):</u>	
12	<u>Task Orders Placed in Service (TOPS):</u>	
13	STLC-Main Cleanings and Relinings	0
14	Net Contributions in Aid of Construction	0
15	Deferred Taxes	0
16	Accumulated Depreciation	0
17		
18	Total Net 393.1000 (8b)	<u>0</u>
19		
20	<u>Water Utility Plant Projects--Facilities Relocations (FR) RSMo 393.1000 (8c):</u>	
21	<u>Task Orders Placed in Service (TOPS):</u>	
22	STLC-Relocated Facilities	4,164,704
23	Net Contributions in Aid of Construction	(854,989)
24	Deferred Taxes	(634,642)
25	Accumulated Depreciation	(42,950)
26		
27	Total Net 393.1000 (8c)	<u>2,632,122</u>
28		
29	<u>Accumulated Depreciation and Deferred Taxes on Investment in Current ISRS</u>	
30	Depreciation for ISRS-16 Case No.	0
31	Deferred Taxes ISRS-16 Case No.	0
32		
33		
34	Total	<u>0</u>
35		
36	Total ISRS Rate Base	37,482,582
37	Overall Pre-Tax Rate Of Return per Last Order	10.35%
38	Revenue Requirement on Capital	<u>\$3,879,447</u>
39		
40		
41	Revenue Requirement on Capital	\$3,879,447
42	Depreciation Expense	627,750
43	Property Taxes ISRS 16	113,692
44	Revenue Cap Adjustment	0
45		
46	Total Revenue Requirement	4,620,889
47		
48	Adjustments:	
49	Undercollection from ISRS reconciliation	2,484,500
50		
51	Adjusted Total Revenue Requirement	<u>\$7,105,389</u>
52		
53	Allocation of Revenue by Class	
54	Mains less than or equal to 12"	Rate A & Oth \$6,515,571
55	Mains greater than 12"	Rate A & Oth <u>537,325</u>
56		Total Rate A & Oth 7,052,895
57		Rate J 30,140
58		Rate B <u>22,354</u>
59		
60	Grand Total Revenues Collected in Proposed ISRS	<u>\$7,105,389</u>
61		