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Supplies & Services
Expense, Tank Painting
Amortization, Tank
Painting Expense,
Main Break Expense*
Witness: *Angela Niemeier*
Sponsoring Party: *MoPSC Staff*
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MISSOURI PUBLIC SERVICE COMMISSION
FINANCIAL AND BUSINESS ANALYSIS DIVISION
AUDITING DEPARTMENT

REBUTTAL TESTIMONY
OF
ANGELA NIEMEIER

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2020-0344

Jefferson City, Missouri
January 2021

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OF

ANGELA NIEMEIER

MISSOURI-AMERICAN WATER COMPANY

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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **ANGELA NIEMEIER**

4 **MISSOURI-AMERICAN WATER COMPANY**

5 **CASE NO. WR-2020-0344**

6 Q. Please state your name and business address.

7 A. Angela Niemeier, 200 Madison Street, Jefferson City, Missouri 65101.

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

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

11 Q. Are you the same Angela Niemeier that contributed to Staff’s Cost of Service
12 Report filed November 24, 2020, in Case No. WR-2020-0344?

13 A. Yes.

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

15 A. The purpose of my rebuttal testimony is to provide an explanation of
16 maintenance expense changes after Staff filed its Cost of Service Report; to respond to Missouri
17 Industrial Energy Consumers (“MIEC”) witness Greg R. Meyer’s Direct Testimony concerning
18 engineered coatings (tank painting); and to respond to Missouri-American Water Company
19 (“MAWC”) witness Nikole L. Bowen’s Direct Testimony regarding main break expense.

20 **BUILDING MAINTENANCE**

21 Q. Has Staff continued to have issues matching invoices to MAWC’s general ledger
22 maintenance accounts following its direct filing?

Rebuttal Testimony of
Caroline Newkirk

1 A. Yes. While MAWC provided Staff additional information that demonstrated that
2 invoice amounts could be tracked to the larger maintenance accounts, invoices relating to larger
3 jobs could not always be traced to the individual building maintenance accounts. Staff spent
4 significant time matching invoices and had several conversations with MAWC. Staff believes
5 the larger invoices were moved, not by individual invoice amounts, but in bulk amounts to the
6 individual building maintenance sub accounts.

7 Q. Does MAWC understand why it has been difficult to audit these accounts?

8 A. Yes. Staff believes that MAWC now realizes why it is difficult to track invoices
9 to individual sub accounts using their current accounting methods. During conference calls,
10 MAWC has expressed that they will be addressing Staff's concerns going forward.

11 Q. Despite its issues tracking invoices, does Staff believe that it has been able to
12 review sufficient invoices to ensure a valid annualized number for building maintenance?

13 A. Yes. Staff has now reviewed several thousand invoices for building
14 maintenance. Staff has made adjustments to remove late fees and moved yard restoration after
15 repairs to the proper maintenance accounts. Staff does not believe that yard restoration after
16 repairs, such as main break repair, belongs in building maintenance expense but instead should
17 be included in maintenance supplies and services. Building maintenance relates to electricity,
18 grounds keeping, heating oil/gas, janitorial, security, trash removal, and water/wastewater
19 expenses maintenance of buildings owned by MAWC. In Staff's Cost of Service Report, Staff
20 used the test year amount of \$1,057,717 to determine its building maintenance expense
21 recommendation. After reviewing the additional information from MAWC, Staff updated its
22 recommendation to include 12 months ending June 30, 2020, for rebuttal testimony to represent

1 the most current ongoing level of expense. At this time, Staff has included an annualized
2 building maintenance expense in the amount of \$974,543 in its recommendation.

3 **MAINTENANCE SUPPLIES AND SERVICES**

4 Q. Has Staff had similar issues, as explained above with regard to building
5 maintenance expense, for maintenance supplies and services?

6 A. Yes. Staff has had similar difficulty matching invoices to the individual
7 maintenance accounts. Staff reviewed additional information MAWC provided that
8 demonstrated that the invoice amounts could be tracked to the larger maintenance accounts.
9 However, similar to building maintenance expense, Staff could not trace the larger invoice
10 amounts to the individual maintenance supply and service sub accounts. Staff has spent much
11 time matching invoices and has had several conversations with MAWC. Staff believes the
12 larger invoices were moved, not by individual invoice amounts, but in bulk amounts to the
13 individual building maintenance sub accounts.

14 Q. Does MAWC understand why it has been difficult to audit these accounts?

15 A. Yes. Staff believes that the Company now realizes why it is difficult to track
16 invoices to individual maintenance accounts using their current accounting methods. During
17 conference calls, the Company has expressed that they will be addressing Staff's concerns going
18 forward.

19 Q. Does Staff believe that it has reviewed enough invoices to ensure a valid
20 annualized number for building maintenance, despite its issues matching invoices?

21 A. Yes. Staff reviewed several thousand invoices for maintenance supplies and
22 services. In Staff's Cost of Service Report, Staff used the test year amounts to determine the
23 recommendation of \$3,555,760 for maintenance supplies and services expense. After reviewing

1 the additional information from MAWC, Staff updated its recommendation to include
2 12 months ending June 30, 2020, for rebuttal testimony to represent the most current ongoing
3 level of expense. At this time, Staff has included an annualized maintenance supplies and
4 services expense in the amount of \$3,278,019 in its recommendation.

5 **TANK PAINTING EXPENSE**

6 Q. Is there a difference between MIEC's and Staff's positions on the tank painting
7 expense issue?

8 A. Yes. As described in the Direct testimony of Mr. Meyer, MIEC's position is
9 similar to Staff's position that tank painting costs should be expensed not capitalized. The
10 difference in our recommendations is based on the analysis of the data provided by MAWC to
11 the parties. Based on responses to data requests, MAWC provided MIEC and Staff different
12 data which caused a difference in how the tank painting expenses were analyzed. For
13 example in Table 7 on page 24 of Mr. Meyer's direct testimony, the historic level of tank
14 painting expense for 2016 is \$166,700, while MAWC's response to Staff DR No. 0054 in
15 Case No. WR-2017-0285 lists tank painting expense as \$684,011 for 2016. In Staff DR
16 No. 0128 and 0128.1, Staff requested current data. However, MAWC's responses listed only
17 tank painting amortization. Therefore, Staff used tank painting invoices to determine tank
18 painting expense for years 2017, 2018, and 2019. MIEC's position is to remain at test year
19 expense level and analyze the numbers throughout the true-up and include an estimate for tank
20 inspections. Mr. Meyer proposes an annualized level of \$1,896,370 for tank painting and tank
21 inspection costs based upon test year expenses.

22 Q. Does Staff agree with Mr. Meyer's proposal?

1 A. No. Tank painting expense is variable and varies several hundred thousand
2 dollars from year to year. Staff's position is to use a five-year average to normalize tank painting
3 and inspections expense based on the information provided to Staff in response to Data
4 Requests Nos.0003, 0127, 0128,0128.1, 0129, and 0130.

5 Q. Has Staff updated its recommendation for tank painting expense since the filing
6 of its Cost of Service Report?

7 A. Yes. Staff's recommendation was updated to reflect additional tank painting
8 invoices included with maintenance supplies and service invoices that were not included in the
9 Company response to Staff DR No. 0128. Staff also removed maintenance repairs, such as roof
10 and ladder repairs, from tank painting invoice costs. Staff continued to use a five-year average
11 of tank painting and inspection costs on a 12-month basis for the five 12-month periods ending
12 December 31, 2019, to determine a normalized level of \$1,427,020 for tank painting and
13 inspection expense. Staff allocated the normalized tank painting and inspection expense by
14 using an allocation factor determined by the square footage of the tanks in each profit center.

15 **MAIN BREAK EXPENSE**

16 Q. What is MAWC's position regarding main break expense?

17 A. As described in the Direct testimony of MAWC witness Bowen
18 (page 8, lines 14-20), "In order to calculate the appropriate expense levels, the Company took
19 a three-year average count of main breaks and expense from 2017, 2018, and 2019 actual
20 expenses. The three-year average expense was then inflated to derive the annualized
21 2020 expense levels. The 2020 levels were inflated for an annualized 2021 period. The future
22 test year expense was calculated by applying an inflation factor to the January through
23 May 2021 expense levels."

Rebuttal Testimony of
Caroline Newkirk

1 Q. Does Staff agree with MAWC's methodology?

2 A. No.

3 Q. What methodology did Staff use to calculate main break expense?

4 A. Staff calculated main break expense for St. Louis areas using a three-year
5 average for 2017, 2018, and 2019. However, Staff also normalized the January 2018 amount
6 due to a severe cold period causing an unusually large number of main breaks. Staff did not
7 inflate to derive future period costs.¹

8 MAWC only began recording outside St. Louis area main breaks in January 2019. In
9 prior cases and in this current case, MAWC only adjusted main break expense for the St. Louis
10 area. However, it is Staff's position in this case that including both St. Louis area and outside
11 St. Louis area main breaks increases the accuracy of the adjustment for main break costs. For
12 service areas outside of St. Louis, Staff used an 18-month average to calculate a normalized
13 level of main breaks. Staff used an 18-month average due to main break information for the
14 non-St. Louis areas only being available for 2019 and 2020.

15 Q. Does this conclude your rebuttal testimony in this proceeding?

16 A. Yes, it does.

¹ The use of inflation factors in general, and other issues regarding use of a Future Test Year, is discussed in more detail in the Rebuttal Testimony of Staff Witness Kimberly K. Bolin.