

Exhibit No.:
Issue(s): *Uncollectible
Expense*
Witness: *Caroline Newkirk*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *WR-2020-0344*
Date Testimony Prepared: *January 15, 2021*

MISSOURI PUBLIC SERVICE COMMISSION
FINANCIAL AND BUSINESS ANALYSIS DIVISION
AUDITING DEPARTMENT

REBUTTAL TESTIMONY
OF
CAROLINE NEWKIRK

MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2020-0344

Jefferson City, Missouri
January 2021

1 **REBUTTAL TESTIMONY**

2 **OF**

3 **CAROLINE NEWKIRK**

4 **MISSOURI-AMERICAN WATER COMPANY**

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

6 Q. Please state your name and business address.

7 A. Caroline Newkirk, P.O. Box 360, Jefferson City, Missouri 65102.

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 Senior Utility Regulatory Auditor in the Auditing Department, Financial and Business
11 Analysis Division.

12 Q. Are you the same Caroline Newkirk who has previously contributed to the
13 Staff's Cost of Service Report in File No. WR-2020-0344 filed on November 24, 2020?

14 A. Yes, I am.

15 Q. What is the purpose of your rebuttal testimony in this proceeding?

16 A. The purpose of my testimony is to respond to the Direct Testimony of
17 Missouri-American Water Company ("MAWC") witness Todd P. Wright regarding
18 uncollectible expense.

19 **UNCOLLECTIBLE EXPENSE**

20 Q. What issue regarding uncollectible expense are you addressing in
21 your testimony?

22 A. I am addressing MAWC's proposal to tie ratemaking recovery of this item to a
23 set percentage of revenues. Staff witness Kimberly K. Bolin will address MAWC's proposed
24 use of projected financial data to set rates in her rebuttal testimony.

Rebuttal Testimony of
Caroline Newkirk

1 Q. How did MAWC witness Mr. Wright adjust uncollectible expense as part of
2 MAWC's direct filed case?

3 A. MAWC calculated an uncollectible rate for the years 2017-2019 by taking actual
4 net write-offs divided by annual billed revenue. MAWC then applied a 3-year average of those
5 amounts to come up with an uncollectible percentage of 0.9828%. The Company calculated its
6 uncollectible expense amount by applying that uncollectible percentage to the total present and
7 total projected revenues in its case.

8 Q. How did Staff normalize uncollectible expense?

9 A. Staff examined the actual level of net-write-offs (write-offs less
10 collection agency recoveries) for the July 1, 2017, through June 30, 2020, period. Based
11 upon that examination, Staff normalized the level of uncollectible expense by calculating a
12 three-year average. Staff intends to examine updated actual net write-off amounts through
13 December 31, 2020, as part of its true-up audit.

14 Q. Why is Staff's method to normalize uncollectible expense more appropriate than
15 the method used by MAWC?

16 A. Staff's method is more appropriate because it uses the actual level of net
17 write-offs over a period of time to determine the normalized level of uncollectible expense.
18 MAWC's method of calculating the ratio of net write-offs over annual billed revenues
19 erroneously emphasizes MAWC's assumption that there is always a direct correlation of actual
20 net write-offs with billed revenues.

21 Q. Does Staff agree that the actual level of net write-offs directly correlates to the
22 level of revenues that MAWC billed as MAWC witness Mr. Wright's uncollectible expense
23 adjustment suggests?

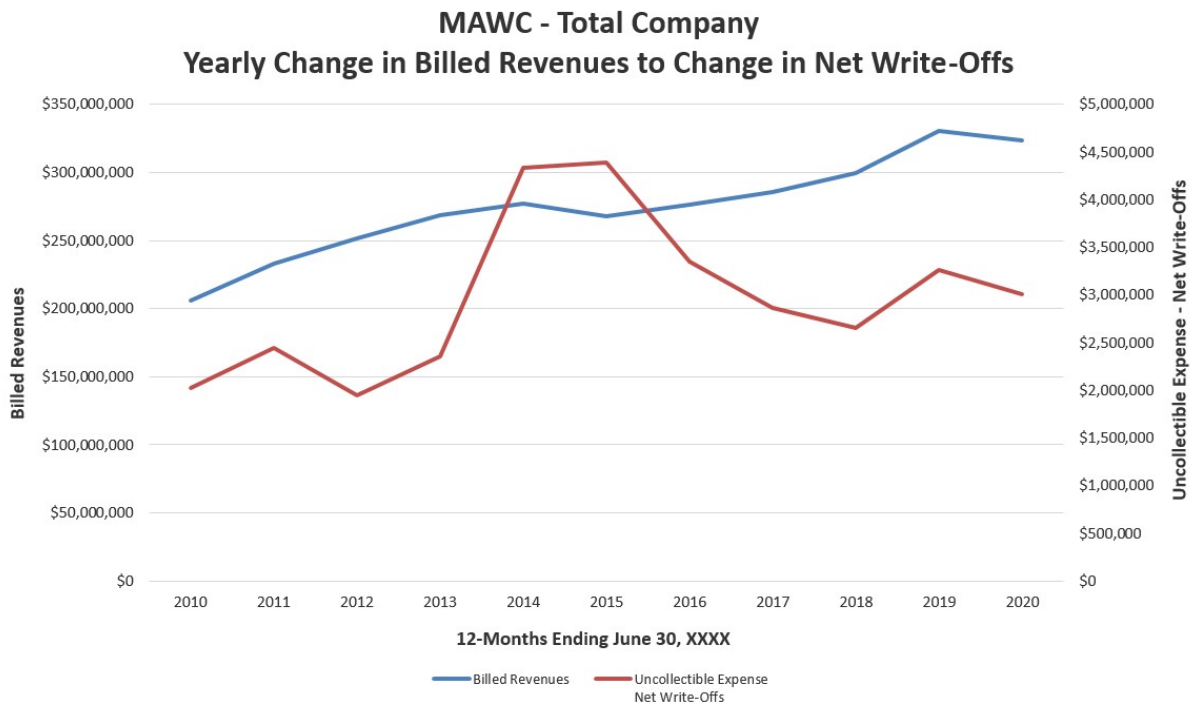
Rebuttal Testimony of
Caroline Newkirk

1 A. No. Many other factors can affect the level of uncollectible expense that a utility
2 incurs. The state of the economy, the impacts of weather, the existence of low income
3 assistance programs, and the nature of a utility’s customer service policies, such as those
4 regarding customer payment arrangements and use of debt collection agencies, are a few
5 examples of factors that typically affect the level of uncollectible expense.

6 Q. Has Staff compared a history of MAWC billed revenues to the actual amounts
7 of net write-offs recorded by MAWC?

8 A. Yes. Please refer to the chart below. Staff compiled this chart using data
9 MAWC provided in previous cases and as a response to Staff Data Request No. 0031 in the
10 current case; this chart shows the monthly comparison of billed revenue to net write-offs over
11 a ten-year period. During this time, MAWC filed four rate cases: Case Nos. WR-2011-0337,
12 WR-2015-0301, WR-2017-0285 and the present case.

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Rebuttal Testimony of
Caroline Newkirk

1 Q. Does Staff's analysis support MAWC's position of the correlation between
2 billed revenues and net write-offs?

3 A. No. As shown in the chart, Staff's analysis does not indicate a proportional or
4 corresponding direct relationship between billed revenues and net write-offs. The billed
5 revenues (represented by the blue line) have a fairly steady increase over the past ten years,
6 with just a couple of dips. Conversely, the net write-offs (represented by the red line) have much
7 more fluctuation. Furthermore, there were several months when billed revenues increased and
8 uncollectibles decreased, and vice versa.

9 Q. Does this conclude your rebuttal testimony?

10 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water)
Company's Request for Authority to)
Implement General Rate Increase for Water) Case No. WR-2020-0344
and Sewer Service Provided in Missouri)
Service Areas)

AFFIDAVIT OF CAROLINE NEWKIRK

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COME NOW CAROLINE NEWKIRK and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Rebuttal Testimony of Caroline Newkirk*; and that the same is true and correct according to her best knowledge and belief, under penalty of perjury.

Further the Affiants sayeth not.

/s/ Caroline Newkirk
CAROLINE NEWKIRK