

Exhibit No.:

Issue(s): *Cash Working Capital,
Building Maintenance
Expense, Main Break
Expense, Maintenance
Supplies and Services
Expense, Miscellaneous
Expense, Tank Painting
Expense, Insurance
Expense,
Telecommunications
Expense*

Witness: *Angela Niemeier*

Sponsoring Party: *MoPSC Staff*

Type of Exhibit: *Surrebuttal Testimony*

Case No.: *WR-2022-0303*

Date Testimony Prepared: *February 8, 2023*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY

OF

ANGELA NIEMEIER

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2022-0303

Jefferson City, Missouri

February 2023

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OF
ANGELA NIEMEIER
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2022-0303**

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2 **SURREBUTTAL TESTIMONY**

3 **OF**

4 **ANGELA NIEMEIER**

5 **MISSOURI-AMERICAN WATER COMPANY**

6 **CASE NO. WR-2022-0303**

7 Q. Please state your name and business address.

8 A. My name is Angela Niemeier and my business address is 200 Madison Street,
9 Jefferson City, MO 65101.

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

11 A. I am employed by the Missouri Public Service Commission (“Commission”) as
12 a Lead Senior Utility Regulatory Auditor.

13 Q. Are you the same Angela Niemeier who filed direct testimony in this case on
14 November 22, 2022, and rebuttal testimony on January 18, 2023?

15 A. Yes, I am.

16 **EXECUTIVE SUMMARY**

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

18 A. The purpose of this testimony is to address the rebuttal testimony of the
19 Office of the Public Counsel (“OPC”) witness Cassidy Weathers regarding Cash Working
20 Capital (“CWC”). I will also address the rebuttal testimonies of Missouri-American Water
21 Company (“MAWC”) witnesses Michael L. Schwarzell regarding building maintenance,
22 main break expense, maintenance supplies and services expense, and tank painting; and
23 Matthew S. Mason, regarding miscellaneous expense and telecommunication expense. I will

1 also address the rebuttal testimony of John M. Watkins for insurance expense (other than group)
2 and make a correction to insurance expense.

3 **CASH WORKING CAPITAL**

4 Q. What is OPC's position regarding support services for CWC?

5 A. In her rebuttal testimony, page 7, lines 3 through 8, Ms. Weathers states that
6 Staff has an omission error for support services in the CWC sections for sewer. Specifically,
7 Ms. Weathers states that Staff included support services for District A, but did not include
8 District B.

9 Q. How does Staff respond?

10 A. Staff made no substantive error, but Staff will change wording in order to clarify
11 and avoid any appearance of error. Staff uses a Microsoft Excel-based Exhibit Modeling System
12 ("EMS") to calculate its revenue requirement and to create Staff Accounting Schedules that are
13 included in Staff filings in general rate cases. For MAWC, there are four separate EMS files,
14 one for each of its four districts. The data for each of the districts is entered separately in each
15 EMS file, which, when completed, are combined into a Total Company EMS file, which also
16 combines the two water districts into one and the two sewer districts into one. In order for the
17 combining of the EMS files to be successful, the spelling of all the labels for each line item
18 entry must match exactly. In this instance, Sewer District A data for the CWC was entered as
19 "Support Services", while Sewer District B was entered as "Support services". Due to the
20 difference in the capitalization of the "s" in services, the combining process separated District
21 B Support Services to line 31, while District A's is on line 15. However, it did not change the
22 total CWC required. Staff will correct the wording in this surrebuttal filing so the districts
23 properly combine.

Surrebuttal Testimony of
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1 Q. Does Ms. Weathers disagree with MAWC and Staff's expense lag for Support
2 Services?

3 A. Yes. Beginning on page 4, line 13 of her rebuttal testimony, Ms. Weathers
4 stated that she disagrees with Staff's expense lag for support services. In support of her
5 position, Ms. Weathers cited a decision in which the Iowa Utilities Board ruled that a service
6 company's expense lag should be the same as the expense lag for contracted services.

7 Q. Has Ms. Weathers' rebuttal testimony changed Staff's opinion on the expense
8 lag for support services?

9 A. Yes. Staff reviewed Ms. Weathers' rebuttal testimony concerning CWC and
10 reviewed past rate cases. After careful consideration, Staff has reconsidered its position.

11 Q. Why has Staff changed its position?

12 A. Staff's prior recommendation of a negative 2.2 day expense lag shows a
13 pre-payment from MAWC to the American Water Works Service Company, Inc. ("Service
14 Company"). Affiliates of MAWC should not receive preferential treatment. Rather, the affiliate
15 should be treated as a third-party vendor who supply services to the utility. MAWC pays for
16 the vast majority of the goods and services that it receives from unaffiliated vendors in
17 "arrears;" i.e., after the goods and services are received. Staff's opinion is that the requirement
18 that MAWC prepay amounts to the Service Company is solely a result of the affiliated
19 relationship of MAWC to the Service Company.

20 Q. Does Staff agree with Ms. Weathers that the expense lag for support services
21 should be the same as contracted services, with an expense lag of 48.8 days?

22 A. No. In MAWC's last rate case, Case No. WR-2020-0344, Staff used the cash
23 voucher expense lag for support services. The cash voucher expense lag is the average lag of

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Angela Niemeier

1 all expense services, including contracted services. Staff’s opinion is that the cash voucher
2 expense lag better represents unaffiliated vendors than contracted services alone, because it
3 reflects a broader mixture of expense services, while contracted services is based on fewer
4 expense services. In the current rate case, the cash voucher expense lag is 40.1 days. For this
5 surrebuttal filing, Staff has changed the expense lag for support services to 40.1 days to match
6 the cash voucher expense lag.

7 Q. What is OPC’s position regarding the CWC expense lag for income taxes?

8 A. As Ms. Weathers reiterates, on page 8, lines 1 through 19 of her rebuttal
9 testimony, the Commission stated in a Spire Missouri, Inc. (“Spire”) rate case (Case No.
10 GR-2021-0108) that Spire should use a 365-day expense lag, because it made no income tax
11 payments during the test year or true-up period.

12 Q. How does Staff respond?

13 A. The difference between Case No. GR-2021-0108 and the present case is that
14 Spire did not owe federal taxes due to a Net Operating Loss Carryforward (“NOLC”), while
15 MAWC is paying quarterly taxes.¹ Regulated utility companies routinely pay quarterly
16 estimated taxes. A few recent examples are in the following cases: Case Nos. GR-2021-0320,
17 WR-2020-0344, GR-2021-0241, and ER-2021-0240.

18 Q. Does the IRS require corporations to pay quarterly tax payments?

19 A. Yes. According to the IRS’ website², corporations generally have to make
20 estimated payments if they expect to owe a tax of \$500 or more when their tax returns are filed.

¹ It is Staff’s understanding that MAWC pays AWWC estimated quarterly taxes as if MAWC would file its own tax returns. AWWC, then, presumably would include MAWC’s estimated tax payments with those of its other wholly-owned subsidiaries when paying quarterly estimated taxes to the IRS.

² <https://www.irs.gov/businesses/small-businesses-self-employed/estimated-taxes>

1 **BUILDING MAINTENANCE EXPENSE**

2 Q. Mr. Schwarzell states on page 8, line 6 of his rebuttal testimony that Staff
3 understated the expected level of building maintenance expense. How does Staff respond?

4 A. Staff compared test year data, a two-year average, and a three-year average of
5 actual building maintenance costs MAWC incurred since 2018. However, Staff only has access
6 to test year data through June 30, 2022, while MAWC is using data through December 31, 2022.
7 The data to June 30, 2022, does not support an ongoing level of \$1,863,860. Staff cannot
8 validate that information until the true-up period when MAWC provides the data through
9 December 31, 2022. The data through June 30, 2022, demonstrates a test year of \$1,550,847
10 and a three-year average of \$1,360,711.

11 Q. Why did Staff use the three-year average instead of the test year amounts?

12 A. Based on information Staff received through June 30, 2022, MAWC's test year
13 amount of \$1,550,847 is higher than what the historical data supported. As part of its decision
14 to use the test year or the three-year average amount, Staff questioned whether there was a
15 sudden spike in expenses during the first six months of the test year that would show a decrease
16 in true-up or an increase that would be supported. In its analysis, Staff found that in the first
17 six months of 2022, building maintenance expense was \$675,284. If that number doubled for
18 the second half of 2022, the annualized level would have been \$1,350,568, which is close to
19 the three-year average. This is substantially less than MAWC's actual test-year amount of
20 \$1,550,847. Staff chose the conservative approach until the remainder of 2022 can be reviewed
21 in true-up.

1 **MAIN BREAK EXPENSE**

2 Q. Mr. Schwarzell states on page 11, lines 1 through 3 of his rebuttal testimony that
3 MAWC determined that its responses to Staff Data Request (“DR”) Nos. 0074 and 0075
4 “contain some incorrect categorization of expenses within the maintenance expense categories,
5 and they will be updated in the 4Q DR updates.” Mr. Schwarzell further states that Staff should
6 reflect these in true-up. Does Staff agree?

7 A. Staff acknowledges that there are significant changes in MAWC’s responses to
8 Staff DR Nos. 0074 and 0075. Staff will review and address these in true-up.

9 **MAINTENANCE SUPPLIES AND SERVICES EXPENSE**

10 Q. What is MAWC’s position regarding maintenance supplies and
11 services expense?

12 A. Mr. Schwarzell states on page 11, lines 13 through 19 of his rebuttal
13 testimony that,

14 in Staff’s effort to segment main break and engineered steel coating
15 expense from other maintenance expense, staff removed all expense
16 posted to GLs 62002400, 62520700, 62520824, and 63150024. These
17 GLs largely contain main break and engineered steel coating expense
18 included elsewhere in Staff’s expense, but also contain other
19 maintenance expense not included elsewhere. The two year average
20 ending June 2022 of other maintenance expense incorrectly excluded by
21 Staff is \$482,061. This amount should be added to Staff’s expense levels.

22 In other words, Mr. Schwarzell believes that when Staff separated out main break expense,
23 engineered coating (tank painting), hydrant painting expense, and other maintenance expense,
24 Staff incorrectly excluded \$482,061.

25 Q. How does Staff respond?

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1 A. Staff spent much time attempting to separate these accounts. It was not a simple
2 or straightforward process.

3 Q. Did Staff have difficulty separating out these expenses?

4 A. Yes. As Mr. Schwarzell pointed out, these accounts are mixed and contain
5 hydrant painting, tank painting (engineered coating), main break expense, and maintenance
6 supplies and service expenses. The hydrant painting has been coded differently, so
7 hydrant painting expense was sorted for that specific code. Staff used MAWC's responses
8 to Staff DR Nos. 0074, 0075, 0135, 0136, 0137, 0138, 0139, 0140, 0198, and 0234 to help
9 with the separation for the remaining issues.

10 Q. Did Staff find the MAWC's responses to Staff DR's helpful?

11 A. Not entirely. Staff DR No. 198 requested engineered coatings costs that were
12 booked to outside services expense by general ledger account number and district for the
13 twelve months ending June 30, 2020, 2021, and 2022. When Staff compared those amounts to
14 the general ledger, there were discrepancies.

15 For example, MAWC's response to Staff DR No. 198 stated that account 63150024 for
16 2020 had \$1,315,240 for District 1. However, the general ledger for that account has \$104,326
17 total for the engineered coating, maintenance supplies and services, hydrants, and main breaks.
18 This led to negative adjustment numbers for the four main break accounts for the four issues:
19 engineered coating, maintenance supplies and services, hydrant expense, and main break
20 expense. This is because there was not enough money in the individual districts for each account
21 to cleanly separate the issues. It was extremely difficult to follow and would have created
22 several confusing adjustments for the revenue requirement.

23 Q. Did Staff see this for more than one main break account?

1 A. Yes. Staff attempted several options, but kept arriving at the same conclusion
2 across the main break accounts and this affected the four mixed issues. MAWC's responses to
3 Staff DRs did not match the general ledger totals for the individual districts. Therefore, zeroing
4 main break accounts out for test year was the best option. For these reasons, Staff zeroed out
5 the main break accounts for test year and then added annualized numbers back in for the main
6 break accounts.

7 Q. Does Mr. Schwarzell explain how he reached the conclusion in his rebuttal
8 testimony that Staff excluded \$482,061 incorrectly?

9 A. No. Mr. Schwarzell does not state how he arrived at the amount he claims Staff
10 incorrectly excluded. It is common for Staff to zero out test year amounts and enter the
11 annualized amounts. In fact, Staff used this same treatment for main breaks accounts in
12 MAWC's last rate case, Case No. WR-2020-0344, for these same reasons. However, Staff will
13 review any documentation MAWC provides to support Mr. Schwarzell's claim for true-up.

14 **MISCELLANEOUS EXPENSE**

15 Q. Mr. Mason states on page 22, lines 4 through 8 of his rebuttal testimony that
16 Staff divided miscellaneous expenses into separate issues and assigned it to two Staff witnesses.
17 Why did Staff do this?

18 A. Staff realized that different Staff witnesses were more familiar with varied
19 accounts in miscellaneous expenses. For example, there were a couple of accounts in which
20 tank painting expense was recorded. Therefore, those were more aligned with my issues, while
21 others were more closely related to Staff witness Courtney Horton's issues. I will address the
22 accounts that were assigned to me.

1 Q. On page 23, lines 11 through 12 of his rebuttal testimony, Mr. Mason questions
2 why Staff used a three-year average and not the test year amount to calculate its annualized
3 level for miscellaneous expense. Please explain why Staff used a three-year average.

4 A. Staff reviewed the overall annual amount for these accounts, but also looked at
5 individual accounts. For example, account 52501600 (Misc Oper-Admin & General) ranges
6 from \$250,262 in 2019, to a negative \$513,081 in 2020, to \$72,643 in 2021, and then \$66,583
7 for the first six months of 2022. Staff noticed similar variations in multiple accounts in the
8 miscellaneous expense accounts. When costs fluctuate on an annual basis, the test year costs do
9 not represent an appropriate ongoing annual level. For costs that vary this much from year to
10 year, an average is the best option to represent the volatility.

11 Q. Does Mr. Mason disagree with Staff's use of a three-year average for
12 Miscellaneous Expense?

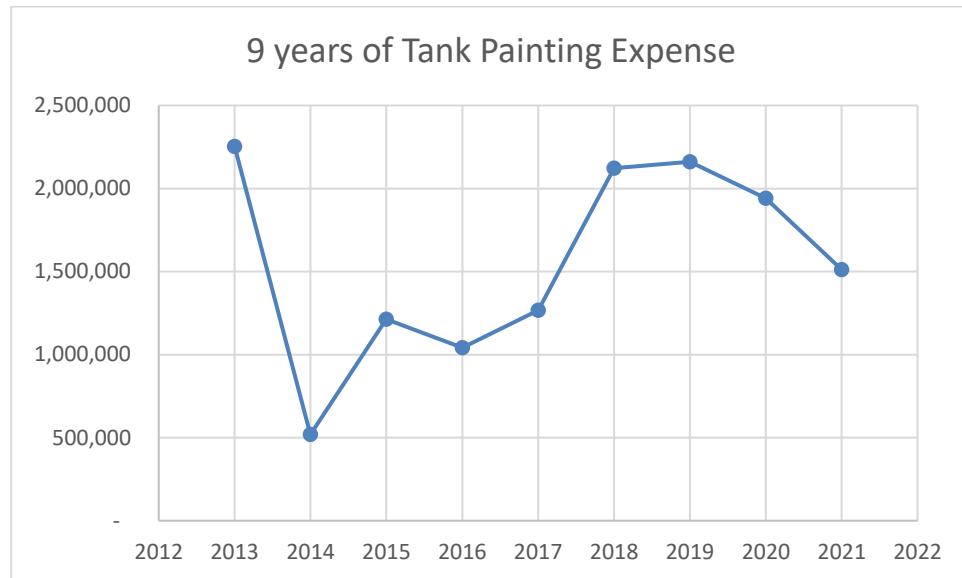
13 A. Yes. Mr. Mason writes on page 23, lines 13 through 15 of his rebuttal testimony
14 that inflationary pressures and rising prices in the current economy justifies using the actual test
15 year costs of \$1,632,069. Similar to Building Maintenance Expense, Staff only has historical
16 data to June 30, 2022, to review through surrebuttal. Staff will reevaluate data through
17 December 31, 2022, in true-up.

18 **TANK PAINTING EXPENSE**

19 Q. Mr. Schwarzell states, beginning on page 10, line 7 of his rebuttal testimony,
20 that Staff's five-year average of actual expense "is too low, and fails to consider actual
21 Engineered Steel Coating bids already received by MAWC." How does Staff respond?

22 A. Engineered Steel coating expense (also referred to as tank painting expense)
23 varies each year based on the number of tanks and their size. Staff analyzed nine years of

1 tank painting data. Tank painting expense is very volatile. That variability is best represented
2 going forward by using a five-year average. See chart below.



3

4 Q. Mr. Schwarzell writes that Staff should increase tank painting expense to arrive
5 at estimated expenses for 2022 and 2023. Does Staff use estimates, or bids, in determining
6 rates?

7 A. No, Staff does not use estimates. Staff uses known and reasonable costs for its
8 ratemaking process. Known and reasonable costs are items or events affecting the cost of
9 service that must have been realized by the company, and that effect on the cost of service must
10 be calculable with a high degree of accuracy. In addition, such items or events should not be
11 recognized in isolation or beyond a specified cut-off date, which allows all items to be
12 considered in the determination of cost of service. In this rate case, a cut-off date of
13 December 31, 2022, for the true-up, has been established for reviewing documents, such as
14 invoices, to calculate the cost of service with a high level of accuracy.

15 Staff will review the known and measurable tank painting expense through
16 December 31, 2022, in the true-up period.

1 **INSURANCE EXPENSE (OTHER THAN GROUP)**

2 Q. What correction has been made to insurance expense since the filing of your
3 rebuttal testimony?

4 A. Staff intended to remove the capitalized portion from workers' compensation
5 insurance in its cost of service calculation. However, the formula Staff used included the
6 capitalized portion of workers' compensation insurance in insurance expense. Staff corrected
7 the calculation to remove the capitalized portion, with the uncapitalized portion included in
8 insurance expense for workers' compensation.

9 Q. On page 4, lines 3 through 13 of his rebuttal testimony, Mr. Watkins questions
10 why Staff didn't include January 2023 updated insurance costs or any insurance costs related
11 to acquisitions. Why did Staff not include January 2023 updated insurance costs or any
12 insurance costs related to acquisitions?

13 A. Staff has received data through the test year ending June 30, 2022, to review.
14 MAWC is trying to compare June 30, 2022, numbers to true-up numbers. Staff cannot include
15 insurance costs that it does not have access to review. In true-up, Staff will review data through
16 December 31, 2022. Staff will also review any known and measurable insurance expenses in
17 true-up, which would include the January 2023, insurance expense changes.

18 **TELECOMMUNICATIONS EXPENSE**

19 Q. Mr. Mason states, beginning on page 18, line 22 of his rebuttal testimony,
20 that Staff should have made an adjustment to annualize the telemetering expense for the
21 Hallsville acquisition. He states that Staff included only three months' worth of expenses in
22 the test year and that an additional \$16,464 should be added to the test year expenses. How
23 does Staff respond?

Surrebuttal Testimony of
Angela Niemeier

1 A. In reviewing MAWC’s workpaper for telecommunications expense filed with its
2 direct testimony, MAWC has a total of \$430.16 for calculations for this account, using estimates
3 through December 2022. Yet, MAWC states Staff needs to add \$16,464 additional dollars to
4 Staff’s number.

5 Q. How did Staff calculate telecommunications expense for account 52572000?

6 A. Using the general ledger, Staff arrived at \$5,488 through June 30, 2022.

7 Q. Did Staff ask why there was a difference?

8 A. Yes. In response to Staff DR No. 0152.1, Mr. Mason stated that the \$5,488 was
9 inadvertently excluded and would be annualized and reflected in true-up.

10 Q. Will Staff update telecommunications expense?

11 A. Staff reviewed the general ledger through June 30, 2022, through surrebuttal
12 testimony. Staff will review data through December 31, 2022, for true-up. At that time,
13 Staff will review the effects of the Hallsville acquisition. Addressing this in true-up will align
14 Staff’s calculation and Mr. Mason’s statement in response to Staff DR. No. 0152.1.

15 Q. Does this conclude your surrebuttal testimony?

16 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) Case No. WR-2022-0303
Implement General Rate Increase for Water)
and Sewer Service Provided in Missouri)
Service Areas)

AFFIDAVIT OF ANGELA NIEMEIER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW ANGELA NIEMEIER and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Surrebuttal Testimony of Angela Niemeier*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.


ANGELA NIEMEIER

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 3rd day of February 2023.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070


Notary Public