Exhibit No.:	
Issues:	Revenue Requirement
Witness:	Greg R. Meyer
Type of Exhibit:	Direct Testimony
Sponsoring Party:	MIEC
Case No.:	WR-2020-0344
Date Testimony Prepared:	November 24, 2020

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

Direct Testimony and Schedule of

Greg R. Meyer

On behalf of

Missouri Industrial Energy Consumers

November 24, 2020

BRUBAKER & ASSOCIATES, INC.

Project 10995

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

**STATE OF MISSOURI) **
) SS
COUNTY OF ST. LOUIS)

Affidavit of Greg R. Meyer

Greg R. Meyer, being first duly sworn, on his oath states:

1. My name is Greg R. Meyer. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Missouri Industrial Energy Consumers in this proceeding on its behalf.

2. Attached hereto and made a part hereof for all purposes are my direct testimony and schedule which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. WR-2020-0344.

3. I hereby swear and affirm that the testimony and schedule are true and correct and that they show the matters and things that they purport to show.

____
Greg R. Meyer

Subscribed and sworn to before me this 24th day of November, 2020.

____
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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Table of Contents to the
Direct Testimony of Greg R. Meyer

Page

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Direct Testimony of Greg R. Meyer

I. Introduction

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Greg R. Meyer. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and a Principal with the firm of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A This information is included in Appendix A to this testimony.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A This testimony is presented on behalf of the Missouri Industrial Energy Consumers ("MIEC"), a non-profit corporation that represents the interests of large customers in Missouri utility matters. Companies whose interests the MIEC represents purchase substantial amounts of water from Missouri-American Water Company ("MAWC", "Missouri American", or "Company").

Q WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A The purpose of my testimony is to address various aspects of MAWC's rate case. Specifically, I will address the Company's request for a future test year. I will also address MAWC's request to capitalize tank painting costs and to establish a property tax tracker. I am also proposing adjustments to MAWC's cost of service for property taxes, income taxes, tank painting and water tank inspection costs, water revenues, and MAWC's proposed income tax gross-up factor. The fact that I do not address any particular issue should not be interpreted as approval of any position taken by MAWC.

Q PLEASE SUMMARIZE THE REVENUE REQUIREMENT POSITIONS YOU WILL ADDRESS IN THIS DIRECT TESTIMONY.

A While MIEC has not conducted a comprehensive review of the total operations of MAWC, the adjustments I am proposing to MAWC's cost of service would reduce MAWC's revenue requirement by approximately $87 million. I have prepared Table 1 that lists the different revenue requirement issues I address in my direct testimony.

Table 1

Revenue Requirement Adjustments – Water

Description	Amount ($Millions)
MAWC's Claimed Deficiency – Water	$104.9
Adjustments – Water	
Future Test Year	$28.7
Property Taxes	$4.4*
Income Taxes	$35.0*
Tank Painting	$3.3*
Water Revenues	$14.5*
Income Tax Gross-Up	$1.0*
Total Adjustments	$86.9
Adjusted Revenue Deficiency	$18.0

* A portion of these adjustments may also be reflected in the future test year amount.

In addition to the adjustments to MAWC's revenue requirement, MIEC witness Jessica York will provide direct testimony regarding class cost of service and rate design and I will file direct testimony on MAWC's proposed revenue stabilization mechanism. These testimonies will be filed on December 9, 2020.

II. Future Test Year

Q IS MAWC PROPOSING A FUTURE TEST YEAR FOR DETERMINING ITS REVENUE REQUIREMENT IN THIS RATE CASE?

A Yes. Beyond the historical true-up period ending December 31, 2020, MAWC proposes to include costs incurred through May 31, 2022 to calculate its revenue requirement for this rate case. Thus, MAWC proposes to include costs and investments for a period extending 17 months beyond the historical true-up period.

Q DID MAWC REQUEST THE USE OF A FUTURE TEST YEAR AS PART OF ITS DIRECT CASE?

A Yes. On June 30, 2020, MAWC filed a "Motion to Establish Future Test Tear." In that motion, MAWC claimed the following:

> MAWC's rate base and expenses are increasing, while the Company continues to experience a declining trend in revenues year-over-year.

Later in the pleading, MAWC made the following statement:

> 13. The future test year includes a forecast of revenue, and expenses. Expenses are adjusted for changes to categories of expenses where they can be reasonably forecasted. For other expenses, an inflation factor is used to adjust costs for the future period. The Company's future test year also employs a 13-month average of planned changes to rate base. The forecast is composed of both specific projects that are scheduled to be in service during the future test year and projected levels of other activity such as main and service replacements, meter replacements and similar such project groupings. Further, the Company is using a 13 month average of rate base additions for the future test year rate base. The use of this convention means that, if plant was added in equal increments in every month, only approximately one-half of the ending plant balance would be in rate base. For large projects, MAWC has added the plant to rate base on the projected in-service date of the additions.

Thus, MAWC proposes a future test year in order to inflate costs and investments and to reflect reduced usage. Each of these components will serve to increase MAWC's revenue requirement.

Q WERE THERE ANY FILINGS OPPOSING THE MAWC MOTION TO ESTABLISH RATES USING A FUTURE TEST YEAR?

A Yes. On July 27, 2020, the Midwest Energy Consumers Group ("MECG"), the Staff of the Missouri Public Service Commission ("Staff"), the Office of the Public Counsel ("OPC"), the Consumers Council of Missouri ("CCM"), the Missouri Industrial Energy Consumers ("MIEC"), the City of St. Joseph, the City of Riverside, and the Municipal League of Metro St. Louis (collectively, "the Parties") filed a response to MAWC's motion for a future test year. In that response, the Parties argued several points ranging from the legality of a future test year to the practical limitations a future test year creates with sound ratemaking policies. Specifically, the Parties discussed the following concepts with a future test year:

- Immediate Over-Earnings;
- Informational Asymmetry;
- Abandonment of Used and Useful Standard;
- Abandonment of Known and Measureable Standard;
- Impact on the Matching Principle;
- More Time Intensive, and
- Operational Inefficiency.

It must be recognized that adopting a fully forecasted test year (future test year), as MAWC proposes, would violate many of the regulatory principles this Commission has historically relied on to set just and reasonable rates including the "used and useful" standard for rate base additions and the "known and measurable" standard for calculating expenses and revenues.

Q DID THE COMMISSION RESOLVE THE REQUEST BY MAWC TO UTILIZE A FUTURE TEST YEAR?

A Yes. In its Order Setting Test Year and Adopting Procedural Schedule, the Commission, made the following finding:

> After reviewing the filings and arguments made by the parties, the Commission concludes that the historic test year with adjustments should be adopted as recommended in the August 13, 2020, proposed procedural recommendation as filed by all parties, except Missouri-American.

In its Order, the Commission ordered the following:

> 1. The parties shall use a test year of the 12-months ending December 2019, with an update period of the six months ending June 2020, and a true-up period of the six months ending December 2020. The true-up process and hearing will be for the sole purpose of updating various known and measurable cost of service components to December 31, 2020. Additionally, the parties may make specific (discreet) adjustments to the June 30, 2020, known and measurable revenue requirement calculation.
>
> 2. All parties must present historical revenue requirement calculations as of consistent points in time. Thus, Missouri-American shall submit a historical test year revenue requirement, updated with historical results in accordance with the requirements of Ordered Paragraph 1.

Q WOULD MAWC'S CURRENT RATE FILING COMPLY WITH THE COMMISSION'S ORDER AS DESCRIBED ABOVE?

A No. MAWC's filing did not include a revenue requirement quantification consistent with the historical update period ordered by the Commission. Thus, MAWC's current rate filing would need to be updated to June 30, 2020. In other words, MAWC would have to recalculate its revenue requirement updated at June 30, 2020 and, once known, present a similar calculation for the historical true-up period. In addition, for purposes of its proposed future test year, MAWC was permitted to propose specific (discreet) adjustments to the updated revenue requirement that it was ordered to submit.[1]

Q COULD MAWC SIMPLY CALCULATE THE ADJUSTMENTS NECESSARY TO REFLECT ITS PROPOSED OPERATIONS FOR THE PROPOSED FUTURE TEST YEAR WITHOUT THE OTHER QUANTIFICATIONS?

A MAWC could attempt that process. However, I do not think that exercise will comply with the requirements of the Commission Order. The Commission Order states that specific (discreet) adjustments need to be proposed to the June 30, 2020 revenue requirement. If the adjustments are simply an exercise to update values to a future test year, I believe MAWC would fail in describing in detail the reason for increases in revenues or expenses from June 30 to the future test year. In addition, it will be virtually impossible to reconcile all Parties' cases and assign issue valuations when one true-up case simply reflects a restatement of future test year values. I mention this now so that MAWC cannot claim surprise if its true-up calculation is prepared as I have contemplated and opposed by other parties.

Q IS MAWC'S FUTURE TEST YEAR MORE AGGRESSIVE THAN THE TRADITIONAL TRUE-UP PROCESS THAT THIS COMMISSION HAS ACCEPTED HISTORICALLY?

A Yes. Historically, the true-up process has not updated <u>all</u> aspects of the revenue requirement to a more recent period of time. Instead, the true-up process has simply updated those cost components that have changed as a result of additional information becoming available later in the rate case timeline. Thus, the true-up process allows for

[1]At the time of filing this testimony, MAWC had not updated its revenue requirement through June 30, 2020 as ordered by the Commission.

specific (discreet) adjustments to the costs reflecting test year or updated test year operations. In its future test year proposal, MAWC does not attempt to make the "specific (discreet) adjustments" suggested by the Commission in its test year order. Instead, MAWC has made adjustments to all costs, investments and usage. This would not only be contrary to the Commission's test year order, but is also much more aggressive than the Commission's historical use of true-ups, which are limited to specific (discreet) changes.

Q WOULD YOU GENERALLY DESCRIBE THE AREAS OF MAWC'S OPERATIONS WHICH ARE AFFECTED BY ITS FUTURE TEST YEAR PROPOSAL?

A As mentioned, MAWC's future test year proposal is very aggressive in that, contrary to the specific (discreet) adjustments suggested by the Commission, MAWC proposes a wholesale change to all areas of its operations. In the following testimony, I will sequentially address the problems in MAWC's future test year proposal as it impacts operation and maintenance ("O&M") expense; capital investment (rate base); and water usage.

Q IN REGARD TO MAWC'S PROPOSAL TO FORECAST O&M COSTS, DOES MAWC'S PROPOSED FUTURE TEST YEAR COMPLY WITH THE COMMISSION'S LONG-STANDING POLICY OF KNOWN AND MEASURABLE?

A No. The "known and measurable" standard requires that an event actually has occurred or is known. In addition, the cost implications of that known event must be capable of being measured with certainty. Given that future events cannot be known and that the cost implications cannot be measurable, the known and measurable standard necessarily does not contemplate the use of forecasts and inflation factors as proposed by MAWC.

Q IN REGARD TO MAWC'S SPECIFIC QUANTIFICATION OF ITS FORECASTED LEVEL OF O&M EXPENSES, DO YOU HAVE ANY COMMENTS?

A Yes. As mentioned previously, MAWC's O&M proposal is contrary to the Commission's historical use of the known and measurable standard. In addition, MAWC's forecast of O&M expenses in its future test year proposal also appears to be at odds with the historical growth in O&M costs. In MAWC's witness Deborah D. Dewey's direct testimony (page 13, lines 12-16) she states:

> Mr. Evitts and Ms. Bowen demonstrate that we have been very successful in implementing efficiency improvement initiatives that have allowed us to maintain relatively flat O&M expense levels for the past 10 years.
>
> Our ability to maintain O&M cost demonstrates the effectiveness of our efforts and the resulting cost benefit to our customers.

Q HAVE YOU PREPARED AN ILLUSTRATION OF THE O&M COSTS THAT MS. DEWEY REFERS TO IN HER TESTIMONY?

A Yes. I have prepared Table 2 that shows the O&M costs for the period 2010-2019.

Table 2

MAWC's O&M Expenses

Year	**Amount ($ Millions)**
2010	119.5
2011	121.1
2012	128.8
2013	124.6
2014	123.2
2015	122.9
2016	121.4
2017	121.0
2018	133.2
2019	123.8

Source: MAWC Annual Reports filed with the Missouri Public Service Commission.

Note the increase in spending from 2010 ($119.5 million) to 2019 ($123.8 million) represents a 3.6% increase in O&M costs over nine years. This would equate to an annual average increase of less than 0.4%.

Q WHAT LEVEL OF O&M EXPENSE IS MAWC PROPOSING IN ITS FUTURE TEST YEAR?

A MAWC is proposing $137.8 million in O&M expense using its future test year forecast. In addition, MAWC witness Brian W. LaGrand testified that if MAWC's proposal to capitalize tank painting expenses is rejected, O&M expenses would need to increase by an additional $3.3 million. This would raise the total O&M expenses requested by MAWC to $141.1 million.

As can be seen from the above table, MAWC's requested $141.1 million of O&M expenses for the future test year is significantly higher than past levels. In one instance, MAWC boasts how it has contained O&M expense growth over the past 10 years, but then significantly inflates the projected level of O&M expenses in its future test year proposal. Thus, while O&M expenses have increased by only 0.4% / year over the last decade, MAWC suggests that forecasted O&M expenses will increase by 14.0% from 2019 level of O&M expenses.

Q IS ONE REASON WHY O&M EXPENSES HAVE INCREASED IN THE PAST, MAWC'S ACQUISITION OF OTHER WATER PROPERTIES DURING THE TIME PERIOD?

A Yes. While MAWC's O&M costs have only increased by 0.4% / year over the last decade, that increase is primarily a result of the fact that MAWC has acquired several water systems over that time period. Acquiring additional water systems will increase the O&M expenses reported by MAWC. I have prepared Table 3 that shows the water acquisitions MAWC has finalized since 2010.

Table 3

MAWC Water System Acquisitions

Water Systems Acquired by MAWC	Year of Acquisition
Loma Linda Water	2010
Aqua America	2011
Ruark Water	2011
Saddlebrook Water	2012
Tri-States Utility	2013
Emerald Pointe Utility Company	2014
Anna Meadows Homeowners Assoc.	2014
RMB Inc.-Redfield Subdivision	2015
Hickory Hills	2015
Jaxson Estates Water	2016
Woodland Manor	2016
Village of Wardsville	2017
Pevely Farms	2017
Spokane Highlands	2018
City of Lawson	2018
Golden Acres	2019

Sources: Prior MAWC rate case testimony and Staff's Cost of Service Reports.

The above acquisitions would increase the level of MAWC's O&M costs from the year of acquisition and beyond. Eliminating the impact of these water system acquisitions on the 0.4% / year increase in O&M costs, one must question whether O&M costs have increased at all over the past decade. Certainly, there is no factual basis for the 14.0% increase proposed by MAWC.

Q DOES MAWC'S FORECAST OF INVESTMENT (RATE BASE) ALSO CAUSE PROBLEMS?

A Yes. In addition to violating the "known and measurable" standard for O&M costs, MAWC's future test year proposal also violates the "used and useful" standard for rate base additions employed by most utility commissions. In his seminal treatise on utility regulation, Charles Phillips points out that, while the value of the rate base may be up for debate, the notion that the rate base must be providing service to customers is fundamental:

> Determination of the rate base – the value of a company's property ***used and useful*** in the public service minus accrued depreciation – is one of the most important and most difficult problems confronting both the commissions and the regulated industries. [Emphasis added.]

Q HOW DOES MAWC'S FUTURE TEST YEAR VIOLATE THE "USED AND USEFUL" STANDARD FOR RATE BASE?

A As previously described, MAWC's future test year contains adjustments to include a 13-month average rate base ending May 31, 2022. Rates in the current case will go into effect sometime around May 31, 2021. Thus, under MAWC's future test year proposal, rates will include investment that is not "used and useful" or providing service to customers. As indicated, it has been the long-standing policy of this Commission to only include in customer rates, investment that is used and useful. The Commission would have to abandon this principle if it adopted MAWC's future test year. Furthermore, my testimony does not address the legal questions regarding whether rates in Missouri can include plant that is not in service.

Q IN ITS APPLICATION FOR A FUTURE TEST YEAR, MAWC CONTENDS THAT WATER USAGE HAS DECLINED OVER THE LAST SEVERAL YEARS. HAVE YOU COMPARED ACTUAL METERED WATER USAGE OVER THE LAST SEVERAL YEARS?

A Yes. I have prepared Table 4 that shows the annual metered usage of water since 2010.

Table 4

Historical Metered Usage of Water

Year	Metered Usage (k gallons)
2010	60,275,866
2011	60,561,458
2012	64,866,418
2013	58,124,582
2014	56,927,368
2015	55,658,516
2016	55,768,403
2017	58,857,510
2018	58,584,012
2019	52,303,378

Source: MAWC response to MoPSC Data Request 0034.

The above table shows that total annual metered usage has not deviated much in the last seven years except for 2019. In that timeframe (2013-2018), annual metered usage has varied by approximately 3.2 million (k gallons) from a high of 58,857,510 in 2017 to a low of 55,658,516 in 2015.

Q TABLE 4 SHOWS 2019 AS A LOW YEAR OF METERED USAGE. WHAT ARE SOME CAUSES FOR LOW METERED USAGE?

A I can think of two causes for low annual metered usage. One cause would be the weather. I would generally assume that warmer weather would cause increased water usage. Second, I would believe that rainfall would also impact water usage. For example, larger amounts of rainfall could result in decreased water usage.

In 2019, the St. Louis area had 54 inches of rainfall. This amount of rainfall exceeded every year's rainfall total dating back to 2010 except for 2015. Clearly, rainfall impacted the 2019 metered water usage for MAWC.

Q HOW IS THE CONSUMPTION IN 2020 COMPARING TO THE 2019 LEVEL OF WATER CONSUMPTION?

A The 2020 consumption of water through July 2020 would indicate that the level of water consumption for 2020 will be in line with the consumption levels recorded in 2018 and 2017. Those levels of water consumption exceeded the level in 2019, supporting my argument that 2019 consumption was unusually low.

Q WHAT LEVEL OF METERED SALES IS MAWC PROPOSING FOR ITS FUTURE TEST YEAR?

A MAWC proposes a future sales level of 52,826,329 k gallons. This level of metered sales is significantly less than any sales level dating back to 2010, except for 2019. Specifically, MAWC's proposed level of usage is almost 5.4 million gallons (9.2%) less than the average usage of the entire decade referenced above.

Q IN ITS DIRECT TESTIMONY DISCUSSING A FUTURE TEST YEAR, MAWC ARGUES THAT THE HISTORICAL TEST YEAR RESULTS IN AN INABILITY FOR MAWC TO EARN ITS AUTHORIZED RATE OF RETURN. DO YOU HAVE ANY COMMENTS?

A MAWC's claim that it has not earned its authorized return is undermined by several facts. First, despite the alleged inability to earn its authorized return, American Water Works continues to acquire additional water systems in Missouri. In contrast, American Water Works has sold off its water operations in Arizona, Texas, New Mexico and Ohio. Clearly then, the regulatory paradigm in Missouri, including the use of normalized water usage appears to provide sufficient regulatory support that it incents American Water Works to further invest in Missouri. Second, MAWC has waited to file its rate case. If it is unable, given the current ratemaking paradigm, to earn its authorized return, one would expect to see MAWC filing more frequent rate cases. Instead, MAWC has waited several years in between rate cases. That action alone is indicative of a utility that is satisfied with its actual earnings on a normalized basis. Indeed, as discussed below, MAWC proposes to amortize rate case expense over three years because it anticipates waiting several years to file its next rate case. If MAWC determines it is not earning an appropriate rate of return on its operations, one would expect to see rate cases filed more frequently.

Q WHAT IS YOUR RESPONSE TO THE COST OF FREQUENT RATE CASES?

A I know this argument is repeatedly presented to both the Commission and legislature every year by many regulated utilities and on its surface seems logical. Given their focus on shareholder earnings, utilities would undoubtedly want a regulatory environment which provides inflated returns as well as mechanisms that shield them from the scrutiny of earnings that is provided by rate cases. The General Assembly in Missouri has recognized, however, that regular rate cases are valuable in that they protect against inflated earnings. For instance, in the electric Fuel Adjustment Clause ("FAC") and the water / gas Infrastructure System Replacement Surcharge ("ISRS") statutes, there is a requirement for regular rate cases. Thus, the General Assembly has not accepted the notion that regular rate cases should be discouraged. The fact of the matter is that the cost of a rate case is miniscule when compared to the total operating costs of a utility. In MAWC's case, the projected rate case expense for this case is $1.7 million. MAWC's total operating expenses for this rate case are $254.6 million (Total Company). This equates to 0.67% of operating expenses. However, in the rate case, MAWC proposes to amortize this cost over three years which reduces the percentage of total operating costs to 0.22% of operating expenses. Thus, the Commission should not accept future test years and the forecast of increased costs and depressed usage simply to avoid the cost of rate cases.

Q HOW FREQUENTLY DOES MAWC FILE RATE CASES?

A I have prepared Table 5 that shows the frequency of MAWC rate cases since 2009.

Table 5

MAWC Historical Rate Case Filings

Rate Case No.	Application Date
WR-2010-0131	October 30, 2009
WR-2011-0337	June 30, 2011
WR-2015-0301	July 31, 2015
WR-2017-0285	June 30, 2017
WR-2020-0344	June 30, 2020

Q DID MAWC COMMENT ON THE FREQUENCY OF RATE CASES?

A Yes. The direct testimony of MAWC President Deborah Dewey stated on page 8:

> It is important for a regulated utility to regularly file for rate relief to maintain its ability to invest in maintaining and improving the system to best serve the long-term interests of its customers.

I believe the rate case frequency listed in Table 5 would support the statement by Ms. Dewey. Furthermore, I would also like to point out that the frequency of rate cases filed by MAWC dating back to 2009 was based on historic test years.[2]

Q HAS MAWC QUANTIFIED THE EFFECT OF ITS FUTURE TEST YEAR PROPOSAL?

A Yes. In response to MECG Data Request 1-0003, MAWC has indicated that its future test year proposal is responsible for approximately 27% of its entire rate increase request in this case. I have included as Schedule GRM-1, a partial response to MECG Data Request 1-0003. Thus, at a time of a pandemic, in which the Commission has acknowledged difficulty for some customers to pay their utility bills, MAWC seeks to inflate its rate increase by utilizing a future test year. Not only is the future test year not justified, it is also ill-timed given the pending pandemic.

Q HAS MAWC PROPOSED A REDUCTION IN ITS RETURN ON EQUITY TO ACCOUNT FOR ITS FUTURE TEST YEAR PROPOSAL?

A No. This is an important concept. MAWC's future test year filing significantly favors shareholders' interests. For instance, the recognition of a depressed level of water usage, as proposed by MAWC, would shield the utility from the risk of future declines

[2] In MAWC's last rate case, MAWC proposed a future test year, but the case was ultimately settled without adopting the future test year concept.

in water usage. Similarly, the recognition of an inflated level of O&M costs, as suggested by MAWC, would shield the utility from cost pressures that may exist in the future from O&M cost increases. These reductions in operating risks should logically include a reduction in the utility's proposed return on equity. In this case, MAWC has not proposed a reduction in its recommended return on equity in the event that the Commission accepts its proposed future test year. Instead, MAWC takes a "have our cake and eat it too" position in that it wants to have the inflated return on equity that comes with the use of a historical test year as well as the decreased risk associated with its proposed future test year. Clearly, this future test year proposal is a win/win for shareholders.

Q PLEASE SUMMARIZE YOUR POSITION REGARDING MAWC'S PROPOSED FUTURE TEST YEAR.

A I am proposing that the Commission reject MAWC's proposed future test year. MAWC has not provided compelling arguments to justify changing the way rates have traditionally been determined in Missouri.

III. Property Taxes

Q PLEASE DESCRIBE THE PROPERTY TAX ISSUE.

A MAWC is proposing to increase water property tax expense by $4.4 million from the December 31, 2019 test year level of $25.6 million to the future test year level of $30.0 million. This reflects an increase in property taxes of 17%.

Q WHAT IS THE PRIMARY DRIVER BEHIND THE INCREASE IN PROPERTY TAXES?

A The increase in property taxes is mainly driven by increased investment MAWC proposes to make between the test year level at December 31, 2019 and the future test year level at May 31, 2022. Thus, the increased property tax proposal is driven, at least in part, by the future test year proposal.

Q WHEN ARE PROPERTY TAXES PAYABLE AND WHAT IS THE BASIS FOR THOSE PROPERTY TAXES?

A Property taxes are payable on December 31 of each calendar year. Property taxes are assessed against all plant-in-service as of January 1 of that current year. In other words, utility property in-service on January 1, 2020 will be assessed and property taxes are due on December 31, 2020. Essentially, there is a 12-month lag between actual property in-service and the payment of property taxes on that property.

Q HOW HAVE PROPERTY TAXES HISTORICALLY BEEN ADDRESSED?

A Property taxes included in the revenue requirement have usually been based on the last known property taxes paid consistent with the test year or true-up period in the rate case. For example, if a true-up period was the 12 months ended March 31, 2020, the property taxes paid on December 31, 2019 would be included in the true-up calculation.

Q WHAT IS YOUR PROPOSAL REGARDING PROPERTY TAXES IN THIS CASE?

A I recommend that the property taxes paid on December 31, 2019 be included in the test year (December 31, 2019) and update period (June 30, 2020) revenue requirement calculations. Therefore, I recommend that MAWC's proposed revenue requirement be reduced by $4.4 million. This position is consistent with my opposition to MAWC's future test year.

Q HOW DO YOU PLAN TO ADDRESS THE PROPERTY TAXES AS THEY RELATE TO THE TRUE-UP PERIOD?

A The true-up period for this case, as ordered by the Commission, is the 12 months ended December 31, 2020. In that case, MAWC will have paid its 2020 property taxes. I would therefore include the property taxes paid on December 31, 2020 as part of the true-up revenue requirement calculation. At the true-up audit, so long as they are timely paid by the utility, 2020 property taxes will be a known and measurable cost and should be reflected in the true-up revenue requirement. I acknowledge my $4.4 million property tax adjustment will most likely decrease, but I have no idea of the magnitude of the change at this time. Given the anticipated update to the amount of property taxes paid on December 31, 2020, the sole difference should be related to MAWC's future test year proposal.

Q DID MAWC PROPOSE A PROPERTY TAX TRACKER IN THIS RATE CASE?

A Yes, it did.

Q WHAT IS YOUR RESPONSE TO THE PROPERTY TAX TRACKER?

A The Commission has effectively rejected the use of deferral accounting for property taxes at least twice already. In Case No. WU-2017-0351, MAWC requested an Accounting Authority Order ("AAO") for increases in property taxes that may result from changes in administrative practices for assessing property taxes for MAWC properties. In its Report and Order, the Commission denied MAWC's request to create an AAO for property taxes. In its Order, the Commission included the following language in its decision:

> Some may argue that absent the Company timing the filing of a general rate case to include a known increase of property taxes, MAWC will unfairly incur an additional cost that it cannot recover in rates. While this is true, there are always increases and off-setting decreases in other costs that are not reflected in current rates. That is why the General Instructions for NARUC USOA indicates the intent should be for net income to reflect all items of profit and loss during the period.[footnote omitted] MAWC is requesting the Commission single out one increased expense for special deferred treatment without consideration for other items of profit or loss. This Commission recently denied Kansas City Power & Light Company's request to do that exact thing with a tracker for increased property tax expense.[3]

In the referenced Kansas City Power & Light Company case, the Commission rejected the requested property tax tracker. There the Commission found that property taxes are "normal, ordinary and recurring operation costs." The Commission continued on to note that "they are not extraordinary and, therefore, not subject to deferral under the USoA."[4]

In this case, as in the KCPL case, MAWC is requesting a property tax tracker. Recognizing that both a tracker and an AAO utilize deferral accounting for any changes in property taxes, there is no practical difference between an AAO and a tracker except possibly for the applicable time period. This Commission has previously found that the change in property taxes is not an extraordinary event and has rejected an AAO and property tax tracker in the past and should continue to do so in this rate case. MAWC has not provided any convincing argument to suggest that the change in property taxes is an extraordinary event which justifies the use of deferral accounting.

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[3] Report and Order, Case No. WU-2017-0351, issued December 20, 2017, at page 18.

[4] Report and Order, Case No. ER-2014-0370, issued September 2, 2015, at page 56 (referencing the logic for denying the transmission cost tracker contained at page 54).

IV. Income Taxes

Q PLEASE DISCUSS THE ISSUE OF INCOME TAXES.

A On December 22, 2017, President Donald Trump signed into law the Tax Cuts and Jobs Act ("TCJA"). Among other things, the TCJA lowered the corporate federal income tax rate from 35% to 21%. The lowering of the tax rate had two impacts. First, it lowered current income taxes payable and second, it reduced the flow-back of deferred income taxes to the Internal Revenue Service ("IRS"). Given this reduction of the flow-back of deferred income taxes to the IRS, utilities suddenly found themselves in a position of having collected excess accumulated deferred income taxes and had to begin returning the excess portion to ratepayers.

Q IS THE REDUCTION TO CURRENT INCOME TAXES FROM THE TCJA REFLECTED IN MAWC'S CURRENT COST OF SERVICE?

A Yes. In Case No. WR-2017-0285, a Stipulation and Agreement was agreed to that expressly included the tax rate reduction. The Stipulation and Agreement language is included in the passage below:

> 11. **Tax Cut [sic] and Jobs Act of 2017**: The revenue requirement of $318 million includes the change to the current federal income tax expense due to the Federal statutory corporate tax rate reduction from 35% to 21% in accordance with the Tax Cut [sic] and Jobs Act of 2017.

Q PLEASE DISCUSS THE DEFERRED TAX ISSUE THAT RESULTED FROM THE TCJA.

A Deferred taxes are recognized when there is a timing difference between the recognition of expenses for tax versus book purposes. These differences are commonly referred to as Schedule M timing differences. The IRS and many state commissions require that deferred income taxes balances be created for many of the Schedule M timing differences. The largest component of deferred income taxes is usually from the use of accelerated depreciation.

Accelerated depreciation is allowed as a deduction for tax purposes, but is generally not allowed for book purposes. Instead, taxes calculated for book (ratemaking) purposes assume a depreciation deduction which is calculated on a straight-line basis over the estimated useful life of the asset. The difference between the deduction for tax depreciation (accelerated) and book depreciation creates deferred income taxes. The use of accelerated depreciation causes the utility to pay less in actual taxes than the level of taxes that are included in rates. In other words, the utility recovers an increased level of income taxes from customers as if the accelerated depreciation deduction did not exist. Thus, a timing difference exists: the utility is collecting the taxes from the ratepayers, but does not actually have to pay the increased tax until some time in the future. These deferred taxes will be paid to the IRS over the useful book life of the asset. In the meantime, the money is simply pocketed by the utility.

Q WHAT ARE EXCESS ACCUMULATED DEFERRED INCOME TAXES ("EADIT")?

A As a result of the TCJA, deferred taxes that had been previously deferred at a 35% rate (pre-TCJA) will now be required to be paid to the IRS under the new corporate rate of 21%. The 40% reduction in the corporate tax rate (from 35% to 21%) created EADIT that may never be required to be paid back to the IRS. Therefore, the challenge is how to credit back to customers those EADIT balances that were created by the TCJA reduction in tax rate.

Q ARE THERE DIFFERENT TYPES OF EXCESS ACCUMULATED DEFERRED INCOME TAXES?

A Yes. The TCJA specified two types of deferred income taxes: Protected and Unprotected. The IRS specified in the TCJA the time period for the flow-back of Protected EADIT, but allowed regulators to determine the appropriate time period for the flow-back of Unprotected EADIT.

Q IN THIS RATE CASE HAS MAWC BROKEN OUT THE EADIT BETWEEN PROTECTED AND UNPROTECTED?

A Yes, for the most part. I have prepared Table 6 that shows the EADIT balances as of January 1, 2018, the period immediately after the passage of the TCJA. As can be seen, this table breaks down the various types of EADIT and the quantification for each type.

Table 6

Protected and Unprotected EADIT Balances

EADIT Protected	**Balance at January 1. 2018**
Method/Life	$88,399,376
Taxable CIAC	($5,233,286)
Total EADIT Protected	$83,166,090
EADIT Unprotected	
Repairs	$72,455,741
All Other Federal	$11,359,061
Federal Benefit of State	($10,170,006)
State Benefit of Federal	$4,244,708
State	$23,836,804
Plant Customer Advances	($2,966,611)
Plant CWIP	$22,445
CIAC WIP	($164,075)
Plant 481	$940,523
State Operating Loss Carryover	($5,166,647)
Non-Plant Other	($2,874,880)
Total EADIT Unprotected	$91,517,063
EADIT Uncertain	
Cost of Removal	($3,760,653)
Federal Net Operating Loss Carryover	($22,818,613)
Total EADIT Uncertain	($26,579,266)
Total EADIT Balance	$148,103,887

Q IN REGARD TO THE UNCERTAIN EADIT BALANCES, HOW DO YOU PROPOSE TO CLASSIFY THOSE AMOUNTS?

A I propose to classify the Federal Net Operating Loss Carryover as Protected and the Cost of Removal as Unprotected.

Q PLEASE PROVIDE YOUR RATIONALE FOR EACH CLASSIFICATION.

A In a current rate case in Iowa, Iowa American Water Company, an affiliate of MAWC, classified the EADIT associated with Cost of Removal as Unprotected. I am relying on that same classification for purposes of this rate case. I classified the Federal Net Operating Loss Carryover as Protected because I contend that the net operating loss resulted mainly from MAWC claiming accelerated depreciation and bonus depreciation on its tax returns, which resulted in net operating losses for those years. I therefore believe that accelerated depreciation and bonus depreciation were the main causes of the net operating losses historically claimed by MAWC.

Q GIVEN YOUR CLASSIFICATIONS, WHAT ARE THE MODIFIED PROTECTED AND UNPROTECTED EADIT BALANCES AS OF JANUARY 1, 2018?

A The Protected EADIT balance is $60,347,477 and the Unprotected EADIT balance is $87,756,410.

Q ARE THERE ANY REQUIREMENTS FOR AMORTIZING THOSE EADIT BALANCES?

A Yes. As mentioned, the flow-back period for Protected EADIT has been mandated by the IRS. Specifically, the IRS requires that the Protected EADIT be flowed back to customers using the Average Rate Assumption Method ("ARAM"). The ARAM is very similar to amortizing the EADIT over the remaining life of the assets that created the deferred income taxes. On the other hand, the flow-back period for the Unprotected EADIT is left entirely up to the Commission to determine.

Q WHAT PERIOD DID MAWC PROPOSE TO AMORTIZE THE PROTECTED AND UNPROTECTED EADIT?

A MAWC proposes to use the ARAM for amortizing all EADIT (Protected and Unprotected).

Q DO YOU SUPPORT THAT PROPOSAL?

A No. It is not surprising that MAWC would want to use an extended time period over which it must repay the EADIT to ratepayers. Using the ARAM method, as proposed by MAWC, will unnecessarily delay return of ratepayer provided funds for over approximately 30 years. This is simply too long of a period to return monies owed to ratepayers from MAWC.

Q HOW DO YOU PROPOSE TO TREAT THE UNPROTECTED EADIT?

A I propose to amortize the Unprotected EADIT over three years.

Q WHY ARE YOU PROPOSING TO REFUND THE EADIT TO MAWC RATEPAYERS OVER THREE YEARS?

A There are several reasons. First, many MAWC ratepayers, as well as many people in the United States more broadly, are suffering from the economic impacts from the COVID-19 virus (pandemic). Many MAWC ratepayers are without jobs, numerous businesses have closed, and many businesses have had to cut production significantly, if not completely. This is an optimal time to accelerate the distribution of EADIT back to MAWC ratepayers over a three-year period. People and businesses can use this reduction in their water bills over the three years to pay off debts, invest in businesses, and reopen businesses – the opportunities are numerous. It should be noted that these deferred tax monies are the property of MAWC ratepayers and therefore should be returned to them as quickly as possible. Second, the amortization period is entirely up to the discretion of the Commission. As mentioned, MAWC effectively recognizes, in its amortization of rate case expense, that it won't file its next rate case for three years. Therefore, a three-year amortization is synchronized with the timing of MAWC's next rate case.

Q WHAT IS THE REVENUE REQUIREMENT IMPACT ASSOCIATED WITH AMORTIZING THE EADIT OVER THREE YEARS AS COMPARED TO THE EXTENDED PERIOD PROPOSED BY MAWC?

A As mentioned, MAWC proposes to utilize the ARAM method (over 30 years) for the return of Unprotected EADIT balances. Therefore, MAWC proposes to include approximately $3 million as an amortization of Unprotected EADIT in the future test year. In addition, MAWC proposes to amortize approximately $355K for the period of time between the enactment of the TCJA and the future test year in this rate case. Therefore, MAWC's total amortization of the Unprotected EADIT is $3.316 million. Factoring this total up for the effect of income taxes produces a revenue requirement impact in this case of $4.4 million.[5] In contrast, my proposal to amortize the Unprotected EADIT balance at January 1, 2018 over three years results in an

[5]$3,316,000 * 1.313 =$4,353,908

amortization balance of approximately $29.3 million. Factoring that amortization up for income taxes results in a revenue requirement of $38.4 million. Therefore, my proposed three-year amortization of Unprotected EADIT lowers MAWC's revenue requirement by approximately $34 million.

Q PLEASE DISCUSS THE RATEMAKING TREATMENT FOR THE PROTECTED EADIT.

A As previously discussed, the Protected EADIT must be returned to customers using the ARAM. However, there is the period of time between the enactment of the TCJA and the rate effective date of this rate case. This time period (January 1, 2018 – May 31, 2021) represents a period of time when Protected EADIT was being calculated according to ARAM but was not reflected in customer rates. I refer to this period of time as the stub period.

MAWC proposes to amortize the Protected EADIT recognized during the stub period over five years. This amounted to an annual amortization of approximately $1.1 million before factoring that total up for income taxes. Factoring that amount up for income taxes results in a revenue requirement of $1.5 million.

I am proposing to amortize the stub period Protected EADIT over three years. Therefore, the annual amortization would be $1.9 million before factoring up for income taxes. After factoring that total up for income taxes, the revenue requirement would be $2.5 million. Therefore, my proposal would lower MAWC's revenue requirement by an additional $1.0 million. Summing my adjustments for both Protected and Unprotected EADIT, MAWC's revenue requirement would be lower by approximately $35 million.

Q DO YOU HAVE ANY OTHER CONCERNS WITH THE TCJA?

A Yes. The Protected EADIT amortization from the stub period will need to be reflected as an increase in rate base. Since rate base is reduced for the recognition of deferred taxes associated with accelerated depreciation, an amortization of those Protected EADIT funds associated with accelerated depreciation will need to be reflected as increasing MAWC's rate base. I believe this rate base impact will have a minimal impact on the revenue requirement, but want to make sure the issue is addressed.

V. Tank Painting

Q HAS MAWC PROPOSED NEW REGULATORY TREATMENT FOR TANK PAINTING EXPENSES?

A Yes. In the past, tank painting costs were treated as an expense. Here, however, MAWC proposes to capitalize costs associated with tank painting. The effective difference is that, under its proposal, these costs are treated like an investment and MAWC is allowed to earn a return on the cost.

Q WHAT RATIONALE DID MAWC PRESENT FOR CAPITALIZING TANK PAINTING COSTS?

A MAWC witness Jeffrey Kaiser stated in his direct testimony:

> The rehabilitation of water storage tanks is essential to extending the life of a critical water system asset, the storage tanks. Without this work, the structural and environmental integrity of tanks would degrade quickly after the initial coating systems begin to fail and the service life of the tanks would be much shorter.

Q DO YOU AGREE WITH THE MAWC PROPOSAL TO CAPITALIZE TANK PAINTING COSTS?

A No. I oppose the capitalization of tank painting expenses and instead propose that a normalized level of tank painting expenses be included in cost of service for this rate case. Expensing tank painting has historically been the method for ratemaking purposes.

Q DO YOU AGREE WITH MR. KAISER THAT TANK PAINTING COSTS EXTEND THE LIFE OF A TANK?

A Not necessarily. I view tank painting as a preventive maintenance activity. As such, the tank painting doesn't extend the life of the tank, but simply allows the utility to get the life out of the tank that should have originally been expected. If you continue to provide preventive maintenance on a water tank, there is no reason why the tank will not live its expected life of 100 years. If, on the other hand, you do not perform preventive maintenance, then the life of the tank will be much shorter. Tank painting allows the asset to perform for its expected life, but does not extend the useful life of the tank. If Mr. Kaiser's arguments were adopted, all maintenance expenses, not simply tank painting, would qualify for capitalization.

Tank painting expenses are similar to power plant maintenance for an electric utility. Those maintenance expenses occur every five to six years and are expensed when incurred and amortized over an appropriate period. Those maintenance costs are not capitalized for ratemaking purposes. I would also offer an example with an car. When you buy an car you expect it to last at least ten years, if not more. However, one must recognize to achieve that life, ordinary maintenance must be performed on the car. For example, the oil must be changed, the timing belt will need to be replaced and other maintenance items addressed. If those items are not performed, the car will not last ten years. Proper maintenance on the car did not extend the expected life of the car beyond your expectations, but allowed you to drive the car for its expected life. The same argument would apply to tank painting costs. These costs should be expensed and a normalized level of expense should be included in MAWC's cost of service.

Q IF TANK PAINTING COSTS ARE TO CONTINUE TO BE EXPENSED FOR RATEMAKING PURPOSES, HAS MAWC PROPOSED A NORMALIZED LEVEL OF TANK PAINTING EXPENSES?

A Yes. As mentioned previously, MAWC witness LaGrand testified that, if tank painting costs are to continue to be expensed, then MAWC's cost of service needs to be increased by $3,328,924 for MAWC's future test year. Thus, MAWC's level of tank painting costs will increase from $1.8 million to be included in rates. Increasing maintenance expenses by this $3.3 million amount would result in an annual level of tank painting expenses of approximately $5.2 million.

Q DO YOU AGREE WITH THE $5.2 MILLION OF TANK PAINTING EXPENSES MAWC PROPOSES TO INCLUDE IN THE REVENUE REQUIREMENT?

A No. I believe MAWC has overstated the level of expenses necessary to paint and inspect its water storage tanks.

Q WHAT LEVEL OF TANK PAINTING EXPENSES HAS MAWC INCURRED IN THE PAST?

A I have prepared Table 7 that shows the historical levels of tank painting expenses incurred by MAWC since 2011.

Table 7

Historical Levels of Tank Painting Expenses

Year	Amount
2011	$1,383,723
2012	$1,764,044
2013	$888,834
2014	$1,261,508
2015	$1,213,952
2016	$166,700
2017	$740,000
2018	$1,430,380
2019 – Test Year	$1,838,400

Source: MAWC response to MIEC Data Request 1-005.

As can be seen from Table 7, the level of test year (2019) tank painting expenses is the highest level of expense dating back to 2011. However, there are also years (2016 and 2017) when tank painting expenses are significantly reduced. The significant swings in tank painting expense would seem to justify the use of a multi-year average of tank painting expenses. Nevertheless, for purposes of my direct testimony, I would support the test year level of tank painting expenses. I will continue to monitor MAWC's tank painting expenses in 2020 to see if a further adjustment is warranted in true-up testimony.

Q WHAT LEVEL OF TANK INSPECTIONS DO YOU PROPOSE TO INCLUDE IN COST OF SERVICE?

A While I conducted and reviewed other parties' discovery, I could not determine with any certainty the level of tank inspection costs included in the test year. I therefore will provide an estimated annualized level of tank inspections for the cost of service. According to the response to MIEC Data Request 1-010, MAWC currently has a total of 109 water tanks that require regular inspections. The cost of a water tank inspection ranges from $1,050 to $2,690. Averaging these two numbers together, produces an average tank inspection cost of $1,870. In reviewing the response to MIEC Data Request 1-010, I calculated the average time in between tank inspections to be approximately 3.5 years. Therefore, on average 31 water tanks need to be inspected per year. Applying the average cost per tank of $1,870 produces an annualized level of tank inspection costs of $57,970.

Q DO YOU HAVE ANY OTHER COMMENTS ON TANK INSPECTIONS?

A Yes. While reviewing the response to MIEC Data Request 1-010, I noticed significantly higher costs for tank painting inspections. For purposes of my adjustment I have assumed that tank painting inspection costs are included in the total tank painting expenses I described before.

Q WHAT IS YOUR PROPOSED LEVEL OF TANK PAINTING AND TANK INSPECTION COSTS FOR PURPOSES OF CALCULATING MAWC'S REVENUE REQUIREMENT?

A I would propose an annualized level of $1,896,370. This total would include both tank painting and water tank inspections for one year. Therefore, I would propose a reduction of $3.3 million to MAWC's cost of service.

VI. MAWC Revenues

Q HOW ARE WATER REVENUES CALCULATED?

A In general, an average usage per customer, by customer class, is calculated which is then multiplied by the latest known number of customers in each class.

Q HOW IS MAWC PROPOSING TO CALCULATE THE AVERAGE USE PER CUSTOMER?

A MAWC is proposing different methodologies to calculate the average customer usage for different rate classes and districts. The direct testimony of Mr. LaGrand stated that "All Residential and St. Louis County Commercial water customers receive an adjustment for declining usage." The declining usage adjustment was sponsored by MAWC witness Gregory Roach. For the other customer classes (Industrial, Other Public Authority, Sale for Resale and Commercial outside St. Louis County), MAWC proposes to annualize revenues based on a three-year average usage per customer.

Q DO YOU SUPPORT THE AVERAGE USAGE PER CUSTOMER LEVELS PROPOSED BY MAWC?

A No. I do not support the usage levels proposed by MAWC for the Residential class and the Commercial class in St. Louis County. MAWC's proposal reflects a significant reduction in the use per customer for those rate classes. I will demonstrate that the level proposed by MAWC is unreasonably low.

Q WHAT USAGE PER CUSTOMER IS MAWC PROJECTING FOR ST. LOUIS COUNTY AND OUTSIDE ST. LOUIS COUNTY?

A According to MAWC's Company Accounting Schedules ("CAS") 11-12, the projected average usage for the St. Louis County Residential class for the future test year is 6,037 gallons per month. Outside St. Louis County, average Residential usage proposed by MAWC is 4,224 gallons per month. The St. Louis County Commercial class average usage as proposed by MAWC is 41,490 gallons per month.

Q WHAT IS THE HISTORICAL USAGE PER MONTH FOR THE RESIDENTIAL CLASS?

A I have prepared Table 8 that shows the average historical usage per month for the Residential class for both districts currently served by MAWC.

Table 8

Historical Average Residential Usage per Month

Year	St. Louis County (Gallons per Month)	Outside St. Louis County (Gallons per Month)
2015	6,650	4,790
2016	6,500	4,790
2017	6,870	4,870
2018	6,890	4,910
2019 - Test Year	6,030	4,400
MAWC Proposed	6,030	4,220
Three-Year Average (2017-2019)	6,597	4,727

Source: MAWC response to MECG Data Request 1-0011.

Clearly, Table 8 shows that the projected usage per customer for the Residential class is significantly understated. As mentioned previously, usage in 2019 was extraordinarily low. I mentioned that this may be the result of increased rainfall in 2019. Therefore, by proposing a usage level of 6,030 gallons per month tor St. Louis County, MAWC proposes to use the lowest level of usage for the last five years. This appears to be opportunistic on MAWC's part and designed to deflate Residential revenues and increase the revenue requirement. It should be obvious that 2019 usage per customer was extremely low and should not be a good estimator of average water usage even if a future test year were proposed.

MAWC's forecast of Residential usage is even more problematic for the service areas outside of St. Louis County. There, MAWC proposes an average water usage per customer that has <u>never</u> been realized by MAWC even in the depressed year of

2019. Simply stated, these estimates for average usage per customer are unreasonably understated and need to be adjusted upward.

Q WHAT AVERAGE USAGE PER CUSTOMER WOULD YOU PROPOSE FOR THE RESIDENTIAL CLASS BY DISTRICT?

A I would propose that revenues be annualized using a three-year average usage for both the Residential and Commercial customer classes for all districts. In St. Louis County, this would result in a usage per Residential customer of approximately 6,600 gallons per month. Outside St. Louis County, that average usage per Residential customer would be approximately 4,700 gallons per month. As you can see, these average usage levels are higher than those proposed by MAWC. I would also note that the three-year average I am proposing includes the effects from the significantly reduced usage that occurred in 2019. Furthermore, I would propose that the usage levels be updated for 2020 when that data becomes available for the true-up audit. Therefore, while I am currently proposing a three-year average based upon the years 2017-2019, this average should be updated for the years 2018-2020 once the usage for 2020 becomes available.

Q HAVE YOU CALCULATED THE IMPACT TO MAWC'S PROPOSED REVENUE REQUIREMENT USING THESE NEW RESIDENTIAL USAGE PER CUSTOMER LEVELS?

A Yes. Using the proposed usage per customer levels described above, MAWC's Residential revenues would be increased in the St. Louis County District and Outside the St. Louis County District by approximately $10.3 million and $4.4 million, respectively.

Q DO YOU KNOW THE HISTORICAL AVERAGE USAGE DATA FOR THE ST. LOUIS COUNTY COMMERCIAL CUSTOMERS?

A Yes. Table 9 shows the historical usage per customer for the St. Louis County Commercial class.

Table 9

Historical Average
Commercial Usage per Month

Year	St. Louis County (Gallons per Month)
2015	39,650
2016	41,530
2017	43,270
2018	43,850
2019 - Test Year	39,360
MAWC Proposed	41,490
Three-Year Average (2017-2019)	42,160

Source: MAWC response to MECG Data Request 1-0010.

Q HAVE YOU CALCULATED THE IMPACT TO MAWC'S PROPOSED REVENUE REQUIREMENT USING THESE NEW USAGE PER CUSTOMER LEVELS?

A Yes. Using the average usage per Commercial customer of 42,160 gallons per month, instead of MAWC's low usage figure, MAWC's revenues would be increased by approximately $651,000 and the revenue requirement reduced by a similar amount.

Q WHAT IS THE TOTAL REVENUE REQUIREMENT IMPACT FROM YOUR PROPOSED CHANGES TO ANNUALIZING MAWC'S REVENUES?

A Summing all three adjustments together would increase MAWC's revenues by $15.3 million and, therefore, decrease MAWC's revenue requirement by $15.3 million.

Q ARE THERE ANY OFFSETS TO THESE INCREASED LEVELS OF WATER USAGE THAT YOU HAVE PROPOSED?

A Yes. There are variable costs, primarily chemicals and power, that change depending on usage. As indicated, I am proposing an increased level of usage for the Residential class and the Commercial class in St. Louis County. These increased levels of usage would necessarily include an increased level of chemicals and power expenses.

Q HAVE YOU QUANTIFIED THE INCREASED COSTS OF CHEMICALS AND POWER EXPENSES FROM YOUR PROPOSED REVENUE INCREASE?

A Yes. The increased chemicals expenses for all of the increased usage adjustments I proposed total approximately $409,000. The increased power expenses for the proposed revenue adjustments total approximately $472,000. Therefore, while revenues associated with my proposed usage figures would increase by $15.3 million, the net increase to the revenue adjustments after accounting for the increased chemicals and power would total approximately $14.5 million.

VII. Income Tax Gross-Up Factor

Q DO YOU HAVE ANY OTHER ADJUSTMENTS THAT YOU WANT TO DISCUSS?

A Yes. I am opposed to the income tax gross-up factor proposed by MAWC.

Q PLEASE DESCRIBE THE INCOME TAX GROSS-UP FACTOR.

A The income tax gross-up factor is needed to determine the revenue requirement taking into consideration the income tax effect on increased revenues. In other words, a utility will have to pay income taxes on the increased revenues. Therefore, in order for the utility to recover the appropriate revenue requirement, the revenue requirement must be grossed up to account for the income taxes that will be payable. For instance, if it is determined that net income needs to be increased by $100, revenues will have to be increased by a larger amount since they will be subject to income taxes. If the $100 was not factored up for income taxes, the utility would not receive enough revenues to cover all its expenses and provide a reasonable return to shareholders. By grossing up the net income required to operate the utility, the utility will receive the proper level of revenues to cover all its expenses. While I recognize that the revenue requirement increase must be grossed up, I oppose MAWC's proposed gross-up factor.

Q WHY ARE YOU OPPOSING THE INCOME TAX GROSS-UP FACTOR PROPOSED BY MAWC?

A The income tax gross-up factor proposed by MAWC is inflated in that it includes two provisions that should not be reflected in the calculation of the gross-up factor. Specifically, MAWC proposes to include the effects of uncollectibles and the PSC assessment.

Q WHY ARE YOU OPPOSED TO THESE ADJUSTMENTS?

A These adjustments are requests for costs that are uncertain and will not be realized by the utility for many months past the operation of law date in this rate case. By including an uncollectible factor in the gross-up, one is assuming that bad debts will increase in proportion to the increased revenue requirement. MAWC has not provided any evidence that shows that an increased revenue requirement will automatically translate into higher uncollectibles. In fact, while it may seem intuitively logical that a rate increase will lead to a higher level of uncollectible expense, it has been my experience that uncollectibles are not directly related to the level of rate increase. In fact, I have seen situations in which uncollectible expense has decreased even though rates have increased. Clearly then, uncollectible expense is driven by factors other than the level of rates. For instance, at the current time, uncollectible expense is being driven by the economic implications of the pandemic.

Similarly, the inclusion of the PSC assessment in the gross-up factor assumes that any increase in revenue requirement will automatically raise the PSC assessment of MAWC. The PSC assessment is driven by several factors. Specifically, the assessment is driven by the PSC resources necessary to address the cases pending in a calendar year by utility type. Therefore, if there are several electric rate cases in a particular year, but no water rate cases, then the assessment for electric companies will increase while the assessment for water utilities will decrease. This is likely to change in subsequent years. Recognizing the resources necessary to address the MAWC water / sewer rate case, it is likely that the MAWC assessment will increase in the year following its rate case. However, this assessment increase may be short lived as resources are devoted to expected gas / electric rate cases in the next couple years and the amount assessed to water utilities declines.

The inclusion of these adjustment components violates the known and measurable standard and represents possible costs that will not be recognized by MAWC for months beyond the operation of law date in this rate case.

Q WHAT IS THE REVENUE REQUIREMENT EFFECT OF REMOVING THESE COMPONENTS FROM THE INCOME TAX GROSS-UP CALCULATION?

A By removing the uncollectible and PSC assessment components, MAWC's revenue requirement is decreased by approximately $1 million.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes, it does.

Qualifications of Greg R. Meyer

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Greg R. Meyer. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation and a Principal with the firm of Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A I graduated from the University of Missouri in 1979 with a Bachelor of Science Degree in Business Administration, with a major in Accounting. Subsequent to graduation I was employed by the Missouri Public Service Commission. I was employed with the Commission from July 1, 1979 until May 31, 2008.

I began my employment at the Missouri Public Service Commission as a Junior Auditor. During my employment at the Commission, I was promoted to higher auditing classifications. My final position at the Commission was an Auditor V, which I held for approximately ten years.

As an Auditor V, I conducted audits and examinations of the accounts, books, records and reports of jurisdictional utilities. I also aided in the planning of audits and investigations, including staffing decisions, and in the development of staff positions in which the Auditing Department was assigned. I served as Lead Auditor and/or Case Supervisor as assigned. I assisted in the technical training of other auditors, which included the preparation of auditors' workpapers, oral and written testimony.

During my career at the Missouri Public Service Commission, I presented testimony in numerous electric, gas, telephone and water and sewer rate cases. In addition, I was involved in cases regarding service territory transfers. In the context of those cases listed above, I presented testimony on all conventional ratemaking principles related to a utility's revenue requirement. During the last three years of my employment with the Commission, I was involved in developing transmission policy for the Southwest Power Pool as a member of the Cost Allocation Working Group.

In June of 2008, I joined the firm of Brubaker & Associates, Inc. as a Consultant. Since joining the firm, I have presented testimony and/or testified in the state jurisdictions of Florida, Idaho, Illinois, Indiana, Maryland, Missouri and Washington. I have also appeared and presented testimony in Alberta and Nova Scotia, Canada. These cases involved addressing conventional ratemaking principles focusing on the utility's revenue requirement. The firm Brubaker & Associates, Inc. provides consulting services in the field of energy procurement and public utility regulation to many clients including industrial and institutional customers, some utilities and, on occasion, state regulatory agencies.

More specifically, we provide analysis of energy procurement options based on consideration of prices and reliability as related to the needs of the client; prepare rate, feasibility, economic, and cost of service studies relating to energy and utility services; prepare depreciation and feasibility studies relating to utility service; assist in contract negotiations for utility services, and provide technical support to legislative activities.

In addition to our main office in St. Louis, the firm has branch offices in Phoenix, Arizona and Corpus Christi, Texas.

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