

Exhibit No.: _____
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Witness: Jill Schwartz
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Sponsoring Party: Liberty Utilities (Missouri
Water) LLC
Case No.: WA-2020-0397
Date Testimony Prepared: July 2021

**Before the Public Service Commission
of the State of Missouri**

Direct Testimony

of

Jill Schwartz

on behalf of

Liberty Utilities (Missouri Water) LLC

July 2021



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FOR THE DIRECT TESTIMONY OF JILL SCHWARTZ
LIBERTY UTILITIES (MISSOURI WATER) LLC
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
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DIRECT TESTIMONY OF JILL SCHWARTZ
LIBERTY UTILITIES (MISSOURI WATER) LLC
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Jill Schwartz. My business address is 601 Joplin Ave, Joplin, Missouri
4 64801.

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

6 A. I am employed by Liberty Utilities Service Corp. (“LUSC”) as the Director of
7 Regulatory Shared Services.

8 **Q. Please describe your educational and professional background.**

9 A. In 2001, I completed my Bachelor of Science in Accounting from the John E. Simon
10 School of Business at Maryville University in St. Louis, Missouri. From May 2001 to
11 February 2015, I was employed by The Boeing Company in a variety of accounting
12 capacities which included ensuring compliance with the Federal Acquisition
13 Regulation Mandatory Disclosure rule and developing and delivering labor compliance
14 training for all Boeing employees. In February 2015, I accepted the position of
15 Manager of Rates and Regulatory Affairs for Liberty Utilities (Midstates Natural Gas)
16 Corp. In February 2017, I was promoted to Senior Manager of Rates and Regulatory
17 Affairs for the Liberty Central Region, where I was responsible for the regulatory
18 matters involving the electric, natural gas and water utilities in Missouri, Arkansas,
19 Illinois, Iowa, Kansas and Oklahoma, including Liberty Utilities (Missouri Water) LLC
20 (“Liberty Missouri Water” or “Company”). In August 2019, I transitioned to the
21 Corporate Regulatory department, where my primary responsibilities included

1 supporting the cost allocation manual and corporate costs billed to other Liberty
2 operating utilities across the U.S. and Canada. In December 2020, I was promoted to
3 my current position. Given my experience and direct involvement with regulatory
4 matters, I have continued to lead the regulatory approval process for acquisitions in the
5 Central Region.

6 **Q. On whose behalf are you testifying in this proceeding?**

7 A. I am testifying on behalf of Liberty Missouri Water.

8 **Q. Have you previously testified before the Missouri Public Service Commission**
9 **(“Commission”) or any other regulatory agency?**

10 A. Yes. I have provided testimony before this Commission on behalf of Liberty Missouri
11 Water in its last rate case (Case No. WR-2018-0170), as well as in other cases involving
12 affiliates of the Company (i.e. Liberty Utilities (Midstates Natural Gas) Corp. and The
13 Empire District Electric Company). I have also testified before the Arizona
14 Corporation Commission, Arkansas Public Service Commission, Illinois Commerce
15 Commission, Iowa Utilities Board, and New Brunswick Energy and Utilities Board.

16 **Q. What is the purpose of your Direct Testimony in this proceeding?**

17 A. The purpose of my testimony is to support the Company’s request to establish the
18 ratemaking rate base in accordance with the fair-market value and address the potential
19 impacts to water and wastewater customers in Bolivar, Missouri.

20 **II. OVERVIEW OF LIBERTY MISSOURI WATER’S REQUEST**

21 **Q. Please provide an overview of the Company’s application.**

22 A. As discussed by Company witness Mike Beatty, Liberty Missouri Water submitted an
23 application to the Commission on October 15, 2020 for Certificates of Convenience
24 and Necessity (“CCNs”) authorizing Liberty Missouri Water to install, own, acquire,

1 construct, operate, control, manage, and maintain a water system and a wastewater
2 system in Bolivar, Polk County, Missouri. In addition to obtaining the CCNs, the
3 Company seeks to establish the ratemaking rate base associated with the Bolivar water
4 and wastewater assets based on the fair market or appraised value of the systems.

5 **Q. What is the basis of Liberty Missouri Water’s request to establish the ratemaking**
6 **rate base for the Bolivar water and wastewater assets in this CCN proceeding?**

7 A. Liberty Missouri Water’s application and request for ratemaking rate base treatment is
8 premised on the fact that RSMo. §393.320 states “[t]he procedures contained in this
9 section may be chosen by a large water public utility, and if so chosen shall be used by
10 the public service commission to establish the ratemaking rate base of a small water
11 utility during an acquisition.”

12 **Q. Is Liberty Missouri Water a large water public utility?**

13 A. Yes. As agreed by Staff and OPC, Liberty is a “water corporation,” a “sewer
14 corporation,” and a “public utility.” It is also uncontroverted that Liberty regularly
15 provides water and/or sewer service to approximately 8,274 total customer connections
16 (approximately 7,636 water and approximately 638 sewer), with approximately 8,079
17 unique water/sewer customer connections.

18 **Q. Is the City of Bolivar a small water utility?**

19 A. Yes. Also as agreed by the parties, the City is a “small water utility” given that it is a
20 water system or sewer system owned by a municipality that regularly provides water
21 service or sewer service to eight thousand or fewer customer connections.

22 **Q. Did Liberty Missouri Water follow the procedures contained in RSMo. §393.320?**

23 A. Yes. As required, an appraisal was performed by three appraisers. One appraiser was
24 appointed by the City of Bolivar, Missouri, a second appraiser was appointed by

1 Liberty Missouri Water, and the third appraiser was selected by the two appraisers so
2 appointed. In addition, both Staff and OPC agreed in the List of Legal Issues and
3 Statement of Uncontested Facts, that Liberty and the City followed the appraisal
4 process with regard to the Bolivar water and wastewater assets, and that the resulting
5 appraisal contains a joint assessment of the fair market value of the water system and
6 the wastewater system.

7 **Q. What approaches did the appraisers use to value the water and wastewater assets**
8 **of Bolivar?**

9 A. As outlined in the Valuation Report provided as Exhibit H of the Company's
10 application, the appraisers applied the Cost Approach and the Sales Comparison
11 Approach to determine the market value of the Bolivar water and wastewater assets.

12 **Q. Please briefly describe the Cost Approach.**

13 A. Simply put, the Cost Approach estimates the value constructing a new system as an
14 alternative to purchasing an existing system. The Cost Approach also adjusts the
15 estimated cost new of the property for depreciation.

16 **Q. What is the estimated value of the Bolivar water and wastewater assets based on**
17 **the Cost Approach?**

18 A. Based on the Cost Approach, the replacement cost new, less depreciation was
19 calculated to be \$20.9 million.

20 **Q. Please briefly describe the Sales Comparison Approach.**

21 A. The Sales Comparison Approach estimates the value of the property based on the recent
22 sales of comparable properties with comparable features.

23 **Q. How many comparable sales were considered in the Sales Comparison Approach**
24 **of the appraisal?**

1 A. The Sales Comparison Approach included a review of twenty sales of water and/or
2 wastewater systems in Missouri and Illinois.

3 **Q. What is the estimated value of the Bolivar water assets based on the Sales**
4 **Comparison Approach?**

5 A. Of the twenty total comparable sales, twelve were used to estimate the value of the
6 Bolivar water assets based on the number of customers within the water system, the
7 age of the system, and the overall general condition of the system. The properties sold
8 in Missouri and Illinois indicated a wide range of sale prices, from \$625 to \$4,157 per
9 customer. The average sale price for the comparable sales was over \$2,000 per
10 customer. Ultimately, the estimated value of the Bolivar water assets was determined
11 to be \$1,800 per customer based on the Sales Comparison Approach. The appraisal
12 assumed 4,500 water customers, which indicates a value of \$8.1 million for the water
13 assets in Bolivar.

14 **Q. What is the estimated value of the Bolivar wastewater assets based on the Sales**
15 **Comparison Approach?**

16 A. Based on eleven comparable sales in Missouri and Illinois, sale prices ranged from
17 \$355 to \$5,814 per customer with the average sale price being greater than \$3,000 per
18 customer. However, after excluding certain sales based on the number of customers
19 the average sale price fell slightly to approximately \$2,600 per customer. The appraisal
20 concluded that based on the Sales Comparison Approach the estimated value of the
21 Bolivar wastewater assets was \$2,400 per customer, or \$10.8 million based on 4,500
22 wastewater customers.

23 **Q. What is the final market value determined for the Bolivar water and wastewater**
24 **assets?**

1 A. After considering both the Cost Approach and the Sales Comparison Approach, as well
2 as completing an inspection of the system and reviewing numerous reports and
3 documents provided by the City and the Company, the market value of the Bolivar
4 water and wastewater assets was determined to be \$20.0 million.

5 **Q. Is Liberty Missouri Water requesting ratemaking rate base be established based**
6 **on the lesser of the purchase price or the appraised value?**

7 A. Yes. The appraisal report assigns a market value for the systems of \$20.0 million,
8 which is less than the agreed to purchase price provided in Exhibit A of the Company's
9 application.

10 **Q. Has Staff raised any concerns about the appraisal process or the assigned market**
11 **value of the Bolivar water and wastewater assets from the appraisal?**

12 A. There appear to be two main concerns raised by Staff in its recommendation to the
13 Commission. First, Staff states that the appraisal method provides a market value for
14 system assets that have been fully depreciated for accounting purposes. Second, Staff
15 concludes that the \$20.0 million appraised value is not in the public interest because
16 when compared to Staff's calculated net book value of assets, the effective acquisition
17 premium is approximately \$7.0 million

18 **Q. Do you agree with Staff that the difference between their calculated net original**
19 **cost rate base amount and the appraised value is a \$7.0 million acquisition**
20 **premium?**

21 A. No. The acquisition premium in this case is the difference between the purchase price
22 (shown in Exhibit A of the Company's application) and the estimated market value of
23 the Bolivar water and wastewater assets (\$20.0 million).

24 **Q. Is the Company seeking to recover the acquisition premium in rate base?**

1 A. No. As noted, Liberty Missouri Water is seeking to have the ratemaking rate base
2 established as the lesser of the purchase price or the appraised fair market value.

3 **Q. If the Commission does not approve Liberty Missouri Water’s request for**
4 **ratemaking rate base treatment in accordance with RSMo. §393.320, should rate**
5 **base be established in this case?**

6 A. No. Liberty Missouri Water’s request for ratemaking rate base treatment was made in
7 accordance with RSMo. §393.320, which provides that the “procedures contained in
8 this section may be chosen by a large water public utility, and if so chosen **shall be**
9 used by the public service commission to establish the ratemaking rate base of a small
10 water utility during an acquisition.” (**emphasis added**). If the Commission determines
11 that Liberty Missouri Water does not meet the definition of a large water public utility,
12 ratemaking rate base should not be established, as would be consistent with CCN
13 requests only made pursuant to RSMo. §393.170.

14 **III. ESTIMATED IMPACT TO CUSTOMERS**

15 **Q. Is Liberty Missouri Water proposing to increase rates for Bolivar water and**
16 **wastewater customers upon approval of its application?**

17 A. No. As Mr. Beatty states in his Direct Testimony and as provided in the specimen tariff
18 sheets included in the Company’s application, Liberty Missouri Water proposes to
19 adopt the rates currently paid by Bolivar water and wastewater customers. Moreover,
20 Liberty Missouri Water’s specimen tariff sheets propose to adopt the current “in city”
21 rates paid by Bolivar water and wastewater customers located within the city limits.
22 Customers located outside of the city limits pay slightly higher rates today and would
23 realize a rate decrease upon acquisition of the assets by Liberty Missouri Water.
24 Further, as part of the community outreach in advance of the public vote in June 2020,

1 Liberty Missouri Water openly shared its intentions with City officials and Bolivar
2 water and wastewater customers to not seek a rate increase for this service area until
3 2023.

4 **Q. Has the Company estimated the impact to Bolivar water and wastewater**
5 **customers if the Commission approves the ratemaking rate base of \$20.0 million**
6 **as requested?**

7 A. Yes. If the Commission approves the ratemaking rate base of \$20.0 million based on
8 the fair market value of the Bolivar water and wastewater assets as determined by the
9 appraisal, the estimated rate base per customer would be approximately \$2,100 per
10 customer. However, based on Staff's recommended net original cost rate base, the
11 estimated rate base per customer would be less than \$1,400 per customer. For
12 comparison purposes, based on Staff's recommendation in Case No. WM-2020-0156
13 to transfer the water assets from The Empire District Electric Company to Liberty
14 Missouri Water, the estimated rate base per customer for that system is approximately
15 \$2,000 per customer. Furthermore, based on Staff's recommendation in Liberty
16 Missouri Water's last general rate case, the estimated rate base per customer for the
17 water distribution system in Noel, Missouri is approximately \$2,400 per customer.

18 **Q. Has the Company estimated the impact on customer rates if ratemaking rate base**
19 **is approved by the Commission as requested?**

20 A. Yes. Throughout this process, the Company has sought to be open and transparent with
21 the City and its water and wastewater customers. As part of its community outreach
22 prior to the public vote, Liberty Missouri Water estimated that the monthly increase to
23 customers' bills would be between \$8 and \$10, or approximately 20%. This estimated
24 increase not only includes that the ratemaking rate base be established on the fair

1 market value of \$20.0 million as provided in the appraisal, but it also includes \$6.5
2 million of capital improvements, specifically over \$5 million of critical improvements
3 needed to the wastewater system.

4 **Q. Do you believe the estimated 20% increase to customers' bills constitutes "rate**
5 **shock"?**

6 A. No. Given that the Company does not plan to seek a rate increase for this service area
7 until 2023 for new rates to become effective in 2024, the estimated 20% increase should
8 be viewed as a 5% annual increase which includes significant and necessary capital
9 investments in the system. Furthermore, as I stated earlier, if the Commission approves
10 Liberty Missouri Water's request, Bolivar water and wastewater customers located
11 outside of the city limits will see an immediate decrease in their monthly bills.

12 **IV. PUBLIC INTEREST**

13 **Q. Is the grant of Liberty Missouri Water's application, including its requested**
14 **ratemaking rate base determination, in the public interest?**

15 A. Absolutely. As Mr. Beatty laid out in his Direct Testimony, and Staff stated in its
16 recommendation to the Commission, Liberty Missouri Water has the technical,
17 managerial and financial capabilities to own and operate the water and wastewater
18 systems in Bolivar. In addition, the parties agree that there is a current and future need
19 for water and wastewater service. Liberty Missouri Water has also successfully
20 demonstrated its ability to own and operate water and wastewater utility systems in
21 Missouri since 2005. Further, the Company has detailed its plans to make significant
22 capital investments in the wastewater system necessary to address the issues and
23 concerns raised by the Missouri Department of Natural Resources and Environmental
24 Protection Agency.

1 In its recommendation to the Commission, Staff states:

2 As the Commission determined in Case No. GA-94-127, positive
3 findings with respect to the other four standards above will, in most
4 instances, support a finding that an application for a CCN will promote
5 the public interest. Additionally, the citizens of Bolivar voted to approve
6 the sale of the utility systems, Bolivar's elected officials were involved
7 in the negotiation with Liberty and developed a subsequent Purchase
8 Agreement between the City and Liberty.

9 Further, while it is Staff's position that Bolivar has the capability
10 to eliminate the bypasses and upgrade the wastewater treatment facility,
11 the City has not done so. Liberty also has the ability, and has developed
12 sufficient plans, to bring the facility into compliance and cease pollution
13 of Piper Creek. Restoring this public resource to its full use, and
14 eliminating the public health threat of bypasses, is generally in the
15 public interest.

16
17 **Q. Did Staff make any other recommendations to the Commission?**

18 A. Yes. Staff recommends that if the Commission approves Liberty Missouri Water's
19 application as filed, (1) the Company be required to keep the books and records for the
20 Bolivar water and wastewater systems separate from the Company's other service areas
21 and (2) that rates not be consolidated with any other rates for Liberty Missouri Water
22 customers for at least ten years.

23 **Q. How does the Company respond to these recommendations?**

24 A. Liberty Missouri Water is not at all opposed to maintaining separate books and records
25 for the Bolivar service area. While the Company believes consolidation of rates can be
26 beneficial for both customers and the Company, if the application is approved as filed,
27 Liberty Missouri Water would agree to the water and wastewater rates for the Bolivar
28 service area not being consolidated with other Liberty Missouri Water rates for a
29 reasonable period of time.

30 **Q. Does this conclude your Direct Testimony at this time?**

31 A. Yes.

VERIFICATION

I, Jill Schwartz, under penalty of perjury, on this 16th day of July, 2021, declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ Jill Schwartz_____