Exhibit No.:	
Issues:	Production Costs, Customer Accounting, Transportation, and Uncollectibles
Witness:	Todd P. Wright
Exhibit Type:	Rebuttal
Sponsoring Party:	Missouri-American Water Company
Case No.:	WR-2020-0344
Date:	January 15, 2021

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2020-0344

REBUTTAL TESTIMONY
REVENUE REQUIREMENT

OF

TODD P. WRIGHT

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Todd P. Wright, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am a Senior Manager of Regulatory Services for American Water Service Company, that the accompanying testimony has been prepared by me or under my direction and supervision; that if inquiries were made as to the facts in said testimony, I would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of my knowledge and belief.

Todd P. Wright

Todd P. Wright

January 15, 2021

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MISSOURI-AMERICAN WATER COMPANY
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TODD P. WRIGHT

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Todd P. Wright, and my business address is 1 Water Street, Camden, NJ, 08102.

Q. Did you previously submit direct testimony is this proceeding?

A. Yes.

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

A. The purpose of my Rebuttal Testimony is to respond to the Staff Report on Cost of Service filed by the Missouri Public Service Commission ("Commission") Staff ("Staff"), and to the direct testimony of the Office of the Public Counsel ("OPC") on the following topics: 1) Production costs; 2) Customer Accounting; 3) Transportation; and, 4) Uncollectibles.

II. PRODUCTION COSTS

Q. What are the elements of Production Costs?

A. Production costs include purchased water, fuel and power, chemicals, and waste disposal. Production costs vary depending on the amount of water purchased or produced by the Company's treatment plants, i.e. system delivery or water obtained and delivered to MAWC's network of water mains.

Q. How does the purchased water adjustment relate to the revenue requirement to be established in this case?

A. Purchased water expense is incurred when the Company sources water from a third party rather than producing its own water. This cost is required in order to fund and ensure the water supply capacity to meet the customers' demand. Thus, a reasonable level of purchased waster expense should be included in the revenue requirement.

Q. Please describe Staff's adjustment to purchased water?

A. Staff adjusted purchased water by using a five-year average of billed usage for all service areas except Parkville and City of Lawson. (Sarver DT, page 60). The average billed usage per service area was utilized to annualize the expense by applying it to the current rates at which each utility charges when selling water to Missouri-American.

Q. Are there differences between Company's proposal for purchase water and Staff's?

A. Yes. The Company proposed using three-average of billed usage for all service areas except Parkville and City of Lawson. For Parkville, the Company used a two-year average of 2018 and 2019. For Lawson, the Company used billed usage from 2019 as two years was not available[1].

Q. Outside of the historical average billed usage differences, is there anything you disagree with in Staff's calculation for purchased water?

A. Yes. The annual average of billed usage, based on twenty-two months for Lawson,

[1] Wright Direct Testimony, Case No. WR-2020-0344, Pages 5-6.

appears to be understated within Staff's calculation.

Q. How did Staff calculate the annual average billed usage for Lawson based on twenty-two months?

A. For Lawson, Staff utilized twenty-two months for the billed usage average due to Missouri-American acquiring the city operations at the end of 2018. Staff summed the first ten months, from September 2018 to June 2019, for a total of 56.8M gallons and the last twelve months, from July 2019 to June 2020, for a total of 60M gallons. Staff then averaged the ten-month total and the twelve-month total together for a 58.4M average annual billed usage.

Q. Do you agree with how the Lawson average was derived?

A. No. Staff's method effectively reduces the annual average of usage to a period of less than twelve months.

Q. Why is that significant?

A. When the average billed usage is applied to the cost per gallons, it reduces the purchased water expense to less than what the Company would experience in a given year.

Q. What is the actual Lawson average of billed usage for the twenty-two months?

A. The Lawson monthly average of billed usage for the twenty-two months is 5.3M gallons. Annualized, this amount becomes 63.7M for billed usage which is 5.3M gallons (or approximately one month) higher than the amount Staff included in its adjustment. This represents 5.3M gallons of water that MAWC is expected to purchase on a going forward basis that is not accounted for in Staff's adjustment.

Q. What expense impact is represented by the 5.3M gallons of billed usage shortage for Lawson?

A. By updating the twenty-two-month average calculation, purchased water expense will increase by $39,757.

Q. How does fuel and power relate to the revenue requirement to be set in this case?

A. Fuel and power is incurred for the production and delivery of water and the treatment of sewer. This expense is required in order to meet the customers' demand from the Company's own sources.

Q. Please describe Staff's adjustment to fuel and power?

A. Staff adjusted fuel and power by calculating a cost per thousand gallons of system delivery and multiplying by its pro forma system delivery. The cost per thousand gallons was developed by taking normalized test year expense by profit center and dividing by an historical average system delivery. (Sarver DT, pages 60-61).

Q. Does the Company agree with the pro forma system delivery proposed by Staff?

A. No. Staff's pro forma system delivery is based on their pro forma usage and a ten-year average water loss. Please refer to MAWC witness Gregory P. Roach for the Company's rebuttal position on test year usage.

Q. Does the Company agree with how the cost per thousand gallons was developed in Staff's workpaper for fuel and power?

A. No. The company does not agree with the cost per thousand gallons as it is based on an historical average of system delivery.

Q. How is the historical average of system delivery calculated in Staff's workpaper?

A. The historical average of system delivery is calculated using each profit center's available historical data, up to ten years of system delivery.

Q. Do you agree with using up to ten years of historical system delivery data to calculate averages to use for the pro forma expense?

A. It depends on what the ten-year average is being applied to. Multiple years of historical data can be useful in smoothing out yearly anomalies, providing a normalized amount that is representative of a typical year in the past, minus any significant acquisitions that may have been rolled in.

Q. Do you have a concern with how the historical average of system delivery data is being applied in Staff's adjustment?

A. Yes. In Staff's adjustment, the ten-year average of system delivery is being used to develop the cost per 1,000 gallons for 2019. This is being done by dividing the normalized 2019 expense over the ten-year average of system delivery. An expense incurred in one year could not and should not be represented by system delivery amounts from prior years. The true representative system delivery amount for the 2019 expense is what actually occurred in 2019. Operations and customer demand the Company experienced in 2019 is what drove the costs incurred for fuel and power in 2019.

Q. How does this impact the cost per thousand gallons being applied to pro forma system delivery?

A. It understates the cost significantly. Adjusting the cost per thousand gallons to the 2019 normalized test year expense, divided by 2019 system delivery, increases the fuel and power expense by $807,554 This is more appropriately represents the fuel and power expense MAWC would incur for the test period.

Q. How does chemical expense relate to the revenue requirement to be set in this case?

A. Chemical expense is incurred for the production and delivery of water and the treatment of sewer. This expense is required in order to meet the customers' demand from the Company's own sources.

Q. Please describe Staff's adjustment to chemical expense.

A. Staff adjusted chemicals by calculating a cost per thousand gallons of system delivery and multiplying by pro forma system delivery. The cost per thousand gallons was developed by taking a normalized test year expense by profit center and dividing it by an historical average of system delivery. (Sarver DT, page 61).

Q. Is the pro forma system delivery proposed by Staff the same as in the case of fuel and power?

A. No. Staff's pro forma system delivery is based off their pro forma usage and now a five-year average water loss. Please refer to MAWC witness Gregory P. Roach for the Company's rebuttal position on test year usage.

Q. Does the Company agree with how the cost per thousand gallons was developed in Staff's workpaper for chemicals?

A. No. The Company does not agree with the cost per thousand gallons as it is based on an historical average of system delivery.

Q. How is the historical average of system delivery calculated in Staff's workpaper for chemicals?

A. The historical average of system delivery is calculated using each profit center's available historical data, up to five years of system delivery. (Sarver DT, page 61).

Q. Is this historical average of system delivery calculated using the same methodology as in Staff's fuel and power workpaper?

A. No. Like the pro forma system delivery discussed above for chemicals, Staff is using only up to five years in the historical average for system delivery.

Q. Besides the change in methodology for calculating system delivery, is there a concern with how the average historical system delivery data is being applied in Staff's calculation?

A. Yes. Like fuel and power, in Staff's adjustment, the five-year average of system delivery is being used to develop the cost per 1,000 gallons for 2019. This is being done by dividing the normalized 2019 expense over the five-year average of system delivery. An expense incurred in one year could not and should not be represented by system delivery amounts from prior years. The true representative system delivery amount for the 2019 expense is what actually occurred in 2019. The operations and customer demand the company experienced in 2019 is what drove the costs incurred for chemicals in 2019.

Q. How does this impact the cost per thousand gallons being applied to pro forma system delivery?

A. It understates the cost significantly. Adjusting the cost per thousand gallons to be 2019 normalized test year expense, divided by 2019 system delivery, increases chemical expense by $454,533. This includes updating the proposed system delivery to be consistent with Staff's fuel and power workpaper.

Q. How did Staff normalize the test year expense for chemicals?

A. Staff normalized chemical expense by using the current price for each chemical and applying to it an historical average chemical usage of two to five years. For some chemicals, only the 12 months ended June 30, 2020 usage was utilized due to year over year trends. (Sarver DT, page 61).

Q. Will chemical prices remain the same in 2021 when rates become effective?

A. No. Chemical prices have changed, effective on December 31, 2020. These adjustments should be incorporated in the December 31, 2020 true-up.

<u>III. CUSTOMER ACCOUNTING</u>

Q. Did Staff make adjustments for Customer Accounting?

A. Yes. Staff made two separate pro forma adjustments for postage and credit card fees. MAWC witness Brian W. LaGrand will be addressing the inclusion of credit card fees in his rebuttal testimony.

Q. Please describe Staff's postage adjustment made for customer accounting?

A. Staff took the 2019 mailings provided in response to Staff data request 0108 and multiplied it by the 2020 postage rates for each category.

Q. Are there any expected changes to MAWC's mailings on a going forward basis?

A. Yes. MAWC is in the process of converting its St. Louis County customers from quarterly billing to monthly billing and from annual to monthly. Thus, as those customers are converted to monthly billing, their mailings in most cases go from 1 or 4 per year to 12 per year.

Q. How many conversions were outstanding at the end of 2019?

A. There were approximately 49,000 quarterly billing conversions and 9,555 annual billing conversions to be done at the end of 2019.

Q. Did Staff make any adjustments to increase the expected mailings related to the billing conversion to monthly in St. Louis County?

A. No. The mailings are only based on 2019 actual mailings with no known and measurable adjustment to include increased mailings for the monthly billing conversions.

Q. If these conversions are included in the calculation of the number of mailings, how much would the number of mailings and the Staff's expense level change?

A. The total additional mailings would be 497,105. At the 2020 postage rate of .389 cents, there would be an additional $193,374 of postage expense.

Q. Are these customer accounting costs being transferred to the Service Company?

A. Yes. As indicated in the Company's direct testimony[2], customer accounting costs related to customer mailings will now be included in the Service Company expense going forward.

IV. TRANSPORTATION EXPENSE

Q. Did Staff make adjustments to transportation expense?

A. Yes. Staff included an adjustment for fuel costs related to the Company's vehicle fleet, paid through the company's third-party management contractor. All other transportation costs have been included at the base year level ending December 31, 2019. Staff has stated that it will analyze the December 31, 2020 transportation expenses true-up information is provided.

Q. Please explain how Staff adjusted fuel costs for the pro forma expense in transportation expense.

A. Staff included a reduction of $69,905 to the test year in the pro forma expense which was based on the 12 months end 07/31/20 fuel usage, paid through the company's third-party management contractor, for the company's vehicles applied to a three-year average of fuel prices from 2017 – 2019.

Q. Do you agree with the methodology of Staff's third-party paid fuel costs adjustment?

A. Yes.

[2] Wright Direct Testimony, Case No. WR-2020-0344, Pages 9-10

V. UNCOLLECTIBLE EXPENSE

Q. How did Staff adjust uncollectible expense in this proceeding?

A. Staff updated the Company's uncollectible expense by using a three-year average of actual net charge-offs from July 2017 to June 2020. Staff's annual expense is $2.9M based on the three-year average, which includes 6 months of 2020. (Newkirk DT, pages 70-71).

Q. Does the Company agree with Staff's methodology as to calculating bad debt?

A. No.

Q. Why do you disagree with the Staff's methodology?

A. First, Staff included 6 months of 2020 in its three-year average, which is not indicative of past and future trends due to the unusual circumstances in 2020. Second, Staff neglected to incorporate any increase in net charge-offs due to changes in the Company's revenue as a result of this proceeding.

Q. Please explain the inaccuracies with including the 6 months of 2020 in Staff's three-year average.

A. This period includes months during which the Company suspended disconnections for non-payment and tariff-authorized late fees as a result of the response to the COVID-19 public health emergency. The net charge-offs inherently began to decline during that period due to the suspension of disconnections. This situation will continue through the end of 2020, but does not represent a reasonable period to apply to future uncollectible expense for MAWC.

Q. When did disconnections for non-payment resume for the Company?

A. Disconnections resumed in September 2020.

Q. Is it reasonable and appropriate to exclude 2020 results in the determination of a three-year average of net charge-offs for the determination of uncollectible expense in base rates?

A. Yes. The level of uncollectible expense should reflect a reasonable estimation of expenses to be incurred during the effective period of base rates established in this proceeding. Inclusion of 2020, without acknowledging the extenuating circumstances, would result in an unreasonable level of uncollectible expense in rates.

Q. Please explain Staff's exclusion of the projected revenue increase in its determination of uncollectible expense in this proceeding.

A. Staff has assumed that no increase or decrease in uncollectible expense will occur as a result of the proposed revenue increase in this proceeding. This exclusion ignores the trend experienced by the Company over the past three years, and ignores the expected increase in net charge-offs as a result of changes in customer bills.

Q. Has the uncollectible expense increased over the last three years?

A. Yes. As reflected in my direct testimony[3], the Company's actual net charge-offs for 2017 were $2.8M, followed by $3.1M for 2018, and $3.3M for 2019. From 2017 – 2019, actual net charge-offs has risen about $0.5M.

Q. Has the Commission acknowledged the current economic climate and possibility of rising uncollectible costs in the near term?

[3] Wright Direct Testimony, Page 13, Lines 6-9, Case No. WR-2020-0344.

A. Yes. As part of the settlement in Case No. WU-2020-0417, the Commission has granted Missouri-American an accounting order to allow the Company to defer any increase bad debt costs above $2.6M annually through the March 2021.

Q. In which month will new rates most likely become effective from this proceeding?

A. May 2021.

Q. After rates become effective in May 2021, could the annual net charge-offs be larger than $2.6M or even $2.9M, as proposed in this proceeding?

A. Yes. Based on actual 2019 net charge-offs being $3.3M and the increasing amount of A/R greater than 90 days in the year of 2020, it certainly appears likely. At a minimum, now that the dunning process has resumed, the current state of outstanding balances greater than 90 days, economic conditions as whole, and the trends in bad debt expense experienced prior to 2020, the bad debt expense of $3.3M from 2019 is a reasonable estimation of this expense and should be included in the revenue requirement.

Q. Has the amount of the overall accounts receivable ("A/R") balance increased in 2020?

A. Yes, it has. The beginning A/R balance from December 2019 was $21.2M, and, as of December 2020, the balance is $23.3M. This is roughly a $2.0M increase from the beginning of the year.

Q. Is an end of year comparison of the overall accounts receivable ("A/R") balance indicative of collections as whole?

A. Not exactly. The accounts receivable balance does tend to fluctuate from month to month and year to year, using a 13-month average would be representative of the quantification of any overall increase. The below table shows the year over year increase in the 13-month average of A/R from the monthly balances. The 13-month average has increased $2.3M or 9.59%.

	Accounts Receivable			
Month	**2018 -2019**	**2019 - 2020**	**Difference**	
December	$28,229,608	$21,219,281		
January	$21,202,820	$21,868,955		
February	$22,526,003	$23,539,367		
March	$20,908,186	$21,324,954		
April	$17,865,195	$21,902,937		
May	$21,142,702	$24,919,782		
June	$26,692,644	$25,793,921		
July	$24,453,681	$31,857,405		
August	$27,414,564	$33,786,930		
September	$27,320,861	$33,367,347		
October	$23,489,545	$28,664,721		
November	$26,295,052	$26,863,477		
December	$21,219,281	$23,267,254		
13-Month Average	$23,750,780	$26,028,949	$2,278,168	9.59%

Q. How does this compare to prior experience?

A. Since 2016, the year before net-charge offs were $2.8M, the Company has experienced an annual increase in the 13-month average of accounts receivable of 3.59%, which clearly illustrates impact of revenues and the disconnection process to collections.

Accounts Receivable

Month	2015 -2016	2019 - 2020	Difference	
December	$21,054,454	$21,219,281		
January	$20,496,192	$21,868,955		
February	$20,030,085	$23,539,367		
March	$18,077,111	$21,324,954		
April	$19,720,771	$21,902,937		
May	$19,941,872	$24,919,782		
June	$23,823,064	$25,793,921		
July	$22,994,050	$31,857,405		
August	$28,011,138	$33,786,930		
September	$28,960,035	$33,367,347		
October	$21,795,261	$28,664,721		
November	$24,482,193	$26,863,477		
December	$24,495,572	$23,267,254		
13-Month Average	$22,606,292	$26,028,949	$3,422,656	3.59%

Q. When does the Company typically start to perform the write-off process for uncollectible expense?

A. Once a customer is delinquent past 90 days, the account is placed with 3rd party collection services. From that point, if a customer payment is not received, it generally will result in bad debt being recorded to expense about 73 days later, or around 163 days from invoice date.

Q. How much has the amount of the greater than 90 days accounts receivable ("A/R") balance increased compared to the overall A/R balance as shown above?

A. The greater than 90 days A/R balance has increased $2.3M since the beginning of the year with the 13-month average increasing $819K or 46.76%.

Accounts Receivable >90 Days

Month	2018 -2019	2019 - 2020	Difference	
December	$2,239,360	$1,601,721		
January	$1,887,282	$1,436,855		
February	$2,253,106	$1,620,402		
March	$2,032,767	$1,607,430		
April	$1,635,015	$1,772,034		
May	$1,662,010	$2,030,214		
June	$1,669,393	$2,496,455		
July	$1,552,897	$2,972,070		
August	$1,657,911	$3,502,436		
September	$1,501,995	$3,534,639		
October	$1,393,002	$3,259,268		
November	$1,668,888	$3,707,153		
December	$1,601,721	$3,855,970		
13-Month Average	$1,750,411	$2,568,973	$818,562	46.76%

Q. With this information, is it reasonable then for Staff to assume that the uncollectible expense will remain stagnant at the three-year average applied, with no consideration of increases in customer bills and receivables?

A. No, it is not reasonable to discount the level of uncollectible expense by ignoring the impact of increasing receivables and increases in those that could be subject to write-off.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.