

Exhibit No.:
Issues: Present Rate Revenue, Labor and Related Benefits, Severance, Atrazine Settlement, Rate Case Expense, Pension Tracker, Corporate Allocations, Insurance Other than Group, Property Tax, Postage, Lease Expense, Advertising, Dues & Donations, Promotional Items, Misc. expense, Hickory Hills, Regulatory Deferrals, ISRS, Service Quality, CAM, and Timely Cost Recovery
Witness: Jeanne M. Tinsley
Exhibit Type: Rebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2015-0301
SR-2015-0302
Date: February 11, 2016

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2015-0301
CASE NO. SR-2015-0302**

REBUTTAL TESTIMONY

OF

JEANNE M. TINSLEY

ON BEHALF OF

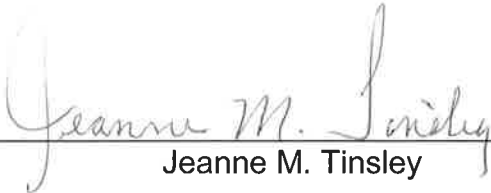
MISSOURI-AMERICAN WATER COMPANY

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

IN THE MATTER OF MISSOURI-AMERICAN)	
WATER COMPANY FOR AUTHORITY TO)	
FILE TARIFFS REFLECTING INCREASED)	CASE NO. WR-2015-0301
RATES FOR WATER AND SEWER)	CASE NO. SR-2015-0302
SERVICE)	

AFFIDAVIT OF JEANNE M. TINSLEY

Jeanne M. Tinsley, being first duly sworn, deposes and says that she is the witness who sponsors the accompanying testimony entitled "Rebuttal Testimony of Jeanne M. Tinsley"; that said testimony was prepared by her and/or under her direction and supervision; that if inquiries were made as to the facts in said testimony, she would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of her knowledge.



Jeanne M. Tinsley

**State of Missouri
County of St. Louis**

SUBSCRIBED and sworn to
Before me this 9th day of February 2016.



Notary Public

My commission expires: July 17, 2016



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**REBUTTAL TESTIMONY
JEANNE M. TINSLEY
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2015-0301
CASE NO. SR-2015-0302**

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REBUTTAL TESTIMONY

JEANNE M TINSLEY

1

I. INTRODUCTION

2

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3

A. My name is Jeanne M. Tinsley, and my business address is 727 Craig Road,
4 St. Louis, MO, 63141.

5

6

**Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS
7 PROCEEDING?**

7

8

A. Yes, I have submitted direct testimony in this proceeding on behalf of
9 Missouri-American Water Company (Missouri-American, MAWC or
10 Company).

10

11

12

II. OVERVIEW

13

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

14

A. The purpose of my rebuttal testimony is to respond to the Staff Report and/or
15 the direct testimony of the Office of Public Counsel (OPC) and certain
16 intervenors on the following issues:

16

17

- Present Rate Revenue
- Labor and Related Benefits
- Severance
- Atrazine Settlement
- Rate Case Expense
- Pension Tracker
- Corporate Allocations
- Insurance Other than Group
- Property Tax
- Postage
- Lease Expense
- Advertising Expense
- Dues & Donations Expense
- Promotional Items

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- 1 • Miscellaneous Expense
- 2 • Hickory Hills
- 3 • Regulatory Deferrals
- 4 • ISRS
- 5 • Service Quality
- 6 • Cost Allocation Manual
- 7 • Timely Cost Recovery

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10 **III. PRESENT RATE REVENUE**

11 **Q. PLEASE DISCUSS THE CALCULATION OF PRESENT RATE REVENUES.**

12 A. The Company agrees with both Staff and OPC to remove unbilled revenue
13 and ISRS revenue from the test year. However, MAWC does not agree with
14 the method used by Staff and OPC to determine the normalized water sales.

15

16 **Q. WHAT METHODOLOGY DID THE COMPANY PROPOSE IN**
17 **DEVELOPING ITS USAGE PER CUSTOMER PER DAY?**

18 A. The Company reviewed the residential customer baseline usage pattern from
19 10 years of base usage (February-April) and then added to this the ten year
20 average of the customers' discretionary usage (e.g. lawn watering, car
21 washing, etc.) that exceeds the annual baseline usage. This methodology is
22 further explained in detail in Company witness Roach testimony.

23

24 **Q. PLEASE EXPLAIN THE METHOD STAFF USED IN DETERMINING**
25 **NORMALIZED WATER SALES.**

26 A. Staff calculated an average residential usage per customer per day based on
27 a five year average of billed water sales for the period October 2010 to
28 September 2015. For all other customer classes, Staff used the same five
29 year average of billed water sales; however staff used the water sales value
30 at September 30, 2015 depending on upward or downward trends. The total
31 impact of Staff's adjustment would increase revenue at present rates by
32 \$5,734,548.

33

1 **Q. PLEASE EXPLAIN THE METHOD OPC USED IN DETERMINING**
2 **NORMALIZED WATER SALES.**

3 A. OPC calculated a five year average of residential usage per customer by
4 District, then applied the percentage change to the test year to reflect the five
5 year average. OPC did not make any adjustment for any of the other
6 customer classes. The impact of OPC's adjustment would increase residential
7 revenue at present rates by \$8,454,110.

8

9 **Q. WHY IS IT INAPPROPRIATE TO USE AN AVERAGE BASED ON THE**
10 **AVERAGE ANNUAL RESIDENTIAL CUSTOMER USAGE OVER A SET**
11 **PERIOD?**

12 A. An annual average of unadjusted revenue does not take into account either
13 the significant effects of weather on revenue or the significant and continuing
14 residential declining usage trend that we have observed. Failing to recognize
15 the impact of weather or the well-known trend of declining use per customer
16 which is common throughout the United States is insupportable as discussed
17 in the testimony of MAWC witness Greg Roach. The Company believes that
18 both Staff's and OPC's five year average of usage per customer significantly
19 overstates the level of sales at present rates because the Staff and OPC have
20 ignored the impact of both weather and declining usage over those five years.

21

22 **Q. WHAT IS THE LEVEL OF WATER SALES STAFF HAS PROPOSED IN**
23 **THIS CASE?**

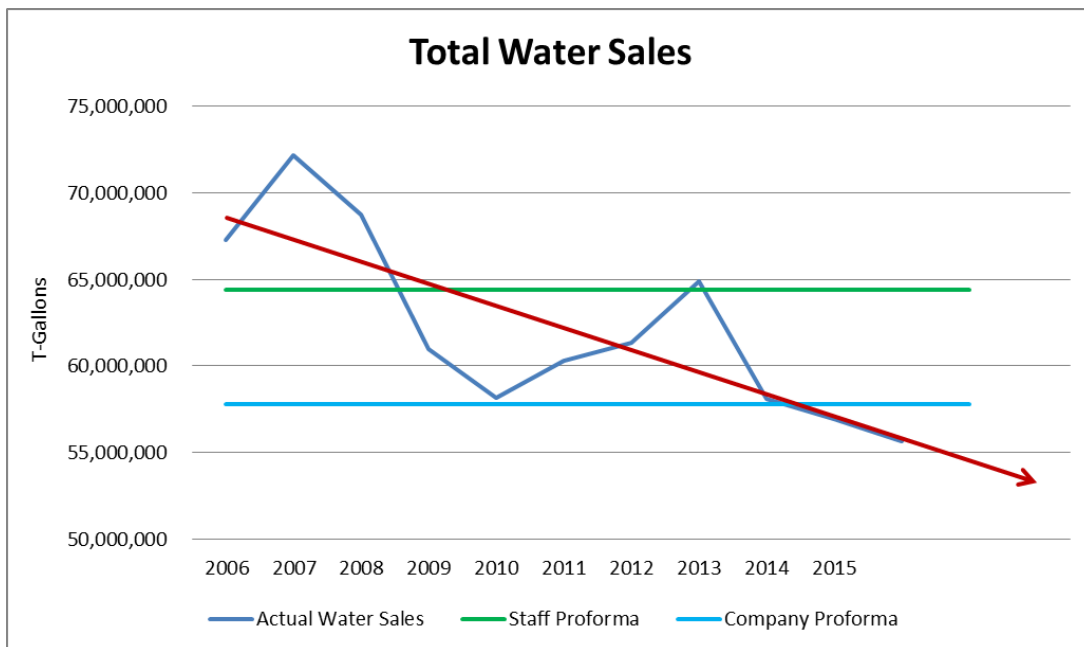
24 A. Staff's proforma water sales at the time new rates become effective is
25 64,377,962 thousand gallons versus Company's proposal of 57,808,989
26 thousand-gallons.

27

28 **Q. HOW DOES THIS COMPARE TO THE HISTORIC LEVEL OF WATER**
29 **SALES MAWC HAS EXPERIENCED?**

30 A. Staff's proforma water sales are significantly higher than the Company has
31 experienced since 2007, with the exception of 2006 and 2012 – two of the
32 hottest, driest summers on record. The low water sales experienced in 2009

1 was due to abnormally high precipitation from April through October
2 combined with cooler summer temperatures. OPC's approach is even worse.
3 Ratemaking is designed to replicate, as closely as possible, the revenue,
4 expenses and rate base representative of a year of normal operations. The
5 use of revenue calculations by Staff and OPC that is not adjusted for normal
6 weather, and which includes warmer than normal weather, means simply that
7 the Company will have no chance of hitting the revenue target unless
8 abnormally warm weather prevails. Furthermore, where there is a clear and
9 well recognized trend to declining use per customer, the use by Staff and
10 OPC of a five-year average, will fail to capture that trend, again producing an
11 unreasonably high revenue forecast. Clearly, adoption of the Staff or OPC
12 revenue forecast will deprive MAWC of a fair opportunity to earn its rate of
13 return under normal operating conditions.



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Q. WHAT IS STAFF'S RECOMMENDATION FOR OTHER REVENUES?

A. According to Staff's testimony, they reviewed the three year average and if an upward or downward trend was present, then Staff used the test year amount.

Q. DO YOU AGREE WITH STAFF'S APPROACH?

1 A. No. Miscellaneous revenues can fluctuate from year to year so there is no
2 trend. Company recommends using the test year level for Other Revenues.
3 Staff has indicated that they may make further adjustments during the true-
4 up. Company may need to file additional testimony if further adjustments are
5 made during true-up.

6

7 **IV. MAWC LABOR AND RELATED EXPENSES, INCLUDING OVERTIME,**
8 **401K, DCP, ESPP, VEBA, PAYROLL TAXES AND GROUP INSURANCE**

9 **Q. PLEASE DISCUSS THE ADJUSTMENTS THAT THE PSC STAFF AND**
10 **THE OPC MADE TO THE COMPANY'S TEST YEAR LABOR AND LABOR**
11 **RELATED EXPENSES THAT YOU DO NOT AGREE WITH.**

12 A. I will first address the adjustments made by the Staff and specifically the
13 overtime adjustment, calculation of the O&M Percentage Factor, elimination
14 of certain lobbying related labor and labor related expenses, Defined
15 Contribution Plan (DCP), Employee Stock Purchase Plan (ESPP) and wage
16 rate increases for the non-union employees and the St Louis County District
17 union employees. As noted by the Staff in its Report and Testimony, many of
18 their adjustments were cut-off at September 2015 but will be updated for the
19 true-up. These true-up items include wage adjustments, O&M percentage
20 factor, and vacant positions. My rebuttal testimony will address other aspects
21 of the adjustments made by the Staff.

22

23 **Q. YOU MENTIONED THAT YOU DISPUTE STAFF'S OVERTIME EXPENSE**
24 **CALCULATION. PLEASE EXPLAIN WHY.**

25 A. Staff used a five year average ratio of overtime to total payroll. In contrast, the
26 Company used a three year average, which is consistent with the approach
27 followed in prior cases. Staff neither explains nor justifies why a five-year
28 average should be used. Staff's average was calculated by district with a
29 total company average ratio of 10.32%. The Company's average was also
30 calculated by district, producing a total company average ratio of 10.61%,
31 consistent with the three-year averaging technique.

32

1 **Q. ARE YOU ALSO DISPUTING STAFF'S CALCULATION OF THE O&M**
2 **PERCENTAGE FACTOR?**

3 A. Yes. It appears that the Staff calculated its O&M Percentage Factor (which is
4 used to calculate the amount of labor and related expense versus that applied
5 to capital) by only using 9 months ended September 2015. This O&M
6 Percentage Factor is multiplied times the gross payroll and payroll related
7 expenses to arrive at the expense level to include in the revenue requirement.
8 However, even if the Staff had used a full 12 months of data ending
9 September 2015, that approach would still not be appropriate because it is
10 not appropriate to use only a single year of data to calculate the O&M
11 Percentage Factor. The use of multi-year averages is commonly used to
12 smooth out variations that may occur from year to year. It is inconsistent for
13 example for the Staff to use five years of data to calculate its overtime ratio
14 factor as discussed above and yet use only nine months of data to set the
15 O&M percentage. The same sort of variability exists in the data used to
16 calculate the O&M Percentage Factor, but Staff used five years of data to
17 calculate overtime and only used 9 months of data for its O&M Percentage
18 Factor. Again, consistent with prior cases, the Company used a three year
19 average to calculate its O&M Percentage Factor as it does in overtime. Using
20 a three year average increases the test year labor and labor related expenses
21 by approximately \$192,000. This amount does not include the impact on
22 Pension and OPEB costs, which is discussed later in my rebuttal testimony.

23
24 **Q. THE NEXT PAYROLL ISSUE YOU MENTIONED WAS LOBBYING**
25 **EXPENSE. PLEASE EXPLAIN YOUR DISAGREEMENT WITH STAFF IN**
26 **THAT AREA.**

27 A. Staff disallowed \$234,191 of labor and related expense related to lobbying
28 activities. Although the Company does not dispute the removal of lobbying
29 related labor expense, Staff has improperly included partial labor costs for
30 several MAWC and Service Company employees who typically do not
31 participate in lobbying activities. During the test year, the Director of
32 Government Affairs position was vacant and, as a result, several employees

1 stepped in to assist with the ISRS bill pending in the 2014 Missouri legislative
2 session. This was a one-time event for these employees that will not be
3 repeated. Therefore, the adjustment to disallow lobbying-related salaries
4 should be reduced by \$42,495 to exclude the portion of labor and related
5 costs related to the employees who stepped in on a temporary, one-time
6 basis in 2014 to assist with the ISRS legislation.

7

8 **Q. THE NEXT ISSUE YOU MENTIONED IS DCP EXPENSE. WILL YOU**
9 **PLEASE EXPLAIN THIS MATTER?**

10 A. Yes. The Staff in its Report indicated that it had reflected the cost related to
11 DCP in the pension and OPEB calculations. However, upon reviewing the
12 workpapers for the pension and OPEB costs, there is no indication that the
13 Staff included any allowance for the DCP expense in its revenue requirement
14 calculation other than the amount reflected in the test year. Upon further
15 discussion, Staff has indicated that they plan to include \$311,268 of DCP
16 expense. The Company recommends that the level of DCP Expense be
17 calculated using the current actual rate of 5.25% of eligible employees' wages
18 and the O&M Percentage Factor proposed by the Company. These factors
19 can be applied to the employees and wage rates determined in the true-up
20 process.

21

22 **Q. YOU ALSO STATED THAT THE COMPANY HAS A DISAGREEMENT**
23 **WITH STAFF'S LABOR AND RELATED EXPENSE. PLEASE DISCUSS**
24 **THAT MATTER?**

25 A. The Staff incorrectly eliminated the entire amount associated with the
26 Company's Employee Stock Purchase Plan (ESPP). The Staff recommends
27 disallowing recovery of the ESPP expense because there is no actual cash
28 outlay for this item made by MAWC. Although there is no specific cash outlay
29 by Missouri American for the ESPP expense, there is a cash outlay for the
30 amounts withheld from employees' wages for the ESPP which is then used to
31 purchase the stock. That cash outlay is made by American Water since it
32 involves the purchase of American Water stock on the open market.

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Q. PLEASE ADDRESS THE FINAL PAYROLL ISSUE WITH STAFF THAT YOU MENTIONED.

A. The Company included a 2.77% wage increase for non-union employees and a 2.26% increase for the St. Louis County union (Local 335). The increase for the St. Louis County union was scheduled to become effective on November 1, 2015 but a contract agreement between the Company and the union was not finalized until January 28, 2016. The effective date of the new union wage rates is January 28, 2016 and the actual percentage increase in the wage rates is 2.375%, slightly higher than the 2.26% included in the Company's filing. This information will be provided to the parties as part of the true-up.

Regarding the wage increases for the non-union employees, the effective date for the wage increases will be March 14, 2016. While this date is beyond the true-up by 43 days, it is well before the Operation of Law date of June 30, 2016 by 108 days. It is important for the Commission to understand the impact to the Company if the increases for the non-union employees are not reflected in the revenue requirement. The annual value of this expense item alone is approximately \$294,000. Without recovery of this wage increase, the Company will not recover nearly \$900,000 of expense over the next three years, assuming the next rate case is not filed until mid-year 2018.

Q. DO YOU HAVE ANY LABOR AND RELATED ISSUES WITH OPC THAT YOU WOULD LIKE TO DISCUSS?

A. Yes, I have three issues to discuss. But first I would like to address the approach OPC used for the calculation of overtime and the O&M Percentage Factor. In contrast to Staff, the OPC used a three year average for both overtime and the O&M Percentage. Both of these approaches are similar to the Company's approach. Therefore, the Company does not take issue with the OPC's use of three years of data to calculate overtime and the O&M Percentage Factor.

1 **Q. WHAT IS YOUR FIRST DISAGREEMENT WITH OPC'S CALCULATION OF**
2 **LABOR AND RELATED EXPENSES?**

3 A. First, the OPC did not include in its calculation of labor expense the cost
4 associated with shift premiums for union employees. A review of the OPC
5 workpapers shows that the total labor expense of \$26,836,897 includes base
6 wages for 655 full-time employees (FTE's) times the base salary rate at
7 September 30, 2015, an allowance for Annual Incentive Plan Expense (AIP)
8 and overtime expense. What is not included in OPC's calculation is an
9 amount for the union shift premium. The Company included a pro forma
10 expense of \$234,378 and Staff included \$228,183 for the shift premium. OPC
11 improperly omitted the shift premium, and it should be restored.

12
13 **Q. PLEASE DISCUSS THE SECOND ISSUE REGARDING OPC'S**
14 **CALCULATION OF LABOR AND RELATED EXPENSES.**

15 A. The \$1,966,458 of payroll taxes noted in OPC witness Roth's testimony,
16 failed to include both the union shift premium and the overtime dollars in its
17 calculation of payroll taxes. The calculation of OPC's payroll taxes was only
18 based on base pay and incentive compensation. Therefore, OPC has
19 understated its pro forma payroll taxes by approximately \$251,000.

20
21 **Q. NOW PLEASE DISCUSS THE THIRD ISSUE CONCERNING OPC'S**
22 **LABOR AND LABOR-RELATED EXPENSES.**

23 A. OPC has understated its pro forma calculation of group insurance expense
24 significantly. OPC is recommending a level of group insurance expense in
25 the amount of \$1,342,123. The Company proposed a level of \$4,764,762 and
26 Staff is recommending a level of \$4,466,833. It is obvious that OPC's
27 recommendation is incorrect. The Company reviewed OPC's methodology
28 and found a number of errors.

29 First, OPC calculated its group insurance expense using a ratio based upon
30 test year O&M group insurance costs and test year O&M payroll expense.
31 OPC then applied this ratio to its annualized pro forma payroll expense to
32 calculate the annualized O&M group insurance expense. This calculation is

1 flawed because the use of the ratio, as calculated by OPC, assumes that
2 there is a direct relationship between group insurance costs and payroll
3 expense. However, there is no direct relationship. The group insurance cost
4 is based on a number of factors. One factor is whether an employee has a
5 particular category of coverage such as “employee only,” “family” or
6 “employee + family”, “employee + spouse or employee + children coverage.”
7 A second factor is whether the employee has dental and vision coverage.
8 None of the costs of these coverages is tied or related to an employees’
9 salary level. There are also four other types of insurance coverages. They
10 are life insurance, accidental death and dismemberment (AD&D), short-term
11 disability and long-term disability. Only the life insurance, AD&D and long-
12 term disability are tied to an employees’ wage level. These three components
13 of the group insurance plan only represent .35% of the total cost of the group
14 insurance plan. Therefore, it is inappropriate to use a ratio of group insurance
15 costs to payroll costs in developing the pro forma level of group insurance
16 cost.

17
18 **Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING THE OPC’S**
19 **CALCULATION OF GROUP INSURANCE COSTS?**

20 A. Yes, as noted earlier, OPC’s proposed method was to calculate a ratio of test
21 year group insurance cost divided by test year payroll expense and then
22 multiply that ratio by the pro forma level of payroll expense. However, OPC
23 took the test year level of group insurance cost of \$4,343,091 and then
24 reduced that amount by the test year level of OPEB expense in the amount of
25 \$3,016,798 to arrive at a net amount of \$1,326,293. I am not sure why the
26 OPC would use the OPEB expense to reduce the test year group insurance
27 expense level as there is not any reason to do so. Furthermore, neither the
28 OPC workpaper nor the testimony addresses this adjustment or explains the
29 rationale for reducing this expense by the OPEB amount. Thus by reducing
30 the test year level of group insurance cost by the test year level of OPEB
31 expense, OPC significantly and inappropriately understates the calculation of
32 pro forma group insurance cost.

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V. SEVERANCE COSTS

Q. DID MISSOURI-AMERICAN PAY OUT SEVERANCE COSTS DURING THE TEST YEAR ENDING DECEMBER 31, 2014?

A. Yes, Missouri-American paid out \$190,936 in severance payments to employees during the test year.

Q. OPC WITNESS HYNEMAN AND STAFF WITNESS KUNST BOTH CLAIM MAWC IS PROPOSING TO RECOVER THESE SEVERANCE COSTS. DID MISSOURI-AMERICAN REQUEST RECOVERY OF SEVERANCE COSTS FOR MAWC EMPLOYEES?

A. No, MAWC eliminated all severance costs related to Missouri-American employees from its labor and benefits pro-forma calculation. Staff and OPC both adjusted for this expense.

VI. ATRAZINE SETTLEMENT

Q. STAFF WITNESS SHARPE, AND OPC WITNESS ROTH, BOTH HAVE PROPOSED DIFFERENT METHODOLOGIES REGARDING ACCOUNTING FOR THE PROCEEDS OF THE ATRAZINE SETTLEMENT RECEIVED BY MISSOURI-AMERICAN IN JANUARY OF 2013. PLEASE DESCRIBE THE SETTLEMENT AND STATE THE PROPOSALS MADE BY THE INTERVENING WITNESSES?

A. Missouri-American received a payment relative to the settlement of a class action lawsuit brought against Syngenta Crop Protection, Inc. and Growmark, Inc. in January 2013 in the amount of \$1,160,255.95. In this rate proceeding, the Company has proposed to share the proceeds of that settlement payment 50/50 between the customers of Missouri-American and the shareholders of Missouri-American, although no such sharing is required because the settlement payment was a non-recurring event outside of the test year. Staff witness Sharpe and OPC witness Roth contend that the entire settlement amount should be allocated to Missouri-American customers.

1 **Q. STAFF WITNESS SHARPE ARGUES THAT IT IS APPROPRIATE THAT**
2 **THE ENTIRE SETTLEMENT BE ALLOCATED TO MISSOURI-AMERICAN**
3 **CUSTOMERS. MS. SHARPE BASES THIS ARGUMENT ON THE CLAIM**
4 **THAT CUSTOMERS HAD TO PAY HIGHER RATES TO ADDRESS THE**
5 **COST OF TESTING AND TREATING OF THE ATRAZINE. DO YOU**
6 **AGREE WITH MS. SHARPE’S ASSUMPTION THAT RATEPAYERS PAID**
7 **HIGHER COST RELATED TO THE TESTING AND TREATMENT OF**
8 **ATRAZINE?**

9 A. No. Missouri-American tests and treats its water for a number of
10 contaminants, including Atrazine, as regulated by the USEPA. Although
11 Atrazine was found in our water supply, no additional test or modification to
12 our normal testing method was needed to identify its presence. Furthermore,
13 the substance used to treat our water supply for Atrazine is carbon. Carbon is
14 routinely used to treat Missouri-American’s water supply for several other
15 contaminants. Also, there is no identifiable evidence that the ratepayers paid
16 any increased costs for the litigation and gathering of information related to
17 the Atrazine lawsuit. All internal time spent on the Atrazine issue was
18 recorded to the books as regular time in the state where it was incurred. The
19 Company’s proposed splitting of the settlement between customers and
20 shareholders was not an admission that ratepayers had paid higher rates
21 related to the Atrazine issue.

22
23 **Q. WHAT ARE MS. SHARPE’S AND MS. ROTH’S POSITIONS WITH**
24 **RESPECT TO THE AMORTIZATION OF THE ATRAZINE SETTLEMENT?**

25 A. Ms. Sharpe believes the entire settlement amount should be amortized over a
26 three year period. Ms. Roth believes the entire settlement should be
27 amortized over a five year period.

28
29 **Q. HAS A CLAIM THAT SYNGENTA ATRAZINE SETTLEMENT PROCEEDS**
30 **SHOULD BE SHARED WITH RATEPAYERS RECENTLY BEEN**
31 **ADDRESSED BY ANOTHER STATE COMMISSION?**

1 A. Yes. The Indiana Utility Regulatory Commission (IURC) recently rejected a
2 claim that any portion of the Atrazine settlement proceeds should be shared
3 with ratepayers.

4 Citizens Water of Indianapolis filed a petition for a general rate increase in
5 February 2013, with a historical test year ended September 30, 2012. In
6 January 2013, Citizens Water had received \$2.8 million in the Syngenta
7 atrazine settlement, and did not propose in its rate case to share any portion
8 of the settlement with ratepayers. The Office of Utility Consumer Counselor
9 (OUCC), which is Indiana's customer advocate, contended that Citizens
10 Water's revenue requirement should be offset by the Syngenta settlement,
11 amortized over a three-year period. The OUCC said that ratepayers should
12 benefit from the settlement, the purpose of which was to recover costs of
13 monitoring and treatment to remove atrazine from water supplies. Citizens
14 Water argued that sharing violated test year principles (which utilize practices
15 similar to Missouri) and that a settlement payment was a non-recurring item
16 not to be considered in setting rates. The IURC agreed with Citizens Water:
17 "We have held that settlements are non-recurring in nature and should not be
18 considered in determining a utility's rates and charges. ... We agree that
19 [Citizens], by not including the Atrazine settlement in revenues, has
20 addressed this issue appropriately because this is a nonrecurring event, and
21 we decline to amortize the settlement as recommended by the OUCC."
22

23 **Q. IS MISSOURI-AMERICAN NOW PROPOSING THAT THE COMMISSION**
24 **IGNORE THE ATRAZINE SETTLEMENT PAYMENT IN SETTLING**
25 **MAWC'S REVENUE REQUIREMENT BECAUSE IT WAS OUTSIDE THE**
26 **TEST PERIOD?**

27 A. No. The Company proposed to split the proceeds of the settlement with its
28 customers based on its belief that this was a fair and equitable distribution of
29 the proceeds as explained in our direct testimony. Notwithstanding the fact
30 that receipt of the settlement proceeds is a non-recurring event outside the
31 test year in this case, Missouri-American stands by its original proposal for a
32 50/50 split with its customers.

1 **Q. HAS ANY AMERICAN WATER UTILITY AFFILIATE RECEIVED RATE**
2 **TREATMENT FOR THE ATRAZINE SETTLEMENT.**

3 A. Yes. Iowa-American Water Company (“Iowa-American”) filed a petition for a
4 general rate increase in April 2013, based on a December 31, 2012 test year.
5 (*In re Iowa-Am. Water Co.*, Docket No. RPU-2013-0002, 2014 WL 880986
6 (Iowa U.B.) (Decision and Order, Feb. 28, 2014)). Because the federal court
7 in the Syngenta class action approved the settlement in October 2012
8 (although settlement checks to claimants were not issued until January 2013),
9 Iowa-American considered the settlement amount it obtained (\$104,382.33)
10 to have been received in the 2012 test year. In its rate case, Iowa-American
11 proposed to share the proceeds, amortized over a two-year period, with
12 ratepayers on a 50/50 basis. The Iowa Utilities Board (“IUB”) approved the
13 proposal, which was not contested by any party and was not discussed in the
14 IUB’s final order.

15
16 **VII. RATE CASE EXPENSE**

17 **Q. WHAT ARE THE DIFFERENCES BETWEEN THE COMPANY, STAFF AND**
18 **OPC SURROUNDING RATE CASE EXPENSE?**

19 A. The Company has estimated total rate case costs to be \$1,522,150 and is
20 proposing to amortize the costs over a two year period or \$761,075 per year.
21 The Staff has reviewed all rate case costs incurred through September 30,
22 2015, and has recommended utilizing a sharing of the costs between the
23 shareholders and the customers based on the Staff’s recommendation of its
24 increase in revenues divided by the Company’s proposed increase in
25 revenues. The Staff is proposing to amortize the costs to be recovered from
26 the ratepayers over a 30 month period. Staff is recommending that the cost of
27 the depreciation study will be fully included in rates and be amortized over 5
28 years. The total annual rate case expense included in the Staff’s revenue
29 requirement is \$22,991. Staff has indicated that it will update this adjustment
30 as rate case expense is incurred and the associated information is provided
31 by the Company.

1 OPC has recommended that the total rate case cost be capped at \$1,000,000
2 and it proposes a 50/50 sharing of the costs between shareholders and
3 ratepayers. In addition, OPC is recommending amortizing the costs over a
4 three year period. The total annual rate case expense being recommended
5 by the OPC is \$167,667.
6

7 **Q. DO YOU AGREE WITH THE RECOMMENDATIONS OF STAFF AND OPC**
8 **ON RATE CASE EXPENSE?**

9 A. No. I will address OPC initially. First, simply to clarify, OPC witness Hyneman
10 incorrectly states that MAWC receives direct charges related to the rate case
11 from American Water Works Company. MAWC receives direct charges for
12 rate case services from American Water Works Service Company, Inc.
13 These services are governed by a contract which is included in the
14 Company's Cost Allocation Manual. Second, Mr. Hyneman indicated that the
15 Company incurred rate case expense of "just over \$1 million" in its last rate
16 case. This was used by OPC to support its rate case cap of \$1,000,000. The
17 actual cost incurred by MAWC in the last rate case, however, was not "just
18 over \$1 million," it was \$1,281,779. Recommending a total rate case cost in
19 the current case of \$1,000,000, therefore, is not consistent with the actual
20 cost incurred from the last case. Moreover, MAWC's last rate case was
21 settled and therefore its rate case expense was less than it would have been
22 if fully litigated.

23 OPC is further recommending amortizing the rate case expense over three
24 years. This was determined by reviewing the time between the current case
25 and the previous three rate cases. OPC then assigned a 50 percent weighting
26 to the period between MAWC's 2011 rate case and the 2015 rate case and
27 an equal residual weighting to the time period between MAWC's 2008, 2010
28 and 2011 rate cases. The OPC testimony does not provide any support or
29 reasoning or explanation of why an unequal weighting was used. It was
30 simply used. The Commission should reject this approach since it is arbitrary
31 and not supported by any evidence.

1 I also do not agree with the 50/50 sharing of the rate case expense between
2 shareholders and ratepayers. I will address this issue after I discuss Staff's
3 recommendation since they also recommend a sharing of rate case cost
4 between shareholders and customers.

5

6 **Q. PLEASE DISCUSS THE ISSUES THAT YOU HAVE WITH STAFF'S**
7 **CALCULATION OF RATE CASE EXPENSE.**

8 A. First, Staff will be updating their rate case expense recommendation as
9 additional rate case expense is incurred and will review the data for
10 reasonableness and prudence. Staff will calculate rate case expense based
11 on expenses incurred through the earlier of the date of a global resolution of
12 this case or the true-up reply brief filing date of April 22, 2016. The Company
13 does not disagree with this approach.

14

15 **Q. THE STAFF PROPOSES A 30 MONTH (OR 2-1/2 YEAR) AMORTIZATION**
16 **PERIOD FOR THE RATE CASE EXPENSE. DOES THE COMPANY AGREE**
17 **WITH THIS RECOMMENDATION?**

18 A. The Company does not oppose this recommendation.

19

20 **Q. THE STAFF AND OPC BOTH RECOMMEND A SHARING OF RATE CASE**
21 **EXPENSE BETWEEN THE SHAREHOLDERS AND THE RATEPAYERS.**
22 **WHAT IS THEIR APPROACH AND DO YOU AGREE WITH THIS**
23 **RECOMMENDATION?**

24 A. OPC is recommending a straight 50/50 split between the shareholders and
25 the ratepayers. The Staff is recommending that the ratepayers only pay a
26 rate case expense that is determined by the ratio of the actual authorized
27 revenue increase divided by the revenue increase proposed by the Company.
28 MAWC respectfully disagrees with any sharing approach between
29 shareholders and ratepayers, even though this approach was recently
30 approved by the Commission. Rate case expense, just like every other
31 expense item, is subject to audit by Staff and the intervenors and
32 disallowance for imprudence and other grounds. A prudent expense is an

1 expense that would be incurred by a reasonable person acting reasonably
2 under the circumstances. This is not an unduly difficult standard to fulfill and
3 rate case expense has been examined and passed upon for the last century
4 without undue hardship.

5

6 **Q. WHAT IS THE RECENT COMMISSION DECISION TO WHICH YOU**
7 **REFER?**

8 A. The Commission utilized the approach proposed by Staff in this case in the
9 most recent rate case of Kansas City Power & Light Company (KCP&L)
10 (Case No. ER-2014-0370). However, I also understand that issue has been
11 appealed to the Western District Court of Appeals.

12

13 **Q. HAVE YOU REVIEWED THE ARGUMENTS OF BOTH STAFF IN THIS**
14 **CASE AND THE REBUTTAL TESTIMONY OF KCP&L WITNESS IVES IN**
15 **THE KCPL RATE CASE?**

16 A. Yes. KCP&L witness Ives made a number of significant arguments regarding
17 the issue of sharing rate case expense. Without going into a substantial
18 amount of detail, I have summarized a few of those arguments with which I
19 agree and that I believe are relevant to this case. They are as follows:

20 • Rate case expenses are no different than other costs. There is a
21 shared benefit inherent in all costs that a utility incurs in providing
22 service. Yet the utility is allowed to recover 100% of all other prudently
23 incurred costs.

24 • The burden of proof lies with the utility in rate cases. The cost of
25 meeting that burden, however, can be driven by the complexity and
26 number of issues raised by other parties, including the level of
27 discovery.

28 • Rate cases require the hiring of outside attorneys and consultants who
29 have the expertise to address complicated regulatory issues. MAWC
30 does not have the resources to retain those experts in-house 100% of
31 the time, so it must rely on outside resources to file and prosecute a
32 rate case.

- 1 • A utility has a right to utilize the resources that it needs to respond to
- 2 issues in a rate case.
- 3 • Sharing of rate case expenses restricts the Company's ability and right
- 4 to direct its presentation of its case.
- 5 • Sharing of rate case expense is arbitrary because it disallows
- 6 reasonable and prudently incurred rate case expense.
- 7 • Rate case expense is not necessarily discretionary.

8 Of particular significance to the Company's current rate filing, is the fact that
9 the filing of this rate case was largely driven by the ISRS statute that required
10 the Company to file a rate case within three (3) years after an initial ISRS was
11 implemented after the conclusion of the previous rate case. It does not seem
12 reasonable to claim that the Company should be forced to absorb a
13 significant portion of an expense that it was required to incur.

14
15 **Q. DO YOU AGREE WITH THE METHODOLOGY UTILIZED BY THE**
16 **COMMISSION IN THE KCP&L CASE?**

17 A. No. I believe that there are some inherent issues and problems in the
18 methodology utilized by the Commission. It is obvious that the Commission
19 has concerns over the level of rate case expense being incurred by not only
20 utilities, but its Staff and Public Counsel. Missouri American is focused on
21 controlling all of its costs, not just rate case expense. Mr. Kartmann (which is
22 being adopted by Ms. Cheryl Norton), in his direct testimony, addressed this
23 issue in substantial detail.

24 In reviewing the Staff report in Case No. AW-2011-0330, it appears that the
25 focus of the Commission is to incentivize companies to control rate case
26 expenses. Controlling rate case expense is one thing. A blanket disallowance,
27 however, is quite another thing. Only allowing rate recovery of rate case
28 expense in direct proportion to the amount of rate relief granted as a
29 percentage of the total increase sought, has nothing to do with incentives.
30 For example, the Commission speaks of a range of returns on equity. Is the
31 Company to be penalized for establishing that range through testimony and

1 legal argument even if the Commission settles on a lower number that is, in
2 fact, informed by that range? In fact, this protocol may do nothing more than
3 “incentivize” Staff, OPC and intervenors in a rate case to propose as many
4 adjustments to the revenue requirement as they can, knowing that such
5 adjustments that will push the requested rate increase down as low as
6 possible. Should this happen, it is possible for a utility to incur substantial
7 rate case expense, yet only recover a small fraction of the amount it
8 requested. This result is neither fair nor reasonable given the Company does
9 not have control of the recommendations of the Staff, OPC or intervenors in
10 the case. The 50/50 sharing mechanism in the KCP&L does not incentivize
11 the Staff, OPC and other parties to minimize rate case expense or, more
12 importantly, the multiplicity of factors that constitute ratemaking litigation.
13

14 **Q. STAFF BELIEVES THAT THIS METHODOLOGY WOULD PROVIDE AN**
15 **INCENTIVE FOR A UTILITY TO FILE A “TIGHT” CASE THAT WOULD BE**
16 **EASIER TO PROCESS, AS WELL AS ENCOURAGE PRE-FILING**
17 **DISCUSSIONS WITH OTHER PARTIES REGARDING NEW RATE CASE**
18 **PROPOSALS IN AN ATTEMPT TO GAIN CONSENSUS BEFOREHAND.**
19 **DO YOU HAVE ANY COMMENTS?**

20 A. Yes. There is nothing in the proposal that facilitates pre-filing discussions. The
21 Commission is free to encourage them in an effort to reduce litigation.
22 Regarding the filing of a “tight” case, I am not sure if the Company, the Staff
23 or other parties can agree on what is meant by a “tight” case. If this means
24 we should file a rate case that is substantially lower than what we believe is
25 appropriate, then we are doing a disservice to our investors and customers
26 who rely on us to obtain the revenue necessary to provide safe and adequate
27 service at just and reasonable rates. In any event, the parties in the case
28 may still recommend a rate increase of 30%, 40% or 50% of the amount
29 requested. So what difference would it make if the Company did file a “tight”
30 case? It may incentivize the Company, but would it incentivize the other
31 parties to keep rate case costs low? While it may incentivize a utility to have
32 pre-filing discussions, all it would take is one or two parties to disagree and

1 there would be no consensus and the costs of a hearing would not be
2 avoided. By its nature, as in most court arenas, the regulatory process has
3 some degree of an adversarial aspect to it. While the rate case process over
4 the years has shown to be one where cooperation and collaboration
5 sometimes works best, the adversarial aspect has its role, as well. While I
6 believe that the Commission should set policies that encourages all parties to
7 work together and resolve as many issues as possible, without incentivizing
8 any of the parties to not propose unnecessary or frivolous adjustments in the
9 revenue requirement, I do not believe the sharing of rate case expense
10 proposed by Staff and OPC accomplishes that objective.

11
12 **Q. DO YOU HAVE A PROPOSED RECOMMENDATION ON THE RECOVERY**
13 **OF RATE CASE EXPENSE?**

14 A. Yes. If KCP&L's appeal fails and the court affirms the Commission's decision
15 in that case, then I believe that the Commission should still consider as an
16 alternative the proposal Staff made on page 13 of its Report in Case No. AW-
17 2011-0330. That proposal is the use of a cap that specifies some level of rate
18 case expense to be recovered with a sharing approach for any expense
19 incurred above the cap. This approach will incentivize both the utility and
20 other parties to control costs and to work together collaboratively.

21
22 **Q. HOW WOULD YOU RECOMMEND THAT THE COMMISSION IMPLEMENT**
23 **THAT PROPOSAL IN THIS CASE?**

24 A. One of the Staff's recommendations in Case No. AW-2011-0330 was to allow
25 recovery of a set dollar amount per customer (i.e. a cap of \$3 per customer)
26 with any amount in excess of that cap to be shared on a straight 50/50
27 sharing of costs. The setting of the cap would need to be determined through
28 a review of average rate case costs per customer for the larger gas, electric
29 and water utilities in Missouri along with a collaborative approach between the
30 Company, OPC and the other parties in the case.

31 In addition, there are certain costs in a rate case that are incurred which are
32 required by the Commission which should be recovered 100% and should not

1 be part of the capped dollar amount. Examples of this would include the
2 costs to notify the customers of the Company of the requested increase and
3 local hearings, required depreciation studies, and travel costs related to the
4 twelve public hearings across the state. In some instances, a company is
5 required to file a rate case. For example, one of the main reasons Missouri-
6 American is now in for a rate case is due to the ISRS statute.

7

8 **Q. CAN YOU GIVE AN EXAMPLE OF HOW YOUR RECOMMENDATION**
9 **WOULD WORK?**

10 A. Yes. The Company, Staff, OPC and the other parties agree that the cap per
11 customer for rate case expense would be \$2.25. In addition, the parties agree
12 that the costs of noticing customers of the rate increase and public hearings
13 would cost \$100,000. The amount to be recovered in rates would be
14 \$1,138,103 ($\$2.25 \times 461,379$ customers = \$1,038,103 + \$100,000 for noticing
15 costs). Any amounts incurred above the \$1,038,103 would be shared 50/50
16 between shareholders and ratepayers. This method recognizes a reasonable
17 and prudent level of recovery of costs for the rate case where the Company is
18 able to present and prove its case, uses the resources it needs to present its
19 case, does not overly restrict the Company and allows for a prudent level of
20 costs. It provides assurance to the Staff, OPC, other parties and the
21 Commission that there is a limit to the level of rate case expense. It also caps
22 the level of the cost of a rate case and provides the Company, Staff, OPC and
23 other parties with the incentive to restrict the cost of rate cases. And, finally,
24 as with any other cost in a rate case, any party can recommend that any rate
25 case cost being proposed by the Company is neither prudent nor reasonable
26 and should not be recovered as part of the \$2.25 per customer cap, or part of
27 the noticing cost or part of the 50/50 sharing cost that exceeds the \$2.25 per
28 customer.

29

30 **Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING RECOVERY OF**
31 **RATE CASE EXPENSE?**

32 A. Yes. Later in in my testimony, I will address the issue of cost recovery for a

1 number of expense items that the Company has not been afforded timely rate
2 recovery.

3
4 **VIII. PENSION TRACKER**

5 **Q. DOES THE COMPANY HAVE IN PLACE A PENSION EXPENSE**
6 **TRACKING MECHANISM?**

7 **A.** Yes. The pension expense tracker was first approved in Case No. WR-2007-
8 0216 and subsequently renewed without significant change in Cases WR-
9 2008-0311 and WR-2010-0131. However, in Case No. WR-2011-0337, the
10 Stipulation and Agreement resulted in a change in the accounting for the
11 Pension Tracker due to Staff's perceived "flaw" in the mechanism.

12
13 **Q. PLEASE EXPLAIN STAFF'S PERCEIVED 'FLAW' IN ACCOUNTING FOR**
14 **THE PENSION TRACKER IN CASE WR-2011-0337.**

15 **A.** In Case No. WR-2011-0337 Staff argued that they suddenly discovered a
16 "flaw" in the existing pension tracker mechanism stating that the problem in
17 the operation of the current FAS 87 tracker mechanism is that it is based
18 upon fluctuations in the Company's ongoing FAS 87 (now ASC 715-30)
19 expense compared to the amount of FAS 87 included in MAWC's rate levels.
20 Staff states "Inclusion of both a FAS 87 rate base difference and a
21 pension/asset liability in rate base will most likely result in either an
22 overstatement or an understatement of MAWC's actual pension tracker for
23 rate base."

24
25 **Q. PLEASE EXPLAIN THE CHANGE IN ACCOUNTING FOR THE PENSION**
26 **TRACKER ORDERED IN CASE WR-2011-0337.**

27 **A.** The Stipulation states as follows: "The Company shall be allowed rate
28 recovery for prudent contributions it makes to its pension trust that exceed the
29 ERISA minimum for any of the following reasons: i) The minimum required
30 contribution is insufficient to avoid the benefit restrictions specified for at-risk
31 plans pursuant to the Pension Protection Act of 2006, thereby causing an
32 inability by MAWC to pay out pension benefits to recipients in its normal and

1 customary manner, including lump sum payments; or ii) The minimum
2 required contribution is not sufficient to avoid any Pension Benefit Guarantee
3 Corporation (“PBGC”) variable premiums Prudent additional contributions
4 made pursuant to this paragraph will increase MAWC’s rate base, and will
5 receive the regulatory treatment as described in paragraph A of this Section.
6 MAWC shall inform Staff and Public Counsel of contributions of additional
7 amounts to its pension trust funds pursuant to this paragraph in a timely
8 manner. Staff, Public Counsel and other Signatories reserve the right to
9 challenge the prudence of any additional contributions made by MAWC
10 pursuant to this paragraph in subsequent MAWC rate proceedings.”

11
12 **Q. DO YOU AGREE THAT THERE WAS A “FLAW” IN THE ORIGINAL**
13 **MECHANISM AS AUTHORIZED IN CASE NO. WR-2007-0216?**

14 A. No. The original tracker mechanism was designed to include two distinct
15 factors in the calculation – one for tracking the estimated expense level to the
16 actual expense level, and the other for tracking the time value of money
17 related to differences in the recorded expense level and actual cash
18 contributions. The two factors work together to compute correctly the return
19 of and return on components as designed.

20
21 **Q. HAS THE STAFF RECOMMENDED THAT THE PENSION TRACKER BE**
22 **ELIMINATED?**

23 A. No. A tracking mechanism is appropriate for expense items that are volatile
24 and therefore may vary greatly from test year levels to levels during the
25 period that rates are in effect.

26
27 **Q. WHAT IS STAFF’S RECOMMENDATION FOR THE PENSION TRACKER?**

28 A. Staff recommends restoring the tracker as originally approved in Case No.
29 WR-2007-0216. Company agrees with Staff’s proposal.

30
31 **Q. HOW DOES THE ORIGINAL PENSION TRACKER AS AUTHORIZED ON**
32 **CASE NO. WR-2007-0216 WORK?**

1 A. There are two parts to the pension tracker. First, a level of pension expense
2 is established in the revenue requirement in setting rates based upon the FAS
3 87 pension expense that is estimated to be incurred annually while rates are
4 in effect. The calculation of FAS 87 pension expense is governed by
5 generally accepted accounting principles. At the time of the next rate case,
6 actual FAS 87 pension expense is compared (i.e., trued-up) to the amount
7 that has been collected in rates. The difference is recorded as a deferred
8 regulatory asset or liability and amortized over five years. This part of the
9 mechanism reconciles actual expenses accrued to rates paid by customers
10 and insures that the Company receives a return of the exact amount of
11 pension expense incurred.

12 A second part of the pension trackers is a comparison of the FAS 87 expense
13 to cash contributions made to the pension fund. Cash contributions are
14 generally governed by the Employee Retirement Income Security Act
15 (“ERISA”) and may differ in a given year from the FAS 87 expense level,
16 although over time they should be equal. Because the actual cash paid by
17 the Company may be more or less than the recorded expense, the difference
18 is tracked and a pension asset or pension liability is included in rate base.
19 This part of the mechanism is similar to the establishment of prepaid assets
20 or deferred tax reserves in rate base. It insures that the Company receives a
21 return on its funds if it has contributed more than the expense level allowed in
22 rates, but gives credit to customers for a return on their funds if the amount
23 they have paid in rates exceeds the contributions made by the Company.

24 25 **IX. CORPORATE AND DISTRICT ALLOCATIONS**

26 **Q. PLEASE ADDRESS THE ISSUE REGARDING CORPORATE AND**
27 **DISTRICT ALLOCATIONS.**

28 A. In my direct testimony, I discussed in detail how the Company proposed to
29 allocate all corporate and joint and common costs to all the districts of the
30 Company. I will not repeat that discussion. However, in my direct testimony,
31 I did introduce a new allocation that was used to allocate the corporate and
32 joint and common costs to the smaller districts of Missouri American Water. It

1 was recommended that for districts with 3,000 or fewer customers that an
2 annual allocation of \$20 per customer for corporate and joint and common
3 costs was to be allocated and assigned to those districts in order calculate the
4 revenue requirement. The Company made this recommendation because it
5 believes that the smaller districts do not require the same level of service as a
6 larger district. In fact, we looked at a few small companies to determine the
7 level of overhead costs that are typically incurred and used that as a basis for
8 the \$20 per customer allocation. The remaining corporate and joint and
9 common costs were then allocated to the larger districts based upon the
10 identified cost causer for each cost.

11 Because of the small size of the districts (i.e., less than 3,000 customers) and
12 because we believe that the smaller districts do not require the same level of
13 service as the larger districts, it would not make sense to utilize the traditional
14 cost allocation factors that would allocate significantly more costs to the
15 smaller districts thus burdening those customers with higher cost of service
16 and rates. If the Company utilized the traditional allocation factors, the
17 average cost per customer for the districts with less than 3,000 customers
18 would be in the range of \$50 per customer to over \$300 per customer
19 compared to less than \$20 per customer for the larger districts.

20

21 **Q. DID ANY PARTY IN THE CASE SUBMIT TESTIMONY ON THE ISSUE OF**
22 **ALLOCATING \$20 PER CUSTOMER FOR DISTRICTS WITH LESS THAN**
23 **3,000 CUSTOMERS?**

24 A. Yes, Staff in its report on p. 52 at lines 10 – 13 indicated that it did not assign
25 an annual per customer limit for corporate allocations to small districts as
26 MAWC has proposed for this rate case.

27

28 **Q. WHAT REASON DID STAFF GIVE FOR NOT AGREEING WITH THE**
29 **COMPANY POSITION?**

30 A. Staff gave no reason but only stated that it did not assign an annual per
31 customer limit for corporate allocations to small districts.

32

1 **X. INSURANCE OTHER THAN GROUP**

2
3 **Q. DOES THE COMPANY TAKE ISSUE WITH STAFF'S TREATMENT OF**
4 **THE EXPENSE FOR INSURANCE OTHER THAN GROUP?**

5 A. Yes. The Company has three issues with the Staff's calculation of its level
6 of proforma Insurance Other Than Group expense. First is the exclusion
7 of the allocated cost of the Directors & Officers ("D & O") and the Kidnap
8 & Ransom ("K & R") coverage. Second is the application of the payroll
9 O&M percentage, or the allocation between expense and capital. Third is
10 the retrospective insurance adjustment

11
12 **Q. WHAT IS THE ISSUE WITH THE EXCLUSION OF THE COST FOR THE**
13 **DIRECTORS & OFFICERS AND KIDNAP & RANSOM COVERAGES?**

14 A. Staff proposed an adjustment to annualize insurance expense to reflect
15 the premiums as of December 31, 2015. However, Staff excluded D & O
16 and K & R coverages in the amount of \$34,843. The Staff Report does
17 not include an explanation of why the expense associated with this
18 coverage was excluded.

19
20 **Q. IS D&O INSURANCE A NECESSARY AND CUSTOMARY BUSINESS**
21 **EXPENSE FOR AWW AND ITS SUBSIDIARIES?**

22 A. Yes. Without a policy of insurance to indemnify and defend its Board of
23 Directors and its corporate officers, AWW would find it extremely difficult
24 to recruit qualified persons to serve on its Board of Directors or in the
25 capacity of executive management.

26
27 **Q. WHY WOULD IT PRESENT A PROBLEM FOR AWW?**

28 A. As a publicly traded company, AWW, its directors and officers are
29 subject to the Securities Exchange Commission Act (SEC) and the
30 Sarbanes Oxley Act (SOX), as well as many other federal and state
31 regulations. The SOX legislation establishes new or enhanced standards
32 for all U.S. public company boards, management, and public accounting

1 firms. SOX contains 11 titles, or sections, ranging from additional
2 Corporate Board responsibilities to criminal penalties, and requires the
3 SEC to implement rulings on requirements to comply with the new law.
4 SOX also covers issues such as auditor independence, corporate
5 governance, internal control assessment, and enhanced financial
6 disclosure. Prospective internal and external candidates, who are invited
7 to a company, are subject to potential litigation in civil and criminal courts.
8 These many complex and demanding corporate governance obligations
9 are accompanied by potential fines and penalties and possible civil and
10 even criminal liabilities. Any individual taking on such risks will expect
11 and demand insurance coverage for claims that may be lodged in
12 connection with the performance of these and other responsibilities.

13
14 **Q. WHAT ABOUT K&R INSURANCE COVERAGE?**

15 A. K&R insurance is also considered to be a necessary and customary
16 expense for AWW. This type of insurance coverage provides protection
17 against kidnapping and extortion threats against senior officials of AWW,
18 here or abroad. Additionally, AWW and the water industry have been
19 designated as part of the United States critical infrastructure by the
20 Department of Homeland Security. As such, the concerns about risks to
21 senior Company officials are heightened by the possible threat of terrorist
22 acts of extortion against the Company.

23
24 **Q. SHOULD THAT PORTION OF AWW'S D&O AND K&R COVERAGE**
25 **EXPENSE ALLOCATED TO MAWC BE INCLUDED IN MAWC'S COST**
26 **OF SERVICE?**

27 A. Yes. The Directors and Officers and Kidnap and Ransom coverages are
28 prudent business expenditures and should be allowed. This type of
29 expense is crucial to the Company's ability to recruit and maintain
30 qualified individuals to serve on its Board of Directors and in the capacity
31 as senior Company officers. These expenses are considered customary,
32 particularly for large, publicly traded corporations.

1 **Q. WHAT IS THE ISSUE REGARDING THE APPLICATION OF THE O&M**
2 **PERCENTAGE TO THE VARIOUS INSURANCE COSTS?**

3 Staff has taken the position that a portion of the expense associated with all
4 insurance policies should be capitalized. Company continued the 10%
5 capitalization rate to all insurance policies (other than workers compensation
6 and auto liability insurance) as ordered in Case No. WR-2007-0216. Staff
7 applied an arbitrary 87.09% O&M factor to Insurance premiums and provided
8 no justifications as to why a different rate should be used. The Company
9 does not believe that Staff's method properly allocates enough Insurance
10 Other Than Group costs to expense (or stated another way, the Company
11 believes that Staff's method improperly capitalizes too much of the Insurance
12 Other Than Group expense).

13
14 **Q. WHAT TYPES OF INSURANCE COVERAGE SHOULD HAVE A PORTION**
15 **OF THEIR COST CAPITALIZED BASED ON O&M PAYROLL**
16 **ALLOCATION?**

17 A. Workers compensation and auto liability insurance have a significant
18 correlation to the activity of the Company's labor force. Therefore, an
19 allocation of those insurance costs between capital and expense based on a
20 payroll O&M allocation factor makes sense. The remaining insurance policies,
21 such as general liability and property, are not related to the activities of the
22 labor force and therefore should not be allocated between capital and
23 expense. Therefore, the Company's proposed allocation of 90% to O&M and
24 10% to capital for liability and property insurance coverage is conservative
25 and ought to be adopted.

26
27 **Q. WHAT IS THE THIRD DIFFERENCE BETWEEN STAFF AND COMPANY**
28 **RELATING TO INSURANCE OTHER THAN GROUP?**

29 A. The Company included an adjustment in the amount of \$619,298 for the
30 Retrospective Adjustment (three year average 2012 - 2014).

31
32 **Q. PLEASE EXPLAIN RETROSPECTIVE INSURANCE.**

1 A. Large corporations, similar to American Water, are offered cash flow
2 insurance programs called Retrospective Rated and/or Deductible Rated
3 policies which include large deductibles or retentions. Guarantee cost
4 insurance is usually not offered to large corporations or, if available, would be
5 prohibitively expensive. It enables the insured to pay for losses as they are
6 incurred rather than paying for an enormous guarantee cost premium up front
7 at the beginning of the insurance policy period. Claims including workers
8 compensation, general liability and auto liability will have long tails before all
9 claims are paid. Final settlement will be delayed because claims may be in
10 litigation or an employee may exacerbate and aggravate an injury.

11 Most insurance companies will true up or retroactively adjust premiums for
12 open claims approximately five years after an insurance policy expires.

13 Five years allows those litigated claims and claims involving severe injuries to
14 develop and mature and permits the insurer to more accurately predict how
15 much premium it needs to collect to settle all claims for a given policy period.
16 Retroactive adjustments are completed for all open policy periods.
17 Unfortunately, workers compensation and litigated claims, for example
18 pollution liability claims, can have a 20 to 30 year tail before all claims are
19 resolved.

20

21 **Q. WHAT IS THE TOTAL DIFFERENCE BETWEEN STAFF AND COMPANY**
22 **ON THE ISSUES RELATING TO INSURANCE OTHER THAN GROUP?**

23 A. Staff's total cost of Insurance Other Than Group is \$4,127,444. Based on my
24 rebuttal, the revised level of insurance cost should be \$4,919,237 or \$791,793
25 greater than Staff's cost.

26

27 **XI. PROPERTY TAXES**

28 **Q. WHAT IS THE ISSUE REGARDING PROPERTY TAX EXPENSE?**

29 A. Staff made no adjustment to the test year ending December 31, 2014
30 Property Tax expense and is proposing to true-up to actual property tax
31 expense as of December 31, 2015, which is based on December 31, 2014
32 investment levels.

1 **Q. DOES STAFF'S METHOD ACCURATELY REFLECT THE PROPERTY**
2 **TAXES THAT WILL BE EXPERIENCED BY MAWC?**

3 A. No. Since December 31, 2014, MAWC has placed an additional
4 \$158,276,000 of plant in service. Staff's approach makes no provision for this
5 additional plant, and the additional property taxes that will result from the
6 additional investment in utility plant assets.

7
8 **Q. WHEN WILL MAWC BEGIN TO INCUR THE PROPERTY TAXES**
9 **ASSOCIATED WITH THE PLANT THAT IS PLACED IN SERVICE DURING**
10 **2015?**

11 A. MAWC will begin accruing for property tax expense associated with this
12 property on its books as of January, 2016.

13
14 **Q. WHAT IS THE IMPACT OF STAFF'S APPROACH ON THE REVENUE**
15 **REQUIREMENT IN THIS CASE?**

16 A. This creates a difference between the Company and Staff cases in the
17 amount of \$860,000.

18
19 **XII. POSTAGE**

20 **Q. WHAT IS THE ISSUE WITH POSTAGE EXPENSE?**

21 A. Staff and OPC did not include the postage rate increases effective January
22 17, 2016 or any allowance for new acquisitions subsequent to the test year.
23 Company believes this will all be resolved in the true-up.

24
25 **XIII. LEASE EXPENSE**

26 **Q. PLEASE EXPLAIN THE ISSUE WITH OPC'S RECOMMENDATION FOR**
27 **LEASE EXPENSE.**

28 A. OPC is recommending a \$132,854 reduction to lease expense, eliminating
29 the property lease for the Missouri corporate headquarters building.

30
31 **Q. WHAT IS THE IMPACT OF OPC'S ADJUSTMENT?**

1 A. Lease expense will increase \$109,936 to include the rent expense for the
2 headquarters building.

3

4

XIV. ADVERTISING

5 **Q. PLEASE EXPLAIN THE DISAGREEMENT WITH STAFF WHAT IS THE**
6 **ISSUE REGARDING ADVERTISING?**

7 A. Staff has deducted more than the test year expense level for advertising
8 expense. Total test year advertising expense is \$20,989 but Staff
9 disallowed \$21,263. In addition, Staff has disallowed recovery of the cost of
10 several advertisements that MAWC believes should be allowed.

11

12 **Q. WHAT TYPES OF ADVERTISEMENTS MAY BE INCLUDED IN THE**
13 **COMPANY'S REVENUE REQUIREMENT?**

14 A. According to the Staff Report there are three categories of advertisements
15 recognized by the Commission that can be included in the revenue
16 requirement. The three categories that may be included are:

17 1. General: informational advertising that is useful in the provision of
18 adequate service;

19

20 2. Safety: advertising which conveys the ways to safely use water and to
21 avoid accidents;

22

23 3. Promotional: advertising used to encourage or promote the efficient
24 use of [water].

25

26 **Q. WHAT TYPES OF ADVERTISEMENTS WERE EXCLUDED?**

27 A. There were several advertisements that were disallowed based on Staff's
28 workpapers. The Company agrees with Staff's interpretation of prior
29 Commission orders that certain advertisements should be disallowed
30 because these ads would be considered Institutional or political in nature.
31 However, the Company does not agree with Staff's interpretation on ads
32 relating to the MR350 River Race, Wings over Water, Magnificent Missouri,

1 Trash Bash, Tap Water Quality, Hydrant Flushing, Watershed Education and
2 Earth Day.

3
4 **Q. WHY SHOULD THESE ADVERTISEMENTS BE INCLUDED IN THE**
5 **COMPANY'S REVENUE REQUIREMENT?**

6 A. The MR340 River Race, Trash Bash and Wings over Water advertisements
7 reinforce the importance of river preservation to quality drinking water and
8 wildlife conservation. These events provide educational information to
9 customers and what they can do every day to preserve the quality of water in
10 our rivers. This information increases understanding among customers and
11 supports our provision of service. The Watershed and Earth Day
12 advertisements encourage customers to attend our watershed educational
13 programs. The programs educate customers on how to keep rivers clean
14 through simple steps such as recycling and not overusing lawn chemicals etc.
15 This information is valuable to customers because they need to understand
16 the role they play with the provision of water service.

17 For the reasons noted above, the advertising that has been disallowed by
18 Staff should be classified as General Informational and/or Safety.

19
20 **Q. WHAT IS THE IMPACT OF INCLUDING ADDITIONAL GENERAL AND**
21 **SAFTEY ADVERTISING?**

22 A. Advertising expense will increase by \$18,499 with the inclusion of
23 advertisements that should be considered General and Informational.

24
25 **XV. DUES AND DONATIONS**

26 **Q. PLEASE DISCUSS THE ADJUSTMENTS THAT THE PSC STAFF AND**
27 **THE OPC MADE TO THE COMPANY'S TEST YEAR DUES AND**
28 **DONATIONS EXPENSES THAT YOU DO NOT AGREE WITH?**

29 A. First, Staff has an error in their workpaper which doubles their adjustment to
30 disallow certain dues and donations from Support Services costs from its
31 Revenue Requirement. At the Technical Conference, Staff recognized this
32 error and has agreed to add back the \$77,272 erroneously deducted twice.

1 Second, the Company believes many of the excluded Dues and Donations
2 provide a benefit to the customer and should therefore be included in its
3 revenue requirement.
4

5 **Q. WHAT DUES AND DONATIONS HAVE BEEN EXCLUDED BY STAFF?**

6 A. Staff has excluded donations to local charitable organizations, AWWA
7 membership dues, Missouri Chamber of Commerce membership dues, and
8 membership dues to rotary clubs and professional organizations. Also
9 excluded were donations relating to customer education, conservation and
10 protecting the environment such as the Nature Conservatory, Missouri River
11 Relief, and St. Louis Earth Day.
12

13 **Q. DID STAFF DISALLOW ALL AWWA DUES?**

14 A. No. Staff disallowed the AWWA Corporate membership dues stating they
15 were duplicative of the individual dues. Upon further discussion, Staff
16 indicated that they were going to allow recovery of all AWWA dues, less the
17 lobbying portion as indicated on the invoices.
18

19 **Q. DID STAFF DISALLOW ALL DUES AND DONATIONS RELATING TO**
20 **CHAMBERS OF COMMERCE?**

21 A. No. The Staff allowed recovery of dues for local chamber of commerce
22 organizations, however the Staff disallowed dues for the Missouri Chamber of
23 Commerce.
24

25 **Q. WHY DID STAFF DISALLOW MISSOURI CHAMBER OF COMMERCE**
26 **DUES?**

27 A. Staff disallowed these dues because they believe that membership in the
28 Missouri Chamber of Commerce is duplicative of membership in the local
29 Chamber of Commerce organizations.

30 A number of other excluded dues, such as rotary clubs of \$7,475, represent
31 similar fees paid on a local level so that MAWC personnel can actively
32 participate in the well-being of the local communities we serve.

1 **Q. WHY IS IT IMPORTANT FOR MAWC TO BE A MEMBER OF THE**
2 **MISSOURI CHAMBER OF COMMERCE?**

3 A. The Missouri Chamber of Commerce provides companies with the resources
4 to manage their business effectively and efficiently. Members have access to
5 cutting-edge information, leadership and professional development programs,
6 and business products, services and networking opportunities to help a
7 business grow.

8

9 **Q. HOW DOES THE STATE CHAMBER DIFFER FROM LOCAL CHAMBERS**
10 **OF COMMERCE?**

11 A. The two are very different in scope and application. Local chambers are
12 oriented to local communities and therefore the efforts are not duplicative.
13 Local chambers understand the needs and resource availability on a local
14 level and work to improve local working and business conditions. MAWC's
15 participation in local chambers helps enable the Company to stay in touch
16 with and be accessible to its customers. The Missouri Chamber of Commerce
17 deals with larger scope issues and industries such as aerospace,
18 biotechnology and financial services, and is dedicated to creating a stronger
19 environment for business growth and economic development at the State
20 level. The State Chamber of Commerce is focused on broader educational
21 and economic development issues that impact the state or region as a whole.

22

23 **Q. CAN YOU PROVIDE EXAMPLES OF THE EDUCATION AND ECONOMIC**
24 **DEVELOPMENT PROGRAMS SPONSORED BY THE MISSOURI**
25 **CHAMBER OF COMMERCE AND EXPLAIN HOW THEY BENEFIT**
26 **CUSTOMERS?**

27 A. Yes. The Missouri Chamber of Commerce sponsors the, Show Me Scholars
28 Program, Missouri Mathematics and Science Coalition and the Leadership
29 Missouri Program. The Staff has proposed disallowance of the costs of all
30 programs, such as these, that are organized or funded by the State Chamber.
31 The educational programs mentioned help improve existing students' and
32 leaders' productivity, lead to better public awareness, and develop employees

1 and future leaders more capable of dealing with issues of statewide
2 importance. The Show Me Scholars Program's curriculum enables students
3 to better prepare for the future by enrolling in challenging courses. Missouri
4 Mathematics and Science Coalition is a partnership of state businesses,
5 education and community leaders that are developing programs to boost
6 student achievement in math, engineering, technology and science. These
7 students are part of the future workforce that may someday come to work in
8 the field of water production. It is imperative that the students of today have
9 the skills to understand the engineering, math, and science that are
10 necessary to operate these facilities. Founded in 1990 Leadership Missouri
11 allows participants to take a close look at topics of interest that are important
12 to Missouri, such as transportation, health care, and economic development.
13 Having current leaders that are knowledgeable and who exchange ideas with
14 top state agency personnel can only provide a better understanding of the
15 operation of our state's government and serve to strengthen the recognition of
16 problems and solutions important to the state. A more educated workforce
17 and a better understanding of statewide problems strengthen the competitive
18 position of the state and results in growth which, in turn, tends to stabilize
19 utility rates by spreading fixed costs over a larger customer base. The
20 Missouri Chamber of Commerce participates in trade missions and works with
21 state agencies to attract and retain industry within the state. Success in that
22 effort would provide growth in manufacturers in the state, and specifically
23 within the MAWC service territory. Such economic development efforts are
24 essential to a viable, growing economy and go hand in hand with financially
25 strong utilities and adequate utility infrastructure.

26
27 **Q. WHAT IS THE IMPACT OF INCLUDING MISSOURI CHAMBER OF**
28 **COMMERCE DUES?**

29 A. Dues and Donations expense will increase by \$10,762.
30
31
32

1 **XVI. PROMOTIONAL ITEMS**

2 **Q. PLEASE DISCUSS ALLEGED “PROMOTIONAL ITEMS”?**

3 A. I would like to discuss the Staff’s adjustment to limit recovery of costs for
4 certain promotional items. MAWC believes certain items coded to the
5 Promotional Items Expense should be allowed for recovery. Staff states that
6 these “giveaways” are not necessary for the provision of safe and adequate
7 service, providing no benefit to the ratepayer. However, many of the
8 promotional items carry informational messages to remind water consumers
9 of how to conserve on water usage and how the water systems are impacted
10 by ground pollutants. More efficient water usage by customers can have a
11 direct impact on their bill. Better education about the impact of ground
12 pollutants on the watersheds may convince consumers to use different
13 methods of treating their lawns. This would have a direct positive effect on
14 the water quality in rivers and lakes.

15
16 **Q. WHY DOES MAWC PURCHASE PROMOTIONAL ITEMS?**

17 A. MAWC purchases inexpensive promotional items as part of its community
18 outreach program. Every year, MAWC employees volunteer their time at river
19 clean-ups, watershed preservation and water-related educational events in
20 collaboration with a variety of community organizations. These community
21 events give our customers an opportunity to talk with and ask questions of a
22 broad cross-section of water company employees. Many of the promotional
23 items that we distribute are educational in nature or supportive of the
24 environmental mission of these community activities.

25
26 **Q. WHAT PROMOTIONAL ITEMS DO YOU CONSIDER TO BE**
27 **EDUCATIONAL IN NATURE?**

28 A. Staff disallowed the expense for purchasing water bottles. Missouri American
29 Water distributes water bottles at multiple community events. These bottles
30 promote the use of tap water (over bottled water) which helps support our
31 mission and provision of service. The bottles also provide our web address
32 so customers can get additional information from our website.

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Q. HOW DO PROMOTIONAL ITEMS HELP SUPPORT THE MISSION OF COMMUNITY OUTREACH EVENTS?

A. The water bottles that are provided as part of the Company's community outreach speak to the environmental stewardship mission of the community events that MAWC supports, largely through our employees' volunteer time. The organizers of these community events are also dedicated to minimizing the environmental impact of their community activities. To achieve this goal, these community groups frequently ask MAWC to contribute water bottles to help keep event volunteers and attendees hydrated, and reduce the need for bottled water.

Q. WHAT ARE THE ENVIRONMENTAL AND HEALTH CONCERNS WITH PLASTIC WATER BOTTLES?

The production of bottled water creates waste, there has been no evidence that bottled water is superior to tap water and most importantly plastic bottles may pose a health risk when chemicals in the plastic break down.

Q. WHAT IS THE IMPACT OF INCLUDING THE PROMOTIONAL ITEMS?

A. This would increase Staff's proposed revenue requirement by \$19,155.

XVII. MISCELLANEOUS EXPENSE

Q. PLEASE DISCUSS THE MISCELLANEOUS EXPENSE ADJUSTMENT PROPOSED BY STAFF.

A. Staff has excluded \$104,663 of Miscellaneous expense claiming that these items are of no benefit to MAWC's customers.

Q. DO YOU AGREE WITH STAFF'S RECOMMENDATION?

A. No, I do not. These expenses are related to community events and community partnerships which help educate our customers. Community events are focused on watershed and water education projects and staffed by

1 company volunteers. These educational programs benefit customers by
2 increasing their understanding of water resources and systems. Community
3 Partnerships help to bring business and industry to improve the local
4 economy and ultimately reduce rate increases.

5

6 **Q. WHAT IS THE IMPACT OF INCLUDING MISCELLANEOUS EXPENSES?**

7 A. This would increase Staff's revenue requirement by \$104,663.

8

9

XVIII. HICKORY HILLS

10 **Q. DID MAWC AGREE TO EXCLUDE HICKORY HILLS ACQUISITION FROM**
11 **THE RATE CASE?**

12 A. No. MAWC closed the transaction to acquire the assets of Hickory Hills on
13 December 10, 2015, well before the true-up date.

14

15 **Q. WHAT DISTRICT WILL HICKORY HILLS WATER AND WASTEWATER BE**
16 **COMBINED WITH FOR RATEMAKING?**

17 A. In case No. WA-2016-0019, the Commission ordered that the Hickory Hills
18 water and wastewater systems shall be combined with MAWC's St. Louis
19 Metro District for ratemaking purposes.

20

21

XIX. REGULATORY DEFERRALS

22

Hickory Hills Deferred Receivership Costs

23 **Q. PLEASE EXPLAIN THE HICKORY HILLS REGULATORY ASSET**
24 **ASSOCIATED WITH DEFERRED RECEIVERSHIP COSTS.**

25 A. The Regulatory Asset was approved in the Commission Order Issued
26 November 4, 2015, Case No. WA-2016-0019 authorizing MAWC to book a
27 regulatory asset in the amount of \$41,098 and amortized over a five year
28 period beginning in December 2015. This adjustment will be reflected in the
29 Company's true-up filing.

30

31

Emerald Point Pipeline Amortization

32 **Q. WHAT IS THE EMERALD POINTE PIPELINE AMORTIZATION?**

1 A. The Emerald Pointe pipeline amortization is a regulatory asset acquired by
2 the Company as part of the purchase of Emerald Pointe Utility Company in
3 March 2014. The balance as of January 31, 2016 is included in the
4 Company's revenue requirement.
5

6 **Q. PLEASE DESCRIBE THE REGULATORY ASSET RELATED TO THE**
7 **EMERALD POINTE PIPELINE.**

8 A. During its last small company rate case No. SR-2013-0016, Emerald Pointe
9 was in the process of constructing a sewer main in order to retire the existing
10 treatment plant and connect its system to the City of Hollister, Missouri. This
11 included the portion of pipeline which is owned by and located on Emerald
12 Pointe property, lift stations which are required to pump the sewage through
13 the pipeline and required items for the pipeline which were capitalized, such
14 as easements and engineering costs. Additionally, there is a portion of the
15 pipeline that Emerald Pointe paid for, but is owned by Hollister. In that case,
16 the PSC authorized the \$323,321 in rate base as non-utility property with a
17 50-year amortization.
18

19 **Q. WHAT IS STAFF AND OPC RECOMMENDING IN THIS CASE?**

20 A. OPC recommends including the balance at January 31, 2016 in rate base and
21 Staff excluded the entire regulatory asset balance from its proposed revenue
22 requirement.
23

24 **Q. WHY DID STAFF EXCLUDE THE EMERALD POINTE PIPELINE ASSET**
25 **FROM RATE BASE?**

26 Staff is silent in its direct testimony on this adjustment. We are waiting on
27 more information from Staff regarding their position and may file additional
28 testimony.
29
30
31
32

Arnold Pipeline

1
2 **Q. PLEASE DESCRIBE THE PIPELINE CAPACITY AGREEMENT BETWEEN**
3 **THE CITY OF ARNOLD AND THE METROPOLITAN ST. LOUIS SEWER**
4 **DISTRICT (MSD).**

5 A. In 2008 the City of Arnold contracted with MSD to treat 100% of the City's
6 wastewater. As part of this agreement, Arnold is entitled to 4.5MGD of
7 capacity in the plant. The City of Arnold sends its sewage to the Metropolitan
8 St. Louis Sewer District (MSD) for wholesale treatment at MSD's Lower
9 Meramec Wastewater Treatment Facility, which is located across the
10 Meramec River from the City. Under the 2008 agreement between the City of
11 Arnold and MSD, Arnold is to pay their proportionate share of the costs
12 (based on % of plant capacity allocated to Arnold) to construct the Lower
13 Meramec Treatment Facility. The City of Arnold booked the obligation to MSD
14 as a liability on their balance sheet, and had a corresponding intangible asset.
15 The liability would amortize as payments are made, over their term. The
16 intangible assets would amortize over the useful life of the asset (either 45 or
17 50 years, depending on the asset).

18
19 **Q. HOW DID MAWC ACCOUNT FOR THE MSD PIPELINE CAPACITY**
20 **COSTS?**

21 The Company purchased the City of Arnold wastewater system in May 2015.
22 At closing, MAWC recorded the unamortized asset balance of \$15,442,962 as
23 a Non-Utility Asset, and the remaining obligation to MSD as a Long-Term
24 Liability. The net of these amounts are included in rate base. The Company's
25 proforma includes the historical balance and the amortization through January
26 31, 2016 utilizing amortization schedules for each phase of the construction.

27
28 **Q. PLEASE EXPLAIN WHY THE PROPOSED RATEMAKING TREATMENT**
29 **FOR THE COSTS ASSOCIATED WITH THE CONSTRUCTION OF THE**
30 **MSD PIPELINE PROJECT IS REASONABLE.**

31 A. The total cost of the Lower Meramec WWTP was estimated to cost
32 approximately \$245M, with less than 9% of the costs to be paid by the City of

1 Arnold. The remaining 91% was funded by MSD. Thus, Missouri-American's
2 Arnold customers now have the benefit of a wastewater treatment facility at a
3 fraction of the cost that would have been incurred had the City of Arnold
4 undertaken this project on its own. The Arnold pipeline is thus used and
5 useful to Missouri-American's customers, was constructed at an extremely
6 reasonable cost, and should be included in Missouri-American's rates.

7

8 **Q. WHAT RATEMAKING TREATMENT DID STAFF PROPOSE FOR THE MSD**
9 **PIPELINE CONSTRUCTION/CAPACITY COSTS?**

10 A. Staff is completely silent in its direct testimony on this adjustment. During a
11 meeting held at Company office between Staff and Company on February 3,
12 2016 Staff indicated that they do not agree with Company's proposed
13 ratemaking treatment to recover the costs over the life of the assets. It is
14 Company's understanding that Staff intends to propose that the MSD pipeline
15 construction costs be recovered in rates based on the repayment schedule of
16 the obligation instead of spreading the cost over the life of the assets.

17

18 **Q. DOES MAWC AGREE WITH STAFF'S PLANNED RATEMAKING**
19 **TREATMENT FOR THE CONSTRUCTION/CAPACITY COSTS**
20 **ASSOCIATED WITH THE MSD PIPELINE?**

21 A. No. MAWC believes its proposal allows for more equitable recovery of these
22 costs. Spreading the costs over the life of the assets eliminates any inter-
23 generational inequity. Under Staff's approach, the current users of the system
24 will pay a higher cost for service than future customers who will also benefit
25 from the asset.

26

27

XX. ISRS

28 **Q. PLEASE SUMMARIZE MAWC'S ISRS FILING IN CASE No. WO-2015-**
29 **0211.**

30 A. On February 27, 2015 Missouri-American filed a request with the Commission
31 to increase its ISRS revenue by \$1.9M, reaching the 10% revenue cap. The
32 Staff and OPC both opined that the \$1.6M of under-collection revenues

1 authorized in the prior ISRS filing should be counted against the 10% cap
2 arguing that MAWC should only be authorized an additional \$250 thousand of
3 ISRS revenue. On June 17, 2015 the Commission approved MAWC's ISRS
4 Tariff as filed with a provision that requires MAWC to monitor its ISRS
5 revenues and instructing it to file a file a tariff that will stop collecting the ISRS
6 when it gets close to the cap, to prevent it from exceeding the cap. The
7 Commission found that MAWC was experiencing declining usage by its
8 customers and put in place requirements that attempt to compensate for that
9 condition.

10 On June 26, 2015, the Office of Public Counsel filed an Application for
11 Rehearing alleging the Commission's Report and Order was unlawful
12 because: a) St. Louis County's Population was less than one million
13 inhabitants pursuant to the 2010 census and therefore MAWC was no longer
14 eligible for ISRS; and, b) the Commission's Report and Order was
15 inconsistent with the Missouri ISRS statute. This was the first time OPC
16 brought up the population argument. The application for rehearing was denied
17 by the Commission in a unanimous ruling on July 7, 2015. The Office of
18 Public Counsel filed an appeal of that ruling with the Western District of the
19 Missouri Court of Appeals.

20

21 **Q. DO YOU AGREE WITH OPC WITNESS HYNEMAN'S RECOMMENDATION**
22 **THAT MAWC CEASE CHARGING THE ISRS AND CANCEL ITS CURRENT**
23 **ISRS TARIFF?**

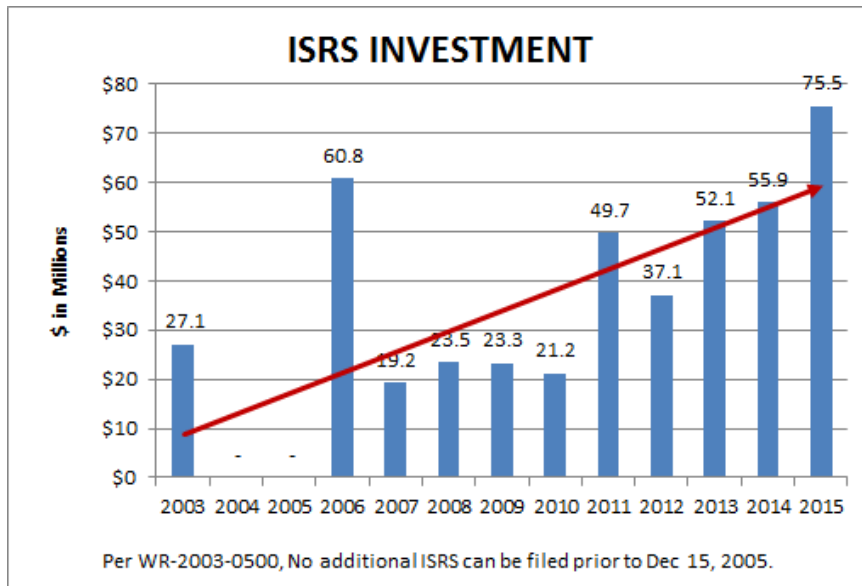
24 A. No. The Commission found unanimously in its 5-0 decision that ISRS was
25 appropriate for MAWC. While OPC has appealed the decision to the Missouri
26 Court of Appeals, there is no reason to reverse that decision pending the
27 Appeal.

28

29 **Q. WHAT IS THE BENEFIT OF THE ISRS?**

30 A. ISRS is vital to St. Louis County. It has provided MAWC with an incentive to
31 be aggressive in the replacement of aging infrastructure in St. Louis County.
32 Not so many years ago, this Commission recognized the problems that had

1 developed in St. Louis County in regard to aging water infrastructure: St.
2 Louis County Water Company is nearly 100 years old. Its first generation
3 mains, in its oldest service areas like University City, are simply wearing out.
4 Consequently, the Company is experiencing an exponential increase in water
5 main breaks and repair costs. The worn-out piping and mains require
6 replacement. However, the cost of replacing these mains is great. It will
7 require a large amount of new capital to invest in infrastructure replacement.
8 Largely because of the incentive provided by the ISRS, MAWC has invested
9 approximately \$445 Million in St. Louis County infrastructure replacement
10 since 2003, a large portion of which it likely would not have invested had it not
11 had an ISRS mechanism.



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XXI. SERVICE QUALITY AND CUSTOMER SERVICE

Q. DO YOU WANT TO ADD ANY COMMENTS TO STAFFS DISCUSSION OF PRIOR CASE NOS. WC-2014-0138 & WO-2014-0362?

Yes. Missouri-American will continue to comply with Staff's recommendations and provide quarterly status reports and meet with Staff as necessary to address call center issues.

Q. HAVE THE QUARTERLY STATUS REPORTS TAKEN PLACE?

1 A. Yes. Since the closing of the case on August 30, 2015 the Company
2 submitted its first formal quarterly status report on November 30, 2015. In
3 addition to the required quarterly meeting, Company and Staff met at
4 Company offices on December 1, 2015 to further discuss the status for
5 implementing the recommendations.
6

7 **XXII. COST ALLOCATION MANUAL AND AFFILIATE TRANSACTION RULE**

8 **Q. OPC CONTENDS THAT MISSOURI CUSTOMERS ARE NOT PROTECTED**
9 **AGAINST AFFILIATED AND NON-REGULATED SUBSIDIZATION, DO**
10 **YOU AGREE?**

11 A. No. The Commission has many opportunities to review MAWC's affiliate
12 transactions to determine the appropriateness of those activities. First, the
13 Company produces and provides to the Staff a cost allocation manual (CAM)
14 every year by March 15th. This CAM sets forth the methods by which
15 American Water Works Service Company (Service Company or AWWSC)
16 costs are assigned to American Water (AW) Subsidiary companies
17 (Operating Companies or Affiliates). It is meant to provide external parties,
18 such as regulators and auditors, with a clear understanding of the process
19 concerning MAWC's interaction with its affiliates. Second, in every MAWC
20 rate case the parties have the opportunity to review MAWC's affiliate
21 transactions.
22

23 **Q. OPC CITES THE DECISION IN 2011 AND 2013 TO NOT TAKE BONUS**
24 **DEPRECIATION AN EXAMPLE OF A TRANSACTION BETWEEN**
25 **MISSOURI-AMERICAN AND THE PARENT COMPANY THAT WOULD**
26 **VIOLATE AN AFFLIATE TRANSACTION RULE. DO YOU AGREE?**

27 A. No. This was not an affiliate transaction. There was no provision, purchase,
28 or sale of information, asset, product or services. The example used by OPC
29 was merely a business decision as to tax reporting.
30

1 **Q. IS THERE IS A NEED FOR MAWC TO BE SUBJECT TO AFFILIATE**
2 **TRANSACTION RULES SIMILAR TO THE RULES THE COMMISSION HAS**
3 **CREATED FOR ELECTRIC AND GAS UTILITIES IN MISSOURI?**

4 A. No. I do not believe such rules are necessary. In many cases, the gas and
5 electric companies have affiliates that compete with other, unregulated
6 entities in the marketplace. We have no such similar situation. Further,
7 Service Company charges are fully audited and auditable by the Commission
8 Staff and OPC. There is no reason that such rules should be applied to
9 MAWC.

10
11 **Q. IS THERE OTHER EVIDENCE THAT AN AFFILIATE TRANSACTION RULE**
12 **IS UNNECESSARY?**

13 A. Yes. MAWC witness Baryenbrunch provides testimony, including a study,
14 indicating that the services MAWC receives from the Service Company are
15 necessary, and that the charges to MAWC from its Service Company are
16 reasonable and the lower of cost or market value for such services.

17
18 **Q. WHAT IS THE COMPANY'S RESPONSE TO OPC'S RECOMMENDATION**
19 **THAT THE COMMISSION PROMULGATE AN AFFILIATE RULE?**

20 A. MAWC does not believe that an affiliate transaction rule is necessary at this
21 time. There has been no change in MAWC's corporate relationships over the
22 last ten (10) years or more. MAWC does not transact any business with any
23 American affiliate on an on-going basis, with the exception of the American
24 Water Service Company and American Water Capital Corp.

25
26 **XXIII. TIMELY COST RECOVERY**

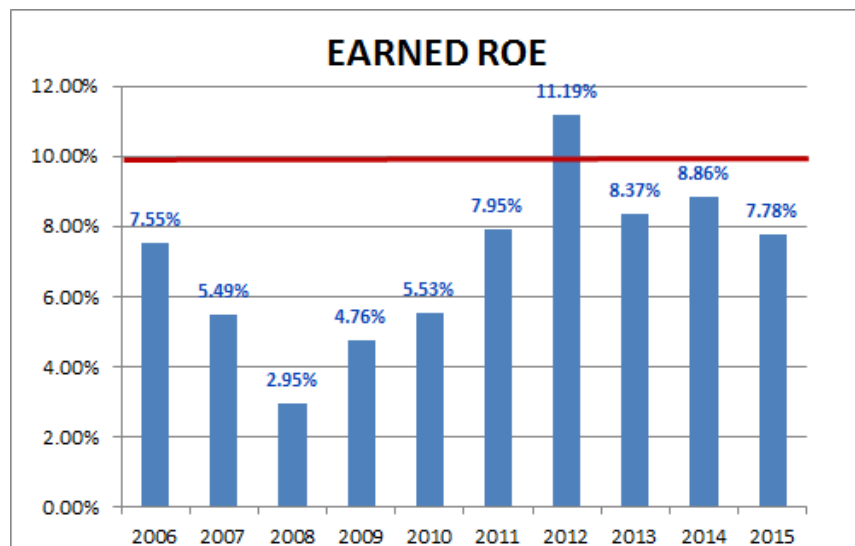
27 **Q. EARLIER IN YOUR TESTIMONY, YOU MENTIONED THAT SHARING OF**
28 **RATE CASE EXPENSE WILL ONLY FURTHER THE TIMELY RECOVERY**
29 **OF EXPENSE ITEMS. PLEASE EXPLAIN.**

30 A. The goal of rate setting is to set rates to recover cost of service as of the date
31 new rates become effective. There are several known and measurable
32 revenue and expense items that Staff excludes from its proposed revenue

1 requirement simply because they are outside of the test year or true-up
2 period. Examples in this case include; failure to recognize declining
3 consumption of approximately \$3,492,000 or 1.94% of sales annually,
4 increased property tax expense for new plant in service during 2015 that is
5 taxable in 2016 of approximately \$860,000, roughly \$294,000 of non-union
6 wage increases effective March 14, 2016, higher PSC fees - especially in the
7 year following the rate case filing, plus the \$4,206,225 of disallowances
8 proposed by Staff. Therefore, on the date new rates become effective,
9 MAWC will under-recover its actual expenses by more than \$8.6M annually.

10
11 **Q. WHEN WAS THE LAST YEAR IN WHICH THE COMPANY WAS ABLE TO**
12 **EARN ITS AUTHORIZED RATE OF RETURN ON COMMON EQUITY?**

13 A. Assuming an authorized Return on Equity (ROE) of 10% (which was
14 stipulated for ISRS projects), the last year the Company last earned its
15 authorized return on equity was 2012, which was the one of the hottest, driest
16 summers on record. The chart below shows the actual earned ROE for the
17 past 10 years.



19
20
21 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

22 A. Yes, it does.