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Issues:

CWC, Insurance Expense,
Promotional Expenses,
Atrazine Settlement, Lobbying,
Dues & Donations,
Miscellaneous Expenses and
True-up Audit

Witness:

Sarah Sharpe

Sponsoring Party:

MoPSC Staff

Type of Exhibit:

Surrebuttal Testimony

Case No.:

WR-2015-0301

Date Testimony Prepared:

March 4, 2016

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF - AUDITING

SURREBUTTAL TESTIMONY

OF

SARAH SHARPE

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2015-0301

Jefferson City, Missouri
March 2016

** Denotes Highly Confidential Information **

Staff Ex 30
NP

Staff Exhibit No. 30
Date 3-21-16 Reporter W
File No. WR-2015-0301

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SURREBUTTAL TESTIMONY
OF
SARAH SHARPE
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2015-0301

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1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **SARAH SHARPE**

4 **MISSOURI-AMERICAN WATER COMPANY**

5 **CASE NO. WR-2015-0301**

6 Q. Please state your name and business address.

7 A. Sarah Sharpe, 111 N. 7th Street, Suite 105, St. Louis, MO 63101.

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

9 A. I am employed by the Missouri Public Service Commission (“Commission”)
10 as a Utility Regulatory Auditor III in the Auditing Department, Commission Staff Division.

11 Q. Are you the same Sarah Sharpe that previously sponsored sections of Staff’s
12 Revenue Requirement – Cost of Service Report (“Report”) in this rate case that was filed on
13 December 23, 2015?

14 Q. Yes, I am.

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

16 A. I will respond to Missouri-American Water Company (MAWC) witness
17 Todd P. Wright’s rebuttal testimony that addressed two Cash Working Capital (CWC) issues.
18 The first CWC issue I will address is the billing lag that is proposed by Mr. Wright. The
19 second CWC issue that I will address concerns MAWC’s proposed expense lag that is
20 associated with affiliate American Water Works Company Service Company (“AWWSC”)
21 fees that are charged to MAWC on a monthly basis.

22 With regard to the issues of insurance expense, promotional expenses, the atrazine
23 settlement, payroll disallowances in regard to lobbying activities, dues & donations, and

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1 | miscellaneous expenses, I will address MAWC witness Jeanne M. Tinsley's rebuttal
2 | testimony.

3 | In addition to discussing the differences in MAWC and Staff's position on these
4 | issues, I will also discuss Staff's true-up adjustments for relocation expense, insurance other
5 | than group, and CWC.

6 | **CASH WORKING CAPITAL**

7 | Q. Has Staff made any changes or corrections to the CWC calculation as part of
8 | its true-up audit?

9 | A. Yes. Staff has updated the annualized amounts in the calculation of CWC to
10 | reflect the annualization amounts that were provided by the various Staff witnesses based
11 | upon the true-up data that was presented to Staff on February 19, 2016. In addition, since the
12 | time of Staff's December 23, 2015, direct testimony filing, Staff has entered the following
13 | corrections to the CWC schedules that are contained within Staff's Accounting Schedules for
14 | each of the following MAWC districts:

- 15 | • Warrensburg: the Interest Expense lag was entered into the CWC calculation
16 | incorrectly. At the time of Staff's direct testimony filing, the lag was entered at 91.80
17 | days. It has been corrected to 91.90 days. The effect of this correction is to reduce the
18 | rate base addition for CWC by \$106.
- 19 | • Cedar Hill: the Waste Disposal expense lag was incorrectly entered as 17.03 days. It
20 | has been corrected to 47.03 days, which affects the CWC requirement by (\$715). Also,
21 | Staff's direct testimony calculations for CWC did not include an annualized amount
22 | for Support Services, which was \$38,567. The effect of this correction is to reduce the
23 | rate base addition for CWC by \$836.

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- 1 • Mexico: the Interest Expense lag was entered into the CWC calculation incorrectly.
2 At the time of its direct testimony filing Staff incorrectly entered this lag at
3 91.80 days. It has been corrected to 91.90 days. The effect of this correction is to
4 reduce the rate base addition for CWC by \$145.
- 5 • Joplin: the Interest Expense lag was entered into the CWC calculation incorrectly.
6 At Direct, the lag was entered at 91.80 days. It has been corrected to 91.90 days.
7 The effect of this correction is to reduce the rate base addition for CWC by \$539.
- 8 • Jefferson City, Water District: the Interest Expense lag was entered into the CWC
9 calculation incorrectly. At direct, the lag was entered at 91.80 days. It has been
10 corrected to 91.90 days. The effect of this correction is to reduce the rate base addition
11 for CWC by \$253.

12 **Billing Lag**

13 Q. Please respond to MAWC witness Todd P. Wright's statements concerning the
14 billing lag that are found on page 12, on lines 5-21 of his rebuttal testimony.

15 A. Staff continues to support its position on billing lag that it has previously
16 described in the Report. Staff maintains that the 2.09 calculated billing lag taking into
17 account the billing lags of other large Missouri regulated utilities is still appropriate.
18 MAWC's position of using a 5.56 (St. Louis Metro district) and 4.81 (all other districts)
19 business day billing lag is unreasonable in comparison to the lags achieved by other Missouri
20 regulated utilities, including Union Electric Company, d/b/a Ameren Missouri, Kansas City
21 Power & Light, The Empire District Electric Company, Laclede Gas Company, and its
22 current operating unit Missouri Gas Energy.

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1 Q. Has Staff recently become aware of any issues that may have impacted
2 MAWC's billing lag calculation?

3 A. Yes. On February 22, 2016, Staff was informed for the first time of a
4 widespread statewide defective metering issue. It is very likely that this metering issue could
5 have inappropriately lengthened the billing lag results for which MAWC now seeks recovery
6 in rates. MAWC has indicated that it has experienced widespread problems with certain
7 meter equipment, including issues with meters providing slow flow rate readings and meters
8 that failed to provide a meter reading at all. MAWC has indicated in meetings with Staff that
9 during the second half of 2015, it replaced approximately 22,000 to 27,000 of these suspected
10 defective meters. This situation could certainly impact the length of time that it takes a utility
11 to issue bills. For a more complete discussion of the defective metering issue, please refer to
12 the surrebuttal testimony of Staff witness John P. Cassidy.

13 Q. Are you aware of any other factors that might impact MAWC's billing lag
14 going forward?

15 A. Within MAWC's response to Staff's Data Request No. 293, MAWC indicated
16 that the quantity of installed Automated Meter Reader devices ("AMR") in MAWC's districts
17 is growing steadily, which should also bring down the average billing lag due to increased
18 automation. Customers that have signed up for electronic billing also reduce the billing lag,
19 and the quantity of customers that utilize electronic billing has grown from approximately 1%
20 of customers in January of 2014 to approximately 7% of MAWC's total annualized customer
21 count of 471,350 in January 2016, according to MAWC's response to Staff's Data Request
22 Nos. 293 & 294.

1 | **Affiliate Service Company Fees Expense Lag**

2 | Q. What expense lag does MAWC witness Todd P. Wright recommend for the
3 | affiliated AWWSC allocated costs?

4 | A. Mr. Wright recommends that a negative 6.01 expense lag be reflected in the
5 | CWC calculation. This proposal attempts to reflect a ratemaking recovery that assumes that it
6 | is reasonable for MAWC to prepay an affiliate for the services that are provided to MAWC.

7 | Q. Does Staff agree with Mr. Wright's proposal of a negative 6.01 expense lag, or
8 | a prepayment for the services that are provided by an affiliate to MAWC?

9 | A. No. Affiliates of MAWC should not receive preferential treatment. Rather,
10 | the affiliate should be treated like other third-party vendors who supply services to the utility.
11 | Therefore, Staff has assigned a 24.71 day expense lag for AWWSC allocations that is
12 | consistent with MAWC's payment habits for the vast majority of the goods and services that
13 | it receives from its third-party vendors. I will describe how the 24.71 day expense lag was
14 | calculated later in this testimony.

15 | Q. Does Staff agree with MAWC witness Todd Wright's Rebuttal testimony
16 | statement on page 9, lines 11-14, "if a business bills its customers in arrears for its services,
17 | then there would be a need for a significant amount of cash working capital. If a business
18 | bills its customers in advance of providing service, then there could be a minimal or no need
19 | for cash working capital"?

20 | A. No. Staff wants to dispel any misunderstandings between Staff's and MAWC's
21 | positions on how the Service Company lag is calculated. The following formula is how CWC
22 | is calculated:

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|-------------|----|-------------|---|----------------|---|-----|---|-------------------|---|------------------|---|-------------------------------|
| Revenue Lag | -- | Expense Lag | = | Net (lead)/lag | / | 365 | = | Average Daily Lag | x | Annualized Rates | = | Cash Requirement in Rate Base |
|-------------|----|-------------|---|----------------|---|-----|---|-------------------|---|------------------|---|-------------------------------|

The calculated expense lag is subtracted from the revenue lag, which then provides the net (lead) or lag. MAWC's position is that the AWWSC expense lag should be considered to be negative, which means that the service company is seeking a prepayment for all of the services that they provide to the utility. The following calculation is from the St. Louis Metro CAS-7 workpaper:

| Expense Category | Pro Forma at Present Rates | Average Daily Expense | Revenue Lag | Expense (Lead)/Lag | Net (Lead)/Lag | Cash Requirement |
|------------------|----------------------------|-----------------------|-------------|--------------------|----------------|------------------|
| Support Services | \$22,599,171 | 61,916 | 79.79 | (6.01) | 85.80 | \$5,312,415 |

In this example, MAWC has a positive revenue lag and subtracts a negative expense lead, which *adds* days onto the total lag, rendering a net positive 85.80 day lag. After application of the adjusted amount of service company expenses, the resulting addition to rate base is \$5,312,415.

Q. In MAWC's witness Todd Wright's rebuttal testimony, page 10, lines 9-13, Mr. Wright states, "because MAWC is billed currently in advance, the Service Company avoids cash working capital costs in the amount of \$53,526, which benefits MAWC. Thus, if the Service Company began billing MAWC in arrears, then the cost of cash working capital for the Service Company would go from a \$53,526 benefit, to a cost of \$501,678, for a total increase in costs to MAWC of \$558,551." He then continues in lines 18-21 to state, "since cash working capital is viewed as a permanent investment component, it is generally financed using long term capital. In the case of MAWC, its cash working capital is financed

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1 with a mix of long-term debt, preferred stock and common equity.” Does Staff agree with
2 these statements?

3 A. No. Staff does not agree with the cost of capital that Mr. Wright utilized to
4 calculate the purported ‘savings’ and ‘costs’ associated with paying AWWSC invoices in
5 arrears. Staff maintains that the cost of capital utilized in Mr. Wright’s analysis would be
6 more appropriate had it reflected the cost of capital for short-term debt. Staff witness
7 David Murray has indicated that MAWC’s short-term cost of capital is .31%.

8 Staff also believes it is unreasonable for the affiliate to require the utility to pay for
9 services in advance. Staff concedes that there is an economic cost to paying expenses in
10 advance as compared to paying for expenses in arrears. However, it is normal practice that an
11 outside vendor providing goods and services expect payment in arrears. Therefore, it is
12 inappropriate for AWWSC to expect prepayments or preferential treatment for the services
13 and goods it provides to MAWC.

14 Q. What is Staff’s calculation of this same cash requirement based upon Staff’s
15 true-up calculation for expense lag associated with affiliate Service Company fees?

16 A. Staff has revised its calculation of the expense lag associated with the affiliate
17 AWWSC fees from 66.68 for the St. Louis district and 58.59 for all districts to 24.71 days for
18 all districts. This 24.71 day expense lag calculation is based upon a more narrow examination
19 of the payment habits of MAWC to various third party vendors. The following presents
20 Staff’s true-up cash requirement calculation for AWWSC fees:

21

| Expense Category | Pro Forma at Present Rates | Average Daily Expense | Revenue Lag | Expense (Lead)/Lag | Net (Lead)/Lag | Cash Requirement |
|------------------|----------------------------|-----------------------|-------------|--------------------|----------------|------------------|
| Support Services | \$19,347,251 | 53,006 | 69.93 | 24.17 | 45.22 | \$2,396,931 |

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1 Staff's revised expense lag for affiliate AWWSC fees of 24.71 lag days, when subtracted
2 from Staff's 69.93 day revenue lag, is a net positive of 45.22 day lag, resulting in a
3 substantially lower amount of required CWC as compared to MAWC's position and is
4 contrary to Mr. Wright's testimony. The relationship of expense leads is inverse to the cash
5 requirement; the utility requires more cash from ratepayers, not less, to pay an expense in lead
6 (and can therefore pay its bills before services are received).

7 Q. Please explain Staff's corrected calculation of the expense lag pertaining to the
8 affiliate AWWSC fees that it charges to MAWC on a monthly basis.

9 A. At the time of its direct filing, Staff explained that it had used the
10 miscellaneous cash voucher transactions to determine an appropriate expense lag for the
11 AWWSC fees that are routinely charged to MAWC. Staff has reviewed the components of the
12 miscellaneous cash vouchers transactions, and adjusted the cash vouchers to remove unusual
13 items, such as construction projects. Therefore, in order to be conservative and to eliminate
14 this impact, Staff excluded all cash voucher transactions where MAWC did not pay for
15 services in excess of 45 days. As a result of this adjustment, Staff now recommends that an
16 AWWSC expense lag of 24.71 days is appropriate for ratemaking purposes to represent
17 reasonable terms for MAWC to pay its affiliate for the services that it provides.

18 Q. Why did Staff exclude payments to third-party vendors that were in excess of
19 45 days in its calculation of the AWWSC lag?

20 A. Staff believes that an analysis of vendor payments that are 45 days in length or
21 less is appropriate to determine an AWWSC expense lag. Staff restricted its cash voucher
22 analysis to those third party vendors that supply goods and services to MAWC and those third
23 party vendors are paid within 45 days or less after receiving those goods and services. Staff's

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1 analysis shows that, on average, MAWC pays these particular third party vendors an average
2 24.71 days subsequent to receiving service.

3 Q. Concerning the cost effectiveness of the services that the affiliate AWWSC
4 provides to MAWC, does Staff agree with the information contained within the study
5 provided in the rebuttal testimony by MAWC's consultant witness Patrick L. Baryenbruch?

6 A. Staff was not given an adequate opportunity to evaluate the information
7 contained in the study provided in Mr. Baryenbruch's rebuttal testimony. As a result, Staff
8 can neither confirm nor deny Mr. Baryenbruch's claims. MAWC should have provided this
9 support as part of its direct testimony filing in order to afford Staff an adequate opportunity to
10 evaluate the study information in the discovery period following MAWC's submission of
11 direct testimony. Staff witness Kimberly K. Bolin addresses these concerns about
12 Mr. Baryenbruch's study in more detail in her surrebuttal testimony.

13 Q. Please quantify the level of fees, on an annual basis, that the affiliate AWWSC
14 charges MAWC.

15 A. Based upon Staff's true-up audit examination, MAWC pays approximately
16 \$25.3 million to AWWSC on an annual basis. The affiliate AWWSC fees represent a
17 substantial portion of the total amount of expenses that MAWC incurs annually on a total
18 company basis. Based upon Staff's true-up accounting schedules, the affiliate AWWSC fees
19 represent approximately 18% of MAWC's total company Operating Expenses, excluding
20 depreciation, of approximately \$137 million.

21 Q. Does Staff have any other concerns about Mr. Wright's rebuttal testimony?

22 A. Yes. Mr. Wright is an AWWSC employee. Staff is concerned about the
23 appropriateness of an AWWSC employee advocating for a prepayment from the utility to the

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1 affiliated service company. Obviously, Mr. Wright, as an employee of AWWSC, has a duty
2 to defend AWWSC in such matters. Additionally, MAWC witnesses Jeanne M. Tinsley and
3 Donald J. Petry are also both employed by AWWSC. These facts beg the following question:
4 who is looking out for the best interests of MAWC in such matters?

5 **INSURANCE EXPENSE**

6 Q. Has Staff made any changes to its position on insurance other than group
7 expense since the filing of its Report?

8 A. Staff has received and reflected all of the actual invoice information
9 concerning updated policy premiums for policies that were renewed by January 31, 2016.
10 Staff Data Request Nos. 95 and 95.1 sought copies of the actual insurance policies through
11 true-up. Staff has received some, but not all, of the insurance policies from MAWC. Staff
12 still needs to verify and compare the invoice information to the current policy information as
13 requested through Staff Data Requests 95 and 95.1. Specifically, Staff still needs to obtain
14 copies of policies for all of the following insurance policy categories: auto liability, general
15 liability, workman's compensation, excess liability policies #1-5, property, cyber crime #2,
16 special contingency risk, and collateral. After receiving and reviewing these insurance
17 policies, if any issues exist with the remaining policy reviews, Staff will address those
18 concerns as a part of the True-Up direct testimony filing.

19 Q. Does Staff agree with MAWC witness Jeanne M. Tinsley's position on the
20 Directors & Officers premium as explained on pages 28 and 29 of her rebuttal testimony?

21 A. No. Ratepayers should not pay for costs associated with litigation or fines and
22 penalties in the form of an insurance premium for MAWC board members who may become
23 involved in civil or criminal proceedings. Staff contends that if the AWWC's or MAWC's

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1 Board of Directors abides by the regulations of SOX and the SEC and is competent in the
2 performance of its duties, then there is no need for this type of insurance.

3 Q. Does Staff agree with Ms. Tinsley on the proposed inclusion of the
4 “retrospective adjustment” to insurance expense that she addresses on page 30 and 31 of her
5 rebuttal testimony?

6 A. No. Staff disagrees with the separate inclusion of the retrospective adjustment
7 in the annualized level of insurance expense. In MAWC’s response to Staff’s Data Request
8 Nos. 364 and 364.2, MAWC states that the retrospective adjustment is an accrual entry
9 wherein the current amount of the accrual, which is a projection, is changed on a quarterly
10 basis. It is Staff’s understanding that when the policies for the General Liability, Auto
11 Liability, and Workman’s Compensation are due for renewal, the past policy period
12 retrospective adjustment is trued-up with the next year’s policy premium. Hence, the
13 retrospective adjustment does not need to be separately considered in the amount of
14 annualized policy premiums, as it is already included in the annual invoiced premium
15 expenses at the time of their renewal. Staff has requested further information on this issue,
16 and is currently awaiting a response to Staff Data Request No. 364.3.

17 Ms. Tinsley is inappropriately proposing to include in the cost of service
18 calculation of an accrual or future estimated amounts of insurance coverage costs that are
19 neither known nor measurable. Staff’s insurance adjustment is based on traditional sound
20 regulatory practices, such as the use of the known and measurable standard. Staff supports
21 the use of the cash basis approach for determining the appropriate level of insurance expense,
22 and has reviewed all insurance invoices that have been provided MAWC that reflect the most

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1 current insurance premium that has been actually incurred by MAWC. Staff's approach
2 reflects the appropriate inclusion in rates for these costs.

3 Q. Is Staff's use of the cash basis approach for insurance expenses consistent with
4 generally accepted accounting principles (GAAP)?

5 A. Yes. The cash basis approach for determining insurance expenses is more
6 reasonable for ratemaking purposes than Ms. Tinsley's advocated accrual approach. It should
7 be noted, however, that Staff's approach is consistent with GAAP because of Statement of
8 Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of
9 Regulation" ("FAS 71"). FAS 71 is a universally accepted GAAP standard that allows
10 utilities, in some circumstances, to account for certain financial items in accord with
11 their ratemaking treatment as opposed to the accounting treatments mandated for
12 competitive firms.

13 Q. Why is Staff's cash basis approach of determining insurance expense more
14 appropriate than using the accrual approach that is advocated by Ms. Tinsley?

15 A. The cash basis of accounting is an objective basis for purposes of determining
16 an ongoing level of expense. The cash basis is less subjective than MAWC's approach, and it
17 avoids the potential of accruals being used to achieve a predetermined ratemaking result.
18 The actual cash basis provides the data to properly normalize and annualize the cost level
19 included in rates. This process eliminates management discretion or other factors to increase
20 or decrease an accrual for future unknown events.

21 Furthermore, the accrual basis of accounting requires some attempt at a forward
22 looking estimation of anticipated cash flows associated with possible future costs. This is an
23 inherent flaw in using the accrual method to account for insurance expenses in a regulatory

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1 | environment. Rates should be based on actual known and measurable costs, which the cash
2 | basis of accounting provides. Rates should not be based on an attempt to estimate what costs
3 | will be at some undetermined time in the future, as MAWC's proposed accrual method
4 | requires. If granted the regulatory approval to include hypothetical expense levels for this
5 | proposed retrospective accrual adjustment in the cost of service calculation, MAWC would be
6 | granted a "blank check." This "blank check" would give MAWC the incentive to "fill in the
7 | blank" with an overestimate for future anticipated liabilities for the purposes of setting rates
8 | irrespective to the actual incurred costs.

9 | Q. Are you aware of any Commission rulings with regard to cash basis rate
10 | treatment as opposed to using the accrual method of accounting for the purpose of
11 | determining rates?

12 | A. Yes. In Case No. GR-96-285, involving Missouri Gas Energy (MGE), the
13 | Commission ruled in favor of Staff's use of cash basis ratemaking for injuries and damages
14 | expense. In that case, the issue revolved around determining injuries and damages expense
15 | for the purpose of establishing MGE's rates. MGE proposed to include in its test year all paid
16 | losses, as well as amounts that MGE accrued to pay losses which have occurred, but payment
17 | was yet to be made. Again, the Commission ruled against an accrual approach in favor of
18 | using actual historical costs, as the following excerpt from that Order demonstrates:

19 | MGE's approach to this issue is not tenable because it would
20 | include paid losses, as well as incurred but not paid losses...The
21 | Commission finds that the approach utilized by the Staff is the
22 | most reasonable one presented because it relies on the actual
23 | historical experience of MGE while operating in the State of
24 | Missouri.

25 | Q. Does Staff have any other concerns regarding MAWC's proposal to include
26 | the retrospective adjustment?

1 A. Yes. Based on the information received, it appears that the retrospective
2 adjustment can result in either higher or lower annual premium costs. Staff contends that it is
3 unreasonable to assume that MAWC will experience higher premiums as a result of the
4 retrospective adjustment going forward.

5 PROMOTIONAL GIVEAWAY EXPENSES

6 Q. Has Staff changed their position on promotional giveaway expenses since the
7 time of filing its Report?

8 A. No. Staff continues to hold the position of recommending a disallowance of
9 \$19,155 from the test year related to promotional giveaway expenses.

10 Q. In MAWC witness Jeanne Tinsley's Rebuttal testimony, Ms. Tinsley
11 advocates for MAWC to recover the expenses for water bottles in customer rates, which totals
12 \$3,085. Does Staff agree with this position?

13 A. No. Arguments made by utilities that promotional giveaway expenses have
14 "educational" value have been presented to the Commission before. In Case No. WR-92-207,
15 in the *Report and Order* for a Missouri Cities Water Company rate case, the Commission
16 stated:

17 A sampling of Staff's disallowed entries include holiday
18 greeting ads, pencils, T-shirts, fun cups, key holders, gift
19 certificates, items purchased for parades and political events,
20 such as sweatshirts, candy, dunk tank, and booth rental. Staff
21 also excludes a large number of entries entitled dues, donations
22 and subscriptions. These types of expenditures are not necessary
23 in the provision of safe and adequate service and do not fall
24 under the characterization of "educational".

25 While water bottles are not specifically mentioned in the Report and Order, they are still an
26 expenditure that is not necessary to the provision of safe and adequate service. A picture of
27 the bottles has been included as Schedule SS-s1.

1 ATRAZINE SETTLEMENT

2 Q. Has Staff made any changes to their position on the atrazine settlement since
3 the time of filing its Report?

4 A. Yes. Staff has modified its position to reflect a five-year amortization of the
5 full amount of the atrazine settlement. Staff would point out that it is not seeking an inclusion
6 of a rate base reduction for the unamortized portion of this regulatory liability. Staff had
7 previously recommended a three-year recovery of this balance with no rate base offset for the
8 unamortized regulatory liability balance. A five-year amortization is consistent with Staff's
9 longstanding general practice to address such amortizations of both regulatory assets and
10 liabilities of this nature over a five-year recovery period. Based upon its five-year
11 amortization period, Staff has reflected an annual recovery of \$232,051 for MAWC's
12 ratepayers.

13 Q. In the settlement *Memorandum and Order* approved by the Court in the
14 atrazine litigation, what were the plaintiffs seeking?

15 A. I quoted a small section from page 1-2 of the *Memorandum and Order* in the
16 Report, speaking to the plaintiff's allegations "that in addition to these past expenses, the
17 continued presence of Atrazine in their water supplies will cause them to incur future
18 expenses." The *Memorandum and Order* continues, "plaintiffs ask for all future damages
19 likely to be incurred in removing atrazine from their water supplies, including costs associated
20 with the purchase and operation of appropriate filtration systems."

21 Q. How does this affect Staff's position?

22 A. Staff maintains that the ratepayers should be the ultimate beneficiary of 100%
23 of the settlement proceeds as the plaintiffs asked for reparation of damages--past, present, and

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1 future. Ms. Tinsley has identified no costs that MAWC has incurred associated with the
2 atrazine issue that ratepayers have not funded. Ratepayers have borne the burden of
3 reimbursing MAWC through rates for water treatment, testing, and the associated labor in
4 the past for treating atrazine-tainted water and will continue in perpetuity to bear these same
5 costs for future water treatment, testing, and associated labor until atrazine is no longer used
6 by the public.

7 Q. MAWC witness Jeanne M. Tinsley talks about MAWC's 50/50 proposition
8 to share the proceeds of the settlement and states in her rebuttal testimony on page 13,
9 lines 27-28 that, "no such sharing is required because the settlement payment was a
10 non-recurring event outside of the test year." Is this correct?

11 A. Not entirely. The settlement payment may be a non-recurring event, and the
12 payment was booked by MAWC in January 2013, which is outside of the Commission
13 authorized test year in this rate case proceeding. However, the statement that "no sharing is
14 required," is not correct. Staff was not made aware of the existence of this lawsuit and its
15 outcome until MAWC's direct testimony filing in this rate case proceeding, which means that
16 Staff had no opportunity to address this issue until MAWC filed its rate case. In addition,
17 based upon a review of 10K filings before the SEC, Staff found no mention of this lawsuit.

18 MAWC currently uses a significant single-issue ratemaking mechanism that allows
19 MAWC to collect significant changes in its costs through an interim rate, absent a
20 consideration of the changes in all relevant factors, as part of the operation of the
21 Infrastructure System Replacement Surcharge (ISRS). Ratepayers do not have the benefit of
22 any such mechanism to address unusual one-time only recoveries made by MAWC, such as
23 occurred with the atrazine settlement that they received between rate cases. To ignore the

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1 facts and circumstances of this issue and not provide full recovery of this settlement to
2 ratepayers would be inherently unfair.

3 Q. On page 14, lines 15-17, MAWC witness Jeanne M. Tinsley states, "there is no
4 identifiable evidence that ratepayers paid any increased costs for the litigation and gathering
5 of information related to the Atrazine lawsuit." Is this correct?

6 A. No. MAWC filed rate cases during the time period that the atrazine class
7 action lawsuit was active. Staff made no disallowances of any costs associated with labor or
8 expense associated with this lawsuit in those cases. To the extent that MAWC may have
9 incurred costs between rate cases, but did not file a rate case to address those costs that it may
10 have incurred, indicates that rates were sufficient to address any such change in those costs.
11 The fact that MAWC utilizes the ISRS, a single-issue ratemaking mechanism that provides
12 MAWC with significant protection against changes in a substantial portion of their overall
13 costs, is further evidence that rates should be assumed to be sufficient during this time period.

14 Furthermore, it is MAWC that has not met the burden of proof with regard to this
15 issue. As part of Staff Data Request No. 197, Staff requested that MAWC quantify all
16 expenses that were incurred by MAWC with regard to the lawsuit including all labor and
17 non-labor costs. MAWC witness Phil C. Wood responded Staff's data request by indicating
18 the following:

19 To the extent MAWC employees provided information to its
20 attorneys in connection with the litigation, the time taken to
21 gather and provide such information was part of the employees'
22 normal, daily activities and such time was not separately
23 tracked.

24 A complete copy of MAWC's responses to Staff Data Request No. 197 is attached to this
25 surrebuttal testimony as Schedule SS-s2 and SS-s3.

Surrebuttal Testimony of
Sarah Sharpe

1 Q. How is Staff certain that ratepayers have had to pay increased tariffed water
2 rates due to the treatment for atrazine?

3 A. Tom Simmons, Manager of Water Quality and Environmental Compliance,
4 confirmed in a meeting with Staff on October 20, 2015, that the quantity of powdered
5 activated carbon necessary to treat raw water spikes twice in an annual cycle that is directly
6 correlated, not just coinciding, with increased levels of atrazine found in untreated water in
7 the spring and fall seasons. Mr. Simmons confirmed that MAWC tests for atrazine in
8 quarterly intervals, but more frequent tests are performed dependent on the amount of rainfall
9 because atrazine affects the Missouri River watershed, which covers 25% of the country.

10 Q. During discovery, did Staff inquire as to whom was in charge of the decision to
11 become involved in the class action lawsuit against Syngenta?

12 A. Yes. During a meeting between Staff and MAWC personnel on October 20,
13 2015, Staff asked about MAWC's involvement in the case, how MAWC was alerted to the
14 lawsuit, and who made the decision to become a named party amongst the plaintiffs. MAWC
15 was informed about the case from the case's chief counsel, Mr. Stephen Tillery, in 2010. The
16 four other state entities of AWWC, specifically Iowa, Illinois, Indiana, and Ohio, became
17 plaintiffs in the case in 2012. Within AWWC, each state's President was in charge of the
18 decision to join as a plaintiff.

19 **LOBBYING**

20 Q. Has Staff made any corrections to its proposed lobbying expense
21 disallowances since the time of its Report filing?

22 A. Yes. Staff corrected the calculated revenue requirement for the AWWSC
23 allocated adjustment as this adjustment was not posted in Staff's accounting schedules at the

Surrebuttal Testimony of
Sarah Sharpe

1 time of its direct testimony filing. This resulted in a proposed \$28,484 disallowance from the
2 cost of service calculation that was not correctly reflected in Staff's accounting schedules that
3 were filed with the Report. Staff has also discovered that it had failed to include a \$26,668
4 disallowance of lobbying expense that MAWC had proposed as part of its direct
5 testimony filing. Staff agrees with MAWC's adjustment to remove these lobbying costs from
6 the cost of service calculation. Staff's surrebuttal filing position recommends a disallowance
7 of \$373,321.

8 Q. Did MAWC provide rebuttal testimony and/or workpapers to rebut Staff's
9 direct position?

10 A. No. However, on March 1, 2016, MAWC provided a response to Staff Data
11 Request No. 441, in which MAWC states that they do not agree with Staff's direct position on
12 the disallowance for lobbying expense. While I am not an attorney, it would seem to me that
13 the proper time to rebut Staff's position would have been in MAWC's rebuttal testimony.

14 Q. Does Staff agree with MAWC's accounting practices and current
15 above-the-line treatment for some of their lobbying expenses?

16 A. No. As a regulated water and sewer utility in the state of Missouri, MAWC is
17 subject to the Code of State Regulations, which details how MAWC is to conduct
18 their business as a Missouri regulated utility. Under 4 CSR 240-50.030 it specifically states
19 the following,

20 ...the uniform systems of accounts ("USoA") for Class A and B
21 and for Class C and D water companies, issued by the National
22 Association of Regulatory Utility Commissioners in 1973, as
23 revised July 1976, are adopted and prescribed for use by all
24 water companies under the jurisdiction of the Public Service
25 Commission.

Surrebuttal Testimony of
Sarah Sharpe

1 The USoA provides general descriptions of the types of costs that must be booked to each
2 account. Lobbying-related costs are defined under USoA account 426, Miscellaneous Income
3 Deductions, which is an account that is commonly referred to as a “below the line” account
4 that is intended to capture expenses that are ineligible for recovery from the ratepayers.
5 However, MAWC is currently booking lobbying-related costs inappropriately under USoA
6 accounts 923 Outside Service Employed and 930.2 Miscellaneous General Expenses, that
7 according to USoA guidelines should be recorded “below-the-line” as an expense not
8 recoverable from ratepayers under account 426.

9 Q. What type of expenses should be accounted under USoA account 923, Outside
10 Services Employed?

11 A. The USoA states that “fees and expenses of professional consultants and other
12 for general services which are not applicable to a particular operating function nor to other
13 accounts,” belong in 923. If another account does not aptly describe the services provided by
14 an outside contractor, then the outside contractor expenses belong in account 923.

15 Q. What type of expenses should be accounted under USoA account 930.2?

16 A. 930.2, Miscellaneous General Expenses, is meant to account for “the cost of
17 labor and expenses incurred in connection with the general management of the utility not
18 provided for elsewhere.” The following USoA guidelines provide a sampling of the
19 descriptions under ‘Expenses’:

- 20 2. *Industry association dues for company memberships.*
21 3. *Contributions for conventions and meetings of industry.*
22 4. *Communication service not chargeable to other accounts...*

23 Q. What type of lobbying-related expenses should be accounted under USoA
24 account 426?

Surrebuttal Testimony of
Sarah Sharpe

1 A. The USoA has a listing of the type of items that should be properly recorded in
2 this account. Under item No. 4 of this list, it states the following:

3 4. *Expenditures for the purpose of:*

4 a) *Influencing public opinion with respect to the election or*
5 *appointment of public officials, or the adoption, repeal, revocation or*
6 *modification of referenda, legislation or ordinances.*

7 b) *Influencing public opinion with respect to obtaining approval,*
8 *modification or revocation of franchises.*

9 c) *Influencing the decisions of public officials not including such*
10 *expenditures which are directly related to appearances before*
11 *regulatory or other governmental bodies in connection with the utility's*
12 *existing or proposed operations.*

13 Q. Which of the costs analyzed in this rate case proceeding would Staff
14 recommend that should have been appropriately booked to USoA account 426, but were
15 booked in other accounts?

16 A. Expenses such as fees paid to contracted outside lobbyists ** _____

17 _____ **, dues for memberships to lobbying-centric

18 organizations like the Missouri Energy Development Association (MEDA), the portion of any

19 membership dues that are to be used for lobbying as stated by the membership organization as

20 in the American Water Works Association (AWWA) dues, and contributions given to a

21 political action committee for the specific purpose of influencing public opinion, such as the

22 donations given to obtain approval for the City of Arnold municipal utility franchise.

23 Q. Why did Staff exclude the dues for MEDA and recommend that these costs
24 should be booked in account 426?

25 A. MEDA is a lobbying organization that develops, organizes, and promotes

26 measures that advance the interests of investor-owned utilities in Missouri. Staff asserts that

27 MEDA annual dues and other related costs should be booked below-the-line for ratemaking

28 purposes and be absorbed by the shareholders.

Surrebuttal Testimony of
Sarah Sharpe

1 Q. In MAWC's rebuttal testimony, MAWC witness Jeanne Tinsley states that
2 "Staff has improperly included partial labor costs for several MAWC and Service Company
3 employees who typically do not participate in lobbying activities," and therefore should not
4 have any disallowance to their annualized salary levels. Does Staff agree with this statement?

5 A. No. While Staff understands that some of the individuals listed participated
6 temporarily in assisting to pass the ISRS bill in 2014, the disallowance percentages that Staff
7 has utilized were based on job descriptions provided to Staff by MAWC in response to Staff's
8 Data Requests Nos. 121 and 281.1, and not their specific past activities in regard to legislative
9 proposals. Furthermore, in the response to Staff Data Request No. 281.2, MAWC confirms
10 that the annual employee performance objectives that each employee must abide by are
11 related to the provided job descriptions. The complete job descriptions for the ten employees
12 where Staff has found a mandated lobbying-related percentage of their job duties have been
13 included as highly confidential attachments, Schedules SS-s4 through SS-s12, to this
14 surrebuttal testimony.

15 Q. Please list each individual by name and job title and cite the specific job
16 description duties for each individual that Staff has based its proposed disallowance.

17 A. The following highly confidential table provides those names, job titles, the
18 specific job description duties that are required and that are lobbying in nature, along with the
19 respective quantification of the Staff proposed disallowance for each employee and in total,
20 which is \$260,824:

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23 *continued on next page*

Surrebuttal Testimony of
Sarah Sharpe

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Surrebuttal Testimony of
Sarah Sharpe

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Surrebuttal Testimony of
Sarah Sharpe

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1 **DUES & DONATIONS**

2 Q. Has Staff made any changes or corrections to their position since filing
3 its Report?

4 A. Yes. Staff has agreed with MAWC to allow the corporate-level dues to the
5 American Water Works Association (“AWWA”) into the revenue requirement calculation,
6 with one exception. Staff continues to exclude the lobbying component identified on the
7 AWWA website. The impact of this change increases the total company cost of service
8 calculation by approximately \$7,500. Also, Staff has corrected a double counted proposed
9 disallowance in their direct-filed workpaper, which was also noted by MAWC witness Jeanne
10 Tinsley on page 34 of her rebuttal testimony. Staff has corrected this mistake and this
11 correction increases the total company cost of service calculation by approximately \$77,272.
12 Staff’s corrected and current proposed disallowance for Dues & Donations totals \$288,252.

13 Q. Does Staff agree with MAWC witness Jeanne Tinsley’s position to include the
14 dues for the Missouri Chamber of Commerce?

15 A. No. MAWC has not provided sufficient evidence to prove that ratepayers
16 receive a different, non-duplicative benefit than what is provided through local municipality
17 level membership and should pay for dues to the Chamber of Commerce organization at two
18 different levels, state-level and local municipal-level. Staff’s treatment of multiple levels of
19 Chamber of Commerce dues was established in the *Report and Order* of case 18,180,
20 Missouri Public Service Company (“MoPub”). Page 30 of the Order states:

21 The Staff also allowed Chamber of Commerce dues which the
22 Commission in the past has authorized in recognition of the
23 work that a local Chamber of Commerce does in community
24 and industrial development. Industrial development generally
25 allows the utility to sell more of its services in off peak periods,

Surrebuttal Testimony of
Sarah Sharpe

1 thereby making better utilization of its plant facilities, resulting
2 in lower rates to its other customers in the long run.

3 The *Report and Order* for MoPub Case No. 18,180 has been included as Schedule SS-s13.
4 Staff has agreed that approximately 11 of the local municipality dues are allowable, which are
5 for the following areas: Brunswick, Carl Junction, Chesterfield, Creve Coeur, Greater
6 Warrensburg, Jefferson City, Joplin, Mexico, Parkville, Riverside, and the St. Louis Regional
7 Chamber(s) of Commerce. Requiring ratepayers to also pay for state-level Chamber of
8 Commerce dues provides an overlap in benefits afforded by the membership.

9 Alternatively, MAWC witness Jeanne Tinsley outlines the sponsorships that a state-
10 level Chamber of Commerce membership affords. Allowing the state-level membership
11 would unnecessarily force the captive ratepayers of MAWC into charitable sponsorship and
12 scholarship subsidization through the payment of state Chamber of Commerce dues.

13 RELOCATION EXPENSE

14 Q. Does Staff have any additional evidence to present concerning the issue of
15 relocation expense?

16 A. No. MAWC did not provide any rebuttal testimony to Staff's direct position.
17 Staff believes that this issue is settled.

18 MISCELLANEOUS EXPENSES

19 Q. Has Staff made any changes or corrections to miscellaneous expenses since
20 direct filing?

21 A. No. Staff has not changed their position on the disallowances made for this
22 expense. Staff has received a response to Staff Data Request No. 440, but has not had an
23 adequate opportunity to review any miscellaneous charges that MAWC believes should be in

Surrebuttal Testimony of
Sarah Sharpe

1 | the revenue requirement. Staff will address any proposed changes to the miscellaneous
2 | expenses in Staff's True-Up Direct testimony.

3 | Q. Does this conclude your surrebuttal testimony?

4 | A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI


In the Matter of Missouri-American Water)
Company's Request for Authority to Implement) Case No. WR-2015-0301
a General Rate Increase for Water and Sewer)
Service Provided in Missouri Service Areas)

AFFIDAVIT OF SARAH SHARPE

STATE OF MISSOURI)
) ss.
CITY OF ST. LOUIS)

COMES NOW SARAH SHARPE and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing SURREBUTTAL TESTIMONY; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

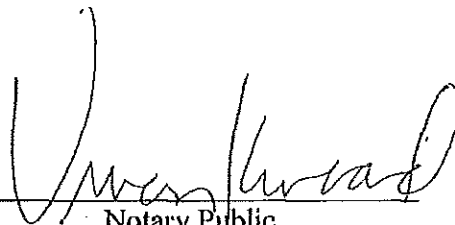


SARAH SHARPE

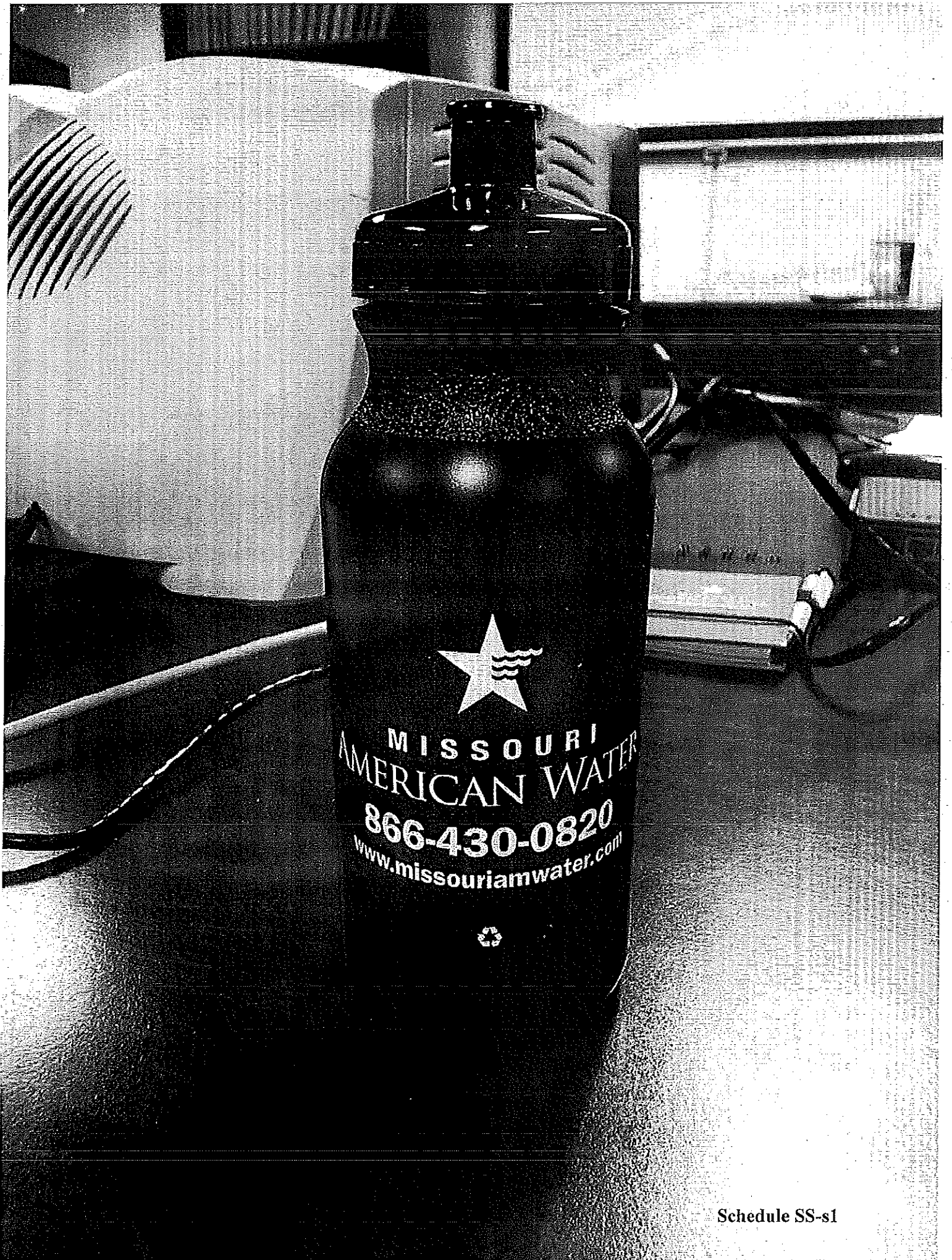
JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the City of St. Louis, State of Missouri, at my office in St. Louis, on this 2nd day of March, 2016.

VIVIAN KINGAID
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis County
My Commission Expires: June 06, 2018
Commission Number: 14893349



Notary Public



Missouri Public Service Commission

Respond Data Request

| | |
|--------------------------|--|
| Data Request No. | 0197 |
| Company Name | Missouri-American Water Company-(Water) |
| Case/Tracking No. | WR-2015-0301 |
| Date Requested | 9/8/2015 |
| Issue | General Information & Miscellaneous - Other General Info & Misc. |
| Requested From | Jeanne Tinsley |
| Requested By | Kevin Thompson |
| Brief Description | Atrazine treatment process and costs |
| Description | <p>MAWC witness Tinsley states on pg. 35 of direct testimony that carbon is used to treat source water contaminated by atrazine. 1. List each MAWC district that currently has treatment costs and equipment in place to treat source water that might be contaminated by Atrazine. 2. Please describe in detail the necessary treatment process for Atrazine at each MAWC district and indicate when such treatment process began at each MAWC district. 3. By calendar year, by MAWC district for the period covering the first point in time MAWC districts first used carbon in its treatment process to negate Atrazine through 2015 quantify all carbon treatment expense that was incurred. Quantify all carbon amounts by USOA account. 4. Does carbon also treat or eliminate any other contaminants (other than Atrazine) that might be found in the source water for any of MAWC's districts? Please list all such contaminants and explain in detail by district. 5. Other than carbon quantified in response to item 3 above, by calendar year, by MAWC district for the period covering the first point in time MAWC districts first treated source water to negate Atrazine through 2015 quantify all other treatment expenses that were incurred. List, describe and quantify all other treatment expenses incurred by MAWC by USOA account on a separate basis. For each year breakdown each expense between labor and non-labor. 6. List, describe and quantify all amounts of capital expenditures that each MAWC district incurred by USOA account, by date, in order to treat source water for the Atrazine contaminant. 7. With regard to all other costs not included in response to items 3, 5 and 6 above, for MAWC, by district and by calendar year, for the period covering the beginning of the class action lawsuit through 2015, quantify all expenses incurred and/or allocated to MAWC with regard to the lawsuit and eventual settlement of the atrazine case. Provide all expenses by calendar year, broken down between labor and non-labor and by USOA account with a complete description of each quantified expense category. 8. List and quantify all other costs incurred and/or allocated by MAWC by USOA account pertaining to the Atrazine issue. Data Request submitted by: Sarah Sharpe (sarah.sharpe@psc.mo.gov).</p> |
| Response | <p>1. Jefferson City Plant, St. Louis Central Plant, and St. Louis North Plant. 2. Powdered activated carbon all three plants. Treatment has been in place for at least 50 years. 3. Please see MoPSC W0197_Attachment for a list of carbon expensed since the last rate case (includes all of 2011). If going back for the past 50+years is necessary, please let us know. 4. Hundreds of taste and odor compounds, organic compounds, pesticides, color, etc. 5. Powdered</p> |

activated carbon is the only treatment chemical used for Atrazine removal. 6. As noted in 4 above, carbon is used to remove hundreds of contaminants, including Atrazine. If Atrazine was not a possible contaminant, carbon treatment would still be used. No specific capital equipment is required for the treatment of Atrazine. 7. The settlement payments were not based directly on expenses incurred to treat atrazine, but on a formula that took into account positive atrazine test results for water systems from 1983-2012, including the following factors: the frequency and recency of positive test results, the concentration of atrazine detected in each positive result, and the size of the population served by the water system. For the detailed formula, please see pages 103-106 of the court-approved settlement agreement, MoPSC W0196_Attachment 2. 8. Approximately \$2,800 per year in lab materials and \$600 per year for labor. Equipment cost of \$8,000 every 10 years.

Objections

NA

The attached information provided to **Missouri Public Service Commission** Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the **Missouri Public Service Commission** if, during the pendency of Case No. **WR-2015-0301** before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information. If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the **Missouri-American Water Company-(Water)** office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to **Missouri-American Water Company-(Water)** and its employees, contractors, agents or others employed by or acting in its behalf.

Security : Public

Rationale : NA

Missouri Public Service Commission

Respond Data Request

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|--------------------------|--|
| Data Request No. | 0197 |
| Company Name | Missouri-American Water Company-(Water) |
| Case/Tracking No. | WR-2015-0301 |
| Date Requested | 9/8/2015 |
| Issue | General Information & Miscellaneous - Other General Info & Misc. |
| Requested From | Jeanne Tinsley |
| Requested By | Kevin Thompson |
| Brief Description | Atrazine treatment process and costs |
| Description | <p>MAWC witness Tinsley states on pg. 35 of direct testimony that carbon is used to treat source water contaminated by atrazine. 1. List each MAWC district that currently has treatment costs and equipment in place to treat source water that might be contaminated by Atrazine. 2. Please describe in detail the necessary treatment process for Atrazine at each MAWC district and indicate when such treatment process began at each MAWC district. 3. By calendar year, by MAWC district for the period covering the first point in time MAWC districts first used carbon in its treatment process to negate Atrazine through 2015 quantify all carbon treatment expense that was incurred. Quantify all carbon amounts by USOA account. 4. Does carbon also treat or eliminate any other contaminants (other than Atrazine) that might be found in the source water for any of MAWC's districts? Please list all such contaminants and explain in detail by district. 5. Other than carbon quantified in response to item 3 above, by calendar year, by MAWC district for the period covering the first point in time MAWC districts first treated source water to negate Atrazine through 2015 quantify all other treatment expenses that were incurred. List, describe and quantify all other treatment expenses incurred by MAWC by USOA account on a separate basis. For each year breakdown each expense between labor and non-labor. 6. List, describe and quantify all amounts of capital expenditures that each MAWC district incurred by USOA account, by date, in order to treat source water for the Atrazine contaminant. 7. With regard to all other costs not included in response to items 3, 5 and 6 above, for MAWC, by district and by calendar year, for the period covering the beginning of the class action lawsuit through 2015, quantify all expenses incurred and/or allocated to MAWC with regard to the lawsuit and eventual settlement of the atrazine case. Provide all expenses by calendar year, broken down between labor and non-labor and by USOA account with a complete description of each quantified expense category. 8. List and quantify all other costs incurred and/or allocated by MAWC by USOA account pertaining to the Atrazine issue. Data Request submitted by: Sarah Sharpe (sarah.sharpe@psc.mo.gov).</p> |
| Response | <p>Supplemental Response to Subpart 7 Provided: All attorney fees and litigation costs and expenses were paid out of the \$105 million settlement fund and were not paid by MAWC or any other class action plaintiff or claimant. As a result, there were no expenses incurred by or allocated to MAWC with regard to the lawsuit and eventual settlement of the Atrazine case. To the extent MAWC</p> |

employees provided information to its attorneys in connection with the litigation, the time taken to gather and provide such information was part of the employees' normal, daily activities and such time was not separately tracked.

Objections

NA

The attached information provided to **Missouri Public Service Commission** Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the **Missouri Public Service Commission** if, during the pendency of Case No. **WR-2015-0301** before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information. If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the **Missouri-American Water Company-(Water)** office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to **Missouri-American Water Company-(Water)** and its employees, contractors, agents or others employed by or acting in its behalf.

Security : Public
Rationale : NA

SCHEDULE SS-4

THROUGH

SCHEDULE SS-12

HAVE BEEN DEEMED

HIGHLY CONFIDENTIAL

IN THEIR ENTIRETY

by five; the preceding year by four; the next preceding year by three, and so forth and by dividing the total by 15. This reduced the adjustment from \$74,198 to \$48,841.

The Commission finds that the weighted adjustment for injuries and damages expense is proper. The more current years should be given more weight in the normalization of expenses of this kind due to the recent inflationary trend of a number of the expenses.

The Commission concludes that Staff Adjustment S-13 adjusting test year expenses downward in the sum of \$48,841 is proper.

31. Staff Adjustment S-14; Overhead Study Normalization.

The Staff proposed Adjustment S-14 to normalize administrative and general expenses to the amount of the most recent overhead study. This adjustment results in an increase in test year expenses in the sum of \$8,917. None of the other parties opposed this adjustment.

The Commission concludes that Staff Adjustment S-14 increasing test year expenses in the amount of \$8,917 is proper.

32. Staff Adjustments S-15, S-16, S-19 and S-20; Dues, Donations and Contributions.

The Company pays for memberships and dues of its Company employees and officers in various organizations. The Company also makes contributions and donations to numerous agencies, many of which are charitable organizations. A number of these expenses were included in the Company's figures for test year expenses. The Commission Staff, as has been its practice for many years, has proposed adjustments (S-15, S-16, S-19, and S-20) to remove approximately \$106,535 from the test year expenses.

At the prehearing conference the Company agreed that for rate-making purposes all but \$5,683 of this amount could be removed or "placed below the line" to be borne by the Company's shareholders. The four adjustments are all of a similar nature and were lumped together for hearing purposes and will be considered together insofar as this Report and Order is concerned.

The only sum remaining at issue out of the four Staff adjustments is the sum of \$5,683.

It is the contention of the Company that pursuant to previous orders of the Commission, local service club dues have been and should be allowed as a legitimate Company expense.

Staff Exhibit No. 5 is a detailed summary of the Staff's four adjustments in this case. It is the compilation of over 1500 separate items which the Staff has reviewed and disallowed.

In Staff Adjustment S-15, the Staff disallowed:

| | |
|--|--------------|
| Civic Club Membership Dues for Company Employees | \$ 1,925 |
| Country Club Membership Dues for Employees | 6,455 |
| Company Membership to other non-business related organizations | 4,750 |
| Social Club dues and non-business expenses for President | 7,075 |
| Social Club dues for all other General Office Officials | 3,950 |
| Miscellaneous contributions and donations to organizations (Purchase tickets to local events, Christmas gifts and decorations, yearbook and fairbook ads., etc.) | <u>1,115</u> |
| | \$25,270 |

In Staff Adjustment S-16 the Staff disallowed:

| | |
|--|--------------|
| Civic Club Membership Dues for Company Employees | \$ 3,758 |
| County Club Membership Dues for Employees | 6,518 |
| Company Membership to other non-business related organization | 285 |
| Donation to Athletic Teams in service area towns | 1,085 |
| Miscellaneous contributions and donations to organizations (Purchase tickets to local events, Christmas gifts and decorations, yearbook and fairbook ads., etc.) | <u>7,168</u> |
| | \$18,814 |

In Staff Adjustment S-19 the Staff disallowed:

| | |
|---|--------------|
| Employee meals, transportation and lodging to attend Conventions and social events not related to conduct of utility business | \$ 1,772 |
| Florals for new business openings and non-employees | 47 |
| Non-business related expenses of General Office Officials with the exception of President | <u>3,127</u> |
| | \$ 4,946 |

In Staff Adjustment S-20 the Staff disallowed:

| | |
|---|----------|
| Tickets for Professional Athletic Events in Kansas City and rental of Suite | \$41,934 |
| Dinners for City Officials throughout service area | 3,878 |

| | |
|---|--------------|
| Miscellaneous meals, transportation and lodging to attend Conventions and social events not related to conduct of utility business | 2,966 |
| Florals for new business openings and non-employees | 654 |
| Entertainment expenses while attending Professional Athletic events in Kansas City | 303 |
| Entertainment expenses for company employees and guests at local Country Clubs | 255 |
| Current event films from Hearst Motrotone News shown in area schools | 2,805 |
| Promotional expenses: Boy Scouts calendars, brochures regarding the future after high school, portion of printing expensa-guidance counselors booklets, ink pens for distribution, etc. | <u>4,710</u> |
| | \$57,505 |

These amounts contested by the Company are the amounts represented by the first two lines under Staff Adjustments S-15 and S-16 "civic club membership dues for company employees."

It is the contention of the Staff that all of these S adjustments are proper in that they represent expenses which are unrelated to utility business, of no benefit to the ratepayers, or contributions which represent involuntary contributions by ratepayers if allowed as rate case expenses. It was the Staff's contention that dues for business related organizations such as professional organizations should be allowed. They were allowed by the Staff in its audit and are not an issue in this case. The Staff also allowed Chamber of Commerce dues which the Commission in the past has authorized in recognition of the work that a local Chamber of Commerce does in community and industrial development. Industrial development generally allows the utility to sell more of its services in off peak periods thereby making better utilization of its plant facilities resulting in lower rates to its other customers in the long run.

It is the position of the Intervenorers that the \$5,683 in civic club dues basically for Optimist Clubs, Rotary Clubs, Lion's Clubs and Kiwanis Clubs should be disallowed.

Even though it is not a direct issue in this case the Commission reaffirms its policy of allowing business related dues. It is beneficial to the ratepayers of the Company that certain Company officials belong to professional and industry organizations in order that the Company

employees keep abreast of developments in specific fields and the utility business in general. The Commission further reaffirms its policy of allowing local Chamber of Commerce dues. This policy is in recognition of the fact that local Chamber of Commerce organizations are community and industrial development oriented and that community and industrial development are of a long term benefit to the ratopayers of the Company. While it is not clear in this case whether State and National Chamber of Commerce dues have been allowed or disallowed it is reaffirmed by this Commission that it is the policy to disallow these expenses. Insofar as the only issue before the Commission in this case is concerned the Commission finds that civic club membership dues for Company employees under Staff Adjustments S-16 in the sum of \$3,758 should be allowed. This sum represents membership dues for Company employees basically in the outlying communities that do not have local Chambers of Commerce. The civic club membership dues therefore are allowed in recognition of the fact that in a large measure the service clubs in small communities serve the function of a Chamber of Commerce in the area of community and industrial development. The testimony indicates that the sum of \$1,925 related to civic club membership dues under Adjustment S-15 would cover employees basically in areas which have Chambers of Commerce. The Commission finds that these membership dues should be disallowed.

These findings in essence reaffirm the position the Commission has taken at times in the past with reference to civic club membership dues.

What appalls the Commission is the fact that it was necessary for the Staff to review over 1,500 items to make those adjustments which it has been the practice of the Commission for many years to deny. The Commission finds that the Accounting Staff should review the uniform systems of accounts applicable to the Company and whether or not this Company is complying with the uniform system of accounts. It appears to the Commission that all of these items should, in the first instance, be placed "below the line" by the Company and that it should not be necessary for the Commission Staff, in its audit, to locate all these

expenses and place them "below the line." It occurs to the Commission that as a general rule all items which are typically disallowed by the Commission should be placed below the line and that it should be incumbent upon the utility requesting that they be included in the rate case to assume the burden of proof to allow them rather than the Staff having to make the adjustment to disallow them.

The Commission concludes that Staff Adjustments S-15, S-16, S-19 and S-20 are all proper except for the sum of \$3,758 for civic club membership dues in Staff Adjustment S-16 which should be allowed as test year expense.

At the hearing on this matter the Public Counsel and Jackson County seemed to take the position that the Company should not spend the \$100,000 covered by Staff Adjustments S-15, S-16, S-19, and S-20 due to the alleged bad financial situation of the Company.

The position taken by Jackson County in its brief was that this Commission should undertake to prohibit those payments entirely. While some of the Company's actions may be questioned in view of its financial situation this Commission has no legal authority to prohibit the Company from making contributions and from paying dues and donations and other miscellaneous expenses out of shareholder funds if they so desire. This Commission can remove those items from the rate case expense and this Commission has done so.

This Commission cannot run the Company and cannot determine how its shareholders will spend their funds. We trust that the Company's own financial situation and its shareholders will serve as a sufficient brake on the payment of contributions and dues by shareholder funds.

33. Staff Adjustment S-17 and S-18; Nonrecurring Expenses - Personnel Director Recruitment.

The Staff proposed Adjustments S-17 and S-18 in the negative sums of \$6,921 and \$225 respectively to disallow expenses of an alleged nonrecurring nature. Some of these expenses were gifts, contributions, trips, dinners, and seminars all unrelated to Company operations which the ratopayers should not be expected to reimburse. A portion of these expenses in the total sum of approximately \$3,200 related to the recruitment of a personnel director.