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Tank Painting Tracker,
Tank Painting Expense,
Incentive Compensation,
Payroll, Overtime,
PSC Assessment,
Waste Disposal, Severance

Witness:

Jason Kunst

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 DIVISION

AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY

OF

JASON KUNST

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2015-0301

Jefferson City, Missouri
March 2016

** Denotes Highly Confidential Information **

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OF
JASON KUNST
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2015-0301

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1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **JASON KUNST**

4 **MISSOURI-AMERICAN WATER COMPANY**

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

6 Q. Please state your name and business address.

7 A. Jason Kunst, 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 as Utility
10 Regulatory Auditor II.

11 Q. Are you the same Jason Kunst who sponsored direct testimony as part of
12 Staff's Revenue Requirement Cost of Service Report ("Report") that was filed in this case on
13 December 23, 2015, and who also filed rebuttal testimony on February 11, 2016?

14 A. Yes.

15 **EXECUTIVE SUMMARY**

16 Q. Please give a brief summary of your surrebuttal testimony.

17 A. My surrebuttal testimony will respond to the rebuttal testimony of
18 Missouri-American Water Company (MAWC) witnesses Kevin H. Dunn regarding the tank
19 painting and inspection tracker, Donald J. Petry regarding American Water Works Service
20 Company ("Service Company") Support Services and Incentive Compensation, Nikole
21 Bowen regarding Transportation Leases and Waste Disposal, and Jeanne M. Tinsley
22 regarding labor and related benefits and severance costs. I will also address Staff's true-up

1 adjustments to payroll and benefits, waste disposal, the tank painting and inspection tracker,
2 and transportation fuel and maintenance.

3 **TANK PAINTING AND INSPECTION TRACKER**

4 Q. Has Staff made any adjustment to its recommended annualized amount of
5 tank painting and inspection expense for inclusion in rates?

6 A. Yes. As part of its true-up audit, Staff has reviewed tank painting and
7 inspection costs through January 31, 2016, and now recommends including \$1,302,754 in
8 rates for this item based on a five year average ending January 31, 2016.

9 Q. What is the current balance of the regulatory asset created by the tank painting
10 and inspection expense tracker as of January 31, 2016?

11 A. \$1,348,837.

12 Q. Has Staff changed its recommendation regarding its proposed treatment of the
13 regulatory asset?

14 A. No. Staff is still recommending that the balance as of January 31, 2016, be
15 amortized over a five-year period and that the unamortized balance be included in rate base.

16 Q. What recommendation for the tank painting and inspection tracker does
17 MAWC witness Kevin H. Dunn make in his rebuttal testimony?

18 A. On page 6, lines 19-22, Mr. Dunn recommends allowing MAWC to continue
19 to use the tank painting and inspection expense tracker at the current Commission authorized
20 base level of \$1,300,000 annually and to amortize the tracker balance as of January 31, 2016,
21 over a three-year period while including the unamortized portion in rate base.

Surrebuttal Testimony of
Jason Kunst

1 Q. Does Staff agree that MAWC should be allowed to continue using the tank
2 painting and inspection tracker subsequent to the effective date of rates in this rate
3 proceeding?

4 A. No. It is Staff's position that tank painting expenses are not significant
5 enough to warrant the extraordinary treatment provided by continuous tracking. Staff
6 contends the expenses are a normal and predictable maintenance cost.

7 Q. Is MAWC able to determine well in advance the need to perform a tank
8 painting for any of its water storage tanks and standpipes?

9 A. Yes. The scheduled intervals between full removal tank painting provided
10 as part of MAWC's response to Staff Data Request No. 231 reveals that, at a minimum, both
11 an internal and an external tank painting will last for at least 15 years. In fact, many
12 tank painting have lasted for over 20 years. MAWC performs routine tank painting
13 inspections. These inspections are designed to alert MAWC officials of any potential
14 problems with a particular paint coating among other issues, internally or externally for all of
15 its water storage tanks. These inspections should provide MAWC with significant advanced
16 notice of any need to perform a tank painting. With this advanced notice, MAWC can easily
17 time its rate case filings to address any significant costs that it might incur in relation to tank
18 painting projects, much like it plans the timing of its rate case filings around payroll and wage
19 rate increases.

20 Q. Does Staff oppose the tank painting and expense tracker for any other
21 reasons?

22 A. Yes. Continuous tracking does not incentivize a company to control costs
23 because the utility is not potentially responsible for any increase to those costs. By allowing

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Jason Kunst

1 MAWC to recover the tank painting expenses dollar-for-dollar, they have no incentive to
2 reduce costs.

3 Q. MAWC witness Dunn states on page 4, lines 8-9 of his rebuttal testimony that
4 “The cost to paint varying sizes and type of tanks is vastly different and set an annual
5 expenditure to recover this variability is not easily accomplished.” Does Staff agree with
6 that statement?

7 A. No. Staff’s five year average is slightly above the \$1.3 million base tracker
8 level established in the *Non-Unanimous Stipulation and Agreement* in the previous MAWC
9 rate case, Case No. WR-2011-0337. On page 5, lines 13-15 Mr. Dunn states, “For example
10 in the last five years, tank painting costs have ranged from a low of \$828,602 in 2013 to a
11 high of \$1,762,168 in 2012.” The average of those two years, approximately \$1.3 million, is
12 approximately Staff’s recommended annualized amount in this proceeding.

13 Q. Does Staff agree with MAWC witness Dunn’s rebuttal testimony assertion
14 that the asset balance created by the tracker should be amortized over three years and the
15 unamortized balance included in rate base?

16 A. No, regarding the proposed amortization period. While Staff agrees that the
17 unamortized balance should be included in rate base, consistent with the *Non-Unanimous*
18 *Stipulation and Agreement* in MAWC’s last rate case, Case No. WR-2007-0216, Staff
19 instead recommends amortizing the balance over a five-year period consistent with Staff’s
20 general and longstanding position of providing recovery of deferred regulatory assets and
21 liability through a five-year amortization period. Additionally, Staff recommends any
22 regulatory asset or liability created by the tracker subsequent to the true-up cutoff date in this
23 case through the effective date of rates, be addressed in the next MAWC rate case.

1 MAWC LEVEL PAYROLL AND RELATED BENEFITS (OTHER THAN
2 PENSIONS AND OPEBS)

3 Q. Has Staff completed its true-up review of payroll and related benefits at the
4 MAWC level?

5 A. Yes. Staff has updated its annualized payroll and benefit levels to reflect the
6 most current data as of the Commission established true-up cutoff date, January 31, 2016.

7 Staff is now recommending the following annualized levels of expense:

- 8 • Payroll \$24,631,196
- 9 • Overtime \$2,614,918
- 10 • Group Insurance \$4,752,703
- 11 • Employee Benefits
12 (401k, ESPP, VEBA) \$788,721
- 13 • Payroll Taxes \$2,111,336

14 Q. What level of expenses has MAWC proposed in its true-up filings?

15 A. The Company has proposed the following amounts in its true-up work paper:

- 16 • Payroll \$24,889,837
- 17 • Overtime \$2,683,151
- 18 • Group Insurance \$4,724,164
- 19 • Employee Benefits \$836,838
- 20 • Payroll Taxes \$2,158,232

21 Q. Please provide a table that quantifies the differences that exist between Staff
22 and MAWC for these payroll and benefits categories.

Surrebuttal Testimony of
Jason Kunst

1 A. The follow chart summarizes all differences between Staff's and MAWC's
2 proposals:

3

	Staff	MAWC	Difference
Labor	\$ 24,631,196	\$ 24,889,837	\$ (258,641)
Overtime	\$ 2,614,918	\$ 2,683,151	\$ (68,233)
Group Insurance	\$ 4,752,703	\$ 4,724,164	\$ 28,539
401K	\$ 669,369	\$ 664,883	\$ 4,486
ESPP	\$ -	\$ 53,534	\$ (53,534)
VEBA	\$ 119,352	\$ 118,420	\$ 932
Payroll Taxes	\$ 2,111,336	\$ 2,158,232	\$ (46,896)
4 Total	\$ 34,898,874	\$ 35,292,221	\$ (393,347)

5 Q. In her rebuttal testimony found on page 10, lines 4-21, MAWC witness
6 Jeanne M. Tinsley discusses wage increases to St. Louis County Union ("Local 335") and to
7 non-union employees. Did Staff include these wage increases in its true-up calculation?

8 A. Yes. Staff did include the raise to Local 335 in its true up calculations, as it
9 went into effect on January 28, 2016, just three days before the January 31, 2016, true-up
10 cutoff point in this case. Staff did not include the March 14, 2016, merit increases that are
11 planned for non-union MAWC employees as part of its true-up calculation.

12 Q. Why does Staff not recommend including the merit raises to the non-union
13 MAWC employees in its true-up cost of service calculation?

14 A. Staff did not include the scheduled non-union raise to management employees
15 as part of its true-up filing because Staff contends that the increase occurs outside of the
16 Commission ordered true-up cut-off date and violates the matching principle.

17 Q. Why does Staff contend that the management increase violates the matching
18 principle?

Surrebuttal Testimony of
Jason Kunst

1 A. The increase is an inappropriate, isolated adjustment and does not take into
2 account changes in other factors that will occur after the true-up date in this case. Staff
3 historically contends that other relevant factors must be taken into account when setting rates.

4 For instance, ** _____
5 _____
6 _____
7 _____
8 _____
9 _____
10 _____
11 _____ **

12 Q. Please explain Staff's reasoning and justification for using a five-year average
13 ending December 31, 2014, when calculating overtime.

14 A. In the five-year period examined by Staff, MAWC endured abnormally high
15 amounts of overtime in various districts due to flooding, extremely cold weather, and
16 tornados. By using a five-year average, Staff is able to better "smooth" out the higher than
17 normal years which provides a more accurate annualized amount.

18 Q. Please explain why Staff is opposed to the three-year average used by
19 MAWC?

20 A. MAWC's three-year average includes 2012-2014, which saw the Company
21 endure a record number of main breaks in the St. Louis Metro district. The St. Louis Metro
22 district accounts for on average 78 percent of the overtime incurred by MAWC. Without the

1 smoothing effective of the larger timeframe, the overtime percentage is skewed by the higher
2 than average amount incurred in the test year.

3 Q. Is Staff aware of any significant incurrence of overtime subsequent to the test
4 year by MAWC?

5 A. Yes. During October 2015, MAWC recorded the highest monthly level of
6 overtime that it has incurred over the past ten years. MAWC has explained to Staff that this
7 overtime related to MAWC's actions that it took in response to a widespread metering defect
8 issue. Staff is aware that MAWC has replaced at least 22,000 defective meters since August
9 2015. Therefore, Staff has excluded overtime that was incurred by MAWC subsequent to the
10 test year in Staff's overtime annualization recommendation to the Commission.

11 Q. Is calculation of the O&M percentage still at issue between MAWC and Staff?

12 A. No. Staff has reviewed additional information and has adopted the proposed
13 O&M factor used by MAWC. This is no longer an issue between Staff and MAWC.

14 **ALLOCATED SERVICE COMPANY SUPPORT SERVICES – PAYROLL AND**
15 **BENEFITS**

16 Q. Has Staff reexamined the level of expense related to AWWSC payroll and
17 benefits to include in rates as part of its true-up audit?

18 A. Yes. Staff now recommends including \$12,096,854 for annualized service
19 company labor and related expenses based upon the true-up information through January 31,
20 2016, that was provided by MAWC on February 19, 2016.

21 Q. What level of expense does MAWC propose to include in rates?

22 A. In his rebuttal testimony, MAWC witness Donald J. Petry recommended
23 including \$12,953,973 as the annualized level to include in rates for allocated payroll and
24 benefits costs.

1 Q. Please provide a breakdown by category for this \$857,119 difference that
2 exists between MAWC and Staff for payroll and benefits other than pensions and OPEBS:

3

	Staff	MAWC	Difference
Labor	\$ 9,500,137	\$ 10,035,089	\$ (534,952)
Overtime	\$ 269,962	\$ 278,971	\$ (9,009)
Group Insurance	\$ 1,347,559	\$ 1,412,658	\$ (65,099)
401K	\$ 233,094	\$ 259,413	\$ (26,319)
ESPP	\$ -	\$ 33,403	\$ (33,403)
Payroll Taxes	\$ 746,102	\$ 934,439	\$ (188,337)
4 Total	\$ 12,096,854	\$ 12,953,973	\$ (857,119)

5 A. The chart above depicts a breakdown of the differences that exist between
6 Staff and MAWC with regard to allocated Service Company payroll and benefits.

7 Q. What methodology does MAWC witness Donald J. Petry recommend for
8 determining the amount of service company payroll and benefits to include in the cost-of-
9 service calculation in this case?

10 A. On page 2, lines 29-30, Mr. Petry states "The Company believes that utilizing
11 the true-up amount of actual expense is the best methodology."

12 Q. Does Staff have any concerns about using the actual true-up amount for this
13 item as suggested by MAWC?

14 A. Yes. Mr. Petry's proposal that MAWC should simply accept an actual
15 unadjusted true-up labor cost allocation from an affiliate cuts against long standing
16 and traditional ratemaking techniques such as annualization and normalization. The actual
17 true-up amount could include amounts for employees who are no longer employed by
18 AWWSC. In response to Staff Data Request No. 298, AWWSC had 1,312 employees as of
19 December 31, 2014, and 1,227 employees as of January 31, 2016. By using the method

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Jason Kunst

1 suggested by Mr. Petry, the ratepayers would be paying a portion of the salary and benefits
2 for employees who are no longer employed. Going forward, based upon MAWC's response
3 to Staff Data Request No. 117, MAWC has indicated that the projected work force level for
4 the Service Company will continue to decrease over time. MAWC indicated that the Service
5 Company is projected to employ an average of 1,196 employees over the next four years
6 (2016-2019). Using the actual 2015 expense allocated down to MAWC, as proposed by
7 MAWC witness Petry, provides even more detailed illustrations of the problem that Missouri
8 ratepayers could possibly be paying for a portion of salaries of over 100 employees who are
9 no longer providing any service to Missouri ratepayers in the immediate time period
10 following this rate case. If Mr. Petry and his fellow Service Company employee colleagues
11 were to make similar recommendations in all of the states that American Water Works, Inc.,
12 provides service, this would lead to a situation where the Service Company collected more in
13 rates than its actual costs.

14 Q. How does Staff believe the allocated affiliate Service Company labor costs
15 should be determined and adjusted?

16 A. Staff reviewed the Service Company payroll on an employee-by-employee
17 basis. Staff has reflected the salaries and wages of the actual Service Company employees
18 that existed and were employed at the end of the January 31, 2016, the Commission
19 established true-up cutoff for this case. Therefore, Staff has excluded the costs of all vacant
20 positions that existed as of January 31, 2016. Furthermore, Staff has annualized the Service
21 Company payroll to include a full year of the current salary for any employees hired
22 subsequent to February 1, 2015, as well as including a full year's impact of the increase in
23 salary and wage rates that occurred on March 14, 2015.

1 **INCENTIVE COMPENSATION**

2 Q. On page 5, lines 12-13 of his rebuttal Testimony, MAWC witness Petry wrote
3 “If the overall level of the costs is reasonable, there is no basis to ‘look behind the curtain’”,
4 in regards to Staff’s recommended disallowance of AWWSC incentive compensation tied to
5 financial goals. What is Staff’s response to this statement?

6 A. Mr. Petry’s statement disregards the fact that the incentive compensation is
7 designed to reach financial goals that if achieved can only serve to benefit the shareholder.
8 Staff contends that there is no justification whatsoever for requiring ratepayers to fund
9 incentive compensation payouts that are specifically designed to benefit the shareholder.

10 Q. In his rebuttal testimony, on page 3, lines 27-29, MAWC witness Donald J.
11 Petry wrote, “. . . it is inappropriate to adjust Support Service charges for incentive
12 compensation paid to Service Company employees” regardless of the fact that the incentive
13 compensation is directly tied to earnings per share (EPS) goals that solely benefits the
14 shareholder. How does Staff respond?

15 A. To reiterate, Staff believes that it is never appropriate to include incentive
16 compensation payouts that are tied to financial performance measurements that solely benefit
17 shareholders. This is the long-standing approach that has been taken by Staff and upheld by
18 the Commission in previous rate cases.

19 Q. In his rebuttal testimony found on page 8, lines 14-27, Mr. Petry states that
20 Staff ignores several key findings in the Southwestern Bell Telephone Company (SWBT)
21 Case No. TC-89-14. Please respond.

22 A. Unlike the SWBT case, Staff is making no claim that MAWC salaries are
23 unreasonable or imprudent. Staff’s contention is that incentive compensation goals tied to

Surrebuttal Testimony of
Jason Kunst

1 the financial performance of the parent company, American Water, are entirely to the benefit
2 of the shareholders and should not be charged to ratepayers.

3 Q. On page 14, lines 7-10, MAWC witness Petry states the following, “MAWC’s
4 employees are not overcompensated relative to their peers, even with the inclusion of
5 incentive pay. So it is not appropriate to disallow a portion of their compensation.” How
6 does Staff respond?

7 A. Mr. Petry’s argument is a “red herring”; Staff’s position is not premised upon
8 a belief that MAWC’s total compensation is unreasonable. Staff’s contention is that
9 incentive compensation plans based on financial goals are entirely for the benefit of the
10 shareholders and should not be borne by ratepayers.

11 Q. What past cases can you point out in which the Commission indicated that
12 incentivizing financial goals and metrics that solely benefit the shareholders should not be
13 recovered at the expense of Missouri ratepayers?

14 A. The Commission noted in the *Report and Order* in Case No. GR-2004-0209,
15 Missouri Gas Energy:

16 The Commission agrees with Staff and Public Counsel that the
17 financial incentive portions of the incentive compensation plan
18 should not be recovered in rates. Those financial incentives
19 seek to reward the company’s employees for making their best
20 efforts to improve the company’s bottom line. Improvements
21 to the company’s bottom line chiefly benefit the company’s
22 shareholders, not its ratepayers. Indeed, some actions that
23 might benefit a company’s bottom line, such as a large rate
24 increase, or the elimination of customer service personnel,
25 might have an adverse effect on ratepayers.

26 If the company wants to have an incentive compensation plan
27 that rewards its employees for achieving financial goals that
28 chiefly benefit shareholders, it is welcome to do so. However,
29 the shareholders that benefit from the plan should pay the costs
30 of the plan. The portion of the incentive compensation plan

1 relating to the company's financial goals will be excluded from
2 the company's cost of service revenue requirement.

3 The Commission reaffirmed its decision on incentive compensation plans based on financial
4 goals in the Ameren Missouri rate case, No. ER-2008-0318:

5 The Commission has frequently disallowed costs relating to
6 incentive programs that are based on measures of the financial
7 return achieved by the utility. It has done so because such
8 measures are based on the level of profits the utility can
9 achieve. At best, a utility's level of profitability has little or no
10 benefit for ratepayers. At worst, an increase in the utility's
11 profitability may be harmful to ratepayers if that profitability is
12 obtained by cutting customer service or system maintenance to
13 cut costs and thereby increase earnings per share. Because
14 eligibility for Ameren UE's long-term compensation plans are
15 based on measures of the financial return achieved by the
16 utility, the cost of those plans should fall on the shareholders
17 who will primarily benefit from the company's increased
18 financial return.

19 And in the Kansas City Power and Light Company ("KCP&L") rate case, Case No.
20 ER-2007-0291:

21 KCPL has the right to tie compensation to EPS. However,
22 because maximizing EPS could compromise service to
23 ratepayers, such as by reducing maintenance, the ratepayers
24 should not have to bear that expense. What is more, because
25 KCPL is owned by Great Plains Energy, Inc., and because GPE
26 has an unregulated asset, Strategic Energy L.L.C., KCPL could
27 achieve a high EPS by ignoring its Missouri ratepayers in favor
28 of devoting its resources to Strategic Energy. Even KCPL
29 admits it is hard to prove a relationship between earnings per
30 share and customer benefits. Nevertheless, if the method
31 KCPL chooses to compensate employees shows no tangible
32 benefit to Missouri ratepayers, then those costs should be borne
33 by shareholders, and not include[d] in the cost of service.

34 Q. Please summarize Staff's position on incentive compensation.

35 A. Missouri ratepayers should not be required to pay the cost of an incentive
36 compensation plan that is solely for the benefit of the shareholders. Mr. Petry's arguments

1 regarding total compensation levels does not address in any way Staff's true issue with the
2 incentive compensation plan.

3 **TRANSPORTATION LEASES AND FUEL EXPENSE**

4 Q. Has Staff made any changes to its direct filed position in regard to
5 transportation expenses?

6 A. Yes. Staff is now recommending a \$1,965,840 annualized level for
7 transportation expense.

8 Q. What amount of transportation expense did MAWC include in its true-up
9 work papers?

10 A. In the true-up work papers provided to Staff, MAWC included \$2,034,721 as
11 an annualized level of transportation expense.

12 Q. Please identify the factors that cause the approximately \$68,881 difference
13 that exists between Staff and MAWC in regards to transportation related expenses.

14 A. The difference between Staff and MAWC exists due to Staff removing
15 additional expired leases that MAWC failed to exclude from its true-up adjustment.

16 Q. Do Staff and MAWC agree on the adjustment to annualize lease-related fuel
17 costs?

18 A. Yes. Staff and MAWC agree on the amount of fuel costs to include in rates
19 and believe that certain portions of the transportation issue are settled.

20 Q. On pages 9-10 of her rebuttal testimony, MAWC witness Nikole Bowen
21 describes a Staff adjustment of \$66,275 to transportation expenses that she believes should
22 not have been added to the expense. Does Staff agree?

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Jason Kunst

1 A. The Staff has since discussed this issue with Ms. Bowen and Staff believes
2 that this issue is now resolved.

3 Q. Are there any other issues regarding transportation lease expenses Staff
4 wishes to address?

5 A. Yes. ** _____
6 _____
7 _____
8 _____
9 _____
10 _____
11 _____
12 _____
13 _____
14 _____
15 _____
16 _____

17 _____ **

18 **WASTE DISPOSAL EXPENSE**

19 Q. Please describe the waste disposal costs relate to MAWC's water and
20 wastewater systems.

21 A. The treatment process for water and wastewater leaves behind byproducts that
22 must be removed from the treatment facilities. The time between cleanings varies from
23 facility to facility. To account for these costs, MAWC accrues a monthly amount based on

Surrebuttal Testimony of
Jason Kunst

1 | historic and estimated costs. Some of the districts, however, are billed on a monthly or
2 | quarterly basis to have the waste treated elsewhere.

3 | Q. What level of expense has MAWC recommended for waste disposal expense
4 | in its true-up work papers?

5 | A. In the true-up work papers provided to Staff, MAWC has recommended
6 | \$1,871,300 as the annual level of expense for inclusion in rates. This includes \$140,614
7 | of interest expense related to an amortization that MAWC proposes in connection with
8 | the Arnold sewer system acquisition and that has nothing to do with waste disposal costs.
9 | This amount has not been included in Staff's case. For a complete discussion of the
10 | Arnold system interest expense issue, please refer to Staff witness Lisa M. Ferguson's
11 | surrebuttal testimony. I will address the actual waste disposal costs for the Arnold system
12 | as well as waste disposal costs for all of MAWC's systems that totaled \$1,730,686
13 | (\$1,871,300 less \$140,614) in MAWC's true-up information.

14 | Q. Has Staff reexamined the amount of waste disposal expenses to include
15 | in rates?

16 | A. Yes. Staff has reviewed the true-up information as well as other information
17 | that has been provided since filing its direct testimony in this case and is now recommending
18 | a total company annualized waste disposal expense amount of \$1,584,277 for inclusion in the
19 | cost of service calculation. Staff reviewed the historic costs for each district on a separate
20 | basis to determine the annualized and normalized amount to include in rates.

21 | Q. Please reconcile the difference between Staff and MAWC's annualized
22 | amounts?

Surrebuttal Testimony of
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1 A. Staff based its annualized amount on actual historic costs. MAWC has
2 proposed to include an annual accrual amount based on estimated future expenses.

3 Q. What problems does the Staff have with MAWC's use of the accrual method
4 of accounting for ratemaking purposes?

5 A. The flaw in using the accrual method to set rates is that the accrual method
6 uses estimated future costs. Setting rates using estimated future costs may incentivize
7 MAWC to overestimate its costs for waste disposal expense. Rates should be set based on
8 known and measureable amounts, which can reasonably be determined using the cash basis
9 of accounting.

10 Q. Has the Commission ruled against the inclusion of future estimated expenses
11 in other rate proceedings?

12 A. Yes. In GR-96-285, the Commission ruled in favor of Staff's use of cash
13 basis ratemaking for injuries and damage expense. Missouri Gas Energy (MGE) proposed to
14 include actual test year costs for injuries and damages as well as accrued amounts for
15 incidents that had occurred, but had not yet been paid. The Commission stated the following
16 in the Report and Order:

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

23 **CAPITALIZED INCENTIVE COMPENSATION**

24 Q. Has Staff reexamined it's adjustment to plant-in-service and depreciation
25 reserve?

Surrebuttal Testimony of
Jason Kunst

1 A. Yes. Staff has updated its work paper to reflect actual plant-in-service and
2 depreciation reserve through the end of the Commission established true-up cutoff date of
3 January 31, 2016.

4 **PSC ASSESSMENT**

5 Q. Do Staff and MAWC agree on the amount of PSC Assessment to include in
6 the cost of service calculation?

7 A. Yes. Staff and MAWC agree on the proper amount of PSC assessment
8 expense to include in rates.

9 **SEVERENCE EXPENSE**

10 Q. Do Staff and MAWC agree that no severance costs for MAWC or the service
11 company should be included in rates in this case?

12 A. Yes. Based upon MAWC's response to Staff Data Request No. 431, Staff and
13 MAWC agree that no severance costs should be included in rates in this case.

14 Q. Does this conclude your surrebuttal testimony?

15 A. Yes.

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 JASON KUNST

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

COMES NOW JASON KUNST and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing SURREBUTTAL TESTIMONY; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

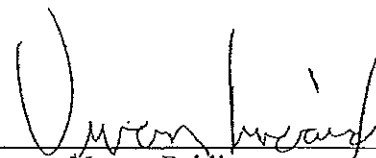


JASON KUNST

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 3rd day of March, 2016.

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



Notary Public