Exhibit No.:	
Issue(s):	*Production Costs, (Fuel/Power Expense, Chemicals, Purchased Water); Water Revenue; Low-Income Pilot Program; Industrial Usage*
Witness:	*Ashley Sarver*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal Testimony*
Case No.:	*WR-2020-0344*
Date Testimony Prepared:	*February 9, 2021*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL & BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY

OF

ASHLEY SARVER

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2020-0344

Jefferson City, Missouri
February 2021

****** Denotes Confidential Information ******

SURREBUTTAL TESTIMONY

OF

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Q. Please state your name and business address.

A. Ashley Sarver, P.O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same Ashley Sarver who has previously contributed to the Staff's Cost of Service Report filed on November 24, 2020 and rebuttal testimony filed on January 15, 2021 in this case?

A. Yes, I am.

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

A. The purpose of my testimony is to respond to the rebuttal testimonies of Missouri-American Water Company ("MAWC" or "Company") witnesses Todd P. Wright regarding production costs (fuel / power expense, purchased water and chemicals), and Brian W. LaGrand on residential revenue, the low income pilot program, and updating the industrial usage for St. Louis County.

<u>PRODUCTION COSTS</u>

Purchased Water

Q. What is MAWC's position regarding purchased water?

A. On page 2 of Todd P. Wright's rebuttal testimony he states "The Company proposed using a three-year average of billed usage for all service areas except Parkville and

City of Lawson. For Parkville, the Company used a two-year average of 2018 and 2019. For Lawson, the Company used billed usage from 2019 as two years was not available."

Q. What is Staff's position for purchased water?

A. Staff used a five-year average of billed usage for all service areas except Parkville and City of Lawson. Staff used an 18-month average for Parkville and a 22-month average for the City of Lawson.

Q. Why is a five-year average more appropriate than the Company's proposed three-year average of billed usage for all service areas except Parkville and the City of Lawson?

A. A five-year average better normalizes the fluctuations in usage over time. For example if there is no material increase or decrease in the trend in the data, a five-year average will capture the ongoing fluctuations better than a shorter period.

Q. How many months did Staff use to average the billed usage for Parkville?

A. Staff used an 18-month average for the billed usage for Parkville.

Q. How many months did the Company use to average the billed usage for Parkville?

A. The Company used a two-year average for 2018-2019.

Q. Why is Staff's approach of using 18 months more reasonable than the Company's approach?

A. The table below shows the usage for Parkville from January 2018 through June 2020. Staff noticed the June 2018 through September 2018 usage was significantly higher than the other months. Therefore, the usage MAWC applied is not indicative of normal usage and the most reasonable usage to apply is January 2019 – June 2020:

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Q. Did Staff ask a Data Request to explain the significant increase in those months?

A. Yes. In Staff Data Request No. 0103.1, Staff asked MAWC to explain the increase. The Company's response stated:

> MAWC purchases water in the Parkville system to supplement plant production in supplying peak demands (residential irrigation, etc.). In 2018, more water was purchased while we were performing scheduled maintenance on two wells. The wells were rebuilt and the work was completed in July. In addition, 2018 was also a dry year with higher water sales in the Platte County area. Water sales were lower in 2019. The amount of water purchased is weather dependent: lower during cool and wet summers when customers irrigate less and higher during hot and dry summers when customers irrigate more.

Q. Do these usage amounts seem normal based on similar utility practices?

A. Staff understands MAWC will purchase more water during the summers due to irrigation, etc.; however, the usage for July 2018 through September 2018 was excessive according to the other months. Therefore, it's not appropriate to use those months to calculate normal usage.

Q. How did Staff calculate the average billed usage for Lawson?

A. As stated in the Staff Cost of Service Report, on page 60, lines 18-19, for the City of Lawson, Staff used a 22-month average since Lawson started to purchase water in September 2018.

Q. Does MAWC have an issue with Staff's method for calculating the billed usage for Lawson?

A. On page 3, lines 8-11 of Mr. Wright's rebuttal testimony he states "Staff's method effectively reduces the annual average of usage to a period of less than twelve months."

Q. How does Staff respond?

A. In its direct filing, Staff calculated the 22-month average of billed usage for Lawson incorrectly. The 22-month average calculation for Lawson has now been corrected.

Q. What is the billed usage and cost difference between the direct filing and surrebuttal filing?

A. The billed usage for Lawson was 58,387,650 gallons for direct and for surrebuttal it is 63,695,618 gallons. The annualized purchased water difference is $39,757.

Q. Will Staff true-up purchased water?

A. Yes. Staff will update the usage used and system delivery for purchased water for the true-up period ending December 31, 2020.

Fuel / Power Expense

Q. Does MAWC have an issue with Staff's calculation of water loss?

A. On page 4, lines 16-17 of Mr. Wright's rebuttal testimony he states "Staff's pro forma system delivery is based on their pro forma usage and ten-year average water loss."

Q. Please respond.

A. In its direct filing, Staff inadvertently used a ten-year water loss. However, before the filing of rebuttal testimony Staff caught the error and on page 6, lines 13-14 of my rebuttal testimony it states "Staff's position is that use of the actual five-year average for system delivery represents a reasonable annualized water loss percentage, which better normalizes the fluctuation over time."

Q. Does Staff use a five-year system delivery amount in its calculation of fuel and power expense and chemical expense?

A. Yes. Staff used a five-year average of water loss applied to Staff's normalized total customer usage to calculate system delivery. This five-year average is used to calculate Staff's annualized amount for both expenses.

Q. Will Staff update system delivery and metered delivery for true-up?

A. Yes. Staff will review five years of data for updated system delivery and metered usage including water loss as of December 31, 2020.

Q. Does MAWC have an issue with Staff's calculation of system delivery?

A. Yes. On pages 5, lines 13-20 of Mr. Wright's rebuttal testimony he states:

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

Q. Does Staff agree with the statement above?

A. No. Staff believes production cost should not be connected to the system delivery or water loss for the same period.

Q. Please explain.

A. MAWC should not benefit from having a higher water loss, and should always strive to lower the water loss to a reasonable level. The water loss percentage assumed in order to set rates does not have to be tied to the same period used to determine kWh or pounds of chemicals. Staff determined a normalized level of these production costs that MAWC will or should incur in the future. Staff believes that a five-year average is reasonable to calculate the water loss percentage.

Q. What data will Staff true-up for power/fuel and chemical expense?

A. Staff will true-up the normalized expense for power/fuel expense, chemical expense, gallons used for revenues, and system delivery including water loss through December 31, 2020.

Chemical Expense

Q. What is MAWC's position regarding chemical expense?

A. On page 8, lines 14-15 of Mr. Wright's rebuttal testimony he states "chemical prices have changed effective on December 31, 2020. These adjustments should be incorporated in the December 31, 2020 true-up."

Q. Does Staff agree?

A. Yes. Staff will update its review of the current chemical contract costs in the true-up audit of this case.

<u>RESIDENTIAL REVENUE</u>

Q. What is MAWC's position regarding residential meter revenue?

A. On page 7, lines 16-17 of Mr. LaGrand's rebuttal testimony he states "the Company began with average customers for 2019, and added customers through organic growth."

Q. Did Staff add customers due to "organic growth?"

A. No. Staff used the actual known and measurable customer meters as of June 30, 2020.

Q. Does MAWC have another issue with Staff's calculation of residential revenues?

A. Yes. On page 10, lines 5-11 of Mr. LaGrand's rebuttal testimony he states:

> To determine the fixed, or customer, charge, Staff annualized the meter count as of June 30, 2020. The Company disagrees with this approach because it will overstate the annual revenues. The Company will have more active meters in June than in December. This is due to people turning on service to vacation homes, utilizing irrigation meters, etc. An improvement to Staff's approach would be to use a 12-month average of the meter count to determine the fixed revenue. Annualizing the June 2020 meter count rather than using a 12-month average overstates the residential fixed charges by $173,048.

Q. Does Staff agree with the statement the Company will have more active meters in June than in December?

A. No. Staff used the June 30, 2020 meter count for the annual customer charge for all customer classes in its direct filing because it is known and measurable. Staff used the most current meter numbers, as it is not aware of any evidence that meter counts will materially decline between June and December 2020.

Q. Will Staff true-up meter numbers for each service area?

A. Yes. Staff will use the same method for true-up that was used for purposes of its direct case. To true-up the monthly charge revenues, Staff will use the actual level of meters as of December 31, 2020, for each service area, by customer class.

Q. Did MAWC have any other issues with Staff's calculation of residential revenues?

A. Yes. On page 10, lines 13-16 of Mr. LaGrand's rebuttal testimony he states, "Staff inadvertently excluded meter charges for St. Louis County customers that used a rate category that does not collect the monthly service line replacement charge that MAWC collects on behalf of St. Louis County. Excluding these meter charges understates present rate revenues by $1,651,723."

Q. Please respond.

A. Staff made a correction and included the meter charge for service line replacement charge in its rebuttal testimony.

Q. Does MAWC have an issue regarding Staff's calculation of residential customer charges?

A. On page 14, lines 2-9 of Mr. LaGrand's rebuttal testimony he states:

> As with residential customer charges, there are two issues. First, Staff annualized the meters as of June 30, 2020. Using a 12-month average of meters during the year will provide a more accurate estimate of the meters. As shown in table BWL-5, annualizing the meters as of June 30, 2020, overstates present rate revenue by $69,097. Second, Staff inadvertently excluded meter charges for St. Louis County commercial customers that used a rate category that does not collect the monthly service line replacement charge that MAWC collects on behalf of St. Louis County. Excluding these meter charges understates present rate revenues by $3,985,628.

Q. Please respond.

A. First, Staff used known and measurable meters as of June 30, 2020. This is the most current number of meters and therefore, reflects the most ongoing level. June 30, 2020 is the most current known meter numbers from MAWC. Second, Staff included the St. Louis commercial customer charges as stated in my rebuttal testimony on pages 5-6 which resolves this issue.

LOW-INCOME PILOT PROGRAM

Q. What is MAWC's position regarding the low-income pilot program?

A. On page 10, line 18-19 and page 11, lines 1-2 of Mr. LaGrand's rebuttal testimony he states "The Company currently has a low-income pilot program for customers in St. Joseph, Parkville, and Brunswick. This program provides an 80% discount on the fixed charge for qualifying customers. In this case, the Company has proposed continuing this pilot program. In calculating the present rate revenues, Staff did not include the pilot program."

Q. Please respond.

A. Staff did not reduce revenues to include the low-income pilot program in its revenue requirement calculation in this case.

Q. Why did Staff not include the reduction to revenues from the low-income pilot program?

A. The Stipulation and Agreement approved in File No. WR-2017-0285 on page 6, states:

> The Signatories acknowledge that the Residential Low-Income Pilot Program implemented by the Company in District No. 2 has been active for a relatively short period of time, and that no meaningful conclusions can be drawn from that Pilot Program at this time. Therefore, the Signatories agree that MAWC should be authorized to continue the Pilot Program as it is currently being administered in District No. 2. In addition, the Signatories agree that MAWC should be authorized to record on its books a regulatory asset that represents the actual discounts provided to those customers participating in the Pilot Program, along with any third-party administrative costs. MAWC shall maintain this regulatory asset on its books until the effective date of rates resulting from MAWC's next general rate proceeding. The amortization period for the deferred regulatory asset associated with the Pilot Program shall be determined in the next MAWC general rate proceeding.

In this case, Staff is proposing to continue the Low-Income Program in District No. 2. Staff proposes to continue to include the low-income pilot program expenses on the books as a regulatory asset. Please reference Amanda C. McMellen's surrebuttal testimony for more details on this subject.

NON-RESIDENTIAL REVENUES

Q. What is MAWC's position regarding non-residential revenues?

A. On page 12, lines 15-17 and page 13, line 1 of Mr. LaGrand's rebuttal testimony he states:

> The Company used a 36 month average for commercial customers outside of St. Louis County, and all industrial, and Other Public Authority customers. A 36-month average is more reflective of recent trends in lower usage among non-residential customers. Including 60 months of usage dramatically overstates the expected usage. For Commercial customers in St. Louis County, the Company projected declining usage.

Q. Does Staff agree with the Company's methodology?

A. No. Staff reviewed 60 months of usage and used an average of the non-residential revenues over that period. If Staff had noticed a trend in the usage (increase or decrease) then Staff would have used the most current 12-months ending June 30, 2020.

Q. What is MAWC's position regarding the normalization of Rate J?

A. On page 13, lines 6-9 of Mr. LaGrand's rebuttal testimony he states, "Staff's non-residential usage assumptions result in $3,824,840 of additional present rate revenue. This offsets by Staff's assumptions of Rate J normalization, which reduces present rate revenues by $1,665,208, and sale for resale contract pricing differences of $129,650."

Q. What is the difference between Rate A and Rate J customers and is the normalization for Rate J reduced?

A. Rate J is available for manufacturers and large quantity users of water whose use is fairly constant throughout the year and is not less than 450,000 gallons per month. Rate J customers can only be commercial, industrial, and other public authority metered customers. Rate A is the general water service rate. If a customer's average is less than 450,000 gallons per month then they will be considered a Rate A customer.

Q. What is MAWC's position regarding project usage reductions?

A. On page 14, lines 13-14 and page 15, line 1 of Mr. LaGrand's rebuttal testimony he states "In my direct testimony, I discussed an adjustment the Company made to reflect the impact of project usage reductions by certain large commercial and industrial customer. Staff did not address this adjustment in its direct testimony."

Q. Please respond.

A. Staff did not make any adjustments to project usage reductions because Staff used only known and measurable usage data. Staff reviewed five years of data for large commercial and industrial customer usage.

Q. Will Staff true-up usage for all customer classes?

A. Staff will update the usage through December 31, 2020 for all customer classes in true-up.

INDUSTRIAL UPDATE

Q. How did Staff calculate the St. Louis County industrial water usage in the rebuttal filing?

A. Staff used the 12 months ending June 30, 2020 to normalize industrial St. Louis County water usage.

Q. Has Staff updated its industrial water usage from its rebuttal filing?

A. Yes. Staff analyzed the usage for industrial customers for the five years ending June 30, 2020, and noticed a decrease in usage for St. Louis County and St. Joseph. Staff submitted Data Request No. 0027.1 requesting MAWC to explain the decrease.

Q. What was MAWC's response to Staff Data Request No. 0027.1?

A. MAWC responded to Data Request No. 0027.1, that St. Louis County accounts shows that customers in the Rate A industrial class switched from an industrial rate to a commercial rate through 2018, 2019, and 2020. Over that time period, the account class was recorded to commercial to match the rates resulting in lower Rate A industrial usage in 2019 and 2020.

Q. What is Staff's revised position for St. Louis County industrial usage?

A. After analyzing the commercial and industrial usage for St. Louis County, Staff wanted to keep the usage normalization period the same for commercial and industrial classes due to customers switching between the two. Staff used the average for the five-year period ending June 30, 2020 to normalize St. Louis County industrial usage.

Q. What is Staff's amount of change from the rebuttal filing to surrebuttal filing for St. Louis County?

A. The rebuttal filing for St. Louis County industrial usage for MAWC was $5,639,252 and for surrebuttal it is $7,239,901.

Q. Does changing the water usage for industrial customers affect other expenses?

A. Yes. Staff has updated chemicals expense and fuel / power expense to reflect the updated usage assumptions discussed above.

Q. Does this conclude your surrebuttal testimony?

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 General Rate Increase for Water and Sewer Service Provided in Missouri Service Areas	)))))	Case No. WR-2020-0344

AFFIDAVIT OF ASHLEY SARVER

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

COME NOW ASHLEY SARVER and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Surrebuttal Testimony of Ashley Sarver*; and that the same is true and correct according to her best knowledge and belief, under penalty of perjury.

Further the Affiants sayeth not.

/s/ Ashley Sarver
ASHLEY SARVER