

Exhibit No.:
Issues: System Delivery, Chemicals Expense,
Fuel and Power Expense, Purchased
Water Expense, Waste Disposal
Expense, Building Maintenance
Expense, Maintenance Supplies and
Services expense, including
Engineered Steel Coatings, Main
Breaks, and Hydrants, and Rents
Expense
Witness: Michael L. Schwarzell
Exhibit Type: Rebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2022-0303
Date: January 18, 2023

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2022-0303

REBUTTAL TESTIMONY

OF

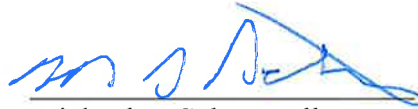
MICHAEL L. SCHWARZELL

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Michael L. Schwarzell, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am Principal Regulatory Analyst for American Water Works Service Company, Inc., that the accompanying testimony has been prepared by me or under my direction and supervision; that if inquiries were made as to the facts in said testimony, I would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of my knowledge and belief.



Michael L. Schwarzell

January 18, 2023

Dated

**REBUTTAL TESTIMONY
MICHAEL L. SCHWARZELL
MISSOURI-AMERICAN WATER COMPANY
CASE NO.: WR-2022-0303**

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REBUTTAL TESTIMONY

MICHAEL L. SCHWARZELL

I. INTRODUCTION

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Q. Please state your name and business address.

A. My name is Michael L. Schwarzell, and my business address is One Water Street, Camden, NJ, 08102.

Q. Are you the same Michael L. Schwarzell who previously submitted Direct Testimony in this proceeding on behalf of Missouri-American Water Company (MAWC or Company)?

A. Yes.

II. OVERVIEW

Q. What is the purpose of your revenue requirement Rebuttal Testimony in this proceeding?

A. The purpose of my revenue requirement Rebuttal Testimony is to respond to Direct Testimony and proposed expense levels of Staff witnesses Ashley Sarver and Angela Niemeier on the following topics:

- 1) System Delivery; 2) Chemicals Expense; 3) Fuel and Power Expense; 4) Purchased Water Expense; 4) Waste Disposal Expense; 5) Building Maintenance Expense; 6) Maintenance Supplies and Services expense, including Engineered Steel Coatings, Main Breaks, and Hydrants; and 7) Rents Expense.

III. SYSTEM DELIVERY

Q. Staff witness Sarver states, “Staff used the data provided in response to DR No. 0032 to calculate a five-year average for system delivery ending June 30, 2022, for each

1 **district, to normalize the water loss percentage based on fluctuations determined**
2 **within the five years analyzed.”¹ Is this an appropriate way to determine water loss**
3 **percentage?**

4 A. Yes, both MAWC and Staff used the five-year average water loss percentage.

5 **Q. Staff witness Sarver continues “Staff applied this water loss percentage to the**
6 **normalized level of system delivery to calculate chemical, fuel, and power expense.”²**
7 **Did Staff use the correct system delivery to calculate expected chemical, fuel, and**
8 **power expense?**

9 A. As described in the Rebuttal Testimony of Company witness Charles Rea, Staff used a
10 usage level that was too high to calculate their normalized system delivery. Staff’s higher
11 usage level results in higher calculated system delivery, and therefore higher Chemical and
12 Fuel and Power expense. Chemical and Fuel and Power expense should be adjusted based
13 on the usage level established by MAWC witness Rea.

14 **IV. CHEMICAL EXPENSE**

15 **Q. Staff witness Sarver states “Staff annualized the level of chemical expense by using**
16 **the current price for each type of chemical, as of June 30, 2022.”³ Have chemical**
17 **prices increased since this time?**

18 A. Yes, chemical prices have increased. As explained in the Direct Testimony of MAWC
19 witness Thomas O’Drain, chemical prices have been rapidly increasing, and are expected
20 to increase further. Since the time chemical prices were provided to Staff as of June 30,
21 2022, MAWC obtained updated contracted pricing from vendors. Additional price changes

¹ Sarver DT, p. 10-11.

² Sarver DT, p. 11.

³ Sarver DT, p. 11.

1 have been received and are reflected in the latest pricing sheet attached as
2 **CONFIDENTIAL Schedule MLS-1 RT**). These updated prices will also be provided as
3 part of the true up. Staff should apply these current prices to their final Chemical Expense.

4 **Q. Did Staff include Miscellaneous Chemicals expense?**

5 A. No, Staff inadvertently excluded Miscellaneous Chemicals expense and will be adding to
6 their going level of expense. Miscellaneous chemicals are non-inventoried chemicals that
7 are needed for production. These expenses fluctuate each year so the average expense is
8 the most appropriate expected expense. The test year expense for these chemicals is
9 \$100,203, the three-year average expense ending June 2022 is \$59,111 and the five-year
10 average expense ending June 2022 is \$53,383. The three-year average expense ending
11 June 2022 of \$59,111 is the most appropriate level of expected expense and should be
12 added to Staff's Chemical Expense calculation. The Company has discussed this matter
13 with Staff and Staff indicated that the exclusion of miscellaneous chemicals was an
14 oversight, and it will be included as part of their Rebuttal Testimony.

15 **Q. Did Staff include additional expenses for process changes?**

16 A. No, Staff did not include additional expense for process changes made in December 2022.
17 MAWC converted from using chlorine gas to sodium hypochlorite at Mexico and
18 Warrensburg plants. The estimated additional annual expense for these changes in
19 chemical usage is \$83,634 and should be added to Staff's Chemical Expense calculation.

20 **Q. Did Staff include annualized expense for acquisitions?**

21 A. No, Staff did not include additional expense for acquisitions that closed after June 30, 2022.
22 As part of the true up, Staff should include annualized expense for acquisitions closing
23 before new rates take effect, as described in the Rebuttal Testimony of witness Brian

1 LaGrand.

2 **V. FUEL AND POWER EXPENSE**

3 **Q. Staff witness Sarver, on page 12 of her Direct Testimony, states “Staff annualized the**
4 **fuel and power expense for each district based on the test year expenses. The**
5 **annualized amount was adjusted for any price changes that took effect during the test**
6 **year.”⁴ Have fuel and power expenses increased since Staff prepared their expense?**

7 **A.** Yes, Evergy electric rates have recently increased per the Commission’s Amended Report
8 and Order issued on December 8, 2022 (effective December 18, 2022), in Cases Nos. ER-
9 2022-0129 & ER-2022-0130. Staff should apply these latest electric rates to its annualized
10 Fuel and Power expense. Doing so will result in an increase to fuel and power expense in
11 the amount of \$73,038.

12 **Q. Staff witness Sarver further states, “Staff then developed a rate for fuel and power**
13 **cost per 1,000 gallons of water for each district. This is calculated by taking the five-**
14 **year system delivery divided by the annualized expense.” Is this a reasonable**
15 **calculation of fuel and power cost per 1,000 gallons of system delivery?**

16 **A.** No. Staff based its expense analysis on test year expense, but divided its expense by the
17 previous five-year average of System Delivery to calculate the expense per system delivery
18 rate.

19 **Q. Does this method produce a reasonable calculation of Fuel and Power Expense per**
20 **System Delivery rate?**

21 **A.** No, by using mismatching time periods, Staff does not calculate a reasonable estimate of

⁴ Sarver DT, p. 12.

1 expense incurred to produce each unit of system delivery. It calculates how much of
2 current expense would have been needed to produce an unrelated amount of system
3 delivery from the last five years.

4 **Q. What is the more reasonable method of calculating the expense per System Delivery**
5 **rate?**

6 A. The more reasonable method of determining how much Fuel and Power expense is needed
7 to produce a unit of System Delivery, is to use the matching time periods for Fuel and
8 Power expense and related System Delivery that that Fuel and Power Expense produced.
9 Staff's time period for expense is appropriate but should be updated to use the associated
10 system delivery for the matching period, which is test year system delivery. In making this
11 update, Staff's expense should increase \$147,150.

12 **Q. Did Staff include additional expenses for process changes?**

13 A. No, Staff did not include additional expense for process changes made in December 2022.
14 MAWC converted from using chlorine gas to sodium hypochlorite at the Mexico and
15 Warrensburg plants. The estimated additional annual power expense for these changes is
16 \$25,597 and should be added to Staff's Fuel and Power Expense calculation.

17 **Q. Did Staff include annualized expense for acquisitions?**

18 A. No, Staff did not include additional expense for acquisitions that closed after June 30, 2022.
19 As part of the true up, Staff should include annualized expense for acquisitions closing
20 before new rates take effect, as described in the Rebuttal Testimony of witness LaGrand.

21 **VI. PURCHASED WATER EXPENSE**

22 **Q. Relating to Purchased Water Expense, Staff witness Sarver states "Staff reviewed five**
23 **years of historical usage for each of the water systems, except when a system had less**

1 **than five years of data. Staff used the available data if a system had less than five**
2 **years of data.” She further states, “For all of the districts, Staff applied the most**
3 **recent rates to the normalized usage.”⁵ Have Purchased Water rates changed since**
4 **Staff prepared their expense?**

5 A. Yes, rates for Orrick/Ray County increased in August 2022. The most recent purchased
6 water rates will be provided as part of the true-up, and Staff should apply this increase to
7 their annualized Purchased Water expense, increasing it by \$18,192.

8 **Q. Did the Company identify any issues with Staff’s calculation of purchased water costs**
9 **from the City of Excelsior Springs?**

10 A. Yes. In Staff’s calculation, they inadvertently compared the monthly maximum usage level
11 to an annual actual usage level. The Company has discussed this matter with Staff and our
12 understanding is that Staff will be updating their adjustment to reflect that change. MAWC
13 anticipates this change will increase Staff’s revenue requirement by \$57,173.

14 **VII. WASTE DISPOSAL EXPENSE**

15 **Q. Staff witness Niemeier states “When analyzing data, there is an upward trend in cost**
16 **of waste disposal. The test year, minus the building maintenance costs mentioned**
17 **above, reflects the ongoing cost of waste management.”⁶ Is Staff’s Waste Disposal**
18 **expense the appropriate level of expense?**

19 A. Yes, Staff adjusted for minor expense coding issues and used the test year level of expense.
20 MAWC agrees with Staff’s level of waste disposal expense.

⁵ Sarver DT, pp. 13-14.

⁶ Niemeier DT, p. 16.

1 **VIII. BUILDING MAINTENANCE EXPENSE**

2 **Q. Staff witness Niemeier states “The appropriate amount of building maintenance**
3 **expense is \$1,363,350. This represents a three-year average of building maintenance**
4 **costs.”⁷ Does Staff’s method understate the expected level expense for Building**
5 **Maintenance?**

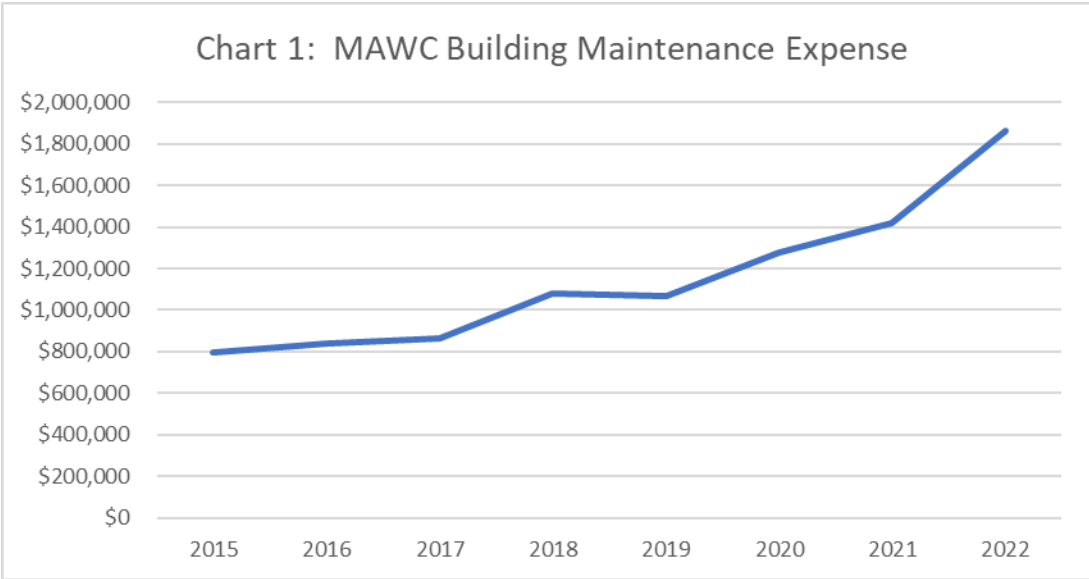
6 **A.** Yes, the historical average understates the expected level of expense. As Staff witness
7 Niemeier acknowledges “the data demonstrates a steady increase in building maintenance
8 expenses since 2018.”⁸ In fact, the trend of increasing expenses has continued for many
9 years as demonstrated in the annual expense trend shown in Chart 1 below. By using a
10 three-year average, Staff’s expense of \$1,363,350 is lower than the actual expense in 2021
11 of \$1,416,302, the recent test year actual expense of \$1,550,846, and the most recent twelve
12 months actual expense of \$1,863,860 (ending December 31, 2022). Staff assumes that
13 expense will significantly decrease in the opposite direction of the long-term trend and
14 continued inflationary impacts.

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⁷ Niemeier DT, p. 7.

⁸ Niemeier DT, p. 6.

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Q. What is the appropriate level of Building Maintenance Expense?

A. With the long term upward increasing trend of actual expense and the current inflationary environment, Staff should use the latest twelve-month actual expense of \$1,863,860. This is the actual expense for the twelve-months ended December 31, 2022.

IX. MAINTENANCE SUPPLIES AND SERVICES EXPENSE

Q. What categories of expense are reported in Maintenance Supplies and Services Expense?

A. Maintenance supplies and services expense includes Engineered Steel Coating expense, main break expense, and general maintenance and hydrant expense.

a. Engineered Steel Coating Expense

Q. Staff witness Niemeier states “Staff adjusted tank painting expense using a five-year average of tank painting and inspection costs for the five 12-month periods ending December 31, 2021, to determine a normalized level of \$1,799,919 for tank painting

1 **and inspection expense.”⁹ Should Staff’s “tank painting”, also known as Engineered**
2 **Steel Coatings, actually be capitalized and not expensed?**

3 A. Yes, as discussed in MAWC witness Rebecca Losli’s Direct Testimony, adopted by
4 MAWC witness Matthew Lueders in Rebuttal Testimony, MAWC is requesting that
5 Engineered Steel Coatings be capitalized instead of expensed.¹⁰

6 **Q. Are there other concerns with Staff’s treatment of Engineered Steel Coatings?**

7 A. Yes. Even if Engineered Steel Coatings were expensed, Staff’s five-year average of actual
8 expense is too low, and fails to consider actual Engineered Steel Coating bids already
9 received by MAWC. As detailed in MAWC witness Losli’s Direct Testimony, adopted by
10 MAWC witness Lueders Rebuttal Testimony, MAWC has bids for two years of Engineered
11 Steel Coatings totaling \$4,131,846.¹¹ The average annual expense is \$2,065,923. Thus, if
12 expensed, the amount of \$2,065,923 should be used to calculate the revenue requirement.

13 **b. Main Break Expense**

14 **Q. Relating to Main Break expense, Staff witness Niemeier states “Since these costs**
15 **fluctuate, Staff determined a three-year average was reasonable.”¹² Does MAWC**
16 **agree with Staff’s three-year averaging methodology?**

17 A. Yes, MAWC agrees that since the level of main breaks fluctuates, the three-year average
18 is the appropriate methodology for determining the level of expense.

19 **Q. Does MAWC agree with Staff’s calculated level of expense?**

20 A. Staff relied on main break expense provided by MAWC in response to DR MoPSC 0074

⁹ Niemeier DT, p. 11.

¹⁰ Losli DT, p. 33.

¹¹ Losli DT, p. 32-33.

¹² Niemeier DT, p. 9.

1 and DR MoPSC 0075 to calculate its three-year average. MAWC determined that these
2 DRs contain some incorrect categorization of expenses within the maintenance expense
3 categories, and they will be updated in the 4Q DR updates. For the three-year average
4 ending June 2022, this update results in a lower Main Break expense of \$3,124,382 vs.
5 Staff's expense of \$3,575,046. These DRs will be updated to include main break expense
6 through December 2022, which should be reflected in Staff's true-up expense.

7 **c. Other Maintenance Supplies and Services**

8 **Q. Did Staff prepare expense for other maintenance supplies and services expense**
9 **including hydrant painting?**

10 A. Yes, for the remaining maintenance supplies and services expense, Staff used a two-year
11 average expense through June 2022.¹³

12 **Q. Did Staff exclude any expense that should have been included?**

13 A. Yes, in Staff's effort to segment main break and engineered steel coating expense from
14 other maintenance expense, staff removed all expense posted to GLs 62002400, 62520700,
15 62520824, and 63150024. These GLs largely contain main break and engineered steel
16 coating expense included elsewhere in Staff's expense, but also contain other maintenance
17 expense not included elsewhere. The two year average ending June 2022 of other
18 maintenance expense incorrectly excluded by Staff is \$482,061. This amount should be
19 added to Staff's expense levels.

20 **X. RENTS EXPENSE**

21 **Q. Did Staff prepare expense for Rents?**

¹³ Niemeier DT, p. 10.

1 A. Yes, Staff prepared expense for Rents based test year ongoing actual expense per Staff
2 witness Niemeier.¹⁴

3 **Q. Is Staff's Rents expense the appropriate level of expense?**

4 A. Yes, MAWC agrees with Staff's level of expense.

5 **Q. Does this conclude your Rebuttal Testimony?**

6 A. Yes.

¹⁴ Niemeier DT, p. 14.

Schedule MLS-1 RT has been marked CONFIDENTIAL in its entirety in accordance with Commission Rule 20 CSR 4240-2.135(2)(A).4 and 6.