

Exhibit No.:

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Post-Employment Benefits,
Corporate Allocations and
Service Company Expenses,
District Allocations,
Chemical Expense, Fuel
and Power Expense,
Purchased Water Expense,
Revenues, Rate Case
Expense*

Witness: Ashley Sarver

Sponsoring Party: MoPSC Staff

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Case No.: WR-2022-0303

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MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL & BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

DIRECT TESTIMONY

OF

ASHLEY SARVER

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2022-0303

*Jefferson City, Missouri
November 2022*

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DIRECT TESTIMONY OF
ASHLEY SARVER
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2022-0303**

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1 Q. With respect to Case No. WR-2022-0303, did you examine the books and
2 records of the Missouri-American Water Company (“MAWC”)?

3 A. Yes, with the assistance of other members of Commission Staff (“Staff”).

4 **EXECUTIVE SUMMARY**

5 Q. What is the purpose of your direct testimony?

6 A. The purpose of this testimony is to discuss Staff’s position regarding the
7 following issues: pensions and other post-employment benefits (OPEBs), corporate allocations
8 and service company expenses, district allocations, system delivery, chemical expense, fuel and
9 power expense, purchased water expense, revenues, and rate case expense (sharing
10 recommendation).

11 **PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (OPEBS)**

12 Q. Is there a prior stipulation regarding MAWC’s pension and OPEBs?

13 A. Yes. In Appendix C of the Stipulation and Agreement in MAWC rate case, Case
14 No. WR-2020-0344, the parties agreed on the treatment of pensions and OPEBs. The parties
15 also agreed on an amount for pensions and OPEBs expense to be recovered in rates, and
16 amortization of the supporting trackers.

17 Q. What are the components of pensions and OPEBs costs?

18 A. Defined benefits pension and OPEBs costs consist of several components,
19 referred to as service costs and non-service costs.

20 Q. Will Staff be addressing pensions and OPEBs as part of its true-up audit in
21 this case?

22 A. Yes.

Pensions Expense and Rate Base

Q. What are pensions?

A. Pensions are a form of employee retirement plan that offers payment to employees meeting the plan criteria for retirement. Pensions are largely funded by the employer with little or no employee contribution required. Historically, companies offered pension retirement plans to their employees as part of an overall employee benefit package to attract and retain employees. Over the last several years traditional pension plans have been largely replaced by 401(k) plans that the employee primarily, or partially, funds. MAWC terminated its pension and OPEB plans for new employees who began employment in the early 2000's. The Defined Contribution Plan ("DCP") expense replaced MAWC's pension and OPEB plan expense going forward. Staff witness Courtney Horton calculated DCP expense and included the amount with other employee benefits.

Q. What documentation did Staff use to normalize pensions expense?

A. Staff used the actuarial valuations in Willis Towers Watson's annual report to MAWC, titled "American Water Works Company, Inc. The Pension Plan for Employees of American Water Works Company, Inc. and Its Designated Subsidiaries." Based on MAWC's response to Data Request ("DR") No. 0093, Staff also used the "American Water Allocation of 2022 Pension Expense" to determine the allocation valuation for MAWC's portion of total expense income. The purpose of the allocation is to determine the plan's expense under the Financial Accounting Standards Board's ("FASB's") Accounting Standards Codification ("ASC") Subtopic 715-30, formerly known as Financial Accounting Standard No. 87 ("FAS 87"). Staff's allocation valuations in this rate case are based on data

1 as of January 1, 2021, using updated Willis Towers Watson pension expense that relied on
2 census data as of July 1, 2021. Staff's annualized level of pension expense is (\$5,489,906).

3 Q. What is the amount of ongoing FAS 87 expense in rates compared to its actual
4 level of expense since MAWC's last rate case?

5 A. MAWC has over-recovered its FAS 87 expense in rates, compared to its actual
6 level of expense since MAWC's last rate case. The balance in the regulatory liability account
7 at June 30, 2022, was \$8,491,392, which is to be amortized over five years as an expense in the
8 amount of \$1,698,278.

9 Q. What is the prepaid pension asset ("PPA")?

10 A. The PPA represents the cumulative amount of pension contributions in
11 excess of actual costs, as of June 30, 2022. MAWC made these contributions to prevent its
12 pension plan from becoming "at-risk," as defined under the Pension Protection Act, and to
13 meet the obligations of the Pension Benefit Guarantee Corporation. Staff is including a
14 PPA amount in rate base.

15 Q. What is the PPA balance at June 30, 2022?

16 A. \$17,775,271.

17 **OPEB Expense and Rate Base**

18 Q. What are OPEBs?

19 A. OPEBs are costs MAWC incurs to provide certain benefits to retired
20 employees. The primary benefit is medical insurance, but these costs also include life, dental,
21 and vision insurance benefits. OPEBs' ratemaking treatment is addressed under FASB ASC
22 Subtopic 715-60, formerly known as FAS 106. FAS 106 contains the FASB-approved accrual
23 accounting method used for financial statement recognition of the annual amount of OPEBs.

1 The accounting of the cost of post-retirement benefits is not based on the actual dollars
2 MAWC pays for OPEBs to its retirees currently. Instead, under FAS 106, this measurement is
3 accrual-based, in that it attempts to recognize the financial effects of non-cash transactions and
4 events affecting future OPEBs obligations as they occur. These non-cash transactions and
5 events are primarily current benefits earned by employees before retirement, but not paid
6 until after retirement, as well as the interest cost arising from the passage of time until
7 those benefits are paid to the retirees.

8 Q. What documentation did Staff use to determine an appropriate OPEB expense?

9 A. Staff used the actuarial valuations in Willis Towers Watson's annual report to
10 MAWC, titled "American Water Works Company, Inc. Retiree Welfare Plan." Based on
11 MAWC's response to DR No. 0093, Staff also used the "American Water Allocation of 2022
12 Post-Retirement Welfare Cost" to determine the allocation valuation for MAWC's portion of
13 total expense income. The purpose of the allocation is to determine the plan's expense under
14 ASC-715-60. Staff's valuations in this rate case are based on data as of January 1, 2021.
15 However, Staff used updated Willis Towers Watson post-retirement welfare cost based on
16 census data as of July 1, 2021.

17 Q. What is MAWC's ongoing FAS 106 cost recognized in rates in this case?

18 A. MAWC has included (\$3,320,235) as ongoing FAS 106 cost in rates in this case.

19 Q. Since Case No. WR-2020-0344, has MAWC over- or under-recovered its
20 FAS 106 expense in rates, compared to its actual level of expense incurred?

21 A. MAWC has over-recovered the expense level since the last rate case. The
22 balance in the regulatory liability account as of June 30, 2022, was a negative \$7,323,715, which
23 is to be amortized over five years as a reduction to expense in the amount of \$1,464,743.

1 Q. How does the ongoing OPEB tracker affect MAWC's rate base in this case?

2 A. Rate base is reduced by the level of regulatory liability associated with
3 MAWC's ongoing OPEBs tracker mechanism, which is currently \$7,323,715.

4 **CORPORATE ALLOCATIONS AND SERVICE COMPANY EXPENSES**

5 Q. Please discuss MAWC's relationship with American Water Works Company
6 Inc. ("AWWC").

7 A. MAWC is a subsidiary of AWWC. Headquartered in New Jersey, AWWC and
8 its subsidiaries (or affiliates) serve approximately 14 million customers in 24 states. AWWC
9 performs many functions and activities on a consolidated or centralized basis for many of its
10 regulated and non-regulated subsidiaries. These consolidated or centralized functions are
11 carried out for the AWWC-owned subsidiaries by AWWC's wholly-owned subsidiary, the
12 American Water Works Service Company, Inc. ("Service Company"). Through a process of
13 direct assignment and allocation, Service Company employees' time and all other related costs
14 are ultimately charged to the AWWC-owned utility subsidiaries receiving service. In addition
15 to the Service Company, American Water Capital Corporation ("AWCC"), another wholly-
16 owned AWWC subsidiary, was created to provide a single source of long- and short-term debt
17 capital for AWWC and its utility subsidiaries. Service agreements exist between MAWC and
18 both the Service Company and AWCC.

19 Q. What types of business does AWWC conduct?

20 A. The majority of AWWC's business is through regulated utilities in
21 14 states in the United States (California-American, Georgia-American, Hawaii-American,
22 Illinois-American, Indiana-American, Iowa-American, Kentucky-American, Maryland-
23 American, Missouri-American, New Jersey-American, Pennsylvania-American, Tennessee-

1 American, Virginia-American, and West Virginia-American Water Companies). AWWC also
2 operates market-based, non-regulated businesses that are based on a 50-year contract with the
3 U.S. government to provide water and wastewater on military installations. Additionally, some
4 AWWC affiliates, which are the Service Company, AWCC, Laurel Oak Properties Corp.,
5 AWWC Insurance LLC., and AWIP Holdings LLC., provide services to AWWC affiliates at
6 cost. These companies are non-regulated.

7 Q. What services does the Service Company provide?

8 A. Services provided by the Service Company include accounting and finance,
9 administration, business development, communications, compliance, education and training,
10 engineering, health and safety, human resources, information systems, internal audit, investor
11 relations, legal and governance, operations, procurement, research and development, rate and
12 regulatory support, security, risk management and insurance, treasury, and water quality. The
13 Service Company also provides customer support to AWWC's regulated businesses, which
14 includes call handling, billing, a major accounts program, and other related services.

15 Q. Does the Service Company mark-up its costs to AWWC subsidiaries?

16 A. No, services provided by the Service Company are expensed at cost.

17 Q. How does the Service Company allocate expenses to the AWWC affiliates?

18 A. The allocation of costs and methods used to allocate costs from the
19 Service Company to its subsidiaries are described in the Service Company's Cost
20 Allocation Manual ("CAM"). The most recent version of the CAM is dated May 2022 and
21 MAWC provided it in its response to DR No. 0018.

22 Q. What methodology does AWWC utilize to allocate Service Company costs to
23 both regulated and non-regulated companies?

1 A. Service Company employees charge their time and expenses to the applicable
2 affiliate companies either directly or indirectly. Service Company employees assign expenses
3 to affiliates based on various information. Such information includes the affiliate company
4 number (if the transaction is a direct charge) or a formula number, known as Work Breakdown
5 Structures (“WBS”) elements (if the transaction is allocated). This information also includes
6 the number of hours the employee worked and the appropriate amount of non-labor charges.
7 This method allows for direct charges to both regulated and non-regulated entities when the
8 employee can clearly identify the hours spent providing service to a specific affiliate. The
9 Service Company uses a methodology that allocates costs to both its regulated and non-
10 regulated affiliates. When it is not practical for a Service Company employee to directly charge
11 a given affiliate the actual time spent on a task, employees log their hours on a time sheet that
12 includes various allocation billing formulas. The billing formula charges either whole or partial
13 hours among the regulated and non-regulated AWWC subsidiaries.

14 Q. What are direct and indirect expenses?

15 A. In the context of this testimony, direct charged costs are those incurred on
16 behalf of a specific business, or that can be identified with a specific product or service. An
17 indirect cost is one that is incurred on behalf of more than one business unit, or for all
18 businesses units within a corporate structure, and cannot be identified with a particular
19 business, service, or product.

20 Q. What types of formulas are used to allocate Service Company costs?

21 A. When a Service Company employee provides services that benefit both
22 regulated and non-regulated entities, the employee chooses a “Tier One Factor” formula to

1 allocate the charges to both regulated and non-regulated entities. An employee who only
2 performs services for one or more regulated affiliates uses a “Tier Two Factor” formula.

3 Q. What is a “Tier One Factor” formula?

4 A. Tier One Factor formulas rely on various criteria, including revenues, number
5 of employees, and plant investment. Some of the formulas are derived from a combination of
6 several of these criteria, while others consider only one criterion, such as the number of
7 employees. The Service Company employee then chooses the formula that matches the
8 service provided. For example, employees in payroll choose a formula based on the number
9 of employees.

10 Q. What is a “Tier Two Factor” formula?

11 A. Tier Two Factor formula primarily based on the number of customers for a given
12 regulated subsidiary.

13 Q. What types of adjustments did Staff make to the Service Company expenses
14 allocated to MAWC?

15 A. Based upon MAWC’s responses to Data Requests, Staff is not proposing any
16 changes to AWWC’s method for allocating the Service Company’s expenses to MAWC.
17 However, other Staff witnesses have recommended adjustments to some Service Company
18 costs allocated to MAWC, which are addressed in their direct testimony.

19 **DISTRICT ALLOCATIONS**

20 Q. How many operating districts does MAWC currently have?

21 A. MAWC is currently composed of two separate water operating districts and two
22 separate sewer operating districts, with each district consisting of one or more profit centers.

1 Q. What types of allocation transactions receive an allocation factor?

2 A. All corporate rate base, revenues, and expenses must be allocated among these
3 districts using different allocations factors.

4 Q. Has Staff taken the same approach toward district allocations since the
5 WR-2015-0301 rate case?

6 A. Yes. In Case No. WR-2015-0301, both MAWC and Staff used twelve different
7 allocation factors to allocate these corporate costs. Each allocation factor depended upon the
8 causes that required the costs to be incurred. Staff has taken the same approach in this rate case.

9 Q. How many allocation factors is Staff recommending to use in this rate case?

10 A. Staff proposes to use nine allocation factors, which are the same nine factors that
11 Staff used in MAWC's prior rate case, WR-2020-0344. These factors are based on
12 customer count, operating revenue, operations and maintenance ("O&M") expense, employee
13 count, number of bills, length of mains, net utility plant, Massachusetts formula, and water
14 test samples.

15 **SYSTEM DELIVERY**

16 Q. What is system delivery?

17 A. System delivery is the total volume of water provided by MAWC entering the
18 distribution system. This total includes all water sold to the customers, including export to
19 wholesale customers or other MAWC systems, as well as any water lost due to leaks, broken
20 pipes, theft or unauthorized use, unmetered authorized use, or other unaccounted for water.

21 Q. Is the water loss percentage based on the system delivery?

22 A. Yes. Staff used the data provided in response to DR No. 0032 to calculate a
23 five-year average for system delivery ending June 30, 2022, for each district, to normalize

1 the water loss percentage based on fluctuations determined within the five years analyzed.
2 Staff applied this water loss percentage to the normalized level of system delivery to calculate
3 chemical, fuel, and power expense.

4 **CHEMICAL EXPENSE**

5 Q. How did Staff calculate MAWC's normalized level of chemical expense?

6 A. Staff based normalized chemical expense for each district on multiple factors.
7 Staff annualized the level of chemical expense by using the current price for each type of
8 chemical, as of June 30, 2022.

9 Staff reviewed five years of data (ending June 30, 2022), if available, of chemical usage
10 in the water treatment process to determine if the usage fluctuated upward or downward from
11 year-to-year. If the usage showed a discernable upward or downward trend in the year-to-year
12 level of review, then Staff used data from the twelve months ending June 30, 2022. If the trend
13 was not discernable, then Staff used a five-year average.

14 Staff applied the normalized chemical expense to the five-year average for
15 system delivery to calculate the annualized level of chemical expense for each district for every
16 1,000 gallons of water. Staff based an adjusted system delivery factor on system delivery after
17 annualized water loss.

18 Staff used a five-year average of system delivery for all districts to normalize the water
19 loss percentage. Staff applied this water loss percentage to the normalized level of system
20 delivery to calculate chemical costs. Staff determined an actual system delivery based on the
21 water loss percentage and Staff's annualized revenue usage.

22 Q. What is Staff's normalized expense for chemical expense?

23 A. Staff's calculation for MAWC's chemical expense is \$13,459,100.

1 **FUEL AND POWER EXPENSE**

2 Q. What is MAWC's fuel and power expense?

3 A. MAWC's fuel and power expense is composed of electricity, natural gas, and
4 miscellaneous purchased fuel costs MAWC purchases from other utilities to use in the delivery
5 of water and the treatment of wastewater. This adjustment does not include electricity or natural
6 gas expense for office use. Office utility expense is addressed in the Building Maintenance
7 Expense section in the direct testimony of Staff witness Angela Niemeier.

8 Q. How did Staff calculate the normalized level of the fuel and power expense?

9 A. Staff annualized the fuel and power expense for each district based on the test
10 year expenses. The annualized amount was adjusted for any price changes that took effect
11 during the test year. Staff then developed a rate for fuel and power cost per 1,000 gallons of
12 water for each district. This is calculated by taking the five-year system delivery divided by the
13 annualized expense. Staff divided the annualized water usage (calculated by Staff for revenues)
14 by the water loss percentage discussed above under System Delivery. The result (quotient) is
15 Staff's adjustment to system delivery for fuel and power expense. Staff's annualized expense
16 for fuel and power expense is the cost per 1,000 gallons of water multiplied by the adjustment
17 for system delivery.

18 Q. How did Staff calculate the normalized level for the sewer fuel and
19 power expense?

20 A. Staff's annualized expense is based on the actual data from the test year for the
21 twelve months ending June 30, 2022.

22 Q. What is Staff's normalized expense for fuel and power expense?

23 A. Staff's annualized level for fuel and power expense is \$12,943,420.

1 **PURCHASED WATER EXPENSE**

2 Q. Please describe MAWC's purchased water expense.

3 A. When demand is higher than what the systems in each of the districts are capable
4 of pumping from their own sources, MAWC must purchase water from third-party water
5 providers. Staff annualized purchased water from the City of St. Louis, Kansas City Water
6 Services, Callaway County Water District #1, Ozark Water System, City of Excelsior Springs,
7 City of California, Public Water Supply District ("PWSD") #1 of Clinton County, and the
8 City of Orrick.

9 Q. How did Staff calculate the normalized level of purchased water expense?

10 A. Staff reviewed five years of historical usage for each of the water systems,
11 except when a system had less than five years of data. Staff used the available data if a system
12 had less than five years of data.

13 Staff used a five-year average for water purchased from: the City of St. Louis to
14 serve the St. Louis County district, the Ozark Water System to serve Spring Valley, and
15 Callaway County Water District #1 to serve Jefferson City.

16 Staff used a four-year average for water purchased from Kansas City Water Services to
17 serve Parkville. Parkville built a new plant and it went into service as of December 27, 2017.

18 Staff used a three-year average for purchased water from the City of Excelsior Springs
19 to serve Lawson. MAWC started purchasing water for Lawson from the City of Excelsior
20 Springs in September 2018.

21 Staff used a 19-month average for water purchased from PWSD #1 of Clinton County
22 to serve Lawson since the first usage was billed in December 2020.

1 Staff used a 17-month average for purchased water from the City of California to serve
2 Hickory Hills because the first usage was billed in April 2021.

3 Staff used a four-month average to determine an annualized level for Orrick. The water
4 was purchased from PWSD #2 of Ray County. The first usage bill was billed in March 2022.

5 For all of the districts, Staff applied the most recent rates to the normalized usage.

6 Q. What is Staff's annualized amount for purchased water?

7 A. Staff's annualized total amount for purchased water is \$1,507,704.

8 **REVENUES**

9 **Water Meter/ Sewer Units –Minimum Charge**

10 Q. How did Staff develop the annualized minimum charge water and sewer
11 revenues?

12 A. Staff developed the minimum charge revenue by first multiplying the number of
13 meters and units as of June 30, 2022 for each meter class by the applicable minimum charge as
14 approved in Case No. WR-2020-0344, MAWC's last general rate proceeding. The product of
15 the number of meters multiplied by the applicable minimum charge was then multiplied by the
16 number of billing periods in a year to produce the annualized minimum charge revenues for
17 each customer class.

18 **Residential Usage**

19 Q. Please discuss how revenues for residential usage was annualized and
20 normalized.

21 A. Staff developed the annualized and normalized volumetric (consumption)
22 charge revenues based on a normalized usage applied at the current volumetric rate per gallons.

23 Staff witness Jarrod J. Robertson, of the Commission's Water, Sewer, and Steam Department,

1 developed and provides the normalized average gallons of usage per customer per day for
2 residential customers for the districts. Staff multiplied the average gallons of usage per customer
3 per day by the average days per year (365.25) and the number of customers, to determine the
4 total annual usage or consumption.

5 **Other Operating Revenues**

6 Q. What revenue is classified as other operating revenue?

7 A. MAWC's other revenues categories include funds received for the following
8 items: late payment charges, rents, collection for others, non-sufficient fund check charges,
9 application/initiation fees, the provision of usage data to other entities, reconnection fees, frozen
10 meter fees, after hour charges, and miscellaneous service.

11 Q. How did Staff determine the annualized other operating revenue?

12 A. Staff reviewed the totals for each of these revenue categories, by account,
13 for the most recent five-year period, by district. If the totals showed a discernable upward
14 or downward trend in the year-to-year level of review, then Staff used the twelve
15 months ending June 30, 2022 data. For rent, Staff based the totals on MAWC's response to
16 DR No. 0175. MAWC provided the totals from rent based on contacts/agreements in effect as
17 of June 30, 2022.

18 **Other Miscellaneous Revenues**

19 Q. Please explain the adjustments Staff made for unbilled revenues.

20 A. Staff eliminated all unbilled revenues MAWC booked within the test year in its
21 revenue annualization computation. This ensures that only 365 days of revenue is included in
22 the revenue annualization calculation and that revenues are stated on an "as billed" basis.
23 Unbilled revenue is revenue on MAWC's books for of MAWC recognized water sales that have

1 occurred, but MAWC has not yet been billed the sale to the customer. Therefore, it is necessary
2 for Staff to remove unbilled revenues to reach an accurate revenue requirement based upon
3 water sales billed to, and revenues collected from, Missouri ratepayers.

4 **RATE CASE EXPENSE (SHARING RECOMMENDATION)**

5 Q. Generally speaking, what are rate case expenses?

6 A. Rate case expenses are defined as all incremental costs a utility incurs
7 directly related to an application to change its general rates. While rate case expenses include
8 costs for document preparation and filing, the majority of the costs are incurred during a
9 rate case are typically for external legal counsel, consultants, and outside expert witnesses
10 contracted by the utility.

11 Utility management typically has a high degree of control over rate case expense.
12 Attorneys, consultants, and other services used during a rate case can be provided by existing
13 utility personnel or sourced from an outside party. Some Missouri utilities employ in-house
14 counsel and primarily utilize internal labor to process rate filings; thus, it is not always
15 necessary to contract with outside attorneys and consultants in rate proceedings. The
16 incremental rate case expenses included in the sharing mechanism proposed by Staff in this
17 case do not include the cost for internal labor, as those costs are reflected in the annualized level
18 of payroll included in Staff's revenue requirement. Those non-incremental costs are fully
19 included in the cost of service calculation.

20 Q. What is Staff's recommended treatment of rate case expense in this case?

21 A. Staff recommends using the same treatment of rate case expense that
22 it recommended in MAWC's prior rate case, Case No. WR-2020-0344, which is to include

1 a 50% share of the average incremental external rate case expense. In other words, Staff
2 recommends that MAWC's customers and shareholders equally share rate case expense.

3 Q. What should not be included in the 50/50 sharing?

4 A. Staff recommends continuing 100 percent of the costs of the depreciation study
5 MAWC submitted in Case No. WR-2020-0344.

6 Q. What is the basis of Staff's recommendation to share rate case expenses?

7 A. Staff's recommendation to share rate case expense is based upon the following:

8 1) Rate case expense sharing creates an incentive for the utility to control
9 rate case expenses to a reasonable level, while eliminating the
10 disincentive for the utility to control the rate case expenses.

11 2) Ratepayers and shareholders both benefit from the rate case process.
12 While ratepayers receive safe and adequate service at just and reasonable
13 rates, shareholders are afforded the opportunity to earn an adequate
14 return on their investment.

15 3) Ratepayers will continue to pay for the majority of the rate case
16 expenses regardless of any sharing mechanism when including the
17 internal labor costs that are not included in the sharing mechanism,
18 therefore it is fair and equitable to allocate a portion of the rate case
19 expenses to the shareholders.

20 4) It is highly probable that some recommendations advocated by the
21 utility through the rate case process will ultimately be determined to be
22 not in the public interest by the Commission.

23 Q. Please explain why it is problematic for utilities to be allowed full recovery of
24 rate case expenses.

25 A. Allowing a utility to recover all, or almost all of its rate case expense creates an
26 inherent disincentive for the utility to control rate case expenses. For every other participant in
27 the rate case proceeding, their funds are ultimately limited by budgetary and financial
28 constraints. The ability to pass through the entire amount of expense, along with significant

1 financial resources, creates what can be viewed as an unfair advantage over the parties during
2 a rate case proceeding.

3 Q. Will the sharing of rate case expenses impact a utility's spending?

4 A. Other discretionary utility expenses are not recovered by the utility during the
5 rate setting process. Charitable contributions, which are discretionary amounts paid to
6 individuals or organizations for charitable reasons that have no direct business benefit, are
7 examples of costs that have not historically been included as an expense in the cost of service
8 calculations. While the utility may believe it has the responsibility to be a "good corporate
9 citizen", these donations would represent an involuntary contribution by the ratepayer if they
10 were to be included in rates. Other costs routinely disallowed by Staff are expenses for a
11 company's political activities ("lobbying"). Lobbying and charitable contributions represent
12 costs which are not necessary for the provision of safe and adequate service, and, therefore, are
13 not recovered through rates. The lack of recovery of those costs has not dissuaded utilities from
14 engaging in these activities. Similarly, while any form of sharing of rate case expense may act
15 as an incentive to control these costs, Staff has not identified significant curtailing of
16 incremental rate case expenses by utilities affected by the 50/50 sharing mechanism.

17 Q. What is the Commission's position regarding the sharing of rate case expense?

18 A. This 50/50 sharing mechanism is consistent with the Commission's most
19 recent decision concerning rate case expense in the Spire Missouri Case Nos. GR-2017-0215
20 and GR-2017-0216. The Missouri Supreme Court recently upheld the Commission's decision.¹

¹ Spire Missouri, Inc. v. Pub. Serv. Comm'n, 618 S.W.3d 225, 233 (Mo. banc 2021).

Direct Testimony of
Ashley Sarver

1 Q. How did Staff address this issue in the previous case?

2 A. In Case No. WR-2020-0344, Staff followed the methodology used in Case
3 Nos. WR-2015-0301 and WR-2017-0285. This included full recovery of the depreciation study
4 and a 50/50 split of all other incremental rate case expenses.

5 Q. Does this conclude your direct testimony?

6 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) Case No. WR-2022-0303
Implement General Rate Increase for Water)
and Sewer Service Provided in Missouri)
Service Areas)

AFFIDAVIT OF ASHLEY SARVER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW ASHLEY SARVER and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Direct testimony of Ashley Sarver*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Ashley Sarver

ASHLEY SARVER

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 17th day of November 2022.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070

D. Suzie Mankin

Notary Public

Ashley Sarver

Educational, Employment Background and Credentials

I am currently a Lead Senior Utility Regulatory Auditor (former title Senior Utility Regulatory Auditor and Utility Regulatory Auditor IV) in the Auditing Department, Financial and Business Analysis Division for the Missouri Public Service Commission (Commission). I transferred to the position January 2017. I promoted to a Utility Regulatory Auditor IV in August 2016 in the Energy Resources Department, Commission Staff Division for the Commission. I accepted the position of the Utility Regulatory Auditor I/II/III in July 2013 with the Auditing Department.

I earned a Bachelor of Science degree in Accounting from Missouri State University in Springfield, MO in July 2009. In earning this degree I completed numerous core Accounting and business classes. Prior to joining the Commission, I was employed by the State of Missouri - Department of Corrections from 2009 to 2013 as an Auditor.

Case Participation

Company Name	Case Number(s)	Testimony/Issues
Lake Region Water and Sewer	WR-2013-0461 SR-2013-0459	Plant in Service, Depreciation Reserve, Materials and Supplies Inventory, Customer Advances, Contributions in Aid of Construction, Purchase Power, Chemicals, Testing Expense, Supplies and Materials, Tools and Shop Supplies, Insurance, Office Supplies, Telephone, License and Permits, Property Tax
Summit Natural Gas of Missouri, Inc.	GR-2014-0086	Plant in Service, Depreciation Reserve, Gas Stored Inventory, Prepayments and Materials and Supplies Inventory, Customer Advances, Customer Deposits, Payroll, Payroll Taxes, 401(k), and Other Employee Benefit Costs, Incentive Compensation and Bonuses, Customer Deposit Interest Expense, Maintenance Normalization Adjustments, Advertising Expense, Regulatory Expenses, Dues, Rent Expense
The Empire District Electric Company	ER-2014-0351	Revenue, Customer Growth, Common Stock Issuance Expense Amortization, Uncollectible Accounts, Cash Working Capital, Injuries and Damages, Workman's Compensation, Insurance Expense, Lease Expense, Property Tax Expense, Regulatory Commission Expense

Company Name	Case Number(s)	Testimony/Issues
Indian Hills Utility Operating Company, Inc. to Acquire I.H. Utilities, Inc.	WO-2016-0045	Acquisition Case: Rate Base determination
The Empire District Electric Company	ER-2016-0023	Property Tax Expense, Rate Case Expense, Injuries and Damages, Workman's Compensation, Bad Debt Expense, Amortization of Stock Issuance Expense Amortization, Lease Expense, DSM/PRE-MEEIA, Solar Rebate, Revenue, Customer Growth
Hillcrest Utility Operating Company, Inc.	WR-2016-0064 SR-2016-0065	Revenue, Expenses, and Rate Base
KCP&L Greater Missouri Operations Company	ER-2016-0156	Miscellaneous Revenues and Customer Growth
Kansas City Power & Light Company	ER-2016-0285	Fuel Adjustment Clause Base Factor
The Empire District Electric Company	EO-2017-0065	Sixth Prudence Review of Fuel Adjustment Clause
KCP&L Greater Missouri Operations Company	ER-2017-0189	Semi-Annual Fuel Adjustment Clause True-up
Elm Hills Utility Operating Company, Inc. to Acquire Missouri Utilities Company	SM-2017-0150 WM-2017-0151	Certificate of Convenience and Necessity
Indian Hills Utility Operating Company, Inc.	WR-2017-0259	Revenue and Expenses
Environmental Utilities, LLC	WR-2018-0001	Lead Staff
Missouri-American Water Company	WR-2017-0285 SR-2017-0286	Uncollectible Expense, Chemical Expense, Fuel and Power Expense, Purchased Water Expense, Tank Painting Expense/Tracker, Water Loss, Revenues
Elm Hills Utility Operating Company, Inc., to Acquire Rainbow Acres and Twin Oakes or The Preserve	SA-2018-0313	Certificate of Convenience and Necessity
Branson Cedars Resort Utility Company LLC-(Sewer & Water)	WR-2018-0356	Lead Staff
Carl Richard Mills (Water)	WA-2018-0370	Certificate of Convenience and Necessity

Company Name	Case Number(s)	Testimony/Issues
Confluence Rivers Utility Operating Company, Inc.	WR-2020-0053 SR-2020-0054	Lead Staff
Elm Hills Utility Operating Company, Inc.	WR-2020-0275 SR-2020-0274	Lead Staff
Missouri-American Water Company	WR-2020-0344	Revenue; Other Revenue; Purchased Water; Fuel and Power Expense; Chemical Expense;
The Empire District Electric Company	ER-2019-0374	FAS 106 OPEBs, FAS 87 & 88 Costs, SERP, Fuel and Purchased Power, Operation and Maintenance (non-labor) Normalization, Riverton 12 O&M Tracker, Software Maintenance Expense
Carl Richard Mills (Water)	WR-2021-0177	Revenue, Expense and Rate Base
The Empire District Electric Company d/b/a Liberty	ER-2021-0312	FAS 106 OPEBs, FAS 87 & 88 Costs, SERP, Fuel and Purchased Power, Operation and Maintenance (non-labor) Normalization, Wind Operation and Maintenance Expense, Wind Non-FAC Expense, Riverton 12 O&M Tracker, Software Maintenance Expense
The Empire District Gas Company d/b/a Liberty	GR-2021-0320	Affiliate Transactions; Pensions and OPEB; Non-Labor Operations and Maintenance Expense; Software Maintenance Expense; Capitalized Depreciation
S.K. & M. Water and Sewer Company	SR-2022-0239	Lead Auditor
Carl Richard Mills to transfer water system at Carriage Oaks Estate	WM-2022-0144	Acquisition Case: Rate Base determination
Rex Deffenderfer Enterprises, Inc	WM-2022-0246	Acquisition Case: Rate Base determination