

Exhibit No.:
Issue(s): *Uncollectible Expense;*
Changes to Water Usage
Revenues
Witness: *Ashley Sarver*
Sponsoring Party: *MoPSC Staff*
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Case No.: *WR-2017-0285*
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MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

REBUTTAL TESTIMONY

OF

ASHLEY SARVER

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2017-0285

Jefferson City, Missouri
January 2018

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Rebuttal Testimony of
Ashley Sarver

1 A. MAWC calculated the percentage of net charge-offs to billed water and sewer
2 revenue for 2014 (1.69%), 2015 (1.55%), and 2016 (1.05%), as well as a three-year average
3 of 1.43%. The Company does not contend the uncollectible percentage in the future will
4 reach the three-year average, rather it asserts the trend supports a reduced number of 0.75%
5 net charge-offs to water and sewer revenue in this filing. The Company calculated its
6 uncollectible expense amount by applying the 0.75% uncollectible percentage to the total
7 Company projected revenues in its case.

8 Q. What issue regarding uncollectible expense are you addressing in your
9 testimony?

10 A. I am addressing MAWC's proposal to tie ratemaking recovery of this item to a
11 set percentage of revenues. Staff witness Mark L. Oligschlaeger will address MAWC's
12 proposed use of projected financial data to set rates in his rebuttal testimony.

13 Q. Did Ms. Bowen explain in her direct testimony or show in her supporting
14 workpapers how the 0.75% was derived?

15 A. No, she did not.

16 Q. How did Staff normalize uncollectible expense?

17 A. Staff used the actual level of net charge-offs over the 12-months ending
18 June 30, 2017, to determine the normalized level of uncollectible expense. Staff intends to
19 examine updated actual net charge-off amounts through December 31, 2017, as part of its
20 true-up audit.

21 Q. Why is Staff's method to normalize uncollectible expense more appropriate
22 than the method used by MAWC?

Rebuttal Testimony of
Ashley Sarver

1 A. Staff's method is more appropriate because it uses the actual level of net
2 charge-offs over a period of time to determine the normalized level of uncollectible expense.
3 MAWC's method of calculating the 0.75% ratio to projected billed revenues erroneously
4 emphasizes MAWC's assumption that there is always a direct correlation of actual net charge-
5 offs with billed revenues.

6 Q. Does Staff agree that the actual level of net charge-offs directly correlates to
7 the level of revenues that MAWC billed as MAWC witness Ms. Bowen's uncollectible
8 expense factor-up adjustment suggests?

9 A. No. Many other factors can affect the level of uncollectible expense that a
10 utility incurs. The state of the economy, , the impacts of weather, the existence of
11 low-income assistance programs, and the nature of a utility's customer service policies, such
12 as those regarding customer payment arrangements and use of debt collection agencies, are a
13 few examples of factors that typically affect the level of uncollectible expense.

14 Q. Has Staff compared a history of MAWC billed revenues to the actual amounts
15 of net charge-offs recorded by MAWC?

16 A. Yes. Please refer to the chart attached as Schedule AS-r1 that, using data
17 MAWC provided in response to Staff Data Request No. 0032.2, shows the monthly
18 comparison of billed revenue to net charge-offs over a ten-year period. During this time,
19 MAWC filed five rate cases: Case No. WR-2007-0216, Case No. WR-2008-0311,
20 Case No. WR-2011-0337, Case No. WR-2015-0301, and the present case. As shown in
21 Schedule AS-r1, Staff's analysis does not support MAWC's position that it should be
22 assumed that there is always a proportional or corresponding direct relationship between
23 billed revenues and net charge-offs.

1 **CHANGES TO WATER USAGE REVENUES**

2 Q. Did Staff update its water usage calculations for residential revenues from the
3 direct filing?

4 A. Yes. Staff witness Jarrod J. Robertson, of the Commission's Water and Sewer
5 Department, has made changes to correct errors to the normalized average gallons of usage
6 per customer per day for residential customers for each operating district. Please see his
7 rebuttal testimony for more detail on the changes.

8 Q. Has Staff updated the usage per customer per day for residential revenues?

9 A. Yes. Staff used the normalized average gallons of water usage per customer
10 per day for residential customers for Districts 1, 2, and 3 as suggested by Mr. Robertson.

11 Q. Why are Staff's changes appropriate?

12 A. In its direct filing, Staff computed residential water revenues for each
13 operating district by using the normalized average gallons of usage per customer per day for
14 each service area within each operating district. With the update recommended by Staff
15 witness Robertson, Staff applied the same normalized usage for each district to all the service
16 areas within each district. This resulted in updated annualized gallons for each district that
17 Staff then used to calculate annualized water revenues for each water district.

18 Q. What are the updated MAWC annualized water revenues for each district?

19 A. \$227,160,410 for District 1, \$31,819,681 for District 2, and \$25,373,625 for
20 District 3.

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

22 A. Yes. Staff has updated chemicals expense and fuel and power expense to
23 reflect the updated usage assumptions.

Rebuttal Testimony of
Ashley Sarver

1 Q. What is Staff's updated annualized level of chemical expense for MAWC?

2 A. \$8,749,153.

3 Q. Did Staff update the normalized percentage of water loss for fuel and power
4 expense to reflect a five-year average?

5 A. Yes. Staff included a 5-year average for the water loss. This is the same
6 percentage used to account for the water loss for chemicals.

7 Q. What is Staff's updated annualized level of fuel and power expense?

8 A. \$12,429,402.

9 Q. Did Staff update private fire service usage for water?

10 A. Yes. Staff analyzed the usage for private fire service (hydrants that are placed
11 on private property and attached to public mains) for the five years ending June 30, 2017,
12 using the data provided in the Company's response to Staff Data Request No. 0076.2. Staff
13 used a four-year average for St. Louis County and Warrensburg since the usage within those
14 service areas fluctuates. There was no data available for 2012 through April 2013 for the
15 St. Louis County and Warrensburg service areas. For the other service areas, Staff used the
16 update period usage, since the update period represented the upward or downward usage trend
17 in the data.

18 Q. Did Staff update the metered usage for the industrial customer special contract
19 in effect for Triumph Food?

20 A. Yes. After examining MAWC's response to Staff Data Request No. 0076.1,
21 Staff normalized Triumph Foods' usage based on a five-year average. The usage trend
22 fluctuates during the five-year period.

Rebuttal Testimony of
Ashley Sarver

1 Q. Did Staff update the metered usage for the industrial customer special contract
2 in effect for Empire District Electric?

3 A. Yes. After examining MAWC's response to Staff Data Request No. 0076.1,
4 Staff did not change its method of using the update period usage for Empire District Electric.
5 Over the 12 months, the usage trend for Empire District Electric first goes down, then up.
6 The lowest usage for a 12-month period had a zero usage rate for one month. The highest in
7 five years is the 12-months ending June 30, 2017. Staff determined that the update period
8 usage is the most appropriate usage to use for Empire District Electric. Staff updated the
9 usage for Empire District Electric to match the data provided in this data request.

10 Q. Does this conclude your rebuttal testimony?

11 A. Yes, it does.

MAWC - Total Company

Yearly Change in Billed Revenues to Change in Net Charge-Offs

