

Exhibit No.:
Issue(s): *Production Costs;*
Tank Painting Expense;
Water Revenues;
Sewer Revenues;
Low-Income Pilot Program
Witness: *Ashley Sarver*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
Case No.: *WR-2017-0285*
Date Testimony Prepared: *February 9, 2018*

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY

OF

ASHLEY SARVER

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2017-0285

Jefferson City, Missouri
February 2018

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ASHLEY SARVER
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2017-0285**

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1 delivery calculation, which resulted in two different system delivery numbers.” Would you
2 care to comment on this statement?

3 A. Yes. In its direct filing, Staff inadvertently used two different system delivery
4 numbers. However, before the filing of rebuttal testimony Staff caught the error and on
5 page 5, lines 3-6 of my rebuttal testimony it states “Staff included a 5-year average for
6 water loss. This is the same percentage used to account for the water loss for chemicals.”

7 Q. Does Staff use the same system delivery amount in its calculation of fuel and
8 power expense and chemical expense?

9 A. Yes. Staff used a five-year average of water loss applied to Staff’s normalized
10 total customer usage to calculate system delivery ending June 30, 2017. This five-year
11 average is used to calculate Staff’s annualized amount for both expenses.

12 Q. On page 34, lines 6-11 of Nikole L. Bowen’s rebuttal testimony she states that
13 she does not agree with Staff’s use of a five-year average of usage to calculate system
14 delivery. The Company believes that witness Gregory P. Roach’s sales figures should be
15 used instead in developing the system delivery numbers used to calculate production costs.
16 Why is Staff’s approach more reasonable?

17 A. Staff’s position is that use of the actual five-year average for system delivery
18 represents a reasonable annualized water loss percentage, which better normalizes the
19 fluctuations over time in this amount, than reliance on a single one-year period.

20 Q. What is “system delivery?”

21 A. System delivery is the amount of water pumped for each system. This total
22 includes all water sold to customers including export to wholesale customers or other MAWC

1 systems, as well as any water lost due to leaks, broken pipes, theft or unauthorized use,
2 unmetered authorized use, or other unaccounted for water.

3 Q. Why is MAWC's approach to system delivery unreasonable?

4 A. Staff's understanding is that MAWC uses an estimate to develop its system
5 delivery. This number is not based on historical known and measureable data.

6 Q. Will Staff review system delivery data through the end of the true-up period as
7 of December 31, 2017?

8 A. Yes. Staff currently has a pending data request asking the Company to update
9 its system delivery data through December 31, 2017. Once this data is available, Staff may
10 propose an updated adjustment to the water loss percentage for any of MAWC's systems as
11 part of its true-up audit.

12 Q. On page 34, lines 15-17 of Nikole L. Bowen's rebuttal testimony she states
13 "utilization of the 2018 chemical costs more accurately represents the costs that the Company
14 will incur for chemical expense in an ongoing basis." Does Staff agree?

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

17 Q. What chemical contract costs did Staff use for this case?

18 A. Staff used the chemicals contracts with the effective date ending
19 December 31, 2017.

20 **TANK PAINTING EXPENSE**

21 Q. What issue regarding tank painting expense are you addressing in your
22 testimony?

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1 A. I am addressing MAWC's proposal to tank painting expense regarding
2 an reasonable and appropriate amount to include in the cost of service. Staff witness
3 Mark L. Oligschlaeger will address generally MAWC's proposed use of projected financial
4 data to set rates in his surrebuttal testimony.

5 Q. On page 39, lines 20-21 through page 40, lines 1-4, MAWC witness
6 Nikole L. Bowen states in her rebuttal testimony:

7 Staff calculated tank painting expense based on a 5 year historical
8 average of tank painting expense. The Company projected tank
9 painting expense based on planned paintings by location. Staff
10 calculated tank painting expense for the 12 months ended June 30,
11 2017 at \$1,462,518. The Company calculated tank painting expense
12 for the 12 months ended May 2018 at \$2,050,647 and \$2,626,213
13 for the period ended May 2019.

14 Does Staff believe it is appropriate to use a projected tank painting expense based on planned
15 painting activities?

16 A. No. Staff used an average of the actual amounts from the previous five years
17 ending June 30, 2017, for tank painting expense. The information relied upon by Staff is
18 known and measurable for ratemaking purposes.

19 Q. On page 13, lines 1-3 of William Andrew Clarkson's rebuttal testimony he
20 states, "much like MAWC's other maintenance expenses, the historical level of tank painting
21 expense is not reflective of the Company's current or planned activities and should not be
22 used to set rates in this proceeding." Does Staff agree with this statement?

23 A. No. Staff position is a better predictor than the use of projected data to develop
24 this expense.

25 Q. What is the five-year average of tank painting expense?

26 A. The table below is the actual expense MAWC has incurred.

12 months ending June 30,	2013	2014	2015	2016	2017
Total Tank Painting Cost	\$2,254,084	\$518,818	\$1,231,446	\$1,279,070	\$2,029,171
5-Year Average					\$1,462,518

Q. Will Staff true-up tank painting expense as of December 31, 2017?

A. Yes. As part of its true-up audit, Staff will review tank painting expense through December 31, 2017.

CHANGES TO WATER REVENUES

Q. On page 13, lines 4-11 of Brian W. LaGrand's rebuttal testimony, he states:

As with residential usage, Staff used a simple 60 month average of non-residential usage, and annualized the meter count as of June 30, 2017 to determine the customer charges for commercial, industrial, other public authority, and sale for resale customers. For two of the Company's special contracts, and for private fire services, on the other hand, Staff used 12 months of usage through June 30, 2017.

Did Staff use 12 months ending June 30, 2017 for private fire services?

A. No. As stated on page 5, lines 9-17 of my rebuttal testimony:

Staff analyzed the usage for private fire service (hydrants that are placed on private property and attached to public mains) for the five years ending June 30, 2017, using the data provided in the Company's response to Staff Data Request No. 0076.2. Staff used a four-year average for St. Louis County and Warrensburg since the usage within those service areas fluctuates.

Q. Did Staff use 12 months ending June 30, 2017 for industrial special contracts?

A. As stated on page 5, lines 18-22 through page 6, lines 1-9 of my rebuttal testimony, Triumph Foods's usage is based on a five-year average and Empire District Electric's is based on the 12 months ending June 30, 2017.

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1 Q. On page 14, line 20 through page 15, lines 1-3 of Brian W. LaGrand's rebuttal
2 testimony, he states:

3 In calculating the amount of Rate J usage in the 12 months ending
4 June 30, 2017, Staff didn't fully normalize the Rate J customers who
5 moved to that rate during the 12 month period. Only the usage
6 occurring after the customers moved to Rate J was included. The
7 balance of the usage for those customers during the year was
8 included as Rate A.

9 Did Staff work with the Company to come up with an accurate normalized usage level for
10 Rate J and Rate A for the update period?

11 A. Yes, since rebuttal testimony was filed Mr. LaGrand provided Staff an updated
12 spreadsheet (different format) of the water usage (12 months ending June 30, 2017)
13 for commercial, industrial, and other public authority (OPA) for Rate A and Rate J as of
14 June 30, 2017. Staff determined the usage and customer information he provided was correct
15 and accurate.

16 Q. What is the difference between Rate A and Rate J customers?

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

22 Q. Does Staff have any updates for Sale for Resale revenues?

23 A. Yes. Staff included the special contract usage data through June 30, 2017.

24 Q. What is the updated revenue for Sale for Resale District 1 and District 2?

25 A. \$6,929,624 for District 1 and \$2,625,100 for District 2.

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1 Q. Did Staff update its water usage calculations for residential revenues from the
2 rebuttal testimony?

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

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

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

10 Q. Does changing the water usage for residential customer affect other expenses?

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

13 Q. What is Staff's updated annualize level for chemicals expense for MAWC?

14 A. \$8,766,120.

15 Q. What is Staff's updated annualized level for fuel and power expense
16 for MAWC?

17 A. \$12,503,582.

18 Q. On page 17, lines 19-21 of Brian W. LaGrand's rebuttal testimony he states
19 "There are a number of non-residential meters for which the Company does not collect a
20 customer charge." Further, on page 18, lines 2-4, he states, "The Company has discussed this
21 issue with Staff and will be providing clarifying information as part of the true-up information
22 that will be provided by January 31, 2018." When will Staff update the cost of service to
23 include the correct number of meters for non-residential customers?

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1 A. The Company provided a response to Staff Data Request No. 0026 on
2 January 31, 2018. Staff updated the cost of service to include the correct customer meters for
3 all districts and classes.

4 Q. Will Staff true-up meter numbers for each district?

5 A. Yes. Staff will use the same method for true-up that was used for purposes of
6 its direct case. To true-up the monthly charge revenues, Staff will use the actual level of
7 meters as of December 31, 2017, for each district, by customer class. Staff will review usage
8 amounts through December 31, 2017 to calculate volumetric revenues for all classes.

9 Q. Please provide a summary of the changes to the water revenues.

10 A. Since Staff filed its direct testimony Staff has been receiving
11 updated/corrections from the Company. Staff has updated the meter numbers. This is an
12 accurate number of the customers who are getting the minimum monthly customer charge.
13 Staff also received a spreadsheet, in a better format, regarding the usage and customers as of
14 June 30, 2017 who were Rate J or Rate A. Rate J customers are manufactures and large
15 quantity users. A Rate J customer can only be OPA, Industrial, and Commercial.
16 The commodity charge for Rate J customer are less but the user's gallons per month has to be
17 fairly constant throughout the year and is not less than 450,000. Staff also updated the
18 special retail sale contract customer usage to June 30, 2017. Since the value of residential
19 average customer usage per day changed Staff had to update the usage for revenues to include
20 in chemicals and fuel and power expense.

21 **WATER REVENUES**

22 Q. On page 11, lines 13-16 of Brian W. LaGrand's rebuttal testimony he
23 states: "To determine the fixed, or customer, charge, Staff annualized the meter count as of

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1 June 30, 2017. The Company disagrees with this approach because it will overstate the
2 annual revenues. The Company will have more active meters in June than in December.”

3 Does Staff agree this is accurate?

4 A. No. Staff used the June 30, 2017 meter count for the annual customer charge
5 for all customer classes in its direct filing because it is known and measurable. Staff will
6 update the meter count as of December 31, 2017 for true-up.

7 Q. On page 12, lines 2-4 of Brian W. LaGrand’s rebuttal testimony he states
8 “Staff assumes all meters are fully active for an entire quarter, which is inaccurate, and will
9 overstate present rate revenues.” Did Staff include pro-rated meters in District 1?

10 A. Yes. Staff used the number of active meters as of June 30, 2017 for District 1
11 quarterly customers that were provided by the Company in its response to Staff’s Data
12 Request No. 0026. A pro-rated meter will become an active meter for the next quarter.

13 Q. What is a pro-rated meter?

14 A. When quarterly bills are rendered for a period covering less than the
15 normal full billing period. A pro-rate customer will receive a bill of the sum of the
16 “prorated service charge” and the commodity charge equal to the quantity of water used as
17 determined by actual meter reading times the commodity rate.

18 Q. How did Staff determine the appropriate usage for Rate A and Rate J?

19 A. Staff determined the appropriate consumption usage for Rate A and Rate J
20 using the usage (between Rate A and Rate J) as of June 30, 2017. A percentage allocation
21 factor was calculated based on the overall usage split between Rate A and Rate J. Staff
22 applied the percentage allocation factor to a five-year average for the consumption usage
23 ending June 30, 2017 to determine Rate A and Rate J usage for the five-year period.

1 Q. On page 19, lines 2-6 of Brian W. LaGrand's rebuttal testimony he states Staff
2 did not address the adjustment to reflect the impact of Sale for Resale for Water District #2 in
3 Audrain County's plan to stop purchasing water from the Company. Is he correct?

4 A. Yes. Staff has not removed the Audrain County's Water District #2
5 (Audrain County) usage from the the calculation of the five-year average for Rate B.
6 On February 2, 2018, Staff contacted Audrain County and, according to Audrain County, it is
7 still purchasing water from MAWC for its eastern zone of the water district. Audrain County
8 said the water district should discontinue all purchases in late February. Since this is outside
9 of the ordered true-up period for this case, Staff will not remove Audrain County average
10 usage for the five-year average for Rate B.

11 Q. Will Staff review Audrain County Water District #2 water usage for the
12 true-up audit?

13 A. Yes. Staff will consider removing the Audrain County's usage in its
14 proposed revenue level if MAWC is not providing water to Audrain County by the time of the
15 true-up audit.

16 **SEWER REVENUES**

17 Q. Did Staff use meter numbers to calculate the sewer revenues?

18 A. Yes. Staff used the amounts in the Company's response to Staff's Data
19 Request Nos. 0026 and 0026.1 on October 31, 2017, and No. 0026.2 on November 17, 2017.

20 Q. Did Staff realize the customer charges are applied based on the number of
21 dwelling units and not meters for sewer customers?

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1 A. No. It was Staff's understanding that the number of meters to calculate
2 minimum customer charge would be provided. Staff was not aware that dwelling units would
3 have been more appropriate to use instead of meters to annualize the customer service charge.

4 Q. What is the difference between units and meters?

5 A. For example, an apartment complex could have 20 dwelling units that the
6 monthly charge is applied to but only has one meter for usage. Every unit has a separate
7 monthly charge.

8 Q. Did MAWC provide the number of sewer "units" for purposes of determining
9 the amount of customer charge to include in the case?

10 A. Yes. MAWC provided an update to Staff's Data Request No. 0026 on
11 January 31, 2018. This data request includes the number of units for all MAWC's water and
12 sewer utilities as of the end of the true-up period.

13 Q. Did Staff update the cost of service to include the correct number of units?

14 A. Yes. Staff has updated the cost of service to include the correct number of units
15 for the sewer utilities.

16 Q. What sewer districts will this change impact?

17 A. Arnold, Parkville, and Benton County.

18 Q. What is the updated sewer revenue for Arnold, Parkville, and Benton County?

19 A. \$4,837,862 for Arnold, \$80,316 for Parkville, and \$250,439 for
20 Benton County.

21 Q. On page 20, lines 11-13 of Brian W. LaGrand's rebuttal testimony he states
22 "Since the Staff's two year average begins just as the Company took ownership of the Arnold

1 system, Staff should consider a two year average update through December 31, 2017 to reflect
2 a normalized level of customer usage.” Will Staff update the Arnold usage for true-up?

3 A. Yes. Staff will review the usage for Arnold and other sewer districts through
4 December 31, 2017.

5 **LOW INCOME PILOT PROGRAM**

6 Q. On Page 12, lines 8-13 of Brian W. LaGrand’s rebuttal testimony he states that
7 Staff did not include the impact of the low-income pilot program nor the proposed expanded
8 statewide program in Staff’s revenue calculation. Is this correct?

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

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

13 A. According to the Report and Order in File No. WR-2015-0301 on page 46,
14 “This will be an experimental pilot program that shall end on the effective date of new rates to
15 be established in Missouri-American’s next general rate proceeding”. On page 47 it states:

16 Missouri-American is authorized to record on its books a regulatory
17 asset that represents the actual discounts provided to those
18 customers participating in the Low-Income Program, along with any
19 third-party administrative costs. Missouri-American shall maintain
20 this regulatory asset on its book until the effective date of rates
21 resulting from Missouri-American’s next general rate proceeding.
22 The amortization period for the deferred regulatory assets associated
23 with the low Income Program shall be determined in the next
24 Missouri-American general rate proceeding.

25 In this case, Staff is proposing to continue the Low-Income Program in District 2. Staff
26 proposes continue to include the low-income pilot program expenses on the books as a

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1 regulatory asset. Please reference Amanda C. McMellen's surrebuttal testimony for more
2 details on this subject.

3 Q. Does this conclude your surrebuttal testimony?

4 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) Case No. WR-2017-0285
to 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 Surrebuttal Testimony; and that the same is true and correct according to her best knowledge and belief.

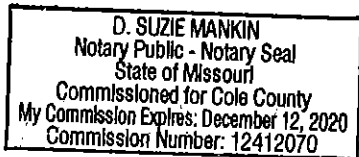
Further the Affiant sayeth not.

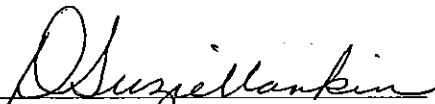


ASHLEY SARVER

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 8th day of February, 2018.





Notary Public