

Exhibit No.:
Issues: *Rate Case Expense,
Advertising Expense,
Property Tax Expense,
Main Break Expense,
Plant-in-Service and
Depreciation Reserve,
True-Up Items*
Witness: *Brian Wells*
Sponsoring Party: *MoPSC Staff*
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MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY

OF

BRIAN WELLS

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2015-0301

*Jefferson City, Missouri
March 2016*

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OF
BRIAN WELLS
MISSOURI-AMERICAN WATER COMPANY
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1 A. In its direct filing, MAWC was seeking to recover \$761,075 annually in rates
2 while Staff's recommended recovery was \$22,991 in its Report filed on December 23, 2015.
3 At the time of direct testimony, the difference between Staff and MAWC was \$738,084.
4 However, as MAWC's requested amount is based upon projections of the total amount it will
5 expend over the course of this proceeding, and Staff's recommended amount will be based
6 upon actual amounts expended by MAWC for rate case expense at various points, this
7 difference will decrease as the rate case progresses.

8 Q. Has MAWC provided Staff with additional rate case expense information since
9 the filing of Staff's Report? If so, please provide Staff's updated rate case expense
10 normalization.

11 A. Yes. At the time of Staff's direct testimony filing, MAWC had only provided
12 actual rate case expense incurred through July 31, 2015. MAWC provided updated rate case
13 expense information along with its true-up data on February 19, 2016, including actual
14 expense incurred through January 31, 2016. Staff has reviewed this information and
15 incorporated those costs into its normalization of rate case expense. Staff now recommends
16 recovery of \$68,549 annually based upon Staff's 30-month normalization period and rate case
17 expense sharing consistent with the Commission's report and order issued in the most recent
18 Kansas City Power & Light Company ("KCP&L") rate case, Case No. ER-2014-0370.
19 Due to new information, MAWC has also revised its projection of how much total rate case
20 expense would be incurred throughout the case. MAWC's rate case expense position at
21 true-up is \$753,862. Thus, the difference between MAWC's and Staff's position at this time
22 is \$685,313.

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1 Q. What are the sources of the difference between MAWC's and Staff's position
2 at this time?

3 A. The sources of the differences are the amount of rate case expense included in
4 the normalization, the period over which the expense will be normalized, and the
5 implementation of a rate case expense sharing mechanism.

6 Q. Why do MAWC and Staff disagree on the period over which the expense will
7 be annualized?

8 A. As described in its Report, Staff calculated an average number of months
9 between rate cases filed by MAWC since Case No. WR-2003-0500. This case was chosen as
10 the starting point of Staff's normalization period calculation because it is the first MAWC rate
11 case subsequent to ISRS legislation. The intervals between rate cases prior to the 2003 rate
12 case are irrelevant in determining the appropriate period over which to normalize MAWC's
13 rate case expense for this rate case. The average interval between these cases is
14 approximately 30 months. Therefore, Staff recommends that rate case expense be normalized
15 over 30 months. MAWC's position on this is not clear. In MAWC witness Jeanne M.
16 Tinsley's rebuttal testimony, on page 18, lines 15 through 18, she states that MAWC "does
17 not oppose" Staff's recommended "amortization" period as described above. However, in
18 MAWC's true-up workpapers, the normalization is performed over two years, just as it was in
19 MAWC's direct workpapers.

20 Q. Why do MAWC and Staff disagree on the amount of expense included in the
21 rate case normalization?

22 A. MAWC's proposed annualized level is based on a total cost that MAWC
23 estimates it will incur by the end of the case. Staff's annualization only includes costs

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1 actually incurred through January 31, 2016. As stated in its cost of service report, Staff
2 intends to continue reviewing cost data provided by MAWC as the costs are incurred to
3 potentially include it in Staff's annualization.

4 Q. In its direct filing, did Staff recommend any disallowances of rate case expense
5 incurred by MAWC?

6 A. Yes, Staff recommended a disallowance of \$202,374 of rate case expense,
7 which was allocated to MAWC from American Water Works Service Company, Inc.
8 ("AWWS" or "Service Company") Rate Group for the service of "rate case preparation."
9 This is the amount of this rate case expense item (AWWS Rate Group allocated costs) that
10 was incurred as of July 31, 2015.

11 Q. Why did Staff recommend that the allocated Service Company rate case
12 expense amount be disallowed?

13 A. Staff reviewed all rate case expense incurred by MAWC to determine if these
14 costs were prudent. In reviewing invoices which detailed the services provided that led to
15 these incurrences, Staff discovered that no invoices or other similar documentation existed to
16 support the allocated Service Company rate case expense. In response to this discovery, Staff
17 submitted Data Request (DR) No. 0372 to obtain the exact details of this allocated Service
18 Company rate case expense. This DR did not provide Staff with sufficient information to
19 support the allocated Service Company rate case expense.

20 Q. Did MAWC respond to Staff DR No. 0372 in time for Staff to consider the
21 response in its cost of service report?

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1 A. No, Staff filed its cost of service report on December 23, 2015, and a response
2 to Staff DR No. 0372 was not provided until December 28, 2015. Therefore, Staff had no
3 opportunity to review the response's content or to address it in its direct testimony.

4 Q. When the response to Staff DR No. 0372 was provided, was it sufficient for
5 Staff to perform the necessary prudence review of these costs?

6 A. No, it was not. MAWC was asked to provide "a complete list and description
7 of each separate service that was provided by AWWWS Rate Group to MAWC." MAWC
8 responded that this expense was attributed to "rate case preparation including the revenue
9 requirement and responding to data requests." This response provides little insight into the
10 specific services which were provided by the AWWWS Rate Group and allocated to MAWC.

11 Q. How much of this allocated rate case expense did MAWC estimate would be
12 eventually incurred and included in rate case expense?

13 A. In its direct filing, MAWC estimated that \$850,000 would be incurred related
14 to preparing for the rate case to be filed and responding to various parties' DRs.

15 Q. How much of this allocated rate case expense that had been incurred as of
16 July 31, 2015, was attributed to "rate case preparation," and how much was attributed to
17 "responding to data requests"?

18 A. According to MAWC's response to Staff DR No. 0372, the \$202,375 was
19 entirely attributed to "rate case preparation." This is logical since this was the date of the rate
20 case's filing. Staff's first DRs were submitted on August 18, 2015.

21 Q. Has MAWC provided any cost information for AWWWS allocated expense
22 incurred after July 31, 2015?

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1 A. Yes. In its response to Staff DR No. 0372, MAWC provided expense
2 information through November 30, 2015. In total, \$185,569 of expense was incurred between
3 July 31, 2015 and January 31, 2016. Of this expense, \$39,233 was attributed to “rate case
4 preparation” and \$146,335 was attributed to “responding to data requests”.

5 Q. Specifically, what services were provided by the AWWWS Rate Group which
6 were classified as “rate case preparation”?

7 A. Staff made exactly this inquiry in DR No. 0372 as noted above. However,
8 MAWC’s response provided no insight into what specific services were provided which were
9 thus classified. Staff has inferred that these “rate case preparation” costs were associated with
10 assembling necessary information in preparation to file the rate case on July 31, 2015. This
11 inference was verbally confirmed by MAWC representatives.

12 Q. If these costs were incurred to prepare the necessary information to file the rate
13 case on July 31, 2015, there must, therefore, be no such costs incurred after July 31, 2015,
14 correct?

15 A. No, that is not correct. As stated above, \$39,233 of “rate case preparation”
16 costs were allocated to MAWC from AWWWS Rate Group between July 31, 2015 and
17 January 31, 2016

18 Q. So what do these “rate case preparation” costs entail outside of preparation for
19 the July 31, 2015 filing?

20 A. This is the inquiry that Staff made in DR No. 0372, for which Staff received an
21 inadequate response from MAWC. It is evident that the costs attributed to “rate case
22 preparation” must include various services, the natures of which have not been disclosed to

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1 Staff. The vagueness of this classification has rendered Staff unable to properly perform a
2 prudence review.

3 Q. Was it Staff's determination, then, that the rate case costs being allocated to
4 MAWC from AWWS are imprudent?

5 A. No. Staff was unable to definitively determine whether these costs are
6 imprudent or not because MAWC had not provided sufficient evidence for Staff to make that
7 determination. The most detail that Staff has in regard to its requests for this information is
8 contained in two schedules that are attached to MAWC witness Donald J. Petry's rebuttal
9 testimony.

10 Q. In MAWC witness Donald J. Petry's rebuttal testimony, he provided some
11 schedules (DJP Schedule 3 and DJP Schedule 4) which, together with the response to
12 DR No. 0372, represent the sum total of all detail that has been provided to Staff regarding the
13 allocated Service Company rate case expenses to MAWC. Do these schedules provide Staff
14 with sufficient information to perform a prudence review?

15 A. No. These schedules do not provide meaningful insight as to the specific rate
16 case services provided by the Service Company to MAWC, nor do these schedules provide
17 enough information to determine if the specific direct-charged labor and other related costs
18 are reasonable.

19 Q. What is Staff's recommendation to prevent this confusion regarding
20 AWWS-level allocated rate case expense in future rate cases?

21 A. In this case and all future rate cases, Staff recommends that the Commission
22 require MAWC to supply a workpaper which details the specific rate case expense services

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1 provided to MAWC by AWWWS for which MAWC seeks cost recovery. Specifically, Staff
2 recommends that the following information be provided in this workpaper:

- 3 1. AWWWS employee name, job title, and annual salary and annual
4 benefits for each AWWWS employees allocating time to Missouri with
5 regard to rate case expense activity
- 6 2. An hourly summary by activity, by month for all employees identified
7 in item 1 above and a specific description of what the hours pertained
8 to (e.g. answering data requests, filing testimony, etc...)
- 9 3. A list of all other rate cases that are active in other states and the
10 allocation of their labor and benefit costs to those other states.
- 11 4. A summary detailing supplies, mailings and other miscellaneous costs
12 by month.
- 13 5. A detailed itemization of all costs included in the AWWWS overhead
14 that are allocated to MAWC as part of rate case expense.

15 As Ms. Tinsley states in her rebuttal testimony, on page 19, on line 24, “The burden of proof
16 lies with the utility in rate cases.” The Staff recommends the Commission order MAWC to
17 provide a better itemization and explanation of its allocated service company costs going
18 forward than what MAWC witness Petry provided in attachments DJP-3 and DJP-4 to his
19 direct testimony. Further, until such information is provided, no recovery of AWWWS
20 allocated rate case expense amounts should be considered.

21 Q. In its Report, Staff proposed a sharing mechanism for rate case expense with
22 which MAWC witness Jeanne M. Tinsley disagrees on pages 19 through 23 in her rebuttal
23 testimony. Did her argument therein convince Staff to alter its recommendation?

24 A. No, it did not. Staff has received clear Commission guidance on this issue via
25 the Report and Order issued in KCP&L rate case, Case No. ER-2014-0370. The approach to
26 sharing rate case expense proposed in this MAWC rate case, being the same as that ordered

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1 by the Commission in the aforementioned KCP&L case, is objective, useful, and reasonable
2 and Staff retains its position in its regard.

3 Q. In his direct testimony, Office of the Public Counsel (“OPC”) witness
4 Charles R. Hyneman proposed a rate case expense sharing mechanism which differed from
5 that proposed by Staff. What is Staff’s response to that proposal?

6 A. OPC’s proposed 50/50 sharing approach between MAWC ratepayers and
7 shareholders was an option initially recommended by the Staff in the prior 2014 KCPL rate
8 case. However, Staff believes that its proposed rate case expense sharing mechanism in this
9 proceeding is appropriate because it is more consistent with the Commission’s decision on
10 this issue in the most recently completed KCP&L rate case.

11 Q. In her rebuttal testimony, on pages 20, lines 24 through 29, MAWC witness
12 Ms. Tinsley states that “...it appears that the focus of the Commission is to incentivize
13 companies to control rate case expenses. Controlling rate case expenses is one thing.
14 A blanket disallowance, however, is quite another thing. Only allowing rate recovery of rate
15 case expense in direct proportion to the amount of rate relief granted as a percentage of the
16 total increase sought, has nothing to do with incentives.” Please respond to Ms. Tinsley’s
17 criticisms of the Commission’s Report and Order in the most recent KCPL case.

18 A. Staff disagrees. Assignment of responsibility for a portion of incurred rate case
19 expense to utilities such as MAWC inherently provides the companies with a greater incentive
20 to control and reasonably minimize such expenditures compared to the scenario where all
21 such costs are presumptively charged to customers.

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1 Q. In her rebuttal testimony, at page 20, lines 18 through 20, Ms. Tinsley appears
2 to implicitly question any assumption that the utility requesting a change in rates is solely
3 responsible for determining the scope and issues in a rate proceeding. Please comment.

4 A. It is certainly true that Staff, OPC and other rate case parties have the ability to
5 raise issues in the context of general rate proceedings. However, Ms. Tinsley ignores the fact
6 that the rate case expenses in this particular case are driven primarily by issues raised by
7 MAWC, which has complete control over the content and methodologies proposed in its rate
8 case. For example, among other items, MAWC has requested permission to implement an
9 Environmental Cost Adjustment Mechanism (ECAM), a Revenue Stabilization Mechanism
10 (RSM), a sharing of a refund received from a class action lawsuit settlement regarding water
11 treatment cost to address atrazine, specific caps for the allocation of Service Company costs to
12 certain districts, a continuation of its tank painting and infrastructure inspection tracker, a
13 recommended Return on Equity (“ROE”) of 10.7%, and rate design proposals to combine rate
14 districts. MAWC also incurred a significant amount of lobbying expense during the test year
15 that it failed to remove from its rate case. Finally, in his rebuttal testimony on page 2, lines 29
16 through 30, MAWC witness Donald J. Petry recommends including the actual twelve month
17 ending January 31, 2016, level of service company costs, the majority of which represents
18 allocated labor and benefits, with disregard to long-standing ratemaking principles of
19 annualization or normalization of all such costs.

20 The first three issues listed above have never before been presented in an MAWC rate
21 case. Furthermore, all of MAWC’s positions on these issues are designed to increase its
22 profitability and are opposed by various parties in this rate case. For example, MAWC’s
23 recommendation of 10.7% ROE is a significant outlier in comparison to the 9.25% ROE

1 recommended by Staff witness David Murray and 9.00% ROE recommended by OPC rate of
2 return witness Michael P. Gorman. MAWC's recommended ROE percentage is what, in part,
3 determines the sharing percentage that Staff has recommended. Staff's position is that
4 MAWC should not recover the costs associated with advocacy of an ROE recommendation
5 significantly above what the Commission has found reasonable for other utilities in recent
6 cases, unless of course MAWC can persuade the Commission of the appropriateness of its
7 ROE recommendation.

8 Q. On page 19, lines 8 through 13 of her rebuttal testimony, Ms. Tinsley discusses
9 the ISRS statute and concludes that MAWC was required by the statute to file this rate case,
10 thereby necessitating the incurrence of rate case expense. Please respond to this argument.

11 A. Ms. Tinsley is not correct in her assessment of the ISRS statute in her assertion
12 that a company who collects ISRS is required to file a rate case. The ISRS legislation states
13 "in no event shall a water corporation collect an ISRS for a period exceeding three years
14 unless the water corporation has filed for or is the subject of a new general rate proceeding"
15 (Section 393.1003.3, RSMo.). MAWC was not required to file a rate case due to ISRS
16 legislation, it elected to file a rate case in order to continue enjoying the benefits of that
17 legislation, which it is within its rights to do. Aside from incorrectly assessing the mandates
18 of ISRS legislation, Ms. Tinsley's argument insinuates that fulfilling this requirement to
19 continue collecting an ISRS was the sole reason for MAWC to file this current rate case.
20 However, as described above, MAWC has proposed numerous other items which raises the
21 requested rate increase well above what MAWC's revenue requirement would have been if
22 ISRS plant were the only item requested. While the ISRS statute may require MAWC to file
23 a rate case, it certainly does not require it to request ECAM, RSM, or a ROE of 10.7%. All of

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1 these factors determine MAWC's total rate increase request, and thereby determine the
2 percentage of rate case expense that Staff recommends be included in rates under the rate case
3 expense sharing mechanism recommended by Staff. Although Ms. Tinsley implies otherwise
4 in her above-reference testimony, simply fulfilling the ISRS requirement and recovering the
5 rate case expense incurred to do so was clearly not of exclusive concern to MAWC in the
6 filing of this rate case.

7 Q. On pages 22 and 23 of her rebuttal testimony, Ms. Tinsley describes a rate case
8 expense sharing mechanism. Please respond to that.

9 A. This passage of Ms. Tinsley's rebuttal testimony was confusing to Staff
10 because it presents this sharing mechanism as "an example," not as a proposal of an
11 alternative sharing methodology. Staff submitted DR No. 0434 to inquire further on this
12 passage and whether MAWC has an alternative rate case expense sharing proposal.
13 MAWC's response to that DR confirmed that Ms. Tinsley's "example" was not intended to be
14 a proposal of any kind, merely a hypothetical example of what a proposal might look like.
15 Instead, MAWC's true proposal for an alternative rate case expense sharing mechanism to
16 Staff's recommended proposal was provided for the first time, in specific detail in
17 the response to DR No. 0434. Staff believes that it was inappropriate for MAWC to not
18 provide an actual and specific proposal for rate case expense sharing as part of its rebuttal
19 testimony filing.

20 Q. What is MAWC's proposal for rate case expense sharing as described in the
21 response to DR No. 0434?

22 A. MAWC proposes the establishment of a rate case expense "cap" equal to
23 \$2.33 per MAWC customer. The customer count used in Staff's revenue annualization

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1 is 471,350. This means that this “cap” is equal to \$1,098,246. MAWC proposes that this
2 amount of rate case expense be incurred and be included in rates on a 100% basis
3 (no sharing). Then, all rate case expense incurred in excess of this “cap” is shared on a
4 50/50 basis between the ratepayers and the shareholders.

5 Q. Does Staff agree with this proposal?

6 A. No. In its true-up workpapers, MAWC estimates that it will incur \$1,507,724
7 of rate case expense over the course of the entire case. Therefore, assuming MAWC incurs
8 exactly the amount of rate case expense it predicts it will incur, a total of \$1,302,985 will be
9 included in the normalization, to be included in rates. So if MAWC’s normalization period
10 (two years) is applied, \$651,422 will be included in rates on an annual basis. Hardly a
11 concession, this proposed sharing mechanism does not provide sufficient incentive for
12 MAWC to control its costs when it allows MAWC to recover nearly all of the cost from its
13 customers that it was planning to incur anyway.

14 Furthermore, Staff disagrees with this proposal on the ground that its underlying
15 principle does not align with that of Staff’s recommendation. Staff’s recommended sharing
16 method ties the amount of rate case expense to be ultimately paid by the ratepayers to the
17 percentage of the dollars in the case which MAWC spent defending issues that are beneficial
18 to the ratepayers. The Commission makes the ultimate decisions on what costs should justly
19 and reasonably be included in rates based on what costs are necessary for the provision of safe
20 and adequate service. Therefore, all of the rate case expense incurred in defense of those
21 costs which are necessary for the provision of safe and adequate service are, themselves,
22 necessary for such provision. All rate case expense incurred which is not tied to the defense
23 of costs necessary for such provision are, themselves, not necessary for such provision and

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1 should, therefore, not be charged to ratepayers. By applying this principle via its proposed
2 rate case expense sharing mechanism, Staff's position is more ratepayer-centric rather than
3 company-centric. Ratepayers should only pay for the costs necessary for the provision of safe
4 and adequate service.

5 This does mean that, in a hypothetical situation where a utility company files a rate
6 case and the Commission ultimately orders that the entirety of the company's requested rate
7 increase be granted, 100% of the company's rate case expense incurred (assuming
8 reasonableness and prudence) should then be granted. This is another reason that Staff's
9 recommended rate case expense sharing mechanism is most appropriate – it is objective.
10 The principle of this sharing mechanism is applicable to any utility company in any rate case.
11 It is an economic reality that, from time to time, a company will find it necessary to file a rate
12 case to increase its rates for a variety of reasons. It is just and reasonable that a company have
13 the ability to recover costs incurred related to the defense of just and reasonable rates to suit
14 that reality. But only the rate case expense that is just and reasonable in that it is tied to costs
15 determined to be necessary for the provision of safe and adequate service can be justifiably
16 recovered whether that's on a 0% basis, a 100% basis, or somewhere in between.

17 Q. On page 22, lines 31 and 32 and continued on page 23, lines 1 through 4 of
18 Ms. Tinsley's rebuttal testimony, she states that "there are certain costs in a rate case that are
19 incurred which are required by the Commission which should be recovered 100%" and
20 should, therefore, not be included in any rate case expense sharing mechanism. Please
21 respond to this.

22 A. Staff agrees with Ms. Tinsley on this issue to a certain extent. MAWC is
23 required to complete a depreciation study every five years regardless of whether MAWC files

1 a rate case or not. Therefore, Staff agrees that the cost of a depreciation study should be
2 excluded from a rate case expense sharing mechanism and should be normalized over a
3 five-year period, as Staff recommended in its Report filed December 23, 2015. However, the
4 other expenses that Ms. Tinsley listed in the above-referenced testimony include costs to
5 notify the ratepayers of the requested rate increase and local hearings, and rate case-related
6 travel costs. While these costs are necessarily incurred by a company in the course of a rate
7 case, these costs would not be incurred if a rate case was not filed. Ms. Tinsley then continues
8 to argue that “one of the main reasons Missouri-American is now in for a rate case is due to
9 the ISRS statute” on lines 5 and 6 of page 23 of her rebuttal testimony. As discussed above,
10 MAWC enjoys the benefits of ISRS legislation at its own discretion and is, by no means,
11 required to take advantage of it. MAWC makes a choice to initiate a rate case merely by
12 utilizing ISRS legislation to its advantage in between rate cases. Therefore, those rate case
13 costs which MAWC is required to incur for a rate case are ultimately incurred at the
14 discretion of MAWC.

15 Q. Will Staff continue to review rate case expense information provided by
16 MAWC as it is incurred, throughout this rate case?

17 A. Yes. Staff will review rate case expense through the true-up brief filing date of
18 April 22, 2016, as established by the Commission in this rate case.

19 **ADVERTISING EXPENSE**

20 Q. What is the overall, quantitative difference between MAWC’s and Staff’s
21 positions regarding advertising expense?

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1 A. MAWC is seeking to recover \$109,174 of this cost annually in rates while
2 Staff's recommends recovery of \$26,376. At the current time, the difference between the two
3 parties' positions is \$82,798 on a total company basis.

4 Q. Have MAWC and/or Staff changed their initial positions regarding advertising
5 expense?

6 A. Yes. Staff submitted DR No. 0436 to obtain MAWC's itemized classification
7 of its advertisements. MAWC's response to this DR showed that MAWC is seeking to
8 recover \$109,174, in rates, a revision of its position at the time of its direct filing although this
9 amount was not directly stated in this DR response. Staff asked MAWC directly via email
10 what its position on advertising expense is at the current time, but MAWC has failed to
11 provide documentation of its position. This \$109,174 number is calculated based on MAWC
12 response to Staff DR No. 0436, in which much of the information was not provided clearly.
13 Staff has changed its position on this item for reasons identified later in this testimony.

14 Q. Generally, what are the sources of the difference between MAWC's position at
15 direct and Staff's position at this time?

16 A. The difference between MAWC's and Staff's positions is due to differences in
17 advertisement classification.

18 Q. What disallowances of advertising expense did Staff recommend in its cost of
19 service report filed December 23, 2015? Why were the disallowances made?

20 A. Staff reviewed all advertisements provided by MAWC using the guidance that
21 was provided by the Commission's Report and Order in the KCP&L Case Nos. EO-85-185
22 and EO-85-224. Staff recommended disallowance of all advertising expense classified as
23 promotional or institutional. It should be noted that, according to the principles laid out in the

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1 | aforementioned KCP&L Report and Order, promotional advertising is disallowed from
2 | inclusion in rates if MAWC is unable to produce evidence that cost-justifies the expense of
3 | placing the advertisement; i.e. the benefits provided to MAWC by the advertisement exceeded
4 | the cost of the advertisement. As MAWC has produced no such analysis in this case, Staff
5 | recommended the disallowance of all promotional advertising from inclusion in rates. I have
6 | elected to make this note here in my testimony in order to contradict Company witness
7 | Ms. Tinsley's statement in her rebuttal testimony on lines 12 through 24 of page 33 which
8 | suggests that promotional advertising is allowed in rates by default along with general and
9 | safety advertising. Ms. Tinsley's statement contradicts the Commission's Order in KCPL
10 | Case Nos. EO-85-185 and EO-85-224 on this matter, warranting my notation.

11 | Furthermore, Staff recommended that all advertising expense booked by MAWC, but
12 | for which MAWC did not provide copies of advertisements for review, be disallowed. This
13 | included the entirety of the expense booked as "Customer Education." Staff submitted
14 | DR No. 0282 on November 13, 2015, requesting copies of such advertisements, but did not
15 | receive a response from MAWC in a timely manner. This delay made Staff's review and
16 | classification of these advertisements impossible to complete in time for its direct filing on
17 | December 23, 2015.

18 | Q. Did MAWC eventually provide a response to Staff DR No. 0282, enabling
19 | Staff to perform a review and classification of the advertisements booked as "Customer
20 | Education"?

21 | A. Yes. After the response was provided, Staff reviewed the copies of customer
22 | education advertisements and classified them into their appropriate categories. Based on this
23 | review, Staff recommends that \$41,180 of this customer education expense be disallowed.

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1 Q. MAWC witness Tinsley addresses several programs, the advertisements for
2 which she asserts should be included in rates. What were those programs?

3 A. On pages 33 and 34 of her rebuttal testimony, Ms. Tinsley mentions the
4 MR350 River Race, Wings over Water, Magnificent Missouri, Trash Bash, Tap Water
5 Quality, Hydrant Flushing, Watershed Education and Earth Day programs. She asserts that
6 these programs are important for MAWC's operations and their corresponding advertisements
7 should, therefore, be included in rates.

8 Q. Does Staff agree with her assertions?

9 A. No. The nature of the programs is not the primary criterion for the
10 determination of whether or not the cost of the advertisement should be included in the cost of
11 service calculation. When reviewing the advertisements to classify them under the KCPL
12 advertising standard, Staff considers the "primary message" of the advertisements themselves,
13 not allegations regarding the validity of the programs to which they relate.

14 Q. Did Staff recommend any other adjustments to advertising expense?

15 A. Yes. As Staff discussed in its Report, Staff made an adjustment to exclude all
16 advertising costs of a political campaign designed to influence voters in Arnold, Missouri, to
17 vote in favor of the City of Arnold's proposed sale of their municipal wastewater system to
18 MAWC. Staff submitted DR No. 0271 on November 4, 2015, to obtain more information
19 regarding these costs. However, MAWC did not respond to this data request until January 5,
20 2016. Without this information, Staff recommended a \$100,000 placeholder adjustment until
21 such time that Staff received the requested information.

22 Q. After reviewing the response to Staff DR No. 0271, what adjustment does Staff
23 recommend be made?

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1 A. After reviewing the information provided in the MAWC response to Staff DR
2 No. 0271, Staff discovered that all of the costs associated with this campaign were in the form
3 of contributions to a political action committee called Clean Water Healthy Communities
4 (CWHC). MAWC did not record any costs related to the campaign in advertising or customer
5 education accounts. MAWC's contributions to CWHC were disallowed as a part of Staff's
6 analysis and adjustment for lobbying items (as discussed in more detail by Staff witness Sarah
7 Sharpe on page 75 of Staff's Report). Since these costs were already addressed by Staff
8 witness Sharpe, Staff no longer recommends the \$100,000 adjustment to advertising expense
9 and has removed this adjustment from its cost of service calculation.

10 Q. Did Staff's accounting schedules contain any errors related to advertising
11 expense?

12 A. Yes. Staff made an adjustment of approximately \$25,000 to an incorrect
13 account. The adjustment was then allocated to individual districts using the incorrect account.
14 The adjustment itself is valid, but the account in which the adjustment was made was
15 incorrect. Another error was identified by MAWC witness Tinsley in her rebuttal testimony
16 when she pointed out that Staff had removed a very minor amount above the actual level of
17 advertising expense that was recorded during the test year. The reason for this was similar to
18 the above \$25,000 error in that Staff had incorrectly assigned two advertisements to a certain
19 account (the advertising account) when they actually were attributable to another account.
20 Staff has made corrections for these two items as well as the for the \$25,000 error in its
21 true-up accounting schedules. Ms. Tinsley will find that Staff's disallowance of advertising
22 expense no longer exceeds the test year level of that expense.

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1 Q. Did these errors have any effect on the overall revenue requirement in any
2 individual district?

3 A. No. The errors only affect the accounts in question. The error has no effect on
4 the overall cost of service calculation in any individual district. Therefore, their correction
5 would not have any impact on the revenue requirement for any district.

6 Q. Were there any discrepancies between Staff and MAWC regarding the test
7 year amount of advertising expense?

8 A. Yes. Staff identified \$20,938 of advertising expense booked in the test year via
9 pulling data from MAWC's general ledger. This amount was verified by MAWC's responses
10 to Staff DRs No. 0076 and 0076.1. However, on page 33 of MAWC witness Ms. Tinsley's
11 rebuttal testimony, she states that the total test year advertising expense was \$20,989.
12 Staff submitted DR No. 0437 to obtain an explanation for this difference. In MAWC's
13 response to that Data Request, it stated that a mistake was made in Ms. Tinsley's rebuttal
14 testimony and \$20,938 is indeed the correct test year amount of advertising expense.

15 **PROPERTY TAXES**

16 Q. What is the overall, quantitative difference between MAWC's and Staff's
17 positions regarding property tax expense after reviewing the true-up information that was
18 provided by MAWC on February 19, 2016?

19 A. MAWC is seeking to recover \$14,083,969 annually in rates while Staff's
20 recommends recovery of \$13,133,702. At the current time, the difference between Staff and
21 MAWC's positions is \$950,267.

22 Q. Has Staff made any changes to its position since direct?

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1 A. Yes. As part of its true-up audit, Staff updated its recommended level of
2 property tax expense to be set at the level of expense incurred in 2015 (the amount above).
3 The 2015 property tax payments represent the most current known and measureable property
4 tax expense information available to Staff.

5 Q. What is MAWC's proposal for annualization of property tax expense?

6 A. MAWC proposes to include in the cost of service calculation an estimate of the
7 level of property tax expense that MAWC would not be required to pay until December 31,
8 2016. The tax on property, which is assessed annually based upon the value of taxable
9 property measured as of January 1 for each year, is due and payable on December 31 in the
10 same year as the assessment.

11 Q. Does Staff agree with MAWC's approach to property taxes in this proceeding?

12 A. No. Staff disagrees with this proposal because MAWC recommends including
13 costs in rates which are not known and measureable in that MAWC cannot accurately predict
14 the property tax rates and assessed values that will be applied and furthermore even if it could
15 this cost would not be paid until December 2016. This cost is not only well beyond the
16 true-up cut-off date of January 31, 2016, but also well beyond the June 28, 2016 operation of
17 law date. Considering this item of cost, 11 months beyond the Commission established true-
18 up cutoff and six months beyond the operation of law date in this case, would seriously distort
19 the proper expense, revenue, and rate base relationship, commonly known as the ratemaking
20 "matching principle." Including this cost, but ignoring other changes in the cost of service
21 measured at year-end 2016 would represent inappropriate ratemaking.

22 Q. Is Staff's recommendation on this matter supported by any case precedent?

1 A. Yes. In the Ameren Missouri rate case, No. ER-2012-0166, this same
2 disagreement regarding property tax expense was brought before the Commission. In that
3 case, Ameren Missouri proposed that 2012 property tax payments be included in rates despite
4 those payments not being known and measureable until after the test year, the true-up period,
5 and even after the evidentiary hearing. On pages 49 and 50 of its Report and Order, the
6 Commission stated the following:

7 If the Commission were to set Ameren Missouri's rates based
8 on projections about what it might pay in property taxes in
9 December 2012, it would violate an important rate making
10 principle. A December 2012 payment would be outside the test
11 year and true-up period. The test year and true-up period is
12 important because it allows the Commission to set rates while
13 considering the relationship between revenues, expenses and
14 rate base within a specified period. Ameren Missouri is asking
15 the Commission to make an isolated adjustment for taxes paid
16 outside that specified period. By going outside the specified test
17 year and true-up period to make an isolated adjustment, the
18 Commission would necessarily be ignoring other expense and
19 income items that might also change the company's revenue
20 requirement....Ameren Missouri's 2012 property taxes are not
21 known and measureable and inclusion of those costs is not
22 necessary to establish just and reasonable rates.

23 This language from the Report and Order gives Staff clear guidance on appropriate treatment
24 of property tax expense for ratemaking purposes.

25 **MAIN BREAK EXPENSE**

26 Q. What is the overall, quantitative difference between MAWC's and Staff's
27 positions regarding main break expense after the completion of the true-up audit for this area
28 of cost?

29 A. In MAWC witness Philip C. Wood's rebuttal testimony, found on pages 2
30 and 3, he states that MAWC revised its position to \$2,666,683. At this time, Staff's position

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1 regarding normalized main break expense is \$2,279,604. Thus, there is a difference between
2 MAWC and Staff of \$387,079 on a total company basis.

3 Q. What is the source of the difference between MAWC's and Staff's positions on
4 this issue?

5 A. The difference in MAWC's and Staff's positions is due to a difference in
6 normalization methodology. MAWC's normalization includes simply calculating a three-year
7 average of the total main break expense in 2012, 2013, and 2014. The details of how Staff
8 performed its normalization are contained on pages 70 and 71 of Staff's Report.

9 Q. On page 71 of Staff's Report, Staff states that it identified a declining trend in
10 cost per main break incident. Yet MAWC witness Wood's rebuttal testimony displays data
11 which appears to contradict the presence of such a trend. Please explain this.

12 A. MAWC provided Staff with a certain set of data in its direct workpapers which
13 matched the MAWC response to Staff DR No. 0106. This is the data set that Staff used to
14 perform the normalization described in its direct filing. However, MAWC presented a very
15 different set of data in Mr. Wood's rebuttal testimony. One of the differences between the two
16 data sets includes an inconsistent amount for total main break expense recorded in 2012.
17 During a meeting on February 23, 2016, Mr. Wood indicated that MAWC had inadvertently
18 included \$718,628 of customer service line utility locate costs in the information that it had
19 previously supplied to the Staff for the calendar year ending 2012. Since the cost per break
20 figure is derived from the total main break expense figure, the amount of the cost per break in
21 that year changed dramatically as a result. In addition, Mr. Wood has explained to Staff that in
22 the cost information MAWC previously supplied to Staff, MAWC erroneously excluded
23 approximately \$83,915 of contract service costs that were directly related to repairs of main

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1 breaks during calendar year ending 2014. This new data set does not show the declining trend
2 in cost per break that was clearly evident in the original set of data on which Staff relied to
3 make its recommendation at direct.

4 Q. Has Staff revised its position due to this change in data?

5 A. No. Considering all new data, that which was reflected in Mr. Wood's
6 testimony and that provided at true-up, Staff's total recommendation for normalized main
7 break expense as expressed in its cost of service report is still reasonable. Therefore, Staff
8 retains its position on this issue.

9 Q. Why is Staff retaining its position regarding main break expense after
10 considering all data provided subsequent to the filing of Staff's Report?

11 A. Some of the data provided subsequent to Staff's Report is final 2015 data for
12 main break incidents and total main break expense. When 2015 data is considered, a
13 three-year declining trend is clearly evident for both total main break expense and number of
14 main break incidents (when the normalized number of breaks is included). The data further
15 shows that, as Mr. Wood states in his testimony, there is not a declining trend in cost per
16 break. Taking this data into consideration, one could justify normalizing main break expense
17 at the 2015 number of main break incidents multiplied by a three-year average of the average
18 cost per break. This normalization would be calculated thusly: $545 \text{ breaks} \times \$3,535 =$
19 $\$1,926,575$. However, in order to be conservative, Staff is retaining its position in
20 recommending that main break expense equal to $\$2,279,604$ be included in rates.

21 Q. In its cost of service report, Staff mentioned that MAWC had stated in its
22 response to staff DR No. 0110 that certain districts other than St. Louis had experienced
23 abnormally high numbers of main breaks during the test year. Staff further mentioned that it

1 had submitted DR No. 0315 requesting more information regarding main break expense in
2 those districts and will review the necessity of any adjustments for main break expense.
3 Has Staff reviewed MAWC's response to Staff DR No. 0315 since Staff's cost of service
4 report was filed?

5 A. Yes. After reviewing MAWC's response to this Data Request, Staff has
6 determined that the total main break expense incurred in those districts during the test year
7 was approximately similar to that incurred in other years. Therefore, Staff does not
8 recommend any adjustments to main break expense in districts other than St. Louis.

9 **PLANT-IN-SERVICE AND DEPRECIATION RESERVE**

10 Q. In its review of the true-up information that MAWC provided for
11 plant-in-service and depreciation reserve, did Staff identify any items which warranted
12 adjustment?

13 A. Yes. In its review of plant-in-service, Staff found that MAWC had recorded
14 plant balances in each sewer district in accounts which are unique to water operations and
15 thus, should not appear in sewer districts under any circumstances. Staff discussed this issue
16 in its Report and also in a meeting with MAWC witness Todd P. Wright, who expressed that
17 this issue would be corrected in MAWC's true-up data. Given that the inappropriate balances
18 appear in the true-up data, this problem has not been properly addressed by MAWC to date.
19 Staff, therefore, recommends that all of these erroneous plant-in-service and depreciation
20 reserve account balances be adjusted to equal zero in these sewer districts.

21 In its review of depreciation reserve, Staff identified several land accounts which
22 carried balances of depreciation reserve. As land is not a depreciable asset, these balances are
23 inappropriate. As with the issue identified above, Staff discussed this issue in its Report and

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1 with MAWC witness Todd P. Wright, who expressed that this issue would be addressed in its
2 true-up data. Again, this issue has not been properly addressed at this time. Staff, therefore,
3 recommends the inappropriate depreciation reserve balances be moved to other depreciation
4 reserve account balances for each district in which the balances appear as discussed in the
5 surrebuttal testimony of Staff witness John A. Robinett.

6 Furthermore, in its review of plant-in-service and depreciation reserve, Staff identified
7 numerous accounts in numerous districts which contained negative balances of these items.
8 This issue is also addressed in the surrebuttal testimony of Staff witness John A. Robinett.

9 **TRUE-UP ITEMS**

10 Q. What issues or items are you addressing as part of Staff's true-up audit?

11 A. I am addressing several true-up items including plant-in-service, depreciation
12 reserve, Contributions In Aid of Construction ("CIAC"), CIAC Reserve, customer advances,
13 materials and supplies inventory, and prepayments. I will also discuss the issue of rate case
14 expense which, although not strictly a true-up item, is subject to periodic updates throughout
15 the case based upon the information provided by MAWC.

16 Q. Please explain these items.

17 A. The levels of plant-in-service, depreciation reserve, CIAC, CIAC Reserve and
18 customer advances as recommended by Staff in its December 23, 2015, accounting schedules
19 reflect rate base balances as of September 30, 2015. In its direct filing, Staff stated its
20 intention to update these levels through January 31, 2016, as part of its true-up audit. Staff has
21 performed this true-up audit and now recommends that the January 31, 2016 true-up balances
22 of these rate base items are appropriate for inclusion in the calculation of MAWC's revenue
23 requirement with one caveat. On February 22, 2016, Staff first learned of an unusual and

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1 significantly widespread problem with thousands of MAWC water meters that had been
2 installed in most of its water districts between 2012 and very early 2015. For purposes of
3 determining rates in this case, the Staff has included the replacement cost of these meters in
4 the plant-in-service balances that were provided as part of true-up.

5 Staff witness John P. Cassidy addresses this matter further in his surrebuttal testimony
6 regarding Staff's concerns with the significant meter replacement effort that occurred during
7 the latter part of 2015 to remove an unusual and significant amount of defective meters from
8 MAWC's water operating districts statewide. At the time of direct testimony, Staff
9 normalized the levels of materials and supplies inventory and prepayments based upon data
10 provided by MAWC through September 30, 2016. In its cost of service report, Staff stated its
11 intention to update the data used in its normalization to include changes in these items as part
12 of its true-up audit for all changes through January 31, 2016. Staff's treatment of materials
13 and supplies inventory and prepayments differ from that of plant-in-service, etc., in that a
14 13-month average is calculated instead of simply accepting the January 31, 2016, balance of
15 these items. Staff has performed the update such that its normalizations of materials and
16 supplies and prepayments are equal to 13-month averages of those balances spanning
17 January 2015 through January 2016. Staff recommends that these normalizations be used in
18 the calculation of MAWC's revenue requirement.

19 As discussed in its cost of service report filed on December 23, 2015, Staff intends to
20 obtain updated rate case expense information to determine the appropriate normalization.
21 MAWC has provided updated rate case expense information through the true-up period ended
22 January 31, 2016. However, MAWC will continue to incur rate case expense related to the
23 current rate case beyond the true-up period. Since Staff recommends that all rate case

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1 expense incurred by MAWC, in connection to the rate case WR-2015-0301 through the
2 Reply/True-up Brief that is scheduled for filing on April 22, 2016, be reviewed and addressed
3 by Staff as part of this case. Staff recommends that MAWC continue to provide updated
4 information on this issue by month as it becomes available. Upon receiving this updated
5 information, Staff will review the costs and, if they are found to be reasonable and prudent,
6 will recommend that they be included in Staff's annualization of rate case expense in the
7 manner described in Staff's cost of service report.

8 Q. Does this conclude your surrebuttal testimony?

9 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) Case No. WR-2015-0301
a General Rate Increase for Water and Sewer)
Service Provided in Missouri Service Areas)

AFFIDAVIT OF BRIAN WELLS

STATE OF MISSOURI)
) ss.
CITY OF ST. LOUIS)

COMES NOW BRIAN WELLS and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing **SURREBUTTAL TESTIMONY**; and that the same is true and correct according to his best knowledge and belief.

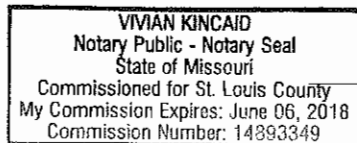
Further the Affiant sayeth not.

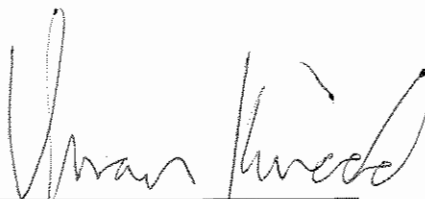


BRIAN WELLS

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the City of St. Louis, State of Missouri, at my office in St. Louis, on this 2nd day of March, 2016.





Notary Public