

Exhibit No.:

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Case No.:

Rate Case Expense/
Management Expenses

Conner/Surrebuttal

Public Counsel

WR-2020-0344

SURREBUTTAL TESTIMONY

OF

AMANDA C. CONNER

Submitted on Behalf of the Office of the Public Counsel

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2020-0344

February 9, 2021

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Missouri-American)
Water Company's Request for)
Authority to Implement General Rate) Case No. WR-2020-0344
Increase for Water and Sewer Service)
Provided in Missouri Service Areas)

VERIFICATION OF AMANDA C. CONNER

Amanda C. Conner, under penalty of perjury, states:

1. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony in the above-captioned case.

2. My answer to each question in the attached surrebuttal testimony is true and correct to the best of my knowledge, information, and belief.

/s/ Amanda C. Conner
Amanda C. Conner
Utility Regulatory Auditor
Office of the Public Counsel

TABLE OF CONTENTS

Testimony	Page
Introduction	1
Rate Case Expense	1
Management Expense	6

SURREBUTTAL TESTIMONY

OF

AMANDA C CONNER

MISSOURI AMERICAN WATER COMPANY

CASE NO. WR-2020-0344

1 **I. INTRODUCTION**

2 **Q. What is your name and business address?**

3 A. Amanda Conner. P.O. Box 2230 Jefferson City, MO 65102.

4 **Q. Are you the same Amanda Conner who filed direct and rebuttal testimony in this case?**

5 A. Yes.

6 **Q. To whose rebuttal testimony are you responding?**

7 A. I respond to Missouri American Water Company (MAWC) witness Brian W. LaGrand's
8 rebuttal testimony regarding rate case expense, and MAWC witness Nikole Bowen and Staff
9 witness Ali Arabian's rebuttal testimonies on Employee Expenses, or as I named them
10 Management Expenses.

11 **II. RATE CASE EXPENSE**

12 **Q. What is your current recommendation on rate case expense after reviewing Staff's**
13 **rebuttal testimony?**

14 A. After looking over Staff's testimony, they did not make any changes to their rate case expense
15 adjustment from direct. However, Staff sent data request 217.2 that asked two questions of
16 MAWC regarding the Service Company used for rate case preparation and discovery that are
17 important to note. Staff received responses from the company as follows:

1 1. Please provide a description, the vendor utilized and all documentation, if any that
2 support the line item (lines 30-43) charges entitled “Rate Case Preparation” and “Rate
3 Case Discovery”.

4 Response: The costs on line items 30 – 43 in the DR 217 attachment 3, tab “2020 Rate
5 Case DR” are from the internal service company employees. The service company
6 employees involved in preparing the MAWC rate case (“Rate Case Preparation”) as
7 well as those supporting and responding to all of the discovery requests (“Rate Case
8 Discovery”). These costs are billed through the service company bill each month
9 based on time and expenses recorded to the deferred rate case WBS element.

10 4. Please provide a detailed narrative explanation as to why it was necessary for
11 MAWC to recruit outside consultants to create direct rate case cost of service
12 schedules and workpapers for WR-2020-0344. This discussion should include, but not
13 be limited to, discussion of current employees, current workloads, etc. and discussion
14 as to why MAWC is unable to produce this work product in house.

15 Response:

16 Typically, MAWC is able to produce this work product in house. However, American
17 Water currently has six open rate cases. The number of cases varies from year to year
18 and the Company doesn’t staff to meet the heavy years and then be overstaffed for the
19 lighter years. It is more cost effective to hire the occasional consultant as needed. ¹

20 Due to the responses received, I agree with Staff’s disallowance.

¹ PSC Data Request 217.2 for MAWC rate case WR-2019-0344

1 **Q. What is the issue with the responses made by MAWC to Staff’s data request 217.2?**

2 A. In Ms. Bulkley’s rebuttal testimony she states that it would be inappropriate for the
3 Commission to use a consolidated company capitalization because MAWC is only one of
4 American Water’s sixteen regulated operating utilities. Ms. Bulkley is essentially inferring
5 that MAWC is its own company and should not be consolidated with all of American Water
6 for capital structure. MAWC cannot have it both ways, if they wish to be separate from
7 American Water for capital structure, then whether or not American Water has six open rate
8 cases is an irrelevant reason to use a service company for rate case preparation. If MAWC is
9 a stand-alone company, then it shouldn’t matter how many of American Water’s other “stand
10 alone” companies have open rate cases. Missouri ratepayers should not be charged in what
11 MAWC estimates is \$862,000 for a service company to handle their rate case preparation and
12 discovery due to conflicting activities by American Water’s other regulated utilities.

13 **Q. Mr. LaGrand mentioned on page 41 of his rebuttal testimony that you recommended a**
14 **3 year amortization for rate case expense, is this correct?**

15 A. No. I have never recommended amortization beyond the Depreciation Study and other
16 Commission required studies. Neither OPC nor Staff recommend amortization of rate case
17 expense. In testimony, I have always recommended normalization of rate case expense
18 because there is no reason to amortize rate case expense. Normalization is used for normal
19 events with varying annual amounts over a fixed period of time. Amortization is used for the
20 costs of one-time events not expected to occur again or on a regular basis. Rate cases are no
21 longer separate events occurring on an unforeseen basis. It is known that rate case costs will
22 be incurred evenly over the years.

1 **Q. On page 43, line 1, of his revenue requirement rebuttal testimony, LaGrand states that**
2 **the company should not be penalized for needing to seek a rate increase, do you agree**
3 **with this statement?**

4 A. No, because a sharing or disallowance of rate case expense is not a punishment. To be clear,
5 I am now recommending that customers pay for none of the rate case expense associated with
6 this case. However, if the Commission orders an increase in rates then my secondary
7 recommendation is for the Commission to split rate case expense evenly between ratepayers
8 and MAWC. The sharing methodology that I am recommending would not penalize a
9 company for filing a rate case with a reasonable and prudent rate increase request. If a
10 company files a rate increase that is prudent and reasonable, then that company would not
11 have to share any of the rate case expense.

12 However, MAWC is not seeking a rate increase that is reasonable. I believe that MAWC only
13 filed this case because of the need to do so to maintain its infrastructure system replacement
14 surcharge (ISRS). Although, it is free to do so, that makes this rate case solely a company
15 choice, and therefore customers should not pay for any rate case expense beyond what is a
16 just and reasonable rate for safe and adequate services, which according to Staff's rebuttal
17 EMS run is considerably lower than MAWC's requested increase.

18 **Q. As of rebuttal testimony, what is Staff's revenue requirement for MAWC?**

19 A. According to Staff's revenue requirement numbers, MAWC's revenue requirement, including
20 true up, is between three and seven million dollars.

21 **Q. What does Staff's rebuttal revenue requirement signify in regards to Mr. LaGrand**
22 **stating that the company is being penalized for needing to seek a rate increase?**

23 A. MAWC filed a requested rate increase of \$102 million. Since Staff's true up revenue
24 requirement is between three and seven million, far less than what the Company initially
25 presented as necessary, I disagree with Mr. LaGrand that the company is being penalized by

1 not recovering its full rate case expense. Rate case expense is properly included in rates when
2 the rate case benefits both customers and the Company. In this case, MAWC's rate case serves
3 primarily to retain the ISRS for the Company to mitigate regulatory lag, but customers are
4 receiving no similar benefit beyond continued existing service.

5 Furthermore, the difference between Staff's revenue requirement and the increase requested
6 by MAWC is a perfect example as to why the Commission should not just do a 50/50 split
7 but employ the Commission's Report and Order in KCPL's ER-2014-0370 rate case ("2014
8 Order") sharing mechanism, because MAWC has glaringly shown that they are trying to
9 benefit their shareholders more than their customers.

10 **Q. But as you say, MAWC must have a rate case at least once every three years to maintain**
11 **the ISRS. Why is it unreasonable then for MAWC to want to maintain the ISRS?**

12 A. It is not unreasonable for MAWC to want to maintain an ISRS. MAWC must only file a rate
13 case in order to zero out their ISRS so that they can keep the surcharge in place. This does
14 not mean that the company must file for an increase to rates, especially such a high and
15 unneeded increase.

16 **Q. What is your adjustment to rate case expense?**

17 A. At this time, OPC is advocating for no rate increase. Therefore, by using the 2014 Order
18 sharing methodology, there should be no rate case expense charged to the ratepayers because
19 a rate case resulting in no change in rates reflects a situation where the rate case was not
20 necessary for customers.

1 **III. MANAGEMENT EXPENSE**

2 **Q. In Ms. Bowen’s rebuttal testimony, she stated that your calculation of employee expense**
3 **is incorrect, do you agree with her statement?**

4 A. Yes, I did put the wrong amount in my direct testimony. The corrected amount is \$54,919.
5 At the time, I was reviewing the amount charged and allocated by the managers to MAWC.
6 However, since my direct testimony, I was able to get the managers expenses to include in
7 my calculations.

8 **Q. Have you updated your workpapers since your direct testimony?**

9 A. Yes. I did not have the total amount charged by managers in my direct testimony due to time
10 constraints. I have since added the charges made by managers to my adjustment in Schedule
11 ACC-S-1.

12 The total amount of disallowed expense by managers is \$600,627. Together, my overall
13 adjustment of disallowed expenses is \$655,546.

14 **Q. On page 2 of Mr. Arabian’s testimony, he states that Staff included expenses related to**
15 **domestic travel for business purposes and training that you disallowed. Do you agree**
16 **with Staff’s approach?**

17 A. No, Staff includes all domestic travel regardless of whether the purported business purpose
18 benefitted Missouri customers. The only domestic expenses I disallowed pertain to expenses
19 that were for other American Water subsidiaries that are not a benefit to Missouri customers,
20 such as other state’s rate case expenses, etc. I researched all of the events listed in my
21 disallowed expenses and none of the disallowances proved to benefit MAWC ratepayers.

1 **Q. As compared to Mr. Arabian’s methodology, how did you come up with the manager**
2 **expense disallowance?**

3 A. Instead of looking at each charge allocated to MAWC by the managers, I took the percentage
4 of officer disallowance, which was 10.96% for MAWC and 39.67% for American Water and
5 multiplied that to the respective manager expenses. MAWC managers disallowance is
6 \$344,625 and the AWC managers that had expenses allocated to MAWC has a disallowance
7 of \$256,001.

8 **Q. Is this an auditing method used when doing sampling auditing?**

9 A. Yes. This method is called Tone at the Top (Tone) and is commonly used by auditors when
10 judging how officers expense charges provides the example of what is an acceptable charge
11 to all other employees.

12 **Q. What is Tone at the Top?**

13 A. Tone is a term used to assess the strength of an entity’s internal controls. According to Boise
14 State University’s Internal Audit and Advisory Services, it refers to, “management’s
15 leadership and commitment towards openness, honesty, integrity, and ethical behavior. It is
16 the most important component of the entity’s internal control environment. Tone is set by all
17 levels of management and has a trickle-down effect on all employees of the organization. If
18 the Tone set by management upholds honesty, integrity and ethics, employees are more likely
19 to uphold those same values.”² The practices followed by MAWC and AWC leadership that
20 lead to my recommended disallowances³ are likely being mimicked throughout the company
21 at all levels, and using a consistent percentage is a reasonable basis for removing unreasonable
22 management expenses from rates.

² <https://www.boisestate.edu/internalaudit/internalcontroltone/>

³ In my direct testimony, I recommend adjustments to disallow costs for expenses such as unnecessary travel, alcohol, lobbying, gifts, and parties.

1 **Q. Does this conclude your surrebuttal testimony?**

2 A. Yes, it does.

OPC Management Expense Adjustment
 Prepared by: Amanda Conner

Officers	MO Charged Amount	MO Disallowed Amount	Disallowance %
MAWC	\$63,207	\$6,925	10.96%
AWC	\$120,991	\$47,994	39.67%
Total Officer	\$184,198	\$54,919	29.82%

Managers	MO Charged Amount	Disallowance %	MO Disallowed Amount
MAWC	\$3,145,656	10.96%	\$344,625
AWC	\$645,369	39.67%	\$256,001
	\$3,791,025		\$600,627

Total MAWC Managers 255

Total Disallowance \$655,546