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Woodland Manor Amortization/
Arnold Pipeline Amortization/
City of Hollister Pipeline Amortization/
Main Break Expense/
Maintenance Expense/
Promotional Giveaways/
Payroll/
Lead Service Lines–Accounting Treatment
Witness/Type of Exhibit: Roth/Rebuttal
Sponsoring Party: Public Counsel
Case No.: WR-2017-0285

REBUTTAL TESTIMONY

OF

KERI ROTH

Submitted on Behalf of the Office of the Public Counsel

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2017-0285

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*Denotes Confidential Information
that has been redacted*

January 17, 2018

PUBLIC VERSION

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REBUTTAL TESTIMONY
OF
KERI ROTH
MISSOURI AMERICAN WATER COMPANY
CASE NO. WR-2017-0285

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. Keri Roth, P.O. Box 2230, Jefferson City, Missouri 65102-2230.

4 **Q. Are you the same Keri Roth who has filed direct testimony on behalf of the Office of the**
5 **Public Counsel (“OPC”) in this case?**

6 A. Yes.

7 **Q. What is the purpose of your rebuttal testimony?**

8 A. The purpose of this rebuttal testimony is to respond to the direct testimony from the Missouri
9 Public Service Commission Staff (“Staff”) and Missouri American Water Company
10 (“MAWC” or “Company”) regarding the Hickory Hills amortization, the Woodland Manor
11 amortization, the Arnold pipeline amortization, the City of Hollister pipeline amortization,
12 main break expense, maintenance expense, promotional giveaways, payroll, and the
13 accounting treatment for the lead service line replacement program accounting authority order
14 (“AAO”).

15 **II. HICKORY HILLS AMORTIZATION**

16 **Q. Is MAWC including a regulatory asset for the Hickory Hills amortization in rate base?**

17 A. Yes. MAWC is including a regulatory asset balance of \$12,330, split evenly between water
18 and sewer, in rate base at May 31, 2019, which is MAWC’s proposed future test year period
19 in this case.

1 **Q. Is Staff including a regulatory asset for the Hickory Hills amortization in rate base?**

2 A. No.

3 **Q. Does OPC agree with Staff's proposal?**

4 A. Yes.

5 **Q. Why does OPC believe it is inappropriate to include the balance of the Hickory Hills**
6 **amortization in rate base?**

7 A. The Hickory Hills amortization includes an amount paid to the previous receiver of Hickory
8 Hills for outstanding receivership fees and a personal loan to Hickory Hills by the receiver. It
9 would be inappropriate to include the balance of the amortization in rate base, because
10 MAWC should not be entitled to earn a return on these costs as they are not an investment in
11 utility assets to provide utility service, which is a requirement for rate base treatment.

12 **Q. What is the annual level of expense included by MAWC and Staff in this case?**

13 A. MAWC and Staff have included an annual level of expense calculated as \$685 multiplied by
14 12 months to equal \$8,220, split equally between water and sewer.

15 **Q. Does OPC agree with MAWC and Staff's annual level of expense?**

16 A. Yes.

17 **III. WOODLAND MANOR AMORTIZATION**

18 **Q. Is MAWC including a regulatory asset for the Woodland Manor amortization in rate**
19 **base?**

20 A. Yes. MAWC is including a regulatory asset balance of \$26,667 in rate base at May 31, 2019,
21 which is MAWC's proposed future test year period in this case.

1 **Q. Is Staff including a regulatory asset for the Woodland Manor amortization in rate base?**

2 A. No.

3 **Q. Does OPC agree with Staff's proposal?**

4 A. Yes.

5 **Q. Why does OPC believe it is inappropriate to include the balance of the Woodland Manor**
6 **amortization in rate base?**

7 A. OPC believes this is inappropriate for a couple of different reasons. First, the amortization
8 for Woodland Manor has not begun. As stated in my direct testimony, the Missouri Public
9 Service Commission ("Commission") *Order Approving Stipulation and Agreement* states the
10 amortization will begin the first month following the end of services described in the
11 agreement between the previous owner and MAWC or two years after the date of closing on
12 the assets which occurred on June 21, 2016, whichever occurs first.¹ As of the update period
13 in this case, December 31, 2017, neither event specified in the Commission order has begun.

14 Second, the amortization includes transition costs paid to the previous owner for services
15 provided. **

16 **2 MAWC should not be
17 entitled to a return on these costs as they are not dollars invested in utility assets to provide
18 utility service, which is a requirement for rate base treatment.

¹ Case numbered WM-2016-0169, *Order Approving Stipulation and Agreement*, pages
2 - 3

² Company response to OPC data request 1109 Confidential attachment

1 **Q. What is the annual level of expense included by MAWC in this case?**

2 A. MAWC has included an annual level of expense calculated as \$1,111 multiplied by 12 months
3 to equal \$13,333.

4 **Q. What is the annual level of expense included by Staff in this case?**

5 A. Zero. Staff has not included an annual level of expense in this case.

6 **Q. Does OPC agree with Staff's proposal?**

7 A. Yes.

8 **IV. ARNOLD PIPELINE AMORTIZATION**

9 **Q. Is MAWC including a regulatory asset for the Arnold pipeline amortization in rate**
10 **base?**

11 A. No.

12 **Q. Has Staff included a regulatory asset for the Arnold pipeline amortization in rate base?**

13 A. No.

14 **Q. Does OPC agree with MAWC and Staff to exclude the Arnold pipeline amortization**
15 **from rate base?**

16 A. Yes.

17 **Q. What is the amount of expense being amortized by MAWC and Staff in this case?**

18 A. MAWC and Staff have included an annual level of expense calculated as \$74,245 multiplied
19 by 12 months to equal \$890,940.

1 **Q. Does OPC agree with MAWC and Staff's annual level of expense?**

2 A. Yes.

3 **V. CITY OF HOLLISTER PIPELINE AMORTIZATION**

4 **Q. Is MAWC including a regulatory asset for the City of Hollister pipeline amortization in**
5 **rate base?**

6 A. Yes. MAWC is including a regulatory asset balance of \$282,367 in rate base at May 31, 2019,
7 which is MAWC's proposed future test year period in this case.

8 **Q. Is Staff including a regulatory asset for the City of Hollister pipeline amortization in rate**
9 **base?**

10 A. No.

11 **Q. Does OPC agree with Staff's proposal?**

12 A. Yes.

13 **Q. Why does OPC believe it is inappropriate to include the balance of the City of Hollister**
14 **pipeline amortization in rate base?**

15 A. The City of Hollister pipeline amortization includes costs related to a pipeline funded by
16 Emerald Pointe, but it is owned by the City of Hollister. It would be inappropriate to include
17 the balance of the amortization in rate base, because MAWC should not be entitled to earn a
18 return on these costs as the pipeline is not owned by MAWC.

19 **Q. What is the annual level of expense included by MAWC and Staff in this case?**

20 A. MAWC and Staff have included an annual level of expense calculated as \$539 multiplied by
21 12 months to equal \$6,466.

1 **Q. Does OPC agree with MAWC and Staff's annual level of expense?**

2 A. Yes.

3 **VI. MAIN BREAK EXPENSE**

4 **Q. Has MAWC included data from the 2014 polar vortex, when calculating the average**
5 **number of main breaks?**

6 A. Yes. In January, February, and March 2014, the number of main breaks were unusually high
7 due to the polar vortex in 2014. MAWC has not accounted for this and simply averaged the
8 number of main breaks for 2014, 2015, and 2016 together. This calculated to approximately
9 729 main breaks per year, which appears to be significantly over-stated compared to Staff's
10 analysis. The company has brought this number forward to use in its future test year
11 calculation of main break expense.

12 **Q. How has MAWC calculated the cost per main break incident?**

13 A. MAWC has calculated the total direct costs (i.e., materials and supplies, paving, permits, and
14 contractual services) for 2017 by averaging the direct costs in 2014, 2015, and 2016 and
15 applying an inflation factor of 2.0%. MAWC has further calculated future test year expense
16 by applying additional inflation factors for 2018 and 2019. The total direct costs for 2019 was
17 divided by the average number of main breaks of 729, calculated by MAWC, to calculate a
18 cost per main incident of \$3,205.

19 **Q. Does OPC oppose MAWC's calculation of the average number of main break repairs**
20 **and the cost per main break incident?**

21 A. Yes, OPC opposes MAWC's calculation for a couple of different reasons. First, OPC believes
22 the 2014 polar vortex should be taken into consideration when calculating the number of main
23 break incidents. By not taking this into consideration, MAWC is overstating the average

1 number of main break incidents per year. Second, OPC opposes MAWC's calculation due to
2 the use of the future test year calculation. OPC witness, Dr. Geoff Marke, has written
3 testimony which further explains OPC's opposition to the use of the future test year.

4 **Q. Does OPC support Staff's calculation of the average number of main break repairs and**
5 **the cost per main break incident?**

6 A. Yes. OPC believes Staff's calculation of 598 main break incidents per year is reasonable, as
7 it takes into consideration the high number of main break incidents caused by the 2014 polar
8 vortex by normalizing these months and does not calculate a future test year amount.

9 **Q. Is MAWC's inclusion of actual 2014 main break data related to the polar vortex**
10 **consistent with MAWC's use of data outliers in other data calculations?**

11 A. No. As discussed previously, MAWC included the outlier in 2014 main break data which
12 overstates MAWC's normalized expense level. However, in response to OPC data request
13 8001.1, MAWC witness, Mr. Gregory P. Roach's explains, "The binary variable was used in
14 MAWC residential base modeling to account for unusual residential customer base usage
15 during the winter of 2014 in response to that winter season's unusually prolonged cold period
16 referred to at the time as the 'polar vortex'." This indicates that MAWC is excluding "polar
17 vortex" usage data to decrease normalized revenues but including the increase in main break
18 expenses for the same "polar vortex" time period to increase the normalized main break
19 expense levels.³

20 **VII. MAINTENANCE EXPENSE**

21 **Q. Has MAWC included a level of maintenance expense tied to a future test year?**

³ OPC witness Lena M. Mantle rebuttal testimony

1 A. Yes. MAWC has applied inflation factors to 2017, 2018, and 2019 maintenance expense
2 totals to arrive at a future test year level of expense.

3 **Q. Does OPC oppose MAWC's calculation?**

4 A. Yes. OPC continues to oppose MAWC's future test year calculations. OPC witness, Dr.
5 Geoff Marke, has provided detailed testimony discussing OPC's opposition to MAWC's
6 future test year proposal.

7 **Q. Does OPC believe Missouri Industrial Energy Consumers ("MIEC") witness Mr. Greg
8 Meyer's use of a five-year average is reasonable?**

9 A. Yes. However, OPC would recommend updating this information to include 2017 data when
10 it becomes available. Therefore, the calculation would be an average of 2013 – 2017 data.

11 **VIII. PROMOTIONAL GIVEAWAYS**

12 **Q. Does OPC support Staff's adjustment to remove all costs incurred by MAWC for
13 promotional items given away at various events?**

14 A. Yes. Promotional giveaways do not provide customers any benefit related to their utility
15 service and are not required in order to provide customers safe and adequate service. In case
16 numbered WR-92-207, the Commission stated in its Report and Order:

17 A sampling of Staff's disallowed entries include holiday greeting ads, pencils,
18 T-shirts, fun cups, key holders, gift certificates, items purchased for parades
19 and political events, such as sweatshirts, candy, dunk tank, and booth rental.
20 Staff also excludes a large number of entries entitled dues, donations, and
21 subscriptions. These types of expenditures are not necessary in the provision
22 of safe and adequate service and do not fall under the characterization of
23 "educational".

1 **IX. PAYROLL**

2 **a. VACANT POSITIONS**

3 **Q. Has MAWC included vacant positions in its annual level of payroll?**

4 A. Yes. MAWC witness, Ms. Nikole Bowen, states in her direct testimony the pro forma salaries
5 and wages expense was calculated on a position-by-position basis, based on 696 full-time
6 positions and 12 temporary summer positions.⁴ However, in response to Staff data request
7 0043, MAWC's chart shows only 659 employees as of the update period in the case, June 30,
8 2017.

9 **Q. Has Staff included vacant positions in its annual level of payroll?**

10 A. No. Staff witness, Ms. Jennifer Grisham, states in the Staff Cost of Service Report that Staff
11 used the employee levels that existed at June 30, 2017, to complete its annualization for
12 MAWC employees.⁵

13 **Q. Does OPC support the use of actual employee levels that existed as of the update period
14 and/or true-up period in this case?**

15 A. Yes. Customers should not be responsible to pay rates that include unfilled positions.

16 **b. EMPLOYEE WAGES**

17 **Q. Has MAWC also inflated payroll costs to calculate a future test year payroll balance?**

18 A. Yes.

⁴ Nikole Bowen direct testimony, page 6, lines 13 - 14

⁵ Staff Cost of Service Report, direct testimony, page 64, lines 19 - 20

1 **Q. Does OPC oppose this calculation as well?**

2 A. Yes. OPC witness, Dr. Geoff Marke, has written detailed testimony of OPC's opposition
3 regarding MAWC's proposal of a future test year.

4 **c. DISALLOWANCE OF INCENTIVE COMPENSATION**

5 **Q. Has MAWC removed any costs related to incentive compensation from its proposed cost**
6 **of service?**

7 A. No. MAWC has included all incentive compensation and has made adjustments similar to
8 base salaries to account for the company's proposal of a future test year.

9 **Q. Has Staff removed any costs related to incentive compensation from its proposed cost of**
10 **service?**

11 A. Yes. Staff has recommended to remove **

12 ** These costs
13 are tied to financial performance of the company and should not be borne by rate payers. Staff
14 witness, Ms. Grisham, explains in the Staff Cost of Service Report that no connection has
15 been found between the financial results for which incentives are awarded and tangible
16 benefits to ratepayers.⁶ Staff has also recommended to remove **

17 ** as they are tied directly to the
18 financial performance of MAWC.

⁶ Staff Cost of Service Report, direct testimony, page 66, lines 5 - 6

1 **Q. Does OPC support Staff's position?**

2 A. Yes. OPC has long supported the position to remove any incentive compensation costs
3 associated to the financial performance of a company. The most recent MAWC case OPC
4 supported removal of these costs was case numbered WR-2015-0301.⁷

5 **X. LEAD SERVICE LINES – ACCOUNTING TREATMENT**

6 **Q. Please describe the AAO granted by the Commission regarding MAWC's lead service**
7 **lines.**

8 A. On November 30, 2017, the Commission filed its *Report and Order* regarding MAWC's lead
9 service line replacement program AAO request. The *Report and Order* contained the
10 following language:

11 1. The application for an Accounting Authority Order filed by Missouri-
12 American Water Company is granted as further specified herein.

13 2. Missouri-American Water Company is granted authority to defer and
14 book to Account 186 the costs of all customer-owned lead service line
15 replacements made from January 1, 2017 through May 31, 2018, using its
16 short-term borrowing rate as its carrying cost.

17 3. Missouri-American Water Company may defer and maintain these
18 costs on its books until the effective date of the Report and Order in its pending
19 general rate case, with any amortization beginning with the effective date of
20 the Report and Order.

21 **Q. Has MAWC, Staff, OPC, or any other party proposed accounting treatment for the**
22 **costs associated with the AAO in this case?**

23 A. Yes, MAWC witness, Mr. Brian LaGrand, has proposed cost recovery treatment in his direct
24 testimony. Mr. LaGrand states on page 22, lines 10 – 16:

⁷ Case numbered WR-2015-0301, Charles R. Hyneman direct testimony, page 13, lines 18 – 23, page 14, and page 15, lines 1 – 16.

1 The Company is requesting the regulated asset be included in rate base as plant
2 in service, earn the Company’s authorized rate of return and recover the
3 associated amortization expense. The Company proposes that the regulatory
4 asset amortizes using the same rate as the Company depreciates its Company
5 owned services, 2.92% (approved in WR-2015-0301). The Company further
6 requests that the Company’s future costs of replacement for customer owned
7 lead services lines be included in rate base as plant in service (NARUC
8 account 345.0).

9 No other party in the current case has proposed cost recovery treatment in direct testimony.

10 **Q. Does OPC support Mr. LaGrand’s proposal?**

11 A. No. MAWC is proposing to include the costs related to the replacement of customer-owned
12 service lines in rate base as plant in service. MAWC does not own the service lines. In order
13 for MAWC to include these costs as plant in service, the capital investment must qualify under
14 Account 101 – Utility Plant in Service, under the National Association of Regulatory Utility
15 Commissioners (“NARUC”) Uniform System of Accounts (“USoA”), which is required to
16 be followed by all water companies under the jurisdiction on the Commission.⁸ Account 101
17 – Utility Plant in Service of the USoA clearly defines that only plant owned by the utility is
18 what qualifies as utility plant in service:

19 *“A. This account shall include the original cost of utility plant, included in the*
20 *plant accounts prescribed herein and in similar accounts for other utility*
21 *departments, owned and used by the utility in its utility operations, and having*
22 *and expectation of life in service of more than one year from date of*
23 *installation, including such property owned by the utility but held by*
24 *nominees. Separate subaccounts shall be maintained hereunder for each*
25 *utility department.”* (Emphasis added).

⁸ 4 CSR 240.50.030 Uniform Systems of Accounts – Water Companies

1 **Q. What is OPC's proposal regarding cost recovery of dollars booked by MAWC to**
2 **Account 186 – Miscellaneous Deferred Debits for customer-owned lead service line**
3 **replacements?**

4 A. OPC proposes zero recovery of the dollars booked to Account 186 for the reasons stated
5 previously and for additional reasons related to the unlawfulness of the costs stated in OPC
6 witness, Dr. Geoff Marke's rebuttal testimony.

7 **Q. Does this conclude your rebuttal testimony?**

8 A. Yes.