

Exhibit No.:  
Issues: Revenue Requirement  
Witness: Greg R. Meyer  
Type of Exhibit: Surrebuttal Testimony  
Sponsoring Party: MIEC  
Case No.: WR-2020-0344  
Date Testimony Prepared: February 9, 2021

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

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

Surrebuttal Testimony of

**Greg R. Meyer**

On behalf of

**Missouri Industrial Energy Consumers**

February 9, 2021



Project 10995

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

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Missouri-American Water Company's  
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**Case No. WR-2020-0344**

STATE OF MISSOURI     )  
  )  
COUNTY OF ST. LOUIS    )     **SS**

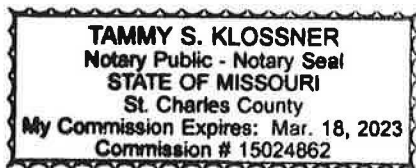
**Affidavit of Greg R. Meyer**

Greg R. Meyer, being first duly sworn, on his oath states:

1. My name is Greg R. Meyer. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Missouri Industrial Energy Consumers in this proceeding on its behalf.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. WR-2020-0344.
3. I hereby swear and affirm that the testimony is true and correct and that it shows the matters and things that it purports to show.

  
\_\_\_\_\_  
Greg R. Meyer

Subscribed and sworn to before me this 8<sup>th</sup> day of February, 2021.



  
\_\_\_\_\_  
Notary Public



**BEFORE THE PUBLIC SERVICE COMMISSION  
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Service Areas	)	
	)	

**Surrebuttal Testimony of Greg R. Meyer**

1 **I. Introduction**

2 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A Greg R. Meyer. My business address is 16690 Swingley Ridge Road, Suite 140,  
4 Chesterfield, MO 63017.

5 **Q ARE YOU THE SAME GREG R. MEYER WHO PRESENTED BOTH DIRECT AND**  
6 **REBUTTAL TESTIMONIES IN THIS PROCEEDING?**

7 A Yes, I am.

8 **Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

9 A This information can be found in my revenue requirement direct testimony filed on  
10 November 24, 2020.

11 **Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

12 A This testimony is presented on behalf of the Missouri Industrial Energy Consumers  
13 ("MIEC"), a non-profit corporation that represents the interests of large customers in  
14 Missouri utility matters. Companies whose interests the MIEC represents purchase

1 substantial amounts of water from Missouri-American Water Company (“MAWC”,  
2 “Missouri-American”, or “Company”).

3 **Q WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

4 A My surrebuttal testimony will address the following issues:

- 5 ➤ Whether the Commission should adopt a revenue stabilization mechanism;
- 6 ➤ Whether the Commission should adopt a future test year for setting rates;
- 7 ➤ The proper level of tank painting expenses and whether tank painting expenses  
8 should be capitalized;
- 9 ➤ The proper level of residential and commercial revenues; and
- 10 ➤ The correct time period to flow back to ratepayers the excess deferred income  
11 taxes resulting from the Tax Cuts and Jobs Act (“TCJA”).

12 The fact that I do not address any particular issue should not be interpreted as  
13 approval of any position taken by MAWC or any other party in this case.

## 14 **II. Revenue Stabilization Mechanism**

15 **Q HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF JOHN M. WATKINS**  
16 **RESPONDING TO YOUR DIRECT TESTIMONY ON THE REVENUE**  
17 **STABILIZATION MECHANISM (“RSM”)?**

18 A Yes, I have.

19 **Q DO YOU AGREE WITH THE ARGUMENTS PRESENTED IN HIS TESTIMONY?**

20 A No, I do not.

1 **Q PLEASE SEPARATELY DESCRIBE THE ISSUES YOU HAVE WITH MR.**  
2 **WATKINS AS IT RELATES TO THE RSM.**

3 A On page 2, lines 13-18, Mr. Watkins disputes my argument that customers will get  
4 charged for water whether they use it or not. I disagree with his assertions. Let's  
5 assume Residential Customer X uses the exact level of water (4,000 gallons per  
6 month) that was included in the calculation of the rate design in the current water rate  
7 case. Then assume, going forward, that the Residential class on an average  
8 customer basis uses less water than the assumed 4,000 gallons per month. In this  
9 instance, Customer X will see a surcharge to account for the fact that fewer revenues  
10 were collected from the Residential Class. Clearly, in this example, Customer X is  
11 being required to pay more for water that he did not use. Mr. Watkins' attempt to tie  
12 the charges for water back to usage is misleading and should be rejected.

13 **Q ON PAGE 3 OF MR. WATKINS' REBUTTAL TESTIMONY, HE AGAIN**  
14 **REFERENCES HIS SCHEDULE JMW-1 ATTACHED TO HIS DIRECT TESTIMONY**  
15 **SHOWING THAT FOR 7 OUT OF 10 YEARS (2010-2019) REVENUES WERE LESS**  
16 **THAN AUTHORIZED. PLEASE COMMENT.**

17 A The years that MAWC asserts it did not collect its authorized revenues were 2010,  
18 2011, 2013, 2014, 2015, 2016, and 2019. In my direct testimony, I listed the net  
19 incomes for all years from 2010-2019. As Table 1 below indicates, MAWC realized  
20 increasing net income in these years.

<b>TABLE 1</b>	
<b><u>MAWC's Historical Net Income</u></b>	
<b><u>Year</u></b>	<b><u>Net Income</u> <u>(\$/Millions)</u></b>
2010	\$22.0
2011	\$34.1
2012	\$49.7
2013	\$38.7
2014	\$42.8
2015	\$40.2
2016	\$47.8
2017	\$45.8
2018	\$56.9
2019	\$62.7

1            Since MAWC realized a net income in each of these years, MAWC covered all  
2 of its fixed and variable costs. Therefore, the only variation from year to year is to the  
3 profit level realized by MAWC. As I stated in my direct testimony, this history of  
4 MAWC's positive net income shows the RSM's only impact would have been a  
5 greater increase to MAWC's profit margin during each of those years. A utility should  
6 be afforded an opportunity to earn its authorized return, not a practical guarantee of  
7 that profit margin that MAWC seeks through its proposed RSM.

8    **Q    WOULD AN RSM GUARANTEE THAT MAWC WOULD EARN ITS AUTHORIZED**  
9    **RATE OF RETURN?**

10   **A**   Not absolutely, but it is unquestionable that MAWC's RSM proposal is a special  
11 regulatory mechanism designed with no purpose other than merely to increase  
12 MAWC's profits and nothing else.

1 **Q DO YOU HAVE ANYTHING FURTHER TO DISCUSS REGARDING SCHEDULE**  
2 **JMW-1?**

3 A Yes. If you sum the authorized and actual revenues for the 10-year period presented  
4 in that schedule, you will find that MAWC has collected actual revenues within 2.16%  
5 of the total authorized revenues for that 10-year period. In other words, MAWC has  
6 collected 97.84% of its authorized revenues over the 10-year period. This shows that  
7 the revenues authorized and collected over the period are very close. It would be  
8 hard to imagine how these figures could be enhanced except to grant an RSM that  
9 would essentially guarantee MAWC profits. This result clearly shows that the  
10 annualization of revenues has been calculated extremely well over the 10-year period  
11 and demonstrates that MAWC's claimed need for an RSM has no reasonable basis.

12 **Q MR. WATKINS CONTINUES TO PROPOSE THE INCLUSION OF ACTUAL**  
13 **PRODUCTION COSTS IN THE RSM. PLEASE COMMENT.**

14 A As explained at page 10 of my rate design direct testimony, MAWC seeks to use the  
15 RSM to ensure not only the collection of profits, but also recovery of any increased  
16 production cost. Specifically, the RSM would multiply any change in usage by the  
17 production cost in real time rather than by the production cost established by the  
18 Commission in this rate case. This allows MAWC to use the RSM as a tracker  
19 mechanism for changes in production costs. Given that the RSM is also a production  
20 cost tracker, MAWC will have a material disincentive to control the production cost of  
21 water since the RSM will allow it to simply pass through increased production costs.

22 MAWC argues that production cost changes should be included within the  
23 RSM. Mr. Watkins seems confused on my proposal to eliminate the production cost



1 tracker. Mr. Watkins claims that my proposal would allow either an under-recovery or  
2 over-recovery of revenues. These claims are without merit.

3 In the event that the Commission approves an RSM despite the objections  
4 raised by the MIEC and other parties, I recommend that production costs not be  
5 trued-up with the calculation of the revenue shortfall or over-collection. The level of  
6 production costs included in MAWC's cost of service should remain static just like all  
7 the other operating expenses of MAWC. One must remember this is a revenue  
8 mechanism and not a chance to true-up production costs. If production costs  
9 decrease from the level set in rates, then MAWC will gain from those savings until its  
10 next rate case. If, alternatively, production costs increase, MAWC must manage  
11 those cost increases until it decides to file another rate case.

12 **Q HOW CAN THE COMMISSION ENSURE THAT PRODUCTION COSTS ARE NOT**  
13 **UPDATED AS PART OF THE RSM?**

14 **A** In the event that the RSM is approved despite the objections of the MIEC and other  
15 parties, an RSM factor should be calculated at the end of each rate case. This RSM  
16 factor would be the annualized level of revenues for those classes subject to the RSM  
17 divided by the annualized level of water sold to those classes. This would allow the  
18 Commission and the parties to know the cost per gallon of water produced as  
19 determined in this rate case. This RSM factor would then be applied to the actual  
20 difference of water sales for the period. This would allow production costs to be  
21 treated just like any other operating expense that is included in the revenues of  
22 MAWC. Accordingly, rates would reflect costs from this case instead of constantly  
23 fluctuating due to changes in production costs.

1 **Q IN HIS REBUTTAL TESTIMONY, MR. WATKINS ALSO DESCRIBES MAWC'S**  
2 **PROPOSED SURCHARGE AND REFUND MECHANISM. DO YOU AGREE WITH**  
3 **THOSE PROVISIONS?**

4 A No. As I indicated at page 12 of my rate design direct testimony:

5 "Any RSM should focus on usage and not revenues as MAWC  
6 proposes. If an RSM is adopted by the Commission, I would propose  
7 that all RSM adjustments be based on volumetric changes, whether  
8 revenues are above or below the level authorized by the Commission.  
9 This would align the revenues with the consumption of water for all  
10 customers."

11 In contrast, MAWC proposes different methods for handling RSM shortfalls  
12 and RSM over-collections. Specifically, any shortfalls (caused by a reduction in class  
13 usage) would be handled through an adjustment to volumetric rates. On the other  
14 hand, any over-collection (caused by an increase in class usage) would not be  
15 handled by an adjustment, but through a customer refund on the bill.

16 Mr. Watkins freely admits that this proposal does not follow cost-causation.  
17 MAWC's disregard of cost-causation applies not only to the RSM but also to the class  
18 cost of service and rate design issues addressed by my colleague Jessica York in her  
19 surrebuttal testimony.

20 **Q HAVE YOU READ THE REBUTTAL TESTIMONY OF THE STAFF WITNESS**  
21 **JAMES BUSCH REGARDING RSM? IF SO, PLEASE COMMENT.**

22 A Yes, I have read Mr. Busch's rebuttal testimony. Mr. Busch provides a different  
23 perspective on the RSM, using different arguments for his recommendation to  
24 disallow the RSM. I concur with many of Mr. Busch's arguments. First, I concur with  
25 Mr. Busch that recovery of fixed costs is not only handled through the customer  
26 charge. Instead, since there appears to be a minimum level of customer usage that  
27 does not vary, a certain level of fixed costs is recovered through the commodity

1 charge. I also concur with Mr. Busch that production costs do not automatically  
2 correlate with the collection of revenues. This is another reason why I am opposed to  
3 including an updated or “trued-up” level of production costs in the RSM calculation  
4 instead of the level set in this rate case. Mr. Busch provides many good arguments  
5 different from mine that also oppose the implementation of an RSM.

6 **Q HAVE YOU IDENTIFIED ANY UNINTENDED CONSEQUENCES FROM ADOPTING**  
7 **AN RSM?**

8 A Yes. If the Commission had allowed MAWC to implement an RSM as MAWC  
9 proposed in its last rate case, MAWC would have been allowed to collect any  
10 shortfall in revenues resulting from the pandemic. Similarly, an RSM would allow  
11 revenue recovery for any major storms or other incidents where service may be  
12 disrupted. A recent example that comes to mind would be the Joplin tornado. If an  
13 RSM was in effect, the lost revenues from the tornado or pandemic would be restored  
14 without any Commission review. Noticeably, this recovery of lost revenues would  
15 occur despite the fact that MAWC and the Commission have determined that a utility  
16 should not recover lost revenues associated with an extraordinary event. If an RSM  
17 is approved, there should be a provision limiting the RSM to weather and/or  
18 conservation, but not allowing revenue recovery for extraordinary events such as Acts  
19 of God.

20 **Q PLEASE SUMMARIZE YOUR POSITION ON THE PROPOSED RSM.**

21 A I am opposed to the implementation of an RSM for MAWC. The proposal submitted  
22 by MAWC is more appropriately called a “profit enhancer” mechanism. As I stated in  
23 both my direct and surrebuttal testimonies, for each year that MAWC claims that it did

1 not collect its authorized revenues, there has been no effect on the recovery of fixed  
2 or variable costs – only the level of MAWC’s profits. In none of those years, was  
3 MAWC unable to pay its operating expenses, depreciation expenses, income taxes,  
4 or interest expense obligations. MAWC has not provided any reasonable basis that a  
5 profit enhancer is needed. During the 10-year period MAWC uses to claim a need of  
6 an RSM, MAWC collected 97.84% of its authorized revenues. Over the same period  
7 of time, MAWC’s earnings have almost tripled. Furthermore, American Water Works’  
8 dividends have increased by 125% and its stock price has increased by 525% over  
9 the past ten years. Clearly, the shareholders of American Water Works do not need  
10 an RSM to recognize a healthy return on their investment.

11 **III. Future Test Year**

12 **Q HAVE YOU READ THE REBUTTAL TESTIMONY OF MAWC WITNESS WATKINS**  
13 **AS IT RELATES TO MAWC’S PROPOSED FUTURE TEST YEAR?**

14 A Yes, I have.

15 **Q DO YOU HAVE ANY COMMENTS REGARDING THAT TESTIMONY?**

16 A Yes. I continue to oppose the use of a future test year for MAWC’s rate case. Mr.  
17 Watkins has not presented any reasonable basis to move from a historic test year to  
18 a future test year.

1 **Q DID MR. WATKINS ADDRESS THE CONCERNS YOU EXPRESSED IN YOUR**  
2 **DIRECT TESTIMONY ABOUT THE IMPLICIT REJECTION OF THE “KNOWN AND**  
3 **MEASUREABLE” STANDARD?**

4 A Somewhat. For instance, in my direct testimony, I pointed out that a future test year  
5 effectively requires the Commission to reject the “known and measureable” standard.  
6 Specifically, the level of costs, usage / revenues, and investment at some point in the  
7 future cannot be “known and measureable.” Rather, the level of these inputs are  
8 simply projections. Mr. Watkins attempts to address this concern, but misapplies the  
9 principle in his attempt to justify a future test year.

10 **Q HOW DID MR. WATKINS MISAPPLY THE KNOWN AND MEASUREABLE**  
11 **PRINCIPLE?**

12 A In his rebuttal testimony on page 6, Mr. Watkins focuses on two hypothetical factors  
13 (water usage and union increase) in an effort to claim that the known and  
14 measureable standard is reflected in the future test year. Mr. Watkins ignores all  
15 other factors. Nevertheless, even on his two hypothetical factors, Mr. Watkins is  
16 incorrect. Mr. Watkins argues that because declining water usage will continue into  
17 the future that makes it a known and measureable change. Mr. Watkins misses the  
18 point. The known and measureable principle requires that an event must have  
19 occurred (i.e., “known”) and that the impact must be quantifiable (i.e., “measureable”).  
20 Future decline in water usage violates both conditions of the known and measureable  
21 principle. Declining water usage is speculative in that it has not occurred and it  
22 certainly cannot be measured on a current basis.

23 A similar argument can be made against Mr. Watkins’ hypothetical factor of a  
24 union payroll increase. Such an increase may be contemplated, but the future

1 number of employees and the future wage levels contained in the labor agreement  
2 cannot be quantified. I have been involved in a past rate case where a utility was  
3 allowed to include a budgeted union wage increase in its cost of service only to find  
4 out that the union negotiations collapsed, or other events occurred, and the wage  
5 increase was not granted. The known and measureable principle should have  
6 properly prevented inclusion of the wage increase in the cost of service. Under  
7 MAWC's proposed future test year, however, the wage increase would be recognized  
8 in rates and the utility would recognize a profit windfall when the increase did not  
9 come to fruition or affected a smaller number of employees than expected, to the  
10 detriment of ratepayers.

11 **Q DOES MR. WATKINS PROVIDE ANY OTHER ARGUMENTS REGARDING THE**  
12 **"KNOWN AND MEASUREABLE" STANDARD?**

13 A Yes. Mr. Watkins also argues that the level of expenses and investment will be  
14 known and measureable when the future test year rates are effective in this case.  
15 Again, this misses the point. Events must be known and measureable when they are  
16 being audited by the regulator and not at some time in the future when those events  
17 can only be estimated presently.

18 **Q DID MR. WATKINS ADDRESS THE FACT THAT A FUTURE TEST YEAR ALSO**  
19 **REQUIRES THE REJECTION OF THE "USED AND USEFUL" STANDARD?**

20 A No. In my direct testimony, I pointed out that the use of a future test year would also  
21 require the Commission to reject the "used and useful" standard. It is well established  
22 that utility rates should only provide for a return on investment for assets that are  
23 "used and useful." It should not include phantom plant, to be installed at some point

1 in the future, that is not providing service to customers. In Mr. Watkins' rebuttal  
2 testimony, he argues that investment placed in service during the future test year  
3 period will be "used and useful" during that period of time. MAWC cannot argue that  
4 a future test year in any way complies with the "used and useful" principle for setting  
5 current rates.

6 **Q IN HIS REBUTTAL TESTIMONY ON PAGE 8, MR. WATKINS SUGGEST THAT**  
7 **THERE WILL BE \$72,974,395 OF PLANT INVESTMENT THAT HE ESTIMATES**  
8 **WILL BE IN SERVICE PRIOR TO THE EFFECTIVE DATE OF NEW RATES BUT**  
9 **WON'T BE INCLUDED IN THE STAFF'S REVENUE REQUIREMENT. PLEASE**  
10 **RESPOND.**

11 **A** Mr. Watkins' statement, although it may be factually correct, is inflated and decidedly  
12 one-sided. While focusing on plant investment, Mr. Watkins noticeably fails to  
13 mention that the plant in service balance from the time of the true-up in this case will  
14 decrease significantly from the increased depreciation expense realized from  
15 January 1, 2021 until the operation of law date of this case. In its updated revenue  
16 requirement calculation, the Staff calculated an annualized level of depreciation of  
17 approximately \$55 million. This level of depreciation would offset the plant  
18 investment listed by Mr. Watkins. Noticeably, in an effort to sell his proposed future  
19 test year proposal, however, Mr. Watkins fails to recognize this offsetting factor. In  
20 addition, Mr. Watkins fails to recognize that the Infrastructure System Replacement  
21 Surcharge ("ISRS") will still be in effect and would allow MAWC to defer and adjust  
22 rates for all qualified ISRS investment placed into service at some future point in time.  
23 Therefore, a significant portion of the increased plant investment that Mr. Watkins  
24 references would be rapidly reflected in the ISRS and does not require a future test

1 year for rate recognition. Both of these conditions would lower the claimed  
2 unrecovered investment Mr. Watkins lists above. Mr. Watkins' discussion is  
3 misleading and overstates the impact for new investment during the time when the  
4 rate case is being processed.

5 **Q MR. WATKINS CLAIMS THAT IT IS UNFOUNDED THAT AN INCENTIVE EXISTS**  
6 **FOR A UTILITY TO INFLATE COSTS WHEN PROPOSING A FUTURE TEST**  
7 **YEAR. PLEASE RESPOND.**

8 A In my direct testimony, I listed MAWC's Operation and Maintenance ("O&M")  
9 expenses for the years 2010-2019. In those years, the O&M expenses increased on  
10 average by less than 0.4% annually. However, for purposes of its future test year,  
11 MAWC inexplicably proposed \$137.8 million in O&M expenses plus \$3.3 million if  
12 tank painting costs remain as an expense (total of \$141.1 million). The \$141.1 million  
13 represents a 14% increase (\$17.3 million) in O&M expenses over the 2019 level.  
14 Those totals simply do not make sense unless some costs have been unjustifiably  
15 inflated or some factor was ignored in the forecast of expenses. Clearly, given the  
16 recent history of O&M expenses, the use of a historic test year provides MAWC the  
17 incentive to minimize costs. Further, as reflected in its O&M projections, that  
18 incentive is minimized if MAWC is authorized to use a future test year.



1 Q IN HIS TESTIMONY, MR. WATKINS TRIES TO JUSTIFY THE USE OF A FUTURE  
2 TEST YEAR THROUGH REFERENCE TO WHAT HE REFERS TO AS  
3 “CALIBRATION POINTS.” HIS CALIBRATION POINTS COINCIDE WITH THE  
4 UPDATE PERIOD AND TRUE-UP PERIOD IN THIS RATE CASE. PLEASE  
5 COMMENT.

6 A I am assuming that Mr. Watkins is referring to the financial results from the update  
7 period (June 30, 2020) and the true-up period (December 31, 2020). If that is the  
8 case, then the audit work to accomplish these calibration points (i.e., compare the  
9 audited level for each expense item to MAWC’s projections) would require a greater  
10 workload on the Staff who ultimately has responsibility for the entire case review. It  
11 could also necessitate an extension of time to process the case due to the greater  
12 workload responsibilities. Indeed, in an NRRI white paper discussing the limitations  
13 of the future test approach, NRRI specifically concluded that a future test year made  
14 rate cases more time intensive.

15 “Utilities have a distinct “resource” advantage over other parties that  
16 they can better exploit under an FTY rate filing. Given the limited time  
17 for rate cases and the complexity of evaluating forecasts, parties may  
18 have insufficient time to thoroughly assess a utility’s forecasts.”

19 Q DO YOU HAVE ANY OTHER COMMENTS ON THE USE OF A FUTURE TEST  
20 YEAR?

21 A Yes. Currently the true-up period of a rate case (for this case, December 31, 2020) is  
22 approximately five months from the operation of law date when rates go into effect  
23 (for this case, May 2021). Therefore, regulatory lag is only about five months.  
24 Absent the true-up period, however, rates would be set entirely based upon the  
25 updated historic test year period (June 30, 2020). Thus, the use of a true-up period  
26 significantly reduces the regulatory lag of the utility from 11 months to five months.

1           Adopting a future test year would project the financial picture of the utility by  
2           an average of 11 months beyond the true-up period and six months beyond the date  
3           that rates go into effect. However, those updated figures would all be projections and  
4           would lose the certainty resulting from the use of the “known and measureable”  
5           standard. The use of historic test years and true-up periods have worked well for all  
6           parties involved in rate cases for many years based on actual audited results.  
7           Missouri boasts of financially healthy public utilities despite the consistent use of  
8           historic test years. The move to a future test year with all estimated values to reduce  
9           regulatory lag is outweighed by the certainty of having known and measureable  
10          results. The Commission should reject the future test year proposed by MAWC.

11    **IV. Tank Painting Expenses**

12    **Q     HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF MAWC AND THE**  
13    **STAFF AS IT RELATES TO TANK PAINTING EXPENSES?**

14    A     Yes. I have reviewed the testimony of MAWC witnesses Brian W. LaGrand and  
15    Jeffrey T. Kaiser and Staff witness Angela Niemeier as it relates to the tank painting  
16    issue.

17    **Q     IN STAFF WITNESS NIEMEIER’S REBUTTAL TESTIMONY, SHE PROVIDES AN**  
18    **UPDATED ANALYSIS OF TANK PAINTING EXPENSES. DID YOU REVIEW THE**  
19    **WORKPAPERS ASSOCIATED WITH TANK PAINTING EXPENSES?**

20    A     Yes. In her rebuttal testimony, Ms. Niemeier describes the difficulty she had with  
21    obtaining accurate information about tank painting expenses by year. It is apparent  
22    from the review of her workpapers that the information provided to me by MAWC and  
23    used to support the level of tank painting expenses recommended in my direct

1 testimony was very unreliable. Table 2 shows the annual tank painting expenses the  
2 Staff has compiled for 2015-2020.

<u>Year</u>	<u>Amount</u>
2015	\$1,213,954
2016	\$ 684,011
2017	\$1,243,536
2018	\$1,841,772
2019	\$2,151,825
2020	\$1,186,064

3 Most of these annual figures are drastically different than the values I listed in  
4 my direct testimony. As Table 2 shows, tank painting expenses have varied from  
5 year to year with low and high totals in 2016 and 2019. In my direct testimony, I  
6 proposed that rates reflect the test year level of tank painting expense. Due to the  
7 large fluctuations in expense, reflected in Table 2, a multi-year average is justified.  
8 Based on these figures, I support a five-year average of tank painting expenses  
9 ended 2019 of \$1,427,020. I would also support the updating of this five-year  
10 average through the true-up period (2016-2020) to the extent that no unusual  
11 circumstances occurred.

12 **Q IN HIS REBUTTAL TESTIMONY, MAWC WITNESS LAGRAND DISCUSSES AN**  
13 **ERROR IN MY PROPOSED ADJUSTMENT TO THE REVENUE REQUIREMENT**  
14 **AS A RESULT OF MY ADJUSTMENT TO TANK PAINTING EXPENSES. PLEASE**  
15 **COMMENT.**

16 **A** Mr. LaGrand rightfully points out that I overstated the value of my adjustment by  
17 erroneously including the test year level of tank painting expenses in my adjustment.

1 I did not recognize that MAWC had removed the level of test year tank painting  
2 expenses from the cost of service due to its position to capitalize all tank painting  
3 expenses moving forward. Therefore, the proposed adjustment in my direct  
4 testimony was overstated.

5 **Q WHAT IS YOUR PROPOSED ADJUSTMENT GIVEN THESE CLARIFICATIONS OF**  
6 **ANNUAL TANK PAINTING EXPENSES?**

7 A Given my now proposed five-year average of tank painting expenses, my adjustment  
8 would be to include tank painting maintenance expenses of \$1,427,020. Further, as  
9 mentioned previously, I would propose to update this five-year average during the  
10 true-up audit.

11 **Q PLEASE DESCRIBE THE ISSUE REGARDING THE CAPITALIZATION OF TANK**  
12 **PAINTING COSTS.**

13 A In general, expenses are included in cost of service. Therefore, if handled correctly in  
14 the ratemaking formula, expenses are recovered dollar for dollar. For every dollar  
15 incurred, the utility will recover a dollar of expense. Historically, tank painting  
16 maintenance expenses are handled in this manner for ratemaking purposes. In its  
17 direct testimony, however, MAWC asks that tank painting expenses be capitalized. In  
18 this way, MAWC asks that the expense be included in rate base. This would allow  
19 MAWC to not only recover the amortization, but also to earn a return on these tank  
20 painting maintenance costs. In other words, MAWC is attempting to change tank  
21 painting expense into tank painting investment so that they can earn a profit on these  
22 dollars.

1 Q IN HIS REBUTTAL TESTIMONY, MAWC WITNESS KAISER CONTINUES TO  
2 SUPPORT THE CAPITALIZATION OF TANK PAINTING MAINTENANCE  
3 EXPENSES. DO YOU AGREE?

4 A No. I believe the repainting of water tanks should continue to be normalized as a  
5 maintenance expense in the ratemaking process. Mr. Kaiser argues that repainting  
6 the tank will extend the life of the water tank. Thus, he postulates that it is an  
7 investment and should be included in rate base. Contrary to Mr. Kaiser's assertion,  
8 the repainting of the tank preserves the life of the water tank. Therefore, it is more  
9 akin to maintenance expense and should be treated as an expense. When MAWC  
10 places a water tank in service, I would contend that it does not predict a life of less  
11 than 50 years because of an assumption that the water tank will not be properly  
12 maintained. Instead, I contend that MAWC plans on the water tank lasting over 100  
13 years because it recognizes that it will repaint that tank at different periods of time to  
14 maintain its original life estimate. It is only when a utility does not maintain the water  
15 tanks (i.e., not repaint them) that the water tanks fail.

16 Q WHAT IS THE EFFECT OF CAPITALIZING TANK PAINTING EXPENSES?

17 A The main difference is that MAWC will be allowed to earn a profit on tank painting  
18 expenses. By capitalizing these projects, MAWC will increase rate base, thereby  
19 increasing the profits that MAWC earns for its shareholders. By capitalizing tank  
20 painting expenses, MAWC will record those activities to a rate base account and earn  
21 the full rate of return on those costs. In addition, MAWC will continue to recover an  
22 annual amount of expense for tank painting activities, but will also earn profits on top  
23 of the recovery of the tank painting expenses. Allowing MAWC to earn profits (rate of  
24 return on tank painting activities) on routine maintenance projects would be bad

1 regulatory policy. I propose that tank painting expenses continue to be normalized for  
2 this rate case and a level of \$1,427,020 be included in cost of service.

### 3 **V. Revenues**

4 **Q HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF MAWC AND THE**  
5 **STAFF WITNESSES AS IT RELATES TO ANNUALIZED REVENUES?**

6 A Yes I have reviewed the rebuttal testimonies of MAWC witnesses LaGrand and  
7 Gregory P. Roach and the rebuttal testimonies of Staff witnesses Jarrod J. Robertson  
8 and Ashley Sarver. I have also reviewed OPC witness Lena Mantle's testimony. The  
9 MIEC and OPC have proposed the same methodology for annualizing revenues, so I  
10 will not address Ms. Mantle's rebuttal testimony.

11 **Q IN HIS REBUTTAL TESTIMONY, MR. LAGRAND TAKES ISSUE WITH YOUR**  
12 **CLAIM THAT INCREASED REVENUES WOULD DECREASE THE REVENUE**  
13 **REQUIREMENT. PLEASE COMMENT.**

14 A Technically, Mr. LaGrand is correct. The revenue requirement is established without  
15 consideration of the level of revenues. Revenues come into play after the revenue  
16 requirement is quantified in order to determine the necessary level of rate increase.  
17 Therefore, I misspoke when describing the effect of increased annualized revenues.  
18 However, the additional revenue required is often referred to as the "revenue  
19 requirement". I agree with Mr. LaGrand that the term revenue requirement must be  
20 used with precision. In the future, I will simply refer to "additional required revenues"  
21 or "rate increase." On this issue, the level of proposed revenue supported by the  
22 MIEC in its revenue normalization would lower the rate increase required from MAWC  
23 customers in this rate case to reach its revenue requirement.

1 **Q PLEASE EXPLAIN THE ISSUE REGARDING THE CUSTOMER ANNUALIZATION**  
2 **PORTION OF THE REVENUE CALCULATION.**

3 A In general, revenues are calculated by determining the average use per customer for  
4 each class and multiplying by the number of customers (meters) going forward. The  
5 issue at hand concerns how to count the number of customers (meters): at the end of  
6 the update period (as I propose) or an average across a period of time (as MAWC  
7 proposes). The implication arises because, if the customer count at the end of the  
8 period is used, then the annualized level of revenues will be higher and the rate  
9 increase will appropriately be lower. On the other hand, if an average level of  
10 customers is used, as proposed by MAWC, then annualized revenues will be lower  
11 and the rate increase will be inflated.

12 **Q IN HIS REBUTTAL TESTIMONY, MR. LAGRAND ARGUES THAT THE USE OF**  
13 **END OF PERIOD METERS IS INAPPROPRIATE AS THOSE TOTALS ARE**  
14 **GREATER THAN THE AVERAGE METERS FOR THAT YEAR. DO YOU AGREE?**

15 A Yes and no. Depending on the customer class, the use of the average customer  
16 meters during the year may be appropriate. For other classes, however, I believe that  
17 year-end customer meters should be used for annualizing revenues. For example,  
18 the Residential customer class has consistently grown over the years. I have  
19 prepared two tables that compare the December level of customers to the average  
20 level for customers for both the current year and next year.

**TABLE 3**

**Comparison of Residential Customer Levels**

<u>Year</u>	<u>St. Louis District December 31 Customers</u>	<u>Average Level of Customers</u>
2015	313,926	313,659
2016	314,851	314,488
2017	315,979	315,439
2018	316,732	316,453
2019	317,037	316,866
2020	318,153	317,683
2021-Projected		318,556

**TABLE 4**

**Comparison of Residential Customer Levels**

<u>Year</u>	<u>Other Water District December 31 Customers</u>	<u>Average Level of Customers</u>
2015	110,263	110,073
2016	111,350	111,016
2017	112,490	112,285
2018	114,050	113,472
2019	114,487	114,574
2020	115,605	115,390
2021-Projected		116,162

1    **Q    PLEASE COMMENT ON THE TABLES.**

2    A    As can be seen from the two tables, the average level of customers per year is  
3    always less than the customer level at December 31. This is simply due to the fact  
4    that the residential customer class is continuously growing throughout the year.  
5    MAWC fails to recognize the level of customers on December 31 compared to the  
6    average level of customers in the following year. In this case, the average level of  
7    customers is always more than the level on December 31 of the previous year. This  
8    means that customer growth for the next year will exceed the level at December 31 of



1 the current year. Therefore, the correct way to capture the customer growth is to use  
2 the December 31 level of customers in the true-up period (December 31, 2020) to  
3 annualize revenues for the Residential class. My analysis is based on customer  
4 levels, even though customer meters were used to annualize revenues. I believe the  
5 same result will occur if dealing with meters.

6 **Q DO ALL CUSTOMER CLASSES SHOW THE SAME CUSTOMER RELATIONSHIP**  
7 **AS YOU JUST DESCRIBED?**

8 A The Commercial Class for the Other (non-St. Louis County) Water District has the  
9 same customer level characteristics of consistent increase over time. Therefore,  
10 using the customer level at the end of the period is appropriate. However, the  
11 Commercial and Industrial Classes for St. Louis County and the Industrial Class for  
12 the Other Water District do not show consistent growth, and thus would require a  
13 different methodology for annualizing revenues. For the Commercial and Industrial  
14 class, customer counts fluctuate from year to year. Therefore, much like my  
15 recommendation for tank painting expense normalization, this fluctuating number  
16 should be averaged.

1 Q TURNING YOUR ATTENTION TO MR. ROACH'S REBUTTAL TESTIMONY. MR.  
2 ROACH (PAGES 4-5) CRITICIZES THE MIEC AND OPC ON THE BASIS THATTHE  
3 THREE-YEAR (2017-2019) AVERAGE WEIGHS TOO HEAVILY ON  
4 PRECIPITATION (RAINFALL), COOLING DEGREE DAYS ("CDD") AND  
5 TEMPERATURES OVER 90 DEGREES COMPARED TO HIS 10-YEAR PERIOD  
6 (2010-2019). PLEASE COMMENT.

7 A In his rebuttal testimony on page 5, Mr. Roach has prepared a table showing the  
8 differences between these three factors on a 10-year and three-year basis. I will not  
9 discuss CDD, as my totals in the three-year average are within one CDD of the total  
10 presented by Mr. Roach using a 10-year average.

11 Precipitation: I have researched the area of precipitation. Mr. Roach  
12 measured the rainfall that occurred for the months June - September for the last ten  
13 years. During the 10-year period Mr. Roach used to measure precipitation, I found  
14 that in June 2015, the rainfall during that month (13.14 inches) was the greatest  
15 amount of rainfall for the month of June for the past 150 years<sup>1</sup>. Furthermore, the  
16 amount of rainfall recorded for the months June - September 2015 (27.05 inches)  
17 was the second most rainfall recorded during that time span dating back to 1870. I  
18 would argue that the rainfall disparity Mr. Roach claims exists between the two  
19 periods is heavily influenced by his inclusion of 2015 rainfall in his 10-year average.

20 Temperature: I have also researched the temperature data Mr. Roach  
21 presented. I have included Table 5 that shows the number of days when the  
22 maximum temperature exceeded 90 degrees.

---

<sup>1</sup>Source: [https://www.weather.gov/media/lx/climate/stl/precip/precip\\_stl\\_monthly\\_seasonal.pdf](https://www.weather.gov/media/lx/climate/stl/precip/precip_stl_monthly_seasonal.pdf)

<b><u>Year</u></b>	<b><u>Number of Days</u></b>
2010	66
2011	68
2012	73
2013	46
2014	36
2015	49
2016	59
2017	59
2018	72
2019	50
10-Year Average	57.8
Three-Year Average	60.3

Source: <https://www.weather.gov/lsx/month>Tab

1           As can be seen from the above table, in 2014 the number of observations of  
2           days over 90 degrees is much lower than in other years. By simply removing that  
3           year, the nine-year average would be 60.2 days, or almost equal to the three-year  
4           period. Mr. Roach’s arguments with precipitation and temperature days should be  
5           given little weight, considering the unusual events that are included in the 10-year  
6           period that was studied. After adjusting for the abnormal weather which occurred in  
7           2014 and 2015, one can see that the results do not vary nearly as much as Mr.  
8           Roach would have the Commission believe.

9   **Q   DO YOU HAVE ANYTHING FURTHER TO DISCUSS ABOUT THE THREE-YEAR**  
10 **AVERAGE METHODOLOGY?**

11 **A   Yes. In his direct testimony on page 20, MAWC witness LaGrand stated the**  
12 **following:**

1                   “The usage levels for Commercial customers outside of St. Louis  
2                   County, Industrial, Other Public Authority and Sale For Resale  
3                   customers are based on a three-year average.”  
4

5                   It is interesting that, while Mr. LaGrand insists that usage levels based upon a  
6                   three-year average is appropriate for certain revenue purposes, Mr. Roach  
7                   simultaneously claims that an extended period is necessary for certain rate classes. I  
8                   believe a three-year average should be used to annualize revenues for all MAWC  
9                   customer classes. I have demonstrated that Mr. Roach’s claims are questionable  
10                  given his use of certain metrics. If a three-year average is permissible for most  
11                  customer classes, MAWC has failed to establish that a three-year average should not  
12                  be used system-wide.

13   **Q       DO YOU HAVE ANY CONCERNS ABOUT THE METHODOLOGY EMPLOYED BY**  
14   **THE STAFF TO ANNUALIZE REVENUES FOR PURPOSES OF ITS UPDATE**  
15   **CALCULATION AT JUNE 30, 2020?**

16   **A**Yes. In its updated test year, the Staff used average usage for the six months ended  
17                  June 30, 2020 to annualize revenues. My main concern with that methodology is that  
18                  the time period selected by the Staff has some months (March - June) includes  
19                  unprecedented swings due to the effects of the pandemic. I do not believe the  
20                  annualization of revenues should include any impacts from the pandemic.

21   **Q       WHAT IMPACTS DO YOU BELIEVE THE PANDEMIC HAS HAD ON THE**  
22   **REVENUES OF MAWC?**

23   **A**I believe residential revenues are artificially inflated due to more work-at-home  
24                  requirements. I also believe commercial and industrial usage is depressed, due to  
25                  health department guidelines, production cuts, and businesses that are curtailed or

1 temporarily out of business. I do not believe these conditions should be included in  
2 the annualized revenue calculation.

3 **Q DO YOU HAVE ANY CONCERNS WITH THE STAFF'S TRUE-UP**  
4 **CALCULATIONS?**

5 A Yes. As indicated, Staff normalized revenues based upon customer usage for the six  
6 months ended June 30, 2020. The true-up period, however, is six months later (the  
7 12 months ended December 31, 2020). Therefore, if the Staff continues its  
8 methodology for the true-up period, then it will have reflected almost ten months of  
9 the pandemic in its annualized revenue calculation (March - December 2020). I do  
10 not believe these levels of revenues would be the proper way to annualize revenues  
11 and set rates going forward. The Commission has already determined that the  
12 pandemic is an extraordinary event in its orders approving AAOs for MAWC, Spire  
13 and Evergy. Noticeably, Staff has agreed with this finding in those AAO dockets. It is  
14 incorrect to annualize revenues based on results from an extraordinary event.

15 **Q DOES MAWC AGREE WITH YOUR CONCLUSIONS?**

16 A Yes. In his rebuttal testimony on page 8, Mr. Roach states the following:

17 "Figure GPR-1R clearly illustrates that by incorporating what is likely to  
18 be a one-time usage impact from COVID-19 into its forecasted usage,  
19 Staff is recommending that consumer rates be set at levels influenced  
20 by a unique one-time event due to the COVID-19 pandemic, which has  
21 a limited probability of occurring or continuing to occur once new rates  
22 set in this case become effective. As a result of using such COVID-19  
23 influenced billing determinants to set rates, MAWC would be in a  
24 position of chronic under recovery of its authorized revenue  
25 requirement."

1 Q WHAT IS YOUR PROPOSAL TO ADDRESS THIS ISSUE?

2 A I propose that the usage analyses for annualizing revenues of all classes of  
3 customers should exclude the effects of the pandemic.

4 Q IN YOUR DIRECT TESTIMONY, YOU SAID THAT BILLING DETERMINANTS  
5 SHOULD BE UPDATED TO REFLECT CONDITIONS THROUGH THE TRUE-UP  
6 PERIOD. DO YOU STILL SUPPORT THAT POSITION?

7 A I support including customer numbers through the true-up period for those customer  
8 classes that continue to show continuous growth. However, I cannot support  
9 reflecting changes in usage patterns for those months affected by the pandemic.  
10 Thus, I must revise my testimony in that regard.

11 **VI. Excess Accumulated Deferred Income Taxes (“EADIT”)**

12 Q DID MAWC FILE REBUTTAL TESTIMONY ADDRESSING THE FLOW BACK OF  
13 EADIT?

14 A Yes. MAWC witness John Wilde filed rebuttal testimony on the flow back of EADIT.

15 Q DID MR. WILDE UPDATE HIS EADIT AMOUNTS?

16 A Yes. Mr. Wilde broke out the Net Operating Loss EADIT balance at January 1, 2018  
17 between protected and unprotected. This clarification will affect the level of  
18 unprotected EADIT to flow back to ratepayers proposed by the MIEC.

1 **Q DO YOU NEED TO WITHDRAW ANY OF YOUR POSITIONS REGARDING THE**  
2 **FLOW BACK OF EADIT?**

3 A Yes. In my direct testimony, I proposed a three-year flow back of the protected  
4 EADIT balance that has accumulated from January 1, 2018 through this current rate  
5 case. This proposal was contrary to the Stipulation and Agreement reached with the  
6 Parties in MAWC's last rate case, Case No. WR-2017-0285. In that Stipulation, a  
7 tracker was established that would track the normalization of EADIT taxes to be  
8 amortized back to customers over five years. My direct testimony position would be  
9 in conflict with that Stipulation and Agreement. In order for my testimony to be  
10 consistent with the Stipulation and Agreement, I withdraw that position and accept  
11 that the protected EADIT balance tracked from January 1, 2028 be amortized over  
12 five years consistent with the Stipulation terms.

13 **Q IS IT FAIR TO SAY THAT THE REMAINING ISSUE WITH MAWC AND THE MIEC**  
14 **IS THE AMORTIZATION PERIOD FOR THE UNPROTECTED EADIT BALANCE**  
15 **THAT EXISTED ON JANUARY 1, 2018?**

16 A Yes, I believe that is the remaining issue.

17 **Q WHAT PERIOD OF TIME DOES MR. WILDE WANT TO RETURN THE**  
18 **UNPROTECTED EADIT BALANCE BACK TO RATEPAYERS?**

19 A Mr. Wilde proposes to return the unprotected EADIT balance using the average rate  
20 assumption method ("ARAM"). The use of ARAM would mean that ratepayers will  
21 receive the tax benefits over a 40+ year time period.

1 **Q WHAT RATIONALE DOES MR. WILDE PROVIDE FOR THE USE OF ARAM TO**  
2 **RETURN UNPROTECTED EADIT BALANCE TO RATEPAYERS?**

3 A Mr. Wilde claims that flowing the unprotected EADIT back to ratepayers faster than  
4 ARAM will create inter-generational inequity. Mr. Wilde argues that the benefits from  
5 the unprotected EADIT should flow back to ratepayers consistent with the plant  
6 investment that created the EADIT balances.

7 **Q DO YOU AGREE WITH MR. WILDE'S ARGUMENTS?**

8 A Absolutely not. The EADIT balance represents ratepayer-supplied funds that are due  
9 back to ratepayers. These funds have no relationship to the investments that created  
10 the tax timing difference. Rather, these are simply funds overpaid by past ratepayers  
11 that need to be returned in an expedited manner to those ratepayers. The  
12 intergenerational argument should be refocused on the ratepayers and not on  
13 investments.

14 For example, my mother has lived in the same house in the St. Louis County  
15 Water district for over 50 years. She has consistently paid her MAWC water bill since  
16 the system was acquired by MAWC. She has therefore paid rates that included  
17 deferred tax payments that, because of the TCJA, are now deemed excessive. I find  
18 it incredible that the message to this 96 year old ratepayer is that she is better off  
19 waiting to receive her full refund until 40+ years in the future. I doubt that she would  
20 be impressed with Mr. Wilde's argument. I would share my mother's concerns, as I  
21 have been in my house for over thirty years and do not believe I will receive all of the  
22 benefits of my tax overpayments if I must wait for 40+ years as proposed by Mr.  
23 Wilde's. These are ratepayer funds that should be returned to them in an expedited  
24 manner. In this case and many others throughout the MAWC service territory,

**Greg R. Meyer**  
**Page 29**



1 intergenerational inequity will be imposed if those customers who contributed the  
2 excess tax monies are no longer around to receive the payments back from their  
3 previous water bills.

4 MAWC claims to want to help customers in any way possible, especially in the  
5 midst of hard times due to the pandemic, yet digs in its heels on returning tax cut  
6 monies to its customers. The pandemic has been extremely hard on everyone in  
7 dealing with everyday life. Many people have lost their jobs, been furloughed or had  
8 their wages cut. Now is the time for MAWC to step forward and refund these tax  
9 monies back to ratepayers.

10 **Q MR. WILDE CLAIMS YOU PROPOSED THAT AN ACCOUNTING MECHANISM BE**  
11 **IMPLEMENTED TO TRUE-UP THE IMPACT ON RATE BASE RELATED TO THE**  
12 **AMORTIZATION OF EADIT IN PERIODS SUBSEQUENT TO THE HISTORIC TEST**  
13 **YEAR. WAS THAT YOUR PROPOSAL?**

14 **A** No. I was merely discussing the impact on rate base from my proposed adjustment  
15 to amortize the stub period protected EADIT over five years, instead of the three  
16 years proposed by MAWC. Earlier in my testimony I recognized that my amortization  
17 period was in conflict with a prior Stipulation and Agreement and dropped my  
18 adjustment. Therefore, that part of my direct testimony is no longer applicable.

19 **Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

20 **A** Yes, it does.

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