

Exhibit No.:
Issue(s): *Feasibility Study*
Cost Estimates
Witness: *Matthew R. Young*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
Case No.: *SA-2021-0017*
Date Testimony Prepared: *March 16, 2021*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL & BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY

OF

MATTHEW R. YOUNG

MISSOURI-AMERICAN WATER COMPANY

CASE NO. SA-2021-0017

Jefferson City, Missouri
March 2021

1 the feasibility study submitted by Missouri American Water Company (“MAWC”) and the
2 District’s cost estimates related to the sewer system in the city of Hallsville.

3 Q. What concerns did Mr. Connelly have with the feasibility study submitted
4 by MAWC?

5 A. Mr. Connelly was concerned that MAWC’s feasibility study appears to be a
6 generic worksheet not specific to Hallsville, does not reach any conclusions, does not narrate
7 parameters, scenarios, or assumptions, and does not incorporate an analysis of
8 qualitative factors.¹

9 Q. How does Mr. Connelly define a feasibility study and the role of
10 qualitative analyses?

11 A. Mr. Connelly defines a feasibility study as an analysis that supports a proposed
12 business plan. While providing its definition of a feasibility study, the District listed economic,
13 legal, market, or technical factors as qualitative items that should be included in a
14 feasibility study.²

15 Q. Does the Missouri Public Service Commission (“Commission”) require MAWC
16 to submit a feasibility study that conforms with the purpose and detail described by the District?

17 A. No. Commission Rule 20 CSR 4240-3.305 (Filing Requirements for Sewer
18 Utility Applications for Certificates of Convenience and Necessity) describes the
19 Commission’s requirements. Paragraph 1(A)5 of this rule requires:

20 A feasibility study containing plans and specifications for the
21 utility system and estimated cost of the construction of the
22 utility system during the first three (3) years of construction;
23 plans for financing; proposed rates and charges and an

¹ Connelly rebuttal page 7, lines 12 - 21.

² Connelly rebuttal page 5, lines 14 - 20.

1 estimate of the number of customers, revenues and expenses
2 during the first three (3) years of operations;

3 Q. In the context of a CCN case, what is the purpose of a feasibility study?

4 A. Generally, the feasibility study submitted in a CCN application provides insight
5 on the financial ramifications of the application, and the effect the application may have on
6 ratepayers of the new system and the general body of ratepayers. While evaluating the
7 feasibility study provided by the applicant, Staff understands that the projections included in
8 the feasibility study are estimates and not actual costs. In essence, the feasibility study is but
9 one factor Staff considers in its recommendation to approve or deny an application for a CCN.

10 Q. Do the estimates and assumptions in MAWC's feasibility study lead to an
11 accurate calculation of how the application will affect rates?

12 A. No, and such a study is impossible. If MAWC acquires the Hallsville system,
13 any associated costs and revenues will not impact MAWC's rates until MAWC files its next
14 general rate case, and new rates are set by the Commission. It is likely that MAWC's next rate
15 case won't be effective for several years, making the actual rate impact associated with the
16 current CCN unknown, making estimations a necessity. Instead, MAWC's feasibility study
17 uses estimates to calculate an approximate cost of service for Hallsville if the system were to
18 be considered on an "as-is" and stand-alone basis. Staff considers the results of the feasibility
19 study as part of its evaluation of the purchase price but understands that Hallsville's cost of
20 service will most likely be aggregated with other sewer systems under its tariffed sewer rate for
21 all Missouri customers (outside of the city of Arnold) in MAWC's next general rate case.

22 Q. Does the feasibility study provided by MAWC establish a rate base value for the
23 Hallsville system for consideration in MAWC's next rate case?

1 A. No. The values for plant and reserve in MAWC's feasibility study are not an
2 agreed-upon rate base. Staff has reviewed MAWC's calculations but considers the amounts
3 informational only at this time.

4 Q. Is a rate base value generally established in CCN cases?

5 A. Not always. Rate base valuation may not be necessary depending on several
6 factors. In some instances, the book value of the plant in service prior to an acquisition may be
7 more or less irrelevant depending on how much of the system will be retired and replaced under
8 new ownership. On the other hand, assigning a value to rate base may be desirable because of
9 possible language in the purchase agreement between the buyer and the seller tying the purchase
10 price to an estimate of net original cost of the assets, or because the buyer has requested an
11 acquisition adjustment to be reflected in future rates. These are two scenarios of when Staff
12 would conduct a rate base analysis in its evaluation of the purchase price. However, the
13 purchase price in the current transaction is not related to the book value of the assets and
14 MAWC has not requested an acquisition adjustment, so it is Staff's position that a rate base
15 valuation is not necessary at this time.

16 Q. Does that mean that Staff doesn't examine the rate base of the system being
17 acquired in CCNs?

18 A. No. In CCN cases, Staff will gather as much rate base data as possible. One of
19 Staff's concerns in a CCN case is that after an acquisition is closed, the seller loses nearly all
20 incentive to produce documentation of the costs, design, or other traits of the system being
21 acquired. In the current case, MAWC stated that besides some construction records from 2013,

1 the city of Hallsville did not maintain property records to record original cost, accumulated
2 depreciation, additions, or retirements of its plant in service.³

3 Q. Is it common for unregulated utilities to not maintain reliable property records?

4 A. Yes. Generally speaking, the smaller an unregulated utility is the less likely it
5 will be to have reliable property records.

6 Q. When will Staff recommend a value for the rate base of the Hallsville system?

7 A. If the Hallsville system is purchased by MAWC, Staff will audit and recommend
8 a position on MAWC's Hallsville-related rate base along with all other plant and reserve in
9 MAWC's next general rate proceeding. Until that time, capital improvements made to the
10 Hallsville system will not be reflected in the rates charged by MAWC.

11 Q. How are capital costs recovered through rates?

12 A. Capital costs are typically recovered through rates over a period of time.
13 A regulated utility recovers the cost of the capital expenditure over the life of the asset through
14 depreciation expense. In a municipal or non-profit situation, large capital costs are often funded
15 through debt and the general body of ratepayers are charged an amount sufficient to accumulate
16 the principal and interest necessary to repay the debt over the life of the note.

17 Q. At a high level, how would this process impact the affordability of sewer service
18 under the possible ownerships?

19 A. The impact of capital recovery would depend upon the number of customers and
20 the length of recovery. For instance, if the city of Hallsville were to retain ownership and make
21 capital improvements, it would be necessary to spread the costs among its 600 – 700 customers

³ Staff Data Request No. 0023.

1 during the time the debt is outstanding. Because the customer count under Hallsville's
2 ownership is relatively low, the burden placed on each ratepayer would likely be relatively high.

3 On the other hand, the District has roughly the same sewer customer count as MAWC,
4 so the impact on rates is mostly dependent on the time required for the recovery of capital costs.
5 Ideally, MAWC would recover its capital expenditures through regulatory depreciation and the
6 District would spread its recovery based on the expiration period of any related debt.

7 Q. Under what scenario would rates be lowest?

8 A. There is not a straight-forward answer to that question. At this point, the
9 costs and assumptions identified by the parties are based on many variables that may be
10 higher or lower than expected. The unknown cost of construction coupled with the different
11 cost recovery methods employed by various ownerships means the actual cost to ratepayers
12 will not be known until the ownership issues are resolved and the necessary capital projects
13 are complete.

14 Q. Mr. Connelly argues that MAWC's feasibility study indicates a significant
15 financial loss for MAWC. Furthermore, he argues that ongoing losses, along with required
16 capital expenditures, will result in unknown and significant rate increases.⁴ Should this
17 argument persuade the Commission?

18 A. No. All parties to this case agree that significant capital expenditures are needed
19 to address compliance and operational issues with the Hallsville system. Regardless of whether
20 the Commission approves MAWC's application to acquire the Hallsville system, capital
21 expenses will need to be made by the owners and rates will need to be adjusted to recover these
22 costs. Additionally, none of the parties to this case have been able to quantify with certainty

⁴ Connelly rebuttal page 9, lines 5 – 11.

1 how rates will be affected by the required capital costs. In summary, there is no reason to believe
2 that MAWC's ownership or rates will cause hardship more than the rates of any other entity.

3 Q. Has MAWC created an estimate of planned capital costs?

4 A. No. MAWC expects to add additional treatment but has not created a definitive
5 construction plan.⁵ Staff witness Daronn A. Williams addresses MAWC's plans for capital
6 improvements in his surrebuttal testimony in this case.

7 Q. Has the District presented estimates of future capital costs?

8 A. Yes. District witness Dennis E. Stith provided estimates for the cost of two
9 potential long-term solutions. His first estimate shows a cost of \$6.3 million to build a new
10 treatment system for the city of Hallsville, while his second estimate calculates approximately
11 \$5 million to transport the flow from Hallsville to an existing treatment facility owned by the
12 District. These estimates are attached to the District's rebuttal testimony as Schedules DES-6,
13 DES-7, and DES-8.

14 Q. Do the District's cost estimates of its proposed solutions have any relationship
15 with the effect of MAWC's application on the public interest?

16 A. No. MAWC's potential capital costs are the relevant issue before the
17 Commission in this particular CCN application. The amount of money the District might spend
18 on the Hallsville system does not have an effect on the amount of money MAWC will spend if
19 the CCN is approved.

20 Q. Does this conclude your surrebuttal testimony?

21 A. Yes it does.

⁵ Staff Data Request No. 0001.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water)
Company's Application for a Certificate of) Case No. SA-2021-0017
Convenience and Necessity Authorizing it)
to Install, Own, Acquire, Construct,)
Operate, Control, Manage and Maintain a)
Sewer System in and around the City of)
Hallsville, Missouri)

AFFIDAVIT OF MATTHEW R. YOUNG

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COME NOW MATTHEW R. YOUNG and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Surrebuttal Testimony of Matthew R. Young*; and that the same is true and correct according to his best knowledge and belief, under penalty of perjury.

Further the Affiants sayeth not.

/s/ Matthew R. Young
MATTHEW R. YOUNG

Matthew R. Young

Educational and Employment Background and Credentials

I am employed as a Senior Utility Regulatory Auditor for the Missouri Public Service Commission (“Commission”). I earned a Bachelor of Liberal Arts Degree from The University of Missouri – Kansas City in May 2009 and a Master of Science in Accounting, also from The University of Missouri – Kansas City, in December 2011. I have been employed by the Commission as a Regulatory Auditor since July 2013.

As a Utility Regulatory Auditor, I perform rate audits and prepare miscellaneous filings for consideration by the Commission. In addition, I review exhibits and testimony on assigned issues, develop accounting adjustments and issue positions which are supported by workpapers and written testimony. For cases that do not require prepared testimony, I prepare Staff Recommendation Memorandums.

Cases in which I have participated and the scope of my contributions are listed below:

Case/Tracking Number	Company Name	Scope of Issues	Testified at Hearing
GO-2021-0030 GO-2021-0031	Spire – East and Spire – West	ISRS Rate Base	
SA-2021-0017	Missouri American Water Company	Sale of Assets	
GA-2021-0010	Spire – West	Costs to Expand Distribution System	
WR-2020-0264	Raytown Water Company	Tank Painting and Tower Maintenance, Taxes, Leases, Capitalized Depreciation	
GO-2020-0229 GO-2020-0230	Spire – East and Spire – West	ISRS Rate Base	
GA-2020-0105	Spire – West	Costs to Expand Distribution System	
WA-2019-0366 SA-2019-0367	Missouri American Water Company	Sale of Assets, Rate Base	

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Case/Tracking Number	Company Name	Scope of Issues	Testified at Hearing
WA-2019-0364 SA-2019-0365	Missouri American Water Company	Sale of Assets, Rate Base	
GO-2019-0356 GO-2019-0357	Spire – East and Spire – West	Overhead Costs in Rate Base, Reconciliation	Yes
ER-2019-0335	Ameren Missouri	Incentive Compensation, Fuel Inventory	
WO-2019-0184	Missouri American Water Company	ISRS Rate Base	
SA-2019-0161	United Services Inc.	Application for Certificate, Rate Base	
ER-2018-0145 ER-2018-0146	Kansas City Power & Light & KCP&L Greater Missouri Operations	Fuel Prices & Inventories, Purchased Power Expense, Pensions, OPEBs, SERP, Outside Services	
WM-2018-0104	Missouri American Water Company	Rate Base	
WM-2018-0023	Liberty Utilities	Sale of Assets, Rate Base	
WR-2017-0343	Gascony Water Company	Rate Base	Yes
GR-2017-0215 GR-2017-0216	Laclede Gas Company & Missouri Gas Energy	Pensions, OPEBs, SERP, Incentive Compensation, Equity Compensation, Severance Costs	Yes
WR-2017-0139	Stockton Hills Water Company	Revenue, Expenses, Rate Base	

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Case/Tracking Number	Company Name	Scope of Issues	Testified at Hearing
ER-2016-0285	Kansas City Power & Light	Forfeited Discounts, Bad Debt Expense, Customer Growth, Cash Working Capital, Payroll and Payroll Related Costs, Incentive Compensation, Rate Case Expense, Renewable Energy Standards Cost Recovery, Property Taxes	Yes
SR-2016-0202	Raccoon Creek Utility Operating Company	Rate Base	
ER-2016-0156	KCP&L Greater Missouri Operations	Payroll, Payroll Benefits, Payroll Taxes, Incentive Compensation, Injuries and Damages, Insurance Expense, Property Tax Expense, Rate Case Expense	
SR-2016-0112	Cannon Home Association	Revenues and Expenses, Rate Base	
WR-2016-0109 SR-2016-0110	Roy-L Utilities	Revenues and Expenses, Rate Base	
WO-2016-0098	Missouri American Water Company	ISRS Revenues	
WR-2015-0246	Raytown Water Company	Revenues and Expenses, Rate Base	
SC-2015-0152	Central Rivers Wastewater Utility	Verification of amounts identified in Complaint	
WR-2015-0104	Spokane Highlands Water Company	Revenues and Expenses, Rate Base	
GR-2015-0026	Laclede Gas Company	Plant Additions and Retirements, Contributions in Aid of Construction	
GR-2015-0025	Missouri Gas Energy	Plant Additions and Retirements, Contributions in Aid of Construction	

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Case/Tracking Number	Company Name	Scope of Issues	Testified at Hearing
WR-2015-0020	Gascony Water Company	Revenues and Expenses, Rate Base	
SM-2015-0014	Raccoon Creek Utility Operating Company	Sale of Assets, Rate Base, Acquisition Premium	
ER-2014-0370	Kansas City Power & Light	Injuries & Damages, Insurance, Payroll, Payroll Benefits, Payroll Taxes, Property Taxes, Rate Case Expense	Yes
SR-2014-0247	Central Rivers Wastewater Utility	Revenues and Expenses, Rate Base, Affiliated Transactions	
HR-2014-0066	Veolia Energy Kansas City	Payroll, Payroll Benefits, Payroll Taxes, Bonus Compensation, Property Taxes, Insurance Expense, Injuries & Damages Expense, Outside Services, Rate Case Expense	
GO-2014-0179	Missouri Gas Energy	Plant Additions, Contributions in Aid of Construction	
GR-2014-0007	Missouri Gas Energy	Advertising & Promotional Items, Dues and Donations, Lobbying Expense, Miscellaneous Expenses, PSC Assessment, Plant in Service, Depreciation Expense, Depreciation Reserve, Prepayments, Materials & Supplies, Customer Advances, Customer Deposits, Interest on Customer Deposits	
SA-2014-0005	Central Rivers Wastewater Utility	Application for Certificate, Revenue and Expenses, Plant in Service, Depreciation Reserve. Other Rate Base Items	