

Exhibit No.: 12
Issues: AAO
Witness: Amanda C. McMellen
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: WU-2017-0296
Date Testimony Prepared: August 23, 2017

MISSOURI PUBLIC SERVICE COMMISSION

**COMMISSION STAFF DIVISION
AUDITING DEPARTMENT**

REBUTTAL TESTIMONY

OF

AMANDA C. MCMELLEN

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WU-2017-0296

*Jefferson City, Missouri
August 2017*

PC Exhibit No. 12
Date 9/27/17 Reporter [signature]
File No. WU-2017-0296

REBUTTAL TESTIMONY

OF

AMANDA C. MCMELLEN

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WU-2017-0296

Q. Please state your name and business address.

A. Amanda C. McMellen, 200 Madison Street, Suite 440, Jefferson City, MO

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Auditor V with the Missouri Public Service Commission
mission”).

Q. Please describe your educational background and work experience.

A. I graduated from the DeVry Institute of Technology in June 1998 with a Bachelor of Science degree in Accounting. I commenced employment with the Commission on June 1999.

Q. What job duties have you had with the Commission?

A. I have assisted, conducted and supervised audits and examinations of the books and records of public utility companies operating within the state of Missouri. I have participated in examinations of electric, industrial steam, natural gas, water, sewer and telecommunications companies. I have been involved in cases concerning proposed rates, earnings investigations, and complaint cases as well as cases relating to mergers, acquisitions and certification cases.

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Amanda C. McMellen

1 Q. Have you previously testified before this Commission?

2 A. Yes. Schedule 1 attached to this testimony contains a list of rate cases in
3 which I have assisted and submitted testimony.

4 Q. What knowledge, skill, experience, training and education do you have in the
5 areas in which you are testifying as an expert witness?

6 A. I have acquired knowledge of the ratemaking and regulatory process through
7 my employment with the Commission. I have received continuous training at in-house and
8 outside seminars on technical ratemaking manners. I have also acquired knowledge of these
9 topics through review of work papers from prior cases filed before this Commission relating
10 to Missouri-American Water Company ("MAWC" or "Company") and its water and sewer
11 operations. I have been employed by this Commission as a Regulatory Auditor for over 18
12 years, and have submitted testimony on ratemaking matters numerous times before this
13 Commission. I have also been responsible for the supervision of other Commission
14 employees in rate cases and other regulatory proceedings.

15 Q. What is the purpose of your rebuttal testimony?

16 A. The purpose of my rebuttal testimony in this case is to respond to MAWC
17 witness Brian W. LaGrand's and Office of the Public Counsel's ("OPC") witness Charles R.
18 Hyneman's direct filings regarding their accounting treatment recommendations for MAWC's
19 request for an Accounting Authority Order (AAO) related to the Lead Service Line
20 Replacement Program ("LSLR Program").

21 Q. What are the Commission's traditional criteria for granting an AAO?

22 A. The Commission has maintained a policy of restricting issuance of AAOs in
23 most circumstances to costs associated with extraordinary events. "Extraordinary events" are

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1 those that are unusual in nature and infrequent in occurrence.

2 Q. Should the LSLR Program costs be considered "extraordinary?"

3 A. Yes. The LSLR Program costs MAWC is proposing to defer are extraordinary
4 because these costs are to replace customer owned service lines. It is not a normal utility
5 policy or practice to replace or repair property that is not owned by the utility. Due to
6 increasing concerns regarding lead content in service lines, as explained by Staff witnesses
7 James Merciel and Jonathan Dallas, MAWC has begun replacing service lines (both company
8 and customer owned portions) as part of their ongoing main replacement program.

9 Q. Does Staff recommend approval of MAWC's request for an AAO for the
10 LSLR Program?

11 A. After reviewing the direct testimony of MAWC witnesses, it is Staff's opinion
12 that an AAO for the costs associated with the LSLR Program is appropriate.

13 Q. What is MAWC witness LaGrand's proposal for the accounting treatment of
14 the AAO for the LSLR Program?

15 A. MAWC witness LaGrand in his Direct testimony on page 6, lines 14-19
16 proposes the following:

17 The Company will propose any LSLR Program costs accumulated in
18 account 186 as part of this AAO, be transferred from NARUC account
19 186 to NARUC account 345, treated as utility plant in service, and
20 included in rate base. Alternatively, at the conclusion of the Case No.
21 WR-2017-0285, the costs could remain in NARUC account 186, be
22 included in rate base, earn the Company's rate of return and be
23 amortized at the same rate as NARUC account 345 – Services.

24 Q. What is Staff's response to MAWC witness LaGrand's proposal for the
25 accounting treatment of the AAO for the LSLR Program?

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1 A. Staff recommends the costs associated with the AAO for the LSLR Program be
2 accumulated in NARUC account 186. The ratemaking treatment for the deferred costs should
3 be determined in MAWC's current general rate case proceeding, Case No. WR-2017-0285.

4 Q. Does MAWC propose to include carrying costs on the balance of the
5 regulatory asset if the AAO is approved?

6 A. Yes. MAWC witness LaGrand in his Direct testimony on page 9, lines 1-5
7 proposes the following:

8 "...and to calculate a monthly carrying charge on the balance in that
9 regulatory asset account equal to the weighted average cost of capital
10 from the Company's last general rate case for use with the
11 Infrastructure Replacement Surcharge...."

12 Q. Does Staff propose to include carrying costs on the balance of the deferral in
13 NARUC account 186, if approved?

14 A. Yes. However, Staff proposes to calculate monthly carrying costs based on
15 American Water Works Company's ("AWWC"), MAWC's parent company, ongoing short
16 term debt rate. Use of a short term debt rate for this purpose is appropriate in that it is
17 generally consistent with calculation of the Allowance for Funds Used During Construction
18 (AFUDC), or capitalized interest, amounts that are added to plant in service costs during the
19 period the plant project is under construction and not eligible for inclusion in rate base.

20 Q. Why is Staff proposing to calculate carrying costs based on AWWC short
21 term debt?

22 A. Staff is proposing to use AWWC short term debt rate to calculate carrying
23 costs due to the fact that MAWC does not issue its own debt. All debt is issued at the parent
24 company level.

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1 Q. What is OPC witness Hyneman's proposed accounting treatment of the AAO
2 for the LSLR Program?

3 A. OPC witness Hyneman proposes that MAWC withdraw its request for AAO,
4 pursue OPC's proposed pilot program in the pending rate case, defer the costs in NARUC
5 account 186 with monthly carrying costs calculated using the AWWC short term debt rate and
6 amortize the balance over ten years with no rate base treatment.

7 Q. What is Staff's response to OPC witness Hyneman's proposal?

8 A. In Staff's opinion, OPC witness Hyneman's proposal is inappropriate in
9 several respects. First, Staff is not recommending the pilot program approach to its LSLR
10 activities. Next, in Staff's opinion, it is not inappropriate for the Commission to approve the
11 AAO request to defer LSLR costs, even if it has a general rate case on file. Lastly, it is Staff's
12 opinion that the AAO case is not the appropriate forum to determine any aspect of the future
13 rate recovery of these costs. All such issues should be left to MAWC's current rate case.

14 Q. Does this conclude your rebuttal testimony?

15 A. Yes.

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

In the Matter of the Application of Missouri-American)
Water Company for an Accounting Order)
Concerning MAWC's Lead Service Line)
Replacement Program)

Case No. WU-2017-0296

AFFIDAVIT OF AMANDA C. MCMELLEN

State of Missouri)
) ss.
County of Cole)

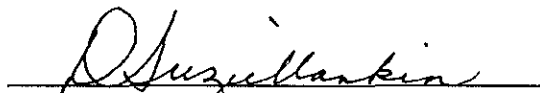
COMES NOW AMANDA C. MCMELLEN and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing Rebuttal Testimony; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

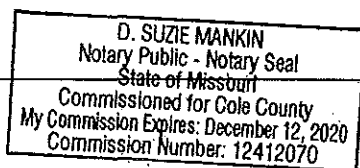

Amanda C. McMellen

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 23rd day of August, 2017.


NOTARY PUBLIC

My commission expires: _____



Amanda C. McMellen

SUMMARY OF RATE CASE TESTIMONY FILED

<u>COMPANY</u>	<u>CASE NO.</u>	<u>ISSUES</u>
Osage Water Company	SR-2000-556	Plant in Service Depreciation Reserve Depreciation Expense Operation & Maintenance Expense
Osage Water Company	WR-2000-557	Plant in Service Depreciation Reserve Depreciation Expense Operation & Maintenance Expense
Empire District Electric Company	ER-2001-299	Plant in Service Depreciation Reserve Depreciation Expense Cash Working Capital Other Working Capital Rate Case Expense PSC Assessment Advertising Dues, Donations & Contributions
UtiliCorp United, Inc./ d/b/a Missouri Public Service	ER-2001-672	Insurance Injuries and Damages Property Taxes Lobbying Outside Services Maintenance SJLP Related Expenses
BPS Telephone Company	TC-2002-1076	Accounting Schedules Separation Factors Plant in Service Depreciation Reserve Revenues Payroll Payroll Related Benefits Other Expenses

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SUMMARY OF RATE CASE TESTIMONY FILED

<u>COMPANY</u>	<u>CASE NO.</u>	<u>ISSUES</u>
Aquila, Inc. d/b/a Aquila Networks-MPS & Aquila Networks-L&P	ER-2004-0034	Revenue Annualizations Uncollectibles
Fidelity Telephone Company	IR-2004-0272	Revenue Revenue Related Expenses
Aquila, Inc. d/b/a Aquila Networks-MPS & Aquila Networks-L&P	ER-2005-0436	Revenue Annualizations Uncollectibles
Empire District Electric Company	ER-2006-0315	Payroll Payroll Taxes 401(k) Plan Health Care Costs Incentive Compensation Depreciation Expense Amortization Expense Customer Demand Program Deferred State Income Taxes Income Taxes
Aquila, Inc. d/b/a Aquila Networks-MPS & Aquila Networks-L&P	ER-2007-0004	Revenue Annualizations Uncollectibles Maintenance Expenses Turbine Overhaul Maintenance
Empire District Electric Company	ER-2008-0093	Revenues Bad Debts Employee Benefits Tree Trimming Storm Costs Customer Programs Amortizations Current Income Taxes Deferred Income taxes Jurisdictional Allocations Corporate Allocations

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SUMMARY OF RATE CASE TESTIMONY FILED

<u>COMPANY</u>	<u>CASE NO.</u>	<u>ISSUES</u>
Missouri Gas Energy, a Division of Southern Union Company	GR-2009-0355	Staff Report Cost of Service Revenues-Customer Growth Corporate Allocations Other Rate Base Items Amortization Expense Interest expense on customer Deposits Rents and Leases
Missouri-American Water Company	WR-2010-0131	Staff Report Cost of Service Corporate and District Allocations Lobbying Costs Net Negative Salvage Amortization of Regulatory Assets Belleville Lab Expenses Comprehensive Planning Study Payroll Payroll Taxes
Kansas City Power & Light Company	ER-2010-0355	Staff Report Cost of Service Revenues-Customer Growth In-Field Service Fees Gross Receipts Taxes Forfeited Discounts Other Revenues Credit Card Acceptance Program Bad Debts
KCP&L Greater Missouri Operations Company	ER-2010-0356	Staff Report Cost of Service Revenues-Customer Growth Other Revenues Credit Card Acceptance Program Bad Debts
Empire District Electric Company	ER-2011-0004	Staff Report Cost of Service Plant in Service Depreciation Reserve Depreciation Expense Pensions & OPEBs Customer Programs Amortizations Carrying Costs Revenue Annualizations

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SUMMARY OF RATE CASE TESTIMONY FILED

<u>COMPANY</u>	<u>CASE NO.</u>	<u>ISSUES</u>
Empire District Electric Company	ER-2012-0345	Staff Report Cost of Service Plant in Service Depreciation Reserve Depreciation Expense Prepayments Materials and Supplies Customer Demand Programs Amortization of Electric Plant Customer Deposits Customer Advances Carrying Costs Customer Programs Customer Deposit Interest Expense Franchise Taxes Amortizations Banking Fees Lease Expense Pay Station Fees Amortizations
Summit Natural Gas Company of Missouri, Inc.	ER-2014-0086	Corporate Allocations Capitalization Policy MGU Purchase Price SMNG Legacy Asset Valuation Energy Efficiency Programs
Empire District Electric Company	ER-2016-0023	Staff Report Cost of Service Test Year/Update/True-Up Accumulated Deferred Income Taxes SWPA Hydro Reimbursement SPP Revenues and Expenses SPP Transmission Expenses ASM Revenue and Expense Miscellaneous SPP Related Revenues and Expenses Off-System Sales Revenue and Expense Current Income Taxes Deferred Income Taxes Rate Case Expense-Sharing Advertising Dues and Donations SWPA Amortization Tornado AAO Amortization Corporate Expenses Capitalized Depreciation Proposed Acquisition
Terre Du Lac utilities Corporation	WR-2017-0110	Rate Base