

Exhibit No.:
Issues: Rate Base, Depreciation
Expense, Amortization Expense

Witness: Todd P. Wright
Exhibit Type: Direct
Sponsoring Party: Missouri-American Water
Company
Case No.: WR-2015-0301
SR-2015-0302
Date: July 31, 2015

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2015-0301
CASE NO. SR-2015-0302**

DIRECT TESTIMONY

OF

TODD P. WRIGHT

ON BEHALF OF

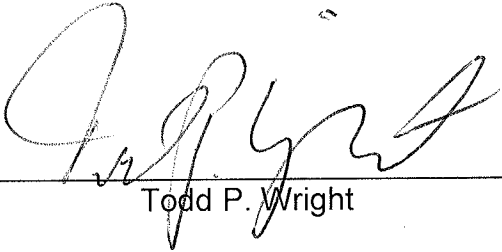
MISSOURI-AMERICAN WATER COMPANY

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

IN THE MATTER OF MISSOURI-AMERICAN)	
WATER COMPANY FOR AUTHORITY TO)	
FILE TARIFFS REFLECTING INCREASED)	CASE NO. WR-2015-0301
RATES FOR WATER AND SEWER)	CASE NO. SR-2015-0302
SERVICE)	

AFFIDAVIT OF TODD P. WRIGHT

Todd P. Wright, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Todd P. Wright"; that said testimony was prepared by him and/or under his direction and supervision; that if inquiries were made as to the facts in said testimony, he would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of his knowledge.



Todd P. Wright

State of New Jersey
County of Camden
SUBSCRIBED and sworn to
Before me this 24 day of JULY 2015.



Notary Public

My commission expires:

ANN G. ALFANO
NOTARY PUBLIC OF NEW JERSEY
ID # 50014130
My Commission Expires 4/15/2020

**DIRECT TESTIMONY
TODD P. WRIGHT
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2015-0301
CASE NO. SR-2015-0302**

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DIRECT TESTIMONY

TODD P. WRIGHT

1

I. WITNESS INTRODUCTION

2

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3

A. My name is Todd P. Wright, and my business address is 131 Woodcrest Road, Cherry Hill, New Jersey 08034.

5

6

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

7

A. I am employed by American Water Works Service Company, Inc. (hereinafter referred to as “AWWSC” or the “Service Company”) as Rates & Regulatory Analyst.

8

9

The Service Company is a subsidiary of American Water Works Company, Inc. (“American Water”) that provides support services to American Water’s subsidiaries, including Missouri-American Water Company, Inc. (“Missouri American” or the “Company”).

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Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

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A. I am a 1997 graduate of Northeastern University with a Bachelor of Science degree in Business Administration with a major in Accounting. From 1997 to 2001, I was employed by TA Associates Realty as a Portfolio Accountant in Boston, Massachusetts. I performed accounting and consolidation activities for multiple REITs under their management. In October 2001, I was hired by the Service Company at American Water as a Staff Accountant in the Fixed Assets department.

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1 In August 2002, I was promoted to Senior Accountant. In September 2004 I accepted
2 a position in Financial Planning and Analysis as a Financial Analyst. At that time, I
3 was responsible for developing and coordinating the planning and budgeting for
4 consolidated American Water. . In April 2009, I accepted the role of Supervisor in
5 the Utility Plant Accounting Department and was responsible for managing and
6 overseeing part of the utility plant accounting team. In December 2010, I accepted a
7 role as Record To Report (“RTR”) Subject Matter Expert on American Water’s
8 Business Transformation Project (“BT”). After the completion of ERP portion of BT,
9 I accepted the position of Senior Financial Analyst in Rates & Regulatory Support.
10 Effective June 2014, my position title was renamed Rates and Regulatory Analyst.

11
12 **Q. PLEASE ELABORATE UPON YOUR DUTIES AS A RATES &**
13 **REGULATORY ANALYST, RATES & REGULATORY SUPPORT.**

14 A. My responsibilities as a Rates & Regulatory Analyst III, for Rates & Regulatory
15 Support involve providing the following services to American Water’s water utility
16 subsidiaries, including Missouri-American Water Company (“MAWC” or
17 “Company”):

- 18 1) Preparing and presenting rate increase applications and supporting documents
19 and exhibits in conformance with management policies, guidelines and regulatory
20 commission requirements;
- 21 2) Preparing rate analyses and studies to evaluate the effect of proposed rates on
22 the revenues, rate of return and tariff structures;
- 23 3) Executing the implementation of rate orders, including development of the
24 revised tariff pricing necessary to produce the proposed revenue level; and,

1 4) Preparation of Data Request responses.

2

3 **Q. HAVE YOU PREVIOUSLY PARTICIPATED IN REGULATORY**
4 **MATTERS?**

5 A. No, I have not had previous participation in regulatory matters.

6

7 **II. PURPOSE OF TESTIMONY**

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9 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
10 **PROCEEDING?**

11 A. The purpose of my testimony is to present and support the following pro forma
12 adjustments to pro forma Rate Base in Section III.

13 IIIa. Utility Plant in Service (“UPIS”)

14 IIIb. Accumulated Depreciation Reserve

15 IIIc. Customer Advances & Contributions In Aid of Construction (“CIAC”)

16 IIId. Accumulated Deferred Investment Tax Credit (“ITC”)

17 IIIe. Deferred Income Taxes

18 IIIf. Working Capital

19 IIIg. Materials and Supplies

20 IIIh. Prepayments

21 IIIi. Regulatory Deferrals

22 IIIj. Tank Painting Tracker

23 My testimony will also discuss Depreciation Expense in Section IV and Amortization
24 Expense in Section V.

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III. RATE BASE

IIIa. UTILITY PLANT IN SERVICE

Q. WHAT SCHEDULE WILL YOU BE DISCUSSING?

A. I will be discussing and providing support for CAS-4 Utility Plant In Service that is summarized on CAS-3 Rate Base Summary.

Q. PLEASE EXPLAIN CAS-4 UTILITY PLANT IN SERVICE?

A. CAS-4 Utility Plant in Service schedule shows the historical UPIS balance as of December 31, 2014 by account and district. Historical information was taken from the Company’s fixed asset and ERP systems. Historical UPIS amounts that are recorded at the corporate district location were allocated out to the operating districts. True-up adjustments were made for the 13 month period ended January 31, 2016 by account and district. Pro forma UPIS balance is the summation of the historical UPIS balance and the true-up adjustment calculated by account and district.

Q. PLEASE DESCRIBE THE MISSOURI-AMERICAN CORPORATE ASSET ALLOCATION?

A. Missouri-American corporate asset balances as of December 31, 2014 were allocated out to the operating districts by customer count. The customer count utilized to develop the percentage per district was also as of December 31, 2014. All corporate assets were recorded in water utility accounts. When these assets

1 were allocated to wastewater districts per customer count, the assets remained in
2 the same water utility accounts for depreciation rate purposes.

3

4 **Q. HOW WERE THE TRUE-UP ADJUSTMENTS CALCULATED?**

5 A. True-up adjustments were computed by adding forecasted capital expenditures
6 minus retirements for the 13-month period ending January 2016. The capital
7 expenditures came from the Company's approved Strategic Capital Expenditure
8 Plan (SCEP) for the years 2015-2019 with adjustments related to the acquisitions
9 of Redfield and the City of Arnold Sewer System. Asset retirements were
10 forecasted using a 3-year average of retirements for the years 2012-2014.

11

12 **IIIb. ACCUMULATED DEPRECIATION RESERVE**

13

14 **Q. WHAT SCHEDULE WILL YOU BE DISCUSSING?**

15 A. I will be discussing and providing support for CAS-5 Accumulated Depreciation that
16 is summarized on CAS-3 Rate Base Summary.

17

18 **Q. PLEASE EXPLAIN CAS-5 ACCUMULATED DEPRECIATION RESERVE?**

19 A. CAS-5 Accumulated Depreciation schedule shows the historical reserve balances as
20 of December 31, 2014 by account and district. Historical information was taken from
21 the Company's fixed asset and ERP systems. Historical depreciation reserve amounts
22 that are recorded at the corporate district location were allocated out to the operating
23 districts. True-up adjustments were made for the 13 month period ended January 31,
24 2016 by account and district. Pro forma accumulated depreciation balance is the

1 summation of the historical reserve balance and the true-up adjustment calculated by
2 account and district.

3

4 **Q. PLEASE DESCRIBE THE MISSOURI-AMERICAN CORPORATE RESERVE**
5 **ALLOCATION?**

6 A. Missouri-American corporate accumulated depreciation balances as of December
7 31, 2014 were allocated out to the operating districts by customer count. The
8 customer count utilized to develop the percentage per district was also as of
9 December 31, 2014. All corporate assets' reserve has been recorded from water
10 utility accounts' depreciation rates. When the accumulated depreciation was
11 allocated to wastewater districts per customer count, the reserve remained in the
12 same water utility accounts.

13

14 **Q. HOW WERE THE TRUE-UP ADJUSTMENTS CALCULATED?**

15 A. True-up adjustments for the reserve were computed by adding monthly
16 depreciation over the 13-month period ending January 2016, at current
17 depreciation rates minus retirements and net salvage. Monthly depreciation is
18 calculated based on monthly UPIS balances projected from the Company's
19 approved Strategic Capital Expenditure Plan (SCEP) for the years 2015-2019 as
20 well as the adjustments related to the acquisitions of Redfield and the City of
21 Arnold Sewer System. Asset retirements were forecasted using a 3-year average
22 of retirements for the years 2012-2014. Net salvage is projected based on a 4-
23 year average.

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IIIc. CUSTOMER ADVANCES & CIAC

Q. WHAT SCHEDULE WILL YOU BE DISCUSSING?

A. I will be discussing and providing support for CAS-6 Customer Advances and CIAC that is summarized on CAS-3 Rate Base Summary.

Q. PLEASE EXPLAIN CAS-6 CUSTOMER ADVANCES AND CIAC?

A. CAS-6 Customer Advances and CIAC schedule shows the historical balances as of December 31, 2014 by account and district. Historical information was taken from the Company's fixed asset and ERP systems. True-up adjustments were made for the 13 month period ended January 31, 2016 by account and district. Pro forma balances are the summation of the historical balance and the true-up adjustment calculated by account and district.

Q. HOW WERE THE TRUE-UP ADJUSTMENTS CALCULATED?

A. True-up adjustments are projected to include additional Customer Advances and CIAC for the period of December 31, 2014 through January 31, 2016 as projected by the Company's approved Strategic Capital Expenditure Plan (SCEP) with adjustments related to the acquisitions of Redfield and the City of Arnold Sewer System. The projection includes advances, contributions and refunds for the stated period. The CIAC balances were amortized of the same period as well at the current rates.

1 **III.d. ACCUMULATED DEFERRED TAX CREDITS**

2

3 **Q. WHAT SCHEDULE WILL YOU BE DISCUSSING?**

4 A. I will be discussing and providing support for line 15 on CAS-3 Rate Base Summary,
5 Accumulated Deferred Income Tax Credits (ITC).

6

7 **Q. PLEASE EXPLAIN ACCUMULATED DEFERRED ITC IN CAS-3?**

8 A. CAS-3 shows the historical balances for Accumulated Deferred ITC as of December
9 31, 2014 by district. Historical information was taken from the Company's fixed
10 asset and ERP systems. Any historical balances of Accumulated ITC recorded to the
11 corporate district were re-assigned to an operating district. The historical balance was
12 amortized for the 13 months through January 31, 2016 by district. Pro forma
13 balances are the summation of the historical balance and the true-up adjustment.

14

15 **III.e. DEFERRED INCOME TAXES**

16

17 **Q. WHAT SCHEDULE WILL YOU BE DISCUSSING?**

18 A. I will be discussing and providing support for line 16 on CAS-3 Rate Base Summary,
19 Deferred Income Taxes.

20

21 **Q. PLEASE EXPLAIN DEFERRED INCOME TAXES IN CAS-3?**

22 A. CAS-3 shows the historical balances for Deferred Income Taxes as of December 31,
23 2014 by district. The historical balance was adjusted for to only show the amounts
24 pertaining to UPIS from the annual report. True-up adjustments were made for tax

1 over book depreciation and repair deductions through January 31, 2016. Pro forma
2 balances are the summation of the historical balance and the true-up adjustment.

3
4 **III.f. WORKING CAPITAL**

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6 **Q. WHAT SCHEDULE WILL YOU BE DISCUSSING?**

7 A. I will be discussing and providing support for CAS-7 Working Capital.

8
9 **Q. PLEASE EXPLAIN SCHEDULE CAS-7 AND HOW IT WAS COMPLETED?**

10 A. CAS-7 schedule shows the calculation of cash working capital by district. Only
11 districts with a cash requirement were included in CAS-3 Rate Base Summary,
12 line 22. Cash Working Capital is included in a utility's rate base to compensate
13 investors for the lag between the time utility service is rendered to the customer
14 and the time it takes to collect the revenues associated with that service. In other
15 words, investors have to provide "upfront" capital to fund the daily operations of
16 providing that service until the revenues are collected. The Company has used a
17 lead/lag method to calculate its working capital requirement. The method
18 calculates the net lag between the collection of revenues and the payment of
19 expenses for each category of operating expense as well as Interest Expense and
20 Preferred Stock Dividends to arrive at the cash working capital requirement. This
21 methodology has been utilized by the Company for the last several cases.

22
23 **III.g. MATERIALS AND SUPPLIES**

1 **Q. WHAT SCHEDULE WILL YOU BE DISCUSSING?**

2 A. I will be discussing and providing support for line 23 on CAS-3 Rate Base Summary,
3 Materials and Supplies.

4
5 **Q. PLEASE DISCUSS MATERIALS AND SUPPLIES?**

6 A. Materials and supplies are based on a 13-month average of actual balances for
7 inventory accounts related to plant materials, fuel, chemicals, and other materials
8 ended December 31, 2014. The 13-month average is calculated by district. Any
9 inventories recorded at a corporate level were allocated, based on customer count,
10 to the districts that have specific inventory recorded to them for test year ended
11 December 31, 2014. Per books and pro forma are displayed as the 13-month
12 average of actual balances.

13

14

IIIh. PREPAYMENTS

15

16 **Q. WHAT SCHEDULE WILL YOU BE DISCUSSING?**

17 A. I will be discussing and providing support for line 24 on CAS-3 Rate Base Summary,
18 Prepayments.

19

20

21 **Q. PLEASE DISCUSS MATERIALS AND SUPPLIES?**

22 A. Prepayments are based on a 13-month average of actual balances ended
23 December 31, 2014. The 13-month average is calculated for total company. The
24 13-month average is allocated to each district, based on customer count for the

1 test year ended December 31, 2014. Per books and pro forma are displayed as the
2 13-month average of actual balances.

3

4 **III. REGULATORY DEFERRALS**

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6 **Q. WHAT SCHEDULE WILL YOU BE DISCUSSING?**

7 A. I will be discussing and providing support for line 27 on CAS-3 Rate Base Summary,
8 Regulatory Deferrals.

9

10 **Q. PLEASE DISCUSS REGULATORY DEFERRALS?**

11 A. The Regulatory Deferrals represents a two regulatory assets acquired by the
12 Company in recent sewer system acquisitions. The first is related to the
13 Company's purchase of the Emerald Pointe wastewater system in March 2014.
14 The asset relates to the costs of a pipeline funded by Emerald Point, but owned by
15 the City of Hollister. The asset was approved by the PSC as an inclusion in rate
16 base in the Emerald Pointe rate case #SR-2013-0016 with a 50-year amortization
17 period. The Company's pro forma includes the historical balance and the
18 amortization through January 31, 2016 utilizing a 50-year period.

19 The second is related to the Company's purchase of the City of Arnold
20 wastewater system in May 2015. The asset relates to costs to expand the
21 Metropolitan St. Louis Sewer District's Lower Meramec WWTP plant to
22 accommodate the City of Arnold. The Company's pro forma includes the
23 historical balance and the amortization through January 31, 2016 utilizing a
24 amortization schedules, for each phase, acquired from the City of Arnold.

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IIIj. TANK PAINTING TRACKER

Q. WHAT SCHEDULE WILL YOU BE DISCUSSING?

A. I will be discussing and providing support for line 28 on CAS-3 Rate Base Summary, Tank Painting Tracker.

Q. PLEASE DISCUSS TANK PAINTING TRACKER?

A. Line 28 on CAS-3 shows the historical balances for the Tank Painting Tracker as of December 31, 2014 for total company. The historical balance is allocated to each district, based on customer count for the test year ended December 31, 2014. No true-up adjustment was made as the actual tank painting and inspection expense has been slightly above authorized amortization of \$1,300,000 from rate case #WR 2011-0337.

IV. DEPRECIATION EXPENSE

Q. WHAT SCHEDULE WILL YOU BE DISCUSSING?

A. I will be discussing and providing support for line 28 on CAS-13 Summary of Operating Expenses.

Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES RELATED TO DEPRECIATION?

1 A. Depreciation expense is calculated based on the pro forma UPIS balance on CAS-
2 4 by account and district. This balance, as discussed above, includes true-up
3 adjustments through January 31, 2016. Proposed depreciation rates were applied
4 to the pro forma UPIS balances for an annual expense. The proposed depreciation
5 rates were developed through the depreciation study ordered from rate case #WR
6 2011-0337. Please refer to testimony from John Spanos related to the
7 depreciation study.

8

9

V. AMORTIZATION EXPENSE

10

11 **Q. WHAT SCHEDULE WILL YOU BE DISCUSSING?**

12 A. I will be discussing and providing support for line 28 on CAS-13 Summary of
13 Operating Expenses.

14

15 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES
16 RELATED TO AMORTIZATION?**

17 A. Amortization expense was updated with annual amortization of the Metropolitan
18 St. Louis Sewer District expansion regulatory asset acquired in the City of Arnold
19 Sewer acquisition. The amortization is based on the City of Arnold schedule at
20 time of acquisition. All other amortizations were included in the base year ended
21 12/31/14.

22

23 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

24 A. Yes it does.