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| Exhibit No.: | |
| Issues: | Production Costs, Customer Accounting, Postage, Rents, Transportation, and Uncollectibles |
| Witness: | Todd P. Wright |
| Exhibit Type: | Direct |
| Sponsoring Party: | Missouri-American Water Company |
| Case No.: | WR-2020-0344 SR-2020-0345 |
| Date: | June 30, 2020 |

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2020-0344
CASE NO. SR-2020-0345**

DIRECT TESTIMONY

OF

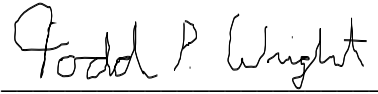
TODD P. WRIGHT

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Todd P. Wright, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am Senior Manager of Regulatory Services for American Water Service Company, that the accompanying testimony has been prepared by me or under my direction and supervision; that if inquiries were made as to the facts in said testimony, I would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of my knowledge and belief.

A handwritten signature in cursive script that reads "Todd P. Wright". The signature is written in black ink and is positioned above a horizontal line.

Todd P. Wright

June 30, 2020
Dated

**DIRECT TESTIMONY
TODD P. WRIGHT
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2020-0344
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DIRECT TESTIMONY

TODD P. WRIGHT

I. INTRODUCTION

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

2 A. My name is Todd P. Wright, and my business address is 1 Water Street, Camden, NJ,
3 08102.

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

5 A. I am a Senior Manager of Regulatory Services for American Water Works Service
6 Company, Inc. (“Service Company”). Service Company is a wholly owned subsidiary
7 of American Water Works Company, Inc. (“American Water”) that provides services
8 to Missouri-American Water Company (“MAWC”, “Missouri-American” or
9 “Company”) and its affiliates.

10 **Q. What are your responsibilities in this position?**

11 A. My and my team’s duties consist of reviewing, preparing and assisting in regulatory
12 filings and related activities for all of the regulated subsidiaries of American Water.
13 My responsibilities include the preparation of and collaboration on written testimony,
14 exhibits and work papers in support of rate applications and other regulatory filings as
15 well as responses to discovery requests and on-going filing requirements for Missouri-
16 American and its regulated utility affiliates. Additional duties include providing
17 support and collaboration in developing regulatory policy, support and analysis for
18 different cost recovery mechanisms, participation in process improvements to support
19 regulatory accounting requirements, and data compilation for compliance reporting.

1 **Q. Please describe your educational background.**

2 A. I am a graduate of Northeastern University in Boston, Massachusetts with a Bachelor
3 of Science in Business Administration.

4 **Q. What has been your business experience?**

5 A. I began my career as an accountant with American Water in 2001 at the Shared Service
6 Center (“SSC”) in Mount Laurel, NJ. In 2013, I joined the Rates and Regulatory
7 Support function, as a Senior Financial Analyst, responsible for providing support and
8 analysis for rate base components in all jurisdictions served by American Water. In
9 June 2017, I became a Principal Analyst for Regulatory Services serving the
10 Midwest/Southeast umbrella of the department. Most recently, I have been promoted
11 to a Senior Manager Regulatory Services.

12 **Q. Have you previously testified in regulatory proceedings?**

13 A. Yes. I have presented testimony to the Missouri Public Service Commission. I have
14 assisted in the preparation of rate cases and matters related to alternative rate
15 mechanisms filed with the Illinois Commerce Commission, Indiana Utility Regulatory
16 Commission, Missouri Public Service Commission, Tennessee Public Utility
17 Commission and Iowa Utilities Board.

18 **Q. Have you prepared, or caused to be prepared, schedules in support of Missouri-
19 American’s general rate case?**

20 A. Yes. I have overseen the preparation of schedules and work papers in support of this
21 general rate case for Missouri-American.

1 **Q. What is the purpose of your testimony in this proceeding?**

2 A. The purpose of my direct testimony is to support and explain the following Company
3 expense levels: production costs, customer accounting, postage, rents, transportation,
4 and uncollectibles.

5 **Q. What methodology did the Company use in in making its pro forma adjustments**
6 **to its historical expense levels in this case?**

7 A. In general, the historical test year expenses (12 months ended December 31, 2019) were
8 updated to include known and measurable changes, adjusted based on Company
9 experience, or adjusted based on an inflation factor, through a verifiable link period
10 ending May 31, 2021. The Company then used a monthly projection for the 12 months
11 ended May 31, 2022 (the “future test year”) using known and measurable changes,
12 adjustments based on Company experience, or adjustments based on an inflation factor.
13 Please refer to Company Witness Nikole L. Bowen for further discussion regarding the
14 inflation factor.

15 **II. PRODUCTION COSTS**

16 **Q. Please describe which operating expenses are considered production costs.**

17 A. Production costs include purchased water, fuel and power, chemicals, and waste
18 disposal. Production costs vary depending on the amount of water purchased or
19 produced by the Company’s treatment plants, i.e. system delivery or water obtained
20 and delivered to MAWC’s network of water mains. MAWC’s proposed Production
21 Cost are reflected in Company Accounting (“CAS”) Schedule 13, lines 1 – 4.

22 **Q. Please explain the system delivery impact on production costs.**

1 A. System delivery is the amount of water that the Company's treatment plants produce.
2 Water sales as well as other factors impact the amount of water produced by the plants,
3 which in turn impacts expenses associated with treating and distributing that water to
4 meet demand on capacity. To reflect the impact, the pro forma expense for production
5 costs mirrors the same levels of system delivery utilized in the Company's pro forma
6 revenue adjustments. Company witnesses Gregory Roach is supporting the Company's
7 pro forma system delivery in his testimony.

8 **Q. Please describe purchased water expense.**

9 A. The purchased water expense includes costs for purchasing water from other entities.
10 Contract purchase requirements and cost per thousand gallons are used to derive the
11 expense associated with these purchases. The purpose of this adjustment is to
12 normalize and annualize the costs incurred to purchase water to meet demands on
13 capacity as discussed above. The Company purchases water from several entities,
14 which include KC Water Services, City of Excelsior Springs, City of St. Louis, Ozark
15 Water System, Callaway County District #1, and St. Charles County Public Water
16 Supply District #2 (the "purchase water districts").

17 **Q. Please explain how pro forma expense for purchased water was developed.**

18 A. In order to calculate the expense for purchased water, the Company started with the
19 base year 2019 expense and the applicable rates and fees billed during the year. Any
20 miscoded items were removed from the analysis. Rate increases for each purchased
21 water district were reviewed to determine increase frequency in order to determine
22 applicable rates, adjusted with inflation. A three-year average consumption was
23 calculated for each purchase water district with the exception of the KC Water Services

1 and City of Excelsior Springs purchases.

2 **Q. To what district does KC Water Services provide water?**

3 A. KC Water Services provides purchased water to the Parkville water district in Platte
4 County.

5 **Q. How was the KC Water Services adjustment determined?**

6 A. A two-year average based on 2018 & 2019 was utilized for KC Water Services due to
7 the new Parkville Plant going in-service at the end of 2017. The Company's source of
8 supply requirements from external supplier have changed going forward, subject to
9 weather variability.

10 **Q. To what area does the City of Excelsior Springs provide water?**

11 A. Excelsior Springs provides water to the Lawson system. Lawson's source of supply
12 contract with the City of Excelsior Springs was acquired with the Lawson acquisition
13 in 2018, subsequent to the conclusion of Missouri-American's last general rate
14 proceeding

15 **Q. How was the City of Excelsior Springs adjustment determined?**

16 A. MAWC is using a two-year average where available and 2019 levels where two years
17 of data is not, based on limited historical data for Missouri-American. Additionally,
18 the City of Excelsior implemented a volumetric block 1 rate increase at the end of 2019
19 that was included in the adjustment. The average consumption is applied to the
20 applicable rates and fees by month through the future test year ending May 31, 2022.

21 **Q. What are the primary drivers for increases to the purchased water expense?**

1 A. The pro forma amount increase is primarily from the City of Excelsior volumetric block
2 1 rate increase at the end of 2019, as well as the average usage adjustment utilized for
3 KC Water Services. This adjustment is reflected on Schedule CAS-13.

4 **Q. Please describe the operating expense for fuel and power.**

5 A. Fuel and power expense is composed of costs associated with treating, pumping, and
6 distributing water and collecting and treating wastewater. The Company purchases its
7 fuel and power from third party suppliers. Electricity, natural gas, and miscellaneous
8 purchased fuel constitute the fuel and power expense.

9 **Q. Please explain how the pro forma expense for fuel and power was developed?**

10 A. The fuel and power expense was derived by starting with the 2019 base year and
11 normalizing the expenses, which included removing accrual and other non-relevant
12 amounts. The base year was then adjusted for known rate changes and annualized. The
13 adjusted amount was then divided by the historical system delivery to develop a price
14 per system delivery rate. The price per system delivery is then adjusted for inflation
15 through 2022. The inflated price per system delivery was then multiplied by system
16 delivery utilized in the present rate revenue pro forma for the 12 months ended May
17 31, 2022. This adjustment is reflected on Schedule CAS-13.

18 **Q. Please describe the operating expense for chemicals?**

19 A. The Company uses chemicals to bring chemical and biological contaminants within
20 safe levels, as prescribed by the United States Environmental Protection Agency
21 (“EPA”) in accordance with the Safe Drinking Water Act. Chemicals are also utilized
22 to remove turbidity (cloudiness) of the water and to address any remaining taste or odor

1 issues, and for wastewater treatment. Water conditions can vary seasonally or due to
2 other external factors, which impacts chemical usage and expense levels. Examples
3 include drought or flood conditions, fertilizer runoff, water level and temperature. The
4 amount of chemicals utilized by the Company thus varies depending on the season and
5 other external factors.

6 **Q. Please explain how the pro forma expense for chemicals was developed?**

7 A. The chemicals expense was derived by starting with the three-year average usage by plant
8 and chemical. The three-year average was then adjusted for known changes in the
9 treatment processes at each plant. The adjusted three-year average was then divided
10 by the corresponding three-year average of system delivery, from the same time period,
11 to develop a chemical usage per system delivery rate. The chemical usage rate per
12 system delivery was then multiplied by system delivery utilized in the present rate
13 revenue pro forma for the 12 months ended May 31, 2022. The chemical prices are
14 based on 2020 prices for each chemical, adjusted for inflation through 2022. In order
15 to calculate the pro forma amount for chemicals expense, the chemical usage by
16 projected system delivery is then multiplied by the corresponding chemical price for
17 each year. This adjustment is reflected on Schedule CAS-13.

18 **Q. Please describe the operating expense related to waste disposal.**

19 A. The Company incurs waste disposal costs as a result of the need to properly dispose of
20 sludge and other by-products resulting from water and wastewater treatment. Missouri-
21 American treats waste disposal in some areas, while in others, specifically related to
22 wastewater, the Company leverages a third party for treatment. Sludge removal and
23 lagoon cleaning for MAWC occurs on a cycle ranging from monthly to several years.

1 The cleaning schedule is based on the amount of waste and size of lagoon, consistent
2 with EPA standards. The waste disposal costs and methods vary by treatment facility,
3 with the average cleaning cycle being up to 24 months.

4 **Q. Please explain how the pro forma expense for waste disposal was developed.**

5 A. The expense for waste disposal includes costs incurred and accrued-for based on the
6 scheduled frequency of cleanings as the result of current operations. The Company started
7 with the base year 2019 and normalized costs based on waste disposal costs incurred
8 and the frequency of the cleanings. The expense levels for current and future periods
9 were analyzed and calculated by individual locations, adjusted for inflation through
10 2022. This adjustment is reflected on Schedule CAS-13.

11 **III. CUSTOMER ACCOUNTING**

12 **Q. Please describe types of costs that are typically included for customer accounting.**

13 A. The Company incurs operating expenses for customer accounting that include costs
14 related to customer invoice mailings, bill inserts, collection notices, third-party
15 collection agency fees, lock box fees for payment collection, water quality reports, and
16 customer communications.

17 **Q. Are all the types of expenses described above included in the pro forma expense
18 for customer accounting?**

19 A. No. Customer accounting expenses relating to collection agencies, forms, surveys,
20 language services, and bill postage are being billed through the Service Company
21 charges starting in January 2020 and are included in Support Services. Please refer to
22 the Company Witness Nikole L. Bowen for discussion of the Support Services pro

1 forma expense.

2 **Q. Are there additional customer accounting costs being proposed that have not been**
3 **included in the base year?**

4 A. Yes. The Company is proposing to include credit card and e-check fees in the pro
5 forma adjustment for customer accounting. The Company has a contracted rate with a
6 third-party vendor for processing the transactions at a rate of \$1.50 for credit cards and
7 \$.45 for e-checks. Please refer to Company Witness Brian LaGrand for further
8 discussion in regard to credit card and e-check fees.

9 **Q. Please explain how the pro forma expense for customer accounting was developed.**

10 A. In order to derive the pro forma for customer accounting expense, the Company started
11 with the base year 2019 and normalized the costs. As discussed above, the Company
12 then removed the customer accounting expenses that were transitioned over to support
13 services and added the proposed credit card and e-check fees. The normalized
14 customer accounting expense was then adjusted for inflation through 2022. This
15 adjustment is reflected on CAS-13.

16 **IV. POSTAGE, PRINTING & STATIONERY**

17 **Q. Please describe the types of costs associated with postage, printing and stationery.**

18 A. Back office postage, printing, and other shipping expenses are being included in the
19 postage work paper. These costs are included to support all other daily administrative
20 tasks required for the continuous operation of the Company.

21 **Q. Please explain how the pro forma expense for postage, printing and stationery was**

1 **developed.**

2 A. The pro forma amount for these costs started with base year 2019 and was adjusted for
3 inflation through 2022. This adjustment is reflected on CAS-13.

4 **V. RENT EXPENSE**

5 **Q. Please describe the types of costs in the operating expense for rents.**

6 A. Missouri-American incurs expense for rental costs associated with copy machines,
7 other miscellaneous items, and two office locations – one at 727 Craig Road, St. Louis,
8 Missouri; and one located at 1050 Fox Chase Industrial Court in Arnold, Missouri. In
9 addition, the Company entered into a lease agreement with El Chaparral Estates
10 Subdivision for the use of a lagoon associated with wastewater assets the Company
11 acquired on June 10, 2019.

12 **Q. Please explain how the pro forma expense for rents was developed.**

13 A. In order to calculate the appropriate rents expense, the Company took the 2019 actual
14 expenses and removed items such as the Woodcrest early termination accrual reversal
15 and the ASC 842 accounting entries. The lease for the El Chaparral lagoon was
16 annualized and added to the other lease amounts based on the lease terms for 727 Craig
17 Road and 1050 Fox Chase. Since the 727 Craig Road lease term expires in August
18 2021, inflation was added to estimate rental payments through May 2022. The copiers
19 and miscellaneous expense items were annualized for 2020 and then inflation was
20 added through May 2022 as well to estimate future payments. This adjustment is
21 reflected on Schedule CAS-13.

22 **VI. TRANSPORTATION EXPENSE**

23 **Q. Please describe the types of costs in the operating expense for transportation.**

1 A. Transportation expense includes costs associated with operating the Company's motor
2 vehicle fleet. Transportation costs include titling, registration, fleet administration
3 service fees, operation and maintenance costs, and fuel costs.

4 **Q. Please explain how the pro forma expense for transportation was developed.**

5 A. The Company first calculated its annualized 2019 pro forma transportation lease
6 expense based on changes in leased vehicle and equipment levels as of December 2019,
7 and twelve-month average fuel rates as of the end of February 2020. The maintenance
8 expense was calculated based on the 2019 test period expense, adjusted for inflation.
9 The labor O&M percentage was applied to the expense to obtain the O&M expense
10 portion of the adjustment. The test year pro forma expense was then calculated by
11 taking the adjusted 2019 lease expense and inflating specific maintenance items and
12 gasoline expense through 2022. This adjustment is reflected on Schedule CAS-13.

13 **VII. UNCOLLECTIBLE EXPENSE**

14 **Q. Please describe the operating expense for uncollectible expense.**

15 A. Uncollectible expense is made up of net charge-offs associated with bad debt related to
16 billed revenues. Each year a portion of revenues that were billed for collection is
17 charged off due to non-payment. Net charge-offs comprise billed revenue written-off
18 net of prior bad debt that was subsequently collected.

19

20 **Q. Please explain how the pro forma expense for uncollectible expense was
21 developed.**

22 A. The Company calculated an uncollectible rate for the years 2017-2019 by taking actual
23 net charge-offs over annual billed revenue. Any adjustments for the recording an

1 allowance for doubtful accounts have been removed from the calculation. From 2017
 2 – 2019, the uncollectible rate has been trending upward, increasing each year over the
 3 three-year period. Due to the upward trend, a 3-year average was calculated and
 4 applied to present rates and proposed rate revenues to develop the level of expense that
 5 will be incurred for the test period ended May 31, 2022.

6 **Q. How much has the uncollectible expense increased over the last three years?**

7 A. The Company’s actual net charge-offs for 2017 were \$2.8M, followed by \$3.1M for
 8 2018, and \$3.3M for 2019. From 2017 – 2019, actual net charge-offs has risen about
 9 \$0.5M.

10 **Q. In past Missouri-American general rate proceedings, has there been a time when
 11 the uncollectible expense has been rising year over year for several years?**

12 A. Yes. For example, in Case No. WR-2010-0131, a general rate case, the uncollectible
 13 expense had increased each year over a three-year period. Staff utilized historical years
 14 of 12 months ended June 30, 2007, 12 months ended June 30, 2008, and 12 months
 15 ended June 30, 2009 for its review. The historical values, from that general rate case,
 16 are reflected below.

| | WR-2010-0131 | 3-Year | |
|------------------|------------------------|-----------------|-------------------|
| | Net Charge-offs | Increase | Increase % |
| June 30, 2007 | \$1,490,606 | | |
| June 30, 2008 | \$1,581,256 | | |
| 17 June 30, 2009 | \$1,970,342 | \$479,736 | 24.35% |

18 **Q. Subsequent to Case No. WR-2010-0131, did uncollectible expense continue to have
 19 an upward trend?**

1 A. Yes. In the subsequent Case No. WR-2011-0337, the uncollectible expense continued
 2 to increase each year over a three-year period. Staff utilized historical years of 12
 3 months ended December 31, 2008, 12 months ended December 31, 2009, and 12
 4 months ended December 31, 2010. The historical values, from that general rate case,
 5 are reflected below.

| | WR-2011-0337 | 3-Year | |
|-------------------|------------------------|-----------------|-------------------|
| | Net Charge-offs | Increase | Increase % |
| December 31, 2008 | \$1,809,762 | | |
| December 31, 2009 | \$2,072,122 | | |
| December 31, 2010 | \$2,334,734 | \$524,972 | 22.49% |

6 Note-Only reflects increase for existing districts in WR-2010-0131

7 **Q. How did Staff address uncollectible expense in Case No. WR-2011-0337?**

8 A. In that case, Staff applied “the three-year average ratio to Staff’s proposed annualized
 9 revenue level for each district.”¹ Thus, the amount of uncollectible expense used for
 10 rate purposes would have fallen short of the increasing amounts experienced by the
 11 Company.

12 **Q. What is MAWC’s proposal to attempt to address this issue?**

13 A. As stated above, MAWC proposes to apply the three-year average to both present rate
 14 and proposed rate revenues to develop the level of expense.

15 **Q. Does this conclude your direct testimony?**

16 A. Yes, it does.

¹ Staff Report Cost of Service, Page 57, Lines 22-23, Case No. WR-2011-0337.