

Exhibit No.: _____
Issue(s): Meter Reading Payroll/Cash Working
Capital/Admin & General Salaries
Witness/Type of Exhibit: Riley/Direct
Sponsoring Party: Public Counsel
Case No.: WR-2023-0344

DIRECT TESTIMONY

OF

JOHN S. RILEY

Submitted on Behalf of the Office of the Public Counsel

RAYTOWN WATER COMPANY

CASE NO. WR-2023-0344

October 10, 2023

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DIRECT TESTIMONY
OF
JOHN S RILEY
RAYTOWN WATER COMPANY
CASE NO. WR-2023-0344

1 **Q. What is your name and what is your business address?**

2 A. John S. Riley, PO Box 2230, Jefferson City, Missouri 65102.

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

4 A. I am employed by the Missouri Office of the Public Counsel (“OPC”) as a Utility Regulatory
5 Supervisor.

6 **Q. What is your educational background?**

7 A. I earned a B.S. in Business Administration with a major in Accounting from Missouri State
8 University.

9 **Q. What is your professional work experience?**

10 A. I was employed by the OPC from 1987 to 1990 as a Public Utility Accountant. In this capacity,
11 I participated in rate cases and other regulatory proceedings before the Public Service
12 Commission (“Commission”). From 1994 to 2000 I was employed as an auditor with the
13 Missouri Department of Revenue. I was employed as an Accounting Specialist with the
14 Office of the State Court Administrator until 2013. In 2013, I accepted a position as the Court
15 Administrator for the 19th Judicial Circuit until April 2016 when I joined the OPC as a Public
16 Utility Accountant III. I have also prepared income tax returns, at a local accounting firm, for
17 individuals and small business from 2014 through 2017

18 **Q. Are you a Certified Public Accountant (“CPA”) licensed in the State of Missouri?**

19 A. Yes. As a CPA, I am required to continue my professional training by attending Missouri
20 State Board of Accountancy qualified educational seminars and classes. The State Board of

1 Accountancy requires that I spend a minimum of 40 hours a year in training that continues
2 my education in the field of accountancy.

3 **Q. Have you previously filed testimony before the Missouri Public Service Commission?**

4 A. Yes I have. A listing of my case filings is attached as JSR-D-1.

5 **Q. What is the purpose of your direct testimony?**

6 A. Raytown Water Company (“Raytown” or the “Company”) and Staff are proposing a revenue
7 requirement that is excessive for providing safe and adequate service to its customers. I will
8 be offering adjustments to Staff’s 120 day filing report, specifically adjusting Meter Reading
9 Expense, Cash Working Capital (“CWC”), and General Salaries.

10 **METER READING EXPENSE**

11 **Q. What costs are included in this account?**

12 A. Meter reading is an operational and maintenance expense account typically recorded in
13 account 902. The majority of the expense would be labor to take the meter readings for billing
14 purposes.

15 **Q. What is your proposed adjustment to this account balance?**

16 A. I am proposing that the \$170,755 balance in the 902 account be removed completely from the
17 revenue requirement.

18 **Q. What is your argument for the complete removal of this balance?**

19 A. The Company has undertaken a program to replace all of the meters in the service area with
20 AMI meters¹. These meters will not require manual, onsite physical readings in order to

¹ An explanation of the capabilities of these new AMI meters is included in Dr. Marke’s testimony. The cursory explanation for the purpose of my testimony is that the meters can transmit data to Raytown’s home office via a

1 establish water consumption for monthly billings. Meter reading should no longer be a valid
2 expense.

3 **Q. Only 45.12% of the meters had been installed by the end of the true-up period. That**
4 **leaves 54.88% of the meters still requiring manual examination. Why argue for all the**
5 **expense to be eliminated?**

6 A. The software and communication equipment for the entire meter replacement program is
7 already in place and being used. Additionally, the maintenance contract for this equipment is
8 over \$104,000 annually. Therefore, allowing both the manual meter reading expense and the
9 software/maintenance expense in the cost of service would be duplicative and counter-
10 productive. AMI has currently replaced over \$77,044 (45.12% of \$170,755) of this labor in
11 addition to the associated withholding tax and benefits. The contract cost is more than the
12 remaining balance of labor in the 921 account. With the advanced meter investment, the need
13 for manual meter reading should be completely eliminated. The Company's entire reason for
14 AMI meters is to create efficiency and eliminate expense.

15 **CASH WORKING CAPITAL ("CWC")**

16 **Q. Did Staff perform any CWC calculations for this rate case?**

17 A. No. The Staff accounting schedule, Schedule 08, would normally include CWC calculations
18 but Staff's included Schedule is incomplete. The Schedule only has a few starting balances,
19 but does not have any CWC calculations.

20 **Q. Did you complete a CWC schedule for this rate case?**

21 A. I did put together a schedule, however, I did not perform my own lead lag study or
22 independently establish the expenses included in the calculations. The individual account

WIFI connection. As Staff has explained in its report, approximately 46% of the meters had been installed by the true-up cut off and all of the remaining meters were to be installed by the end of 2023.

1 balances were extracted from the Cost of Service section of the Income Statement that Staff
2 included or from its workpapers. The revenue and expense lag figures were gathered from
3 the following cases: Raytown WR-2015-0246, Missouri-American WR-2022-0303,
4 Confluence Rivers WR-2023-0006 or Raytown WR-2020-0264. My CWC Schedule is
5 attached as Schedule JSR-D-02.

6 **Q. Could you provide a brief explanation of how CWC affects the revenue requirement**
7 **needs of the Company?**

8 A. Yes. As I don't see a need to re-invent the wheel, I'll quote the Staff definition that is
9 commonly used in its reports.

10 Cash Working Capital (CWC) is a **rate base component** that represents a
11 measurement of the amount of funds, on average, required for the **payment**
12 of a utility's day-to-day expenses, as well as an identification of whether a
13 utility's customers or its shareholders are responsible for providing these
14 funds in the aggregate. (Emphasis Added)

15 In a CWC calculation, both a revenue lag and an expense lag are measured. The "lag" is the amount
16 of time, usually in days, that it takes revenues to come in from the customer or the time it takes for the
17 utility to pay out an expense. The standard revenue lag for Raytown is 43 days in the cases I mentioned
18 above. Customer payments are fairly homogenous and this revenue lag is a consistent multiplier in
19 the calculation. In contrast, each expense component of the CWC calculation has a different payment
20 schedule based on when the individual expense needs to be paid. As a result, the expense lag is different
21 for each line item.

22 **Q. What are your initial CWC calculations for Raytown?**

23 A. There are two overall components in the CWC Schedule that flow to the rate base, Schedule
24 02: Additions to Net Plant and Subtraction from Net Plant. Normally, the amounts included
25 from CWC Operation and Maintenance Expense are positive and the Tax and Interest Offsets
26 are negative. In this particular case, both components are negative adjustments to Net Plant.
27 There are rate base additions of \$20,606 for Operation & Maintenance expense, with payroll

1 and property tax reductions of \$90,279. Put together, the CWC amount so far equals a
2 combined reduction of \$69,673.

3 Next, the Tax Offset Section. This section consists of annualized Federal and State tax
4 amounts calculated within the workpapers and displayed on the Income Tax Schedule 11, as
5 well as the expected Interest Expense. As shown on my JSR-D-02, these three amounts
6 combine to provide a negative (or subtraction) adjustment from the Net Plant of \$156,683.
7 The two sections combined create a negative addition of \$226,356.

8 **Q. Could you explain the math and the theory behind the three negative amounts in the**
9 **Tax Offset Section?**

10 A. The Federal and State Tax amounts used in the calculations are derived from Staff's income
11 tax calculations. I reviewed the Company's 2021 and 2022 income tax returns and found that
12 the Company has recorded taxable losses both years. Given that the installation of \$4 million
13 of AMI meters is well on its way in 2023; the accelerated depreciation will provide the
14 Company with taxable losses for 2023 as well.

15 **Q. Are these tax losses the basis of you applying a 365 day expense lag to the Federal and**
16 **State tax amounts?**

17 A. Yes. Staying consistent with the Commission's decision in Spire Case No. GR-2021-0108,
18 where tax expense amounts that were not being submitted to a taxing authority should be
19 provided a 365 expense lag within the CWC calculations. The 365 expense lag was applied
20 as well as the 43 day revenue lag to produce a lag factor of negative .8821918. The combined
21 tax total multiplied by the factor created a \$90,307 Tax offset to rate base.

22 The Staff listed \$174,297 as interest expense for the test year. I did not make adjustments to
23 this interest lead/lag. I applied the usual half year payment expense lag calculation to that
24 balance to generate a negative CWC requirement of \$66,376. Combined, the Tax Offset
from Rate

1 Base is a total of \$156,683. Adding the Operation & Maintenance CWC calculation (\$69,673)
2 with the Tax Offset (\$156,683) creates a reduction of Net Plant of (\$226,356).

3 **ADMIN & GENERAL SALARIES**

4 **Q. What concerns do you have with the proposed level of Administrative and General**
5 **Salaries?**

6 A. The level of overtime is excessive. It doesn't appear that either Staff or the Company is
7 concerned with this extra time at a rate of one and a half the hourly rate. Given Company
8 answer to OPC data requests 1209, Raytown expects to continue the amount of overtime into
9 the foreseeable future.

10 **Q. Were there any additional employees hired since the last case?**

11 A. There has been quite a bit of turnover through the years. The 2020 payroll had seven
12 employees that don't appear to be working for the Company now and the current payroll has
13 at least six new employees hired since the last rate case.

14 **Q. What explanation did the Company provide for the expected continued overtime within**
15 **the Company operations?**

16 A. Company answer to data request 1209 indicates "**There would be no expected reductions**
17 **in overtime. None of the new hires are assigned to the office work, so all overtime would**
18 **remain basically the same.**" (Schedule JSR-D-03, answers to OPC data requests)

19 **Q. Did Staff make any reduction to payroll for the overtime?**

20 A. No, in fact it appears that Staff built in the overtime as if it was standard pay with a COLA
21 increase to boot.

1 **Q. Do you see any unnecessary overtime built into the office payroll?**

2 A. Yes. The Company indicates that Ms. 'Chiki' Thompson is the only person in the Company
3 that has DS certification². Someone with this certification must be involved with repairs of
4 water breaks. Conventional wisdom would guide the Company to having the field employees
5 certified. That eliminates expensive overtime (\$80 an hour) and an unnecessary person on
6 site of a water break. The Company has had every opportunity to get the proper certification
7 for its field supervisor but apparently hasn't made that effort.

8 It's my understanding that everyone in the office has been promoted since the last rate case
9 yet no one addresses all this overtime. When I see these promotions, along with the personnel
10 shortfall, it leads me to ask if there was a Staff oversight. I wonder if the Company would
11 have any backup plan if Staff were to exclude the unsubstantiated overtime. Further, I wonder
12 what qualifications are required for promotions. Normally, the expectation would be for the
13 promoted workers to handle more duties, or handle their current duties better.

14 **Q. What Admin. & General Salaries are you proposing be eliminated from the cost of**
15 **service?**

16 A. Chiki Thompson's overtime pay, the associated Company match on the 401K and the
17 Company's portion of payroll taxes. As the answer to OPC data request 1203 indicates, Ms.
18 Thompson spends a great deal of time performing tasks that a DS certified field service
19 employee should be handling. Other such responsibilities should have been eliminated
20 through AMI meter installation.

21 Currently, Staff is allowing \$41,425 in overtime for Ms. Thompson, where all indications are
22 that the majority of this time should be eliminated due to duplication in the field or from the

² Answer to OPC data request 1203 included in JSR-D-03. DNR requires this oversight.

1 installation of AMI meters. Therefore, \$41,425 in salary, \$2,486 in 401K matching, and
2 \$3,169 in taxes should all be eliminated from the revenue requirement.

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

4 A. Yes it does.

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

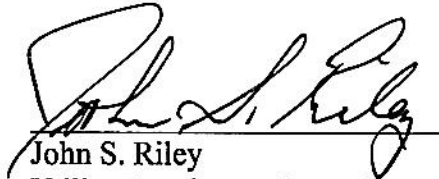
In the Matter of the Application of a Rate)
Increase of Raytown Water Company) Case No. WR-2023-0344

AFFIDAVIT OF JOHN S. RILEY

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

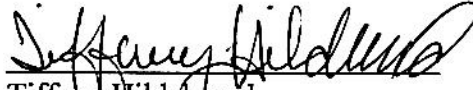
John S. Riley, of lawful age and being first duly sworn, deposes and states:

1. My name is John S. Riley. I am a Utility Regulatory Supervisor for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.


John S. Riley
Utility Regulatory Supervisor

Subscribed and sworn to me this 10th day of October 2023.

TIFFANY HILDEBRAND
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
MY COMMISSION EXPIRES AUGUST 8, 2027
COLE COUNTY
COMMISSION #15637121


Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2027.