

*Exhibit No.:*  
*Issue(s):* *Rate Case Expense*  
*Witness:* *Sherrye Lesmes*  
*Sponsoring Party:* *MoPSC Staff*  
*Type of Exhibit:* *Surrebuttal Testimony*  
*Case No.:* *WR-2023-0344*  
*Date Testimony Prepared:* *November 8, 2023*

**MISSOURI PUBLIC SERVICE COMMISSION**

**FINANCIAL AND BUSINESS ANALYSIS DIVISION**

**AUDITING DEPARTMENT**

**SURREBUTTAL TESTIMONY**

**OF**

**SHERRYE LESMES**

**THE RAYTOWN WATER COMPANY**

**CASE NO. WR-2023-0344**

*Jefferson City, Missouri*  
*November 2023*

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SHERRYE LESMES  
THE RAYTOWN WATER COMPANY  
CASE NO. WR-2023-0344**

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1 **RATE CASE EXPENSE**

2 Q. Mr. Payne presented a discussion of Staff's treatment of rate case expense in his  
3 rebuttal testimony. Would you please briefly summarize his concerns?

4 A. Beginning on page 2, line 3 of his rebuttal testimony, Mr. Payne claims that Staff  
5 did not consider the rate case expense that was included in Raytown Water Company's  
6 ("RWC's") last two rate cases, Case Nos. WR-2015-0246 and WR-2020-0264. As a result,  
7 Mr. Payne claims that RWC has collected more in rates than the rate case costs incurred.<sup>1</sup>

8 Q. Please summarize Staff's position for rate case expense.

9 A. Staff included a normalized level of rate case expense based on the costs  
10 incurred in Case No. WR-2020-0264 and the costs incurred through June 30, 2023, the end of  
11 the update period in the current proceeding. Staff intends to update its recommended  
12 normalized level of rate case expense to capture all costs related to the hearing, including legal  
13 briefs, in this case.

14 Q. Does Staff agree with Mr. Payne's interpretation of Staff's treatment of rate  
15 case expense?

16 A. No. It appears that Mr. Payne is confused with the concept of the  
17 normalization methodology.

18 Q. Please define the term normalization.

19 A. Normalization adjustments are intended to reflect normal ongoing operations.  
20 Specific to rate case expense, the costs incurred by the utility can fluctuate from one case to  
21 another. Therefore, Staff will evaluate these costs from case to case to determine a normalized  
22 level. This generally results in calculating an average of multiple periods to determine a

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<sup>1</sup> Case No. WR-2023-0344, Manzell Payne, Rebuttal Testimony, page 2, lines 3-20.

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1 normalized level of these costs. These types of adjustments are made in several areas of a  
2 utility's cost of service, for example maintenance expense.

3 Q. Did Staff normalize rate case expense?

4 A. Yes. As mentioned earlier in this testimony, Staff normalized the  
5 rate case expense over a two-year period using the rate case expense incurred in  
6 Case No. WR-2020-0264 and the costs incurred in the current proceeding. The cost of service  
7 is based on an ongoing level of expense for these items, and the amount of normalized expenses  
8 included in the cost of service are generally not subject to any tracking for future over or  
9 under recovery.

10 Q. Has RWC recovered rate case expense using this method in prior rate cases?

11 A. Yes. Specific to RWC, Staff included a normalized level of rate case expense in  
12 Case Nos, WR-2012-0405, WR-2015-0246, and WR-2020-0264.

13 Q. Did OPC raise concerns about this treatment in the last three RWC rate cases?

14 A. No, they did not.

15 Q. On page 2, lines 11-20 of his rebuttal testimony, Mr. Payne states RWC has been  
16 overcompensated for rate case expense due to not filing between 2015 and 2020. How does  
17 Staff respond?

18 A. Since Staff normalizes rate case expense, over or under recovery of this expense  
19 is not tracked by Staff. Staff allowed three years of a normalized expense in the last rate case  
20 for expenses. The number of years is based on Staff's estimate of how long it will be before a  
21 utility will come back in for a rate case. If a cost is normalized using a three-year period and  
22 the utility files a rate case after the three-year period, the utility will benefit from the three-year  
23 normalized level. Likewise, if the utility files a rate case prior to the three-year period, the

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1 utility will not recover all its rate case expense. This is true with every cost of service  
2 component that is normalized.

3 Q. Why did Staff use a two-year average to normalize rate case expense in  
4 this case?

5 A. RWC has stated they will be filing a request for a rate increase after all meters  
6 have been replaced. Therefore, it is Staff's opinion normalizing the expenses over a two-year  
7 period is appropriate for this rate case.

8 Q. Does a utility have to file a rate case that is consistent with the period of time  
9 Staff uses in the calculation for a normalized level of cost?

10 A. No. Utilities do not have to file based on the period of time Staff used to calculate  
11 a normalized level of costs. There are several cost components in a utility's cost of service.  
12 The normalization period may be different for specific cost components that are normalized.  
13 At a minimum, Staff evaluates historical data to determine the appropriate period of time to  
14 normalize a specific cost. A utility can file a rate case at its discretion, unless a utility is ordered  
15 to file by a certain date by the Commission.

16 Q. On page 2, line 24 through page 3, line 2 of his rebuttal testimony, Mr. Payne  
17 states that RWC has already been compensated sufficiently to retain legal representation for the  
18 hearing requested by OPC in the current case. How does Staff respond?

19 A. Staff's recommendation is to normalize rate case expense using a two-case  
20 average that includes Case No. WR-2020-0264 costs and the costs incurred in the current  
21 proceeding. Since the total cost of legal representation for RWC will not be known until the  
22 conclusion of this case, Staff's recommended normalized level is not currently reflected in

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1 Staff's calculated rate case expense, and, therefore, it cannot be said that RWC has been  
2 sufficiently compensated for this expense.

3 Q. What types of expenses are allowed to be included in rate case expense?

4 A. It is the Commission's position for rate case expense that those expenses which  
5 are known and measurable, reasonable, necessary, and prudently incurred in the preparation  
6 and presentation of a utility's case may be included. Examples of rate case expenses include  
7 legal fees from outside counsel, expert witness fees, postage/shipping expense, and costs  
8 incurred by the utility to attend case-related activities in Jefferson City.

9 Q. Is it Staff's position that RWC's legal fees should be included in rate  
10 case expense?

11 A. Yes. Since the hearing is at the request of OPC, it is prudent, reasonable, and  
12 necessary for RWC to retain legal representation for the duration of the hearing. Legal  
13 representation costs are an expense the Commission considers usual and customary for a  
14 general rate case.

15 Q. Is Staff planning to update the cost of service for rate case expense?

16 A. Yes. RWC should be allowed an opportunity to recover in rates the normalized  
17 level of reasonable and prudently incurred rate case expense that include costs incurred during  
18 this rate case. Staff will continue to examine the actual costs incurred by RWC related to the  
19 processing of this rate case and include all prudently incurred expense in the cost of service  
20 analysis during the course of this proceeding.

21 Q. Did Staff make any corrections to its workpapers supporting rate case expense  
22 in this case?

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1           A.     Yes.   Staff incorrectly labeled rate case expense incurred by RWC in  
2 Case No. WR-2020-0264 as “residual” rate case expense. The costs reflected for this rate case  
3 includes all of RWC’s rate case expense. Staff revised its workpaper to replace the word  
4 “residual” to “total”. This revision does not change Staff’s recommended level for rate case  
5 expense. The revision is attached to this testimony as Schedule SL-s1.

6           Q.     Does this conclude your surrebuttal testimony?

7           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                )           File No. WR-2023-0344

**AFFIDAVIT OF SHERRYE LESMES**

STATE OF MISSOURI     )  
                                  )  
COUNTY OF COLE     )           ss.

**COMES NOW SHERRYE LESMES** and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Surrebuttal Testimony of Sherrye Lesmes*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Sherrye Lesmes  
**SHERRYE LESMES**

**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 6<sup>th</sup> day of November 2023.

Dianna L. Vaught  
Notary Public

DIANNA L. VAUGHT  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Cole County  
My Commission Expires: July 18, 2027  
Commission Number: 15207377

**Raytown Water Company**  
**WR-2023-0344**  
**Rate Case Expenses**  
**Test Year ending 12/31/22**  
**Prepared by: Sherrye Lesmes**

Total Rate Case Expense from WR-2020-0264		
Date	Expense Type	Amount
2/29/20	Marr & Co.	\$567.50
3/16/20	Postage	\$2,572.29
3/31/20	Marr & Co.	\$4,250.00
4/8/20	Postage	\$15.69
5/1/20	Marr & Co.	\$1,187.50
<b>Total</b>		<b>\$8,592.98</b>
	<b>Test Year</b>	<b>\$ -</b>
	<b>Normalized</b>	<b>\$ 5,856</b>
	<b>Adjustment</b>	<b>\$ 5,856</b>

Current Rate Case Expense		
Date	Expense Type	Amount
5/5/23	Postage Permit for bulk mailing of 1st notice & LPH of Rate Case	\$ 3,118.73

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**Total \$ 3,118.73**

**Grand Total: \$11,711.71**