

# Exhibit No. 217

**Exhibit No.:** \_\_\_\_\_  
**Issue(s):** Cash Working Capital  
**Witness/Type of Exhibit:** Weathers/Rebuttal  
**Sponsoring Party:** Public Counsel  
**Case No.:** WR-2022-0303

**REBUTTAL TESTIMONY**  
**OF**  
**CASSIDY WEATHERS**

Submitted on Behalf of the Office of the Public Counsel

**MISSOURI-AMERICAN WATER COMPANY**

CASE NO. WR-2022-0303

January 18, 2023

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**MISSOURI-AMERICAN WATER COMPANY**  
**CASE NO. WR-2022-0303**

1 **I. INTRODUCTION**

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

3 A. Cassidy Weathers, PO Box 2230, Jefferson City, Missouri 65102.

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

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

7 **Q. On whose behalf are you testifying?**

8 A. I am testifying on behalf of the OPC.

9 **Q. What is the nature of your duties at the OPC?**

10 A. My duties include performing audits and examinations of the books and records of public  
11 utilities operating within the State of Missouri.

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

13 A. I graduated from Missouri Southern State University with a Bachelor’s of Science in Business  
14 Administration with an emphasis in Accounting and a certificate in Crime Scene Investigation  
15 in May of 2021.

1 **Q. Have you received specialized training related to public utility accounting and**  
2 **ratemaking?**

3 A. Yes. I received and continue to receive regulatory and ratemaking training as an employee of  
4 the OPC. In March 2022, I attended the online Institute of Public Utilities Accounting and  
5 Ratemaking Course sponsored by Michigan State University. In addition, I attended the  
6 NARUC Utility Rate School in May of 2022.

7 **Q. Have you previously testified before the Missouri Public Service Commission**  
8 **(“Commission”)?**

9 A. I have prepared and submitted pre-filed testimony, but have not yet been called to testify  
10 before the Commission. Please refer to the attached Schedule CW-R-1 for the list of cases in  
11 which I have filed pre-filed testimony.

12 **Q. What is the purpose of this rebuttal testimony?**

13 A. I am proposing expense lag adjustments to the Cash Working Capital (“CWC”) calculations  
14 developed from workpapers of Commission Staff (“Staff”) witness Angela Niemeier and  
15 Missouri-American Water Company (“MAWC”) witness Harold Walker, III. I will point out  
16 a minor error in Staff’s CWC Accounting Schedules.

17 These adjustments include changing the expense lag for Support Services from a negative  
18 2.20 day expense lag to a positive 48.80 day expense lag to match the Contracted Services  
19 expense lag and changing the expense lag for Current Federal Income Tax and Current State  
20 Income Tax to a 365 day expense lag.

21 **II. CASH WORKING CAPITAL**

22 **Q. Did you review the CWC workpapers from Ms. Niemeier and Mr. Walker?**

23 A. Yes.

1 **Q. Did you review the CWC Schedules from Staff's Accounting Schedules?**

2 A. Yes.

3 **Q. Did the OPC conduct a CWC lead-lag study and/or create a CWC workpaper?**

4 A. No.

5 **Definitions**

6 **Q. What is a lead-lag study?**

7 A. I agree with Ms. Niemeier's definition of lead-lag study in her direct testimony:<sup>1</sup>

8 *The lead/lag study involves analysis of the timing of when funds are paid to*  
9 *suppliers and when the utility receives the goods or services, compared to*  
10 *when the utility receives revenues from customer bills for the utility services*  
11 *it provides. Analysis is also performed for pass-through expenses where*  
12 *funds are collected and remitted such as sales taxes and employee payroll*  
13 *withholdings. The lead/lag study results in either a negative or positive*  
14 *CWC requirement.*

15 **Q. What is expense lag?**

16 A. I agree with Ms. Niemeier's definition of expense lag in her direct testimony:<sup>2</sup>

17 *Expense Lag: indicates the number of days between the receipt of, and*  
18 *payment for, the goods and services (i.e., cash expenditures) used to provide*  
19 *service to the ratepayer.*

20 A negative expense lag represents the utility prepaid for the goods and services and will  
21 receive those goods and services in the indicated number of days.

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<sup>1</sup> WR-2022-0303, Angela Niemeier's Direct Testimony, page 3, lines 17-22

<sup>2</sup> WR-2022-0303, Angela Niemeier's Direct Testimony, page 5, lines 17-19

1 **Q. What are Support Services?**

2 A. A variety of services provided by the parent company, sometimes known as the service  
3 company. These services include internal audits, customer service, human resources,  
4 technology support, environmental compliance, legal counsel and services, and  
5 engineering. In MAWC witness Patrick Baryenbruch's direct testimony,<sup>3</sup> he includes an  
6 extensive list of all the services provided to MAWC from American Water Works Service  
7 Company, Inc. ("Service Company"), MAWC's service company.

8 **Q. What are Contracted Services?**

9 A. A variety of services provided by a third party, which include landscaping, accounting, and  
10 audit and legal fees. In MAWC witness Brian LaGrand's direct testimony,<sup>4</sup> he mentions a  
11 list of associated services for MAWC.

12 **CWC: Support Services**

13 **Q. Do you agree with Ms. Niemeier and Mr. Walker's CWC expense lag for Support**  
14 **Services?**

15 A. No.

16 **Q. What is your recommendation for Support Services in the CWC lead-lag study?**

17 A. To change the expense lag for Support Services from a negative 2.20 day expense lag to a  
18 positive 48.80 day expense lag to match the Contracted Services expense lag.

19 **Q. Is your recommendation a previous argument brought to the Commission?**

20 A. I am not aware if this argument has been brought to the Missouri Commission, but this  
21 argument was made by Blake Kruger from the Iowa Office of Consumer Advocate in Iowa-

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<sup>3</sup> WR-2022-0303, Patrick Baryenbruch's Direct Testimony, page 4, lines 11-21 & page 5, lines 1-9

<sup>4</sup> WR-2022-0303, Brian LaGrand's Direct Testimony, Schedule CAS-13, line number 15

1 American Water Company's before the Iowa Utilities Board in Case Number RPU-2020-  
2 0001.<sup>5</sup>

3 **Q. Did the Iowa Utilities Board ("Iowa Commission") agree with Mr. Kruger's**  
4 **argument?**

5 A. Yes. The Iowa Commission stated the following in their Final Decision and Order:<sup>6</sup>

6 *The Board has reviewed the proposals for lead/lag costs as submitted by*  
7 *Iowa-American and OCA and reviewed the rationale for when to pay a*  
8 *service company. The Board finds it difficult to perceive a reasonableness*  
9 *standard for prepay without some offsetting value being received by the*  
10 *customers. It is unlikely Iowa-American would be required to prepay for*  
11 *comparable services if it obtained them in the marketplace instead of from*  
12 *its parent company. Given a lack of evidence establishing any value to the*  
13 *customer, the Board finds that Iowa-American's customers should not be*  
14 *required to pay for services obtained from the parent company on terms*  
15 *that are not competitive with the market. The Board will therefore approve*  
16 *OCA's proposed methodology, which excludes prepayment of service*  
17 *company costs to Iowa-American's parent company.*

18 **Q. Why do you recommend Support Services share the same expense lag as Contracted**  
19 **Services in this case?**

20 A. MAWC is including Support Services in its lead-lag study. The lead-lag study assumes  
21 MAWC pays an average of 2.20 days before MAWC will receive service. What this means,  
22 is Service Company, MAWC's service company, is billing MAWC for services in advance.  
23 This is an improper billing methodology from Service Company because the services that

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<sup>5</sup> RPU-2020-0001, Iowa-American Water Company, Blake Kruger's Direct Testimony, pages 27-28

<sup>6</sup> RPU-2020-0001, Iowa-American Water Company, Iowa Utilities Board's Final Decision and Order, page 19



1 are included in Support Services align with the services included in Contracted Services.  
 2 Therefore, Support Services should share the same expense lag as Contracted Services,  
 3 which is a positive 48.80 days. Overall, ratepayers are not receiving any benefit from  
 4 MAWC prepaying for Support Services.

5 **Q. What is the adjustment to Support Services for total water and total sewer if it**  
 6 **matched the Contracted Services expense lag?**

7 A. My Support Services expense lead-lag adjustment would reduce rate base for total water  
 8 and total sewer by:

9 Support Services for Total Water: \$4,040,659 negative adjustment

10 Support Services for Total Sewer: \$133,352 negative adjustment

11 In the table below, I show my adjustment for the new cash requirement for Support Services  
 12 for MAWC’s total water and total sewer:

<b>CWC Support Services</b>						
	<b>Present Rates: Base Year Ended 06/30/22</b>	<b>Average Daily Expense</b>	<b>Revenue (Lead)/Lag</b>	<b>Expense (Lead)/Lag</b>	<b>Net Lag</b>	<b>Cash Requirement</b>
<b>Water</b>						
Company	\$ 28,918,448	\$ 79,229	45.70	(2.20)	47.90	\$ 3,765,055
OPC	\$ 28,918,448	\$ 79,229	45.70	48.80	(3.10)	\$ (245,604)
<b>Adjustment</b>						<b>\$ (4,040,659)</b>
<b>Sewer</b>						
Company	\$ 954,381	\$ 2,615	45.70	(2.20)	47.90	\$ 125,246
OPC	\$ 954,381	\$ 2,615	45.70	48.80	(3.10)	\$ (8,106)
<b>Adjustment</b>						<b>\$ (133,352)</b>

13

1 **Q. Did you find any errors while reviewing Staff's CWC Schedules?**

2 A. Yes. In Staff's Accounting Schedules, there are several CWC Schedules due to the  
3 numerous MAWC sections for both water and sewer. I did find an omission in the CWC  
4 sections for sewer.

5 **Q. What was the error you found in Staff's CWC Schedules?**

6 A. While reviewing the various CWC Schedules, the Support Services included in the Total  
7 Sewer CWC Schedule only includes the Support Service expenses from Arnold Sewer  
8 District A and does not include All Other Waste Water District B. I adjusted my table above  
9 to the correct present rates total for sewer Support Services.

10 **CWC: Income Tax**

11 **Q. Do you agree with Ms. Niemeier and Mr. Walker's CWC expense lag for**  
12 **income tax?**

13 A. No. Staff and MAWC have used the standard IRS quarterly payment lag.

14 **Q. What is your recommendation in regards to income tax in the CWC lead-lag**  
15 **study?**

16 A. To change the expense lag for Current Federal Income Tax and Current State  
17 Income Tax from a 35.60 day expense lag to a 365 day expense lag.

18 **Q. Is your recommendation a previous argument brought to the Commission?**

19 A. Yes. In Case No. GR-2021-0108, OPC witness John Riley stated that Spire Missouri, Inc.  
20 ("Spire") had not paid income taxes to a taxing authority for several years and if no  
21 payments are being made throughout the year, then the expense lag should be an entire  
22 year (*i.e.* 365 days).

1 **Q. Did the Commission agree with Mr. Riley’s recommendation in Case No. GR-2021-**  
2 **0108?**

3 A. Yes. The Commission stated the following in their Amended Report and Order:<sup>7</sup>

4 *The Commission finds that federal and state income tax expense is included*  
5 *in rates but the Company is not likely to remit any federal or state income*  
6 *taxes because of its NOLC.<sup>8</sup> Since the Company is not remitting any income*  
7 *taxes to the IRS on a quarterly basis, using a 38-day income tax expense lag*  
8 *in the CWC calculation is inappropriate. This lack of income tax payment*  
9 *should be reflected in the CWC expense lag. The fact that no income tax*  
10 *payments have been made in the test year or true-up period justifies the use*  
11 *of a 365-day expense lag. Therefore, the Commission finds that the*  
12 *appropriate expense lag days for income taxes within the CWC calculation*  
13 *is 365 days.*

14 *Additionally, the Commission finds that using a 365-day expense lag for*  
15 *federal and state income taxes in the calculation of CWC under the*  
16 *methodology used in rate cases before the Commission does not circumvent*  
17 *IRS normalization rules or create a violation because CWC does not include*  
18 *ADIT. Thus, the IRS rules on normalization are not relevant to this CWC*  
19 *issue.*

20 **Q. Why do you recommend the same treatment in this case?**

21 MAWC is similar to Spire in that it does not incur an income tax liability. Therefore, using  
22 a 365 day expense lag will remain consistent per Commission Report and Order.

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<sup>7</sup> GR-2021-0108, Public Service Commission’s Amended Report and Order, page 31

<sup>8</sup> Net Operating Loss Carryforward: a technique that applies the current year’s net operating loss (NOL) to future years’ net income to reduce tax liability

1 **Q. Does this conclude your rebuttal testimony?**

2 A. Yes.

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

In the Matter of the Application of Missouri-     )  
American Water Company's Request for     )  
Authority to Implement General Rate Increase     )     Case No. WR-2022-0303  
for Water and Sewer Service Provided in     )  
Missouri Service Areas     )

**AFFIDAVIT OF CASSIDY WEATHERS**

**STATE OF MISSOURI**     )  
   )     ss  
**COUNTY OF COLE**     )

Cassidy Weathers, of lawful age and being first duly sworn, deposes and states:

1. My name is Cassidy Weathers. I am a Utility Regulatory Auditor for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal 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.

  
\_\_\_\_\_  
Cassidy Weathers  
Utility Regulatory Auditor

Subscribed and sworn to me this 18<sup>th</sup> day of January 2023.



TIFFANY HILDEBRAND  
My Commission Expires  
August 8, 2023  
Cole County  
Commission #15637121

  
\_\_\_\_\_  
Tiffany Hildebrand  
Notary Public

My Commission expires August 8, 2023.

<b><u>Case/Tracking Number</u></b>	<b><u>Company Name</u></b>	<b><u>Issues</u></b>	<b><u>Testified at Hearing</u></b>
ER-2022-0129 ER-2022-0130	Evergy Metro Evergy West	Rate Case Expense, Management Expense Charges	
GR-2022-0179	Spire Missouri	Incentive Compensation	
WR-2022-0303	Missouri-American Water Company	Cash Working Capital	