

*Exhibit No.:*  
*Issues:* *Purchased Water,  
Fuel and Power,  
Heating Oil, Chemicals,  
Revenues, Postage,  
Staff's True-Up Audit*  
*Witness:* *Erin M. Carle*  
*Sponsoring Party:* *MoPSC Staff*  
*Type of Exhibit:* *Surrebuttal Testimony*  
*Case No.:* *WR-2015-0301*  
*Date Testimony Prepared:* *March 4, 2016*

**MISSOURI PUBLIC SERVICE COMMISSION**

**COMMISSION STAFF DIVISION**

**AUDITING**

**SURREBUTTAL TESTIMONY**

**OF**

**ERIN M. CARLE**

**MISSOURI-AMERICAN WATER COMPANY**

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

*Jefferson City, Missouri  
March, 2016*

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**OF**  
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1 **PURCHASED WATER**

2 Q. Does Staff agree with the comments made on pages 3 and 4 of Ms. Bowen's  
3 rebuttal testimony regarding errors made in Staff's direct filing for purchased water?

4 A. No. Ms. Bowen discusses items that she believes are errors in Staff's direct  
5 filed workpapers with regard to Staff's annualization of purchased water expense. Staff does  
6 not believe that these are errors.

7 Q. What types of errors has Ms. Bowen listed in her rebuttal testimony?

8 A. On page 4, lines 6 through 14, Ms. Bowen states:

9 Staff's adjustment for Spring Valley, in the supplied workpaper,  
10 was based on the Parkville (Platte County) system sales. The  
11 adjustment amount calculated by Staff for Spring Valley was a  
12 \$7,684 increase over the test year expense. The amount,  
13 following Staff's logic for Spring Valley would have been  
14 \$5,071, a difference of \$2,613. The total adjustment with this  
15 correction in Staff's workpapers would have been \$98,420, with  
16 a total expense of \$949,975. Additionally, Staff's adjustment  
17 did not include the service charge primacy fee or demand  
18 charge for Callaway County – an annual amount of \$886, so  
19 Staff's corrected Purchased Water expense should be \$950,861.

20 Q. Does Staff agree with her statements?

21 A. No. Staff does not agree that her statements are accurate. Staff used only  
22 the usage values corresponding with the Spring Valley district, as provided in response to  
23 Staff's Data Request (DR) No. 141, to obtain the annualized usage value that was used to  
24 annualize the level of purchased water expense for this district. Staff is not sure what value  
25 Ms. Bowen is using to calculate what she believes Staff's adjustment should, a total of  
26 \$5,701. As far as her second comment addressing Callaway County, Staff has since made  
27 corrections to the calculations presented with its direct filing workpapers and has included all  
28 amounts listed in the Callaway Water District contract to annualize the value for this district.  
29 This correction is part of the true-up calculation discussion further in this testimony. Staff

1 increased the contracted monthly rate that Missouri American pays Callaway County from  
2 \$2.50 to \$2.75. Staff was notified of this increase in a response to Staff's DR No. 141, on  
3 October 27, 2015.

4 Q. Has purchased water been included in the true-up portion of Staff's cost of  
5 service?

6 A. Yes. Purchased water is included as part of Staff's true-up audit and is  
7 discussed in greater detail in the true-up section of this testimony.

#### 8 **FUEL AND POWER EXPENSE**

9 Q. On pages 4 through 8 of Ms. Bowen's rebuttal testimony, she refers to  
10 three different electric utilities that received a rate increase during the course of this rate case  
11 proceeding. Ms. Bowen states differences between the percentage of rate increase approved  
12 for each electric utility that she used and the percentages that Staff used. Please explain how  
13 Staff calculated the percentage of increase for each of the three electricity providers used by  
14 MAWC and how it was applied to the annualized level of fuel and power expense.

15 A. Staff used the Commission authorized rate increases as reflected in the report  
16 and order for each of the three electric utilities, Union Electric Company d/b/a Ameren  
17 Missouri ("Ameren Missouri") in Case No. ER-2014-0258, Kansas City Power & Light  
18 Company ("KCPL") in Case No. ER-2014-0370 and the Empire District Electric Company  
19 ("Empire") in Case No. ER-2014-0351, to determine the appropriate percentage of increase  
20 for each utility. To calculate the percentage of increase, Staff took the ordered dollar amount  
21 of increased revenue requirement and divided it by the overall revenue requirement for each  
22 electric utility. The respective percentage of increase for each electric utility was then applied  
23 to the electric expense incurred by MAWC for those months that required factoring up in

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1 order to complete Staff's annualization of electric expense to account for each of the electric  
2 utility rate increases.

3 Q. What is the revenue requirement difference, on a total company basis for  
4 MAWC, between the Staff's calculation of the electric utility rate increase and those electric  
5 utility rate increases listed on page 7, lines 17 through 24 in Ms. Bowen's rebuttal testimony?

6 A. If Staff replaces the percentages used in their direct filed case with those  
7 MAWC used in Ms. Bowen's rebuttal testimony, it results in a \$2,960 increase in Staff's the  
8 total company cost of service calculation.

9 Q. Does Staff agree with the percentages that Ms. Bowen states in her rebuttal  
10 testimony?

11 A. No, since direct filing, Staff has reviewed the rate increase information for  
12 Ameren Missouri and discovered that the approved level of revenue requirement stated in the  
13 report and order is incorrect. Based on the *Staff's Reconciled Final Accounting Schedules and*  
14 *Final Reconciled Net Base Energy Charge Calculation* filing in Case No. ER-2014-0258, the  
15 actual level of rate increase is an overall 4.46%, instead of the 3.97% that Staff mistakenly  
16 used at direct. Staff has also researched the level of rate increase for Empire and KCPL.  
17 The actual level of increase for KCPL used to rate design their approved tariff, is an overall  
18 increase of 11.76%, instead of the 11.69% that was used in Staff's direct filing.  
19 Empire's percentage of increase at 3.88% was correct. As part of its true-up audit Staff has  
20 annualized electricity expense using these overall increase percentages.

21 Q. Does Staff agree that the level of fuel and power expense should be updated to  
22 take into account the ordered water usage amounts for each district, if the water usage issue is  
23 litigated or stipulated to in this proceeding?

1           A.     Yes. Staff agrees that fuel and power expense is heavily influenced by the  
2 amount of water that is pumped for each district; therefore, the annualized expense should  
3 take into consideration the ordered usage amounts for each district.

4           Q.     Has fuel and power expense been included in the Staff's true-up cost of service  
5 calculation?

6           A.     Yes. Fuel and power expense is included as part of Staff's true-up cost of  
7 service calculation and is discussed in greater detail in the true-up portion of this testimony.

8           **CHEMICALS EXPENSE**

9           Q.     Does Staff agree that the level of chemical expense should be updated to take  
10 into account the ordered water usage amount for each district?

11          A.     Yes. Staff agrees that the level of chemical usage is dependent on the amount  
12 of water that is pumped for each district. Therefore, the ordered levels of system delivery for  
13 each district should be used when calculating the annualized level of chemical expense.

14          Q.     Has chemical expense been included in the true-up portion of Staff's cost of  
15 service?

16          A.     Yes. Chemical expense is included as part of Staff's true-up cost of service  
17 calculation and is discussed in greater detail in the true-up portion of this testimony.

18          **HEATING OIL EXPENSE**

19          Q.     Please address Ms. Bowen's concerns regarding Staff's treatment of heating oil  
20 in her rebuttal testimony.

21          A.     Ms. Bowen states that Staff made no adjustment to the heating oil expense in  
22 their direct filing.

23          Q.     Is this statement true?

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1           A.     Yes. At the time of its direct filing, Staff did not have all of the necessary  
2 information regarding heating oil expense. Staff included language in their direct filing  
3 stating that any adjustments to electricity and heating oil will be discussed as part of Staff's  
4 true-up audit.

5           Q.     Has Staff subsequently received all of the requested data regarding heating oil?

6           A.     Yes.

7           Q.     Has Staff made any adjustments to normalize this expense?

8           A.     Yes. Staff performed an analysis on the data related to heating oil and has  
9 made an adjustment of \$16,430 to increase the level of heating oil expense.

10          Q.     How did Staff normalize this expense?

11          A.     Staff reviewed a three-year history for the twelve-month periods ending  
12 January 31 from 2014 to 2016, by district, by month, to determine if there was a  
13 discernable trend present. If there was a trend month to month, Staff used the most recent  
14 data. If no trend was present, Staff used a three-year average. Once Staff normalized the  
15 data, Staff adjusted the annualized value with any applicable rate increases that the vendors  
16 may have incurred during the course of this rate case. This approach provides a normal,  
17 ongoing level of heating oil expense.

18 **POSTAGE EXPENSE**

19          Q.     Does Staff agree with the statement on page 32, lines 20 through 23 in  
20 Ms. Tinsley's rebuttal testimony regarding the level of postage expense included in Staff's  
21 direct filed case?

22          A.     Yes. At the time of Staff's direct filing, the postage rate increase had not yet  
23 been approved; therefore, Staff did not include that as part of their direct case. Instead, Staff



1 used the current postage rates that existed at the time of its direct testimony filing on  
2 December 23, 2015. Staff included the number of total mailings as provided by MAWC in  
3 response to Staff's DR No. 267. This data was provided on November 24, 2015, as total  
4 MAWC mailings and was not provided by district. Staff submitted Staff' DR No. 267.1  
5 for an update of customer mailings. This response was provided on December 28, 2015.  
6 As this data was received after the direct filing date for Staff, it was not updated in Staff's  
7 direct testimony.

8 Q. Has postage expense been included in the true-up portion of Staff's cost of  
9 service?

10 A. Yes. Postage expense is included as part of Staff's true-up cost of service  
11 calculation and is discussed in greater detail in the true-up portion of this testimony.

## 12 MISCELLANEOUS REVENUES

13 Q. Does Staff agree with Ms. Tinsley's comment regarding miscellaneous  
14 revenues on page 7, lines 1 and 2, of her rebuttal testimony, stating, "Miscellaneous revenues  
15 can fluctuate from year to year so there is no trend. Company recommends using the test year  
16 level for Other Revenues."

17 A. No. Staff believes the exact opposite of what Ms. Tinsley states in her rebuttal  
18 testimony. It has been Staff's long standing practice to use an average to normalize revenues  
19 and expenses to smooth out fluctuations that may occur from year to year.

20 Q. When would Staff use the test year level of a revenue or expense as their  
21 annualized value?

1           A.     Staff would use the test year value, or a more recent update or true-up value,  
2 for a revenue or expense when there is a clear upward or downward trend present in the data  
3 from year to year.

4           Q.     Has miscellaneous revenues been included in the true-up portion of Staff's cost  
5 of service?

6           A.     Yes. Miscellaneous revenues have been included as part of Staff's true-up cost  
7 of service calculation and are discussed in detail in the true-up portion of this testimony.

8 **TRUE-UP ITEMS**

9           Q.     What issues have you examined and adjusted as result of the true-up audit for  
10 this case?

11          A.     I have trued-up operating revenues, miscellaneous revenues, postage expense,  
12 chemicals expense, purchased water expense, heating oil expense, and purchased power  
13 expense.

14          Q.     Why has Staff not trued-up uncollectibles expense?

15          A.     On February 22, 2016, Staff was made aware of a widespread meter  
16 malfunction issue that involved approximately 97,000 water meters on a statewide basis.  
17 MAWC indicated to Staff the affected meters would provide slow flow readings, or no  
18 readings at all. This resulted in many customer bills that reflected estimates based upon same  
19 period usage from the preceding year. Staff has concerns that this issue impacted the overall  
20 level of actual net write-offs. The Staff observed a significant increase in the level of net  
21 write-offs during the last four months, October 1, 2015, through January 31, 2016, of the  
22 true-up cutoff period. Therefore, the Staff still supports an average of actual net write-offs for

1 the three-year period ending September 30, 2015. For a complete discussion of the metering  
2 issue, please refer to Staff witness John P. Cassidy's surrebuttal testimony.

3 Q. Has Staff changed their analysis since their direct filed position?

4 A. No, Staff maintains that their direct filed position is a good representation of  
5 ongoing uncollectibles expense for MAWC.

6 **OPERATING REVENUES/TRUE-UP**

7 Q. What is Staff's true-up position for operating revenues?

8 A. Staff's annualized operating revenues for true-up is \$254,936,536 for water  
9 operations and \$8,356,956 for sewer operations, for total Company operating revenues of  
10 \$263,293,492.

11 Q. What method did Staff use to true-up operating revenues?

12 A. Staff used the same method for true-up that was used for purposes of its direct  
13 case. To true-up the monthly charge revenues, Staff used actual level of customers as of  
14 January 31, 2016, for each district, by customer class. This updated customer count was  
15 multiplied by the current tariffed rate for each class, by meter size, and then multiplied by 12  
16 to get the annual ongoing level of revenues. To calculate volumetric revenues for all classes,  
17 except residential, Staff reviewed usage amounts through January 31, 2016, as provided in  
18 response to Staff DR Nos. 157 and 235. To calculate a normalized level of usage, Staff  
19 reviewed the data by month, customer class, and district. If there was a discernable trend  
20 present, Staff used the most current value provided for each month. If no trend was present,  
21 Staff used a five-year average, for the twelve month periods ending January 31, 2016. If there  
22 was not five years' worth of data available, Staff used an average of the available years. Staff  
23 used this approach for systems that haven't been with MAWC for full five years. Staff

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1 witness James A. Busch calculated normalized residential usages; they have not changed  
2 since Staff's direct filing.

3 Q. What is the level of annualized operating revenues calculated by MAWC?

4 A. MAWC updated their monthly customer charge, but did not update their  
5 volumetric charges since their direct filing. The value of the MAWC's operating revenues for  
6 water is \$244,931,291 and \$7,566,474 for sewer.

7 Q. Please explain why there is approximately a \$10.8 million dollar difference, as  
8 shown in the chart below, between Staff and Company's annualized levels of revenues:

9

	Water	Sewer	Total Company
Staff	\$254,936,536	\$8,356,956	\$263,293,492
MAWC	\$244,931,291	\$7,566,474	<u>\$252,497,764</u>
		Difference	\$10,795,728

10  
11 A. Staff's calculation uses actual customer numbers and usages through the true-  
12 up cut-off of January 31, 2016. MAWC does not use actual customer numbers for their  
13 analysis. MAWC used the level of customer charge revenues collected, and divided that  
14 value by the tariffed rate for each meter size and customer class. Their usage analysis only  
15 goes through test year ending December 31, 2014.

16 Q. Why should the Commission use Staff's annualized revenues amount instead  
17 of the level provided by MAWC?

18 A. Staff's analysis is based on the actual level of customers for each district and  
19 uses the most current usage data available for their volumetric charge analysis, as opposed to  
20 the usage data used in the volumetric charge analysis performed by MAWC.

1 **MISCELLANEOUS REVENUES/TRUE-UP**

2 Q. What is Staff's true-up normalization and annualization for miscellaneous  
3 revenues?

4 A. Staff's normalized and annualized miscellaneous revenues for true-up  
5 is \$3,867,402.

6 Q. What method did Staff use to true-up miscellaneous revenues?

7 A. Staff reviewed the data, by miscellaneous revenue type, by month for each  
8 district. If there was no discernable trend from year to year for each month, Staff used a  
9 five-year average of the twelve-month periods ending January 31, 2016. If there were fewer  
10 than five-years' of actual data, Staff used an average of the available years. If there was a  
11 distinct trend up or down, Staff used the most current month available.

12 Q. Was this method used for all types of miscellaneous revenue?

13 A. No, this method was used for all types of miscellaneous revenues except for  
14 rental income. Staff used the most current rental income to annualize this revenue stream.

15 Q. Did MAWC true-up their miscellaneous revenues analysis?

16 A. No. MAWC has not made any further adjustments to their miscellaneous  
17 revenue since their direct filing.

18 Q. What is the value of MAWC's miscellaneous revenues?

19 A. The value of MAWC's filed miscellaneous revenues is \$3,744,946.

20 Q. Why should the Commission use Staff's level of miscellaneous revenues?

21 A. Staff's miscellaneous revenues analysis uses the most current data available,  
22 including any revenues that may have been incurred by acquisitions made since the test year.  
23 It is the best representation of the ongoing level of miscellaneous revenues MAWC will incur  
24 going forward.

1 **POSTAGE EXPENSE/TRUE-UP**

2 Q. What is the value of Staff's annualization for postage expense at true-up?

3 A. Staff's trued-up postage expense is \$2,557,212.

4 Q. What method did Staff use to normalize the level of postage expense  
5 for MAWC?

6 A. Staff used the number of mailings, by postage method, as provided in response  
7 to Staff DR No. 267, and multiplied each postage type by the current effective postage rate.  
8 Staff also built in monthly mailings in order to annualize postage expense for the Arnold  
9 wastewater district and for Hickory Hills water and Hickory Hills wastewater districts.

10 Q. Did MAWC provide a true-up for postage expense?

11 A. No. MAWC did not true-up their postage expense.

12 Q. What is the difference between Staff and MAWC for postage expense?

13 A. Please refer to the chart below.

14

Staff	\$2,557,212
MAWC	<u>\$2,649,410</u>
Difference	\$(92,198)

15

16 As you can see, there is a difference of approximately \$92,198. The majority of this  
17 difference is due to the Arnold Wastewater acquisition. MAWC included the actual level of  
18 expense incurred for postage during the time of the acquisition. This number is inflated due  
19 to the extra mailings that were sent to their customers providing information about the  
20 acquisition. Staff did not include these mailings in their normalized number, as they will not  
21 incur the expense for these particular mailings going forward and because these mailings are

1 inappropriate to include for purposes of setting rates. Staff's value also has fewer customers.  
2 At the time of direct filing, the customer number provided for Arnold wastewater district was  
3 quite a bit higher than what is actually on the system. MAWC has since provided corrected  
4 customer figures.

5 Q. Why should the Commission use Staff's normalized level of postage expense?

6 A. Staff's postage expense uses the most recent number of customers on each  
7 system to determine the accurate level of postage expense. In addition, Staff does not include  
8 extra, non-reoccurring postage expense due to an acquisition. They have only included the  
9 level of on-going customer mailings.

10 **CHEMICAL EXPENSE/TRUE-UP**

11 Q. What is the value of Staff's true-up annualization for chemical expense?

12 A. The trued-up annualization for chemical expense is \$10,786,272.

13 Q. What method did Staff use to annualized level of chemical expense?

14 A. Staff used the same method that was utilized for their direct filing. Staff used  
15 the current 2016 price for each type of chemical and applied it to either a five-year average or  
16 the usage level at true-up ending January 31, 2016. Staff used the five-year average when the  
17 level of chemical usage fluctuated upward or downward from year to year. If there was a  
18 discernable trend from year to year, Staff used the most recent month's chemical usage. This  
19 annualized chemical usage was then applied to Staff's adjusted system delivery to calculate  
20 the annualized level of chemical expense for each district.

21 Q. How did MAWC true-up their chemical expense?

22 A. MAWC used a three-year average for all of their chemical usage, regardless of  
23 any discernable trend, by district. This value was then applied to a three-year average system

1 delivery value on a district basis to get a trued-up usage. The 2016 chemical costs were then  
2 applied to this usage value to get to their level of trued-up chemical costs.

3 Q. What is the value of MAWC's true-up chemical costs?

4 A. The trued-up value of chemicals for MAWC is \$8,757,385.

5 Q. Why is there difference between Staff and MAWC for this expense?

6 A. While MAWC did a straight three-year average across the board, the Staff  
7 reviewed each chemical usage going back as far as five years to determine if an average was  
8 appropriate or not. This caused Staff to be higher than MAWC at times because there were  
9 multiple instances where taking an average was not appropriate due to a discernable trend.  
10 There are also some chemicals that have not been in use for longer than a year. In that  
11 instance, Staff used the actual value for the years' worth of use for these chemicals. By taking  
12 a three-year average, with two of the years being zero, MAWC inappropriately reduced the  
13 actual required level of expense for these chemicals by two-thirds.

14 Q. Why should the Commission use Staff's true-up annualization value for  
15 chemical expense?

16 A. Staff's methodology to true-up chemical expense looks at each type of  
17 chemical usage, by month, by district. This in-depth level of review allows for a more  
18 accurate annualization of the chemical usage than the Company's approach and is a better  
19 representation of the level of chemical expense that MAWC will experience going forward.

20 **PURCHASED WATER EXPENSE/TRUE-UP**

21 Q. What is the value of Staff's true-up purchased water expense annualization?

22 A. The value of Staff's purchased water analysis at true-up is \$916,428.

23 Q. What method did Staff use to annualize purchased water expense?



1           A.     Staff used the same method used in their direct filing. Staff annualized the  
2 level of purchased water expense for the four water operating districts, St. Louis, Platte  
3 County, Jefferson City and Spring Valley. The true-up level of purchased water expense is  
4 based on the annualized system delivery for each of the above districts as well as the current  
5 contracts between MAWC and each water provider.

6           Q.     What is the value of MAWC's true-up purchased water expense?

7           A.     MAWC has a true-up value of \$965,619.

8           Q.     How did MAWC arrive at their value?

9           A.     MAWC used the actual bills during the test year and updated the contracted  
10 rate on the bills to the current contract rate.

11          Q.     Why should the Commission use Staff's level of purchased water expense?

12          A.     Staff's method takes into consideration the annualized system delivery for each  
13 district. This annualized system delivery is based on a five-year average of system delivery  
14 for St. Louis, Platte County and Jefferson City and a four-year average for Spring Valley.  
15 The level of system delivery fluctuates from year to year, so relying on only one-year's  
16 worth of data, as MAWC did, can greatly affect the level of purchased water expense.  
17 By performing a historical analysis, Staff smoothed out the fluctuations, or normalized  
18 the level of system delivery, experienced at each district. Staff's analysis more  
19 accurately calculates the level of purchased water expense that MAWC will most likely  
20 experience going forward.

21 **PURCHASED POWER EXPENSE/TRUE-UP**

22          Q.     What is the true-up value of Staff's annualization for electricity expense?

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1           A.     Staff calculated a true-up annualized level of \$13,795,874 for electricity  
2 expense.

3           Q.     What methodology did Staff use to annualize electricity expense?

4           A.     Staff annualized electricity expense for each district based on either a  
5 three-year average or the current level, based on the twelve months ending January 31, 2016,  
6 depending on whether there was a discernable trend from year to year. Staff also considered  
7 any rate increases in electricity that had taken place during that same timeframe.

8           Staff developed a rate for power cost per 1,000 gallons of water for each district.  
9 This number is based on the adjusted electricity cost and the test year system delivery.  
10 Using this value, Staff applied it to the annualized system delivery to calculate the annualized  
11 cost of electricity for each district.

12          Q.     What is MAWC's true-up value for electricity expense?

13          A.     MAWC has a true-up value for electricity expense of \$12,698,939.

14          Q.     What methodology did MAWC use to true-up electricity expense?

15          A.     MAWC used the level of electricity expense MAWC incurred during the test  
16 year and applied the level of rate increase that any of the electricity providers may have  
17 incurred during or post-test year. They then took this value, by district, and applied it to  
18 the system delivery power expense per 100 gallons. This provided their true-up  
19 electricity expense.

20          Q.     Why should the Commission use the Staff's true-up electricity value?

21          A.     The Staff's analysis took into consideration more than one year's worth of  
22 data. Electricity, like any other expense level, can fluctuate from year to year. Basing your  
23 analysis on one year of data may not provide an accurate, on-going level of expense.

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1 By looking at a history of expense, as the Staff has done, the costs can be normalized.  
2 By doing so, it makes a more accurate calculation for the level of expense that MAWC will  
3 incur going forward.

4 Q. Does this conclude your surrebuttal testimony?

5 A. Yes it does.

