

*Exhibit No.:*  
*Issue(s):* *Cash Working Capital;*  
*Payroll Expense,*  
*Payroll Taxes, and*  
*Employee Benefits;*  
*Incentive*  
*Compensation; Travel*  
*and Training Expense;*  
*Operation and*  
*Maintenance*  
*Percentage*

*Witness:* *Courtney Horton*  
*Sponsoring Party:* *MoPSC Staff*  
*Type of Exhibit:* *Direct Testimony*  
*Case No.:* *WR-2024-0104*  
*Date Testimony Prepared:* *August 20, 2024*

**MISSOURI PUBLIC SERVICE COMMISSION**

**FINANCIAL AND BUSINESS ANALYSIS DIVISION**

**AUDITING DEPARTMENT**

**DIRECT TESTIMONY**

**OF**

**COURTNEY HORTON**

**LIBERTY UTILITIES (Missouri Water) LLC,**

**d/b/a Liberty**

**CASE NO. WR-2024-0104**

*Jefferson City, Missouri*  
*August 2024*

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**COURTNEY HORTON**

**LIBERTY UTILITIES (Missouri Water) LLC,**

**d/b/a Liberty**

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1                                   **DIRECT TESTIMONY**

2                                   **OF**

3                                   **COURTNEY HORTON**

4                                   **LIBERTY UTILITIES (Missouri Water) LLC,**

5                                   **d/b/a Liberty**

6                                   **CASE NO. WR-2024-0104**

7                   Q.    Please state your name and business address.

8                   A.    My name is Courtney Horton, 200 Madison St., Jefferson City, Missouri 65101.

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

10                  A.    I am a Senior Utility Regulatory Auditor with the Missouri Public Service  
11 Commission (“Commission”).

12                  Q.    Please describe your educational background and work experience.

13                  A.    I earned a Bachelor of Accountancy degree from Central Methodist University  
14 in Park Hills, Missouri in December 2016. I completed many courses in accounting and  
15 business. Prior to my work at the Commission, I worked in tax accounting, auditing, and record  
16 keeping.

17                  Q.    What are your responsibilities with the Commission?

18                  A.    I conduct audits and examinations of the books and records of regulated utility  
19 companies operating within the State of Missouri.

20                  Q.    Have you previously filed testimony before this Commission?

21                  A.    Yes. I have attached a list of cases in which I have filed testimony before this  
22 Commission as Schedule CH-d1.

23                  Q.    With respect to Case No. WR-2024-0104, have you examined the books and  
24 records of Liberty Utilities (Missouri Water) LLC d/b/a Liberty (“Liberty Water”)?

1 A. Yes, with the assistance of other members of Commission Staff (“Staff”).

2 Q. What knowledge, skills, experience, training, or education do you have in the  
3 issues to which you are testifying as an expert witness?

4 A. I have worked on many of these issues in other rate cases including  
5 Case Nos. WR-2020-0344, ER-2021-0312, GR-2021-0320, WR-2022-0345,  
6 and WR-2022-0303, as described in Schedule CH-d1, attached to this testimony. I also attended  
7 the National Association of Regulatory Utility Commissioners (“NARUC”) rate school during  
8 the summer of 2022. I have worked closely with senior auditors and supervisors, who possess  
9 extensive regulatory knowledge. I have reviewed Liberty Water’s testimony, workpapers,  
10 and responses to data requests (“DR”) in this rate case, as well as the testimony and workpapers  
11 from Liberty Water’s most recent rate case, Case No. WR-2018-0170, to gain an understanding  
12 of the issues I am addressing.

13 **EXECUTIVE SUMMARY**

14 Q. What is the purpose of your direct testimony?

15 A. The purpose of my direct testimony is to present Staff’s recommendations  
16 concerning cash working capital, payroll expense, payroll taxes, employee benefits,  
17 incentive compensation, travel and training expense, and operation and maintenance  
18 (“O&M”) percentage.

19 **CASH WORKING CAPITAL**

20 Q. Please describe cash working capital.

21 A. Cash Working Capital (“CWC”) is the amount of funding necessary for a utility  
22 to pay day-to-day expenses incurred in providing utility services to its customers. Cash inflows  
23 from payments received by Liberty Water and cash outflows for expenses incurred by

1 Liberty Water are analyzed using a lead/lag study. The lead/lag study involves analysis of the  
2 timing of when funds are paid to suppliers and when the utility receives the good or service  
3 compared to when the utility receives revenues from customers' bills for the utility services it  
4 provides. Analysis is also performed for pass-through expenses where funds are collected and  
5 remitted such as sales taxes and employee payroll withholdings.

6 The CWC requirement can be negative or positive. If the requirement is negative,  
7 it demonstrates that the utility's customers are providing the working capital for the test year,  
8 which indicates customers paid for the utility's expenses before Liberty Water incurred them.  
9 Under this circumstance, CWC would represent a reduction to rate base. A positive  
10 CWC requirement indicates that the utility pays its expenses before receiving payment from the  
11 customers, which means that the shareholders are providing the funds. Under this circumstance,  
12 CWC would represent an increase to rate base.

13 Q. How did Staff determine the CWC to be included in this rate case?

14 A. In this rate case proceeding, Staff did not conduct a full lead/lag study to  
15 determine the CWC requirement; however, Staff reviewed the computation of lags provided by  
16 Liberty Water's witness, Timothy S. Lyons, for accuracy and reasonableness. For purposes of  
17 this rate proceeding, Staff has accepted some elements of Liberty Water's lead/lag study,  
18 but made adjustments to other lead/lag components for the reasons discussed below.

- 19 • Staff changed the average billing lag from 4.14 to 3.00 days. According to  
20 Liberty Water's response to Staff DR No. 0114, Liberty Water implemented a new  
21 billing system on April 8, 2024, which affected the meter reading date and bill date.  
22 Going forward, each meter reading cycle has a scheduled meter reading date and a  
23 scheduled bill date that are three business days apart.

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- 1           • After review of Liberty Water’s response to Staff DR No. 0202, Staff changed the  
2           pension expense payment dates for the second, third, and fourth quarter, to match  
3           the payment dates in the DR response. This changed the expense lag from (54.00)  
4           to (52.30) days.
- 5           • After review of Liberty Water’s response to Staff DR No. 0203, Staff changed the  
6           Other Post-Employment Benefits (“OPEB”) expense payment date to match the  
7           payment date in the DR response. This changed the expense lag from (240.50) to  
8           (255.50) days.
- 9           • After review of Liberty Water’s response to Staff DR No. 0117, Staff removed  
10          \*\* [REDACTED] \*\* from the O&M CWC  
11          amounts, and changed some of the \*\* [REDACTED]  
12          [REDACTED] \*\*. This changed the expense lag from (20.74) to (20.44) days.
- 13          • Staff calculated a separate lag for the PSC assessment. Liberty Water makes a one-  
14          time payment for the PSC assessment and then expenses that payment as a monthly  
15          payment. However, Liberty Water has the option of paying the assessment in  
16          quarterly payments. Since Liberty Water chose to make a one-time payment instead  
17          of quarterly payments, Staff calculated the PSC assessment lag using the time  
18          elapsed between the midpoint of service date and the date when the payment was  
19          made in the update period. This changed the expense lag from (14.13) to (173).
- 20          • After review of Liberty Water’s response to Staff DR No.’s 0213 and 0212,  
21          Staff changed the Federal and State Tax Offset expense lags to 365 days. Staff made  
22          this change due to Liberty Water and its affiliates operating at a net loss (“NOL”)

1 for the last three years. This changed the expense lag from (37.00) to 365 days. Staff  
2 witness Angela Niemeier is sponsoring the tax expense lags in this rate case.

3 All of Staff's recommended revenue and expense lags can be found in Schedule 1 of  
4 Staff's Accounting Schedules. Staff's overall lead/lag study resulted in a positive  
5 CWC requirement for Liberty Water. This means that the shareholders are currently providing  
6 the cash working capital funds. Therefore, to recognize this, Staff recommends an increase to  
7 rate base.

8 **PAYROLL EXPENSE, PAYROLL TAXES, AND EMPLOYEE BENEFITS**

9 **Payroll Expense**

10 Q. Please explain Staff's examination of payroll expense in this case.

11 A. Payroll expense is the wages paid to employees by businesses in exchange for  
12 services. Liberty Water's payroll expenses are booked to \*\* [REDACTED]  
13 [REDACTED] \*\* and then allocated to Liberty Water using the cost allocation manual  
14 ("CAM"). For simplicity of this testimony, these employees will be called  
15 ("Liberty Water employees") throughout this testimony. Furthermore, there are three  
16 classifications of employees in Liberty Water's payroll expense: \*\* [REDACTED]  
17 [REDACTED] \*\*.

18 Staff reviewed the payroll expenses of employees that fall under these three classifications and  
19 made the appropriate adjustments to Liberty Water's test year payroll expense to reflect  
20 annualized levels of payroll as of April 30, 2024.

21 Q. How did Staff determine the level of payroll expense to include in its  
22 recommendation?

Direct Testimony of  
Courtney Horton

1 A. To determine the level of payroll expense that should be included,  
2 Staff reviewed Liberty Water's list of employees, job titles, and current salaries as of  
3 April 30, 2024. Staff used the annual salary for each employee as of April 30, 2024, to determine  
4 payroll expense.

5 Q. Did Staff have any disallowances relating to labor? Please explain.

6 A. Yes. Staff disallowed employee's payroll expenses with the following job  
7 descriptions: \*\* [REDACTED] \*\*. Staff disallowed these  
8 payroll expenses since these were primarily in relation to \*\* [REDACTED]  
9 [REDACTED] \*\*.

10 Finally, Staff disallowed all the open position payroll expenses as these are not known and  
11 measurable expenses.

12 Q. How did Staff determine the level of overtime expense to be included in  
13 its recommendation?

14 A. Staff calculated overtime by reviewing a history of overtime hours actually  
15 experienced and utilized a three-year average by employee for years 2021, 2022, and 2023.  
16 Staff then reviewed a history of cost incurred for the overtime hours and utilized a three-year  
17 average by employee for years 2021, 2022, and 2023. Staff used these averages to determine  
18 each employee's average overtime rate. Finally, Staff applied each employee's average rate to  
19 their three-year average hours to determine each employee overtime expense.

20 Q. Did Staff capitalize any payroll labor or overtime expenses incurred in this  
21 rate case?



1           A.     Yes. Staff utilized the expensed labor versus the capitalized labor incurred  
2 during the 12 months ending December 31, 2023, to determine the capitalization rate. Staff then  
3 applied this rate to its annualized labor and overtime to determine its payroll expense.

4           Q.     What is Staff's annualized level of labor and overtime expense?

5           A.     Staff's calculated level of labor payroll expense including overtime as  
6 of April 30, 2024 is \$1,960,411.

7           **Payroll Tax Expense**

8           Q.     How did Staff determine the level of payroll tax expense to be included in its  
9 recommendation?

10          A.     Payroll tax expense is directly related to salaries and wages. Staff applied the  
11 current Federal Insurance Contributions Act ("FICA"), Federal Unemployment Tax Act  
12 ("FUTA"), and State Unemployment Tax Act ("SUTA") tax rates applicable to annualized  
13 payroll amounts to determine payroll taxes.

14          Q.     What is Staff's annualized level of payroll tax expense?

15          A.     Staff's annualized level of payroll tax expense for Liberty Water is \$131,325.

16          **Employee Benefits**

17          Q.     What types of employee benefits does Liberty Utilities Service Corporation  
18 ("LUSC") provide?

19          A.     LUSC offers many benefits to its employees, including various types of  
20 insurance (medical, dental, vision, life insurance etc.), accidental death and dismemberment,  
21 accident insurance, short-term disability, and long-term disability insurance.

22          Q.     Are pensions and OPEBs included in employee benefits?

1 A. Yes. However, Staff witness Angela Niemeier will provide testimony on the  
2 pension and OPEB plans.

3 Q. How did Staff calculate employee benefits in general?

4 A. Staff included employee benefits for the most current rates as of April 30, 2024  
5 (the update period in this case). However, Staff did not include the employee benefits for the  
6 employees who were removed from the payroll expense.

7 Q. What is Staff's annualized level of employee benefits expense (other than  
8 pensions and OPEBS and 401(k)-employer match expense)?

9 A. Staff's annualized level of employee benefits expense (other than pensions and  
10 OPEBS and 401(k)-employer match expense) for Liberty Water is \$298,984.

11 Q. Did Staff include a 401(k)-employer match expense in its direct filing?  
12 Please explain.

13 A. Yes. Staff determined the 401(k)-employer match expense by multiplying the  
14 expense labor and expensed overtime by the most current employer match percentage.

15 Q. What is Staff's annualized level of 401(k)-employer match expense to be  
16 included in this case?

17 A. Staff's annualized level of 401(k)-employer match expense is \$58,007.

18 **INCENTIVE COMPENSATION**

19 Q. Please describe Liberty Water's incentive compensation plans.

20 A. Liberty Water's incentive compensation is awarded under four plans,  
21 the Shared Bonus Plan ("SBP"), Short Term Incentive Plan ("STIP"), Employee Share Purchase  
22 Plan ("ESPP"), and Long-Term Incentive Plan ("LTIP").

23 Q. What is Liberty Water's Shared Bonus Plan program?

1 A. According to Liberty Water's Confidential response to Staff DR No. 0037,

2 \*\* [REDACTED]  
3 [REDACTED]  
4 [REDACTED]  
5 [REDACTED]  
6 [REDACTED] \*\*.

7 Q. What is Liberty Water's Short-Term Incentive Plan?

8 A. \*\* [REDACTED]  
9 [REDACTED]  
10 [REDACTED]  
11 [REDACTED]  
12 [REDACTED]  
13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED]  
16 [REDACTED] . \*\*

17 Q. What is Liberty Water's Employee Share Purchase Plan?

18 A. According to Liberty Water's response to Staff DR No. 0205,  
19 \*\* [REDACTED]  
20 [REDACTED]  
21 [REDACTED]  
22 [REDACTED]

1 [REDACTED]

2 [REDACTED] . \*\*

3 Q. What is Liberty Water's long-term incentive plan?

4 A. According to Liberty Water's response to Staff DR No. 0204,

5 \*\* [REDACTED]

6 [REDACTED]

7 [REDACTED] . \*\*

8 Q. Please explain the incentive compensation plans Staff was not able to address in  
9 its direct filing.

10 A. Staff was unable to make an adjustment for the SBP, STIP, and LTIP,  
11 incentive compensation plans due to lack of sufficient data. However, Staff will continue to  
12 request and review data pertaining to these issues and will attempt to make an adjustment in its  
13 rebuttal filing.

14 Q. Please explain the incentive compensation plan Staff was able to address in its  
15 direct filing.

16 A. \*\* [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

21 [REDACTED] . \*\*

22 Q. Did Staff apply its O&M percentage to its ESPP disallowance? Please explain.

1           A.     Yes. Staff applied its 88.91% (for twelve months ending December 31, 2023)  
2 O&M percentage to its ESPP disallowance to determine its expensed portion of its  
3 ESPP disallowance.

4           Q.     What is Staff's total disallowance for ESPP incentive compensation plan?

5           A.     Staff's total disallowance for the ESPP incentive compensation plan after  
6 applying its O&M percentage is (\$1,423).

7     **TRAVEL AND TRAINING EXPENSE**

8           Q.     Please describe travel and training expense.

9           A.     Travel and training expense is an operating expense that includes expenses  
10 associated with employee travel and training.

11          Q.     How did Staff determine the level of travel and training expenses to be included  
12 in its recommendation?

13          A.     Liberty Water provided the directly assigned invoices for the last three years.  
14 After Staff reviewed these invoices, Liberty Water's associated workpaper, and the trends in  
15 the data, Staff determined that using a three-year average ending, March 31, 2024 would be the  
16 most appropriate method to normalize these expenses. Staff's calculation for normalized travel  
17 and training expense is \$24,278.

18     **OPERATION AND MAINTENANCE ("O&M") PERCENTAGE**

19          Q.     Please describe the O&M percentage.

20          A.     In each general rate case, Staff reviews the historical levels of labor that have  
21 been utilized for both capital and expense and develops a percentage reflecting a normalized  
22 level of labor that is considered expense as opposed to capital. Staff then applies that  
23 O&M percentage to annualized employee related costs in the cost of service. In order to account

Direct Testimony of  
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1 for labor that is associated with construction activities, Staff applied an O&M expense  
2 percentage to Staff's annualized payroll to determine the appropriate level of payroll to be  
3 included as an expense.

4 Q. What O&M percentage has Staff applied to payroll?

5 A. Staff has applied the current O&M percentage for the 12 months ending  
6 December 31, 2023, to its payroll annualization, payroll expense, incentive compensation and  
7 employee benefits. Staff used an 88.91% O&M expense percentage for all employees allocating  
8 time to Liberty Water. This means that 88.91% of Staff's annualized payroll is included as an  
9 expense and the remaining 11.09% is considered capital. While this is a low portion of payroll  
10 to consider capital, most of the labor is not directly related to construction, as third-party  
11 vendors complete these projects. Staff has recognized through this percentage that at least a  
12 small portion of time should be devoted to overseeing capital projects by employees and should  
13 be considered capital.

14 Q. Does this conclude your direct testimony?

15 A. Yes it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of the Request of Liberty Utilities )  
(Missouri Water) LLC d/b/a Liberty for ) Case No. WR-2024-0104  
Authority to Implement a General Rate )  
Increase for Water and Wastewater Service )  
Provided in its Missouri Service Areas )

**AFFIDAVIT OF COURTNEY HORTON**

STATE OF MISSOURI )  
) ss.  
COUNTY OF COLE )

**COMES NOW COURTNEY HORTON** and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Direct Testimony of Courtney Horton*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Courtney Horton  
COURTNEY HORTON

**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 12<sup>th</sup> day of August 2024.

D. SUZIE MANKIN  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Cole County  
My Commission Expires: April 04, 2025  
Commission Number: 12412070

D. Suzie Mankin  
Notary Public

# Courtney Horton

## Educational, Employment Background and Credentials

I am currently a Senior Utility Regulatory Auditor in the Auditing Department, Financial and Business Analysis Division for the Missouri Public Service Commission. I have held my position as a Utility Regulatory Auditor since June 2018.

I earned a Bachelor of Accounting degree from Central Methodist University in Park Hills, Missouri in December of 2016. I completed many courses in accounting and business. Prior to the Commission, I worked in tax accounting, auditing, and record keeping.

## Case Participation

Company Name	Case Number(s)	Testimony/Issues	Type of Case
Branson Cedars Resort Utility Company LLC Water & Sewer	WR-2018-0356	Staff Recommendation	Rate Case
S.K. & M Water & Sewer Company	SR-2019-0157	Staff Recommendation	Rate Case
Empire District Electric	ER-2019-0374	Staff Recommendation	Rate Case
Missouri American Water Company/Hillers Creek Sewer	SA-2019-0334	Staff Recommendation	CCN Case
Elm Hills	WR-2020-0275	Staff Recommendation	Rate Case
Missouri-American Water Company/Harbor View Estates Sewer	SA-2020-0073	Staff Recommendation	CCN Case
Missouri-American Water Company/Clinton Estates Sewer	SA-2020-0132	Staff Recommendation	CCN Case
Liberty Utilities/Saver's Farm Sewer	SA-2020-0067	Staff Recommendation	CCN Case
Liberty Utilities/Empire Water	WM-2020-0156	Staff Recommendation	CCN Case
Missouri-American Water Company	WR-2020-0344	Staff Recommendation	Rate Case



**cont'd Courtney Horton**

<b>Company Name</b>	<b>Case Number(s)</b>	<b>Testimony/Issues</b>	<b>Type of Case</b>
Missouri-American Water Company/City of Taos Sewer System	SA-2021-0120	Staff Recommendation	CCN Case
Missouri-American Water Company/Table Rock Estates Water System	WA-2021-0116	Staff Recommendation	CCN Case
Empire District Electric	ER-2021-0312	Staff Recommendation	Rate Case
Empire District Gas	GR-2021-0320	Staff Recommendation	Rate Case
Confluence/Missing Well, Shelton, Ozark, Prairie, Clemstone, Water & Sewer Systems	WA-2021-0425	Staff Recommendation	CCN Case
Missouri-American Water Company	WO-2022-0176	Staff Recommendation	WSIRA Case
Confluence Rivers Utility Operating Company/Deer Run Estates Sewer System	SA-2022-0299	Staff Recommendation	CCN Case
Argyle Estates Water Supply	WR-2022-0345	Staff Recommendation	Rate Case
Missouri-American Water Company/Monsees Lake Estates Subdivision Water & Sewer System	WA-2022-0229	Staff Recommendation	CCN Case
Missouri-American Water Company/Stewartsville Water & Sewer System	WA-2022-0311	Staff Recommendation	CCN Case
Missouri-American Water Company	WR-2022-0303	Staff Recommendation	Rate Case
The Empire District Gas Company/Platte County	GA-2023-0110	Staff Recommendation	CCN Case
Spire Missouri, Inc./Platte County	GA-2023-0441	Staff Recommendation	CCN Case
Raytown Water Company	WR-2023-0344	Staff Recommendation	Rate Case

**cont'd Cortney Horton**

<b>Company Name</b>	<b>Case Number(s)</b>	<b>Testimony/Issues</b>	<b>Type of Case</b>
Confluence Rivers Utility Operating Company/Four Seasons Water & Sewer System	WA-2023-0284	Staff Recommendation	CCN Case
Missouri-American Water Company/Ironton Water & Sewer System	WA-2023-0434	Staff Recommendation	CCN Case
Spire Missouri, Inc.	GO-2024-0180	Staff Recommendation	CCN Case