

Exhibit No.:

Issue(s): *Bad Debt Expense,
Bank Fees Expense,
Communication Expense,
Insurance Expense,
Office Supplies Expense,
Contract and Outside
Services Expense,
PSC Assessment Expense,
Rate Case Expense,
Property Tax & Tracker*

Witness: *Sherrye Lesmes*

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

SHERRYE LESMES

**LIBERTY UTILITIES (Missouri Water), LLC,
d/b/a Liberty**

CASE NO. WR-2024-0104

*Jefferson City, Missouri
August 2024*

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1 **DIRECT TESTIMONY**

2 **OF**

3 **SHERRYE LESMES**

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 Sherrye Lesmes. My business address is 200 Madison Street,
9 Suite 440, Jefferson City, Missouri 65101.

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

11 A. I am a Utility Regulatory Auditor for the Missouri Public Service Commission
12 ("Commission" or "PSC").

13 Q. Please describe your educational background and experience.

14 A. I earned a Bachelor of Science degree in Accounting from Columbia College in
15 Columbia, MO in 2004. In earning this degree, I completed numerous core Accounting and
16 Business classes. Prior to joining the Commission in 2022, I was employed by the
17 Missouri State Auditor's Office from 2013 to 2022 as an Auditor. During my time with the
18 State Auditor's Office, I participated in numerous audits of various types including several local
19 cities and counties that included utilities.

20 Q. What are your responsibilities with the Commission?

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

23 Q. Have you previously filed testimony before the Commission?

1 A. Yes, I have attached a list of the cases in which I have filed testimony before
2 this Commission. Please refer to Schedule SL-d1.

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

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

6 Q. What knowledge, skills, experience, training, and education do you have in the
7 areas of which you are testifying as an expert witness?

8 A. I have worked on these issues in other rate cases as described in
9 Schedule SL-d1, attached to this testimony. I have worked closely with senior auditors and
10 supervisors, who possess extensive regulatory knowledge. I also received continuous training
11 at in-house and outside seminars on auditing standards, and skills while employed with the
12 Missouri State Auditor’s Office. I have more than nine years of auditing experience of other
13 state agencies, local municipalities and counties within the State of Missouri, of which several
14 involved utilities owned and operated by these entities. In addition, for this rate case, I have
15 reviewed prior workpapers and testimony from prior Liberty Water general rate cases. I also
16 reviewed data presented by Liberty Water in the current case on these issues.

17 **EXECUTIVE SUMMARY**

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

19 A. The purpose of my direct testimony is to provide Staff’s recommendation for
20 the following issues: bad debt expense, bank fees expense, communication expense, insurance
21 expense, office supplies expense, contract and outside services expense, PSC assessment
22 expense, rate case expense, and property tax expense.

1 **BAD DEBT EXPENSE**

2 Q. Please explain bad debt expense.

3 A. Bad debt expense, or uncollectible account expense, is the portion of water and
4 sewer revenues that Liberty Water was unable to collect from customers due to non-payment
5 of customer utility bills.

6 Q. Based on Staff's review, should there be an adjustment for bad debt expense?

7 A. Yes. Staff reviewed the historical levels of bad debt expense and noted there
8 were both trends and fluctuations across the various service areas. For this reason, an adjustment
9 for each system is appropriate.

10 Q. How did Staff determine the level of bad debt expense to include in its
11 recommendation?

12 A. Staff reviewed bad debt expense for all service areas starting on May 1, 2021
13 through the March 31, 2024. To normalize bad debt expense, Staff determined a three-year
14 average ending March 31, 2024 was appropriate for bad debt expense for all of the service areas
15 except Bolivar. To account for the acquisition of Bolivar Water and Sewer systems (acquisition
16 date February 2022), Staff used a two year average ending March 31, 2024.

17 Q. What is Staff's overall adjustment for bad debt expense?

18 A. Staff's overall normalized level for bad debt expense is \$9,116.17.

19 **BANK FEES EXPENSE**

20 Q. Please explain bank fees expense.

21 A. Bank fees expense is the fees charged by a financial institution such as a
22 bank, for services provided by the bank to their customers, and includes charges for such items
23 as moving monies (both sending and receiving) electronically by Automated Clearing House
24 (ACH) transactions, and/or wire transactions. These fees include other services such as
25 processing deposited monies, posting checks, reporting, and investing.

1 Q. Did Staff perform a review of bank fees expense for this case?

2 A. Yes. Staff reviewed Liberty Water's response to Staff's Data Request ("DR")
3 Nos. 0139, 0138.1 and 0139.2, which include copies of monthly statements of the
4 JP Morgan Account Analysis, and a listing of bank services and their related fees charged by
5 JP Morgan bank. After review of all information provided by Liberty Water; no fluctuations
6 or discernible trends were found, thus Staff determined no adjustment would be made to test
7 year for bank fees.

8 **COMMUNICATION EXPENSE**

9 Q. Please explain communication expense.

10 A. Communication expense is the costs incurred by Liberty Water for
11 telephone services (both land line and cellular connections), communication equipment, and
12 internet services.

13 Q. Did Staff perform a review of communications expense and were any
14 adjustments made based on that review?

15 A. Staff reviewed the transactions that represent communications expense and
16 while there were a few direct expenses for telephone and internet services, the majority of the
17 remaining costs were allocations. Since Liberty Water did not provide the correct invoice copies
18 as requested in Staff's DR No. 0138; they provided invoice copies that related to the amount
19 they are claiming for communications expense. Upon receipt of these invoice copies Staff
20 reviewed and determined a 3-year average was appropriate to get a normalized cost. Therefore,
21 Staff recommends an adjustment of \$8,331 for communication expense.

22 **INSURANCE EXPENSE**

23 Q. Please explain insurance expense.

1 A. Insurance expense is the costs incurred by Liberty Water when paying to
2 safeguard assets, such as property and vehicles; and to provide protection against certain
3 unexpected events such as cyber security breaches, terrorism, extreme weather, and other
4 unforeseen situations.

5 Q. Did you review the insurance expense for this case and what did you determine
6 based on that review?

7 A. Yes. Staff reviewed copies of the insurance policies currently in effect as
8 provided by Liberty Water's response to Staff's DR No. 0138, and has annualized this expense
9 by using the most recent insurance premiums as of April 30, 2024. The annualized amount that
10 Staff included in its recommended revenue requirement for Insurance expense is \$141,736.

11 **OFFICE SUPPLIES EXPENSE**

12 Q. Please explain office supplies expense.

13 A. Office supplies expense is the cost of various office related supplies such as
14 paper clips, notebooks, paper, and pens.

15 Q. Did you review the office supplies expense for this case and were any
16 adjustments made based on that review?

17 A. Yes. Staff reviewed Liberty Water's response to Staff's DR No. 0137
18 which were a few copies of paid receipts, intercompany reports, copies of corporate journal
19 entries, and corporate generated invoices to support corporate journal entries. While there are a
20 few direct charges for the Bolivar water system, Staff noted the majority of the costs are
21 corporate allocations with a few merchant receipts or invoices to support purchases.
22 Staff reviewed office supplies expense for all service areas starting May 1, 2021 through
23 March 31, 2024 except Bolivar. To get a normalized cost of service for office supplies expense,
24 Staff used a 2-year average ending March 31, 2024 for Bolivar and a 3-year average ending

1 March 31, 2024 for all other systems. Staff determined the recommended adjustment amount
2 based on a normalized level.

3 **CONTRACT AND OUTSIDE SERVICES EXPENSE**

4 Q. Please explain contract and outside services expense.

5 A. Contract and outside services expense are the costs incurred by Liberty Water
6 for maintenance and labor performed by companies or individuals other than Liberty Water to
7 operate or repair the water and sewer systems owned by Liberty Water.

8 Q. Did you review the contract and outside services expenses?

9 A. Yes. Staff reviewed Liberty Water's response to Staff's DR Nos. 0018 and 0040,
10 in which copies of contracts and service agreements were provided. Staff reviewed the costs for
11 reasonableness and recommends an adjustment to such costs. Staff disallowed an expense
12 amount of \$104,507.88 in the Outside Services account due to misclassification. This expense
13 was for a damage claim payout. Staff then performed a 3-year average on the remaining amount
14 for a normalized cost for the period starting May 1, 2021 and ending March 31, 2024.

15 Q. What is the appropriate level for contract and outside services to include in the
16 cost of service?

17 A. Staff noted a downward trend in contract services and determined the
18 appropriate level for contract services was to use a three-year average for the period starting
19 May 1, 2021 and ending March 31, 2024 to get a normalized cost. The appropriate level of
20 contract services to include is \$923,310.21 and outside services is \$853,806.97.

21 **PSC ASSESSMENT EXPENSE**

22 Q. Please explain PSC assessment expense.

1 A. These are the amounts assessed to Liberty Water by the PSC for each water and
2 sewer system owned and operated by Liberty Water that are regulated by the PSC within the
3 state of Missouri. The assessments are based on the expected revenues for the coming year
4 based on historical data for each system and are to cover the Commission's costs.

5 Q. Did you review the PSC assessment expense for this case and what did you
6 determine based on that review?

7 A. Yes. Staff adjusted PSC assessment expense to reflect the FY2024 amounts.

8 Q. What is the appropriate level for PSC Assessment expense to include in the cost
9 of service?

10 A. The appropriate level for PSC assessment expense is \$57,188 for water and
11 \$27,049. for sewer.

12 **RATE CASE EXPENSE**

13 Q. Please explain rate case expense.

14 A. Rate case expense is the incremental costs incurred by Liberty Water to prepare
15 and present this rate case. These costs include customer notifications, postage and travel
16 expenses related to the case, as well as expert witnesses regarding depreciation, weather
17 normalization, rate design, cash working capital, pensions and OPEBs¹, cost of capital, and
18 outside legal representation.

19 Q. Did Staff perform a review of rate case expense?

20 A. Yes. Staff reviewed all the invoices that Liberty Water provided in response to
21 Staff's DR No. 0017.

22 Q. Does Staff disallow any rate case expense?

¹ Other Post-Employment Benefits ("OPEBs").

1 A. Yes, the amount related to FTI Consulting, Inc invoices submitted has been
2 disallowed due to the invoices do not provide enough detail to clearly determine what work was
3 performed and by whom. Also, it is not clear that all work performed relates to this rate case.
4 A Staff DR has been sent requesting that the FTI Consulting, Inc provide adequate information
5 to clearly identify what work was performed, by whom, and how it relates to this rate case.
6 Once this clarification has been provided, Staff will review and make further adjustments as
7 needed. This work will be addressed in rebuttal testimony.

8 Q. What is Staff's proposed treatment of rate case expense?

9 A. Staff recommends including a normalized level of rate case expense based on
10 rate case expenses prudently incurred in this case. Excluding Staff's recommended
11 disallowance for FTI Consulting, Inc invoices (as mentioned above); Staff included 50% of the
12 rate case expense costs prudently incurred thus far for the current rate case and 100% of the
13 costs of the depreciation study performed in 2022 and customer notices. Staff recommends a
14 50/50 sharing mechanism between ratepayers and Liberty Water of prudently incurred rate case
15 expense, which is discussed in more detail in Staff witness Ashley Sarver's direct testimony.
16 This final shared rate case expense amount is to be normalized over a three (3) year period.

17 **PROPERTY TAXES EXPENSE AND TRACKER**

18 Q. Please explain property tax expense.

19 A. Property taxes are annual amounts levied by the local government and paid by
20 the owners of property, in this case: property owned and operated by Liberty Water for the
21 various water and sewer systems within the state of Missouri. Taxes are assessed on property
22 owned on the first day of January of each tax year. Assessments are generally issued in April,
23 and are due to be paid by December 31st of that tax year.

Direct Testimony of
Sherrye Lesmes

1 Q. Did Staff perform a review of property taxes?

2 A. Yes. Staff reviewed Liberty Water's general ledger and property tax statements
3 for the period beginning April 1, 2021, through December 31, 2023.

4 Q. What is Staff's recommended treatment of property taxes in this case?

5 A. Staff recommends including an annualized level of property taxes in
6 Liberty Water's revenue requirement based on the amount of property taxes assessed on
7 Liberty Water's property owned on January 1, 2023, and paid in December 2023 in the amount
8 of \$536,804. This amount will be used as the base amount to track future property taxes
9 consistent with the property tax tracker established by the Missouri General Assembly.²

10 Q. Does this conclude your direct testimony?

11 A. Yes it does.

² Section 393.400, RSMo.

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 SHERRYE LESMES

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW SHERRYE LESMES and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Direct 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 14th 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

Sherrye Lesmes

Present Position:

I am a Utility Regulatory Auditor, Auditing Department, Financial & Business Analysis Division of the Missouri Public Service Commission. As a Utility Regulatory Auditor, I assist in research and analysis of the financial aspects of public utility operations.

Educational Credentials and Work Experience:

I received a Bachelor of Science degree with a major in Accounting from Columbia College in Columbia, Missouri in 2004. I owned and operated my own accounting firm from 2007 until 2010 when I accepted a Tax Collections position with the Missouri Department of Revenue. I was employed by the Missouri State Auditor's Office for nine and a half years before accepting a position with the Missouri Public Service Commission in 2022.

Past Rate Case Proceedings:

Company Name	Case Number(s)	Testimony/Issues
Missouri-American Water Company (to acquire) Pom-Osa Heights	WA-2022-0361	Certificate of Convenience and Necessity
Missouri-American Water Company	WR-2022-0303	Dues and Donations, Materials & Supplies, Customer Advances, Prepayments, Penalties Expense, and Postage Expense
Missouri-American Water Company	WO-2023-0008	Water and Sewer Infrastructure Rate Adjustment (WSIRA)
Missouri-American Water Company (to acquire) City of Smithton	WA-2023-0071	Certificate of Convenience and Necessity
Spire Missouri, Inc (Gas)	GO-2023-0203	Infrastructure System Replacement Surcharge (ISRS)

Company Name	Case Number(s)	Testimony/Issues
Vicinity Energy Kansas City, Inc (Steam/Heat)	HR-2023-0198	Rate Case expense, PSC Assessment, Insurance, Injury/Damages Expense, Maintenance Expense Normalization
Missouri-American Water Company (to acquire) City of Ironton	WA-2023-0434	Certificate of Convenience and Necessity
Raytown Water Company	WR-2023-0344	Advertising, Contributions in Aid of Construction, Customer Advances, Customer Deposits, Customer Deposits Interest, Property Tax, Rate Case Expenses