

Exhibit No.:
Issue(s): *Plant in Service,
Depreciation Reserve,
Bolivar Regulatory Asset,
Rate Case Expense Policy*
Witness: *Ashley Sarver*
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 & BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

DIRECT TESTIMONY

OF

ASHLEY SARVER

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

CASE NO. WR-2024-0104

*Jefferson City, Missouri
August 2024*

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

OF

ASHLEY SARVER

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

CASE NO. WR-2024-0104

Q. Please state your name and business address.

A. My name is Ashley Sarver and my business address is 200 Madison Street,
Suite 440, P.O. Box 360, Jefferson City, MO 65102.

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

A. I am employed by the Missouri Public Service Commission (“Commission”) as
a Utility Regulatory Audit Supervisor.

Q. Please describe your educational background and work experience.

A. I graduated from Missouri State University in July 2009 with a Bachelor of
Science degree in Accounting. I commenced employment with the Commission in July 2013.

Q. Have you previously filed testimony before this Commission?

A. Yes. Please refer to Schedule AS-d1, attached to this direct testimony, for a list
of cases for which I have filed testimony.

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

A. I have been employed with the Commission for over eleven years. During that
time, I have assisted, conducted, and supervised audits and examined the books and records of
electric, natural gas, water, and wastewater utilities in many cases before the Commission in

1 the state of Missouri. I have also received continuous training on technical ratemaking matters
2 since I began my employment at the Commission.

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 **EXECUTIVE SUMMARY**

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

8 A. The purpose of this testimony is to discuss Staff’s position regarding the
9 following issues: Plant in Service (“Plant”), Accumulated Depreciation Reserve (“Reserve”),
10 Bolivar regulatory asset and rate case expense policy.

11 **PLANT IN SERVICE AND ACCUMULATED DEPRECIATION RESERVE**

12 Q. Did Staff include plant and accumulated depreciation reserve (“reserve”) in its
13 revenue requirement?

14 A. Yes. Staff included plant and reserve based on actual book amounts as of
15 April 30, 2024, the agreed upon update period in this case, including any cost that is allocated
16 to Liberty Water for shared service and for the connected grid routers for the automated meter
17 information. Staff utilized the last known plant and reserve balances from the last prior rate case
18 or acquisition case as a starting point to determine the current balances including additions,
19 retirements, and accumulated depreciation.

20 Q. Did Staff make any adjustments to plant or reserve?

21 A. Yes. Staff removed \$114,456 from plant account no. 301 – Organization from
22 Franklin County Water. This plant adjustment does not affect reserve.

1 Q. Why did Staff remove this cost?

2 A. In Case No. WA-2019-0036, Staff recommended a net book value as of
3 March 31, 2019 of \$8,544. Staff recommended this amount for the Franklin County Water rate
4 base as opposed to the purchase price of \$123,000¹. The difference is an acquisition premium.
5 Consistent with Staff's recommendation is Case No. WA-2019-0036, Staff removed the
6 acquisition premium of \$114,456.

7 **BOLIVAR REGULATORY ASSET**

8 Q. Please explain the Bolivar regulatory asset amortization.

9 A. In Case No. WA-2020-0397, the Commission issued its Order Approving
10 Stipulation and Agreement ("Agreement") that states "the Signatories request that the
11 Commission authorize Liberty to establish a regulatory asset in the amount of \$3,981,353
12 (\$1,612,759 for water and \$2,368,627 for sewer). Rate recovery of this regulatory asset will be
13 determined in Liberty's next general rate case, but Staff agrees to support Liberty's rate
14 recovery at this amount."

15 Q. What is the amortization period is Staff proposing in this case?

16 A. Staff is proposing a ten-year amortization period starting February 1, 2022.

17 Q. What is the amortization balance as of April 30, 2024?

18 A. Water is \$362,871 and sewer \$532,941.

19 Q. Has Staff included the unamortized balance in rate base?

20 A. No. Staff did not include the unamortized balance in rate base.

¹ Case No. WA-2019-0036, Staff Memorandum, filed June 10, 2019.

1 **RATE CASE EXPENSE POLICY**

2 Q. What is rate case expense?

3 A. Rate case expenses are the incremental costs a utility incurs in the preparation
4 and filing of a rate case. While rate case expense includes costs for document preparation and
5 filing, the majority of the costs incurred during a rate case are typically for external legal
6 counsel, consultants, and outside expert witnesses contracted by the utility.

7 Utility management typically has a high degree of control over rate case expense.
8 Attorneys, consultants, and other services used during a rate case can be provided by existing
9 utility personnel or sourced from an outside party. Some Missouri utilities employ in-house
10 counsel and primarily utilize internal labor to process rate filings; thus, it is not always
11 necessary to contract with outside attorneys and consultants in rate proceedings.
12 The incremental rate case expenses included in the sharing mechanism proposed by Staff in this
13 case do not include the cost for internal labor, as those costs are reflected in the annualized level
14 of payroll included in Staff's revenue requirement. Those non-incremental costs are fully
15 included in the cost of service calculation.

16 Q. What is Staff's recommended treatment of rate case expense in this case?

17 A. Staff recommends to include a 50% share of Staff's normalized rate case
18 expense. In other words, Staff recommends that Liberty Water's customers and shareholders
19 equally share rate case expense.

20 Q. What should not be included in the 50/50 sharing?

21 A. Staff recommends 100 percent of the costs of the depreciation study and
22 customer notices submitted in this case.

23 Q. What is the basis of Staff's recommendation to share rate case expenses?

1 A. Staff's recommendation to share rate case expense is based upon the following:

2 1) Rate case expense sharing creates an incentive for the utility to control rate
3 case expenses to a reasonable level, while eliminating the disincentive for the utility
4 to control the rate case expenses.

5 2) Ratepayers and shareholders both benefit from the rate case process. While
6 ratepayers receive safe and adequate service at just and reasonable rates, shareholders
7 are afforded the opportunity to earn an adequate return on their investment.

8 3) Ratepayers will continue to pay for the majority of the rate case expenses
9 regardless of any sharing mechanism when including the internal labor costs that are
10 not included in the sharing mechanism, therefore it is fair and equitable to allocate a
11 portion of the rate case expenses to the shareholders.

12 4) It is highly probable that some recommendations advocated by the utility
13 through the rate case process will ultimately be determined to be not in the public
14 interest by the Commission.

15 Q. Please explain why it is problematic for utilities to be allowed full recovery of
16 rate case expenses

17 A. Allowing a utility to recover all, or almost all of its rate case expense creates an
18 inherent disincentive for the utility to control rate case expenses. For every other participant in
19 the rate case proceeding, their funds are ultimately limited by budgetary and financial
20 constraints. The ability to pass through the entire amount of expense, along with significant
21 financial resources, creates what can be viewed as an unfair advantage over the parties during
22 a rate case proceeding.

Direct Testimony of
Ashley Sarver

1 Q. Will the sharing of rate case expenses impact a utility's spending?

2 A. Other discretionary utility expenses are not recovered by the utility during the
3 rate setting process. Charitable contributions, which are discretionary amounts paid to
4 individuals or organizations for charitable reasons that have no direct business benefit, are
5 examples of costs that have not historically been included as an expense in the cost of service
6 calculations. While the utility may believe it has the responsibility to be a "good corporate
7 citizen", these donations would represent an involuntary contribution by the ratepayer if they
8 were to be included in rates. Other costs routinely disallowed by Staff are expenses for a
9 company's political activities (lobbying). Lobbying and charitable contributions represent costs
10 which are not necessary for the provision of safe and adequate service, and, therefore, are not
11 recovered through rates. The lack of recovery of those costs has not dissuaded utilities from
12 engaging in these activities. Similarly, while any form of sharing of rate case expense may act
13 as an incentive to control these costs, Staff has not identified significant curtailing of
14 incremental rate case expenses by utilities affected by the 50/50 sharing mechanism.

15 Q. What is the Commission's position regarding the sharing of rate case expense?

16 A. This 50/50 sharing mechanism is consistent with the Commission's most recent
17 decision concerning rate case expense in the Spire Missouri Case Nos. GR-2017-0215 and
18 GR-2017-0216. The Missouri Supreme Court recently upheld the Commission's decision².
19 Also, in Empire District Electric Company's Case No. ER-2019-0374, the Commission
20 determined that a 50/50 sharing mechanism was appropriate³.

21 Q. Does this conclude your direct testimony?

22 A. Yes it does.

² Spire Missouri, Inc. v Pub. Serv. Comm'n, 618 S.W.3rd 225, 233 (Mo. Banc 2021).

³ Case No. ER-2019-0374, Amended Report and Order (EFIS Item No. 617) pages 76-84.

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 ASHLEY SARVER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW ASHLEY SARVER and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Direct Testimony of Ashley Sarver*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Ashley Sarver
ASHLEY SARVER

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

Ashley Sarver

Educational, Employment Background and Credentials

I am currently a Utility Regulatory Audit Supervisor in the Auditing Department, Financial and Business Analysis Division for the Missouri Public Service Commission (Commission). I promoted to a Utility Regulatory Audit Supervisor on July 16, 2024. I have been employed by the Commission since July 2013.

I have a Bachelor of Science degree in Accounting from Missouri State University in Springfield, MO in July 2009. In earning this degree, I completed numerous core Accounting and business classes. Prior to joining the Commission, I was employed by the State of Missouri - Department of Corrections from 2009 to 2013 as an Auditor.

Case Participation

Company Name	Case Number(s)	Testimony/Issues
Lake Region Water and Sewer	WR-2013-0461 SR-2013-0459	Plant in Service, Depreciation Reserve, Materials and Supplies Inventory, Customer Advances, Contributions in Aid of Construction, Purchase Power, Chemicals, Testing Expense, Supplies and Materials, Tools and Shop Supplies, Insurance, Office Supplies, Telephone, License and Permits, Property Tax
Summit Natural Gas of Missouri, Inc.	GR-2014-0086	Plant in Service, Depreciation Reserve, Gas Stored Inventory, Prepayments and Materials and Supplies Inventory, Customer Advances, Customer Deposits, Payroll, Payroll Taxes, 401(k), and Other Employee Benefit Costs, Incentive Compensation and Bonuses, Customer Deposit Interest Expense, Maintenance Normalization Adjustments, Advertising Expense, Regulatory Expenses, Dues, Rent Expense
The Empire District Electric Company	ER-2014-0351	Revenue, Customer Growth, Common Stock Issuance Expense Amortization, Uncollectible Accounts, Cash Working Capital, Injuries and Damages, Workman's Compensation, Insurance Expense, Lease Expense, Property Tax Expense, Regulatory Commission Expense

continued Ashley Sarver

Company Name	Case Number(s)	Testimony/Issues
Indian Hills Utility Operating Company, Inc. to Acquire I.H. Utilities, Inc.	WO-2016-0045	Acquisition Case: Rate Base determination
The Empire District Electric Company	ER-2016-0023	Property Tax Expense, Rate Case Expense, Injuries and Damages, Workman's Compensation, Bad Debt Expense, Amortization of Stock Issuance Expense Amortization, Lease Expense, DSM/PRE-MEEIA, Solar Rebate, Revenue, Customer Growth
Hillcrest Utility Operating Company, Inc.	WR-2016-0064 SR-2016-0065	Revenue, Expenses, and Rate Base
KCP&L Greater Missouri Operations Company	ER-2016-0156	Miscellaneous Revenues and Customer Growth
Kansas City Power & Light Company	ER-2016-0285	Fuel Adjustment Clause Base Factor
The Empire District Electric Company	EO-2017-0065	Sixth Prudence Review of Fuel Adjustment Clause
KCP&L Greater Missouri Operations Company	ER-2017-0189	Semi-Annual Fuel Adjustment Clause True-up
Elm Hills Utility Operating Company, Inc. to Acquire Missouri Utilities Company	SM-2017-0150 WM-2017-0151	Certificate of Convenience and Necessity
Indian Hills Utility Operating Company, Inc.	WR-2017-0259	Revenue and Expenses
Environmental Utilities, LLC	WR-2018-0001	Lead Staff
Missouri-American Water Company	WR-2017-0285 SR-2017-0286	Uncollectible Expense, Chemical Expense, Fuel and Power Expense, Purchased Water Expense, Tank Painting Expense/Tracker, Water Loss, Revenues
Elm Hills Utility Operating Company, Inc., to Acquire Rainbow Acres and Twin Oakes or The Preserve	SA-2018-0313	Certificate of Convenience and Necessity
Branson Cedars Resort Utility Company LLC-(Sewer & Water)	WR-2018-0356	Lead Staff
Carl Richard Mills (Water)	WA-2018-0370	Certificate of Convenience and Necessity

continued Ashley Sarver

Company Name	Case Number(s)	Testimony/Issues
Confluence Rivers Utility Operating Company, Inc.	WR-2020-0053 SR-2020-0054	Lead Staff
Elm Hills Utility Operating Company, Inc.	WR-2020-0275 SR-2020-0274	Lead Staff
Missouri-American Water Company	WR-2020-0344	Revenue, Purchased Water, Fuel and Power Expense, Chemical Expense.
Liberty Utilities to purchased Bolivar, Missouri	WA-2020-0397 SA-2020-0398	Acquisition Case: Rate Base determination
The Empire District Electric Company	ER-2019-0374	FAS 106 OPEBs, FAS 87 & 88 Costs, SERP, Fuel and Purchased Power, Operation and Maintenance (non-labor) Normalization, Riverton 12 O&M Tracker, Software Maintenance Expense
Carl Richard Mills (Water)	WR-2021-0177	Revenue, Expense and Rate Base
The Empire District Electric Company d/b/a Liberty	ER-2021-0312	FAS 106 OPEBs, FAS 87 & 88 Costs, SERP, Fuel and Purchased Power, Operation and Maintenance (non-labor) Normalization, Wind Operation and Maintenance Expense, Wind Non-FAC Expense, Riverton 12 O&M Tracker, Software Maintenance Expense
The Empire District Gas Company d/b/a Liberty	GR-2021-0320	Affiliate Transactions, Pensions and OPEB, Non-Labor Operations and Maintenance Expense, Software Maintenance Expense, Capitalized Depreciation
Missouri-American Water Company	WO-2021-0428 SO-2021-0429	Water and Sewer Infrastructure Rate Adjustment
S.K. & M. Water and Sewer Company	SR-2022-0239 WR-2022-0240	Lead Auditor
Carl Richard Mills to transfer water system at Carriage Oaks Estate	WM-2022-0144	Acquisition Case: Rate Base determination
Rex Deffenderfer Enterprises, Inc	WM-2022-0246	Acquisition Case: Rate Base determination

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Company Name	Case Number(s)	Testimony/Issues
Missouri-American Water Company	WO-2022-0176 SO-2022-0177	Water and Sewer Infrastructure Rate Adjustment
Investigation into the Operations and Condition of Liberty Utilities	WO-2022-0253 SO-2022-0254	
Confluence Rivers Utility Operating Company, Inc., for CCN to Acquire Deer Run Estates Property Owners' Association	SA-2022-0299	Acquisition Case: Rate Base determination
Missouri-American Water Company	WO-2023-0008	Lead Staff - Water and Sewer Infrastructure Rate Adjustment
Argyle Estates Water Supply	WR-2022-0345	Lead Auditor
Confluence Rivers Utility Operating Company, Inc., for CCN to Acquire Glenmeadows Water and Sewer, LLC	WA-2023-0026	Acquisition Case: Rate Base determination
Missouri-American Water Company	WR-2022-0303 SR-2022-0304	Corporate Allocations, Pensions & OPEBs and Trackers, Fuel and Power Expense, Chemical Expense; Purchased Water, Rate Case Policy, Service Company Support Services, Water Loss, Revenues
Confluence Rivers Utility Operating Company, Inc.	WR-2023-0006	Corporate Allocation, All of the Corporate Expenses including Payroll Expense, Payroll Taxes, Overtime, Bonuses, Employee Benefits, Company Life Insurance. Operation and Maintenance Percentage, and Company and Corporate Prepayments
Confluence Rivers Utility Operating Company, Inc., for CCN to Acquire Four Seasons North MHP, LLC	WA-2023-0284	Acquisition Case: Rate Base determination
Confluence Rivers Utility Operating Company, Inc., for CCN to Acquire Lincoln County Water and Sewer, LLC	WA-2023-0398	Acquisition Case: Rate Base determination
Liberty Utilities (Missouri Water) LLC d/b/a Liberty	WR-2024-0104 SR-2024-0105	Lead Staff – Plant in Service, Depreciation Reserve, Acquisition Cost, Rate Case Policy