Exhibit No.: _____
Issues: Revenue Requirement
Witness: Cindy S. Wilson
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Liberty Utilities (Missouri Water) LLC d/b/a Liberty
Case No.: WR-2024-0104
Date Testimony Prepared: September 2024

Before the Public Service Commission
of the State of Missouri

Rebuttal Testimony

of

Cindy S. Wilson

on behalf of

Liberty Utilities (Missouri Water) LLC d/b/a Liberty

September 27, 2024

Liberty™

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FOR THE REBUTTAL TESTIMONY OF CINDY S. WILSON
LIBERTY UTILITIES (MISSOURI WATER) LLC D/B/A LIBERTY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. WR-2024-0104

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Cindy S. Wilson. My business address is 602 South Joplin Avenue, Joplin, Missouri.

Q. Are you the same Cindy S. Wilson who provided direct testimony in this matter on behalf of Liberty Utilities (Missouri Water) LLC d/b/a Liberty ("Liberty" or the "Company")?

A. Yes.

Q. What is the purpose of your rebuttal testimony in this proceeding before the Missouri Public Service Commission ("Commission")?

A. I address the Company's various concerns with the direct testimony filed by the Staff of the Commission ("Staff"), the Office of the Public Counsel ("OPC"), Holiday Inn Club Vacations ("HICV"), and the city of Bolivar ("Bolivar") as it relates to the Company's proposed revenue requirement deficiency.

II. LIBERTY'S REVISED REBUTTAL REVENUE REQUIREMENT

Q. What revenue requirement does the Company present via its rebuttal testimony?

A. The Company proposes an overall revenue requirement of $17,671,032, which is a $8,342,195 increase in the annual revenue requirement compared to its currently effective general base rates. Please refer to my **Rebuttal Schedule CSW-1** for a summary of the Company's rebuttal revenue requirement calculation.

Q. How did the Company arrive at its rebuttal testimony position?

A. The Company's position as presented in my direct testimony has been updated to incorporate actual financial data through the update period (12 months ending April 30, 2024) as well as certain adjustments proposed by Staff with which the Company agrees. These adjustments will be addressed in further detail later in my testimony. Although some numbers have changed as a result of updating the information through April 30, 2024, or correcting calculations, the methodologies remain the same as described in my direct testimony, with the exception of the Company's Property Tax and Contributions in Aid of Construction ("CIAC") adjustments.

Q. How did the Company revise its Property Tax adjustment in its rebuttal revenue requirement?

A. The Company revised its Property Tax calculation to calculate taxes based on the net plant in service, rather than the gross plant in service that was used when the Company filed its direct testimony and adjusted for the revenue requirement update filed on July 1, 2024. As a result, the Company's proforma adjustment decreased from the $965,933 reflected in its July 1, 2024 filing, to $391,635.

Q. Did the Company revise its CIAC normalization adjustment in its rebuttal revenue requirement?

A. Yes. The Company inadvertently failed to update the balance of CIAC, CIAC Reserve, and CIAC Amortization expense with information as of April 30, 2024, when it filed its update on July 1, 2024. The revised adjustment reflects a net CIAC balance of $(628,712) as opposed to the $(653,814) included in the July 1 update, as well as an updated annual amortization expense of $(50,206) as opposed to the $(41,841) from the July 1 update.

Q. Did the Company remove any adjustments in its rebuttal revenue requirement?

A. Yes. The Company no longer proposes an adjustment to normalize expenses for Noel because of the Tyson Plant closure and Bolivar because of the Bolivar acquisition in February 2022. Additionally, the Company no longer proposes an adjustment to allocate Shared Services Non-Plant items. These adjustments were removed because the Company opted to accept Staff's position, which incorporated many of the same adjustments.

Q. What are the primary differences between Staff and the Company's rebuttal position?

A. The differences between the Company's rebuttal position and Staff' direct testimony position are primarily attributable to differences in the amount of rate base, revenues, and expenses calculated by Staff and the Company. Figure 1 below provides a high-level view of these differences. Additionally, throughout the remainder of my testimony, I provide more specificity with respect to the items driving the differences in each of the revenue requirement components listed previously.

Figure – 1

Expense Category	Staff Direct Testimony WR-2024-0104	Company Rebuttal Testimony WR-2024-0104	Difference Between Company Rebuttal and Staff Direct
Rate Base:	**48,778,506**	**52,410,962**	**3,632,456**
Cash Working Capital	1,582,850	210,590	(1,372,260)
Prepaid Pension Asset	-	99,386	99,386
Deferred Tank Painting	-	230,128	230,128
Property Tax Tracker	-	680,564	680,564
Bolivar Water Regulatory Asset	-	1,612,758	1,612,758
Bolivar Sewer Regulatory Asset	-	2,368,627	2,368,627
Misc Differences			13,254
Total Rate Base Difference			**3,632,456**
Revenues:	**8,388,899**	**9,328,837**	**939,938**
Water & Wastewater Revenue	8,172,151	9,027,077	854,926
Other Operating Revenues	216,748	301,761	85,013
Total Revenue Difference			**939,938**
Expenses:	**11,938,647**	**12,800,724**	**862,077**
Source of Supply Expense - Water	827,136	829,269	2,133
Pumping Expense - Water	886,353	886,357	4
Water Treatement Expenses - Water	515,007	486,237	(28,770)
Transmission and Distribution Expenses - Water	756,148	777,222	21,074
Customer Account Expenses	199,665	201,686	2,021
Administrative and General Expenses	4,116,706	4,658,168	541,462
Collection Expenses - Sewer	73,872	74,754	882
Pumping Expense - Sewer	43,074	43,076	2
Treatment and Disposal Expense - Sewer	133,144	133,142	(2)
Depreciation Expense	3,276,890	3,753,202	476,312
Amortization Expense	161,276	-	(161,276)
Taxes other than Income Taxes	935,555	943,798	8,243
Interest on Customer Deposits	13,821	13,813	(8)
Total Expense Difference			**862,077**

Q. Do you believe the components in Figure – 1 above, associated with Staff's direct testimony, are reasonable and appropriate?

A. No. Staff's rate base is understated due to the exclusion of multiple regulatory assets including the Property Tax Tracker that was established by Senate Bill 745, codified in Section 393.400.2, RSMo., and became effective August 28, 2022, as stated in my direct testimony. Additionally, Staff's rate base calculation excludes the Bolivar regulatory assets that were recorded because of the Bolivar Acquisition. The Company also believes that Staff's revenue is accidentally understated and, therefore, does not accurately depict the amount of revenue being recovered from customers under existing rates. Finally, Staff's proforma expense balance does not take into consideration the ongoing operation and maintenance expenses associated with the implementation of Customer First, the rate case expense that the Company expects to incur through the pendency of the rate case, and the impact of the proposed depreciation rates included in the direct testimony of Dane A. Watson.

III. COMPONENTS OF THE REVENUE REQUIREMENT

A. Rate Base

Q. Are there rate base adjustments/balances with which Staff and the Company are in agreement?

A. Yes. Table CSW-1 below summarizes the rate base adjustments/balances that the Company and Staff agree upon.

Table CSW-1

Rate Base	
Sponsoring Party	**Description**
Staff	EADIT
Staff	Customer Deposits
Staff	Customer Advances

Q. Are there rate base adjustments/balances proposed by Staff in their direct testimony that resulted in the Company revising its proposed balance?

A. Yes. While the Company may not agree with Staff's methodology in each of the adjustments listed below, for purposes of resolution, the Company is accepting Staff's proposed adjustments on the basis that the amounts are materially accurate:

- Accumulated Deferred Income Taxes,
- Materials & Supplies, and
- Prepayments.

Q. Are there any other Rate Base adjustments with which the Company agrees?

A. Yes. The Company agrees with the adjustment proposed by Staff to remove approximately $114,456 from plant account no. 301 – Organization for Franklin County Water acquisition premium. The Company's RB ADJ 1 has been updated accordingly along with the derivative depreciation expense annualization, EXP ADJ 9, and the derivative property tax annualization, EXP ADJ 10. With the incorporation of Staff's adjustment, the Company and Staff have only a minor difference in the calculation of net plant in service.

Q. What are the specific rate base issues being addressed by your rebuttal testimony?

A. The table below, Table CSW-2, provides an outline of the rate base topics I address along with the respective sponsoring party. However, to the extent that I do not address a specific issue, this should not necessarily be considered acceptance of the position of other parties. Instead, I would propose the balance the Company filed with this rebuttal testimony be utilized when calculating the allowed revenue requirement.

Table CSW-2

Rate Base	
Sponsoring Party	**Description**
Staff	Cash Working Capital
Staff	CIAC Normalization
Staff	Prepaid Pension Asset
Staff	Deferred Tank Painting

Staff	Property Tax Tracker
Staff	Regulatory Assets - Acquisition (Bolivar)
City of Bolivar	Regulatory Assets – Acquisition (Bolivar)

Q. Does the Company agree with Staff's Cash Working Capital calculation?

A. No. The Company believes that Staff's cash working capital calculation contains errors associated with the calculation of lead/lag days. For further discussion on Cash Working Capital, please refer to the rebuttal testimony of Liberty witness Timothy Lyons.

Q. Does the Company agree with Staff's normalization of CIAC, CIAC Reserve, and the Amortization of CIAC?

A. Yes, in part. The Company agrees with Staff's methodology as it is consistent with the Company's methodology utilized in the July 1, 2024 update. However, as noted earlier in my rebuttal testimony, the Company revised its normalization of CIAC, CIAC Reserve, and Amortization of CIAC to reflect updated balances as of April 30, 2024. The Company believes that $(628,712) accurately depicts the net CIAC balance that should be included in the cost of service. Additionally, the Company believes that the appropriate amount of annual amortization expense to include in the cost of service is $(50,206).

Q. Does Staff include an adjustment for the Prepaid Pension Asset?

A. No. Staff's asserts that "without a current tracker in place, there is no expense to be tracked and calculated."[1].

Q. Does the Company agree with Staff's position?

[1] Direct Testimony of Angela Niemeier, page 6.

A. No. The Company believes that the Prepaid Pension Asset balance is known and measurable and should be included in Staff's rate base calculation. For further explanation, please refer to the rebuttal testimony of Company witness James Fallert.

Q. Does Staff include an adjustment for Deferred Tank Painting?

A. No. Staff does not include the costs associated with deferred tank painting in its rate base calculation. Additionally, Staff does not address deferred tank painting in their direct testimony.

Q. Does the Company agree with Staff's exclusion of deferred tank painting?

A. No. The deferred tank painting regulatory asset reflects the costs incurred to paint water tanks within our system. As stated in my direct testimony, "Regular painting of water storage tanks prolongs the life of any tank by helping to prevent corrosion and problems caused by weather, pollutants and other external elements". Tank painting is necessary to maintain and extend the life of the assets. Therefore, the Company believes that the deferred costs in the amount of $230,128 and the associated annual amortization expense in the amount of $19,177 should be factored into Staff's proposed cost of service.

Q. Does Staff address the property tax tracker established pursuant to Section 393.400, RSMo.?

A. The direct testimony of Staff witness Lesmes partially addresses the issue in proposing a level of annual property tax expense. However, Staff's direct testimony does not appear to address the balance of the regulatory asset or the amortization of that asset. Staff's Direct Accounting Schedule shows a regulatory asset balance of zero and an amortization expense of zero.

Q. Does Liberty agree with Staff's position?

A. No. The tracking requirement became effective on August 28, 2022. Section 393.400.2. and states (emphasis added):

> [W]ater corporations ***shall defer*** to a regulatory asset or liability account any difference in state or local property tax expenses actually incurred, and those on which the revenue requirement used to set rates in the corporation's most recently completed general rate proceeding was based. The regulatory asset or liability account ***balances shall be included*** in the revenue requirement used to set rates through an amortization over a reasonable period of time in such corporation's subsequent general rate proceedings. The commission shall also adjust the rate base used to establish the revenue requirement of such corporation to reflect the unamortized regulatory asset or liability account balances in such general rate proceedings. Such expenditures deferred under the provisions of this section are subject to commission prudence review in the next general rate proceeding after deferral.

While I am not an attorney, the statute requires deferral (using “shall defer” language) of any difference in state or local property tax expenses a water corporation, such as Liberty, incurs and the expenses on which Liberty’s most recently completed general rate case was based. If the Missouri General Assembly intended for the deferral to begin only after a future general rate proceeding, then it would have said so. It did not.

The statute also directs that the resulting regulatory asset or liability account balances be included in the revenue requirement in the utility’s subsequent general rate case. Since this is the Company’s first general rate case since the effective date of the statute, this is the first time the regulatory account balance must be reflected in the Company’s revenue requirement.

Q. Have other public utilities been allowed to begin employing the statutory mechanism when the statute became effective instead of being required to wait until after a subsequent general rate proceeding?

A. Yes, the largest gas, water and electric public utilities in the state have been allowed to employ the statutory mechanism around the time the statute became effective instead of being required to wait until after a subsequent general rate proceeding.

- In Case No. GR-2022-0179, via approval of a Full Unanimous Stipulation and Agreement with Staff and other parties, the Commission authorized Spire Missouri to reflect the property tax deferral from January 1, 2022, through the effective date of rates in the case, which was over $22 million for Spire East and approximately $18.9 million for Spire West. Case No. GR-2022-0179, Order Approving Stipulation and Agreement, issued November 30, 2022; See Full Stipulation and Agreement, pp. 2 – 3.
- In Case No. WR-2022-0303, via approval of a Stipulation and Agreement with Staff and other parties, the Commission authorized Missouri-American Water Company, who did not have a stated property tax amount ordered by the Commission in its immediately preceding general rate case, to reflect the property tax deferral from September 1, 2022 (which was the first day of the month following the effective date of the statute). Case No. WR-2022-0303, Stipulation and Agreement, filed March 3, 2023, p. 3. Staff's agreement in Case No. WR-2022-0303 is nearly identical with the Company's position to track and record property tax deferrals beginning the effective date of the statute and demonstrates that there is no need for the Commission to have explicitly set a property tax base in its last rate case order for the Company.
- Identically to resolving the issue in Case No. WR-2022-0303, in Case No. ER-2022-0337, via approval of a Stipulation and Agreement with Staff and other parties, the Commission authorized Ameren Missouri, which also did not have a

stated property tax amount ordered by the Commission in its immediately preceding general rate case, to reflect the property tax deferral from September 1, 2022. Case No. ER-2022-0337, filed April 7, 2023, Exhibit C.

Q. Should Liberty be treated differently than the largest gas, water, and electric public utilities, and prevented from getting the benefit of the statutory mechanism under Section 393.400.2, RSMo. until after its next general rate case?

A. No. There is nothing in the statute that would support any such disparate treatment. The Company's calculation of the Property Tax Regulatory Asset balance in this case is reasonable and should be approved by the Commission for amortization over a three-year period.

Q. What does the Company propose for the property tax regulatory asset tracker?

A. My direct testimony describes how the Company arrived at the proper balance for the regulatory asset account. (Wilson Dir., p. 16). Further, the Company recommended a three-year amortization period. The Company recommends the Commission adopt the property tax regulatory asset balance and amortization expense contained in its rebuttal revenue requirement model and rebuttal period adjustments RB ADJ 7 and EXP ADJ 3.

Q. Staff and Bolivar both recommend disallowances associated with Bolivar. Please explain the history of the Bolivar acquisition as it concerns the rate case.

A. In Case Nos. WA-2020-0397 and SA-2020-0398, the Certificate of Convenience and Necessity application docket, the Commission-approved Global Stipulation and Agreement (pp. 4-5) provides that the: "Signatories request that the Commission authorize Liberty to establish a regulatory asset in the amount of $3,981,385 ($1,612,758 for water and $2,368,627 for sewer). Rate recovery of this regulatory asset will be determined in Liberty's next general rate case, but Staff agrees to support Liberty's rate recovery of this amount."

Q. What does this regulatory asset represent?

A. Liberty purchased the Bolivar water and wastewater systems for $23.5 million. The rate base initially established by the Commission was $5,566,992 for water and $8,356,492 for sewer. The additional rate base of $3,981,385 ($1,612,758 for water and $2,368,627 for sewer) was an amount agreed upon in the Global Stipulation and Agreement, reflecting a portion of the difference between the purchase price and the initially established rate base.

Q. Should Liberty be allowed to receive a return on the regulatory asset?

A. Yes. The regulatory asset that was identified in the Stipulation and Agreement represents a portion of the actual cost of the assets and therefore should not only be allowed to be recovered but should earn a fair return.

Q. Has the Company maintained separate books and records for Bolivar as required by the Commission in Case No. WA-2020-0397?[2]

A. Yes. The Company maintains the accounting records by water and wastewater system separately.

Q. In her direct testimony, Bolivar witness York recommends "…setting Bolivar's water rate base at the level identified in the acquisition docket, plus the acquisition premium that was approved in that case. This amounts to $7,179,750 (i.e., $5,566,992 plus $1,612,758).[3]" What improvements would this approach necessarily ignore?

[2] Case No. WA-2020-0397, Order Approving Stipulation and Agreement, Asset Transfer, and Certificates of Convenience and Necessity, p. 12 (December 8, 2021).
[3] York Dir., p. 9.

A. Witness York's approach would ignore the improvements that are in service and used and useful for Liberty's customers in Bolivar, such as the conversion from chlorine gas to liquid to improve safety, Mission monitoring on lift stations, lift station upgrades, SCADA upgrades on water, well pump replacements, new standby generators. and the new Customer First System.

Q. What ratemaking principle indicates that investments made by the Company should be included in rate base?

A. According to the regulatory compact principle, utilities that make investments in their system are allowed to recover their cost and earn a fair return. In other words, if the utility's investment is in service, used and useful, and found to have been prudent, the Commission must grant a return on this investment.[4]

Q. Witness York stated that one reason Liberty should not be allowed to earn a return on rate base added since the acquisition is that Liberty had indicated the rate increase would be significantly lower if Liberty acquired the system. Did Liberty promise that the increase would be lower than the increase currently being requested for Bolivar customers?

A. No, as no specific rate representations were made, other than a promise to not seek a rate increase until 2024. Additionally, the pre-vote discussion focused on the sewer system and possible, projected rate increases for sewer. The city and Liberty did project that rate increases would be less under Liberty than under the city, but that projection was focused on sewer (not water), did not include Liberty's recovery of the $23.5M paid to the city for the assets, and did not include the costs that vary between a regulated

[4] See *In the matter of Kansas City Power & Light Company of Kansas City, Missouri, for authority to file tariffs increasing rates for electric service, et al.*, 1986 Mo. PSC LEXIS 32, *115, 28 Mo. P.S.C. (N.S.) 228, Case Nos. EO-85-185 and EO-85-224 (Mo. P.S.C. April 23, 1986).

utility and a municipal provider. In addition, that estimate was given prior to the high inflation that has been experienced over the past four years and the shortage of labor and materials. It should be noted that Liberty is requesting a decrease in sewer rates for Bolivar customers at this time and that the city was able to use the full purchase price of $23.5M as it saw fit, while Liberty is requesting to recover, over time, approximately $5M less.

Q. Witness York states that the Commission order approving the acquisition did not "specifically recognize the assignment of common plant to Bolivar.[5]" Is common plant included in the proposed Company revenue requirement?

A. No. The Company made an adjustment to remove common plant in our updated revenue requirement (RB ADJ 2) filed July 1, 2024.

Q. Were there any other recommended adjustments to Liberty's rate base for Bolivar?

A. Yes. Bolivar witness York suggested that Liberty "offset the balance of the regulatory account" by what she described as "excess revenue" related to the wastewater services.[6]

Q. How does York define "excess revenue"?

A. "The Company should be directed to calculate the revenues in excess of cost of service collected from Bolivar wastewater customers from the date of acquisition to the date new rates take effect from this case…"[7]

Q. Does Ms. York take into consideration the totality of the costs to serve Bolivar or does she focus on specific costs subject to recovery?

[5] York Dir., p. 9.[6] York Dir., p. 12
[6] York Dir., p. 12
[7] York Dir., p. 12.

A. Ms. York focuses only on specific costs subject to recovery and fails to examine all components that quantify the Company's cost of service.

Q. What is this strategy called?

A. This strategy is called single issue rate making. Single issue ratemaking fails to consider other factors that impact a utility's cost of service.

Q. What are the limitations of single-issue ratemaking?

A. Single issue ratemaking prohibits a full analysis of all the components of a proposed revenue requirement. Ms. York focuses her attention on pieces of the cost of service but fails to evaluate all the components of the revenue requirement, many of which support the Company's need for a rate increase.

Q. Did York request the Company increase rate base for the shortfall of water income?

A. No.

B. Income Statement

Q. **Are there income statement adjustments proposed by Staff or any other party with which the Company agrees?**

A. Yes, Table CSW-3 below summarizes the income statement adjustments/balances that the Company does not oppose and are reflected in the Company's rebuttal revenue requirement calculation. The Company may not agree with Staff's methodology in each of the adjustments included in the table below; however, for purposes of resolution, the Company is accepting Staff's proposed adjustments on the basis that the amounts are materially accurate.

Table CSW-3

Income Statement	
Sponsoring Party	**Description**
Staff	Transaction Fee Free Program
Staff	Chemical Expense
Staff	Miscellaneous and General Expense
Staff	Bolivar Regulatory Asset Expense
Staff	Customer Deposit Interest
Staff	Insurance Expense
Staff	Removal of Acquisition Costs
Staff	Corporate Expense
Staff	Fuel and Purchased Power
Staff	Bad Debt Expense
Staff	Communication Expense
Staff	Office Supplies Expense
Staff	Contract and Outside Services Expense
Staff	PSC Assessment Expense
Staff	Advertising
Staff	Dues and Membership Fees
Staff	Maintenance of Fire Mains and Mains and Emergency Vehicles Service
Staff	Meals and Entertainment
Staff	Postage
Staff	Rents
Staff	Bank Fees
Staff	Pension & OPEB Expense
Staff	Excess ADIT Amortization

Q. Please specify which income statement adjustments proposed by Staff with which the Company does not agree and describes in more detail in rebuttal testimony.

A. Table CSW-4 below provides an overview of the income statement topics I will address in my rebuttal testimony. To the extent I do not directly address a specific issue, this should not necessarily be considered acceptance of the other stakeholder positions. Rather, the balance/position of the Company's Rebuttal Revenue Requirement calculation should be utilized when calculating the annual cost of service.

Table CSW-4

Income Statement	
Sponsoring Party	**Description**
Staff	Revenue Adjustment
Staff	Other Operating Revenue Adjustment
HICV	Unbilled Revenues
Staff	Customer First Expense
Staff	Payroll Expense
Staff	Payroll Taxes
Staff	Employee Benefits
City of Bolivar	Labor Expense
Staff	Employee Stock Purchase Plan Adjustment
City of Bolivar	Incentive Compensation
Staff	Travel and Training
City of Bolivar	A&G Costs
Staff	Rate Case Expense
City of Bolivar	Rate Case Expense
OPC	Rate Case Expense
Staff	Property Taxes Expense
City of Bolivar	Property Tax Tracker
City of Bolivar	Acquisition Reg Asset Amortization
Staff	Depreciation Expense
HICV	Depreciation Expense
Staff	Income Taxes

C. Revenue Adjustments

Q. Please explain the methodology used by Staff in their revenue adjustment.

A. Staff's adjustment is composed of a base rate, a commodity rate based on usage, and miscellaneous revenues. Staff used customer counts and usage (commonly referred to as billing determinants) to determine an annual amount of revenue.

Q. Is Staff's methodology flawed?

A. Not necessarily. However, the Company believes that Staff's annual revenue calculation is understated and that it does not represent the amount of annual revenues received from water and wastewater customers under existing rates. For further explanation, please refer to the direct testimony of Liberty witness Tom O'Neill.

Q. Please explain Liberty's adjustment for Unbilled Revenues.

A. The Company's Unbilled Revenue Adjustment removes unbilled revenues. Due to timing of cycles, the Company books an unbilled accrual to true up its financials for total usage for the reporting month. Because this will reverse the following period when the billing will be booked, it must be removed to keep it from being double counted. For example, if the billing period ends on the 15th of the month, the Company's billing has half of the prior month and half of the current month posting, and then the Company books its unbilled revenues to record the other half of revenue in the current month and then it would have a prior month reversal of unbilled revenues.

Q. Did any parties oppose the Company's Unbilled Revenue Adjustment?

A. Yes. HICV witness Stannard opposed the Company's adjustment and opined that "Failure to incorporate the customer account data for the unbilled revenue in the test year billing resulted in an improper increase in Liberty's proposed rates and shifts the cost of the unbilled revenues to Liberty's rate payers instead of the company." (Stannard Dir., p. 8).

Q. Does the Company agree with Mr. Stannard's quantification?

A. No. As stated previously, the unbilled revenue adjustment is critical to ensure that revenues are not double counted due to the timing of accruals.

D. Expense Adjustments

Q. Please summarize Staff's recommendation related to Customer First operating and maintenance ("O&M") expenses.

A. Staff witness Foster suggests that no O&M expense associated with the Company's Customer First implementation should be included in the calculated cost of service for Liberty because there isn't sufficient data to support an ongoing annualized expense for the Company. (Foster Dir., p. 4).

Q. Do you agree with Staff's recommendation?

A. No. Liberty Utilities (Missouri Water) LLC implemented the Customer First Foundations project in April 2024, as part of the final release of Algonquin Power & Utilities Corp.'s (APUC) enterprise-wide Customer First project. Because Liberty Utilities (Missouri Water) LLC was one to the last entities where implementation was completed, Liberty as a whole has been incurring actual O&M expenses related to Customer First since the enterprise-wide implementation began in 2022. The ongoing Customer First related O&M expenses are known and measurable and should be included in this case for recovery from customers.

Q. Please explain Staff's general approach to calculating annualized payroll, payroll taxes, and employee benefits expense.

A. To determine the level of payroll expense that should be included in the cost of service, Staff reviewed the list of employees provided by the Company. Staff took into consideration the employee job titles and current salaries as of April 30, 2024, to determine payroll expense. Additionally, Staff disallowed certain payroll expenses.

Q. What payroll expense did Staff recommend be disallowed?

A. Those associated with business development, open positions, inactive positions, and government relations.

Q. Does Liberty agree with Staff's adjustment to remove labor costs associated with business development?

A. No. Business development activities increase Liberty's customer base, allowing costs to be spread over a larger number of customers. Liberty recommends that the Commission adopt the payroll expense from its rebuttal revenue requirement calculation, which includes business development labor cost.

Q. Does Liberty agree with Staff's adjustment to remove labor costs associated with open positions?

A. No. Though positions were open at the end of the update period, Liberty included an adjustment to reflect positions it was seeking to fill. The inclusion of these positions reflects Liberty's normal payroll expenses. Liberty recommends that the Commission adopt the payroll expense from its rebuttal revenue requirement calculation, which reflects these labor costs.

Q. Does Liberty agree with Staff's adjustment to remove labor costs associated with inactive positions?

A. No. Staff removed positions identified as "inactive" in Company workpapers, though this is not specifically described in the direct testimony of Staff witness Courtney Horton.

Q. What does the "inactive" description represent?

A. These are filled positions for which the employees are on extended leave, such as under the Family and Medical Leave Act. Thus, these are employees that are still employed by Liberty and remain eligible for benefits during their leave. Liberty recommends that the Commission adopt the payroll expense from its rebuttal revenue requirement calculation, which reflects these labor costs.

Q. Does Liberty agree with Staff's adjustment to remove labor costs associated with government relations?

A. The Company agrees to remove the labor cost associated with government relations from its revenue requirement. Liberty has included in its rebuttal revenue requirement calculation a revision to its payroll adjustment which now removes the labor and benefits expenses associated with government relations (EXP ADJ 7 and EXP ADJ 8). The Company recommends the Commission adopt its revised adjusted payroll expense and employee benefits expense.

Q. Does Liberty agree with Staff's operation and maintenance (O&M) percentage used to capitalize a portion of payroll and related costs?

A. Yes. In her direct testimony, Staff witness Horton described Staff's method of determining the rate at which payroll and related expenses are capitalized. Her O&M percentage appears to be based on the Company's response to Staff Data Request 39, which shows payroll expenses for the year ending December 31, 2023. However, while the methodology is the same, Liberty's updated model capitalized these costs based on the test year, rather than updating to the twelve months ending December 31, 2023. Therefore, in addition to other revisions elsewhere described, Liberty is submitting revisions to EXP ADJ 7 and EXP ADJ 8 to revise the capitalization rate to that calculated in its response to Staff Data Request 39 and utilized by Staff in their direct filing.

Q. Does Liberty agree with Staff's adjustment to payroll tax?

A. The Company and Staff use similar methods of calculating payroll tax. However, Staff's payroll tax adjustment is affected by its payroll adjustments. However, the Company notes that there was a typographical error in the calculations of Canadian unemployment insurance tax. With this rebuttal testimony, Liberty is submitting a revision to EXP ADJ 7 that corrects this error in addition to removing government relations labor expense. The Company recommends the Commission adopt its revised adjusted payroll expense.

Q. Does Liberty agree with Staff's adjustment to employee benefits?

A. The Company and Staff use similar methods of calculating employee benefit expenses, though the Company did proposed adjustments for the 401(k) match. However, Staff's employee benefits adjustment is affected by its payroll adjustments. Liberty is submitting a revised employee benefits adjustment, EXP ADJ 8, to bring it in line with revisions to EXP ADJ 7 payroll adjustments to remove government affairs costs and update the operations and maintenance percentage. The Company recommends the Commission adopt its revised adjusted employee benefits expense.

Q. What adjustments does Bolivar propose that affect payroll, payroll tax and benefits expenses?

A. Bolivar witness James A. Leyko proposes two adjustments that affect payroll, payroll taxes and benefits. First, he proposes to reverse Liberty's adjustment for open positions. Second, he proposes a change in the overtime rates.

Q. Does Liberty agree with Bolivar's adjustment to open positions?

A. Similar to Staff, Mr. Leyko proposes to remove the Company's adjustment for open positions from the revenue requirement. He accomplishes this by simply proposing an adjustment of zero dollars in place of the Company's adjustment. The inclusion of open positions reflects Liberty's normal payroll expenses. Liberty recommends that the Commission adopt the payroll, payroll tax and benefits expenses from its rebuttal revenue requirement calculation, which reflects these labor costs.

Q. Does Liberty agree with Bolivar's adjustment to open positions?

A. When the Company submitted its revised revenue requirement model with updates through April 30, 2024, it added overtime data though the update period to the previously provided two years of overtime data ending with the test year. Mr. Leyko states that the overtime in the first four months of 2024 appears to be high, but even ignoring this period, there is sometimes significant variability in overtime over the remaining three years. This variability is a reason that the Company proposed using an average to normalize overtime expense. The purpose of averaging is to smooth variations in expense. This cannot be accomplished if available overtime data through the update period is ignored. The Company recommends the Commission adopt its revised adjusted payroll, payroll tax and employee benefits expenses.

Q. Please summarize Staff's recommendations regarding the recovery of incentive compensation in this case.

A. In its direct testimony, Staff made an adjustment to remove the allocated cost to Liberty for the Employee Stock Purchase Program ("ESPP"). Staff witness Horton also indicated that Staff is still reviewing data related to the Company's Shared Bonus Pool ("SBP"), Short-Term Incentive Plan ("STIP") and Long-Term Incentive Plan ("LTIP") incentive programs and would attempt to include an adjustment in its rebuttal filing. (Horton Dir., p. 10).

Q. Please discuss Staff's adjustment for ESPP.

A. Ms. Horton asserts that ESPP costs should be disallowed in their entirety because employees who participate in the program benefit when APUC prospers financially. (Horton Dir., p. 10).

Q. Is ESPP expense primarily tied to APUC's financial performance?

A. No. ESPP allows employees to acquire stock in APUC. As with any stock, when the stock price goes up, the shareholder has an opportunity to benefit financially if they sell their shares. The expense incurred by the Company is not related to the financial performance of APUC, but rather an incentive to employees to participate and take an active ownership role in APUC. The expense recognized relates to the company matched portion of the employees' stock purchase. If after the stock is purchased, APUC's stock price increases, and the employees still own their shares of stock, they do not receive an additional financial benefit and APUC does not incur an additional expense. Furthermore, although APUC's stock price itself is a financial metric, there are many factors that can influence a company's stock price besides its financial performance.

Q. Please summarize City of Bolivar witness Mr. Leyko's position and recommendations on the recovery of incentive compensation through rates.

A. While Mr. Leyko agrees that it is reasonable for a utility to include incentive compensation in rates, he does not agree with including any earnings-based incentive compensation because he claims it is designed to primarily benefit the interests of shareholders. (Leyko Dir., pp. 19-20).

Q. Do you agree with Mr. Leyko's position and adjustment?

A. No. There are a number of reasons why incentive compensation costs should be recoverable in the rates for utility service. First, it is important to keep in mind that incentive compensation plans, like those offered by APUC and its subsidiaries, are routine and widely accepted mechanisms for motivating employees to strive for excellence in whatever service, function, task or activity they are undertaking on behalf of the business and the customers it serves. In fact, it is a compensation element so widely offered to employees in the modern business environment that it has become a necessary part of overall compensation packages in order to retain and attract employees.

Q. Please explain how incentive compensation based on financial performance metrics or goals benefits customers.

A. There are two main aspects of utility service that are of paramount interest to customers – the quality of the utility service they receive and the cost of that service. By approving incentive compensation based on operation or service goals, the Commission has recognized that such incentive can benefit customers by improving the quality, timeliness or other customer-centric attributes of the service they receive. However, customers can also benefit when employees respond positively to financially-based incentives. Whether that response results in increased revenues or decreased costs, producing better earnings in the short-term, customers ultimately reap the benefits through lower rates when such increased revenues or reduced costs are captured in the cost of service.

Q. Are there other reasons why it is appropriate to include financial-based incentive compensation in rates?

A. Yes. In providing incentive compensation it is very important to have a "balanced scorecard" that emphasizes both service and cost-related goals, rather than just one to the exclusion of the other. If only service goals are emphasized, service-related improvements may be achieved, but the costs for doing so and the cost of service generally may become exorbitant. On the other hand, if a company only focuses on financial-based goals, costs may be lower but service may deteriorate to unacceptable levels. Having a balanced scorecard that emphasizes both of these goals is critical to avoiding such distortions.

Q. Does the Company agree with Staff's use of a three-year average to calculate a normalize level of training and travel expense?

A. No. The Company has concerns with Staff's three-year average for training and travel expenses. Since the Covid-19 pandemic, the Company experienced a time of limited travel which has yet to reach normal levels. The Company believes it's adjustment, which is based on the Company's budget, fairly represents expected normal levels.

Q. Does Liberty see a better way to adjust for training and travel?

A. The Company believes the 2024 budget is a better measure of future travel and training expenses due to the prolonged effects of Covid on Company travel. If the Commission were to deviate from the budget, the Company believes it is more appropriate to normalize using the 12 months ending April 2024.

Q. Please explain Bolivar witness Leyko's adjustment to A&G costs?

A. Mr. Leyko developed an adjustment to reduce administrative and general costs on the basis that A&G costs should be directly comparable to the Company's number of customers. Mr. Leyko recommends estimating the Company's water A&G costs using the 2023 water A&G costs per customer after an inflation adjustment. Mr. Leyko's proposal decreases A&G expenses by approximately $517,276.

Q. What is your primary disagreement with Mr. Leyko's approach to A&G?

A. It is unreasonable to expect A&G costs to increase at a rate comparable to the increase in customers. While there are certainly fluctuations in customer growth, they are generally minor except in instances of system acquisitions. Additionally, restricting the recovery of prudently incurred A&G expenses is harmful to the Company, primarily because A&G increases are driven by the hiring of new employees, employee merit increases, an increase in labor costs associated with the implementation of new infrastructure and projects, any proposed amortizations, etc. These items, along with many others, impact the Company's administrative and general costs and, in most instances, there is no direct correlation between the increased costs and the Company's number of customers.

Q. What does the Company recommend?

A. The Company recommends that the Commission reject Mr. Leyko's proposed A&G adjustment.

Q. Does Staff include an adjustment for Rate Case Expenses?

A. Yes.

Q. Please explain Staff's approach.

A. Staff's approach includes 100% of the 2022 depreciation study and 50% of consultant bills that had been paid as of June 30, 2024. Staff's annualized expense associated with the depreciation study was calculated using a five-year amortization period. Additionally, Staff indicated in direct testimony that the remaining rate case expense would be annualized using a three-year amortization period. However, Staff's worksheet and model failed to normalize the rate case expenses over three years. Additionally, Staff's adjustment does not include any amounts associated with customer notices.

Q. Do other parties propose an adjustment to Rate Case Expense?

A. Yes. Both OPC witness Payne and Bolivar witness Leyko proposed adjustments to Rate Case Expense. Mr. Payne proposed to disallow the cost associated with James Fallert Consultant LLC and FTI Consulting, disallow 50% of all other costs, and proposed to annualize amortization expense over a four-year period. Bolivar witness Leyko proposed a normalization period of five years but did not seek to disallow any expenses.

Q. Do you agree with Staff's recommended three-year amortization for rate case expenses?

A. Yes. Staff's recommended three-year amortization period is in alignment with the Company's proposed amortization period. The Company's proposed amortization period is predicated on the amount of time the Company expects to have between rate cases. Therefore, a five-year amortization as proposed by Mr. Leyko or a four-year amortization as proposed by Mr. Payne would be problematic as the expenses would overlap. As part of the Bolivar acquisition, the Company agreed to not increase rates for a period of three years.

Q. Do you agree with Staff's recommendation to use a five-year amortization for depreciation study expenses?

A. We do not. The Company is required to undergo a depreciation expense every five years, however the Company should be allowed to recoup that expense faster than five years. As stated above, the Company's goal is to have another rate case after three years, and the Company does not want to run the risk of having previously allowed expenses to be disallowed in a future rate case before they are fully recovered.

Q. Does the Company agree with Staff on a 50% cost splitting for rate case expenses?

A. The Company disagrees and believes that all rate case expenses should be allowed. Because the Company is required to file a rate case to continue to provide reliable service and rate cases are very involved processes, the Company needs to work with expert consultants to get said cases on file. The referenced costs are prudently incurred, and the Company should be able to recoup 100% of these costs.

Q. OPC witness Payne suggests that the costs of consultants should be disallowed because the consultants were not hired as the result of a Request for Proposals process. (Payne Dir., p. 5). Did the Company issue Requests for Proposals when engaging consultants?

A. No.

Q. Why not?

A. The Company used consultants who were already familiar with the Company, which streamlines processes and minimizes wasteful expenses.

Q. Does the Company agree that certain consultants (FTI and Fallert) should be disallowed?

A. No. FTI provided valuable services during the rate case. The Company does not have anyone on its staff who could perform the tasks that were performed by any of our consultants, including FTI and James Fallert. It is the Company's preference to minimize the use of consultants, but some areas of a highly technical nature, such as Class Cost of Service, Rate Design, and Pension & OPEB, require that a consultant be used.

Q. Does Liberty agree with Staff's adjustment to property tax expense?

A. Liberty agrees in part with the Staff adjustment to property taxes. The Company's revenue requirement model at the update period was based on the amount of plant in service balances. For the method used in the update adjustment, it would have been appropriate to use the net book value. The Company is submitting a revision to its EXP ADJ 10 which bases the expense on net book value.

Q. How does this differ from the Staff method?

A. Staff witness Lesmes proposes a property tax expense equal to the Company's property taxes in 2023. Generally, this method would not account for property taxes on known and measurable plant additions which may occur between the end of the last tax period and the end of the update period. The Company's method accounts for this difference.

Q. What does the Company propose for property tax expenses?

A. The Company recommends the Commission adopt its revised adjusted property tax expense as calculated in the revised rebuttal EXP ADJ 10.

Q. What does Bolivar witness Leyko propose as it relates to the amortization period for the Property Tax Regulatory Asset?

A. Mr. Leyko opines that a five-year amortization period is more appropriate given that the time period between rate cases is more likely to be five years rather than three years.

Q. Do you agree with Mr. Leyko's assertion?

A. No. While it is entirely accurate that the time period between the current rate case and the preceding rate case is approximately five years, the Company knowingly expects to file a rate case within a three-year time period. Additionally, the acquisition of the Bolivar Water and Wastewater systems prohibited the Company from requesting a rate increase for a period of three years post-acquisition. Both of these factors contribute to the Company's decision to utilize a three-year amortization period.

Q. What does Bolivar witness Leyko propose as it relates to the amortization period for the Bolivar Acquisition Regulatory Assets?

A. Mr. Leyko recommends the recovery period be tied to the average remaining life of the Bolivar assets. More specifically, Mr. Leyko proposes a thirteen-year amortization period for the water assets and a nineteen-year amortization period for the wastewater assets.

Q. Does the Company agree with Mr. Leyko that a 13-year amortization and a 19-year amortization should be used for Bolivar Water and Bolivar Sewer, respectively.

A. No. As depicted in Mr. Leyko's direct testimony, the Company chose to utilize a ten-year period to balance the interest of customers with the recovery of costs associated with the regulatory asset in a timely manner. The extended amortization periods significantly delay the recovery of the regulatory assets.

Q. Did any parties take issue with the Company's annualized depreciation expense?

A. Yes. Staff did not accept the Company's proposed depreciation rates but, instead, proposed that all rate tariff areas utilize the rates adopted six years ago in Case No. WR-2018-0170. Additionally, HICV witness Stannard, objected to the treatment of net salvage and proposed that depreciation rates remain unchanged.

Q. Does the Company agree with the arguments made by Staff witness Amanda Coffer, or HICV witness Stannard?

A. No. Please refer to the rebuttal testimony of Dane Watson for further explanation.

Q. Please explain Staff's approach to calculating income taxes.

A. Staff utilized a normalization approach in calculating income taxes for this case. Under either the tax normalization or tax flow-through approach, the resulting net taxable income for ratemaking is then multiplied by the appropriate federal and state tax rates to obtain the current liability for income taxes. A federal tax rate of 21 percent and a state income tax rate of 4 percent were used in calculating Liberty Water's current income tax liability. The difference between the calculated current income tax provision and the per book income tax provision is the current income tax provision adjustment.

Q. Does the Company agree with Staff's methodology?

A. Yes. The Company does not take issue with Staff's methodology. However, the difference in the derivation of opposing income tax amounts is caused by the Company's and Staff's opposing revenue requirements.

Q. Does this conclude your rebuttal testimony?

A. Yes.

VERIFICATION

I, Cindy S. Wilson, under penalty of perjury, on this 27th day of September, 2024, declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ Cindy S. Wilson