

Exhibit No.:
Issue(s): *Outside Services
Expense, Rate Case
Expense, Property Tax
& Tracker*
Witness: *Sherrye Lesmes*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
Case No.: *WR-2024-0104*
Date Testimony Prepared: *October 24, 2024*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY

OF

SHERRYE LESMES

LIBERTY UTILITIES (Missouri Water), LLC,

d/b/a Liberty

CASE NO. WR-2024-0104

*Jefferson City, Missouri
October 2024*

1 A. Yes, Staff changed the methodology for Bolivar from a two-year normalization
2 to the twelve-month period ending March 31, 2024 based on further analysis that reflects the
3 most current information provided.

4 **RATE CASE EXPENSE**

5 Q. What is Staff's position regarding recovery of the cost of the depreciation study
6 in rate case expense?

7 A. In this case, Staff's recommendation is to allow Liberty Water to recover the
8 cost of the depreciation study over 5 years (this is in alignment with the Commission's
9 requirement that electric and gas utilities must conduct a depreciation study once every
10 five years).¹

11 Q. Did Ms. Wilson address the recovery period for the depreciation study?

12 A. Yes. In Ms. Wilson's rebuttal testimony on page 28, lines 18 - 22, she states they
13 do not agree with the 5-year amortization period to recover 100% of the cost for depreciation
14 study and are asking to recover the cost in a 3-year amortization period since they expect to file
15 another rate case after three years and fear disallowance of any remaining amortized amount.

16 Q. How does Staff respond?

17 A. Staff used a five-year recovery period for 100% of the depreciation study cost
18 and a three-year normalization for recovery of remaining rate case expense, subject to
19 a 50/50 sharing mechanism.

20 Q. How does Liberty Water witness Ms. Wilson characterize Staff's method for
21 addressing rate case expenses?

¹ MO 20 CSR 4240-3.175.

Surrebuttal Testimony of
Sherrye Lesmes

1 A. In Ms. Wilson’s rebuttal testimony, starting on page 27, lines 17 through 21,
2 she states, “Staff’s approach includes 100% of the 2022 depreciation study and 50% of
3 consultant bills that had been paid as of June 30, 2024. Staff’s annualized expense associated
4 with the depreciation study was calculated using a five-year amortization period.
5 Additionally, Staff indicated in direct testimony that the remaining rate case expense would be
6 annualized using a three-year amortization period.”

7 Q. Does Staff agree with Ms. Wilson’s characterization of Staff’s position on
8 recovery of rate case expenses?

9 A. Partially. Staff agrees that we recommended recovery of the costs of
10 depreciation study over five years. Staff disagrees with Ms. Wilson’s characterization that Staff
11 amortized all other rate case expenses.

12 Q. What is amortization?

13 A. Amortization identifies a specific amount that is fully recovered over a specified
14 time period in equal payments, which can then be tracked.

15 Q. What is normalization?

16 A. Normalization is used to obtain a normal ongoing level cost of this expense.
17 Staff recommended the remaining rate case costs be normalized (not amortized) over
18 a three-year period to align with Liberty Water’s expectation to file a rate case in three years,
19 and then subject to a 50/50 sharing mechanism as discussed by Staff witness Ashley Sarver in
20 her direct testimony.

21 Q. Did Ms. Wilson address the recovery period for the other rate case expenses?

Surrebuttal Testimony of
Sherrye Lesmes

1 A. Yes, in Ms. Wilson’s rebuttal testimony, page 27, lines 20 - 22, she states that
2 Staff indicated in direct testimony that the remaining rate case expense would be normalized
3 using a three-year amortization period but failed to do so.

4 Q. How does Staff respond?

5 A. An error was detected in the formula on Staff’s workpaper which accounts for
6 the failure to reflect remaining rate case expense normalized over a three-year period which has
7 since been corrected and will be provided to parties with Staff workpapers in this
8 surrebuttal filing. Additionally, Staff requested rate case expense invoices be updated as
9 information becomes available throughout the course of this rate case in Staff’s Data Request
10 No. 0017. Staff included all paid invoices that have been received from Liberty Water as of the
11 date Staff filed rebuttal testimony.

12 Q. Does Ms. Wilson address rate case expenses related to customer notices?

13 A. Yes. On page 27, lines 23 - 24 of Ms. Wilson rebuttal testimony she states
14 “Additionally, Staff’s adjustment does not include any amounts associated with
15 customer notices.”

16 Q. How does Staff respond?

17 A. Staff has not received any invoices or documentation showing the cost
18 Liberty Water has paid for the customer notices in this case.

19 Q. Did Liberty Water witness Ms. Wilson address the 50/50 mechanism for rate
20 case expense?

21 A. Yes. In Ms. Wilson’s rebuttal testimony, she states they disagree with
22 a 50/50 sharing mechanism for rate case expense, and they disagree with the disallowance of
23 costs for certain consultants (FTI Consulting and Fallert).

Surrebuttal Testimony of
Sherrye Lesmes

1 Q. How does Staff respond?

2 A. In Staff's opinion, the 50/50 sharing mechanism is considered a policy issue and
3 will be addressed by Staff witness Ms. Sarver in her surrebuttal testimony. The disallowance of
4 costs for certain consultants was mainly due to lack of sufficient detail in the invoices provided
5 to accurately distinguish between the different areas (such as Class Cost of Service,
6 Rate Design, etc.) where the consultants performed work. Although Staff has requested
7 clarification, to date no satisfactory data has been provided. Aside from lack of detail,
8 disallowance of costs associated with certain consultants will be further addressed by
9 Staff witness Melanie Marek in her surrebuttal testimony.

10 **PROPERTY TAX EXPENSE & TRACKER**

11 Q. Did Liberty Water witness Ms. Wilson address property tax expense?

12 A. Yes. In Ms. Wilson's rebuttal testimony on page 29, line 23, through page 30,
13 line 3, and page 30 lines 5 - 8, she states that Liberty Water does not agree with Staff's
14 adjustment to property taxes because this method does not account for property taxes on known
15 and measurable plant additions which may occur between the end of the last tax period
16 (December 31, 2023) and the end of the update period (April 30, 2024). She further states the
17 Company is submitting a revision to its EXP ADJ 10 workpaper which bases the expense on
18 net book value and that this method will take into account any differences.

19 Q. Do you agree with Liberty Water's revised method?

20 A. No. Property taxes are based on what is owned as of January 1st of each calendar
21 year, in this rate case January 1, 2023. The county taxing authority will assess a taxable amount
22 on the property that is declared by the owner (due to the county assessor by March 1st), based
23 on the rates set forth by the Missouri State Taxing Commission. The assessed property is billed

Surrebuttal Testimony of
Sherrye Lesmes

1 November 1st and due to be paid by the owner by December 31, 2023. Any property that may
2 be owned on or after January 1, 2024 which will be assessed for Liberty Water's 2024 property
3 taxes, are not due to be paid until December 31, 2024, which would not be part of this rate case.
4 For an expense to be considered part of this rate case it must be paid and in service
5 by April 30, 2024 (end of update period for this rate case).

6 Q. Did Ms. Wilson address the baseline amounts for the property tax tracker?

7 A. Yes. Ms. Wilson stated in her rebuttal testimony on page 4, lines 21-24, that they
8 consider the baseline amount for the tracker to be the amount for what property was owned as
9 of the effective date the tracker statute came into effect.

10 Q. Do you agree with this?

11 A. No. Section 393.400 RSMo indicates how a baseline is to be established for
12 tracking property taxes. To set a tax tracker, a time frame must be set, which, according to the
13 statute, would be: "The regulatory asset or liability account balances shall be included in the
14 revenue requirement used to set rates through an amortization over a reasonable period of time
15 in such corporation's *subsequent* general rate proceedings." This indicates the baseline shall be
16 set in the next rate case filed *after* the statute came into effect, not before. No other reading of
17 the statute makes reasonable sense. The last rate case filed by Liberty Water was prior to this
18 statute taking effect, therefore, the baseline for tax tracking will be established in this rate case,
19 not as of the date the statute took effect.

20 Q Why would using property tax owed at the time the statute came into effect as a
21 baseline be incorrect?

22 A. According to the language of the statute, it states "subsequent rate case" to be
23 used for establishing a baseline for tracking purposes. The last completed rate case filed by

Surrebuttal Testimony of
Sherrye Lesmes

1 Liberty Water was in 2018 (Case No. WR-2018-0077). In the Non-Unanimous Stipulation and
2 Agreement in that case, there was no agreement as to what level of property taxes were included
3 in the revenue requirement. A base level of property taxes did not exist in the 2018 case.
4 For example, in Case No. ER-2022-0130, Every Metro West's ("EMW") first rate case
5 following the passage of the property tax legislation, a base level of property taxes was
6 established to track future property taxes paid by EMW. A base level did not exist in their
7 previous 2018 rate case. Staff's position in the EMW 2022 rate case (rate case subsequent to
8 the passage of the property tax tracker legislation) included the establishment of a base level of
9 property taxes and any deferral of property taxes began with the effective date of rates of
10 January 9, 2023 for that case. It is this amount that was used to establish a baseline for tracking
11 any over and under recovery of property taxes following the effective date of rates in
12 that 2022 rate case, January 9, 2023.

13 Q. In Ms. Wilson's rebuttal testimony, she lists several cases in which other utilities
14 have been allowed the property tax tracker at the effective date of the statute.²
15 In Case No. GR-2022-0179, why did Staff agree to a property tax tracker at the effective date
16 of the statute?

17 A. Per the Direct testimony of Karen Lyons in Case No. GR-2022-0179,³ Staff was
18 able to determine a property tax amount that was included in the revenue requirement in the
19 previous case, Case No. GR-2021-0108. The property tax expense level was delineated in
20 Staff's Accounting Schedules supporting the Commission Amended Report and Order.

² Pages 10 and 11 of Liberty Water witness Cindy S. Wilson Rebuttal.

³ Page 7. Lines 24-28 of Karen Lyons Direct Testimony in Case No. GR-2022-0179.

Surrebuttal Testimony of
Sherrye Lesmes

1 Q. In the other cases, were these amounts the results of negotiated Stipulation
2 and Agreements?

3 A. Yes.

4 Q. Does this conclude your surrebuttal testimony?

5 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 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 *Surrebuttal 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 21st day of October 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