

Exhibit No.:

Issue(s): CIAC and Amortization,
Customer Accounting,
Lobbying Expense,
Miscellaneous Expenses,
Payroll Expense, Payroll
Taxes, and Employee
Benefit Expense, Postage,
Printing, and Stationary
Expense

Witness: Sherrye Lesmes

Sponsoring Party: MoPSC Staff

Type of Exhibit: Direct / Rebuttal Testimony

Case No.: WR-2024-0320

Date Testimony Prepared: December 6, 2024

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

DIRECT / REBUTTAL TESTIMONY

OF

SHERRYE LESMES

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2024-0320

Jefferson City, Missouri
December 6, 2024

**** Denotes Confidential Information ****

Direct / Rebuttal Testimony of
Sherrye Lesmes

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

3 Q. With respect to Case No. WR-2024-0320, have you examined the books and
4 records of the Missouri American Water Company (“MAWC”)?

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. I have worked closely with senior auditors and supervisors, who possess
10 extensive regulatory knowledge. I also received continuous training at in-house and outside
11 seminars on auditing standards and skills while employed with the SAO and with the
12 Commission. I have more than nine years of auditing experience of other state agencies, local
13 municipalities and counties within the State of Missouri, of which several municipalities and/or
14 counties owned and operated utility services. In addition, for this rate case, I have reviewed
15 workpapers and testimony from prior MAWC general rate cases. I also reviewed data presented
16 by MAWC in the current case on these issues.

17 Q. What is the purpose of your direct / rebuttal testimony?

18 A. The purpose of my direct / rebuttal testimony is to provide Staff’s
19 recommendation for the following issues: Contribution in Aid of Construction (“CIAC”),
20 customer accounting, lobbying expense, miscellaneous expense, payroll taxes, payroll expense,
21 employee benefits, as well as the postage, printing, and stationary expense. I will also be
22 responding to the direct testimony of MAWC’s witnesses Jennifer M. B. Grisham regarding
23 customer accounting, the postage, printing, and stationary expense, miscellaneous expense,

1 and CIAC; and to Manuel Cifuentes, Jr. regarding payroll taxes, payroll expense,
2 and employee benefits.

3 **CIAC AND RELATED AMORTIZATION**

4 Q. Can you please explain CIAC?

5 A. Contributions in aid of construction are plant assets donated by developers and
6 any other plant assets which the utility receives at zero cost. CIAC could also include funds
7 received from developers for the right to connect to a utility's system in the form of a tariffed
8 CIAC charge. The utility company has no obligation to repay or refund CIAC to developers or
9 customers. Since the related plant investment has not been financed by the utility's investors;
10 customers should not be required to pay a return on the plant and the CIAC is deducted from
11 rate base for rate making purposes. CIAC can be found in the Rate Base Accounting Schedule

12 Q. Please describe MAWC's position on CIAC and related amortization.

13 A. In her direct testimony, MAWC witness Ms. Grisham states that historical
14 information was taken from MAWC's fixed assets and Enterprise Resource Planning ("ERP")
15 systems, and that the CIAC balances were amortized over the same period as the corresponding
16 assets at the rates approved in MAWC's last general rate case.¹

17 Q. Did Staff calculate MAWC's current CIAC balance and
18 associated amortization?

19 A. Yes. Staff reviewed the historical information provided by MAWC and
20 calculated the ending balances of \$381,691,584 for CIAC and \$124,477,791 for CIAC
21 amortization, as of June 30, 2024, for MAWC.

¹ MAWC Jennifer M.B. Grisham Direct Testimony page 6, lines 1-4, and lines 6-9

1 **CUSTOMER ACCOUNTING**

2 Q. Can you please explain customer accounting?

3 A. Customer accounting are the operating expenses incurred by MAWC that
4 include bank fees and lock box fees for customer payment collection.

5 Q. Please describe MAWC's position on customer accounting.

6 A. MAWC proposes to use base period ending December 31, 2023, which was
7 adjusted for removal of one-time, non-recurring items and inclusion of credit card fees.²

8 Q. What approach does Staff use to calculate the customer accounting expense?

9 A. Staff reviewed bank and lock box fees for three years through the end of the
10 update period, the 12-months ending June 30, 2024, and made an adjustment for any one-time,
11 non-recurring items and credit card fees. Staff noted the trend is decreasing and recommends
12 using the 12-months ending June 30, 2024 in the amount of \$403,547 to represent the most
13 current ongoing level of expense.

14 **LOBBYING EXPENSE**

15 Q. Please explain lobbying expense.

16 A. Lobbying expense are the costs incurred by MAWC to hire lobbyists to represent
17 it and try to influence legislation, regulation, or other government decisions, actions, or policies
18 on its behalf.

19 Q. What is MAWC's position on lobbying expense in this rate case?

20 A. MAWC removed all lobbying expense for rate making purposes.³

² MAWC Jennifer M.B. Grisham Direct Testimony page 9, lines 6-13

³ MAWC Manuel Cifuentes, Jr Direct Testimony page 21, lines 12-14

1 Q. Does Staff agree with MAWC's position in this rate case?

2 A. Yes.

3 **MISCELLANEOUS EXPENSE**

4 Q. Can you please explain miscellaneous expense?

5 A. Miscellaneous expense is various operating costs incurred by MAWC and
6 include such items as follows: lab supplies, research and development, inventory physical
7 write-off scrap, hiring costs, trustee fees, directors' fees, and directors' expenses.

8 Q. What is MAWC's position on miscellaneous expense?

9 A. MAWC proposes to use the expenses through the 12 months ended
10 December 31, 2023, and made an adjustment to remove expenses for non-recoverable items
11 such as charitable contributions, lobbying, penalties, and membership dues.⁴

12 Q. What is Staff's approach to miscellaneous expense?

13 A. Staff reviewed three years of miscellaneous expense and no discernible trend
14 was noted. Staff calculated a three-year average to obtain a normalized cost for miscellaneous
15 expense. Staff also removed miscellaneous lobbying and penalties expenses.
16 Miscellaneous charitable contributions and membership dues expense are addressed by Staff
17 witness Alexis Branson.

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

19 **Payroll Expense**

20 Q. Please describe payroll expense.

⁴ MAWC Manuel Cifuentes, Jr Direct Testimony page 21, lines 9-18

1 A. Payroll expense is the wages paid to employees by businesses in exchange for
2 services. There are three classifications of employees at MAWC: Collective Bargaining Unit
3 (“CBU”) hourly employees, non-CBU hourly employees, and exempt employees.

4 Q. What is MAWC’s position on payroll expense?

5 A. As stated in MAWC’s witness Mr. Cifuentes, Jr’s direct testimony,
6 MAWC proposes to annualize wages for 704 full-time positions (as of March 31, 2024) with
7 97 positions included to account for 59 currently vacant full-time positions, 28 temporary
8 summer interns, and 10 temporary interns.⁵ MAWC believes these vacant positions should be
9 included since MAWC is working to fill vacancies, as discussed by MAWC witness Carlson.⁶
10 The 2023 labor hours were annualized as of December 31, 2023, and adjusted on a
11 position-by-position basis to reflect a normalized level. These hours were then multiplied by
12 each employee’s actual wage rate as of January 1, 2024, to determine an annualized level of
13 expense. Mr. Cifuentes, Jr. gives a breakdown of costs that must be included in CBU hourly
14 employees’ wages in accordance with the collective bargaining agreement signed by both
15 parties, which is legally binding.⁷

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

18 A. To determine the level of payroll expense that should be included,
19 Staff reviewed MAWC’s response to Staff’s Data Request (“DR”) No. 0157, which includes
20 the confidential employee list as of December 31, 2023. Staff used the salary amount to
21 determine the exempt employees’ payroll expense. Staff multiplied the CBU hourly

⁵ MAWC Manuel Cifuentes, Jr Direct Testimony page 9 lines 19-22

⁶ MAWC Manuel Cifuentes, Jr Direct Testimony page 10 lines 1-7

⁷ MAWC Manuel Cifuentes, Jr Direct Testimony page 10 lines 20-24, page 11 lines 1-22, and page 12 lines 1-7

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1 employees' and non-CBU hourly employees' hourly wage by 2,088 hours to determine the
2 hourly employees' payroll expense. For the CBU hourly employees, Staff's payroll expense
3 includes base payroll rates (including any 2024 increases), license rates, shift premiums,
4 union employee meal allowances, and overtime consistent with the collective bargaining
5 agreements ("CBAs"). Section 386.315.1, RSMo, states the "commission shall not reduce or
6 otherwise change any wage rate, benefit, working condition, or other term or condition of
7 employment that is the subject of a collective bargaining agreement between the public utility
8 and a labor organization." ** [REDACTED]

9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]. ** Staff determined its union employee overtime
21 adjustment by multiplying Staff's calculated overtime percentage by its annualized labor.
22 Staff removed labor costs for vacant positions, the portion of wages for employees involved in
23 lobbying activities based on the percentage of lobbying activities (as identified by MAWC in

1 their response to Staff’s DR Nos 0137 & 0138), and removed labor costs for employees that
2 were in job positions that did not directly relate to providing safe and adequate utility service
3 to ratepayers based on job descriptions (as provided by MAWC in their response to Staff’s DR
4 No 0243). Staff’s overall adjustment for union employee overtime expense is \$530,223.

5 Staff’s calculated level of labor payroll expense for the test year is \$45,668,467.
6 Staff will continue to review this issue through December 31, 2024, as part of its update period.

7 **Payroll Tax Expense**

8 Payroll tax expense is directly related to salaries and wages.

9 Q. What is MAWC’s position on payroll tax expense?

10 A. In his direct testimony, MAWC witness Mr. Cifuentes, Jr. defined the required
11 types of taxes related to payroll: Federal Insurance Contributions Act (more commonly known
12 as “FICA”) and Hospital Insurance (more commonly known as “FICA Medicare”),
13 and Federal Unemployment Tax (“FUTA”) and State Unemployment Tax (“SUTA”).
14 He described the calculations of each tax type and stated the gross wages were multiplied by
15 the current rates for FICA (6.2%) on all wages and Medicare (1.45%) on all wages with an
16 additional 0.9% on wages greater than \$200,000. For FUTA, calculations are 0.6% on the
17 first \$7,000 in wages.⁸

18 Q. What is Staff’s position on payroll taxes expense?

19 A. Staff applied the current FICA, FUTA, and SUTA tax rates (for SUTA the tax
20 rate is zero) applicable to annualized payroll amounts to determine payroll taxes.
21 Staff’s annualized payroll tax expense for MAWC is \$2,655,873 and for the American Water
22 Works Service Company, Inc. (a/k/a “AWWC or Service Company”) is \$717,853.

6 MAWC Manuel Cifuentes, Jr Direct Testimony page 10 lines 20-24,

1 **Employee Benefits Other than Pensions and Other Post-Employment**
2 **Benefits (“OPEBs”)**

3 Q. What is MAWC’s position regarding employee benefits?

4 A. MAWC is seeking to include actual company costs for employee benefits such
5 as: 401k, defined contribution plan (“DCP”), Retiree Medical trust contributions (“VEBA”),
6 and the employee stock purchase plan (“ESPP”), which are subject to individual
7 employee elections.⁹

8 Q. Please explain employee benefits other than pensions that are offered to
9 MAWC employees.

10 A. MAWC and the Service Company offer additional benefits to their employees,
11 including a 401(k) employer match, VEBA, DCP, ESPP, and various types of insurance
12 (medical, dental, vision, life, etc.). For each MAWC and Service Company employee,
13 Staff annualized the benefits and health insurance costs for employees who elected to waive
14 health insurance coverage. ESPP is addressed by Staff witness Angela Niemeier. Staff removed
15 employer costs related to health insurance of employees who waived coverage as there was no
16 cost to MAWC for those individual employees. Staff’s calculated level of employee benefits is
17 \$9,397,003 for MAWC and \$1,735,181 for the Service Company. Staff witness
18 Angela Niemeier addresses Pensions and OPEBs in her direct / rebuttal testimony in this case.

19 **POSTAGE, PRINTING, AND STATIONARY EXPENSE**

20 Q. Please explain the postage, printing, and stationary expense.

page 11 lines 1-22, and page 12 lines 1-7
page 13 lines 13-24, page 14 lines 1-23, and page 15 lines 1-5

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1 A. Postage, printing, and stationary expense are the operating expenses incurred by
2 MAWC that include back-office postage, printing, and shipping costs not included in Customer
3 Accounting or Service Company expense.

4 Q. What is MAWC's position on postage, printing, and stationary?

5 A. MAWC proposes to utilize a three-year average of actual postage, printing, and
6 stationary expense from 2021 through 2023, as of the twelve months ending
7 December 31, 2023.

8 Q. How did Staff calculate back-office postage, printing, and shipping expense?

9 A. Staff analyzed the data provided by MAWC and then utilized a three-year
10 average (three-years ending June 30, 2024) to represent an ongoing level of expense.

11 Q. Does this conclude your direct / rebuttal testimony?

12 A. Yes, it does.

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
Liberty Utilities (MO Water) LLC, d/b/a Liberty	WR-2024-0104	Bad Debt expense, Bank fees, Communication expense, Contract Services expense, Insurance (other than Group), Office Supplies expense, Outside Services expense, Property Taxes and Tax Tracker, PSC Assessment fees, Rate Case expense