Exhibit No.:	
Issue(s):	*Revenues, Corporate Allocations and Service Company Expenses, District Allocations, System Delivery, Chemical Expense, Fuel and Power Expense, Purchased Water Expense, Waste Disposal Expense, Production Cost Expense, Transportation Expense, Property Tax Tracker, Current and Deferred Income Tax, Accumulated Deferred Income Taxes, Tax Cut and Jobs Act of 2017*
Witness:	*Ashley Sarver*
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 & BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

DIRECT / REBUTTAL TESTIMONY

OF

ASHLEY SARVER

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2024-0320

Jefferson City, Missouri
December 2024

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ASHLEY SARVER

MISSOURI-AMERICAN WATER COMPANY

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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 started 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 / rebuttal 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 11 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 the state of Missouri. I have also received continuous training on technical ratemaking matters since I began my employment at the Commission.

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

A. Yes, with the assistance of other members of Commission Staff ("Staff").

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

A. The purpose of this testimony is to discuss Staff's position regarding revenues, corporate allocations and service company expenses, district allocations, system delivery, production cost expenses (chemical, fuel and power, purchased water, and waste disposal expense), transportation expense, property tax tracker, current and deferred income tax expense, accumulated deferred income taxes ("ADIT"), amortization of excess ADIT from the Tax Cut and Job Acts of 2017 ("TCJA") and TCJA tracker, and income tax expense.

I will also be responding to the direct testimony of MAWC's witnesses, Brian W. LaGrand regarding corporate and district allocations Manuel Cifuentes, Jr. regarding production cost expense, transportation expense, and Max W. McClellan regarding revenues and system delivery.

REVENUES

Water Meter/ Sewer Units –Minimum Customer Charge

Q. How did Staff develop annualized revenues for the minimum water and sewer charge?

A. Staff developed the minimum charge revenue by first multiplying the number of meters or units as of June 30, 2024, for each meter class by the applicable minimum monthly charge as approved in MAWC's last general rate proceeding, Case No. WR-2022-0303. The product of the number of meters multiplied by the applicable minimum charge was then multiplied by the number of billing periods in a year to produce the annualized minimum charge revenues for each customer class.

Usage/Commodity Revenues - Water Residential

Q. Please discuss how revenues for residential water usage was annualized and normalized.

A. Staff developed the annualized and normalized volumetric (consumption) charge revenues based on a normalized usage applied at the current volumetric rate per gallons. Staff witness Jarrod J. Robertson, of the Commission's Water, Sewer, Gas and Steam Department, developed and provided the normalized average gallons of usage per customer per day for residential customers for the various districts. Staff multiplied the average gallons of usage per customer per day by the average days per year (365.25) and the number of customers, to determine the total annual usage or consumption.

Usage/Commodity Revenues - Water- (Other Than Water Residential)

Q. Please describe commodity revenues.

A. Currently, MAWC has two different types of utility charges for its water services, which include the customer charge and the commodity charge. The customer charge is the fixed cost that customers usually pay monthly, regardless of their actual utility usage. The commodity charge is the variable charge that customers pay based upon their utility usage.

Q. Did Staff perform a review of customer usage for this rate case?

A. Yes. Staff reviewed the water and sewer usage data that MAWC provided for the five years ending June 30, 2024.

Q. How did Staff determine its normalized level of commodity revenues?

A. Staff developed the normalized volumetric (consumption) commodity revenues based on a normalized usage, applied at the current volumetric rate per gallons. For commercial, industrial, and other public authority ("OPA") customers' water usage, Staff reviewed five years of usage data from July 1, 2019, through June 30, 2024, to determine if a usage trend existed. Staff then multiplied its normalized usage total, or consumption, by the applicable tariff rate per 1,000 gallons for each district to determine the normalized revenues. Staff witness Jarrod J. Robertson discusses residential customer usage in his direct testimony in this rate case.

Q. Did Staff review sale of water for resale usage?

A. Yes. Staff reviewed five years of resale usage data from July 1, 2019, through June 30, 2024, to determine if a usage trend existed. Staff then multiplied its normalized usage total, or consumption, for each district by the applicable tariff rate per 1,000 gallons for each district to determine the normalized revenues.

Q. Did Staff review private fire usage?

A. Yes. Staff reviewed five years of fire usage data from July 1, 2019, through June 30, 2024, to determine if a usage trend existed. Staff then multiplied its normalized usage total, or consumption, by the applicable tariff rate per 1,000 gallons for each district to determine the normalized revenues.

Usage/Commodity Revenues - Rate A and Rate J

Q. Did Staff perform a review of Rates A and J?

A. Yes. For commercial, industrial, and OPA customers' water usage, Staff determined the customer usage based on Rate A (meter rate for residential, commercial, and small industrial customers) or Rate J (meter rate for manufacturers and large quantity users of water) as of June 30, 2024.

Q. How did Staff determine the usage revenues for Rates A and J?

A. Staff reviewed five years of usage data from July 1, 2019, through June 30, 2024, to determine if a usage trend existed. Staff then multiplied its normalized usage total, or consumption, by the applicable tariff rate per 1,000 gallons for each district to determine the normalized revenues.

Usage/Commodity Revenues - Sewer

Q. Did Staff review sewer usage for residential, commercial, industrial, and OPA customers?

A. Yes. Staff reviewed five years of usage data from July 1, 2019, through June 30, 2024, to determine if a usage trend existed. Staff also included the Metal Container Corporation discount for commercial wastewater in the Arnold district. Metal Container Corporation receives a 15% discount based upon the amount of water used, as previously agreed to with the City of Arnold. Staff then multiplied these normalized usage totals, or consumption, by the applicable tariff rate per 1,000 gallons for each district to determine the normalized revenues.

<u>OTHER OPERATING REVENUES (MISCELLANEOUS CHARGES)</u>

Q. What revenue is classified as other operating revenues?

A. MAWC's other operating revenues categories include funds received for the following items: rents, collection for others, non-sufficient funds check charges, application/initiation fees, the provision of usage data to other entities, reconnection fees, frozen meter fees, after hours charges, and miscellaneous service.

Q. How did Staff determine the annualized other operating revenue?

A. Staff reviewed the totals for each of these revenue categories, by account, for the most recent five-year period, by district. If the totals showed a discernable upward or downward trend in the year-to-year level of review, then Staff used the data from the 12- months ending June 30, 2024. For rent, Staff based the totals on MAWC's response to Staff Data Request ("DR") No. 0110. MAWC provided the totals from rent based on contracts/agreements in effect as of June 30, 2024.

Q. What is the normalized level for other operating revenues?

A. The normalized other operating revenues for MAWC is a total of $3,868,561.

<u>OTHER MISCELLANEOUS REVENUES</u>

Q. Please explain the adjustments Staff made for unbilled revenues.

A. Staff eliminated all unbilled revenues MAWC booked within the test year in its revenue annualization computation. This ensures that only 365 days of revenue is included in the revenue annualization calculation, and that revenues are stated on an "as billed" basis. Unbilled revenue is revenue on MAWC's books that is recognized water sales that have occurred, but that MAWC has not yet been billed the sale to the customer. Therefore, it is necessary for Staff to remove unbilled revenues to reach an accurate revenue requirement, based upon water sales billed to, and revenues collected from, Missouri ratepayers.

<u>MAWC TOTAL REVENUE</u>

Q. What is the normalized level for MAWC revenues?

A. The total normalized revenue for St. Louis Water (District 1) is $324,636,366, All Other Water (District 2) is $124,376,541, Arnold Sewer (District A) is $60,79,653 and All Other Wastewater $14,020,242. The total for MAWC's revenue is $469,112,802.

<u>CORPORATE ALLOCATIONS AND SERVICE COMPANY EXPENSES</u>

Q. Please discuss MAWC's relationship with American Water Works Company, Inc. ("AWWC").

A. MAWC is a subsidiary of AWWC. Headquartered in New Jersey, AWWC and its subsidiaries (or affiliates) serve approximately 14 million customers in 24 states. AWWC performs many functions and activities on a consolidated or centralized basis for many of its regulated and non-regulated subsidiaries. These consolidated or centralized functions are carried out for the AWWC-owned subsidiaries by AWWC's wholly-owned subsidiary, the American Water Works Service Company, Inc. ("Service Company"). Through a process of direct assignment and allocation, Service Company employees' time and all other related costs are ultimately charged to the AWWC-owned utility subsidiaries receiving service. In addition to the Service Company, American Water Capital Corporation ("AWCC"), another wholly-owned AWWC subsidiary, was created to provide a single source of long- and short-term debt capital for AWWC and its utility subsidiaries. Service agreements exist between MAWC and both the Service Company and AWCC.

Q. What types of business does AWWC conduct?

A. The majority of AWWC's business is through regulated utilities in 14 states in the United States (California-American, Georgia-American, Hawaii-American, Illinois American, Indiana-American, Iowa-American, Kentucky-American, Maryland-American, Missouri-American, New Jersey-American, Pennsylvania-American, Tennessee American, Virginia-American, and West Virginia-American Water Companies). AWWC also operates market-based, non-regulated businesses that are based on a 50-year contract with the U.S. government to provide water and wastewater on military installations. Additionally, some AWWC affiliates, which are the Service Company, AWCC, Laurel Oak Properties Corp., AWWC Insurance LLC., and AWIP Holdings LLC., provide services to AWWC affiliates at cost. These companies are non-regulated.

Q. What services does the Service Company provide?

A. Services provided by the Service Company include accounting and finance, administration, business development, communications, compliance, education and training, engineering, health and safety, human resources, information systems, internal audit, investor relations, legal and governance, operations, procurement, research and development, rate and regulatory support, security, risk management and insurance, treasury, and water quality. The Service Company also provides customer support to AWWC's regulated businesses, which includes call handling, billing, a major accounts program, and other related services.

Q. Does the Service Company mark-up its costs to AWWC subsidiaries?

A. No, services provided by the Service Company are expensed at cost.

Q. How does the Service Company allocate expenses to the AWWC affiliates?

A. The allocation of costs and methods used to allocate costs from the Service Company to its subsidiaries are described in the Service Company's Cost Allocation Manual ("CAM"). The most recent version of the CAM is dated July 2023. MAWC provided it in the Electronic Filing and Information System ("EFIS") under the Affiliate Transaction submission.

Q. What methodology does AWWC utilize to allocate Service Company costs to both regulated and non-regulated companies?

A. Service Company employees charge their time and expenses to the applicable affiliate companies either directly or indirectly. Service Company employees assign expenses to affiliates based on various information. Such information includes the affiliate company number (if the transaction is a direct charge) or a formula number, known as Work Breakdown Structures ("WBS") elements (if the transaction is allocated). This information also includes the number of hours the employee worked and the appropriate amount of non-labor charges. This method allows for direct charges to both regulated and non-regulated entities when the employee can clearly identify the hours spent providing service to a specific affiliate. The Service Company uses a methodology that allocates costs to both its regulated and non-regulated affiliates. When it is not practical for a Service Company employee to directly charge a given affiliate the actual time spent on a task, employees log their hours on a time sheet that includes various allocation billing formulas. The billing formula charges either whole or partial hours among the regulated and non-regulated AWWC subsidiaries.

Q. What are direct and indirect expenses?

A. In the context of this testimony, direct charged costs are those incurred on behalf of a specific business, or that can be identified with a specific product or service. An indirect cost is one that is incurred on behalf of more than one business unit, or for all business units within a corporate structure, and cannot be identified with a particular business, service, or product.

Q. What types of formulas are used to allocate Service Company costs?

A. When a Service Company employee provides services that benefit both regulated and non-regulated entities, the employee chooses a "Tier One Factor" formula to allocate the charges to both regulated and non-regulated entities. An employee who only performs services for one or more regulated affiliates uses a "Tier Two Factor" formula.

Q. What is a "Tier One Factor" formula?

A. Tier One Factor formulas rely on various criteria, including revenues, number of employees, and plant investment. Some of the formulas are derived from a combination of several of these criteria, while others consider only one criterion, such as the number of employees. The Service Company employee then chooses the formula that matches the service provided. For example, employees in payroll choose a formula based on the number of employees.

Q. What is a "Tier Two Factor" formula?

A. Tier Two Factor formula are primarily based on the number of customers served for a given regulated subsidiary.

Q. What types of adjustments did Staff make to the Service Company expenses allocated to MAWC?

A. Based upon MAWC's responses to Staff DR's, Staff is not proposing any changes to AWWC's method for allocating the Service Company's expenses to MAWC. However, other Staff witnesses have recommended adjustments to some Service Company costs allocated to MAWC, which are addressed in their direct / rebuttal testimony.

MAWC DISTRICT ALLOCATIONS

Q. How many operating districts does MAWC currently have?

A. MAWC is currently composed of two separate water operating districts (St. Louis service area and all Missouri service areas outside of St. Louis County) and two separate sewer operating districts (City of Arnold and surrounding areas and all Missouri areas outside of Arnold), with each district consisting of one or more profit centers.

Q. What types of allocation transactions receive an allocation factor?

A. All MAWC corporate rate base, revenues, and expenses must be allocated among these districts using different allocation factors.

Q. How many allocation factors is Staff recommending to use in this rate case?

A. Staff proposes to use four allocation factors. These factors are based on customer count, operating revenue, net utility plant, and the Massachusetts formula. The Massachusetts formula is based on an average of customer numbers, employees, and net utility plant. All of these factors are based on 12-months ending June 30, 2024.

Q. What is MAWC's position on allocating corporate cost to the water and sewer districts in this proceeding?

A. Mr. LaGrand states on page 39, lines 4 through 10 of his direct testimony:

The Company applies different allocation factors, depending on the nature of the item to be allocated. Most rate base items are allocated based on the number of customers, with Deferred Income Taxes being allocated based on net plant. Revenues are allocated based on the number of customers. Expense are allocated based on several different allocation factors, primarily tired to the nature of the expense.

Q. Does Staff agree with MAWC district allocations?

A. Mostly. Staff found MAWC district allocations reasonable except the allocation factor based on the number of service orders.

Q. What allocation factor(s) did Staff use instead of service orders?

A. Staff used either customer numbers, the Massachusetts formula, or revenues.

Q. What allocation percentage did Staff use in this rate case for each district?

A. Staff's four allocation factors used to allocate cost between districts are reflected in the table below:

	Water – St. Louis County	Water – All Other Water	Sewer – Arnold	Sewer – All Other Wastewater
Customer Count	68.66%	26.63%	1.40%	3.32%
Operating Revenue	69.20%	26.51%	1.30%	2.99%
Net Utility Plant	72.19%	24.66%	.68%	2.46%
Massachusetts Formula	69.54%	26.59%	1.11%	2.76%

Q. Why did Staff not include service orders as an appropriate allocation factor?

A. Service orders does not specifically deal with the MAWC corporate expense accounts.

Q. How did Staff determine its allocation factors regarding MAWC service order allocation?

A. Staff reviewed each account description to see which allocation factor is most reasonable to use. Using Staff's multiple allocation factors is more practical for allocating costs according to cost causation.

Q. What allocation factors did MAWC use to allocate cost between the districts?

A. MAWC used five allocation factors: number of customers, net plant, revenues, the Massachusetts formula, and service orders.

	Water – St. Louis County	Water – All Other Water	Sewer – Arnold	Sewer – All Other Wastewater
Customers	65.92%	27.22%	1.40%	5.46%
Net Plant	70.58%	25.60%	1.03%	2.79%
Revenues	69.81%	25.85%	1.42%	2.92%
Mass Formula	68.84%	27.53%	1.21%	2.42%
Service Orders Allotment	69.94%	29.69%	0.07%	0.30%

SYSTEM DELIVERY

Q. What is system delivery?

A. System delivery is the total volume of water provided by MAWC entering the distribution system. This total includes all water sold to the customers, including export to wholesale customers or other MAWC systems, as well as any water lost due to leaks, broken pipes, theft or unauthorized use, unmetered authorized use, or other unaccounted for water.

Q. Is the water loss percentage based on the system delivery?

A. Yes. Staff used the data provided in response to Staff DR No. 0115 to calculate a five-year average for system delivery ending June 30, 2024, for each district, to normalize the water loss percentage based on fluctuations determined within the five years analyzed. Staff applied this water loss percentage to the normalized level of system delivery to calculate chemical, fuel and power expense.

CHEMICAL EXPENSE

Q. Please explain chemical expense.

A. MAWC uses chemicals in its day-to-day operations to treat water for human consumption and use, and to treat wastewater systems for safe outfall to the bodies of water in the state. While not a complete list, chemicals commonly used, for which MAWC incurs expenses, are chlorine and dichlorination tablets, among others.

Q. How did MAWC calculate chemical expense?

A. On pages 7 through 8, lines 6 through 2, of Mr. Cifuentes, Jr.'s, direct testimony he states:

> chemicals expense was calculated by starting with the usage by plant and chemical for the period ending December 31, 2023. The annual usage was then adjusted for known changes in the treatment processes at each plant, or for new or discontinued chemicals. The projected annual usage was then divided by the three (3) year annual average of system delivery (2021-2023), to develop a chemical usage per system delivery rate.

Q. How did Staff calculate MAWC's normalized level of chemical expense?

A. Staff based normalized chemical expense for each district on multiple factors. Staff annualized the level of chemical expense by using the current price for each type of chemical, as of June 30, 2024.

Staff reviewed five years of data (ending June 30, 2024), if available, of chemical usage in the water treatment process to determine if the usage fluctuated upward or downward from year-to-year. If the usage showed a discernable upward or downward trend in the year-to-year level of review, then Staff used data from the 12 months ending June 30, 2024. If the trend was not discernable, then Staff used a five-year average.

Staff applied the normalized chemical expense to the five-year average for system delivery to calculate the annualized level of chemical expense for each district for every 1,000 gallons of water. Staff based an adjusted system delivery factor on system delivery after annualized water loss.

Staff used a five-year average of system delivery for all districts to normalize the water loss percentage. Staff applied this water loss percentage to the normalized level of system delivery to calculate chemical costs. Staff determined an actual system delivery based on the water loss percentage and Staff's annualized revenue usage.

Q. What is Staff's position regarding chemical expense contract prices?

A. Staff used the current chemical contract costs as of June 30, 2024.

Q. Will Staff review the contract prices and usage during the true-up audit of this case?

A. Yes. Staff will review the chemical usage expense and contract prices as of December 31, 2024, at the end of the true-up period in this case.

Q. What is Staff's normalized expense for chemical expense?

A. Staff's calculation for MAWC's chemical expense is $18,478,882.

FUEL AND POWER EXPENSE

Q. What is MAWC's fuel and power expense?

A. MAWC's fuel and power expense is composed of electricity, natural gas, and miscellaneous purchased fuel costs MAWC purchases from other utilities to use in the delivery of water and the treatment of wastewater. This adjustment does not include electricity or natural gas expense for office use. Office utility expense is addressed in the building maintenance expense section in the direct / rebuttal testimony of Staff witness Alexis L. Branson.

Q. How did MAWC calculate fuel and power expense?

A. On pages 6 through 7, lines 16 through 4, of Mr. Cifuentes, Jr's direct testimony he states "the fuel and power expense was derived by starting with 12 months ending

December 31, 2023, expense was then normalized by removing accruals, and closed accounts and ensuring 12 monthly bills for each active vendor accounts."

Q. How did Staff calculate the normalized level of the fuel and power expense?

A. Staff annualized the fuel and power expense for each district based on the test year expenses. The annualized amount was adjusted for any price changes that took effect during to the update period (June 30, 2024). Staff then developed a rate for fuel and power cost per 1,000 gallons of water for each district. This is calculated by taking the five-year system delivery divided by the annualized expense. Staff divided the annualized water usage (calculated by Staff for revenues) by the water loss percentage discussed above under System Delivery. The result (quotient) is Staff's adjustment to system delivery for fuel and power expense. Staff's annualized expense for fuel and power expense is the cost per 1,000 gallons of water multiplied by the adjustment for system delivery.

Q. What is Staff's normalized expense for fuel and power expense?

A. Staff's annualized level for fuel and power expense is $15,473,216.

PURCHASED WATER EXPENSE

Q. Please describe MAWC's purchased water expense.

A. When demand is higher than what the systems in each of the districts are capable of pumping from their own sources, MAWC must purchase water from third-party water providers. Staff annualized purchased water from the City of St. Louis, Kansas City Water Services, Callaway County Water District #1, Ozark Water System, City of Excelsior Springs, City of California, Public Water Supply District ("PWSD") #1 of Clinton County, PWSD #2 of Ray County, and PWSD #1 of Dekalb County.

Q. Please describe MAWC's position for purchased water expense?

A. On page 6, line 4 through 14, of the direct testimony of Mr. Cifuentes, Jr., states "MAWC used the 2023 consumption from bills for purchased water districts for each month and multiplied that by the most recent rate and fees bills."

Q. How did Staff calculate the normalized level of purchased water expense?

A. Staff reviewed five years of historical usage for each of the water systems, except when a system had less than five years of data. Staff used the available data if a system had less than five years of data.

Staff used a five-year average for water purchased from: the City of St. Louis to serve the St. Louis County district, Callaway County Water District #1 to serve Jefferson City, and City of Excelsior Springs to serve Lawson.

Staff used 12 months ending June 30, 2024, usage for the following based on the trend increase or decreasing: Kansas City Water Services to serve Parkville, and Ozark Water System to serve Spring Valley.

Staff used a three-year average for purchased water from the City of California to serve Hickory Hills because the first usage was billed in February 2021.

Staff used 12 months ending June 30, 2024, for water purchased from PWSD #1 of Clinton County to serve Lawson since the first usage was billed in December 2020, and the usage has been increasing.

Staff used 12 month ending June 30, 2024, to determine an annualized level for Orrick. The water was purchased from PWSD #2 of Ray County. The first usage bill was billed in March 2022, and the usage has been increasing.

Staff used 12-month ending June 30, 2024, for water purchased from PWSD #1 of Dekalb County for Stewartsville. The first usage bill was billed in March 2023.

For all of the districts, Staff applied the most recent rates to the normalized usage.

Q. What is Staff's normalized amount for purchased water?

A. Staff's normalized total amount for purchased water is $1,500,615.

WASTE DISPOSAL EXPENSE

Q. Please describe waste disposal expense.

A. Waste removal and disposal expenses are a result of the treatment of water and wastewater. Water treatment leaves behind a byproduct (sediment) that must be removed from the treatment facilities. The methods of removal and the cost vary by treatment facility.

Q. Please describe MAWC position regarding waste disposal expense.

A. On page 8, lines 4 through 19, of Mr. Cifuentes, Jr.'s, direct testimony, he states, "MAWC started with historical average of expense for the 12-month calendar periods ending 2021, 2022, and 2023, and normalized costs based on waste disposal costs incurred and the frequency of the cleanings by individual locations."

Q. What is the appropriate amount to include in cost of service for waste disposal expense?

A. When analyzing data, there is an upward trend in cost of waste disposal. The 12-months ending June 30, 2024, best reflects the ongoing cost of waste management. The appropriate amount of waste disposal expense to include in the cost of service is $5,734,971 based on the twelve months ending June 30, 2024.

PRODUCTION COST EXPENSE

Q. Did MAWC request a production cost tracker in this case?

A. Yes, as discussed on pages 32 to 34 of Mr. LaGrand's direct testimony.

Q. What production cost is MAWC seeking to track?

A. MAWC is seeking to track production cost related to fuel and power, chemicals, waste disposal, and purchased water.

Q. Does Staff agree with MAWC's proposed production cost tracker?

A. No. Staff witness Amanda C. McMellen addresses the production costs tracker in her direct / rebuttal testimony for this case.

Q. What ratemaking treatment does Staff recommend for production cost in this case?

A. Staff used standard ratemaking principles, using historical costs as a starting point to determine a reasonable level for fuel and power, chemicals, waste disposal, and purchased water expense ending June 30, 2024. Staff will review and update these costs in the true-up phase of this case for the period ending December 31, 2024. Staff's approach is to adjust MAWC's historical financial results to bring Staff's recommended ratemaking allowance as close as possible to the point in time new rates will be in effect, without the need for a tracker.

Q. Does Staff recommend re-examining production costs as part of its true-up audit in this case?

A. Yes.

Q. What level of production expense does Staff recommend in this case?

A. Staff recommends a normalized production expense level of $41,187,684.

TRANSPORTATION EXPENSE

Q. Please describe transportation expense.

A. MAWC incurs transportation expense for the lease of vehicles and fuel for those vehicles including titling, registration, fleet administration service fees, repairs and maintenance, and fuel costs.

Q. How did MAWC calculate transportation expense?

A. On page 22, lines 6-17 of Mr. Cifuentes, Jr.'s, direct testimony, he state:

> to determine post-test year expense for fleet management costs, the Company used actual expenses incurred during the base year and adjusted for employee reimbursement for use of personal vehicles for Company businesses. To determine future-test year expense for maintenance and repairs, the Company used a three (3) year historical average of actual expenses and adjusted the expense for the twelve months ended December 31, 2021, December 31, 2022, and December 31, 2023. To determine post-test year fuel expense, the Company used actual expenses incurred during the base year and made no adjustment as the Mid-West region fuel prices are anticipated to remain at base year levels. To determine future test year operation and miscellaneous expense the Company used actual expenses incurred during the base year and made no adjustments. A capitalization rate of 46.01% was applied to each category of transportation costs to determine the portion that is recorded as future test year expense.

Q. Please explain the adjustment to transportation expense.

A. Staff reviewed three years of data (ending June 30, 2024) of transportation expenses by district to determine if the usage fluctuated upward or downward from year-to-year. If the usage showed a discernable upward or downward trend in the year-to-year level of review, then Staff used data from the 12-months ending June 30, 2024. If the trend was not discernable, then Staff used a three-year average.

Q. What is the appropriate level of expense to include in the cost of service calculation for transportation expense related to fuel?

A. The appropriate level to include in the cost of service for transportation expense is $2,710,745.

Q. Will Staff be addressing transportation expense as part of its true-up calculations?

A. Yes. Staff will update its calculation for this expense through the true-up cutoff, December 31, 2024.

PROPERTY TAX TRACKER

Q. Does MAWC currently utilize a property tax tracker?

A. Yes. In the last rate case, No. WR-2022-0303 a property tax tracker was established based upon the legislation passed in Section 393.400, RSMo. As part of the *Stipulation and Agreement* in that rate case, the revenue requirement used to set rates for property tax is $34,063,451, and MAWC's deferred property tax balance as of December 31, 2022, shall be included in rate base and amortized over 60 months.

Q. What is the amount of property tax deferral assets in this rate case?

A. As of June 30, 2024, the rate base balance for the property tax regulatory asset is $12,746,594.

Q. What is the amortization expense?

A. As of June 30, 2024, the annual amortization expense is $2,549,319.

Q. Does Staff have a recommendation for the base level of the property tax tracker for the next rate case?

A. Staff recommends including an annualized level of property taxes in MAWC's revenue requirement. Staff witness Christopher L. Boronda discusses the annualized level in his direct / rebuttal testimony. This amount will be used as the base amount to track property taxes consistent with the property tax tracker established by the Missouri General Assembly[1].

Q. Will property tax expense be trued up to December 31, 2024, in this rate case?

A. Yes.

CURRENT AND DEFERRED INCOME TAX EXPENSE

Current Income Taxes

Q. Please explain the calculation of current income tax expense in this case.

A. Current income tax for this case has been calculated by Staff consistent with the methodology used in the six prior MAWC rate cases. Adjustments are made to net income to compute the current income tax expense. These adjustments are effectuated by taking adjusted net income and either adding to or subtracting from the net income various timing differences to obtain net taxable income for ratemaking purposes. (The term "timing differences" refers to the differences in time when certain costs can be deducted for purposes of determining financial statement net income and taxable income, respectively.) The adjustments are the result of various financial statement ("book") and tax timing differences, as well as their implementation under separate tax ratemaking methods: flow-through versus normalization. The resulting net taxable income for ratemaking is then multiplied by the appropriate federal and state tax rates to obtain the current provision for income taxes. Staff used the current federal tax rate of 21% and the state income tax rate of 4%, in calculating MAWC's income tax liability. The difference between the calculated current

[1] Section 393.400, RSMo.

income tax provision and the per book income tax provision is the current income tax provision adjustment.

Q. What are the tax timing differences Staff used to calculate current income tax?

A. The tax timing differences used in calculating taxable income for computing current income tax are as follows:

Additions to Operating Income Before Taxes:

Book Depreciation Expense
Non-Deductible Expenses – Non-deductible meals and dues
Book Amortization

Subtractions from Operating Income:

Interest Expense – Weighted Cost of Debt times Rate Base
Tax Depreciation – Straight-Line
Tax Depreciation – Excess
Repairs Expense

Deferred Income Taxes

Q. Please explain deferred income tax expense as it relates to this case.

A. When a tax timing difference is reflected for ratemaking purposes in the deferred tax adjustment consistent with the timing used in determining taxable income for the calculation of current income tax payable to the IRS, the timing difference is given a "flow-through" treatment.

When a current year timing difference is deferred and recognized for ratemaking purposes consistent with the timing used in calculating pre-tax operating income in the financial statements, then that timing difference is given "normalization" treatment for ratemaking purposes. Deferred income tax expense for a regulated utility reflects the tax impact of "normalizing" tax timing differences for ratemaking purposes. Current IRS rules for regulated utilities essentially require normalization treatment for the timing difference related to accelerated depreciation.

For most utilities, it is necessary to break out a utility's tax depreciation into two separate components: tax straight-line depreciation and excess tax depreciation. Tax straight-line depreciation is different from book straight-line depreciation due to the different tax basis of property allowed under the tax code. Excess tax depreciation differs from straight-line book depreciation due to the higher depreciation rates allowed in the early years of an asset's life under the current tax code as compared to "straight-line" book depreciation rates. To calculate excess tax depreciation, Staff used the total tax depreciation amount included in MAWC's filing in this case. Most tax basis differences were eliminated for assets placed into service after 1986 due to the Tax Reform Act ("TRA") enacted that year.

ACCUMULATED DEFERRED INCOME TAXES (ADIT)

Q. Please explain Accumulated Deferred Income Taxes ("ADIT").

A. MAWC's ADIT represents, in effect, a net prepayment of income taxes by customers prior to tax payment by MAWC. For example, because MAWC is allowed to deduct depreciation expense on an accelerated basis for income tax purposes, the amount of depreciation expense used as a deduction for income taxes purposes by MAWC is considerably higher than the amount of depreciation expense used for ratemaking purposes. This results in what is referred to as a "book-tax timing difference," and creates a deferral of income tax reserves to the future. The net credit balance in the ADIT account's reserve represents a source of cost-free funds to MAWC. Therefore, MAWC's rate base is reduced by the ADIT balance to avoid having customers pay a return on funds that are provided cost-free to MAWC.

Generally, deferred income taxes associated with all book-tax timing differences created through the ratemaking process should be reflected in rate base.

Q. What is the amount of ADIT Staff included in its rate base offset?

A. Staff has included the ADIT balance as of June 30, 2024, in the amount of $596,570,400 in rate base.

<u>AMORTIZATION OF EXCESS ADIT FOR THE TAX CUTS AND JOB ACT OF 2017</u>

Q. Briefly describe the Tax Cuts and Jobs Act ("TCJA").

A. The TCJA was signed into law in December 2017, and, as part of that law, a reduction in the federal corporate tax rate required the revaluation of accumulated deferred tax timing differences that were previously recorded, assuming a 35% federal tax rate to be revalued at the new 21% federal tax rate. Also, effective January 1, 2020, the Missouri state corporate tax rate was reduced from 6.25% to 4%. This also caused a need for additional revaluation of accumulated tax timing differences.

Q. What impact did this have on customers?

A. The excess federal deferred tax value is required to be returned to customers over a time period based on whether the excess deferred taxes are protected or unprotected. Protected excess ADIT is the portion associated with accelerated depreciation tax timing differences that must be "normalized" for ratemaking purposes. The flow back of protected excess ADIT cannot be returned to a customer any more quickly than over the estimated remaining life of the assets that gave rise to the ADIT. Unprotected federal excess ADIT is the portion of the deferred tax reserve that resulted from normalization treatment of tax timing differences other than accelerated depreciation. Unprotected federal excess ADIT is to be flowed back to customers over a period of time set by the Commission at its discretion.

There is no distinction between protected and unprotected status for state excess ADIT, and the entire balance of that amount can be flowed back to customers over a period of time set by the Commission at its discretion.

Q. What did the Commission order in MAWC's prior rate cases?

A. In the *Stipulation and Agreement* filed March 1, 2018, in Case No. WR-2017-0285, MAWC agreed to create a tracker that would capture the flow back of excess ADIT that would have occurred starting on January 1, 2018, and continuing until the next rate case (Case No. WR-2020-0344). At that time, the tracker balance would be amortized over five years. Recovery of the deferred Excess Accumulated Deferred Income Tax ("EADIT") beyond the next rate case (Case No. WR-2020-0344) was not addressed. On April 7, 2021, the Commission ordered this in its *Order Approving Stipulation and Agreement*.

In the *Stipulation and Agreement* filed March 5, 2021, in the previous rate case (Case No. WR-2020-0344), a "stub period" of EADIT beginning January 1, 2018, through the date in which rates went into effect for that case (May 28, 2021), would be amortized over two and a half years beginning May 28, 2021, and unprotected EADIT would be amortized over 10 years. In addition, it was agreed that a tracker would be created to capture the differences between protected EADIT returned to the customers as a part of the revenue requirement for Case No. WR-2020-0344, and the actual amortization period for the non-stub period unprotected EADIT balances.

In the *Stipulation and Agreement* filed on March 3, 2023 the tracker balance as of December 31, 2022, shall be applied to the remaining stub period TCJA amortization and the remainder returned to customers as a one-time customer bill credit within 90 days after the effective date of rates resulting from this case (WR-2022-0303). In addition, it was agreed that a tracker would be created to capture the differences between protected EADIT returned to the customers as a part of the revenue requirement for Case No. WR-2022-0303, and the actual amortization recorded by MAWC using Average Rate Assumption Method ("ARAM") for protected EADIT balances and a 10-year amortization period for non-stub period unprotected EADIT balances.

Q. What does Staff recommend in this case?

A. In this case, Staff recommends continuing the amortization of the unprotected excess ADIT (plant and non-plant) over a 10-year period, similar to what was ordered in the previous case.

Q. What amortization amounts is Staff including in this case?

A. The following are the amortization amounts included in Staff's cost of service and reflected on the Income Tax Schedule in Staff's Accounting Schedules:

Federal Protected Plant	$1,471,662
Federal Protected Non-Plant	$(184,359)
Federal Unprotected Plant	$6,992,007
State Unprotected Plant	$2,809,244
Federal Unprotected Non-Plant	$(1,712,021)
State Unprotected Non-Plant	$(516,665)
Total	$8,859,868

The above table shows that a net return to customers of excess federal and state ADIT of approximately $8.8 million has been included in Staff's case. Pursuant to the *Stipulation and Agreement* in the last rate case (WR-2022-0303), this $8.8 million also includes the five-year amortization of a tracker to capture the differences between protected EADIT returned to the customers as a part of the revenue requirement for Case No. WR-2022-0303, and the actual amortization period for the non-stub period unprotected EADIT balances.

Q. Does this conclude your direct / rebuttal testimony?

A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water Company's Request for Authority to Implement a General Rate Increase for Water and Sewer Service Provided in Missouri Service Areas	))))	Case No. WR-2024-0320

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 / Rebuttal 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 2nd day of December 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

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

continued Ashley Sarver

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

Company Name	Case Number(s)	Testimony/Issues
Missouri-American Water Company	WR-2024-0320 SR-2024-0321	Allocations, Chemicals, Waste Disposal, Fuel and Power Expense, Purchased Water, Income Tax, Accumulated Deferred Income Tax, Excess ADIT, Water Loss Adjustment, Transportation Expense and Fuel Expense