Exhibit No.:	
Issue(s):	*Amortization of Regulatory Assets, Other Post-Employment Benefits (OPEB), Cash Working Capital (CWC), Incentive Compensation*
Witness:	*Angela Niemeier*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*CrossRebuttal-Surrebuttal Testimony*
Case No.:	*WR-2024-0320*
Date Testimony Prepared:	*January 10, 2025*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS

AUDITING DEPARTMENT

CROSS REBUTTAL-SURREBUTTAL TESTIMONY

OF

ANGELA NIEMEIER

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2024-0320

Jefferson City, Missouri
January 2025

TABLE OF CONTENTS OF

CROSS REBUTTAL-SURREBUTTAL TESTIMONY OF

ANGELA NIEMEIER

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2024-0320

CROSS REBUTTAL-SURREBUTTAL TESTIMONY

OF

ANGELA NIEMEIER

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2024-0320

Q. Please state your name and business address.

A. My name is Angela Niemeier. My business address is 200 Madison Street, Suite 440, Jefferson City, MO 65101.

Q. Are you the same Angela Niemeier who filed direct / rebuttal testimony on December 6, 2024?

A. Yes.

Q. What is the purpose of your Cross Rebuttal-Surrebuttal testimony?

A. The purpose of my testimony is to make corrections to Amortizations, Other Post-Employment Benefits ("OPEB") expense and incentive compensation expense as well as to respond to the Office of Public Counsel ("OPC") witnesses John S. Riley's testimony regarding Cash Working Capital ("CWC") and Angela Schaben's testimony regarding incentive compensation.

AMORTIZATION OF REGULATORY ASSETS

Q. Did Missouri-American Water Company ("MAWC') provide any issues to PSC Staff where they believed Staff made errors that potentially needed to be corrected?

A. Yes. On Monday December 30, 2024, MAWC witness Brian W. LaGrand sent an email concerning potential corrections to Staff's calculations. One of the issues included was related to the Lead Service Line Replacement ("LSLR") program.

Q. Please explain MAWC's LSLR Program.

A. In Case No. WU-2017-0296, MAWC requested, and the Commission granted special accounting treatment in the form of an Accounting Authority Order ("AAO") to defer costs related to replacing customer owned lead service lines. It is not a normal utility policy or practice to replace or repair property that is not owned by the utility and, therefore, this MAWC action was considered extraordinary. In that case, the Commission granted MAWC the authority to defer and book the costs for its LSLR Program with carrying costs calculated using a short-term borrowing rate.[1]

Q. In Case No. WU-2017-0296, did the Commission determine the future ratemaking treatment to be provided to the AAO deferrals?

A. No. While the Commission identified the Uniform System of Accounts ("USOA") Account 186 as the appropriate account to which MAWC should book the AAO in that case, an AAO is not a ratemaking decision; an AAO simply authorizes a utility to book certain costs in separate accounts for future consideration. However, the Commission did address ratemaking treatment of the LSLR Program deferral in MAWC's next rate case, Case No. WR-2017-0285, which was pending at the time the Commission issued its order in Case No. WU-2017-0296.

Q. Did the Commission grant ratemaking treatment of the LSLR Program AAO in Case No. WR-2017-0285?

[1] Report and Order, Case No.WU-2017-0296, P. 10 (Nov 30, 2017).

A. Yes. The Commission stated the following in its Report and Order for Case No. WR-2017-0285:

> [T]he Commission will permit MAWC to amortize over ten years the 1,668,796 incurred for the LSLR Program from January 1, 2017, through December 31, 2017. MAWC's long-term debt rate as calculated in Staff's Cost of Service Report shall also be applied to the LSLR Program amount to be amortized.[2]

Q. How was the LSLR Program AAO balance treated in MAWC's rate case, Case No. WR-2020-0344?

A. Accounting treatment for LSLRs was included in the parties' Stipulation and Agreement for Case No. WR-2020-0344, which the Commission approved effective May 7, 2021:

> 14. Lead Service Line Replacement ("LSLR"): MAWC will continue to defer and book to USOA Account 186 the costs of customer-owned LSL [Lead Service Line] replacements applying its long-term borrowing rate as to the carrying costs. MAWC will amortize over ten (10) years the amounts deferred. MAWC's long-term debt rate shall be applied to the unamortized balance.[3]

Q. How was the LSLR Program AAO balance treated in MAWC's last rate case, Case No. WR-2022-0303?

A. Staff applied the same treatment as WR-2020-0344, as the Commission directed as described above.

Q. What is MAWC's position regarding the balance of the LSLR Program AAO in this case?

A. MAWC witness Jennifer M. B. Grisham states in her direct testimony, on page 15, line 19, that MAWC has continued deferring costs associated with the customer

[2] Report and Order, Case No.WR-2017-0285, P. 23 (May 2, 2018).
[3] *Stipulation and Agreement*, Case No. WR-2022-0344, P. 4

owned LSLRs as ordered, including carrying costs at the long-term debt rate with a 10-year amortization. Ms. Grisham is also proposing to include the return on the total unamortized deferred balance in the overall revenue requirement.

Q. What is Staff's position regarding the treatment of the LSLR Program AAO balance?

A. Staff disagrees with MAWC's position and continues to recommend including carrying costs at the long-term debt rate in the AAO balance, but not to include any return on the total unamortized balance in the revenue requirement. Including the carrying costs in the unamortized deferral balance at MAWC's long-term debt rate provides MAWC sufficient recovery of the costs to replace the customer owned LSLRs. Under MAWC's proposal, MAWC would earn a return on the LSLR Program regulatory asset balance as if that balance reflected a piece of property owned by MAWC and used in providing service to customers. The service lines between the meter or property line and the customer's residence will not become property of MAWC; allowing MAWC to earn a return on the lines would be unreasonable.

Q. For the LSLR Program, did Staff use the incorrect balance for carrying costs?

A. Yes. Staff used data supplied in response to Staff Date Request ("DR") No. 0142, which included additional costs for carrying costs. Staff is now using the MAWC workpaper for LSLR, Amortization of Regulatory Assets updated workpaper, that includes carrying costs through June 30, 2024.

Q. MAWC pointed out an error in Staff's calculation indicating that the low income amortization was included twice. Does Staff agree and if so, was the error corrected?

A. Yes. For Cross Rebuttal-Surrebuttal, Staff made the correction to include this amortization only once.

Q. In direct/rebuttal, did Staff include an amortization for a tank painting tracker?

A. No. Staff inadvertently missed the amortization for the existing tank painting tracker. In the *Stipulation and Agreement* in WR-2022-0303, parties agreed that the deferred balance of the tank painting tracker will be amortized over five years. For Cross Rebuttal-Surrebuttal, Staff has included an amortization for the deferred balance of the tank painting tracker consistent with the *Stipulation and Agreement* in Case No. WR-2022-0303.

PENSION EXPENSE AND OTHER POST-EMPLOYMENT BENEFITS (OPEBS)

Q. Did Staff make a correction to its OPEB expense?

A. Yes. The OPEB expense required two considerations of the Operation and Maintenance ("O&M") percentage in the calculation for the expense. Staff inadvertently left an estimate percentage as a placeholder before having final numbers, instead of the one applicable for the OPEB expense. Staff has corrected this, and it results in an increase of $4,532 to the OPEB expense adjustment.

Q. Does Staff have another correction for pension expense and OPEB expense?

A. Yes. There was an error in the calculation for both pension expense and OPEB expense. Staff inadvertently used the capitalization percentage of O&M, instead of the expense percentage. This has been corrected for this Cross Rebuttal-Surrebuttal filing.

CASH WORKING CAPITAL ("CWC")

Q. Does Staff agree with OPC witness Mr. Riley on CWC?

A. Partially. Staff does not necessarily agree or disagree with Mr. Riley's opinion as mentioned in his testimony concerning the revenue lag. With regard to this issue, Staff agrees with Mr. Riley that the revenue lag should revert back to 45.7 days as calculated in MAWC's last rate case, Case No. WR-2022-0303. However, Staff came to its own conclusion based on the fact that the accounts receivable aging report had a variance that did not align with the general ledger. This is further discussed in my direct / rebuttal testimony in this case on page 14, line 14. Staff recommends using the 45.7 days for revenue lag because it is the last known verified revenue lag.

Q. Did Staff make other recommendations for CWC in its direct that differ from OPC?

A. Yes. In my direct/rebuttal testimony, I recommended a 39.91 day lag for cash vouchers, which is an average of expense service lags, including contracted services. I recommended that the American Water Works Service Company ("AWWSC" or "Service Company") use the 39.91 days, as MAWC should not benefit from prepaying amounts to their Service Company due to the affiliated relationship between the two.

Q. What is OPC's position regarding the CWC expense lag for income taxes?

A. In his direct/rebuttal testimony, page 5, line 12-15, Mr. Riley cites that the Commission ruled in Case No. GR-2021-0108 that Spire should use a 365-day expense lag, as it represented "the nonpayment of those taxes collected through rates yet not paid out." Mr. Riley stated that MAWC should have a 365-day expense lag for federal and state income taxes because it is not in a position where it is liable for federal or state income taxes.

Q. How does Staff respond?

A. The difference between Case No. GR-2021-0108 and the present case is that Spire did not owe federal taxes due to a Net Operating Loss Carryforward ("NOLC"), while MAWC is paying quarterly taxes.[4] Regulated utility companies routinely pay quarterly estimated taxes. A few recent examples are in the following cases: Case Nos. GR-2021-0320, WR-2020-0344, GR-2021-0241, and ER-2021-0240.

Q. Does the IRS require corporations to pay quarterly tax payments?

A. Yes. According to the IRS' website,[5] corporations generally have to make estimated payments if they expect to owe a tax of $500 or more when their tax returns are filed.

Q. What is Staff's recommendation for the expense lag for taxes?

A. It is Staff's understanding that MAWC pays AWWC estimated quarterly taxes as if MAWC would file its own tax returns. Because there is a cash outlay quarterly for taxes to AWWSC, Staff has included an expense lag for taxes that reflects quarterly payments.

Q. How does Staff respond to Mr. Riley's recommended disallowance of the CWC study and related consulting fees?

A. Staff questioned this from the onset. In my direct/rebuttal testimony, beginning on page 12, line 4, I discuss MAWC completing a new CWC study and paying the associated costs, when in prior rate cases, the CWC study had been performed in house by MAWC employees.

Q. Did Staff question whether there were operational changes that would affect the CWC study?

---

[4] It is Staff's understanding that MAWC pays AWWC estimated quarterly taxes as if MAWC would file its own tax returns. AWWC, then, presumably would include MAWC's estimated tax payments with those of its other wholly-owned subsidiaries when paying quarterly estimated taxes to the IRS.

[5] https://www.irs.gov/businesses/small-businesses-self-employed/estimated-taxes

A. Yes. On page 12, line 18 of my direct/rebuttal testimony, I discuss that MAWC's response to Staff's DR No. 0153 stated there was no known changes that would have a material impact on revenue and expense lags. However, in Staff DR No. 0242, Staff also asked for the rationale for performing two complete lead-lag studies back-to-back with only two years of separation. MAWC witness, Mr. Walker, responded that the 2022 lead-lag study reflected data from the period of the COVID-19 pandemic.

Q. Did Staff take this rationale into consideration?

A. Yes. Staff could not ignore that there were changes between the two studies, which gave reason to not disallow the study completely. There were enough differences that Staff could not state that COVID-19 did not affect the outcome of the prior CWC study. However, Staff has concerns about performing a CWC study in back-to-back rate cases. Staff's concerns are discussed starting on page 13, line 1 of my direct/rebuttal testimony. Ultimately, Staff's position is that MAWC's choice to perform a CWC study is reasonable in this situation and supports the inclusion of the costs of the CWC study as rate case expense, using the 50/50 sharing mechanism recommend by Staff.

Q. Would Staff like to point out anything else concerning the lead/lag studies?

A. Yes. After the direct/rebuttal filing in this case, Staff completed an analysis using the annualized amounts calculated in Case Nos.WR-2024-0320 and the WR-2022-0303 lead/lag days for comparison purposes. The invoices submitted for lead/lag study in the current rate case expense total $25,380. Staff concluded there was approximately an $18,000 working capital requirement difference. Thus, the cost to complete the CWC study was higher than the benefit of the study.

Q. Due to this analysis, does Staff agree with Mr. Riley that the cost of the CWC study be disallowed?

A. No. Staff began this issue with the same questions and scrutiny as that of Mr. Riley. Upon reviewing the CWC study, as well as the rationale for re-doing the study due to COVID-19, Staff's position is that there were enough changes found in the review of the 2024 CWC study to justify MAWC's completing a new CWC study for this case. However, Staff recommends that a CWC study be performed when there are operational changes that will affect CWC or a minimum of every five years.

Q. Is there a rule that states how often the CWC study should be completed?

A. Not to my knowledge. In my research, I found no rule to support how often a CWC study should be performed. Staff spent time considering whether to completely disallow the CWC study or apply the 50/50 rate case expense sharing mechanism. After much consideration, Staff recommends the cost of the CWC study be included in rate case expense and that the 50/50 rate case expense sharing mechanism be applied to rate case expense.

INCENTIVE COMPENSATION

Q. Does Staff have a correction for incentive compensation expense?

A. Yes. Labor/payroll expense was completed by Staff witness Sherrye Lesmes. She reviewed employees and disallowed employees whose jobs were for lobbying or business development. Those same employees also need to be removed from incentive compensation. Please refer to her Cross Rebuttal-Surrebuttal testimony in this case for additional information.

Q. What is the dollar amount of this correction?

A. The correction results in a decrease of $78,022 for incentive compensation expense.

Q. Do OPC witness Angela Schaben and Staff agree on incentive compensation?

A. Partially. Staff and OPC agree that the Long-Term Performance Plan ("LTPP") should not be allowed in rates. Staff and OPC do not necessarily agree on why it should be disallowed. As discussed in my direct/rebuttal testimony, beginning on page 18, line 2, Staff maintains that LTPP is a stock option incentive-only plan offered to non-union management. MAWC is not actually paying any expenses associated with LTPP, so there is no cash outlay associated with it. Therefore, MAWC should not be allowed to recover any amounts associated with LTPP.

Q. Do Staff and Ms. Schaben agree on the second component of incentive compensation, Annual Performance Plan ("APP")?

A. No. Ms. Schaben believes that all APP should be disallowed.

Q. In her direct testimony, line page 4, line 9, does OPC witness Ms. Schaben, discuss the Illinois American Water ("IAWC") rate case, Docket P2022-0210?

A. Yes. She notes two sections from that docket, as follows:

the Illinois Commerce Commission ("ICC") found:

> [I]ncentive compensation programs related to financial goals primarily benefit shareholders and those costs should not be recovered by the utility from ratepayers.

The ICC goes on to say:

> IAWC argues that its performance pay programs provide customer benefits through reduced expenses and greater efficiencies. However, IAWC has not shown that these customer benefits were caused by the performance metrics related to financial goals rather than the Company's operational goals.

Q. How did the ICC rule in Docket P2022-0210?

A. The ICC approved Staff's proposed adjustments to IAWC's performance pay.[6]

Q. What did the ICC Staff recommend in Docket P2022-0210?

A. On page 26 of Docket P2022-0210, the ICC Staff's direct testimony proposed to remove 50% of the cost of the IAWC's Annual Incentive Plan ("AIP") and 100% of the cost of the IAWC's LTPP within Staff Schedule 3.02 because they were based on the achievement of financial goals. In rebuttal testimony for Docket P2022-0210, ICC Staff also allowed a portion of LTTP related to RSUs that were not based on financial performance.

Q. What does Staff recommend with regard to APP in this rate case?

A. Based on the confidential National Benefits Agreement ("NBA"), provided in Staff DR No. 0155 in this case, Staff is recommending 100% allowance of the APP for union employees only as it is part of the NBA.

Staff also recommends inclusion of 50% of the APP paid to non-union MAWC employees, with the other 50% disallowed as the portion based upon diluted earnings per share ("EPS"). This is discussed further in my direct/rebuttal testimony starting on page 18, line 2. To Staff's knowledge, it has not received data to support any inclusion of the LTPP not tied to financial performance for the Missouri rate case.

Q. Does this conclude your Cross Rebuttal-Surrebuttal testimony?

A. Yes it does.

---

[6] Illinois Commerce Commission Order in Docket 22-0210 regarding IAWC, page 3, paragraph 3.

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 ANGELA NIEMEIER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW ANGELA NIEMEIER and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Cross-Rebuttal / Surrebuttal Testimony of Angela Niemeier*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Angela Niem

ANGELA NIEMEIER

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 9th day of January 2025.

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