Exhibit No.: Issues: Witness: Exhibit Type: Sponsoring Party: Case No.: Date:

Water Storage Tank Rehabilitation Matthew A. Lueders Rebuttal/Surrebuttal/Sur-Surrebuttal Missouri-American Water Company WR-2024-0320 January 24, 2025

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2024-0320

REBUTTAL/SURREBUTTAL/SUR-SURREBUTTAL TESTIMONY

OF

MATTHEW A. LUEDERS

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Matthew A. Lueders, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am the Director of Engineering for Missouri American Water Company, Inc., that the accompanying testimony has been prepared by me or under my direction and supervision; that if inquiries were made as to the facts in said testimony, I would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of my knowledge and belief.

January 23, 2025 Dated

REBUTTAL/SURREBUTTAL/SUR-SURREBUTTAL TESTIMONY MATTHEW A. LUEDERS MISSOURI AMERICAN WATER COMPANY CASE NO.: WR-2024-0320

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REBUTTAL/SURREBUTTAL/SUR-SURREBUTTAL TESTIMONY

MATTHEW A. LUEDERS

1		I. INTRODUCTION
2	Q.	Please state your name and business address.
3	A.	My name is Matthew A. Lueders. My business address is 727 Craig Road, Creve Coeur,
4		MO 63141.
5	Q.	Are you the same Matthew A. Lueders who previously submitted Direct Testimony
6		in this proceeding?
7	А.	Yes.
8	Q.	What is the purpose of your Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony in this
9		proceeding?
10	A.	The purpose of my Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony is to respond to various
11		Public Service Commission Staff ("Staff") and Office of Public Council ("OPC") witnesses
12		regarding the following issues:
13		Tank Maintenance
14		Capitalization of Tank Coatings
15		Tank Coating Tracker
16		Specifically, I will be addressing the Direct/Rebuttal Testimony filings of Staff witnesses
17		Alexis L. Branson and Amanda C. McMellen, and OPC witness Angela Schaben.
18		II. TANK MAINTENANCE
19	Q.	Do you agree with Staff Witness Branson's description of MAWC's tank painting

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expense?¹

No. Tank painting, also known as engineered steel coatings, is a portion of tank 2 A. rehabilitation that has historically been included as a tank maintenance expense; however, 3 many activities performed to support tank maintenance are not associated with a tank 4 5 painting. Examples include routine tank inspections, periodic detailed inspections, tank 6 washing, replacement of screens, etc. These routine maintenance items are not necessarily included in a coating replacement and vary significantly in frequency, cost, and intent than 7 8 that of a coating replacement completed as a part of a tank rehabilitation.

Do you agree with OPC witness Schaben's description of the cost accounting for

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routine tank maintenance expenses?

No. OPC witness Schaben states that "Currently, the routine maintenance expenses 11 A. 12 performed on tanks are amortized over a period of years and included within test year operating expenses."² MAWC currently uses a Tank Painting Tracker, as agreed to in Case. 13 No. WR-2022-0303. Current base rates include \$1,975,173 in tank painting & inspections, 14 and any differential with actual expense is captured in the tracker. When new rates take 15 effect in this case, the tracker balance will be amortized over 5 years.³ 16

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II. CAPITALIZATION OF TANK COATINGS

18 Q. Do Missouri regulations prescribe a system of accounts for use by water utilities?

19 Yes. The Missouri Code of State Regulations ("CSR"), specifically 20 CSR 4240-50.030, A.

20 provides the uniform systems of accounts for and the filing of annual reports by all classes

of water companies. As Staff Witness McMellen states, MAWC is a Class A water

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¹ Branson DT/RT, p. 11, lines 7-8. ² Schaben DT/RT, p. 17.

³ WR-2022-0303 – *Stipulation and Agreement*, p. 5.

- company, therefore the National Association of Regulatory Utility Commissioners
 ("NARUC") 1976 Revisions of Uniform System of Accounts ("USOA") for Class A and
 B Water Utilities 1973 is applicable to MAWC.⁴
- Q. Do you agree that tank coatings should be treated as an expense, as outlined by Staff
 witness McMellen,⁵ and supported by OPC witness Schaben in her cross rebuttal
 testimony?⁶
- A. No. Though Staff Witness McMellen correctly identifies that capitalization of the "first cost" painting is applicable to assets recorded under account 341 Structures and Improvements; she fails to recognize an important exception in the account description:
 "[t]his account shall include the cost in place of structures and improvements other than reservoirs and stand pipes, used in connection with transmission and distribution operations" (emphasis added).⁷ OPC witness Schaben agrees with Staff citing similar line of reasoning,⁸ without acknowledging the critical exception noted immediately preceding.

14 Q. Please describe the appropriate account for MAWC's steel water storage tanks.

- A. Because MAWC's steel water storage tanks fall into the exception noted above, the proper
 asset account for MAWC's steel tanks and their appurtenances is NARUC account 342
 Distribution Reservoirs and Stand pipes that includes "the cost in place of reservoirs, tanks,
 standpipes, and appurtenances used in storing water for distribution."⁹
- 19 **O.**

Q. Why is NARUC Account 342 Distribution Reservoirs and Stand pipes the

⁴ McMellen DT/RT, p. 13.

⁵ McMellen DT/RT, p. 12-15.

⁶ Schaben CRT, p. 6.

⁷ NARUC 1976 Revisions of USOA for Class A and B Water Utilities 1973, p. 76.

⁸ Schaben CRT, p. 6-7.

⁹ Id.

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appropriate plant account for tank coatings?

As outlined in my direct testimony, "[r]ehabilitation, through the regular addition or 2 A. reapplication of coating systems, is required to protect the interior and exterior steel 3 surfaces from corrosion resulting from long-term exposure to harsh environmental 4 conditions."¹⁰ These coating systems are critical to the long-term use and viability of the 5 6 asset and are the primary mechanism for rust-proofing the steel walls and components of the tanks. NARUC account 342 provides for capitalization of the tank's "rust-proofing 7 apparatus," which is the undisputed function¹¹ and intent for these critical appurtenances 8 9 to each steel tank.

10 **Q**. Do you agree with OPC witness Shaben's inclusion of American Water Works Association ("AWWA") M1 as an authority for cost accounting in this case? 11

12 A. No. As I mentioned above, Missouri prescribes the NARUC USOA for guidance on the 13 classification and treatment of MAWC's capital and expenses. AWWA M1 is nonauthoritative on this topic in this case. 14

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III. TANK PAINTING TRACKER

Q. Do you agree with Staff's position to discontinue the tank painting tracker, as outlined 16 by Staff witness Ms. McMellen?¹² 17

No, I do not. In the event that the Commission denies MAWC the ability to capitalize tank 18 A. coatings, the Commission should continue authorization of MAWC's tank painting tracker. 19 20 Though MAWC did not experience extreme fluctuations in the total cost and number of 21 tank rehabilitations performed during the period represented in this rate case, it should not

¹⁰ Lueders DT, p.6.¹¹ McMellen DT/RT, p.15, lines 10-11.

¹² McMellen DT/RT, p.12.

1		be taken that such fluctuations will not arise in the future.
2	Q.	Please discuss why the Commission should continue authorization for MAWC's tank
3		painting tracker.
4	A.	The tank painting tracker is an important tool which allows MAWC to focus on executing
5		tank rehabilitation projects based solely on asset condition, without interference by any
6		potentially large year-to-year cost fluctuation.
7	Q.	Please summarize why capitalization of tank painting is appropriate accounting for
8		rate recovery purposes.
9	A.	Capitalization of "rust proofing apparatus[es]" is explicitly included in NARUC USOA,
10		which is the governing document for accounting practices applicable to MAWC. Further,
11		capitalization of tank coating systems is appropriate because tank rehabilitation
12		significantly extends the service life of these critical assets; protects the Company's
13		investment; is more equitable to the customer base over time since the rehabilitation
14		projects can extend tank expected lifespans for decades; and can be individually accounted
15		for, tracked, and depreciated at a specific location in the Company's property records.
16	Q.	Does this conclude your Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony?

17 A. Yes.