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Exhibit No.:
Issue(s): CSWR expense allocations including payroll, payroll taxes, employee benefits, company life insurance, and costs associated with expense reports, and other expenses incurred in daily business operations, CSWR and Confluence insurance expense and prepayments

Witness: Ashley Sarver
Sponsoring Party: MoPSC Staff
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MISSOURI PUBLIC SERVICE COMMISSION
FINANCIAL & BUSINESS ANALYSIS DIVISION
AUDITING DEPARTMENT

DIRECT TESTIMONY
Cost of Service

OF

ASHLEY SARVER

CONFLUENCE RIVERS UTILITY OPERATING COMPANY, INC.

CASE NO. WR-2023-0006

Jefferson City, Missouri
May 2023

**** Denotes Confidential Information ****

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DIRECT TESTIMONY OF

ASHLEY SARVER

CONFLUENCE RIVERS UTILITY OPERATING COMPANY, INC.

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1 Q. With respect to Case No. WR-2023-0006 have you examined the books and
2 records of the Confluence Rivers Utility Operating Company, Inc. (“Confluence”) and Central
3 States Water Resources, L.L.C. (“CSWR”)?

4 A. Yes, with the assistance of other members of Commission Staff (“Staff”).

5 **EXECUTIVE SUMMARY**

6 Q. What is the purpose of your direct testimony?

7 A. The purpose of this testimony is to discuss Staff’s position regarding the
8 following issues: CSWR expense allocations including payroll, payroll taxes, employee
9 benefits, company life insurance, costs associated with expense reports, and other expenses
10 incurred in daily business operations. This testimony will also address insurance expense and
11 prepayments for both Confluence and CSWR.

12 **CSWR (CORPORATE) ALLOCATIONS**

13 Q. Please discuss CSWR’s corporate structure including Confluence’s relationship
14 to CSWR.

15 A. CSWR is owned and funded by private investors through US Water, LLC.
16 CSWR is a pass through entity, headquartered in Des Peres, Missouri that operates and allocates
17 its costs to regulated and non-regulated water and sewer affiliates in 12 states. Each state in
18 which a CSWR affiliate operates has at least one state holding company, which has no
19 employees and conducts no business and at least one regulated state utility operating company
20 (“UOC”) that provides the utility service and owns all utility assets. There are approximately
21 138,742 connections throughout the 12 states in which CSWR operates. In Missouri, the
22 regulated UOC is Confluence. Please reference the organization chart attached to this testimony
23 as Schedule AS-d2. CSWR allocate costs to the individual state UOC’s through a process of

1 direct assignment and indirect allocation. CSWR employees' time, other employee related
2 costs, and general business expenses are ultimately charged to the CSWR subsidiaries receiving
3 those services.

4 Q. What services does CSWR provide to Confluence?

5 A. CSWR provides services to Confluence in the areas of executive management,
6 legal services, finance, human resources, customer experience management, and other
7 business services.

8 Q. How does CSWR allocate expense to the UOC?

9 A. The allocation methods used to allocate costs from CSWR to its subsidiaries
10 are based in CSWR's Cost Allocation Manual ("CAM"). The most recent version of the
11 CAM's effective date is January 1, 2022. The corporate allocation process for CSWR flows
12 from many different levels of the corporation and the processes following at each level are
13 similar. At its simplest, there are three types of allocations: direct, indirect and joint. Direct
14 allocations to Confluence, and other operating systems, occur when the work performed by
15 CSWR or operating system can be directly related to a specific system. On the other hand,
16 indirect allocations occur when the services performed by CSWR or operating system benefit
17 more than one system. A jointly billed charge occurs when the charge can be based on a cost
18 driver, such as insurance expense, that is incurred for multiple UOCs but that UOC's portion is
19 charged directly to them.

20 Q. How are CSWR costs allocated for indirect expenses?

21 A. CSWR uses a three-factor methodology based on an average of connection
22 count, operating expenses, and utility plant in service.

23 Q. What is a jointly billed charge and how does CSWR allocate this type of cost?

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1 A. CSWR incurs insurance coverage and software expense that are jointly billed
2 meaning they do not allocate based on the three-factor method. The cost of property insurance
3 charged is based on the respective values of covered property as a proportion of the total
4 covered property value of CSWR. Some software expense (for example Muni-Link) is allocated
5 by the number of customer connections. Those services are procured by CSWR and charged to
6 affiliates directly.

7 Q. How are direct, indirect and jointly charged expense recorded on the
8 general ledger?

9 A. Direct charges are booked to the account directly assigned to the operating
10 company. Indirect charges and joint charges are booked to CSWR account 922 in the Uniform
11 Systems of Accounts (“USOA”) general ledger. After CSWR applies the allocation factor based
12 on the CAM, then the cost is moved to Confluence and other operating systems’ general ledger.
13 However, in April 2022, costs in Missouri were not separated by operating systems. The costs
14 for indirect charges were directly allocated to Confluence.

15 Q. What is account 922?

16 A. According to the USOA, this account shall be credited with administrative
17 expenses recorded in accounts 922 and 921, which are transferred to construction costs or to
18 nonutility accounts. Account 921 is office supplies and other expenses.

19 Q. Does Staff agree with CSWR’s method of cost allocation for indirect expense?

20 A. Generally, yes.

21 Q. How often does CSWR update its allocation factors?

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1 A. CSWR's allocation factor percentages are updated quarterly, effective
2 each January 1st, April 1st, July 1st and October 1st and are valid through the end of each
3 respective quarter.

4 Q. How did Staff develop the allocation factors used in its direct case?

5 A. Staff used customer connection count, plant in service values and operating
6 expenses as of the January 31, 2023 update period. This date captures the customer connections,
7 plant in service value and operating expenses for the South Carolina UOC that CSWR recently
8 closed on prior to the update period cutoff.

9 Q. Please explain the types of adjustments that Staff is proposing to CSWR
10 expenses allocated to Confluence?

11 A. Staff is not proposing any changes to CSWR's method of allocating the cost to
12 Confluence; rather, Staff has included South Carolina's data to the allocation factor calculation
13 to reflect the fact that CSWR will now be allocating costs to that state moving forward.

14 Q. What is Staff's CSWR allocation percentage to Confluence after updating the
15 allocation factors?

16 A. Staff calculated an overall allocation factor of 7.97% to allocate CSWR indirect
17 costs to Confluence.

18 Q. Does Staff have recommendations regarding the CSWR general ledger?

19 A. Yes. If a cost is directly incurred and was caused by a specific system within a
20 particular state, CSWR should assign those costs to the appropriate UOC when appropriate and
21 not record direct costs to the CSWR ledger but rather record them to the ledger at the state level
22 that incurred the cost. The CSWR ledger should include only costs for which the cost cannot
23 be directly associated with an individual UOC or state and must be allocated. In addition,

1 CSWR has been, and plans to continue, acquiring water and wastewater utilities within
2 Missouri as well as in states outside of Missouri. Staff would like to monitor CSWR's and
3 Confluence's general ledger as the acquisitions continue to occur. Staff recommends that the
4 Commission order Confluence to provide the CSWR general ledger and Confluence general
5 ledger for quarterly surveillance as well as order Confluence to maintain a report showing what
6 the monthly allocations are by CSWR and/or UOC for each allocation factor. These items will
7 allow Staff to monitor to ensure that as systems are acquired, the allocation factors are
8 adjusting accordingly.

9 **CONFLUENCE TARIFF RATE DISTRICT ALLOCATIONS**

10 Q. How many tariff rate districts does Confluence currently have?

11 A. Confluence has sixteen tariff rate districts for sewer and fourteen tariff rate
12 districts for water.

13 Q. What is the difference between a UOC and tariff rate district?

14 A. Each state has one or more UOCs. For example, Missouri has Confluence but
15 Arkansas has several (for example, St. Joseph Glen UOC, Eagle Ridge UOC, Flushing
16 Meadows UOC). Tariff rate districts are the collections of water and wastewater systems within
17 Missouri that each have a different tariffed rate. Each tariff rate district is included in the
18 allocation factor and based on connection numbers.

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

20 A. Staff first applies the 7.97% corporate allocation factor to prudent CSWR
21 expenses and rate base to determine the proper overall amount of costs to be allocated to
22 Confluence. In order to determine the amount of CSWR costs to allocate to each tariff district,

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1 Staff used the connection count as of January 31, 2023. Confluence provides water and sewer
2 services to the following tariff rate districts:

3

Utility Type	Tariff Rate District	Water Connections	Sewer Connections
Sewer	Clemstone	0	76
Sewer	Deer Run	0	61
Sewer	DeGuire	0	24
Sewer	Freeman Hills	0	16
Sewer	Prairie Heights (Sullivan)	0	19
Sewer	Raccoon Creek	0	534
Sewer	Shelton Estates	0	314
Sewer & Water	Branson Cedars Resort	58	59
Sewer & Water	Cedar Green	54	54
Sewer & Water	Glen Meadows	233	233
Sewer & Water	Hillcrest	250	254
Sewer & Water	Legacy Confluence Rivers ¹	921	945
Sewer & Water	Elm Hills	142	399
Sewer & Water	Osage Water Company	374	392
Sewer & Water	Port Perry	438	267
Sewer & Water	Terre Du Lac	1412	1376
Sewer & Water	Missing Well	73	30
Water	Fawn Lake	29	0
Water	Indian Hills	675	0
Water	Spring Branch	115	0
Water	Prairie Heights	56	0

¹ Other Than Prairie Heights (Water)- Auburn Lakes, Smithview, Calvey Brook, Chalet City West/Alpine Village (The Willows), City of Eugene, Evergreen Lake, Majestic Lakes, Roy-L, and Whispering Pines (Gladlo).. Other than Freeman Hills & Deguire (Sewer) – Auburn Lakes, Calvey Brook, Castlereagh Estate (Mill Creek), Chalet City West/Alpine Village (The Willows), Lake Virginia, Majestic Lakes, Roy-L, Willa Ridge, Whispering Pines (Gladlo).

1 **CSWR COST ALLOCATIONS**

2 **CSWR EXPENSES**

3 Q. How did Staff calculate CSWR expenses?

4 A. Staff reviewed each account in CSWR's general ledger to determine the
5 appropriate cost of service. Staff removed costs that were non-reoccurring, late payments on
6 invoices, and costs in which Staff did not have the proper source documentation for support.
7 Staff also disallowed expenses if it did not benefit Missouri customers. Staff made adjustments
8 to all of CSWR's expenses accounts based on the criteria listed above.

9 **Lease Expense**

10 Q. What types of lease expense does CSWR incur?

11 A. CSWR incurs costs for one lease of the main headquarters office in Des Peres.
12 This cost is for the main office of CSWR, which provides services to all states in which CSWR
13 operates, and a portion of the overall lease amount is allocated to each of the individual states
14 served by CSWR.

15 Q. How long has CSWR been in this office?

16 A. CSWR headquarters was previously located in St. Ann, Missouri, but due to an
17 increase in employees, they decided to move to an office complex in Des Peres, Missouri in
18 March 2020. CSWR then decided to move again to another office within the Des Peres office
19 complex in March 2022.

20 Q. Did Staff propose an adjustment to lease expense?

21 A. Yes. Staff included the amount of the lease as of January 31, 2023.

22 Q. What is the appropriate overall amount of lease expense to include in the cost of
23 service for the Missouri tariff rate districts?

1 state's insured value as a portion of the overall insured value as of January 2023 in order to
2 determine the premium amount that was appropriate for the Missouri UOC's. Staff then
3 determined the portion of CSWR insurance to distribute to the individual tariff rate districts by
4 taking the overall allocated portion for Missouri and distributing that amount by each tariff
5 district based on the systems total insured value.

6 Q. What is Staff's annualized insurance expense for Confluence?

7 A. Staff's overall annualized level of insurance expense is \$325,725.

8 **Workman's Compensation Insurance**

9 Q. How did Staff calculate Workman's Compensation Insurance?

10 A. Staff applied the corporate allocation factor of 7.97% to the premiums paid as
11 of January 31, 2023, to determine the amount to be included in the overall cost of service for
12 Confluence.

13 Q. What is Staff's annualized level for workman's compensation insurance for
14 Confluence?

15 A. Staff's overall annualized level for workman's compensation insurance is \$984.

16 **PROPERTY TAX**

17 Q. Please describe property tax expense.

18 A. Property tax expenses are taxes paid on property owned by individuals or
19 businesses. Property taxes are assessed on the property an individual or business owns on
20 January 1 of each year. Taxing authorities will send their assessed values to the individual or
21 businesses in April and later in the year, the taxing authorities issue a property tax rate. Once
22 calculated, the taxing authorities issue a property tax bill to the individual or business with a
23 due date of December 31 that same year.

1 Q. Are property taxes addressed by other Staff witnesses?

2 A. Yes, I address the property tax expense incurred by CSWR. Staff witness
3 Karen Lyons addresses the property tax expense Confluence incurs for each of its Missouri
4 utilities.

5 Q. What property does CSWR incur property tax expense for?

6 A. CSWR has one property tax payment that is due each year related to the
7 business' personal property at the headquarters. Staff reviewed the St. Louis County personal
8 property tax invoice received by CSWR, which was due December 31, 2022.

9 Q. Why does CSWR have to pay business personal property taxes?

10 A. All businesses, corporations, partnerships, proprietorships or associations
11 owning, holding or controlling tangible personal property on January 1, including CSWR,
12 are liable for business personal property taxes. Business personal property is anything with
13 a determinable life longer than one year used in a trade/procession/business or the
14 produce income.

15 Q. What did Staff determine was the proper overall level of property tax expense
16 to include in the cost of service in this case?

17 A. Staff determined that the proper overall level of property tax expense for CSWR
18 is \$8,102. The proper portion of that overall property tax level that should be distributed
19 amongst the Confluence tariff rate districts is \$646.

20 **OUTSIDE SERVICES**

21 **Information Technology (IT)**

22 Q. What IT software does CSWR utilize?

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1 A. CSWR uses several software systems including the following:

- 2 • Paylocity Corporation - Flexible spending account online access
- 3 • Pearl Solutions Group LLC - IT solutions including Microsoft 365 and
- 4 Azure software.
- 5 • SafetySkills LLC - Safety training software
- 6 • Vision33 - accounting and general ledger software
- 7 • Ansira - website housing and social media management

8 Q. How did Staff calculate an annualized level for IT expense?

9 A. Staff reviewed a two-year period of invoices and contracts supporting the
10 expense in CSWR's general ledger, account number 923.9. Staff included the current contract
11 amount for software that was in place as of January 31, 2023. Staff disallowed software used
12 for business development.

13 Q. Why did Staff disallow software used for business development?

14 A. Business development employees work for new business development i.e.,
15 acquisitions. Staff did not include employees who work for this department in payroll. Please
16 refer to payroll expense that is discussed below.

17 Q. What overall amount of expense for IT costs provided by outside services did
18 Staff include in the cost of service?

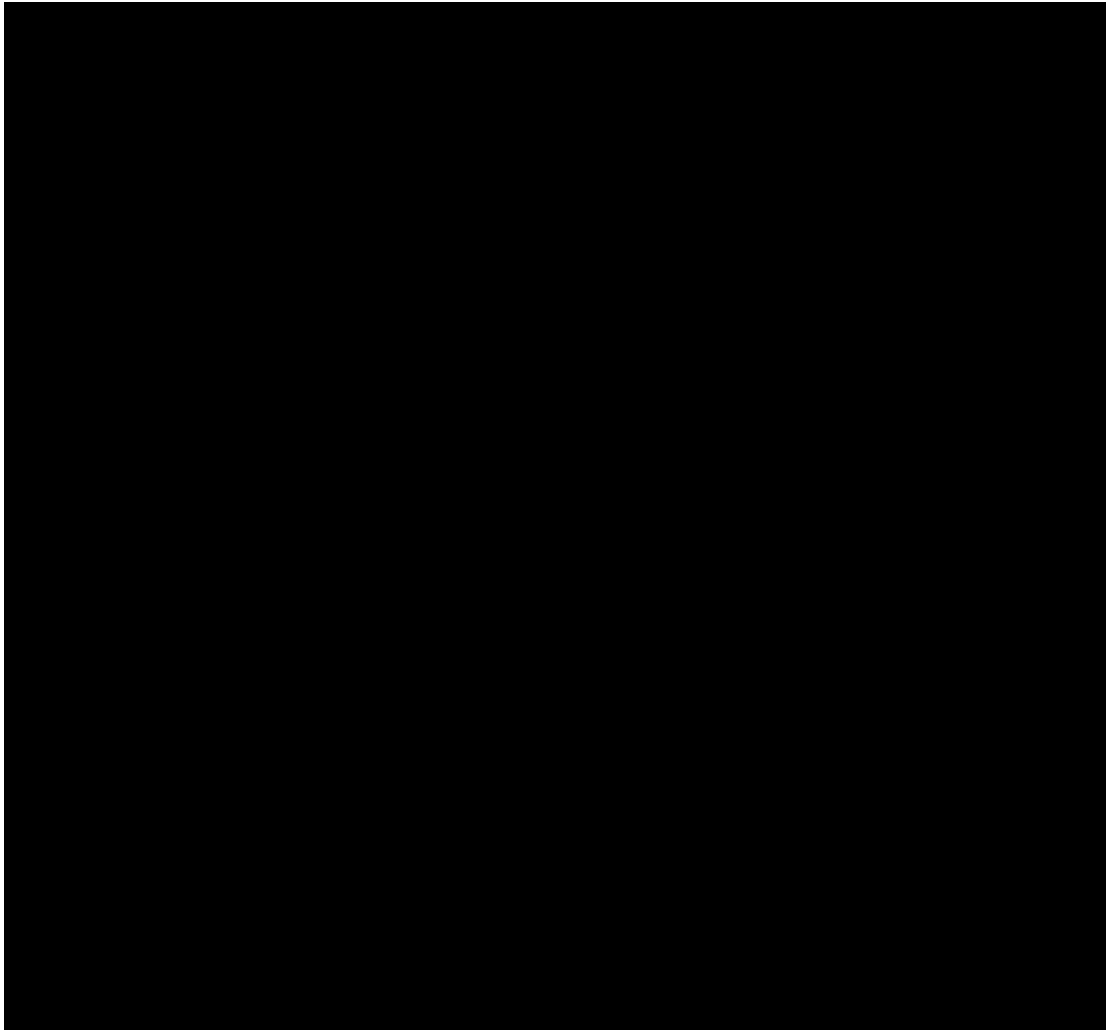
19 A. Staff included an overall level of IT expense of \$32,981 after allocation to
20 determine the portion that should be charged to Missouri, and then distributed this amount
21 among the various Confluence tariff rate districts.

Accounting/Auditing Expense

1
2 Q. How did Staff calculate an annualized level of accounting/auditing expense?

3 A. Staff reviewed invoices regarding work associated with financial statements
4 and tax returns, as well as data within general ledger account number 923.5. Staff is allowing
5 the costs associated with the audit of financial statements. Staff received three (3) invoices from
6 ** [REDACTED] ** for the 2022 financial statements and one (1) invoice for the 2023 financial
7 statements. Staff is allowing the invoice dates 1/12/2023, 4/15/2022, and 2/27/2022, and their
8 associated costs.

9 **



10 **

Q. How did Staff calculate corporate tax return expense?

1 A. CSWR utilized ** [REDACTED] ** in preparing the 2021 corporate tax
2 returns. Based on Confluence’s response to Staff’s Data Request No. 0120 “CSWR, LLC is a
3 pass-through entity that does not file its own tax return. That status has existed from 2019
4 forward and is expected to continue in 2023.” Therefore, Staff disallows expenses for corporate
5 tax returns.

6 Q. What overall amount of expense for accounting/auditing expense did Staff
7 include in the cost of service?

8 A. Staff included \$8,491 for the Missouri portion of accounting/auditing expense
9 and then distributed that amount amongst Confluence’s tariffed rate districts.

10 **OFFICE EXPENSE**

11 **Meals and Travel**

12 Q. Please describe meals and travel expenses.

13 A. These expenses are associated with employee travel and meals for CSWR. Staff
14 reviewed the expense reports along with receipts for the employees. Please refer to my Payroll
15 Expense section in this testimony for an explanation of how Staff determined which employees’
16 expense reports to review.

17 Q. How did Staff calculate an overall level of meals and travel expense to include
18 in the cost of service for Confluence?

19 A. Staff reviewed monthly expense reports and receipts associated with meals and
20 travel expenses recorded in the CSWR general ledger, within account number 921.11. Staff
21 removed travel expenses that were not specifically for or benefited a Missouri water or sewer
22 system. Staff removed travel expenses for employees who were not included in payroll.

1 Kaleb Stephens, CSWR's Systems and Regulatory Manager, incurred travel expenses
2 to Missouri that were allocated using the three-factor allocation method since he works for all
3 the states and has meetings in Des Peres. However, similar to timesheets I will address later in
4 this testimony, an indirect allocation should be used minimally. Each CSWR employee that
5 travels and seeks mileage reimbursement for that travel needs to maintain mileage logs with
6 specificity for each business trip. However, Staff was able to determine that 3,446 miles were
7 directly assigned to Missouri systems. Staff applied the current IRS standard mileage rate of
8 65.5 cents per mile for business use to the mileage in order to determine an ongoing level of
9 expense to include in the cost of service.

10 Q. What is Staff's overall normalized expense level for meals and travel?

11 A. Staff included an overall amount of meals and travel expense of \$2,078 that was
12 then distributed to the individual Confluence tariff rate districts based on two years of travel.

13 **Communication**

14 Q. Please explain communication expenses.

15 A. CSWR utilizes several forms of communications. For example, CSWR utilizes
16 8x8, Inc. for phone services in the office, AT&T for three cell phones, and Spectrum Enterprise
17 for fiber internet. These bills are paid directly from CSWR. CSWR also reimburses employees
18 for use of personal cell phones and internet.

19 Q. How did Staff calculate an annualized level of communication expense for
20 Confluence?

21 A. CSWR reimburses certain individual employees for their cell phone and internet
22 bill. Staff examined the expense reports with bills provided for the individual employees who
23 sought reimbursement for these costs as well as bills from 8x8, Inc., AT&T, and Spectrum.

1 After reviewing the bills from 8x8 Inc., Staff determined employees that have an office phone
2 (paid to 8x8 Inc.) should not be reimbursed for their personal cell phones. CSWR has three cell
3 phones that are paid directly to AT&T and employees who travel and need a communication
4 source should be utilizing these cell phones. Staff has annualized January 31, 2023 expenses
5 for 8x8 Inc. and the AT&T cell phone bill that is directly paid by CSWR. Staff then applied the
6 previously determined corporate allocation factor of 7.97% to CSWR's communication
7 expense to determine the portion for Confluence.

8 Q. What is Staff's overall annualized communication expense level for
9 Confluence?

10 A. Staff included an overall amount of \$3,423 for distribution among the
11 Confluence tariff rate districts.

12 **PAYROLL AND PAYROLL TAX EXPENSE**

13 **Payroll Expense**

14 Q. Does Confluence have their own employees?

15 A. No, most general business services are provided by CSWR, which includes
16 corporate functions such as executive management, legal services, information technology,
17 finance, human resources, and customer experience management. Other services, such as
18 accounting, meter reading for billing, and customer service functions, are provided by
19 third party vendors. All operating and in the field services are provided by third party vendors
20 and are directly billed to Confluence.

21 Q. Please explain Staff's examination of payroll expense in this case.

22 A. Staff's examination involved several steps in order to calculate payroll
23 expense for CSWR. First, Staff determined what employees were employed with CSWR as of

1 January 31, 2023, and reviewed the timesheets for those employees as provided by CSWR.
2 Staff then reviewed the salaries paid by CSWR compared to Missouri Economic Research and
3 Information Center (“MERIC”) salaries. Staff proposed adjustments to CSWR salaries based
4 on MERIC. Staff included time spent directly on Confluence and also included 7.97% of the
5 hours spent on “All Companies.” Staff multiplied the salaries by the Confluence time to
6 determine the annualized payroll expense.

7 **Timesheets**

8 Q. Do all CSWR employees record their hours on timesheets?

9 A. No. Despite Staff’s recommendation in the last rate case, WR-2020-0053, that
10 all employees maintain a timesheet, not all employees began utilizing one. The following
11 employees did not provide a timesheet: ** [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED] **

15 Q. Did Staff include the employee salaries that did not have a timesheet in the cost
16 of service?

17 A. No. As referenced above, in the Unanimous Disposition and Agreement from
18 Confluence’s last general rate case, Case No. WR-2020-0053, all parties agreed,

19 ...the Company shall begin tracking all work conducted on its behalf by
20 CSWR, LLC in the form of a time record. This time record will include
21 a description of the job performed, length of time to complete, name/title
22 of the employee who conducted the work, and tracked by each system.
23 The time record information should be maintained in sufficient detail to
24 capture the amount of time each employee spends on operation and
25 maintenance activities, as opposed to construction activities. The
26 Company also agrees that detailed timesheets will be maintained for any

1 future employees Confluence Rivers Utility Operating Company, Inc.
2 may retain.

3 This Unanimous Disposition and Agreement document was signed by Josiah Cox on
4 February 10, 2020.

5 Also, according to the CSWR Employee Handbook,² “all employees are required to
6 accurately complete and confirm a timesheet in the HRIS system (Paycor). Failure to submit a
7 properly executed timesheet may cause a delay in the processing of the payroll check.”

8 If some employees are not completing accurate time records, this does not conform to
9 CSWR’s own internal policies.

10 Q. If the above employees had completed timesheets, would Staff have included
11 the allocated portion of their actual pay without adjustment?

12 A. No. Some, if not all, of the employees listed above are compensated above that
13 seen at other Missouri utilities. Confluence’s president is paid more than the base pay that has
14 been included in the cost of service for utility presidents for all the other major utilities in the
15 State of Missouri. These other Missouri utilities have more employees, are performing a larger
16 portion of the business operations with in house employees, are performing their own
17 construction activities, have a much larger customer base and more complex operations than
18 that of Confluence. In addition, one of the employees listed deals in governmental affairs and
19 it has been Staff’s position that any legislation related costs should not be recovered through
20 ratepayer funds.

21 Q. For those employees with timesheets, at what point did those employees begin
22 maintaining their time?

² CSWR Employee Handbook, effective June 1, 2021, section IV, Personnel Administration, section B

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1 A. January 2021.

2 Q. For the employees who had timesheets, how did Staff calculate payroll expense
3 associated with their time?

4 A. CSWR employees have options within the time sheet software for selection of
5 what system they are working on and what area of work the employee is providing for that
6 system or systems.

7 Employees have the option to record their time to one (1) of twenty-three different
8 utility operating companies or to an option called "All Companies" when determining which
9 system to allocate time. The "All Companies" option to record time is utilized when an
10 employee's time is recorded to reflect time spent on all the CSWR systems. After selecting
11 which system the employee's time is being spent, the employees have seven functions/tasks
12 they can choose from for recording the type of work performed: business operations, rate case,
13 acquisitions, engineering, construction management, regulatory, and utility operations.

14 Q. Did Staff disallow the time employees recorded as spent on certain
15 functions/tasks or departments?

16 A. Yes. Staff did not include hours that any employees recorded as acquisitions.
17 Staff also did not include employees assigned to the business development department.

18 Q. Why did Staff disallow the employees in the business development department?

19 A. This department focuses on acquisitions and the exploration of future
20 acquisitions.

21 Q. How did Staff determine the amount of time/hours to utilize in order to calculate
22 the payroll expense for Confluence?

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1 A. Staff determined from the timesheets the individual employee hours directly
2 assigned to a specific Missouri system. As stated above, CSWR started utilizing timesheets in
3 January 2021. For those CSWR employees utilizing timesheets, Staff has timesheet data for the
4 period of January 1, 2021, through January 31, 2023. Staff used a 25-month average for hours
5 directly assigned to a Missouri system as well as the hours recorded to “All Companies.”

6 Q. Did Staff discover any issues with the data regarding the hours directly charged
7 to Missouri?

8 A. Yes. During Staff’s analysis, Staff discovered two different occurrences: first,
9 CSWR is beginning to record more and more hours to “All Companies” rather than a specific
10 system, and second, for the hours directly related to Missouri, CSWR is recording the hours as
11 “Confluence Rivers” rather than each individual system or tariff rate district. Staff inquired of
12 this data trend, and according to the response to Staff’s DR 0252, Confluence responded “All
13 Missouri entities were consolidated into Confluence Rivers on February 9, 2022. There was a
14 transitional period in the first part of 2022, but going forward the Company expects time to be
15 booked to Confluence Rivers rather than to the legacy entities. No current documentation exists
16 regarding timekeeping, but employees were made aware of the consolidation.”

17 Q. How did CSWR develop the options for the Missouri systems in which
18 employees could record their time?

19 A. Starting January 2021, the only Missouri systems that CSWR employees could
20 select as options in their timesheets were Confluence, Raccoon Creek, Hillcrest, Indian Hills,
21 Osage, and Elm Hills. In 2022, CSWR combined all the formerly separate Missouri systems
22 under Confluence in Case No. WM-2021-0412.

1 Q. If the Commission approved a merger of the systems for Confluence, why does
2 combining the hours for payroll under Confluence or combining of any other investment,
3 revenue and expense related to these individual systems cause a problem?

4 A. It causes a problem as not all systems have one single tariff rate but rather
5 different customer rates. Each system that has a separate tariff rate must have a separate cost
6 of service (separate investment, revenue, and expense levels) associated with it until such time
7 as the Commission approves a consolidation of rate structures. This is because in each rate
8 case, a level of revenue is established to recover that particular tariff rate district's cost of
9 service. A company merger is not the same as tariff rate consolidation. Once consolidations
10 of any aspect of the cost of service begins within a utility's books and records, it is hard to
11 determine if any specific aspect of the cost of service is tied to a specific tariff rate district with
12 any accuracy. CSWR and Confluence need to maintain separate records for each tariff rate
13 district, including hourly timesheets, until a tariff consolidation has been ordered by the
14 Commission.

15 Q. How did Staff calculate time directly assigned to a Missouri system?

16 A. Staff combined all of the Missouri system's hours then allocated those hours to
17 the individual tariff rate districts based on customer connections.

18 Q. How did Staff allocate the hours associated with "All Companies" to
19 Confluence?

20 A. Staff allocated the total "All Companies" hours by the allocation factor 7.97%
21 that was calculated for the Missouri portion and then distributed those remaining hours to the
22 individual tariff rate districts based on customer connections.

Salaries

1
2 Q. Please explain how Staff developed the appropriate amount of CSWR payroll
3 expense to be included in the overall cost of service for Confluence in this case.

4 A. Staff compared CSWR current salaries to MERIC salaries to determine which
5 salaries are most appropriate and reasonable for the St. Louis region.

6 Q. What is MERIC?

7 A. MERIC is a research division for the Missouri Department of Economic
8 Development. It provides innovative assistance to policymakers and the public, including
9 studies of the state's targeted industries and economic development initiative.

10 Q. Why did Staff utilize MERIC to establish the employee salary levels for CSWR
11 rather than accept those salaries levels as they are currently being paid?

12 A. Staff used MERIC to compare salaries to other salaries paid within the St. Louis
13 region, where CSWR is located.

14 Q. How did Staff calculate the base salaries for each of the CSWR employees?

15 A. Staff compared each employee's base salary as of January 31, 2023, against the
16 salaries for similar occupations in the St. Louis region as listed on the MERIC website in order
17 to determine an appropriate level for CSWR employees' pay. Staff's analysis determined that
18 the base salary currently being paid by CSWR for some employees was not comparable to the
19 annual wage for the mean (average) individual in the same occupation according to the MERIC
20 database. Therefore, Staff proposed adjustments to CSWR's actual salaries to align each of the
21 salaries within the average MERIC levels based on job descriptions.

22 Q. What are the levels of compensation recognized by the MERIC system?

1 Unemployment Tax Act (“FUTA”), and State Unemployment Tax Act (“SUTA”) tax rates
2 applicable to Staff’s annualized payroll amounts to determine payroll taxes.

3 **EMPLOYEE BENEFITS**

4 Q. What types of employee benefits does CSWR provide?

5 A. CSWR provides various employee benefits, including a 401k employer match;
6 medical, dental, and vision insurance; life insurance; accidental death and dismemberment
7 (“AD&D”); short-term disability insurance (“STD”); and long-term disability insurance
8 (“LTD”).

9 Q. How did Staff calculate employee benefits in general?

10 A. Staff reviewed all of the policies and invoices for benefits in the test year period
11 updated through January 31, 2023, in order to determine the level of insurance and 401k that
12 should be included in the cost of service. Staff was able to perform an analysis by employee
13 based on Staff salaries.

14 **Health, Dental, and Vision Insurance**

15 Q. How much does CSWR contribute for health, vision and dental insurance?

16 A. CSWR pays for 99% of all employee insurance premiums, leaving only 1% to
17 be paid by the employee.

18 Q. Is this a reasonable percentage of contribution?

19 A. No. Staff reviewed the employer contributions of other Missouri utilities and
20 Staff is aware that their employees assume a greater percentage of responsibility for insurance
21 coverage.

22 Q. How did Staff calculate the overall amount of health, vision, and dental
23 insurance costs for CSWR employees that should be allocated to Confluence?

1 ownership of the cash value of the policy. It has been Staff's position in other cases that this
2 cost shall not be recovered from ratepayer funds. Staff proposed an adjustment to remove the
3 premiums for this policy.

4 **401k**

5 Q. How did Staff determine the amount to include for the employer's portion of
6 401k match expense for this case?

7 A. CSWR is matching up to 3% of each employees' pay for the 401k plan.
8 Therefore, Staff has included the 3% match into its cost of service for Confluence using Staff's
9 annualized salary.

10 **OPERATION AND MAINTENANCE EXPENSE ("O&M") RATIO**

11 Q. What is an O&M expense ratio?

12 A. In each general rate case, Staff reviews the historical levels of labor that have
13 been utilized for both capital and expense and develops a percentage reflecting a normalized
14 level of labor that is considered expense as opposed to capital. Staff then applies that O&M
15 percentage to annualized employee related costs in the cost of service. In order to account for
16 labor that is associated with construction activities, Staff applied an O&M expense ratio to
17 Staff's annualized payroll to determine the appropriate level of CSWR employees' payroll to
18 include in expense. Staff confirmed that CSWR/Confluence has not calculated and has not used
19 an O&M ratio in its calculations.

20 Q. What O&M ratio has Staff applied to CSWR's payroll?

21 A. Staff has applied the current O&M ratio for the 12 months ending January 31,
22 2023, to its payroll annualization. Staff used a 96.66% O&M expense ratio for all employees.
23 While this is a high portion of payroll to consider expense, as stated previously in my testimony,

1 most of the labor employed by CSWR is not directly related to construction, as third party
2 vendors complete these projects. Staff has recognized through this percentage that at least a
3 small portion of time should be devoted to overseeing capital projects by CSWR employees
4 and should be considered capital.

5 **PREPAYMENTS**

6 Q. Please describe prepayments.

7 A. Prepayments reflect expenses for which the Company must pay in advance for
8 the associated goods or services purchased. Since the costs incurred by the utility when it
9 prepays expenses can be considered an “asset,” the company is allowed the opportunity to earn
10 a return on these amounts through inclusions in rate base. For example, CSWR prepays for
11 insurance to protect their assets in advance of the coverage period. Accordingly, the cost of
12 that insurance policy is considered to be a prepaid asset and included in rate base to allow a
13 return on the unused portion of the prepaid asset. As the prepaid asset is consumed or the time
14 period of the service passes, an amount is charged to an expense account in the income
15 statement for each month of the term of the prepaid asset. The difference between a prepayment
16 and regular expense is the inclusion in rate base which provides a carrying cost to that expense.

17 Q. What is Staff’s recommended treatment for prepayments?

18 A. Staff’s recommended treatment of prepayments is to examine each prepayment
19 expense individually in order to determine whether a specific item is in fact a cost that is
20 appropriate for prepayment treatment. Staff also must determine the amount that most
21 accurately predicts the ongoing future investment costs of a particular prepayment, and then to
22 include the appropriate level of prepayments in CSWR or Confluence’s rate base. Prepaid
23 amounts exist at both CSWR that is then allocated to Confluence and also at the Confluence

Direct Testimony of
Ashley Sarver

1 level. Staff included amounts in rate base for all prepayments required for CSWR or
2 Confluence to provide water and sewer services to their customers.

3 Q. How did Staff determine the levels of prepayments to be included in CSWR's
4 rate base, and then allocated to Confluence?

5 A. Staff examined all of prepayment balances provided in CSWR and Confluence's
6 general ledgers within account number 166 for the period of 2019 through January 2023 on a
7 month-by-month basis.

8 Q. Did Staff have issues on how CSWR booked prepayments?

9 A. Yes. Prepayments are related to items that the Company "prepaid" so that
10 the services will be on-hand during the normal course of the utility's operations. CSWR
11 booked monthly bills, then paid the following month. These are not prepayments to be
12 considered an expense.

13 Q. How did Staff determine the levels of prepayments to be included in CSWR's
14 rate base that Staff then allocated to Confluence?

15 A. Staff included only prepayments from Advanced Enterprise Systems and the
16 current property and workman's compensation insurance premiums incurred by CSWR. Staff
17 calculated an average based on balances for the 13-months ending January 2023, and then
18 applied Staff's 7.97% allocation factor to determine Missouri's portion of prepayments.

19 Q. What methodology did Staff use to determine the level of direct charged
20 prepayments to be included in Confluence's rate base?

21 A. Staff examined all of Confluence's directly charged prepayment balances for the
22 period of January 2021 through January 2023, on a month-by-month basis in Confluence's
23 general ledger within account number 166. CSWR included Mission Communication LLC in

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Ashley Sarver

1 prepayments. This cost is associated with an annual communication package that is associated
2 with remote monitoring devices that are attached to plant assets in the field. Staff would have
3 allowed prepayments from Mission Communications LLC, but Confluence has ended their
4 contract and started utilizing a new communication monitoring system with High-Tide
5 Technologies in 2022. Staff has included the prepaid annual communication expense for High-
6 Tide in Confluence's overall direct charged prepayments.

7 Q. How much did Staff allow in rate base for Confluence's prepayments?

8 A. Staff included \$181,271 in rate base for Confluence, distributed amongst the
9 tariff rate districts.

10 Q. Does this conclude your direct testimony?

11 A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Confluence Rivers Utility)
Operating Company, Inc.'s Request for)
Authority to Implement a General Rate)
Increase for Water Service and Sewer)
Service Provided in Missouri Service Areas)

Case No. WR-2023-0006

AFFIDAVIT OF ASHLEY SARVER

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

COMES NOW ASHLEY SARVER on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Direct Testimony of Ashley Sarver*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

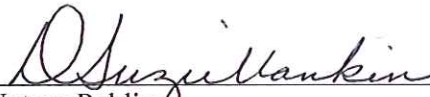


ASHLEY SARVER

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 23rd day of May 2023.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070



Notary Public

Ashley Sarver

Educational, Employment Background and Credentials

I am currently a Lead Senior Utility Regulatory Auditor (former title Senior Utility Regulatory Auditor and Utility Regulatory Auditor IV) in the Auditing Department, Financial and Business Analysis Division for the Missouri Public Service Commission (Commission). I transferred to the position January 2017. I promoted to a Utility Regulatory Auditor IV in August 2016 in the Energy Resources Department, Commission Staff Division for the Commission. I accepted the position of the Utility Regulatory Auditor I/II/III in July 2013 with the Auditing Department.

I earned 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

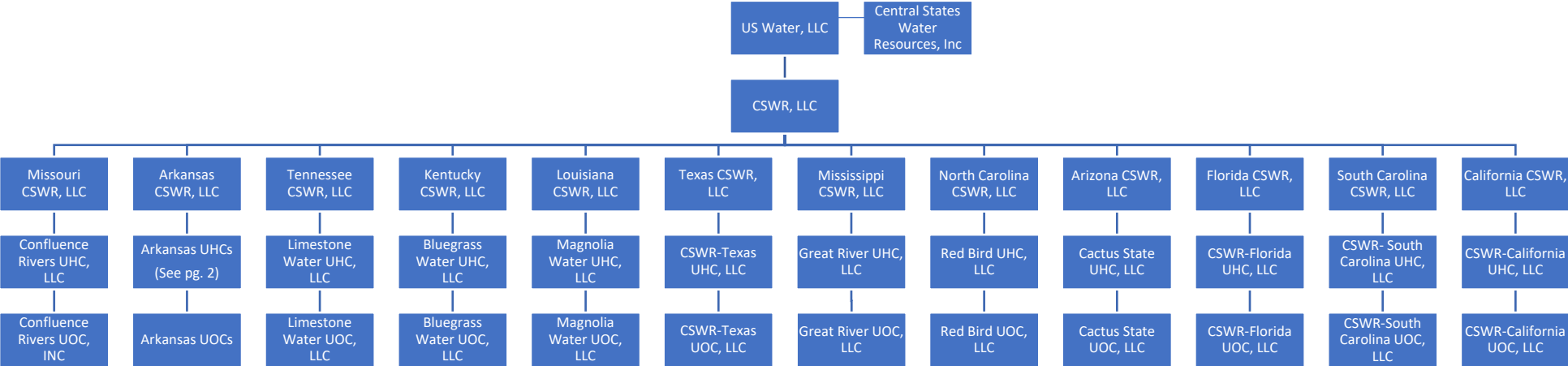
Company Name	Case Number(s)	Testimony/Issues
Lake Region Water and Sewer	WR-2013-0461 SR-2013-0459	Plant in Service, Depreciation Reserve, Materials and Supplies Inventory, Customer Advances, Contributions in Aid of Construction, Purchase Power, Chemicals, Testing Expense, Supplies and Materials, Tools 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

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.
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
S.K. & M. Water and Sewer Company	SR-2022-0239	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

Company Name	Case Number(s)	Testimony/Issues
MAWC WSIRA	WO-2022-0176	
Investigation into the Operations and Condition of Liberty Utilities	WO-2022-0253	
Confluence Rivers Utility Operating Company, Inc., for CCN to Acquire Deer Run Estates Property Owners' Association	SA-2022-0299	Acquisition Case: Rate Base determination
MAWC WSIRA	WO-2023-0008	
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	Corporate Allocations, Pensions & OPEBs and Trackers, Fuel and Power Expense, Chemical Expense; Purchased Water, Rate Case Policy, Service Company Support Services, Water Loss, Revenues

Central States Water Resources Corporate Entity Organizational Chart



Arkansas CSWR Organizational Chart Detail

