*Exhibit No.:*

 *Issue(s):* *Plant In Service & Accumulated Depreciation Reserve,*

 *Capitalized Depreciation,*

 *Office Supply and Services Expense,*

 *Penalties, Community Relations, and Membership Dues,*

 *Building Maintenance & Services,*

 *Maintenance Supplies & Services Expense,*

 *Bad Debt Expense, O&M Expense*

 *Witness: Alexis L. Branson*

 *Sponsoring Party: MoPSC Staff*

 *Type of Exhibit: Corrected Direct / Rebuttal Testimony*

 *Case No.: WR-2024-0320*

 *Date Testimony Prepared: March 6, 2024*

**MISSOURI PUBLIC SERVICE COMMISSION**

**FINANCIAL AND BUSINESS ANALYSIS DIVISION**

**Auditing DEPARTMENT**

**CORRECTED DIRECT / REBUTTAL TESTIMONY**

**OF**

**Alexis L. Branson**

**MISSOURI-AMERICAN WATER COMPANY**

**CASE NO. WR-2024-0320**

***Jefferson City, Missouri***

***March2025***

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**Alexis L. Branson**

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**CORRECTED DIRECT / REBUTTAL TESTIMONY**

**OF**

**aLEXIS l. bRANSON**

**MISSOURI-AMERICAN WATER COMPANY**

**CASE NO. WR-2024-0320**

Q. Please state your name and business address.

A. My name is Alexis L. Branson, and my business address is 200 Madison Street, Suite 440, Jefferson City, Missouri 65101.

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 Auditor.

Q. Please describe your educational background and work experience.

A. I graduated from Columbia College in 2019 with a Bachelor of Science degree in Business Administration and a minor in Accounting. I completed all necessary courses in accounting and business. Prior to my work at the Commission, I worked for the Missouri Department of Revenue in the business tax accounting, auditing, and record keeping sections. I began my employment with the Commission in July 2022.

Q. Have you previously filed testimony before the Commission?

A. Yes, I have. Please refer to Schedule ALB-d1, attached to this direct / rebuttal testimony, for a list of cases in which I have filed testimony.

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 the Commission Staff (“Staff”).

Q. What knowledge, skills, experience, training, or education do you have in the areas in which you are testifying as an expert witness?

A. I have reviewed the prior workpapers, prior cases, prior testimony, and data presented by MAWC on these issues, in addition to knowledge, skills, expertise, training and education described above. I have also worked closely with senior auditors and supervisors, who possess extensive regulatory knowledge.

# EXECUTIVE SUMMARY

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

A. The purpose of my direct / rebuttal testimony is to present Staff’s recommendations concerning Plant In Service, Accumulated Depreciation Reserve, Capitalized Depreciation, Office Supply and Services Expense, Penalties, Community Relations, and Membership Dues, Building Maintenance & Services, Maintenance Supplies & Services Expense, Bad Debt Expense, and Operation & Maintenance (“O&M”) Expense Percentage. I will also respond to the direct testimony of MAWC’s witnesses Matthew A. Lueders and Jennifer M.B. Grisham regarding tank painting and bad debt expense, respectively.

# PLANT IN SERVICE AND ACCUMULATED DEPRECIATION RESERVE

Q. What methodology did MAWC use to determine what to include in Plant in Service (“Plant”) and Accumulated Depreciation Reserve (“Reserve”)?

A. MAWC made use of the actual Plant balance as of December 31, 2023, and the projected Plant balances on December 31, 2024, and May 31, 2025, making adjustments for projected capital spending. The same method was used for accumulated depreciation reserve.

Q. Did Staff include Plant and Reserve in its revenue requirement?

A. Yes. Staff included Plant and Reserve based on actual book amounts as of June 30, 2024, the agreed upon update period in this case. Staff intends to include changes to Plant and Reserve balances through December 31, 2024, in its true-up accounting schedules.

Q. Did Staff adjust the June 30, 2024, book amount for Plant?

A. No. Staff recommends no adjustments to MAWC’s June 30, 2024, Plant balance.

Q. Did Staff adjust the June 30, 2024, book amount for reserve?

A. Yes. Staff recommends that adjustments be made for land accounts in which MAWC reported reserve. Staff made adjustments of $1,582 for water and $(27) for sewer to remove these reserve amounts because land is not a depreciable asset.

# CAPITALIZED DEPRECIATION

Q. Please explain capitalized depreciation.

A. Expenses related to construction projects are accumulated in construction-work-in-progress (“CWIP”) accounts that can be included in rates after the completion of each project. The capitalized expenses include depreciation expense associated with assets used in construction, such as power-operated equipment and transportation equipment. Capitalized depreciation expenses must be subtracted from the depreciation expense calculated using MAWC’s total plant-in-service balances to prevent double recovery in rates.

Q. Did MAWC state its position related to capitalized depreciation in its direct testimony?

A. No. MAWC did not submit any direct testimony related to capitalized depreciation.

Q. Did Staff review capitalized depreciation for this rate case?

A. Yes. Staff reviewed MAWC’s response to Staff Data Request (“DR”) No. 0130 which requested a breakdown of the amount of depreciation expense for the 12 months ending December 31, 2023, on transportation equipment and power-operated equipment that MAWC owned or purchased through a capitalized lease.

Q. How did Staff determine capitalized depreciation to include in its recommendation?

A. After receiving MAWC’s response to Staff DR No. 0159 in Case No. WR‑2017‑0285, and after further discussion with MAWC in that rate case, Staff discovered that MAWC was not tracking the amount of time these assets are being used for construction versus expense. Based on MAWC’s response to Staff DR No. 0141 in this case, MAWC is still not keeping track of this information. Therefore, Staff deducted capitalized depreciation based on the overall capitalization ratio Staff calculated from its total depreciation expense to arrive at the amount of depreciation expense associated with O&M related functions. If MAWC tracked this information, Staff could use the actual capitalized depreciation and not have to use an overall capitalization ratio.

Q. Does Staff propose an adjustment for capitalized depreciation?

A. Yes. Staff’s adjustment for capitalized depreciation is $(1,666,005).

# OFFICE SUPPLY AND SERVICES EXPENSE

Q. What is included in the operating expense related to office supply and services?

A. The operating expense for office supply and services are those expenses related to software licenses, bank fees, and various office supplies.

Q. Did MAWC state its position related to office supply and services in its direct testimony?

A. No. MAWC did not submit any direct testimony related to office supply and services.

Q. Did Staff calculate an adjustment for office supply and services expense?

A. Yes. Staff calculated a total adjustment of $29,707. Staff grouped 16 accounts MAWC uses to record office supply and services expenses into the following subcategories:

* Bank Charges
* Books & Publications
* Forms
* Office & Administrative Supplies
* Software Licenses
* Uniforms

Staff reviewed trends for each subcategory for either the three-year period ending December 31, 2023, or the test year composed of the most current 12 months of data ending December 31, 2023. Staff selected the test year for the subcategories Bank Charges and Forms. Staff selected these subcategories because trends showed them to be in a consistent rise or decline. Staff used a three-year average for the following subcategories: Books & Publications, Office & Administration Supplies, Software Licenses, and Uniforms, where more fluctuation was evident.

# PENALTIES, COMMUNITY RELATIONS, AND MEMBERSHIP DUES

Q. Please describe Penalties, Community Relations, and Membership Dues expense as it relates to common auditing criteria.

A. The umbrella of Penalties, Community Relations, and Membership Dues includes accounts for MAWC’s charitable contributions, membership dues, community partnerships, customer education, customer relations, and penalties. These accounts are where promotional items and costs relating to advertising are recorded.

Q. Did MAWC state its position related to Penalties, Community Relations, and Membership Dues expense in its direct testimony?

A. No. MAWC did not submit any direct testimony related to Penalties, Community Relations, and Membership Dues expense.

Q. Did Staff calculate an adjustment for Penalties, Community Relations, and Membership Dues expense?

A. Yes, Staff calculated a total adjustment of $(932,074). Staff grouped 14 accounts MAWC uses to record all associated cost and reviewed actual costs for each account for the test year ending December 31, 2023. Staff submitted DR No. 0172, which requested all General Ledger entries for dues and donations expenses incurred for the calendar years of 2021, 2022, and 2023, trued-up through June 30, 2024. Staff also submitted DR No. 0218, which requested copies of supporting documentation and additional information on Purchase Card transactions that were not previously provided for all accounts under the Penalties, Community Relations, and Membership Dues category. Staff reviewed MAWC’s responses to Staff DR Nos. 0172 and 0218. In its response to Staff DR No. 0172, MAWC stated that “All donation expenses billed to MAWC from the [American Water Works] Service Company were removed for ratemaking purposes. MAWC is not requesting recovery of donations expenses in the pro forma Support Services expense.” MAWC also included in its response to Staff DR Nos. 0172 and 0218 a list of direct and allocated expenses incurred from January 1, 2023, through June 30, 2024.

After review, Staff determined that some of these costs were recoverable expenses and made necessary adjustments to include these costs in Staff’s level of Penalties, Community Relations, and Membership Dues expense. Some of the expenses that Staff included are press releases that promoted water conservation, door hangers associated with precautionary boil water advisories, and customer notices that provided general information that are useful for the provision of safe and reliable service. Some of the expenses that Staff disallowed include lanyards, press releases regarding grant programs, and rubber ducks for community events. Staff determined these costs do not provide a direct benefit to ratepayers and were, therefore, excluded from Staff’s recommendation. Staff removed all expenses related to dues for The National Association of Water Companies (“NAWC”) in its’ ongoing level of expenses. MAWC has ended its membership with NAWC, and that expense is no longer reoccurring going forward.

Staff reviewed the supporting documentation MAWC provided in its responses to Staff DR Nos. 0172 and 0218 and determined that most expenses associated with dues and memberships were for sponsorships (such as paying to sponsor a golf team or for an advertisement in a flyer for a local community event), and that a portion of dues and memberships were for lobbying or political activities. The Commission has determined in the past that lobbying or political activities are not in ratepayers’ best interest, as they do not provide a direct quantifiable customer benefit, and the Commission consistently disallows these expenses. For example, the following statement was made in ***In the Matter of Missouri Public Service, a Division of UtiliCorp United, Inc.’s Tariff Designed to Increase Rates for Electric Service to Customers in the Missouri Service Area of the Company***, Case No. ER-97-394, *Report and Order*, 7 Mo.P.S.C.3d 178, 212 (1998):

The Commission has traditionally disallowed donations such as these. The Commission finds nothing in the record to indicate any discernible ratepayer benefit results from the payment of these donations. The Commission agrees with the Staff in that membership in the various organizations involved in this issue is not necessary for the provision of safe and adequate service to the MPS ratepayers.

To determine the amount of dues and memberships for lobbying or political activities, Staff contacts the organizations to receive the percentage of dues that go towards lobbying or political activities. Using those percentages, Staff determines the lobbying/political activity portions of the dues for these memberships to exclude.

Staff recommends the exclusion of the cost of any promotional giveaway item that does not provide a direct benefit to the ratepayers and is not necessary for the provision of safe and adequate utility service to its customers.

# BUILDING MAINTENANCE & SERVICES

Q. Please explain building maintenance expense.

A. These are expenses related to electricity, grounds keeping, heating oil/gas, janitorial, security, trash removal, and water/wastewater for building maintenance.

Q. What methodology did MAWC use to determine building maintenance expense?

A. To calculate building maintenance and services expense, MAWC began with the actual expense from the 12 months ending December 31, 2023, then normalized activity by removing one-time expenses to arrive at an expected 12 months of expense.

Q. How does Staff’s methodology differ from MAWC’s methodology?

A. Staff reviewed and analyzed invoices MAWC provided in response to Staff DR Nos. 0235 and 0236. Staff compared test year data, the two-year average, and the three-year average to actual building maintenance costs MAWC incurred and determined the data demonstrates a steady increase in building maintenance expenses.

Q. What is the appropriate amount of building maintenance expense to include in MAWC’s cost of service?

A. The appropriate amount of building maintenance expense is $2,237,475. This represents the update period for building maintenance costs of the twelve months ending June 30, 2024. Staff believes the update period best represents a normalized level of ongoing expense due to the rising costs of building maintenance.

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

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

# MAINTENANCE SUPPLIES & SERVICES EXPENSE

Q. Please explain maintenance supplies and services expense.

A. Maintenance supplies and service expenses are the costs MAWC incurs for ongoing maintenance supplies, miscellaneous maintenance, miscellaneous maintenance permits, and contract service expenses. This account includes expenses related to hydrant painting, main breaks expense, valve maintenance expense, and tank painting (engineered coatings) expense. Tank painting expense will be discussed in a separate section later in this testimony.

Q. What methodology did MAWC use to determine maintenance supplies and services expense?

A. To calculate maintenance supplies and services expense, MAWC began with the actual expense from the 12 months ending December 31, 2023, then normalized activity to exclude expense items that were accelerated to arrive at an expected 12 months of expense.

Q. Has Staff had concerns with the data for maintenance supplies and services expense that MAWC recorded in the past?

A. Yes. In addition to the items mentioned above, MAWC also recorded expenses for main breaks, hydrant maintenance and painting, and tank painting in its maintenance and supplies services accounts. This continued until 2020, when MAWC started using unique coding to separate hydrant costs from the other maintenance supplies and services expenses. Therefore, Staff is comfortable with the separation of data from 2020 through June 30, 2024. For this reason, Staff included a three-year average of these costs in MAWC’s cost of service. Staff believes a three-year average best represents normalized ongoing expense for the fluctuating costs of maintenance.

Q. What steps did staff take to ensure an appropriate level of main break expense was included as part of the three-year average ending June 30, 2024?

A. Staff looked at the number of main breaks within each month, comparing them to the data of the same months gathered from 2018 through the present. Staff used this information to ensure no outliers could be seen in any month used for the average.

Q. What is the appropriate amount of maintenance supplies and services expense to include in the cost of service calculation?

A. Staff used a three-year average for the period ending June 30, 2024, to arrive at $9,264,874 for maintenance supplies and services expense.

Q. Will Staff address maintenance supplies and service expense as part of its true‑up calculations?

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

# TANK PAINTING EXPENSE

Q. Please explain tank painting, also known as engineered coatings expense.

A. Tank painting is the cost of maintaining a water storage tank. These costs include routine tank inspections and tank painting maintenance costs.

Q. What methodology did MAWC use to determine tank painting/engineered coatings expense?

A. As described in the direct testimony of MAWC witness Mr. Lueders, MAWC is proposing capitalization treatment of investments related to engineered coatings starting the effective date of rates in this proceeding. The engineered coatings capitalization issue is discussed in the direct / rebuttal testimony of Staff witness Amanda C. McMellen.

Q. Did Staff make an adjustment for tank painting expense? If so, please explain that adjustment.

A. Yes, Staff adjusted tank painting expense using a five-year average of tank painting and inspection costs for the five 12-month periods ending December 31, 2023, to determine a normalized level of $1,949,792 for tank painting and inspection expense. Staff believes a five-year average best represents normalized ongoing expense as it takes into account the extended time frame of tank painting and repair and accounts for a period of time with both high and low cost years. Staff allocated the normalized tank painting and inspection expense by using an allocation factor determined by the square footage of the tanks in each district. Using that metric, Staff allocated 61.33% percent of cost to St. Louis water districts and 38.67% of costs to all other water districts.

Q. Will Staff address tank painting expense as part of its true-up calculations?

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

# BAD DEBT EXPENSE

Q. Please describe bad debt (uncollectible) expense.

A. Uncollectible expense, or bad debt expense, is the portion of revenues MAWC is unable to collect from customers due to non-payment of customer bills. Per MAWC’s bad debt policy, provided in response to Staff DR No. 0114, after a certain period of time has passed, delinquent customer accounts that owe under $50,000 are written-off, while accounts with a balance over $50,000 are turned over to collection agencies to attempt to collect the delinquencies.

Q. What methodology did MAWC use to determine its uncollectible expense?

A. MAWC witness Ms. Grisham states in her direct testimony on page 8, lines 16‑21:

The Company calculated an uncollectible rate for the years 2021, 2022, and 2023 by taking actual net charge-offs over annual billed revenue. Any adjustments for the recording of an allowance for doubtful accounts have been removed from the calculation. This three (3) year average was then applied to present rate and proposed rate revenues to develop the on-going level of expense that will be applicable to the filed revenue requirement.

Q. Does Staff consider bad debt expense when calculating its recommended revenue requirement?

A. Yes. Staff’s task is to determine the appropriate level of uncollectible expense that should be included in Staff’s recommended revenue requirement. Uncollectible expense is a normalized level of actual bad debt net charge-offs (write-offs less recoveries).

Q. Did Staff review bad debt expense for this rate case?

A. Yes. Staff reviewed net charge-offs for the period of January 2019 through December 2023. Staff excluded the 2020 net charge-offs from its review due to the impacts of the COVID-19 pandemic. Staff analyzed the data to determine whether there was a trend over those four years.

Q. What did Staff determine to be the level of bad debt expense to include in its recommendation?

A. Staff determined that a three-year average of the net charge-offs was appropriate due to bad debt expense varying greatly from case to case.

Q, What is Staff’s normalized amount for bad debt expense?

A. Staff’s normalized total amount for bad debt expense is $2,801,277.

# OPERATIONS & MAINTENANCE (“O&M”) EXPENSE PERCENTAGE

Q. Please describe the O&M expense percentage.

A. In each general rate case, Staff reviews the historical levels of labor that have been utilized for both capital and expense and develops a percentage reflecting a normalized level of labor that is considered expense as opposed to capital. Staff then applies that O&M percentage to annualized employee related costs in the cost of service. In order to account for labor that is associated with construction activities, Staff applied an O&M expense percentage to Staff’s annualized payroll to determine the appropriate level of payroll to be included as an expense. MAWC used a three-year average of expenses to determine the percentage in their Labor workpaper. Staff determined this percentage using the capital and expense totals given by MAWC in response to Staff DR No. 0158, which comprised the 12 months ending December 31, 2023.

Q. What is Staff’s O&M percentage for this rate case?

A. Staff’s O&M percentage for expense is 53.78% and capitalized at 46.22%.

Q. Does this conclude your direct / rebuttal testimony?

A. Yes it does.