

## Exhibit No. 14

Missouri-American Water Company – Exhibit 14  
Testimony of Brian W. LaGrand  
Rebuttal/Surrebuttal/Sur-Surrebuttal  
File No. WR-2024-0320

Exhibit No.:	
Issues:	Revenue Requirement, Test Year & True Up, Discrete Adjustments, Rate Case Expense, Acquisitions & Divestitures, Certain Tax Matters, Deferral Mechanisms, Trackers, Low-Income Programs, Expired Amortizations, EADIT Amortizations, District Allocations, Tariff Matters, Customer Notices, Return on Meters
Witness:	Brian W. LaGrand
Exhibit Type:	Rebuttal/Surrebuttal/Sur-Surrebuttal
Sponsoring Party:	Missouri-American Water Company
Case No.:	WR-2024-0320
Date:	January 24, 2025

**MISSOURI PUBLIC SERVICE COMMISSION**

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

**REBUTTAL/SURREBUTTAL/SUR-SURREBUTTAL TESTIMONY**

**OF**

**BRIAN W. LaGRAND**

**ON BEHALF OF**

**MISSOURI-AMERICAN WATER COMPANY**

## **AFFIDAVIT**

I, Brian W. LaGrand, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am the Director of Rates 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.



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Brian W. LaGrand

January 24, 2025  
Dated

**REBUTTAL/SURREBUTTAL/SUR-SURREBUTTAL TESTIMONY**  
**BRIAN W. LaGRAND**  
**MISSOURI AMERICAN WATER COMPANY**  
**CASE NO.: WR-2024-0320**

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## **REBUTTAL/SURREBUTTAL/SUR-SURREBUTTAL TESTIMONY**

**BRIAN W. LaGRAND**

### **I. INTRODUCTION**

**Q. Please state your name and business address.**

A. My name is Brian W. LaGrand, and my business address is 727 Craig Road, St. Louis, Missouri 63141.

**Q. Are you the same Brian LaGrand who previously submitted Direct Testimony and Supplemental Direct Testimony in this proceeding on behalf of Missouri-American Water Company (“MAWC” or “Company”)?**

A. Yes.

### **II. OVERVIEW**

**Q. What is the purpose of your revenue requirement Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony in this proceeding?**

A. The purpose of my revenue requirement Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony is to respond to the Direct and Rebuttal Testimony filed by the Missouri Public Service Commission (“Commission”) Staff (“Staff”), and to the Direct Testimony and Rebuttal Testimony of the Office of the Public Counsel (“OPC”) on the following topics:

1) Revenue Requirement; 2) Test Year & True Up; 3) Discrete Adjustments; 4) Rate Case Expense; 5) Acquisitions & Divestitures; 6) Certain Tax Matters; 7) Deferral Mechanisms; 8) Proposed Expense Trackers; 9) Revenue Stabilization Mechanism; 10) Erosion of Regulatory Principles; 11) Low-Income Programs; 12) Expired Amortizations; 13) District Allocations; 14) Tariff Matters, 15) Customer Notices; and 16) Return on Meters.

**III. REVENUE REQUIREMENT**

**Q. Did Staff propose a revenue requirement in their Direct & Rebuttal Testimony filed on December 6, 2024?**

A. Yes. Staff proposed a total MAWC revenue requirement of \$543,190,411 which is an increase of \$74,077,609 to Staff's calculated present rate revenues of \$469,112,802, using Staff's mid-point after-tax return of 6.52%. Staff's proposed increase includes \$24,657,907 for an estimate of items that will be included in the true up (through December 31, 2024)<sup>1</sup>.

**Q. Did Staff make any corrections to their revenue requirement in their Cross Rebuttal Testimony filed on January 10, 2025?**

A. Yes. Several Staff witnesses identified issues that have been corrected<sup>2</sup>. Staff proposed a revised revenue requirement of \$536,176,895 which is an increase of \$70,510,540 to Staff's revised calculated present rate revenues of \$465,666,355, using Staff's mid-point after-tax return of 6.52%. Staff did not change their true-up estimate. The total impact of the changes is a reduction of \$3,567,069 to the proposed increase, and a reduction of \$7,013,516 to the total revenue requirement.

**Q. How does Staff's revised revenue deficiency compare to the deficiency calculated by the Company and filed in Direct Testimony?**

A. Staff's revenue deficiency of \$70,510,540 is \$100,208,893 less than the Company's calculated revenue deficiency of \$170,719,433<sup>3</sup>. Please see Table BWL-1 below for a comparison.

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<sup>1</sup> Staff Accounting Schedule 1, line 11.

<sup>2</sup> McMellen Cross-RT, p. 2-3.

<sup>3</sup> LaGrand Supplemental DT, p. 19-20.

**Table BWL-1**

	MAWC	Staff	Difference
Present Rate Revenues	\$453,612,948	\$465,666,355	\$12,053,407
Proposed Rate Increase	170,719,433	70,510,539	(100,208,894)
<b>Total Revenue Requirement</b>	<b>\$624,332,381</b>	<b>\$536,176,894</b>	<b>(\$88,155,487)</b>

**Q. What are the primary drivers behind the differences between Company's calculations and Staff's calculations?**

A. The differences primarily fall into four categories. First, there is a difference of approximately -\$12.0 million in the calculations of present rate revenues. This difference is driven by differences in assumptions about customer numbers and their corresponding usage. This difference is of critical importance as I describe further below. Second, there is a difference of approximately \$23.8 million for rate base and expense items occurring in the discrete adjustment period. Third, when applying the Company's pre-tax cost of capital to the Company's estimated true-up rate base, the revenue requirement is approximately \$51.3 million higher than the same calculation using Staff's numbers. Lastly, the Company includes rate base and expenses through true up that are approximately \$19.8 million higher than what Staff includes. These differences are summarized in Table BWL-2 below.

**Table BWL-2**

<b>MAWC Total Revenue Requirement</b>	<b>\$624,332,381</b>
Discrete Period Rate Base & Expenses	(23,764,032)
Pre-Tax Cost of Capital on True-Up Rate Base	(51,351,413)
True-Up Rate Base & Expenses	(19,842,910)
Other Items	\$6,802,869
<b>Staff Total Revenue Requirement</b>	<b>\$536,176,895</b>

**Q. How does Staff's total recommended revenue requirement compare to the revenues MAWC is currently authorized by the Commission to collect?**

A. The Commission has authorized MAWC to collect \$500,833,181 annual revenues, as detailed in Table BWL-3 below. This total consists of revenues authorized in the

Company's most recent general rate case and three WSIRA cases currently in effect.

*Tabel BWL-3*

Case Number	Revenues
<b>Authorized Base Revenues</b>	
WR-2022-0303	437,500,000
<b>Authorized WSIRA Revenues</b>	
WO-2023-0427	26,679,890
WO-2024-0195	20,815,934
WR-2025-0009	15,837,357
<b>WSIRA Subtotal</b>	<b>63,333,181</b>
<b>Total Authorized</b>	<b>500,833,181</b>

**Q. Earlier you mentioned the importance of present rate revenues. Can you further explain the importance of that calculation?**

A. Yes. Based primarily on assumptions related to customer usage, MAWC estimates that current base rates, excluding WSIRA, will generate approximately \$453.6 million in annual revenues. Staff uses different usage assumptions, which result in estimated annual revenues of \$465.7 million. When discussing rate case outcomes only in terms of the rate change, it is important to remember the base level from which that change is made.

**Q. What does this mean in terms of total revenues that MAWC will actually collect?**

A. This difference in billing determinants means that for any rate increase authorized by the Commission, the actual revenues collected will be \$12.0 million less if Staff's billing determinants are used rather than the Company's. Please see the Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony of Company witness Max McClellan for a discussion of Staff's billing determinants.

**Q. How is MAWC addressing these revenue concerns in this case?**

A. Please see the Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony of Company witness Max McClellan for discussions about present rate revenue and customer usage. Additionally,



1 the Company has proposed a Revenue Stabilization Mechanism (“RSM”) in this case.  
2 Please see the Direct Testimony of Company witness Charles Rea for more information  
3 about the proposed RSM. The RSM would essentially eliminate the argument about the  
4 proper customer usage, as it would ensure that the revenues collected by the Company are  
5 neither more, nor less, than what the Commission authorized. For discussion around issues  
6 with the RSM raised by Staff and OPC, please see the Rebuttal/Surrebuttal/Sur-Surrebuttal  
7 Testimony of Charles Rea, as well as later in my Testimony.

8 **Q. Will the Company be addressing the revenue requirement differences between it and**  
9 **other parties in Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony?**

10 A. Yes. As noted above, the largest difference is in regard to the cost of capital and capital  
11 structure. MAWC witness Ann Bulkley will be discussing cost of capital, and addressing  
12 Staff witness Kelli Malki’s recommended 9.50% return on equity, and Office of the Public  
13 Counsel (“OPC”) witness David Murray’s recommended 9.25% return on equity. MAWC  
14 witnesses Ann Bulkley and Nicholas Furia will address both Staff and OPC’s  
15 recommendation to utilize the consolidated capital structure of American Water, rather  
16 than that of MAWC. MAWC witnesses Manuel Cifuentes, Jr. and Jennifer Grisham will  
17 be addressing most of the operating expense issues. As also noted above, MAWC witness  
18 Max McClellan will be discussing both present rate revenues and declining customer  
19 usage. MAWC witness Jennifer Grisham will address any rate base issues along with  
20 depreciation and amortization expense, and MAWC witness Linda Schlessman will  
21 address any income tax issues.

1 **IV. TEST YEAR & DISCRETE ADJUSTMENTS**

2 **a. Test Year**

3 **Q. What test year did the Company originally propose in this case?**

4 A. The Company proposed a future test year ending May 31, 2026.

5 **Q. What did the Commission order as a test year in this case?**

6 A. The Commission ordered parties to “use a test year of the 12 months ending December 31,  
7 2023 and a true-up period of the 12 months ending December 31, 2024. The true-up  
8 process and hearing will be for the sole purpose of updating various known and measurable  
9 cost of service components to December 31, 2024. Additionally, all the parties may  
10 propose specific (discrete) adjustments to the December 31, 2024 known and measurable  
11 revenue requirement calculation.”<sup>4</sup>

12 **Q. Did the Company revise their proposed test year after the Commission issued their**  
13 **Order Regarding Test Year?**

14 A. Yes. On September 6, 2024, I filed Supplemental Direct Testimony revising the  
15 Company’s proposed test year to include discrete adjustments through May 31, 2025. This  
16 change reduced the Company’s overall revenue requirement by \$27.3 million.<sup>5</sup>

17 **Q. In their Direct/Rebuttal Testimony did Staff address the test year?**

18 A. Yes. Staff witness Kim Bolin stated that Staff has “used a test year of the twelve months  
19 ending December 31, 2023, with a true-up period of the 12 months ending December 31,  
20 2024.”<sup>6</sup>

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<sup>4</sup> WR-2024-0320, Order Regarding Test Year, p. 3.

<sup>5</sup> LaGrand, Supplemental DT, pp. 3-7.

<sup>6</sup> Bolin DT/RT, p. 8.

1 **Q. Staff proposes a list of items they plan to update as part of the true up audit. Is this**  
2 **list comparable to items trued up in the Company’s prior cases?**

3 A. Generally, yes. The Company requests that Staff also include deferred lead service lines,  
4 the pension asset, and customer usage. These items have also been included in prior true  
5 up periods. The Company would also note that while Staff includes the cost of preferred  
6 stock in their list of true-up items, the Company no longer has any preferred stock.

7 **Q. When will the Company provide the data necessary for Staff to complete their true-**  
8 **up audit?**

9 A. The Company will provide the information no later than January 31, 2025.

10 **Q. Did any other parties address the test year?**

11 A. Yes. Office of Public Counsel (“OPC”) witness Dr. Geoff Marke provided extensive  
12 testimony on issues he has with the future test year as part of OPC’s direct/rebuttal case  
13 related to<sup>7</sup> the Class Cost of Service & Rate Design.

14 **Q. Is future test year typically discussed as part of the Class Cost of Service & Rate**  
15 **Design Testimony?**

16 A. No. Generally it is discussed as part of the Revenue Requirement and Dr. Marke did not  
17 file any direct/rebuttal testimony with OPC’s revenue requirement testimony. He explains  
18 what are, in his view, the shortcomings of using a future test year.<sup>8</sup> I respond to those  
19 assertions later in my testimony.

20 **b. Discrete Adjustments**

21 **Q. Did the Commission’s order allow parties to propose adjustments beyond the true up**

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<sup>7</sup> Marke DT/RT, p. 2-11.

<sup>8</sup> *Id.*

1           **date?**

2    A.    Yes. As noted above, the Commission Order Regarding Test Year allows parties to  
3           propose adjustments beyond the December 31, 2024 true-up date.

4    **Q.    Did Staff include any discrete adjustments?**

5    A.    No. Staff witness McMellen stated that “Staff has chosen not to make any discrete or  
6           isolated adjustments past the true-up date of December 31, 2022 [sic].”<sup>9</sup>

7    **Q.    Is Staff opposed to all discrete adjustments?**

8    A.    No. Staff is not opposed to limited inclusion of discrete adjustments if the adjustment is:  
9           1) known and measurable, and 2) does not skew the matching principle in relation to other  
10          cost of service items.<sup>10</sup>

11   **Q.    Does Staff agree with the Company’s proposed list of discrete adjustments?**

12   A.    No. Ms. Bolin suggests that the Company’s proposed discrete adjustments are not truly  
13          discrete adjustments and are actually akin to a future test year.<sup>11</sup>

14   **Q.    Do you agree with this assessment?**

15   A.    No, I do not. A future test year projects rate base, expenses, cost of capital and revenues  
16          for the first 12 months after rates take effect. The first day customers begin paying new  
17          rates, the costs used to establish the rates are projections and estimates of the costs the  
18          Company will incur during the period the rates are in effect. With the Company’s proposed  
19          discrete adjustments, all the costs will be actuals at the time new rates will take effect.

20   **Q.    Is there an overall concern that Ms. Bolin has with the Company’s approach?**

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<sup>9</sup> McMellen DT/RT, p 10. MAWC believes Staff intended to state the true-up date as December 31, 2024.

<sup>10</sup> Bolin DT/RT, p. 12

<sup>11</sup> Bolin DT/RT, p. 11-12

1 A. Yes. It appears Ms. Bolin's biggest concern is that some of the costs will be estimates at  
2 the time the new rates are set, and they will not be known and measurable.

3 **Q. Are there any estimates used by Staff in the calculation of their recommended revenue**  
4 **requirement in this case?**

5 A. Yes. Staff uses numerous estimates throughout their revenue requirement calculations. As  
6 an example, Staff uses a 3-year average to calculate several components of maintenance  
7 expense.<sup>12</sup> The resulting amount is not an actual expense that MAWC has incurred in any  
8 particular year, but an estimate of what will be representative maintenance costs during the  
9 time rates will be in effect. As another example, Staff will look at the trend of an expense.  
10 If that trend over a 3-year or 5-year period is consistently up or consistently down, then  
11 Staff will use the most recent year to estimate the representative expense.

12 **Q. Do any other witnesses express concerns about the known and measurable standard?**

13 A. Yes. OPC witness Marke also discusses the known and measurable standard.

14 **Q. Do Ms. Bolin or Dr. Marke define this standard?**

15 A. Dr. Marke states that "this standard requires the rate-case components (revenue, expense,  
16 gain or loss, etc...) to be known, to have occurred, and be measurable with a high degree  
17 of accuracy."<sup>13</sup> Ms. Bolin states that the Company's proposed discrete adjustments are not  
18 known and measurable.<sup>14</sup>

19 **Q. Does the Company agree with Dr. Marke's definition of the known and measurable**  
20 **standard?**

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<sup>12</sup> Branson, DT/RT, pp. 8-10.

<sup>13</sup> Marke DT/RT, p. 16.

<sup>14</sup> Bolin DT/RT, p. 10.

1 A. No. When discussing the true-up process, the Commission has noted the consideration of  
2 all relevant factors to establish a “reasonable expected level of earnings, expenses and  
3 investments” “**at a time as close as possible to the period when the rates in question**  
4 **will be in effect.**”<sup>15</sup> This is precisely what the discrete adjustments proposed by the  
5 Company do in this case.

6 **Q. Does Ms. Bolin provide a reference to a Commission order in a 2019 Empire Electric**  
7 **rate case?**

8 A. Yes. Ms. Bolin points to the criteria used to determine if an event outside the test year  
9 should be included in rate base. In that case, the Commission stated:

10 The criteria for determining whether an event outside the test year should  
11 be included is whether the proposed adjustment: 1) is known and  
12 measurable; 2) promotes the proper relationship of investment, revenues  
13 and expenses; and, 3) is representative of the conditions anticipated during  
14 the time rates will be in effect.<sup>16</sup>

15 **Q. How do the Company’s proposed discrete adjustments fare when measured against**  
16 **this criteria?**

17 A. The Company’s proposed discrete adjustments meet each of these criteria. First, the  
18 discrete adjustments will be known and measurable at the time rates take effect. Second,  
19 the adjustments promote the proper relationship between investment, revenues and  
20 expenses. The Company’s proposal includes plant through May 2025, expenses through  
21 May 2025 and revenues through May 2025 to determine the new rates. These three items  
22 are perfectly in sync. Lastly, the new rates will take effect approximately June 1, 2025.  
23 By including adjustments up until the point rates take effect, the rates are as representative

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<sup>15</sup> In re *Kansas City Power & Light Company*, 26 Mo. P.S.C. (N.S.) 104, 110 (1983) (emphasis added).

<sup>16</sup> ER-2019-0374, Amended Report & Order, p. 112-113.

1 of conditions anticipated during the time rates will be in effect as they can be, absent a  
2 future test year.

3 **Q. If the Commission were to grant the discrete adjustments related to plant**  
4 **investments, Ms. Bolin recommends that the Company refund to customers, either as**  
5 **a bill credit or through a deferral in the next rate case, any depreciation expense and**  
6 **return on plant that is not in service by May 31, 2025. Would the Company agree to**  
7 **a deferral?**

8 A. Yes. While the specific mechanics of such a refund would need to be worked out, the  
9 Company would agree to the deferral recommended by Ms. Bolin in the event plant in  
10 service through May 2025 was less than assumed when establishing the base rates.

11 **Q. Ms. Bolin and Dr. Marke are also concerned about having enough time to evaluate**  
12 **these items. Is that a concern?**

13 A. I don't think so. For many of these items, the Company intends to provide the evidence  
14 supporting the adjustments at the same time we provide the other true-up information –  
15 January 31, 2025. As Staff is able to evaluate the true-up information provided by that  
16 date, Staff should also be able to evaluate these discrete adjustments.

17 **Q. Did the Commission specifically authorize parties to propose discrete adjustments**  
18 **beyond the true-up period of December 31, 2024?**

19 A. Yes. As noted above, the Commission authorized the submission of discrete adjustments.

20 **Q. What is your recommendation to the Commission?**

21 A. I continue to recommend the Commission approve the discrete adjustments proposed by  
22 the Company.

1 **c. Alternative Mechanisms**

2 **Q. OPC witness Dr. Marke goes on at length comparing the Missouri regulatory**  
3 **environment to the environments in which other American Water affiliates operate,**  
4 **and concludes that Missouri is one of the best environments to operate in. Do you**  
5 **agree with that assessment?**

6 A. No. Actually, I believe the regulatory environment in Missouri is challenging. For a  
7 discussion of the regulatory environment and its impact on risk and access to capital, see  
8 the Direct Testimony of Ann E. Bulkley.

9 **Q. Do you have any concerns with Dr. Marke's support for his assertions?**

10 A. Yes, I have several concerns with the support Dr. Marke's uses as the basis for his  
11 assertions. There are six different items considered by Dr. Marke: Fair Value,  
12 Consolidated Tariffs, Future Test Year, Infrastructure Mechanisms, Affordability  
13 Programs, and Water Quality Accountability Legislation. Not only has Dr. Marke  
14 weighted them equally, which is illogical, he suggests that these items are all exclusively  
15 to the benefit of the utility. As I explain next, that is simply not the case.

- 16 • Fair Value: Legislation allowing utilities to acquire other utilities at a fair market  
17 value allows utilities a pathway to address problems that other utilities are unable  
18 to solve. These are often environmental in nature and require significant capital  
19 investments. Solving these problems is of great benefit to the customer of the  
20 acquired system, and it's a benefit to the State. Existing customers benefit because  
21 there are now more customers to distribute the acquiring utilities fixed costs over.  
22 Missouri's fair value legislation is limited to small acquisitions.

- 23 • Consolidated Tariffs: The Company has proposed consolidated tariffs in many



consecutive rate cases. Consolidation allows for the maximum number of customers to support the capital investments made in our systems. Customers benefit, because without consolidation, small groups of customers could experience rate shock when a large investment is made in their community.

- Future Test Year: This is not an issue in this case though I address OPC's comments on it more completely in Section XI. Both the utility and customers benefit from a future test year. It also gives the Commission the opportunity to review capital spending prior to the spend happening rather than after the spending has occurred.
- Infrastructure Mechanisms: Having an infrastructure mechanism such as WSIRA helps to mitigate, but does not eliminate, regulatory lag. The additional investment benefits customers who now get aging infrastructure replaced sooner, enhancing reliability.<sup>17</sup>
- Affordability Programs: These programs primarily benefit customers. The Company has proposed a new Universal Affordability Tariff in this case.
- Water Quality Accountability Legislation: This legislation simply requires all water utilities in a state be held to some of the same standards that investor owned water utilities are held. There is not a specific incremental benefit to either the utility or its customers.

Obviously not all of these six items are of equal value to the utility, and they certainly do not exclusively benefit the utility. For Dr. Marke to weight these items equally in his "scorecard" is a baffling decision.

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<sup>17</sup> The Company's WSIRA revenue in 2024 was \$36 million, not the \$47 million claimed by Dr. Marke.

1 **Q. On that same page, Dr. Marke states that these alternate mechanisms will “. . .**  
2 **increase the risks to captive ratepayers that they are overpaying for its service.” Do**  
3 **you agree with this conclusion?**

4 A. Not at all. The current environment in Missouri guarantees that customers will underpay  
5 for their service. The Company’s proposals will simply create an environment where  
6 customers will pay something closer to their actual cost of service. Historically, there has  
7 been a thumb on the scale in favor of customers. We are not asking that they be moved to  
8 favor the utility, we are simply asking that the thumb be removed.

9 **V. RATE CASE EXPENSE**

10 **Q. Please describe the adjustments Staff made to Rate Case Expense.**

11 A. As described in the Direct/Rebuttal Testimony of Staff witness Angela Niemeier, Staff  
12 examined the \$200,006 of costs incurred through June 30, 2024. After sharing 50% of  
13 costs related to this case, and normalizing over three years, Staff included \$33,668 of  
14 eligible costs in its calculation. Staff also included 100% of the costs of the depreciation  
15 study from Case No. WR-2020-0344, which is being amortized over 60 months, resulting  
16 in an additional \$20,571 of expense, for a total of \$54,238 in annual Rate Case Expense.  
17 Staff did not include any other costs related to Case No. WR-2022-0303.<sup>18</sup>

18 **Q. Did Staff include the correct amount of amortization related to the depreciation**  
19 **study?**

20 A. No. The total cost of the depreciation study performed for Case No. WR-2020-0344 was  
21 \$117,485. Amortizing that cost over 60 months results in an annual expense of \$23,497.

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<sup>18</sup> Niemeier DT/RT, p. 29.

Staff's annual rate case expense is understated by \$2,926.

**Q. How does this compare to the Company's requested treatment of rate case costs?**

A. It is quite different. The Company proposed a total of \$1,040,00 of total costs for this case, \$23,715 related to the depreciation study in Case No. WR-2020-0344, and \$200,141 of unamortized costs from Case. No. WR-2022-0303, amortized over 3 years, for a total regulatory expense of \$631,928.

**Q. Staff describes normalizing the costs, whereas the Company describes the costs as amortized. Can you explain the differences between those approaches?**

A. Yes. The difference is significant. Normalizing the costs essentially adjusts the costs to a level that would be typical. This would exclude any large one-time items, and likely use a historical average of the annual costs over a 3-year or 5-year period. Amortizing the costs means accumulating the costs as they are incurred in a regulatory asset or liability, and then amortizing those regulatory accounts over a period that recognizes a portion of those costs each year.

**Q. Why is that different treatment significant?**

A. Normalization is reasonable for costs that regularly occur every year – maintenance costs, or transportation costs, for example. Rate case expenses are different, as they are not regularly occurring in every year. MAWC will incur these costs during the preparation and administration of a rate case, but not otherwise. Staff's normalization approach would require the Company to recognize as expense the entirety of rate case expense as it is incurred. This will create a mismatch of when the cost is incurred and when it is included in rates.

**Q. Can you provide a simple example to demonstrate the differences?**

1 A. Yes. As an example, assume the Company incurs \$900,000 of recoverable rate case  
2 expense during the rate case. Staff's proposal would normalize those costs over 3 years,  
3 and include \$300,000 of annual rate case expense in the revenue requirement. The  
4 Company's approach would defer the \$900,000 to a regulatory asset, amortize those costs  
5 over 3 years, and recognize \$300,000 of expense annually. While the annual expense  
6 allowed in rates is the same in both cases, Staff's approach would require the Company to  
7 recognize 100% of the expenses as they are incurred, while there is no expense on the  
8 Company's books in each of the 3 years after the rate case. This would create a mismatch  
9 on the Company books between when the expense is recognized and when the revenue is  
10 recognized.

11 **Q. Does the Company agree with Staff's calculation of rate case expense?**

12 A. No, we do not.

13 **Q. Why does Staff recommend the sharing of rate case costs?**

14 A. Staff's cost sharing proposal is also discussed in the Direct & Rebuttal Testimony of Ms.  
15 Niemeier. She states that Staff's recommendation is based upon the following:

16 1) Rate case expense sharing creates an incentive for the utility to control  
17 rate case expenses to a reasonable level, while eliminating the disincentive  
18 for the utility to control the rate case expenses.  
19

20 2) Ratepayers and shareholders both benefit from the rate case process.  
21 While ratepayers receive safe and adequate service at just and reasonable  
22 rates, shareholders are afforded the opportunity to earn an adequate return  
23 on their investment.  
24

25 3) Ratepayers will continue to pay for the majority of the rate case expenses  
26 regardless of any sharing mechanism when including the internal labor costs  
27 that are not included in the sharing mechanism, therefore it is fair and  
28 equitable to allocate a portion of the rate case expenses to the shareholders.  
29

30 4) It is highly probable that some recommendations advocated by the utility  
31 through the rate case process will ultimately be determined to be not in the

1 public interest by the Commission.<sup>19</sup>

2  
3 **Q. Do you agree with Staff's proposed sharing of costs?**

4 A. No, I do not. The Company should not be penalized for needing to seek a rate increase.  
5 There are a large variety of factors that go into setting rates. A significant deviation in any  
6 one of them could necessitate the Company's request to update rates to recover its actual  
7 cost of service. Declining consumption levels is a good example of such a deviation and is  
8 one that is out of the Company's control.

9 **Q. Staff claims that this arbitrary disallowance "provides an incentive for the Company**  
10 **to control its costs." Does the Company need any such incentive?**

11 A. No. We are quite cautious and careful when we submit our rate case expense, and no party  
12 has offered evidence to the contrary. All the Staff proposal does is to disallow expenses  
13 that we have proven to be prudent and reasonably incurred in order to present our rate case  
14 claims.

15 **Q. Has Staff or any other party demonstrated that any element of MAWC's rate case**  
16 **expense is overstated or unreasonable?**

17 A. No, they have not. There is no evidence questioning the reasonableness of the Company's  
18 costs to litigate this rate case. Staff's recommendations are nothing more than an approach  
19 to reduce the Company's recovery of legitimate and prudently incurred costs.

20 **Q. Staff suggests that through rate cases, shareholders are afforded an opportunity to**  
21 **earn an adequate return on their investments. Is this true?**

22 A. Perhaps in theory, but not in practice. The regulatory construct in Missouri makes it

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<sup>19</sup> Niemeier DT/RT, p. 32.

1 virtually impossible for a water or sewer utility to earn the return authorized by the  
2 Commission under ordinary circumstances and business conditions. While the rate case  
3 expense costs being considered for sharing here are less significant than other proposed  
4 exclusions in this case, it is yet another example of a regulatory treatment that erodes the  
5 Company's ability to earn a reasonable return.

6 **Q. Staff hypothesizes that it's highly probable that the Commission will find some of the**  
7 **utility's recommendations to not be in the public interest. Do you agree?**

8 A. No. The Company believes that every proposal put forth in this case in the public interest.  
9 I do not agree that it is highly probable that the Commission denies them.

10 **Q. In her Direct/Rebuttal Testimony, Ms. Niemeier states that Staff's approach is**  
11 **consistent with Staff's approach in Case No. WR-2022-0303 and WR-2020-0344,**  
12 **which "included full recovery of depreciation study costs and a 50/50 split of all other**  
13 **incremental rate case expenses."**<sup>20</sup> **Is that statement accurate?**

14 A. Not entirely. In the Company's prior two cases referenced by Ms. Niemeier, Staff has also  
15 included full recovery for costs related to required customer notices and costs related to  
16 Staff viewing workpapers of the Company's external auditor, and has not proposed any  
17 cost sharing. It is my understanding that Staff is not changing their past approach to these  
18 costs. The Company disagrees with Staff's approach to reduce other incremental rate case  
19 expenses as those expenses are reasonable and necessary costs incurred to provide service  
20 to our customers. The Company believes that it should be able to fully recover these costs.

21 **Q. Did any other party address rate case expense?**

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<sup>20</sup> Niemeier DT/RT, p. 34.

1 A. Yes. OPC witness John Riley recommends that costs related to the lead lag study  
2 performed by Company witness Harold Walker be excluded entirely.<sup>21</sup>

3 **Q. Why does Mr. Riley suggest this?**

4 A. In his view the study was unnecessary because one was performed in the Company's last  
5 rate case.

6 **Q. Are you aware of any statute or Commission rule limiting the frequency of the**  
7 **performance of lead lag studies?**

8 A. No, I am not.

9 **Q. Why did the Company undertake a lead lag study in this case?**

10 A. The Company requested a complete lead-lag study to reflect recent data to support its cash  
11 working capital claim in this case.<sup>22</sup> It was appropriate to update the study from Case No.  
12 WR-2022-0303 because that study included data that was heavily impacted by the COVID-  
13 19 pandemic.

14 **Q. Did any other party take a position on the lead lag study?**

15 A. Yes. Staff witness Angela Niemeier discusses Mr. Riley's suggestion in her Cross-  
16 Rebuttal Testimony. Ms. Niemeier does not agree the costs should be excluded  
17 completely.<sup>23</sup>

## 18 **VI. ACQUISITIONS & DIVESTITURES**

19 **Q. Does the Company have any acquisitions or divestitures that are pending approval,**  
20 **or have been approved by the Commission, but have not yet closed?**

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<sup>21</sup> Riley Cross-RT, p. 5.

<sup>22</sup> Staff DR 242.

<sup>23</sup> Niemeier Cross-RT, p. 7-9.

1 A. Yes. There are three such transactions:

- 2 • Case No.: WA-2024-0325 – Acquisition of the City of DeKalb water system;
- 3 • Case No.: WM-2025-0017 – Sale of MAWC’s Spring Valley water system to the City
- 4 of Ozark; and
- 5 • Case No.: SM-2025-0067 – Sale of various small sewer systems to Confluence Rivers
- 6 Utility Operating Company, Inc.<sup>24</sup>

7 **Q. Does the Company expect those transactions to close before the operation of law date**  
8 **in this case?**

9 A. Yes. Both City of DeKalb and Spring Valley have been approved by the Commission, and  
10 are expected to close before the operation of law date. Case No. SM-2025-0067 is still  
11 pending before the Commission. It is possible that this transaction will close prior to the  
12 operation of law date; however, were the case to be litigated, it would not close prior to the  
13 operation of law date.

14 **Q. Has the Company included discrete adjustments for these three transactions?**

15 A. Yes. We have added assets, revenues, and expenses related to the City of DeKalb, and we  
16 have removed assets, revenues, and expenses related to the two divestitures.

## 17 **VII. CERTAIN TAX MATTERS**

18 **Q. Are there any tax-related issues you would like to address?**

19 A. Yes. While most of the discussion of tax issues can be found in the testimony of Company  
20 witness Linda Schlessman, I would like to respond to OPC witness John Riley about taxes  
21 and WSIRA.

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<sup>24</sup> Staff has filed a recommendation that the Commission approve the transaction, and the case is still pending.



1   **Q.     What position does Mr. Riley take regarding income taxes on WSIRA?**

2   A.     Mr. Riley recommends the Commission “calculate WSIRA revenues using only the  
3           standard rate of return that is established in the general rate case and not using a ‘pre-tax  
4           rate of return.’”<sup>25</sup>

5   **Q.     Does the Company agree with Mr. Riley’s recommendation?**

6   A.     No, the Company does not. While I am not an attorney, it appears Mr. Riley’s  
7           recommendation would violate the statute that governs WSIRA.

8   **Q.     Can you explain what the statute says about the return on WSIRA?**

9   A.     Yes. The statute states that an eligible utility “. . . may file a petition and proposed rate  
10          schedules with the commission to establish or change a WSIRA that will provide for the  
11          recovery of the appropriate pre-tax revenues associated with the eligible infrastructure  
12          system projects . . . .”<sup>26</sup>

13   **Q.     Does the statute define “appropriate pre-tax revenues”?**

14   A.     Yes. The statute defines appropriate pre-tax revenues as the revenues necessary to produce  
15          net operating income equal to: (a) **The water or sewer corporation's pretax weighted**  
16          **cost of capital** multiplied by the net original cost of eligible infrastructure system projects,  
17          including recognition of accumulated deferred income taxes and accumulated depreciation  
18          associated with eligible infrastructure system projects which are included in the petition to  
19          establish or change a WSIRA, plus accumulated deferred income taxes and accumulated  
20          depreciation associated with any eligible infrastructure system projects in a currently  
21          effective WSIRA implemented pursuant to sections 393.1506 and 393.1509; (b) **The state,**

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<sup>25</sup> Riley DT/RT, p. 13.

<sup>26</sup> Section 393.1506(1), RSMo

1 **federal, and local income or excise taxes applicable to such revenues;** (c) The  
2 depreciation expense applicable to the eligible infrastructure system project less annual  
3 depreciation expense associated with any related facility retirements; and (d) The property  
4 taxes applicable to the eligible infrastructure that will be due within twelve months of the  
5 filing of a request to implement a water and sewer infrastructure rate adjustment pursuant  
6 to sections 393.1506 and 393.1509, less any property taxes associated with any related  
7 facility retirements.<sup>27</sup>

8 **Q. While Mr. Riley recommends excluding income tax expense from the WSIRA**  
9 **revenues, does Mr. Riley also recommend excluding the deferred taxes from the**  
10 **calculation of rate base in future WSIRA cases?**

11 A. Curiously, he does not.

12 **Q. What is the combined effect of Mr. Riley's proposal, were it to be implemented?**

13 A. Mr. Riley would have the Commission exclude income tax expense, which reduces the  
14 revenue requirement, but also still include the Accumulated Deferred Income Tax Liability,  
15 which also reduces the revenue requirement.

16 **Q. So Mr. Riley is proposing to selectively exclude the impact of taxes only where it**  
17 **reduces the Company's revenue requirement?**

18 A. Yes.

19 **Q. Does Staff provide testimony on this issue?**

20 A. Yes. In the Cross-Rebuttal Testimony of Staff Witness Ashley Sarver, she says that while  
21 Staff does not take a position on Mr. Riley's proposal to exclude taxes, that Accumulated

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<sup>27</sup> Section 393.1503(1)(a) through (d), RSMo (emphasis added)

1 Deferred Income Taxes should be excluded from rate base if income taxes are excluded  
2 overall.<sup>28</sup>

3 **Q. What is your recommendation for the Commission?**

4 A. I recommend the Commission reject Mr. Riley's proposal and continue utilizing the pre-  
5 tax cost of capital as described in the statute.

6 **VIII. DEFERRAL MECHANISMS**

7 **Q. Do any parties address the Company's proposed utility plant-related deferral**  
8 **mechanisms?**

9 A. Yes. The Company's proposal is addressed by both Staff witness Kim Bolin and OPC  
10 witnesses John Robinett. Neither Ms. Bolin, nor Mr. Robinett support the Company's  
11 proposal.

12 **Q. Ms. Bolin begins with a discussion of regulatory lag. How would you describe**  
13 **regulatory lag?**

14 A. Regulatory lag is essentially the difference between the actual cost of service and the cost  
15 of service utilized to set rates. Over time, the actual cost of service will tend to increase  
16 overall, as the Company makes additional capital investments and experiences cost  
17 inflation. The regulatory lag will generally be greater the more time has passed since the  
18 implementation of new rates.

19 **Q. In your Direct Testimony you discuss shortfalls in the actual return on equity. Ms.**  
20 **Bolin characterizes these shortfalls as "alleged."<sup>29</sup> Is that an accurate**  
21 **characterization?**

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<sup>28</sup> Sarver Cross-RT, pp. 3-4.

<sup>29</sup> Bolin DT/RT, p. 14.

1 A. No, it is not. The Company's inability to earn a reasonable return on equity is in no way  
2 merely "alleged" – it is very real.

3 **Q. Staff disagrees with the Company's claim that the primary driver of regulatory lag is**  
4 **due to plant investments because the Company is able to utilize the WSIRA**  
5 **mechanism. Do agree with that assertion?**

6 A. No. The WSIRA program certainly helps to mitigate lag, but it by no means eliminates it  
7 altogether. In the Company's most recent WSIRA, investments were made between May  
8 2024 and October 2024. The rates will take effect in February 2025, so the Company  
9 incurred depreciation expense and financing costs for 8 months on the investments made  
10 in May of 2024.

11 **Q. Staff claims that to the extent the Company does experience regulatory lag on plant**  
12 **investments, only 10.0% of investments made are not addressed with the WSIRA**  
13 **mechanism. This is significantly lower than your claim that approximately 30.0% of**  
14 **investments are not eligible for WSIRA. Was your estimate overstated?**

15 A. No. In fact, my estimate was understated. Staff is not including all relevant factors when  
16 they say WSIRA covers 90.0% of the new investments. Staff failed to include WSIRA-  
17 related retirements in their calculations. This is a significant oversight because the change  
18 in overall utility plant includes retirements, where Staff's WSIRA investment amounts do  
19 not. When the retirements are included, the amount of plant included in WSIRA decreases  
20 from 86.0% to 77.4% for investments through October 31, 2024. As shown in Table BWL-  
21 4, through December 31, 2024, only 65.7% of total plant is included in WSIRA. This is  
22 significantly less than what Staff claims.

Table BWL-4

<i>\$Millions</i>	Dec-22	Oct-24	Dec-24
Total UPIS	3,765.4	4,541.7	4,680.1
<b>Increase in Plant from Dec 2022</b>		<b>776.3</b>	<b>914.7</b>
WSIRA Plant Additions		667.6	667.6
WSIRA Plant Retirements		(66.9)	(66.9)
<b>Plant, Net of Retirements in WSIRA</b>		<b>600.7</b>	<b>600.7</b>
<b>Plant, Net of Retirements not in WSIRA</b>		<b>175.5</b>	<b>314.0</b>
WSIRA as a % of Total Plant		86.0%	73.0%
Net WSIRA as a % of Total Plant		77.4%	65.7%

**Q. Staff notes that the Company has purchased or is finalizing the purchase of 5 systems since the end of the last rate case, is this accurate?**

A. Yes. Since the end of the last case the Company has acquired Stewartsville, Smithton, Wood Heights, Ironton, and is close to finalizing an acquisition of DeKalb.

**Q. Ms. Bolin says that this discretionary activity is inconsistent with the Company's claim that traditional ratemaking is not sufficient in Missouri. Do you agree with that statement?**

A. No. The total purchase price of those 5 systems is \$7.4 million. I don't think any conclusions can be made about the ratemaking environment based on such a small level of acquisition spending.

**Q. Ms. Bolin next discusses the treatment of retirements in the Company's proposed depreciation deferral and notes the Company has stated they will include the depreciation on retirements as an offset to the deferral. Is that correct?**

A. Yes. Just as with the WSIRA investments, the Company would net the depreciation savings from non-WSIRA retired assets against any deferred depreciation.

**Q. Staff notes that depreciation isn't a cash outlay, and it is the return of the investment over a period of time. Do you agree with Staff?**

1 A. Yes. Depreciation expense is not a cash expense. However, I would note that the Company  
2 does not keep its books and records on a cash basis. I also agree that depreciation is a  
3 return of the investment over time. All the Company's proposed depreciation deferral does  
4 is to ensure that the entire amount of the investment is returned over time, not just a portion.

5 **Q. Staff identifies similar concerns about the proposed carrying cost deferral as raised**  
6 **with the depreciation deferral. However, they identify one issue unique to the**  
7 **carrying cost deferral – that the Company will continue to earn a return on retired**  
8 **assets. Is this accurate?**

9 A. No, it is not. When the Company retires an asset, the original cost is removed from utility  
10 plant, and an equal amount is removed from accumulated reserve. The net effect is zero  
11 impact to rate base. So unlike depreciation expense, there is no revenue requirement impact  
12 related to the return on retired plant.

13 **Q. Can you provide an example demonstrating the impact of a retirement that would**  
14 **occur after the completion of a rate case?**

15 A. Yes. Table BWL-5 shows a simplified example. In the example, the utility rates were set  
16 in a rate case based on a rate base of \$10,000,000 and a 10% rate of return, generating a  
17 \$1,000,000 revenue requirement. After the rate case, the utility retires an asset with an  
18 original cost of \$500,000. This retirement causes no change to the rate base, nor to the  
19 revenue requirement. Therefore, customers are not paying a return on plant that has been  
20 retired.

Table BWL-5

	Rate Case Outcome	Retire Asset Post Test Year	Impact After Retirement
Utility Plant in Service	\$15,000,000	(\$500,000)	\$14,500,000
Accumulated Reserve	(\$5,000,000)	\$500,000	(\$4,500,000)
<b>Net Plant (Rate Base)</b>	<b>\$10,000,000</b>	<b>\$0</b>	<b>\$10,000,000</b>
Rate of Return	10.0%		10.0%
<b>Revenue Requirement</b>	<b>\$1,000,000</b>		<b>\$1,000,000</b>

**Q. Ms. Bolin cites statements in your Direct Testimony where you claim that WSIRA projects can experience approximately one year of regulatory lag. Does Ms. Bolin agree with that statement?**

A. No, she does not. She reviewed the last two WSIRA filings to examine the regulatory lag experience by the Company.

**Q. What did her examination show?**

A. That “projects placed into service in the first quarter of 2023 were the only projects the experienced approximately a one-year lag.”<sup>30</sup>

**Q. Rather than contradict your statement in Direct Testimony, it appears that Ms. Bolin’s examination actually confirms your statement. Is that correct?**

A. It would appear so, yes.

**Q. In your Direct Testimony you provided an example of how the deferral mechanisms would work. What was the purpose of that example?**

A. The purpose was two-fold. First, it was to show a simple example of the potential scale of the deferrals. Second, it was to show the impact to customers.

**Q. What was the impact to customers?**

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<sup>30</sup> Bolin DT/RT, p. 20.

1 A. Approximately \$1.60 per month for residential customers.

2 **Q. Staff takes issue with several of your assumptions, including the annual capital**  
3 **investments, the amount that would not be eligible for WSIRA and the retirement**  
4 **rate assumption. Are Staff's concerns valid?**

5 A. No. As stated above, the purpose of the example was to demonstrate the potential scope  
6 of the deferrals and the impact to customers, so some simplifying assumptions were used.  
7 Staff claims it is more appropriate to include annual capital spending of \$338 million, 10%  
8 of capital is eligible for the deferral and a 9.1% retirement rate. I would point out that in  
9 the Company's 2024 – 2028 5-year capital plan filed with the Commission, the average  
10 annual capital spend is \$512 million. I explained earlier in this testimony that Staff's 10%  
11 amount is incorrect and should be approximately 35%. The Company agrees with Staff on  
12 the proper way to treat retirements in the depreciation deferral.

13 **Q. Were the calculations you provided in your Direct Testimony intended to be a**  
14 **projection, or a forecast?**

15 A. No. They were intended to be an illustrative example, not a projection.

16 **Q. Does OPC witness Robinett agree with Staff witness Bolin regarding the deferral**  
17 **mechanisms?**

18 A. Yes. Mr. Robinett does not think the Commission should grant either proposal.

19 **Q. Does OPC raise any issues not raised by Staff?**

20 A. Yes. OPC refers to the PISA statute that is available to electric utilities and discusses the  
21 applicability of that statute to the Company.

22 **Q. Do the parameters of the PISA statute apply to MAWC?**



1 A. No, since MAWC is not an electric utility investing in renewable generating facilities.

2 **Q. OPC laments that the Company is requesting similar deferrals to those included in**  
3 **the PISA statute, but not including any of the consumer protections. What protects**  
4 **consumers under the Company's proposal?**

5 A. The customers are protected via the rate case process. The Commission will only authorize  
6 rates that are appropriate, and only after an extensive rate case process. Before any of the  
7 deferrals are included in rates, the investments that caused the deferrals would be reviewed  
8 during the rate case process. If any investments are found to be imprudent, they would not  
9 be included.

10 **Q. Mr. Robinett notes that the Company is requesting that the proposed deferrals be**  
11 **amortized "over a reasonable period", but does not define what period it would find**  
12 **reasonable.<sup>31</sup> What period would the Company find reasonable?**

13 A. I think it would be reasonable to amortize the deferrals over 25 years. However, the  
14 Company is willing to work with Staff and OPC to determine a reasonable period for the  
15 amortization.

16 **Q. Both Ms. Bolin and Mr. Robinett take issue with the Company's proposed deferrals**  
17 **and characterize them as an extreme position. Why is the Company proposing these**  
18 **deferrals?**

19 A. We are proposing these deferrals simply to minimize regulatory lag on our significant  
20 capital investments. Each year, the Company is investing over \$500 million to replace  
21 aging infrastructure. The regulatory lag on that level of investment cannot be addressed

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<sup>31</sup> Robinett DT/RT, p. 3.

1 simply by reducing operating expenses. The Commission should incentivize the utilities  
2 to replace aging infrastructure and to acquire troubled systems. By approving these  
3 requested deferrals, that is the environment the Commission would create. The utilities  
4 would minimize regulatory lag, and the customers would get more infrastructure replaced  
5 sooner, enhancing the reliability and resiliency of our systems.

## 6 **IX. PROPOSED EXPENSE TRACKERS**

### 7 **a. Expense Trackers Generally**

8 **Q. The Company has proposed a new tracker in this case for production costs and,**  
9 **absent capitalization treatment, continuation of the existing tank painting tracker.**  
10 **Do other parties provide testimony related to these trackers?**

11 A. Yes. Staff witness Kim Bolin discusses the use of trackers generally, and Staff witness  
12 Amanda McMellen discusses the Company's bad debt and tank painting trackers  
13 specifically. OPC witness Lena Mantle and MECG witness Jessica York also address the  
14 stand-alone production cost tracker.

15 **Q. Do either Staff, OPC or any other party support the Company's proposed expense**  
16 **trackers?**

17 A. No, they do not.

18 **Q. Staff takes issue with the use of trackers generally. Can you summarize Ms. Bolin's**  
19 **opposition to the use of expense trackers?**

20 A. Ms. Bolin says that under the normal ratemaking approach in Missouri, that neither  
21 customers nor the utility is allowed to be reimbursed through the rate case process for any  
22 prior under- or over-recovery of costs, either for the total cost of service or for individual  
23 components of the cost of service. Therefore, the use of trackers should depend on unique

1 and unusual circumstances. She further identifies circumstances where a tracker may be  
2 justified. These include 1) costs that show significant up-and-down volatility and are  
3 difficult to estimate; 2) new costs where there is little historical experience and are difficult  
4 to estimate; and 3) costs imposed by newly promulgated Commission rules.<sup>32</sup>

5 **Q. Do you agree with Ms. Bolin's views on expense trackers?**

6 A. No. While Ms. Bolin does list some reasons that have been used at points in the past to  
7 support trackers, those reasons are not exclusive. The Commission's authority in this area  
8 is quite general (See Section 393.140(4) and (8), RSMo), and the Commission has  
9 discretion to utilize tracker mechanisms where it deems appropriate.

10 **Q. Lastly, Ms. Bolin claims the use of trackers will eliminate the utility's incentive to**  
11 **operate efficiently.<sup>33</sup> Do you agree with that claim?**

12 A. No. First, Ms. Bolin provides no evidence whatsoever to support that claim. Secondly,  
13 this view ignores the economic incentives that exist for regulated utilities in Missouri. The  
14 Company would prefer to reduce operating expenses to allow those funds to be redeployed  
15 to capital projects. For every \$1 reduction in operating expenses, the Company can invest  
16 \$8 in capital, with no impact to customer rates. This approach benefits both the Company  
17 and the customers, who will enjoy the use of new infrastructure investments without an  
18 incremental impact to the rates they pay. The Company does not earn a return on operating  
19 expenses, so the incentive to reduce operating expenses does not go away simply because  
20 of an expense tracker.

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<sup>32</sup> Bolin DT/RT, pp. 3-4.

<sup>33</sup> Bolin DT/RT, p. 8.

1 **b. MAWC's Proposed Production Cost Tracker**

2 **Q. Staff witness McMellen does not support the proposed production cost tracker. Why**  
3 **not?**

4 A. Ms. McMellen states that current levels of these costs are known and measurable, and that  
5 these costs are a normal operating expense incurred by MAWC, and are not appropriate  
6 for an expense tracker.<sup>34</sup>

7 **Q. Do you agree with Ms. McMellen's position on the production cost tracker?**

8 A. No. Production costs, especially chemicals, have experienced significant volatility in  
9 recent years. While the Company's understanding is that Staff will include the current  
10 prices for production costs in their true up calculation, it's unclear where these prices will  
11 go in the future. The production cost tracker protects both the Company and customers.  
12 For example, chemical prices may revert to a normal level, leaving the customer paying  
13 more in rates than they should, or they may continue their dramatic increase and leave the  
14 Company without recovery.

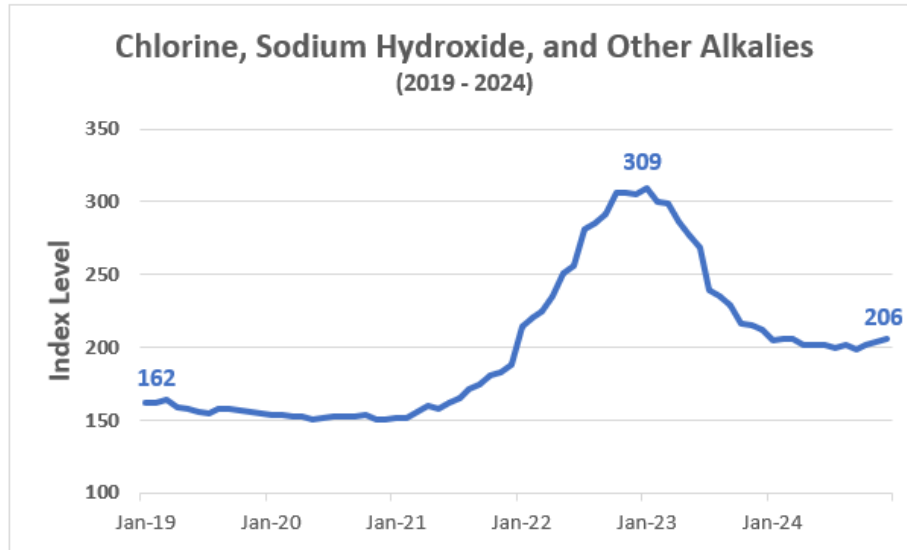
15 **Q. Can you provide an example of the volatility in chemicals you mentioned above?**

16 A. Yes. Using PPI Commodity data from the Bureau of Labor Statistics, the chart below  
17 shows the year-over-year change in Chlorine, Sodium Hydroxide, and Other Alkalies over  
18 the last 5 years. The index is relatively flat during 2019 and 2020, then increases over 90%  
19 to January 2023. That is followed by a steep decline during 2023 before flattening out  
20 during 2024, albeit at a level nearly 30% higher than 5 years earlier.<sup>35</sup>

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<sup>34</sup> McMellen DT/RT, p. 16.

<sup>35</sup> [www.bls.gov](https://www.bls.gov), Series ID: WPU06130302



**Q. Do you have any examples of production costs that have declined?**

A. Yes. As a recent example, chemicals pricing for chlorine, phosphates and caustic soda decreased.

**Q. OPC witness Lena Mantle also does not support the Company's proposed production cost tracker. Why not?**

A. Ms. Mantle states that these costs are not new, it's irrelevant if they are outside the Company's control, and she further believes the general nature of my description of the costs that would be included would result in future disagreements if the tracker is approved by the Commission.<sup>36</sup>

**Q. Do you agree with Ms. Mantle's claims about costs within the Company's control?**

A. No. Ms. Mantle is correct, to an extent, that many costs are outside the control of the Company. However, she fails to acknowledge that production costs are uniquely critical to the provision of safe and reliable water and wastewater services because of their direct

<sup>36</sup> Mantle DT/RT, pp.33-34.

1 impact on public health.

2 **Q. Ms. Mantle claims that you have only generally described the costs that would be**  
3 **included as production costs.<sup>37</sup> Are your descriptions too general and would that**  
4 **cause problems in the future if a tracker is granted?**

5 A. I listed exactly what is included in the production costs, so I don't see any risk of future  
6 disagreements. However, to give Ms. Mantle and other parties specificity to the costs the  
7 Company proposes to include, please see Table BWL-6 below. All production costs have  
8 been captured in these accounts for over 10 years. Were this list to change, the Company  
9 would include that information in the next general rate case.

**Table BWL-6**

Category	Water NARUC	Sewer NARUC	MAWC G/L Account	Account Description
Fuel and Power	A603	A703	51510011	Purchased Power - Source of Supply
Fuel and Power	A623	A721	51510012	Purchased Power - Pumping
Fuel and Power	A643	A743	51510013	Purchased Power - Water Treatment
Fuel and Power	A665	A743	51510014	Purchased Power - Transmission & Distribution
Fuel and Power	A905	A905	51510015	Purchased Power - Customer Accounting
Fuel and Power	A921	A921	51510016	Purchased Power - Admin & General
Fuel and Power	A621	A721	51520000	Fuel for Power Production
Chemicals	A641	A741	51800000	Chemicals
Purchased Water	A602	A702	51010000	Purchased Water
Waste Disposal	A643	A743	51110000	Waste Disposal

11 **Q. Ms. Mantle states that the return the utility receives in its revenue requirement is**  
12 **based on the risks the utility is taking in providing service to its customers.<sup>38</sup> Do you**  
13 **agree with Ms. Mantle?**

14 A. Ms. Mantle states elsewhere in her Direct/Rebuttal Testimony that it's impossible to know  
15 what return is included in the Company's revenue requirement due to the black box  
16 settlements in the Company's most recent rate cases.<sup>39</sup> I find it curious that now, when it

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<sup>37</sup> Mantle DT/RT, p. 34.

<sup>38</sup> *Id.* .

<sup>39</sup> Mantle DT/RT, pp. 7-8.

1 benefits her argument, Ms. Mantle seems to know exactly what return is included in the  
2 Company's revenue requirement, as well as the specific risks for which this previously  
3 unknowable return compensates the Company. To the extent a production tracker would,  
4 or would not, impact the Company's risk, please see the testimony of Company witness  
5 Ann Bulkley.

6 **Q. Do any other parties provide testimony on the Company's proposed production cost**  
7 **tracker?**

8 A. Yes. MEGC witness Jessica York opposes the tracker for similar reasons as Ms. McMellen  
9 and Ms. Mantle.<sup>40</sup> For the reasons discussed above, Ms. York's opposition should also be  
10 rejected.

#### 11 **X. REVENUE STABILIZATION MECHANISM**

12 **Q. Did any party provide testimony about the Company's proposed Revenue**  
13 **Stabilization Mechanism ("RSM")?**

14 A. Yes. Staff witnesses Michael Abbott and Amanda McMellen, OPC witness Lena Mantle,  
15 MIEC witness Jessica York, and Consumer's Council of St. Louis witness Roger Colton.  
16 The Company's response to most of the policy and mechanical issues raised regarding the  
17 RSM can be found in the Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony of Company  
18 witness Charles Rea. However, I will respond below to select items related to RSM.

19 **Q. Staff witness Michael Abbott discusses rate case frequency in the context of an RSM.**  
20 **He says that the Company already files for a rate case every two years, and further**  
21 **says that it's "disingenuous to suggest that an RSM would slow down the frequency**

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<sup>40</sup> York DT/RT, pp. 27-28.

1           **of rate cases.”<sup>41</sup> How do you respond to Mr. Abbott?**

2       A.     First, the Company’s rate case frequency will vary based on a variety of factors. In the last  
3           five rate cases, including this one, three have been filed approximately two years after the  
4           prior case, but one was three years, and the other was over four years after the prior case.  
5           The ISRS and WSIRA statutes contain rate case filing requirements which require a utility  
6           to file a rate case after collecting ISRS or WSIRA for three years.

7       **Q.     Did the Company claim that an RSM would slow down the frequency of rate cases?**

8       A.     No. The question was Mr. Abbott’s, not a suggestion by the Company. I think it is unfair  
9           to characterize the suggestion as “disingenuous” when it was never made by the Company.

10      **Q.     OPC witness Lena Mantle has many criticisms about the proposed RSM. Which**  
11           **items will you be addressing?**

12      A.     I will address her comments regarding the Company’s earned ROE, and the mechanics of  
13           the RSM as it relates to the costs of the Universal Affordability Tariff (“UAT”) and  
14           production costs.

15      **Q.     Ms. Mantle discounts my claims that the Company has had insufficient returns on**  
16           **equity. She says that since there have been black box settlements, then you can’t say**  
17           **what return was authorized by the Commission. How do you respond to Ms. Mantle?**

18      A.     It is true that the Company has typically had black box settlements in rate cases. However,  
19           Ms. Mantle is incorrect about the returns on equity being unknown. As noted in my Direct  
20           Testimony, the black box settlements in Case No. WR-2015-0301 and Case No. WR-2017-  
21           0285 both included ranges of the return on equity.<sup>42</sup> Additionally, as Ms. Mantle notes, I

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<sup>41</sup> Abbott DT/RT, p. 13.

<sup>42</sup> LaGrand DT, pp. 19-20.



1 calculated the average actual return on equity for the last 10 years to be 8.31%, with a range  
2 of 7.46% to 8.86%. Ms. Mantle apparently finds those returns to be adequate; however, in  
3 no year between 2014 and 2023 did the Company even earn the ROE recommended by  
4 OPC in any of the Company's five prior rate cases, which were already substantially below  
5 what the Company had requested.

6 **Q. Ms. Mantle also states that the Commission sets rates in a manner that gives the**  
7 **Company an opportunity to earn the ROE included in the revenue requirement. Do**  
8 **you agree with that statement?**

9 A. That is how rates should work, with the utility being given an opportunity to earn the  
10 authorized ROE. In some years, the Company would even earn over the authorized ROE,  
11 in some years under. However, that is not the reality of the regulatory environment in  
12 Missouri. Absent an extreme event, such as the record drought in 2012, it is impossible  
13 for the Company to ever approach earning its authorized return while continuing to invest  
14 in replacing aging infrastructure to enhance system reliability and resiliency. Additionally,  
15 positions taken by parties in rate cases further erode the utility's ability to approach earning  
16 its authorized return.

17 **Q. Ms. Mantle states that Section 386.266.4, RSMo only allows the Company to request**  
18 **an RSM that ensures that the revenues billed equal the revenue requirement set in**  
19 **the last rate case for all customer classes other than industrial, and that no other costs**  
20 **can be included. Do you agree with her assessment?**

21 A. As stated earlier, while I'm not an attorney, Ms. Mantle ignores Section 386.266.5, which  
22 says "The Commission may approve such rate schedules after considering all relevant

1 factors which may affect the costs or overall rates and charges of the corporation . . .”<sup>43</sup>

2 Section 386.266.5(1), RSMo, further provides that the Commission must ensure the  
3 mechanism “is reasonably designed to provide the utility with a sufficient opportunity to  
4 earn a fair return on equity. . . .”

5 **Q. Will production costs impact MAWC’s opportunity to earn a fair return on equity?**

6 A. Yes. An example would be, if the Company sold an additional 5 million thousand gallons  
7 at a cost of \$5 per thousand gallons, the Company would receive \$25 million (5 million x  
8 \$5) above the authorized level of revenues. If the RSM were approved without taking into  
9 consideration the production costs, then the Company would credit the RSM customers  
10 \$25 million, even though the Company incurred costs to produce the additional 5 million  
11 thousand gallons. Those additional incurred costs, if not used as an offset, would  
12 negatively impact MAWC’s opportunity to earn a fair return on equity. The opposite is  
13 true too, if the Company sold 5 million thousand gallons less than authorized amount at a  
14 cost of \$5 per thousand gallons, the Company would have received \$25 million (5 million  
15 x \$5) less than the authorized level of revenues. If the RSM were approved without taking  
16 into consideration the production costs, then the Company would surcharge the RSM  
17 customers \$25 million, even though the Company should have had less expenses because  
18 it did not produce 5 million thousand gallons. These examples demonstrate that in order to  
19 ensure MAWC has an opportunity to earn a fair return on equity, and not more, production  
20 costs should be accounted for in the calculation of the surcharge and/or credit.

21 **Q. Lastly, Ms. Mantle takes issue with the inclusion of the costs related to the UAT within**

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<sup>43</sup> Section 386.266.5, RSMo.

1           **the RSM. How does the Company respond?**

2    A.     As with the discussion of production costs, Ms. Mantle claims that the RSM enabling  
3           statute does not allow for costs related to the UAT to be included in an RSM. As described  
4           above with production costs, the UAT costs could be included to ensure MAWC has an  
5           opportunity to earn a fair return on equity.

6    **Q.     Does Ms. Mantle offer a recommendation to the Commission?**

7    A.     Yes. She recommends the Commission not capture the UAT discounts through the RSM,  
8           and the Commission adjust the authorized revenues to account for the expected revenue  
9           discounts.<sup>44</sup>

10   **Q.     Do you have any concerns with Ms. Mantle's recommendation?**

11   A.     Yes. Ms. Mantle's recommendation to adjust the authorized revenues requires an estimate  
12          of the amount of UAT discount. While that could be estimated, this would be a new item  
13          in Missouri. We have no history of the discounts to use for making a forecast. The UAT  
14          would likely be very popular, but a lot of variables will contribute to the participation  
15          levels. By utilizing the RSM to address the discounts, the amounts will be known at that  
16          point. Until MAWC has more history with customer participation, the Company's  
17          proposed treatment of the discounts within an RSM is the best approach.

18                   **XI. EROSION OF REGULATORY PRINCIPLES**

19   **Q.     Is MAWC's proposal to implement a future test year still an issue in this proceeding?**

20   A.     No. The Commission has already declined to utilize a future test year for this proceeding.  
21          Nonetheless, Dr. Marke has elected to submit testimony addressing future test years and

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<sup>44</sup> Mantle DT/RT, pp 24-25

1 other topics out of a concern that “those suggestions slowly start to become accepted,  
2 inevitable realities.”<sup>45</sup> I will not respond to every criticism Dr. Marke levels at evolutions  
3 to the regulatory paradigm since these topics are no longer an issue in this case. However,  
4 providing the Commission confidence that MAWC is seeking to advance, not erode,  
5 Missouri’s regulatory paradigm is worthwhile. Consequently, I will address some of Dr.  
6 Marke’s substantive arguments and leave responding to many of his other incorrect  
7 characterizations to another time. MAWC Witness Richard Svindland also discusses Dr.  
8 Marke’s testimony in his Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony.

9 **Q. How do you respond to Dr. Marke’s apprehensions about future test year in this case?**

10 A. As noted above, the Commission denied the Company’s request for a future test year, so  
11 that is no longer an issue in this case. Nevertheless, Dr. Marke mentions that the historical  
12 test year has been the basis of setting rates in Missouri for over 100 years.<sup>46</sup> It has been  
13 112 years since the Missouri Public Service Commission was established in 1913. At that  
14 time only a small number of Americans had electricity or indoor plumbing, women did not  
15 yet have the right to vote, and Garvillo Princip’s bullet had not yet struck down Archduke  
16 Franz Ferdinand of Austria-Hungary, setting off the first World War, and changing the  
17 course of history. Things change, evolve, and they modernize. Many states have changed  
18 the way they set rates to include using a future test year. It is not an extreme step for  
19 Missouri to do so.

20 **Q. Do you agree with Dr. Marke that “the opportunity for further opaqueness is**

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<sup>46</sup> Marke DT/RT, p. 7.

1       **amplified under a future test year”?**<sup>47</sup>

2       A.     I do not. Dr. Marke oversells the benefits of a historical test year and the challenges of  
3       using a future test year. Reliance on historical data alone does not provide “a reasonable  
4       assurance the ratepayers will not be overcharged moving forward.”<sup>48</sup> Were that the case,  
5       utilities would simply submit their financial statements for the test year and there would be  
6       little need for the significant discovery, analysis and support necessary in a rate case to  
7       evaluate those historical results. Charges during the test year may not be representative of  
8       the utility’s expected future operating conditions, including due to efficiencies that reduce  
9       costs, lower pricing in components of the production of the service or product or a number  
10      of other circumstances. Historical test years in Missouri have long been subject to  
11      adjustments to ensure they provide a reasonable basis for projecting expected future  
12      operating conditions.

13      A future test year provides a more accurate picture of future operating conditions, but the  
14      forecasts implicit in a future test year are not opaque, as Dr. Marke suggests. He contends  
15      use of a future test year creates a “high likelihood for inaccuracies”, but it is not self-evident  
16      that forecasted data has a higher likelihood of inaccuracy than historical data and he offers  
17      no support for that contention. Dr. Marke’s experience is in Missouri which he notes has  
18      a long history of using historical test years. This experience would not appear to provide  
19      a strong basis to opine on the reliability of financial data used to compute a revenue  
20      requirement in a future test year proceeding.

21      **Q.     How would forecasts be evaluated in a future test year case?**

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<sup>47</sup> *Id.*

<sup>48</sup> *Id.*

1 A. Utilities are typically required to provide historical financial information based on a  
2 specified period and detailed assumption that underly the financial forecasts presented. In  
3 some cases, forecasts begin with historical data. Missouri stakeholders will be able to  
4 evaluate the forecast assumption and how they relate to historical trends. Stakeholders will  
5 have complete access to the basis for the estimates. In situations where forecasts cannot  
6 be supported or explained, stakeholders will be able to seek further information and, if the  
7 Commission does not believe the forecast is reliable, it may revert to historical data. The  
8 Commission will be able to “rely on their professional experience and expertise as well as  
9 historical costs as data points of certainty in setting rates prospectively” in evaluating a  
10 future test year, just as it has long done in a historical test year rate case.<sup>49</sup>

11 **Q. Do you agree with Dr. Marke that the Commission must be cognizant of the reasons**  
12 **it has regulated public utilities using a historical test year before embracing**  
13 **alterations?**

14 A. I do not believe it is necessary for the Commission to articulate at length the reasons it has  
15 previously used a historical test year. The answer may be little more than comfort with an  
16 approach that is known regardless of whether it produces reasonable results. Change is  
17 often difficult for humans and undertaken only after problems with the prior approach are  
18 obvious. Many other states have recognized the problems with a historical test year and  
19 transitioned to some form of a future test year. The fundamental problem with using a  
20 historical test year is the assumption that the past relationship among revenues, costs and  
21 net investments during the historical test year will continue into the future. MAWC’s  
22 financial experience with Missouri’s historical test year regime is that its past costs and net

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<sup>49</sup> Marke DT/RT, p. 8.

1 investments do not reflect future financial conditions. The result is that MAWC struggles  
2 to earn at the level authorized by the Commission.

3 **Q. Do you agree with Dr. Marke that regulatory lag can be a feature of the regulatory**  
4 **process to incentivize cost efficiency?**

5 A. In the right circumstances, the delay in implementing changes to a utility's rates for  
6 service—often called “regulatory lag”—can incentivize cost efficiency. A utility might  
7 strive to reduce costs and earn a somewhat higher return than authorized by the  
8 Commission or strive to minimize cost increases in a rising cost environment to maintain  
9 its approved return. The incentive resulting from regulatory lag falls apart when the cost  
10 increases are far greater than cost reductions that can be achieved through reasonable  
11 efficiency efforts or other financial conditions, including revenues, change in significant  
12 ways. Under these circumstances, regulatory lag traps the utility in an endless loop of  
13 approved rates that are insufficient to recover its revenue requirement and achieve the  
14 returns authorized by the Commission.

15 **Q. Can MAWC offset the cost increases it is facing with cost efficiencies during the**  
16 **period of regulatory lag in Missouri's regulatory process?**

17 A. Not in the current environment. The capital demands required to reasonably maintain our  
18 system requires significant annual capital investments every year. These capital  
19 investments bring new costs, including higher costs of financing the capital and associated  
20 depreciation costs. These incremental capital costs compound each year and are so large  
21 that MAWC cannot reasonably be expected to offset them with cost efficiencies. MAWC's  
22 roughly \$500 million of capital spending incurs over \$55 million<sup>50</sup> of incremental costs,

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<sup>50</sup> \$500 million \* (9.43% proposed pre-tax return + 2.0% composite depreciation rate) = \$57.2 million.

1 compounding each year. While WSIRA will offset some of these costs, MAWC would  
2 need to eliminate all of its operation and maintenance expenses over three years to fully  
3 offset these compounding capital costs.<sup>51</sup> A utility system cannot be operated without  
4 operational and maintenance expenses.

5 **Q. Would the use of a future test year dispense with the matching principle previously**  
6 **recognized by the Commission?**

7 A. No. Dr. Marke notes that the matching period requires a “matching of costs and revenues.”  
8 He fails to recognize that a future test year should match the expected future costs with the  
9 expected future revenues. Stated differently, a utility presenting a future test year must  
10 present a reasonable forecast of future costs as well as a reasonable forecast of future  
11 revenues.

12 **Q. Does use of the known and measurable period preclude the use of a future test year?**

13 A. No. Commissions in states that utilize future test year fully evaluate the reasonableness of  
14 a forecasted expenses and may reject the forecasted expense if the utility has not  
15 sufficiently supported the need for the expense. Future test years may provide more  
16 flexibility about the certainty of a cost increase occurring (*e.g.* allowing the use of trended  
17 cost data), but the utility bears the burden of supporting the reasonableness of the forecast.  
18 A commission may revert to the historical expense or other reasonable basis for assessing  
19 the expense if the utility’s evidence fails to demonstrate the forecasted expense is likely to  
20 occur.

21 **Q. Would the adoption of a future test year in Missouri result in a radical change to the**

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<sup>51</sup> Proposed annual O&M expense of \$182.6 million / \$57.2 million (above) = 3.2 years.



1 **regulatory paradigm in the state?**

2 A. No. The Commission and stakeholders would continue to use many of the same tools they  
3 use today to evaluate the case. While there certainly would be some new considerations,  
4 stakeholders and the Commission Staff would continue to evaluate the information  
5 provided by MAWC, much like they do today. While Dr. Marke presents these evolutions  
6 as radical departures that dramatically harm the regulatory regime, many states have  
7 adopted future test years. The use of a future test year and other reasonable evolutions of  
8 Missouri's regulatory paradigm would benefit customers by facilitating investment that is  
9 critical to ensuring the continued availability of safe, resilient and reliable utility service.

10 **XII. LOW-INCOME PROGRAMS**

11 **Q. As noted above, in the Company's Direct filing, a Universal Affordability Tariff was**  
12 **proposed. Did any party respond to that proposal?**

13 A. Yes. Staff witness Scott Glasgow, Consumer's Council witness Roger Colton, and OPC  
14 witnesses Geoff Marke and Lena Mantle provided testimony on the Universal Affordability  
15 Tariff. Please see the Testimony of Company witness Charles Rea for responses to Mr.  
16 Glasgow, Mr. Colton, and Dr. Marke. I respond to Ms. Mantle's comments on the costs  
17 of the Universal Affordability Tariff as part of my discussion of the Revenue Stabilization  
18 Mechanism above.

19 **Q. Was any additional testimony provided about low-income programs?**

20 A. Yes. OPC Witness Geoff Marke provided comments about the Company's participation  
21 in the Critical Needs Program and the Rehousing Pilot Program. Dr. Marke states that the  
22 Company has not adhered to the terms agreed to in the last rate case in a meaningful  
23 manner.

1 **Q. Do you agree with Dr. Marke's characterization?**

2 A. I do not.

3 **Q. Can you describe the Company's participation in these programs?**

4 A. Yes. For the Critical Needs Program, the Company has had representatives participate in  
5 a variety of meetings and calls. The Company signed a contract with the United Way of  
6 Greater St. Louis on May 9, 2024. The United Way of Greater St. Louis serves as the  
7 primary statewide partner for the program, and they also administer the program in Joplin  
8 and St. Joseph. The Company meets with the United Way on a monthly basis. The  
9 Company has participated in several meetings and calls regarding this program.

10 **Q. Dr. Marke says he "would be genuinely surprised if any money has been spent to**  
11 **date."<sup>52</sup> Has the Company made any contributions to these programs?**

12 A. Yes. Shortly after signing the contract with United Way of Greater St. Louis, the Company  
13 made its initial \$250,000 contribution to the Critical Needs Program<sup>53</sup>. This payment was  
14 allocated \$200,000 to St. Louis County and \$25,000 each to St. Joseph and Joplin, in  
15 accordance with our current tariffs<sup>54</sup>. The Company has not yet made a contribution to the  
16 Rehousing Pilot Program.

17 **Q. Dr. Marke suggests a quarterly meeting between the Company, Staff, OPC, and other**  
18 **stakeholders to discuss the customer assistance programs, similar to meetings held**  
19 **with the other large utilities. Would the Company be willing to participate in periodic**  
20 **meetings?**

21 A. Yes. The Company would be willing to meet with Staff, OPC and others. I don't know

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<sup>52</sup> Marke Cross-RT, p. 25.

<sup>53</sup> LaGrand DT – Schedule BWL-4, p. 2.

<sup>54</sup> PSC MO No. 13, Original Sheet R66

1 that quarterly is the right frequency, but we can discuss further with Staff and OPC.

2 **XIII. EXPIRED AMORTIZATIONS**

3 **Q. In your Direct Testimony you proposed a mechanism to address the expiration of**  
4 **amortizations between rate cases. Did any other parties respond to that proposal?**

5 A. Yes. Staff witness Angela Niemeier says that Staff is not opposed to the mechanism, as  
6 they have agreed to similar treatment with other utilities. Staff does propose that any over-  
7 or under-recovery of a regulatory asset or liability should be treated in the same manner as  
8 the underlying regulatory asset or liability.<sup>55</sup>

9 **Q. Does the Company agree to Staff's proposal?**

10 A. Yes, the Company agrees. However, I would note that there would never be an “under-  
11 recovery” of a regulatory asset or liability under this mechanism. It is only when a  
12 regulatory asset or liability is fully amortized that the continuing amortization would be  
13 captured in the mechanism.

14 **XIV. DISTRICT ALLOCATIONS**

15 **Q. What are district allocations?**

16 A. This is the allocation of centrally recorded costs to MAWC's four operating districts – St.  
17 Louis County Water, All Other Water, Arnold Sewer, and All Other WW.

18 **Q. What types of costs are centrally recorded by MAWC?**

19 A. These are costs that benefit the entire state, and are not specifically attributable to a specific  
20 operation or location. For example, labor costs for MAWC employees who support the  
21 entire state, or general liability insurance.

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<sup>55</sup> Niemeier DT/RT, p. 8.

1 **Q. Why do these costs need to be allocated to the districts?**

2 A. The costs are allocated to the four districts to allow for a complete view of the cost of  
3 service in each of those districts.

4 **Q. How did the Company allocate these costs?**

5 A. The Company used Customers, Revenue, Net Plant, the Hybrid Massachusetts formula,  
6 and the number of Service Orders to allocate the costs.

7 **Q. Did Staff witness Ashley Sarver use the same approach to allocate these costs?**

8 A. Not exactly. Ms. Sarver used Customers, Revenue Net Plant, and the Hybrid  
9 Massachusetts formula.<sup>56</sup> Staff did not utilize Service Orders.

10 **Q. Did Staff allocate the same amount of costs as the Company?**

11 A. No. The Company base year included \$73.0 million of Corporate costs, while Staff only  
12 allocated \$71.6 million of Corporate costs. The difference of \$1.5 million are adjustments  
13 that are addressed by various witnesses in the Company's Rebuttal/Surrebuttal/Sur-  
14 Surrebuttal Testimony.

15 **Q. Is Staff's method incorrect?**

16 A. No, it is just a different approach.

17 **Q. What impact do the different methodologies have on the outcome in this case?**

18 A. The choice of allocation factors has no impact on the overall revenue requirement, however  
19 it does impact the revenue for individual districts. Total impact on each district from both  
20 Staff's adjustments and different allocation methodology is shown in Table BWL-7.  
21 Staff's methodology results in \$1.1 million more costs being allocated to sewer customers.

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<sup>56</sup> Sarver DT/RT, p.11.

**Table BWL-7**

District	MAWC Allocations	Staff Allocations	Difference
St. Louis	\$50,689,880	\$49,873,210	(\$816,670)
All Other Water	20,620,796	18,806,812	(1,813,985)
Arnold	519,831	821,186	301,354
Other All WW	1,210,474	2,052,712	842,237
<b>Total</b>	<b>\$73,040,982</b>	<b>\$71,553,919</b>	<b>(\$1,487,063)</b>
Water	\$71,310,676	\$68,680,022	(\$2,630,655)
Sewer	1,730,305	2,873,897	1,143,592
<b>Total</b>	<b>\$73,040,982</b>	<b>\$71,553,919</b>	<b>(\$1,487,063)</b>

**Q. What impact would this shift have on the water customers compared to the sewer customers?**

A. To understand the relative impact of Staff's methodology, it is useful to simply look at the total revenues Staff is recommending in this case. Staff is currently recommending total water revenues of \$511.3 million and sewer revenues of \$24.9 million<sup>57</sup>. Were the \$1.1 million of costs shifted back to water customers, the total water revenues would increase by 0.2%<sup>58</sup>. If these costs are removed from sewer, then total sewer revenues would be \$23.8 million. Therefore, Staff's choice of allocation methodology increases the costs to sewer customers by nearly 5%<sup>59</sup>. Using the Company's allocation methodology would increase the costs to water customers by 0.2%. When these costs are shifted to sewer customers, the impact is 23 times greater<sup>60</sup> than the impact to water customers.

## **XV. TARIFF MATTERS**

**Q. Staff witness David Spratt provided testimony about obsolete tariff language and a recommendation for the removal of a rule.<sup>61</sup> Can you summarize Mr. Spratt's**

<sup>57</sup> Staff Accounting Schedules – Total Water Revenues: \$511.3M (\$65.7M revenue requirement + \$445.6 present rate revenues); Total Sewer Revenues: \$24.9M (\$4.8M revenue requirement + \$20.1M present rate revenues).

<sup>58</sup> \$1.1M / \$511.3M = 0.2%.

<sup>59</sup> \$1.1M/(\$24.9M - \$1.1M) = 4.6%.

<sup>60</sup> 4.6% / 0.2% = 23.0.

<sup>61</sup> Spratt DT/RT, pp. 1-4.

1           **position?**

2       A.     Yes. Mr. Spratt is recommending the removal of Rule 3E, which covers liability for  
3           damages, the removal of obsolete language in the tariffs regarding quarterly billing, late  
4           payments, and gender specific language, and changes to sheet RT 9.1 and sheet R47.

5       **Q.     How does the Company respond to Mr. Spratt's recommendations?**

6       A.     For further discussion of the recommended removal of Rule 3E, please see the  
7           Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony of Company witness Jody Carlson.  
8           Regarding the other recommended tariff changes, the Company responds as follows:

- 9           •   Obsolete Language (removal of quarterly billing references, gender specific  
10           language and the removal of Sheet R4 – Rule 1(33) “Late Payment Charge”): The  
11           Company agrees those changes should be incorporated, and we can include tariff  
12           revisions when compliance tariffs are filed in this case. The Company will work  
13           with Staff in advance of that filing to ensure all changes are correctly incorporated.
- 14          •   Sheet RT 9.1: Mr. Spratt is recommending the removal of the \$27.50 fee to turn  
15           off service during normal business hours. He cites as support Rule 14B on Sheet  
16           R31, which states “A termination (turn-off) of an existing service will be made  
17           during MAWC’s regular business hours without charge.”<sup>62</sup> The Company would  
18           point out that Rule 14B specifies that no fee is charged on a “termination”, which  
19           is a cessation of service requested by the customer. (See Rule 13, Sheet No. R30)<sup>63</sup>.  
20           Sheet RT 9.1 only references a “discontinuance”, which is a cessation of service  
21           that is not requested by a customer. (See Rule 10, Sheets Nos. R23-R26)<sup>64</sup>.

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<sup>62</sup> Spratt DT/RT, p. 4.

<sup>63</sup> The tariff definition of “termination” is consistent with Commission Rule 20 CSR 4240-13.015(1)(EE).

<sup>64</sup> The tariff “discontinuance” is consistent with Commission Rule 20 CSR 4240-13.015(1)(M).

Therefore, the Company believes there is no conflict between Rule 14B and Sheet RT 9.1, and no change is necessary. The Company has discussed this matter with Staff, and Staff agrees no change is required.<sup>65</sup>

- Sheet R47: Mr. Spratt recommends that Rule 22P on Sheet R47 be incorporated into Rule 3 on Sheet R11, which covers liability. Rule 22 covers private fire service, and Rule 22P addresses liability issues specific to private fire service. As such, the Company believes it is best to leave Rule 22P as part of Rule 22 and not move it to Rule 3.

## **XVI. CUSTOMER NOTICES**

**Q. Do any parties raise concerns about the notices provided to customers regarding the local public hearings?**

A. Yes. OPC witness Angela Schaben quotes comments from three customers stating that they received notice about the local public hearings only after the hearings had been completed.<sup>66</sup> Ms. Schaben goes on to further say she was surprised that customers received late notices because the Company had assured her that notices had been sent out timely.

**Q. Did the Company send out the local public hearing notices timely?**

A. Yes. The notices were all mailed to customers on October 10, 2024.

**Q. When was the first local public hearing?**

A. The first hearing was on October 28, 2024 in Branson – eighteen days after the notices were sent to customers via US Mail. This is more than the “ten days before the local public hearings” that is referenced by the Commission’s Order Setting Local Hearings (issued

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<sup>65</sup> Please see Schedule BWL-1 for Staff’s response to DR 263.

<sup>66</sup> Schaben DT/RT, p. 12.

August 28, 2024).

**Q. Do you have any explanation why it would take more than a month for a customer to receive their notice?**

A. I do not. Once the notice is in the possession of the United States Postal Service, it is out of the Company's hands.

## **XVII. RETURN ON METERS**

**Q. Does OPC witness Geoff Mark provide additional testimony in his discussion of customer experience in his Cross-Rebuttal Testimony?**

A. Yes.

**Q. Does Dr. Marke propose a new disallowance related to customer meters?**

A. Yes.

**Q. What is the new disallowance Dr. Marke recommends related to customer meters?**

A. Dr. Marke discusses a customer who has concerns with some meter reading data, and has since filed a formal complaint.<sup>67</sup> Dr. Marke states that he first learned of this customer's concern at the local public hearing on November 12, 2024.<sup>68</sup> While this customer's concerns will be addressed in the formal complaint case, please see the Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony of Company witness Derek Tarcza for further discussion related to this customer's concerns. Dr. Marke further goes on to suggest that the Commission not allow a return on the rate base associated with water meters.<sup>69</sup>

**Q. Did any non-utility witness propose a similar adjustment to the return on meters in**

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<sup>67</sup> Case No. WC-2025-0204.

<sup>68</sup> Marke Cross-RT, p. 2.

<sup>69</sup> Marke Cross-RT, p. 3.



1           **their Direct/Rebuttal Testimony?**

2     A.     They did not.

3     **Q.     Was this a new proposal raised by OPC for the first time in their Cross-Rebuttal**  
4           **Testimony?**

5     A.     Yes.

6     **Q.     Dr. Marke estimates the appropriate reduction in the Company's revenue**  
7           **requirement to be \$22.8 million, subject to adjustment at true up. How does Dr.**  
8           **Marke calculate his proposed disallowance?**

9     A.     He proposes to disallow MAWC's recovery of a return on the entire \$295,048,491 of  
10           MAWC's "meters in service," as of December 31, 2023.<sup>70</sup>

11    **Q.     How do you respond to Dr. Marke's suggestion?**

12    A.     Dr. Marke's suggestion is an extreme overreach. It appears that he takes concerns of a  
13           single customer, and extrapolates that into a conclusion that nothing regarding the  
14           Company's meters or MyWater website is working properly. To suggest the Commission  
15           should reduce the Company's revenue requirement by nearly \$23 million based on such  
16           limited justification is absurd.

17    **Q.     Dr. Marke also complains about not having time to ask discovery related to this issue.**  
18           **Could Dr. Marke have issued discovery after the local public hearing and gotten a**  
19           **response from the Company prior to the filing of Direct/Rebuttal testimony?**

20    A.     Yes. Had Dr. Marke issued discovery the day after the local public hearing, he would have  
21           received a response from the Company no later than December 2, 2024. This is four days

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<sup>70</sup> See Schedule BWL-2

1 prior to the filing of Direct/Rebuttal testimony about the revenue requirement from the  
2 non-utility parties, which would have been the appropriate place for Dr. Marke to raise this  
3 issue.

4 **Q. What is your recommendation to the Commission?**

5 A. The Commission should reject Dr. Marke's suggestion in its entirety.

6 **Q. Does this conclude your Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony?**

7 A. Yes.

Data Response Display - WR-2024-0320 - 0263.0

Request Summary ▼

Submission No.

WR-2024-0320

Request No.

0263.0

Requested Date

1/14/2025

Due Date

1/22/2025

Issue

Tariff Issue

Miscellaneous Charges

Requested From

MO PSC Staff (Other)

Casi Aslin (casi.aslin@psc.mo.gov)

Requested By

Missouri-American Water Company (Water)

Brian LaGrand (brian.lagrand@amwater.com)

Brief Description

Customer Turn-Off Fees

Description

On page 4 of the Direct/Rebuttal testimony of David Spratt, he recommends that the turn off fee be removed due to Rule 14B allowing for terminations at no charge. Does Staff agree that the Company's existing tariff Sheet RT 9.1 addresses discontinuances, and not terminations? If not, please explain why not?

Request Security

Public (DR)

Response Date

1/16/2025

Response

Upon review of tariff sheet R 3, Staff agrees with the Company that the word discontinuance, as stated on Sheet RT 9.1, is defined as "A cessation of service not requested by a Customer". This charge does not appear to apply to a turn-off of service requested by a customer, therefore there is no need to remove this charge from the tariff as suggested by Staff in direct testimony.

Objections

Response Security

Public (DR)

Rationale

Attachments ▼

No Attachments Found

### **Data Request 3**

**Requested From:** Geoff Marke ([Geoff.marke@opc.mo.gov](mailto:Geoff.marke@opc.mo.gov))

**Date Requested:** 1/14/2024

#### **Information Requested DR #3:**

On page 3 of Dr. Marke's Cross-Rebuttal Testimony, he asserts that the disallowance he proposes is "merely isolating the premium profit associated with that investment until MAWC can demonstrate that its meters and accompanying software perform as promised." Please provide the support/workpapers associated with Dr. Marke's calculation of the alleged amount of "premium profit."

#### **Information Provided:**

The calculation includes the following inputs:

- The 12/31/2023 Staff accounting schedules include a total of \$295,048,491 for "meters in service."
- OPC witness David Murray utilizes a pre-tax rate of return of 7.74%
- $0.0774 \times 295,048,491 = 22,826,753$

**Answer Provided by:** Geoff Marke