

## Exhibit No. 207

Staff – Exhibit 207  
Testimony of Sherrye Lesmes  
Direct/Rebuttal  
File No. WR-2024-0320

*Exhibit No.:*

*Issue(s):* CIAC and Amortization,  
Customer Accounting,  
Lobbying Expense,  
Miscellaneous Expenses,  
Payroll Expense, Payroll  
Taxes, and Employee  
Benefit Expense, Postage,  
Printing, and Stationary  
Expense

*Witness:* Sherrye Lesmes

*Sponsoring Party:* MoPSC Staff

*Type of Exhibit:* Direct / Rebuttal Testimony

*Case No.:* WR-2024-0320

*Date Testimony Prepared:* December 6, 2024

# **MISSOURI PUBLIC SERVICE COMMISSION**

## **FINANCIAL AND BUSINESS ANALYSIS DIVISION**

### **AUDITING DEPARTMENT**

#### **DIRECT / REBUTTAL TESTIMONY**

#### **OF**

#### **SHERRYE LESMES**

#### **MISSOURI-AMERICAN WATER COMPANY**

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

*Jefferson City, Missouri  
December 6, 2024*

**DIRECT / REBUTTAL TESTIMONY**

**OF**

**SHERRY LESMES**

**MISSOURI-AMERICAN WATER COMPANY**

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

Q. Please state your name and business address.

A. My name is Sherrye Lesmes and my business address is 200 Madison Street, Suite 440, PO Box 360, Jefferson City, MO 65102.

Q. By whom are you employed and in what capacity?

A. I am employed as a Utility Regulatory Auditor for the Missouri Public Service Commission ("Commission").

Q. Please describe your educational background and experience.

A. I earned a Bachelor of Science degree in Accounting from Columbia College in Columbia, Missouri, in 2004. In earning this degree, I completed numerous core accounting and business classes. Prior to joining the Commission in 2022, I was employed by the Missouri State Auditor's Office ("SAO") from 2013 to 2022 as an Auditor. During my time with the SAO, I participated in numerous audits of various types including several local cities and counties that included utilities.

Q. What are your responsibilities with the Commission?

A. I conduct audits and examinations of the books and records of regulated utility companies operating within the State of Missouri.

Q. Have you previously filed testimony before the Commission?

Direct / Rebuttal Testimony of  
Sherrye Lesmes

1           A.     Yes. I have attached a list of the cases in which I have filed testimony before the  
2 Commission. Please refer to Schedule SL-d1.

3           Q.     With respect to Case No. WR-2024-0320, have you examined the books and  
4 records of the Missouri American Water Company (“MAWC”)?

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

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

8           A.     I have worked on these issues in other rate cases as described in  
9 Schedule SL-d1. I have worked closely with senior auditors and supervisors, who possess  
10 extensive regulatory knowledge. I also received continuous training at in-house and outside  
11 seminars on auditing standards and skills while employed with the SAO and with the  
12 Commission. I have more than nine years of auditing experience of other state agencies, local  
13 municipalities and counties within the State of Missouri, of which several municipalities and/or  
14 counties owned and operated utility services. In addition, for this rate case, I have reviewed  
15 workpapers and testimony from prior MAWC general rate cases. I also reviewed data presented  
16 by MAWC in the current case on these issues.

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

18          A.     The purpose of my direct / rebuttal testimony is to provide Staff’s  
19 recommendation for the following issues: Contribution in Aid of Construction (“CIAC”),  
20 customer accounting, lobbying expense, miscellaneous expense, payroll taxes, payroll expense,  
21 employee benefits, as well as the postage, printing, and stationary expense. I will also be  
22 responding to the direct testimony of MAWC’s witnesses Jennifer M. B. Grisham regarding  
23 customer accounting, the postage, printing, and stationary expense, miscellaneous expense,

1 and CIAC; and to Manuel Cifuentes, Jr. regarding payroll taxes, payroll expense,  
2 and employee benefits.

3 **CIAC AND RELATED AMORTIZATION**

4 Q. Can you please explain CIAC?

5 A. Contributions in aid of construction are plant assets donated by developers and  
6 any other plant assets which the utility receives at zero cost. CIAC could also include funds  
7 received from developers for the right to connect to a utility's system in the form of a tariffed  
8 CIAC charge. The utility company has no obligation to repay or refund CIAC to developers or  
9 customers. Since the related plant investment has not been financed by the utility's investors;  
10 customers should not be required to pay a return on the plant and the CIAC is deducted from  
11 rate base for rate making purposes. CIAC can be found in the Rate Base Accounting Schedule

12 Q. Please describe MAWC's position on CIAC and related amortization.

13 A. In her direct testimony, MAWC witness Ms. Grisham states that historical  
14 information was taken from MAWC's fixed assets and Enterprise Resource Planning ("ERP")  
15 systems, and that the CIAC balances were amortized over the same period as the corresponding  
16 assets at the rates approved in MAWC's last general rate case.<sup>1</sup>

17 Q. Did Staff calculate MAWC's current CIAC balance and  
18 associated amortization?

19 A. Yes. Staff reviewed the historical information provided by MAWC and  
20 calculated the ending balances of \$381,691,584 for CIAC and \$124,477,791 for CIAC  
21 amortization, as of June 30, 2024, for MAWC.

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<sup>1</sup> MAWC Jennifer M.B. Grisham Direct Testimony page 6, lines 1-4, and lines 6-9

**CUSTOMER ACCOUNTING**

Q. Can you please explain customer accounting?

A. Customer accounting are the operating expenses incurred by MAWC that include bank fees and lock box fees for customer payment collection.

Q. Please describe MAWC's position on customer accounting.

A. MAWC proposes to use base period ending December 31, 2023, which was adjusted for removal of one-time, non-recurring items and inclusion of credit card fees.<sup>2</sup>

Q. What approach does Staff use to calculate the customer accounting expense?

A. Staff reviewed bank and lock box fees for three years through the end of the update period, the 12-months ending June 30, 2024, and made an adjustment for any one-time, non-recurring items and credit card fees. Staff noted the trend is decreasing and recommends using the 12-months ending June 30, 2024 in the amount of \$403,547 to represent the most current ongoing level of expense.

**LOBBYING EXPENSE**

Q. Please explain lobbying expense.

A. Lobbying expense are the costs incurred by MAWC to hire lobbyists to represent it and try to influence legislation, regulation, or other government decisions, actions, or policies on its behalf.

Q. What is MAWC's position on lobbying expense in this rate case?

A. MAWC removed all lobbying expense for rate making purposes.<sup>3</sup>

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<sup>2</sup> MAWC Jennifer M.B. Grisham Direct Testimony page 9, lines 6-13

<sup>3</sup> MAWC Manuel Cifuentes, Jr Direct Testimony page 21, lines 12-14

1 Q. Does Staff agree with MAWC's position in this rate case?

2 A. Yes.

3 **MISCELLANEOUS EXPENSE**

4 Q. Can you please explain miscellaneous expense?

5 A. Miscellaneous expense is various operating costs incurred by MAWC and  
6 include such items as follows: lab supplies, research and development, inventory physical  
7 write-off scrap, hiring costs, trustee fees, directors' fees, and directors' expenses.

8 Q. What is MAWC's position on miscellaneous expense?

9 A. MAWC proposes to use the expenses through the 12 months ended  
10 December 31, 2023, and made an adjustment to remove expenses for non-recoverable items  
11 such as charitable contributions, lobbying, penalties, and membership dues.<sup>4</sup>

12 Q. What is Staff's approach to miscellaneous expense?

13 A. Staff reviewed three years of miscellaneous expense and no discernible trend  
14 was noted. Staff calculated a three-year average to obtain a normalized cost for miscellaneous  
15 expense. Staff also removed miscellaneous lobbying and penalties expenses.  
16 Miscellaneous charitable contributions and membership dues expense are addressed by Staff  
17 witness Alexis Branson.

18 **PAYROLL EXPENSE, PAYROLL TAXES AND EMPLOYEE BENEFITS**

19 **Payroll Expense**

20 Q. Please describe payroll expense.

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<sup>4</sup> MAWC Manuel Cifuentes, Jr Direct Testimony page 21, lines 9-18

1           A.     Payroll expense is the wages paid to employees by businesses in exchange for  
2 services. There are three classifications of employees at MAWC: Collective Bargaining Unit  
3 (“CBU”) hourly employees, non-CBU hourly employees, and exempt employees.

4           Q.     What is MAWC’s position on payroll expense?

5           A.     As stated in MAWC’s witness Mr. Cifuentes, Jr’s direct testimony,  
6 MAWC proposes to annualize wages for 704 full-time positions (as of March 31, 2024) with  
7 97 positions included to account for 59 currently vacant full-time positions, 28 temporary  
8 summer interns, and 10 temporary interns.<sup>5</sup> MAWC believes these vacant positions should be  
9 included since MAWC is working to fill vacancies, as discussed by MAWC witness Carlson.<sup>6</sup>  
10 The 2023 labor hours were annualized as of December 31, 2023, and adjusted on a  
11 position-by-position basis to reflect a normalized level. These hours were then multiplied by  
12 each employee’s actual wage rate as of January 1, 2024, to determine an annualized level of  
13 expense. Mr. Cifuentes, Jr. gives a breakdown of costs that must be included in CBU hourly  
14 employees’ wages in accordance with the collective bargaining agreement signed by both  
15 parties, which is legally binding.<sup>7</sup>

16          Q.     How did Staff determine the level of payroll expense to include  
17 in its recommendation?

18          A.     To determine the level of payroll expense that should be included,  
19 Staff reviewed MAWC’s response to Staff’s Data Request (“DR”) No. 0157, which includes  
20 the confidential employee list as of December 31, 2023. Staff used the salary amount to  
21 determine the exempt employees’ payroll expense. Staff multiplied the CBU hourly

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<sup>5</sup> MAWC Manuel Cifuentes, Jr Direct Testimony page 9 lines 19-22

<sup>6</sup> MAWC Manuel Cifuentes, Jr Direct Testimony page 10 lines 1-7

<sup>7</sup> MAWC Manuel Cifuentes, Jr Direct Testimony page 10 lines 20-24, page 11 lines 1-22, and page 12 lines 1-7



1 employees' and non-CBU hourly employees' hourly wage by 2,088 hours to determine the  
2 hourly employees' payroll expense. For the CBU hourly employees, Staff's payroll expense  
3 includes base payroll rates (including any 2024 increases), license rates, shift premiums,  
4 union employee meal allowances, and overtime consistent with the collective bargaining  
5 agreements ("CBAs"). Section 386.315.1, RSMo, states the "commission shall not reduce or  
6 otherwise change any wage rate, benefit, working condition, or other term or condition of  
7 employment that is the subject of a collective bargaining agreement between the public utility  
8 and a labor organization." \*\* [REDACTED]

9 [REDACTED]  
10 [REDACTED]  
11 [REDACTED]  
12 [REDACTED]  
13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED]  
16 [REDACTED]  
17 [REDACTED]  
18 [REDACTED]  
19 [REDACTED]  
20 [REDACTED]. \*\* Staff determined its union employee overtime  
21 adjustment by multiplying Staff's calculated overtime percentage by its annualized labor.  
22 Staff removed labor costs for vacant positions, the portion of wages for employees involved in  
23 lobbying activities based on the percentage of lobbying activities (as identified by MAWC in

1 their response to Staff's DR Nos 0137 & 0138), and removed labor costs for employees that  
2 were in job positions that did not directly relate to providing safe and adequate utility service  
3 to ratepayers based on job descriptions (as provided by MAWC in their response to Staff's DR  
4 No 0243). Staff's overall adjustment for union employee overtime expense is \$530,223.

5 Staff's calculated level of labor payroll expense for the test year is \$45,668,467.  
6 Staff will continue to review this issue through December 31, 2024, as part of its update period.

7 **Payroll Tax Expense**

8 Payroll tax expense is directly related to salaries and wages.

9 Q. What is MAWC's position on payroll tax expense?

10 A. In his direct testimony, MAWC witness Mr. Cifuentes, Jr. defined the required  
11 types of taxes related to payroll: Federal Insurance Contributions Act (more commonly known  
12 as "FICA") and Hospital Insurance (more commonly known as "FICA Medicare"),  
13 and Federal Unemployment Tax ("FUTA") and State Unemployment Tax ("SUTA").  
14 He described the calculations of each tax type and stated the gross wages were multiplied by  
15 the current rates for FICA (6.2%) on all wages and Medicare (1.45%) on all wages with an  
16 additional 0.9% on wages greater than \$200,000. For FUTA, calculations are 0.6% on the  
17 first \$7,000 in wages.<sup>8</sup>

18 Q. What is Staff's position on payroll taxes expense?

19 A. Staff applied the current FICA, FUTA, and SUTA tax rates (for SUTA the tax  
20 rate is zero) applicable to annualized payroll amounts to determine payroll taxes.  
21 Staff's annualized payroll tax expense for MAWC is \$2,655,873 and for the American Water  
22 Works Service Company, Inc. (a/k/a "AWWC or Service Company") is \$717,853.

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6 MAWC Manuel Cifuentes, Jr Direct Testimony page 10 lines 20-24,

**Employee Benefits Other than Pensions and Other Post-Employment  
Benefits (“OPEBs”)**

Q. What is MAWC’s position regarding employee benefits?

A. MAWC is seeking to include actual company costs for employee benefits such as: 401k, defined contribution plan (“DCP”), Retiree Medical trust contributions (“VEBA”), and the employee stock purchase plan (“ESPP”), which are subject to individual employee elections.<sup>9</sup>

Q. Please explain employee benefits other than pensions that are offered to MAWC employees.

A. MAWC and the Service Company offer additional benefits to their employees, including a 401(k) employer match, VEBA, DCP, ESPP, and various types of insurance (medical, dental, vision, life, etc.). For each MAWC and Service Company employee, Staff annualized the benefits and health insurance costs for employees who elected to waive health insurance coverage. ESPP is addressed by Staff witness Angela Niemeier. Staff removed employer costs related to health insurance of employees who waived coverage as there was no cost to MAWC for those individual employees. Staff’s calculated level of employee benefits is \$9,397,003 for MAWC and \$1,735,181 for the Service Company. Staff witness Angela Niemeier addresses Pensions and OPEBs in her direct / rebuttal testimony in this case.

**POSTAGE, PRINTING, AND STATIONARY EXPENSE**

Q. Please explain the postage, printing, and stationary expense.

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page 11 lines 1-22, and page 12 lines 1-7  
page 13 lines 13-24, page 14 lines 1-23, and page 15 lines 1-5

1           A.     Postage, printing, and stationary expense are the operating expenses incurred by  
2 MAWC that include back-office postage, printing, and shipping costs not included in Customer  
3 Accounting or Service Company expense.

4           Q.     What is MAWC's position on postage, printing, and stationary?

5           A.     MAWC proposes to utilize a three-year average of actual postage, printing, and  
6 stationary expense from 2021 through 2023, as of the twelve months ending  
7 December 31, 2023.

8           Q.     How did Staff calculate back-office postage, printing, and shipping expense?

9           A.     Staff analyzed the data provided by MAWC and then utilized a three-year  
10 average (three-years ending June 30, 2024) to represent an ongoing level of expense.

11          Q.     Does this conclude your direct / rebuttal testimony?

12          A.     Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of Missouri-American Water Company's    )  
Request for Authority to Implement a General Rate        )  
Increase for Water and Sewer Service Provided in       )  
Missouri Service Areas                                        )

Case No. WR-2024-0320

**AFFIDAVIT OF SHERRYE LESMES**

STATE OF MISSOURI        )  
                                      )  
COUNTY OF COLE         )       ss.

**COMES NOW SHERRYE LESMES** and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Direct / Rebuttal Testimony of Sherrye Lesmes*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

  
**SHERRYE LESMES**

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 4<sup>th</sup> day of December 2024.



  
Notary Public

## Sherrye Lesmes

### Present Position:

I am a Utility Regulatory Auditor, Auditing Department, Financial & Business Analysis Division of the Missouri Public Service Commission. As a Utility Regulatory Auditor, I assist in research and analysis of the financial aspects of public utility operations.

### Educational Credentials and Work Experience:

I received a Bachelor of Science degree with a major in Accounting from Columbia College in Columbia, Missouri in 2004. I owned and operated my own accounting firm from 2007 until 2010 when I accepted a Tax Collections position with the Missouri Department of Revenue. I was employed by the Missouri State Auditor's Office for nine and a half years before accepting a position with the Missouri Public Service Commission in 2022.

### Past Rate Case Proceedings:

Company Name	Case Number(s)	Testimony/Issues
Missouri-American Water Company (to acquire) Pom-Osa Heights	WA-2022-0361	Certificate of Convenience and Necessity
Missouri-American Water Company	WR-2022-0303	Dues and Donations, Materials & Supplies, Customer Advances, Prepayments, Penalties Expense, and Postage Expense
Missouri-American Water Company	WO-2023-0008	Water and Sewer Infrastructure Rate Adjustment (WSIRA)
Missouri-American Water Company (to acquire) City of Smithton	WA-2023-0071	Certificate of Convenience and Necessity
Spire Missouri, Inc (Gas)	GO-2023-0203	Infrastructure System Replacement Surcharge (ISRS)

Company Name	Case Number(s)	Testimony/Issues
Vicinity Energy Kansas City, Inc (Steam/Heat)	HR-2023-0198	Rate Case expense, PSC Assessment, Insurance, Injury/Damages Expense, Maintenance Expense Normalization
Missouri-American Water Company (to acquire) City of Ironton	WA-2023-0434	Certificate of Convenience and Necessity
Raytown Water Company	WR-2023-0344	Advertising, Contributions in Aid of Construction, Customer Advances, Customer Deposits, Customer Deposits Interest, Property Tax, Rate Case Expenses
Liberty Utilities (MO Water) LLC, d/b/a Liberty	WR-2024-0104	Bad Debt expense, Bank fees, Communication expense, Contract Services expense, Insurance (other than Group), Office Supplies expense, Outside Services expense, Property Taxes and Tax Tracker, PSC Assessment fees, Rate Case expense