

Exhibit No. 124

Exhibit No.:
Issue(s): *Production Cost Expense,
Rate Case Expense,
Other Operating Revenues,
Chemicals, Purchased
Water, Pensions and
OPEBs, Postage Expense*

Witness: *Ashley Sarver*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *WR-2022-0303*
Date Testimony Prepared: *January 18, 2023*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL & BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

REBUTTAL TESTIMONY

OF

ASHLEY SARVER

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2022-0303

Jefferson City, Missouri
January 2023

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REBUTTAL TESTIMONY OF
ASHLEY SARVER
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1 **PRODUCTION COST EXPENSE**

2 Q. Did MAWC request a production cost tracker in this case?

3 A. Yes, as discussed on pages 17 to 19 in Mr. LaGrand's direct testimony.

4 Q. What production cost is MAWC seeking to track?

5 A. MAWC is seeking to track production cost related to fuel and power, chemicals,
6 waste disposal, and purchased water.

7 Q. Does Staff agree with MAWC's proposed production cost tracker?

8 A. No. Staff witness Kimberly K. Bolin addresses Staff's general policy concerning
9 trackers in her rebuttal testimony for this case.

10 Q. What ratemaking treatment does Staff recommend for production cost in this
11 case?

12 A. In its direct filing, Staff used standard ratemaking principles, using historical
13 costs as a starting point to determine a reasonable level for fuel and power, chemicals, waste
14 disposal, and purchased water expense for the test year period ending June 30, 2022. Staff will
15 review and update these costs in the true-up phase of this case for the period ending
16 December 31, 2022. Staff's approach is to adjust MAWC's historical financial results to bring
17 Staff's recommended ratemaking allowance as close as possible to the point in time new rates
18 will be in effect, without the need for a tracker.

19 Q. Please summarize Staff's position with regard to MAWC's proposal for a
20 production cost tracker.

21 A, Current levels of production costs are known and measurable, which Staff can
22 use as the basis to determine an ongoing level of expense. Trackers should only be used on a
23 limited basis for costs that are highly volatile, for costs for which there is no prior historical

1 data, or for costs imposed on utilities by a Commission rule that imposes an uncertain level of
2 new costs. Production costs are normal operating expenses incurred by MAWC. Staff
3 recommends the Commission deny MAWC's request for a production cost tracker.

4 Q. Please explain how Staff treated production costs in its direct filing.

5 A. Staff analyzed five years of production costs for the period ending June 30, 2022.
6 Please refer to the direct testimonies of myself and Staff witness Angela Niemeier filed on
7 November 22, 2022, for more information regarding how Staff calculated each component of
8 production costs.

9 Q. Please explain why a production cost tracker is inappropriate in this instance.

10 A. As I explained above, use of trackers should be considered on a case-by-case
11 basis to allow the Commission to take into account unusual conditions, such as high volatility
12 of costs, costs for which there is no historical data, or for uncertain level of costs imposed on
13 utilities by new Commission rules. MAWC's recent experience with production costs does not
14 meet these criteria. Staff was able to use historical known and measurable costs for all areas of
15 MAWC's cost of service using regulatory adjustments such as annualization and normalization
16 to determine an ongoing and matching level of investment, expense, and revenues to include in
17 MAWC's cost of service.

18 Q. Which Staff member annualized or normalized production cost expense?

19 A. I annualized fuel and power expense and then normalized chemicals and
20 purchased water, while Staff witness Angela Niemeier annualized waste disposal expense.

21 Q. How does MAWC and Staff positions differ in respect to MAWC's proposed
22 production cost tracker?

1 A. Although Staff recognizes some of the production costs have increased, the use
2 of a tracker is not justified simply because a specific cost has increased. Cost decreases also
3 occur outside of a rate case that may offset a portion of costs increases that a utility may
4 experience. Production costs are normal recurring operating costs that are incurred by MAWC.
5 The methodology used by Staff to determine an appropriate cost of service level is consistent
6 with the method used in prior rate cases. Production costs are known and measurable and can
7 be reasonably calculated.

8 Q. Does Staff recommend re-examining production costs as part of its true-up audit
9 in this case?

10 A. Yes.

11 Q. What level of production expense does Staff recommend in this case?

12 A. Staff recommends a normalized production expense level of \$32,030,050.

13 **RATE CASE EXPENSE – SHARING**

14 Q. What issue regarding rate case expense are you addressing in your testimony?

15 A. I am addressing the 50/50 sharing mechanism for rate case expense. In her
16 rebuttal testimony, Staff witness Courtney Horton addresses specific items Staff is excluding
17 from the sharing mechanism.

18 Q. OPC witness John S. Riley states on page three of his direct testimony, “Instead
19 of a 50/50 split, the Company should bear two thirds of the cost deemed reasonable by the
20 Commission.” Do you agree with Mr. Riley’s statement?

21 A. No. On pages 16-19 of my direct testimony I state several reasons why the 50/50
22 sharing is most appropriate to be used to share rate case expense. For example, Staff
23 recommends using the same treatment of rate case expense that it recommended in MAWC’s

1 prior rate case, Case No. WR-2020-0344, which is to include a 50% share of the actual
2 incremental external rate case expense. In addition, this 50/50 sharing mechanism is consistent
3 with the Commission's most recent decision concerning rate case expense in the Spire Missouri
4 Case Nos. GR-2017-0215 and GR-2017-0216.¹ The Missouri Supreme Court recently upheld
5 the Commission decision on rate case expenses.²

6 **OTHER OPERATING REVENUES**

7 Q. What revenue is classified as other operating revenues?

8 A. As I described on page 15 of my direct testimony, MAWC's other operating
9 revenues categories include funds received for the following items: late payment charges, rents,
10 collection for others, non-sufficient funds check charges, application/initiation fees, the
11 provision of usage data to other entities, reconnection fees, frozen meter fees, after hours
12 charges, and miscellaneous service.

13 Q. Did Staff make corrections to other operating revenues for water in this rebuttal
14 testimony?

15 A. Yes. Staff corrected errors in the Exhibit Modeling System ("EMS") for the two
16 water districts: St. Louis Water and All Other Water. Staff's adjustments to the test year in its
17 EMS calculations for the two districts were incorrect. These adjustments did not match
18 the annualized/normalized amounts on the corresponding workpaper which had the
19 correct amounts that should have been applied. The following table shows the differences to
20 Other Operating Revenues between Staff's Revenues workpaper and Staff's direct and
21 rebuttal testimonies.

¹ Amended Report and Order, GR-2018-0215/0216, P. 55 (March 7, 2018).

² *Spire Missouri, Inc. v. Pub. Serv. Comm'n*, 618 S.W.3d 225, 233 (Mo. Banc 2021).

	Direct Testimony	Rebuttal Testimony
St. Louis District (water)	\$4,722,884	\$3,709,065
All Other Water (water)	\$2,246,324	\$1,713,635

Q. What are the direct filing and rebuttal filing normalized levels for other operating revenues?

A. The other operating revenues for MAWC in Staff's direct EMS is a total of \$6,969,208 and the normalized other operating revenues for rebuttal EMS is a total of \$5,422,700; this is a difference of (\$1,546,508).

Q. Does the change to other operating revenues affect expenses?

A. Yes. The change to MAWC's revenues affects the district allocations for the following expenses: PSC assessment, collection agencies, regulatory expense, uncollectible, and income tax.

CHEMICALS

Q. Did Staff update its chemical expense from its direct filing?

A. Yes. When reviewing Staff's direct filing, MAWC noticed that Staff did not include any miscellaneous chemical expenses.

Q. How did Staff calculate the miscellaneous expense for chemicals?

A. Staff used a three year average ending June 30, 2022, to determine an appropriate ongoing level for chemical expense.

Q. What is Staff's change from the direct testimony to rebuttal testimony for chemical expense for MAWC?

1 A. The direct filing chemical expense for MAWC was \$13,459,100 and for rebuttal
2 it is \$13,518,530.

3 **PURCHASED WATER**

4 Q. Did Staff update its purchased water from its direct filing?

5 A. Yes. When reviewing Staff's direct filing, MAWC noticed that Staff did not
6 correctly calculate the second tier water usage for Excelsior Springs.

7 Q. How did Staff re-calculate the water volume cost for Excelsior Springs?

8 A. Staff calculated a three year average of the amounts paid for the period ending
9 June 30, 2022 using the current prices.

10 Q. What is Staff's change from the direct testimony to rebuttal testimony for
11 purchased water expense for MAWC?

12 A. The direct filing purchased water expense for MAWC was \$1,507,704 and for
13 rebuttal it is \$1,564,876.

14 **PENSIONS AND OPEBS**

15 Q. Did Staff correct the percentage used in its direct filing for the removal of
16 capitalization from pensions and OPEBs expense?

17 A. Yes. Staff inadvertently disallowed the Operations and Maintenance ("O&M")
18 percentage portion from pensions and OPEBs.

19 Q. Did Staff remove the retiree contributions in the OPEB tracker?

20 A. In Staff's direct filing, Staff included these costs; however, MAWC provided
21 more information on why this should be disallowed, therefore, Staff disallowed this cost.

22 Q. What is Staff's annualized level of pension expense?

1 A. Staff's annualized level of pension expense is (\$5,069,718).

2 Q. What is MAWC's ongoing Financial Accounting Standards ("FAS") 106 cost
3 recognized in rates in this case?

4 A. MAWC has included (\$3,295,195) as ongoing FAS 106 cost in rates in this case.

5 Q. Since Case No. WR-2020-0344, has MAWC over- or under-recovered its
6 FAS 106 expense in rates, compared to its actual level of expense incurred?

7 A. MAWC has over-recovered the expense level since the last rate case, Case No.
8 WR-2020-0344. The balance in the regulatory liability account as of June 30, 2022, was a
9 negative \$7,274,072, which is to be amortized over five years as a reduction to expense in the
10 amount of \$1,454,814.

11 Q. How does the ongoing OPEB tracker affect MAWC's rate base in this case?

12 A. Rate base is reduced by the level of regulatory liability associated with MAWC's
13 ongoing OPEBs tracker mechanism, which is currently \$7,274,072.

14 **POSTAGE EXPENSE**

15 Q. Did Staff update its postage expense from its direct filing?

16 A. Yes. In her direct filing, Staff witness Sherrye Lesmes calculated postage
17 expense and adjusted the MAWC postage expense account 921. However, MAWC's postage
18 is actually included in the American Water Works Service Company, Inc. ("Service Company")
19 allocations to MAWC. Subsequently, in this rebuttal filing Staff has changed the postage
20 expense adjustment to adjust the appropriate Service Company account (AWWSC Services –
21 Customer Accounting). Please see the rebuttal testimony of Ms. Lesmes for an explanation of
22 the actual adjustment.

Rebuttal Testimony of
Ashley Sarver

1 Q. Did Staff change the district allocation factor used for the AWWSC Services –
2 Customer Accounting account?

3 A. Yes. For the direct filing, Staff’s Massachusetts (hybrid) formula allocation
4 factor was used to allocate test year expenses across the four districts. This allocation factor is
5 based on a combination of customer count, employee count, and net utility plant. Since postage
6 expense is affected by the number of customers who would receive mailings, Staff’s customer
7 count allocation factor is more appropriate.

8 Q. Does this conclude your rebuttal testimony?

9 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water)
Company's Request for Authority to) Case No. WR-2022-0303
Implement General Rate Increase for Water)
and Sewer Service Provided in Missouri)
Service Areas)

AFFIDAVIT OF ASHLEY SARVER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

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

Further the Affiant sayeth not.




ASHLEY SARVER

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 11th day of January 2023.

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



Notary Public