

# Exhibit No. 40

Exhibit No.:	
Issues:	Cash Working Capital
Witness:	Harold Walker, III
Exhibit Type:	Surrebuttal
Sponsoring Party:	Missouri-American Water Company
Case No.:	WR-2022-0303
Date:	February 8, 2023

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO. WR-2022-0303**

**SURREBUTTAL TESTIMONY**

**OF**

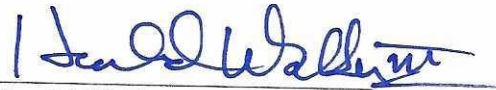
**HAROLD WALKER, III**

**ON BEHALF OF**

**MISSOURI-AMERICAN WATER COMPANY**

## AFFIDAVIT

I, Harold Walker, III, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am Manager, Financial Studies for Gannett Fleming Valuation and Rate Consultants, LLC, 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.

A handwritten signature in blue ink, appearing to read "Harold Walker, III", written over a horizontal line.

Harold Walker, III

February 8, 2023

Dated

**SURREBUTTAL TESTIMONY  
HAROLD WALKER, III  
MISSOURI-AMERICAN WATER COMPANY  
CASE NO.: WR-2022-0303  
TABLE OF CONTENTS**

**I. INTRODUCTION..... 2**

**II. SCOPE OF TESTIMONY ..... 2**

**III. SUPPORT SERVICES LAG DAYS..... 2**

**IV. CURRENT INCOME TAX LAG DAYS ..... 5**

**SURREBUTTAL TESTIMONY**

**HAROLD WALKER, III**

**I. INTRODUCTION**

1

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

3 A. My name is Harold Walker, III. My business address is 1010 Adams Avenue, Audubon,  
4 Pennsylvania, 19403.

5 **Q. Are you the same Harold Walker, III who previously submitted Direct Testimony in**  
6 **this proceeding?**

7 A. Yes.

**II. SCOPE OF TESTIMONY**

8

9 **Q. What is the purpose of your Surrebuttal Testimony?**

10 A. The purpose of my Surrebuttal Testimony is to is to respond to the Rebuttal Testimony  
11 submitted by the Office of the Public Counsel (“OPC”) as it relates to adjustments to the  
12 Cash Working Capital (“CWC”) calculation on the following topics: 1) Changing the  
13 expense lag days for Support Services; and 2) Changing the expense lag days for Current  
14 Federal Income Tax and Current State Income Tax.

**III. SUPPORT SERVICES LAG DAYS**

15

16 **Q. Did OPC address the expense lag days for Support Services recommended by the**  
17 **Company and the Staff?**

18 A. Yes, OPC Witness Cassidy Weathers addresses the expense lag days for Support Services

1 recommended by the Company and the Staff.

2 **Q. What is OPC’s recommendation for Support Services in the CWC lead-lag study?**

3 A. Ms. Weathers recommends changing the expense lag days for Support Services utilized by  
4 both the Company and Staff from a negative 2.20 day expense lag to a positive 48.80 day  
5 expense lag to match the Contracted Services expense lag.

6 **Q. Why does OPC recommend Support Services be assigned the same expense lag days  
7 as Contracted Services?**

8 A. Ms. Weathers contends the “services that are included in Support Services align with the  
9 services included in Contracted Services.”<sup>1</sup>

10 **Q. Are the services that are provided through Support Services the same as the services  
11 provided by Contracted Services?**

12 A. No. Figure 1 below shows a side by side comparison of the services provided by Support  
13 Services and Contract Services expenses. As shown in Figure 1, the services are provided  
14 by Support Services and Contract Services expenses are quite different in nature and scope.  
15 Further, the cost structure of the services provide by each is very different. The services  
16 provided by **Support Services are charged at cost.** That is, there is no mark-up or  
17 financial gain for any services that the Service Company or its employees charge to the  
18 regulated or non-regulated affiliates. Whereas the services and the related expense of

---

<sup>1</sup> Weathers RT, p. 6.

1 Contract Services include entrepreneurial profit (i.e., marked-up for financial gain).

<b>Support Services</b>	<b>Contract Services</b>
Internal Audit	Landscaping
Business Development	Excavating
Customer Service	Janitorial
External Affairs, Communications and Public Policy	Missouri one call
Finance	Accounting
Human Resources	Audit
Technology and Innovation	Legal
Environmental Compliance	
Central Laboratory	
Investor Relations	
Planning and Strategic Integration	
Legal Counsel and Services	
Engineering	
Enterprise Security	
Health and Safety	
Facilities	
Operations Excellence	
Supply Chain	

2 **Figure 1**

3 **Q. Are expense lag days similar across the Company's various operating expense**  
4 **categories or line items?**

5 A. No. The lead-lag study used to determine the Company's CWC shows a range of expense  
6 lag days of -68.4 (negative) to 214.5 lag days across the Company's various operating  
7 expense categories or line items. In a competitive market, the pricing for any service must  
8 reflect the invoicing practice of the vendor and payment practice of the customer. There is  
9 no reason to expect Support Services and Contract Services expenses to have similar lag

1 days since each provides very different services and have different invoicing practices.

#### 2 **IV. CURRENT INCOME TAX LAG DAYS**

3 **Q. Did OPC address the expense lag days for Current Federal Income Tax and Current**  
4 **State Income Tax recommended by the Company and the Staff?**

5 A. Yes, OPC Witness Cassidy Weathers addresses the expense lag days for Current Federal  
6 Income Tax and Current State Income Tax recommended by the Company and the Staff.

7 **Q. What is OPC’s recommendation for Current Federal Income Tax and Current State**  
8 **Income Tax in the CWC lead-lag study?**

9 A. Ms. Weathers recommends changing the expense lag days for Current Federal Income Tax  
10 and Current State Income Tax utilized by both the Company and Staff from a 35.6 day  
11 expense lag to 365.0 day expense lag to match the Commission’s Report and Order in the  
12 Spire Missouri, Inc. rate case in Case No. GR-2021-0108 (“Spire Report and Order”).

13 **Q. Are the facts regarding the Company’s current Federal Income Tax and Current**  
14 **State Income Tax the same as those found in the Spire Report and Order?**

15 A. No. In the Spire Report and Order, the finding of fact No. 66 states, “Spire Inc.’s state and  
16 federal income tax returns, Spire Missouri’s annual report filed with the Commission, and  
17 the public 10-K reports filed with the U.S. Securities and Exchange Commission, all  
18 indicate that both the parent company and Spire Missouri have not been required to pay  
19 income tax in at least the past three years.” (Emphasis added.) However MAWC’s parent  
20 company paid income taxes in each of the last three years according to their public 10-K  
21 report filed with the U.S. Securities and Exchange Commission (“SEC”). Further,  
22 according to MAWC parent company’s public 10-K report filed with the SEC, the parent



1 company has no remaining federal net operating loss carryforward (NOLC) to use after  
2 2021.

3 In the Spire Report and Order, the finding of fact No. 67 states, “Spire Missouri’s current  
4 NOLC makes it highly unlikely that it will pay income taxes for the next three years.”  
5 Conversely, MAWC has not used, nor do they have NOLC available to them.<sup>2</sup>

6 **Q. Is there any mathematical basis for OPC’s recommendation of a 365.0 day expense**  
7 **lag for Current Federal Income Tax and Current State Income Tax?**

8 No. Ms. Weathers recommendation would result in about 87% of Current Federal Income  
9 Tax and Current State Income Tax expense that is included in the Company’s revenue  
10 requirement being removed or subtracted from the Company’s rate base value.<sup>3</sup> Ms.  
11 Weathers recommendation should be viewed as a partial run around the required use of  
12 statutory tax rates in the determination of current income taxes for rate making purposes.

13 **Q. Does this conclude your Surrebuttal Testimony?**

14 A. Yes, it does.

---

<sup>2</sup> MAWC’s rate base claim would be higher if NOLC were available since NOLC asset balance would be an offset (reduction) to the ADIT liability.

<sup>3</sup>  $45.7 \text{ revenue lag days} - 365.0 \text{ current income tax lag days} = -319.7 \text{ (negative)} \div 365 \text{ days} = 87\% \text{ of the expense item.}$