

# Exhibit No. 35

Exhibit No.:  
Issues: Property Tax Tracker, Uncollectible  
Expense Tracker, Cost of Service  
Witness: Wesley E. Selinger  
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**

**WESLEY E. SELINGER**

**ON BEHALF OF**

**MISSOURI-AMERICAN WATER COMPANY**

## AFFIDAVIT

I, Wesley E. Selinger, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am Director, Rates and Regulatory for American Water Works Service 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.

  
Wesley E. Selinger

February 8, 2023

Dated

**SURREBUTTAL TESTIMONY  
WESLEY E. SELINGER**

**MISSOURI-AMERICAN WATER COMPANY  
CASE NO.: WR-2022-0303**

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**SURREBUTTAL TESTIMONY**

**WESLEY E. SELINGER**

**I. INTRODUCTION**

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

2 A. My name is Wesley E. Selinger and my business address is 727 Craig Road, Saint Louis,  
3 Missouri 63141.

4 **Q. Are you the same Wesley E. Selinger who previously submitted Direct and Rebuttal**  
5 **Testimony in this proceeding?**

6 A. Yes.

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

8 A. The purpose of my Surrebuttal Testimony is to address issues within the testimony of  
9 Missouri Public Service Commission Staff (“Staff”) witness Kim Bolin regarding Missouri  
10 American Water Company’s (“MAWC” or “the Company”) proposals to implement  
11 tracking mechanisms for property tax and uncollectible expenses and issues raised by  
12 Missouri Industrial Energy Consumers (“MIEC”) witness Jessica York and the Office of  
13 the Public Counsel (“OPC”) witness Jordan Seaver regarding MAWC’s cost of service  
14 studies.

15 **II. PROPERTY TAX TRACKER**

16 **Q. Please explain Staff’s position on the property tax deferral that MAWC has included**  
17 **within its revenue requirement.**

18 A. Staff and the Company agree that legislation was effective August 28<sup>th</sup>, 2022, directing  
19 utilities to track and defer the difference between the property taxes actually paid each year  
20 and the property taxes included within the revenue requirement used to establish the

1 utility's base rates. Staff's position is that MAWC's property tax deferral should not be  
2 approved because its last general rate proceeding was resolved via a Stipulation and  
3 Agreement that did not specify a level of property tax; therefore, there is not a base level  
4 to track against.

5 **Q. Do you agree with Staff's position?**

6 A. No. While I agree that the Stipulation and Agreement in MAWC's most recent general  
7 rate case did not specify a specific level of property tax, I do not agree that this precludes  
8 the parties to this case from determining a base level of property tax for purposes of  
9 implementing the statute.

10 **Q. Has Staff suggested a base level of property tax expense for the purposes of**  
11 **determining a property tax deferral in this case?**

12 A. Yes. Despite Ms. Bolin's claim that there is not a base level of property tax expense to  
13 track against, she has nonetheless put forward a recommendation for a base level of  
14 property tax expense she believes is reasonable should the Commission approve a property  
15 tax tracker for the Company in this case.<sup>1</sup>

16 **Q. How are property taxes assessed and paid in Missouri?**

17 A. Property taxes are paid in arrears in Missouri. Payment is made in December of each year  
18 based on the prior year end plant balances.

19 **Q. The procedural schedule in MAWC's last general rate case provided for a true-up**  
20 **date of December 31, 2020. Did Staff state that it intended to include MAWC's 2020**  
21 **actual property taxes as part of its true-up revenue requirement?**

22 A. Yes. Staff witness Courtney Barron stated that prior to the true-up date of December 31,

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<sup>1</sup> Bolin RT, p. 12.

1 2020, MAWC would have received its 2020 property tax bills and that “as part of its true-  
2 up audit, Staff will review these 2020 property tax assessments and foresees utilizing these  
3 assessed values to annualize property tax expense.”<sup>2</sup>

4 **Q. Did MAWC provide Staff its 2020 property tax bills in that case?**

5 A. Yes, in response to Staff data request 121, MAWC provided Staff with its actual 2020  
6 property tax payment amount.

7 **Q. Has Staff taken a similar approach in this case when evaluating property tax expense?**

8 A. Yes, Staff workpapers provided to the Company indicate that Staff intends to true-up its  
9 property tax recommendation to include MAWC’s actual 2022 property tax payment.

10 **Q. Given there are a limited number of possible data points available for calculating  
11 MAWC’s property tax expense along with the case history regarding Staff’s  
12 treatment of property tax expense amounts, what is your opinion on the proper  
13 amount of property tax expense to use as the base level of expense in order to  
14 implement the statute?**

15 A. The proper amount to use when determining the base level of property tax for the deferral  
16 is MAWC’s actual 2020 property tax payment.

17 **Q. Has any party disputed the amount of the Company’s 2020 property tax payment?**

18 A. No.

19 **Q. Has Staff suggested a base level of property tax in the event the Commission approves  
20 the Company’s deferral proposal?**

21 A. Yes. Staff has recommended the Commission use its initial position from MAWC’s last  
22 rate case of \$25,421,771 as MAWC’s base property tax level. This is MAWC’s 2019 tax

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<sup>2</sup> Case No. WR-2020-0344, Staff Cost-of-Service Report p. 73

1 payment amount.<sup>3</sup>

2 **Q. Do you agree with Staff's recommendation?**

3 A. No. Given the parties' historic approach to updating property tax, the fact that no party  
4 disputes MAWC's 2020 property tax amount, and the fact that this amount coincides with  
5 the true-up date in the Company's last rate case it is logical that MAWC's 2020 property  
6 tax payment amount, \$28,573,695, should serve as the base level of property taxes to be  
7 used when implementing the property tax tracker legislation in this case.

8 **Q. Are there additional differences in how Staff and the Company calculated their**  
9 **property tax deferral amounts?**

10 A. Yes. Staff has prorated its base property tax level and the 2022 property tax amounts  
11 included within MAWC's rates using the date the property tax tracker legislation was  
12 signed, August 28, 2022. MAWC has calculated its deferral by comparing its forecasted  
13 2022 property tax expense (which will be subject to true-up) and a base level of property  
14 tax using MAWC's actual 2020 property tax assessment as well as any property tax  
15 recovered within its WSIRA mechanism during 2022.

16 **Q. Does the property tax tracker legislation require prorating amounts as Staff has**  
17 **done?**

18 A. No, the legislation does not state that amounts should be prorated.  
19

### 20 **III. UNCOLLECTIBLE EXPENSE TRACKER**

21 **Q. Please explain Staff's Position regarding MAWC's proposed Uncollectible Expense**  
22 **tracker.**

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<sup>3</sup> Bolin RT, p. 12.



1 A. Staff has recommended the Commission not approve MAWC’s proposed Uncollectible  
2 Expense tracker, asserting that the use of a historic three-year average to determine the  
3 going level of uncollectible expense embedded in MAWC’s base rates is reasonable and  
4 appropriate to deal with fluctuations in those costs between rate cases.

5 **Q. Staff witness Bolin has provided a list of instances where the use of trackers may be**  
6 **appropriate.<sup>4</sup> Do you agree with Staff’s list?**

7 A. I disagree that the list is exhaustive or covers all instances where trackers are appropriate.  
8 The Company agrees with Staff on certain situations referenced in testimony, such as when  
9 costs are new or difficult to estimate accurately or when there are costs imposed on utilities  
10 by newly promulgated Commission rules. However, the Company believes that it is critical  
11 to note the primary reason for trackers, which is they help to mitigate the impact of cost  
12 variances that are beyond the Company’s ability to reasonably control and ensure that  
13 customers pay no more or less than the amount of expenses incurred.

14 **Q. IS UNCOLLECTIBLE EXPENSE REPRESENTATIVE OF AN ITEM WHERE**  
15 **COST VARIANCES OCCUR THAT ARE BEYOND MAWC’S ABILITY TO**  
16 **CONTROL?**

17 A. Yes. As explained in my Direct Testimony<sup>5</sup>, there are a variety of factors that cause  
18 fluctuations in uncollectible expense. As it was when MAWC filed its direct case, inflation  
19 remains at an elevated level not seen in decades and the economic impacts of the COVID-  
20 19 pandemic are still uncertain.

21 **Q. Please explain.**

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<sup>4</sup> Bolin RT, pp. 2-5.  
<sup>5</sup> Selinger DT, p. 26.

1 A. The Company’s balance of aging receivables remains above pre-pandemic levels. For  
2 instance, the Company’s average balance of receivables aged over 150 days for 2022 is up  
3 approximately 50% over the average levels in 2018 and over 60% above levels experienced  
4 in 2019. These are balances that are near the point of being written-off. While there is no  
5 way to make a determination on whether these balances will ultimately be written off this  
6 data demonstrates the degree to which these costs are outside of MAWC’s hands.

7 **Q. Does Staff discuss any other instances in which trackers have been used and are**  
8 **deemed appropriate?**

9 A. Yes. Staff describes the extensive use of trackers in Missouri for Pension and Other Post-  
10 Employment Benefits (“OPEB”) expenses. Staff witness Bolin explains that one reason  
11 Pension and OPEB expenses are appropriate to track is that Pension and OPEB funding  
12 amounts (i.e., expense) are impacted by markets and can swing up or down based upon  
13 trends in the general economy.<sup>6</sup>

14 **Q. Is the same true for Uncollectible Expense?**

15 A. Yes. This is evident in the fact that numerous jurisdictions utilize pension and OPEB and  
16 uncollectible expense trackers. In response to the COVID-19 pandemic and the associated  
17 economic conditions, this Commission and many other Commission’s responded by  
18 authorizing mechanisms like the one being proposed by MAWC. As described above, the  
19 repercussions of the COVID-19 pandemic are still evident in the amounts of aging  
20 receivables on the Company’s books. This combined with persistent, elevated levels of  
21 inflation, higher energy prices, and general economic uncertainty all could create  
22 fluctuations in MAWC’s uncollectible expense and all of these factors remain beyond the

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<sup>6</sup> Bolin RT, pp. 3-4.

1 Company's control.

2 **IV. COSS**

3 **Q. Please explain MIEC witness York's statements regarding MAWC's COSS model.**

4 A. Ms. York states she is not opposed to MAWC's COSS model but mentions concerns she  
5 has about whether MAWC has benchmarked its COSS model against the results of the  
6 model used to conduct the COSS in MAWC's 2017 general rate case.<sup>7</sup>

7 **Q. Has MAWC benchmarked the results of its COSS model against the results produced**  
8 **by the model used to conduct MAWC's COSS in its 2017 general rate case?**

9 A. Yes. In MAWC's 2020 general rate case, the Company included a comparison of the  
10 Company's former one-step approach to its two-step approach within the Rebuttal  
11 Testimony of MAWC witness Charles Rea. The results of this comparison demonstrated  
12 that two approaches resulted in virtually the same COSS results for each rate class.

13 **Q. Is it necessary for the Company to demonstrate this comparison each time it performs**  
14 **a COSS?**

15 A. No, it is not. As stated above, the Company performed this analysis in its last general rate  
16 case and there is no reason to believe the comparison will reveal anything different in this  
17 case. In addition, the Company's two-step approach continues to be appropriate because  
18 it is a more intuitive, understandable approach that reflects how the business operates while  
19 adhering to cost-causation principles.

20 **Q. Has MIEC witness York used MAWC's COSS to support her**  
21 **recommendations/testimony in this case?**

22 A. Yes. Despite her continued questioning of MAWC's COSS model, it is that very model

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<sup>7</sup> York RT, p. 7.

1 she uses to create Schedules JAY-1 attached to her Direct Testimony.

2 **Q. Please describe the issue raised by OPC witness Jordan Seaver regarding MAWC's**  
3 **COSSs.**

4 A. Mr. Seaver has recommended the Company update its usage statistics to include all actuals  
5 through June 2022. Mr. Seaver's recommendation is that the Commission require MAWC  
6 to update its COSSs using a set of usage statistics he has provided based on an updated  
7 MAWC CAS 11 and 12 Schedule.<sup>8</sup>

8 **Q. Do you agree with Mr. Seaver's recommendation?**

9 A. Not at this time. The primary issue I have with Mr. Seaver's recommendation is that to  
10 date I cannot validate the updated numbers within his Rebuttal Testimony. MAWC  
11 received Mr. Seaver's rebuttal workpapers and found the information to be hard-coded  
12 with no indication of where the information was sourced. MAWC was informed that Mr.  
13 Seaver did not have a version of his workpapers that showed the source of his numbers and  
14 was provided a list of files MAWC had provided to the other parties in this case. The  
15 Company was then provided a file in which only one of Mr. Seaver's updated numbers can  
16 be found.

17 **Q. Is an update of the Company's COSS necessary at this time?**

18 A. No, it is not. While there are certain aspects of the Company's COSS that are the subject  
19 of debate in this case, a full update of the study would produce limited benefits.

20 **Q. Why is that?**

21 A. As explained in my Direct Testimony<sup>9</sup>, the Company has provided separate COSS for its  
22 operating districts in compliance with the settlement agreement in its last rate case. There

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<sup>8</sup> Seaver RT, p. 4.

<sup>9</sup> Selinger DT, p. 5.

1 is no question that the results of the COSSs have served to inform the Company's rate  
2 design but ultimately, as described in the testimony of MAWC witness Rea, the Company's  
3 rate design in this case is weighted more towards the objective of achieving further  
4 consolidation of rates that the Commission has supported over the Company's past two  
5 cases.

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

7 A. Yes.