

Exhibit No. 8

Exhibit No.:
Issues: Rate Base, Depreciation Expense,
Amortization Expense
Witness: Jennifer M. Grisham
Exhibit Type: Rebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2022-0303
Date: January 18, 2023

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2022-0303

REBUTTAL TESTIMONY

OF

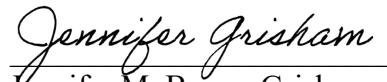
JENNIFER M. GRISHAM

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Jennifer M. Brown Grisham, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am Sr. Manager, Regulatory Services for Missouri American Water Company, 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.


Jennifer M. Brown Grisham

January 18, 2023
Dated

**REBUTTAL TESTIMONY
JENNIFER M. GRISHAM
MISSOURI-AMERICAN WATER COMPANY
CASE NO.: WR-2022-0303**

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REBUTTAL TESTIMONY

JENNIFER M. GRISHAM

I. INTRODUCTION

1

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

3 A. My name is Jennifer M. Grisham, and my business address is One Water Street, Camden,
4 NJ, 08102.

5 **Q. Are you the same Jennifer M. Grisham who previously submitted Direct Testimony**
6 **in this proceeding?**

7 A. Yes.

II. OVERVIEW

8
9 **Q. What is the purpose of your revenue requirement Rebuttal Testimony in this**
10 **proceeding?**

11 A. The purpose of my revenue requirement Rebuttal Testimony is to respond to Direct
12 Testimony and proposed expense levels of Staff witnesses Alexis Branson, Kimberly
13 Bolin, Amanda Coffey, Keith Foster, Courtney Horton, Sherrye Lesmes, Angela
14 Niemeier and Amanda McMellen on the following topics: 1) Rate Base; 2) Depreciation
15 Expense; and 3) Amortization Expense.

III. RATE BASE

16
17 **Q. What is Staff's recommended rate base?**

18 A. Staff recommends a rate base amount of \$2,274,948,698 for the true-up period ending
19 December 31, 2022.

20 **Q. Please describe how Staff calculated its recommended rate base.**

21 A. Staff utilized the Company's total rate base as of June 30, 2022, of \$2,079,815,622,

1 which was provided by the Company as part of the first update in this case. From that
2 starting point, Staff made a variety of line item and true-up adjustments. Staff made
3 adjustments through June 30, 2022 that increased rate base by \$235,259, and included
4 estimated true-up additions to rate base of \$194,897,817, for a total estimated true-up rate
5 base of \$2,274,948,698 at December 31, 2022. Staff's rate base is \$104,772,303 lower
6 that the Company's proposed rate base through the discrete adjustment period. The
7 Company's proposed discrete adjustments are \$99,116,607 of the total difference and
8 will be addressed by Company witness Brian LaGrand in his Rebuttal Testimony. The
9 remaining \$5,655,696 difference from the test and true up periods will be identified in my
10 testimony below.

11 **a. NET UTILITY PLANT INVESTMENTS**

12 **Q. Please explain Staff's utility plant in service and accumulated depreciation reserve**
13 **calculation.**

14 A. Staff witness McMellen proposes the inclusion of MAWC's plant in service and
15 accumulated reserve as of June 30, 2022, with plant additions and changes through the
16 end of the true up period on December 31, 2022.¹

17 **Q. Does Staff make any additional adjustments to Utility Plant in Service (UPIS) or**
18 **accumulated depreciation reserve?**

19 A. Yes. Staff made one adjustment that impacted Net UPIS. This adjustment was to remove
20 \$1,019 from Accumulated Reserve related to depreciation expense in a land account.
21 Staff made no additional changes to UPIS through the true up period.

22 **Q. Do you agree with Staff's adjustment to Accumulated Reserve related to land**

¹ McMellen DT, p. 2.

1 was first placed into service in 2013 and acquired by the Company in 2014 via the
2 Emerald Pointe water and sewer acquisition.

3 **Q. Please describe the background of that pipeline.**

4 A. In order to eliminate a failing sewer treatment plant, Emerald Pointe built a pipeline to a
5 treatment plant owned by the City of Hollister (See Commission Case No. SA-2012-
6 0362). As part of its agreement with the City of Hollister, Emerald Pointe was required to
7 contribute to the City the portion of the pipeline within the Hollister city limits. The
8 construction costs associated with that portion of pipeline were \$323,321.

9 Prior to MAWC's acquisition of Emerald Pointe, the unamortized cost of the pipeline
10 was given rate base treatment by the Commission², which MAWC continues to rely upon
11 in accounting for the pipeline's costs.

12 **Q. How did Staff treat regulatory deferrals in its Direct Testimony?**

13 A. Staff did not specifically address regulatory deferrals in Direct Testimony and omits these
14 costs in calculating their rate base. Without further explanatory testimony, the Company
15 feels it prudent to include these costs as an ongoing deferral line item.

16 **Q. Did the Company include deferred costs related to the replacement of customer
17 owned lead service lines in rate base?**

18 A. No. However, the Company did include a \$1.67 million return on the unamortized
19 balance of deferred lead line costs at the Company's long term debt rate for a revenue
20 requirement impact of \$2,209,576.

21 **Q. Did Staff include a similar return on the unamortized deferred lead line costs?**

22 A. No. Staff did not include any return on the unamortized deferred lead line costs.

² Emerald Point, Case Nos. SR-2013-0016 and WR-2013-0017.

1 **e. PREPAYMENTS**

2 **Q. Please describe the adjustments Staff made for Prepayments.**

3 A. Staff witness Lesmes included a 13-month average of the prepayments balance through
4 June 30, 2022, resulting in a \$1,821,004 million increase to rate base.

5 **Q. Do you agree with Staff's adjustment to Prepayments for the test year?**

6 A. Yes, I do.

7 **f. WORKING CAPITAL**

8 **Q. Please discuss Staff's comments on MAWC's cash working capital study.**

9 A. Staff witness Niemeier's Direct Testimony reviews the Company's cash working capital
10 study. Staff found the sampling conducted for MAWC's study to be appropriate and
11 agreed with the results of the sampling for revenue and expense lags. Utilizing the
12 Company's sample data, Staff then conducted their own calculation to determine the
13 revenue lag and net lead/lag for each expense for the June 30, 2022 test year. Staff's
14 calculation led to a negative cash working capital requirement with a net increase to
15 MAWC's test year rate base by \$1,838,471. Staff does not pro forma the results through
16 the discrete adjustment period.

17 **Q. Do you recommend any changes to Staff's application of working capital during the
18 test period?**

19 A. No.

20 **g. DEFERRED TAXES**

21 **Q. Please describe Staff's determination of deferred income tax for the test year.**

22 A. Staff witness Foster utilized the Company's deferred income tax balance as of June 30,
23 2022.

1 **Q. Did Staff propose adjustments related to Excess Accumulated Deferred Income**
2 **Taxes (EADIT)?**

3 A. Yes. The Stipulation and Agreement in Case No. WR-2020-0344 establishes an EADIT
4 tracker to capture the difference between the amortization included in rates and the actual
5 amortization. The Company calculated a tracker balance of -\$438,809, which Staff
6 agrees with. The EADIT benefit to customers is offset by an equal reduction to income
7 tax expense for the Company. This tracker balance indicates that the Company returned
8 more of the EADIT to customers than actual reduction to income tax expense. Staff
9 witness Foster proposes to amortize the tracker balance costs over 5 years, and includes
10 an increase to deferred taxes of \$87,761. Staff's proposed adjustment is a reduction to
11 rate base.

12 **Q. Do you agree with this adjustment?**

13 A. No. The balance in the tracker means that the Company returned more EADIT to
14 customers than it should have. Rather than recover the overpayment from customers,
15 Staff's proposal would reduce rate base, and, as a result, reduce the revenues collected
16 from customers.

17 **Q. How does the Company propose addressing the EADIT tracker balance?**

18 A. To avoid a normalization violation, the Company should recover this overpayment from
19 customers in the most timely manner possible. As discussed in the Direct Testimony of
20 Company witness Brian LaGrand, the Company is proposing to return the last 6 months
21 of the stub period EADIT via a customer bill credit. The Company proposes netting the
22 tracker balance against that final stub period amount. The remaining stub period
23 amortization is \$6,615,942. When netted with the grossed up amount of the tracker

1 balance, the amount to be give back via a bill credit would be \$6,039,772.

2 **h. OTHER RATE BASE ITEMS**

3 **Q. Did Staff make any additional adjustments to MAWC's rate base amount?**

4 A. Yes. Staff also recommends adjustments to MAWC's pension asset and pension and
5 OPEB trackers. These adjustments are discussed in the Rebuttal Testimony of Company
6 witness John Watkins.

7 **III. DEPRECIATION EXPENSE**

8 **Q. Did Staff recommend any changes to MAWC's depreciation rates?**

9 A. No, Staff witness Coffey recommends the continued use of MAWC's existing
10 depreciation rates.

11 **Q. Please explain Staff's depreciation expense calculation.**

12 A. Staff begins with MAWC's depreciation expense amount of \$58,605,347 for the 12
13 months ended June 30, 2022. Staff then adjusts the test year depreciation expense,
14 increasing the amount by \$9,920,639 to annualize for plant in service. Next, Staff
15 capitalizes a portion of the combined depreciation expense for NARUC Accounts 392 -
16 392.4 (Transportation Equipment), 394 (Tools, Shop & Garage Equipment), and 396
17 (Power Operated Equipment), reducing depreciation expense by \$1,225,229. With these
18 adjustments, Staff's test year depreciation expense is \$67,300,759. Staff included
19 \$3,821,059 of depreciation expense as part of their true-up estimate. Staff did not make
20 any deprecation adjustments beyond December 31, 2022.

21 **Q. Do you agree with Staff's adjustment to capitalize MAWC's test year depreciation
22 expense amount?**

23 A. In part. The Company began capitalizing depreciation in 2022 similar to Staff's proposal,
24 so I agree with Staff's capitalization of certain depreciation costs. However, I found Staff

1 inadvertently utilized an incorrect capitalization rate for this adjustment, which overstated
2 the amount of Staff's adjustment by \$243,096. The Company has discussed this with
3 Staff, and it is my understanding that Staff will be correcting this calculation as part of
4 their Rebuttal Testimony in their next revenue requirement calculation.

5 **IV. AMORTIZATION EXPENSE**

6 **Q. Please describe any adjustments Staff made to Amortization expense.**

7 A. Staff begins with MAWC's amortization expense of \$3,491,716 at June 30, 2022 and
8 makes several adjustments to include:

- 9 1. Costs associated with annualizing Arnold Sewer amortizations,
- 10 2. Amortization of lead lines not yet included in rates,
- 11 3. Amortization of deferred costs related to the Purcell acquisition,
- 12 4. Transferring a portion of COVID-19 amortization books as a revenue offset,
- 13 5. Exclusion of Enterprise Solution amortization costs,
- 14 6. Inclusion of the property tax tracker³, and
- 15 7. Removing FAS 109 AFUDC amortization costs

16 These adjustments total \$1,390,290 and yield a total adjusted amortization expense of
17 \$4,882,006 at June 30, 2022. Staff made no adjustments to amortization expense to
18 account for either the true-up period or discrete adjustment period.

19 **Q. Does MAWC agree with Staff's proposed adjustments to the test year amortization
20 expense?**

21 A. In part. The Company provides the following feedback and recommended modifications
22 to Staff's adjustments:

³ Staff has indicated to MAWC that they intended to exclude the amortization of the property tax tracker and this adjustment has been removed from Staff's adjusted amortization expense at June 30, 2022.

- 1 • The Company corrects Staff's costs associated with Arnold Sewer amortization
2 for additions in 2020 and 2022 and includes amortization costs for an August
3 2022 addition for a net increase of \$6,343.
- 4 • MAWC updates Staff's amortization costs for new lead service lines using the
5 actual expense at June 30, 2022, for a net decrease of \$243,147.
- 6 • It is not appropriate to include amortization costs related to the Purcell acquisition
7 in the test period as the acquisition had not yet closed (the transaction closed on
8 October 28, 2022). MAWC removes the full expense for the test period and
9 instead includes the \$24,444 in the December 31, 2022, true-up period.
- 10 • Staff offered no explanation for their omission of MAWC's amortization expense
11 for Enterprise Solutions. MAWC includes the \$6,156 in actual amortization
12 expense at June 30, 2022 to the total amortization.

13 These collective updates decrease the test year's amortization expense to \$4,626,920.

14 **Q. Does this conclude your Rebuttal Testimony?**

15 A. Yes.