

Exhibit No. 139

Exhibit No.:
Issue(s): *Production Cost Expense,
Rate Case Expense, District
Allocations, Pension and
OPEB Trackers*
Witness: *Ashley Sarver*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
Case No.: *WR-2022-0303*
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MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL & BUSINESS DIVISION

AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY

OF

ASHLEY SARVER

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2022-0303

Jefferson City, Missouri
February 2023

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ASHLEY SARVER
MISSOURI-AMERICAN WATER COMPANY
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**SURREBUTTAL TESTIMONY OF
ASHLEY SARVER
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2022-0303**

Q. Please state your name and business address.

A. My name is Ashley Sarver and my business address is 200 Madison Street, Suite 440, Jefferson City, Missouri 65101.

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

A. I am employed by the Missouri Public Service Commission (“Commission”) as a Lead Senior Utility Regulatory Auditor.

Q. Are you the same Ashley Sarver who filed direct testimony on November 22, 2022, and rebuttal testimony on January 18, 2023, in this case?

A. Yes, I am.

EXECUTIVE SUMMARY

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of this surrebuttal testimony is to respond to the rebuttal testimony of Missouri-American Water Company (“MAWC”) witness Michael L. Schwarzell concerning the production cost expense components consisting of system delivery, chemical expense, fuel and power expense, and purchased water expense. I also respond to the rebuttal testimonies of MAWC witnesses Brian W. LaGrand on rate case expense and district allocations, and John M. Watkins concerning pension and other post-employment benefits (“OPEB”) trackers.

1 **PRODUCTION COST EXPENSE**

2 **System Delivery**

3 Q. On page 3, lines 10 through 13 of his rebuttal testimony, Mr. Schwarzell states:
4 “Staff’s higher usage level results in higher calculated system delivery, and therefore higher
5 Chemical and Fuel and Power expense.” Do you agree?

6 A. Yes, Mr. Schwarzell is correct. However, Staff’s calculated system delivery is
7 based on Staff’s annualized revenue usage, which is also higher than MAWC’s annualized
8 revenue usage. To use a lower system delivery when using a higher revenue usage would be a
9 mismatch of revenues and expenses. If the Commission determines that MAWC’s annualized
10 revenue usage is the proper usage to determine revenues, then MAWC’s lower system delivery
11 should be used.

12 Q. Will Staff update its system delivery and metered delivery for true-up?

13 A. Yes. Staff will review five years of data for updated system delivery and metered
14 usage including water loss as of December 31, 2022.

15 **Chemical Expense**

16 Q. What is MAWC’s position regarding chemical expense contract prices?

17 A. On page 3, line 20 to page 4, line 3 of his rebuttal testimony, Mr. Schwarzell
18 states:

19 Since the time chemical prices were provided to Staff as of June 30,
20 2022, MAWC obtained updated contracted pricing from vendors.
21 Additional price changes have been received and are reflected in the
22 latest pricing sheet attached as CONFIDENTIAL Schedule MLS-1 RT.
23 These updated prices will also be provided as part of the true up. Staff
24 should apply these current prices to their final Chemical Expense.

25 Q. How does Staff respond?

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1 A. Staff will review the current chemical contract costs in the true-up audit of this
2 case.

3 Q. Mr. Schwarzell states on page 4, lines 16 through 18 of his rebuttal testimony:
4 Staff did not include additional expense for process changes made in
5 December 2022. MAWC converted from using chlorine gas to sodium
6 hypochlorite at Mexico and Warrensburg plants.

7 How does Staff respond?

8 A. Staff did not include the additional expense in its November 22, 2022, direct
9 filing because the expense occurred outside of the test year period ending June 30, 2022.

10 Q. Will Staff review this during the true-up audit of this case?

11 A. Yes. Staff will review the chemical usage expense for MAWC as of
12 December 31, 2022, the end of the true-up period in this case.

13 **Fuel and Power Expense**

14 Q. Mr. Schwarzell states on page 5, lines 7 through 10 of his rebuttal testimony,
15 that Staff should apply the most recent electric rate increase that resulted in Cases Nos.
16 ER-2022-0129 and ER-2022-0130 to its annualized Fuel and Power expense. Does Staff agree?

17 A. Yes, and Staff will make this adjustment in its true-up filing, however the
18 effective date of the tariffs resulting from the order is January 9, 2023. The test year period
19 ended June 30, 2022, therefore, Staff did not include the price increase in its November 22,
20 2022, direct filing. Staff will review this during the true-up period in this case.

21 Q. Mr. Schwarzell claims on page 5, line 21 to page 6, line 3 of his rebuttal
22 testimony that, Staff's used of different time periods for system delivery and production costs
23 creates a mismatching of time periods and is not a reasonable estimate of the production costs
24 per 1,000 gallons. Does Staff agree with Mr. Schwarzell's statements?

1 A. No. Staff believes production costs do not need be connected to the system
2 delivery or water loss for the same period.

3 Q. Please explain.

4 A. MAWC should not benefit from having a higher water loss, and should always
5 strive to lower the water loss to a reasonable level. The water loss percentage assumed in order
6 to set rates does not have to be tied to the same period used to determine kilowatt-hours (“kWh”)
7 or pounds of chemicals. Staff determined a normalized level of these production costs that
8 MAWC may incur in the future. Staff believes that a five-year average is reasonable to calculate
9 the water loss percentage.

10 **Purchased Water**

11 Q. Mr. Schwarzell states on page 7, lines 5 through 7 of his rebuttal testimony that,
12 Staff did not include the purchased water rate increase for Orrick/Ray County. How does Staff
13 respond?

14 A. The rate increase occurred in August 2022, which was after the test year.
15 Staff will review the purchased water usage and cost as of December 31, 2022, for the true-up
16 in this case.

17 **RATE CASE EXPENSE**

18 Q. What is MAWC’s recommendation for rate case expense?

19 A. MAWC witness Mr. LaGrand recommends 100 percent recovery of reasonable
20 and prudent rate case expense.

21 Q. What is Office of the Public Counsel’s (“OPC”) recommendation for rate case
22 expense?

1 A. OPC witness John S. Riley recommends MAWC bear two-thirds of the cost
2 deemed reasonable by the Commission.

3 Q. What is Staff's recommendation for rate case expense in its direct testimony?

4 A. Beginning on page 16 of my direct testimony, I stated that Staff recommends
5 MAWC's customers and shareholders share 50/50 of the actual rate case expense and MAWC
6 recover through rates 100 percent of the cost of the depreciation study submitted in Case No.
7 WR-2020-0344.

8 Q. Have there been any modifications to Staff's position on the 50/50 sharing
9 mechanism for rate case expense?

10 A. No.

11 Q. Please explain why it is problematic for utilities to be allowed full recovery of
12 rate case expense.

13 A. Allowing a utility to recover all, or almost all, of its rate case expense creates an
14 inherent disincentive for the utility to control rate case expenses. For every other participant in
15 the rate case proceeding, their funds are ultimately limited by budgetary and financial
16 constraints. The ability to pass through the entire amount of expense, along with significant
17 financial resources, creates what can be viewed as an unfair advantage over the parties during
18 the rate proceeding.

19 **DISTRICT ALLOCATIONS**

20 Q. What is MAWC's position on allocating corporate cost to the water and sewer
21 districts in this proceeding?

22 A. Mr. LaGrand states on page 32, lines 3 through 6 of his rebuttal testimony:

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1 The costs are allocated to the four districts, to allow for a complete view
2 of the cost of service in each of those districts.... The Company used the
3 number of service orders to allocate the costs.

4 Q. Mr. LaGrand stated MAWC used the number of service orders to allocate costs.
5 Do MAWC's workpapers support this?

6 A. No. MAWC's workpapers used two different factors to allocate cost. First, the
7 number of customers was used to allocate revenues, depreciation expense, and amortization
8 expense. Second, for all other operating expenses, the number of service orders was used as the
9 allocation factor.

10 Q. Had MAWC previously used service orders as a factor for allocating corporate
11 costs to the water and sewer districts?

12 A. Yes. Mr. LaGrand states in his rate design rebuttal testimony in Case No.
13 WR-2017-0285 on page 2, lines 6 through 8:

14 The Company used two different factors to allocate costs. First, the
15 number of customers was used to allocate depreciation and amortization.
16 Second, for all other operating expenses, the number of service orders
17 was used as the allocation factor.

18 Q. Has Staff previously used nine allocation factors for allocating corporate cost to
19 the water and sewer districts?

20 A. Yes, it has since the Case No. WR-2017-0285 rate case.

21 Q. What percentage of corporate costs has Staff allocated to each district?

22 A. As shown in the table below, Staff's nine allocation factors used to allocate cost
23 between districts are as follows:

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1

| | Water – St. Louis County | Water – All Other Water | Sewer – Arnold | Sewer – All Other Wastewater |
|---|-----------------------------|----------------------------|----------------|------------------------------------|
| Customer Count | 69.74% | 26.67% | 1.44% | 2.15% |
| Operating Revenue | 69.38% | 26.41% | 1.80% | 2.41% |
| Operation and Maintenance Expense | 80.06% | 15.69% | 3.20% | 1.05% |
| Employee Count | 70.46% | 26.51% | .86% | 2.16% |
| Number of Bills | 69.59% | 26.20% | 1.42% | 2.78% |
| Length of Mains | 65.98% | 34.02% | 0% | 0% |
| Net Utility Plant | 71.14% | 25.89% | .87% | 2.10% |
| Massachusetts (Hybrid) Formula | 70.45% | 26.36% | 1.06% | 2.14% |
| Water Samples | 63.10% | 36.90% | 0% | 0% |

2

3 Q. What allocation factors did MAWC use to allocate cost between the districts?

4 A. MAWC used number of customers and number of service calls allotment per
5 district as shown in the chart below:

6

| | Water – St. Louis County | Water – All Other Water | Sewer – Arnold | Sewer – All Other Wastewater |
|---------------|-----------------------------|----------------------------|-------------------|------------------------------------|
| Customers | 69.74% | 26.67% | 1.44% | 2.15% |
| Service Calls | 67.26% | 32.29% | .04% | .38% |

7

8 Q. Mr. LaGrand states on page 32, lines 18 through 20 of his rebuttal testimony in
9 this case that,

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1 I think Staff's method adds needless complexity to an already
2 complicated rate case. A simpler allocation factor, such as service
3 orders, would be a better choice

4 Does Staff agree?

5 A. No. Staff does not agree that simplicity should be the biggest driver in the
6 determination of appropriate corporate allocation methods. The primary driver should be cost
7 causation.

8 Q. How did Staff determine its allocation factors for each account?

9 A. Staff reviewed each account description to see which allocation factor is most
10 reasonable to use. For example, Staff used number of bills to allocate bank service charges,
11 length of mains for transmission and distribution accounts, and net plant for amortization
12 expense. Using Staff's multiple allocation factors is more practical for allocating costs
13 according to cost causation than MAWC's blanket approach using just the number of
14 service orders.

15 Q. Would Staff be open to meeting with MAWC after the conclusion of this
16 rate case to further evaluate cost drivers for corporate cost and the individual accounts for
17 corporate costs?

18 A. Yes. Staff met with MAWC personnel in 2012 and 2013 and would be open
19 to doing so again. Staff would need to evaluate the drivers of each specific account with the
20 help of MAWC. Evaluating drivers for corporate costs would require a sizeable time investment
21 for both parties to get together and discuss. This evaluation would require MAWC to pinpoint
22 the accounts that it believes are primarily driven by service order management.

1 **PENSION AND OPEB TRACKERS**

2 Q. Do you agree with Mr. Watkins' statement in his rebuttal testimony on page 3,
3 lines 8 through 23 that Staff, in its direct testimony, proposed the incorrect date to record the
4 pension and OPEB trackers?

5 A. Yes. Paragraph A of Attachment C (Pension Tracker Mechanism and OPEB
6 Tracker Mechanism) to the Commission-ordered *Stipulation and Agreement* in Case No.
7 WR-2020-0344 states the pension and OPEBs trackers balances "resulting from this case
8 [WR-2020-0344] will start to be booked in the month following the true-up date in this rate
9 case, and will continue to be booked until the later of the test year ending date, test year update
10 period ending date, or the true-up date in the Company's next rate case." Since the true-up
11 date in Case No. WR-2020-0344 was December 31, 2020, Staff updated the tracker date to
12 begin January 2021 for this surrebuttal.

13 Q. How do the ongoing pension and OPEB trackers affect MAWC's rate base in
14 this case?

15 A. The balances in the regulatory liability account for pension is \$7,494,260
16 (amortized over five years as an expense in the amount of \$1,498,852) and OPEB is \$7,063,923
17 (amortized over five year as an expense in the amount of \$1,412,784).

18 Q. What is MAWC's ongoing Financial Accounting Standard ("FAS") 87 and
19 FAS 106 cost recognized in rates in this case?

20 A. Staff's annualized level of pension expense is (\$4,870,292) and OPEB expense
21 is (\$3,253,166).

22 Q. Mr. Watkins states on page 3, lines 4 through 7 of his rebuttal testimony,

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1 the 2023 actual Pension and OPEB expenses will become available on
2 January 31, 2023. The Company believes that this information should be
3 used in setting the expense level for both Pension and OPEBs, as this will
4 be the amounts the Company records on its books and records for 2023.

5 Does Staff agree?

6 A. Staff will review the information provided for true-up.

7 Q. Does this conclude your surrebuttal testimony?

8 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) 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 *Surrebuttal 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

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 2nd day of February 2023.

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

D. Suzie Mankin

Notary Public