

EXHIBIT

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Management Expense Charges/
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Case No.: WR-2017-0285

DIRECT TESTIMONY

OF

AMANDA C. CONNER

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Submitted on Behalf of the Office of the Public Counsel

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2017-0285

November 30, 2017

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DIRECT TESTIMONY
OF
AMANDA C CONNER
MISSOURI AMERICAN WATER COMPANY
CASE NO. WR-2017-0285

1 **I. INTRODUCTION**

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

3 A. Amanda C. Conner, PO Box 2230, Jefferson City, Missouri 65102.

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

5 A. I am employed by the Missouri Office of the Public Counsel ("OPC") as a Public Utility
6 Accountant.

7 **Q. On whose behalf are you testifying?**

8 A. I am testifying on behalf of the OPC.

9 **Q. What is the nature of your duties at the OPC?**

10 A. My duties include performing audits, reviews and examinations of the books and records of
11 public utilities operating within the state of Missouri.

12 **Q. Have you conducted a review of the books and records of Missouri American Water**
13 **("MAWC") in this rate case?**

14 A. Yes, with the assistance of other members of the OPC.

15 **Q. Please describe your educational background.**

16 A. I earned a Bachelor of Science degree in Accounting from Columbia College in May 2012.

17 **Q. Please describe your related background.**

1 A. I began my employment with the OPC in February of 2016. Prior to my current position, I
2 was employed by the Missouri Department of Revenue. In this capacity, I worked with the
3 public addressing various types of tax issues.

4 **Q. Have you received specialized training related to public utility accounting and rate**
5 **making?**

6 A. Yes. I received regulatory and ratemaking training as an employee of the OPC. In addition
7 to this training, I attended the Utility Ratemaking Fundamentals course sponsored by
8 Brubaker Associate, Inc. (BAI) in the Spring of 2016. In the Fall of 2016 I attended the
9 NARUC Utility Rate School sponsored by Michigan State University.

10 **Q. Have you previously filed testimony before the Missouri Public Service Commission**
11 **(“Commission” or “PSC”)?**

12 A. Yes. Please refer to Schedule ACC-D-1, attached to this testimony, for a list of cases in which
13 I have submitted testimony.

14 **Q. What is the purpose of your direct testimony?**

15 A. My testimony addresses OPC’s rate making position on the following issues; 1) Rate Case
16 Expense, 2) Management Expense Charges, and 3) Severance Payments. These adjustments
17 are based on MAWC direct charges and American Water Works (AWW) corporate allocated
18 costs.

19 **RATE CASE EXPENSE**

20 **Q. What types of costs are included in MAWC’s proposed rate case expense?**

21 A. As reflected in MAWC’s workpaper CAS-13, MAWC is seeking rate recovery for estimated
22 rate case expense of \$1,507,724 to be collected over two years or a normalized expense for
23 this rate case of \$753,862. Rate case expense consists primarily of legal and consulting fees.

1 **Q. Is rate case expense significantly different from other types of operating expenses?**

2 A. Yes. For example, MAWC has only an estimated amount for its rate case expense that will
3 vary based on how the rate case proceeds. Other operating expenses, while subject to updates,
4 will not change directly as a result of the process of the case. Additionally, a portion of rate
5 case expense is incurred solely for the benefit of the shareholders.

6 **Q. What is OPC's position on the appropriate allocation of rate case expense between**
7 **ratepayers and shareholders in a utility rate case?**

8 A. OPC supports a sharing of rate case expense because rate cases benefit both customers and
9 shareholders. While it must be specific to each rate case, the adjustment methodology of
10 allocating rate case expense based on the ratio of the dollar revenue requirement ordered by
11 the Commission to the dollar revenue requirement sought by a utility in its rate case
12 application is reasonable.

13 The Commission in its Report and Order in KCPL's ER-2014-0370 rate case ("2014 Order")
14 ordered this adjustment approach. Since that Commission Order was issued, the Commission
15 Staff ("Staff") has applied this rate case adjustment methodology in most, if not all, of its rate
16 case Cost of Service Reports. The approach used by the Commission in its 2014 Order is the
17 approach preferred by OPC in order to allocate the cost appropriately.

18 **Q. In its 2014 Order did the Commission develop a systematic and rational approach to the**
19 **allocation of rate case expense?**

20 A. Yes it did. Some dollar amount of rate case expenses may be "disallowed" based on
21 reasonableness or imprudence. It is important to understand expense disallowance was not
22 the focus of the Commission's position on rate case expense in its 2014 Order. The
23 Commission's 2014 Order created a reasonable and prudent cost allocation methodology for
24 this special type of utility expense. The Commission did not address the issue of expense
25 disallowance in its development of this rate case allocation method in its 2014 Order.

1 **Q. Did OPC adjust MAWC's rate case expense estimation for this rate case?**

2 A. Yes. OPC performed an analysis of the five most recent large utility general rate cases. Using
3 the 2014 Order rate case expense adjustment methodology, OPC calculated an average ratio
4 of Commission ordered revenue requirement increase to utility requested revenue requirement
5 increase of 41 percent. Using this adjustment methodology for MAWC, OPC calculated a
6 normalized level of rate case expense of \$618,167 to be collected over three years, or an
7 annualized level of \$206,056. This adjustment and analysis used can be found in Schedule
8 ACC-D-2. This adjustment is based on MAWC's estimated rate case expense and will be
9 adjusted to actual expenses incurred at the end of this rate case.

10 **MANAGEMENT EXPENSE CHARGES**

11 **Q. Does MAWC have a policy on the types of employee expenses that are reimbursable**
12 **by the utility?**

13 A. Yes. Provided to OPC in response to DR 1203 is an overview of MAWC's Employee
14 Travel and Business Expenditures Policy, Policy Number POL-BUSSERV02 (Expense
15 Policy). This Expense Policy is attached as ACC-D-2.

16 **Q. Does OPC have any concerns regarding the Expense Policy?**

17 A. Yes. Under Meals, the Expense Policy states that in certain circumstances, alcoholic
18 beverages, in moderation, may be included with meals.

19 **Q. Does OPC have any recommendations regarding MAWC' cost reimbursement for**
20 **employee consumption of alcohol?**

21 A. Yes. OPC has taken the position in previous rate cases that ratepayers should not be
22 required to reimburse utility employees for their alcohol purchases. OPC takes this same
23 position in this rate case, as ratepayers should not be required to pay in rates for the
24 consumption of alcohol.

1 **Q. Are you conducting a review of MAWC management expense charges?**

2 **A.** Yes. I am conducting a comprehensive and detailed analysis of all or substantially all of
3 MAWC officer expenses charged in the December 31, 2016 test year general ledger.

4 **Q. What were OPC's findings from this review?**

5 **A.** While OPC's analysis is not complete, I am proposing an adjustment based on my work to
6 date. My current adjustment removes approximately \$200,000 of MAWC direct and
7 AWW allocated excessive, unreasonable, and imprudent charges.

8 **Q. At this time are there any expenses OPC has found to be imprudent or excessive in**
9 **the 921 account?**

10 **A.** Yes. A few of these items listed below are:

- 11 1. Dinner at The Post Sports Bar & Grill in Creve Coeur, MO for \$534.30 for two
12 people. No other attendee's listed for this expense
- 13 2. Dinner at Alexandro's in Jefferson City, MO for \$128.02 for three people for a
14 legislative meeting.
- 15 3. Dinner at Club 609 in Joplin, MO for \$123.78 for three people for a legislative
16 meeting.
- 17 4. Hotel at Best Western in Jefferson City, MO for \$157.16 for legislative meeting.
- 18 5. Drinks at The Post Sports Bar & Grill in Creve Coeur, MO for \$84.20. No other
19 attendees listed for this expense, and the journal reflects alcohol charges.
- 20 6. Lunch at Del Frisco's in Philadelphia, PA for \$672.08 for three people. Candidate
21 interview

- 1 7. Airfare amount \$465.29 to Canada.
- 2 8. Hotel at Best Western in Victoria, British Columbia for \$376.63
- 3 9. Airfare amount \$720.64 to Canada
- 4 10. Dinner at Blue Water Grille in Chattanooga, TN for \$403.46 with no attendees
5 listed. This was for a site visit.

6 **Q. Did you note any inappropriate allocations to Missouri operations?**

7 A. Yes. There are several charges for site visits in Virginia, Tennessee, and Kentucky that
8 have an allocation to Missouri.

9 **Q. Does OPC believe that Missouri ratepayers should pay for these charges?**

10 A. Not without an explicit description of how Missouri ratepayers benefit from these charges.

11 **SEVERANCE PAYMENTS**

12 **Q. Has MAWC charged employee severance payments to its test year income**
13 **statement?**

14 A. Yes. MAWC's response to Staff Data Request No. 104 shows that in 2016 MAWC booked
15 severance costs in the test year of \$1,288,416. Despite the fact that the Commission has
16 found that severance, expenses are not subject to rate recovery, MAWC failed to make an
17 adjustment to remove these costs from cost of service. OPC is proposing an adjustment to
18 remove these charges from MAWC's test year income statement.

19 **Q. Are severance payments a type of utility cost that should be included in a utility's cost**
20 **of service?**

1 A. No, for several reasons. The main reason is that through regulatory lag, the utility often
2 recovers severance payments. Not only does regulatory lag normally allow a utility to
3 recover the amount of severance payments, but the utility will sometimes recover two and
4 three times the amount of the severance payment. This is the result of a utility recovering
5 the salaries and benefits, after the employees have been severed, in rates until rates are
6 changed in the next utility rate case.

7 Another reason why the cost of utility severance agreements should not be included in cost
8 of service is the language used in these agreements severed employees are required to sign.
9 This language is designed to protect utility officers and shareholders from potential
10 litigation and embarrassment. Utility severance agreements typically require the severed
11 employee to waive and release any legal claims the employee may have against the utility
12 for any reason and prohibits the employee from making any disparaging or critical
13 statements of any nature at all about the utility. Shareholders should bear the cost of
14 securing these types of commitments from severed employees, not ratepayers.

15 **Q. Does the Commission allow rate recovery of utility severance payments?**

16 A. No. To my knowledge, the Commission has not allowed rate recovery of utility severance
17 payments. In its Report and Order in Case No. ER-2006-0314, KCPL's 2006 rate case, the
18 Commission stated:

19 KCPL wishes to recover severance that it pays to former employees
20 in its cost of service on the grounds that those costs extinguish any
21 possible liability those former employees may have against the
22 company. It also claims that these severance costs are recurring. In
23 contrast, Staff asserts that only KCPL shareholders, and not its
24 ratepayers, receive the benefit of these costs. The Commission finds
25 that the competent and substantial evidence supports Staff's
26 position, and finds this issue in favor of Staff. Staff's witness on this
27 issue, Charles Hyneman, testified that KCPL answered one of his
28 data requests by admitting that severance costs protect KCPL
29 against such issues as sexual harassment or age discrimination, and
30 that such costs are not recoverable in rates.

1
2 He contrasted those severance payments, made only to protect
3 shareholders, with severance payments made to decrease payroll,
4 which could be included in cost of service because of the benefit to
5 ratepayers.
6

7 **Q. Have you reviewed the severance agreements negotiated between MAWC and its**
8 **severed employees?**

9 A. No. OPC sent Data Request 1206 requesting severance agreements from MAWC. As of
10 this filing, MAWC objected to the request and has not sent OPC the data requested.

11 **Q. Does this conclude your direct testimony?**

12 A. Yes, it does.

**CASE PARTICIPATION
OF
AMANDA C. CONNER**

<u>Company Name</u>	<u>Case No.</u>
Empire District Electric Company	ER-2016-0023
Kansas City Power & Light Company	ER-2016-0285
Laclede Gas Company	GR-2017-0215
Missouri Gas Energy	GR-2017-0216



EMPLOYEE TRAVEL AND BUSINESS EXPENDITURES POLICY

Policy Number: POL-BUSSERV02

Effective Date: 12/12/15

Applicability: American Water Works Company, Inc., and its controlled subsidiaries (together "American Water" or the "Company"). **This policy does not apply to the Company's Board of Directors, who are required to follow the Company's Corporate Governance Guidelines**

ELT Sponsor: Linda Sullivan, Executive Vice President and Chief Financial Officer

Document Author: Steven Robbins, Corporate Counsel

I. PURPOSE

This policy provides requirements to conduct employee travel and business expenditure activities. It addresses timing, key methods, approvals, reporting and roles/responsibilities.

II. STRATEGIC OBJECTIVE

This policy addresses strategic objectives of incurring reasonable costs for business activities and securing the lowest reasonable cost for business travel, as well as establishing criteria for employee reimbursement of these costs.

III. POLICY STATEMENT

It is understood that employees incur expenses when conducting business on behalf of the Company and reasonable expenses will be reimbursed by the company. Unless otherwise specified, this policy establishes requirements to be followed by all employees who travel on company business. More detailed guidance is found in the applicable practices, which are referenced in the Appendix section of this policy. Personal expenses are not reimbursable.

Purchasing Method

Purchasing cards (P-cards) are used for employee business expenses whenever possible. Cash and personal cards may be used by employees without a P-card or in limited instances where the P-card is not accepted (such as for mileage, tolls, taxis, or parking). Employees submit expenses for reimbursement for review, approval and payment. Refer to the Purchasing Card Policy for additional details related to cardholder usage.

Travel

• Travel Reservations

All travel reservations are made using the Company's authorized travel website. Reservations may be made outside of the authorized travel website for lower fares or costs.

• Lodging

Lodging expense, when traveling, is an acceptable expense if an overnight stay is reasonably necessary to safely perform the business purpose. Detailed hotel receipts are submitted for all lodging expenses. Other travel expenses included in the hotel receipt are itemized with proper account coding for expense reporting in accordance with this policy.

• Air and Rail Travel

Air and Rail fare expense when traveling is an acceptable expense. Employees use the lowest reasonable fare available and reserve air travel at least 7 days in advance when possible. Generally, employees are

expected to travel coach class. However, employees may travel business or first class under certain circumstances and if approved by the employee's supervisor (if the CEO is not available within 24 hours to approve, ELT members may obtain approvals from another ELT member). Airline ticket invoices, which include ticket cost and confirmation number, are to be submitted with receipt documentation for all air travel expenses. Credits received for non-refundable airline tickets are to be saved and used for Company business.

To the extent possible, the following restrictions apply to the number of employees allowed on any single flight:

- No more than three employees who are members of the executive leadership team (ELT).
- The CEO, COO of Regulated Operations, and CFO shall not all three travel together at any time.
- No more than four employees of any one Functional or Operating Unit
- No more than 12 employees
- Exception: where direct travel is difficult and it is cost effective for large groups of employees to obtain a charter flight. Any such charter must be arranged through Supply Chain per the Sourcing Practice.
- Other Ground Transportation
Rental cars, taxis, car service, fuel for rental cars, mileage for personal vehicles, and parking are acceptable expenses when traveling
- Mileage Reimbursement
Personal vehicles can be used when practical for business trips. Mileage reimbursement is based on the rate published by the Internal Revenue Service (IRS). Employees should use the Employee Expense Statement Form to claim mileage incurred using their personal vehicle, and for tolls (whether incurred in personal vehicle or rental car).
- Meals
Meal expenses are acceptable for business meetings and those related to business travel. When multiple employees are present, the highest ranking employee pays for the meal and all individuals present are listed on the receipt. For large groups, it is acceptable to provide a name for the group (i.e. Executive Management or State Presidents) and the number of attendees. In certain circumstances, alcoholic beverages, in moderation, may be included with meals consistent with the Code of Ethics, the Drug and Alcohol Policy and related practices. Employees should conduct themselves in a manner to avoid any impropriety or the appearance of impropriety.
- Entertainment
Reasonable entertainment expenses, including but not limited to outings to theaters, sporting events or other social activity, when a business discussion is taking place during, immediately before, or immediately after the event may be charged to the P-card if the entertainment is for business purposes.
- Spousal / Family Travel
Travel expenses for family members are not allowed unless it is a business requirement. Pre-approval must be obtained in writing from the Functional or Operating Lead and is included as supporting documentation along with expense receipts.
- Extending Business Travel for Non-Company Reasons
If personal time or other time spent not on behalf of the Company is added to a business trip, any cost increase in airfare, train ticket, car rental, lodging, or any additional expenses is paid by the employee separately or reimbursed to the Company.

- Other Business Expenses

Other miscellaneous expenses related to conducting Company business may be acceptable. These include expenses for holiday or celebratory events, team meals, team outings, and sympathy items for employees. These and other non-standard expenses that may arise as a result of conducting Company business may be allowed upon written pre-approval by the employee's supervisor.

Non-Allowable Expenses

Personal or non-business related expenses are not permitted. These may include but are not limited to: in-room movies, salon services, souvenirs, airline or hotel clubs, daily commute expenses, cash advances, tobacco, and vehicle violations. The Company may seek reimbursement for unqualified expenses.

IV. RESPONSIBILITIES

- Approvers – Responsible for approving expense statements per policy and ensuring adequate supporting documentation.
- Employees – Responsible for ensuring all expenditures are relevant to business activities of the Company and in compliance with this policy and substantiating such expenses with appropriate receipts.

V. MONITORING

The Accounts Payable Department will perform random reviews of employee travel and business expenditures. Expenses that are prohibited, not substantiated with a clear business purpose, or deemed extravagant are escalated to Functional or Operating Unit Leads and will require reimbursement.

VI. WAIVERS

Any deviation, waiver or exception from this policy requires the prior written approval of the executive leadership team (ELT) Sponsor of this policy, or his or her designee. The ELT Sponsor, or her or his designee, is responsible for tracking all requests for waivers, decisions with respect to those requests, and maintaining documentation related to each waiver request. Each individual receiving a waiver is responsible for retaining documentation of the waiver that was granted.

VII. NON-COMPLIANCE

Approvers are accountable for ensuring expenses are within policy. Any employee who violates or circumvents the policy may be subject to disciplinary action up to and including termination.

Next Review By: 12/10/18

Approval Date: 06/27/2012

Last Reviewed: 12/10/15

Appendix – Summary of Practices Related to Employee Travel and Business Expenditures

Policy	Related Policies and Practices
Employee Travel and Business Expenditures	Drug and Alcohol Policy Purchasing Card