

Exhibit No. 21

Exhibit No.:
Issues: Uncollectible Expense
Witness: Matthew S. Mason
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


MATTHEW S. MASON

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Matthew S. Mason, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am a Principal Regulatory Analyst 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.


Matthew S. Mason

February 8, 2023
Dated

**SURREBUTTAL TESTIMONY
MATTHEW S. MASON
MISSOURI-AMERICAN WATER COMPANY
CASE NO.: WR-2022-0303**

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Q. Please state your name and business address.

A. My name is Matthew S. Mason, and my business address is 727 Craig Road, St. Louis, Missouri, 63141.

Q. Are you the same Matthew Mason who previously submitted Direct Testimony and Rebuttal Testimony in this proceeding?

A. Yes.

Q. What is the purpose of your Surrebuttal Testimony in this proceeding?

A. The purpose of my Surrebuttal Testimony is to respond to the Rebuttal Testimony filed by the Missouri Public Service Commission (Commission) Staff (Staff) on the topic of Bad Debt Expense (i.e. Uncollectible Expense).

Q. Please identify the Staff Witness and their corresponding sponsored Rebuttal Testimony that your Surrebuttal Testimony will be addressing.

A. Staff Witness Courtney Horton sponsored Staff's bad debt Rebuttal Testimony.

II. UNCOLLECTIBLE EXPENSE

Q. What position did Staff witness Horton present as to uncollectible expense?

A. Staff witness Horton reiterated Staff's position of using a three-year average of actual net charge-offs for calendar years 2018, 2019, and 2021 (Staff excluded the 2020 net charge-offs from its review due to the impacts of the COVID-19 pandemic). Staff intends to examine updated actual net charge-off amounts through December 31, 2022, as part of its true-up audit. Additionally, Staff witness Horton emphasized that the Company's

1 methodology of deriving a three-year average uncollectible percentage to apply to revenue
2 authorized in this case is “erroneous,” as she does not believe there is a direct correlation
3 between actual net charge-offs and billed revenues.¹

4 **Q. Please explain Staff’s position on the Company’s methodology of applying a three-**
5 **year historical average uncollectible rate to projected revenues.**

6 A. Staff does not believe that net charge-offs have a direct correlation to billed revenues. Staff
7 purports to support this claim through a compilation of data the Company provided in
8 response to Staff data requests 0028 and 0029 in this case, and similar discovery requests
9 in prior cases.

10 **Q. How did Staff present the Company’s net charge-off and billed revenue from the**
11 **Company data provided?**

12 A. Staff presented a table showing a year over year percentage comparison of billed revenue
13 to net charge-offs for the years 2016 through 2021. Since the respective percentage billed
14 revenues and net charges-offs did not reflect the exact percentage increase or decrease from
15 the prior year, Staff concluded that revenues and net charge-offs do not correlate.²

16 **Q. Do you agree with Staff’s assertion that net charge-offs do not correlate with billed**
17 **revenues?**

18 A. No. I do not agree with Staff’s assertion that there is no correlation between net charge offs
19 and revenues. Staff witness Horton acknowledges in her Rebuttal Testimony that there are,
20 “many other factors that can affect the level of uncollectible expense that a utility incurs”.³
21 By using the word “other”, Staff witness Horton seems to be acknowledging that while

¹ Horton RT, p. 5.

² Horton RT, p. 6.

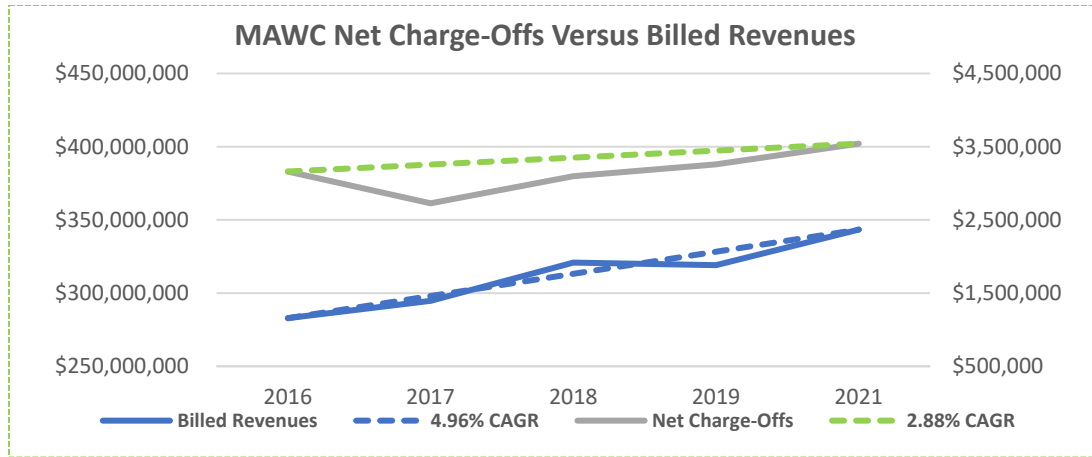
³ Horton RT, p. 5.

1 there are unknown factors that can impact the level of net charge-offs each year, billed
2 revenues are certainly a factor that does indeed impact net charge-offs. Additionally, it is
3 reasonable to project an increase in revenues based on the Company's revenue requirement
4 model that has been filed in this case.

5 The Company does agree with Staff witness Horton that factors such as the state of the
6 economy, weather impacts, service policies, and the use of collection agencies can all
7 impact the level of net charge-offs and the impacts of each of these factors are currently
8 unknown. However, as stated above, historical revenues are known and measurable, and
9 barring the approval of a bad debt tracker in this case, using a three-year average of net
10 charge off percentage as compared to revenues is the best indicator of an on-going level of
11 uncollectible expense.

12 **Q. Do you believe there is a correlation between net charge-offs and billed revenues?**

13 A. Yes. I have prepared the chart below to illustrate that correlation. I plotted a line chart
14 comparing net charge-offs and billed revenues for the calendar years 2016, 2017, 2018,
15 2019 and 2021. The chart uses the annual fiscal year amounts, excluding the 2020 Covid
16 pandemic year as discussed above. I included a compound average growth rate ("CAGR")
17 line for both billed revenues and net charge-offs from the years 2016 to 2021. The billed
18 revenue CAGR is 4.96% and the net charge-offs CAGR is 2.88%, showing that over time,
19 both have increased in a similar direction with net charge-offs lagging billed revenues.



1

2 **Q. What could be the basis of the correlation?**

3 A. Net-charge-offs are billed revenues that have been written off for non-payment. Over time,
 4 when billed revenues increase, the accounts receivables will increase. If disconnections for
 5 non-payment happen at a similar historic rate, naturally, net charge-offs will increase. In
 6 other words, all other factors being equal, higher customer billed revenue will increase total
 7 net charge-off dollars.

8 **Q. Is there an accounting standard that correlates revenues and bad debt?**

9 A. Yes. The Financial Accounting Standards Board (FASB) has promulgated Accounting
 10 Standards Codification (ASC) 310 and FASB Handbook SFFAS 7 Paragraphs 39-40 as
 11 guidance in establishing, tracking, and adjusting the allowance for doubtful account (bad
 12 debt reserve). The standards describe the allowance for doubtful accounts as an estimate of
 13 the amount of accounts receivable that are expected to be uncollectible. The accounts
 14 receivables account is driven by billed revenues, hence the correlation between billed
 15 revenues and bad debt.

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

17 A. Yes.