

Exhibit No.: 122
Issues: Hydrant Painting; Main Break
Expense; and Corporate
Allocations
Witness: Keith D. Foster
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: WR-2017-0285
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MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY

OF

KEITH D. FOSTER

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2017-0285

Jefferson City, Missouri
February 2018

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1 **HYDRANT PAINTING**

2 Q. Did you sponsor any Staff testimonies previously filed on this issue for this
3 case?

4 A. No, I did not. Jennifer K. Grisham sponsored Staff's rebuttal testimony for
5 hydrant painting and the issue of main break expense in the Cost of Service Report. As she is
6 no longer employed by the Commission, I have taken over sponsorship of these two issues
7 and I am adopting both her contributions to the Cost of Service Report and rebuttal
8 testimonies for these two issues as my own.

9 Q. Did you review Ms. Grisham's rebuttal testimony regarding hydrant painting?

10 A. Yes, I did.

11 Q. In your opinion, did the rebuttal testimony on this issue filed by MAWC
12 witness William Andrew Clarkson at page 10, lines 13-21 through page 11, lines 1-5, offer
13 any new information that would change the findings addressed in Staff witness Jennifer K.
14 Graham's rebuttal testimony regarding hydrant painting?

15 A. No, it did not. However, Staff will review this as a true-up item for any
16 significant changes in hydrant painting expense that may have occurred within the true-up
17 period.

18 **MAIN BREAK EXPENSE**

19 Q. How did Staff calculate its main break expense adjustment for this case?

20 A. As explained on page 69, lines 29-30 through page 70, lines of 1-5 of Staff's
21 Cost of Service Report:

22 For this rate case, Staff calculated a three-year average for main breaks
23 per month, utilizing the normalized numbers for the three months in
24 2014 affected by the Polar Vortex. While there was a trend in
25 declining cost per main break in the previous rate case, there was no
26 such trend from 2014 to 2016, which necessitated utilizing a three-year

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1 average for cost per break for the test year. Multiplying the average
2 cost per break by the average number of main breaks resulted in a
3 normalized main break expense of \$1,864,642 for the St. Louis County
4 district.

5 Q. What is at issue for this adjustment?

6 A. MAWC witness Nikole L. Bowen states on page 39 of her revenue requirement
7 rebuttal testimony that she believes it is inappropriate for Staff to remove the actual main
8 breaks that occurred during the 2014 Polar Vortex from the three-year average. On lines
9 13-15, she states "as an alternative solution, Staff could agree to update periods used to
10 calculate the average number of main breaks, holding to the three-year average, using 2015,
11 2016, and 2017."

12 Q. Does Staff agree with Ms. Bowen's alternative solution?

13 A. While Staff doesn't necessarily agree with Ms. Bowen's concern about the
14 averages Staff used for the three 2014 Polar Vortex months, Staff does agree with MAWC's
15 alternative proposal to true-up the main break expense using a three-year average ending
16 December 31, 2017.

17 **CORPORATE ALLOCATIONS**

18 Q. What is MAWC's position on allocating corporate costs to the water and sewer
19 districts in this proceeding?

20 A. MAWC's position is that only two allocation factors should be used to allocate
21 corporate costs. As stated on page 2, lines 6-8 of Brian W. LaGrand's rate design rebuttal
22 testimony:

23 The Company used two different factors to allocate costs. First, the
24 number of customers was used to allocate depreciation and
25 amortization. Second, for all other operating expenses, the number of
26 service orders was used as the allocation factors.

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1 Q. Had the Company previously used service orders as factor for allocating
2 corporate costs to the water and sewer districts?

3 A. No, it did not. According to Mr. LaGrand's further rate design
4 rebuttal testimony, at page 2, lines 9-10, "this is the first time."

5 Q. In this rate case, did Staff change its approach to allocating corporate costs
6 from the method used in the last rate case (WR-2015-0301)?

7 A. No. In fact, Staff has been consistent in allocating corporate costs according to
8 multiple allocation factors based on cost causers since at least 2008 in the WR-2008-0311 rate
9 case.

10 Q. Did MAWC use the Staff approach to allocating corporate costs in the last rate
11 case (WR-2015-0301)?

12 A. Yes, it did. In fact, in 2012 and 2013, two MAWC employees
13 (Denny Williams and Jeanne Tinsley) met with myself and other Staff several times to
14 help MAWC determine the allocation factors to assign to specific accounts for allocating
15 corporate costs according to cost causers. In my opinion, the results of these meetings were
16 reflected in the corporate allocations included in the Company's next rate case filing,
17 WR-2015-0301.

18 Q. Did any revenue requirement issues related to corporate allocations as
19 presented in Staff's Cost of Service Report arise in that rate case?

20 A. None that I could find. In fact, it appears both Staff and the Company were in
21 agreement with the corporate allocations revenue requirement issue.

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1 Q. Did the Company provide an explanation of why it only used two allocation
2 factors in this rate case instead of the multiple allocation factors used and agreed to
3 previously?

4 A. No explanation was provided in the Company's direct filing. The first
5 explanation was provided in MAWC's witness Brian W. LaGrand's rate design
6 rebuttal testimony filed on January 24, 2018.

7 Q. In your opinion, did Mr. LaGrand's rate design rebuttal testimony provide any
8 information that would change Staff's position on corporate allocations?

9 A. No, it did not. Staff stands behind its original corporate allocation factors as
10 presented in the Cost of Service Report filed on November 30, 2017.

11 Q. Does this conclude your surrebuttal testimony?

12 A. Yes, it does.

