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122 Hydrant Painting; Main Break Expense; and Corporate Allocations Keith D. Foster MoPSC Staff Surrebuttal Testimony WR-2017-0285 February 9, 2018

MISSOURI PUBLIC SERVICE COMMISSION

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COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY

OF

KEITH D. FOSTER

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2017-0285

Exhibit No. 122 Jefferson City, Missourie ate 31518 Reporter MM February 2018 File No. W2-2017-0205

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1		SURREBUTTAL TESTIMONY
2		OF
3		KEITH D. FOSTER
4		MISSOURI-AMERICAN WATER COMPANY
5		CASE NO. WR-2017-0285
6	Q.	Please state your name and business address.
7	А.	Keith D. Foster, 200 Madison Street, Suite 440, Jefferson City, Missouri
8	65101.	
9	Q.	By whom are you employed and in what capacity?
10	А.	I am a Utility Regulatory Auditor IV for the Missouri Public Service
11	Commission	("Commission").
12	Q.	Are you the same Keith D. Foster who has previously sponsored portions of
13	the Commiss	ion Staff's ("Staff") Cost of Service Report filed for this case on November 30,
14	2017?	•
15	A.	Yes, I am.
16	Q.	What is the purpose of your surrebuttal testimony?
17	А.	The purpose of my surrebuttal testimony is to respond to the revenue
18	requirement	rebuttal testimonies of Missouri-American Water Company's ("MAWC" or
19	"Company")	witnesses William Andrew Clarkson regarding hydrant painting and Nikole L.
20	Bowen regard	ding main break expense, as well as the rate design rebuttal testimony of MAWC
21	witness Briar	W. LaGrand regarding corporate allocations.
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Surrebuttal Testimony of Keith D. Foster

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 no longer employed by the Commission, I have taken over sponsorship of these two issues 6 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?

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A. Yes, I did.

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

15 Α. 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

Q.

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

A. As explained on page 69, lines 29-30 through page 70, lines of 1-5 of Staff's

21 Cost of Service Report:

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

Surrebuttal Testimony of Keith D. Foster

1 2 3 4	average for cost per break for the test year. Multiplying the average cost per break by the average number of main breaks resulted in a normalized main break expense of \$1,864,642 for the St. Louis County 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 24 25 26	The Company used two different factors to allocate costs. First, the number of customers was used to allocate depreciation and amortization. Second, for all other operating expenses, the number of service orders was used as the allocation factors.

Surrebuttal Testimony of Keith D. Foster

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.

Surrebuttal Testimony of Keith D. Foster

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

No explanation was provided in the Company's direct filing. The first A. explanation was provided in MAWC's witness Brian W. LaGrand's rate design 5 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 No, it did not. Staff stands behind its original corporate allocation factors as Α. 10 presented in the Cost of Service Report filed on November 30, 2017.

> Does this conclude your surrebuttal testimony? Q.

Yes, it does. A.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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In the Matter of Missouri-American Water Company's Request for Authority to Implement General Rate Increase for Water and Sewer Service Provided in Missouri Service Areas

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SS.

Case No. WR-2017-0285

AFFIDAVIT OF KEITH D. FOSTER

STATE OF MISSOURI

COMES NOW KEITH D. FOSTER and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Surrebuttal Testimony; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

KEITH D. FOSTER

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 $\underline{\mathcal{SH}}$ day of February, 2018.

D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cole County Commission Explines: December 12, 2020 Commission Number: 12412070

Notan Public