Exhibit No.:	
Issues:	Revenue Stabilization Mechanism and Future Test Year
Witness:	John M. Watkins
Exhibit Type:	Surrebuttal
Sponsoring Party:	Missouri-American Water Company
Case No.:	WR-2020-0344
Date:	February 9, 2020

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2020-0344

SURREBUTTAL TESTIMONY

OF

JOHN M. WATKINS

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, John M. Watkins, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am Senior Director Regulatory Services for American Water Works Service Company, 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.

John M. Watkins

February 9, 2021
Dated

SURREBUTTAL TESTIMONY
JOHN M. WATKINS
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2020-0344

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SURREBUTTAL TESTIMONY

JOHN M. WATKINS

I. INTRODUCTION AND PURPOSE OF TESTIMONY

Q. Please state your name and business address.

A. My name is John M. Watkins. My business address is 1 Water Street, Camden, NJ 08102.

Q. On whose behalf are you submitting this testimony?

A. Missouri-American Water Company ("MAWC" or "the Company").

Q. Did you previously provide Direct Testimony, Revenue Requirement Rebuttal Testimony and Rate Design Rebuttal Testimony in this proceeding?

A. Yes.

Q. What is the purpose of your Surrebuttal Testimony?

A. The purpose of my Surrebuttal Testimony is to address the appropriateness of utilizing a Revenue Stabilization Mechanism ("RSM") and the use of a future test year.

II. REVENUE STABILIZATION MECHANISM

Q. Do any witnesses address the Company's proposed use of a RSM in their rebuttal testimony?

A. Yes. Missouri Public Service Commission Staff ("Staff") witness James Busch and Office of the Public Counsel ("OPC") witness Lena Mantle.

Q. Mr. Busch discusses "the differences between the proposal in the 2017 rate case and in this rate case." (Busch RT, p. 3). Is there a significant difference between the

proposals that Mr. Busch does not mention?

A. Yes. At the time of the 2017 rate case, there was no express statutory authorization for a water corporation RSM. Since that time, the General Assembly has enacted such authorization in Section 386.266.4, RSMo.

Q. In his Rebuttal Testimony, does Mr. Busch discuss Section 386.266.4, RSMo?

A. No. He does not.

Q. For what purpose does Section 386.266.4, RSMo authorize such a mechanism?

A. ". . . to ensure revenues billed by such water corporation for regulated services equal the revenue requirement for regulated services as established in the water corporation's most recent general rate proceeding or complaint proceeding . . . **due to any revenue variation** resulting from increases or decreases in residential, commercial, public authority, and sale for resale usage." (emphasis added).

Q. Does this differ from the RSM authorized for electric and gas corporations?

A. Yes. Electric and gas corporations are limited to "variations in either weather, conservation, or both."

Q. Mr. Busch states that the "general model has worked well for over 100 years and should be modified after careful consideration of all evidence that demonstrates any change will benefit the various stakeholders." (Busch RT, p. 4). Does it appear that this has already happened?

A. Yes. As stated above, since MAWC's last rate case, the General Assembly has provided for the use of RSMs by water corporations. This represents a decision to move beyond the

"general model" described by Mr. Busch, that has already been made.

Q. Does Mr. Busch's RSM summary match the proposed RSM?

A. For the most part, yes. Mr. Busch states "the Commission-approved revenue requirement would be set for each class" on page 2, line 7 of his Rebuttal Testimony. The Company's proposal was for all of the classes to be combined in the final calculation of the surcharge or credit. Three of the four classes (residential, commercial, and other public authorities ("OPA")) in the proposed RSM all have the same tariff rates currently. The total revenue requirement is not broken out in these three classes as all three share the same fixed meter charges and volumetric charges. Therefore, the Company's proposal was to issue one surcharge or one credit that would be the same across the RSM customers.

Q. Is it possible to break the RSM up by class?

A. Yes.

Q. Does the Company believe that breaking the RSM into four classes is the best way to handle the RSM?

A. No. The Company believes that the proposed RSM is the best alternative. As I pointed out previously, three of the four customer classes currently share the same base tariff rates and therefore, it would not make sense to maintain four separate classes for the RSM.

Q. Mr. Busch states "is it the role of the Commission to ensure that a utility receives the revenue amount determined in a utility's rate case?" (Busch RT, p. 3). How do you respond to this question?

A. I believe it is the Commission's goal to set just and reasonable rates for both the customer

and the Company. In seven out of the last ten calendar years (see Schedule JMW-1 from my direct testimony), the Company has fallen short of the authorized revenues for the RSM applicable classes. The total revenue shortfall for those seven years was $77.3 million dollars. The total revenue shortfall for the ten years (as shown in Schedule JMW-1 from my direct testimony) was $52.4 million. Rates cannot be deemed just and reasonable if the annual shortfall averages $5.2 million per year for the time period of 2010-2019.

Q. Do you agree with Mr. Busch's description regarding a monopoly?

A. In general, yes. Mr. Busch states that Commissions' attempts to "mimic competitive pressures is intended to allow for a rate to be determined that is fair and reasonable, that allow for safe and adequate service, and would give the opportunity to earn a fair return on its investment." (Busch RT, p. 4). Nevertheless, Mr. Busch ignores the fact that seven out of the last ten years the revenue levels set for the RSM classes have fallen short. The range of revenue variances extend from a shortage of $19.1 million in 2015 to a surplus of $12.3 million in 2018. (Schedule JMW-1). Falling short by $52.4 million over ten years is not fair and reasonable as described by Mr. Busch. Fair and reasonable rates should produce a variance over time where the Company will exceed revenues or fall short equally.

Q. Do you agree with Mr. Busch's statement that "the Company seems to be inferring that the utility is at some sort of disadvantage under the current regulatory model?" (Busch RT, p. 5).

A. The Company cannot control weather or the declining usage it is facing. An RSM will eliminate both issues and protect the customer and the Company. Specifically, the RSM eliminates the shortfalls (as much as $19.1 million in 2015) and surpluses (as much as $12.3 million in 2018) by allowing the Company to collect only the amount set by the

Commission. If the usage was known prior to the year we set rates, this would not be an issue. But usage is unknown and the RSM adjusts the price to the correct level as if the usage was known. Meeting or exceeding the revenue authorized for the RSM classes in 3 out of 10 years does not appear to be an advantage. Likewise, falling short of revenues by $52.4 million over ten years does not give the Company an advantage. Mr. Busch has not addressed how to account for this issue, but instead he relies on the current process, which based on the facts presented in this case, places the Company at a reoccurring disadvantage.

Q. Does Section 386.266.4, RSMo define the classes to be include in any proposed RSM?

A. Yes, it states "any revenue variation resulting from increases or decreases in residential, commercial, public authority, and sale for resale usage." Those are the only classes that a proposed RSM should include per the legislation.

Q. Does Mr. Busch only look at the residential, commercial, public authority and sale for resale classes?

A. No. In the information that Mr. Busch presents on revenues on page 6, lines 19-24 of his rebuttal testimony, Mr. Busch includes all revenues. These revenues include sewer revenues, other revenues, public and private fire revenues, industrial revenues, and ISRS revenues.

Q. Are there other factors that Mr. Busch ignores in interpreting revenues?

A. Yes, Mr. Busch ignores the fact that there were rate increases effective on July 20, 2016 and May 28, 2018, included in his numbers. There are also additional revenues included from acquisitions and ISRS filings.

Q. Why is it important to only review the data in regard to the specific classes in the RSM?

A. Since the legislation only allows an RSM for the classes of residential, commercial, OPA and sale for resale, then only the data from those classes are material to whether an RSM is needed or not. Using data that includes sewer revenues, ISRS revenues, industrial revenues, public and private fire revenues and other revenues skews the data as those classes of revenues are not eligible for inclusion in the RSM. Also, including rate increases, ISRS filings and revenues from acquisitions skews the data when comparing it to authorized revenues unless adjustments are made to remove those new revenues.

Q. Mr. Busch states that "five of the nine years" revenues increased when compared to the previous year in Schedule JMW-1, do you agree with this statement?

A. Yes, revenues increased in 2011, 2012, 2016, 2017 and 2018 over the previous year. What Mr. Busch neglects to point out is that rate increases were effective on July 1, 2010, April 1, 2012, July 20, 2016, and May 28, 2018. The chart below shows that rate case increases impacted all five years.

	RSM Actual Revenues	Change	Total Rate Increase	RSM Classes Increase	Effective Date
2010	192,614,238				
2011	207,389,279	14,775,041	$19,829,618	$16,681,337	7/1/2010
2012	243,652,841	36,263,562	$14,345,964	$23,091,969	4/1/2012
2013	229,023,141	(14,629,700)			
2014	227,138,052	(1,885,089)			
2015	218,000,520	(9,137,532)			
2016	233,128,505	15,127,985	$27,004,319	$21,498,940	7/20/2016
2017	259,688,899	26,560,394			
2018	286,326,807	26,637,907	$22,041,579	$23,097,952	5/28/2018
2019	276,050,243	(10,276,564)			

Q. Please explain how the four rate increases impacted each of the five years that revenues increased over the prior year?

A. The first rate increase was effective July 1, 2010, so approximately $8.3 million of the total increase of $16.7 million for the RSM classes were effective in 2010 and 2011. Therefore, approximately 56% ($8.3/$14.8) of the increase is directly related to a rate increase. For 2012, approximately $17.3 million of the increase effective on April 1, 2012 would be included in the 2012 numbers or approximately 48% of the year over year increase. This also ignores that the remaining $5.8 million ($23.1-$17.3) of the April 1, 2012 increase would be collected in 2013, which if removed would increase the shortfall that year from ($14.6) million to ($20.4) million ($14.6+$5.8). Approximately 64% of the increase in 2016 is associated with the rate increase effective July 20, 2016 and 45% of the increase in 2017 is associated with the same rate increase. Approximately 52% of the increase in 2018 is associated with the rate increase effective May 8, 2018. This also ignores that the remaining $9.3 million ($23.1-$13.8) of the May 28, 2018 increase would be collected in 2019, which if removed would increase the shortfall that year from ($10.3) million to ($19.6) million ($10.3+$9.3).

Q. Does Mr. Busch's analysis compare actual revenues to authorized revenues for the RSM classes?

A. No, it does not. Mr. Busch compared just one piece of Schedule JMW-1. He ignores the facts that in the 10 year period shown in Schedule JMW-1, authorized revenues for the RSM classes where only achieved in 3 out of the 10 years. Meaning that 7 out of the 10 years revenues were below the authorized levels for the RSM classes. In total, revenues were short of authorized by $52.4 million over the 10 years. That shortfall includes all the increases in year over year revenues. Therefore, even with the additional revenues from the five years of $119.4 million that Mr. Busch points out, the Company still fell short of

authorized revenues by $52.4 million.

Q. Does Mr. Busch understand the relationship between revenues and production costs?

A. Based on Mr. Busch's table on page 11 of his rebuttal testimony, it does not appear that he fully understands the relationship. Mr. Busch improperly expects an exact relationship between the two. In my Direct Testimony on page 17, I state:

> Production costs should be taken into account because they vary with sales volumes. Delivering more water costs more and delivering less water costs less. Netting production costs will ensure that both the Company and its customers are made whole; paying only those production costs associated with the actual amount of water delivered.

Q. Can you give an example of why production costs move with sales volume?

A. Yes. As stated in my Rate Design Rebuttal Testimony on page 4:

> Assume that revenues fall short of authorized by $5,000,000 due to water sales being 1,000,000 thousand gallons less than authorized at a cost of $5 per thousand gallons. If we ignore production cost in this example, the Company would surcharge the customers $5 million. But this is not the right thing to do because it costs the Company money to produce water, or in this case the Company saves money by not producing the amount of water authorized. If the cost per thousand gallons was $1 in this example, then the Company would over collect by $1 million. The reason for this is that the Company did not produce 1,000,000 thousand gallons at a cost of $1 per thousand gallons. The Company's proposal would have taken the $5 million shortfall in revenues and offset it with the $1 million savings in production costs, therefore it would have only charged the customers $4 million dollars instead of the $5 million ignoring production costs.

Q. What happens to production costs if sales increase?

A. I also addressed this in my Rate Design Rebuttal Testimony on pages 4 and 5:

> For example, assume that revenues exceed authorized by $5,000,000 due to water sales being 1,000,000 thousand gallons more than authorized at a cost of $5 per thousand gallons. If we ignore production cost in this example, the Company would credit the customers $5 million. But this is not the right thing to do because it costs the Company money to produce the additional water sold. If the cost per thousand gallons was $1 in this example, then the Company would credit the customers $1 million too much. The reason for this is that the Company produced an additional 1,000,000 thousand gallons at a cost of $1 per thousand gallons that was not

included in authorized revenues. The Company's proposal would have taken the $5 million increase in revenues and offset it with the additional $1 million in production costs, therefore it would have only credited the customers $4 million dollars instead of the $5 million ignoring production costs.

Q. Has the Company provided data that shows the correlation between water sales and production costs?

A. Yes, the response to OPC DR 8003 part (b) provides a graph showing the correlation between water sales and production costs, please the attached Schedule JMW-4. You can see from the graph that the orange line, thousand gallons sold, moves up and down with the blue line, production costs. The data supporting this graph was provided in the Company's response to OPC DR 8003.2, which is attached as Schedule JMW-5.

Q. What does the chart on page 11 of Mr. Busch's testimony show?

A. It shows that in 7 out of the 10 years, production costs move in the same direction as revenues.

Q. What happens in the remaining three years?

A. The data for 2014, 2015 and 2017 move in opposite directions when looking at the percentage change and dollar change year over year. There are many factors that can impact production costs. In 2014 and 2015, sales decreased but production costs increase compared to the prior year. Actual production costs are impacted by increases to chemicals, power, purchased water and water waste disposal. In 2017, revenues increased from the prior year and production costs decreased. This could have been from cost savings in production costs. As witness Grant discusses in his Direct Testimony, O&M has stayed flat over this entire period (2010-2019) and costs savings as presented and proposed in the Company's RSM would flow back to the customer for production costs.

Q. Are there any other reasons why revenues would increase and production costs decrease?

A. Yes, 2017 was impacted by a rate increase. The rate increase impacted the actual revenues for 2017 because new rates were implemented on July 20, 2016, which would have an impact through July 19, 2017. Rate increases also impacted the actuals for each year following the rate increases, which were effective on July 1, 2010, April 1, 2012 and May 28, 2018.

Q. Does the Company still believe that production costs should be included in the RSM?

A. Yes, absolutely. Production costs are impacted by the level of sales. Please see the examples above from my Rate Design Rebuttal Testimony that prove sales impact production costs.

Q. Do American Water subsidiaries operate any RSM or similar mechanism in other states and do they include adjustments for production costs?

A. Yes, American Water has RSMs in three states (CA, IL and NY) and all three make an adjustment for production costs.

Q. Is the Company open to an alternative proposed methodology to adjust for production costs?

A. Yes. As discussed in my Rate Design Rebuttal Testimony on pages 5 and 6, an alternative would be to use a cost per thousand gallons established in the rate case and multiply that cost by the actual usage level incurred. Therefore, if the Company sold an additional 1,000,000 thousand gallons and the cost authorized is $1 per thousand gallons, the Company would be able to offset the additional revenues by the $1 million in expenses

(1,000,000 thousand gallons x $1 cost per thousand as authorized). The opposite example is if the Company fell short of authorized sales by 1,000,000 thousand gallons, the Company would reduce its request by $1 million in expense savings (1,000,000 thousand gallons x $1 cost per thousand set in rate case).

Q. Mr. Busch attempts to summarize your Direct Testimony by stating "the current rate structure does not give the utility a reasonable opportunity to recover its authorized revenues." (Busch RT, p. 12). Is his summary correct?

A. The actual statement is "because of seasonal variability and declining use per customer, volumetric rates do not give water utilities a reasonable opportunity to recover their authorized revenues." (Watkins DT, p. 20). This statement is supported by Schedule JMW-1, which shows the current rate structure has not allowed the Company a reasonable opportunity to recover its authorized revenues in 7 out of the last 10 years. In fact, the shortfall for those seven years was $77.3 million dollars. If we look at revenues for all ten years the shortfall is $52.4 million. Falling short of authorized revenues by over $50 million is not reasonable.

Q. Mr. Busch discusses the RSM and how it negatively affects customers that conserve water, do you agree?

A. No, I do not. Mr. Busch says that customers are currently encouraged to conserve water and that an "RSM would likely discourage conservation." (Busch RT, p. 13). This claim is unsupported. Rather, an RSM eliminates the need to predict the actual usage upon which to set rates. The RSM adjusts the revenues, and therefore the rates, to what they should have been had the usage level been known when rates were set. In fact, the RSM corrects the issue of usage, which is impacted by weather and declining use. Please see Schedule

JMW-3, which shows the rates a customer would pay currently and how conserving water would save them money under an RSM with both a credit and a surcharge.

Q. Referring to Schedule JMW-3, can you please provide an example of how conserving water will save a customer money even under an RSM?

A. Yes. Schedule JMW-3 is broken into 3 pages. The first page is for Rate A customers in St. Louis County Service Area, the second page is for Rate A customers in All Service Areas Outside of St Louis County excluding Mexico and page 3 is for Rate A customers in Mexico. For a customer in St. Louis County Service Area with a 5/8" meter and monthly usage of 5 thousand gallons per month, their monthly bill would be $32.91 and their annual cost would be $394.92. If that customer conserved one thousand gallons of usage per month, their monthly bill would be $28.13 and their annual bill would be $337.56. This would produce savings of $4.78 per month or $57.36 annually. I also show the usage for the range of one thousand gallons through ten thousand gallons for each calculation. Next, I show the impacts of a surcharge and a credit through the RSM and will describe them here. For a customer in St. Louis County Service Area with a 5/8" meter and monthly usage of five thousand gallons per month with an RSM surcharge of $0.1080 per thousand gallons (based on the 2019 data as shown in Watkins DT, p. 18), their monthly bill would be $33.45 and their annual cost would be $401.40. If that customer conserved one thousand gallons of usage per month, their monthly bill would be $28.56 and their annual bill would be $342.72. This would produce savings of $4.89 per month or $58.68 annually. For a customer in St. Louis County Service Area with a 5/8" meter and monthly usage of five thousand gallons per month with an RSM credit of $23.82 (based on the 2012 data as shown in Watkins DT, p. 18), their monthly bill would be $32.91 and their annual cost would be

$371.10 ($32.91x12-$23.82). If that customer conserved one thousand gallons of usage per month, their monthly bill would be $28.13 and their annual bill would be $313.74 ($28.13x12-23.82). This would produce savings of $4.78 per month or $57.36 annually. In each of these examples, the customer who conserved water pays less on their bill than they would pay if they had not conserved water.

Q. Are the results the same for the other two areas for Rate A?

A. Yes, in both the Non-St Louis and Mexico service areas, the results are the same. The customer who conserves water pays less in their current bill and less in either a future surcharge or credit than they would have if they did not conserve.

Q. Mr. Busch points out that bill impacts could be higher during adverse weather?

A. Yes, customers are paying for the water they use. So, if a customer increases usage, they will increase the usage charge they receive. The surcharge from the 2019 example was $0.1080 per thousand gallons. This is a fraction of the usage charge per thousand gallons in St. Louis County Rate A of $4.7814, Non-St. Louis County Rate A of $6.2469 or the Mexico Rate A which ranges from $5.8887 through $8.4650. For any customer on Rate A using five thousand gallons, the charge would have been $0.54 using the 2019 example. Increasing usage by two thousand gallons in Mr. Busch's example increases the charge for RSM by $0.22 compared to $9.56 for an additional two thousand gallons for St. Louis Rate A customers which is the lowest usage rate between the three service areas.

Q. Does the RSM as proposed in this case include a reconciliation?

A. Yes, it does include a reconciliation to ensure that any surcharge billed or credit issued is collected or credited properly. For example, if the calculation for a surcharge in 2019 was

$0.1080 per thousand gallons and it was meant to collect the revenue shortfall net of production costs of $4,018,452 as shown on Schedule JMW-1, the reconciliation would include an adjustment in the following RSM reconciliation to return any overcollection (this would happen if sales were above the forecast for the collection period) of the surcharge.

Q. Has Mr. Busch criticized MAWC's efforts to help improve the efficient use of water.

A. No, to the contrary, Mr. Busch recognizes that "MAWC does take an active role in providing information and tools for its customers to conserve water and use water more efficiently. MAWC is doing its part in helping preserve water, our most precious resource." (Busch RT, p. 15).

Q. Does this statement support an RSM?

A. Yes, it shows that the Company is doing the right thing and not encouraging customers to use more water. If customers use more water, then the Company will generate more revenues. If customers use less water, then the Company does not collect the revenues that were previously deemed just and reasonable. This is the main issues with the current rate structure. Again, the RSM corrects for this occurrence, as well as variations in weather, and ensures that customers only pay what the Commission approved as just and reasonable rates.

Q. Mr. Busch states "the current rate design is perfectly designed to encourage customers to use water efficiently." (Busch RT, p. 15). Does this statement support the RSM?

A. Yes. If customers continue to conserve, conservation will drive actual revenues down.

Weather will also continue to impact actual revenues, up or down. The RSM adjusts for these variables.

Q. Mr. Busch further states "the first customer who has undertaken conservation efforts or who cannot lower usage for other reasons, will pay a surcharge to help offset the lower revenue amount caused by the second consumer who finally undertook some conservation methods." (Busch RT, p. 15). Do you agree with this statement?

A. No, I do not. If one customer lowers its usage, there would be no material impact on total RSM revenues. The reason is that many customers must conserve for there to be an impact, which is what Company witness Mr. Roach has projected in his declining usage analysis. Staff does not adjust for declining use, but nevertheless argues that there could be customer impacts because of declining usage which is contradictory on its face.

Q. Mr. Busch states that the RSM "will cause intra-class shifts of responsibility." (Busch RT, p. 15). Do you agree with this statement?

A. No, I do not. First, industrial, public fire, private fire, sewer and other revenues are not included in the RSM and are separate in the cost of service study. Therefore, no intra-class shift can occur among these customers. Rate A includes customers from residential, commercial and OPA classes of customers all sharing the same rate. Therefore, there would be no change in the intra-class group here as they already share the costs.

Q. Should Rate A and Sale for Resale have separate RSMs?

A. The Company's proposal was to have one RSM that applies to all RSM related customer classes. Nevertheless, the Company has considered Mr. Busch's position and is amenable to including a separate Rate A and Sale for Resale RSM. The sale for resale category

should also exclude three customers that have special contracted rates.

Q. Mr. Busch discusses risk and shifts of risks. (Busch RT, p. 16). Will you address these issues?

A. No, Ms. Buckley addressed these issues in her direct testimony.

Q. OPC witness Lena Mantle states "A rate stabilization mechanism changes the balance of risk and responsibility that has served customers of regulated utilities in Missouri well for over a century." (Mantle RT, p. 13). Do you agree with this statement?

A. Ms. Buckley addressed the issue of risk in her direct testimony. As I stated previously, the rates set in a rate case should be just and reasonable to both the customer and the Company. In my Direct Testimony I discuss the changes from investment in new customers, which brings in additional revenues, to changes in declining usage and weather and investments in non-revenue generating plant. Schedule JMW-1 shows that the authorized revenues were not met in 7 out of 10 years.

Q. Ms. Mantle states that "a RSM, customers' bills will be affected by other customers' decisions and actions of which they have no control over." (Mantle RT, p 14). Do you agree with this statement?

A. No, I do not. An RSM adjusts the tariff rates to what they should have been if the actual usage was known. Customers pay what they should have paid, which is what the Commission approved. The example for 2019 shown previously and detailed in the examples in Schedule JMW-3 show that the thousand gallon surcharge for 2019 would have been $0.1080. That impact to a customer using 5,000 gallons per month is $0.43 per month for a customer in the St. Louis Service Area. But the impact to the Company in

2019 was a shortfall in revenue of $5.6 million. The 10 year impact, 2010-2019, was a shortfall of $52.4 million when compared to authorized revenues for the RSM classes.

Q. Ms. Mantle states "A RSM provides certainty for the utility because the utility is assured that it will receive the revenues set by the Commission, but customers get no commensurate benefit." (Mantle RT, p. 14). Do you agree with this statement?

A. No, I do not. The RSM is symmetrical. If the Company collects more revenues than authorized, it will provide a credit to customers and if it collects less revenues than authorized it will surcharge the customers. It is perfectly symmetrical because neither the Company nor the customer are negatively impacted by the actual sales. The revenues collected for the RSM classes will be exactly what the Commission decided they should be, no more and no less.

Q. Ms. Mantle discusses that customers "lose the certainty of how their actions will affect their bills." (Mantle RT, p. 14). How would you address this issue?

A. I discussed this above and provided Schedule JMW-3, which shows the impacts to customers in Rate A for the three service areas. Customers who conserve save money now and in the future. The example from 2019, which included a surcharge of $0.1080 per thousand gallons actually increases savings when compared to savings from just reducing one thousand gallons because now the customer is saving their Rate A volumetric charge, plus an additional $0.1080 for each thousand gallons saved.

Q. Ms. Mantle states "It assures that MAWC recovers lost revenue from customers leaving its system." (Mantle RT, p. 16). Is this an accurate statement?

A. Yes, the RSM would cover revenues lost by customers leaving the system if that customer

were in one of the approved classes of customers for the RSM. What Ms. Mantle does not address is that this is also symmetrical, in that any organic growth in the system would be returned to the rest of the customers.

Q. Ms. Mantle states "It assures that MAWC recovers 100% of its uncollectibles." (Mantle RT, p. 16). Is this statement accurate?

A. No, this statement is not accurate. When the Company bills customers, it books a debit to account receivables and a credit to billed revenues. Any adjustment made for RSM would debit a regulatory asset or credit a liability and the other side of the entry would be booked to the RSM revenue account. If a customer does not pay their bill, the entry would be to debit uncollectible expense and credit customer reserve. If the delinquent customer pays their bill the last entry would be reversed. If the customer does not pay their bill within 150 days, the accounts receivable and the customer reserve would be reversed. With all of these entries, billed revenues are not adjusted for uncollectible expense.

Q. In the other three states that American Water operates an RSM, is uncollectible expense adjusted within the RSM mechanism?

A. No, and the Company is not proposing to do so here.

Q. Ms. Mantle further states "If you believe MAWC's testimony as a whole, the RSM provides no benefit to the customers because customers would never receive a credit." (Mantle RT, p. 17). Do you agree with this statement?

A. No. Mr. Roach addresses the known and measurable issue of declining usage. Weather also impacts usage. Schedule JMW-1 shows the inaccurateness of Ms. Mantle's statement in that 3 of the 10 years do show credits being issued to customers, despite the continued

decline in usage that Mr. Roach addresses.

Q. Ms. Mantle states "However, what Mr. Watkins is not telling the Commission is that customers can use less and their bill can be higher if the Commission approves an RSM. The total volumetric rate seen by the customer, which is the price signal to the customer, will change every year." (Mantle RT, p. 17). Do you agree with Ms. Mantle's conclusion?

A. No, I do not. As I previously stated in response to Mr. Busch's similar, unsupported statement, the customer who conserves water pays less in their current bill and less in either a future surcharge or credit than they would have if they did not conserved. The RSM adjusts the revenues, and therefore the rates, to what they should have been had the usage level been known when rates were set. In fact, the RSM corrects the issue of usage, which is impacted by weather and declining use. As demonstrated in Schedule JMW-3, the RSM would adjust the tariff rates to the level they should have been if the actual usage was known. Schedule JMW-3, shows the rates a customer would pay currently and how conserving water would save them money under an RSM with both a credit and a surcharge.

Q. Ms. Mantle states "In addition, the design of the RSM is not symmetrical for the individual customers. When revenue is above authorized levels, customers with a large amount of usage get the same amount credited to them as a small customer with little to no usage. However, if there is a revenue shortfall, these large customers are charged according to their usage." (Mantle RT, p. 18). Do you agree with this statement?

A. Factually, yes. However, the Company's proposal remains the best method to protect

lower-usage customers and ensure they continue to benefit from their conservation in both a surcharge or a credit position. If the Company were to use a volumetric credit this could encourage customers to use more water, yielding a small credit for every thousand gallons used. In addition, the proposed onetime credit is applied as soon as possible returning the money to the customers faster than a volumetric credit, which would take 9 months to credit back to the customer.

Q. Does Ms. Mantle have an issue with the customer classes being combined as proposed in the RSM?

A. Yes, and her reasons are similar to Mr. Busch. Rate A includes customers from residential, commercial and OPA classes of customers all sharing the same rates. Therefore, there is no need to separate these classes for purposes of the RSM. As I have stated previously, an RSM is correcting the issue of not knowing the actual usage on which rates should be set. The RSM is adjusting the revenues, and therefore the rates, to what they should have been if the usage level was known when rates are set. For example, once the total water sales are determined and the rates set for this case, total revenues for the RSM classes can be calculated. If we were to reconcile the year after rates were implemented, we would know what the actual usage was for that period and therefore we can adjust the rates to what they should have been. If usage is up over authorized, then the rates were set too high and a credit will be issued. If usage is below authorized, then rates were set too low and a surcharge will be issued. Therefore, the RSM corrects the issue of usage that is impacted by weather and declining usage. Please see Schedule JMW-3, which shows the rates a customer would pay currently and how conserving water would save them money under an RSM with both a credit and a surcharge.

Q. Ms. Mantel discusses volumetric versus fixed revenues on page 20 of her Rebuttal Testimony. Why did the Company include both in its proposal?

A. The Company included both as it is easy to verify total billed revenues per the Company's books. It makes the reconciliation easier, since Staff and other intervenors will be able to tie to the exact numbers to the Company books each year.

Q. Is it possible for the Company to track only the volumetric revenue?

A. Yes, it is possible. There would be an additional analysis needed to separate the fixed revenue and the volumetric revenue. If as a condition to granting the RSM, the Commission required that the RSM only track the volumetric revenues, the Company would do so.

Q. Ms. Mantel states "the only amount for uncollectibles that should be included in the revenue requirement are uncollectibles associated with the industrial class because all of the other customer classes are included in the RSM." (Mantle RT, p. 20). Is this an accurate statement?

A. No, as I previously discussed billed revenues are not adjusted for uncollectilbe expenses. The only classes included in the proposed RSM are residential, commercial, OPA and sale for resale. Industrial, private fire, public fire, other and sewer revenues are not included in the proposed RSM.

Q. Ms. Mantle asks the question "Is the RSM necessary for MAWC and its parent company American Water Works to remain financially stable?" (Mantle RT, p. 23). Please address this question and response?

A. Ms. Mantle tries to corollate the financial performance of the parent company with the need

for Missouri-American to have an RSM. The question however should be only related to if MAWC has a "just and reasonable" opportunity to earn its authorized return, as the Commission does not set rates for American Water Works.

Q. Ms. Mantle states "the RSM not being needed, the RSM proposed by MAWC is fraught with inequities." (Mantle RT, p. 24). Do you agree with this statement?

A. No, I do not. The Company filed and supported its proposal with actual data for the last 10 years and compared the authorized revenues and production costs compared to the actual revenues and production costs for the applicable classes allowed for the RSM. The facts show that 7 out of 10 years revenues fall short of authorized by $77.3 million in those seven years or by $52.4 million for all 10 years. These facts show that declining usage and weather impacts the way that actual revenues net of production costs vary from authorized levels that are beyond the control of the Company. In addition, Ms. Mantle spends a considerable amount of time discussing the issue of uncollectibles, but in fact her argument is fraught with inequities because billed revenues are not unadjusted for uncollectibles, only accounts receivable are adjusted for uncollectibles.

III. FUTURE TEST YEAR

Q. Do any witnesses address the Company's future test year proposal in their rebuttal testimony?

A. Yes, Staff witness Ms. Bolin discusses this issue.

Q. Does Staff have concerns regarding the use of a future test year?

A. Yes, Ms. Bolin states "Staff has concerns regarding the effects of use of future test years on existing utility incentives to provide safe and adequate service at the lowest cost of

service." (Bolin RT, p. 5).

Q. How does the Company respond to this concern?

A. As I pointed out in my Rebuttal Testimony Revenue Requirement on page 4, cost control is a company-wide endeavor at American Water and is not limited to MAWC. American Water currently operates in ten states that use a future test year. Page 5 of my Revenue Requirement Rebuttal Testimony states:

> A future test year in no way incentivizes the Company to overspend. Rather, as detailed further in the rebuttal testimony of Company witness Kaiser, when MAWC can reduce operating expenses, it can increase investment in infrastructure without increasing rates, because every dollar of operating expenses saved can fund over $8 of investment.

Approving a future test year in this case will not change MAWC's or American Water's drive to continue to control costs.

Q. Did the Company use budgets to project the future test year?

A. No, it did not. The Company used known and measurable data. For example, union contracts are set and were used to calculate the wages for the future test year. Mr. Roach has shown that declining usage will continue into the future and therefore declining usage is known and measurable. Mr. Kaiser discusses specific projects that will be placed into service prior to rates and during the future test year.

Q. Ms. Bolin challenges the use of budgets in future test years and claims assumptions may be subject to significant bias. (Bolin RT, p. 7). Do you agree?

A. No, in part because the Company did not use budgets to establish its revenue requirement for the future test year. (Watkins DT, pp. 28 and 29). The Company started with a historical test year of 2019. It then used a verifiable link period to connect the historical

year and the future test year to ensure the forecasting process. The Company used all of this data in the forecasting process through the future test year. All of the parties in this case had an opportunity to issue discovery on the data used and to challenge or even propose a better option or forecast if there was one available.

Q. Ms. Bolin states "Under a historical test year approach, all of the financial data is based upon actual recorded utility accounting records, adjusted to normalize and annualize key utility data to reflect the most current trends beyond the test year in the underlying costs." (Bolin RT, p. 5). Do you agree with this statement?

A. No. While it is true that a historical test year uses actual data, it does not reflect "the most current trends beyond the test year" as Ms. Bolin stated. Examples include union increases that are known and measurable prior to the rate increase or even during the future test year. As stated in my Revenue Requirement Rebuttal Testimony, page 8, there is approximately $73 million in UPIS that will be placed into service prior to rates being effective that Staff has not included in its revenue requirement.

Q. Ms. Bolin further states "utilities inherently have less incentive to control capital costs and expenses under a future test year approach than under a historical approach." (Bolin RT, p. 6). Do you agree with this statement?

A. No. Utilities have the same incentive to control costs under either approach. The difference is that the historical test year does not have the most recent known and measurable information and therefore ignores the data between the true-up period (December 31, 2020) and the actual effective date of rates (May 2021) and known and measurable changes that occur in the future test year (June 2021-May 2022). Under either test year approach, the utility has an incentive to control costs. However, under the

historical test year, the utility is penalized by not recognizing the costs, both expense and capital investments, that occur after the true-up period. This means the utility does not have a fair and reasonable chance to earn its return as it has made investments, incurred costs, and lost revenue due to declining usage that were not included in the revenue requirement when using a historical test year.

Q. Ms. Bolin discusses self-fulfilling prophies and that a utility would have a weak incentive to beat estimates in a future test year, do you agree? (Bolin RT, p. 7).

A. No. As I have already stated, a utility, including MAWC, has incentives to control costs no matter what test year is used. If a utility does not control its costs, it will not have an opportunity to earn its authorized return. As costs increase, it erodes earnings. Thus, a utility always has incentive to control its costs.

Q. Does Ms. Bolin agree that a future test year is consistent with the matching principle?

A. Yes. (Bolin RT, p. 7). Ms. Bolin further stated that the matching principle is based upon "the utility's ability to accurately forecast its revenue, expenses and capital costs without significant bias." (Bolin RT, p. 7). The Company has received numerous discovery requests from Staff and other intervenors in this case. If there was "bias" in the Company's data, it would have been discovered and addressed by those intervenors. The Company stands by its approach of using a historical test year, updated through a verifiable link period and into the future test year.

Q. Ms. Bolin discusses that the future test year is not consistent with known and measurable principle traditionally used in Missouri. (Bolin RT, p. 7). Do you agree?

A. I agree that the Commission has traditionally used the historic test year. But in the case of

Kansas City Power & Light Company at 771-72, the Court of Appeals stated the below:

> In determining rates, the PSC may consider all facts that in its judgment have a bearing on the proper determination of rates. *See* Section 393.270.4; *State ex rel. Pub. Counsel*, 397 S.W.3d at 447-48. Relevant facts, of course, include forecasts of future costs. *See Fraas*, 627 S.W.2d at 886 ("the Commission must make an intelligent forecast with respect to the future period for which it is setting the rate; rate making is by necessity a predictive science").

While I am not an attorney, it appears from the above that the Commission has the authority to adopt a future test year. The Company has put forth its case in support of the future test year in regards to increasing rate base and expenses, while use per customer continues to decline by approximately two percent per year. Therefore, the relationship between revenues, expenses and rate base have changed from a historical test year and a future test year is needed to retore the matching principle in this case.

Q. Did the Company use budgeted payroll increases?

A. No. Ms. Bolin expresses the use of budgeted payroll increases as a concern as the Company may perceive that they can lock in those assumptions. (Bolin RT, p. 11). The salaries and wages of the Company's employees in this case did not use a budget. Actual wage rates for each time period were used to calculate payroll. Union increases are typically made over a set period of time and those contracted rates are not a budget. Ms. Bowen describes this in her Direct Testimony on page 6. Ms. Bowen further discusses using a three-year average increase if contract rates have not been negotiated through the future test year. For noncollective bargaining employees, actual salaries from April 1, 2020 were used and inflated for the future test year using a three-year average. Wages increases will occur for employees in the future test year and the Company proposed a known and measurable way to account for those changes in payroll. The budget was not used to forecast these expenses.

Q. Ms. Bolin discusses the "Missouri Legislature and the Commission have made significant modifications to the utility ratemaking process." (Bolin RT, p. 18). Has the Missouri Legislature approved anything that Staff is not supporting?

A. Yes, it is my understanding that Section 386.266.4 allows for the Company's proposed RSM, which Staff does not support. Please refer to page 4 of my Direct Testimony.

Q. Do the RSM and future test year support the matching principle?

A. Yes. As proposed, the Company has projected revenues for the future test year that it has proposed be trued-up with the RSM for the applicable classes to ensure the customers only pay what the Commission authorized in its revenue requirement for the RSM classes. The future test year and the RSM ensure any forecast in revenue for the RSM classes will be reconciled.

Q. You previously mentioned that American Water operates RSMs in three other states, what test period do those states use?

A. Yes, American Water operates RSMs in CA, IL and NY. All three states use a future test year and an RSM. CA and NY use multiple future test years whereas IL uses a future test year similar to the one proposed in this case.

Q. Has the Company provided sufficient evidence to support a future test year?

A. Yes. A future test year is the most appropriate period of time to use to set rates because it matches all of the factors in the revenue requirement for the year for which rates are set. This is important because declining usage will continue into the future and known and measurable expenses and capital projects will be incurred and made, respectively. In order to ensure the matching principle is followed, all of these items should be used to properly

forecast the future test year.

Q. What do you recommend if a future test year is not approved in this case?

A. As I discussed in my Revenue Requirement Rebuttal Testimony, if a future test year is not used in this case then a current test year should be used. A current test year "would include all proposed changes though May 2021 and would more accurately reflect rates for the day rates became effective." (Watkins RR-RT, p 9).

Q. Does this conclude your Surrebuttal Testimony?

A. Yes.

OPC 8003

DATA INFORMATION REQUEST
Missouri-American Water Company
WR-2020-0344

Requested From: Brian LaGrand
Date Requested: 8/5/2020

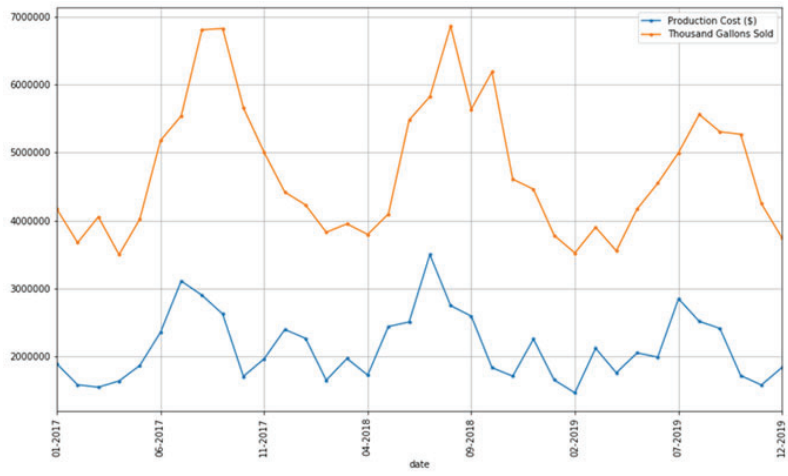
Information Requested:

Please provide a detailed list of the power, chemicals, purchased water, and waste disposal costs MAWC is proposing to include in the rate case production costs of its proposed revenue stabilization mechanism (RSM). For each, please provide:
a) A detailed definition of the cost;
b) A description of how the cost varies with the amount of water sold;
c) The major and minor account where the cost is recorded; and
d) By month, for the time period of January 2017 through December 2019, the cost level, i.e., the aggregate cost of that cost item for the month.

Requested By: Lena Mantle - Office of Public Counsel – lena.mantle@opc.mo.gov

Information Provided:

a) Please see Direct Testimony of Todd Wright starting on page 4, line 16 through page 9, line 10 for a detailed definition of each cost.
b) Costs vary with the amount of water sold as more power is needed to deliver more water, additional chemicals are needed to treat more water, more purchased water is needed if demand is higher, and more waste is created with an increase in water production. See the below chart for a comparison of thousand gallons sold versus production costs which shows that generally as sales rise and fall, the cost of production expenses follows the same trend.



c) Please see OPC 8003_Attachment for the accounts where the cost is recorded.
d) Please see OPC 8003_Attachment for the total cost for each expense item by month.

Responsible Witness: John Watkins

Schedule JMW-4
Page 3 of 5

		2017												2017 Total
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Chemicals	51800000	$806,962	$637,615	$649,652	$675,551	$794,856	$754,659	$946,499	$882,897	$786,138	$730,042	$584,215	$618,604	$8,867,688
Power	51510011	331,017	359,222	400,547	391,017	396,459	659,791	1,041,778	941,971	796,521	376,681	492,398	400,313	6,587,714
	51510012	448,068	312,606	284,011	304,479	335,849	553,240	707,468	627,193	618,786	286,725	308,237	337,355	5,124,016
	51510013	70,603	73,976	63,150	65,074	66,369	78,450	84,040	70,085	85,222	73,078	74,287	76,572	880,906
	51510014	11,370	10,254	9,307	11,545	11,490	20,162	19,439	17,086	16,259	14,798	13,219	18,300	173,228
	51510015	205	222	189	(477)	268	316	274	289	294	233	230	235	2,277
	51510016	15,056	13,315	13,172	14,588	15,763	20,450	17,274	22,291	18,087	12,152	16,505	16,053	194,704
	51520000	1,708	297	1,440	513		7,555		395	245	20	(531)	4,855	16,499
	Grand Total	$878,027	$769,892	$771,816	$786,740	$826,198	$1,339,965	$1,870,272	$1,679,309	$1,535,414	$763,686	$904,344	$853,682	$12,979,344
Purchased Water	51010000	$47,616	$38,760	$31,519	$38,757	$71,960	$135,510	$150,931	$82,146	$145,975	$62,097	$50,434	$35,495	$891,200
Waste Disposal	51110000	$156,945	$134,822	$93,528	$136,504	$172,724	$124,413	$141,798	$256,335	$155,922	$149,982	$424,251	$887,974	$2,835,196
Total Production Costs		$1,889,549	$1,581,089	$1,546,515	$1,637,551	$1,865,738	$2,354,547	$3,109,499	$2,900,687	$2,623,449	$1,705,806	$1,963,244	$2,395,754	$25,573,429

		2018 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2018 Total
Chemicals	51800000	$865,061	$652,735	$729,874	$658,695	$964,562	$846,346	$1,021,257	$852,164	$790,026	$744,134	$576,415	$725,985	$9,427,253
Power	51510011	625,949	345,736	445,789	390,495	491,040	736,271	1,029,960	814,752	826,278	403,553	425,604	444,364	6,979,790
	51510012	423,046	292,597	376,835	327,687	417,483	407,568	856,716	540,313	519,697	331,427	273,523	371,570	5,138,460
	51510013	94,041	58,427	86,781	68,796	86,858	84,480	92,554	85,072	71,539	102,189	48,495	79,680	958,912
	51510014	29,301	30,913	35,710	30,765	33,955	38,956	47,570	44,968	33,559	33,301	18,615	24,144	401,756
	51510015	267	224	122	283	290	255	283	265	206	392	74	253	2,915
	51510016	17,836	2,786	9,119	8,822	10,597	13,536	10,734	10,154	7,710	5,861	7,540	9,238	113,934
	51520000	4,525	6,048	2,182	587		(123)	69		89	5,293	(6,420)	5,157	17,407
	Grand Total	$1,194,965	$736,729	$956,538	$827,434	$1,040,223	$1,280,942	$2,037,886	$1,495,524	$1,459,077	$882,016	$767,432	$934,406	$13,613,174
Purchased Water	51010000	$79,129	$40,438	$44,944	$33,842	$166,914	$158,422	$203,880	$123,035	$122,577	$46,675	$68,256	$118,276	$1,206,388
Waste Disposal	51110000	$125,962	$218,622	$237,110	$204,482	$268,120	$220,882	$235,840	$277,508	$220,224	$160,008	$297,150	$474,930	$2,940,837
Total Production Costs		$2,265,118	$1,648,523	$1,968,466	$1,724,453	$2,439,819	$2,506,592	$3,498,863	$2,748,231	$2,591,904	$1,832,834	$1,709,253	$2,253,597	$27,187,652

Schedule JMW-4
Page 5 of 5

		2019 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2019 Total
Chemicals	51800000	$741,911	$685,537	$883,768	$732,814	$883,512	$765,562	$963,861	$913,361	$793,589	$752,465	$579,365	$701,999	$9,397,747
Power	51510011	391,491	322,692	364,556	302,888	396,016	543,296	743,225	645,544	642,378	407,408	324,978	362,694	5,447,165
	51510012	306,274	219,925	357,541	342,604	266,947	427,253	597,756	440,416	485,682	292,333	237,995	326,926	4,301,652
	51510013	71,797	60,905	76,201	68,165	62,349	74,825	91,753	72,726	74,086	72,983	57,460	79,240	862,487
	51510014	27,023	27,093	30,122	25,771	27,752	36,550	34,472	48,340	31,028	24,289	20,354	18,239	351,032
	51510015	235	196	272	254	240	273	283	266	269	246	229	245	3,008
	51510016	7,421	7,019	18,895	7,251	5,038	9,888	6,030	7,588	5,734	3,736	5,449	5,853	89,902
	51520000	1,876	23	567	475	419	1,454	172			298	2,031		7,315
	Grand Total	$806,117	$637,853	$848,153	$747,407	$758,760	$1,093,539	$1,473,690	$1,214,880	$1,239,176	$801,293	$648,496	$793,197	$11,062,561
Purchased Water	51010000	$77,703	$40,260	$67,030	$78,295	$103,595	$84,465	$83,241	$107,758	$118,259	$85,150	$92,560	$61,820	$1,000,137
Waste Disposal	51110000	$26,571	$100,345	$320,470	$199,266	$304,823	$45,334	$327,373	$280,587	$259,730	$79,442	$258,164	$280,791	$2,482,895
Total Production Costs		$1,652,302	$1,463,995	$2,119,420	$1,757,783	$2,050,691	$1,988,899	$2,848,166	$2,516,586	$2,410,755	$1,718,351	$1,578,585	$1,837,807	$23,943,340

OPC 8003.2

DATA INFORMATION REQUEST
Missouri-American Water Company
WR-2020-0344

Requested From: Brian LaGrand
Date Requested: 8/26/2020

Information Requested:

Please provide the monthly sales shown in the graph provided in response to OPC DR 8003.

Requested By: Lena Mantle - Office of Public Counsel – lena.mantle@opc.mo.gov

Information Provided:

Monthly sales provided in table below.

Month	Year	Production Costs	Gallons Sold (in thousand gallons)
1	2018	$2,265,118	4,229,922
2	2018	$1,648,523	3,828,050
3	2018	$1,968,466	3,950,778
4	2018	$1,724,453	3,795,921
5	2018	$2,439,819	4,097,114
6	2018	$2,506,592	5,479,676
7	2018	$3,498,863	5,824,891
8	2018	$2,748,231	6,864,916
9	2018	$2,591,904	5,639,700
10	2018	$1,832,834	6,189,662
11	2018	$1,709,253	4,609,326
12	2018	$2,253,597	4,461,569
1	2017	$1,889,549	4,167,265
2	2017	$1,581,089	3,674,218
3	2017	$1,546,515	4,054,913
4	2017	$1,637,551	3,497,749
5	2017	$1,865,738	4,020,319
6	2017	$2,354,547	5,178,976
7	2017	$3,109,499	5,541,111
8	2017	$2,900,687	6,808,864
9	2017	$2,623,449	6,829,024

10	2017	$1,705,806	5,660,984
11	2017	$1,963,244	5,004,528
12	2017	$2,395,754	4,419,557
1	2019	$1,652,302	3,781,330
2	2019	$1,463,995	3,522,737
3	2019	$2,119,420	3,901,469
4	2019	$1,757,783	3,553,387
5	2019	$2,050,691	4,168,768
6	2019	$1,988,899	4,549,999
7	2019	$2,848,166	4,998,690
8	2019	$2,516,586	5,561,633
9	2019	$2,410,755	5,307,011
10	2019	$1,718,351	5,271,126
11	2019	$1,578,585	4,248,370
12	2019	$1,837,807	3,743,837

Responsible Witness: John Watkins