Exhibit No.: _______________
Issue(s): Policy/Future Test Year/ Affiliate Transactions Rule/Consolidated Tariff Pricing/Rate Design/Lead Line Replacement
Witness/Type of Exhibit: Marke/Surrebuttal
Sponsoring Party: Public Counsel
Case No.: WR-2020-0344

SURREBUTTAL TESTIMONY

OF

GEOFF MARKE

Submitted on Behalf of the Office of the Public Counsel

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2020-0344

February 9, 2021

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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	)))))	Case No. WR-2020-0344

VERIFICATION OF GEOFF MARKE

Geoff Marke, under penalty of perjury, states:

1. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony in the above-captioned case.

2. My answer to each question in the attached surrebuttal testimony is true and correct to the best of my knowledge, information, and belief.

*/s/Geoff Marke*____________
Geoff Marke
Chief Economist
Office of the Public Counsel

TABLE OF CONTENTS

SURREBUTTAL TESTIMONY

OF

GEOFF MARKE

MISSOURI-AMERICAN WATER COMPANY

CASE NOs. WR-2020-0344 & SR-2020-0345

I. INTRODUCTION

Q. Please state your name, title and business address.

A. Geoff Marke, PhD, Chief Economist, Office of the Public Counsel (OPC or Public Counsel), P.O. Box 2230, Jefferson City, Missouri 65102.

Q. Are you the same Dr. Marke that filed direct revenue requirement and rate design testimony in WR-2020-0344?

A. I am.

Q. What is the purpose of your surrebuttal testimony?

I am responding to the rebuttal testimony of other parties' witnesses on select topics. The following is a list of those topics and the witnesses:

- Policy
  - Missouri American Water ("MAWC") witness Deborah D. Dewey
- Consolidated Tariff Pricing
  - MAWC witness Charles B. Rea & Jeffrey T. Kaiser
  - Missouri Public Service Commission Staff ("Staff") witness Matthew J. Barnes
  - Missouri Industrial Energy Consumers ("MIEC") witness Jessica A. York
- Future Test Year
  - MAWC witness John M. Watkins
- Rate Design
  - Staff witness Matthew J. Barnes
- Lead Line Replacement
  - Staff witness Amanda C. McMellen
- Affiliate Transactions

- MAWC witness Brian W. LaGrand
- Staff witness Kimberly K. Bolin

My silence regarding any issue should not be construed as an endorsement of, agreement with, or consent to any other party's filed position.

II. POLICY

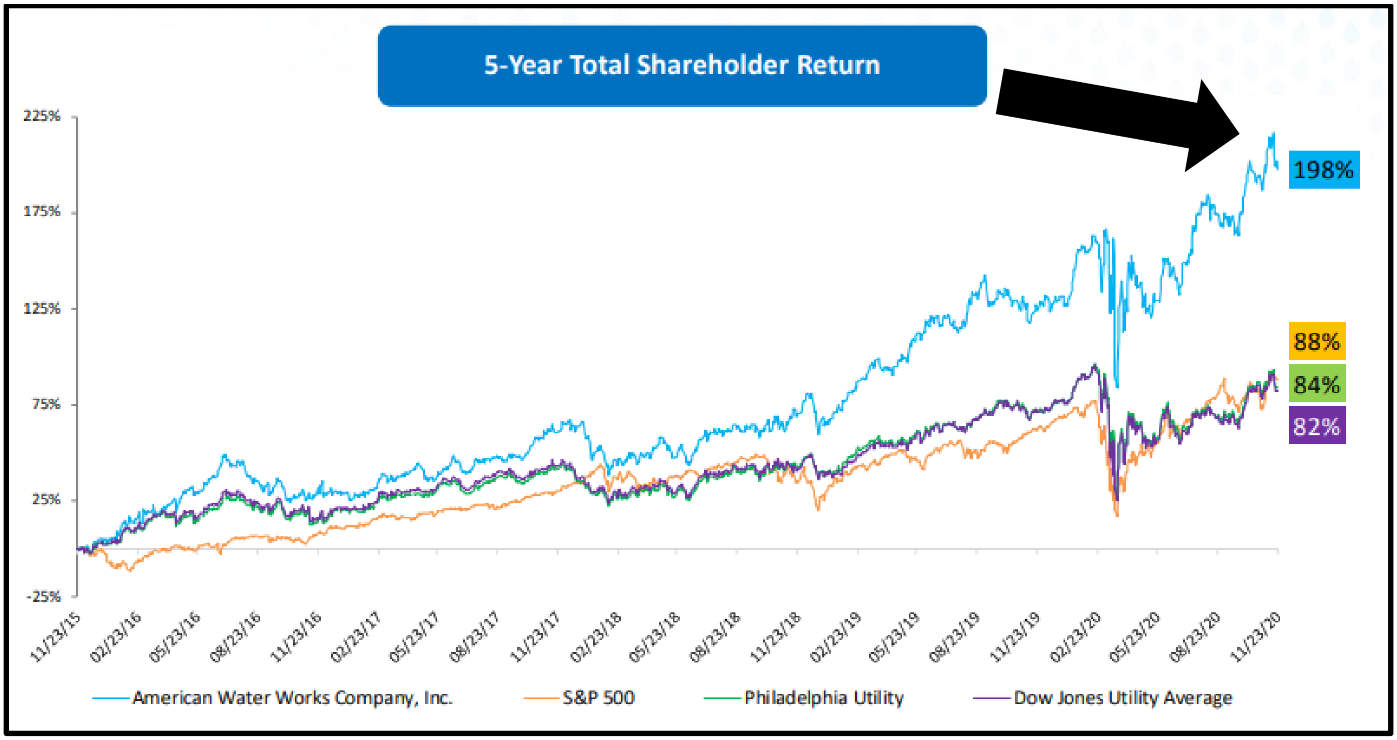
Q. Ms. Dewey notes that MAWC has maintained a proactive response to working with customers during the COVID pandemic. Do you agree?

A. Yes. I believe MAWC's response has been positive and they should be commended for working with OPC and other stakeholders in finding an amiable path forward in reaching agreement on MAWC's COVID-19 AAO. In particular, I applaud the Company's willingness to contribute $250,000 over and above its annual contribution of $100,000 to its Help to Others (H_20) Fund, which provides emergency billing assistance for eligible customers. I am also confident and optimistic that MAWC will continue to work with its customers over payment plans as the continued pandemic and corresponding recession are still very uncertain.

Q. Ms. Dewey paints MAWC as a Company that would struggle to attract investment if the Commission adopts ratemaking adjustments proposed by non-company parties. Do you agree?

A. No. First of all, MAWC already has many ratemaking adjustments and considerable, favorable regulatory treatment already in place that arguably places them further along than any utility in Missouri in terms of risk-reduced regulatory environments. To be clear, if the Company could have avoided coming in for a rate case in the middle of a pandemic, they would. But for the need to have a rate case to maintain the ISRS and its favorable, risk-reducing regulatory treatment they would not be here. In contrast, many, many companies are struggling right now and many will likely not survive the pandemic. However, if you were lucky enough to invest in American Water stock just five years ago, you would be experiencing a 198% return on your investment to date. During that same time period, American Water incredibly out-performed the S&P 500 by 110% and the Dow Jones Utility Average by 116% as shown in Figure 1 below.

<u>Figure 1: American Water's 5-year Shareholder Return compared against the S&P 500, a Philadelphia Utility and the Dow Jones Utility Average (emphasis added)</u>[1]



Furthermore, the shelter-in-place nature of the COVID-19 pandemic has been a revenue windfall for American Water. In American Water's last earnings call, the year-to-date earnings per share increased .32 cents for its regulated businesses despite the economic recession. As seen in Figure 2 below regulated revenue increased $0.48, no doubt driven from greater water usage as seen in Figure 3.

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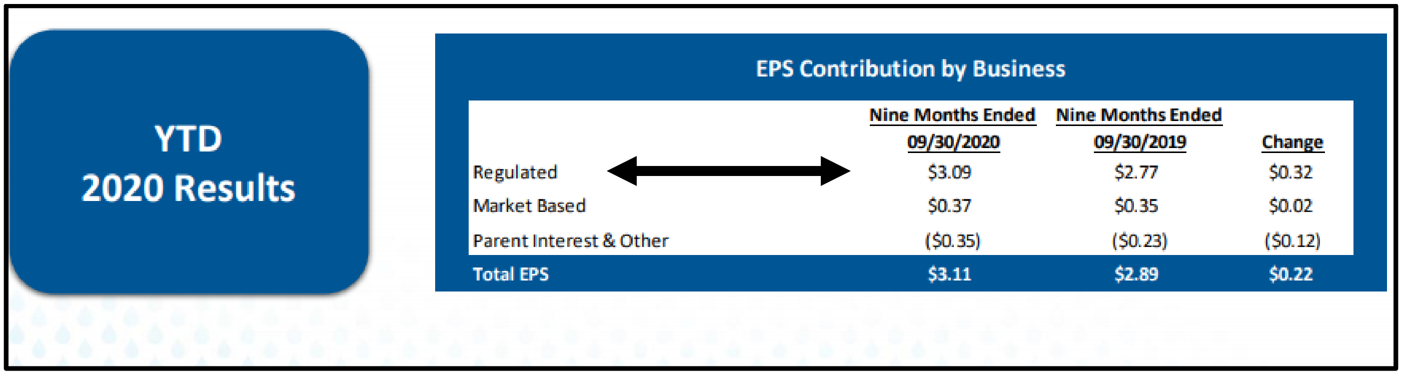
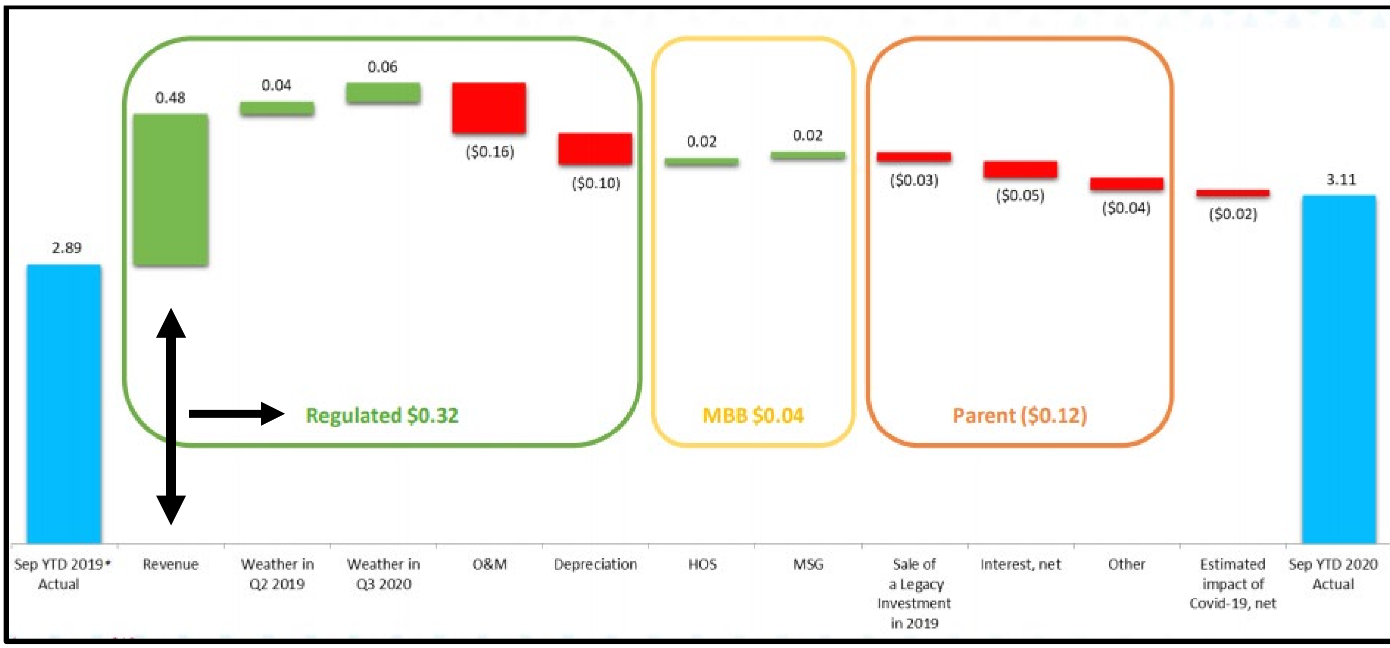
[1] Lynch, W (2020) American Water's "The State of the Water Industry" PowerPoint at the Bank of America 2020 Water Conference, 12/10/2020 slide 10
https://s26.q4cdn.com/750150140/files/doc_presentations/2020/Bank_of_America_2020_Water_Conference_Presentation.pdf

Figure 2: American Water Year-to-Date Q3 2020 Earnings Per Share (emphasis added)[2]



	Nine Months Ended 09/30/2020	Nine Months Ended 09/30/2019	Change
Regulated	$3.09	$2.77	$0.32
Market Based	$0.37	$0.35	$0.02
Parent Interest & Other	($0.35)	($0.23)	($0.12)
Total EPS	$3.11	$2.89	$0.22

Figure 3: American Year-to-date EPS detail by business (Q3 2020) (emphasis added)[3]



[2] American Water (2020) 2020 Third Quarter Earnings Conference Call. 11/5/2020 slide 11
https://s26.q4cdn.com/750150140/files/doc_financials/2020/q3/2020-Third-Quarter-Earnings-Call-Presentation.pdf
[3] Ibid. slide 13.

III. CONSOLIDATED TARIFF PRICING

Q. Has your recommendation changed since direct testimony?

A. In part. I continue to oppose further consolidation of St. Louis County into single tariff pricing. However, I would like to modify my argument to move to zonal pricing in this case to a recommendation that the Commission order the Company to produce a second cost of service study for the next rate case that examines a return to a zonal pricing scheme similar to what was in place in 2015 to 2017. As articulated in my direct testimony, any future water acquisitions should be consolidated either in the Joplin or St. Joseph system based on proximity to the nearest adjacent system (e.g., anything north and including Jefferson City in St. Joseph and anything south of Jefferson City in the Joplin system). Although far from ideal, this would allow for a reasonable sharing of costs that reflect operations expenses and much more accurately characterize cost causative capital expenditures. Finally, I strongly recommend that any water system with an infrastructure system replacement surcharge (ISRS) remain separate from non-ISRS water systems.

Q. What was MAWC's response to your opposition of single tariff pricing?

A. MAWC witnesses Rea and Kaiser filed rebuttal against my opposition to MAWC's proposal to spread non-St. Louis district customer costs onto St. Louis district customers. Mr. Rea largely dismissed the regulatory principle of cost causation and declared that the issue of single tariff pricing is already a foregone conclusion. He did acknowledge the fact that only St. Louis district customers are paying St. Louis district ISRS costs, but dismissed this matter out-of-hand because ISRS costs are reset to zero at the end of each rate case. Mr. Kaiser took issue with the idea that single tariff pricing would, or has ever, enabled the build-out of unnecessary capital investments (aka, gold plating). I will respond to each witness in turn.

Q. What is witness Rea's main argument for single tariff pricing?

A. Rea states:

> Absent compelling evidence to show that the cost of providing service in a given community or group of communities has been, is, and will always be fundamentally

and systematically different than in other communities, it is most appropriate that rates should be consolidated over time across an entire service territory.[4]

Q. What compelling evidence do you have that the cost of providing service in a given area is fundamentally different than other areas?

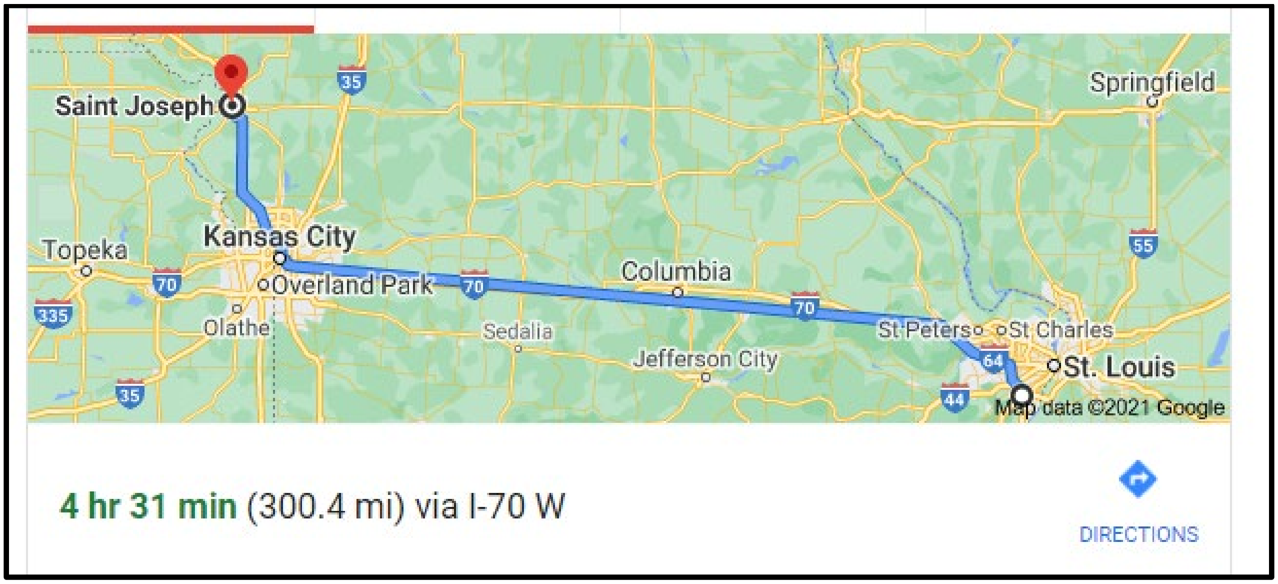
A. The costs of living varies across the state (and the world). This should seemingly not be a surprise to anyone responsible for paying their bills. There are whole websites devoted to comparing the cost of living from one locale to the next. Often these websites differentiate the cost of living by category, including utilities. Not surprisingly, difference in costs vary considerably despite the fact that eggs (or milk, or homes, or gas, etc…) are still eggs whether consumed in California or Alabama.

In the context of this rate case, costs associated with the treatment of St. Joseph's water are caused by ratepayers in St. Joseph, not ratepayers 300 miles away in St. Louis. The potential future costs associated with a new Joplin reservoir are costs that are indicative of the realities of living in Joplin, and should not be the realities of customers in St. Charles. This is the principal of cost causation that regulation attempts to adhere to by serving as a proxy for the market. The "market" being the key term here. Regulation is supposed to serve as a proxy for a market, not a means for socialization with additional costs for profit for the natural monopoly. If the latter was the goal, then the government should take control and cut out the risk premium return its captive customers are paying this monopoly and save all of the costs and time associated with economic regulation.

Consider for a moment that there is approximately a 300 mile distance between St. Louis (MAWC Meramec Plant) and St. Joseph, Missouri as seen in Figure 4.

[4] WR-2020-0344 Rate Design Rebuttal Testimony Charles B. Rea p. 19, 14-17.

Figure 4: Distance from Tesson Ferry (MAWC Meramec Plant) to St. Joseph, Missouri[5]



Now consider that the south St. Louis (Tesson Ferry) Meramec water treatment plant is closer in proximity to all of the following cities than it is to MAWC's St. Joseph system.

- Memphis, TN – 270.8 miles (via I-55)[6]
- Iowa City, IA – 258.7 miles (via US-2018 and US-61)[7]
- Louisville, KY – 274.8 miles (via I-64)[8]
- Kansas City, KA –249.3 miles (via I-70)[9]
- Indianapolis, IN – 257.3 miles (via I-70)[10]
- Jonesboro, AR -215.1 miles (via US-67)[11]

At more than three hundred miles apart, these two systems (St. Louis and St. Joseph) represent entirely different customers (demographics) and customer densities (# of customers per square mile), economies, geographies, weather, local water sources, and

[5] Google search: "Tesson Ferry, Missouri to St. Joseph, Missouri"
[6] Google search: "Tesson Ferry, Missouri to Memphis, Tennessee"
[7] Google search: "Tesson Ferry, Missouri to Iowa City, Iowa"
[8] Google search: "Tesson Ferry, Missouri to Louisville, Kentucky"
[9] Google search: "Tesson Ferry, Missouri to Kansas City, Kansas"
[10] Google search: "Tesson Ferry, Missouri to Indianapolis, Indiana"
[11] Google search: "Tesson Ferry, Missouri to Jonesboro, Arkansas"

treatment and distribution systems. For instructive purposes under a single-tariff design, a customer in St. Louis would receive no benefit but would shoulder an additional cost for an upgrade to a treatment plant as far away as the city of Chicago.

With rare exceptions (and at extraordinary costs), residential water is consumed where it is withdrawn and to the extent possible, ratepayers should pay for the costs that they incur.

Further approving consolidation of non-contiguous districts based on "equivalent service provided" ignores the economic and engineering realities of what it takes to provide that service at a local level. To illustrate the flaw in this logic, take Mr. Rea's equivalent service assertion one step further and consider the argument that the rates of all of American Water's subsidiaries across multiple states should be consolidated because they all report to the same national headquartered office in New Jersey. Ratepayers across those states would understandably object to such a proposal.

Q. Beyond hundreds of miles of distance of non-contiguous systems can you provide analytical support that the cost of water service varies across the state?

A. Yes. MAWC relies on either groundwater (aquifers), surface water (rivers, creeks) or a combination of the two as a local resource in its local systems. The extraction, treatment and delivery of that water at the local level will vary considerably from site to site. For MAWC ratepayers, more than 80% of the total customer base is composed of residents in the St. Louis Metro, Jefferson City and Joplin districts that rely primarily on surface water from rivers or creeks. However, the majority of districts rely on local ground water sources. Not all ground water or surface water is alike. For example, surface water availability and quality can be understood in part by identifying the appropriate river basin a district is situated in. Just as a bathtub catches all of the water that falls within its sides, a river basin (creeks, waterways, storm water runoff, drainage lines, etc.) sends all of the water falling within it to a river. In the state of Missouri: the Mississippi, the Missouri and the Arkansas-White River basins provide the primary sources of surface water. This breakdown can be seen in Figure 5.

Figure 5: Major drainage basins in Missouri[12]

Surface water is generally more expensive to treat than ground water. While both sources are dependent on fluctuations in the weather, surface water availability will be impacted more rapidly during both droughts and heavy rain seasons. Ultimately, the interdependence of the ecosystem is such that any major development in either source will impact the quantity and quality of the other.[13]

The majority of MAWC's systems rely primarily on groundwater; the quality, cost and treatment of groundwater varies regionally throughout the state. Groundwater resources are not evenly distributed, with usable groundwater most abundant from the Ozark aquifer in the Springfield and Salem Plateau and sparsest in the St. Francois Mountain area.[14]

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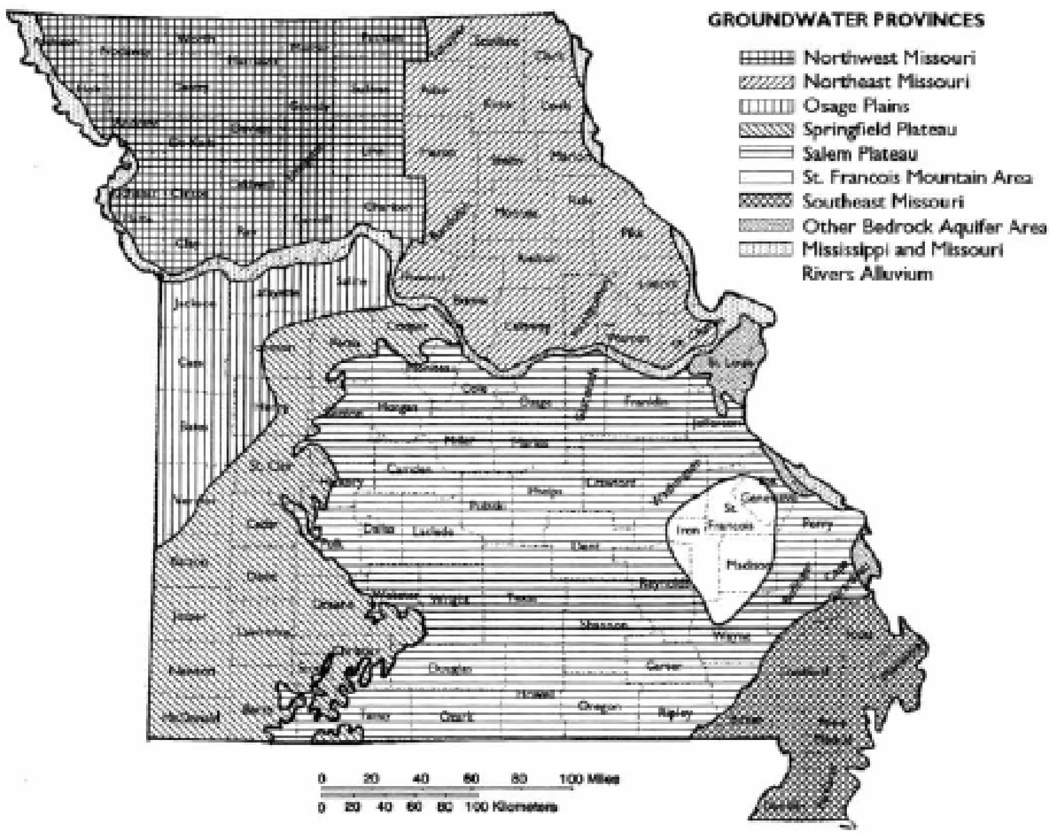
[12] Missouri Water Quality Assessment (1997) Water Resources Report Number 47, Missouri State Water Plan Series Volume III. P. 6. http://dnr.mo.gov/pubs/WR47.pdf
[13] Winter, et. al (1998). U.S. Geological Survey Circular 1139. Ground Water and Surface Water a Single Source. http://pubs.usgs.gov/circ/circ1139/pdf/circ1139.pdf
[14] Missouri Department of Natural Resources (2016) Missouri Groundwater Provinces and Aquifer Characteristics http://dnr.mo.gov/geology/wrc/groundwater/education/provinces/gwprovince.htm

According to the last statewide Missouri Water Quality Assessment report, seven groundwater provinces were formed "using factors such as physiography, geology, hydrology, and vulnerability to contamination."[15] These provinces can be seen in Figure 6.

Figure 6: Groundwater provinces of Missouri[16]



Variations between districts are based in part on the accessibility and availability of those sources of water. Location matters for water utility cost of service, for the quality of the product, and for the availability of the resource in a manner that is not comparable to electric or gas operations. Consider that an Ameren Missouri customer in Jefferson City is not dependent on the availability, treatment and distribution of Jefferson City fuel or generation to power their lights. Treating MAWC customers as if they function under the same market

[15] Ibid.
[16] Ibid.

conditions or have the same resource flexibility as Ameren Missouri customers runs counter to the manner in which MAWC actually operates despite what Mr. Rea would have the Commission believe.

Q. Mr. Kaiser claims that MAWC has never "gold plated" its capital investments and my objections are merely theoretical and hypothetical. Is this true?

A. No, it is not. The Commission found that MAWC over-built its St. Joseph water treatment plant:

> Rated capacity of 28.5 million gallons daily is in excess of present needs, expressed as the average day figure of 16.0 million gallons or the peak day figure of 23.0 million gallons.[17]

As a result, $2,271,756 million in overbuild costs were excluded from rate base.

Not surprisingly, this same case, of which, the costs overruns of the St. Joseph water treatment plant were the major item, resulted in the Commission moving off of single-tariff pricing and back to district specific pricing:

> The Commission will move away from STP [single tariff pricing] and toward DSP [district specific pricing]. One factor for consideration in determining just and reasonable rates is public perception. The testimony adduced at the Local Public Hearings held in this matter was strongly in favor of DSP. . . . MAWC must calculate its revenue requirement separately for each of its seven districts, as though each were a stand-alone water company, applying the Commission's Report and order as appropriate.[18]

Q. Mr. Kaiser claims that with every dollar saved on O&M, MAWC can increase capital spending by $8 without an impact on ratepayers. What is your response?

A. Does the $8 include MAWC's return? What are the inputs behind such a general statement? What are the assumptions? Is Mr. Kaiser suggesting that MAWC's 32.5% rate increase in this

[17] Case No. WR-2000-281 Report and Order p. 46.
[18] Ibid. p. 58.

case would be closer to 260% (32.5 x 8) if capital investments were neglected during the same period?

I strongly caution the Commission against accepting such a claim at face value as such an argument would have to be dependent on some generous assumptions. This claim should be dismissed out-of-hand for what it is, a general self-serving talking point that has not, and/or cannot, be verified with any degree of confidence.

Q. Mr. Kaiser is critical of you citing a ten-year-old Commission order. What is your response?

A. The inference of citing a "dated" order would seem to suggest that its findings are not as relevant today and should be discounted. I disagree and also point out that Mr. Kaiser followed up this causal dismissal of me citing a "ten-year-old" brief by citing an "eleven-year-old" EPA cost-benefit investment guideline.

Q. What should the Commission note about Mr. Kaiser's eleven-year-old EPA cost-benefit investment guideline recommendations?

A. That the EPA's audience for the "Guidelines for Preparing Economic Analyses" ("*Guidelines*") are primarily EPA regional offices and public, municipal systems that do not earn a return by building out rate base.[19]

That being said, if Mr. Kaiser is suggesting that MAWC's investment decisions are guided by the empirical methods of cost benefit analysis articulated in the EPA's 2010 *Guidelines,* then I welcome this information and strongly recommend that MAWC include the various cost-benefit analyses of its upcoming projects in its annual capital investments filings with Staff and OPC.

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[19] According to American Water, only 16% of all water utilities are investor owned and only 2% of all sewer utilities are investor owned. See also, slide 5 of American Water's "The State of the Water Industry" PowerPoint at the Bank of America 2020 Water Conference, 12/10/2020 https://s26.q4cdn.com/750150140/files/doc_presentations/2020/Bank_of_America_2020_Water_Conference_Presentation.pdf

Presently, we (Staff and OPC) are given a spread sheet with expected costs… no benefits and certainly no analysis weighing the costs and benefits in a transparent manner like that articulated in the *Guidelines*. Such a regular input to regulators, advocates and the Commission would be invaluable and help ensure just and reasonable rates in a transparent manner.

Given this insight, I would strongly recommend the Commission order the Company to provide the Company's cost-benefit justification for its large capital investments in its annual filings.

If the Company's investment decisions are not guided by the EPA's *Guidelines*, then I am at a loss as to why Mr. Kaiser is referencing this document and now wonder what analysis *is* guiding the Company's investments.

Q. What was Staff and MIEC's response to your opposition of single tariff pricing?

A. Staff witness Barnes and MIEC witness York share my concerns and opposition. Both echoed similar arguments that I made and both included additional reasons to dismiss MAWC's request.

Both Staff and MIEC recognize that MAWC's requested 32.5% rate increase premised on 10.5% ROE in the middle of global pandemic and economic recession is unjust and largely borne by the one subset of customers (St. Louis District customers who have already been paying their own way for over a decade through the ISRS).

This is not fair. The Commission recognized it wasn't fair in the last rate case:

> St. Louis County's unique circumstance makes it inappropriate to consolidate all three water districts at this time. St. Louis County is subject to the ISRS, which is a surcharge not recovered from other customers of MAWC, which can increase a customer's bill by as much as ten percent of the Company-wide revenues.[20]

[20] Case No. WR-2017-0285 Report and Order p. 30.

Nothing has changed other than customers are operating in a much more fragile economic environment as a result of the pandemic.

Q. Do you have any final comments to make on this topic?

A. I think it is telling that all consumer parties and the Commission Staff oppose MAWC's proposal to consolidate its rate tariffs. Economic regulation of a natural monopoly attempting to imitate the market setting of competition should not be muting price signals associated with cost causation. Why further undermine this core regulatory principle? Shifting costs onto non-cost-causers *will* exacerbate costs for all customers in the long-run. Even if the Commission disagrees with my reasoning, the Commission should still say no to further consolidation on equity grounds of fairness to the St. Louis District. Single-tariff pricing is no doubt the best long and short-term answer for MAWC because it allows the Company to mask costs and mute price signals but it will merely make water rates more unaffordable in the long-run for its customers. A move to zonal pricing is what consumers continually want, is fairer, and more reflective of the regulatory principles of cost-causation. The Commission should maintain the status quo in this case and order the Company to file a zonal cost of service study in the next rate case.

IV. FUTURE TEST YEAR

Q. MAWC witness Watkins opposes your objection to MAWC's proposed future test year. What is your response?

A. My position has not changed. The immediate future is more speculative and uncertain then it has been in some time. Putting aside my fundamental objections to a future test year, given the historical lack of data and transparency experienced with MAWC they would be the last company in Missouri I would want to consider experimenting with over a future test year.[21] Moreover, working remotely in the middle of a global pandemic has proven to be the worst time to consider a novel departure from regulation. Mr. Watkins makes no compelling

[21] See also Case No. WR-2015-0301 and the Staff discovery of the undisclosed Mueller Meter issues that resulted in most of the Company's witnesses being "removed" immediately before the evidentiary hearing.

arguments to assuage my concerns or my recommendation that the Commission should reject MAWC's use of a future test year.

V. RATE DESIGN

Low-Income Pilot Program

Q. What is the Low-Income Pilot Program?

A. In Case No. WR-2015-0301 the Commission proposed and parties later modified a low-income discount rate pilot program to investigate the impact of a lower customer charge on bad debt expense.

The program amounts to an $86.40 annual discount (80% of a monthly $9.00 charge x 12 months based on current set rates) and is limited to eligible customers identified by the local community action agency operating in the St. Joseph area. Based on Staff's testimony, the number of customers at any given time have ranged from single digits to approximately 100 participants. These participation rates have swung widely year-to-year (close to a hundred monthly participants in 2017 to approximately 20 participants in 2018 and 2019).

Q. Did the discount impact the average bad debt expense compared to prior years?

A. It is not clear from Staff's data that it did. Given the sample size and the lack of information about the participants I am skeptical about any conclusions made from the pilot.

Q. Does Staff support the continuation of the low-income pilot?

A. Yes. Staff supports continuation of the program due to the uptick in customers during COVID-19. Furthermore, Staff recommends that Staff, the Company and OPC reevaluate the program in MAWC's next general rate case.

Q. Do you support continuation of the low-income pilot?

A. Due to the economic realities of the pandemic, I support Staff's recommendation that the program continue. It seems unfair to eliminate the discount during this time of need. That being said, I do not see how a small monthly discount (with a widely fluctuating number of participants that has never exceeded 100 at a time) will be shown to meaningfully reduce arrearages. I recommend that MAWC meet with Staff and OPC at least once a year and approximately six months before MAWC files its next rate case to discuss the data and whether meaningful changes are warranted to be addressed in the Company's direct testimony.

Q. What actions do you support for low-income customers?

A. I favor trying to ensure affordable rates for all customers on a cost causative basis and to utilize targeted arrearage management programs like Ameren Missouri's Keeping Current program or MAWC's current H_20 bill credit programs to address low income concerns.

Cost Allocation & Class Cost of Service

Q. What are your recommendations for class revenue shifts?

A. My recommendation with the information before me today, is that this case should result in no revenue change and possibly a rate reduction to MAWC's customers. Given the uncertainty surrounding the economy I recommend that any rate reduction be applied solely to the Rate A. Then the rest of the rate classes would not experience a reduction or increase to their rates. Alternatively, I am in general alignment with Staff's recommendations including changes to the customer charge.

VI. LEAD LINE REPLACEMENT

Q. MAWC is proposing to earn a return on lead line replacement investment that they do not own. What was Staff' position on this issue?

A. Staff witness McMellen recommends the Commission reject this request and continue to include carrying costs at the long-term debt rate in the AAO balance, but not include any costs in rate base. Staff opposes MAWC earning an equity return (profit) on the lead service line replacement regulatory asset balance as if the Company owned the property.

Q. What is your recommendation?

A. I support Staff's position. The Company's tariff was already changed to reflect replacement lines the Company will own a portion of in the future. There is no basis to earn a return on actions—replacement of the past lines—especially when the Company is not responsible for those particular capital investments moving forward.

VII. AFFILIATE TRANSACTIONS

Q. What was your recommendation in direct testimony regarding MAWC's affiliate transactions?

A. I recommended that the Commission order MAWC to create a new CAM guided by existing standards for other regulated utilities and informed by stakeholder input, and submit it for Commission approval. To that end, I recommended that the Commission order MAWC to file a proposed CAM for Commission approval within six months of the date it issues its Report and Order in these rate cases.

I also recommended that the Commission provide further guidance to stakeholders in Case AW-2018-0394 specifically as it pertains to the addition of water and sewer utilities with customers exceeding 8,000 as part of the codified affiliate transaction rules.

Q. What was Staff's response to your recommendations in direct testimony?

A. Staff witness Bolin states:

> If the Commission decides water and sewer utilities with over 8,000 customers should be included in the affiliate transactions rule as part of Case No. AW-2018-0394, a CAM should be created as soon as reasonably possible so that MAWC will be in compliance with such rules.[22]

[22] Case No: WR-2020-0344 Rebuttal Testimony of Kimberly K. Bolin p. 26, 11-14.

Q. What is your response to Staff's comments?

A. Staff has previously supported affiliate transaction rules for MAWC both in MAWC's last rate case and has drafted affiliate transaction rule revisions to include MAWC in AW-2018-0394. Their response to my recommendations, although not a further endorsement, does acknowledge my testimony and places the decision back at the Commission as to next steps (i.e., "a CAM should be created as soon as reasonably possible…").

Q. What was the Company's response to your recommendations in direct testimony?

A. Company witness LaGrand pointed out that MAWC agreed to submit an annual CAM as part of a stipulation and agreement from Case No: WR-2007-0216. Mr. LaGrand further opined that Case No: AW-2018-0394 is the appropriate docket to resolve this issue.

Q. What is your response to the Company's comments?

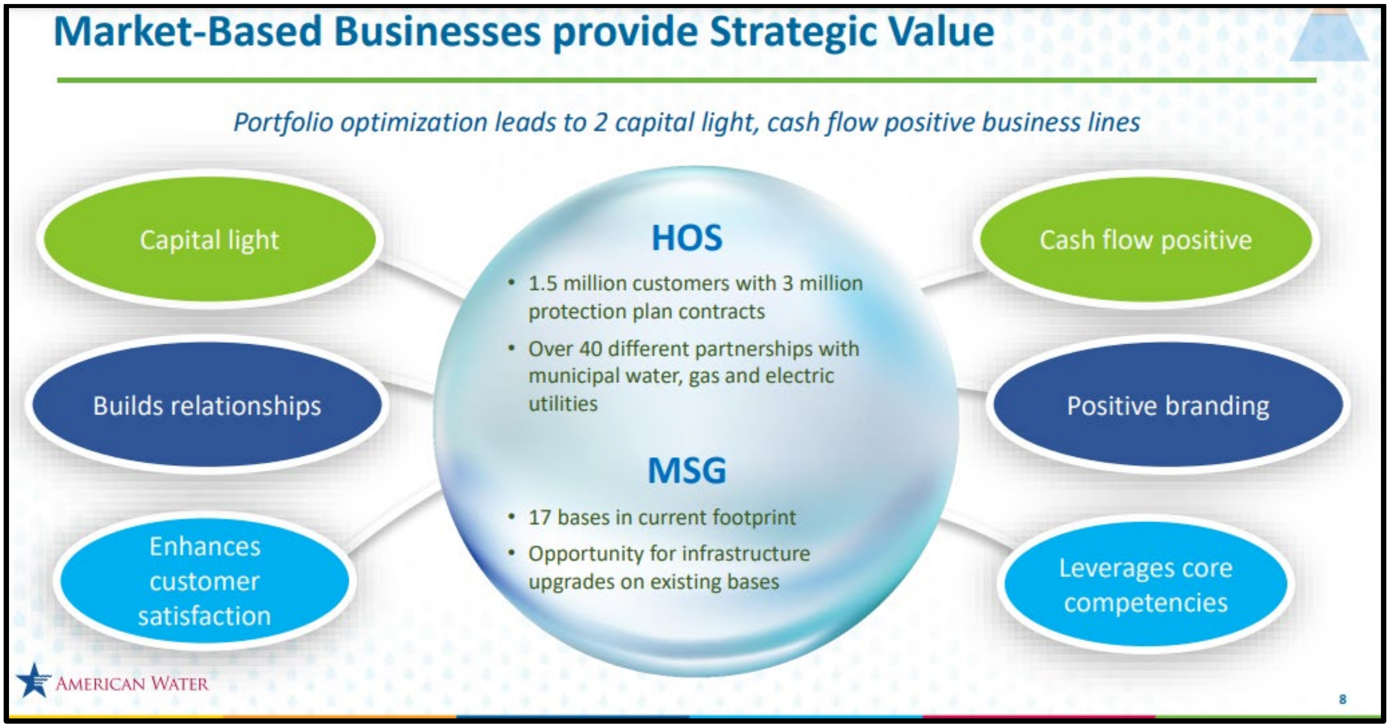
A. As to Mr. LaGrand's first point, MAWC does submit a non-Commission approved CAM into EFIS on an annual basis. However, there is no (or severely limited) recourse for parties to object to any management practices in non-compliance as current Commission rules do not include water and sewer companies larger than 8,000 customers (or smaller for that matter). As such, the impetus to scrutinize the document to the same degree let alone raise objections is constrained because non-compliance carries no codified penalties.

As to the second argument, I agree that the Commission will ultimately have to signal approval of modified affiliate transaction rules and send those modifications to the Secretary of State's Office for review and that AW-2018-0394 is likely the most appropriate docket for that. OPC has attempted to expedite that process on several occasions at this point. MAWC's rate case provides an appropriate venue to revisit the need to move forward with those rules especially when said rules merely need to add the phrase "water and sewer" in select places.

Q. Has your recommendation changed from direct testimony?

A. No. It has now been 3 years, 2 months and 13 days since I made this recommendation in direct testimony in MAWC's last rate case. Meanwhile, the largest water utility in Missouri and the United States is actively promoting its market-based businesses in unison with its regulated business branding without any differentiation or notice to customers. MAWC's consideration of using affiliates to enhance market-based business in Missouri can be seen in Figure 7.

Figure 7: American Water Market-Based Business Opportunities as presented to Investors[23]



Ordering MAWC to file a CAM for Commission-approval within six months of the effective date of MAWC's new rates is more than reasonable considering MAWC already has a draft it has shared on EFIS. MAWC will now merely need to solicit feedback from stakeholders and ensure their CAM is governed by the same existing standards as Missouri's investor-owned electric and gas utilities.

Q. Does this conclude your testimony?

A. Yes.

[23] American Water (2020) EEI Financial Conference on November 9-10, 2020 slide 8
https://s26.q4cdn.com/750150140/files/doc_presentations/2020/2020-EEI-Financial-Conference-Presentation.pdf