

Exhibit No. 44

Exhibit No.:
Issues: Revenue Stabilization Mechanism,
Affiliate Transactions, Cost of
Service/Rate Design, and Pension and
OPEBs
Witness: John M. Watkins
Exhibit Type: Surrebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2022-0303
Date: February 8, 2023

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2022-0303

SURREBUTTAL TESTIMONY

OF

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 8, 2023

Dated

**SURREBUTTAL TESTIMONY
JOHN M. WATKINS
MISSOURI-AMERICAN WATER COMPANY
CASE NO.: WR-2022-0303**

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SURREBUTTAL TESTIMONY

JOHN M. WATKINS

I. INTRODUCTION

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Q. Please state your name and business address.

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

Q. Are you the same John M. Watkins who previously submitted Direct and Rebuttal Testimony in this proceeding on behalf of Missouri-American Water Company (“MAWC”, “Missouri-American”, or the “Company”)?

A. Yes.

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

A. The purpose of my Surrebuttal Testimony is to respond to the rebuttal testimony of OPC witnesses Angela Schaben and Lena M. Mantle (Cost of Service and Class Cost of Service/Rate Design). I will also provide an update as to certain Pension and OPEB information previously addressed in my Rebuttal Testimony.

II. REVENUE STABILIZATION MECHANISM (RSM)

Q. Does the Office of Public Counsel (OPC) address the RSM?

A. Yes, OPC witness Lena Mantle addresses this topic.

Q. OPC witness Mantle responds “No” to the question “will a RSM resolve the differences between the billing determinants used and the billing determinants realized.”¹¹ Do you agree with her response?

¹¹ Mantle, RT, p. 7.

1 A. No. The RSM reconciles the billing determinants used in the rate case, which determines
2 the revenue requirement, and the actual revenue, which is based on the actual billing
3 determinants. In other words, the rate case projects a level of revenue through meter counts
4 and the size of the meter and a volume of water used by the customers, and the RSM
5 reconciles the total revenue for the applicable classes to ensure the amount of revenue the
6 Commission authorized is collected, no more and no less. The billing determinants produce
7 the revenue requirement approved in the rate case. The RSM tracks the difference between
8 what was approved in the rate case and actuals. If there are more customers in the actuals
9 than forecasted in the rate case, then the RSM will return those additional revenues through
10 the reconciliation process. If the Company sells more water than accounted for in the
11 billing determinants of the rate case, then the Company will return those revenues through
12 the reconciliation process. The opposite is true too, if the Company sales less water than
13 the rate case determined, it will collect that shortfall in revenues through the reconciliation
14 process.

15 **Q. Ms. Mantle discusses how an RSM would impact Return on Equity (ROE).² Do you**
16 **have any additional comments to her discussion?**

17 A. Yes. Ms. Mantle reviewed only the data from 2017-2021 in my Schedule JMW-1. While
18 it is true that in years 2012, 2017, 2018 and 2020, the RSM results in credit to the
19 customers, the Company would lower its revenues by deferring the additional revenues to
20 credit those revenues back to customers. And the opposite is also true, in years where there
21 is a surcharge, the Company would accrue additional revenues. If the data for all years is
22 used, 2012-2021, then the result would be to increase the overall ROE as there was a

² Mantle RT, pp. 7-8.

1 shortfall in revenues by approximately \$32 million for the 10-year period.

2 **Q. Has the Company proposed the RSM only to increase its ROE?**

3 A. No. The Company has pointed out in the testimonies of MAWC witnesses’ Rea and
4 LaGrand that the revenue has fluctuated on an annual basis from what was authorized. The
5 RSM adjusts the actual revenues to what the Commission authorized for the applicable
6 customer classes. Schedule JMW-1 shows that on an annual basis the RSM could result in
7 either a surcharge or a credit, but at the end of the period the Company will have only
8 collected the revenue that the Commission determined was just and reasonable for those
9 applicable RSM customers.

10 **Q. Ms. Mantle states in her Rebuttal Testimony that an RSM “will send mixed signals to**
11 **customers.”³ Do you agree?**

12 A. No, I do not agree. The current cost of a thousand gallons of water in Missouri is either
13 \$5.629 in St Louis County or \$6.247 in most other service territories. The range of
14 surcharges reflected in Schedule JMW-1 is \$0.0102-\$0.0510 per 100 gallons or \$0.102-
15 \$0.510 per thousand gallons. So, a customer in the St Louis County service area would
16 save \$5.63 per thousand gallons conserved but would be surcharge only \$0.510 per
17 thousand gallons in the highest surcharge year as reflected in Schedule JMW-1 over the
18 10-year period (2012-2021) addressed in that schedule. Customers in the other service
19 areas would save even more because they would save \$6.25 per thousand gallons conserved
20 instead of the \$5.63 for St Louis County customers. So, a typical residential customer in
21 St Louis County service area that reduces water consumption by one thousand gallons,
22 saves \$5.63. That same customer using 6 thousand gallons would receive a surcharge in

³ Mantle RT, p. 14, line 11.

1 the range of \$0.61-\$3.06 based on the data in Schedule JMW-1 (the 6 years that show a
2 surcharge would result in surcharges of \$0.61, \$0.64, \$1.10, \$1.52, \$2.39 and \$3.06 for the
3 years 2021, 2020, 2013, 2014, 2016 and 2015, respectively). It should also be noted that
4 in the years 2012, 2017, 2018 and 2020 the customers would have received a credit. So,
5 by reducing usage, a customer saves on their current bill and will save money on the future
6 bills based on the 10-year period shown in Schedule JMW-1 because the savings from
7 reducing usage or conserving usage outweighs the bill impacts.

8 **Q. Why are the RSM adjustments, either a surcharge or a credit, needed?**

9 A. The RSM adjustments effectively correct the bills of the customers to what they should be.
10 If the Company sells more water than the amount included in the rate case billing
11 determinants, the effect is the price per thousand gallons should have been less in the rate
12 case if the actual usage had been known when rates were set. This is why it would generate
13 a credit in this scenario. The opposite is also true - if the Company sells less water than
14 the amount included in the rate case billing determinants, the effect is the price per thousand
15 gallons should have been higher in the rate case if the actual usage had been known when
16 rates were set. This is why it would generate a surcharge in this scenario.

17 **Q. Ms. Mantle states that “what Mr. Watkins leaves out is that if the Commission**
18 **approves an RSM, customers can use less and their bills can be higher.”⁴ Do you agree**
19 **with this statement?**

20 A. No. As previously stated, an average customer who conserves a thousand gallons per
21 month cannot pay more in the surcharges calculated on Schedule JMW-1.

⁴ Mantle RT, p. 15.

1 **Q. OPC witness Mantle goes on to state that “the portion of their bills that is directly**
2 **tied to usage” (what she describes as the price signal) “will change every year.” Is**
3 **this true?**

4 A. While the statement is true, it is also true without the RSM. Rate cases change the price of
5 a thousand gallons as does WSIRA surcharges. The real point though is that a customer
6 will see the usage charge per thousand gallons, and they would also see a surcharge or
7 credit amount for the RSM. The customer can net these two together and determine the
8 price impact of additional savings or if they choose to increase their usage.

9 **Q. OPC witness Mantle opines that Section 386.266.4 RSMo does not allow for**
10 **production costs.⁵ Do you agree?**

11 A. Section 386-266.4 RSMo referenced by OPC witness Mantle refers to revenues billed.
12 Section 386.266.5 also provides that the “Commission shall have the power to approve,
13 modify or reject adjustment mechanisms” Section 386.266.5(1) RSMo further
14 provides that the Commission must ensure the mechanism “is reasonably designed to
15 provide the utility with a sufficient opportunity to earn a fair return on equity.” I will
16 explain below why the production costs are important to both the Company and its
17 customers in this regard.

18 **Q. In your Direct Testimony (p. 10) you explain why the RSM should include production**
19 **costs. Can you provide an example as to why including production costs is important**
20 **to both the Company and its customers?**

21 A. Yes, in my Direct Testimony, I stated on page 10 that:

22 Production costs should be taken into account because they vary with sales

⁵ Mantle RT, p. 18.

1 volumes. Delivering more water costs more and delivering less water costs less.
2 Netting production costs will ensure that both the Company and its customers are
3 made whole; paying only those production costs associated with the actual amount
4 of water delivered.

5 An example would be, if the Company sold an additional 5 million thousand gallons at a
6 cost of \$5 per thousand gallons, the Company would receive \$25 million (5 million x \$5)
7 above the authorized level of revenues. If the RSM were approved without taking into
8 consideration the production costs, then the Company would credit the RSM customers
9 \$25 million, even though the Company incurred costs to produce the additional 5 million
10 thousand gallons. The opposite is true too, if the Company sold 5 million thousand gallons
11 less than authorized amount at a cost of \$5 per thousand gallons, the Company would have
12 had received \$25 million (5 million x \$5) less than the authorized level of revenues. If the
13 RSM were approved without taking into consideration the production costs, then the
14 Company would surcharge the RSM customers \$25 million, even though the Company
15 should have had less expenses because it did not produce 5 million thousand gallons. These
16 examples demonstrate that in order to ensure customers are not over surcharged or over
17 credited, production costs should be accounted for in the calculation of the surcharge and/or
18 credit.

19 **Q. Does Section 386.266.4 RSMo address how the RSM should reconcile the billed**
20 **revenues by customer class?**

21 A. No, it does not address how an RSM would account for different customer classes. The
22 Company proposed an RSM that would reconcile the entire RSM customers as one group.

23 **Q. Does Rate A have different rates for each customer class?**

24 A. No, Rate A is available to all residential, commercial, industrial and other public authority
25 metered customers. Industrial customers are excluded from the RSM in the Company's

1 proposal.

2 **Q. Does OPC witness Mantle agree with the proposed method of crediting customers?**

3 A. No. OPC witness Mantle stated that “there are other, more direct methods that provide
4 incentives to only to those customers who actually conserve water.”⁶ But OPC witness
5 Mantle did not go into any details or offer an alternative approach on how to credit
6 customers.

7 **Q. Does the Company still believe that its proposed method of credits is best?**

8 A. Yes. First, it returns the credit as soon as possible to customers. Second, the proposed
9 methodology would benefit the lower-usage customers at a greater percentage. This in
10 turn rewards customers who did conserve water at a higher percentage than those that did
11 not.

12 **Q. Are there other alternatives for the credit distribution?**

13 A. Yes, the Company could use a surcredit on a customer’s bill.

14 **Q. What is a surcredit?**

15 A. A surcredit in this case would be a negative usage charge (more usage would result in a
16 larger credit). This would return the overall credit amount over a longer period of time and
17 would reduce the net usage charge each RSM customer would be billed.

18 **Q. Are there any negative impacts from using a surcredit?**

19 A. Yes, by lowering the amount of the net usage charge, customers would be sent a price
20 signal that the water was cheaper for that period and could cause usage to increase in the
21 short term.

⁶ Mantle RT, p. 26.

1 **Q. Would a surcredit address OPC witness Mantle’s concern about asymmetry?**

2 A. It would, but again the Company believes using a surcredit could cause customers to use
3 more due to the water being cheaper during the surcredit period. Whereas, if a credit was
4 issued, the customers would still realize that saving water saves them money on a monthly
5 basis.

6 **Q. OPC witness Mantel discusses the RSM should not be used to correct the**
7 **normalization of usage.⁷ Do you agree?**

8 A. No. I believe Section 386.266.4 was created to address this issue with the forecast of usage
9 in the rate case and the variation that occurs in actual usage. Section 386.266.4 states that
10 the Company “may make an application to the Commission to approve rate schedules
11 authorizing periodic rate adjustment outside of a general rate proceeding to **ensure**
12 **revenues billed by such water corporation for regulated services equal the revenue**
13 **requirement** for regulated services as established in the water corporation’s most recent
14 rate proceeding. . . .” (Emphasis added.) The statute specifically addresses that the revenues
15 billed should equal what was authorized which include adjustments for all changes
16 including but not limited to the normalization of usage.

17 **Q. Does Section 386.266.4 require that the variation must be due to any certain cause?**

18 A. No. The statute states that it may be “due to any revenue variation resulting from increases
19 or decreases in residential, commercial, public authority, and sale for resale usage.”

20 **Q. OPC witness Mantle believes that customers understand the impact to their bills**
21 **currently and they will not if an RSM is authorized.⁸ Do you agree?**

⁷ Mantle RT, p. 28.

⁸ Mantle RT, p. 15.

1 A. No. If a credit is issued, there is not an impact to the rates being used by the customers and
2 they will continue to understand the bill impacts of conserving water or not. If a surcharge
3 is issued, then netting the surcharge and the tariff rate for usage would allow the customer
4 to determine the impact of conservation would have on their bill. In this situation, where
5 a surcharge is applied to the current usage, the savings of conserving actually increases
6 because for every unit of water saved not only does the usage charge cause savings, but the
7 surcharge would be less as it is based on the usage amount too. As shown previously, a
8 customer that conserves water will receive benefits under the current bill and will receive
9 lower bills in the future even if a surcharge is applied when compared to a similar customer
10 that does not conserve water.

III. AFFILIATE TRANSACTIONS

11 **Q. Did OPC witness Schaben address affiliate transactions in her Rebuttal Testimony?**

12 A. Yes, as well as in her Direct Testimony.

13 **Q. Does Ms. Schaben make any recommendations related to American Water Works**
14 **Company, Inc.’s sale of AWR?**

15 A. Yes. OPC witness Schaben recommends that the revenue requirement in this case be
16 adjusted “*If* Missouri ratepayer data acquired by AWRC, as a subsidiary of AWWC, over
17 the course of regular business operations was included in the sale of AWRC” and “*If* a
18 portion of the proceeds of the AWRC sale is reportedly redeployed into regulated water
19 and wastewater businesses, resulting from Missouri ratepayer data asset acquired over the
20 course of regular business operations as a subsidiary of AWWC, and included in the

1 AWRC sale”.⁹

2 **Q. Are either of OPC witness Schaben’s proposed hypotheticals supportable in fact?**

3 A. No. As stated in my Rebuttal Testimony, MAWC does not provide customer information
4 to AWR¹⁰, nor did it do so in “the course of regular business operations”. Moreover, no
5 MAWC “ratepayer data” was included in the sale of AWR.

6 **Q. Is there any basis for an adjustment in this case as proposed by OPC witness Schaben
7 as a result of American Water’s sale of AWR?**

8 A. No, there is not. As detailed in my Rebuttal Testimony, there is no on-bill billing
9 agreement in Missouri, MAWC had no ownership interest in AWR prior to the sale by
10 American Water, MAWC does not have any ongoing relationship with AWR, the revenue
11 share agreement is between American Water and AWR is unrelated to MAWC and
12 Missouri operations, and no MAWC customer information is shared with AWR.
13 Therefore, there is no justification to impute any portion of the sale proceeds to MAWC or
14 to make any revenue requirement adjustment in this case.

15 **IV. COST OF SERVICE/RATE DESIGN**

16 **Q. Did any Staff witness testify to proposed changes or issues with the tariff sheets for
17 the RSM?**

18 A. No.

19 **Q. Are the tariff sheets filed similar to the tariff sheets filed in Case No. WR-2020-0344?**

20 A. Yes, they are very similar with the exception of how acquisitions are handled.

⁹ Schaben RT, p. 4 (emphasis added).

¹⁰ Watkins DT, p. 9, lines 17-20.

1 **Q. Did any witnesses in Case No. WR-2020-0344 have any suggestions for the tariff?**

2 A. No.

3 **Q. Has an RSM Tariff for water utilities been approved by the Commission yet?**

4 A. No.

5 **Q. Did the Company propose a RSM tariff in its Direct Testimony?**

6 A. Yes, an RSM tariff was submitted with the Tariff and also as Schedule JMW-2. The
7 Company proposed a tariff that they believed would be modified as the case progressed
8 and Staff or other intervenors submitted suggestions or edits.

9 **Q. Does OPC witness Mantle provide a draft tariff?**

10 A. No, she did not.

11 **Q. Did any party submit a proposed tariff?**

12 A. No, only the Company has provided a proposed tariff.

13 **Q. OPC witness Mantle points out that to her understanding the inclusion of production
14 costs in an RSM is not allowed by section 386.266.4,¹¹ do you agree with her?**

15 A. As I stated in the RSM section of my Surrebuttal Testimony:

16 I agree that section 386-266.4 discusses revenues billed. Section 386.266.5 states
17 that the “Commission shall have the power to approve, modify or reject adjustment
18 mechanisms submitted under subsection 1 to 4 of this section only after providing
19 the opportunity for a full hearing in a general rate proceeding.” While I am not an
20 attorney it appears that subsection 5, the Commission has the authority to include
21 production costs in the proposed RSM.

22 **Q. Please address item 1 that Ms. Mantle details?**

23 A. Ms. Mantle makes a claim that the Service Classifications are not identified in the tariff.¹²

¹¹ Mantle RT, p. 18.

¹² Mantle CCOS RT, p. 2.

1 This is not true, the availability section of the RSM Tariff and the tariff pages for Rate A
2 and B, as well as the other tariff pages all identify the Service Classifications in that section.
3 If the Commission agrees with Ms. Mantle on this point the Company proposes that under
4 the definitions, the following be added “Service Classifications – see Availability section.”

5 **Q. Ms. Mantle’s second item is that revenues from acquisitions is not designated,¹³ can**
6 **you explain?**

7 A. Yes, the tariff states under the Actual Revenues (AR) section:

8 Classifications, excluding revenues arising from adjustments under this tariff and
9 any other tariff, which were **billed** for the applicable Fiscal Year, excluding
10 revenues from acquisitions approved by the Commission that have not yet been
11 approved in a general rate case and any revenues collected under Rate I (Sheet RT
12 10) or Rate W (Sheets RT 11.1 and RT 11.2)

13 The wording in this section clearly says billed. If the Commission agrees that this should
14 be made a little bit clearer, then the word “billed” could be inserted before acquisitions.

15 **Q. Did the Company make a change to the proposed tariff to address Ms. Mantle’s third**
16 **point as to the revenues collected under Rate I or Rate W?**

17 A. Yes, please refer to Schedule JMW-1 ST, which is a tracked change version of the
18 submitted tariff. The word collected was replaced with billed.

19 **Q. Can you please clarify her fourth point as to the time period over which the Actual**
20 **Revenues (AR) is calculated?**

21 A. Yes, the third line of the definition of Actual Revenues (AR) states “applicable Fiscal Year”
22 and the definition of the Fiscal Year states “shall mean the Fiscal Year of the Company
23 that ended as of the most recent December 31”. The Company believes this to be straight

¹³ *Id.*

1 forward but if clarification is needed to state the calendar year instead of Fiscal Year, the
2 Company would not object.

3 **Q. What is Ms. Mantle’s fifth point?**

4 A. She states that the “tariff sheet does not specify what constitutes total revenue”¹⁴. The
5 Company is not sure what the OPC witness is referring to as total revenue. Total revenue
6 for the Company would not be included in the RSM as the RSM excludes several classes
7 such as Industrial, Public Fire and Private Fire. Revenue included in the RSM would be
8 the allowed revenue for the classes of Residential, Commercial, Other Public Authority
9 and Sale for resale metered customers. This would include the meter charges and the usage
10 charges of the applicable service classifications for the RSM that were authorized in the
11 rate case.

12 **Q. Does the tariff need a specific number on the tariff page?**

13 A. No, the Commission could decide to list each of the authorized numbers in the tariff, in the
14 Order or as part of a schedule to the Order. In the Company’s opinion, it makes the most
15 sense to include in the Order or in a schedule attached to the Order as there are other
16 revenue areas (Industrial, Public Fire, Private Fire, Sewer, Other Revenues) that are
17 included in total revenues but are not part of the RSM.

18 **Q. Ms. Mantle sates that the “tariff sheet does not exclude a portion of these costs.”¹⁵ Do
19 you agree?**

20 A. No. The tariff is only applicable to residential, commercial, other public authorities and
21 Sale for Resale metered customers, therefore the Actual Production Costs would only

¹⁴ Mantle CCOS RT, p. 2.

¹⁵ *Id.*

1 include costs associated with those classes. Just as the Rate Case Production Costs would
2 only include the applicable Service Classifications. The tariff does not have to have a
3 percentage that would be established in the rate case to remove the production costs for
4 Industrial customers. As stated above the Commission could address this in the tariff, in
5 the Order or as part of a schedule to the Order. The Company believes that the tariff can
6 be generic and allow the Commission to address this in the Order or in a schedule attached
7 to the Order.

8 **Q. Item 7 addresses that “the tariff sheet does not specify how to calculate the portion of**
9 **these costs to be excluded”.¹⁶ Do you agree?**

10 A. This is the same issue as item number 6 which was addressed in the previous question and
11 answer. The Commission will decide the level of detail needed in the actual tariff versus
12 in the Order

13 **Q. Ms. Mantle’s item 8 alleges that the Effective Period is “unclear” as to whether it is**
14 **referring to billing months or calendar months.¹⁷ Please explain.**

15 A. The exact wording in the proposed tariff is “billed to customers,” therefore it is related to
16 the actual bill issued in each of the months April through December.

17 **Q. Does Schedule JMW-1 ST adjust the language to the definition of the Filing Month?**

18 A. Yes, the Company is proposing the change to address issue number 9.

19 **Q. How does the Company respond to item number 10, which questions the Effective**
20 **Period Usage¹⁸?**

¹⁶ Mantle CCOS RT, p. 3.

¹⁷ *Id.*

¹⁸ *Id.*

1 A. In order to have a unit charge per 100 gallons, the Company would need to divide the
2 numerator by a denominator. The denominator in this case is the Effective Period Usage.
3 There are numerous ways to calculate this number. The rate case authorized usage could
4 be prorated and used for this period or the Company could use the latest actuals to estimate
5 the usage for the period. The Commission or any party to this case could also propose how
6 to calculate the usage. The more accurate the forecast, the less volatility there will be in
7 the reconciliation. In the Company's opinion it would be better to use a forecast for the
8 upcoming year but it would not object to using the usage authorized in the rate case and
9 prorating it to the 9-month collection period.

10 **Q. Does Schedule JMW-1 ST make an adjustment for item 11 and 12¹⁹?**

11 A. Yes, the definition for Filing Month was changed and the date is now January 30 which
12 matches the second page of the RSM tariff.

13 **Q. How does the Company respond to item 13?**

14 A. The Company is willing to remove the definition of Filing Month. If this definition is
15 removed than the wording under Effective Period should change from "Filing Month" to
16 "filing is made."

17 **Q. Does the Company agree to item 14 - that the definition for Previous Amortization**
18 **Period be removed?**

19 A. No. To ensure that there is clarity the wording for Previous Amortization Period was added
20 to the RA in the formula definition on the second page of the tariff, please refer to Schedule
21 JMW-1 ST.

¹⁹ Mantle CCOS RT, p. 3.

1 **Q. Item 15 discusses Service Classifications in the definition of Rate Case Revenue**
2 **(RCR).²⁰ Does the Company propose any changes to this definition?**

3 A. No, this issue was previously discussed in the response to item 1. That response stated:

4 This is not true, the availability section of the RSM Tariff and the tariff pages for
5 Rate A and B, as well as the other tariff pages all identify the Service Classifications
6 in that section. If the Commission agrees with Ms. Mantle on this point the
7 Company proposes that under the definitions, the following be added “Service
8 Classifications – see Availability section.”

9 **Q. Does OPC witness Mantle have any items that need to be addressed with Tariff Sheet**
10 **30.2?**

11 A. Yes, she identifies 18 items²¹, which I will address below.

12 **Q. Items 1 and 2 relate on how to exclude production costs from the RSM. Please**
13 **address.**

14 A. The tariff sheet is a generic form that discuss the high level of how the RSM would work.
15 The Commission will decide in this case, if the RSM is approved, on what level of detail
16 is needed in the tariff sheet. The Commission could leave this tariff in the format it is with
17 minor changes, or it could require each and every number to be identified in the tariff. The
18 Company believe the generic form is better for the tariff and the Order will address the
19 specific numbers. Those numbers will be included in the support of the RSM calculation
20 which Section C state that the Company will file “the RSM calculation and support for any
21 annual adjustments”.

22 **Q. Did you address how the Industrial portion of production costs would be removed in**
23 **your Direct Testimony?**

²⁰ Mantle CCOS RT, p. 3.

²¹ Mantle CCOS RT, pp. 3-4.

1 A. Yes. I stated, “a percentage of usage for Industrial customers would be removed”.²² This
2 means that is the Industrial class account for 15% of the overall metered usage then 15%
3 of the Production Costs Authorized would be excluded from the calculation. The actual
4 percentage will be determined in this case and should be included with the other authorized
5 information needed for the RSM calculations.

6 **Q. Do you agree with item 3²³?**

7 A. Yes, the Company removed the wording for the Upcoming Amortization Period. This also
8 finalizes item 4. Please refer to Schedule JMW-1 ST.

9 **Q. Please address item 5?**

10 A. The Company has listed the formula in this tariff. The name that the approved surcharge
11 or credit should be identified in this case as this is the first RSM tariff for water companies
12 that could be approved. The response to OPC No 8001, used the language “RSM
13 Surcharge,” which has been added to the proposed tariff in Schedule JMW-1 ST.

14 **Q. Please address item 6?**

15 A. Ms. Mantle points out that the Tariff discusses annual numbers, but my testimony discusses
16 monthly numbers. The authorized amount in this case will be on an annual basis. The
17 parties in this case have not provided monthly data for revenues or production costs
18 because the revenue requirement is an annual number. For GAAP purposes, entries will
19 be made on a monthly basis. Therefore, the Company proposed in my testimony a
20 methodology to allocate the annual amounts to monthly amounts. The Company could
21 include these numbers in the tariff but it will be overly complicated to anyone reading the

²² Watkins DT, p. 10, lines 15-16.

²³ Mantle CCOS RT, pp. 3-4.

1 tariff. Therefore, the Company proposed a methodology of how to do this and we can
2 memorialize this in the Order or support pages to the Order.

3 **Q. Does Schedule JMW-1 ST adjust for item 7²⁴?**

4 A. Yes, the “i” for interest was adjusted to “(1+i)”.

5 **Q. Please address item 8?**

6 A. Item 8 states that it could be interpreted in different ways. I do not believe that it can as
7 the tariff states:

8 **RA** represents the dollar amount due to the Company (+RA) or the customers (-
9 RA) arising from adjustments under this tariff that were under-billed or over billed
10 in the prior Fiscal Year

11 Please note the wording “arising from adjustments...that were under-billed or over billed”.

12 The RA would be applicable in year 3 - assuming year 1 is the first period the RSM is in
13 effect and the formula to the left of the RA would calculate the shortfall or overcollection
14 of the net revenues and production costs. Year two, the months of April through December
15 for a surcharge or the month of the credit, would collect or credit the amount determined
16 in the first calculation. The RA is reconciling the amount of the surcharge or credit to
17 ensure the billing or crediting of the amount results in a zero. If it does not result in a zero,
18 then the amount under or over-collected in regard to the surcharge or credit would roll into
19 the next reconciliation. The key wording is that the adjustment was under or over billed
20 and therefore it is referring to the reconciliation of the surcharge or credit.

21 **Q. Does Schedule JMW-1 ST take into consideration item 9?**

22 A. Yes, the Company modified this section to remove the wording adjustment components.

²⁴ Mantle CCOS RT, pp. 3-4.

1 **Q. Does the above change resolve item 10²⁵?**

2 A. Yes, it does.

3 **Q. Item 11 discusses when the rounding should occur. Please explain.**

4 A. Based on the wording in Schedule JMW-1 ST, the calculation is performed and then the
5 result is rounded accordingly.

6 **Q. Was item 12 addressed in the items from the first set presented by Ms. Mantle?**

7 A. Yes, items 11 and 12 from the first tariff page addressed this information. Please refer to
8 the responses to those items and Schedule JMW-1 ST which resolved the items.

9 **Q. Item 13 discusses the wording “RSM calculation” is not defined on the tariff sheets?**

10 A. While true, the definition of the RSM calculation was not included in Section A as the
11 Company believes it is not necessary. The RSM calculation is obviously referring to the
12 calculation provided in the tariff as the rest of the sentence states “and support for any
13 annual adjustments to be effective under this tariff”.

14 **Q. Please address item 14?**

15 A. A space was added in Schedule JMW-1 ST.

16 **Q. Item 15 believes the language for the timeframe of the credit is too vague, do you
17 agree?**

18 A. No. A credit as proposed would be issued within one billing cycle or one calendar month
19 to ensure all the customers in the applicable RSM classes received the credit. Ideally this
20 would occur in April. There are circumstances where the Company might not be notified
21 until after April 1 and then the credit would be issued in May. If the Commission deems it

²⁵ Mantle CCOS RT, pp. 3-4.

1 necessary to include more specific language than the Company would propose to include
2 the following: “Any credit will be issued in the first full calendar month following the
3 Commission Staff’s review”.

4 **Q. Does the tariff include a provision for an annual true-up?**

5 A. Yes, it does. The component RA in the formula addresses this item.

6 **Q. Does the RA component include interest?**

7 A. Yes, it would include interest. To make this clearer, the Company added the wording in
8 Schedule JMW-1 ST in the RA portion of the formula to include “including the calculation
9 of interest”.

10 **Q. Did the Company adjust the proposed tariff to include the calculation of a RSM
11 Credit?**

12 A. Yes, please refer to Schedule JMW-1 ST, which includes the formula for the RSM credit.

13 **Q. Is there any change in the formula when compared to the RSM Surcharge?**

14 A. Yes, the RSM surcharge uses gallons to calculate the surcharge whereas the RSM Credit
15 is proposed to use the number of customers at the time the credit is issued which matches
16 the description in my Direct Testimony.

17 **V. PENSION AND OPEBS**

18 **Q. Have the Willis Towers Watson 2023 schedules for pension and OPEBs become
19 available?**

20 A. Yes, please refer to Schedule JMW-2 ST and the response to discovery request MoPSC
21 0093_Q4 Update, attached as Schedule JMW-3 ST, for the support.

22 **Q. Do these schedules represent the actual 2023 expense levels?**

1 A. Yes, the schedules are the support for the entries that will be booked monthly in 2023.

2 **Q. Should the rate case numbers be updated to match these 2023 schedules?**

3 A. Yes, the schedules were used as support to book the January 2023 entries and will be used
4 for the rest of 2023 as well. These numbers represent the known and measurable numbers
5 for 2023 and should be used to set the level of expense allowed in rates and also used to
6 set the amount allowed for the pension and OPEB trackers.

7 **Q. Does the Service Company pension and OPEB expense change?**

8 A. Yes, it does. The combined change to the 2023 actual pension and OPEBs would reduce
9 the Service Company expense by \$154,934.

10 **Q. Does that conclude your Surrebuttal Testimony?**

11 A. Yes, it does.

Missouri-American Water Company
Name of Issuing Corporation

For

All Missouri Service Areas
Community, Town or City

Revenue Stabilization Mechanism (RSM)

AVAILABILITY – All residential (“domestic”), commercial, other public authority and sale for resale metered water customers.

SECTION A - DEFINITIONS

Actual Revenue (AR) shall mean the actual dollar amount of revenues billed to customers for the identified Service Classifications, excluding revenues arising from adjustments under this tariff and any other tariff, which were billed for the applicable Fiscal Year, excluding revenues from acquisitions approved by the Commission that have not yet been approved in a general rate case and any revenues billed under Rate I (Sheet RT 10) or Rate W (Sheets RT 11.1 and RT 11.2).

Actual Production Costs (APC) shall mean the actual dollar amount of power, chemicals, purchased water and waste disposal incurred by the Company in the Fiscal Year, excluding production costs from acquisitions approved by the Commission that have not yet been approved in a general rate case.

Effective Period shall mean the period for which the adjustments in Section B are to be billed to customers, and shall be the nine-month period April through December after the Filing Month.

Effective Period Usage (G) shall mean the number of 100 gallon units delivered to customers by the Company, including the number of 100 gallon units for the applicable Effective Period.

Filing Month shall mean the Company will submit the adjustment to the Commission, on or before January 30.

Fiscal Year shall mean the Fiscal Year of the Company that ended as of the most recent December 31.

Interest (i) shall mean the Company short-term interest borrowing rate.

Previous Amortization Period shall mean the nine-month reconciliation amortization period that ended as of the most recent Fiscal Year.

Rate Case Revenue (RCR) shall mean the dollar amount of revenues reflected in the revenue requirements approved by the Commission for the applicable Service Classifications in the Company’s most recent general rate case. In a month or year in which new rates come into effect, the RCR shall be prorated based upon the number of days in the month or year under the old rates and the number of days in the month or year under the new rates.

* *Indicates new rate or text*

+ *Indicates change*

Date of Issue:

July 1, 2022

Effective Date:

July 31, 2022

Issued By:

Rich C. Svindland, President
727 Craig Road, St. Louis, MO 63141

Missouri-American Water Company
Name of Issuing Corporation

For

Community, Town or City

Revenue Stabilization Mechanism (RSM)

Rate Case Production Costs (RPC) shall mean the dollar amount of power, chemicals, purchased water and waste disposal expenses reflected in revenue requirements approved by the Commission in the Company's most recent general rate case. In a month or year in which new rates come into effect, the RPC shall be prorated based upon the number of days in the month or year under the old rates and the number of days in the month or year under the new rates.

SECTION B – DETERMINATION OF ADJUSTMENT

$$\text{RSM Surcharge} = \frac{((RCR - RPC) - (AR - APC))(1+i) + RA}{G}$$

$$\text{RSM Credit} = \frac{((RCR - RPC) - (AR - APC))(1+i) + RA}{N}$$

Where:

- RCR** represents the Rate Case Revenue for the Fiscal Year.
- RPC** represents the Rate Case Production Costs for the Fiscal Year.
- AR** represents the Actual Revenue for the Fiscal Year.
- APC** represents the Actual Production Costs for the Fiscal Year.
- i** represents the interest rate
- G** represents the Factor G for the Effective Period.
- N** represents the number of customers at the time the credit is issued.
- RA** represents the dollar amount due the Company (+RA) or the customers (-RA) arising from adjustments under this tariff that were under-billed or over-billed in the prior Fiscal Year or Previous Amortization Period including the calculation of interest.

If the surcharge formula above computes to \$0.0001 per 100 gallons or more, any fraction of \$0.0001 in the formula per 100 Gallons adjustment amount shall be dropped if less than \$0.00005 or, if \$0.00005 or more, shall be rounded up to the next full \$0.0001. The RSM Credit formula would be rounded to the nearest cent.

SECTION C – REPORTS AND RECONCILIATIONS

The Company shall file with the Commission on or before January 30 of each year, the RSM calculation and support for any annual adjustments to be effective under this tariff. The Commission Staff will have 60 days to review. The reconciliation amount will be surcharged from April 1 through December 31 of each calendar year. Any credit will be issued as soon as administratively possible.

* *Indicates new rate or text*

+ *Indicates change*

Date of Issue:

July 1, 2022

Effective Date:

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Issued By:

Rich C. Svindland, President
727 Craig Road, St. Louis, MO 63141

Missouri American Water Company
Pension Expense

Staff - Rebuttal

	Gross Amount	Staff O&M Ratio	Pro forma Expense
Pro Forma Pension Cost - Service Costs	\$3,812,950	44.49%	\$2,116,569
Pro Forma Pension Cost - Non-Service Costs	<u>(5,488,009)</u>		<u>(5,488,009)</u>
Pro Forma Pension Cost - ASC 715 (FAS 87) Accrual	<u>(\$1,675,059)</u>		<u>(\$3,371,440)</u>
Amortization (from Pension Tracker WP)			<u>(1,698,278)</u>
Total Amortization (from Pension Tracker WP)			<u><u>(1,698,278)</u></u>
Total Pension Expense			<u><u>(\$5,069,718)</u></u>

MAWC - Surrebuttal Testimony

	Gross Amount	Capital & Other Rate	Pro forma Expense
Pro Forma Pension Cost - Service Costs	2,243,450	44.79%	\$1,238,685
Pro Forma Pension Cost - Non-Service Costs	<u>580,866</u>		<u>580,866</u>
Pro Forma Pension Cost - ASC 715 (FAS 87) Accrual	<u>\$2,824,316</u>		<u>\$1,819,551</u>
Amortization of Deferred Pension Liability			<u>(1,501,454)</u>
Total Amortization of Deferred Pension Liability			<u><u>(1,501,454)</u></u>
Total Pension Expense			<u><u>\$318,097</u></u>

Missouri-American Water Company
OPEB Expense

Staff - Rebuttal			
	Gross Amount	Capital & Other Rate	Pro forma Expense
Pro Forma OPEB Cost - Service Costs	\$137,127	44.49%	\$76,119
Pro Forma OPEB Cost - Non-Service Costs	<u>(1,916,500)</u>		<u>(1,916,500)</u>
OPEB Cost - ASC 715 (FAS 106) Accrual	<u>(\$1,779,373)</u>		<u>(\$1,840,381)</u>
Amortization			<u>(1,454,814)</u>
Total OPEB Expense			<u><u>(3,295,195)</u></u>

MAWC - Surrebuttal Testimony			
	Gross Amount	Capital & Other Rate	Pro forma Expense
Pro Forma OPEB Cost - Service Costs	\$180,255	44.79%	\$99,525
Pro Forma OPEB Cost - Non-Service Costs	<u>(3,365,116)</u>		<u>(3,365,116)</u>
OPEB Cost - ASC 715 (FAS 106) Accrual	<u>(\$3,184,861)</u>		<u>(\$3,265,591)</u>
Amortization			<u>(1,258,981)</u>
Total OPEB Expense			<u><u>(4,524,572)</u></u>

Schedule JMW-3 ST has been marked CONFIDENTIAL in its entirety
in accordance with Commission Rule 20 CSR 4240-2.135(2)(A).5.