

MAWC 14

Exhibit No.:  
Issues: Consolidated Tariff Pricing  
Witness: Karl A. McDermott  
Exhibit Type: Surrebuttal  
Sponsoring Party: Missouri-American Water Company  
Case No.: WR-2015-0301  
SR-2015-0302  
Date: March 1, 2016

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO. WR-2015-0301  
CASE NO. SR-2015-0302**

**SURREBUTTAL TESTIMONY**

**OF**

**KARL A. MCDERMOTT**

**ON BEHALF OF**

**MISSOURI-AMERICAN WATER COMPANY**

MAWC Exhibit No. 14  
Date 3-21-16 Reporter JTC  
File No. WR-2015-0301

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

IN THE MATTER OF MISSOURI-AMERICAN )	
WATER COMPANY FOR AUTHORITY TO )	
FILE TARIFFS REFLECTING INCREASED )	CASE NO. WR-2015-0301
RATES FOR WATER AND SEWER )	CASE NO. SR-2015-0302
SERVICE )	

AFFIDAVIT OF KARL A. MCDERMOTT

Karl A. McDermott, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of Karl A. McDermott"; that said testimony was prepared by him and/or under his direction and supervision; that if inquiries were made as to the facts in said testimony, he would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of his knowledge.

*Karl A. McDermott*

Karl A. McDermott

County of Champaign

State of Illinois

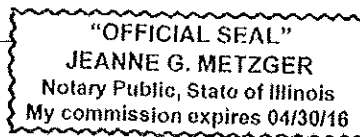
SUBSCRIBED and sworn to

Before me this 26 day of February 2016.

*Jeanne G. Metzger*  
Notary Public

My commission expires:

4-30-2016



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**SURREBUTTAL TESTIMONY  
KARL A. MCDERMOTT  
MISSOURI-AMERICAN WATER COMPANY  
CASE NO. WR-2015-0301  
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## SURREBUTTAL TESTIMONY

KARL A. MCDERMOTT

### I. INTRODUCTION

1

2 **Q. PLEASE STATE YOUR NAME.**

3 A. My name is Karl A. McDermott.

4

5 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**  
6 **PROCEEDING?**

7 A. Yes, I have submitted direct and rebuttal testimony in this proceeding.

8

9 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

10 A. I primarily reply to the rebuttal testimony of Dr. Geoff Marke on behalf of the  
11 Missouri Office of Public Counsel. I also comment on the rebuttal testimony  
12 from Mr. Brian C. Collins on behalf of the Missouri Industrial Energy  
13 Consumers.

14

### II. RESPONSE TO DR. MARKE

15

16

17 **Q. WHAT ARE DR. MARKE'S MAJOR AREAS OF REBUTTAL?**

18 A. Dr. Marke makes several claims that attempt to counter the arguments for  
19 CTP.

20 First, Dr. Marke claims that the facts do not support a conclusion that rate  
21 mitigation is a valid reasons to support CTP.. (Marke Reb., 4:11-5:8). I'm at a  
22 loss as to what "facts" Dr. Marke would like to review. Rate mitigation is  
23 inherently a policy choice that results from the underlying costs that make up  
24 the system. As Dr. Marke noted in his direct testimony investment is put into  
25 the system at different rates and different timing leading to some areas of the  
26 system having higher current costs that must be recovered through rates. If  
27 those rates are district specific then rate shock is an issue. Dr. Marke's

1 search for "facts" to support this decision overlooks the larger issues related  
2 to the policy of rate consolidation.

3 Second, Dr. Marke claims that environmental regulations do not seem to be  
4 causing costs in the near future. (Id. 5:11-6:2). This, of course, is not the point  
5 of this portion of my testimony. The point is that clean water costs from either  
6 existing or future regulations tend to have economies of scale (i.e., the larger  
7 the number of customers the lower the average cost). I cited independent  
8 estimates from the EPA that show this effect. (McDermott, Dir., 8:1-3). While  
9 Dr. Marke does not like that these estimates have been known for at least a  
10 decade, that was in fact also part of my point. These are not new facts, the  
11 industry and Federal regulators have known these facts for quite a while.  
12

13 Third, Dr. Marke maintains that CTP would distort the district-specific  
14 common costs differences thereby distorting efficient pricing causing  
15 overinvestment. (Marke, Reb., 7: 21-22). I've addressed the issues of pricing  
16 efficiency and overinvestment in my rebuttal testimony to show that Dr. Marke  
17 is incorrect on this point. Moreover, it is ironic that Dr. Marke claims that  
18 allocations of common costs is "inexact" requires "judgment" and "will never  
19 be precise," yet he sticks to his claim that using any other method will cause  
20 distortions. He cannot have it both ways, either the allocation of common  
21 costs is mostly guesswork (which it is) or there is a "right" way to do it (which  
22 there is not). Dr. Marke has made my point for me that overhead costs are not  
23 attributable in any meaningful economic way and therefore his conclusions  
24 about alleged subsidies and cost-causation are suspect.  
25

26 Fourth, Dr. Marke claims that I suggested CTP would promote economic  
27 growth. (Id., 9:21-23) This is not what I claimed. My claim was that CTP  
28 "promotes state economic development goals." (McDermott Dir., 15:12-21).  
29 This is done through standardizing water service quality across districts. If Dr.  
30 Marke needs confirmation that inconsistent utility services can work counter  
31 to state economic development goals one only need look at California during  
32 the early part of this century during the electricity crisis. While I accept this is

1 not the overriding reason the Commission should adopt CTP, it is one  
2 consideration.

3

4 Fifth, Dr. Marke does not accept that gas and electric utilities are a  
5 reasonable model to look at for CTP. (Marke Reb., 10:3-7). I have addressed  
6 this issue in my rebuttal testimony.

7

8

## 9 **II. OTHER COMMENTS**

9

10 **Q. DO YOU HAVE ANY COMMENTS ON MR. COLLINS'S REBUTTAL**  
11 **TESTIMONY?**

12 A. For the most part this testimony discusses the rate design questions that Staff  
13 witness Mr. Busch addresses. However, Mr. Collins does restate his concern  
14 that CTP "abolishes the concept of cost causation" and results in "subsidies."  
15 (Collins, Reb., 2:20-3:2). I have addressed and rebutted this position in my  
16 rebuttal testimony. I would note that the CTP proposal does not seek to  
17 "abolish" cost causation as a principle of cost studies any more than a gas or  
18 electric utility that has CTP "abolishes" cost causation in its cost study. I do,  
19 however, think the Commission needs to understand the strength and  
20 weaknesses of depending on the ECOSS for this particular decision as I  
21 outlined in my rebuttal testimony.

22

23 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

24 A. Yes, it does.