

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

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| In the Matter of the Establishment of a Working |) | |
| Case for the Review and Consideration of a |) | |
| Rewriting and Writing of Existing and New |) | File No. AW-2018-0394 |
| Affiliate Transaction Rules and HVAC Affiliate |) | |
| Transaction Rules |) | |

**MISSOURI-AMERICAN’S RESPONSE
TO ORDER REQUESTING ADDITIONAL RESPONSES**

COMES NOW Missouri-American Water Company (Missouri-American or Company) and provides the following comments to the Affiliate Transactions draft rule submitted by Staff in this docket on September 9, 2019:

1. This working case began with a Staff Motion, which included a draft rule for consideration by the Commission. As was noted by the Staff Motion, the Commission has affiliate transaction rules that apply to electric, gas, and heating utilities; gas utilities with gas marketing operations, and electric, gas, and heating utilities with HVAC affiliates. No such rules currently apply to water corporations or sewer corporations. If the Commission were to include large water and sewer corporations in this rule, Missouri-American understands it is the only “large” (those having 8,000 or more customers) utility in Missouri to which this draft rule would apply.

WATER AND SEWER UTILITIES ARE DIFFERENT

2. As expressed in its previous filings, it remains Missouri-American’s position that the expansion of the electric/gas/heating affiliate transactions rule to Missouri-American is neither an efficient use of the Commission’s resources, nor Missouri-American’s resources, and offers no additional protections to Missouri-American’s customers.

3. Affiliate transaction rules are not necessary for water and sewer corporations in the same way they may apply to electric and gas corporations. Gas and electric companies may have

transactions with affiliates that compete with other unregulated entities in the marketplace. These transactions may consist of natural gas and power purchases and sales, including electric power supply agreements, capacity supply agreements, energy swaps and energy products, and transmission services. Missouri-American has no such similar situation.

EXISTING CUSTOMER PROTECTIONS IN THE RATEMAKING PROCESS

4. Missouri-American appreciates the Staff’s revisions to paragraph (2)(F), removing corporate support services from the draft rule. Staff’s revision provides the following rationale:

Missouri American Water Company and Ameren Missouri proposed removing corporate support services from the asymmetrical pricing requirements in their comments filed in this working docket. Staff agrees with this suggestion in that it will allow utilities in Missouri, especially those that employ the use of a “services company,” to better realize cost savings through economies of scale, and pass those savings on to their rate payers. Staff believes the exception provided for corporate support functions in this section, combined with the protections afforded to ratepayers through the ratemaking process in this state, will aid in accomplishing that feat.¹

Missouri-American’s previous comments explained how the expansion of the rule to include the Company is unnecessary and duplicative of the protections already afforded to ratepayers through the ratemaking process. The rationale provided by Staff for its revisions to paragraph (2)(F) acknowledge this fact. Missouri-American’s transactions are fully audited and auditable by the Staff, the Office of the Public Counsel (OPC), and other parties today. In fact, these issues have been raised, examined, and resolved in past Missouri-American rate cases. Missouri-American’s transactions have been scrutinized in all its rate cases, including its most recent such case – Case No. WR-2017-0285. As a part of that rate case, Missouri-American

¹ See *Staff Response to Public Counsel’s Response to Staff’s September 16, 2019, Draft Affiliate Transactions and HVAC Affiliate Services Rules*, Appendix A, p. 8.

provided studies to support the reasonableness of service company costs. No rate case adjustments were proposed in Case No. WR-2017-0285 for improper transactions or cost allocations to Missouri-American.

5. The vast majority (if not all) of Missouri-American's transactions with affiliates are for corporate support, including its purchases of professional services from the service company and its access to debt markets through its financing affiliate. The overwhelming evidence in past rate cases shows that Missouri-American is procuring these services from its affiliates at costs that are well below what it would otherwise incur if it had to purchase those services from unaffiliated, third parties or employ full-time employees to provide those services to the Company.

DRAFT RULE REQUIREMENT FOR MISSOURI-AMERICAN TO FILE A COST ALLOCATION MANUAL IS UNNECESSARY

6. Paragraphs (5)(A) and (B) contain filing requirements for cost allocation manuals. Missouri-American's previous comments explained how this filing requirement would create additional costs for the Company while providing no additional benefit to customers. Missouri-American currently provides to the Staff its service company's Billing and Accounting Manual (BAM). This manual is a set of criteria, guidelines and procedures for the service company cost allocations to Missouri-American and its affiliates.² The costs of support services, including wages, employee benefits, professional services, and other expenses, are based on, or are an allocation of, actual costs incurred. The BAM provides sufficient information to support cost allocation among affiliates. Should the Commission decide to include Missouri-American within this rule, there is no need for Missouri-American to create a new cost allocation manual when the same information is already available in the BAM. Missouri-American asks that it be able to file

² A copy of the Billing and Accounting Manual was also provided as an attachment to the rebuttal Testimony of James Jenkins in Case No. WR-2017-0285.

documents like the cost allocation manual, such as the BAM, that provide the information Staff seeks to receive through this filing requirement.

ACCESS TO DOCUMENTS OF UNREGULATED ENTITY

7. Additionally, Missouri-American suggests changes to paragraphs (8)(A) and (B) of the draft rule to limit access to documents maintained by the covered utility. As currently drafted, the rule language is very broad and purports to extend this access to the records of unregulated entities beyond those records related to the affiliate transactions with the covered utility. Such limit is proper and reasonable and Missouri-American asks that such limitation on records be included in any final order of rulemaking.

CONCLUSION

8. There is no added value for the Commission or Missouri-American's customers through the inclusion of large water and sewer utilities in the draft rule. The opportunity to examine Missouri American's affiliate transactions already exists within the context of each rate case. The draft rule unnecessarily duplicates the protections already in practice.

WHEREFORE, Missouri-American respectfully requests that the Commission consider these comments and find that large water and sewer utilities should not be included in any final order of rulemaking of the Commission. Should the Commission include large water and sewer utilities in any final order of rulemaking, Missouri-American asks that the Commission include changes to the draft rule as proposed herein.

Respectfully submitted,

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**ATTORNEYS FOR MISSOURI-AMERICAN
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CERTIFICATE OF SERVICE

I hereby certify that true and accurate copies of the foregoing response have been transmitted by electronic mail to all counsel of record on this 9th day of December 2019.

/s/ Jennifer L. Hernandez