Exhibit No.:	
Issues:	Revenue Requirement
Witness:	Greg R. Meyer
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	MIEC
Case No.:	WR-2020-0344
Date Testimony Prepared:	January 15, 2021

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of the Application 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**

Rebuttal Testimony of

Greg R. Meyer

On behalf of

Missouri Industrial Energy Consumers

January 15, 2021

Brubaker & Associates, Inc.

Project 10995

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application 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**

STATE OF MISSOURI	)	
	)	**SS**
COUNTY OF ST. LOUIS	)	

Affidavit of Greg R. Meyer

Greg R. Meyer, being first duly sworn, on his oath states:

1. My name is Greg R. Meyer. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Missouri Industrial Energy Consumers in this proceeding on its behalf.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. WR-2020-0344.

3. I hereby swear and affirm that the testimony is true and correct and that it shows the matters and things that it purports to show.

Greg R. Meyer
Greg R. Meyer

Subscribed and sworn to before me this 14th day of January, 2021.

TAMMY S. KLOSSNER
Notary Public - Notary Seal
STATE OF MISSOURI
St. Charles County
My Commission Expires: Mar. 18, 2023
Commission # 15024862

Tammy S Klossner
Notary Public

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<u>Rebuttal Testimony of Greg R. Meyer</u>

I. Introduction

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Greg R. Meyer. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q ARE YOU THE SAME GREG R. MEYER WHO PRESENTED DIRECT TESTIMONY IN THIS PROCEEDING?

A Yes, I am.

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A This information can be found in my revenue requirement direct testimony filed on November 24, 2020.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A This testimony is presented on behalf of the Missouri Industrial Energy Consumers ("MIEC"), a non-profit corporation that represents the interests of large customers in Missouri utility matters. Companies whose interests the MIEC represents purchase substantial amounts of water from Missouri-American Water Company ("MAWC", "Missouri-American", or "Company").

Q WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A My rebuttal testimony will recommend that the recovery of interest payments for a COVID-19 (pandemic) loan be partially denied. Presently, MAWC is deferring the interest on the COVID-19 loan through an Accounting Authority Order ("AAO") that was approved by the Commission in Case No. WU-2020-0417.

In addition, my testimony will recommend that increased American Water Works' service company charges assigned to the Missouri operations be reduced to eliminate the effects of American Water Works selling its New York operations. Finally, I will discuss a suggested reporting requirement for MAWC to measure water deliverability performance.

II. COVID-19 Loan

Q PLEASE DESCRIBE THE COVID-19 LOAN.

A On March 20, 2020, American Water Corporation executed a term loan facility for up to $750 million. On that date, American Water Works initially borrowed $500 million. The loan agreement was allegedly executed to ensure adequate liquidity during the pandemic. The loan also provided for additional borrowing capacity of $250 million but that option expired on June 19, 2020, and American Water Works did not exercise the additional $250 million of borrowing capacity.

Q WHAT IS MISSOURI'S SHARE OF THE $500 MILLION INITIAL BORROWING?

A Missouri's share of the loan proceeds is 14.08%.

Q WHY ARE YOU OPPOSED TO THE INTEREST ON THE LOAN BEING INCLUDED IN THE MAWC COVID-19 AAO?

A There are several reasons. First, according to the response to MECG 6-3, American Water Works has retained the entire $500 million in cash. Specifically, after reviewing the cash balances in the 10-K filings of American Water Works (which provides a cumulative picture of all water operations), it is apparent that the cash was never utilized for utility purposes, but simply retained on the parent company's balance sheet. Similarly, of this total, Missouri-American has also retained its share – $70,411,220 in cash. In other words, none of the loan proceeds have been used for utility purposes to date.

Second, it seems apparent that the concern for liquidity as a result of the pandemic did not materialize. On June 19, 2020, MAWC did not utilize the additional $250 million of borrowing on the original loan agreement. Moreover, in data request responses, American Water Works has indicated that it does not intend to seek replacement financing when this loan becomes payable in March 2021. Obviously, concerns with liquidity never materialized as contemplated by American Water Works.

Third, as I discussed previously in my direct cost of service testimony, on June 2, 2020, American Water Works increased its dividend payment by 5¢ a quarter. The 5¢ increase is the largest nominal increase (10%) dating back to 2010. The increased dividend would equate to an increase in annualized dividend payments of approximately $36 million per year.[1] Dividend increases is not symptomatic of a utility that has concerns with liquidity. Instead, liquidity concerns should drive a utility to preserve cash. Obviously, if American Water Works can increase its dividend during

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[1]American Water shares outstanding 181,000,000 * 5¢ per share = $9,050,000 * 4 quarters = $36,200,000.

the pandemic, the necessity for a pandemic-related loan and the incurrence of interest on that loan must be questioned.

Q WHAT AMOUNT OF INTEREST HAS MAWC ACCRUED SINCE MARCH 20, 2020?

A According to the response to MECG 6-2, the interest on that loan has totaled $725,087 through November 2020.

Q ARE YOU PROPOSING TO DISALLOW ALL OF THAT INTEREST EXPENSE?

A No. I am proposing to disallow all interest expense since the beginning of June 2020, when American Water Works increased its shareholder dividends. I cannot question American Water Works' initial decision as being imprudent when securing the loan on March 20, 2020. At that point in time, no one knew how any markets would react to the pandemic. However, recognizing that the loan provides for no penalty for prepayment, American Water Works should have constantly evaluated the continued need for the funds to determine whether the loan should have been retired early.

Clearly, on June 2, when American Water Works increased its dividend, it had determined that continued liquidity concerns no longer existed. At that date, American Water Works should have paid off the loan instead of incurring interest expense for cash that was not being utilized. Ratepayer rates should not be increased to recover interest expense that has been used for no purpose. In the alternative, MAWC could have returned its allocated share of the loan proceeds to American Water Works stating it did not have a need for those funds. None of these actions occurred and MAWC continues to defer interest expense under the AAO that provides zero ratepayer benefit.

Q ARE YOU AWARE WHETHER OTHER MISSOURI UTILITIES ENGAGED IN SIMILAR FINANCING AND ARE DEFERRING SUCH INTEREST EXPENSE UNDER COVID AAOs?

A I have been involved in COVID AAO matters for several Missouri utilities. I am unaware that any other Missouri utility engaged in similar financing. Certainly, of the AAOs approved by the Commission to date, no other AAO provides for deferral of such interest expense. Therefore, relative to other Missouri utilities, liquidity concerns resulting from the pandemic appear to be unique to American Water Works.

Q WHAT IS THE LEVEL OF INTEREST EXPENSE YOU PROPOSE TO DISALLOW?

A As mentioned, the total interest expense deferred through November 2020 was $725,087. I do not dispute recovery of interest expense that was initially incurred, but recommend disallowance of any interest expense after June 2 when American Water Works demonstrated its lack of concern with liquidity when it significantly increased its shareholder dividend. Therefore, I recommend that the Commission disallow recovery of $516,059 of interest expense allocated to MAWC from June 2020 - November 2020. I would also note that this adjustment needs to be updated as more interest expense is incurred.[2]

Q ARE YOU AWARE OF ANY OTHER JURISDICTIONS THAT HAVE AGREED WITH YOUR POSITION?

A Yes, the Kentucky Public Service Commission issued an Order in Case No. 2020-00257 that addressed the interest on the COVID-19 loan. In that case, involving

[2]Interest expense for December and beyond cannot be provided until American Water's financial statements are publicly available. It is likely that MAWC will seek inclusion of such interest expense in the true-up in this case.

Kentucky American Water, an affiliate of MAWC, the Kentucky Public Service Commission denied recovery of any interest on its portion of the same loan. I have included the relevant part of that Order below.

> Term-Loan Interest Expense.
> Given the uncertainty of the financial markets at the onset of the COVID-19 pandemic, the Commission notes that AWCC's decision to obtain a $500 million draw on its 364-day term loan credit facility might have been a reasonable action. However, as the pandemic progressed, the $19.6 million dollars allocated to Kentucky-American were not used and remain in Kentucky-American's cash reserves. Kentucky-American did not adequately explain why the $19.6 million debt allocation was not returned to AWCC within the first few months once Kentucky-American realized that the pandemic's impact on the financial markets had not materialized, particularly as there is no prepayment penalty.
>
> For the reasons discussed above regarding materiality, Kentucky-American failed to establish that the Term-Loan Interest expense is material to its financial position and warrants deferral accounting. Kentucky-American's requested Term-Loan Interest expense of $186,620 represents only 1.42 percent of the Interest expense Kentucky-American reported in the calendar year ending December 31, 2019, of $13,165,898. Additionally, Kentucky-American did not demonstrate that the allocation of the AWCC loan was necessary given that the loan proceeds remain in a cash reserve account untouched and that the associated interest expense is not material. For these reasons the Commission finds that Kentucky-American's request to establish a regulatory asset for the recovery of its Term-Loan Interest expense should be denied. (Pages 19-20)

Q PLEASE SUMMARIZE YOUR POSITION.

A I recommend that the Commission deny recovery of interest expense from the COVID-19 loan beginning on June 2020 and all subsequent interest payments. The liquidity concerns that drove the initial decision to execute such financing never materialized and the loan should have been paid off. Therefore, I recommend disallowance of $516,059 of interest expense through November 2020.[3]

[3] This adjustment total needs to be updated as more financial information becomes publicly available.

III. Service Company Charges

Q PLEASE DESCRIBE AMERICAN WATER WORKS' CORPORATE STRUCTURE.

A American Water Works currently has water / sewer utility operations in 16 states including a utility subsidiary in New York. American Water Works provides certain support functions to each of these subsidiaries through a service company. The service company charges are then allocated to each of the subsidiaries.

Q HAS AMERICAN WATER WORKS RECENTLY EXECUTED AN AGREEMENT TO SELL ITS NEW YORK UTILITY OPERATIONS?

A Yes. In November 2019, American Water Works agreed to sell its New York operations, consisting of 126,000 customers, to Liberty Utilities. It is my understanding that approval of those operations, by the New York Public Service Commission, has been delayed and the sale has not yet closed.

Q HOW DOES THE SALE OF THE NEW YORK OPERATIONS POTENTIALLY AFFECT MISSOURI RATES?

A As indicated, American Water Works allocates service company charges to each of the state subsidiaries. Even though the New York sale has not yet closed, Missouri-American seeks to increase Missouri rates to account for a potential increase in the amount of service company charges that are allocated to Missouri as a result of the elimination of New York American as an affiliate. Effectively, service company charges will be allocated across a smaller number of subsidiaries.

Q SPECIFICALLY, WHAT DOES MISSOURI-AMERICAN PROPOSE?

A. In his direct testimony, MAWC witness Baryenbruch states that there should be a $1.4 million increase in service company charges allocated to Missouri-American that is attributable to the sale of the New York utility by American Water Works. That sale will lower the customer count by approximately 126,000 customers. Thus, MAWC suggest that the allocated share of service company charges to Missouri be increased by $1.4 million.

Q DO YOU AGREE WITH THE PROPOSED INCREASE IN SERVICE COMPANY CHARGES?

A No. I have several reasons for my disallowance of these increased charges. First and foremost, as indicated in my direct testimony, the Commission historically has only allowed for recovery of costs that are "known and measureable." As indicated, while the agreement to sell the New York operations was made in November 2019, American Water Works has failed to get approval for the sale from the New York Public Service Commission. As such, any increased service company charges are certainly not known and measureable at this time. Second, while recognizing the loss of New York customers, MAWC has failed to recognize customer growth that American Water Works regularly sees as a result of organic growth in its service areas or from new system acquisitions. Therefore, MAWC's adjustment is one-sided. As this Commission is aware, Missouri-American and its affiliates in other states routinely engage in the acquisition of other water / sewer operations. Therefore, as customer counts increase, American Water Works will overcollect its service company charges. In his direct testimony, Mr. Baryenbruch provides a table that shows historic growth in the American Water Works customer base. I have included that table below.

American Water Works' Customer Counts

Year	Customer Count	Increase
2015	3,252,691	
2016	3,312,304	59,613
2017	3,353,877	41,573
2018	3,381,695	27,818
2019	3,434,025	52,330

As can be seen from the above table, American Water Works continues to grow its customer base. Over the last four years, the average annual increase in customers has been approximately 45,300 customers, or roughly 36% of the loss of customers in the New York sale. Assuming a three-year period between rate cases, the growth in customers would surpass the loss of customers from the New York sale. Recognizing no customer growth at American Water Works will result in overcharging Missouri for service company charges.

My third argument for disallowing the increase in service company charges is that MAWC's proposal implicitly suggests that these charges are fixed costs. Fixed costs would not vary with a change in customer counts. However, it is my belief that the service company charges primarily consist of labor expenses. These costs are variable in nature and should fluctuate with the changes in the number of customers served by American Water Works. MAWC has failed to make any provisions for the possible reduction in the labor force at the service company in response to the sale of the New York utility. One reason for the necessity to continue to maintain the workforce is the belief that American Water Works will continue to grow and needs those employees to provide those services. This argument simply circles back to my previous argument that the American Water Works system will continue to grow and to single out the New York sale without recognizing any customer growth will assign too much service company charges to the Missouri operations.

Q WHAT IS YOUR PROPOSED ADJUSTMENT?

A At this point, for all the reasons that I provide, I recommend that the entire $1.4 million of increased service company charges proposed by Missouri-American be disallowed. MAWC has provided a one-sided adjustment and neglected the possible labor savings that would occur if the loss in customers was permanent. It should be pointed out, however, that my disallowance only addresses the increased service company charges. I have not made any adjustment to the test year level of service company charges.

IV. Unaccounted for Water / Main Breaks

Q HAVE YOU REVIEWED THE UNACCOUNTED FOR WATER FOR EACH OF THE LARGE SYSTEMS[4] IN THE MAWC SERVICE TERRITORY?

A Yes, I have reviewed lost and unaccounted for water over several years dating back to 2009.

Q HAVE YOU ALSO REVIEWED THE MAIN BREAKS ASSOCIATED WITH THOSE LARGE SYSTEMS?

A Yes, I have. The historic main break information for systems besides St. Louis County is limited because MAWC did not start recording main breaks for systems outside St. Louis County until January 1, 2019. In the table below, I have listed the main breaks per year dating back to 2010.

[4] St. Louis County, St Joseph, St. Charles, Joplin, Jefferson City, Warrensburg and Mexico.

Historic Missouri-American Main Breaks		
Year	**St. Louis County**	**All Other**
2010	1,103	N/A
2011	778	N/A
2012	877	N/A
2013	886	N/A
2014	1,118	N/A
2015	545	N/A
2016	525	N/A
2017	608	N/A
2018	719	N/A
2019	277	110

As can be seen from the above table, in 2019, St. Louis County experienced its lowest level of main breaks dating back to 2010. A five-year average of St. Louis County main breaks from 2015-2019 is 535. Main breaks can have a significant impact on unaccounted for water.

Q WHAT WAS THE RANGE FOR UNACCOUNTED FOR WATER DURING 2019?

A In 2019 the unaccounted for water ranged from a low of 8.45% (St. Charles) to a high of 30.32% (Joplin). Joplin (30.32%), St. Louis County (23.31%), Mexico (22.01%), Jefferson City (21.24%) and St. Joseph (20.40%) all had water losses in 2019 in excess of 20%. MAWC should be required to provide explanations for the excessive loss of water on these systems. At a 20% loss factor, MAWC must pump and treat five gallons of water in order to deliver four gallons to the ultimate customer.

Q ARE YOU PROPOSING ANY ADJUSTMENTS TO COST OF SERVICE FOR LOSS AND UNACCOUNTED FOR WATER?

A No, I am not. However, I would propose that going forward MAWC submit to the Staff, OPC and any other interested party an annual report that details main breaks and lost and unaccounted for water by major service area. This report would allow the Staff and others to monitor the operations of MAWC as it relates to the deliverability of water. I would view this report as being a performance measurement tool for MAWC. Electric utilities submit reports annually to the Commission concerning reliability measures. This report would be of similar value except it would measure the deliverability of water. I would also request that MAWC provide detailed explanations in its report if unaccounted for water loss percentage exceeded 20% on an annual basis for any of the major service territories. This information would be useful to parties to determine if lost water was a one-time occurrence or a recurring event that required further attention by MAWC.

Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A Yes, it does.

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