Exhibit No.:	
Issues:	Inclining Block Rates, CTP, RSM, Fixed Charges, LSLR
Witness:	James M. Jenkins
Exhibit Type:	Rebuttal-Rate Design
Sponsoring Party:	Missouri-American Water Company
Case No.:	WR-2017-0285 SR-2017-0286
Date:	January 24, 2018

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2017-0285
CASE NO. SR-2017-0286

REBUTTAL TESTIMONY
RATE DESIGN

OF

JAMES M. JENKINS

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

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 RATES FOR WATER AND SEWER SERVICE	)))))	**CASE NO. WR-2017-0285** **CASE NO. SR-2017-0286**

AFFIDAVIT OF JAMES M. JENKINS

James M. Jenkins, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Rebuttal Testimony Rate Design of James M. Jenkins"; 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.

James M. Jenkins
James M. Jenkins

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 16th **day of** January **2018.**

Mary Beth Hercules
Notary Public

My commission expires:

MARY BETH HERCULES
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires April 26, 2020
Commission # 96546828

REBUTTAL TESTIMONY
RATE DESIGN
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REBUTTAL TESTIMONY
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JAMES M. JENKINS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is James M. Jenkins and my business address is 727 Craig Road, St. Louis, Missouri 63141.

Q. Are you the same James M. Jenkins who previously submitted direct testimony and revenue requirement rebuttal testimony in this proceeding?

A. Yes.

II. OVERVIEW

Q. What is the purpose of your rate design rebuttal testimony?

A. The purpose of my rate design rebuttal testimony is to address at a policy level certain issues raised by various parties on rate design matters, including: inclining block rates, consolidated tariff pricing; Missouri-American Water Company's ("MAWC", "Company" or "Missouri-American") proposed Revenue Stabilization Mechanism ("RSM"), fixed customer charges, and cost allocation of the Company's proposed lead service line replacement ("LSLR") program.

III. INCLINING BLOCK RATES

Q. Is the Company aware of the Missouri Public Service Commission's ("Commission") interest in the concept of inclining block rates?

A. Yes. As indicted in my direct testimony (at page 36), in the Report and)Order issued in the Company's most recent rate case, the Commission requested information on inclining block rates be provided in the Company's next rate case for consideration in setting just and reasonable rates. (*In the Matter of Missouri-American Water Company*, Report and Order, Case No. WR-2015-0301, p. 41, (May 26, 2016), ("2015 Rate Order")).

Q. Did the Company propose inclining block rates in this case?

A. No. The Company proposed uniform rates, given that the trend of declining usage per customer experienced by the Company, and suggested that the introduction of inclining block rates would be an unnecessary step in Missouri.

Q. Did any other parties address inclining block rates?

A. Yes. Both the Staff of the Commission ("Staff") and Missouri Department of Economic Development, Division of Energy ("DE") addressed the issue. (Dietrich, Dir., p. 3, ln. 1-11; Hyman, Dir., p. 9, ln. 5-15)

Q. What do these parties propose regarding implementation of inclining block rates?

A. Staff does not support introduction of inclining block rates in this proceeding. (Dietrich, Dir., p. 3, ln. 9-11). DE indicates it would only support their introduction under certain conditions that mitigate bill impacts for some customers, while at the same time implementing targeted efficiency measures. (Hyman, Dir., p. 19, ln. 3-9)

Q. Do you interpret DE witness Hyman's testimony as proposing inclining block rates in this proceeding?

A. No. Mr. Hyman states that "depending on the consolidation and revenue requirement decisions in this case, MAWC should be required to implement residential inclining block rates in this or a subsequent case, based on an evaluation of bill impacts." (Hyman Dir., p. 12; ln. 18-19). Since this is dependent on decisions that will occur later in this case, I read Mr. Hyman's testimony as proposing that the Company be potentially ordered to implement inclining block rates sometime in the future.

Q. What potential structures for inclining block rates does DE witness Hyman discuss?

A. Mr. Hyman posits that the first block for an inclining block structure should encompass the basic amount of indoor water usage for an average household and that rates should be designed not just to recover costs from cost causers and encourage efficiency, but with an understanding of bill impacts on customers at varying levels of usage. (Hyman Dir., p. 11, ln. 10-13; p. 12, ln. 1-7)). He concludes by noting that initially, inclining block rate designs should avoid severe bill impacts on high-use customers: for example, rates could be designed such that customers at the 95th percentile of use experience no greater than a five percent monthly bill impact under a new rate design on a revenue-neutral basis. (*Id*. p. 12, ln. 4-7)

Q. Do you agree with DE witness Hyman regarding how inclining block rates should be designed as applied to MAWC?

A. In general, no. I disagree that inclining block rate designs should avoid bill impacts on high-use customers such that they experience no greater than a five percent monthly bill impact under a new rate design on a revenue-neutral basis. As explained further in Company witness Heppenstall's rate design rebuttal testimony, there is no reason to implement inclining block rates unless there is a bill impact sufficient to send a customer an appropriate price signal to encourage conservation. Artificially capping the impact on high use customers that have the greatest potential for achieving conservation defeats the purpose for implementing inclining block rates.

Q. Although not proposed in its direct testimony, is the Company willing to consider an inclining block rate structure under specific, controlled conditions?

A. Yes. If the Commission is interested in pursuing inclining blocks, the Company would propose the implementation of a pilot program with inclining block rates in the Company's Joplin service area, conditioned on the approval of the proposed RSM across the Company's whole service area.

Q. Why is the Company proposing a pilot program as opposed to an immediate system-wide implementation of inclining block rates?

A. As Staff witness Dietrich noted at page 3 of her direct testimony, there are uncertainties associated with inclining block rate implementation. To minimize these uncertainties, the Company is proposing a limited inclining block pilot program ("Inclining Block Pilot Program"). The use of a pilot program in the Joplin district only means that the initial use of inclining block rates will be done in a controlled manner in a specified geographic area. The pre-condition that the Inclining Block Pilot Program only move forward with approval of a Company-wide RSM further mitigates uncertainty and negative revenue impacts that may result.

Q. Why does the Company believe that the Joplin district would be the most appropriate area to consider for an Inclining Block Pilot Program?

A. As explained in the direct testimony of MAWC witness Roach, "there is a continuing annual decline of residential water use across all MAWC districts averaging 1,356 gallons per customer." Mr. Roach further explains:

> This decline can be attributed to several key factors, including but not limited to: increasing prevalence of low flow (water efficient) plumbing fixtures and appliances in residential households, customers' conservation efforts, conservation programs implemented by the federal government, state government, MAWC and other entities, and price elasticity.

(Roach Dir., p 5).

As we all know, a devastating EF5 tornado struck Joplin on May 22, 2011. As a result of the Joplin Tornado, over fourteen percent of the number of households replaced all of their appliances (Roach Dir., p. 25, ln. 10). Consequently, one would expect to better discern the effect of an inclining block rate on customer consumption in the Joplin district than in any other MAWC district because a significant amount of water efficiency has recently taken place by customers. Moreover, MAWC experiences conditions of strained water supply from time to time in the Joplin area, and use of an inclining block rate structure could potentially encourage water conservation among higher use customers. A pilot program in the Joplin area would provide an opportunity to see how higher marginal water rates could encourage conservation in an area with strained water resources.

Q. Please expand further on the proposed Inclining Block Pilot Program and the blocking structure developed by the Company.

A. The details of the blocking structure and its development are set forth at length in Company Witness Heppenstall's rate design rebuttal testimony (p. 7-9). As discussed above, as a result of rebuilding from the recent tornado, many customers in the Joplin system replaced their old water fixtures with new water savings fixtures. This accelerated change-out will aid in isolating any resulting reductions in water usage as due to price sensitivity and not due to other conservation methods.

Q. In summary, what are the benefits of implementing the Company's proposed Inclining Block Pilot Program?

A. The implementation of the Inclining Block Pilot Program will provide the Company with experience in offering an inclining block rate and will enable the Company and the Commission to achieve a better understanding of how inclining block rate designs impact actual customer behavior and resulting conservation while minimizing uncertainty.

IV. CONSOLIDATED TARIFF PRICING

Q. Would you please summarize the parties' responses to the Company's proposed consolidated tariff pricing (CTP)?

A. The Company proposes the current three district tariffs be consolidated into a single tariff for water service. (LaGrand Dir., p. 17, ln. 18-19). In response to this proposal, several parties have raised objections:

- Staff recommends retaining the current three water district pricing,[1] and objects to further consolidation based on the following allegations:
    - The current three district pricing combines benefits from CTP by minimizing rate impacts of large capital costs while at the same time aligning rates paid with costs incurred because the current three districts contain areas with similar operating characteristics. (Missouri Public

[1] For sewer, Staff recommends the districts with the highest rates be set on a flat fee of $66.93/month with the other lower rate districts bearing any rate increases resulting from this case. (Staff COS Report, p. 14)

Service Commission Water and Sewer Department, Staff Report - Class Cost of Service and Rate Design ("Staff Report - CCOS"), p. 11, ln. 25-30))

  - The current three districts are more manageable from an operations and regulatory perspective. This allows the Company to continue to invest while at the same time operating as a restraint on the Company overspending on any project. (*Id*., p. 12, ln. 1-6)

- Office of the Public Counsel ("OPC") objects to further consolidation because it alleges:
  - Costs of providing water service are "local" and therefore any further consolidation of rates will send inappropriate price signals. (Marke Dir., p. 2, ln. 9- p. 6, ln. 6; p. 7, ln. 18 – p. 9, ln. 21)
  - The Company will have a resulting incentive to overinvest. (*Id*., p. 9, ln. 23- p. 13, ln. 11)
- The Missouri Industrial Energy Consumers ("MIEC") objects on the following grounds:
  - The Company does not provide economic or other studies to justify the purported benefits of further consolidation. (Collins, Dir., p. 4, ln. 1-5; p. 4, ln. 10-11)
  - There is no common or economic cost structure across the three districts. (Collins, Dir., p. 5, ln. 11 – p. 6, ln. 2)
  - CTP ignores the cost differences between districts. (*Id.*, p. 6, ln. 3 - p. 14)
  - Water system efficiency could be eroded (*Id.*, p. 6, ln. 15 – p. 7, ln. 14)
  - The Company may not undertake appropriate due diligence when purchasing new water systems. (*Id.*, p. 7, ln. 15-20)

- The Coalition Cities disagree with the benefits of CTP as described in my direct testimony and conclude that the Commission should reverse its decision in the 2015 Rate Order moving back to eight districts either through de-consolidation of tariffs or a transfer payment scheme that would benefit the Coalition Cities and paid for by the Company's other customers. (McGarry, Dir., p. 14 ln. 8-19)

Q. What is your overall response to these objections?

A. For the most part, these objections have been leveled at CTP in previous cases and by the same parties. In my opinion, the **only** legitimate concern raised by the parties is that of cost-causation and its related effect on prices. In its 2015 Rate Order, the Commission addressed this issue and concluded from the facts in that case, which are substantially the same as this case, the following:

> Despite the inherent differences in the various water systems, Missouri-American's annual cost to serve a residential customer is fairly consistent across the existing districts. (2015 Rate Order ¶21)
>
> The consistency in costs to serve customers between districts is attributable to the fact that most of the costs of providing service to Missouri-American's customers are very similar, if not the same, from district to district because a portion of Missouri-American's statewide costs are allocated to the various districts. (2015 Rate Order ¶22)

Q. Do you agree with the Commission's conclusion in the 2015 Rate Order as applied to the facts in this case?

A. I do. For the most, part costs are similar across districts for the very reasons that the Commission identified. While one could point to some cost differentials between areas of a current district or between districts, and the Commission identified such differences, the question remains one of what policy is likely to promote the public interest.

Q. How does *policy* fit into this decision?

A. It is instructive to read the Commission's decision on this issue from the 2015 Rate Order:

> The Commission's task in this case is to devise a rate structure that is just and reasonable for all Missouri-American's customers, no matter where they live within the company's service area. The Commission must also ensure that the rates it authorizes do not unduly or unreasonably grant a preference or impose a prejudice on any person, corporation, or locality. That is a difficult task that requires a great deal of balancing differing interests. Missouri-American's cost to serve its customers is one factor to be balanced, but it is not the only factor.
>
> The needs of the customers must be met no matter where they happen to live, or how recently the company's infrastructure in their area was installed or replaced.
>
> Consolidated pricing will help to meet the needs of all customers by sharing the cost of providing needed services among a larger group of customers, making the cost of service more affordable for all. Consolidation will limit rate shock when new infrastructure must be installed in a district with a small population, and all districts will eventually face that prospect.
>
> Consolidation is not without risk. It averages rates and inevitably some customers will pay more than they pay now, and some will pay less. At least in the short term that will be seen by some as unfair, but, over the long term, the effects of consolidation will even out across the state. It is not reasonable to keep patching the current group of rate districts to deal with the needed, but unaffordable, infrastructure repairs and improvements as they occur. (2015 Rate Order, p. 27)

In this decision, the Commission is articulating a public policy rationale for consolidation. That rationale takes into account the Company's current historic depreciated cost of service yet also takes into account other factors such as the needs of customers regardless of where they live, mitigating rate shock to the extent possible, and providing a mechanism that will allow for the necessary investment to provide service to all customers, not just those lucky enough to live in an area that has enough customers to help minimize the effect of the fixed costs of investment or has older plant that serves that area.

Q. Did the Commission further address full single-tariff pricing?

A. Yes. The Commission noted that "[f]ull single-tariff pricing is an attractive option but since none of the parties proposed that option during the case it was not fully considered by the parties." (2015 Rate Order, p. 28).

Q. Has the Company proposed further consolidation of it pricing in this case?

A. Yes. The Company has proposed to take additional steps toward single-tariff pricing in this case (LaGrand, Dir., p. 17 -18) and the parties are now fully considering the issue. As I noted above, the issues or concerns raised by the parties are substantially the same as raised in the previous case. Moreover, the public policy grounds that the Commission based its consolidation decision upon in the 2015 Rate Order remain fully applicable in this case. The evidence in this case and the Commission-articulated public policy grounds support the implementation of consolidated tariff pricing as proposed by the Company.

Q. What is your response to the proposals to retain the current three district tariffs cited above?

A. In my direct testimony, I listed a series of potential benefits of CTP. (Jenkins Dir., p. 40, ln. 17- p. 42, ln. 6). Each of these arguments in favor of CTP have been recognized by regulators as legitimate benefits of CTP.[2] Indeed, the EPA CTP Report cites several other arguments in favor of CTP, including setting rates on a basis similar to other utilities, physical interconnection of systems being unnecessary for CTP, promoting universal service, encouraging private investment in water systems, and promoting ratepayer equity on a regional basis. While this report also lists the arguments that have been proffered against CTP—largely focusing on the cost of service issues noted above—the purpose of the report is to identify for policymakers the trade-offs of CTP such that regulators can make an informed decision. Importantly, Staff has articulated two benefits of CTP that should not be overlooked:

- Allocation of common costs can be difficult when utilizing district-specific pricing. (Staff Report - CCOS, p. 12, ln. 7-13)
- The cost spreading effect can be beneficial to smaller water systems in need of investment. (Id., p. 12, ln. 14-25)

While Staff cites these benefits in support of its proposal to maintain three districts, these benefits are not limited to Staff's proposal and are equally supportive of the Company's proposed consolidation. Indeed, while the allocation of common costs remains a problem with Staff's proposal, it does not for the Company's proposal. Moreover, the cost-spreading effect is stronger under the Company's proposal than Staff's. One can only conclude that these benefits, which I agree exist, are more favorable to the Company's proposal.

[2] *See e.g.*, "Consolidated Water Rates: Issues and Practices in Single-Tariff Pricing," September 1999, US Environmental Protection Agency and NARUC, ("EPA CTP Report") p. viii.

Q. Staff claims that "the current size of the districts is logistically more manageable, both from an operations and regulatory perspective" (Staff Report - CCOS, p. 12). Do you agree?

A. No, I do not agree that the current size of the districts is more manageable from an operations and regulatory perspective than a single consolidated tariff pricing structure. The Company currently operates its system as a whole, and manages its districts with a common focus on safe, reliable, and efficiently-provided service. This does not change due to arbitrary tariff pricing lines drawn throughout the system. There are also costs to maintain separate tariff rate structures that would not be incurred under CTP. For example, customer care functions must be designed with multiple tariff rates in mind. Consolidation of the Company's tariff pricing is preferable because it will lead to lower administrative cost. As I explain in my direct testimony (p. 41-42), simplifying rate structures also leads to lower administrative costs as utilities can more easily help customers who have questions and lower the cost of billing and collections. CTP can also reduce the regulatory cost of separate filings within a single rate proceeding.

Q. As noted in the summary of the parties' positions in this section of your rebuttal testimony, some parties, including Staff, maintain that CTP will lead to "overspending" on the part of the Company. How do you respond to this assertion?

A. First, the parties making these claims have provided no evidence that such an incentive exists and that the Company would, or has, "overspent." The Company has had some version of consolidated pricing for many years. (A brief history of the issue through 2010, is found in Missouri-American Water Company's Brief in Case No. SW-2011-

0103, pp. 3-5; *also see* 2015 Rate Order, ¶9, pp. 7-8.) To my knowledge, there is no evidence that the Company systematically has "overspent" as a result of consolidation of tariff rates.

Second, as a practical matter, the Company invests in its system to provide the same quality of water for all customers, while applying the appropriate technologies, plant and equipment. Whether rates are consolidated or not, this approach will not change, and the Commission should expect that the Company will maintain its focus on providing water in an efficient manner.

Third, the Company is always at risk for a prudence disallowance if it can be shown that it spent in an imprudent way. In addition, we would be doing a disservice to our owners if we systemically install equipment imprudently.

Fourth, I do not see how consolidating tariffs will lead to more complicated prudence reviews. (Collins Dir., p. 7, ln. 3-13). Prudence reviews are the mechanism used by regulators to prevent any alleged "overspending." MIEC witness Collins claims that we will no longer maintain "separate books and records by district." That is only true in its literal sense. All of the data, analysis, and other supporting documentation for our investments and other spending will still be available to the Commission, and through the proper channels, all stakeholders. Indeed, this argument puzzles me since electric and gas utilities operate under consolidated tariffs in nearly every jurisdiction in the country and there does not seem to be a concern about regulatory oversight of these utilities. In Missouri, MAWC currently operates under tariffs that are consolidated such that about 80 percent of our customers and sales are in District 1, yet no one has shown or even alleged that we are "overspending" currently or that the Commission has diminished ability to discharge its authority over the Company.

Q. Will CTP lead to an erosion of the efficiency of the system?

A. No. MIEC witness Collins makes two separate arguments. First, he claims that customers in "high" cost regions are less likely to undertake conservation if prices are lower. Second, he claims that prudence reviews will be more difficult. I addressed the second issue above. On the first issue, Mr. Collins makes a mountain out of a molehill. For example, if it is true that customers in "high cost" regions will recklessly increase usage because their prices are lower than some hypothetical level that could have been charged, it must also be true that customers in "low cost" areas will decrease their usage because the price is above some hypothetical price that could have been charged. The efficiency or "price elasticity" effects, if there are any, are unclear from Mr. Collins testimony. Moreover, as the Commission has noted, the costs between districts are relatively close. Any alleged inefficiency in usage is likely to be small and, to the extent that demand is relatively inelastic, the effects are even smaller.

Q. Will the Company's proposed CTP reduce the Company's incentive to perform due diligence before acquiring new water systems?

A. No. There is no basis for this speculative argument. Mr. Collins appears to ignore critical aspects of the economics and financing associated with acquiring new water systems. Prior to acquiring a new system, the Company must determine if an expenditure of capital is justified from an economic or strategic perspective and must determine what upgrades or other expenditures might be required to integrate the new system into the Missouri-American system. This requires an adequate due diligence process to obtain critical information necessary for such a determination. Without a proper due diligence process, the Company could be left with uneconomic properties. This is not to say that CTP cannot provide some help to incorporate small systems more easily. This, however, is quite a different issue than if CTP affects the due diligence process as Mr. Collins claims.

Q. The Coalition Cities (McGarry Dir.) would have the Commission move backward toward de-consolidating tariffs through either an explicit move back to eight districts or through a convoluted transfer payment mechanism. How do you respond to the Coalition Cities' proposal to return to eight pricing districts?

A. This is wholly unacceptable as a matter of policy as I have outlined above. Further, Mr. McGarry's transfer payment mechanism is unworkable and not fully defined. Ms. Heppenstall will address the rate design issues involved in Mr. McGarry's ill-conceived proposal.

V. PROPOSED REVENUE STABILIZATION MECHANISM

Q. On page 16 of the Staff Report - CCOS, Staff identifies benefits associated with RSMs. Do you agree with Staff's listed benefits?

A. I agree that RSMs in general eliminate what Staff labels the "throughput disincentive." In my direct testimony (p. 20), the same concept is referred to as the "throughput incentive," which is that the more water customers use, the more revenue the Company collects and the better its financial performance. The RSM promotes conservation efforts by breaking this link and removing the Company's disincentive to support customer efficiency and conservation. I also agree with Staff's benefit that an RSM will stabilize the Company's revenue stream and potentially lower debt costs. As noted at length in my direct testimony (p. 16, 22), the RSM effectively removes the errors that are inherent in the process of forecasting the test year level of sales by eliminating the significance of changes in volume of water sold due to factors beyond the Company's and the Commission's control. Once the revenue requirement is set, the RSM allows the price to flow up or down as sales volume changes between rate cases. The RSM also stabilizes revenues and rates between base rate cases. With this revenue stability, the Company is able to maintain ongoing investments in its facilities and improvements in operations.

Q. Staff also mentions some criticisms of RSMs in the Staff Report-CCOS. On page 16 of the Staff Report-CCOS, Staff simply notes that "some of the cons may include shifting the risk from the utility to the consumer, increasing rates on those consumers who have already undertaken conservation measures on their own, and increasing rates on those consumers who cannot lower their consumption." Do you agree with Staff's criticisms?

A. No, I do not. Staff notes that it will address the specifics of MAWC's proposal, including any alternatives to the Company's proposal, in Staff's rebuttal testimony, but I will address Staff's initial criticisms here.

Q. Staff alleges that the RSM shifts risk to customers. Do you agree?

A. No. An RSM mitigates risk from weather variability or failure to meet sales forecasts for both the utility and customer. The empirical evidence demonstrates that RSM adjustments are both surcharges for under-collections of revenues for fixed costs and credits for over-collections of revenues. In the credit situation, the utility has foregone the opportunity to collect more revenue than the amount authorized in its last general rate case. While opponents of revenue stabilization mechanisms tend to testify extensively about the risk reduction associated with the possibility of surcharges to adjust for under-collection of revenues, acknowledgements of lost opportunities associated with possible credits are far more infrequent. In essence, a company is surrendering upside revenue potential associated with weather conditions that result in a higher-than-expected level of sales in exchange for downside protection against the potential that weather conditions will cause lower-than-expected sales.

Another element of risk that an RSM could affect is the failure to meet sales forecasts. It is reasonable to assume that the revenue forecast upon which rates are based is the revenue forecast that the Commission believes is most likely to represent the utility's actual revenue. If a utility is consistently failing to meet its revenue forecast – likely because the revenue forecast does not properly account for water efficiency gains and conservation – then that is a shortcoming of regulation that needs to be corrected and not an element of risk for which there needs to be a cost of equity adjustment. A RSM would simply provide MAWC with the ability to collect the revenue that the Commission found to be appropriate.

Q. Staff also alleges that the RSM increases rates on those consumers who have already undertaken conservation measures on their own, as well as those consumers who cannot lower their consumption. Do you agree?

A. No. Under the proposed RSM, customers who use less will pay less. They will also pay less when and if a surcharge is applied because the surcharge is volume based. Customers who use less water will pay a lower surcharge. They will also pay less when and if a credit is issued because the credit is a one-time fixed amount. The lower the customer's consumption the higher credit he or she receives as a percentage of their bill. The RSM simply allows for the recovery of Commission-approved revenues.

Q. Staff further states that the main benefit of the "traditional ratemaking model" "is the stability of rates that are established by the Commission after a thorough review and audit of all of the utilities books and records." Do you agree?

A. No, as explained by Staff on page 15 of the Staff Report – CCOS:

> The role of the Missouri Commission is to set just and reasonable rates for public utilities. Just and reasonable rates are those rates that are "fair to both the utility and its customers." Setting such rates is accomplished by balancing the interests of all stakeholders, which include the utility, consumers, and any intervenors. The Commission must set rates that allow a utility to cover its cost of service, including a reasonable opportunity to earn a profit upon its investments.

This balancing of interests is the main benefit of traditional ratemaking, and is not lost with the RSM. As I explain in my direct testimony (p. 25-26), the RSM aligns the interests of Missouri-American, its customers, and the state of Missouri.

VI. FIXED CHARGES

Q. Do any parties support the Company's proposed increase to the fixed customer charge for customers billed quarterly?

A. No. Two parties addressed the Company's fixed charge. Staff recommended that the Company maintain its current fixed customer charge. Similarly, DE witness Hyman also testified that the fixed customer charges should not go up.

Q. What was the basis for their recommendations?

A. Staff did not provide any reasoning. DE witness Hyman (p. 7-9) argued that the Company should not be allowed to recover service capacity and minimum consumption in its customer charge because: 1) reliance on volumetric charges creates equity; 2) high fixed charges are an affordability challenge; and, 3) it would discourage conservation. Mr. Hyman also argued (p. 9) that an increase in fixed charges could result in rate shock, particularly for low income customers, since the Company's last increases were less than two years old.

Q. Do you agree with DE witness Hyman's position?

A. No. Mr. Hyman appears to misinterpret the Company's rate design proposal for fixed charges. In the Company's proposed rate design, the Company voluntarily lowered the monthly 5/8-inch customer charge to $10.00 and set its quarterly charge equal to $30.00, or three times the proposed monthly customer charge. This rate design would increase the quarterly customer's monthly customer charge by $2.55 ($10.00 minus $7.45), mitigating the increase in customer charge for these customers as they are moved from quarterly billing to monthly billing in between rate cases. The Company's proposal to lower the monthly customer charge to $10.00 for customers billed monthly is specifically contingent upon its proposal to move quarterly billed customers to monthly billing. If for any reason the Company is not permitted to move from quarterly to monthly billing, then it proposes to maintain the customer charges at current levels.

VII. LEAD SERVICE LINE REPLACEMENT COST ALLOCATION

Q. Do MIEC witness Collins and OPC witness Marke raise concern regarding the allocation of LSLR program costs?

A. Yes. In his direct testimony (p. 11, ln. 4-5), Mr. Collins states that "[b]ecause these costs are associated with residential service lines, these costs should be allocated to the residential customer class and recovered in residential class rates." OPC witness Marke also expresses a concern regarding having the cost of replacing individual lead service lines allocated across all rate classes (Marke Dir., p. 15, ln. 7-9).

Q. How do you respond to MIEC witness Collins and OPC witness Marke?

A. As I explain in my revenue requirement rebuttal testimony, the Company is proposing to record LSLR costs in Uniform System of Accounts ("USOA") account 345 – Services as restoration costs. Restoration costs are normally capitalized to plant as part of overall project costs and LSLRs should be treated no differently. As such, they should be recorded in the same manner as all restoration costs and be allocated across customer classes in the manner described by Company witness Heppenstall in her rate design rebuttal testimony.

Q. Does OPC witness Marke raise other issues regarding the Company's LSLR program?

A. Yes. OPC witness Marke raises a concern regarding the total cost of the Company's LSLR program; alleges that the LSLR program, in combination with single-tariff pricing will "essentially lead to a complete privatization of water service in Missouri"; and, asserts that "there is no plan to reopen previous main excavations to account for individual lead service lines that were previously passed over." (Marke Dir., p. 14-16)

Q. How does MAWC respond to OPC witness Marke?

A. As to total LSLR program cost, Company witness Aiton addresses this issue in his testimony in the LSLR AAO proceeding (WU-2017-0296), which is attached to his revenue requirement rebuttal testimony as Schedules BWA-1, BWA-2 and BWA-3. OPC witness Marke's conclusory statement regarding privatization is nonsensical. It is hard to understand how an investment made for safety reasons - to mitigate the potential increased risk of lead contamination following physical disturbances related to infrastructure work in the area – leads to the complete privatization of water services in the state of Missouri. Finally, Company witness Aiton will address the Company's LSLR program, including its scope, in his surrebuttal testimony in this case.

Q. Does this conclude your rate design rebuttal testimony?

A. Yes, it does.