

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

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)

MAWC’S COMMENTS

Missouri-American Water Company (MAWC or Company) provides the following comments in response to the proposed Missouri Public Service Commission (Commission) Rule 4 CSR 240-10.XXX concerning Affiliate Transactions:

INTRODUCTION

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.

The draft rule that has been provided for comment largely works to combine the existing electric and gas affiliate transaction rules and gas marketing affiliate rules. However, it also seeks to apply those rules for the first time to large water and sewer corporations (those having 8,000 or more customers). MAWC understands it is the only “large” water or sewer utility in Missouri to which this draft rule would apply.

The expansion of these rules to MAWC is not an efficient use of the Commission’s, and MAWC’s, resources because concerns regarding affiliate transactions can, and are, addressed in the context of MAWC’s rate proceedings.

AFFILIATE TRANSACTIONS ARE EXAMINED IN RATE CASES

MAWC's affiliate transactions are fully audited and auditable by the Staff of the Commission (Staff), the Office of the Public Counsel, and other parties today. These issues have been raised, examined, and resolved in past MAWC rate cases.

In fact, MAWC affiliate transactions have been scrutinized in all of its rate cases, including its most recent such case – Case No. WR-2017-0285. As a part of those cases, the Company has provided studies to support the reasonableness of service company costs in the context of its rate cases.

No rate case adjustments were proposed in Case No. WR-2017-0285 for improper affiliate transactions or cost allocations to MAWC.

WATER AND SEWER UTILITIES ARE DIFFERENT

Affiliate transaction rules are not necessary for water and sewer corporations in the same way they may apply to electric and gas corporations. In many cases, the gas and electric companies 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.

MAWC has no such similar situation. The vast majority (if not all) of MAWC'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 MAWC 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 MAWC.

COST ALLOCATION MANUAL

There is no need for MAWC to create a new cost allocation manual. MAWC 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 MAWC and its affiliates.¹ 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.

RULE SUGGESTIONS

Should the Commission determine that applying an affiliate transactions rule to MAWC is appropriate, MAWC suggests that the changes reflected in redline on the attached **Appendix A** be adopted in any such rule that might be proposed.²

The changes proposed by MAWC are primarily related to clarifying that corporate support services, which are the primary category of affiliate transactions for MAWC and have been addressed on a regular basis in MAWC's rate cases, should be treated differently from other types of affiliate transactions.

Additionally, MAWC suggests changes to the rule to limit access to documents maintained by the covered utility and not purport to extend this access to the records of unregulated entities beyond those records related to the affiliate transactions with the covered utility.

¹ 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.

² MAWC will be available at any workshop that may be held to provide further explanation to the extent it would be helpful. MAWC also reserves the right to supplement, revise, or update its comments if this process moves forward.

EMPLOYEES

MAWC notes that the draft rule contains provisions concerning the movement of employees. This general issue of applicability of the affiliate transaction rule to employee movement was addressed by the Commission when the original affiliate transaction rules were promulgated. The Commission found at that time that “employee transfers do not have to be restricted, penalized or compensated to accomplish” the purpose of the affiliate transaction rules; and, that the “requirement to list employee movement between the regulated utility and affiliated entities.” is a burdensome requirement that is not necessary. . . .” (Missouri Register, Vol. 25, No. 1, p. 57 (January 3, 2000))

CONCLUSION

Because the Commission already has the opportunity examine, and does examine, MAWC’s affiliate transactions within MAWC’s rate case, adding the restrictions or requirements in the proposed rule adds little or no value to the Commission or its customers.

MAWC respectfully requests that the Commission consider these comments.

Respectfully submitted,

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