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Witness: Karl A. McDermott
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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

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.

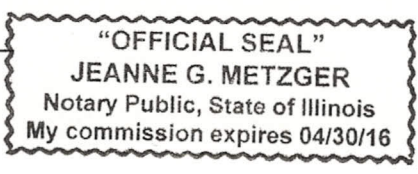
Karl A. McDermott
Karl A. McDermott

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

1

I. INTRODUCTION

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. Market 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

8 **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.