

Exhibit No.:
Issues: Pension and OPEBs, Pension and
OPEB Tracker, Insurance other than
Group, Service Company and
Affiliate Transactions
Witness: John M. Watkins
Exhibit Type: Rebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2022-0303
SR-2022-0304
Date: January 18, 2023

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2022-0303
CASE NO. SR-2022-0304

REBUTTAL TESTIMONY

OF


JOHN M. WATKINS

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, John M. Watkins, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am Senior Director Regulatory Services for American Water Works Service Company, that the accompanying testimony has been prepared by me or under my direction and supervision; that if inquiries were made as to the facts in said testimony, I would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of my knowledge and belief.



John M. Watkins

January 18, 2023

Dated

**REBUTTAL TESTIMONY
JOHN M. WATKINS**

**MISSOURI-AMERICAN WATER COMPANY
CASE NO.: WR-2022-0303
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REBUTTAL TESTIMONY

JOHN M. WATKINS

I. INTRODUCTION

1 **Q. Please state your name and business address.**

2 A. My name is John M. Watkins. My business address is 1 Water Street, Camden, NJ 08102.

3 **Q. Are you the same John M. Watkins who previously submitted Direct Testimony in**
4 **this proceeding?**

5 A. Yes.

6 **Q. What is the purpose of your Rebuttal Testimony?**

7 A. The purpose of my revenue requirement Rebuttal Testimony is to respond to the Direct
8 Testimony filed by the Missouri Public Service Commission (“Commission”) Staff
9 (“Staff”), and to the Direct Testimony of the Office of the Public Counsel (“OPC”) on the
10 following topics: 1) Pension and OPEBs; 2) Pension and OPEB Trackers; 3) Insurance
11 Other Than Group; 4) Service Company; and 5) Affiliated Transactions.

II. PENSION AND OPEBS

12 **Q. Did Staff address the Company’s Pension and OPEB expenses?**

13 A. Yes, Staff Witness Ashley Sarver addresses the Company’s Pension and OPEB expenses.

14 **Q. Did the Company identify any issues with Staff’s Pension and OPEB amounts**
15 **included in their overall revenue requirement?**

16 A. Yes. It appears that the adjustments calculated in Staff’s workpapers are not accurately
17 reflected in the Staff Accounting Schedules. The Company has discussed this issue with
18 Staff, and Staff has indicated they will be making corrections as part of their Rebuttal

1 Testimony. The total increase to Staff's overall revenue requirement is expected to be
2 approximately \$533,000 between Pension and OPEB expenses.

3 **Q. Does the Company have any updates for Pension and OPEBs?**

4 A. Yes, the 2023 actual Pension and OPEB expenses will become available on January 31,
5 2023. The Company believes that this information should be used in setting the expense
6 level for both Pension and OPEBs, as this will be the amounts the Company records on its
7 books and records for 2023.

III. PENSION AND OPEB TRACKER

8 **Q. Did Staff propose to change the calculation submitted by the Company for the**
9 **Pension Tracker and the OPEB Tracker?**

10 A. Yes, Staff proposed to use the effective date in rates in this case as opposed to the previous
11 cases where the Tracker was adjusted as of January 1.

12 **Q. Does the Company agree with Staff's proposed change?**

13 A. The Company believes that the change should be made on a going forward basis, in other
14 words with the effective date of this case. The Company followed the previously allowed
15 methodology of recording the Tracker. The months impacted in this analysis are January
16 through May of 2021. Any adjustments should be made going forward and not
17 retroactively.

18 **Q. What is the difference between using the Staff's proposal and what you are**
19 **proposing?**

20 A. The annual expense impact for the Pension Tracker is approximately \$199,000 (\$997k/5
21 years). The annual expense impact for the OPEB Tracker is approximately (\$42,000)
22 ((\$210k)/5 years). The annual net impact of both Pension and OPEB trackers is
23 approximately \$157,000.

IV. INSURANCE OTHER THAN GROUP (“IOTG”)

1 **Q. Did Staff address the Company’s Insurance Other Than Group (IOTG)?**

2 A. Yes, Staff Witness Angela Niemeier addresses the Company’s IOTG expenses.

3 **Q. Did Staff use the current rates for IOTG?**

4 A. At the time of their filing they did. But new rates have become available in January 2023.

5 **Q. What is the expense level for IOTG with these new rates included?**

6 A. Please refer to **Schedule JMW-1 RT**, which includes the new rates and a comparison to
7 the amount Staff proposed.

8 **Q. Did Staff include an increase for any acquisitions?**

9 A. No. Staff did not adjust the 2022 rates to include any acquisitions.

10 **Q. Should an adjustment be made to include these additional expenses?**

11 A. Yes. If any acquisitions are included in this case, then the overall IOTG expense amount
12 should be increased to include the additional costs to insure those items. The Company
13 included these amounts at the bottom of **Schedule JMW-1 RT**.

V. SERVICE COMPANY

14 **Q. Does Staff propose any adjustments to Service Company expenses?**

15 A. Yes. Staff witnesses Ashley Sarver and Courtney Horton address various aspects of
16 Service Company costs. While Staff’s adjustment isn’t specifically mentioned in their
17 Direct Testimony, the Staff Accounting Schedules include a reduction to Service Company
18 expense of \$7,002,281. The adjustments that Staff proposed are included in the
19 workpapers of Ms. Horton, and are related to Service Company labor, group insurance,
20 other benefits, and general taxes.

21 **Q. Did the Company identify any issues with Staff’s Service Company labor and related**
22 **amounts included in their overall revenue requirement?**

1 A. Yes. It appears that the adjustments calculated in Staff’s workpapers removed a larger than
2 intended amount from Service Company expense. The Company has discussed with Staff,
3 and Staff has indicated they will be correcting as part of their Rebuttal Testimony. The
4 total increase to Staff’s overall revenue requirement is expected to be approximately \$2.0
5 million.

6 **Q. Please describe the adjustments proposed by Staff to Service Company performance-**
7 **based compensation costs.**

8 A. Staff recommends disallowing fifty percent (50%) of annual performance plan (“APP”)
9 compensation for Service Company employees. Staff also recommends disallowing 100%
10 of long-term performance plan (“LTPP”) compensation for Service Company employees.
11 This is a similar adjustment to that proposed by Ms. Horton for MAWC employees, and
12 addressed by Company witness Matt Mason in his Rebuttal Testimony. Please see the
13 Rebuttal Testimony of Company witness Jeffrey Kaiser for further discussion regarding
14 the Company’s performance compensation.

15 **Q. In regard to Service Company charges, on page 30 of her Direct Testimony Ms.**
16 **Schaben agreed that “Mr. Baryenbruch has established that the Service Company’s**
17 **cost per customer is more reasonable than several electric utility service companies**
18 **within a proxy group of electric utility service companies.” However, she went on to**
19 **suggest that “the vital question here is whether the Service Company costs are**
20 **distributed in such a manner as to not provide financial advantages to affiliates, either**
21 **regulated or non-regulated.” Are Service Company costs distributed in such a**
22 **manner as to provide financial advantages to affiliates, either regulated or non-**
23 **regulated?**

1 A. No, they are not. The Service Company charges are charged at cost, in other words there
2 is no mark-up or financial gain for any services that the Service Company or its employees
3 charge to the regulated or non-regulated affiliates. The Service Company can either direct
4 charge an affiliate for work solely done for that affiliate or it can allocate the costs to
5 multiple affiliates. Therefore, there is no financial or competitive advantage to any MAWC
6 affiliate by virtue of the Service Company arrangement.

VI. AFFILIATE TRANSACTIONS

7 **Q. Are you familiar with the American Water transaction involving the sale of its former**
8 **subsidiary American Water Resources, LLC?**

9 A. Yes. In December 2021, American Water sold its interest in American Water Resources,
10 LLC. Homeowner Services Group is a subsidiary of American Water Resources, LLC
11 (collectively, referred to hereafter as “AWR”). AWR is no longer an affiliate of American
12 Water or MAWC.

13 **Q. What services does AWR provide?**

14 A. AWR provides service line protection to homeowners in 43 states and Washington, D.C.
15 AWR’s website states that “American Water Resources is an independent third-party
16 provider of optional home protection programs.”

17 **Q. Have either Staff or OPC addressed American Water’s sale of AWR in this**
18 **proceeding?**

19 A. Yes, OPC witness Geoff Marke, through his Direct Testimony, has made various
20 unsubstantiated arguments regarding the sale of AWR and how it should impact this
21 proceeding. In the first instance, OPC witness Marke mischaracterizes the existing
22 revenue share agreement, which was entered into between AWR as part of, and in

1 consideration of, the overall sale of the business. Furthermore, OPC witness Marke
2 appears to confuse the revenue share agreement with the utility agreements that exist
3 between AWR and four American Water subsidiary utilities (e.g., PA, NJ, IA and VA).¹

4 **Q. How, if at all, are the on-bill billing agreements and the revenue share arrangement**
5 **related?**

6 A. They are distinct agreements entered into among different entities. The on-bill billing
7 agreements are between AWR and the respective state operated utilities, wherein full
8 consideration is paid to the utility for the services provided (e.g., incremental costs for on
9 bill billing of AWR products). American Water is not a party to the on-bill billing
10 agreements. Conversely, the revenue share agreement is between American Water and
11 AWR. No American Water state operating utility is a party to this agreement.

12 **Q. Is there an on-bill billing agreement between MAWC and AWR?**

13 A. No. MAWC has no existing on-bill billing agreement with AWR, nor does it provide any
14 on-bill billing service on behalf of AWR.

15 **Q. Has OPC witness Marke raised any other concerns regarding AWR and its prior**
16 **relationship to MAWC?**

17 A. Yes. OPC witness Marke stated that “MAWC customers were not compensated for this
18 sale,” among other irrelevant and erroneous statements.² OPC witness Marke fails to
19 demonstrate why MAWC customers should be compensated for (1) a business that was
20 neither owned nor operated by MAWC, or (2) for a revenue arrangement between AWR

¹ On-bill billing agreements were entered into between AWR and West Virginia-American Water, and between AWR and Indiana-American Water following the sale of AWR. To date, no services have commenced under these agreements.

² Marke DT, page 8.

1 and American Water, unrelated to any relationship with MAWC.

2 **Q. In OPC witness Marke’s Direct Testimony, he refers to a “continued billing system.”³**

3 **Are you familiar with any “continued billing system” as it relates to American Water**
4 **and AWR?**

5 A. No, I am not aware of any shared billing systems, if that is what OPC witness Marke is
6 referencing. As I explained previously, AWR currently provides on-bill billing services in
7 four states, i.e., PA, NJ, IA and VA on behalf of AWR. The on-bill billing agreements
8 between AWR and the respective state utility provide for utility cost recovery of all
9 incremental costs associated with the billing, marketing or other services provided for
10 under each agreement. For those AWR customers that are served in other states⁴ or do not
11 elect to participate in on-bill billing, I understand that AWR uses its own billing systems
12 (i.e., Microsoft Dynamics AX and Oracle) to bill its customers that are not otherwise on-
13 bill.

14 **Q. Is any MAWC customer information exchanged between AWR and MAWC or AWR**
15 **and American Water?**

16 A. No.

17 **Q. Has OPC witness Schaben made any other statements relative to MAWC’s customer**
18 **data in her Direct Testimony?**

19 A. Yes. OPC witness Schaben states that “unlike California customers, Missouri customers
20 do not have the right to their own data and therefore are without the option to opt out of

³ Marke DT, page 7.

⁴ AWR currently operates in 43 states, only 12 of which have overlapping AWK regulated utility operations. Thus, AWR operates in 31 states beyond AWK’s regulated footprint.

1 their data being sold to third parties for marketing purposes.”⁵ While I cannot speak to
2 the practices of other Missouri utilities or what statutory protections there may be, MAWC
3 customers, like all American Water utility subsidiary customers have options relative to
4 how their data is consumed and/or shared. American Water’s Customer Privacy Policy
5 can be found at [https://amwater.service-](https://amwater.service-now.com/privacy_customer?id=privacy_consumer_home_page&business_type=regulated)
6 [now.com/privacy_customer?id=privacy_consumer_home_page&business_type=regulated](https://amwater.service-now.com/privacy_customer?id=privacy_consumer_home_page&business_type=regulated)
7 including the customer’s right to access, delete, opt-out, limit use and correct inaccurate
8 personal information. Please see **Schedule JMW-2 RT**, which reflects the customer
9 options available at the referenced web address.

10 **Q. Has OPC witness Schaben made any recommendations regarding how the sale of**
11 **AWR should impact MAWC’s filing in this case?**

12 A. Yes. OPC witness Schaben has recommended that “if customer information has been
13 provided to [AWR] in the past at no cost or at a cost lower than market value, then the
14 revenue requirement in this case should be reduced to account for the value of the
15 information that was received.”⁶

16 **Q. Do you agree with this recommendation?**

17 A. No, I do not. MAWC has not provided customer information to AWR for almost two
18 decades and the circumstances upon which information was shared in 2003 were identified
19 and ultimately resolved in the context of the Company’s 2003 base rate case (Case No.
20 WR-2003-0500).⁷

21 **Q. Has OPC witness Schaben made any other recommendations regarding the sale of**

⁵ Schaben DT, page 13.

⁶ Schaben DT, page 8, lines 8-11.

⁷ See Stipulation and Agreement, Case No. WR-2003-0500, “settling all Revenue Requirement issues in this case”.

1 **AWR?**

2 A. Yes. OPC witness Schaben recommends that a percentage of the revenue related to the
3 sale of AWR, as well as a percentage of the revenue sharing agreement between AWWC
4 and the Buyer of AWR, be included in MAWC’s infrastructure investments. According to
5 OPC witness Schaben, AWR’s “profits likely result from the use of Missouri ratepayer
6 personal data.”⁸

7 **Q. Do you agree with OPC witness Schaben’s recommendation?**

8 A. Absolutely not. As I previously testified, there is no on-bill billing agreement in MO,
9 MAWC had no ownership interest in AWR prior to the sale by American Water, the
10 revenue share agreement is between American Water and AWR and unrelated to MAWC,
11 and no MAWC customer information is shared with AWR. Therefore, there is no
12 justification to impute any portion of the sale proceeds or the revenue sharing agreement
13 to MAWC or its customers.

14 **Q. Are there any other arrangements between AWR and American Water that OPC
15 takes issue with in this proceeding?**

16 A. Yes. It is mentioned that American Water and AWR are parties to a trademark license
17 agreement that was entered into as part of the overall purchase agreement between the
18 parties.

19 **Q. How does that relate to MAWC’s filing in this case?**

20 A. It does not. However, OPC witness Schaben argues that since the AWR logo may remain
21 the same following the sale, “it may not be clear to customers this is not a regulated

⁸ Schaben DT, page 31.

1 entity...”.⁹ OPC witness Schaben goes on to suggest that Missouri’s current Affiliate
2 Transaction Rules call for distinct language separating regulated from non-regulated
3 operations.

4 **Q. Has OPC witness Schaben alleged that MAWC violated the Missouri Affiliate**
5 **Transaction Rules?**

6 A. No. On the contrary, OPC witness Schaben affirmatively stated that the Missouri Affiliate
7 Transaction Rules do not apply to MAWC, therefore, there could be no such violation.

8 **Q. Do the Missouri Affiliate Transaction Rules prohibit the use of similar logos between**
9 **regulated utilities and their affiliates in Missouri?**

10 A. There is no specific prohibition to my knowledge. OPC witness Schaben references
11 Commission Rule 20 CSR 4240-20.015(2)(F), which only applies to electric utilities, that
12 states “[m]arketing materials, information or advertisements by an affiliate entity that share
13 an exact or similar name, logo or trademark of the regulated utility shall clearly display or
14 announce that the affiliate entity is not regulated by the Missouri Public Service
15 Commission.” There are several notable points to be made here. First, MAWC is not an
16 electric utility. Second, AWR is no longer an affiliate of MAWC. Third, the rules are not
17 an absolute prohibition and do not preclude the use of a logo similar to the regulated entity.
18 Therefore, even if the Missouri Affiliate Transaction Rules applied to MAWC, and
19 assuming AWR was still an affiliate of MAWC, the Rules would permit the use of similar
20 logos.

21 **Q. What is OPC witness Schaben’s recommendation to resolve the concerns raised**

⁹ Schaben DT, page 11.

1 **regarding affiliate relations?**

2 A. OPC witness Schaben recommends that the Commission “finalize” the Affiliate
3 Transaction Rules so that investor-owned water and sewer utilities are held to the same
4 enforceable standards as investor owned electric and natural gas customers. This
5 recommendation will be addressed in the Rebuttal Testimony of MAWC witness Brian
6 LaGrand. With respect to OPC witness Schaben’s further recommendation that the
7 customer privacy rules be updated to ensure that Missouri ratepayers have the same
8 customer privacy freedoms as California residents when attempting to manage their
9 personal information on the AWR privacy page, this recommendation relates solely to
10 AWR, which is not a party to this case. Therefore, MAWC does not take issue directly
11 with this recommendation. Moreover, as previously stated, MAWC customers, like all
12 American Water regulated subsidiary customers, have the same customer privacy rights
13 including the right to access, delete and opt-out, limit use, and correct inaccurate personal
14 data. Finally, MAWC does not share its customer data with AWR.

15 **Q. Does this conclude your Rebuttal Testimony?**

16 A. Yes, it does.

Missouri American Water Company
 WR-2022-0303; SR-2022-0304
 Insurance Other Than Group

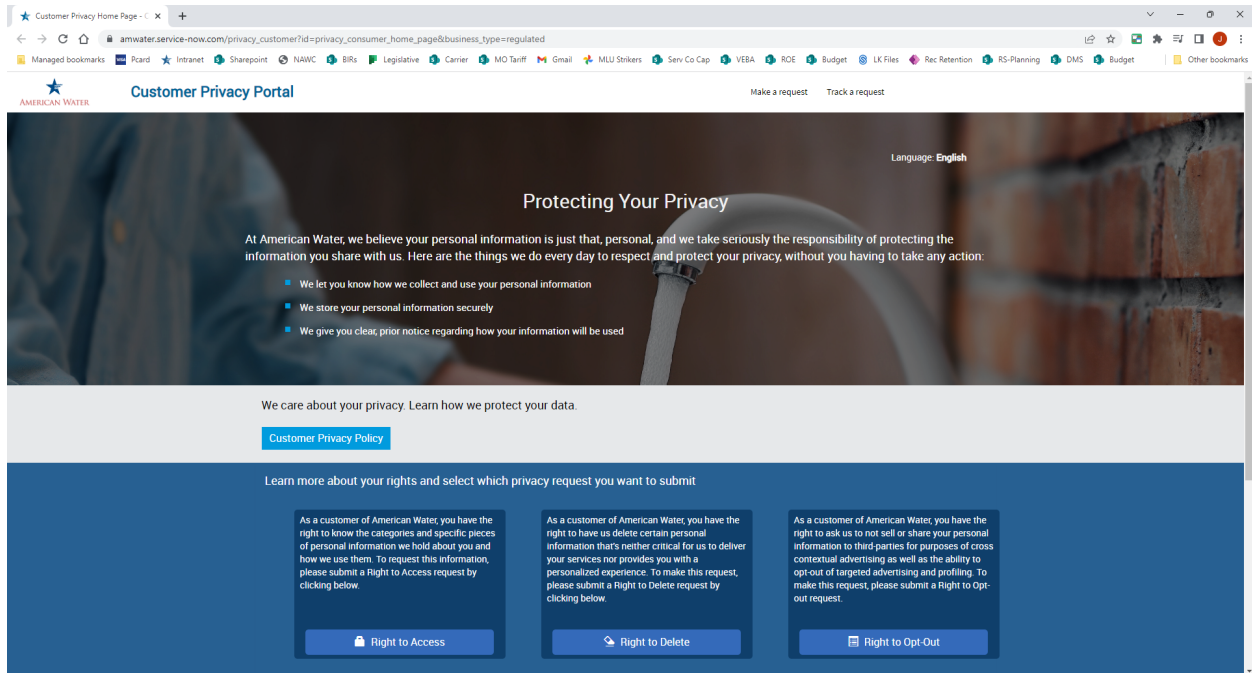
Staff's Position			Company's Rebuttal			
	Annualized	Expense %	Total	Annualized	Expense %	Total
55110000 Insurance Vehicle	A924		\$325,495	\$332,469		\$332,469
55710000 Insurance General Liability	A924		4,597,400	4,879,868		4,879,868
55711000 Insurance Casualty Reserve	A924		-	-		-
55720000 Insurance Workers Compensation	A924	55.51%	942,989	984,047	55.21%	543,326
55720100 Insurance WC Capitalized Credits	A924		-	-		-
55730000 Insurance Other	A924		53,557	41,909		41,909
55740000 Insurance Property	A924		1,536,726	1,713,871		1,713,871
			\$7,456,167	\$7,952,164		\$7,511,443

Acquisitions	Expense
Monsees Lake	\$1,715
Purcell	4,430
Smithton	6,402
Stewartsville	10,160
	<hr/>
	22,706
Total IOTG	<u><u>\$7,534,149</u></u>

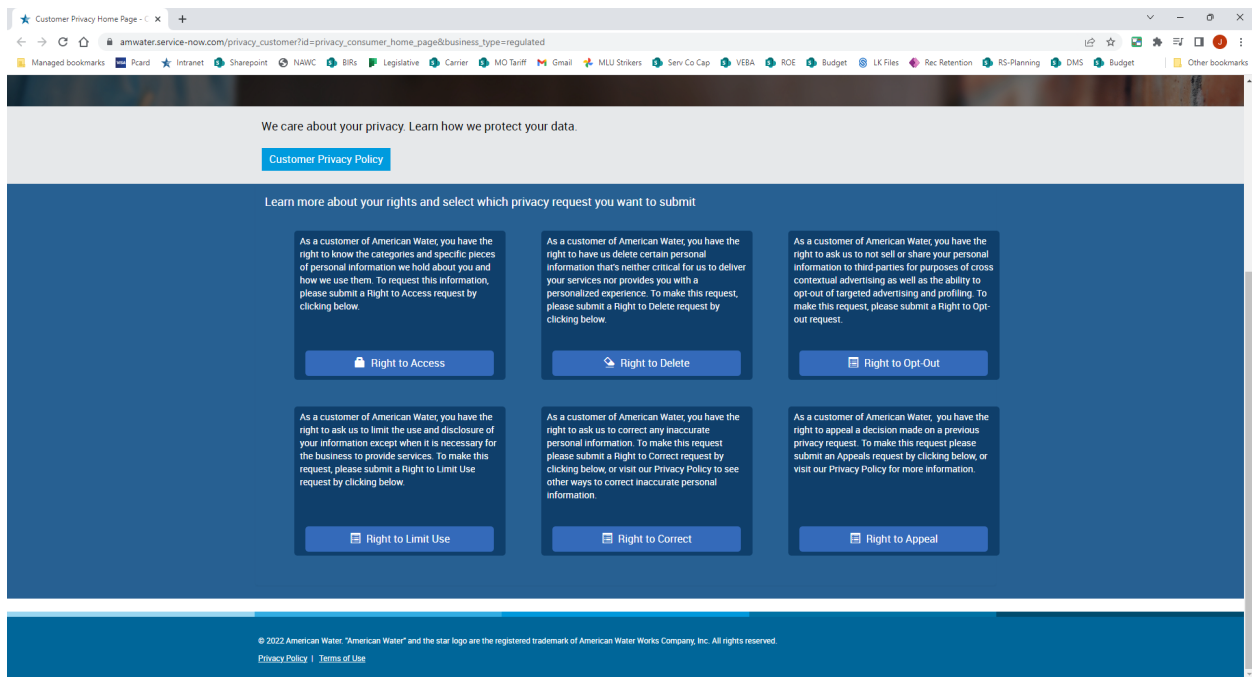
Staff Capitalization Percentage 44.49%

Company Capitalization Percentage 44.79%

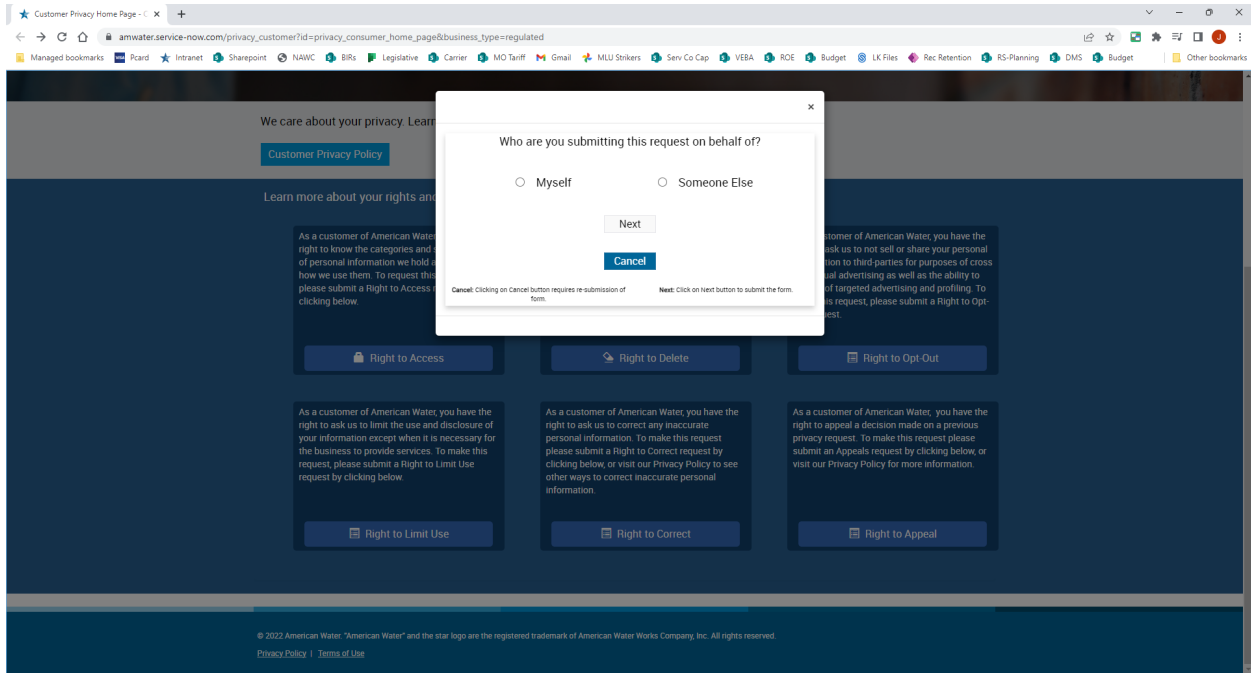
The below information is from the website provided in response to OPC 1104 (https://amwater.service-now.com/privacy_customer?id=privacy_consumer_home_page&business_type=regulated).



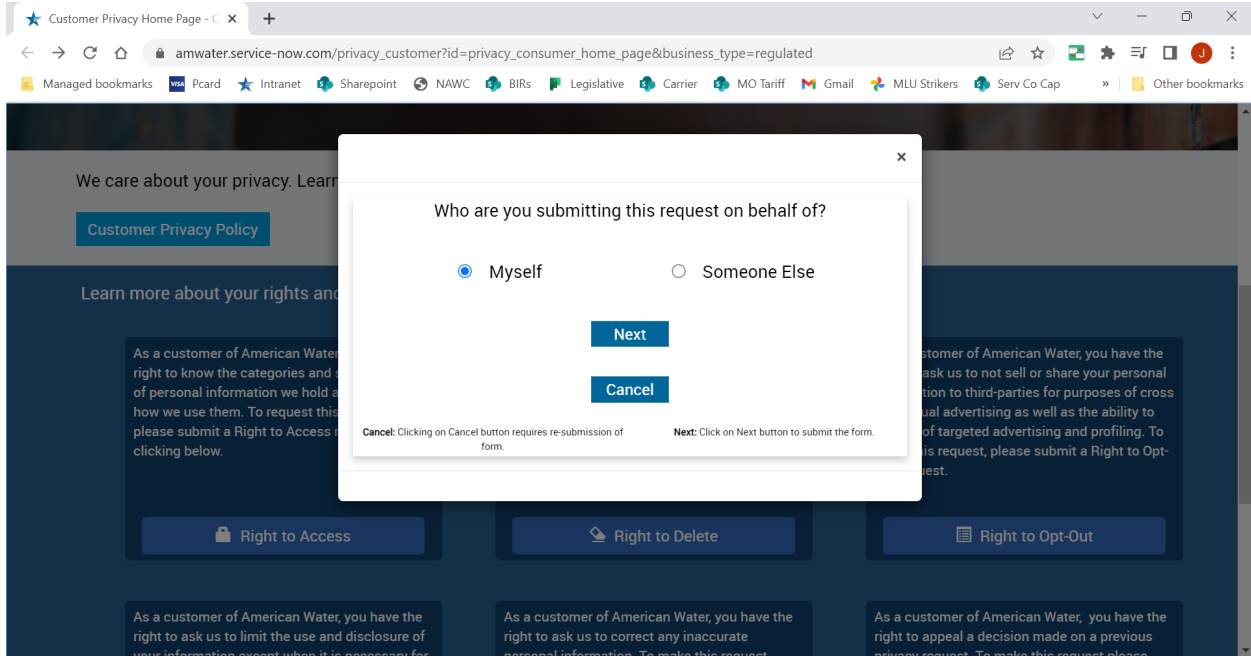
The screen shot below shows the rest of the webpage shown above.



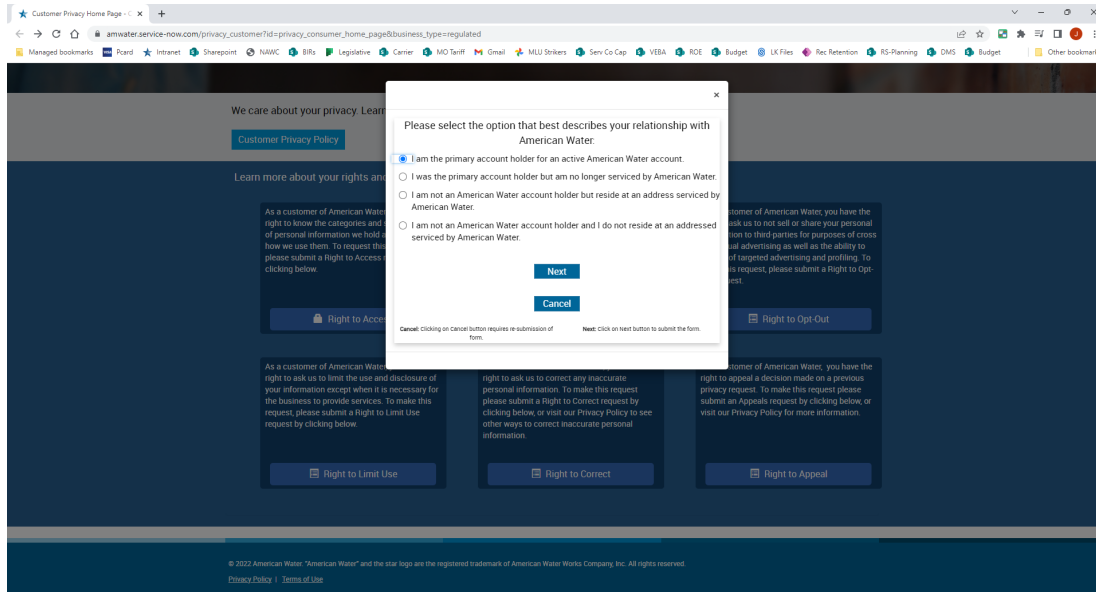
Selecting the “Right to Access”, the below screen appears.



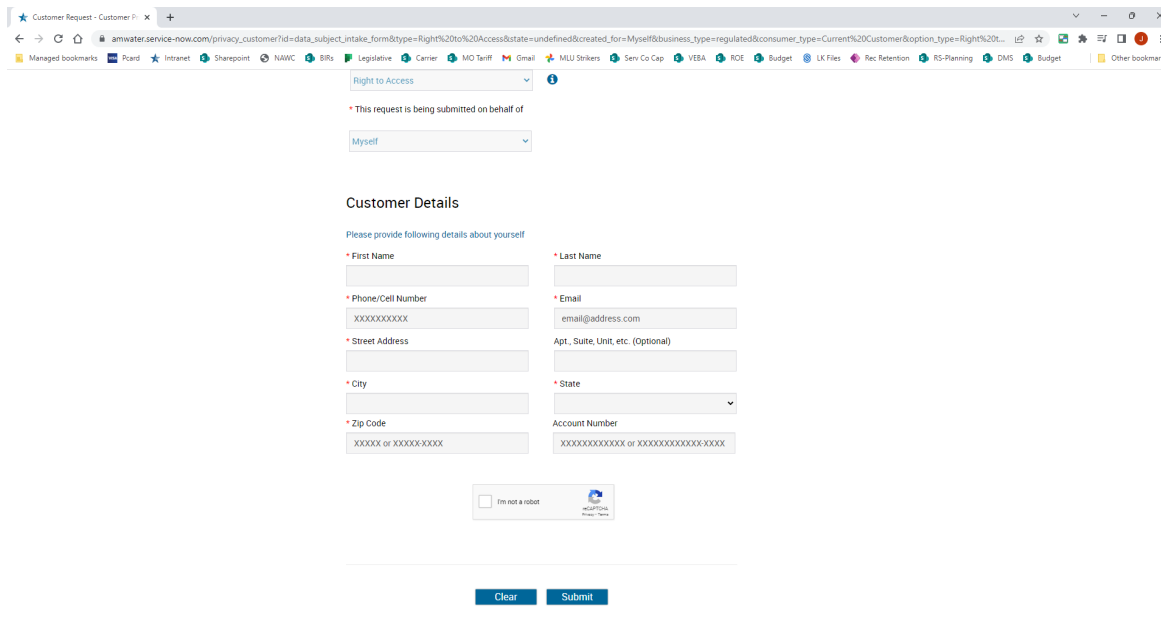
Next, click Myself and then click Next.



The next screen is shown below with 4 options for the customer. By clicking on the first bullet which is listed as “I am the primary holder for an active American Water account” and then clicking Next.



Below is the final screen that appears by following the directions above. Fill in the information and click Submit to complete the form.



The same prompts are given for the Right to Access, Right to Delete, Right to Opt-Out, Right to Limit Use and Right to Correct options (see the second screen shot in this attachment for all 6 options). If you select the Right to Appeal option then you need to fill in the person’s name, email and DSR case Number to move on to the step in the process.