

Exhibit No.:
Issues: Cost of Service, Rate Design
Witness: Greg R. Meyer
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Missouri Industrial Energy Consumers
Case No.: WR-2017-0285
Date Testimony Prepared: January 24, 2018

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

**In the Matter 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-2017-0285

Rebuttal Testimony of

Greg R. Meyer

On behalf of

Missouri Industrial Energy Consumers

January 24, 2018



Project 10440

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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 Missouri Industrial Energy Consumers in this proceeding on their behalf.

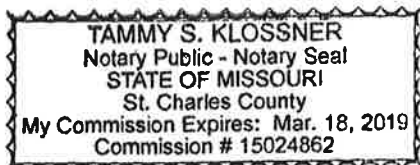
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. WR-2017-0285.

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

Subscribed and sworn to before me this 23rd day of January, 2018.





Notary Public

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Rebuttal Testimony of Greg R. Meyer

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

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

4 **Q ARE YOU THE SAME GREG R. MEYER WHO PREVIOUSLY FILED TESTIMONY**
5 **IN THIS CASE?**

6 A Yes. On November 30, 2017, I filed direct testimony on behalf of the Missouri
7 Industrial Energy Consumers ("MIEC") regarding Missouri-American Water
8 Company's ("MAWC" or "Company") revenue requirement.

9 **Q ON WHOSE BEHALF ARE YOU SPONSORING THIS TESTIMONY?**

10 A I am filing this rebuttal testimony on behalf of MIEC.

11 **Q WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

12 A The purpose of my rebuttal testimony is to address the direct testimonies of MAWC
13 witnesses James M. Jenkins and John M. Watkins on their proposal to implement a
14 Revenue Stabilization Mechanism ("RSM"). My silence with respect to any portion of

**Greg R. Meyer
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1 their direct testimonies should not be taken as an endorsement of any position taken
2 in their testimonies.

3 **Revenue Stabilization Mechanism**

4 **Q DOES MAWC PROPOSE TO IMPLEMENT AN RSM IN ITS CURRENT RATE**
5 **CASE?**

6 A Yes. MAWC witness James M. Jenkins discusses the implementation of an RSM in
7 his direct testimony. Mr. Jenkins claims that the RSM is needed to maintain the
8 Company's revenue at the level the Commission approves in this case throughout the
9 period rates are effective. Mr. Jenkins further offers that the RSM would better match
10 the expected test year revenues with the actual revenues over time.

11 **Q WHAT IS THE MIEC'S POSITION REGARDING THE PROPOSED RSM?**

12 A MIEC is opposed to implementing an RSM in this rate case.

13 **Q DOES MR. JENKINS DISCUSS WHY HE WANTS AN RSM?**

14 A Yes. At page 17 of his direct testimony, Mr. Jenkins says that most of MAWC's costs
15 are fixed (91%) and since volumetric charges recover a large portion of these fixed
16 costs, any variation in water sales will drive a wedge between the revenues collected
17 and the recovery of costs.

18 What Mr. Jenkins fails to describe is that a large portion of MAWC's fixed
19 costs is the profit (return on equity and associated income taxes) built into customer
20 rates. MAWC has historically recovered enough revenues to cover all of its variable
21 costs (electricity, chemicals, etc.) and fixed costs (depreciation, property taxes,

1 administrative and general expenses, interest, etc.) except for its desired level of
2 profits.

3 An RSM is merely a profit enhancement regulatory tool for utilities. MAWC
4 does not need a mechanism that virtually guarantees shareholder profits.

5 **Q ON PAGE 20 OF HIS DIRECT TESTIMONY, MR. JENKINS DISCUSSES THE**
6 **PRINCIPLES OF THE “THROUGHPUT INCENTIVE.” PLEASE DISCUSS THE**
7 **“THROUGHPUT INCENTIVE” AND ITS APPLICABILITY TO AN RSM.**

8 A The throughput incentive for a water utility is the inherent incentive a water utility has
9 to promote water sales to customers. In areas where water is in scarce quantities,
10 this sales promotion would not be looked on favorably. Water sales are also directly
11 affected by the promotion of more efficient water appliance sales. In addition, many
12 customers are taking it upon themselves to conserve water. All of these factors tend
13 to lower water consumption. However, these losses of sales are immaterial
14 compared to the effect weather has on water sales, and are offset by customer
15 growth and system acquisitions.

16 Unlike the immaterial items discussed above, weather is the predominant
17 factor responsible for the changes in sales volumes. On page 21 of his direct
18 testimony, Mr. Jenkins supports this theory with the following statement:

19 “In short, a water utility’s revenue is significantly influenced by the
20 randomness of weather, which is outside the utility’s control and bears
21 only a limited relationship to the cost of providing water service.”

22 In addition, on page 25 of his testimony, Mr. Jenkins states:

23 “An RSM makes MAWC indifferent to selling less water, recognizes
24 that normal weather is a condition that will likely never be achieved,
25 and effectively reduces the adverse impacts of weather variability for
26 both the Company and its customers.”

1 Weather mitigation, in my opinion, is the primary reason MAWC is requesting
2 an RSM. Although other reasons are identified, guaranteeing profits through weather
3 mitigation is the primary objective of the RSM.

4 **Q IN HIS DIRECT TESTIMONY, MR. JENKINS SUGGESTS THAT AN RSM IS**
5 **NECESSARY TO PREVENT THE POTENTIAL DISINCENTIVE TO FURTHER**
6 **INVESTMENT (PAGES 21 AND 24). IN ADDITION, HE PROPOSES THAT AN**
7 **RSM MAY REDUCE THE FREQUENCY OF RATE CASES. PLEASE RESPOND.**

8 **A** Mr. Jenkins provides no analysis to support these statements.

9 Mr. Jenkins does not provide any analysis or commitments that with an RSM
10 MAWC will increase its investments in infrastructure. In addition, this discussion of
11 increased investment does not address whether that investment would already be
12 recoverable through MAWC's current ISRS clause, which allows for rate relief in
13 between rate cases. An increase in investment levels, as a result of the RSM, will
14 lead to an increase in cost of service.

15 Mr. Jenkins also provides no guarantee that rate cases will be filed less
16 frequently. Mr. Jenkins does comment that by granting an RSM, the possibility of
17 fewer rate cases from lost revenues may lead to fewer rate case filings. This is hardly
18 a persuasive reason to implement an RSM. Revenues are merely one of a utility's
19 reasons for filing a rate case. If MAWC truly believes that an RSM will delay rate
20 case filings, then it should propose a rate moratorium if the RSM is implemented.

1 Q ON PAGE 28 OF MR. JENKINS DIRECT TESTIMONY, HE SEEMS TO SUGGEST
2 THAT THE PROBLEMS WITH PREDICTING NORMAL WEATHER CAN BE
3 ALLEVIATED WITH AN RSM. DO YOU AGREE?

4 A No. I find this argument to be very misleading. Regardless of whether an RSM is
5 adopted or not, establishing a normal level of revenues in a rate case is essential.
6 However, Mr. Jenkins stated that "An RSM can generally reduce or eliminate most, if
7 not all, controversies over determining pro forma revenues." This statement is simply
8 false. An RSM will not decrease the controversy that occurs during a rate case
9 regarding the establishment of the level of normal revenues needed to establish
10 current rates. The presence of an RSM does not provide an easier way to establish
11 annualized revenues in a rate case. The Commission should not be persuaded by
12 this argument.

13 Q ON PAGE 30 OF HIS DIRECT TESTIMONY, MR. JENKINS ASSERTS THAT AN
14 RSM IS DIFFERENT FROM OTHER ADJUSTMENT CLAUSES. DO YOU AGREE
15 WITH HIS STATEMENTS?

16 A No. Mr. Jenkins makes the obvious statement that an RSM is a revenue adjustment
17 clause, and not a cost adjustment clause. However, MAWC has proposed to also
18 track water production costs, which is an expense. In its RSM, Mr. Jenkins dismisses
19 this being adjunct to revenue collection. I will discuss the production expense tracker
20 later in my testimony.

21 The point here is that MAWC is proposing to isolate one aspect of its cost of
22 service for special regulatory treatment. MAWC is attempting to isolate the revenues
23 and production expenses from the rest of its operations for separate measurement.
24 One must remember that the revenues authorized by the Commission in a rate case

1 are the level of revenues necessary to recover all of the costs of doing business plus
2 the opportunity to earn a profit margin. What MAWC is proposing with its RSM is to
3 totally ignore (except for production costs) the change in expenses of the total
4 operations of MAWC and only look at the revenues. It is very clear that the RSM is
5 single-issue ratemaking. MAWC already has one mechanism, the ISRS, that
6 constitutes single-issue ratemaking for the recovery of plant investments in between
7 rate cases.

8 **Q ON PAGE 32 OF HIS DIRECT TESTIMONY, MR. JENKINS ATTEMPTS TO**
9 **PERSUADE THE COMMISSION THAT AN RSM WOULD NOT CONSTITUTE**
10 **SINGLE-ISSUE RATEMAKING. DO YOU AGREE?**

11 A Absolutely not. Again, Mr. Jenkins attempts to make a distinction between a cost and
12 revenue. The simple truth is that the RSM which MAWC proposes to implement
13 ignores every change in the costs (except water production costs) when adjusting to
14 the revenue level prescribed in the last rate case. There should be no argument
15 about the fact that this is single-issue ratemaking.

16 An RSM is single-issue ratemaking because it adjusts revenues outside of a
17 rate case without looking at all relevant factors. The calculation of revenues is the
18 last step in the rate case process. Once all necessary costs to provide safe and
19 adequate service are determined, the revenues are then computed to collect those
20 costs. With an RSM, revenues are automatically adjusted to the level established in
21 the prior rate case without any analysis to determine whether those revenues are
22 necessary to recover the current cost of service. This situation violates the all
23 relevant factors test.

1 Q ON PAGE 33 OF HIS DIRECT TESTIMONY, MR. JENKINS STATES THAT AN
2 RSM WILL DECREASE RATE VOLATILITY BECAUSE CUSTOMERS WILL
3 EXPERIENCE SMALLER AND MORE FREQUENT RATE CHANGES AS
4 OPPOSED TO LARGER RATE INCREASES THAT MUST BE FILED TO
5 RECOVER REVENUE LOST THROUGH STEADILY DECLINING SALES. DO YOU
6 AGREE WITH HIS STATEMENT?

7 A No. An RSM will change rates more frequently than not having an RSM. This is
8 simply a fact. Given that rates will change more frequently, I cannot reconcile how
9 rate volatility is mitigated under an RSM. Furthermore, an RSM in and of itself will not
10 reverse but will only mask steadily declining sales volumes. The Commission should
11 not believe that an RSM will correct this situation. Mr. Jenkins' statements are
12 misleading in an attempt to persuade the Commission to adopt an RSM.

13 Q YOU TESTIFIED EARLIER THAT MAWC'S PROPOSED RSM ALSO WILL
14 ADJUST WATER PRODUCTION COSTS TO THE ACTUAL EXPENSE LEVELS.
15 PLEASE DISCUSS THIS CONCEPT FURTHER AND COMMENT ON ITS
16 APPLICABILITY.

17 A MAWC's proposed RSM would also recover any changes in water production costs
18 (chemicals, power costs, purchased water, and waste disposal) as part of the RSM.
19 The MAWC proposed RSM will not only ensure a certain level of revenues, but will
20 also allow MAWC to collect any changes in water production costs. Essentially, what
21 MAWC is proposing is a revenue surcharge mechanism and a water production cost
22 surcharge mechanism all rolled into an RSM.

1 **Q IF THE COMMISSION WERE CONSIDERING ADOPTING AN RSM, DO YOU**
2 **BELIEVE CHANGES IN WATER PRODUCTION EXPENSES SHOULD BE**
3 **INCLUDED IN THE RSM?**

4 A No. The changes in water production expenses should not be a component of the
5 RSM.

6 **Q HOW WOULD YOU PROPOSE TO ELIMINATE THE WATER PRODUCTION**
7 **COSTS FROM AN RSM?**

8 A At the conclusion of the rate case, the annualized level of water production costs
9 should be identified. Those annualized water production costs should be subtracted
10 from the total annualized retail water revenues established in the rate case. This sum
11 should then be divided by the annualized volume of water to derive a rate per volume
12 of water. This rate should be applied to future sales volumes to determine if MAWC
13 is over/under-collecting its authorized revenue. This approach maintains the
14 relationship between production cost and sales established in the most recent rate
15 case. Thus, the effects of price changes for water production expenses are not
16 automatically adjusted through the RSM.

17 **Q DID MAWC REQUEST SPECIAL REGULATORY TREATMENT OF WATER**
18 **PRODUCTION EXPENSES IF THEY ARE NOT INCLUDED IN THE RSM?**

19 A Yes. MAWC proposes to track those costs in between rate cases.

20 **Q DO YOU SUPPORT A WATER PRODUCTION COST TRACKER IN THIS CASE?**

21 A No. For many of the reasons previously discussed regarding why an RSM is not
22 good regulatory policy, the use of a water production expense tracker is equally

1 detrimental to customers. Therefore, I am opposed to another single-issue
2 ratemaking mechanism that isolates water production expense through a tracker.

3 **Q DID MAWC PROPOSE AN ALTERNATIVE IF THE COMMISSION DENIES MAWC**
4 **AN RSM IN THIS RATE CASE?**

5 A Yes. MAWC proposed a revenue tracker. The revenue tracker would simply track
6 the difference in revenues from those levels established in the last rate case.

7 **Q WOULD YOU BE SUPPORTIVE OF A REVENUE TRACKER?**

8 A No. I am generally opposed to all trackers as they single out one element of a utility's
9 cost of service for special regulatory treatment. I have consistently proposed that all
10 relevant factors that affect all aspects of a utility's operations and cost of service
11 should be evaluated at the same period of time.

12 I also find interesting the Company's proposal for a revenue tracker. A
13 revenue tracker would not address all of the benefits that Mr. Jenkins describes in his
14 testimony, such as less frequent rate cases, investment opportunities,
15 contentiousness of rate cases, and the effect of weather (most significant component)
16 on current revenues. None of these alleged benefits relied on by Mr. Jenkins to
17 support an RSM would be realized with a revenue tracker. This proposal only
18 supports my belief that MAWC's RSM is merely a tool to further guarantee or
19 enhance the levels of its profits.

1 Q MAWC HAS PROPOSED THE FOLLOWING RATE DESIGN FOR APPLICATION
2 OF ITS RSM:

3 > IF CURRENT REVENUES ARE LESS THAN THE LEVEL
4 AUTHORIZED, CUSTOMER RATES WOULD BE ADJUSTED ON A
5 VOLUMETRIC BASIS.

6 > IF CURRENT REVENUES ARE GREATER THAN THE LEVEL
7 AUTHORIZED, CUSTOMER RATES WOULD BE ADJUSTED
8 THROUGH CUSTOMER BILL CREDITS.

9 DO YOU SUPPORT THIS RATE DESIGN PROPOSAL?

10 A No. If an RSM is adopted by the Commission, I would propose that all RSM
11 adjustments be based on volumetric charges, whether revenues are above or below
12 the level authorized by the Commission. This would better align the revenues with
13 the consumption of the customers.

14 Q PLEASE SUMMARIZE YOUR POSITION ON MAWC'S PROPOSED RSM.

15 A I am opposed to the RSM. An RSM is single-issue ratemaking and would create rate
16 volatility for customers. The RSM as proposed by MAWC also will recover price
17 changes in water production expenses. For all these reasons, I would recommend
18 that the Commission reject MAWC's request for an RSM.

19 Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

20 A Yes, it does.

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