

Exhibit No.:  
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Witness: Greg R. Meyer  
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Sponsoring Party: MIEC  
Case Nos.: WR-2015-0301  
Date Testimony Prepared: February 11, 2016

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

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**In the Matter of Missouri-American Water  
Company's Request for Authority to Implement  
a General Rate Increase for Water and Sewer  
Service Provided in Missouri Service Areas**

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Rebuttal Testimony and Schedule of

**Greg R. Meyer**

On behalf of

**Missouri Industrial Energy Consumers**

February 11, 2016





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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     WHAT IS YOUR OCCUPATION?**

5   A     I am a consultant in the field of public utility regulation and a Principal with the firm of  
6         Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

7   **Q     PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

8   A     This information is included in Appendix A to this testimony.

9   **Q     ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

10  A     This testimony is presented on behalf of the Missouri Industrial Energy Consumers  
11         ("MIEC"). Member companies purchase substantial amounts of water from  
12         Missouri-American Water Company ("Missouri-American" or "Company").

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

2 A I am responding to the request by Missouri-American to establish an Environmental  
3 Cost Adjustment Mechanism ("ECAM"). I am opposed to this request and my  
4 testimony will describe the reasons for my opposition.

5 **Environmental Cost Adjustment Mechanism**

6 **Q HAS MISSOURI-AMERICAN FILED FOR AN ECAM?**

7 A Yes.

8 **Q PLEASE DESCRIBE WHAT IS THE INTENDED PURPOSE OF THE ECAM.**

9 A An ECAM allows periodic rate adjustments between rate cases to reflect net  
10 increases or decreases in a water utility's prudently incurred costs directly related to  
11 compliance with federal, state, or local environmental law, regulations, or rules.

12 **Q DOES THE MIEC SUPPORT MISSOURI-AMERICAN'S REQUEST TO ESTABLISH**  
13 **AN ECAM IN THIS RATE CASE?**

14 A No. MIEC is opposed to Missouri-American's request for an ECAM in this rate case.

15 **Q WHAT IS THE BASIS FOR YOUR OPPOSITION?**

16 A The reasons why the MIEC is opposed to the ECAM are listed below:

- 17 1. Missouri-American has failed to identify any ECAM qualifying costs to be incurred.  
18 2. Missouri-American has failed to demonstrate that this special regulatory treatment  
19 is necessary for it to have a reasonable opportunity to earn a reasonable rate of  
20 return.

1 **Q DID THE ECAM RESULT FROM LEGISLATIVE ACTION?**

2 A Yes. ECAM was established as a result of Missouri Revised Statute 386.266.1. This  
3 statute was the result of passage of Senate Bill (SB) 179 in 2005.

4 **Q COULD YOU PLEASE GIVE A GENERAL OVERVIEW OF SB 179?**

5 A Yes. SB 179 allowed three enhanced regulatory mechanisms to be utilized by the  
6 Commission in regulating certain utilities in Missouri. Those three mechanisms are  
7 listed below.

8 1. Any electrical corporation may make an application to the commission to approve  
9 rate schedules authorizing an interim energy charge, or periodic rate adjustments  
10 outside of general rate proceedings to reflect increases and decreases in its  
11 prudently incurred fuel and purchased-power costs, including transportation.

12 2. Any electrical, gas or water corporation may make an application to the  
13 commission to approve rate schedules authorizing periodic rate adjustments  
14 outside of general rate proceedings to reflect increases and decreases in its  
15 prudently incurred costs whether capital or expense, to comply with any federal,  
16 state or local environmental law, regulation, or rule.

17 3. Any gas corporation may make an application to the commission to approve rate  
18 schedules authorizing periodic rate adjustments outside of general rate  
19 proceedings to reflect the non-gas revenue effects of increases or decreases in  
20 residential and commercial usage due to variations in either weather,  
21 conservation, or both.

22 **Q DID THE COMMISSION PROMULGATE RULES FOR EACH OF THOSE THREE**  
23 **PROVISIONS FROM SB 179? IF SO, PLEASE CITE THOSE COMMISSION**  
24 **RULES.**

25 A It did promulgate regulations for some, but not all, of those provisions. The  
26 Commission did not establish any rules for gas utilities to seek rate adjustments for  
27 usage variations due to weather or conservation. The Commission also did not  
28 establish rules for gas utilities to seek rate adjustments to comply with environmental  
29 matters.

1           The Commission enacted rules for electric utilities to establish a fuel  
2 adjustment clause ("FAC"), which is contained in 4 CSR 240-20.090 - Electric Utility  
3 Fuel and Purchased Power Cost Recovery Mechanisms.

4           The Commission established rules for electric utilities to seek rate adjustments  
5 between general rate cases to reflect increases or decreases in costs associated with  
6 compliance with environmental matters. These rules are contained in 4 CSR  
7 240-20.091 - Electric Utility Environmental Cost Recovery Mechanisms.

8           Finally, the Commission established rules for water utilities to seek rate  
9 adjustments between general rate cases to reflect increases or decreases in costs  
10 associated with compliance for environmental matters. These rules are contained in  
11 4 CSR 240-50.050 - Environmental Cost Adjustment Mechanisms. It is under these  
12 rules that Missouri-American is seeking to establish its ECAM.

13 **Q     IS MISSOURI-AMERICAN REQUIRED TO INFORM ITS CUSTOMERS OF ITS**  
14 **PROPOSED ECAM IN THIS RATE CASE?**

15 **A     Yes.** In the Commission rules for establishing an ECAM, the rule states the following:

16           (B) The water utility shall include in its initial notice to customers  
17           regarding the general rate case in which an ECAM is first  
18           proposed, a Commission-approved description of how the water  
19           utility proposes that the ECAM would operate.

20 **Q     DID MISSOURI-AMERICAN PROVIDE CUSTOMER NOTICE REGARDING ITS**  
21 **ECAM REQUEST?**

22 **A     Yes,** in its Application to establish an ECAM, Missouri-American provided the  
23 following customer notice:

24           As a part of this case, MAWC has proposed the establishment of an  
25           Environmental Cost Adjustment Mechanism (ECAM). The proposed  
26           ECAM would operate pursuant to Commission Rule 4 CSE

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1 240-50.050, and provide MAWC with the ability to make rate  
2 adjustments in the future related to compliance with federal, state, or  
3 local environmental law, regulation, or rules.

4 **Q DO YOU BELIEVE THE CUSTOMER NOTICE AS PREPARED BY MISSOURI-**  
5 **AMERICAN WAS SUFFICIENT?**

6 A No. I think the notice should have explicitly described that customer rates would  
7 increase outside of a general rate case for compliance with environmental  
8 regulations. The notice above does not alert customers that Missouri-American could  
9 be raising their rates outside of a general rate case. I recognize that by reading the  
10 Commission Rule, a customer could glean that information on their own. However, I  
11 do not believe customers should have to look up and read Commission Rules in order  
12 to learn that their rates may be subject to numerous increases without a general rate  
13 case filing by Missouri-American. If customers were fully informed of this new special  
14 regulatory mechanism, perhaps there would be more opposition expressed through  
15 comments submitted to the Commission or direct calls to Missouri-American call  
16 centers.

17 **Q IN A PREVIOUS ANSWER IN YOUR TESTIMONY, YOU REFERENCED THE**  
18 **ECAM AS AN ENHANCED OR SPECIAL REGULATORY MECHANISM. CAN YOU**  
19 **PLEASE DESCRIBE WHY YOU HAVE CHARACTERIZED THE ECAM IN THIS**  
20 **MANNER?**

21 A The ECAM is a special or enhanced regulatory mechanism in that it allows customer  
22 rates to be changed through a customer surcharge outside of a general rate case.  
23 This surcharge is clearly a form of single issue ratemaking which fails to consider all  
24 relevant factors when changing customer rates. Allowing a utility to change rates

1 outside of a general rate case is without question an enhanced or special regulatory  
2 mechanism. Traditional regulation would warrant a complete audit of all relevant  
3 factors prior to changing the rates of customers.

4 **Q IN MISSOURI-AMERICAN'S REQUEST FOR AN ECAM, DURING WHAT TIME**  
5 **PERIOD WOULD ENVIRONMENTAL COMPLIANCE COSTS HAVE TO BECOME**  
6 **KNOWN AND MEASURABLE TO BE ELIGIBLE FOR A SURCHARGE?**

7 A Under the Commission's rules, these costs would need to be incurred and known and  
8 measurable subsequent to the true-up period in this rate case, which is January 31,  
9 2016.

10 **Q DO YOU BELIEVE MISSOURI-AMERICAN HAS JUSTIFIED THE NEED FOR AN**  
11 **ECAM?**

12 A No. Missouri-American has not provided the justification for why an ECAM should be  
13 granted.

14 **Q WHAT JUSTIFICATION DO YOU BELIEVE IS NECESSARY FOR EVALUATING A**  
15 **PROPOSAL TO IMPLEMENT AN ECAM AND DO YOU BELIEVE THAT**  
16 **MISSOURI-AMERICAN PROVIDED IT?**

17 A Missouri-American filed the direct testimony of witness Kevin H. Dunn who proposed  
18 the implementation of the ECAM. Mr. Dunn's testimony consisted of three questions  
19 and answers (24 lines of testimony) to support Missouri-American's ECAM request.  
20 Those 24 lines of testimony are attached as Schedule GRM-1. As I describe below, I  
21 believe that testimony provides insufficient justification to support a request for this  
22 special regulatory mechanism.



1 Missouri-American has failed to identify any projected environmental costs for  
2 which it will seek recovery through surcharges in the next three years. The MIEC  
3 submitted Data Request No. 2-0001 asking the following question:

4 Please provide a list of all projects that MAWC will be proposing to  
5 include in the Environmental Cost Adjustment Mechanism for the next  
6 three years. Please include the estimated capital costs and operating  
7 expenses broken out separately for each identified project.

8 Missouri-American's response was:

9 MAWC does not currently have a list of projects for the next three  
10 years that would be included in the Environmental Adjustment  
11 Mechanism. However, federal, state, or local laws can be created or  
12 changed at any time, requiring expenditures.

13 MIEC also submitted Data Request No. 2-0007, which sought the following  
14 information:

15 Please provide the estimated impact the ECAM will have on each  
16 water district operated by MAWC for the next three years.

17 Missouri-American's response was:

18 MAWC is monitoring all environmental laws and regulations including  
19 the Clean Water Act and the Long term 2 Enhanced Surface Water  
20 Treatment Rule (LT2) which could possibly necessitate a major capital  
21 investment in the next 3-5 years at the North Plant, Jefferson City,  
22 Parkville, and Meramec Plant. However, MAWC cannot at this time  
23 predict when those new requirements may become law and direct  
24 compliance.

25 Given these responses to the data requests, I believe it is obvious that  
26 Missouri-American currently cannot identify any environmental law, rule or regulation  
27 that will impact its cost of service for the near term. Missouri-American's request for  
28 an ECAM at this point in time is merely based on speculation. It should be constantly  
29 monitoring all proposed environmental laws, rules or regulations to determine the  
30 possible impact to its business. This is just a sound management practice. Despite  
31 its constant oversight, Missouri-American can only provide speculative capital

1 improvements that may be needed sometime in the future. Missouri-American clearly  
2 currently is not facing a challenge in meeting its environmental requirements.

3 **Q HAS MISSOURI-AMERICAN INCURRED ENVIRONMENTAL COSTS IN THE**  
4 **PAST?**

5 A Yes in his testimony, Missouri-American witness Dunn lists or discusses two projects  
6 that Missouri-American has recently completed which may qualify as environmental. I  
7 have listed those two projects below.

- 8 1. Install chemical feed system to reduce chlorine residual to meet the NPDES limits  
9 at Central Plant - St. Louis Metro - \$7 million.
- 10 2. Sampling of Radium 226 and Radium 228 and Gross Alpha at Riverside required  
11 a treatment system. Tonka HMO system placed in service to treat the well water -  
12 Riverside - \$1 million.

13 I am confident that there are other projects which would qualify as  
14 environmental included in Missouri-American's past expenses or capital projects.  
15 (Missouri-American has identified several environmental projects which were  
16 applicable to its sewer operations, however the ECAM only applies to the  
17 Missouri-American water operations.)

18 **Q WHY DID YOU LIST THOSE PROJECTS WHICH YOU BELIEVE MIGHT QUALIFY**  
19 **AS ENVIRONMENTAL PROJECTS?**

20 A I listed those projects to demonstrate that Missouri-American's compliance with  
21 environmental regulations is not a new process. As mentioned earlier in response to  
22 a data request, Missouri-American is constantly monitoring all environmental rules,  
23 laws and regulations to measure their impact on Missouri-American's operations.  
24 The projects listed above were the result of those monitoring efforts and compliance  
25 with those new conditions. Missouri-American has been able to comply with all new

1 environmental rules, laws or regulations during the period of time from its last rate  
2 case until this current rate case without the need of an ECAM. Missouri-American  
3 has failed to demonstrate that the near term requires the Commission to allow an  
4 ECAM. Missouri American cannot even predict when or if additional environmental  
5 laws, rules or regulations will require it to expend significant funds above its historic  
6 spend levels. At this point in time, Missouri-American can only speculate on possible  
7 future expenditures and those may not occur for three to five years or beyond this  
8 rate case.

9 **Q HAS MISSOURI-AMERICAN STATED OR PREPARED ANY ANALYSES TO**  
10 **DEMONSTRATE THAT THE FUTURE ENVIRONMENTAL COSTS WILL PROHIBIT**  
11 **MISSOURI-AMERICAN FROM HAVING A REASONABLE OPPORTUNITY TO**  
12 **EARN A FAIR OR REASONABLE RATE OF RETURN?**

13 A I am not aware of any such analyses. However, given the speculative nature of the  
14 near-term compliance requirements, I would not be surprised that an analysis was not  
15 performed. Missouri-American simply has not identified a need for an ECAM at this  
16 point in time

17 **Q IF AN ENVIRONMENTAL LAW, RULE OR REGULATION BECAME EFFECTIVE**  
18 **WHICH SIGNIFICANTLY IMPACTED MISSOURI-AMERICAN'S OPPORTUNITY TO**  
19 **EARN ITS AUTHORIZED RATE OF RETURN, ARE THERE REGULATORY**  
20 **MECHANISMS THAT MISSOURI-AMERICAN COULD PROPOSE TO ADDRESS**  
21 **THAT SITUATION?**

22 A Yes. Missouri-American could request construction accounting recognition for a  
23 significant capital investment or could seek an accounting authority order ("AAO") for

1 an extraordinary increase in operating costs. However, these compliance mandates  
2 are usually known well in advance which would allow Missouri-American to file a rate  
3 case to timely address the environmental impact. Having an ECAM in effect for  
4 possible future concerns is not necessary.

5 **Q DO YOU HAVE ANY OTHER CONCERNS REGARDING THE ECAM REQUEST?**

6 A Yes, I am concerned that the ECAM mechanism could be used to replace water  
7 mains in districts that currently do not have an Infrastructure System Replacement  
8 Surcharge mechanism in effect. Currently the ECAM rules prevent a water utility from  
9 claiming ECAM qualifying costs which are available for inclusion in any approved  
10 Infrastructure System Repair (Replacement) Surcharge. The St. Louis metro district  
11 has the ability to charge ISRS costs to customers in between rate cases. I am  
12 proposing that if the Commission approves the ECAM filed in this case, it not allow  
13 Missouri-American to collect through the ECAM costs from investments which would  
14 qualify for an ISRS surcharge. In other words, the ECAM should not be allowed to be  
15 a surrogate for an ISRS surcharge in those districts that are prohibited from seeking  
16 recovery of ISRS costs.

17 **Q PLEASE SUMMARIZE YOUR POSITION.**

18 A Missouri-American has failed to demonstrate a need for an ECAM. Missouri-  
19 American cannot estimate the level of costs it expects to incur in the next three years  
20 for compliance with environmental rules, laws or regulations. Missouri-American has  
21 only speculated on the capital improvements that might be necessary in the next  
22 three to five years to comply with environmental guidelines. Missouri-American has  
23 failed to demonstrate how not having an ECAM will significantly affect its ability to

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1           earn its authorized rate of return. Missouri-American has not met its burden in this  
2           rate case to demonstrate a need for an additional special regulatory mechanism.  
3           Therefore, the Commission at this time should deny Missouri-American's request for  
4           an ECAM.

5    **Q       DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

6    **A       Yes, it does.**

## Qualifications 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     PLEASE STATE YOUR OCCUPATION.**

5    A     I am a consultant in the field of public utility regulation and a Principal with the firm of  
6        Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

7    **Q     PLEASE    SUMMARIZE    YOUR    EDUCATIONAL    BACKGROUND    AND**  
8        **EXPERIENCE.**

9    A     I graduated from the University of Missouri in 1979 with a Bachelor of Science Degree  
10       in Business Administration, with a major in Accounting. Subsequent to graduation I  
11       was employed by the Missouri Public Service Commission. I was employed with the  
12       Commission from July 1, 1979 until May 31, 2008.

13           I began my employment at the Missouri Public Service Commission as a  
14       Junior Auditor. During my employment at the Commission, I was promoted to higher  
15       auditing classifications. My final position at the Commission was an Auditor V, which  
16       I held for approximately ten years.

17           As an Auditor V, I conducted audits and examinations of the accounts, books,  
18       records and reports of jurisdictional utilities. I also aided in the planning of audits and  
19       investigations, including staffing decisions, and in the development of staff positions  
20       in which the Auditing Department was assigned. I served as Lead Auditor and/or

1 Case Supervisor as assigned. I assisted in the technical training of other auditors,  
2 which included the preparation of auditors' workpapers, oral and written testimony.

3 During my career at the Missouri Public Service Commission, I presented  
4 testimony in numerous electric, gas, telephone and water and sewer rate cases. In  
5 addition, I was involved in cases regarding service territory transfers. In the context  
6 of those cases listed above, I presented testimony on all conventional ratemaking  
7 principles related to a utility's revenue requirement. During the last three years of my  
8 employment with the Commission, I was involved in developing transmission policy  
9 for the Southwest Power Pool as a member of the Cost Allocation Working Group.

10 In June of 2008, I joined the firm of Brubaker & Associates, Inc. as a  
11 Consultant. Since joining the firm, I have presented testimony and/or testified in the  
12 state jurisdictions of Florida, Idaho, Illinois, Indiana, Maryland, Missouri and  
13 Washington. I have also appeared and presented testimony in Alberta and Nova  
14 Scotia, Canada. These cases involved addressing conventional ratemaking  
15 principles focusing on the utility's revenue requirement. The firm Brubaker &  
16 Associates, Inc. provides consulting services in the field of energy procurement and  
17 public utility regulation to many clients including industrial and institutional customers,  
18 some utilities and, on occasion, state regulatory agencies.

19 More specifically, we provide analysis of energy procurement options based  
20 on consideration of prices and reliability as related to the needs of the client; prepare  
21 rate, feasibility, economic, and cost of service studies relating to energy and utility  
22 services; prepare depreciation and feasibility studies relating to utility service; assist  
23 in contract negotiations for utility services, and provide technical support to legislative  
24 activities.

1                   In addition to our main office in St. Louis, the firm has branch offices in  
2                   Phoenix, Arizona and Corpus Christi, Texas.

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**IV. ENVIRONMENTAL COST ADJUSTMENT MECHANISM (ECAM)**

**Q. WHY IS THE COMPANY PROPOSING AN ECAM?**

A. The ECAM is a mechanism that will allow periodic rate adjustments that reflect net increases or decreases in qualified environmental cost. MAWC would be allowed to recover prudently incurred capital and expense costs outside of a rate case whereby the costs incurred are a result of MAWC being in compliance with federal, state, or local environmental law, regulations, or rules.

**Q. PLEASE PROVIDE EXAMPLES OF PROJECTS OR PROCESSES THAT WOULD BE PRUDENT COSTS OF AN ECAM?**

A. A recent project that would have met the requirement of an ECAM is the Central Plant National Pollutant Discharge Elimination System (NPDES) project whereby Missouri Department of Natural Resources in the permitting process set in action for

1 the reduction of total chlorine and pH in the discharge to the Missouri River. This  
2 required MAWC to install a de-chlorinating chemical system, which includes bulk  
3 tanks, day tanks, feed pumps, storage structure, etc., and to incur additional operating  
4 expenses to feed the chemical to the discharge going to the Missouri River.

5 MAWC is currently working on new NPDES permits for the North Plant, Jefferson  
6 City Plant, and Platte County Plant. These permits will at minimum have a low total  
7 chlorine limit that will require both the capital for chemical feed equipment as well as  
8 the increase in operating expenses.

9 **Q. IS THE ECAM DESIGNED TO PROVIDE MAWC WITH A SUFFICIENT**  
10 **OPPORTUNITY TO EARN A FAIR RETURN ON EQUITY?**

11 A. Yes. MAWC provides a product that is ingested by its customers. As such, MAWC  
12 follows strict statutes and regulations created by the United States Environmental  
13 Protection Agency and Missouri Department of Natural Resources — statutes and  
14 regulations that help to provide high-quality drinking water. These rules are beyond  
15 the control of MAWC and require significant investment. Timely recovery of costs  
16 of compliance with these regulations and other environmental requirements provides  
17 MAWC with a reasonable opportunity to earn a fair return on equity and is in the  
18 public interest.

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