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Service Charges, Special
Contracts*
Witness: *Melanie Marek*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Direct / Rebuttal Testimony*
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MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL ANALYSIS DIVISION

AUDITING DEPARTMENT

DIRECT / REBUTTAL TESTIMONY

OF

MELANIE MAREK

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2024-0320

Jefferson City, Missouri
December 2024

1 **DIRECT / REBUTTAL TESTIMONY**

2 **OF**

3 **MELANIE MAREK**

4 **MISSOURI-AMERICAN WATER COMPANY**

5 **CASE NO. WR-2024-0320**

6 Q. Please state your name and business address.

7 A. My name is Melanie Marek, and my business address is 200 Madison Street,
8 P.O. Box 360, Jefferson City, Missouri 65102.

9 Q. By whom are you employed and in what capacity?

10 A. I am employed by the Missouri Public Service Commission (“Commission”) as
11 a Lead Senior Utility Regulatory Auditor in the Auditing Department of the Financial and
12 Business Analysis Division.

13 Q. Please describe your educational background and work experience.

14 A. My credentials are attached as Schedule MM-d1.

15 Q. What is the purpose of this direct testimony?

16 A. The purpose of this testimony is to provide the Commission with Staff’s
17 recommended rate design for the Missouri-American Water Company (“MAWC”) rate case, as
18 well as to discuss Miscellaneous Service Charges and Special Contracts for this case.

19 **RATE DESIGN**

20 Q. What is the purpose of Staff’s rate design?

21 A. To design rates that will be utilized to collect the appropriate levels of revenue
22 from each service territory and from each customer class based upon the revenue requirement.
23 The rate structure that is utilized generally consists of a fixed monthly customer charge and a

1 commodity (usage) charge. The customer charge is developed by comparing certain costs that
2 are generally considered fixed, and the number of customers in each class. Commodity charges
3 are generally composed of costs that vary with water production, such as electricity for
4 pumping, chemical use, etc.

5 Q. How are these costs used to calculate rates?

6 A. The costs are used to calculate rates based on meter size and volume of sales.
7 Rates should be designed in a way that provide the utility the opportunity to collect its revenue
8 requirement. The revenue requirement is described in detail in the Direct Testimony of
9 Staff witness Amanda McMellen. Staff proposes no changes to the rate categories currently in
10 MAWC's water and sewer tariffs.

11 Q. What are the current rate categories in MAWC's water tariffs?

12 A. The following rates are included in MAWC's water tariff:

- 13 1. Rate A consists of residential and most non-residential customers, including
14 commercial customers, other public authorities, and smaller
15 industrial customers.
- 16 2. Rate B is for wholesale customers that are reselling the water to other customers.
- 17 3. Rate J is for industrial customers who meet certain usage requirements,
18 including using at least 450,000 gallons per month. Some non-residential
19 customers are included in this rate.
- 20 4. Rate F is for private fire protection customers. The costs for public fire
21 protection are allocated among the other rates.
- 22 5. Finally, flat rates are calculated for customers at some small, remote systems
23 where meters have not been installed.

1 Q. What are the current rate categories in MAWC's sewer tariffs?

2 A. MAWC sewer customers are divided into residential and nonresidential
3 customers, based upon service area. Some service areas have a monthly customer charge with
4 a usage charge. Some commercial customers are charged a customer charge and a usage charge.
5 Other service areas have a flat monthly rate. The rate design is further discussed below.

6 Q. Did Staff prepare a Class Cost of Service ("CCOS") study for both MAWC's
7 water and sewer operations?

8 A. No. Staff did not prepare a CCOS study for MAWC's water and sewer
9 operations in this case, because it appears with MAWC's submitted CCOS and the Staff
10 prepared CCOS from the last rate case,¹ there was not much difference in the cost allocations.
11 Staff based its rates for MAWC's water and sewer operations on both the results of Staff's audit
12 and the development of a cost of service ("COS") study for MAWC's water and
13 sewer operations.

14 Q. Are all of MAWC's current service areas included in this rate design?

15 A. Yes. Staff does not anticipate additional acquisitions during this case.

16 Q. What method did Staff use to calculate the rates in its rate design?

17 A. Staff applied the applicable percent increase to current rates needed for MAWC
18 to recover its costs determined by the audit COS study.

19 Q. What method did MAWC use to calculate rates?

20 A. MAWC proposed rates based on future test year data. Therefore, MAWC's
21 proposed rates are inapplicable.

² MAWC's witness, McClellan's direct testimony beginning on page 27.

1 Q. Did MAWC provide an updated proposal after the Commission ordered the use
2 of an historic test year in this case on July 31, 2024?

3 A. No. To date, MAWC has not provided Staff an updated proposal or CCOS study
4 based on the ordered historical test year's data.

5 Q. What rates are Staff proposing?

6 A. Staff's rate design can be found in the attached Schedule MM-d2.

7 Q. Did MAWC propose changes to its water rate design/structure?

8 A. In his direct testimony, MAWC witness Max McClellan states MAWC is
9 proposing to equalize commodity rates for its Rate A St. Louis County and non-St. Louis
10 County water customers, and moving the commodity rates for the Rate J St. Louis County and
11 non-St. Louis County water customers closer together. Mr. McClellan also stated MAWC is
12 proposing to change the commodity rate on its Rate J customers to a declining block rate
13 structure, which means higher volumes will be offered at a lowered rate.²

14 Q. Does Staff agree with aligning the commodity rates closer together?

15 A. No. MAWC stated it is proposing to equalize the volumetric rates for Rate A
16 between St. Louis County and non-St. Louis County customers in an effort to move to single
17 tariff pricing.³ Basically, MAWC is attempting to slowly consolidate all of its rates into a
18 statewide tariff. Due to the numerous acquisitions of smaller water and sewer systems over the
19 past few years, the Commission has consolidated most of MAWC's service areas.
20 Further consolidation is not warranted at this time as the benefits of consolidation are already

² MAWC's witness, McClellan's direct testimony beginning on page 27.

³ MAWC's witness, McClellan's direct testimony page 28.

1 taken into account, and there still needs to be some semblance of keeping costs closer to the
2 cost of providing service to the various service territories

3 Q. Does Staff find that maintaining the existing rate districts is more reasonable?

4 A. Yes. Having multiple rate districts more closely aligns rates with the actual cost
5 to provide service. Unlike other utilities, such as electricity and natural gas, wastewater and
6 drinking water is not piped across state lines or subject to global market forces. Water and sewer
7 service, and their respective costs, are inherently local and subject to cost variations
8 among locations. An example would be the labor costs for an operator, the contract for which
9 must include time to drive to remote locations, whether a qualified operator lives anywhere near
10 the sewage treatment system or must travel a significant distance, what the expected wages are
11 in a given location, etc. Staff's position is that the current level of consolidation already dilutes
12 cost causation, and further consolidation of rates is not recommended.

13 Q. What is Staff's position on MAWC's proposed declining block rate for
14 Rate J customers?

15 A. Staff opposes the use of declining block rates for Rate J customers as there is no
16 foreseeable benefit to the customer at this time. In case WR-2011-0337, MAWC, in the direct
17 testimony of Paul R. Herbert, recommended that a one-block uniform volumetric should be
18 applied to all rate schedules, Rate A, Rate B, and Rate J. The rationale being that the revenues
19 would be nearly aligned with the indicated cost of service.⁴ This was a change from the existing
20 declining block rate structure that had been in effect. In this case, Staff does not see the need to
21 revert back to any declining block rate structure to help large customers who are already served
22 with a lower commodity rate based on the cost of providing service to these customers.

⁴ Herbert Direct Testimony, Page 13, lines 5 – 8.

1 Q. Is MAWC proposing any other changes to its rate structure?

2 A. Yes. MAWC is proposing moving an industrial special contract customer to
3 Rate J and moving one Sales for Resale special contract customer to Rate B.

4 Q. Does Staff agree with this proposal?

5 A. Yes, to an extent. Currently, Rate J is for customers using over 450,000 gallons
6 of water on average. With MAWC's proposal, if the industrial special contract customer usage
7 aligns with that base requirement, Staff will support it.

8 Q. What other proposals did MAWC present in its filing for this rate case?

9 A. MAWC is also proposing to equalize the monthly customer charge across all
10 water rate districts (St. Louis County and non-St. Louis County), as well as consolidating two
11 of its three sewer rates districts.

12 Q. What is Staff's position on these proposals?

13 A. Staff does not support consolidation of the customer charge for MAWC's water
14 customers, nor the consolidation of rates for its sewer customers. As stated above, this is an
15 attempt by MAWC to move to full consolidation. Staff finds no benefit to customers in such a
16 consolidation, and such an effort would move even further from cost causation being the driver
17 for customer rates. There is no harm to MAWC in continuing the existing separate
18 customer charges.

19 Q. Please summarize Staff's proposal regarding rate increases for
20 MAWC's customers.

21 A. Staff recommends an equal percent increase across all rates and districts based
22 on the Auditing Department's proposed revenue requirement increase. Staff's proposed rates
23 for both MAWC's water and sewer customers are presented in Schedule MM-d2, attached.

1 Staff is not in support of any changes to the Rate J rate structure as there is no foreseeable
2 benefit to changing the rate structure at this time.

3 **MISCELLANEOUS SERVICE CHARGES**

4 Q. Is MAWC proposing a change to any of the miscellaneous service charges with
5 this rate case?

6 A. Yes. MAWC is requesting an increase to some of the charges as the actual cost
7 associated with each of the services has increased.⁵

8 Q. Does Staff agree with this increase?

9 A. Yes. Staff reviewed the information MAWC provided to confirm the increased
10 costs associated with each of the services and proposes the Commission order the increase
11 in charges.

12 **SPECIAL CONTRACTS**

13 Q. Does MAWC have special contracts currently in effect?

14 A. Yes. Special contracts are included in the effective tariff for Triumph Foods,
15 LLC; the City of O'Fallon; Consolidated Public Water Supply District No. C-1; the City of
16 Kirkwood; Chariton County Public Water Supply District #2; and Empire Electric.
17 Both Triumph Foods, LLC, and Empire Electric have special contract rates for the large volume
18 of water utilized at their specified locations. Consolidated Public Water Supply District
19 No. C-1, the City of Kirkwood, the City of O'Fallon, and Chariton County Public Water Supply
20 District #2 are sale for resale customers that are also large volume water users with special
21 contract rates.⁶

⁵ Direct testimony of MAWC's witness, Jody Carlson, pages 50-55.

⁶ Direct testimony of MAWC's witness, Max McClellan, page 27.

1 Q. Is MAWC proposing changes to their special contracts?

2 A. Yes. As stated above, MAWC proposes moving one industrial special contract
3 customer to Rate J and moving one Sales for Resale special contract customer to Rate B.⁷

4 Q. Does Staff agree with this proposal?

5 A. Yes. Because MAWC's special contracts better align with the proposed classes
6 due to usage amount and COS, Staff agrees with moving those customers to those classes.

7 Q. Is MAWC proposing any other changes to its special contract customers?

8 A. Yes. MAWC is proposing an increase in commodity charge for the remaining
9 contracted customers by amounts contractually calculated. The average of the increase over the
10 four special contract customers is 12%.⁸

11 Q. Did MAWC provide reasoning for this increase in testimony?

12 A. No. Staff assumes the increase is related to their calculated cost of service.
13 However, as MAWC's filing was based on an inflated revenue requirement associated with a
14 future test year, the final amounts of these increases is subject to change associated with the
15 outcome of this rate case. Staff will review the final version of these contracts.

16 Q. Does Staff agree with this proposal?

17 A. Yes, but at a different amount than proposed after the reviewing the auditing
18 department's calculated COS. Staff's proposed rates can be found in Schedule MM-d2.

19 **SUMMARY AND CONCLUSION**

20 Q. Can you please summarize Staff's position?

⁷ Id.

⁸ Direct testimony of MAWC's witness, Max McClellan, Schedule MWM-4.

Direct / Rebuttal Testimony of
Melanie Marek

1 A. It is Staff's position that the CCOS study prepared by Staff in MAWC's prior
2 rate case⁹ adequately allocates the cost of providing water service to each customer
3 classification in each of the districts. It is Staff's position that the rates calculated for water and
4 sewer service provide a reasonable opportunity for MAWC to recover the revenue requirement.
5 It is Staff's position that the increases in the miscellaneous service charges be approved by the
6 Commission. Finally, it is Staff's position MAWC's special contracts be updated as requested
7 by MAWC, contingent on confirming that the special contract customer being moved to Rate J
8 meets Rate J's criterion.

9 Q. Does this conclude your direct / rebuttal testimony?

10 A. Yes it does.

⁹ Case No. WR-2022-0303.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water Company's)
Request for Authority to Implement a General Rate) Case No. WR-2024-0320
Increase for Water and Sewer Service Provided in)
Missouri Service Areas)

AFFIDAVIT OF MELANIE MAREK

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW MELANIE MAREK and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Direct / Rebuttal Testimony of Melanie Marek*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.


MELANIE MAREK

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 18th day of December 2024.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070


Notary Public

Melanie Marek

Present Position:

I am a Lead Senior Utility Regulatory Auditor, Auditing Department, Financial and Business Analysis Division for the Missouri Public Service Commission. I transferred to the Auditing Department from the Water, Sewer, Gas, and Steam Department in August of 2024. As a Lead Senior Utility Regulatory Auditor, my duties include managing cases before the Commission for the Auditing Department, creating rate design and class cost of service studies, and I conduct research and analysis of the financial aspects of public utility operations.

Educational Credentials and Work Experience:

I completed an Associate in Science in Business Administration from Columbia College in 2016. In April 2018, I earned my Bachelors of Science in Business Administration majoring in Accounting and Finance with a minor in Management from Columbia College. Finally in April 2020, I completed the MBA program with an emphasis in Accounting from Columbia College. I have worked in finance, auditing, and governmental accounting with over 15 years of experience.

Case Participation:

Company Name	Case Number(s)	Testimony/Issues
Raytown Water Company	WR-2023-0344	Testimony (Late Fees)
Liberty Utilities (Missouri Water), LLC	WR-2024-0104	Testimony (Class Cost of Service Study, Rate Design, Miscellaneous Fees, Rate Case Disallowance)