

Exhibit No.:
Issue(s): *Rate of Return*
Witness: *Kelli Malki*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Cross Rebuttal-Surrebuttal*
Testimony
Case No.: *WR-2024-0320*
Date Testimony Prepared: *January 10, 2025*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

FINANCIAL ANALYSIS DEPARTMENT

CROSS REBUTTAL-SURREBUTTAL TESTIMONY

OF

KELLI MALKI

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2024-0320

Jefferson City, Missouri
January 2024

1 **CROSS REBUTTAL-SURREBUTTAL TESTIMONY**

2 **OF**

3 **KELLI MALKI**

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 Kelli Malki and my business address is P.O. Box 360,
8 Jefferson City, Missouri 65102.

9 Q. Who is your employer and what is your present position?

10 A. I am employed by the Missouri Public Service Commission (“Commission”) as
11 a member of Commission Staff (“Staff”) and my title is Financial Analyst for the
12 Financial Analysis Department, in the Financial and Business Analysis Division.

13 Q. Are you the same Kelli Malki who filed Direct-Rebuttal testimony
14 on December 6, 2024, in this case?

15 A. Yes, I am.

16 **EXECUTIVE SUMMARY**

17 Q. What is the purpose of your Cross Rebuttal-Surrebuttal testimony?

18 A. The purpose of my Cross Rebuttal-Surrebuttal testimony is to respond to the
19 Direct-Rebuttal testimony of the Office of the Public Counsel (“OPC”) witness David Murray.
20 Mr. Murray sponsored testimony on behalf of OPC regarding rate of return (“ROR”),
21 Return on Equity (“ROE”) and capital structure.

22 Q. What is the overview of Mr. Murray’s testimony?

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1 A. Mr. Murray proposed a ROE of 9.25% within a range of 9.00% to 9.50%¹ using
2 a recommended capital structure of 45% common equity and 55% long-term debt based on
3 American Water Works Corp.'s ("AWWC") consolidated actual capital structure,² resulting in
4 an after-tax ROR of 6.43%.³

5 Q. What are the specific areas in which Staff is responding to Mr. Murray?

6 A. The areas in of Mr. Murray's Direct-Rebuttal testimony addressed by Staff
7 within this testimony include:

- 8 • Recommended ROE
- 9 • Capital Structure.

10 **RETURN ON EQUITY**

11 Q. What is Mr. Murray's recommended ROE for use in this proceeding?

12 A. Mr. Murray recommended that the Commission set MAWC's authorized ROE
13 at 9.25% based on a range of 9.00% to 9.50%.⁴

14 Q. Please explain how Mr. Murray's recommended ROE was determined.

15 A. Mr. Murray asserted that his ROE recommendation is based on his cost of equity
16 ("COE") analysis that he compared to historical COE estimates, as well as his COE estimates
17 for the electric utility industry that he provided as a part of the Ameren Missouri rate case
18 (Case No. ER-2024-0319).⁵ Mr. Murray additionally indicated he used his awareness of capital
19 market conditions, investor expectations, and recent average allowed ROEs for water and sewer
20 utilities to further support his recommended ROE in this proceeding.⁶ Mr. Murray estimated

¹ Page 2, lines 7-8, Murray's Direct-Rebuttal Testimony

² Page 34, line 19-22, Murray's Direct-Rebuttal Testimony

³ Page 75, line 24, Murray's Direct-Rebuttal Testimony.

⁴ Page 2, lines 7-8, Murray's Direct-Rebuttal Testimony.

⁵ Page 5, lines 5-8, Murray's Direct-Rebuttal Testimony.

⁶ Pages 3-6, Murray's Direct-Rebuttal Testimony.

1 MAWC's COE range of 7.25% to 8.25% using a multi-stage Discounted Cash Flow ("DCF")
2 approach and a Capital Asset Pricing Model ("CAPM") analysis, respectively.⁷ Mr. Murray
3 conducted a reasonableness test using a simple rule of thumb the Chartered Financial Analyst
4 ("CFA") suggests in its curriculum to estimate the COE. Mr. Murray added a 3% risk premium
5 to a range of recent yield-to-maturity ("YTM") of MAWC's long-term bonds of around 5.5%,
6 implying a COE of approximately 8.5%.⁸

7 Q. What are Staff's concerns with Mr. Murray's recommended ROE?

8 A. Staff does not have any major concerns with Mr. Murray's recommended ROE
9 of 9.25% because it is within Staff's recommended range of ROE of 9.25% to 9.75%.⁹
10 Although Staff does not agree with Mr. Murray's detailed estimation procedures for his
11 recommended ROE, Staff found no substantial deficiency in Mr. Murray's ROE
12 recommendation.

13 **CAPITAL STRUCTURE**

14 Q. What is Mr. Murray's recommended capital structure for use in this proceeding?

15 A. For MAWC, Mr. Murray recommends using a capital structure consisting of
16 45% common equity and 55% long-term debt consistent with AWWC's recent actual capital
17 structures.¹⁰

18 Q. Why does Mr. Murray recommend using a capital structure for MAWC based
19 on AWWC's recent actual capital structures?

20 A. Mr. Murray asserts that AWWC's recent actual capital structure is the most
21 appropriate capital structure to use when determining an appropriate recommended ROE for

⁷ Page 7, lines 4-8 and Page 5, line 10, Murray's Direct-Rebuttal Testimony.

⁸ Page 33, lines 14-18, Murray's Direct-Rebuttal Testimony.

⁹ Schedule KM-d16, Malki's Direct-Rebuttal Testimony.

¹⁰ Page 34, lines 19-22, Murray's Direct-Rebuttal Testimony.

1 MAWC due to MAWC not issuing its own debt or equity to third parties, and therefore not
2 being optimized to minimize its cost of capital.¹¹ Mr. Murray points out that American Water
3 Capital Corp. (“AWWC”) provides most of the debt it raises through AWCC at cost to its
4 subsidiaries, including MAWC, which is then used to purchase equity in its subsidiaries.¹²

5 Q. Does Staff have any concerns with Mr. Murray’s reasoning behind his
6 recommended capital structure?

7 A. No, Staff agrees with Mr. Murray’s reasoning behind his recommended capital
8 structure. The Society of Utility and Regulatory Financial Analysts (“SURFA”) lists the
9 following four guidelines for determining when to use a parent company’s capital structure in
10 its guidebook, The Cost of Capital – A Practitioner’s Guide (“CRRRA Guide”):

11 1. Whether the subsidiary utility obtains all of its capital from its parent, or
12 issues its own debt and preferred stock;

13 2. Whether the parent guarantees any of the securities issued by
14 the subsidiary;

15 3. Whether the subsidiary’s capital structure is independent of its parent
16 (i.e., existence of double leverage, absence of proper relationship between risk and leverage of
17 utility and non-utility subsidiaries); and,

18 4. Whether the parent (or consolidated enterprise) is diversified into
19 non-utility operations.¹³

¹¹ Page 3, lines 22-24, Murray’s Direct-Rebuttal Testimony.

¹² Page 35, lines 2-5, Murray’s Direct-Rebuttal Testimony.

¹³ David C. Parcell in The Cost of Capital – A Practitioner’s Guide prepared for SURFA.

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1 Staff, in line with Mr. Murray's testimony, found that MAWC is not a financially
2 independent entity and therefore does not meet the guidelines for using MAWC's capital
3 structure for rate setting purposes.¹⁴

4 **CONCLUSION**

5 Q. Please summarize the conclusions of your rebuttal testimony.

6 A. Staff does not have any major concerns with Mr. Murray's recommended ROE
7 of 9.25% since it falls within Staff's recommended range of 9.25% to 9.75%. Although Staff
8 found no substantial deficiency in Mr. Murray's ROE recommendation, Staff also found no
9 sufficient reasons to change its recommended ROE of 9.50%.

10 Staff continues to recommend AWWC's consolidated capital structure to calculate
11 MAWC's ROR in this proceeding, which Mr. Murray's testimony supports.

12 Since AWWC's true-up data is not available at this time, Staff recommends an ROR of
13 6.52%, calculated using the consolidated capital structure of AWWC, which is composed of
14 43.60% common equity, 56.38% long-term debt, and 0.01% preferred stock, combined with
15 embedded costs of debt and preferred stock of ** [REDACTED] ** and ** [REDACTED] **, respectively.¹⁵
16 Staff will keep monitoring AWWC's updated consolidated capital structure and cost of debt
17 until the true-up data is made available and will make my final recommendation at that time.

18 Q. Does this conclude your Cross Rebuttal-Surrebuttal testimony?

19 A. Yes, it does.

¹⁴ Pages 24-26, Malki's Direct-Rebuttal Testimony.

¹⁵ Page 58, lines 3-6, Malki's Direct-Rebuttal Testimony.

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)
Increase for Water and Sewer Service Provided in)
Missouri Service Areas)

Case No. WR-2024-0320

AFFIDAVIT OF KELLI MALKI

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

COMES NOW KELLI MALKI and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Cross-Rebuttal / Surrebuttal Testimony of Kelli Malki*; and that the same is true and correct according to her best knowledge and belief.

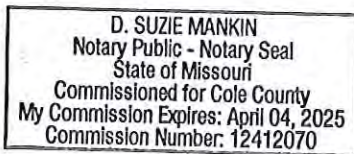
Further the Affiant sayeth not.

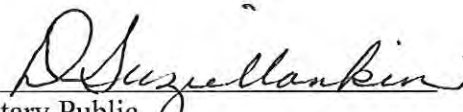


KELLI MALKI

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 9th day of January 2025.





Notary Public