

**Exhibit No.:**

**Issue(s):** Business Models/Consolidated Pricing/  
Acquisition Premium

**Witness/Type of Exhibit:** Marke/Rebuttal

**Sponsoring Party:** Public Counsel

**Case No.:** SM-2025-0067

## **REBUTTAL TESTIMONY**

**OF**

**GEOFF MARKE**

Submitted on Behalf of the Office of the Public Counsel

**CONFLUENCE RIVERS UTILITY  
OPERATING COMPANY, INC.  
&  
MISSOURI-AMERICAN WATER COMPANY**

CASE NO. SM-2025-0067

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Denotes Confidential Information that has been redacted.

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April 21, 2025

# **CONFIDENTIAL**

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**REBUTTAL TESTIMONY**

**OF**

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**CONFLUENCE RIVERS UTILITY OPERATING COMPANY INC. AND  
MISSOURI-AMERICAN WATER COMPANY**

**FILE NO. SM-2025-0067**

**I. INTRODUCTION**

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

A. Geoff Marke, PhD, Chief Economist, Office of the Public Counsel (OPC or Public Counsel), P.O. Box 2230, Jefferson City, Missouri 65102.

**Q. What are your qualifications and experience?**

A. I have been in my present position with OPC since 2014 where I am responsible for economic analysis and policy research in electric, gas, water, and sewer utility operations.

**Q. Have you testified previously before the Missouri Public Service Commission?**

A. Yes. A listing of the Commission cases in which I have previously filed testimony and/or comments is attached in Schedule GM-1.

**Q. What are you addressing in your rebuttal testimony?**

A. I am addressing the Application and Direct Testimony filed by Confluence Rivers Utility Operating Company, Inc. ("Confluence Rivers") and Missouri-American Water Company ("MAWC" or "Missouri American Water") (together hereinafter referred to as "the Companies"), which requests and supports the Companies' request for Commission authority to allow Confluence Rivers to acquire nineteen (19) wastewater systems from MAWC. My testimony will specifically expound on the following issues:

- 1.) Differences in operational business models;
- 2.) Impact of consolidated pricing and service; and
- 3.) Unfounded need for an acquisition premium

My silence regarding any issue should not be construed as an endorsement of, agreement with, or consent to any other party's filed position.

1 **Q. What is your recommendation to the Commission?**

2 A. I believe the impacted customers will be worse over time in both cost and quality of service  
3 as a result of this application. As such, I do not believe this application is in the public interest  
4 and should be rejected.

5 **II. BUSINESS MODELS**

6 **Q. Please provide an overview of the Missouri American Water business model.**

7 A. Missouri American Water is an affiliate to American Water, the largest and most  
8 geographically diverse publicly traded water and wastewater utility in the United States  
9 with over 14 million customers in 24 states and 18 military installations. American Water  
10 employs over 6,700 professionals including their own research laboratory in Belleville,  
11 Illinois.<sup>1,2</sup> Typically<sup>3</sup> Missouri American Water uses full-time employees to operate its  
12 systems.<sup>4</sup>

13 **Q. Please provide an overview of the Confluence Rivers business model.**

14 A. Confluence Rivers is an affiliate of Central States Water Resources Inc. (“Central States”)  
15 which is the named manager for CSWR LLC., the intermediate holding company for  
16 Confluence and its affiliate operating utilities in other states. CSWR is the tenth largest  
17 water and wastewater investor-owned utility in the United States with anywhere between  
18 300,000 to 400,000 regulated customers in 11 states depending on which page of the  
19 Company’s website you are on.<sup>5</sup> Unlike American Water, CSWR relies on a contractual

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<sup>1</sup> American Water (2025) Corporate Overview: <https://ir.amwater.com/ir-home/default.aspx>

<sup>2</sup> American Water (2025) Research & Technology: <https://amwater.com/corp/water-quality-wastewater-service/research-technology>

<sup>3</sup> In its response to OPC DR 17, Missouri American Water stated that it “operates all the nineteen systems in question utilizing employees of the Company.” It “supplements this with various contractors to assist with maintenance of the systems,” which includes services such as “landscaping, generator inspection and testing, chemical delivery, etc.” Missouri American Water Resp. to OPC DR 17. See also GM-2

The OPC requested that Missouri American Water identify certain information “[f]or each of the individuals required to operate and maintain each of the nineteen systems included in this case.” OPC DR 16. In response, MAWC identified only two (2) individuals, both of whom it employs. Missouri American Water response to OPC DR 16. Missouri American Water identifies one of the individuals as the operator of seventeen (17) of the systems and as having fifteen (15) years of experience. *Id.* The other individual operates the two (2) remaining systems and has over six (6) years of experience. *Id.* Both individuals maintain a business address at 320 Hoover Road, Jefferson City, MO 65109. *Id.* See also GM-3.

<sup>4</sup> Kadyk Direct Testimony 7.

<sup>5</sup> For example, Under the “Careers at CSWR” page it states: “We are a dedicated team of employees and partners serving more than 300,000 people.” <https://centralstateswaterresources.com/careers/>

1 business model where operations are outsourced to third parties to run almost all of its  
2 operation and management functions including water and wastewater testing, meter  
3 reading, system repairs and maintenance activity, licensed operations, capital improvement  
4 projects, collections, and call center services. As such, CSWR employs only 66 full-time  
5 employees (per the Company's 2022 ESG report).<sup>6</sup>

6 Notably, CSWR has also made a name for itself by specializing in the acquisition of  
7 distressed systems. This is a key feature in its value proposition to various Commission's  
8 across the country as it has acquired hundreds of distressed small systems over the past  
9 decade. According to a CSWR-sponsored video of President Josiah Cox:

10 There is fifty-eight thousand water utilities in the United States. Thirty-five  
11 thousand sewer utilities in the United States. There is seventeen in England. And  
12 it's the communities like Terre Du Lac that represent the actual majority of the  
13 clean water violations in the country from systems with 5,000 customers or less.  
14 And so, this is very typical of those systems that are serial offenders. That are off  
15 the beaten path. That the major public traded water companies are not interested in  
16 doing, and really, what we as a Company at Central States had really, you know,  
17 really focused on is the Company's reinvestment in this out, far-flung small  
18 utilities.<sup>7</sup>

19 **Q. How does CSWR's business model affect customers' perceptions?**

20 **A.** I believe CSWR's business model is wholly unique in the regulated utility sector. Based  
21 on my observation, CSWR largely functions as an intermediary middleman operating as a  
22 vehicle to allow private equity partners to invest in these distressed systems while handing  
23 off the operation and maintenance tasks associated with those systems to local contracted

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Under the "About Us" page it states: "Bringing safe, reliable, and environmentally responsible water resources to over 400,000 customers across 11 states." <https://centralstateswaterresources.com/about-us/>

<sup>6</sup> Under the "Our Impact" drop bar on the CSWR website is an option titled ESG Report. The most recent ESG (or Environmental, Social, and Governance) Report listed is from 2022. Embedded within that report on page 4 titled "2022 AT-a-Glance" includes the metric that CSWR employs 66 full-time employees

<https://centralstateswaterresources.com/wp-content/uploads/2024/12/373c656f50854035841f0f7cf8e9677e.pdf>

<sup>7</sup> Vimeo (2023) Watered Down—Terre Du Lac 6

[https://vimeo.com/552607378/9c6cfd3f8?embedded=true&source=vimeo\\_logo&owner=122359448](https://vimeo.com/552607378/9c6cfd3f8?embedded=true&source=vimeo_logo&owner=122359448) as well as in Central States Water Resources (2023) Confluence Rivers Community Impact: Community Updates.

<https://www.centralstateswaterresources.com/confluence-rivers-community-impact>

1 services. The immediate results are refurbished systems that no longer bare the perceived  
2 or realized risk of regulatory compliance that was present before the capital infusion.  
3 However, this model places a considerable amount of faith in 3rd and potentially 4th party  
4 vendors that can increase the operational, reputational, financial, and cyber/physical asset  
5 risk of the service provided. It also raises concerns regarding overspending if CSWR is not  
6 diligent with its Request for Proposal (“RFP”) process (or fails to have one). There is also  
7 the heightened risk for either intentional or unintentional double-dealing as acquisitions  
8 and complexity increase. Finally, someone has to pay for the repairs of these newly  
9 acquired distressed systems. As consolidation of tariffs gains favor over cost adherence to  
10 causative principles the socialization of distressed system costs will necessarily become  
11 more pronounced. Restated, the costs associated with bringing distressed systems into  
12 compliance will likely be borne by customers who did not cause these costs nor will benefit  
13 from the investment. This is an especially important point because this is an acquisition of  
14 nineteen mostly non-distressed,<sup>8</sup> non-contiguous systems.<sup>9</sup> The result is that these specific  
15 sewer customers are much more likely to pay more, have less technical expertise, and lower  
16 scale economies moving forward under Confluence’s control then they are currently  
17 experiencing with the largest investor-owned water utility in Missouri and the United  
18 States.

19 **Q. How have customers responded to the service of these two Companies?**

20 A. It has been my professional experience to date that customers have been more vocally  
21 critical of the CSWR model. Comments filed in EFIS for each Company’s last respective  
22 rate case support this assertion as seen in Table 1.

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<sup>8</sup> In the memorandum accompanying its Recommendation filed in this case, Staff states that “a common theme with many of these systems is that they are properly constructed and have been well maintained, but they are aged.” Mem. Staff Rec. 3.

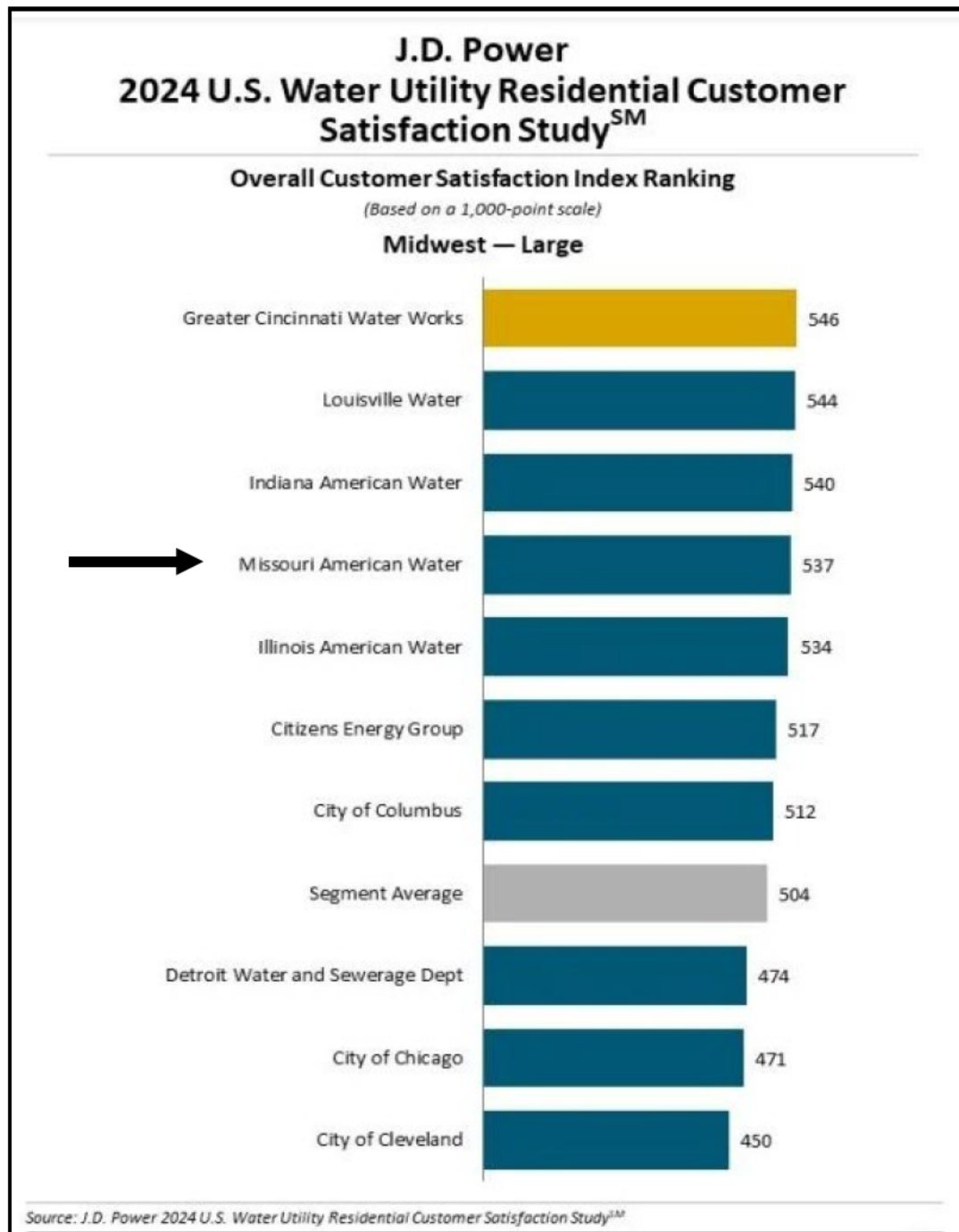
<sup>9</sup> As addressed in the Rebuttal Testimony of Mr. David Murray, there appears to be a disagreement between the Companies as to the amount of capital investment necessary for these systems. Specifically, Confluence Rivers has submitted engineering reports in response to Staff data request 27 that identify potential capital improvements for all nineteen systems totaling approximately \*\* \_\_\_\_\_ \*\* Confluence Rivers response to Staff DR 27. Missouri American Water, on the other hand, has identified investments for only three of the systems over the next five years, at a projected cost of \*\* \_\_\_\_\_ \*\* Missouri American Water response to OPC DR 31. Similarly, it appears that Staff agrees with only some of the improvements identified in Confluence Rivers' engineering reports. Staff response to OPC DRs 38, 42.

1 Table 1: Customer comments filed in the utility's most recent rate case

| Utility                 | Case Number  | # of Accounts | # of EFIS Comments | % of Customers who Filed comments |
|-------------------------|--------------|---------------|--------------------|-----------------------------------|
| Confluence Rivers       | WR-2023-0006 | 4,400-4,900   | 257                | 5.24 – 5.84%                      |
| Missouri American Water | WR-2024-0320 | 510,395       | 146                | 0.028%                            |

2  
3 Despite serving less than 1% of the total number of customers that MAWC services,  
4 Confluence customers filed 76% more critical customer comments than Missouri  
5 American Water customers to the Commission in its last rate case. In contrast, national  
6 customer survey polls also support that MAWC provides above average service in terms  
7 of customer satisfaction. J.D. Power's 2024 residential water customer satisfaction listed  
8 Missouri American Water as the fourth highest scoring large Midwest water utility as seen  
9 in Figure 1.

Figure 1: J.D. Power 2024 U.S. Water Utility Residential Customer Satisfaction (emphasis added)<sup>10</sup>



<sup>10</sup> J.D. Power. (2024) Drinking Water Safety Called into Question by 41% of U.S. Water Utility Customers, J.D. Power Finds. <https://www.jdpower.com/business/press-releases/2024-us-water-utility-residential-customer-satisfaction-study>



1 **Q. Do the Companies rely on Confluence Rivers' business model to support the Joint**  
2 **Application?**

3 A. Yes. The Companies rely on Confluence Rivers' business model to support the acquisition  
4 in the Joint Application, Mr. Kadyk's Direct Testimony, and in Missouri American Water's  
5 responses to the OPC's data requests.

6 **Q. Have the Companies provided any specific evidence to support this reliance?**

7 A. No. Though the Companies make vague statements about greater efficiencies, including  
8 statements referencing the location of the systems, they have provided no specific evidence  
9 to support these statements.

10 **Q. Has the OPC conducted discovery attempting to identify that specific evidence?**

11 A. Yes. The OPC issued data requests to both Confluence Rivers and Missouri American  
12 Water Company attempting to determine specific benefits that arise with Confluence  
13 Rivers providing service to these systems. However, the responses the OPC received  
14 showed that neither Company performed an analysis to determine the specific operation  
15 and maintenance expenses or administrative and general expenses that have been or would  
16 have been allocated to these systems.<sup>11</sup>

17 **Q. What are the Companies' positions regarding the locations of the systems?**

18 A. The Companies rely on the locations of the systems to support their assertion that this  
19 transaction will benefit customers. Specifically, in the Joint Application they say  
20 "Confluence Rivers already has several small wastewater systems in the vicinity of these  
21 systems. As such, this acquisition should drive further economies in operational costs."<sup>12</sup>

22 **Q. What is your response?**

23 A. This reliance ignores that Missouri American Water appears to have systems, including  
24 larger wastewater systems, even closer to these systems. Specifically, looking at the map  
25 available on Missouri American Water's website it is clear that Missouri American Water  
26 has other wastewater systems near the systems involved in this transaction. Importantly,  
27 Missouri American Water's larger wastewater systems in the area, Taos and Wardsville,

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<sup>11</sup> See also the Rebuttal Testimony of David Murray, Schedules DM-R-2-5.

<sup>12</sup> Joint Application p. 6-7.

1 are just a short drive from many of these systems. Missouri American Water also operates  
2 a large water treatment facility in Jefferson City, a short drive to many of these systems.  
3 Confluence Rivers, on the other hand, does not appear to operate any other systems within  
4 this same vicinity. Rather, it appears that Confluence Rivers does not operate any systems  
5 in the same county as the majority of the systems involved in this transaction.

6 **Q. Is Missouri American Water unable to provide service to these systems?**

7 A. No. Rather, Missouri American Water asserted in response to two OPC data requests that  
8 both it and Confluence Rivers “are actively collaborating with MDNR on the current  
9 requirements for the systems in question.”<sup>13</sup> Further, it stated “[b]oth parties have agreed  
10 to take the actions necessary to meet those requirements once a decision is made on this  
11 application.”<sup>14</sup>

12 **Q. Is Missouri American Water planning to sell all its small wastewater systems to**  
13 **Confluence Rivers?**

14 A. No. As it pertains to these systems in particular, Missouri American Water acquired forty-  
15 eight wastewater systems as a part of an acquisition from Aqua Missouri, Inc., Aqua  
16 Development, Inc., and Aqua/RU, Inc d/b/a Aqua Missouri, Inc.<sup>15</sup> However, it seeks to  
17 sell only the nineteen systems identified in the Joint Application to Confluence Rivers and  
18 will retain the balance of the systems.<sup>16</sup> When the OPC asked Missouri American Water  
19 to explain this, it said only that “[t]he systems included in this transaction were the result  
20 of an arm's length negotiation between the parties and ultimately were selected as ones that  
21 Confluence Rivers would purchase and MAWC would sell.”<sup>17</sup> Based on further discovery,  
22 MAWC does not anticipate selling any other systems to Confluence.<sup>18</sup>

23 **Q. Do you believe this is a good deal for the customers involved in this acquisition?**

24 A. I do not. Today, these customers are currently being provided wastewater service by the  
25 largest investor-owned water utility in Missouri (who is an affiliate of the largest investor-

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<sup>13</sup> Missouri American Water response to OPC DR 10. See also GM-4.

<sup>14</sup> *Id.*

<sup>15</sup> Missouri American Water response to OPC DR 7. See also GM-5; Kadyk Direct Test. 5.

<sup>16</sup> Kadyk Direct Test. 6.

<sup>17</sup> Missouri American Water response to OPC DR 9. See also GM-6.

<sup>18</sup> Missouri American Water response to OPC DR 32. See also GM-7.

owned water utility in the United States). All things being equal, scale economies will benefit a natural monopoly's customers.<sup>19</sup> The Company also owns and operates a water treatment plant and service center with full-time employees within driving distance of many of these systems.

If approved, those customers will continue to be served by the same non-distressed system under the same tariffed rate but the operations and maintenance of the system will be conducted by third and fourth parties by a much, much smaller private utility that specializes in acquiring capital intensive distressed systems whose costs are largely borne by its existing customers.

That does not sound like an equivalent outcome or better for the customers directly impacted by this decision.

### **III. CONSOLIDATED PRICING**

**Q. What is consolidated pricing?**

A. Consolidated pricing is a unified rate structure applied across different water systems owned and operated by a single utility. Consolidated pricing could encompass combining all (single-tariff) or some (zonal-tariff) of the systems into a new combined tariffed rate. Simply put, this has the effect of minimizing rate shock to any one subset of customers from an individual system's large scale investment by socializing the costs out to all customers including those on systems that did not cause the costs or benefit from its service.

**Q. Does MAWC and Confluence price its service on a consolidated basis?**

A. Yes, both utilities have zonal-tariff's in place.

**Q. Could an individual customer be "worse off" under consolidated pricing?**

A. Yes. In the short

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<sup>19</sup> Confluence Rivers currently serves approximately 6,638 wastewater customers. Confluence Rivers response to OPC DRs 1,. See also GM-7.

Missouri American Water serves 24,077 wastewater customers as of the end of 2024, nearly four times as many as Confluence Rivers. Missouri American Water response to OPC DR 28. See also GM-8.

term, the most likely scenario would apply to a customer receiving service from a compliant system but is nonetheless subsidizing the acquisition of non-contiguous, capital-intensive private systems which are consolidated into a much larger tariff.

For comparative purposes, consider a health insurance analogy: I believe this application is akin to forcing a customer to drop its existing health insurance provider, the largest and most established in the state and country, for an insurance agency that is actively seeking out and marketing to perpetually sick and injurious people from a customer base an order of magnitude smaller than what they are currently pooling from.

I believe this “worse off” scenario accurately describes the predicament that the directly impacted customers in this acquisition would find themselves in if the Commission approves this application.<sup>20</sup>

#### IV. ACQUISITION PREMIUM

**Q. What is the projected acquisition premium?**

A. The Staff report suggests that Confluence’s purchase price is \*\*\_\_\_\_\_\*\* above the current net book value of the MAWC systems being acquired.

**Q. What is Staff’s position?**

A. Per the Staff report:

If the Commission approves Confluence’s request in this case, Staff would expect that an updated rate base level will be established when Confluence files its next rate case for these systems. It has been Staff’s position in prior cases that rates should be based upon the remaining net book value of the original cost of the utility plant at the time it was placed in service, and that no acquisition adjustment, above or below net book value, should be reflected in rates.<sup>21</sup>

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<sup>20</sup> See also GM-9 for a expanded explanation on consolidated pricing structures.

<sup>21</sup> Case No. SM-2025-0067 Missouri Public Service Commission Staff Memorandum: Recommendation of Approval of Requested Transfer of Assets. p. 9.

1   **Q.    Do you support that position?**

2    A.    Again, my recommendation is to reject the application in its entirety as the customers most  
3           directly impacted by this transaction will be made worse off, but if the Commission elects  
4           to transfer assets I would support the Staff's position as it pertains to not allowing an  
5           acquisition premium reflected in rates.


6   **Q.    Does that conclude your testimony?**

7    A.    Yes.


In the Matter of the Joint Application of )  
 Confluence Rivers Utility Operating )  
 Company, Inc., and Missouri-American )  
 Water Company for Authority for )  
 Confluence Rivers Utility Operating ) Case No. SM-2025-0067  
 Company, Inc. to Acquire Certain Sewer )  
 Assets of Missouri-American Water )  
 Company in Callaway and Morgan )  
 Counties, Missouri )

STATE OF MISSOURI )  
 ) SS  
COUNTY OF COLE )

1. My name is Geoff Marke. I am a Chief Economist for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

  
Geoff Marke  
Chief Economist

TIFFANY HILDEBRAND  
NOTARY PUBLIC - NOTARY SEAL  
STATE OF MISSOURI  
MY COMMISSION EXPIRES AUGUST 8, 2027  
COLE COUNTY  
COMMISSION #15637121

  
Tiffany Hildebrand  
Notary Public

My Commission expires August 8, 2027.