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Rate A: Residential and
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Residential Customer Charge/
Inclining Block Rate/
Lead Line Replacement Allocation
Witness/Type of Exhibit: Marke/Rebuttal
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Case No.: WR-2017-0285

REBUTTAL TESTIMONY

OF

GEOFF MARKE

Submitted on Behalf of
The Office of the Public Counsel

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2017-0285

January 24, 2018

OPC Exhibit No. 206
Date 3-06-18 Reporter KF
File No. WR-2017-0285

**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.) File No. WR-2017-0285

AFFIDAVIT OF GEOFF MARKE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Geoff Marke, of lawful age and being first duly sworn, deposes and states:

1. My name is Geoff Marke. I am a Regulatory 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

Subscribed and sworn to me this 24th day of January 2018.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2021
Cole County
Commission #13754037



Jerene A. Buckman
Notary Public

My commission expires August 23, 2021.

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REBUTTAL TESTIMONY

OF

GEOFF MARKE

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2017-0285

I. INTRODUCTION

Q. Please state your name, title 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. Are you the same Dr. Marke that filed direct testimony in WR-2017-0285?

A. I am.

Q. What is the purpose of your testimony?

A. The purpose of my rebuttal testimony is to respond to the revenue requirement direct
testimony regarding:

- Single Tariff Pricing
 - Missouri American Water Company (“MAWC” or “Company”) witnesses:
Constance E. Heppenstall, Cheryl D. Norton and James M. Jenkins;
 - City of Riverside (“Riverside”) witness Mayor Kathleen L. Rose;
 - Cities of St. Joseph, Joplin, Jefferson City and Warrensburg (“Coalition
Cities”) witness Michael J. McGarry, Sr.;
 - Missouri Industrial Energy Consumers (“MIEC”) witnesses Brian C. Collins
and Jessica A. York; and
 - Missouri Public Service Commission Staff (“Staff”) witness James A. Busch
- Low-Income Rate
 - Company witness Brian W. LaGrand; and
 - Staff witness Curt B. Gately
- Rate A: Residential and Nonresidential Service

- 1 o Company witness Brian W. LaGrand; and
- 2 o Staff witness James A. Busch
- 3 • Residential Customer Charge
- 4 o Company witness Brian W. LaGrand; and
- 5 o Missouri Division of Energy (“DE”) witness Martin R. Hyman; and
- 6 o Staff witness James A. Busch
- 7 • Inclining Block Rates
- 8 o DE witness Martin R. Hyman;
- 9 o Company witness James M. Jenkins; and
- 10 o Staff witness Curt. B. Gately
- 11 • Lead Line Replacement Cost Allocation
- 12 o MIEC witness Brian C. Collins
- 13 • Special Contracts
- 14 o Staff witness Matthew J. Barnes

15 **II. SINGLE TARIFF PRICING**

16 **Q. Please summarize the positions of the parties on this issue.**

17 A. MAWC and the City of Riverside take the position of supporting single-tariff pricing. The
18 Coalition Cities, Staff and MIEC oppose single-tariff pricing. The Coalition Cities support
19 movement back to district specific pricing while Staff and MIEC support maintaining the
20 current three zone districts.

21 **Q. What is OPC’s position?**

22 A. OPC agrees with the arguments put forward by the Coalition Cities, Staff and MIEC. A
23 further movement to single tariff pricing is inappropriate for the reasons articulated in my
24 direct testimony. As it stands, OPC continues to maintain its original position to maintain the
25 current three zones but reserves the right to adjust this position based on the rebuttal
26 testimony submitted by other parties.

1 **III. LOW-INCOME RATE**

2 **Q. Briefly summarize the current low-income pilot rate.**

3 A. As ordered, in Case No. WR-2015-0301, with an effective operational date of November 17,
4 2016, the low-income pilot rate is offered in the St. Joseph, Platte County, and Brunswick
5 service areas. It is composed of an 80% discount of the monthly customer charge (a reduction
6 from \$15.33 to \$3.07), and it is available to customers who qualify for the Low Income
7 Home Energy Assistance Program (LIHEAP). Customer qualification has relied primarily on
8 three local Community Action Agencies in the respective counties where the service areas
9 are located. The purpose of the pilot was to study the impact of a low-income rate on
10 MAWC's bad debt expenses.

11 **Q. What is the Company's proposal?**

12 A. According to MAWC witness LaGrand:

13 The low income tariff, which is currently available to water customers in District 2
14 who qualify for the Low Income Home Energy Assistance Program ["LIHEAP"],
15 became effective in November 2016. The Company provided bill inserts, worked
16 with local Community Action Agencies and promoted the program via media
17 opportunities. As of June 2017 the Company has enrolled 120 customers in the
18 program. In this case, the Company proposes expanding this program statewide,
19 and continuing the deferral as authorized in the last rate case.¹ (emphasis added)

20 **Q. What does Staff propose?**

21 A. Staff proposes to maintain the pilot program as is, until more data can be collected to
22 substantiate the appropriate next steps.

¹ Direct Testimony of Brian W. LaGrand, p. 17, 10-15.

1 **Q. What is OPC's position?**

2 A. OPC supports Staff position. In what will be a common theme throughout my testimony, the
3 Commission should reject MAWC's proposal, in part, because the Company provides no
4 evidence to substantiate its proposal.

5 OPC has concerns with removing the "pilot" status without any evidence that it has
6 accomplished what it set out to do—namely, reduce bad debt expenses.

7 OPC is also concerned with the unintended consequences of failing to address the entire class
8 of low-income customers. As it stands, the pilot only applies to those who are already
9 receiving a very specific type of assistance—LIHEAP. This would amount to an intra-class
10 subsidy that would make low-income customers who have not received some form of
11 assistance comparatively worse off. For example, there is reason to believe that there are
12 more than the 120 enrolled customers who could confidently be classified as "low-income"
13 living in the greater St. Joseph, Platte County and Brunswick service areas.

14 Finally, OPC is concerned that approval of such a rate design could be construed as
15 discriminatory and thus be deemed unlawful.

16 **IV. RATE A: RESIDENTIAL AND NONRESIDENTIAL SERVICE**

17 **Q. What is the Company's proposal?**

18 A. The Company is proposing to split Rate A into residential and non-residential customer
19 classes. Company witness Mr. LaGrand states:

20 In this case MAWC is proposing to eliminate Rate A and replace it with separate
21 residential and non-residential rate structures. The non-residential rate will cover all
22 commercial, industrial, and other public authority customers. The new residential and
23 non-residential rates will be uniform throughout the Company's statewide service
24 area.²

² Ibid, p. 18, 6-9.

1 **Q. Did the Company provide any support for this proposed change?**

2 A. No. Mr. LaGrand's aforementioned three sentences making the request are the only reference
3 to the change in the Company's direct testimony. There is nothing on the record supporting
4 why Rate A should be broken up into two separate rate classes or why residential ratepayers
5 should now pay a larger commodity charge relative to nonresidential ratepayers. It is only
6 after reviewing the Company's revised tariff sheet that the proposed price differential
7 between residential and nonresidential "Rate A" ratepayers is found.

8 **Q. What does the revised tariff say the new rates will be?**

9 A. Both residential ("Rate A") and nonresidential ("Rate A-1") will be charged the same
10 minimum customer charge based on meter size. However, residential and nonresidential
11 ratepayers would be charged different commodity charges as seen in Figure 1.

12 Figure 1: Company proposed commodity charges for residential and nonresidential customers

Rate Class	Per 100 gallons	Per 1,000 gallons
Residential ("Rate A")	\$.62953	\$6.2953
Nonresidential ("Rate A-1")	\$.58500	\$5.8500

13 **Q. What does Staff propose?**

14 A. Staff proposes to maintain single-block rates designed specifically for each customer class
15 within each district.

16 **Q. What is OPC's position?**

17 A. OPC supports Staff. As drafted, the Company's proposal is discriminatory and has not been
18 justified. The Company bears the burden of presenting its case in chief. As it stands, this
19 proposal is deficient and without merit. The Commission should reject this proposal in total
20 as there is literally no evidence on the record to support a revenue-shift on to residential
21 ratepayers. The outcome would not represent rates that are just and reasonable but instead
22 represent rates that are arbitrary and capricious.

1 **V. RESIDENTIAL CUSTOMER CHARGE**

2 **Q. What is the Company's proposal?**

3 A. The Company is proposing to increase fixed customer charges for St. Louis quarterly
4 customers from \$22.35 to \$30.00 and reduce monthly residential customer charges from
5 \$15.33 to \$10.00.

6 **Q. What does Staff propose?**

7 A. Staff proposes to maintain the currently effective customer charges that were approved in
8 MAWC's previous rate case.

9 **Q. What is OPC's position?**

10 A. OPC supports Staff's position, in part, because we oppose costs related to imprudent AMI
11 deployment. At face value, the Company's proposal does not make sense. First it is yet
12 another example of St. Louis ratepayers being penalized and bearing increased costs for
13 services they are not causing.³ As a general principle, utilities incur greater costs to serve
14 ratepayers in rural areas compared to serving densely populated areas. The Company's
15 proposal conflicts with this general principle. Instead, MAWC seeks to increase fixed costs
16 where fixed costs are likely to be lower and decrease fixed costs where fixed costs are likely
17 to be higher. Indeed, quarterly St. Louis/St. Charles customers are more densely concentrated
18 than their monthly more rural counter-parts, and should have a lower customer charge
19 assigned to them. This topsy-turvy proposal is counter-intuitive to the cost causation
20 principle.

21 Second, instead of providing a justification, the Company provides no reasoning and no
22 evidentiary support. Much like the "Rate A" class proposal referenced above, Mr. LaGrand
23 merely states that this is the Company's intent.

³ Other examples include single tariff pricing, and depending on how the issue is resolved, lead line replacement.

1 Finally, why should quarterly St. Louis customers see their fixed costs raise 34% (\$22.35 to
2 \$30.00) while other residential customers see a 34% decreases (\$15.33 to \$10.00)? One
3 reason why the Company might propose this outcome is that, by increasing fixed charges for
4 the majority of its customers, the Company would get greater profit certainty and probable
5 recovery of a windfall revenue stream. The Commission should reject the Company's
6 unsupported proposal and support Staff's recommendation.

7 **VI. INCLINING BLOCK RATE**

8 **Q. What is the basis for parties commenting on residential inclining block rates?**

9 A. In the final order of the Company's last rate case, WR-2015-0301, the Commission's Report
10 and Order stated:

11 In the next rate case, the Commission asks the parties to file information on inclining
12 block rates so the Commission can consider the information in setting just and
13 reasonable rates in this case.⁴

14 Some parties, including the Company, DE and Staff offered direct testimony on the topic.
15 OPC did not but is responding to this issue now in rebuttal.

16 **Q. Did anybody support a residential inclining block rate?**

17 A. No.

18 **Q. What is OPC's position?**

19 A. Like all parties that did opine on the topic in direct testimony, OPC does not support a
20 residential inclining block rate; however, OPC has different and/or additional reasoning for
21 not supporting a residential inclining block rate than the reasoning of other parties. OPC
22 reasons that residential inclining block rates are inappropriate for the same reasons OPC does
23 not support a decoupling mechanism. In short, the current operating environment in
24 MAWC's service territory does not support an inclining block rate design (water is both
25 abundant and no capital-intensive capacity build-outs are needed in the foreseeable future).

⁴ WR-2015-0301 Report and Order, p. 41.

1 OPC strongly recommends that the Commission not adopt an inclining block rate design at
2 this point.

3 **VII. LEAD LINE REPLACEMENT COST ALLOCATION**

4 **Q. What is MIEC's position?**

5 A. MIEC witness Mr. Collins stated:

6 Because these costs are associated with residential service lines, these costs should be
7 allocated to the residential customer class and recovered in residential class rates.⁵

8 **Q. Has anyone else filed direct testimony on this topic?**

9 A. No.

10 **Q. What is OPC's position?**

11 A. OPC maintains its initial position that MAWC's current practice is unlawful and not properly
12 designed. OPC believes this is an issue that is beyond the purview of the Commission and
13 more appropriate for the Missouri Legislature. OPC has maintained that the Commission is in
14 the best possible position to facilitate a dialogue by bringing relevant parties and resources to
15 the table to enable best practices to ensure optimal outcomes.

16 It would be OPC's recommendation that if the Commission dismisses OPC's concerns and
17 elects to abandon cost-of-service regulation and the principles of cost-causation in its entirety
18 (which we do not recommend), then it would be both needlessly punitive and haphazard to
19 allocate lead line costs solely onto the residential class as Mr. Collins proposes. If costs are to
20 be socialized for the perceived greater good, why would non-residential classes be exempt
21 from this cost-sharing? As it stands, OPC does not have a recommendation as to how to
22 allocate these costs but reserves the right to raise this issue again in surrebuttal testimony.

23 Finally, Mr. Collins is mistaken if he believes lead service lines are limited to residential
24 customers.

⁵ Direct Testimony of Brian C. Collins p. 12, 4-5.

1 **VIII. SPECIAL CONTRACT**

2 **Q. What is Staff's position?**

3 A. Staff did not have a position but stated they would discuss any proposed changes in rebuttal
4 testimony.

5 **Q. Has anyone else filed testimony on this topic?**

6 A. No, including Triumph Foods.

7 **Q. What is OPC's position?**

8 A. OPC has concerns that the terms of the special contract are no longer being met and/or will
9 no longer be met if the Company transitions to single-tariff pricing.

10 **Q. Please explain**

11 A. OPC is still awaiting data requests responses from the Company on Triumph's ability to
12 maintain agreed to special contract provisions. However, one issue that has OPC concerned
13 relates to the "Continued Eligibility for Contract Rate" requirements which state:

14 Continued Eligibility for Contract Rate

15 At the conclusion of each contract year (a period encompassing twelve (12) full
16 monthly billing periods after the Customer begins taking service under the contract),
17 **the Company shall calculate the Customer's annual load factor and average**
18 **monthly billing demand to determine whether the Customer has demonstrated**
19 **at least a fifty-five percent (55%) annual load factor and at least an annual**
20 **consumption level of five-tenths of a percent (0.5%) of total consumption for the**
21 **district. If the Customer fails to meet these criteria in both the first and the**
22 **second year, or in any two (2) successive years during the term of the contract,**
23 **the rate provided for the Special Service Contract shall no longer be available to**

1 **the Customer and the applicability of this Rider to the Customer shall be**
2 **considered a nullity.**⁶ (emphasis added)

3 **Q. What is OPC's concern?**

4 A. The primary concern is that Triumph Foods no longer represents 0.5% of a percent of the
5 total northwest zone (formerly St. Joseph district). Further concern centers on whether or not
6 the threshold would be met if single tariff pricing were approved. OPC reserves the right to
7 comment further on this issue and other provisions if warranted in surrebuttal testimony
8 based on discovery provided by the Company.

9 **Q. Does this conclude your testimony?**

10 A. Yes.

⁶ Missouri American Water Tariff Sheet No. R.59 & 60. Alternative Incentive Provisions (Applicable only in the city of St. Joseph, MO and Vicinity).