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Witness: Brian C. Collins  
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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

Case No. WR-2017-0285

Surrebuttal Testimony of

**Brian C. Collins**

On behalf of

**Missouri Industrial Energy Consumers**

February 9, 2018



BRUBAKER & ASSOCIATES, INC.

Project 10440

Exhibit No. 505  
Date 3/8/18 Reporter UN  
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**Surrebuttal Testimony of Brian C. Collins**

1    **Q     PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2    **A     Brian C. Collins. My business address is 16690 Swingley Ridge Road, Suite 140,**  
3       **Chesterfield, MO 63017.**

4    **Q     ARE YOU THE SAME BRIAN C. COLLINS WHO PREVIOUSLY FILED**  
5       **TESTIMONY IN THIS CASE?**

6    **A     Yes. On December 13, 2017 and January 24, 2018, I filed direct and rebuttal**  
7       **testimony, respectively, on behalf of the Missouri Industrial Energy Consumers**  
8       **("MIEC") regarding Missouri-American Water Company's ("MAWC" or "Company")**  
9       **cost of service and rate design.**

10   **Q     ON WHOSE BEHALF ARE YOU SPONSORING THIS TESTIMONY?**

11   **A     I am filing this surrebuttal testimony on behalf of MIEC.**

12   **Q     WHAT IS THE PURPOSE OF THIS SURREBUTTAL TESTIMONY?**

13   **A     The purpose of this surrebuttal testimony is to reply to the cost of service and rate**  
14       **design rebuttal testimonies of Mr. James Jenkins and Ms. Constance Heppenstall on**

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1           behalf of MAWC. I will also reply to the cost of service and rate design rebuttal  
2           testimony of Dr. Geoff Marke on behalf of the Office of Public Counsel ("OPC").

3    **RESPONSE TO MR. JENKINS**

4    **Q     HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF MR. JAMES JENKINS**  
5           **ON BEHALF OF MAWC?**

6    **A     Yes, I have.**

7    **Q     DOES MR. JENKINS CONTINUE TO SUPPORT CONSOLIDATION OF MAWC'S**  
8           **THREE EXISTING PRICING DISTRICTS INTO A SINGLE PRICING DISTRICT?**

9    **A     Yes, he does.**

10   **Q     WHAT IS HIS PRIMARY REASON FOR HIS CONTINUED SUPPORT OF**  
11           **CONSOLIDATED PRICING?**

12   **A     His primary stated reason for supporting consolidated pricing is the assertion that it is**  
13           **appropriate public policy and promotes the public interest.**

14   **Q     HAS MR. JENKINS RAISED ANY NEW ARGUMENTS THAT HAVE CAUSED YOU**  
15           **TO CHANGE YOUR RECOMMENDATION FOR CONTINUING TO MAINTAIN THE**  
16           **THREE PRICING DISTRICTS AS APPROVED BY THE COMMISSION IN THE**  
17           **LAST RATE CASE?**

18   **A     No. His rebuttal testimony does not plow any new ground. He continues to ignore**  
19           **cost causation and the differences in cost of service that exist among the three**  
20           **existing pricing districts. Contrary to Mr. Jenkins' support for consolidated pricing, it is**  
21           **appropriate to establish the three existing pricing districts' rates on their respective**

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1 cost of service for the reasons described in my direct testimony, as well as the  
2 testimonies of Staff witness James Busch and OPC witness Marke.

3 Q DO YOU CONTINUE TO SUPPORT DISTRICT-SPECIFIC PRICING FOR THE  
4 THREE CURRENT PRICING DISTRICTS ESTABLISHED BY THE COMMISSION IN  
5 THE COMPANY'S PRIOR RATE CASE?

6 A Yes, I do. For the reasons previously described in my direct and rebuttal testimonies,  
7 I continue to recommend that the Company maintain the three pricing districts as  
8 approved by the Commission and that the rates for each district be established based  
9 on their respective cost of service.

10 RESPONSE TO MS. HEPPENSTALL

11 Q HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF MS. CONSTANCE  
12 HEPPENSTALL ON BEHALF OF MAWC?

13 A Yes, I have.

14 Q AT PAGE 12 OF HER REBUTTAL TESTIMONY, SHE DISMISSES DISTRICT-  
15 SPECIFIC PRICING BECAUSE SHE CLAIMS THAT IT DOES NOT SOLVE  
16 SUBSIDIES WITHIN A DISTRICT. HOW DO YOU RESPOND?

17 A Ms. Heppenstall's argument with respect to district-specific pricing is a red herring.  
18 District-specific pricing and intra-class subsidies within a district are two distinct and  
19 separate issues. Ms. Heppenstall's argument should not be given any weight.

20 District-specific pricing ensures that a district's total cost of service is based on  
21 the costs incurred to provide service to that particular district's customers. In other  
22 words, district-specific pricing helps to eliminate inter-district subsidies.

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1           After appropriately determining a district's specific cost of service, intra-district  
2           subsidies, or subsidies that exist between classes within a district, can be mitigated  
3           by ensuring that appropriate functionalization, classification, and allocation occur  
4           within a district when allocating a particular district's specific cost of service to the rate  
5           classes within a district.

6   **Q    AT PAGE 13 OF MS. HEPPENSTALL'S REBUTTAL, WITH RESPECT TO HER**  
7           **OPPOSITION TO DISTRICT-SPECIFIC PRICING, SHE INDICATES THAT THE**  
8           **LACK OF INTERCONNECTION BETWEEN MAWC'S DISTRICTS IS IRRELEVANT**  
9           **WITH RESPECT TO A DISTRICT'S COST OF SERVICE.  HOW DO YOU**  
10          **RESPOND?**

11   **A    As explained in my direct testimony, differences in costs for providing water service**  
12          do indeed exist between districts, such as differences in costs related to physical  
13          characteristics that differ among water districts and sources of water supply, to name  
14          a few. Due to lack of interconnections between the Company's three existing pricing  
15          districts' water systems, the three pricing districts are unable to share treatment  
16          facilities and sources of supplies, and have separate transmission and distribution  
17          systems. As a result, it is appropriate to base these districts' rates on their respective  
18          cost of service. To ignore these cost differences among the three existing water  
19          districts is incorrect.

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1 Q AT PAGE 15 OF MS. HEPPENSTALL'S REBUTTAL, SHE INDICATES THAT IF  
2 DISTRICT-SPECIFIC PRICING IS APPROVED, RATES SHOULD BE SET  
3 ACCORDING TO DISTRICT-SPECIFIC COST OF SERVICE STUDIES. DO YOU  
4 AGREE?

5 A Yes. Each district's specific cost of service should be allocated to the classes within  
6 each district based on cost of service studies that use appropriate functionalization,  
7 classification, and allocation principles in allocating costs to customer classes.

8 Q AT PAGE 15 OF MS. HEPPENSTALL'S REBUTTAL, SHE INDICATES THAT  
9 YOUR SUGGESTION FOR RATE MITIGATION TO ADDRESS AFFORDABILITY  
10 FOR DISTRICTS IS CONTRARY TO YOUR ARGUMENTS AGAINST  
11 CONSOLIDATED PRICING. DO YOU AGREE?

12 A No. As stated in my direct testimony, a district's rates should be based on its specific  
13 cost of service. To the extent a district has internal affordability issues with respect to  
14 establishing cost of service based rates, rate mitigation can be introduced after cost  
15 of service is appropriately calculated for each district.

16 Consolidated district pricing introduces unjust subsidies among pricing  
17 districts. While addressing affordability in a particular district at times may require a  
18 subsidy between districts, such a subsidy should be introduced only after determining  
19 the cost of service for each district.

20 Rate mitigation is a legitimate rate principle and is appropriate when deemed  
21 necessary, but should only be implemented after the cost of service is appropriately  
22 calculated for each district, not through consolidated pricing as proposed by the  
23 Company. For several prior Company rate cases, the St. Louis County District  
24 provided revenue subsidies to other districts, but only after the specific cost of service

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1 was determined for all districts, including the St. Louis County District. This process  
2 established in previous MAWC rate cases provides transparency and allows a  
3 quantification of the specific subsidy between districts.

4 **RESPONSE TO DR. MARKE**

5 **Q HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF DR. GEOFF MARKE**  
6 **FILED ON JANUARY 24 ON BEHALF OF OPC?**

7 **A** Yes, I have. Dr. Marke suggests that my position with respect to the allocation of  
8 lead service line replacement costs is to allocate all service replacement costs to  
9 residential customers, including those costs associated with non-residential services.

10 **Q IS DR. MARKE'S CHARACTERIZATION OF YOUR POSITION CORRECT?**

11 **A** No. To the extent there are lead service line replacement costs related to  
12 non-residential customers, it would be appropriate and consistent with cost causation  
13 to allocate those specific costs for non-residential services to non-residential  
14 customers.

15 My direct testimony was based on my review of the order in WU-2017-0296.  
16 Page 6 of that order implies that the costs associated with lead service line  
17 replacements subject to the docket were related to only residential customers, and  
18 not non-residential customers. For example, the order states the following related to  
19 lead line replacement costs:

20 MAWC proposes to replace the entire lead portion of service lines  
21 in St. Louis County from the newly installed water main to the  
22 customer's home when service lines containing lead are  
23 discovered.

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1 Q DOES MS. HEPPENSTALL INDICATE HOW THE COSTS ASSOCIATED WITH  
2 LEAD SERVICE LINE REPLACEMENT COSTS WOULD BE ALLOCATED TO  
3 CLASSES?

4 A Yes, she does. At page 17 of her testimony, she states that lead service line  
5 replacements costs would be allocated to customers based on the weighted number  
6 of services, or service equivalents. She indicates that this approach is consistent with  
7 MAWC's historical allocation of costs associated with service lines.

8 Q DO YOU AGREE WITH MS. HEPPENSTALL'S PROPOSED APPROACH TO THE  
9 ALLOCATION OF LEAD SERVICE LINE REPLACEMENT COSTS TO CLASSES?

10 A No, I do not. I recommend that the cost of lead service line replacement costs be  
11 directly assigned to the classes responsible for the costs. Direct assignment of these  
12 unique costs is preferable to the historical allocation because it will better ensure that  
13 costs follow the benefits.

14 Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

15 A Yes, it does.

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