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Missouri-American Water Company
(MAWC)

Case No. WR-2017-0285

Prepared Rebuttal Testimony of

Donald Johnstone

On behalf of

Public Water Supply District No. 1 of Andrew County
Public Water Supply District No. 2 of Andrew County
* (Water District Intervenors)

January, 2018



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File No. WR-2017-0285

Before the
Missouri Public Service Commission

**Missouri-American Water Company
(MAWC)**

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Rebuttal Testimony of Donald Johnstone**

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Before the
Missouri Public Service Commission

Missouri-American Water Company

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Prepared Rebuttal Testimony of Donald Johnstone

1 Q PLEASE STATE YOUR NAME AND ADDRESS.

2 A My name is Donald Johnstone and my business address is 384 Black Hawk Drive, Lake
3 Ozark, Missouri, 65049. I am employed by Competitive Energy Dynamics, L.L.C.

4 Q ON WHOSE BEHALF ARE YOU APPEARING?

5 A I am appearing on behalf of Public Water Supply District Nos. 1 and 2 of Andrew
6 County ("Water District Intervenors"). The Water District Intervenors are presently
7 served under Rate B in Missouri-American Water Company ("MAWC") District 2. Rate B
8 is the Sale of Water for Resale rate.

9 Q PLEASE STATE YOUR QUALIFICATIONS AND EXPERIENCE.

10 A I have been working in the utility business since 1973. I started my civilian career at
11 the Union Electric Company, where I worked in power operations and corporate
12 planning. Since 1981 I have worked as a consultant in the field of utility regulation.
13 My work has taken me to many states and I have addressed matters including rate

1 design, the cost of service, fuel costs, forecasting, resource planning, and industry
2 restructuring. My experience has included electric, gas, water, sewer, and steam
3 utility services. A more complete description is set forth in Appendix A.

4 **BACKGROUND**

5 Q WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

6 A The purpose of my rebuttal testimony is to respond to specific rate design issues set
7 forth in the direct testimony of MAWC and the Commission Staff. These discreet issues
8 specifically impact the Water District Intervenors.

9 Q CAN YOU BRIEFLY DESCRIBE THE WATER DISTRICT INTERVENORS?

10 A Yes. The Water District Intervenors are not-for-profit political subdivisions serving
11 rural customers in areas outside of St. Joseph, Missouri, and are among MAWC's larger
12 customers. Historically they were within MAWC's St. Joseph District and now,
13 following MAWC's last rate case (Case No. WR-2015-0301), they are in the District 2
14 service area for water customers. As noted above, they are served under the MAWC
15 Rate B, the Sale of Water for Resale rate.

16 Q HAS MAWC PRESENTED CURRENT COST OF SERVICE DATA FOR THE ST. JOSEPH
17 DISTRICT IN THIS CASE?

18 A No. MAWC presents only a study that rests on the premise of fully consolidated rates.

1 Q IF NOT MAWC, HAS STAFF PRESENTED CURRENT COST OF SERVICE DATA FOR THE
2 ST. JOSEPH DISTRICT IN THIS CASE?

3 A No. Staff presents only a study that rests on the premise that the existing admixture
4 of partially consolidated service areas will be continued, albeit with adjustments to
5 reflect newly acquired systems.

6 Q DO ALL CUSTOMERS WITHIN THE SALE FOR RESALE CLASS CURRENTLY PAY THE
7 SAME RATE?

8 A No. First, there are separate sale for resale rate schedules (Rate B). There is a Rate B
9 for each of the existing three districts, as one would expect. Second, there are
10 several sale for resale customers that pay a rate lower than Rate B. These particular
11 sale for resale customers would continue to enjoy their existing lower rates under the
12 MAWC rate proposal.

13 CONSOLIDATION AS APPLIED TO THE SALE FOR RESALE RATES

14 Q DO YOU SUPPORT COST-BASED RATES?

15 A Yes. Throughout my career I have supported cost-based rates. Equity, efficiency,
16 conservation and rate stability are generally attributes of cost-based rates.
17 Understandability and ease of administration are also considerations in the
18 establishment of rates.

19 In the past MAWC cases in which I participated, I supported cost-based district
20 specific rates. However, the Commission Report and Order in the last case, WR-2015-
21 0301 had findings that it used to approve a move to “hybrid” rates that were partially

1 consolidated into three districts. Further, it is my understanding that the result so
2 ordered remains intact after being tested in the courts.

3 In consideration of the Commission directed movement to consolidated pricing,
4 I have been asked to offer testimony in the instant proceeding based on the
5 presumption that the policy direction towards consolidated prices will continue.

6 **Q GIVEN THAT MAWC STATEWIDE CONSOLIDATED PRICING IS THE DIRECTION, ARE**
7 **THERE ANY ISSUES THAT ARISE IN THIS PROCEEDING AS A RESULT OF THE MAWC**
8 **PROPOSED SALE FOR RESALE RATES?**

9 **A** Yes, there are several issues that arise. First, in the direct testimony of Company
10 Witness Mr. Jenkins (at pp. 38 - 48) MAWC details its case for consolidated pricing.
11 However, the dozen or so pages of detailed support notwithstanding, MAWC proposes
12 to maintain nonconsolidated rates to be applicable to sale for resale customers. In the
13 direct testimony of Company Witness Mr. LaGrand (p. 18), the Company states that for
14 Rate B customers, the Company is proposing two rates: one for District 1 and one rate
15 for District 2 and District 3 customers. Mr. LaGrand further notes that special contract
16 rates will not be impacted by this change. The only rationale offered is
17 “gradualism.”

18 **Q IS THERE MEANINGFUL PROGRESS TOWARDS A CONSOLIDATED RATE B UNDER THE**
19 **MAWC PROPOSAL?**

20 **A** No. Following are the percentage increases proposed by MAWC for the sale for resale
21 class by district (LaGrand Direct Testimony, Schedule BWL-2, CAS-11-12, District 1 p.1
22 of 12, District 2 p. 1 of 12, District 3 p. 1 of 8):

	<u>District</u>	<u>MAWC Proposed Increase</u>
1		
2		
3		
4	Existing District 1	7.90%
5	Existing District 2	8.43%
6	Existing District 3	10.02%

7 District 1, with the lowest existing Rate B, would enjoy the lowest revenue increase.
8 Districts 2 and 3 are consolidated, but the benefit of a consolidation with the lower
9 cost District 1 is denied.

10 **Q HOW ARE THE WATER DISTRICT INTERVENORS HARMED BY THE MAWC SALE FOR**
11 **RESALE RATE PROPOSAL?**

12 **A** The Water District Intervenors would be harmed because they would be deprived of a
13 consolidated Sale For Resale rate that would lower their cost. Instead, the District 1
14 sale for resale customer class, that presently enjoys the lowest Sale for Resale rates,
15 would provide only a below average increase in Sale for Resale class revenues.

16 **Q WHAT CHANGES DO YOU RECOMMEND IN THE SALE FOR RESALE RATES?**

17 **A** The rates should be consolidated. First there should be only one Rate B that would be
18 applicable for all service areas. Second, all sale for resale customers, along with all
19 other customers, should participate in paying for the new Platte County facility.
20 Indeed, this is one of the essential considerations in support of the move to
21 consolidated pricing.

1 Q DOES THE STAFF PROPOSE AN APPROPRIATE RATE FOR SALE FOR RESALE
2 CUSTOMERS?

3 A No. Staff maintains a version of the existing three districts adjusted only to
4 accommodate acquisitions. As such, the cost of new Platte County facility is not
5 spread across the state, but remains in District 2.

6 Another equitable problem arises because, as discussed previously, the Water
7 District Intervenors historically purchased water from the St. Joseph District. As such
8 they paid increases above 200% when the new St. Joseph water treatment plant came
9 on line some years ago while rates were being set on a district specific basis. But with
10 the passage of time, by 2015 the St. Joseph District rates had become relatively more
11 favorable. The favorable effects of the passage of time were upset as a result of the
12 partial consolidation in WR-2015-0301. Their rates went up in the last case in part
13 because District 2 was formed by combining the higher cost Platte County and
14 Brunswick districts with the lower cost St. Joseph District.

15 From the perspective of the Water District Intervenors, the Staff proposal stops
16 short of the policy goal of a consolidated tariff. As a consequence Staff would move
17 the District 2 Rate B even further above the intrinsic cost of the St. Joseph District.
18 The Staff proposal is inconsistent with the intended benefits of a consolidated
19 approach. The effect, intended or not, is an arbitrary result.

20 All circumstances considered, the Staff proposal should be rejected in favor of
21 a consolidated tariff, specifically with respect to sale for resale customers.

1 Q PLEASE SUMMARIZE YOUR RECOMMENDATION FOR THE SALE FOR RESALE RATE.

2 A A move to a company-wide consolidated rate would produce a rate that better
3 reflected the cost as defined in the historical context of the Water District Intervenors
4 and the St. Joseph District. It would also reflect the consolidation policy of the
5 Commission, as it is reported in WR-2015-0301.

6 Q DO THE RATES PROPOSED BY STAFF IN ITS REPORT ON COST OF SERVICE AND RATE
7 DESIGN, INCLUDE THE COST OF THE NEW PLATTE COUNTY WATER TREATMENT
8 FACILITY?

9 A No. The cost of the new facilities will be considered as a part of the true up phase of
10 this proceeding. Unfortunately, that means the impact on Rate B in Staff's proposed
11 District 2 has not been quantified by Staff at this time.

12 Q ~~IS IT POSSIBLE THAT THE RATE IMPACT OF THE NEW PLATTE COUNTY FACILITY~~
13 ~~WILL FALL DISPROPORTIONATELY ON SALE FOR RESALE CUSTOMERS AS COMPARED~~
14 ~~TO OTHER DISTRICT 2 CUSTOMERS?~~

15 A ~~Yes. The average impact on all of the Staff's proposed District 2 customers, assuming~~
16 ~~an approximate \$4.9 million cost increase would be approximately 2.1%. To develop a~~
17 ~~rough estimate of Rate B impact I calculated the impact assuming a volumetric~~
18 ~~allocation and Staff's gallons of usage by customer class. In contrast to the 2.1%~~
19 ~~average increase for Staff's proposed District 2, the average increase for the Sale for~~
20 ~~Resale class is roughly estimated to be 8.6%, four times the average for Staff's~~
21 ~~proposed District 2. Assuming the plant comes on line as planned, this illustrates an~~

4 ~~extraordinary impact on the Water District Intervenors that Staff has not yet~~
2 ~~addressed.~~

3 **REVENUE STABILIZATION MECHANISM (RSM)**

4 Q DOES MAWC PROPOSE A REVENUE STABILIZATION MECHANISM FOR THE WATER
5 SYSTEMS AND ALSO FOR ITS SEWER SYSTEMS?

6 A Yes. As proposed the water RSM would apply to sale for resale water customers. it
7 appears that the sewer RSM would affect only sewer customers and it is of no import
8 to the Water District Intervenors.

9 Q HAVE YOU BEEN ASKED TO REVIEW THE MERITS OF THE PROPOSED WATER RSM?

10 A No. I have been asked to examine only the applicability provision.

11 Q WHAT IS THE POSITION OF THE WATER DISTRICT INTERVENORS REGARDING THE
12 APPLICABILITY PROVISION?

13 A The RSM should not apply to the large volume sale for resale class. First, I note that it
14 already does not apply to all water customers. As discussed in Company Witness Mr.
15 Watkins' direct testimony (p. 4), the RSM would apply to residential, commercial,
16 other public authorities and Sale for Resale. Second, applicability to only the
17 residential and commercial classes would be more consistent with the mechanism
18 statutorily authorized for the natural gas utilities, as found in Section 386.266.3.

19 Q DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

20 A Yes it does.

Appendix A
Qualifications of Donald E. Johnstone

1 Q PLEASE STATE YOUR NAME AND ADDRESS.

2 A Donald E. Johnstone. My business address is 384 Black Hawk Drive, Lake Ozark, MO
3 65049.

4 Q PLEASE STATE YOUR OCCUPATION.

5 A I am President of Competitive Energy Dynamics, L. L. C. and a consultant in the field
6 of public utility regulation.

7 Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

8 A In 1968, I received a Bachelor of Science Degree in Electrical Engineering from the
9 University of Missouri at Rolla. After graduation, I worked in the customer engineering
10 division of a computer manufacturer. From 1969 to 1973, I was an officer in the Air
11 Force, where most of my work was related to the Aircraft Structural Integrity Program
12 in the areas of data processing, data base design and economic cost analysis. Also in
13 1973, I received a Master of Business Administration Degree from Oklahoma City
14 University.

15 From 1973 through 1981, I was employed by a large Midwestern utility and
16 worked in the Power Operations and Corporate Planning Functions. While in the
17 Power Operations Function, I had assignments relating to the peak demand and net
18 output forecasts and load behavior studies which included such factors as weather,
19 conservation and seasonality. I also analyzed the cost of replacement energy
20 associated with forced outages of generation facilities. In the Corporate Planning

1 Function, my assignments included developmental work on a generation expansion
2 planning program and work on the peak demand and sales forecasts. From 1977
3 through 1981, I was Supervisor of the Load Forecasting Group where my
4 responsibilities included the Company's sales and peak demand forecasts and the
5 weather normalization of sales.

6 In 1981, I began consulting, and in 2000, I created the firm Competitive Energy
7 Dynamics, L.L.C. As a part of my thirty-five years of consulting practice, I have
8 participated in the analysis of various electric, gas, water, and sewer utility matters,
9 including the analysis and preparation of cost-of-service studies and rate analyses. In
10 addition to general rate cases, I have participated in electric fuel and gas cost reviews
11 and planning proceedings, policy proceedings, market price surveys, generation
12 capacity evaluations, and assorted matters related to the restructuring of the electric
13 and gas industries. I have also assisted companies in the negotiation of power
14 contracts representing over \$1 billion of electricity.

15 I have testified before the state regulatory commissions of Delaware, Hawaii,
16 Illinois, Iowa, Kansas, Massachusetts, Missouri, Montana, New Hampshire, Ohio,
17 Pennsylvania, Tennessee, Virginia and West Virginia, and the Rate Commission of the
18 Metropolitan St. Louis Sewer District.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

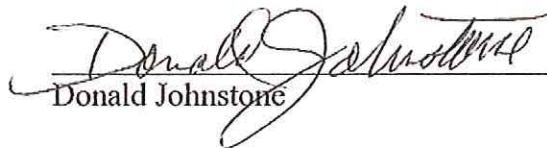
In the Matter of Missouri-American Water)
Company's Request for Authority to) Case No. WR-2017-0285
Implement General Rate Increase for)
Water and Sewer Service Provided in)
Missouri Service Areas)

AFFIDAVIT OF DONALD JOHNSTONE

STATE OF MISSOURI)
) ss
COUNTY OF SAINT LOUIS)

Donald Johnstone, of lawful age and being first duly sworn, deposes and states:

1. My name is Donald Johnstone. I am a President of Competitive Energy Dynamics, LLC.
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 affidavit are true and correct to the best of my knowledge and belief.


Donald Johnstone

Subscribed and sworn to me this 23rd day of January, 2018.



Notary Public

My commission expires
May 15, 2021

