

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

In the Matter of Missouri-American Water)	
Company's Request for Authority to Implement)	<u>File No. WR-2017-0285</u>
General Rate Increase for Water and Sewer)	<u>File No. SR-2017-0286</u>
Service Provided in Missouri Service Areas.)	

CITY OF WARRENSBURG INITIAL BRIEF

COMES NOW the City of Warrensburg, Missouri (hereinafter referred to as "Warrensburg"), by and through counsel, and files its Initial Brief in this matter. Warrensburg continues to advocate for a return to eight-district pricing. However, if the Commission declines to reverse course, then it should not continue with three-district pricing but rather should take the final step to adopt single tariff pricing, subject to an offset mechanism to assure a more reasonable transition.

ISSUES ADDRESSED

(from List of Issues, Order of Witnesses, Order of Cross-Examination and Order of Opening Statements, filed February 15, 2018)

31. Water Rate Design

- a. Single Tariff Pricing / District Specific Pricing – Should the Commission keep the current water district structure, adopt single tariff pricing for the water customers, or return to eight water districts?

Warrensburg continues to urge the Commission to direct the Company to return to the eight rate districts that existed prior to the Report and Order in Case No, WR -2015-0301. The eight-district rate structure best reflects the actual cost of service (particularly the capital costs) of each of the MAWC rate districts, while

allowing all customers to benefit from the sharing of truly common costs of service.

The eight-district approach complies with long-established utility ratemaking laws and principles that customers should only pay reasonable rates based on assets in rate base that are “used and useful” and other costs related to (caused by) providing service to them. (**McGarry Direct**, MJM-11, ll. 1-8 and footnote 10; MJM-13, l. 10 – MJM-14, l. 4; **McGarry Rebuttal**, p. 4, lines 16-17 and footnote 5, p. 5, ll.3-7 and footnote 7). MAWC’s proposed Single-Tariff Pricing violates these legal requirements by forcing customers in one geographic area to subsidize the rates of other customers in other totally separate areas. (**McGarry Direct**, MJM-10, l. 27 through MJM-11, lines 1-13 and footnote 10). Likewise, Staff’s three-district proposal would require some MAWC customers to subsidize others and pay for plant in service areas not their own and other costs unrelated to providing their water service, as demonstrated in Mr. McGarry’s Direct Testimony. (**McGarry Direct**, p. 12, l. 1 through p. 14, l. 11). In contrast, district-specific pricing through eight districts would establish reasonable rates on a cost-causation basis and avoid unlawful subsidization. (**McGarry Rebuttal**, p. 5, l. 3 – p. 7, l. 16).

Ratepayers in the Coalition Cities have been bearing the substantial costs of capital investments in their service area on their own for many years. These customers should not now be burdened with also having to pay for infrastructure in other parts of the state as proposed by MAWC and Staff. (**McGarry Direct**, p. 15, l. 14-16). Moreover, given the low cost of serving Warrensburg, it would be

unreasonable to make it shoulder the higher cost burdens associated with other service areas. (**Heppenstall Rebuttal, p. 14**).

Exhibit 136 provides the Commission with detailed information concerning the rate impacts of the Company's single tariff proposal and continuation of the three-district pricing model. Prior to making its decision in this matter, the Commission should direct the Company and Staff to provide the same amount of detail concerning eight-district prices, so that it can be fully informed of the impacts and see the benefits of that rate structure. The Coalition Cities could not compel these other parties to calculate these impacts.

This case was advertised to the public at the outset as a request for a 25% increase in rates for the Company. The stipulated revenue requirement is only half of the original "ask", so rates should only increase about 12.5%. The Commission should keep the public's reasonable expectations in mind as it makes its final rate design decision and not impose excessive rate increases that would shock the public.

31. Water Rate Design

a.i. Offset Mechanism – If the Commission orders consolidated tariffs for water service, should it also order the implementation of the Coalition City Offset Mechanism to allow certain service areas to avoid paying certain capital investment costs?

If either the Company's or the Staff's rate design proposal is adopted by the Commission, absent an offset mechanism, customers in Warrensburg and the other Coalition Cities will be required to share in the costs of capital

investments in other distant service areas, despite having already borne alone for years the costs of capital investments in their own service areas. To mitigate that inequitable outcome, the Commission should direct the Company to use a “rate-offset” mechanism as proposed by Mr. McGarry. (**McGarry Direct**, p. MJM-14, l. 13 – MJM-15, l.22). Such an offset mechanism would at least provide customers in Warrensburg and the other Coalition Cities with some semblance of fairness for having shouldered alone the costs of major plant investments in their service areas for years and now being required to bear such investments that only benefit customers in other cities and districts. (**McGarry Surrebuttal**, p. 2, ll. 15-19) The offset would be applied as a credit on customer bills for a specific period of time. (**McGarry Direct**, p. MJM-14, l. 22 – MJM-15, l.6; **McGarry Rebuttal**, p. 11, l. 13-p. 12, l. 4; **McGarry Surrebuttal**, p. 2, ll. 8-12, 20-21, p. 5, l. 17 – p. 11, l. 20).

The Commission should order the Company to engage in a collaborative effort to promptly develop the offset mechanism to submit for Commission approval. (**McGarry Surrebuttal**, p. 7, ll. 5-13, p. 14, ll. 6-7).

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- b. Impacts of Pricing Districts on cities/service Areas
 - i. If the Commission adopts either MAWC’s or Staff’s rate district proposal, should the Commission establish a working group or collaborative process to determine a rate offset for cities/service areas that have borne the costs of their own system upgrades since 2000?
 - ii. If the Commission adopts either MAWC’s or Staff’s rate district proposal, should the Commission establish a working group or

collaborative process to explore capital expenditure tracking mechanisms?

For the reasons stated above, a rate offset should be established to ensure the justness and reasonableness of rates for *all* MAWC customers if the Commission adopts either Company's or Staff's rate design proposal in this case. Without such an offset, customers in the Coalition Cities will have borne the costs of infrastructure investments in their service areas alone for years and yet now be forced to bear the costs of infrastructure investments in disparate service areas that bring no benefit to them. This would unlawfully require customers in the Coalition Cities to subsidize the rates of other customers who have avoided costs already borne by customers in the Coalition Cities. The Commission should order the Company to engage in a collaborative effort to calculate the offsets. **(McGarry Surrebuttal, p. 7, ll. 5-13, p. 14, ll. 6-7)**

Alternatively, a capital expenditure tracking mechanism would enable Company, Staff, OPC and all parties to keep closer track of capital project costs. **(McGarry Surrebuttal, p. 12, ll. 1- p. 13, l. 9)** This would, at the very least, be an enhancement of the current Commission requirement that MAWC file a 5-year capital expenditure plan annually, as ordered in WR-2015-0301.

WHEREFORE, the City of Warrensburg urges the Commission to return to eight-district pricing. However, if the Commission declines to reverse course, then it should not continue with three-district pricing but rather should take the final step to adopt single tariff pricing, subject to an offset mechanism to assure a more reasonable transition.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that the undersigned has caused a complete copy of the attached document to be electronically filed and served on the Commission's Office of General Counsel (at gencounsel@psc.mo.gov), the Office of Public Counsel (at opcservice@ded.mo.gov), counsel for Missouri-American, and all counsel of record on this 28th day of March 2018.

/s/ Carl J. Lumley