

Exhibit No.:
Issues: Cost of Service, Rate Design
Witness: Brian C. Collins
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Missouri Industrial Energy Consumers
Case No.: WR-2017-0285
Date Testimony Prepared: January 24, 2018

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Service Commission

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

Rebuttal Testimony of

Brian C. Collins

On behalf of

Missouri Industrial Energy Consumers

January 24, 2018



BRUBAKER & ASSOCIATES, INC.

Project 10440

Exhibit No. 504
Date 3/8/18 Reporter MM
File No. WR-2017-0285

1 Q WHAT IS THE SUBJECT MATTER OF THIS REBUTTAL TESTIMONY?

2 A I will address consolidated pricing in establishing the Company's rates in this rate
3 case as well as provide some additional clarification for my class revenue allocation
4 and rate design proposal presented in my direct testimony.

5 Q HAVE YOU REVIEWED THE TESTIMONY PRESENTED ON BEHALF OF THE
6 CITY OF RIVERSIDE?

7 A Yes, I have reviewed the testimony of Mayor Kathleen L. Rose on behalf of Riverside.
8 Mayor Rose supports consolidating all of the Company's customers into a single
9 pricing district for the purpose of establishing the Company's rates in this case.

10 Q WHAT WAS YOUR POSITION IN DIRECT TESTIMONY WITH RESPECT TO
11 CONSOLIDATED PRICING FOR THE COMPANY?

12 A As indicated in my direct testimony, I am opposed to consolidated pricing because it
13 does not best reflect cost causation on the Company's system.

14 Q BASED ON YOUR REVIEW OF RIVERSIDE'S TESTIMONY, HAS YOUR POSITION
15 CHANGED?

16 A No, it has not. As in my direct testimony, I recommend that the Company's pricing
17 districts, as approved by the Commission in the last rate case, continue to be used to
18 establish rates for the Company's customers in this case.

19 Q HAVE YOU ALSO REVIEWED THE DIRECT TESTIMONY OF OPC AND STAFF
20 WITH RESPECT TO COST OF SERVICE AND RATE DESIGN?

21 A Yes, I have.

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1 Mr. Geoff Marke indicates in his testimony on behalf of OPC that he is also
2 opposed to consolidated pricing for this rate case.

3 Consistent with my recommendation in direct testimony, Staff recommends
4 that the three pricing districts established in the last rate case continue to be used for
5 establishing rates in this case.

6 **Q HAVE YOU REVIEWED THE DIRECT TESTIMONY OF MR. MICHAEL J.**
7 **MCGARRY, SR. ON BEHALF OF THE CITIES?**

8 **A**Yes, I have. Mr. McGarry opposes consolidated pricing and recommends that rates
9 for the Company be established based on the eight pricing districts in place prior to
10 the Company's rate case in WR-2015-0301.

11 **Q DO YOU OPPOSE THE CITIES' RECOMMENDATION FOR EIGHT PRICING**
12 **DISTRICTS?**

13 **A**No, I do not oppose the Cities' recommendation. In fact, in the last MAWC rate case,
14 the MIEC recommended that the eight pricing districts be maintained.

15 **Q DO YOU HAVE ANY ADDITIONAL CLARIFICATION WITH RESPECT TO YOUR**
16 **CLASS REVENUE ALLOCATION AND RATE DESIGN PROPOSAL PRESENTED**
17 **IN YOUR DIRECT TESTIMONY?**

18 **A**Yes, I do.
19 In direct testimony, I proposed that each rate class at proposed rates be
20 brought to its respective cost of service as calculated by my colleague, Ms. Jessica
21 York. As shown on Schedule BCC-2 of my direct testimony, under my proposed
22 class revenue allocation, and at the Company's claimed revenue deficiency, Rate J

1 customers would receive an increase of \$2,115,835. This is about \$392,000 less than
2 the Company's proposed revenue increase of \$2,507,642 for Rate J customers on a
3 statewide basis. I recommended accepting the Company's proposed customer
4 charge revenues, and reducing the Company's proposed commodity charge revenue
5 for Rate J customers by about \$392,000 to bring Rate J to cost of service on a
6 statewide basis, based on the results of Ms. York's class cost of service study.

7 Based on the purchased power expense for Rate J in each District, provided
8 in the Company's response to MIEC Data Request 2-2, I recommend that the
9 \$392,000 statewide reduction to the Company's proposal for Rate J customers be
10 applied 54% to District 1 Rate J customers, 24% to District 2 Rate J customers, and
11 22% to District 3 Rate J customers.

12 This would reduce the commodity charge revenue for District 1 Rate J
13 customers by approximately \$211,680.

14 **Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

15 **A** Yes, it does.

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Exhibit No.:
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Witness: Brian C. Collins
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Missouri Industrial Energy Consumers
Case No.: WR-2017-0285
Date Testimony Prepared: February 9, 2018

**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

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On behalf of

Missouri Industrial Energy Consumers

February 9, 2018



BRUBAKER & ASSOCIATES, INC.

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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

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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