

Exhibit No.:
Issue: Rate Design
Witness: Billie S. LaConte
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Sponsoring Party: Missouri Energy Group
Case No.: WR-2003-0500
Date Testimony Prepared: November 10, 2003

Missouri American Water Company

2003 Rate Case

Before the Missouri Public Service Commission

Rebuttal Testimony of Billie S. LaConte

on Behalf of the Missouri Energy Group

**Project 031300
November, 2003**

Missouri American Water Company

Public Service Commission 2003 Rate Case

Affidavit of Billie S. LaConte

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS)

Billie S. LaConte, being of lawful age and duly affirmed, states the following:

1. My name is Billie S. LaConte. I am a consultant in the field of public utility economics and regulation and a member of Drazen Consulting Group, Inc.
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony consisting of Pages 1 through 5 filed on behalf of the Missouri Energy Group.
3. I have reviewed the attached Rebuttal Testimony and hereby affirm that my testimony is true and correct to the best of my knowledge and belief.



Billie S. LaConte



Duly affirmed before me this 10th day of November, 2003.

Notary Public

My commission expires on December 29, 2006.



SHERYL M. FENELON
St. Louis County
My Commission Expires
December 29, 2006

Missouri American Water Company

Public Service Commission 2003 Rate Case

Rebuttal Testimony of Billie S. LaConte

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Billie S. LaConte, 8000 Maryland Avenue, Suite 1210, St. Louis, Missouri.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility economics and regulation and a member of Drazen Consulting Group, Inc.

Q ARE YOU THE SAME BILLIE LACONTE THAT SUBMITTED TESTIMONY PREVIOUSLY IN THIS CASE?

A Yes.

Q PLEASE DESCRIBE THE MAIN POINTS OF YOUR REBUTTAL TESTIMONY.

A This testimony will discuss both MAWC's and the Staff's methods for allocating distribution main costs to the various rate classes in the St. Louis County District.

Specifically, it will address the calculation of Factor 4, which was used in the cost of service studies performed by MAWC and Staff to allocate distribution mains costs.

Additionally, I will address MAWC's rate design in general and comment on the necessity for consolidated billing.

Factor 4

Q PLEASE DESCRIBE MAWC'S METHOD FOR CALCULATING FACTOR 4.

A Factor 4 is calculated on average hourly consumption. MAWC's approach is "to exclude consumption for certain large customers connected primarily to large mains, commonly referred to as transmission mains, in Joplin, St. Joseph and St. Louis County districts. This was done to recognize that certain industrial and sales for resale customers are connected directly to the transmission system and do not benefit from the smaller distribution mains" (MAWC Direct Testimony of Paul R. Herbert, Page 8). For the St. Louis County District, the Company excluded all sales-for-resale customers' consumption from Factor 4. For the industrial customers, MAWC performed an analysis of the Rate J class and found that of the 215 customers on this rate, only 103 are connected to mains smaller than 12 inches. Of these 103 customers, the length of the distribution mains used to serve these customers is only 1.3% of the total feet of distribution mains on the system, so the Company included only 10% of the Rate J consumption in the calculation of Factor 4.

Q HOW DID THE STAFF CALCULATE FACTOR 4?

A The Staff's method for calculating Factor 4 allocates the costs using 100% of the sales-for-resale and Rate J average hourly consumption. This method does not recognize the Company's point that most of these large users are connected directly to transmission mains and that the amount of distribution mains they use is very small.

Q WHAT EFFECT DOES THE STAFF'S METHOD HAVE ON LARGER CUSTOMERS?

A This results in large customers being allocated costs of distribution mains that they do not use. It produces rates that are not based on cost incurrence or responsibility.

Q HAVE OTHER COMMISSIONS DEALT WITH THIS ISSUE?

A Yes. For example, the Kentucky Public Service Commission ruled that small diameter mains should not be allocated to the wholesale class:

*The Commission has ordered in a recent case involving wholesale rates that the costs associated with mains that do not benefit the wholesale customer are not to be included in the wholesale rate. The Commission finds that **costs associated with mains smaller than 10 inches should not be allocated to the wholesale class.** (Application of Northern Kentucky Water District For (A) An Adjustment of Rates; (B) A Certificate of Public Convenience and Necessity For Improvements to Water Facilities If Necessary; And (C) Issuance of Bonds, Case No. 2002-00105, Page 26, emphasis added)*

The Illinois Commerce Commission approved a cost allocation method recommended by its Staff that recognized that large customers do not use smaller mains.

*In allocating the costs of smaller mains, Staff assigned costs associated with distribution recovered in the first two usage blocks. In Staff's view, this allocation is appropriate because it recognizes that **many industrial customers, though connected to the grid distribution system, do not use the smaller mains and are only slightly dependent on the grid distribution system** of smaller mains for pressure requirements. (Re: Northern Illinois Water Corporation), 148PUR4th515,522, emphasis added)*

Q WHY SHOULD THE COMMISSION RECOMMEND MAWC'S METHOD FOR DETERMINING FACTOR 4?

A The Commission should approve MAWC's method for allocating the costs of distribution mains because it is fair and results in rates that are more representative of how the system is used.

Under the Staff's method, Rate J customers would be exposed to higher costs. Indeed, in its Complaint the Staff recommends that MAWC's St. Louis County District's revenue requirement should be reduced by \$18.4 million, yet the sales-for-resale and industrial rates would *increase*. This discrepancy is due, in part, to the misallocation of costs for distribution mains.

The Missouri Commission has stated in previous cases that:

The cost of service is but one consideration in determining the reasonableness of rates. It is not just the methodology or theory behind any proposed rates but the impact of the rate order which counts in determining whether rates are just, reasonable, lawful, and non-discriminating. The quintessence of a just and reasonable rate is that it is just and reasonable to both the utility and its customers. (184PUR4th359,368, Re: Associated Natural Gas Company)

Using MAWC's cost allocation method will result in just and reasonable rates for all rate classes in the St. Louis County District.

Consolidated Billing

Q PLEASE DESCRIBE CONSOLIDATED BILLING.

A Simply put, consolidated billing allows eligible customers with several locations to consolidate their usage on a single bill. Where the consolidated usage is sufficient, it would qualify for billing under the industrial tariff.

Q WHAT ARE THE ELIGIBILITY REQUIREMENTS FOR CONSOLIDATED BILLING?

A Locations eligible for consolidation must be located on the same parcel of land or contiguous parcels of land. In addition, eligible customers must meet the minimum monthly usage requirements as stated in the industrial tariff.

Q WHY SHOULD MAWC OFFER CONSOLIDATED BILLING?

A From a fairness standpoint, consolidated billing better reflects the cost of service for eligible customers. Such a customer *could* install new pipes to achieve the same effect as consolidated billing, but it would be more cost effective if MAWC were to consolidate the customer's usage.

Q DOES THIS CONCLUDE YOUR TESTIMONY?

A Yes.