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Issues:	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)
 a General Rate Increase for Water and Sewer)
 Service Provided in Missouri Service Areas)
 _____)

Case No. WR-2015-0301

Rebuttal Testimony of
Brian C. Collins

On behalf of
Missouri Industrial Energy Consumers

February 19, 2016



Project 10135

MIEC Exhibit No. 3
 Date 3-21-16 Reporter TK
 File No. WR-2015-0301

1 design. I will specifically address Staff's proposed rate design as described by
2 Mr. Busch in his testimony.

3 **Q WHAT WATER RATE DESIGN IS USED FOR MISSOURI-AMERICAN WATER**
4 **COMPANY'S ("MISSOURI-AMERICAN" OR "COMPANY") PRESENT RATES?**

5 A The Company's present water rates are based on District-Specific Pricing ("DSP") for
6 the largest seven water districts¹ and consolidated pricing for the remaining small
7 water districts.² In my direct testimony, I recommended that the Company's districts
8 continue to be priced at DSP and that the Commission reject the Company's proposal
9 for consolidated pricing for all districts. With DSP, water rates are developed for each
10 operating district based upon the costs incurred (both direct costs and allocated
11 corporate costs) in providing water service to each individual operating district. I
12 outlined the efficiency price signals created by DSP in my direct testimony at page 5.

13 **Q WHAT IS THE PRIMARY BENEFIT OF YOUR DIRECT TESTIMONY**
14 **RECOMMENDATION THAT DSP CONTINUE TO BE USED TO DEVELOP THE**
15 **COMPANY'S WATER RATES?**

16 A The primary benefit of DSP is to develop efficient pricing that reflects the cost of
17 providing water service, referred to as cost causation. Under DSP, the cost causers
18 pay for the costs incurred by the Company in providing water service. This is in
19 contrast to the Company's proposal for consolidated pricing, which as I explained in
20 my direct testimony, abolishes the concept of cost causation since it ignores the
21 differences in operating costs of providing service in each district as well as the

¹St. Louis Metro, St. Joseph, Joplin, Jefferson City, Platte County, Mexico, and Warrensburg.

²Brunswick, Lakewood Manor, Spring Valley, Ozark Mountain, Lake Taneycomo, White Branch, Rankin Acres, Riverside Estates, Roark and Lake Carmel/Maplewood.

1 differences in rate base investment that have been incurred to provide water service
2 in each operating district. As a result, consolidated pricing results in price subsidies
3 to customers in high-cost districts at great cost to customers in low-cost districts.
4 Stated differently, consolidated pricing results in prices that do not reflect costs. This
5 in turn results in improper price signals that encourage subsidized customers to make
6 inefficient consumption decisions.

7 **Q WHAT RATE DESIGN APPROACH DOES STAFF RECOMMEND IN ITS DIRECT**
8 **TESTIMONY?**

9 A Staff recommends a hybrid rate design consisting of both DSP and consolidated
10 pricing.

11 **Q WHAT IS STAFF'S SPECIFIC RATE DESIGN PROPOSAL FOR MISSOURI-**
12 **AMERICAN'S WATER DISTRICTS?**

13 A Staff proposes to create three distinct water districts with consolidated pricing within
14 each of the three districts. The hybrid districts would be made up of the following
15 service districts:

- 16 • Water District 1 – St. Louis Metro, Mexico, Jefferson City, Anna Meadows,
17 Redfield, and Lake Carmel.
- 18 • Water District 2 – St. Joseph, Platte County, and Brunswick.
- 19 • Water District 3 – Joplin, Stonebridge, Warrensburg, White Branch, Lake
20 Taneycomo, Lakewood Manor, Rankin Acres, Spring Valley, Tri-States,
21 Emerald Pointe, Maplewood, and Riverside Estates.

22 **Q DO YOU AGREE WITH STAFF'S HYBRID RATE DESIGN PROPOSAL?**

23 A No, I do not agree with Staff's proposal.

1 Q WHY DO YOU DISAGREE WITH STAFF'S RATE DESIGN PROPOSAL?

2 A Staff's proposal results in unjust subsidies being paid by customers in lower-cost
3 districts. I do not agree that lower-cost districts should pay higher rates to provide
4 these subsidies to higher cost districts as proposed by Staff.

5 Q AT PAGE 7 OF HIS DIRECT TESTIMONY, MR. BUSCH EXPLAINS WHY STAFF IS
6 PROPOSING TO MOVE AWAY FROM THE LONG-STANDING PRACTICE OF DSP
7 PRICING AND IS NOW PROPOSING A HYBRID PRICING APPROACH IN THIS
8 CASE. WHAT REASONS DOES HE PROVIDE?

9 A He provides the following four reasons as justification for Staff's proposal:

- 10 1. The increase in the number of water districts, particularly smaller water
11 districts, creates difficulty in allocating costs to the districts, particularly
12 corporate costs.
- 13 2. The increased number of districts puts a strain on Staff resources.
- 14 3. Investment in higher cost smaller districts is spread to a larger customer
15 base.
- 16 4. Staff's proposal encourages Missouri-American and other utilities to
17 purchase water and sewer systems in Missouri.

18 Q WHAT IS YOUR RECOMMENDATION WITH RESPECT TO DISTRICT REVENUE
19 ALLOCATION AND RATE DESIGN?

20 A I recommend that the seven largest districts remain on DSP. These seven districts
21 include: St. Louis Metro, St. Joseph, Joplin, Jefferson City, Platte County, Mexico,
22 and Warrensburg. My recommendation best reflects cost-causation principles and
23 recognizes the differences in the costs of providing water service to each of these
24 separate districts.

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1 Further, I recommend the remaining small districts³ continue to be combined
2 as a single water district with multiple groups. Under present rates, one group
3 consists of systems that are charged a flat rate, while the other three groups' rates
4 are based on similar commodity charges within each group.

5 **Q WHY ARE YOU RECOMMENDING THAT THE SMALL WATER DISTRICTS**
6 **CONTINUE TO BE COMBINED?**

7 **A** My proposal for large districts to stand on their own, and combining small districts, will
8 reduce the number of cost of service studies Staff must examine in rate proceedings,
9 and will accomplish the first three of the four reasons Staff cited for moving away from
10 DSP. As for the fourth reason, encouraging the purchase of water and sewer
11 systems by Company and others, I address that below.

12 **Q DOES STAFF PROPOSE A SUBSIDY BE PAID BY THE WATER DISTRICT**
13 **CUSTOMERS TO THE SEWER DISTRICT CUSTOMERS?**

14 **A** Yes.

15 **Q DO YOU AGREE WITH STAFF'S PROPOSED SEWER SUBSIDY?**

16 **A** No. Staff proposes that its proposed Water District 2 provide a subsidy to the
17 Company's sewer districts in the amount of \$39,345. It is my understanding this
18 amount may change due to corrections made to the Staff's sewer revenue
19 requirement calculations. Staff's proposed methodology is not based on cost
20 causation and should be rejected.

³Anna Meadows, Redfield, Lake Carmel, Brunswick, Stonebridge, White Branch, Lake Taneycomo, Lakewood Manor, Rankin Acres, Spring Valley, Tri-States, Emerald Pointe, Maplewood, and Riverside Estates.

1 Q ARE THERE ANY OTHER ISSUES YOU WOULD LIKE TO ADDRESS?

2 A Yes. As stated earlier in my testimony, Staff witness Mr. Busch stated that one of the
3 reasons Staff desired to move away from DSP was that it would encourage utilities to
4 purchase water and sewer systems in Missouri.

5 Q PLEASE RESPOND TO THIS ACQUISITION REASON.

6 A Staff's proposal to use consolidated pricing to accomplish this acquisition objective,
7 without any restrictions on the acquisition price of acquired systems, is very troubling.
8 I strongly encourage the Commission to consider placing acquisition criteria on all
9 future acquisitions of water and sewer utilities. These criteria should encourage the
10 acquiring utility to perform due diligence of the target acquisition and limit the
11 acquisition price to an amount that can be supported at reasonable water/wastewater
12 service prices.

13 Such criteria would encourage the acquiring utility to engage in aggressive
14 arms-length negotiations to manage the acquisition price to a reasonable amount and
15 keep the acquired system rate and cost structures to a reasonable level. It is not
16 reasonable for the acquiring utility simply to purchase systems at unreasonable
17 acquisition prices with the expectation that the acquisition price will be subsidized by
18 existing water districts. A reasonable service price criterion will help prevent such
19 transactions from occurring.

20 Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

21 A Yes, it does.

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