

MAWC 37

Exhibit No.:
Issues: Earnings & Revenues,
Affordability
Witness: Jeanne M. Tinsley
Exhibit Type: Surrebuttal
Sponsoring Party: Missouri-American Water
Company
Case No.: WR-2015-0301
SR-2015-0302
Date: March 4, 2016

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2015-0301
CASE NO. WR-2015-0302**

SURREBUTTAL TESTIMONY

OF

JEANNE M. TINSLEY

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

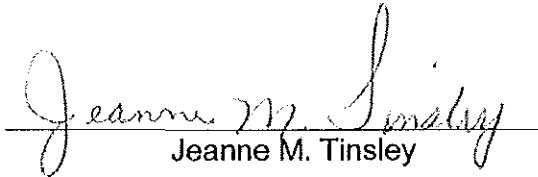
MAWC Exhibit No. 37
Date 3-21-16 Reporter JM
File No. WR-2015-0301

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

IN THE MATTER OF MISSOURI-AMERICAN)	
WATER COMPANY FOR AUTHORITY TO)	
FILE TARIFFS REFLECTING INCREASED)	CASE NO. WR-2015-0301
RATES FOR WATER AND SEWER)	CASE NO. SR-2015-0302
SERVICE)	

AFFIDAVIT OF JEANNE M. TINSLEY

Jeanne M. Tinsley, being first duly sworn, deposes and says that she is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of Jeanne M. Tinsley"; that said testimony and schedules were prepared by her and/or under her direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, she would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of her knowledge.

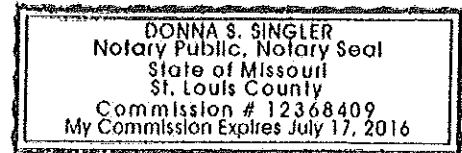


Jeanne M. Tinsley

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 4th day of March 2016.



Notary Public



My commission expires: July 17, 2016

**SURREBUTTAL TESTIMONY
JEANNE M. TINSLEY
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2015-0301
CASE NO. WR-2015-0302**

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SURREBUTTAL TESTIMONY

JEANNE M. TINSLEY

I. INTRODUCTION

1
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4
5
6 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

7 A. My name is Jeanne M. Tinsley, and my business address is 727 Craig Road, St.
8 Louis, MO, 63141.
9

10 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?**

11 A. Yes. I previously filed Direct and Rebuttal Testimony.
12

13 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

14 A. I will address by Mr. Hyneman's statements and contentions on behalf of the
15 Office of the Public Counsel ("OPC") with respect to MAWC's earnings. I will
16 also propose a low income tariff in response to affordability concerns expressed
17 by OPC witnesses Hyneman and Marke.
18

19 II. EARNINGS AND REVENUES 20

21 **Q. MR. HYNEMAN CLAIMS (P. 8) THAT MAWC'S RETURN ON EQUITY IN 2014**
22 **WAS 9%, IMPLYING THAT THERE IS NO NEED FOR RATE RELIEF BASED**
23 **ON TEST YEAR DATA. DO YOU AGREE?**
24

25 A. No. First, I find the Company's return on equity ("ROE") in 2014 to have been
26 8.86%. More to the point, what MAWC earned in 2014 is irrelevant to what a fair

1 rate of return would be when rates go into effect. For example, MAWC's 2015
2 ROE was only 7.78% - below any ROE that Mr. Hyneman claims is proper.
3 Furthermore, his discussion of American Water Works Company's ("AWW")
4 earnings is even less relevant. The Commission will set an appropriate revenue
5 requirement and resulting rates for MAWC, not AWW.

6
7 **Q. MR. HYNEMAN OPPOSES ADOPTION OF MAWC'S PROPOSED REVENUE**
8 **STABILIZATION MECHANISM BECAUSE HE CLAIMS (PAGE 20 OF HIS**
9 **REBUTTAL TESTIMONY) THAT MAWC'S REVENUES ARE "STRONG AND**
10 **GROWING." IS HIS CLAIM ACCURATE?**

11 A. No, it is not. Mr. Hyneman apparently made no inquiry into the source of that
12 revenue growth. Based on a chart he presents on page 18, Mr. Hyneman
13 claims that "MAWC's revenue growth in the period 2011 through 2014 has
14 averaged greater than 3% per year." If he had investigated the source of the
15 alleged "revenue growth" he might have reached a different conclusion. This is
16 because his claim suffers from several fatal deficiencies. First, Mr. Hyneman
17 fails to take into consideration simple revenue increases resulting from rate
18 increases. Second, he completely ignored the effect of recent acquisitions that
19 increase revenue but do not increase earnings. And, third, as Mr. Roach
20 explained, he gave no effect to the well-recognized effect of weather on water
21 company revenue, as well as the trend of reduced water usage per customer.

22 OPC witness Hyneman bases this claim on the following chart he
23 produces on page 18:

1 MAWC WATER ANNUAL REVENUES PER MPSC REVENUE
 2 REPORT ANNUAL REPORT INCREASE
 3 2011 \$241,414,416
 4 2012 \$276,704,900 15%
 5 2013 \$261,404,269 -6%
 6 2014 \$266,542,507 2%
 7 3-year Revenue Growth 10%

8
 9 Mr. Hyneman, however, has made no effort to adjust this chart for: 1) revenue
 10 increases due to rate increases; 2) revenue increases due to ISRS charges that
 11 Hyneman, himself, explicitly discusses on page 15 of his testimony and which will
 12 end with this rate case; and, 3) revenue increases due to acquisitions of troubled
 13 systems. If he had done so, he would have seen a very different picture emerge,
 14 reflecting a three year revenue decline of 4.6% The chart I have produced below
 15 shows the effect of these activities in each year of Mr. Hyneman's table.

16

Missouri American Water Company Total Revenue by Source (2011 - 2014)				
Measure	2011	2012	2013	2014
Base Water Revenue	235,051,760	253,770,945	227,883,832	224,351,189
Base Revenue Percentage Change		7.96%	-10.20%	-1.55%
Rate Case Revenue		15,516,667	23,275,000	23,275,000
ISRS Revenue	2,748,616	2,098,882	6,033,887	14,284,375
Acquisition - Saddlebrooke Water		52,022	47,344	47,307
Acquisition - Tri-States			188,705	578,627
Acquisition - Emerald Pointe				83,303
Other Water Revenue	3,614,040	5,266,384	3,975,501	3,922,706
Total Water Revenue	241,414,416	276,704,900	261,404,269	266,542,507
Base Sewer Revenue	1,722,724	2,251,692	2,352,091	2,306,002
Rate Case Revenue		483,333	725,000	726,000
Acquisition - Saddlebrooke WW		21,830	65,489	65,650
Acquisition - Meramec WW			226,445	278,415
Acquisition - Emerald Pointe WW				237,892
Other Sewer Revenue	2,665	5,929	4,737	4,073
Total Sewer Revenue	1,725,389	2,762,784	3,373,762	3,617,032
MAWC Total Revenue - Actual	243,139,805	279,467,684	264,778,031	270,159,539

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Q. IS THERE SOMETHING ELSE MISSING WITH RESPECT TO THE CLAIMED REVENUE INCREASES?

A. It would be one thing if usage per customer were fueling the revenue increases. In that case, there would be ample revenue to cover expenses and provide for additional earnings. That, however, is not the case. The revenue associated with the acquisition of troubled water systems does not come without cost. Those systems also have expenses and a return on rate base to recover. Revenue growth from acquisitions of smaller systems does not necessarily translate into higher earnings. In fact, earnings can actually be eroded by the acquisition of systems that are not recovering their costs. Similarly, additional revenue from rate cases, only fills in the gap for deficient earnings. Finally, ISRS charges are collected simply to cover the earnings deficiency that would otherwise have been cause by significant non-revenue producing plant additions. Again, it covers associated costs and is completely unlike mere sales increases. In none of these cases mentioned above is the additional revenue somehow "free" to cover new or increasing expenses and, thus to increase earnings.

III. AFFORDABILITY

Q. OPC WITNESSES HYNEMAN COMMENTS ON AFFORDABILITY WHEN DISCUSSING RATEMAKING MECHANISMS AND OPC WITNESS MARKE NOTES THAT NO AFFORDABILITY TARIFF HAS BEEN PROPOSED BY THE DEPARTMENT OF ENERGY ALONG WITH ITS DEMAND-SIDE ENERGY PROPOSALS. WOULD THE COMPANY BE IN FAVOR OF A LOW INCOME RATE FOR ITS CUSTOMERS?

1 A. Yes. MAWC supports consideration of a low income rate for qualifying
2 customers.

3

4 **Q. DOES THE COMPANY HAVE A PROPOSAL FOR A LOW INCOME CHARGE?**

5 A. Yes. The Company would propose a low income customer rate that will offer a
6 discounted fixed charge or minimum bill for residential customers with a 5/8"
7 meter. Discounting the fixed charges for low income customers keeps essential
8 water service affordable to qualified customers, while sending appropriate pricing
9 and demand-side efficiency signals through the volumetric charge. This rate
10 would provide eligible low income customers with an eighty percent (80%)
11 discount on the customer charge for a residential 5/8" meter. Attached as
12 Surrebuttal Schedule JMT-1 is an illustrative tariff sheet that could be used for
13 this purpose.

14

15 **Q. HOW WOULD THE COMPANY PROPOSE TO IDENTIFY QUALIFIED
16 CUSTOMERS FOR THE LOW INCOME RATE?**

17 A. In order to be eligible for the low income discount, MAWC would propose that
18 water customers have their income verified through participation in the Missouri
19 Low Income Home Energy Assistance Program (LIHEAP). LIHEAP provides
20 energy efficiency measures, at no cost to qualified low-income clients, as well as
21 some rate assistance to those most in need. Eligibility requirements for LIHEAP
22 rate assistance are based on income, household size, available resources and
23 responsibility for payment of home heating costs. The Company proposes that

1 qualifying water utility customers must affirmatively renew their participation in
2 this program (e.g., every year).

3

4 **Q. PLEASE SUMMARIZE THE BENEFITS OF THE COMPANY'S PROPOSED**
5 **LOW INCOME RATE?**

6 A. MAWC's proposed low income rate is designed to price water efficiently for
7 qualifying low income customers in a way to support the efficient use of water
8 and reduce, to the greatest extent possible our uncollectible accounts and shut
9 off expenses.

10

11 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

12 A. Yes, it does.

Missouri-American Water Company
Name of Issuing Corporation

For

Missouri Service Area
Community, Town or City

Water Service Schedule

Experimental Service Charge/Minimum Bill for Low-Income Customers

Availability

Availability of this tariff is limited to those residential customers with a 5/8" meter that meet the Missouri income eligibility criteria for Low Income Home Energy Assistance Program (LIHEAP), as determined by Missouri's Community Action agencies which administers the Company's current H2O program. After qualifying to be billed under this tariff, customers must remain current on the discounted bills. Customers that default on payments for two (2) consecutive months will be removed from the Program and not allowed back into the Program for twelve (12) months.

Rates for Service

The rate for the service charge or minimum bill under this tariff will be 20% of the service charge or minimum bill of the service territory where the service is received, beginning with the first bill after qualifying with the Community Action Agency. The commodity rate for water usage shall be billed at the current rates applicable to the service territory where the service is received.

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* Indicates new rate or text
+ Indicates change

DATE OF ISSUE: xx/xx/xxxx

EFFECTIVE DATE: xx/xx/xxxx

ISSUED BY: Cheryl Norton, President
727 Craig Road, St. Louis, MO 63141