

**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)
Services Provided in Missouri)
Service Areas)
_____)

Case No. WR-2010-0131

Rebuttal Testimony of Michael Gorman

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q ARE YOU THE SAME MICHAEL GORMAN WHO PREVIOUSLY FILED**
5 **TESTIMONY IN THIS PROCEEDING?**

6 A Yes. On March 26, 2010, I filed direct testimony on behalf of the Missouri Industrial
7 Energy Consumers (MIEC) regarding cost of service and rate design issues. On
8 April 15, 2010, I filed rebuttal testimony on behalf of MIEC and a separate rebuttal
9 testimony on behalf of Triumph Foods, LLC.

10 **Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

11 A This information was included in Appendix A to my direct testimony.

**Michael Gorman
Page 1**

1 **Q WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

2 A This surrebuttal testimony will respond to certain issues raised in the rebuttal
3 testimony of Missouri-American Water Company (MAWC or Company) witness Paul
4 Herbert concerning the class cost of service study for the St. Louis Metro District.

5 Mr. Herbert takes issue with using Factor 6 to allocate power cost across
6 classes. Mr. Herbert agrees that power cost is impacted by both base and extra
7 capacity methods but he concludes that using Factor 6, rather than his Factor 1, has
8 a relatively minor impact on the cost of service allocation in the St. Louis District. He
9 does agree that there should be a refinement to his cost study for allocating power
10 costs.

11 Mr. Herbert goes on to state that he did an analysis of the power bills in
12 St. Louis County and determined that the bills include a monthly demand charge
13 regardless of the level of service. He states that generally electric rates are
14 structured with a customer charge, a demand charge and a commodity charge.
15 Mr. Herbert asserts that depending on the rate schedule, there will be a monthly
16 demand charge even if the power is taken at a steady rate 24 hours a day, seven
17 days a week.

18 Based on this assessment, Mr. Herbert concludes that a refinement to his
19 study would be to allocate 6% of total purchased power expense on extra capacity
20 and the remainder to base usage. He believes that this alternative refinement is
21 consistent with the AWWA Rate Allocation Manual.

Michael Gorman
Page 2

1 **Q DO YOU BELIEVE THAT MR. HERBERT'S MODIFIED VERSION OF HIS COST OF**
2 **SERVICE STUDY WOULD BE APPROPRIATE?**

3 A I agree that appropriate allocation of power cost between the extra capacity function
4 and the base function is appropriate. The problem I have is that Mr. Herbert has not
5 accurately determined how much should be allocated to base and extra capacity.
6 Therefore, I recommend the use of Factor 6 which is the same allocator Mr. Herbert
7 uses for pumping equipment. Pumps are the largest reason a water utility incurs
8 electric power costs. Therefore, the same allocation factor is a reasonable
9 approximation for allocating cost over base and extra capacity functions.

10 **Q DID MR. HERBERT PROVIDE JUSTIFICATION FOR ALLOCATING 6% OF**
11 **POWER COST OVER EXTRA CAPACITY?**

12 A No. Mr. Herbert asserts that the Company will incur an electric demand charge even
13 if power is taken at a steady demand 24 hours a day. I agree. But in this scenario, if
14 all customers made a comparable contribution to extra capacity and base usage, then
15 there would be relatively little difference between class allocators for extra capacity
16 and base usage. However, and importantly, if there are variations between customer
17 class contribution to extra capacity relative to customer class contribution to base
18 usage, then properly allocating costs on the combination of extra capacity and base is
19 critically important to accurately allocate the cost. If the system load factor was
20 relatively constant and all customer classes made the same contribution to extra
21 capacity and base volume, then a relatively level allocation of purchased power
22 between classes irrespective of base and extra capacity would be appropriate.

23 Since classes in this case do not have comparable capacity factors, then it is
24 important to allocate power cost based on each class's base and extra capacity

Michael Gorman
Page 3

1 allocation factors. Mr. Herbert's unsupported assumption does not meet this
2 objective.

3 **Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

4 **A** Yes, it does.

\\huey\shares\pldocs\sdw\9233\testimony - bail\176304.doc