

**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 ) **Case No. WR-2015-0301**  
Increase for Water and Sewer Service Provided in )  
Missouri Service Areas. )

**INITIAL BRIEF**  
**OF**  
**PUBLIC WATER SUPPLY DISTRICT NOS. 1 AND 2**  
**OF ANDREW COUNTY**

**COME NOW** Intervenors Public Water Supply District Nos. 1 and 2 of Andrew County ("Water Districts") and for their Initial Brief respectfully state as follows:

**INTRODUCTION**

As reflected in their Position Statement filed in this matter, the Water Districts have participated primarily in the Rate Design portion of this case, in particular regarding Issues 31 (**District Consolidation/Consolidated Pricing**) and 32 (**Rate Design & Customer Charge**).<sup>1</sup> These not-for-profit public districts serve rural customers in the areas outside of St. Joseph, but within the St. Joseph Water District of Missouri-American Water Company ("MAWC" or "Company"). While they are among the Company's larger customers (their entire water supply comes from MAWC with a need for water and usage 24/7 throughout the year), in reality they are representing those rural customers to whom any increase in the cost of water must eventually be passed on. (Tr. 312).

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<sup>1</sup> Amended List of Issues, List and Order of Witnesses, Order of Opening Statements, and Order of Cross-Examination, EFIS Docket No. 224, March 11, 2016.

During the evidentiary hearing held on these issues, many references were made to the “Staff’s Water Utility Rate Design Analysis” submitted in this proceeding on June 16, 2015.<sup>2</sup> In its analysis, the Staff candidly acknowledged that rate design, be it water, electric, gas or any other industry, is more art than science, and depending upon the goals of the designer, rate design can take many paths. As the record clearly reveals, many parties participating in this proceeding have been down the path regarding district consolidation and pricing, a torturous path for the Water Districts in particular. (Tr. 313).

### **DISTRICT CONSOLIDATION / CONSOLIDATED PRICING**

#### **A. Not a “Here-Today, Gone-Tomorrow” Rate Design**

The evidentiary record is replete with discussion of the historical track of rate design as it pertains to district consolidation for MAWC. In working docket SW-2011-0103, *In the Matter of the Review of Economic, Legal and Policy Considerations of District-Specific Pricing and Single Tariff Pricing*, the Company submitted a narrative history of the issue since 1989 as an appendix to their brief, and that appendix is attached as Schedule GM-2 to the Direct Testimony of Office of the Public Counsel (“OPC”) Witness Dr. Geoff Marke. (OPC Ex. 9). As noted therein, in 2000 MAWC filed a rate case for its seven (7) water districts and proposed to maintain the single tariff pricing rate design then in effect. (Case No. WR-2000-281), *In the Matter of Missouri-American Water Company*, 9 MoPSC 3d 254, (August 31, 2000). “Of significance to the rate design issue in this case, was MAWC’s request to recover the costs associated with its recent completion of an approximate \$70 million water treatment plant and related facilities in the St. Joseph District.” *Id.*, GM-2, page 6/10.

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<sup>2</sup> EFIS Docket No. 3.

Along with the City of St. Joseph, the Water Districts supported MAWC's proposal to maintain single-tariff pricing, and sponsored the testimony of Dr. Janice Beecher who had recently completed a major public policy study of the single-tariff pricing issue which was sponsored by NARUC and the United States Environmental Protection Agency. (Tr. 313). Offered at that time as an objective discussion of both the advantages and disadvantages of single-tariff pricing from a former regulator's perspective, excerpts from that study are attached as Schedule RCS-16 to the Direct Testimony of OPC Witness Ralph Smith (OPC Ex. 14), with the study and its findings being the subject of much discussion during this evidentiary hearing.

Back in 2000, the Water Districts acknowledged that there is an understandable desire among regulatory agencies to keep public policy options open; however, it's also important to recognize that some public policies just don't work if continuity is not maintained over the years. Consistency must be maintained if the benefits are to be achieved and it's going to be fair to all concerned. Failing to stay the course over the long term will result in substantial inequities, depending on where each district happens to be in the construction cycle. Recalling the prior testimony of staff witness Wess Henderson in the pre-2000 MAWC rate case that this issue, by its nature, "is not a here-today, gone-tomorrow kind of rate design," he further explained that it would be neither fair nor proper to flip-flop between district-specific and single-tariff pricing.

However, as noted in Company's historical account of the 2000 case (OPC Ex. 9, Schedule GM-2, p. 6/10), "[v]irtually all of the other intervenors, including Staff and OPC, opposed STP and supported district specific pricing or something close to it." Indeed, as the record in this proceeding reflects, the City of Riverside was advising this

Commission that single-tariff pricing was unlawful, discriminatory and unreasonable, and that the Commission should return to district-specific pricing. The City of Warrensburg advocated that the Commission resolve the issue once and for all, adopt a rate design philosophy that will stand the test of time, and move to district-specific pricing for each district. (Tr. 315-316).

In the end, the Commission, on a three to two vote, decided to move to district-specific pricing.

The Commission will move away from STP and toward DSP. One factor for consideration in determining just and reasonable rates is public perception. The testimony adduced at the Local Public Hearings held in this matter was strongly in favor of DSP. MAWC, therefore, must set its rates separately for each service area in order to recover the appropriate revenue requirement for each service area. . . . (9 MoPSC 3d 291).

For the Water Districts, the resulting rate shock was compounded by the Commission's decision to embark upon inter-class shifts within the St. Joseph District, resulting in increases to the Water Districts' rates by over 200%! As Staff Witness James Busch acknowledged in this proceeding: "And I think Mr. Dority mentioned that in some of his remarks earlier when we moved towards district-specific in the 2000 case, there were some very major shifts within the districts as well." (Tr. 404). Such a rate increase was unprecedented in sheer magnitude and the rate shock was extremely difficult for customers to understand. Nevertheless, the Water Districts, and their customers, have experienced district-specific pricing for the past fifteen years.

#### **B. Fairness / Equity / Transparency**

In this proceeding, MAWC has proposed that its existing water and sewer districts be consolidated into three (3) water districts and no more than five (5) sewer districts. In its initial filing, the Company proposed consolidation of its water districts into

three rate zones and that the rates for service for the customer classes within those zones be the same. The St. Joseph District would be included in the largest Zone, Zone 1.

Staff has proposed combining the water districts into three “hybrid” districts, purportedly based on operating characteristics and geography. The St. Joseph District would be included in Staff’s proposed District 2, along with Platte County and Brunswick.

As noted by MAWC’s counsel during Opening Statements, “The Company has gone as far as to indicate its acceptance of the Staff’s grouping in its Rebuttal Testimony so the Company is agnostic right now whether you accept its proposed grouping of districts or Staff’s proposed grouping or consolidation of districts.” (Tr. 242).

A “Non-Unanimous Stipulation and Agreement on Rate Design, District Consolidation and Sewer Revenue” (“OPC Non-Unanimous Stipulation”) has been filed by the OPC, Missouri Industrial Energy Consumers (“MIEC”), City of Brunswick, City of St. Joseph and City of Joplin (City of Warrensburg has since filed its support as well), proposing limited consolidation of districts in this case as follows: Anna Meadows and Hickory Hills will be consolidated into the St. Louis Metro district for water only; Brunswick will be consolidated into the St. Joseph district; Redfield will be consolidated into the Jefferson City district; and the remaining districts in present District 8 will now become a new consolidated Branson district. All other water systems will remain in their current districts. The Platte County district will receive a 5% reduction in residential rates that will be allocated to the Joplin and St. Louis Metro districts in proportion to their relative revenue requirement (approximately 10% to Joplin and 90%

to St. Louis). In addition, to address the sewer system revenue requirement issue, \$565,000 will be allocated to the Joplin and St. Louis Metro districts in proportion to their relative revenue requirement (approximately 10% to Joplin and 90% to St. Louis). At the time of filing and during the evidentiary hearing, the Water Districts indicated that they do not oppose this Non-Unanimous Stipulation.

The City of Riverside repeatedly maintained during the evidentiary hearing that another option for the Commission's consideration is to consolidate all water districts with the exception of Joplin and St. Joseph. "We understand the concerns of Joplin and – and the concerns of St. Joseph. If they want to remain district specific, that's fine. Do consolidation with the rest of the districts because we will get significant relief in Platte County." (Tr. 110-111). In fact, the Company provided a schedule (Ex. 51) which purportedly reflected the impacts of such a proposal (Tr. 356-357) and at Page 2 reflects percentage changes in bills for the St. Joseph Sale for Resale class of -19.02%, -27.9% and -21.5% respectively. (As discussed below, a recent revision to this exhibit – 51R – now appears to contain major errors resulting in massive rate swings highly adverse to the St. Joseph Sale for Resale Class.) In response to an objection to that original Exhibit, Company Counsel announced that "If Mr. Downey would like, Riverside and the Company will enter into a non-unanimous stipulation that supports Exhibit Number 51." Mr. Bednar (Riverside Counsel): "That's correct, your Honor." (Tr. 398).

The Water Districts have consistently maintained that fairness and equity demand that transparency be an integral part of the Commission's consideration of this important topic. Regrettably, the record evidence shows that transparency is lacking when it comes to consideration of the Staff's hybrid district proposals, particularly

regarding Staff's proposed new District 2, which would consist of St. Joseph (as the "anchor" district with the most customers); Platte County, which includes Riverside; and Brunswick.

In endorsing the testimony of Staff Witness Busch concerning the appropriate time for consolidation action, Company Counsel suggests that with a real net increase in base rate revenues for the water districts of about 1 percent (which, as will be discussed below, completely ignores the intra-class shifts/rate impacts inherent in Staff's proposals), now is the perfect time to realign the rates of the various districts . . .  
“(Tr. 246). And what is Staff's rationale?

Now is the perfect time to consolidate rates when no one district is likely to experience rate shock. Staff is very cognizant of how some customers view the idea of consolidating rate districts. If the Commission were to wait until one district was on the verge of experiencing rate shock, then the outcry from the other districts would be very vocal and the movement toward consolidation would be harder to justify. Thus, consolidating rates now is an opportune time. (Emphasis added). Staff Ex. 12, pp. 11-12; Tr. 317).

In discussing the consolidation issue with Company President Cheryl Norton, Commissioner Coleman recounted that “Consolidation is a big issue. I remember at the St. Joseph hearing, it was number one on the -- of concern by many of those that testified – that day.” (Tr. 169). One can only speculate how vocal opponents to the new District 2 would have been, had they been aware of Company's Schedule No. PRH-6 to MAWC Ex. 9, page 2 of 2, which depicted a summary of average annual residential cost of service by district, as follows: Water District 2 -- St. Joseph, \$418.39; Platte County, \$1031.48; Brunswick, \$937.23. (Tr. 318). And this is **before** the new Parkville water treatment plant in the Platte County District comes on line. Oh, did we

not mention another new water treatment plant that St. Joseph customers will now get to help pay for?

The Company's current capital investment plan has construction of the new Parkville plant starting in 2017, with completion by the end of May of 2018. Under cross-examination by Counsel for the Water Districts, MAWC President Norton testified that Missouri American operates 11 water treatment plants; that the Platte County water treatment facility will be retired prior to the end of the book life; that the replacement of this Platte County water treatment plant is one of those major infrastructure investments that is on the Company's planning horizon at this point; and that the Company is projecting significant capital expenditures on this new water treatment plant over the next several years. The projected expenditures for this new water treatment plant were discussed in-camera. (See, Transcript, In-Camera Proceedings, Volume 17, pp. 132-133).

Bottom line: Consolidate now, and they will find out the implications later. Such an approach appears to be in stark contrast with what the Staff was advising the Commission during a previous working docket. As stated by Counsel for the City of Joplin in Opening Statements:

In the on-the-record proceeding in the working case that was previously referenced by Ms. Myers, SW-2011-0103, counsel for Staff stated, **Staff would note that in situations where DSP currently exists, should the Commission elect to switch to STP, Staff believes that customer education should be an essential component in the rate-making and rate implementation process.**

The evidence in this case will show that there has been minimal effort on the part of the Company to educate the residents in the anchor communities that consolidation means they might be footing the bill for upgrades in other districts. (Tr. 281, emphasis added).



Counsel for MIEC also addressed the critical issue of lack of transparency:

But the subsidizing ratepayer should know what the true impact of consolidated pricing to them will be. Not just for now, but in the future. Transparency requires that. The better forum for considering consolidated pricing is in the next couple of rate cases when the cost of large plant improvements are under consideration. That's when you'll know who's going to be paying what. (Tr. 268).

Similar considerations were addressed by OPC Counsel during cross-examination of MAWC President Norton:

**Q. And there was discussions about the Platte County treatment plant. You discussed that with Commissioner Kenney. And you stated that – I believe you testified that state – plant will be replaced in the near future –**

A. Yes.

**Q. – is that correct?**

A. Uh-huh.

**Q. And then earlier you had testified about the cost to that system with Mr. Dority. And those numbers that you had provided to Mr. Dority that are now in the record, those are just estimates. Correct?**

A. Yes. But they're usually relatively close.

**Q. But it won't be until after those plants are really built that we'll really know how close those estimates were to the true cost of those plants –**

A. That's true.

**Q. – is that correct?**

**So by the next rate case we should have a better understanding of what those costs will be; is that correct?**

A. Absolutely, yes.

(Tr. 185-186).

Rather than suffering from the above infirmities associated with the Staff consolidation proposals, the OPC Non-Unanimous Stipulation is superior and will further

the public interest. As OPC Counsel observed during the hearing, “We believe the agreement addresses the needs of every party in this case. It would allow a number of smaller districts to be consolidated with larger districts, while at the same time maintaining the district-specific pricing being advocated by most of the municipal parties in this case.” (Tr. 255).

## **RATE DESIGN AND CUSTOMER CHARGE**

### **A. The Moving Target – Actual Rate Impacts**

Having suffered the “double-whammy” of extreme rate shock back in 2000 due to the movement away from single-tariff pricing coupled with interclass revenue shifts, the Water Districts consider it imperative that the Commission be fully informed and aware of the resulting rate impacts and implications of the positions being advocated in this proceeding prior to making any decision. As discussed in the *Staff’s Water Utility Rate Design Analysis* filed herein: “When determining an appropriate rate design and rate structure, **it is imperative to have the appropriate level of data and time to evaluate the various factors that are used to determine the ultimate rate. Without proper analysis, unintended consequences are inevitable.**” (Emphasis added).

In the Staff’s “Report On Class Cost of Service And Rate Design” (Staff Ex. 3), the Overview provides that “Staff’s rate design for the Company’s water operations is based on the actual revenue requirement for each district.” The Direct Testimony of James A. Busch filed concurrently with Staff’s CCOS Report reflects that \$39,345 in sewer revenue responsibilities “has been transferred to water district 2 since Staff’s cost of service shows it having the largest overall decrease of over \$3,000,000.” Indeed, Schedule 1-2 of the CCOS Report reflected a proposed reduction in revenues required

from Water District 2 in the amount of \$3,215,326. The Sale for Resale customer class would receive a \$1,098,712 reduction, or a -43.05%.

Thereafter, due to an error in calculating total usage in the industrial class, Staff updated its District 2 CCOS, resulting in a revised Schedule 1-District 2, reducing the overall Water District 2 decrease to \$2,305,815, with the Sale for Resale class receiving a \$505,302 reduction, or a -19.80%. (Rate Design Rebuttal Testimony of James A. Busch, Staff Ex. 11).

Forward to the True-Up process and the ultimate revenue requirement Non-Unanimous Stipulation and Agreement, and calculations reflected on Staff Exhibit 34 indicate a customer allocation in District 2, Sale for Resale (“SFR”) of a \$308,091 reduction, or a -11.8%. However, when incorporating the Staff’s announced “Equal Percentage Class Shifts” (including Sewer Shift – which has now greatly increased and is being spread to all districts), the District 2 classes receive a 0.65% increase. Within what might appear to be a modest .65% increase are intra-class shifts among the Sale for Resale classes comprising the new Water District 2. This was confirmed during the evidentiary hearing by Staff Witness James Busch, where he addressed the Ex. 34 analysis regarding the District 2 Sale for Resale Class: “And so that \$16,854 is over what the current rate revenues are today for all of those combined, which would then lead to that overall class would get the \$2.6 million. The actual increase or decrease when those get combined – is going to be different – because Brunswick has one rate, St. Joseph has one rate, and Platte County has one rate. So when you start mixing them all together and then increase it, you’re still going to have shifts between those customer classes within – from one – when you go from district to district.” (Tr. 802-

803). . . . “This is very, very confusing and very – very difficult to try to explain to make sure. In about a couple of months the Company and Staff and maybe the Public Counsel and the others, we get to design the rates based upon whatever the Commission decides – and we’re going to have a lot of – a lot of joy going through all these different rates and making sure that we get the rates properly and design them correctly. So it’s – it’s—extremely difficult.” (Tr. 803-804). Underlying the exposure relative to this issue is Staff’s proposal that the fixed charge and the commodity charge will be uniform within each district for each class. (Tr. 250).

Also during the evidentiary hearing, Company tendered models purporting to reflect impacts of the various proposals. Issues were raised by the Water Districts and others relative to information portrayed in some of those Exhibits (Tr. 374-378), and revisions have just been submitted in the last few days which are still being reviewed and corrected. Company Counsel succinctly stated the situation we find ourselves in: “The fact of the matter is that we’re the only party that’s been able to model any of these scenarios. Neither Public Counsel nor Staff nor any other party to this case can propose or put forward the impact of what they’re proposing in the way of the various rate designs they have.” (Tr. 397). Simply put, the Commission cannot make decisions of this magnitude in a vacuum, and the requisite information and impacts must be available prior to such decisions being made.

## **REQUEST FOR EXPEDITED TECHNICAL CONFERENCE**

For the reasons stated herein, the Water Districts believe that the most prudent course of action is for the Commission to convene a technical conference as soon as possible, before the Reply Briefs are scheduled to be filed, on the rate impacts of the various proposals and rate structure changes.

### **B. Sale for Resale Declining Block Rates**

The Water Districts support the Staff's position that the existing declining block rate structure for the Sale for Resale class be maintained in the St. Joseph service territory. Staff's method in designing the block rates was to keep the existing ratio between the currently approved blocks constant. (Staff Ex. 3; Tr. 800-801). Declining block rates allow larger customers who generally experience better load factors to pay a lower tail block rate to reflect the lower cost to serve them. The Water Districts oppose the Company's proposed elimination of the existing declining block rate structure for the Sale for Resale Class in St. Joseph.

## CONCLUSION

Based on available information, the Water Districts, as stated above, believe that the OPC Non-Unanimous Stipulation is the most reasonable district consolidation and rate design proposal and will further the public interest.

Respectfully submitted,

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ATTORNEYS FOR PUBLIC WATER  
SUPPLY DISTRICT NOS. 1 AND 2 OF  
ANDREW COUNTY

**Certificate of Service**

I hereby certify that a true and correct copy of the foregoing was served, either electronically or by hand delivery or by First Class United States Mail, postage prepaid, on this 8<sup>th</sup> day of April, 2016, to the parties of record as set out on the official Service List maintained by the Data Center of the Missouri Public Service Commission for this case.

**s/ Larry W. Dority**