

**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)	Case No. WR-2010-0131
Services Provided in Missouri)	
Service Areas)	
)	

Surrebuttal Testimony of Brian C. Collins

- 1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**
- 2 A Brian C. Collins. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.
- 4 **Q ARE YOU THE SAME BRIAN COLLINS WHO PREVIOUSLY FILED TESTIMONY**
5 **IN THIS CASE?**
- 6 A Yes. I filed direct testimony regarding revenue requirement issues on March 9, 2010.
- 7 **Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**
- 8 A This information was included in Appendix A to my direct testimony.
- 9 **Q PLEASE SUMMARIZE THE ISSUES YOU WILL ADDRESS IN YOUR**
10 **SURREBUTTAL TESTIMONY.**
- 11 A In this testimony, I will address Missouri-American Water Company's (MAWC or the
12 Company) witness Donald J. Petry's rebuttal testimony with respect to the Company's
13 proposed revenue contribution to be provided by the St. Louis Metro District to certain

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1 other operating districts. I will also address Company witness Edward L. Spitznagel,
2 Jr.'s rebuttal testimony with respect to normalized water consumption in the St. Louis
3 Metro District. In addition, I will comment on the Company's proposed chemical and
4 payroll expenses.

5 **Proposal for the St. Louis Metro District to Provide a Revenue Subsidy**

6 **Q WHY DOES THE COMPANY PROPOSE THAT THE ST. LOUIS METRO DISTRICT**
7 **PROVIDE A REVENUE SUBSIDY TO OTHER OPERATING DISTRICTS?**

8 A According to the rebuttal testimony of Mr. Petry at page 6, a revenue subsidy is
9 required so that certain customers do not experience rate shock.

10 **Q DOES MR. PETRY PROVIDE ANY SUPPORT IN HIS REBUTTAL TESTIMONY**
11 **FOR THE COMPANY'S RECOMMENDATION THAT A SUBSIDY BE PROVIDED**
12 **BY ONLY THE ST. LOUIS METRO DISTRICT TO OTHER OPERATING DISTRICTS**
13 **OF THE COMPANY?**

14 A No, he does not. In formulating its recommendation for the St. Louis Metro District to
15 provide a subsidy, the Company has ignored three other operating districts which are
16 projected to be granted smaller percentage increases in current revenues than the
17 St. Louis Metro District's 22.9% increase. Table 1, below, lists these other operating
18 districts of the Company with their projected percentage increases in current
19 revenues based on the Company's proposal.

<u>Operating District</u>	<u>Revenue Under Current Rates (\$)</u>	<u>Proposed Revenue Increase (\$)</u>	<u>Proposed Revenue Increase (%)</u>
St Louis Metro	\$159,575,013	\$ 36,548,519	22.9%
Joplin	\$ 17,471,909	\$ 3,376,052	19.3%
Warrensburg	\$ 3,778,313	\$ 449,039	11.9%
Jefferson City	\$ 6,193,383	\$ 566,041	9.1%

1 The Company's proposal to increase St. Louis Metro District rates, while
 2 ignoring other operating districts who will receive smaller percentage increases, is
 3 unjustified.

4 **Q WHAT IS YOUR RECOMMENDATION WITH RESPECT TO A REVENUE SUBSIDY**
 5 **BEING PROVIDED BY THE ST. LOUIS METRO DISTRICT?**

6 A As in my direct testimony, I continue to recommend that the Commission eliminate
 7 the Company's proposed subsidy provided by the St. Louis Metro District to other
 8 operating districts of the Company. My recommendation would reduce the St. Louis
 9 Metro District's revenue requirement, as proposed by the Company, by \$2,187,331.
 10 The Commission determined in a previous rate case that district-specific pricing
 11 should be used to determine cost of service. Providing subsidies to certain operating
 12 districts undermines this pricing theory. However, if the Commission determines a
 13 subsidy should be implemented, other operating districts besides the St. Louis Metro
 14 District should be considered for a subsidy contribution.

1 **Normalized Residential and Commercial Sales Revenues**

2 **Q** **BASED ON YOUR REVIEW OF MR. SPITZNAGEL'S REBUTTAL TESTIMONY,**
3 **WHAT IS YOUR OPINION OF THE DAILY UTILIZATIONS OF WATER PER**
4 **CUSTOMER CALCULATED BY THE COMPANY FOR THE ST. LOUIS METRO**
5 **DISTRICT TO NORMALIZE SALES REVENUES?**

6 **A** In my direct testimony, I stated that the Company's proposed residential and
7 commercial daily utilizations of water per customer were low. Based on my review of
8 the Company's rebuttal testimony, I continue to have this same opinion.
9 Mr. Spitznagel has reflected expected conservation of water for the residential and
10 commercial classes in his recommended daily utilizations for the St. Louis Metro
11 District. However, the daily water utilization estimates projected by Mr. Spitznagel for
12 the residential and commercial classes are unreasonably low and appear to
13 over-estimate expected conservation.

14 **Q** **WHAT WERE THE DAILY UTILIZATIONS OF WATER PER CUSTOMER**
15 **PROJECTED BY MR. SPITZNAGEL FOR THE ST. LOUIS METRO DISTRICT?**

16 **A** For St. Louis County, Mr. Spitznagel estimated that residential customers would use
17 245.84 gallons of water per day and that commercial customers would use 1,053.65
18 gallons per day. For St. Charles County, Mr. Spitznagel estimated that residential
19 customers would use 267.94 gallons of water per day and that commercial customers
20 would use 1,275.48 gallons per day. Mr. Spitznagel's recommended daily utilizations
21 are summarized in Table 2, below. The Company's projected daily utilizations for St.
22 Louis County residential and commercial customers as well as St. Charles County
23 residential customers are simply too low and understate normalized sales revenues.

TABLE 2		
MAWC Recommended Daily Utilization for the St. Louis Metro District (Gallons of Water Per Customer Per Day)		
<u>County</u>	<u>Residential</u>	<u>Commercial</u>
St Louis	245.84	1,053.65
St. Charles	267.94	1,275.48

1 **Q WHY DO YOU BELIEVE MR. SPITZNAGEL'S DAILY UTILIZATIONS OF WATER**
2 **PER CUSTOMER UNDERSTATE THE COMPANY'S ACTUAL RECENT**
3 **HISTORICAL SALES LEVELS?**

4 **A This conclusion is clearly evident by a comparison of Mr. Spitznagel's recommended**
5 **daily utilizations of water for the St. Louis County residential customers to the actual**
6 **daily utilizations shown in his own rebuttal exhibit, Schedule ELS Appendix A.**

7 For the St. Louis County residential customers, Mr. Spitznagel used an
8 average daily utilization of 245.84 gallons to normalize residential revenues.

9 The five-year and ten-year average daily water utilizations for the St. Louis
10 County residential class using data from Mr. Spitznagel's Schedule ELS Appendix A
11 are 253.462 gallons per day and 262.603 gallons per day, respectively. These
12 averages are shown in Schedule BCC-1 attached. The Company's data shows some
13 projected decline in water usage but does not support the significant usage decline
14 included in Mr. Spitznagel's projection of daily water utilizations for the residential
15 class in St. Louis County used to normalize revenues.

16 It is important to note that the five-year and ten-year average daily utilizations
17 calculated from Mr. Spitznagel's data in Schedule ELS Appendix A and shown above

1 include 2008 usage. In 2008, St. Louis had 31.59 inches of rain during the
2 weather-sensitive water usage months of May-September, the most rainfall for the
3 May-September period since 1915, and the second highest amount of rainfall for the
4 May-September period since 1870. The 30-year normal level of rainfall for
5 May-September is 17.72 inches. As a result, the 2008 daily utilization of water is
6 certainly an outlier. If the five-year and ten-year average daily utilizations of water are
7 re-calculated without 2008, the daily utilizations of water are 256.023 gallons per day
8 and 266.042 gallons per day, respectively, for the St. Louis County residential class,
9 based on the information contained in Schedule ELS Appendix A. The five-year and
10 ten-year average daily utilizations without 2008 data are also shown in Schedule
11 BCC-1.

12 **Q WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE DAILY**
13 **UTILIZATIONS FOR THE ST. LOUIS METRO DISTRICT?**

14 **A** Since the Company's projections of daily utilization of water are low, I continue to
15 recommend the daily utilizations stated in my direct testimony for the St. Louis Metro
16 District. These daily utilizations are based on the six-year average of the utilizations
17 for the period 2002-2007 and are shown in Table 3, below:

TABLE 3		
MIEC Recommended Daily Utilization for the St. Louis Metro District (Gallons of Water Per Customer Per Day)		
<u>County</u>	<u>Residential</u>	<u>Commercial</u>
St Louis	261.23	1,126.21
St. Charles	275.74	1,264.74

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1 **Other Issues**

2 **Q WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE COMPANY'S**
3 **CHEMICAL AND PAYROLL EXPENSES?**

4 A It is my understanding that the Company proposes to true-up these expenses as of
5 April 30, 2010. I recommend that these expenses be a part of the Company's
6 true-up, however, the level of true-up expenses should be reviewed for
7 reasonableness before being included in the Company's revenue requirement.

8 **Q WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE COMPANY'S**
9 **INCENTIVE COMPENSATION RELATING TO FINANCIAL GOALS?**

10 A Consistent with my direct testimony, I continue to propose to remove the portion of
11 total incentive compensation that relates to meeting the Company's financial goals,
12 which primarily benefits shareholders. For these reasons, I continue to believe
13 shareholders, not the Company's customers, should pay these costs.

14 In his rebuttal testimony at page 11, Company witness Dennis R. Williams
15 argues in response to the Staff that the Commission's prior decision on this issue in
16 the Southwestern Bell case was based on a corporate structure (incentive payments
17 for senior parent company management) which does not exist at MAWC. The
18 Commission's decision in that case and my proposal to continue to disallow incentive
19 payments associated with financial goals are still valid. Employee incentive cost
20 should not be recovered in rates, if the incentive goal relates to financial targets or
21 goals. Achievement of the Company financial goals may have occurred due to
22 nothing within the control of the Company or any specific employee.

23 Furthermore, Mr. Williams discusses at great lengths the benefits the incentive
24 payments may have on MAWC operations. However, Mr. Williams has not provided

1 any analysis which demonstrates that the incentive payments are exceeded by
2 customer benefits.

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

4 **A** Yes, it does.

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**Summary of Daily Utilizations of Water
St. Louis County Residential
MAWC Schedule ELS Appendix A**

<u>Line</u>	<u>Year</u>	<u>Daily Utilization (Gallons/Day/Customer)</u>
	(1)	(2)
1	1990	279.040
2	1991	293.898
3	1992	289.892
4	1993	255.977
5	1994	286.074
6	1995	276.154
7	1996	277.010
8	1997	280.274
9	1998	266.493
10	1999	287.354
11	2000	273.989
12	2001	281.165
13	2002	271.307
14	2003	244.906
15	2004	245.209
16	2005	267.914
17	2006	256.723
18	2007	265.361
19	<u>2008</u>	<u>232.105</u>
	Average (1990-2008)	270.044
20	5-Year Average (2004-2008)	253.462
21	10-Year Average (1999-2008)	262.603
22	5-Year Average (2003-2007)	256.023
23	10-Year Average (1998-2007)	266.042