

# EXHIBIT

Exhibit No.:

OPC #16

Issue(s):

Class Cost of Service/  
Single Tariff Pricing/  
District Specific Pricing/  
Rate Design

Witness/Type of Exhibit:

Smith/Rebuttal

Sponsoring Party:

Public Counsel

Case Nos.:

WR-2015-0301/SR-2015-0302

FILED

April 5, 2016

Data Center

Missouri Public

Service Commission

## REBUTTAL TESTIMONY

OF

RALPH C. SMITH

Submitted on Behalf of  
the Office of the Public Counsel

MISSOURI AMERICAN WATER COMPANY

Case Nos. WR-2015-0301/SR-2015-0302

February 19, 2016

OPL Exhibit No. 16  
Date 3-21-16 Reporter TJ  
File No. WR-2015-0301

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**


In the Matter of Missouri-American Water )  
Company's Request for Authority to ) Case No. WR-2015-0301  
Implement a General Rate Increase for ) Case No. SR-2015-0302  
Water and Sewer Service Provided in )  
Missouri Service Areas. )

**AFFIDAVIT OF RALPH C. SMITH**

STATE OF MICHIGAN )  
) ss  
COUNTY OF WAYNE )

Ralph C. Smith, of lawful age and being first duly sworn, deposes and states:

1. My name is Ralph C. Smith. I am the Senior Regulatory Consultant with Larkin & Associates, PLLC, acting as consultants in this matter for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

  
\_\_\_\_\_  
Ralph C. Smith  
Senior Regulatory Consultant

Subscribed and sworn to me this 19<sup>th</sup> day of February 2016.

  
\_\_\_\_\_  
Christine Miller

Notary Public

My Commission expires 11/8/2021.

CHRISTINE MILLER  
NOTARY PUBLIC, STATE OF MI  
COUNTY OF WAYNE  
MY COMMISSION EXPIRES Nov 8, 2021  
ACTING IN COUNTY OF



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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **RALPH C. SMITH**

4 **MISSOURI AMERICAN WATER COMPANY**

5 **CASE NOS. WR-2015-0301/SR-2015-0302**

6 **Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

7 A. Ralph C. Smith. I am a Senior Regulatory Consultant at Larkin & Associates, PLLC,  
8 15728 Farmington Road, Livonia, Michigan 48154.

9 **Q. ARE YOU THE SAME RALPH SMITH WHO PREVIOUSLY SUBMITTED**  
10 **DIRECT TESTIMONY REGARDING CERTAIN REVENUE REQUIREMENT**  
11 **ISSUES AND ON COST OF SERVICE STUDY AND RATE DESIGN ISSUES IN**  
12 **THIS CASE?**

13 A. Yes. I previously submitted direct testimony in this case on December 23, 2015,  
14 addressing these revenue requirement issues: Business Transformation and Income  
15 Taxes. Additionally, I previously submitted direct testimony on January 20, 2016 on the  
16 Class Cost of Service (“CCOS”) studies filed by Missouri-American Water Company  
17 (“Company” or “MAWC”) and discussed Public Counsel’s position on how the results of  
18 these studies should affect the rate design for customer classes within each district, as  
19 well as presenting testimony on district specific pricing versus single tariff pricing, and a

1 recommendation of revenue at current and proposed rates for the St. Louis Metro District  
2 of MAWC.

3 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

4 A. The purpose of my rebuttal testimony is to address and respond to the recommendations  
5 concerning cost of service study and rate design issues of Missouri Industrial Energy  
6 Consumers ("MIEC") witness Brian C. Collins.

7 **Q. WHAT RECOMMENDATIONS OF MR. COLLINS WILL YOU BE**  
8 **ADDRESSING?**

9 A. I will be addressing the recommendations of Mr. Collins concerning:

- 10 1. District Specific Pricing versus Consolidated Pricing  
11 2. The Cost of Service Study for the St. Louis Metro District and his specific rate  
12 recommendations for that District

13

14 **I. SINGLE TARIFF OR DISTRICT SPECIFIC PRICING**

15 **Q. WHAT DOES MIEC WITNESS COLLINS RECOMMEND CONCERNING**  
16 **DISTRICT SPECIFIC PRICING?**

17 A. Mr. Collins recommends that the Company's proposal for consolidated pricing be  
18 rejected, and that the Company implement district-specific pricing for its operating  
19 districts. At pages 3-4 of his Direct Testimony, he explains that:

20 Consolidated pricing is inappropriate for several reasons. First, there is no  
21 common or economic cost structure across the many Company districts

1 throughout the state. Specifically, many of the districts are not  
2 interconnected to the same (or group of same) water treatment plants.  
3 Water treatment plants serving the districts are supplied from district-  
4 specific raw water sources (including both groundwater and surface  
5 water), which impact water treatment costs. Contrary to power plants in a  
6 geographically dispersed electric system, which Mr. Herbert compares to  
7 water treatment plants for justification of the Company's consolidated  
8 pricing proposal, a water treatment plant in Joplin or St. Joseph, for  
9 example, cannot provide treated water to the St. Louis Metro District since  
10 those districts are not interconnected. The water treatment plants,  
11 distribution networks, pumping equipment and even the electric utilities  
12 serving the various Missouri-American territories are distinct across the  
13 state, and the various geographic characteristics of each Missouri-  
14 American service territory impact costs related to storage, pressure,  
15 pumping, chemicals and other costs associated with providing water  
16 service in those areas.

17 Second, consolidated pricing ignores the differences in costs of providing  
18 service in each non-interconnected district including, but not limited to,  
19 water treatment and supply, labor force, and delivery. Consolidated  
20 pricing also ignores the differences in rate base investment that have  
21 occurred to provide water service in each operating district. Consolidated  
22 pricing is inconsistent with traditional cost of service principles and  
23 ignores the concept of cost-causation. In essence, consolidated pricing  
24 results in price subsidies to customers in high-cost districts at great cost to  
25 customers in low-cost districts. For example, the cost to install water pipe  
26 in a district with rocky soil is higher than the cost to install water pipe in a  
27 district without rocky soil. Under consolidated pricing, the customers in  
28 the lower-cost district with non-rocky soil would subsidize a portion of the  
29 cost to install pipe in the higher cost district with rocky soil.

30 Moreover, the unjust cross-subsidies created by consolidated pricing could  
31 erode the efficiency of the water system. These rate subsidies would erode  
32 the economic incentive for customers in high-cost districts to be more  
33 efficient in placing demands on the water utility because the prices they  
34 pay do not accurately reflect the cost of receiving water service. Hence,  
35 customers with subsidized prices may impose greater and less efficient  
36 demand on high-cost districts, which could cause greater cost at the high-  
37 cost districts and increase customer subsidies to bring that district price  
38 down to the consolidated rate.

39 He states further at page 6 that: "Consolidated pricing will not allow the Company to  
40 properly manage its different geographical operating districts and will prevent it from  
41 identifying high-cost operating districts in the future." He also states at page 6 that

1 consolidated tariff pricing would reduce incentives to perform due diligence prior to  
2 acquiring new water systems:

3 Consolidated pricing greatly reduces the Company's incentive to perform  
4 due diligence before acquiring new water systems and may also impact the  
5 price Missouri-American is willing to pay for new systems. New systems  
6 could be acquired without adequate consideration as to whether the costs  
7 to operate those systems are economical since those costs would be rolled  
8 into existing rates under consolidated pricing.  
9

10 **Q. DO YOU AGREE WITH MR. COLLIN'S RECOMMENDATIONS THAT THE**  
11 **COMPANY'S REQUESTED CONSOLIDATED TARIFF PRICING PROPOSAL**  
12 **SHOULD BE REJECTED, AND DISTRICT-SPECIFIC PRICING SHOULD BE**  
13 **CONTINUED FOR DISTRICTS, INCLUDING BUT NOT LIMITED TO THE**  
14 **COMPANY'S ST. LOUIS METRO WATER DISTRICT?**

15 **A.** Yes. My direct testimony presented additional details along these same lines for why the  
16 Commission should reject the Company's request for consolidated tariff pricing. I agree  
17 with Mr. Collin's recommendation that district-specific pricing should be continued for  
18 MAWC's current utility districts, including but not limited to the Company's St. Louis  
19 Metro water district.

20

21

**II. COST OF SERVICE STUDY - ST. LOUIS METRO DISTRICT**

22 **Q. WHAT DOES MIEC WITNESS COLLINS RECOMMEND FOR THE COST OF**  
23 **SERVICE STUDY FOR THE ST. LOUIS METRO DISTRICT?**

1 A. Mr. Collin's recommends that the cost of service for the St. Louis Metro District be  
2 determined based on a district-specific cost-of-service study. He generally has accepted  
3 MAWC's cost of service study for the St. Louis Metro District, but recommends that one  
4 factor, for Purchased Power for Pumping, be revised in a manner so as to allocate less  
5 cost to industrial/manufacturing customers and more cost to other customer classes. He  
6 claims that Purchased Power costs should be allocated based on a peaking factor (Factor  
7 3), rather than on Factor 1, as proposed by MAWC witness Hebert. Mr. Collins claims  
8 that using Factor 3 "is a more appropriate allocation factor to reflect the seasonal pricing  
9 differential of power, as well as the increased cost for peak periods that normally  
10 coincide with peak demands on the water utility system." (Collins rebuttal at page 10.)

11 **Q. DO YOU AGREE WITH MR. COLLINS' RECOMMENDATION THAT THE ST.**  
12 **LOUIS METRO DISTRICT COST OF SERVICE SHOULD BE ESTABLISHED**  
13 **BASED ON A DISTRICT-SPECIFIC COST OF SERVICE STUDY?**

14 A. Yes. I agree with that part of Mr. Collins' recommendation.

15 **Q. DO YOU AGREE WITH MR. COLLINS' PROPOSED RE-ALLOCATION OF**  
16 **POWER COSTS BASED ON USING FACTOR 3, RATHER THAN FACTOR 1?**

17 A. No. Mr. Collins has failed to establish that Factor 3 has a cost causative relationship to  
18 Power Costs for Pumping. Factor 1 allocates costs which vary with the amount of water  
19 consumed. Factor 1 is appropriate for such costs, which include Power Costs for  
20 Pumping. Additionally, cherry-picking one isolated factor from MAWC's St. Louis Metro  
21 District cost-of-service study also appears to be inconsistent with how those costs are



1 being allocated for other districts and how they have been allocated among rate classes in  
2 previous MAWC rate cases. This part of Mr. Collins' recommendation would  
3 inappropriately re-allocate a single selected category of water utility costs away from his  
4 clients (Rate J customers) and place additional cost burdens on the other customer  
5 classes. Consequently, I recommend that this part of Mr. Collins' recommendation be  
6 rejected.

7 **Q. WHAT REVENUE DECREASE DOES MR. COLLINS CALCULATE, AND**  
8 **RECOMMEND, FOR ST. LOUIS METRO RATE B (WHICH APPLIES TO**  
9 **SALES FOR RESALE)?**

10 A. At page 12 of his Direct Testimony, Mr. Collins' states that his modified cost of service  
11 study for the St. Louis Metro District indicates that Rate B should receive a rate decrease  
12 of \$262,839, or 9.1%. However, he proposes to maintain this class at current rates, and  
13 accordingly proposes that the Rate B class see no decrease.

14 **Q. HOW DOES THAT COMPARE WITH YOUR ADJUSTED RESULTS FOR THE**  
15 **ST. LOUIS METRO DISTRICT?**

16 A. Schedule RCS-17 filed with my January 20, 2016 Direct Testimony summarizes the  
17 recommended rate changes for Rates A, B, E, F and J for the St. Louis Metro District.  
18 For Rate B, Schedule RCS-17 shows a revenue decrease of \$434,264 and a rate decrease  
19 from present rates of approximately 15.0%, based on the adjusted cost-of-service study  
20 results.

1    **Q.    IS THERE MERIT IN MR. COLLINS' RECOMMENDATION TO MAINTAIN**  
2    **RATE B AT CURRENT RATES, WITH NO DECREASE?**

3    A.    Yes. Rate B is for Sales for Resale. Maintaining the rates for St. Louis Metro Rate B at  
4    the current levels could provide a pool of funds (\$262,839 per Mr. Collins, or \$434,264  
5    per Schedule RCS-17 filed with my January 20, 2016 Direct Testimony) that could be  
6    used to ameliorate the rate increases for some of the other rate classes in the St. Louis  
7    Metro water district.

8    **Q.    WHAT REVENUE INCREASE DOES MR. COLLINS PROPOSE FOR ST.**  
9    **LOUIS METRO RATE J (WHICH APPLIES TO MANUFACTURING)?**

10   A.    At page 12 of his Direct Testimony, he states that, based on his modifications to the  
11   Company's cost of service study, Rate J's cost of service is \$6,698,026. He states that:  
12   "Rate J would require an increase of \$126,540, or 1.93%, under my modified cost of  
13   service study and with district-specific pricing implemented." At page 13, he notes that  
14   his recommendations are based on the Company's proposed revenue requirement. He  
15   recommends an equal percent increase of 1.93% for each component of Rate J:

16           I recommend an equal percent increase for each rate component of Rate J.  
17           Under my proposal for district-specific pricing and with my recommended  
18           adjustments to the Company's cost of service study, Rate J in the St. Louis  
19           Metro District should see an increase of 1.93%. Therefore, under my  
20           proposal, I recommend that each rate component of the existing Rate J be  
21           increased by 1.93%. This will ensure that all customers in Rate J will see  
22           the overall Rate J class increase of 1.93%.

23

1   **Q.    IS AN EQUAL PERCENT INCREASE APPROPRIATE FOR EACH**  
2   **COMPONENT OF RATE J?**

3   A.    Applying an equal percentage change to each component of Rate J is more reasonable  
4        than the Company's proposed rate consolidation proposal, as described above.  
5        Consequently, I am not opposed to Mr. Collins' recommendation for implementing the  
6        revenue requirement change as equal percentage changes to each component of existing  
7        rates. Applying an equal percentage change to other rates in the St. Louis Metro District,  
8        including Rates A and F would also be one way of implementing the rate changes for  
9        those rate classes. I note that Mr. Collins' recommended 1.93% increase for Rate J may  
10       not be necessary if his proposed re-allocation of Power Costs is rejected and a lower  
11       revenue requirement for the St. Louis Metro District is used.

12   **Q.    HOW DOES THE 1.93% INCREASE FOR ST. LOUIS METRO RATE J**  
13   **SUGGESTED BY THE MIEC WITNESS, MR. COLLINS, COMPARE WITH**  
14   **THE CALCULATED RATE CHANGE THAT YOU PRESENTED ON BEHALF**  
15   **OF THE PUBLIC COUNSEL IN YOUR DIRECT COST-OF-SERVICE**  
16   **TESTIMONY?**

17   A.    The \$126,540 revenue increase or 1.93% rate increase for St. Louis Metro Rate J  
18        proposed by MIEC witness Collins compares with the \$223,371 revenue or 3.4% rate

1            decrease for St. Louis Metro Rate J shown on Schedule RCS-17, filed with my January  
2            20, 2016 Direct Testimony.<sup>1</sup>

3

4    **Q.    DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

5    **A.    Yes, it does.**

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<sup>1</sup> The Schedule RCS-17 results reflect the impact of the Public Counsel's revenue requirement adjustments, as quantified as of the date of that filing.