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July 21, 2000

**VIA FEDERAL EXPRESS**

Mr. Dale Hardy Roberts  
Secretary & Chief Regulatory Law Judge  
Missouri Public Service Commission  
301 West High Street, Suite 530  
Truman State Office Building  
Jefferson City, MO 65101

**FILED<sup>3</sup>**

**JUL 24 2000**

**Missouri Public  
Service Commission**

**Re:** Missouri - American Water Company  
Case No.: WR-2000-281

Dear Judge Roberts:

Enclosed is an original and 8 copies of Intervenor City of St. Joseph's Initial Brief.

Please file stamp the enclosed extra copy and return it to me in the enclosed self-addressed stamped envelope. If you have any questions, please let me know.

Thank you for your attention in this matter.

Very truly yours,

  
Karl Zobrist

BKZ/lmw

Enclosure

KC-777176-1

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

FILED<sup>3</sup>  
JUL 24 2000

Missouri Public  
Service Commission

In the Matter of )  
Missouri-American Water Company's )  
Tariff Sheets Designed To Implement )  
General Rate Increases For Water ) Case No.: WR-2000-281  
Service Provided To Customers )  
In The Missouri Service Area Of The Company )

**INITIAL BRIEF OF CITY OF ST. JOSEPH**

The primary issue of concern to Intervenor City of St. Joseph is whether the Commission should abandon Single Tariff Pricing (STP) in favor of District Specific Pricing (DSP) or some hybrid thereof. While the City believes that the Commission should undertake serious examination of the evidence on the issues of prudence with regard to the expenditures by the Missouri-American Water Company (Company) at the St. Joseph Water Treatment Plant, the question surrounding tariff policy is paramount.

**I. The Company's Rate Structure Should Continue to Reflect Single Tariff Pricing.**

The record before the Commission demonstrates that there is no superior alternative to Single Tariff Pricing. Indeed, witnesses who endorsed the abandonment of Single Tariff Pricing all admitted that a greater degree of rate shock would result from such a change, rather than simply staying the course with STP.

For example, Staff Witness Wendell R. Hubbs, confirming the results of his study, stated that in St. Joseph residential ratepayers would see an 88% rate increase, industrial users a 200% rate increase, and resale customers such as the rural water districts a 269% rate increase. See Tr. at 959-60. For the City of Mexico, the increases would range from 83% to 197% (Tr. 959). For the City of Brunswick an average customer would see its water bill rise over 350% from \$17.66 to \$62.32, which Mr. Hubbs conceded would not be a just and reasonable rate. See Tr. 1023, 1029.

In an effort to construct a compromise solution, the Office of the Public Counsel (OPC) prepared a proposal featuring a phase-in program that would move toward but not adopt District Specific Pricing. However, as OPC Witness James Busch admitted, the City of St. Joseph would be required to shift directly to DSP and pay all its allocated costs, whereas the Brunswick, Parkville and Mexico Districts would continue to have part of their costs supported by other ratepayers under a modified Single Tariff Pricing concept. See Tr. 840-45. After cross-examination and questions from the bench, it became clear that the OPC proposal cannot be seriously considered because of its lack of specific information about rates (Tr. 859-62), as well as its effective endorsement of rate shock for the Districts of St. Joseph, Brunswick, Parkville and others. See Tr. 866-870. Indeed, Mr. Busch conceded that OPC's phase-in plan does not send stable price signals to customers. See Tr. 868 ("I don't necessarily think that it does show stability.").

In contrast to the radical rate hikes and cost shifts proposed by those favoring District Specific Pricing, the evidence at the hearing was clear that Single Tariff Pricing when applied over time leads to rate stability, avoids rate shock and benefits all users of the system when implemented on a consistent, long-term basis. Company Witness William M. Stout testified on cross-examination that the trends he has observed nationally with all public utility commissions "is an increased use of single-tariff pricing driven largely by the consolidation in the [water] industry and the resultant desire for rate stability, ease of administration and the avoidance of drastic changes as well as the benefits to smaller districts in terms of affordability of service." See Tr. 195-96. Mr. Stout testified that if Single Tariff Pricing were continued in this case, 57% of the customer base would be supporting 43%. See Tr. 196-97. Customers in Joplin, St. Charles and Warrensburg, who had previously had cost burdens shouldered for them by the St. Joseph District, would now be asked for a period of time to help shoulder the burden caused by improvements in the St. Joseph District, as well as Brunswick, Mexico and Parkville. Mr. Stout concluded that Single

Tariff Pricing was still appropriate in this case, particularly since the St. Joseph District had been paying rates 10-11% higher than its district specific costs in the past. See Tr. 178-79, 196.

Furthermore, the evidence at the hearing discredited any notion that the Commission's adherence to Single Tariff Pricing would somehow encourage a public utility to gold-plate its system or otherwise engage in "greedy" practices. See Tr. 197. Although other parties had cited the study prepared by Dr. Janice A. Beecher on Single Tariff Pricing as documenting an incentive for water utilities to over-invest in their systems, Mr. Hubbs confirmed that the study reported only one respondent from one public utility commission had indicated this was a concern related to STP. See Tr. 1000. See also Schedule JB-2, "Consolidated Water Rates: Issues and Practices in Single Tariff Pricing" (Sept. 1999) at 58 .

Based upon the evidence presented at hearing, the Commission should not use the St. Joseph Water Treatment Plant's entry into the rate base as a justification for a departure from Single Tariff Pricing. The record is replete with evidence that tariff methodologies must be applied consistently, and not be permitted to shift back and forth. See Tr. 160-61 (Stout), 988-89 (Hubbs). The goal of Single Tariff Pricing to "maintain rate stability and levelize rates across territories for which investments will be made" presumes that STP will be applied to plants lasting 20, 30, perhaps 50 years. See Tr. 442 (Beecher). Given that on the average water utilities in the United States "will probably need to at least double their current investments in order to simply upgrade and improve the infrastructure," assuming a 20 to 30 year time period for costs among districts to even out is reasonable. See Tr. 442-43 (Beecher). See also Tr. 230 (Stout).

The alternatives to STP in this case all propose, in some form or another, substantial rate shock to ratepayers in certain Districts. In this case, they would be the Districts that would benefit from STP. In a future case, they would be other Districts. The advocates of a shift away from STP promote District Specific Pricing as a method that would be easy to understand and easy to implement. However, those

purported benefits become illusory and, ultimately, contrary to the public interest when the economic consequences of DSP are realized. In addition to institutionalizing rate shock, DSP would establish a complex process by which rates in each District, including any surcharges or subsidies built into any phase-in process, would need to be constantly monitored by the Commission, its Staff, and other parties. In particular, the proposal put forth by OPC, with its multi-year rate increases, decreases, continued subsidies, discontinued subsidies, and inter-class shifts, would require constant monitoring for the foreseeable future. See Tr. 817-18.

## II. Conclusion.

### A. Single Tariff Pricing.

This Commission should announce in its Report and Order that Single Tariff Pricing is the preferred public policy for non-contiguous, multi-district water utilities in this state. While, as Dr. Beecher recognized, there may be instances where deviations from the policy may be required to implement just and reasonable rates, and to serve the public interest, the economics of the water industry clearly favor Single Tariff Pricing over any other methodology.

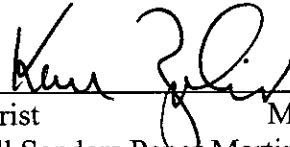
### B. Public Education Process.

The Commission should direct the Company, Staff and the Office of the Public Counsel, along with any other interested parties, to present a plan for education of the public and the ratepayers of the Company with regard to tariff pricing. According to the City Manager of Warrensburg, this type of public process worked well with regard to his city's concerns with water taste and smell. See Tr. at 713-17. Just as the Commission is considering whether to open an investigation into consumer complaints from the St. Joseph District, in response to OPC's Motion to Open Investigation Regarding Water Quality, the Commission should order that a process commence by which Single Tariff Pricing can be explored and discussed in a forum other than in a contested rate case. Such a process is consistent with

the Beecher Study which recommended that commissions consider implementing specific regulatory strategies in connection with Single Tariff Pricing, including an assessment of the utility's efforts to communicate with customers about the value of water and to build an understanding of the rate structure.

See Schedule JB-2 at 68

Respectfully submitted,



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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this 21<sup>st</sup> day of July, 2000, served the foregoing by U.S. Mail, postage prepaid, addressed to the following persons:

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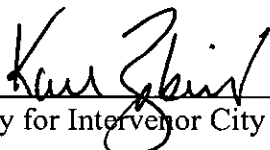
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