

No.:
Witness: Brian C. Collins
Type of Exhibit: Direct Testimony
Issues: Revenue Requirement
Sponsoring Party: Missouri Industrial Energy Consumers
Case No.: WR-2010-0131

**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

Direct Testimony of

Brian C. Collins

On behalf of

Missouri Industrial Energy Consumers

March 9, 2010



Project 9233

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Services Provided in Missouri)	
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)	

Direct 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 WHAT IS YOUR OCCUPATION?**

5 A I am a consultant in the field of public utility regulation with the firm of Brubaker &
6 Associates, Inc., energy, economic and regulatory consultants.

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

8 A This information is included in Appendix A to my testimony.

9 **Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

10 A This testimony is presented on behalf of the Missouri Industrial Energy Consumers
11 (MIEC). Member companies purchase substantial amounts of water from Missouri-
12 American Water Company (Missouri-American or Company).

**Brian C. Collins
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1 Q PLEASE SUMMARIZE THE ISSUES YOU WILL ADDRESS IN YOUR TESTIMONY.

2 A In this testimony, I will address the following issues concerning the Company's
3 proposed revenue requirement for the St. Louis Metro District:

- 4 1. The Company's proposal for the St. Louis Metro District to provide a revenue
5 subsidy for certain operating districts of the Company.
- 6 2. The Company's proposal to increase chemical expense.
- 7 3. The Company's proposal to normalize residential and commercial revenues
8 for weather.
- 9 4. The Company's proposal to increase payroll expense.

10 My recommended adjustments to the revenue requirement of the St. Louis Metro
11 District are summarized in Table 1 below:

<u>Adjustment</u>	<u>Amount</u> <u>(\$000s)</u>
Operating District Subsidy	\$2,187
Chemical Expense	1,915
Residential Normalized Revenues	4,698
Commercial Normalized Revenues	1,133
Payroll Expense	<u>654</u>
Total Adjustments	\$10,587

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

13 Q PLEASE DESCRIBE MISSOURI-AMERICAN'S PROPOSAL FOR A REVENUE
14 SUBSIDY FOR CERTAIN DISTRICTS.

15 A Missouri-American witness Dennis R. Williams' direct testimony at page 22 states that
16 the Company has included a revenue contribution, to be provided by the St. Louis
17 Metro District, for the Brunswick District, Parkville Water District, Cedar Hill Sewer

1 District and Warren County Water and Sewer Districts in the amounts of \$404,851,
2 \$354,195, \$488,473, \$86,022 and \$853,790, respectively. The proposed combined
3 St. Louis Metro District annual revenue subsidy would be \$2,187,331.

4 **Q IS THE PROPOSED REVENUE SUBSIDY PROVIDED BY THE ST. LOUIS METRO**
5 **DISTRICT COST JUSTIFIED?**

6 A No. The Company's proposed rate adjustment in this proceeding is inappropriate and
7 would create an unnecessary and unjustified cost burden on the St. Louis Metro
8 District in order to reduce the rate increase necessary to price other districts at the
9 Company's cost of providing service to those districts. The proposal is discriminatory
10 to the St. Louis Metro District and is inconsistent with the district-specific pricing
11 objective reflected in previous Missouri-American rate cases.

12 **Q WHY IS THE REVENUE SUBSIDY PROVIDED BY THE ST. LOUIS METRO**
13 **DISTRICT TO THE OTHER COMPANY DISTRICTS INAPPROPRIATE?**

14 A The Company's proposal that the St. Louis Metro District subsidize other districts
15 restricts St. Louis area businesses' ability to remain competitive in their own markets
16 and remain viable, ongoing entities. As competition increases on a national and
17 global basis, it is important that businesses are provided just and reasonable rates
18 based on cost of service that reasonably reflects prudent and efficient utility
19 management.

1 **Q WHAT IS THE RESULT OF YOUR PROPOSAL TO ELIMINATE THE SUBSIDY**
2 **PROVIDED BY THE ST. LOUIS METRO DISTRICT?**

3 A Under my proposal, eliminating the revenue subsidy provided by the St. Louis Metro
4 District would reduce the St. Louis Metro District's claimed revenue deficiency by
5 \$2,187,331.

6 **Chemical Expense**

7 **Q HAS THE COMPANY PROPOSED TO INCREASE ITS TEST YEAR CHEMICAL**
8 **EXPENSE FOR THE ST. LOUIS METRO DISTRICT?**

9 A Yes. The Company proposes to increase actual test year chemical expense by
10 \$2,182,909 for the St. Louis Metro District. This is an increase of 30.18% to the
11 actual test year chemical expense incurred by the Company. Of this amount,
12 \$1,914,505 is attributable to increased chemical pricing for 2009 and 2010 forecasted
13 by the Company.

14 **Q HOW HAS THE COMPANY CALCULATED ITS PROPOSED INCREASE TO ITS**
15 **TEST YEAR CHEMICAL EXPENSE?**

16 A The Company has projected chemical prices for the periods July 2009 – December
17 2009 and January – June 2010. It has taken these projected chemical prices and
18 applied them to the quantities of chemicals consumed in the test year to forecast
19 chemical expense for the period July 2009 to June 2010. The resulting projected
20 chemical expense for the period July 2009 to June 2010 has been included in the
21 Company's revenue requirement.

1 **Q WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE COMPANY'S**
2 **PROPOSAL TO INCREASE CHEMICAL EXPENSE?**

3 A I recommend no increase in chemical expense for the test year and that the actual
4 test year chemical expense incurred by the Company, adjusted for normalized
5 weather, be included in its proposed revenue requirement. The Company has not
6 provided a credible argument that its projected increases in chemical prices are
7 justified or accurate. My recommendation results in a reduction to the Company's
8 claimed revenue deficiency of \$1,914,505 for the St. Louis Metro District.

9 **Normalized Residential Revenues**

10 **Q HAS THE COMPANY PROPOSED TO NORMALIZE RESIDENTIAL REVENUES**
11 **TO ACCOUNT FOR WEATHER IN THE ST. LOUIS METRO DISTRICT?**

12 A Yes. The Company proposes to normalize revenues for residential customers for the
13 St. Louis Metro District to account for normal weather.

14 **Q WHAT IS THE COMPANY'S PROPOSED ADJUSTMENT TO RESIDENTIAL**
15 **REVENUES?**

16 A The Company proposes to utilize a daily utilization under average weather of 245.84
17 gallons per residential customer per day for St. Louis County (quarterly customers)
18 and 267.94 gallons per residential customer per day for St. Charles. These daily
19 utilizations increase the sales volumes for the St. Louis Metro district and result in an
20 increase in revenues at current rates of \$3,709,141.

1 Q HAS THE COMPANY UNDERSTATED ITS ADJUSTMENT TO RESIDENTIAL
2 REVENUES TO ACCOUNT FOR WEATHER?

3 A Yes. The Company's proposed residential daily utilizations for St. Louis County and
4 St. Charles understate its adjustment to revenues at current rates for the St. Louis
5 Metro District.

6 Q PLEASE EXPLAIN WHY THE COMPANY UNDERSTATED NORMALIZED
7 REVENUES AT CURRENT RATES.

8 A The Company has apparently relied upon a multivariate model to predict customers'
9 daily utilization of water in the test year. A comparison of its proposed daily
10 utilizations resulting from the model with the Company's actual daily utilizations over
11 the period 2001-2007 reveals that its proposed daily utilization for the St. Louis Metro
12 District is low. I recommend a six-year average (2001-2007) of the actual daily
13 utilizations to calculate normalized residential revenues for the test year. A review of
14 the average level of rainfall over this period demonstrates that the six-year average
15 approximates the 30-year normal level of rainfall. As a result, the six-year average of
16 actual daily utilizations approximates the daily utilization under normal weather. In
17 contrast, the Company's methodology produces a consumption level that is less than
18 this normalized level. My proposed daily utilizations are 261.23 gallons per
19 residential customer per day for St. Louis County and 275.74 gallons per residential
20 customer per day for St. Charles.

1 Q WHAT IS THE EFFECT OF YOUR RECOMMENDATION WITH RESPECT TO THE
2 COMPANY'S NORMALIZED RESIDENTIAL REVENUES FOR THE TEST YEAR?

3 A My recommendation increases the Company's residential revenues by \$5,139,069
4 at current rates for the St. Louis Metro District. My recommendation reduces the
5 Company's claimed revenue deficiency by \$4,697,645. My recommendation reflects
6 an estimate of the additional chemical and purchased power expense associated with
7 the increased sales volumes.

8 **Normalized Commercial Revenues**

9 Q HAS THE COMPANY PROPOSED TO NORMALIZE COMMERCIAL REVENUES
10 TO ACCOUNT FOR WEATHER IN THE ST. LOUIS METRO DISTRICT?

11 A Yes. The Company proposes to normalize revenues for commercial customers for
12 the St. Louis Metro District to account for normal weather.

13 Q WHAT IS THE COMPANY'S PROPOSED ADJUSTMENT TO COMMERCIAL
14 REVENUES?

15 A The Company proposes to utilize a daily utilization under average weather of
16 1,053.65 gallons per commercial customer per day for St. Louis County (quarterly
17 customers) and 1,275.48 gallons per commercial customer per day for St. Charles.
18 These daily utilizations decrease the sales volumes for the St. Louis Metro district and
19 result in a decrease in revenues at current rates of \$533,701.

1 **Q HAS THE COMPANY UNDERSTATED ITS ADJUSTMENT TO COMMERCIAL**
2 **REVENUES FOR WEATHER?**

3 A Yes. The Company's proposed commercial daily utilizations for St. Louis County and
4 St. Charles understate its adjustment to revenues at current rates for the St. Louis
5 Metro District.

6 **Q PLEASE EXPLAIN WHY THE COMPANY UNDERSTATED NORMALIZED**
7 **REVENUES AT CURRENT RATES.**

8 A As with its residential daily utilizations, the Company has apparently relied upon a
9 multivariate model to predict commercial customers' daily utilization of water in the
10 test year. A comparison of its proposed daily utilizations resulting from the model with
11 the Company's actual daily utilizations over the period 2001-2007 reveals that its
12 proposed daily utilization for the St. Louis Metro District is low. I recommend a six-
13 year average (2001-2007) of the actual daily utilizations to calculate normalized
14 commercial revenues for the test year. A review of the average level of rainfall over
15 this period demonstrates that the six-year average approximates the 30-year normal
16 level of rainfall. As a result, the six-year average of actual daily utilizations
17 approximates the daily utilization under normal weather. In contrast, the Company's
18 methodology produces a consumption level that is less than this normalized level.
19 My proposed daily utilizations are 1,126.21 gallons per commercial customer per day
20 for St. Louis County and 1,264.74 gallons per commercial customer per day for
21 St. Charles.

1 **Q WHAT IS THE EFFECT OF YOUR RECOMMENDATION WITH RESPECT TO THE**
2 **COMPANY'S COMMERCIAL REVENUES FOR THE TEST YEAR?**

3 A My recommendation increases the Company's commercial revenues by \$1,241,081
4 at current rates for the St. Louis Metro District. My recommendation reduces the
5 Company's claimed revenue deficiency by \$1,133,087. My recommendation reflects
6 an estimate of the additional chemical and purchased power expense associated with
7 the increased volumes.

8 **Payroll Expense Adjustment**

9 **Q PLEASE EXPLAIN YOUR PROPOSED ADJUSTMENT TO THE COMPANY'S**
10 **ESTIMATED PAYROLL EXPENSE.**

11 A I am proposing to adjust the Company's pro forma payroll expense to remove the
12 cost associated with vacant positions.

13 The Company's filing shows that there are 15 vacant employee positions in
14 the test year for corporate and the St. Louis Metro District. The average cost of these
15 vacant positions is \$39,625 per position. I recommend removing \$528,414 from the
16 payroll expense to remove all cost associated with the vacant positions. The revenue
17 requirement impact of this also reflects the elimination of the payroll tax expense
18 associated with these position salaries.

1 Q DO YOU PROPOSE ANY OTHER ADJUSTMENTS TO THE COMPANY'S
2 PAYROLL TAX EXPENSE?

3 A Yes. I propose to remove a portion of the annual incentive plan cost from the
4 Company's cost of service. I propose to remove a portion of the incentive plan from
5 cost of service because a large component of the Company's incentive goals are
6 targeted to the profitability of the firm, which should be paid by shareholders and not
7 customers. I recommend a reduction of \$125,149 to the Company's revenue
8 requirement.

9 Q WHY DO YOU BELIEVE THAT THE COMPANY'S ANNUAL INCENTIVE PLAN
10 PERFORMANCE GOALS ARE TIED TO THE FINANCIAL PERFORMANCE OF
11 THE COMPANY?

12 A I have reviewed the Company's confidential response to Staff Data Request 65,
13 which provides the structure of the annual incentive plan. I am proposing to remove
14 the portion of total incentive compensation that relates to meeting the Company's
15 financial goals, which primarily benefits shareholders. Therefore, shareholders – not
16 the Company's customers – should pay these costs. The remaining incentive
17 programs generally relate to quality of service as well as employee safety. Therefore,
18 these costs are appropriate for passing on to customers in the Company's cost of
19 service.

20 Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

21 A Yes, it does.

Appendix A

Qualifications 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 WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?**

5 A I am a consultant in the field of public utility regulation with the firm of Brubaker &
6 Associates, Inc. (BAI), energy, economic and regulatory consultants.

7 **Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

8 A I graduated from Southern Illinois University Carbondale with a Bachelor of Science
9 degree in Electrical Engineering. I also graduated from the University of Illinois at
10 Springfield with a Master of Business Administration degree. Prior to joining BAI, I
11 was employed by the Illinois Commerce Commission and City Water Light & Power
12 (CWLP) in Springfield, IL.

13 My responsibilities at the Illinois Commerce Commission included the review
14 of the prudence of utilities' fuel costs in fuel adjustment reconciliation cases before
15 the Commission. My responsibilities at CWLP included generation and transmission
16 system planning. While at CWLP, I completed several thermal and voltage studies in
17 support of CWLP's operating and planning decisions. I also performed duties for
18 CWLP's Operations Department, including calculating CWLP's monthly cost of
19 production. I also determined CWLP's allocation of wholesale purchased power
20 costs to retail and wholesale customers for use in the monthly fuel adjustment.

1 In June 2001, I joined BAI as a Consultant. Since that time, I have
2 participated in the analysis of various utility rate and other matters in several
3 states and before FERC.

4 BAI was formed in April 1995. BAI and its predecessor firm has participated in
5 more than 700 regulatory proceeding in forty states and Canada.

6 BAI provides consulting services in the economic, technical, accounting, and
7 financial aspects of public utility rates and in the acquisition of utility and energy
8 services through RFPs and negotiations, in both regulated and unregulated markets.
9 Our clients include large industrial and institutional customers, some utilities and, on
10 occasion, state regulatory agencies. We also prepare special studies and reports,
11 forecasts, surveys and siting studies, and present seminars on utility-related issues.

12 In general, we are engaged in energy and regulatory consulting, economic
13 analysis and contract negotiation. In addition to our main office in St. Louis, the firm
14 also has branch offices in Phoenix, Arizona and Corpus Christi, Texas.

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