

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

In the Matter of Missouri-American Water)
Company’s Request for Authority to)
Implement General Rate Increase for) **File No. WR-2017-0285, et al.**
Water and Sewer Service Provided in)
Missouri Service Areas)

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

COME NOW Intervenors Public Water Supply District No. 1 of Andrew County and Public Water Supply District No. 2 of Andrew County ("Water Districts") and respectfully submit their Reply Brief in this proceeding.

I. Water Rate Design: Consolidation/Single Tariff Pricing

As discussed in their Initial Brief, the Water Districts respectfully request that the Commission stay the course and implement full consolidation of the Company’s water districts in this proceeding. The Initial Brief of Missouri-American Water Company (“Company”) addressed the substantive evidentiary record supporting fully consolidated or single tariff pricing, and noted that “Company’s proposal to move to fully consolidated tariff pricing is supported by Intervenors City of Riverside, City of Joplin and Public Water Supply Districts Nos. 1 and 2 of Andrew County.” (Company Brief, p. 28). The Water Districts would further note that while the City of Warrensburg continues to advocate for a return to eight-district pricing, it now clearly rejects the current three-district pricing in favor of the adoption of single tariff pricing. “Warrensburg continues to advocate for a return to eight-district pricing. However, if the Commission declines to

reverse course, then it should not continue with three-district pricing but rather should take the final step to adopt single tariff pricing, subject to an offset mechanism to assure a more reasonable transition.” (City of Warrensburg Initial Brief, p. 1). The joint brief of Riverside and Joplin also advocate that the Commission take the final step to adopt single tariff pricing.

As referenced in the Water Districts’ Initial Brief, the Company initially proposed rates for the Rate B Sale for Resale class on a bifurcated basis that would have resulted in different volumetric rates for the current District 1 as opposed to a combined District 2 and 3, but that is no longer the case. The Company’s initial position was strenuously objected to by the Water Districts and rebutted by the Water Districts’ expert witness, Donald Johnstone. (Exs. 675/676). Mr. Johnstone’s uncontroverted rebuttal testimony addressed the infirmities and inequities of such proposal and the resulting substantial harm to the Water Districts. Additional probative evidence supporting the full consolidation of the Rate B volumetric rates was offered by the Company’s expert witness, Connie Heppenstall, in prefiled surrebuttal testimony, specifically responding to Mr. Johnstone: “I agree that for full consolidation, the Rate B volumetric rates should be equivalent across all current districts. . . . the Company is not opposed to full consolidation of the Rate B volumetric rate as proposed by Mr. Johnstone.” (Ex. 17, p. 4). In addition to the Company’s prefiled surrebuttal testimony, the Company’s revised position -- regarding the Rate B volumetric rate being equivalent across all the current districts -- was clearly supported by the evidentiary hearing record (*See*, Tr. 545, 568-569, 601, 642-643; Ex. 136), with Company witnesses confirming such support and no party disputing the Company’s posture.

In summary, the Commission focused on the positive elements of consolidation inherent in balancing different interests in resolving the Company's prior general rate proceeding:

Consolidated pricing will help to meet the needs of all customers by sharing the cost of providing needed services among a larger group of customers, making the cost of service more affordable for all. Consolidation will limit rate shock when new infrastructure must be installed in a district with a small population, and all districts will eventually face that prospect.

Consolidation is not without risk. It averages rates and inevitably some customers will pay more than they pay now, and some will pay less. At least in the short term that will be seen by some as unfair, but, over the long term, the effects of consolidation will even out across the state. It is not reasonable to keep patching the current group of rate districts to deal with the needed, but unaffordable, infrastructure repairs and improvements as they occur.¹

II. Lead Service Line Replacement Cost Assignment

Regarding lead service line replacement costs, the Water Districts reiterated in their Initial Brief their support for the position of the Missouri Industrial Energy Consumers ("MIEC") that those costs should be directly assigned to the classes to which the service lines relate. (Tr. 253, 280). MIEC's Initial Brief underscored the cross-examination of Company Witness Heppenstall reflecting her agreement that it is better to directly assign costs to customer classes than to allocate them, when it is possible to do so. "In response to questions from Chairman Hall, she reiterated that it would be better to directly assign the costs of lead service line replacements to the classes responsible for the specific lines replaced." (MIEC Brief, p. 4, citing Tr. 643, 651). The MIEC Brief additionally set forth testimony of Staff elicited at hearing that agreed with the MIEC position on direct assignment.

¹ *Report and Order*, Case No. WR-2015-0301, May 26, 2016, page 27.

[D]irectly assigning them to the appropriate class, more in line with what Mr. Mills said MIEC's position is, is I think the best way to do it, if possible. You're taking the – replacing lead service lines from residential, then it's a residential issue. If it's taking it from commercials, it should be commercial class. If there's any for industrials, then that should be spread, along the industrial class. I think that is – that would be the best way to do it. (MIEC Brief, p. 5, citing Tr. 678).

As discussed in the Water Districts' Initial Brief, the Sale for Resale class responsibility for lead service lines should be zero. This is a fact illustrated by the cost study methodology for distribution mains. As discussed during the evidentiary hearing, there continues to be a class cost of service distribution main adjustment for the Rate B sale for resale customers in the St. Joseph service area in both the Company and Staff class cost of service studies. This is an appropriate recognition that the sale for resale customer class is connected directly to the transmission system and does not receive any benefit from the smaller distribution mains. (Tr. 564; Ex. 15, pp. 8-9; Ex. 104, pp. 5-6). In regards to this particular sub-issue, obviously, such recognition would appropriately extend to the service lines behind those distribution mains.

In its Initial Brief, the Staff cautioned the Commission that “[n]evertheless, while the Commission has broad statutory authority to set rates, Commission decisions must be based on competent, substantial evidence in the record.” (Staff Brief, p. 33). In examining the record in this proceeding, the Staff observed:

Upon review of the available record, there are no facts in the record that suggest whether any members of Rate B or Rate J may have lead service lines . . . Without that fact, to place sharing of some of the LSR costs upon Rate B and Rate J customers, the Commission would need to determine that the public policy implications greatly outweighed any counter-considerations. Without sufficient fact, the support for that policy decision is problematic. (Staff Brief, pp. 35-36).

III. Conclusion

In conclusion, the Water Districts again respectfully request that the Commission adopt the single-tariff pricing proposal and resulting rates that are fully supported by the record in this matter.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that true copies of the foregoing document has been e-mailed on this 9th day of April, 2018, 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

Larry W. Dority