

**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) **Case No. WR-2015-0301**
Increase for 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 Nos. 1 and 2 of Andrew County ("Water Districts") and respectfully submit their Reply Brief in this matter. Having presented their positions and supporting argument in their Initial Brief, the Water Districts offer their replies and further explanation for the Commission's consideration on the following issues:

RATE DESIGN AND CUSTOMER CHARGE

Rate Structure

As fully established during the evidentiary hearing and explicitly covered in Staff's Initial Brief, with respect to rate structure, **Staff proposes** to continue the existing St. Louis Metro ("SLM") rate structure for its proposed Water District 1 and **to continue the existing declining block structure for all nonresidential customer rate classifications for proposed Water Districts 2 and 3**. Staff's method in designing the block rates was to keep the existing ratio between the currently-approved blocks constant. Referencing the *Staff Report on Class Cost of Service and Rate Design*, Staff Witness Busch confirmed during the evidentiary hearing that maintaining the existing declining block rate structure for the Sale for Resale class in the St. Joseph service

territory remains Staff's position. (Staff Ex. 3, p. 6; Tr. 800-801). Only the Company appears to propose moving to a single-block volumetric charge for each customer class.¹

The record is devoid of analysis of any proposed change; there is no competent and substantial evidence to support any proposed change; and the consequences could be severe.

Not-for-profit public water districts serving rural customers outside of St. Joseph, the Water Districts are among the Company's larger customers, whose entire water supply comes from the Company with a need for water and usage 24/7 throughout the year. Declining block rates allow larger customers who generally experience better load factors to pay a lower tail block rate to reflect the lower cost to serve them. As discussed in the Water Districts' Initial Brief, during the evidentiary hearing held on these issues many references were made to the "**Staff's Water Utility Rate Design Analysis**" ("Analysis") that was performed by Staff and submitted in this proceeding on June 16, 2015.² In discussing the provision of water service to large customers, the Staff Analysis notes that the predominant rate structure is a declining block usage rate.

. . . For the larger systems with commercial and industrial customer classes, as well as other customer classes, the predominant rate structure is a declining block usage rate. Each has a fixed component that is based on meter size and then a corresponding declining rate structure. It is a fair assumption that these larger types of customers are placing a constant strain on the system and are not subject to the peaking strains that are more typical from residential customers. **Therefore, the declining block**

¹ Contrary to the Company's suggestion that the Non-Unanimous Stipulation on Rate Design "is not clear whether they propose to keep the declining block structure for non-residential classes," it is indeed clear and consistent with past settlements regarding rate design where all remaining increases/decreases (after establishing the appropriate customer charges) are applied on an equal percentage basis to all other rate elements for all classes in each district. All other rate elements obviously encompasses the existing rate elements in place; there is absolutely no suggestion of a movement to a single volumetric rate for all customer classes.

² EFIS Docket No. 3; Staff also references this filing at page 24 of its Initial Brief.

rate structure is a better reflection of the costs of providing service to these classes of customers.

Due to the massive amounts of water required by some of these customers, the fixed costs are higher, but as usage increases those fixed costs are satisfied through the higher initial blocks. As the relatively less expensive higher gallons are consumed, the rate drops accordingly. Since these large users are going to demand water through the initial blocks on a consistent basis, those initial blocks act as a de facto customer charge.

When moving from a declining block rate to a uniform rate, high demand users would necessarily see a reduction in their initial usage costs, but would see an increase in their late block usage. Lower demand users who do not generally reach the higher blocks would ultimately pay much less.

In order to perform a proper analysis of the change to these classes, Staff would have to study the individual usage patterns of the large users to determine if additional classes would have to be created with different rates to account for the different usage patterns. The declining block rate structure generally performs this task already and thus seems to be the best practice at this time. The additional cost and resources necessary to complete the analysis during the course of each rate case would likely be greater than the benefit. (Emphasis added).

Finally, the Staff's Analysis cautions: "When determining an appropriate rate design and rate structure, **it is imperative to have the appropriate level of data and time to evaluate the various factors that are used to determine the ultimate rate. Without proper analysis, unintended consequences are inevitable.**" (Emphasis added).

As discussed in the Water Districts' Initial Brief, only the Company has tendered models purporting to reflect impacts of various district consolidation proposals and many of those schedules have contained errors requiring numerous revisions/corrections which continue to be submitted to the Regulatory Law Judge,

some as recently as this week. While not addressing nor accepting the veracity of any of those revised exhibits, suffice it to say that there is no information therein that would provide the appropriate level of data and time for evaluation that Staff (and other parties) would require to conduct a proper analysis and avoid unintended consequences that could very well result from movement away from the existing declining block rates. As the above-referenced Staff's Analysis notes, when moving from a declining block rate to a uniform rate, high demand users would necessarily see a reduction in their initial usage costs, but would see an increase in their late block usage. This is particularly true for high demand users like the Water Districts averaging 12 to 16 million gallons a month, who would necessarily see an increase in their late block usage costs.

The Commission should adopt the Staff's position that the existing declining block rate structure for the Sale for Resale class be maintained in the St. Joseph service territory. Simply put, the necessary level of data for designing different rates and time for studying their impact is not presently available. If, as several parties have suggested, the Commission opens a rate design docket to examine various issues, this particular issue could be appropriately examined more fully as well.

DISTRICT CONSOLIDATION / CONSOLIDATED PRICING

In their Initial Brief, the Water Districts stated that based on available information, they believe that the "Non-Unanimous Stipulation and Agreement on Rate Design, District Consolidation and Sewer Revenue" ("OPC Non-Unanimous Stipulation") is the most reasonable district consolidation and rate design proposal and will further the public interest. To briefly recap, the OPC Non-Unanimous Stipulation was filed by the

OPC, Missouri Industrial Energy Consumers (“MIEC”), City of Brunswick, City of St. Joseph and City of Joplin (City of Warrensburg has since filed its support as well), proposing limited consolidation of districts in this case as follows: Anna Meadows and Hickory Hills will be consolidated into the St. Louis Metro district for water only; Brunswick will be consolidated into the St. Joseph district; Redfield will be consolidated into the Jefferson City district; and the remaining districts in present District 8 will now become a new consolidated Branson district. All other water systems will remain in their current districts. The Platte County district will receive a 5% reduction in residential rates that will be allocated to the Joplin and St. Louis Metro districts in proportion to their relative revenue requirement (approximately 10% to Joplin and 90% to St. Louis). In addition, to address the sewer system revenue requirement issue, \$565,000 will be allocated to the Joplin and St. Louis Metro districts in proportion to their relative revenue requirement (approximately 10% to Joplin and 90% to St. Louis).

Other parties characterize this proposal as “continuation of the status quo, with limited consolidation.” As fully explained in their Initial Brief, the Water Districts have respectfully maintained that the Commission cannot make decisions of this magnitude in a vacuum, and the requisite information and impacts must be available prior to such decisions being made. Given the continuing saga discussed above regarding the apparent difficulty in capturing credible and reliable information to date, the Water Districts continue to believe and advocate that the OPC Non-Unanimous Stipulation is the most reasonable district consolidation and rate design proposal and will further the public interest.

CONCLUSION

For the reasons fully discussed in their Initial and Reply Briefs, the Water Districts respectfully request that the Commission adopt the Staff's position that the existing declining block rate structure for the Sale for Resale class be maintained in the St. Joseph service territory, and that the Commission adopt and approve the Non-Unanimous Stipulation and Agreement on Rate Design, District Consolidation and Sewer Revenue.

Respectfully submitted,

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ATTORNEYS FOR PUBLIC WATER
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Certificate of Service

I hereby certify that a true and correct copy of the foregoing was served, either electronically or by hand delivery or by First Class United States Mail, postage prepaid, on this 22nd day of April, 2016, 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