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Rate Design
Witness: James M. Russo
Sponsoring Party: MO PSC Staff
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Case No.: WR-2010-0131
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

JAMES M. RUSSO

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2010-0131

**Jefferson City, Missouri
May 2010**

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1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **JAMES M. RUSSO**

4 **MISSOURI-AMERICAN WATER COMPANY**

5 **CASE NO. WR-2010-0131**

6 Please state your name and business address.

7 A. James M. Russo, P. O. Box 360, Jefferson City, Missouri 65102.

8 Are you the same James M. Russo who filed Direct and Rebuttal Testimony on
9 behalf of the Commission Staff in Case No. WR-2010-0131?

10 A. Yes I am.

11 What is the purpose of your Surrebuttal Testimony?

12 A. The purpose of my Surrebuttal Testimony is to rebut portions of the Rebuttal
13 Testimony of Missouri-American Water Company (MAWC or Company) witness Paul R.
14 Herbert, Ag Processing Inc., witness Donald E. Johnstone, M.I.E.C., witness Michael Gorman,
15 Office of the Public Counsel (OPC), witness Barbara A. Meisenheimer, and Public Water
16 Supply District Interveners Terry Campbell and Bill Carpenter. In addition, I will be filing an
17 updated Class Cost of Service (CCOS) for the Company's Water Districts and the updated Cost
18 of Service (COS) for the Company's Sewer Districts reflecting information as of April 26,
19 2010.

20 **Paul R. Herbert**

21 Please comment on the errors Mr. Hebert describes in Staff's CCOS Study.

22 A. Staff has included updated billing determinants and commodity volumes in
23 Staff's CCOS Study. Staff has corrected the deductions to rate base including Contributions in

1 Aid of Construction (CIAC), Deferred Taxes and Pensions for all of the water districts in
2 Staff's CCOS Study. Staff did include the revenues and costs for the special contract customer
3 (Triumph Foods or Triumph) for the St. Joseph District in both Staff's original and updated
4 CCOS Studies.

5 Please elaborate on your statement that Staff included the revenues for Triumph
6 in Staff's CCOS Study.

7 A. Staff has apportioned the Triumph revenues to the Industrial Class and has
8 included the costs related to Triumph's pumping, chemicals and waste disposal in Staff's
9 accounting run for the St. Joseph District. Staff did not however include the volumes related to
10 special contract customers, including but not limited to Triumph, as this would increase the
11 overall volume of water sold, in effect reducing the Company's commodity cost per gallon to a
12 level lower than the actual cost per gallon for customer's receiving service under the
13 Company's tariff rate provisions for the Industrial Class.

14 Does Staff agree with Mr. Herbert's adjustment for small mains of the Sales for
15 Resale Customers located in the Joplin, St. Joseph and St. Louis Metro (SLM) Districts?

16 A. Yes. Staff has made the small main adjustment for the Sales for Resale
17 Customers in the Joplin, St. Joseph and SLM Districts. The CCOS Study I filed in my Rebuttal
18 Testimony for the St. Joseph District includes the small main adjustment for this customer
19 classification. I have since made the adjustment for the other two districts (Joplin and SLM)
20 for the same reasons stated in my Rebuttal Testimony.

21 Do you agree with Mr. Herbert's use of coincident peak hour to determine base
22 and maximum hour allocations?

1 A. No. Staff's methodology results in the same factor for the Residential Class, a
2 smaller factor for the Commercial, Industrial and Other Public Authority Classes, and a larger
3 factor for the Sales for Resale Class. The dollar impact of Staff's methodology decreases the
4 costs allocated to Commercial, Industrial and Other Public Authority Class customers and
5 increases the costs allocated to the Sales for Resale Class in the range of approximately \$4,000
6 to \$27,000 for any of the customer classifications listed above in any given district.

7 Does Staff agree with Mr. Herbert's conclusion regarding the CCOS Studies?

8 A. Staff agrees that all the witnesses support the use of the base-extra capacity
9 method. However, Staff believes Staff's CCOS Studies reflect the proper allocation of costs,
10 including mains, to the various customer classes and reflect the proper revenue distribution
11 among the customer classes for each district.

12 Do you agree with Mr. Herbert's rate design related to declining blocks for non-
13 residential customers?

14 A. No. Staff believes single block rates are appropriate, Staff also believes that the
15 advantages of single block rates outweigh any advantages of a declining block rate. Single
16 block rates allow for simplicity, equity, revenue stability, and conservation. Single block rates
17 are easy for customers to understand, equitable because all customers in the class pay the same
18 unit price for water regardless of their usage, and allow for revenue stability when compared to
19 other complex rate designs. In addition, single block rates encourage conservation because a
20 customer knows his or her bill will vary with the amount of water usage. However, Staff
21 agrees that Mr. Herbert's methodology is an option in developing volumetric rates with the
22 caveat that the tail block cannot and should not fall below the cost of water as determined by
23 the base-extra capacity method.

1 **Donald E. Johnstone**

2 Has Staff corrected the data or input errors identified in Mr. Johnstone's
3 Rebuttal Testimony as rate base deductions being added to the cost of service instead of
4 subtracted, and, Other Revenues being added to the CCOS instead of subtracted; in Staff's
5 CCOS Study?

6 A. Yes, Staff addressed these data or input errors in the revised CCOS Study filed
7 in my Rebuttal Testimony.

8 Do you agree with Mr. Johnstone's recommendation that miscellaneous
9 revenues be allocated among all customer classifications?

10 A. Yes, Staff has allocated the miscellaneous revenues in all of the Company's
11 water districts among all of the customer classifications. The changes for the St. Joseph
12 District are reflected in the revised CCOS filed in my Rebuttal Testimony.

13 Did Staff exclude the Sales for Resale Class from the cost allocation factor used
14 for small mains in the Saint Joseph District?

15 A. Staff's original CCOS Study excluded the Sales for Resale Class from the cost
16 allocation factor used for small mains. I included the small main adjustment for this customer
17 class in the St. Joseph District in my updated CCOS Study filed with my Rebuttal Testimony.

18 Do you agree with Mr. Johnstone's statement found at page 5 of his Rebuttal
19 Testimony that states "while the special contract revenues were assigned to the Industrial
20 Class, the costs of providing the service were not allocated or assigned to the Industrial Class"?

21 No. Staff included the costs related to the special contracts in the Staffs
22 auditing (EMS) runs. Staff's EMS runs were the basis for the CCOS Study.

1 Do you agree with Mr. Johnstone's explanation of Staff's base and maximum
2 day excess factor?

3 A. No. Staff used the same historical data as the Company in determining the
4 excess maximum day ratio. Staff cannot explain how the Company arrived at 50% instead of
5 39%.

6 Staff used a 75% maximum day excess usage assumption for the Commercial
7 and Other Public Authority Classes because Staff believes these customer classes place a lower
8 demand on the system than the Residential Class. Staff used a 90% maximum day excess
9 usage assumption for the Sales for Resale Class because Staff believes this customer class
10 demand on the system mirrors the Residential Class at a reduced level.

11 Staff agrees with Mr. Johnstone that actual demand data is not available for the
12 St. Joseph District. Staff believes its methodology and factors are reasonable in the absence of
13 this data.

14 Please respond to Mr. Johnstone's summary of Staff's Industrial Rate design on
15 pages 11 and 12 in his Rebuttal Testimony.

16 A. The percentages Mr. Johnstone cites have changed with Staff's updated CCOS
17 Study. Staff's updated recommendation increases the customer charge for the smallest
18 industrial class meter 40.13% and decreases the customer charge for the largest industrial class
19 customer 39.68%. Staff's updated recommendation on the industrial class volumetric rate is
20 \$2.2429. This results in a reduction of 63% in the first block and an increase of 33.8% for the
21 fourth block.

22 Please respond to Mr. Johnstone's statements concerning conservation on pages
23 13 and 14 in his Rebuttal Testimony.

1 A. Staff does not agree with Mr. Johnstone. The Second Edition of the *American*
2 *Heritage Dictionary* defines “conservation” as “1. The act or process of conserving. 2. The
3 controlled use and systematic protection of natural resources, such as forests and waterways.”
4 Staff believes that the price of a commodity affects the commodity’s controlled use. Generally
5 speaking, a lower priced commodity will result in higher use and a higher priced commodity
6 will result in lower use. Staff believes this is especially true for discretionary water use and
7 will result in modified use patterns for mandatory water use. A single block rate allows the
8 user to know what they are paying for water without having to determine what their water
9 usage has been during the usage period and what rate block they are being charged.

10 Do you agree with Mr. Johnstone’s hypothetical statements related to the effect
11 on a large volume water customer at the top of page 15 in his Rebuttal Testimony?

12 A. No. There are 165 meters that receive service under the Industrial Class. Some
13 Industrial customers have more than one meter. There are only two (2) industrial customers in
14 the Industrial Class that use a minimum of 20 million gallons per month. The third largest
15 customer uses approximately 18.6 million gallons per month and the average monthly usage
16 drops significantly to approximately 9.8 million gallons per month for the fourth largest
17 industrial customer. Staff agrees that these four customers would see price increases on the
18 volumetric portion of their water bill at their present usage under Staff’s currently proposed rate
19 design. The range of the increase would be approximately \$767 (3.6%) per month for the
20 fourth largest industrial customer to \$7,081 (17.74%) per month for the largest industrial
21 customer.

22 The “break even point” for the volumetric charge for industrial customers would
23 be approximately 5.9 million gallons of water usage per month. This means that an industrial

1 customer using less than 5.9 million gallons of water per month would see the commodity
2 portion of their water bill decreasing and a customer using more than 5.9 million gallons of
3 water per month would see the commodity portion of their water bill increasing.

4 Do you agree with Mr. Johnstone's following statement found at the bottom of
5 page 15 of his Rebuttal Testimony:

6 Of course, there is also the possibility of large customers developing their
7 own water supplies. What would be needed would be a well and a water
8 treatment facility.

9
10 A. No I do not. Mr. Johnstone's statement is pure conjecture. He offers no
11 supporting documentation that large customers would be encouraged to develop their own
12 water supplies. It is simply his opinion that MAWC's water would be overpriced.

13 Do you agree with Mr. Johnstone's statement on page 16 of his Rebuttal
14 Testimony that Staff's proposal is to discourage economic development by large industrial
15 customers?

16 A. No. Staff does not believe a single block commodity rate will affect an
17 Industrial Class customer from expanding or relocating its facilities to St. Joseph. The
18 Company presently has a mechanism in the Economic Development Rider (EDR) section of the
19 St. Joseph District tariff. The EDR sets forth the conditions under which an existing company
20 can expand its facilities and a new company can locate in St. Joseph while receiving water at a
21 special contract price.

22 Do you agree with Mr. Johnstone's statement on page 16 of his Rebuttal
23 Testimony summarizing Staff's rate design as a severe departure from the current Industrial
24 Class rate design, not reasonably reflecting costs, not promoting conservation, and acting in a

1 fashion counterproductive to the maintenance of a vibrant industrial sector for the St. Joseph
2 District?

3 A. Staff agrees that Staff's proposed rate design is a departure from the current
4 Industrial Class rate design. Staff believes its proposed rate design properly recovers the
5 Company's current COS for the St. Joseph District. Conservation occurs for the reasons stated
6 above. Single blocks are not counterproductive to the maintenance of a vibrant industrial
7 sector as single block rates clearly allow the Industrial Class customers to know the cost of
8 their water usage and as stated earlier, depending on their usage they may pay less than what
9 they presently are paying.

10 **Michael Gorman**

11 Do you agree with Mr. Gorman's analysis that Staff only applied the large
12 industrial customer consumption adjustment to the Factor 4-Max Hour Extra Capacity and did
13 not make the same adjustment to the Factor 4-Average Hourly Consumption??

14 A. Yes. As stated above, Staff has made this change.

15 Do you agree with Mr. Gorman's testimony changing Factor 4 small main
16 adjustment?

17 A. No for the reasons discussed in my Rebuttal Testimony regarding Company
18 Witness Paul Herbert.

19 Do you agree with Mr. Gorman's Rebuttal Testimony on page 5, addressing
20 Staff's development of Factor 6?

21 A. No. I have addressed this previously in my Rebuttal Testimony filed in this
22 case.

1 Has Staff reviewed Mr. Gorman’s comments that Staff based Factor 3 on data
2 from calendar year 2007 and Factor 4 on calendar year 2006?

3 A. Yes. Staff used the correct information to perform Factor 3 and Factor 4.
4 However, the headings on Staff’s work sheets were not updated from previous cases. The
5 headings have been changed in Staff’s filed updated CCOS Study.

6 Do you agree with Mr. Gorman’s explanation of a declining block rate structure
7 being appropriate for the Rate J class in the SLM District?

8 A. No, for the reasons discussed in detail above in my response to the Direct
9 Testimony of Company witness Paul R. Herbert and Ag Processing Inc. witness Donald E.
10 Johnstone.

11 **Barbara A. Meisenheimer**

12 Does Staff agree with Ms. Meisenheimer’s statements on page 7 of her Rebuttal
13 Testimony that Staff’s proposal would result in huge shifts between classes?

14 A. Staff agrees that some customers may be subject to large increases and that
15 some customers may be subject to large decreases. However, Staff believes its CCOS study
16 reflects the actual cost for each class of customer in each district. Staff believes that the
17 “global” settlements in at least the last three cases are part of the reason for these large rate
18 swings.

19 Do you agree with Ms. Meisenheimer’s recommendation of a revenue neutral
20 shift and spreading any net increase or decrease in district revenue to the classes as an equal
21 percentage that is capped at 5%?

22 A. No. Staff believes each customer classification in each district should pay for
23 their share of the costs as identified in Staff’s CCOS Study. Staff agrees that a 5% cap would

1 help mitigate large rate increase impacts. However, the process of spreading any increase or
2 decrease at an equal percent for all customer classes will not reflect the actual COS for a given
3 customer class. Capping the change in rates at 5% only continues to compound the intraclass
4 subsidizations that Staff believes are occurring in MAWC's current rate design.

5 Do you agree with Ms. Meisenheimer's statement that Staff's customer charge
6 proposal far exceeds cost?

7 A. No. Staff's customer charge for each district is based on the allocation of
8 district specific actual costs to meters, services and billing and collection.

9 Does Staff still propose to provide support (contributions) to the Brunswick and
10 Warren County Water Districts as described in Ms. Meisenheimer's Rebuttal Testimony?

11 A. Yes. In addition, Staff has modified Staff's position of contributions to the
12 Brunswick and Warren County Water Districts after reviewing the updated accounting
13 schedules.

14 Please explain what you mean by Staff modifying its position of contributions
15 to the Brunswick and Warren County Water Districts?

16 A. Staff proposes that the Brunswick Water District rate increase be limited to a
17 40% increase over the existing rates, Warren County Water District rate increase be limited to a
18 55% increase over the existing rates, and the Warren County Sewer District be limited to a 60%
19 increase over the existing rates. Staff further proposes that the Jefferson City and Warrensburg
20 Water Districts rates would remain at the current level instead of a small decrease. Any
21 required support would be provided by the St. Louis Metro District (SLM). Schedule SUR-
22 Support 1-3 attached to this testimony shows the results of Staff's proposal on each district.

1 What did Staff consider in reaching the above conclusions for the Water
2 Districts?

3 A. Staff reviewed the proposed rates for the Brunswick and Warren County Water
4 Districts based on 5,000 gallons per month usage. Staff's proposed dollar increase for these
5 Water Districts at the 5,000 gallon per month usage would be \$23.45 for Brunswick and \$23.75
6 for Warren County. Staff believes keeping the amount of the increase for these two districts
7 fairly equal is equitable. Staff also looked at the impact on the average residential customer's
8 monthly bill. This review resulted in the average residential customer bill for Brunswick
9 Districts (3,500 gallons monthly average water use) being \$64.04 compared to the average
10 residential customer bill for Warren County (5,500 gallons monthly average water use) of
11 \$71.03. Staff believes its proposed increases for these two districts bring them significantly
12 closer to their COS and helps reduce the contribution provided by the SLM District.

13 What did Staff consider in reaching the above conclusions for the Sewer
14 Districts?

15 A. Staff reviewed the proposed rates for the three sewer districts. The Platte
16 County District with Staff's proposed increase of 18.33% resulted in a proposed monthly sewer
17 charge of \$63.20. The Cedar Hill District with Staff's proposed increase of 73.69% resulted in
18 a proposed monthly sewer charge of \$58.73. Staff then determined that a 60% increase for the
19 Warren County District would result in a proposed monthly sewer charge of \$63.70. Staff
20 believes this increase would make the Warren County Sewer District equitable with MAWC's
21 other two sewer districts. In addition, Staff's proposal brings Warren County Sewer District
22 rates significantly closer to the true cost of service and reduces the contribution from the SLM
23 District.

1 Does Staff propose any alternate positions on contributions to any of MAWC's
2 districts?

3 A. Yes. Staff would not oppose the merging of the Warren County Water District
4 (WCWD) into the SLM District as an alternative to any support being provided to the WCWD.

5 What are Staff's reasons for merging the WCWD into the SLM District?

6 A. The WCWD is maintained by employees of the SLM District and many of the
7 day to day costs of operation are similar to the SLM District. In addition, the District is located
8 relatively close to the SLM District.

9 What effect would this have on Staff's proposed rates in the WCWD and SLM
10 District?

11 A. Staff calculates the effects on residential customers in the WCWD to be a
12 savings of \$61.00 per month and the increase for residential monthly customers in the SLM
13 District to be six (6) cents per month. Please refer to attached Schedule SUR-Support 1-4
14 attached to this testimony for the results of Staff's analysis.

15 Does Staff agree with Ms. Meisenheimer's proposed phase-in of rates?

16 A. Staff does not oppose Ms. Meisenheimer's proposed phase-in of rates for the
17 Brunswick water district and the Warren County water district if no contributions are given to
18 those two districts from existing districts. Staff also believes that Ms. Meisenheimer's
19 proposed phase-in with carrying costs to be paid by the respective district is appropriate.

20 **Terry Campbell**

21 Do you agree with Mr. Campbell's statement that Andrew 1 Public Water
22 Supply District is paying for parts of MAWC's distribution system that the water district does
23 not use?

1 A. No. Staff's and the Company's small main adjustment removes these costs from
2 the costs allocated to all of the Sales for Resale Customers.

3 Do you agree with Mr. Campbell's statement that the Company's declining
4 block rate structure for non-residential classes allows the larger customers who generally
5 experience better load factors to pay a lower sales block rate to reflect lower cost to serve
6 them?

7 A. No. Staff has addressed this previously in my Surrebuttal Testimony to Mr.
8 Herbert Ag Processing Inc. witness Donald E. Johnstone.

9 Do you agree with Mr. Campbell's statement that the Public Water Supply
10 District maintains all of its trunk lines and distribution lines, and the Public Water Supply
11 District does all of its billing and pays all of its administrative costs?

12 A. Yes. However, none of these items for the Public Water Supply District are
13 included in Staff's CCOS Study.

14 **Bill Carpenter**

15 Do you agree with Mr. Carpenter's statement that the Public Water Supply
16 District's are paying for fire hydrants located in the City of St. Joseph?

17 A. No. None of the CCOS Studies filed in this case by any of the parties include
18 any costs related to fire protection being allocated to the Sales for Resale Customers.

19 Does this conclude your Surrebuttal Testimony?

20 A. Yes, it does.