

Exhibit No.:
Issue: Rate Design
Witness: Dr. Janice A. Beecher
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Public Water Supply Districts
& the City of St. Joseph, MO.
Case Nos.: WR-2000-281, SR-2000-282
Date Testimony Prepared: May 25, 2000

SURREBUTTAL TESTIMONY

of

JANICE A. BEECHER, Ph.D.

FILED

MAY 25 2000

**Missouri Public
Service Commission**

On Behalf of

**St. Joseph Area
Public Water Supply Districts
&
The City of St. Joseph, Missouri**

Missouri-American Water Company

CASE NOS. WR-2000-281 and SR-2000-282

Jefferson City, Missouri
May 25, 2000

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

In the Matter of Missouri-American Water)
Company's Tariff Sheets Designed to)
Implement General Rate Increases for)
Water and Sewer Service Provided to)
Customers in the Missouri Service Area of)
the Company.)

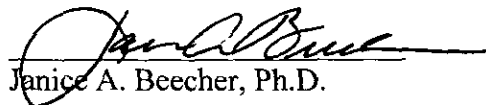
Case Nos. WR-2000-281 and
SR-2000-282

AFFIDAVIT OF JANICE A. BEECHER, Ph.D.

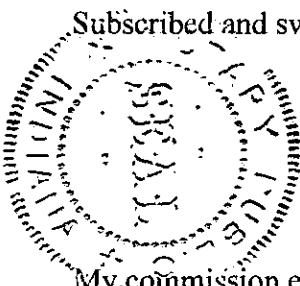
STATE OF INDIANA)
)
COUNTY OF MARION) ss.

Janice A. Beecher, of lawful age and being first duly sworn, deposes and states:

1. My name is Janice A. Beecher. I am the President of Beecher Policy Research, Inc.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony consisting of pages 1 through 7.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.


Janice A. Beecher, Ph.D.

Subscribed and sworn to before me this 24 day of May, 2000.




Notary Public

PEGGY SMITH-BEA, Notary Public
My Commission Expires 7/16/2000
County of Residence: Hancock
State of Indiana

1 **SURREBUTTAL TESTIMONY OF JANICE A. BEECHER**
2
3

4 **Name and Address**
5

6 **Q. Would you please state your name and business address?**

7 A. Janice A. Beecher, Ph.D., Beecher Policy Research, Inc., 6225 Vancouver Court,
8 Indianapolis, Indiana.
9

10 **Q. Have you previously filed testimony in this proceeding?**

11 A. Yes, my direct testimony was filed on April 6, 2000, on behalf of Intervenor St.
12 Joseph area Public Water Supply Districts and the City of St. Joseph, Missouri.
13

14 **Q. What is the purpose of your testimony?**

15 A. The purpose of my testimony is to respond briefly to issues raised in the rebuttal
16 testimony addressing rate consolidation or single-tariff pricing filed in this
17 proceeding by Witnesses Hubbs, Busch, Stout and Harwig.
18

19 **Q. Are you a member of the Rates and Charges Subcommittee of the American**
20 **Water Works Association (AWWA)?**

21 A. Yes. I have been a member since 1994. In that capacity, I have played a role in
22 revisions to Manual M34, *Water Rate Structures and Pricing (1999)*, as well as the
23 new “super manual” that will combine this manual with AWWA’s M1 manual on
24 *Water Rates*.

1 **Q. What is the purpose of the AWWA ratemaking manuals?**

2 A. The manuals provide guidance on ratemaking for water utilities based on generally
3 accepted practices but are not prescriptive or binding.

4

5 **Q. Does the revised M34 address single-tariff pricing?**

6 A. Yes. A chapter entitled "Value-of-Service Pricing," which I drafted subject to review
7 and approval of the committee, contains the following subsection (under
8 "Examples"):

9

10 Single-Tariff Pricing. Single-tariff pricing applies a common rate structure to all
11 water systems operated by the same utility, regardless of interconnection. Single-
12 tariff pricing averages spatial differences in costs and smoothes temporal differences
13 in rate changes. Some utilities have suggested that this approach is justified because
14 all customers of the common utility are provided service with a comparable value at a
15 comparable price (American Water Works Association, *Water Rate Structures and*
16 *Pricing*, 1999, page 98).

17

18

19 I used single-tariff pricing as an example of value-of-service pricing because I
20 believe that this system of pricing does reflect the uniform value of safe and reliable
21 drinking water and associated functions and services provided by the utility.

22

23 **Q. Do the potential benefits of rate consolidation apply when a particular**
24 **significant investment in capital like the new St. Joseph treatment plant is**
25 **required for the core water system, as compared with smaller satellite systems?**

26

1 A. Yes. The same potential benefits apply even when a large capital investment is
2 needed in the core system. The reasoning is that all systems managed by the utility
3 benefit from common, versus stand-alone, operations. In fact, even when they help
4 support the cost of the core system, customers in the satellite system might still pay
5 much less than they would on an entirely stand-alone basis.

6

7 Over time, individual water systems are likely to require significant capital
8 investments. The consolidated rate provides rate and revenue stability and mitigates
9 rate shock associated with infrastructure projects. Based on my understanding of this
10 case, present facts or circumstances do not undermine the anticipated benefits of rate
11 consolidation or justify a departure from single-tariff pricing by the company, as
12 approved by the commission.

13

14 **Q. Do you believe that the cost causation principle is important to ratemaking?**

15 A. Yes. Total rate revenues should reflect the total cost of service and provide the utility
16 with a fair rate of return. Single-tariff pricing does not depart from cost-of-service
17 based revenue requirements for the utility company as a whole.

18

19 Economic efficiency can be enhanced when costs are allocated to customers in
20 accordance with cost causation. However, economic efficiency is not the only
21 relevant principle in rate design by state commissions or other oversight bodies.

22

1 Furthermore, the principle of cost causation is routinely tempered in ratemaking for
2 water utilities, such as: whenever communities receive subsidies in the forms of
3 grants and loans, including the tax-funded State Revolving Fund used to aid water
4 systems; whenever municipalities artificially subsidize costs or suppress rates for
5 political and economic development purposes; and whenever rates are averaged for
6 large groups of customers for which variations in the cost of service are known and
7 measurable, including the broadly accepted use of averaging to establish rates by
8 class of service despite variations in cost caused by location, elevation, usage
9 patterns, and other factors.

10

11 **Q. What standard, if any, should prevail when evaluating alternative rate**
12 **structures?**

13 A. I believe that the superior principle is whether rates are deemed by regulators to be
14 "just and reasonable." A just and reasonable rate may or may not comport with any
15 individual party's sense of what is "right" or "fair."

16

17 I believe that this perspective was well articulated by an Order of the New Hampshire
18 Public Service Commission, which I quote in my report and here (Order in Docket
19 DR 97-058, Pennichuck Water Works, Inc., 1998):

20

21 "While New Hampshire law is replete with references to the appropriate
22 standard for establishing a utility's rate base and rate of return, there
23 appears to be no specific guidance on the point of rate consolidation or
24 single tariff pricing. Thus, in the absence of any legal impediment to
25 utilizing single tariff pricing, our decision essentially becomes one of

1 policy that is bound only by our statutory constraints that rates be just and
2 reasonable and that we act in the public interest. See RSAs 374:2 and
3 378:28.
4

5 Opponents of rate consolidation in this case argue that we should adhere to
6 our traditional ratemaking policy of cost causation. We find their position
7 unpersuasive in this case for two reasons. First, traditional cost of service
8 regulation already includes some measure of rate averaging in that customers
9 are not charged the true costs of serving them on an individual basis. Second,
10 and perhaps more important, stand alone rates in this case produce results for
11 some customers that are well beyond the zone of "just and reasonable."
12

13

14 **Q. Can consolidated rates be considered fair or equitable?**

15 A. Consolidated rates have been considered fair and equitable for both public and
16 privately owned water utilities. The concepts of fairness and equity can be guided by
17 general principles but conceptions of fairness and equity will always be highly
18 subjective. What might be considered fair by someone's standards might be
19 considered unfair by another's standards.
20

21 Rates based on the average cost of service within customer classes may or may not be
22 considered fair by individual customers, given variations in actual service costs. But
23 this form of averaging is considered reasonable and generally accepted.
24

25 Fairness issues will become increasingly important in water proceedings as costs and
26 rates rise and the goals of safety, reliability, and affordability clash with economic
27 efficiency goals.
28

1 **Q. How does the concept of gradualism apply to the concept of rate consolidation?**

2 A. Gradualism is an accepted principle in ratemaking that encourages, whenever
3 feasible, the implementation of gradual versus abrupt changes in rates in order to
4 provide rate stability and avoid rate shock. Gradualism can apply to both rate levels
5 and rate design or the allocation of costs to customers through the rate structure.
6 Significant changes in rate levels or rate structures may require longer time periods
7 for implementation, although some amount of judgment is required for this
8 determination.

9

10 In my opinion, the principle of gradualism should apply both to the implementation
11 of consolidated rates, as well as to the modification of consolidated rates or their
12 reversal.

13

14 **Q. Should rate consolidation be considered within the broader context of changes**
15 **in the water and other utility industries?**

16 A. Yes. Single-tariff pricing is a useful tool in the context of a changing utility
17 environment. For water utilities and their customers, it is a method for addressing
18 rising infrastructure costs and rate impacts.

19

20 It also may be appropriate to consider the broader context of utility restructuring,
21 which often includes more flexibility in rate design, as well new ways of grouping
22 customers (such as local zones of service in telecommunications and aggregation in

1 energy service). In my opinion, greater flexibility can be provided to achieve various
2 goals without sacrificing the vital protections of regulatory oversight.

3

4 **Q. Does this conclude your testimony?**

5 **A. Yes.**

6

7