

**Exhibit No.:**

**Issue(s):**

**Witness/Type of Exhibit:**

**Sponsoring Party:**

**Case Nos.:**

Rate Design

Busch/Surrebuttal

Public Counsel

WR-2000-281 and SR-2000-282

**FILED**

MAY 25 2000

Missouri Public  
Service Commission

# **SURREBUTTAL TESTIMONY**

**OF**

**JAMES A. BUSCH**

Submitted on Behalf of the Office of the Public Counsel

**MISSOURI-AMERICAN WATER COMPANY**

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

May 25, 2000

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

In the matter of Missouri-American )  
Water Company's Tariff 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

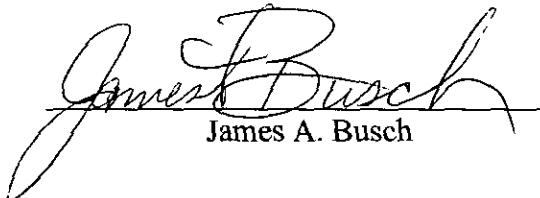
**AFFIDAVIT OF JAMES A. BUSCH**

STATE OF MISSOURI )  
 )  
COUNTY OF COLE )

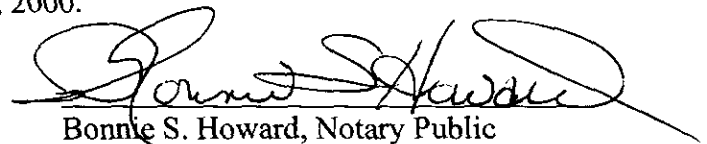
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James A. Busch, of lawful age and being first duly sworn, deposes and states:

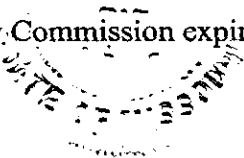
1. My name is James A. Busch. I am the Public Utility Economist for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony consisting of pages 1 through 8 and Schedules JAB SR1 and JAB SR2.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

  
James A. Busch

Subscribed and sworn to me this 25th day of May, 2000.

  
Bonnie S. Howard, Notary Public

My Commission expires May 3, 2001.



SURREBUTTAL TESTIMONY

Of

JAMES A. BUSCH

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1 would be caused by the complete movement to STP. Also, I will be updating schedule  
2 JAB R3 to show an update to the St. Joseph district.

3 **SINGLE-TARIFF PRICING**

4 Q. On page 8, lines 8 – 9 of his rebuttal testimony, Mr. Stout claims that Mr.  
5 Hubbs does not address the concepts of gradualism, value of service, and social and  
6 community concerns. In your opinion, has the Company considered these factors when  
7 determining to use STP instead of DSP (or a modified DSP) in this case?

8 A. No, it has not. First, I will address the concept of gradualism. The  
9 Company is proposing an across-the-board 53.97% increase immediately, without any  
10 phase-in to soften the rate impacts. Only Public Counsel, and to some extent Mr.  
11 Harwig, have truly considered the concept of gradualism. No matter what the final  
12 percentage increase is deemed to be in any district, Public Counsel has suggested that no  
13 increase for any district should be greater than 15%. Therefore, under Public Counsel's  
14 proposal, any increases will be gradually implemented. This will make it easier for the  
15 consumers to afford their overall level of increase. Increases of the magnitude being  
16 discussed in this case should not be implemented all at once. Some type of phase-in  
17 should be approved to ensure the affordability of services to the consumers.

18 Second, I will address value of service. When a consumer goes to  
19 purchase a good or service, that consumer is willing to pay an amount less than or equal  
20 to what he or she perceives his or her value received from that purchase is. The  
21 consumer also generally believes that the price he or she pays for a good or service  
22 includes the costs involved in providing that product. Public Counsel's rate design is  
23 much better than the Company's proposal at approximating the cost of service.

1           The final issues are social and community concerns. The Company can  
2 show that it believes social and community concerns need to be addressed when  
3 proposing a rate design philosophy by abandoning STP. Consumers in every district that  
4 have been given the opportunity to speak so far, have voiced their concerns about STP  
5 and the size of MAWC's requested rate increase. Fear has been expressed about the  
6 economic impact the proposed rate increases would have on themselves and their  
7 neighbors. Some have expressed concern about the impact this case may have on other  
8 utilities that provide services to their cities if a huge increase is approved. Many people  
9 have spoken about their suspicions of STP and that they do not want to pay for a water  
10 treatment facility serving another city.

11           Q.     Mr. Stout, on page 9 of his rebuttal testimony, lines 5 – 10, disputes  
12 Public Counsel's position as being a compromise. Do you agree with his conclusions?

13           A.     No. In this rate case, Public Counsel's approach is a compromise  
14 between, STP and DSP, the two extreme rate design philosophies being argued. He  
15 claims Public Counsel's goal is DSP. Public Counsel's goal in this case, and every other  
16 case, is to recommend a rate design philosophy that is equitable and reasonable to all  
17 parties. In this case, a compromise between STP and DSP is the only equitable approach.  
18 Attached to my surrebuttal testimony is schedule JAB SR1 that shows the percentage  
19 increases to each district by utilizing DSP and Public Counsel's compromise. Schedule  
20 JAB SR1 clearly illustrates that Public Counsel's proposal, while moving towards DSP,  
21 is not a recommendation to adopt DSP in this case or necessarily in the future. If Public  
22 Counsel had adopted DSP like Mr. Stout erroneously claims on page 9, line 10 of his  
23 rebuttal testimony, our recommendation, based on our revenue requirement and rate

1 design would have a decrease of 9% to the rates in the Joplin district, an increase of  
2 262% to the citizens of Brunswick, an increase of 81% to the citizens of Mexico, and an  
3 increase of 68% to the citizens of Parkville. Even using numbers based on the worst case  
4 scenario of the Company winning all of the issues in this case, as was presented in my  
5 direct testimony, it is clear that Public Counsel's approach is one that can only be called a  
6 compromise.

7 Q. On page 15, lines 5 – 9, of his rebuttal testimony, Mr. Stout mentions the  
8 merger with St. Louis County Water. He indicates it is an excellent system, three times  
9 the size of MAWC. Do you have a comment on that?

10 A. Yes. It is likely that St. Louis County Water will begin a huge project to  
11 escalate its replacement of old, dilapidated water lines. This could create further burdens  
12 on the MAWC system if STP is continued.

13 Q. Please respond to Mr. Stout's summary on page 15, lines 10 – 19, of his  
14 rebuttal testimony, which states that DSP causes excessive rates to the small districts in  
15 this case.

16 A. This argument ignores the simple fact that it was the move to STP five  
17 years ago that would now cause the vast increases to the small districts if a flashcut move  
18 to DSP occurs. Using that as a reason for continuing STP is not a reasonable argument  
19 against a movement towards DSP. STP for this Company, in this rate case, is completely  
20 unwarranted and should not be approved by the Commission.

21 Q. On page 16, lines 3 – 9, of his rebuttal testimony, Mr. Stout shows that the  
22 districts of Joplin, St. Charles, and Warrensburg will be supporting the other four  
23 districts. Is this the intended benefit of STP?

1           A.     No. As pointed out in my rebuttal testimony, and in Dr. Beecher's  
2 handbook attached to her direct testimony (Beecher direct testimony, schedule JB-2, page  
3 4), STP has been implemented primarily to help the small districts. In this case, St.  
4 Joseph is the largest district and would be supported by smaller districts under a STP rate  
5 design. This result is completely contrary to the primary goal of STP.

6                               **DISTRICT SPECIFIC PRICING**

7           Q.     On page 12, lines 6 – 12 of his rebuttal testimony, Mr. Hubbs disagrees  
8 with your premise that a straight movement to DSP, at this time, is harmful to consumers.  
9 Please respond.

10          A.     I disagree with Mr. Hubbs that a complete move to DSP should be thrust  
11 on the consumers all at once, or even phased-in. The movement to STP took a number of  
12 years, and the movement to DSP should also occur over time. This is especially true  
13 considering the large increases the three smallest districts will be forced to absorb. Even  
14 if you phase-in DSP rates, the overall impact would be tremendous. Schedule JAB R2 in  
15 my rebuttal testimony and the schedules attached to Public Counsel witness Russell W.  
16 Trippensee's rebuttal testimony shows the amount of years and the added cost of  
17 phasing-in a 50% increase at no more than 15% per year. Forcing a phase-in of  
18 approximately 90 – 280% will take an extremely long time and force citizens in the  
19 smaller districts to pay a lot more in rates due to the added carrying costs that Company  
20 will be allowed to collect.

21                   A movement towards DSP needs to occur, but the Commission should  
22 adopt a policy that allows citizens in Brunswick, Mexico, and Parkville to be eased back  
23 toward DSP over time. The citizens of these districts did not ask to be placed under a



1 STP mechanism and they should not be burdened all at once as they are moved away  
2 from STP. The main thing to consider is the effect these rates will have on the consumers  
3 in all districts at this time. This is why Public Counsel is proposing its compromise  
4 approach.

5 Q. On page 18, lines 1 – 12, of his rebuttal testimony, Mr. Hubbs argues  
6 against your proposed class shifts. Please respond.

7 A. First, Mr. Hubbs claims my recommendation is “unwieldy and likely to  
8 result in hearings for a Commission determination of the appropriate level of such  
9 differences.” Starting June 5, 2000, there is indeed going to be a hearing that, in part,  
10 will determine the appropriate methodology to be used to determine the appropriate  
11 revenue requirement for the classes. Once that decision is made, you take the current  
12 amount of revenue being collected from each class and the cost, find the difference,  
13 divide by two, and make the appropriate adjustment. Simple subtraction and dividing by  
14 two does not seem unwieldy to me.

15 Next, Mr. Hubbs states that by going halfway, there will never be a point  
16 in time when the actual costs are obtained. He is correct to conclude that. Moving half  
17 way toward a goal will never get you there. However, the goal is not to get there at this  
18 time. There are other rate design objectives such as equity and affordability that need to  
19 be considered. Due to STP and the difference class cost structures in the different  
20 districts, the class costs in any given district are no where near where they should be. In  
21 some cases, certain classes would need approximately 100% increases while some others  
22 should receive 50% decreases. To do this all at once as suggested by Mr. Hubbs  
23 completely ignores the existence of other rate design objectives.

Finally, Mr. Hubbs states, “[t]o continue dramatically overcharge [sic] some customers, because other customers are not going to like paying their cost of service, seems unfair.” What seems unfair is to force certain classes in certain districts to see their rates double. No one is claiming they do not want to pay their cost of service. However, forcing an extraordinarily large increase to those classes at this time is not the right thing to do. A movement away from STP to class DSP would benefit consumers paying above cost of service while not excessively burdening those paying below cost of service.

Q. On pages 13, line 21 - 23, and page 14, lines 1 - 4, of his rebuttal testimony, Mr. Harwig disagrees with your recommendation for the Joplin district. Please respond.

A. The numbers used in my direct testimony were based on the worst case scenario from the consumers' perspective. Public Counsel's recommendation, set forth in my rebuttal testimony, is for no increase or decrease for the Joplin district. However, there still needs to be consideration for those districts that will have to endure massive increases if the entire Company is moved to DSP at this time. Holding the Joplin district at current rates or a small increase, depending on the final Commission decision, is reasonable to help offset the increase to the citizens of Brunswick, Mexico, and Parkville.

## UPDATE

**Q. Please explain schedule JAB SR2.**

A. Schedule JAB SR2 is an update of schedule JAB R3 from my rebuttal testimony taking into account updates as outlined in Public Counsel witness Ted Biddy's

1 surrebuttal testimony and corrections as outlined in Mr. Trippensee's surrebuttal  
2 testimony.

3 SUMMARY

4 Q. Please summarize your surrebuttal testimony.

5 A. In my surrebuttal testimony, I showed why the continuance of STP is not  
6 warranted. I also discussed that a complete movement to DSP is not in the best interest  
7 of all the consumers of this Company. There needs to be some continued sharing to  
8 mitigate the rate shock to certain districts that would be caused by the complete  
9 movement to STP. Furthermore, I updated schedule JAB R3 from my rebuttal testimony  
10 concerning the St. Joseph district.

11 Q. Does this conclude your surrebuttal testimony?

12 A. Yes it does.

**OFFICE OF PUBLIC COUNSEL**  
**Comparison of DSP and OPC's Modified DSP**  
**for Missouri-American Water Company**  
**Case No. WR-2000-281**

Strict DSP

District	Current Revenues	Cost of Service	Percent Increase for DSP
Brunswick	\$ 116,725	\$ 423,240	262.60%
Joplin	\$ 7,581,907	\$ 6,866,922	-9.43%
Mexico	\$ 1,580,962	\$ 2,864,318	81.18%
Parkville	\$ 1,517,468	\$ 2,555,793	68.42%
St. Charles	\$ 7,964,148	\$ 8,333,853	4.64%
St. Joseph	\$ 9,979,848	\$ 12,751,440	27.77%
Warrensburg	\$ 1,842,147	\$ 2,422,300	31.49%
Total	\$ 30,583,205	\$ 36,217,866	18.42%

OPC's Modified DSP

	Current Revenues	Proposed Revenues	Percent Increase after sharing
Brunswick	\$ 116,725	\$ 175,090	50.00%
Joplin	\$ 7,581,907	\$ 7,581,907	0.00%
Mexico	\$ 1,580,962	\$ 2,371,518	50.00%
Parkville	\$ 1,517,468	\$ 2,276,211	50.00%
St. Charles	\$ 7,964,148	\$ 8,639,400	8.48%
St. Joseph	\$ 9,979,848	\$ 12,751,440	27.77%
Warrensburg	\$ 1,842,147	\$ 2,422,300	31.49%
Total	\$ 30,583,205	\$ 36,217,866	18.42%

**OFFICE OF PUBLIC COUNSEL**

Yearly District Specific Revenue Requirements by Class and Yearly Percent Increase  
for Missouri-American Water Company  
Case No. WR-2000-281

**ST. JOSEPH DISTRICT**

**REVENUE REQUIREMENT FOR EACH YEAR BY CLASS**

	<u>Total</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>OPA</u>	<u>Resale</u>	<u>Private Fire</u>
Prior year	\$ 9,979,848	\$ 5,673,347	\$ 1,920,825	\$ 1,260,647	\$ 280,186	\$ 665,896	\$ 178,947
Year 1	\$ 11,134,374	\$ 6,109,116	\$ 2,209,938	\$ 1,499,149	\$ 323,716	\$ 787,447	\$ 205,008
Year 2	\$ 12,489,600	\$ 6,638,863	\$ 2,535,927	\$ 1,776,536	\$ 373,848	\$ 929,612	\$ 234,815
Year 3	\$ 14,070,300	\$ 7,271,376	\$ 2,904,216	\$ 2,098,496	\$ 431,583	\$ 1,095,720	\$ 268,910
Year 4	\$ 15,334,845	\$ 7,722,605	\$ 3,203,194	\$ 2,386,364	\$ 480,552	\$ 1,245,135	\$ 296,996
Year 5	\$ 13,117,427	\$ 6,605,916	\$ 2,740,012	\$ 2,041,296	\$ 411,064	\$ 1,065,088	\$ 254,050
Year 6	\$ 13,117,427	\$ 6,605,916	\$ 2,740,012	\$ 2,041,296	\$ 411,064	\$ 1,065,088	\$ 254,050
	\$ 79,263,973	\$ 40,953,793	\$ 16,333,297	\$ 11,843,137	\$ 2,431,827	\$ 6,188,090	\$ 1,513,829

**PERCENT YEARLY INCREASE BY CLASS**

	<u>Total</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>OPA</u>	<u>Resale</u>	<u>Private Fire</u>
Year 1	11.57%	7.68%	15.05%	18.92%	15.54%	18.25%	14.56%
Year 2	12.17%	8.67%	14.75%	18.50%	15.49%	18.05%	14.54%
Year 3	12.66%	9.53%	14.52%	18.12%	15.44%	17.87%	14.52%
Year 4	8.99%	6.21%	10.29%	13.72%	11.35%	13.64%	10.44%
Year 5	-14.46%	-14.46%	-14.46%	-14.46%	-14.46%	-14.46%	-14.46%
Year 6	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%