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| Exhibit No.: | |
| Issue: | Rate Design (Single Tariff Pricing, Cost of Service Studies, Phase-Ins) |
| Witness: | Helen Price |
| Type of Exhibit: | Surrebuttal |
| Sponsoring Party: | Multiple Intervenor Water Supply Districts |
| Case No.: | WR-2000-281/SR-2000-282 (Consolidated) |
| Date Testimony Prepared: | May 25, 2000 |

SURREBUTTAL TESTIMONY
OF

HELEN PRICE

On behalf of:

Public Water Supply District No. 1 of Andrew County
Public Water Supply District No. 2 of Andrew County
Public Water Supply District No. 1 of DeKalb County
Public Water Supply District No. 1 of Buchanan County

Missouri-American Water Company
Case Nos.: WR-2000-281 and SR-2000-282

May 25, 2000

FILED
MAY 25 2000
Missouri Public
Service Commission

**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 HELEN PRICE

STATE OF MISSOURI)
) ss.
COUNTY OF ANDREW)

Helen Price, of lawful age and being first duly sworn, deposes and states:

1. My name is Helen Price. I am the Business Manager for Public Water Supply District No. 2 of Andrew County.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony consisting of pages 1 through 8.
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.


Helen Price

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


Notary Public

RALPH H. PRICE
Notary Public - State of Missouri
County of Andrew

My commission expires 07/13/2002

SURREBUTTAL TESTIMONY
OF
HELEN PRICE

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1 **SURREBUTTAL TESTIMONY OF HELEN PRICE**

2 **Introduction**

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

4 A. Helen Price, P.O. Box 210, Cosby, Missouri 64436.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am the Business Manager for the Public Water Supply District No. 2 of Andrew County,
7 located in Cosby, Missouri.

8 **Q. On whose behalf are you appearing in this proceeding?**

9 A. I am appearing on behalf of the following intervenors: Public Water Supply District No. 1
10 of Andrew County; Public Water Supply District No. 2 of Andrew County; Public Water
11 Supply District No. 1 of DeKalb County; and Public Water Supply District No. 1 of
12 Buchanan County.

13 **Q. Please state your qualifications and experience in the water utility industry.**

14 A. I have been employed in the water industry for approximately 28 years, serving in a variety
15 of capacities, mostly management-related. I have been active in the expansion, construction
16 and maintenance of water systems, and I also have served as financial officer. I possess a
17 D level water certification as required by the State of Missouri. I have made presentations
18 on various water-related issues at industry meetings around the state, and I have attended
19 numerous workshops and industry-related seminars over the years. I currently serve as
20 President of the Missouri Rural Water Association, and I am a Director, representing
21 Missouri, on the National Rural Water Association.

22 **Q. Have you previously testified before this Commission?**

23 A. No, I have not.

1 **Purpose and Scope of Testimony**

2 **Q. What is the purpose of your surrebuttal testimony?**

3 A. The purpose of my surrebuttal testimony is to respond to the rate design portion of the
4 rebuttal testimony of other witnesses in this proceeding. From the perspective of the St.
5 Joseph area Public Water Supply Districts ("Water Districts") I am representing, I will
6 address policy considerations associated with (1) single tariff pricing ("STP"); (2) the
7 proposed radical shifts in costs and resulting rates pursuant to new class cost of service
8 studies; and (3) phase-in proposals.

9 **Q. Since you have not testified previously before this Commission and your testimony is**
10 **being offered on behalf of intervenor Water Districts, could you briefly provide**
11 **background information concerning the general scope of your company's operations?**

12 A. It is very important that the Commission and other parties to this proceeding understand that
13 the Water Districts are essentially representing their own residential users as wholesale
14 providers to rural residential customers. Any increases to the Water Districts will ultimately
15 impact rural residential users. The Public Water Supply District No. 2 of Andrew County
16 is located in Cosby, Missouri in the northwest portion of the state and, like the other Water
17 Districts, we are served by the St. Joseph District of Missouri-American Water Company
18 ("Company"). Our service territory covers portions of Andrew, Buchanan and Nodaway
19 Counties in rural northwest Missouri, with approximately 250 miles of water transmission
20 lines. Our customer base of 1,238 customers consists of 1,206 residential and 32 commercial
21 customers, and our district also sells water to the rural town of Union Star and Public Water
22 Supply District No. 1 of DeKalb County.

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A. Company witness William Stout continues to support the use of STP, noting that STP provides more rate stability than District Specific Pricing (“DSP”), and STP is far more consistent with the value of service than DSP. Mr. Stout also observes in his rebuttal testimony that Staff witness Wendell R. Hubbs has not addressed his reasons for abandoning Company’s Single Tariff Pricing in favor of DSP.

A. While Mr. Hubbs advocates DSP as the more appropriate methodology for costing and pricing, his rebuttal testimony contains numerous references to the merits of STP:

“Both [STP and DSP] are valid recovery tools. STP draws its rate design circle around the entire company for allocation of costs to the specific classes. DSP draws its rate design circle around each operating district.” (p. 3)

“Additionally, on a statewide basis, STP can also effect the recovery of costs by the cost causer if rates are developed to recover the allocated costs from the different classes.” (p. 10)

1 "I generally disagree with Mr. Harwig regarding fiscal discipline
2 caused by DSP. The company currently has STP-type rates and the
3 issue of the prudence of the investment decision is now before the
4 Commission." (p. 11)

5 However, it appears that the vocal opponents of STP in this proceeding, primarily driven by
6 the issue of the St. Joseph treatment plant, have garnered the attention of Mr. Hubbs:

7 "Again, customer pressure appears to be calling for DSP instead of
8 STP." (p. 8)

9 "The instant case is very conspicuous because of the relatively large
10 plant addition in the St. Joseph District, and its impact on rates."
11 (p 10.)

12 **Q. Many of the parties have used the terms "fairness" and "equity" in the course of debate**
13 **over moving to DSP in this proceeding. Do you agree with these characterizations?**

14 **A.** Obviously, fairness and equity are in the eyes of the beholder. Until recently, the purported
15 subsidy "shoe" was on the foot of the St. Joseph District customers. As noted in the rebuttal
16 testimony of Mr. Stout:

17 "In Case No. WO-98-204, the district with the youngest average age
18 was St. Charles and the assigned and allocated cost to this district was
19 greater than the STP revenue. In contrast, the age of plant in the St.
20 Joseph district was the second highest and its STP revenues were
21 significantly greater than its assigned and allocated costs. In this
22 case, St. Joseph now has the youngest average age of plant and
23 requires a temporal subsidy, such as the one received by St. Charles.
24 . . . Public policy should be established with a view to the long term
25 future, not the next few years." (p. 12)

26 I would suggest that there is an inherent inequity and fundamental unfairness in abandoning
27 STP at the time the St. Joseph District is finally having its facilities upgraded. Undoubtedly,
28 there would have been greater public opposition to the construction of the St. Joseph
29 treatment plant had the customers known that STP might be abandoned in favor of district
30 specific pricing.

1 **Q. OPC Witness Busch states that STP and DSP represent the extremes, while Public**
2 **Counsel is supporting a compromise between the two. What is your reaction to the**
3 **OPC proposal?**

4 A. The Water Districts support STP and advocate its continued use in this proceeding. The
5 OPC proposal ultimately achieves DSP as the costing and pricing mechanism. However, I
6 would agree with Mr. Busch that their proposal reflects fairness and affordability
7 considerations since it tempers the movement toward district specific rates by targeting
8 maximum district increases and phase-ins. Clearly, such an approach would help alleviate
9 the massive rate shock that would occur from a one-time movement to DSP.

10 **Q. In his Rebuttal Testimony, Company witness Stout offers an alternative “Capital**
11 **Addition Surcharge Proposal” should the Commission not retain STP in this**
12 **proceeding. Would you please address this proposal?**

13 A. I am sorely disappointed in Mr. Stout’s willingness to abandon the principle of STP in
14 furtherance of his company’s zeal to achieve the largest revenue requirement possible. It is
15 somewhat disingenuous to suggest that this “alternative rate proposal” remains a STP
16 proposal, but the “only difference will be the application of a surcharge to the total bills of
17 St. Joseph customers.” Some difference! His alternative surcharges of 48.356% and
18 34.882% result in increased total revenue changes to our “Other Water Utilities” class of
19 94.93% and 86.40 % respectively!

1 **Cost of Service Studies**

2 **Q. The Commission Staff and Office of Public Counsel have filed cost of service studies in**
3 **this proceeding, which serve as the basis for their resulting rate design proposals. Have**
4 **you reviewed the rebuttal testimony regarding these studies?**

5 A. Yes, I have. Mr. Hubbs has designed rates that are intended to recover the exact cost of
6 service by customer class within each district as determined by the Staff cost of service
7 studies. Both the Staff and Public Counsel utilize the Base-Extra Capacity cost allocation
8 method; however, Public Counsel advocates an additional “economies of scale” concept
9 which has not been previously accepted in Missouri. I would agree with Mr. Harwig and Mr.
10 Stout that it is improper to incorporate OPC Witness Hu’s economies of scale concept in an
11 allocation of costs to customer classes. As noted by Mr. Harwig, this economies of scale
12 “adjustment” appears to overallocate costs to large volume, high load factor customers, the
13 very entities I represent.

14 **Q. Mr. Harwig, in his Rebuttal testimony, states that Staff Witness Hubbs’ cost allocation**
15 **study is faulty because he failed to recognize differences in main size. Mr. Harwig**
16 **modified Mr. Hubbs’ cost of service study for the St. Joseph District, by providing a**
17 **more detailed functionalization of the transmission and distribution mains. Do you**
18 **agree with Mr. Harwig’s approach in this regard?**

19 A. Yes. It would appear to me that not properly recognizing the minimal usage of the
20 distribution system by large users would necessarily overallocate costs to industrial and
21 resale customer classes.

22 **Q. Another criticism of Staff Witness Hubbs’ rate design approach is that he has not**
23 **considered any rate design factors other than cost. Is this criticism valid?**

1 A. Yes. Not only does Mr. Hubbs attempt to recover the cost of the new treatment plant only
2 from St. Joseph customers, he also advocates radical shifts among the various customer
3 classes that shift substantial costs to the Sale for Resale customers, such as the Water
4 Districts. Under Mr. Hubbs' approach, the Water Districts in the St. Joseph District would
5 receive a 268.81% increase in rates! Numerous classes receive increases in excess of 100%,
6 and the Sale for Resale customers in Brunswick would see increases as high as 490%!
7 Company Witness Stout, at page 8 of his Rebuttal Testimony, states his disagreement with
8 the Hubbs' approach: "Such rate changes are beyond the bounds of gradualism, do not
9 recognize the value of service principle, and are confusing in that there are now over 30 rate
10 schedules for MAWC." I agree with Mr. Stout on this point.

11 **Q. What is the Water Districts' position on the utilization of cost of service studies in this**
12 **proceeding?**

13 A. Given the criticism to the studies offered in this proceeding and the radical shifts and impacts
14 among classes that both studies create, any increase in rates should be made across the board
15 in this case. As Mr. Harwig noted at page 8 of his Rebuttal Testimony: "Even with the
16 recommended disallowance [proposed by Dr. Charles Morris], the impact would be quite
17 large and disproportionate for some classes. In that circumstance, it may be preferable to
18 increase rates across the board in this case and make adjustments to the relationships among
19 individual class rates in subsequent rate cases."

20 **Phase-Ins**

21 **Q. Many of the parties in this proceeding, except most notably the Company, are**
22 **recommending phase-in proposals applicable either to rate base or rate increases.**
23 **What is the position of the Water Districts regarding phase-in proposals?**

1 A. Given the enormous magnitude of rate increases being discussed for the St. Joseph District,
2 the Water Districts support any mechanism that will lessen the significant rate shock that will
3 result to our Water Districts and the customers we serve. Even Staff Witness Hubbs
4 acknowledges at page 12 of his rebuttal testimony, that “[R]ate tempering for other reasons
5 like rate shock will be better accomplished by phase-in to the Commission-determined cost
6 of service levels.”

7 **Summary**

8 **Q. Would you please summarize your surrebuttal testimony?**

9 A. The intervenor Water Districts in this proceeding are essentially wholesale providers of
10 water service to rural residential customers. We continue to support the use of Single Tariff
11 Pricing for Missouri-American Water Company. While we support the modifications to
12 Staff’s proposed cost of service study suggested by Intervenor Witness Harwig in his
13 detailed functionalization of the transmission and distribution mains for the St. Joseph
14 District, we would submit that no cost of service study should be relied upon in this
15 proceeding to facilitate massive cost shifts among customer classes, and any increased rates
16 should be made across the board. Due to the magnitude of possible rate increases and the
17 resulting rate shock that would be experienced by customer classes, a phase-in mechanism
18 is certainly appropriate in this proceeding.

19 **Q. Does this conclude your surrebuttal testimony?**

20 A. Yes.