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| *Exhibit No.:* | |
| *Issue(s):* | *Rate Design* |
| *Witness:* | *Keith D. Barber* |
| *Sponsoring Party:* | *Intervenor Metropolitan St. Louis Sewer District* |
| *Type of Exhibit:* | *Direct Testimony* |
| *Case No.:* | *WR -2007-0216* |
| *Date:* | *June 12, 2007* |

**MISSOURI PUBLIC SERVICE COMMISSION**

**DIRECT TESTIMONY**

**OF**

**KEITH D. BARBER**

**ON BEHALF OF**

**METROPOLITAN ST. LOUIS SEWER DISTRICT**

**IN THE MATTER OF MISSOURI-AMERICAN WATER COMPANY'S REQUEST FOR AUTHORITY TO IMPLEMENT A GENERAL RATE INCREASE FOR WATER SERVICE PROVIDED IN MISSOURI SERVICE AREAS**

**CASE NO. WR-2007-216**

*Jefferson City, Missouri*
*June 2007*

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**Witness Background and Experience**

Q. Please state your name, business address, and telephone number.

A. Keith D. Barber, 11401 Lamar Avenue, Overland Park, Kansas 66211-1508, (913) 458-3675.

Q. What is your occupation?

A. I am a Principal Consultant in the Enterprise Management Solutions Division of Black & Veatch.

Q. How long have you been associated with the firm of Black & Veatch?

A. I have been with Black & Veatch continuously since 1975.

Q. What is your educational background?

A. I am a graduate of the University of Missouri at Rolla with an undergraduate degree in Civil Engineering. I received my Master of Science degree in Civil Engineering from the University of Kansas.

Q. Are you registered as a Professional Engineer?

A. Yes, I am a registered Professional Engineer in the state of Missouri.

Q. What is your professional experience?

A. My initial assignments with Black & Veatch were on projects involving the design of water and wastewater systems. Subsequently, I became associated with the Management Consulting Division (now Enterprise Management Solutions) of Black & Veatch, where I have served clients in utility rate matters for approximately 30 years. During this time, I have been involved in numerous costs of service, rate design, bond feasibility, and financial consulting studies. Projects to which I have been assigned as project engineer or project manager include water and wastewater utility related projects in St. Louis and

Kansas City, Missouri; Los Angeles, and Coachella, California; Tulsa, Oklahoma; Topeka, Lawrence, Emporia, and Johnson County, Kansas; Cincinnati and Columbus, Ohio; Little Rock, and Pine Bluff, Arkansas; Tucson, and Pima County, Arizona; Austin, San Antonio, and Grand Prairie, Texas; and Baton Rouge, Louisiana. I have developed water and wastewater rates for Kansas City, Missouri, assisted the St. Louis Water Department with their water rates, and have recently developed the wastewater rates for the Metropolitan St. Louis Sewer District that are currently under consideration by its Rate Commission. I am also the author of the Black & Veatch proprietary program that provides the user-friendly features of all of our financial planning and rate design models.

Q. What is your professional experience before the Missouri Public Service Commission?

A. Almost all of my professional rate design experience has dealt with municipal water and wastewater utilities that are not regulated by a public service commission. Therefore, I have never appeared before the Missouri Public Service Commission or any other state commission. I have been involved as an expert witness before the Rate Commission of the Metropolitan St. Louis Sewer District during the 2002/2003 and current 2007 proceedings. The Rate Commission was established by the voters through their approval of the November 2000 Charter amendments and operates similar to a public service commission.

**Summary of Testimony**

Q. What is the purpose of your testimony in this case?

A. I understand that Missouri American Water Company (MAWC) is seeking to continue its charge of one-half of the cost of collecting water usage data to Metropolitan St. Louis Sewer District (MSD) because MSD requests, and is provided with, such data for use in

billing its customers.

Q. Does this represent the cost of service for providing the billing information to MSD?

A. Absolutely not. MAWC would incur the cost of meter reading and other water billing data development costs regardless of whether or not MSD required the information for its billing activities. The cost of service actually incurred by MAWC on behalf of MSD is related to providing a copy of the data to MSD via MAWC's secured web site and any related administrative costs.

**Industry Guidelines**

Q. Are you familiar with the AWWA publication titled, "Principals of Water Rates, Fees, and Charges"?

A. Yes, this manual is also commonly referred to as the M1 manual.

Q. Are the principles discussed in this manual widely used as a water industry standard guide in the development of water rates?

A. Yes.

Q. To your knowledge, does this manual discuss cost sharing between water and wastewater utilities for billing information?

A. No, the only relevant reference I found was in a single sentence in the Revenues chapter which stated: "Other water revenues may include billings for outside agencies....or other sources not covered by published rates." I have not found any other information related specifically to cost sharing between water and wastewater utilities for the provision of billing data in this manual. The manual does discuss using cost of service principles in the development of miscellaneous and special charges.

Q. What is an example of a special service by a water utility that would have a separate

charge?

A. Water utilities will generally provide copies of reports or plans for potential projects to the public and contractors at the cost incurred in printing those documents.

Q. Are the engineering design costs or other development costs for the reports and plans typically included in those costs?

A. No, only the incremental cost incurred in producing the documents, not a share of the actual costs required to prepare the plans or documents. The M1 manual suggests that costs for public documents "be limited to production costs, although an allowance for the administrative cost of stocking and selling documents could be included." Likewise for construction drawings, the manual states that "these prints should include copying and administrative costs."

Q. Could the cost of supplying the electronic billing information provided to MSD be considered a special service cost much like the cost of a public document?

A. Yes, because like the production of a public document, this service is not related to the provision of water service to MAWC's customers. It is essentially a special report prepared for the exclusive use of MSD based on data maintained by MAWC for its own billing purposes.

Q. Can MSD bill its customers in the county without this data?

A. No. Due to the Hancock Amendment and resulting rate litigation, MSD can no longer bill its residential customers on a flat rate basis and must now use water use information in its billing process.

Q. Does the M1 manual provide any guidance for the development of charges for special services?

A. Yes, Chapter 32 of the M1 manual discusses the steps required to determine the cost for a special service. The process generally involves a time and material study to identify the incremental cost of the actual service provided to those benefiting from the service. Basically this procedure requires that the direct and indirect cost of a special service be paid by those that require the special service.

Q. Are the incremental costs for providing the billing information to MSD known?

A. No, this data was requested but the response indicated that "MAWC has not previously tracked nor estimated the total incremental cost associated with the provision of water usage and customer identification data to MSD."

Q. What needs to be done to determine the additional costs incurred by MAWC in providing the water usage and customer identification data to MSD?

A. MAWC should do a cost of service study based on the actual time and materials related to the provision of the requested data. These costs should not include the costs required to gather the data for MAWC's own billing needs.

**Industry Practice**

Q. Are you familiar with instances where billing costs are shared between water and wastewater utilities?

A. Yes, this is a common practice for municipal clients that are controlled by the same political body. The actual amount of the cost sharing is set by policy considerations and agreements between the two utilities. Cost sharing may include meter reading, billing of a combined water/wastewater bill, collection, and customer services related costs.

Q. What is different about the cost sharing practices of some municipal controlled water and wastewater utilities and the cost sharing proposal of MAWC?

A. The primary difference is that a cost sharing agreement is not currently in place and the two utilities are not controlled by the same governing body. Another difference is that MAWC is a private for profit entity while MSD is a public not for profit entity. Any meter reading or other cost absorbed by MSD may result in additional profit for MAWC. In addition, prior to 1993, MSD billed all residential customers on a flat rate basis and the cost for obtaining residential water usage data was thus fully absorbed by the county water service provider. This practice was changed due to the Hancock Amendment and the resultant requirement to base wastewater charges on water usage data. Another difference is that MSD bills its customers separately from the area water providers and provides its own customer service support. Therefore, the only MAWC billing related service required by MSD to bill its county customers is the electronic billing data compiled by MAWC in the course of its regular business activities.

Q. Are you familiar with instances where different political bodies control the two respective water and wastewater utilities and water billing information is provided to the wastewater utility based on the actual incremental cost of providing this service?

A. Yes, Johnson County Wastewater serves the area where I live and operates independently from Water District No. 1 of Johnson County, Kansas (WaterOne). The wastewater utility is controlled by the Johnson County Board of County Commissioners while WaterOne is controlled by a separate board elected by county voters.

Q. What is the general basis of charge for billing information supplied by WaterOne to Johnson County Wastewater?

A. WaterOne charges Johnson County Wastewater only for the costs directly required to produce the billing information needed by the wastewater utility. The costs are

determined based on a set of hourly billing rates for the services and time required to produce the billing information as set forth on Exhibit B of the Intergovernmental Data Transfer and Use Agreement.

Q. Does Johnson County Wastewater have data transfer agreements with other regional water utilities?

A. Yes, they also have an agreement with the City of Olathe, Kansas for city water customers in areas of the city that are served and directly billed by Johnson County Wastewater.

Q. What is the general basis of charge for billing information supplied by the City of Olathe to Johnson County Wastewater?

A. A small annual maintenance and support fee is charged for the ongoing support and transfer of the water use data.

**Recommendations**

Q. What are your recommendations concerning this issue?

A. MAWC should be ordered to conduct a cost of service study to determine the actual incremental cost to provide billing data to MSD. Once determined, a billing agreement should be signed by both parties clearly outlining the procedure used to determine the additional costs incurred by MAWC to provide the requested billing information to MSD.

Q. Does this conclude your direct testimony?

A. Yes it does.

STATE OF KANSAS )
) SS.
COUNTY OF JOHNSON )

**AFFIDAVIT OF KEITH D. BARBER**

COMES NOW Keith D. Barber, being first duly sworn upon his oath, who deposes and states as follows:

1. I am over the age of eighteen and I have personal knowledge of the facts that I recite in this Affidavit.

2. The testimony set forth above is true and accurate to the best of my knowledge, information and belief.

Keith Barber

Keith D. Barber
Principal Consultant
Enterprise Management Solutions
Division of Black & Veatch

On this 12th day of June in the year 2007, before me, Deborah A. Butler, a Notary Public in and for said State, personally appeared Keith D. Barber, known to me to be the person who executed the within Affidavit, and acknowledged to me that he executed the same for the purposes therein stated and that the sworn testimony set forth above is true and accurate to the best of his knowledge, information and belief.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal in the County and State aforesaid, the day and year first above written.

Deborah A. Butler
Notary Public

My Commission Expires:
DEBORAH A. BUTLER
Notary Public – State of Kansas
Appointed in Johnson County
My Appt. Expires 8/10/08

DEBORAH A. BUTLER NOTARY PUBLIC STATE OF KANSAS