

FILED³

APR 05 2002

STATE OF MISSOURI
MISSOURI PUBLIC SERVICE COMMISSION

Missouri Public
Service Commission

In the Matter of Missouri-American)
Water Company's Tariff Sheets De-)
signed to Implement General Rate)
Increases for Water and Sewer Ser-)
vice provided to Customers in the)
Missouri Service Area of the Compa-)
ny)

WR-2000-281
SR-2000-282
(Consolidated)

**SUPPLEMENTAL RESPONSE
RE CERTAIN REMANDED ISSUES**

COME NOW AG PROCESSING INC, A COOPERATIVE ("AGP"),
FRISKIES PETCARE, A DIVISION OF NESTLE USA ("Friskies") and WIRE
ROPE CORPORATION OF AMERICA INC. ("Wire Rope") (hereinafter
collectively "St. Joseph Industrial Intervenors"), CITY OF RIVER-
SIDE, MISSOURI ("Riverside"), and GILSTER MARY-LEE CORPORA-
TION("Gilster"), and supplement their earlier response as
follows:

1. This Supplemental Response is filed without
prejudice to the separate Motion to Strike Staff Response and
Motion to Disqualify Counsel filed contemporaneously herewith.

Overallocation of Costs to Transmission Main Customers

2. On the issue of the transmission mains, the
evidence in the record reveals that Staff's witness failed to
follow the Base-Excess Allocation method because that method is
based upon peak utilization data that is specific to the district
being served. Instead, Staff's witness used identical peak day
and peak load factors for the various customer classes in each of

his district specific studies. Exhibit 61, p. 4, ll. 4-7. He failed to perform calculations that were specific for districts where there were customers served through 12" mains with the result that these customers were overallocated costs of a distribution system that they did not cause.

3. The Staff witness was cross-examined as follows:

Page 969:4 - 970:17 from: Volume 12 (6/8/00)

4 Q. Would subsidies among customers in the
5 industrial class be minimized if the distribution's
6 mains costs were allocated only to the customers in
7 the class that uses them?

8 A. I'm sorry. You're going to have to repeat
9 that.

10 Q. I'll do my best.

11 Would subsidies among customers in the
12 industrial class be minimized if distribution mains
13 costs were allocated only to the customers in that
14 class who use those distributions?

15 A. I'm sorry. I really don't understand the
16 question.

17 Q. What part of the question are you not able
18 to understand, Mr. Hubbs?

19 A. I'm not sure exactly what kind of
20 relationship that your question may have on -- with
21 regard to --

22 Q. I'll try to focus you, I guess,
23 intraclass, because in other parts of your
24 testimony you've talked about minimization
25 subsidies as a goal, I think we've agreed on that?

0970

1 A. Yes, sir.

2 Q. And you have also talked about the
3 remaining differences would be customers within a
4 class, so an intraclass type of intracustomer, if
5 you will, intraclass subsidization. In an ideal
6 world, I think I take your testimony to be that we
7 could eliminate that if we had a rate schedule for
8 every individual customer, right?

9 A. Correct.

10 Q. But that's not practical, and I think we
11 all agree with you. So in that context and kind of
12 thinking along that line, would subsidies among
13 customers in the industrial class be minimized if
14 distribution mains costs were allocated only to the
15 customers in that class who make use of those
16 distribution mains?

17 A. Yes.

4. Moreover, the Staff witness interpolated nonexistent **customer classes**, attempting to argue that the cost of

service was determined, not by the size of the water service main and meter provided, but rather by the nature of the business or use to which the water was put. Exhibit 42, Schedule WRH 2-2 St. Joseph, demonstrates that, although Staff witness attempted to segregate business customers into categories that he was familiar with from his natural gas experience, the revenues from each of the districts so categorized are based not on customer class but on **size of service**.

5. There was at the time of this case and there still is today, **no tariffed definition of what is an "industrial" or "commercial" or "residential" customer**. Moreover, Missouri-American's rates have been designed on a base-excess methodology in at least the last two cases.^{1/} Staff witness simply tried to take customer categories with which he was familiar and force this water case into those categories. The result was a misallocation that dramatically overallocates distribution costs to customers served through transmission-sized mains.

6. In fact, Staff witness' allocation "method" was not the Base-Excess method that the Commission apparently thought it was approving, but was something that categorized together

^{1/}A copy of Missouri-American's **prior** tariff for water service for the St. Joseph district (effective November 12, 1997) is attached hereto as Exhibit A. This is the tariff that was in effect at the time WR-2000-281 was filed. As examination will reveal, this tariff has **no classifications for "industrial" or "residential,"** and differentiates customer charges on the basis of the size (and thus cost) of the meter) and shows a declining block usage rate for all usage **regardless of the size of customer consuming the water** or whether the customer was a residential, commercial establishment, water district or industrial customer.

customers into a class where there were no common load or usage characteristics. Staff witness admitted this in his cross-examination by arguing that his "industrial" class included both small and large customers.^{2/}

Page 960:20 - 960:24 from: Volume 12 (6/8/00)

20 Q. So its just the differential between.
21 Would you agree then that the movement with respect
22 to those classes is the opposite of the current
23 rate design for Missouri American?
24 A. **It is definitely different.** (emphasis added)

7. His method even resulted in an "inverted" rate structure which charges a customer served through a transmission main a higher unit cost than that same customer would be charged if it received service under a 2" main and meter.^{3/}

Page 961:8 - 961:18 from: Volume 12 (6/8/00)

8 Q. Would you agree with me that your proposed
9 industrial rates in St. Joseph are significantly
10 greater than your proposed residential rates?
11 A. Are you talking about just the usage
12 rates?
13 Q. Right.
14 A. The average rate is quite a bit less.
15 Q. Well, I understand, but --
16 A. But the rates that are being -- if you're
17 just looking at the usage area rates, yes, they
18 are.

^{2/}Such also should have been apparent to the Commission inasmuch as the decision was made not to change the rates for the Joplin district. Yet, within that district (whose rates had previously been designed on base-excess), revenue shifts occurred as admitted by Staff witness at Tr. 957, l. 23 - 958, l. 3. Such shifts would not result if the **same** base-excess method were used when there were no additional costs being allocated to the district.

^{3/}Of course, as even the Staff witness admitted, such customers could not be provided service through such small **distribu-**
tion mains. Tr. p. 968, l. 24 - 969, l. 3:

Q. Would you also agree with me that not all industrial customers and wholesale customers could be adequately served by the system in the smaller mains?
A. That's true, not all of them could.

8. The Commission should simply recognize in its findings of fact that the Staff witness did not, in fact, perform a base-excess allocation on all the districts on a separate basis and that, because of his use of identical peak allocators for each district regardless of the service size of customers served from that district, and his grouping together of customers that did not have common load and usage characteristics, resulted in an overallocation of distribution system costs to transmission-level customers. Complete rectification of the problem will require that a proper base-excess allocation study be done, based on customer service size, and with data that is specific for each separate district of the utility. Customers should be grouped together on the basis of common load and usage characteristics rather than on an artificial end-use basis that has no relation to their cost causal characteristics. *State ex. rel. Laundry, Inc. v. Public Service Commission, 345 S.W.2d 37 (Mo. 1931).*

Failure to Order Appropriate Phase-In of Rate Shifts

9. In a surprising flip-flop, in Staff's Response it announces that it no longer supports a phase-in and opines that it is possible that no other party would support a phase-in at this time. Staff is wrong. Intervenors still support a phase-in because our clients were rate-shocked and today we remain rate-shocked as well as shocked as to how the Staff could abandon phase-in when everybody was rate-shocked by the **lack** of a phase-

in. This is a case in which theology has overtaken good Missouri common sense.

10. While we still applaud the Commission's decision to "move toward" District Specific Pricing (DSP) and believe that such rate design is the only lawful rate design available for the disparate districts, we still cannot understand how the Commission could have done so without phasing-in the rates to avoid rate shock. Just as the previous move toward Single Tariff Pricing (STP) took a period of years to attain, so should the correcting move back to DSP have taken several years to avoid rate shock.

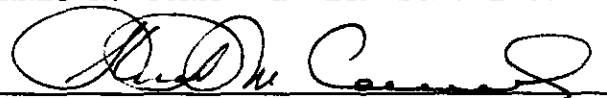
11. In its Response, Staff posits that if a phase-in were ordered today, there would be very little that could be postponed and "determining what shape the phase-in would take would probably require additional evidence and hearings." If such be the case, so be it. There are certainly more economical methods for phasing-in DSP than the method proposed by Staff with all its carrying costs. One merely needs to review how the Commission phased in STP for Missouri-American's predecessor, Missouri Cities Water Company for a better way to phase-in rates over a period of years through the use of an "equalization" factor that could change every year until full DSP was realized in all districts. Under such procedure, Missouri-Cities received its full revenue requirement, while the districts slowly approached full STP over a period of years and several rate cases. In other words, instead of throwing the lobster in boiling water

like the Commission did here, it could have placed it in a pot of cold water and slowly turned up the heat. The same result is ultimately realized only it is a lot less noticeable to the victim. Furthermore, this appears to be the result the Commission intended when it decided to "move toward" DSP.

12. The Commission is required to make findings of fact on the phase-in issue. If the current record is inadequate, it should reopen the record to get the necessary facts.

Respectfully submitted,

FINNEGAN, CONRAD & PETERSON, L.C.



Stuart W. Conrad Mo. Bar #23966
3100 Broadway, Suite 1209
Kansas City, Missouri 64111
(816) 753-1122
Facsimile (816) 756-0373
Internet: stucon@fcplaw.com

ATTORNEYS FOR AG PROCESSING INC.,
FRISKIES PETCARE, A DIVISION OF
NESTLE USA and WIRE ROPE CORPORATION
OF AMERICA, INC.



Jeremiah D. Finnegan Mo. Bar #18416
3100 Broadway, Suite 1209
Kansas City, Missouri 64111
(816) 753-1122
Facsimile (816) 756-0373
Internet: jfinnegan@fcplaw.com

ATTORNEYS FOR CITY OF RIVERSIDE,
MISSOURI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing pleading by U.S. mail, postage prepaid addressed to the parties of record or their representatives as disclosed by the Commission's records in this proceeding.

Dated: April 5, 2002


Stuart W. Conrad

EXHIBIT A

FORM NO. 13 P.S.C. MO. NO. 1

CANCELLING

(7TH REVISED)
(6TH REVISED)SHEET NO. 1
SHEET NO. 1MISSOURI-AMERICAN WATER COMPANY FOR
NAME OF ISSUING CORPORATIONCITY OF ST. JOSEPH, MO AND VICINITY
COMMUNITY, TOWN OR CITY
(ST. JOSEPH DISTRICT)CLASSIFICATION OF SERVICE
GENERAL WATER SERVICECustomer Charges

All metered general water service customers shall pay a Customer Charge based on the size of meter installed (or multiple meters installed -- in which case, the charge is based on the total of all meters installed). The Customer Charge rates listed below do not include any allowance for water usage.

| <u>Size of Meter</u> | <u>Per Month</u> | <u>Customer Charge</u> <u>Per Quarter</u> | |
|----------------------|------------------|--|---|
| 5/8 - inch | \$5.94 | \$17.82 | * |
| 3/4 - inch | 7.60 | 22.80 | * |
| 1 - inch | 10.77 | 32.31 | * |
| 1 1/2 - inch | 18.73 | 56.19 | * |
| 2 - inch | 28.28 | 84.84 | * |
| 3 - inch | 50.54 | 151.62 | * |
| 4 - inch | 82.34 | 247.02 | * |
| 6 - inch | 161.85 | 485.55 | * |
| 8 - inch | 257.26 | 771.78 | * |
| 10 - inch | 416.20 | 1,248.60 | * |
| 12 - inch | 686.53 | 2,059.59 | * |

Meter Rates

The following shall be the rates for monthly and quarterly usage, and are in addition to the customer charges provided for herein.

| | <u>Hundred Cubic Feet Per Month</u> | <u>Hundred Cubic Feet Per Quarter</u> | <u>Rate Per 100 Cubic Feet</u> | |
|--------------------|---|---|------------------------------------|---|
| For the first | 134 | 402 | \$1.4661 | * |
| For the next | 2,533 | 7,598 | \$0.8213 | * |
| For the next | 4,000 | 12,000 | \$0.6338 | * |
| For all over | 6,667 | 20,000 | \$0.4268 | * |
| <u>100 Gallons</u> | <u>100 Gallon Per Month</u> | <u>100 Gallon Per Quarter</u> | <u>Rate Per 100 Gallons</u> | |
| For the first | 1,000 | 3,000 | \$0.1955 | * |
| For the next | 19,000 | 57,000 | \$0.1095 | * |
| For the next | 30,000 | 90,000 | \$0.0845 | * |
| For all over | 50,000 | 150,000 | \$0.0569 | * |

* Indicates new rate or text

+ Indicates change

DATE OF ISSUE: November 12, 1997
month day year

DATE EFFECTIVE

November 12, 1997
month day yearISSUED BY: W.F. L'Ecuver, Vice President & Manager
Name of Officer, TitleSt. Joseph, MO
Address