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Issue(s):

Witness/Type of Exhibit:

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Case No.:

Rate Design
Russo/Rebuttal
Public Counsel
SR-2016-0202

REBUTTAL TESTIMONY

OF

JAMES RUSSO

Submitted on Behalf of the Office of the Public Counsel

**RACCOON CREEK UTILITY
OPERATING COMPANY INC.**

CASE NO. SR-2016-0202

October 13, 2016

In the Matter of the Application)
of a Rate Increase for Raccoon Creek) Case No. SR-2016-0202
Utility Operating Company Inc.)

STATE OF MISSOURI)
) SS
COUNTY OF MORGAN)

1. My name is James M. Russo. I am a Consultant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.
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.

Subscribed and sworn to me this 13th day of October 2016.

Kinda Gret

My Commission expires 08-31-2020

BRENDA L. GERLT
Notary Public - Notary Seal
STATE OF MISSOURI
County of Morgan
My Commission Expires 8/25/2020
Commission # 12464803

1 **REBUTTAL TESTIMONY**

2 **OF**

3 **JAMES M. RUSSO**

4 **RACCOON CREEK UTILITY OPERATING COMPANY, INC.**

5 **CASE NO. SR-2016-0202**

6 **Q. Please state your name and business address.**

7 A. James M. Russo, 2215 Minnow Branch Road Stover, Missouri 65102.

8 **Q. Are you the same James M. Russo who prepared the proposed rate**
9 **design and collection of bad debt in direct testimony for the Office of the Public**
10 **Counsel (“OPC”) filed in Case No. SR-2016-0202?**

11 A. Yes.

12 **Q. Have you made any changes to your previously filed Direct Testimony?**

13 A. No.

14 **Q. What is the purpose of your Rebuttal Testimony?**

15 A. The purpose of my Rebuttal Testimony is to rebut portions of the Direct
16 Testimony of Missouri Public Service Commission Staff (“Staff”) witness Curtis Gateley
17 (“Gateley”) and Raccoon Creek Utility Operating Company, Inc. (“Raccoon Creek” or
18 “Company”) witness Josiah Cox (“Cox”).

19 **Staff Witness Curtis Gateley**

20 **Q. Do you agree with Staff Witness Gateley’s statement in his Direct**
21 **Testimony on page 5, lines 20 thru 22 that the Company proposed a single combined**
22 **rate (“STP”) for all three facilities owned by Raccoon Creek in its request letter filed**
23 **on February 3, 2016?**

1 A. No. I have reviewed the Company's request letter several times and do not
2 see anywhere a request for a single combined rate. This can be confirmed as the
3 aforementioned letter is filed as the first item for this case in the Public Service
4 Commission's ("Commission") Electronic Filing Information System ("EFIS").

5 **Q. Does OPC agree with Staff Witness Gateley's statement on page 7 lines**
6 **13 thru 15 that, since all three facilities are of similar size and location, one rate for**
7 **all three service areas is the most just and reasonable outcome?**

8 A. No. I will discuss this further in my Rebuttal testimony below in the section
9 titled OPC's "Opposition to Single Tariff Pricing".

10 **Q. Does OPC agree with Staff Witness Gateley's statement on page 7 line**
11 **17 that there is a relatively simple nature of rate design in this case?**

12 A. No. The creation of the new apartment class and the unique customer
13 characteristics of the Villages add complexity to this case.

14 **Q. Does OPC agree with Staff Witness Gateley's statement in his Direct**
15 **Testimony on page 8 lines 14 thru 17 that keeping the Village as a separate district**
16 **from WPC and WSS would again discriminate against customers supported by the**
17 **same company, living nearby, and receiving the same service?**

18 A. No. Staff Witness Gately believes the customers in the WPC and West 16th
19 operational areas would be discriminated against if the customers from the Villages were
20 not included in rates that applied to all three neighborhoods. I believe the opposite. By
21 combining the Villages operations with WPC and West 16th, operations would
22 discriminate against the customer's residing in the Villages with these customers paying

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1 more. I will discuss this further in my Rebuttal testimony below in the section titled
2 “OPC’s Opposition to Single Tariff Pricing.”

3 **Q Does OPC agree with Staff Witness Gateley’s statement in his Direct**
4 **Testimony on page 9 lines 8 and 9 that combining all of the customers under one rate**
5 **provides the most equitable and affordable solution?**

6 A. No. I will discuss this further in my Rebuttal testimony below in the section
7 titled OPC’s Opposition to Single Tariff Pricing”.

8 **Q. Does OPC agree with Staff Witness Gateley’s statements in his Direct**
9 **Testimony on page 9 lines 13 thru 17 related to the other benefits of STP?**

10 A. While it is possible for STP to reduce administrative costs, I believe any
11 reductions in these costs for Raccoon Creek would be negligible. I don’t agree that STP
12 makes it easier for customer to understand their rates nor do I agree that this will reduce
13 confusion of the Company’s personnel in dealing with new customers. I will discuss this
14 further in my Rebuttal testimony below in the section titled “OPC’s Opposition to Single
15 Tariff Pricing.”

16 **Q. Does OPC agree with Staff Witness Gateley’s statement in his Direct**
17 **Testimony on page 6 lines 9 and 10 that there are no water meters to determine water**
18 **usage data?**

19 A. No. Water service to the Villages is provided by Johnson County Public
20 Water District #3. Each single family home, duplex, and apartment has an individual
21 water meter to track water usage by that unit.

22 **Q. Does OPC agree with Staff Witness Gateley’s statement in his Direct**
23 **Testimony on page 6 lines 10 thru 12 that all customers are residential customer’s**

1 **with similar use characteristics and therefore a single rate class with a flat customer**
2 **charge is the most logical?**

3 A. No. Water usage data is available for the Company's customers in the
4 Villages. As explained in my direct testimony and later in this testimony, the use
5 characteristics of apartment customers are clearly different.

6 **Q. Do you agree with Staff and the Company's proposed single residential**
7 **customer class for all customers?**

8 A. No. I disagree with all of the Villages' sewer customers being placed in one
9 residential customer class and weighted the same. The primary reason is the water usage
10 characteristic of the Villages' sewer customers that reside in an apartment is significantly
11 less than the Villages other residential customer's water usage. As stated in my direct
12 testimony, the average monthly water usage for customers in the proposed apartment class
13 customers during the months of January 2016 thru March 2016 is approximately 49% to
14 63% of the average monthly water usage per customer when compared to the customers in
15 my proposed residential class. The Company's apartment customer's use less water that
16 ends up going into the sewer collection system, which results in a significantly smaller
17 amount of volume of materials to be treated by the sewer plant. It is appropriate for these
18 customers to pay a smaller portion of the costs related to the Company's sewer operations.

19 **Company Witness Josiah Cox**

20 **Q. Do you agree with Mr. Cox' statement in his Direct Testimony on page**
21 **36 lines 18 and 19 that the Commission should utilize one flat monthly rate for all of**
22 **Raccoon Creek's customers?**

1 A. No. I will discuss this further in my Rebuttal testimony below in the section
2 titled “OPC’s Opposition to Single Tariff Pricing.”

3 **Q. Do you agree with Mr. Cox’ statement in his Direct Testimony on page**
4 **36 lines 19 thru 21 that, because all three systems having a similar investment and**
5 **improvement, a STP is supported?**

6 A. No. Similar investments and improvements in different operational systems
7 is not a valid reason to create an STP.

8 **Q. Do you agree with Mr. Cox’ statement in his Direct Testimony on page**
9 **37 lines 1 thru 3 that Treating these customers as a single rate area will provide**
10 **economies 1 of scale in the future that would not be available to any one of the**
11 **systems on a standalone basis?**

12 A. While theoretically possible, no party has provided any detail of what dollar
13 amount would add up to these economies of scale. I can only conclude that any economies
14 of scale related to the Company would be nonexistent or miniscule; otherwise it would
15 have been addressed further.

16 **OPC’S Opposition to Single Tariff Pricing**

17 **Q Do you agree with Staff and the Company’s proposed STP for all the**
18 **customers of Raccoon Creek?**

19 A. No, as detailed below I do not believe STP is appropriate for the customers
20 of Raccoon Creek.

21 **Q. What are some of the reasons you are against STP pricing for the**
22 **customers of Raccoon Creek?**

1 A. This includes, but not limited to, cost causation, rate subsidizing, different
2 sewer operational areas, and different customer characteristics.

3 **Q. Please explain what you mean by “cost causation”?**

4 A. Cost causation is the concept that a customer causing the cost should pay
5 for the cost. The proposed STP pricing in this case has customers in different operational
6 areas paying for the costs of customers in other operational areas. For example, a customer
7 receiving sewer service in the Villages operational area would be paying for the extended
8 aeration plant in the WPC operational area. This is contrary to basic ratemaking principles
9 as regulators should strive to ensure customers pay for costs for which they are
10 responsible.

11 **Q. Please explain what you mean by “rate subsidizing”?**

12 A. Rate subsidizing is when the costs of one operational area are reduced by
13 adding these costs to another operational area. The result of rate subsidization is customer
14 rates being reduced in one operational area while customer rates are raised in another
15 operational area. Rate subsidization often result in rates that are not just and reasonable.

16 **Q. Please explain what you mean by “different sewer operational areas”?**

17 A. Raccoon Creek currently serves three different sewer operations in three
18 distinct service areas. The customers of the Villages are served by a moving bed biofilm
19 reactor installed between the second and third lagoons. WPC and West 16th have new
20 extended aeration waste water plants. Geographically, the Villages is located in Johnson
21 County. WPC and West 16th are in Pettis County. The Villages is a distinct operating
22 area due to the distance from the other two systems and the different type of sewer plant
23 and proposing a STP under such circumstances does not make any sense.

1 **Q. Please explain what you mean by “different customer characteristics”?**

2 A. For the purposes of this rebuttal testimony, customer characteristics
3 includes how customer’s use impacts the Company’s sewer operations and who the actual
4 customer is including, but not limited to, the customer’s profession, the type of residence
5 being served by the Company, and the value of the residence being served.

6 **Q. Do you believe the customer characteristics in the Company’s three**
7 **operational areas are the same?**

8 A. I believe the customer characteristics of the Company’s WPC and West 16th
9 operational areas have similarities. I believe the Company’s Villages operational area
10 customer characteristics are substantively different from the other two operational areas.
11 The differences are significant enough that, if the customers in the Villages operational
12 area included in STP rates, they will be harmed by rates that are not just and reasonable.

13 **Q. Please explain why you believe the customer characteristics of the**
14 **Company’s WPC and West 16th customers are similar?**

15 A. These two operational areas are both located adjacent or near the Sedalia
16 Country Club and served by similarly constructed extended aeration waste water treatment
17 plants. The residences are single family homes with the majority of them being owner-
18 occupied and valued in the range of \$160,000 to \$225,000.

19 **Q. Please explain how you determined the residential house values for the**
20 **customer’s residing in the WPC and West 16th operational areas?**

21 A. While there are different ways to determine real estate values, I used Zillow
22 Real Estate at <http://www.zillow.com/> and this to my understanding is a generally-accepted
23 tool to help determine said values.

1 **Q. Please explain why you believe the customer characteristic of the**
2 **Company's customer's residing in the Village operational area different from the**
3 **Company's customer's residing in the WPC and West 16th operational areas?**

4 A. The Villages is located in an adjacent county approximately 12 miles from
5 the WPC and West 16th operational areas. There are a large number of customers that have
6 septic tanks and only send grey water to the sewer plant for processing. The cost of
7 processing grey water is less than the cost of processing sewage that has not received any
8 pretreatment. The Villages is comprised of approximately 100 single family homes, 50
9 duplexes (100 units), and other multi-unit structures ranging from three to eight units. The
10 value of the majority of these single family homes is in the range of \$120,000 to \$160,000.

11 The majority of the Villages residents are active duty (ranging from newly enlisted
12 to nearing retirement) and retired military personnel with a mix of home ownership and
13 renters. As a result, the population is highly transient.

14 **Q. Why did you proposed the combination of WPC and West 16th as an**
15 **alternative to STP for the three operational areas?**

16 A. The combination of these two districts makes sense because of their close
17 proximity, similar operations, similar customer characteristics, and similar investment in
18 new plant. The WPC operational area has one half of the customers of the West 16th
19 operational area for the customers to absorb the similar investment in new plant resulting
20 in significantly higher rates for the WPC customers. This combination would significantly
21 reduce the proposed monthly rate of \$106.39 for WPC customers to the proposed alternate
22 WPC/West 16th rate of \$80.45.

1 **Q. Did you attend the local public hearing (“LPH”) held on October 5,**
2 **2016, at State Fair Community College in Sedalia Missouri?**

3 A. Yes.

4 **Q. Did any of the customer’s testifying at the LHP discuss their opposition**
5 **to STP?**

6 A. Yes several customers at the LHP discussed their opposition to STP and
7 preferred each operational area pay, as one customer voiced. .

8 **Q. What did you observe from the customers who testified before the**
9 **Commission?**

10 A. Over twenty customers from the Company’s three different operational
11 areas testified on the record. All were against the size of the increase. The current active
12 and retired military personnel and their families that testified from the Villages painted a
13 grim picture of how a \$65 to \$70 monthly increase in sewer service rates would negatively
14 affect their household and community.

15 **Q. Please explain what you believe the negative affect would be to the**
16 **current active and retired military personnel and other residents’ households and the**
17 **community in the Villages?**

18 A. One young mother explained how her family drives used vehicles, does
19 without basic necessities, and buys used clothes for her infant son. She does not know
20 how her family can pay for so a large monthly increase. Several customers testified how
21 an increase of this size would lower the value of their homes and make it difficult to sell.
22 Two homeowners testified that the Villages would become a ghost town. The first testified
23 about how the population is highly transient because many of the customers are active duty

1 military personnel. The other customer testified that the residences next door and across
2 the street are already for sale. His comment was reinforced by a young active duty military
3 member who stated he would move to Knob Noster where utility rates are cheaper. He
4 also testified how when new personnel are transferred to the base one of the first questions
5 asked is where is a good place to live and that the word would go out that the Villages
6 would be a place to avoid. He also understood the effect this would have on his and the
7 other landlords in the Villages.

8 **Q. Did you have any other observations from the active duty and retired**
9 **military personnel and family members who testified from the Villages operational**
10 **area at the lph?**

11 A. Yes. Several of the military personnel and military family members
12 believed a \$65 to \$70 monthly increase in sewer service rates was indirectly punishing
13 them for serving their country.

14 **Q. Is there anything the Commission can do to assist the Company's**
15 **customers receiving sewer service in the Villages operational area?**

16 A. Yes. The Commission could continue to treat the Villages as a separate
17 operating area and approve OPC's rate design the two customer classes proposed by OPC.

18 **Q. Has anything filed by Staff or the Company, or the customers testifying**
19 **at the lph changed your mind concerning your proposed rate design?**

20 A. No. The testimony filed by Staff and the Company as well as the LPH
21 testimony have reinforced my belief that rates should be approved for each operational
22 area or as an alternative the WPC and West 16th operational areas could be combined. If
23 the Commission was to combine the rates for the Villages with WPC and West 16th, this

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would cause irreversible harm. To assist the Commission, the rates I proposed in my direct testimony were based on my proposed operational area rate design and are shown in the first box below and OPC's alternative rate design is shown in the second box.

Rates by operational area:

Monthly Customer Charge Comparison Current Rates to Proposed Rates:

	Current Rates	Proposed Rates
Villages Residential Class	\$23.48	\$62.76
Villages Apartment Class	\$23.48	\$50.21
WPC	\$38.12	\$106.39
West 16 th	\$26.42	\$67.55

Alternative proposal:

Monthly Customer Charge Comparison Current Rates to Proposed Rates:

	Current Rates	Proposed Rates
Villages Residential Class	\$23.48	\$62.76
Villages Apartment Class	\$23.48	\$50.21
WPC/West 16 th Combined		
WPC	\$38.12	\$80.45
West 16 th	\$26.42	\$80.45

Q. Earlier you stated one of the reasons you were against STP is because of rate subsidizing. How do you justify your alternative proposal of combining the WPC and West 16th operational areas?

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1 A. This alternate proposal is acceptable under the current regulatory scheme
2 because the two systems are practically adjacent, the customers have the sewage processed
3 by the same type of plant, and the customer characteristics are so similar.

4 Q. **Does this conclude your Rebuttal Testimony?**

5 A. Yes, it does.