

Exhibit No.:
Issues: Water Use Normalization, Cost
Allocations, Tank Painting Tracker,
Other Post-Retirement Employee
Benefits Costs, Inter District Subsidies,
Rate Design, MSD Revenues, Revenue
Imputation for St. Joseph District
Witness: Edward J. Grubb
Exhibit Type: Surrebuttal NON-PROPRIETARY
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2008-0311
SR-2008-0312
Date: October 16, 2008

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2008-0311
CASE NO. SR-2008-0312**

SURREBUTTAL TESTIMONY

OF

EDWARD J. GRUBB

ON BEHALF OF

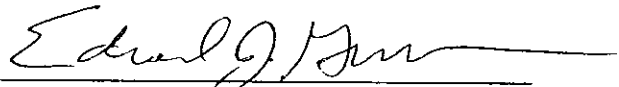
MISSOURI-AMERICAN WATER COMPANY

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

| | |
|--------------------------------------|-----------------------|
| IN THE MATTER OF MISSOURI-AMERICAN) | |
| WATER COMPANY FOR AUTHORITY TO) | |
| FILE TARIFFS REFLECTING INCREASED) | CASE NO. WR-2008-0311 |
| RATES FOR WATER AND SEWER) | CASE NO. SR-2008-0312 |
| SERVICE) | |

AFFIDAVIT OF EDWARD J. GRUBB

Edward J. Grubb, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of Edward J. Grubb"; that said testimony was prepared by him and/or under his direction and supervision; that if inquires were made as to the facts in said testimony, he would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of his knowledge.



Edward J. Grubb

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 15th day of October 2008.



Notary Public

My commission expires:

Staci A. Olsen
Notary Public - Notary Seal
State of Missouri
St. Charles County
Commission # 05519210
My Commission Expires: March 20, 2009

**SURREBUTTAL TESTIMONY
EDWARD J. GRUBB
MISSOURI-AMERICAN WATER COMPANY
CASE NO.WR-2008-0311
CASE NO.SR-2008-0312**

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1 **SURREBUTTAL TESTIMONY**

2
3 **EDWARD J. GRUBB**

4
5 **WITNESS INTRODUCTION AND PURPOSE**

6
7 **Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.**

8 A. My name is Edward J. Grubb, my title is Director Rates and Revenue for
9 American Water and my business address is 727 Craig Road, St. Louis,
10 Missouri 63141. I am also the Assistant Treasurer of Missouri American
11 Water ("MAWC" or "Company").
12

13 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
14 **PROCEEDING?**

15 A. Yes, I have submitted direct and rebuttal testimony in this proceeding.
16

17 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

18 A. The purpose of my surrebuttal testimony is to respond to the rebuttal
19 testimony of the Missouri Commission Staff ("Staff") and the rebuttal
20 testimony of OPC and certain intervenors on the following issues:

- 21 1) Water Use Normalization;
22 2) Cost Allocations;
23 3) Tank Painting Tracker;
24 4) Other Post-Retirement Employee Benefits Costs;
25 5) Inter District Subsidies;
26 6) Rate Design;
27 7) MSD Revenues; and
28 8) Revenue Imputation for St. Joseph District

1
2 **(1) WATER USE NORMALIZATION**

3
4 **Q. PLEASE DISCUSS THE REBUTTAL TESTIMONY OF MR. SCHEIBLE OF**
5 **THE MISSOURI COMMISSION STAFF ON THE ISSUE OF WATER USE**
6 **NORMALIZATION.**

7 A. Mr. Scheible discusses the Staff's position on water use normalization in his
8 rebuttal testimony. He discusses and compares the Staff's position and the
9 Company's position regarding water use normalization. In my rebuttal
10 testimony, I have used the term Usage Per Customer Per Day or "UCD"
11 when referring to the amount of water used by the residential and
12 commercial class customers in the Company's water districts. In total for the
13 Company, there are 22 customer classes or types for residential and
14 commercial. The Company and the Staff agree on using actual test year
15 usage for three of the customer classes and the Company and Staff agree on
16 using a six year average for ten other customer classes. Thus, the
17 disagreement between the Company and Staff revolves around the
18 remaining nine customer classes. The disagreement lies in the methodology
19 in calculating the UCD. Attached to my Rebuttal Testimony is Rebuttal
20 Schedule EJG-1 which provides a comparison of the Company's and Staff's
21 position on the issue of UCD.

22
23 **Q. DOES MR. SCHEIBLE'S REBUTTAL TESTIMONY IDENTIFY THE**
24 **DIFFERENCES BETWEEN THE COMPANY AND STAFF ON THIS ISSUE?**

25 Q. Yes, at the time Mr. Scheible filed his rebuttal testimony, he indicated that the
26 Company and the Staff had differences in ten of the customer types.

1 However, in my rebuttal testimony, I indicated that the Company's UCD for
2 Parkville Water's residential customers should be calculated using a six year
3 average rather than a trend line analysis. Thus, the Company and Staff now
4 agree on the UCD for thirteen of the twenty-two customer types and disagree
5 on the calculated UCDs for nine of the customer classes.

6
7 **Q. WHAT ARE MR. SCHEIBLE'S MAIN POINTS OF DISAGREEMENT ON**
8 **THE COMPANY'S USE OF WEATHER NORMALIZATION AND TREND**
9 **LINE ANALYSIS TO DETERMINE THE UCD USED IN CALCULATING**
10 **PRESENT RATE REVENUES?**

11 A. First, the Staff does not believe that the Company's approach to calculating
12 UCD using a weather normalization method is appropriate. Staff indicated
13 that it obtained precipitation data from the National Oceanic and Atmospheric
14 Administration ("NOAA"), for the four service areas (St. Louis, St. Charles,
15 Joplin and St. Joseph) of the Company where the Company performed and
16 utilized the weather normalization method to calculate UCD. Based on this
17 information, Staff produced graphs comparing UCD and precipitation and
18 concluded that there was no correlation between the two variables.

19 Second, the Staff does not believe that the Company's use of a trend line
20 analysis to calculate UCD is appropriate. Staff did indicate on page 3, line 21
21 of Mr. Scheible's rebuttal testimony that the trend line analysis is generally a
22 reasonable method of prediction. However, Staff believes that because the
23 trend line analysis did not include the year 2006, this omission amplifies
24 significant change in usage between 2005 and 2007, thus causing any
25 predicted value to be skewed artificially high or low.

1
2 **Q. DO YOU AGREE WITH THE STAFF'S ARGUMENT RELATED TO**
3 **WEATHER NORMALIZATION?**

4 A. No, I do not. First, Staff erroneously equates precipitation, i.e., rainfall, with
5 the Palmer Drought Severity Index, which measures soil moisture. Second,
6 Staff has not performed any statistical analysis to rebut the Company's
7 position on weather normalization to determine or reject the correlation
8 between weather (which includes more variables than just precipitation) and
9 UCD. Staff has based its position solely on a visual review of data and
10 graphs. Mr. Scheible in his rebuttal testimony only indicated that Staff
11 performed and looked at a graph that plotted UCD and precipitation against
12 time. These graphs can be found as attachments to Mr. Scheible's rebuttal
13 testimony as Schedules JS 1-1, 1-2, 1-3 and 1-4. Staff contends that there is
14 no consistent trend or correlation between UCD and precipitation. If one
15 were to look at Mr. Scheible's schedules, one might conclude that there is no
16 correlation. In that regard, Mr. Scheible's simple line graph of UCD and
17 precipitation supports what Professor Spitznagel has already stated in his
18 direct testimony, that is, precipitation alone is not a good predictor for water
19 utilization. The reason for this is, as Professor Spitznagel indicated in this
20 rebuttal testimony, that much of the precipitation that does occur will not be
21 retained in the soil, thus contributing to the poor correlation between UCD
22 and precipitation.

23
24 Again, it is important to note that the Company did not use precipitation in its
25 weather normalization analysis. So, to the extent Staff has taken the position

1 that precipitation does not correlate with UCD, the Company does not
2 disagree with Staff's limited hypothesis. However, since the Company did
3 not use precipitation in its calculation of UCD using a weather normalization
4 analysis, Staff's rebuttal misses the mark. Moreover, the Staff did not
5 attempt to analyze any other weather variable, such as temperature, to
6 determine if there was any correlation to UCD. The Staff simply relied on its
7 review of precipitation (i.e inches of rainfall) to rebut the Company's use of
8 the Palmer Drought Severity Index ("PDSI"). In fact, no where in the Staff
9 report or in rebuttal testimony does Staff provide any evidence that would
10 rebut the Company's calculation of UCD using Professor Spitznagel's
11 weather normalization approach.

12
13 The PDSI provides a measurement of soil moisture conditions and it
14 responds to weather conditions that have been drier or wetter by measuring
15 the moisture in the soil. For example, a PDSI of zero indicates normal soil
16 moisture. A negative index indicates drier than normal soil moisture
17 conditions and a positive index indicates wetter than normal soil moisture
18 conditions. While precipitation may impact soil moisture, Professor
19 Spitznagel, in his surrebuttal testimony, has indicated that for the St. Louis
20 District only 10% of the variation in the PDSI is caused by precipitation. In
21 addition, he has determined that precipitation in of itself does not correlate
22 well to UCD because of the issues of precipitation run-off and
23 evapotranspiration. In other words, there is precipitation that never "soaks"
24 into the ground, thus never causing the PDSI to shift into a positive position.
25 In addition, precipitation that does soak into the ground is then gradually lost

1 through evaporation and transpiration in plants. It then becomes readily
2 apparent as to why the correlation between precipitation and UCD would be
3 weak. This is exactly the position the Company has taken and why it
4 believes that the PDSI, as a measure of moisture available in the soil, is the
5 appropriate variable to use in a weather normalization model.
6

7 **Q. DID STAFF TAKE INTO ACCOUNT THE TIMING OF THE PRECIPITATION**
8 **WHEN IT REVIEWED THE LEVEL OF PRECIPITATION AND UCD?**

9 A. In response to Company Data Request 196, Staff was asked if they reviewed
10 the level or amount of precipitation or rainfall that occurred by day during
11 each month that is shown on Schedules JS 1-1, 1-2, 1-3 and 1-4. Their
12 response indicated that they had reviewed the data. However, in their Staff
13 Report and in Mr. Scheible's rebuttal testimony no reference was made
14 regarding the timing of the rainfall or its impact on Company UCD. Without
15 this comparative analysis, Staff could not perform a reasonable review and
16 determination of the impact of precipitation and its timing on UCD.
17

18 **Q. ARE THERE ANY OTHER METHODS OF PLOTTING OR GRAPHING**
19 **DATA THAT WOULD BE BETTER SUITED TO VIEW THE UCD AND**
20 **WEATHER DATA?**

21 A. Yes. Professor Spitznagel has taken the data used by the Staff in its graphs
22 and corrected for the fact that Staff did not account for monthly differences in
23 water usage patterns. Professor Spitznagel then employed an XY
24 Scatterplot graph for the St. Louis District's quarterly residential customer
25 class. This XY Scatterplot graph plots the deviation of usage from average

usage against PDSI. Although this analysis in Excel format is less sophisticated and precise than Professor Spitznagel's linear regression model discussed in his Direct Testimony, it nevertheless confirms and supports the conclusion of his linear regression analysis and that is that there is significant statistical correlation between PDSI and UCD. Accordingly, even if the Staff had not performed a detail statistical analysis of its own, it could have prepared an XY Scatterplot graph using the deviation of usage from average usage and PDSI and concluded that a correlation exists.

Q. DID THE STAFF REVIEW ANY OTHER POSSIBLE WEATHER RELATED VARIABLES TO HELP EXPLAIN OR CALCULATE UCD?

A. Based on its responses to Company data requests 194 and 199, the Staff indicated that they: 1) did not conduct a statistical analysis to determine if a correlation between weather and sales for a water utility exists and 2) only reviewed temperature as the other weather variable in reaching the conclusion that a six year average is appropriate to calculate and normalize the Company's residential and commercial sales. However, Staff offers no statistical analysis of the temperature data that was reviewed. In fact, there is only one quick reference to temperature in the Staff Report and there is only one passing remark in Mr. Scheible's rebuttal testimony regarding temperature.

Q. DO YOU AGREE WITH THE STAFF'S ARGUMENT RELATED TO THE TREND LINE ANALYSIS?

A. No, I do not. The Company asked Professor Spitznagel to review the

1 rebuttal testimony of Mr. Scheible on this issue. Professor Spitznagel has
2 also addressed Staff's concern on this issue in his surrebuttal testimony.
3 Professor Spitznagel has indicated that not including the 2003 and 2006
4 levels of UCD in the trend line analysis does not compromise the use of the
5 trend line analysis. In fact, it strengthens the trend line analysis, due to the
6 fact that the elimination of the years 2003 and 2006 led to an increased
7 spread of the observed values (2000 to 2007) and thus will actually reduce
8 the error of prediction for 2008 and 2009.

9
10 **Q. WHAT STATISICAL TEST DID PROFESSOR SPTIZNAGEL USE TO**
11 **ARRIVE AT THIS CONCLUSION AND DID THE STAFF USE ANY**
12 **STATISTICAL TEST TO REACH THEIR CONCLUSION?**

13 **A.** Professor Spitznagel used the Standard Error of the Estimated Mean
14 Response statistical test to determine that eliminating the years 2003 and
15 2006 in the Company's trend line analysis did not compromise the use of the
16 trend line analysis to calculate UCD. The Staff in their response to Company
17 Data Request 197 indicated that they relied on no statistical analysis to reach
18 a conclusion that the elimination of 2003 and 2006 would compromise the
19 calculation of UCD.

20
21 **(2) COST ALLOCATIONS**

22
23 **Q. WHAT COMMENTS DO YOU HAVE REGARDING THE ISSUE OF COST**
24 **ALLOCATIONS THAT WAS RAISED BY THE CITY OF JOPLIN'S WITNESS,**
25 **DR. ILEO?**

1 A. For Missouri rate case purposes, certain operating costs of the Company that
2 are not specifically attributed to a district are recorded in a MAWC corporate
3 business unit. In the rate setting process, these costs are then allocated to
4 each district using allocation factors that the Company believes to be
5 appropriate in order to determine the total revenue requirement. The Staff
6 has performed a similar allocation process.

7
8 The Company has also prepared a class cost of service study where district
9 costs are allocated to customer classes using the Base-Extra Capacity
10 Method that uses allocation factors to classify costs as base costs, extra
11 capacity costs (maximum day and maximum hour), customer related costs
12 and fire protection costs. These classified costs are then allocated to
13 customer classes based on allocation factors determined to be reasonable
14 for the purpose of designing rates for each of the customer classes.

15
16 Dr. Ileo believes that the allocation factors used in the allocation of corporate
17 costs to determine the revenue requirement by district should be the same as
18 the allocation factors used to determine the rate design for each customer
19 class.

20
21 **Q. DO YOU AGREE WITH HIS COMMENTS?**

22 A. No, I do not. I believe that the allocation factors used to allocate costs to
23 develop the revenue requirement for each district were designed to
24 determine, on a reasonable basis, the cost of providing utility service to each
25 district. While I believe that other allocation factors can be used, the
26 Company recommended its allocation factors based on the premise that
27 most costs are incurred for the direct benefit of the customers receiving the
28 service. Thus the number of customers was the main allocation factor used.
29 In other instances, such as pensions, total payroll was used because the
30 level of payroll is a determining factor in calculating pension expense. For
31 OPEBs and group insurance, the Company used employees to allocate the
32 costs because these costs are more closely related to the number of
33 employees. I believe that the Company's allocation methods are reasonable.

1
2 Q. DR. ILEO CONCLUDES HIS REBUTTAL TESTIMONY, AT PAGE 33, WITH A
3 STATEMENT TO THE EFFECT THAT STAFF'S ALLOCATION TREATMENTS
4 EXHIBIT FAR GREATER INTERNAL CONSISTENCY THAN THOSE OF
5 COMPANY. HOW DO YOU RESPOND?

6 A. First, simply because the Company's factors for allocating costs to the districts
7 are different from the factors Mr. Herbert uses for allocating costs within each
8 district to various customer classes, is not, in my opinion a valid criticism. These
9 are two different exercises. On the one hand, the Company is attempting to
10 allocate general corporate costs to the districts for revenue requirement
11 purposes. Mr. Herbert, on the other hand, is then taking those district specific
12 costs (which include directly assigned costs as well as allocated corporate costs)
13 and allocating them to the various customer classes based on their cost to serve
14 characteristics in order to design rates that are appropriate for each of those
15 customer classes.

16
17 Second, while I do not necessarily agree with the factors Staff uses to allocate
18 corporate costs to the various districts, I would note that using Staff's allocation
19 factors results in a greater allocation of MAWC's per book corporate operation
20 and maintenance costs to the Joplin District than using Company's allocation
21 factors. It seems ironic, that Dr. Ileo is supporting Staff's allocation factors when
22 they result in approximately \$727,000 more of MAWC's per book corporate
23 operation and maintenance costs being allocated to the Joplin District than what
24 would be allocated using the Company's allocation factors.

25
26 **(3) TANK PAINTING TRACKER**

1
2 **Q. WHAT IS THE ISSUE REGARDING THE TANK PAINTING TRACKER?**

3 A. The Company proposed in its original case to increase the annual tank
4 painting expense tracker from \$1.0 million to \$1.6 million. The previous level
5 of \$1.0 million was agreed to by the parties in the Non-Unanimous Stipulation
6 that the Commission approved in Case No. WR-2007-0311. Company
7 witness Kartmann has provided substantial direct, rebuttal and surrebuttal on
8 this issue thus far. However, I would like to address one issue raised by
9 Staff Witness Bolin. On page 6 of her rebuttal testimony, Ms. Bolin indicates
10 that should the Company spend in excess of the current \$1.0 million tank
11 painting tracker, that the Company will still recover the incremental amount in
12 excess of \$1.0 million through the tracker in future rate cases. However, this
13 statement is not supported by any reference in the above noted Stipulation or
14 the Commission's Order that approved the Stipulation.
15

16 **Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING STAFF'S**
17 **SUGGESTION THAT THE COMPANY COULD SPEND IN EXCESS OF**
18 **THE CURRENT \$1.0 MILLION TRACKER AND THEN RECEIVE RATE**
19 **RECOVERY IN A FUTURE RATE FILING?**

20 A. Yes. I believe that Staff's suggestion would result in a higher cost and in
21 turn, higher rates to ratepayers to paint the tanks.
22

23 **Q. WOULD YOU PLEASE EXPLAIN HOW THIS WOULD OCCUR?**

24 A. The Staff is suggesting that the Company could spend in excess of the \$1.0
25 million tank painting tracker. For illustrative purposes, if the Company spent

1 \$1.6 million in 2009 and 2010, the tank tracker mechanism would result in a
2 regulatory asset in the amount of \$1.2 million at the end of 2010, which is
3 calculated based on the Company exceeding the tracker level of \$1.0 million
4 by \$600,000 for two years. If a rate case was filed in 2010 and the true-up
5 occurred at December 2010, under Ms. Bolin's plan, the Company would
6 include in rate base, and receive a return on, the \$1.2 million for the
7 regulatory asset plus some amount for amortization of that asset. Thus, the
8 ratepayers would be paying in rates for a return on and return of the \$1.2
9 million regulatory asset rather than simply the return of the asset. This
10 situation would be avoided if the tracker is increased to \$1.6 million in 2009
11 and continued through 2010, thus eliminating the need for the return on the
12 regulatory asset.

13
14 **(4) OTHER POST-RETIREMENT EMPLOYEE BENEFITS COSTS**

15
16 **Q. THE OFFICE OF THE PUBLIC COUNSEL ADDRESSED THE REGULATORY**
17 **TREATMENT OF PERMENANT RATE BASE TREATMENT FOR AN OPEB**
18 **CONTRIBUTON AUTHORIZED BY THE COMMISSION IN CASE NO. WR-95-**
19 **205. WOULD YOU PLEASE COMMENT?**

20 **A.** Public Counsel witness Robertson has recommended a five year amortization of
21 the OPEB contribution in an attempt to simplify the accounting and ratemaking
22 process for this cost as it relates to MAWC. The Company does not oppose the
23 proposed five year amortization. In fact, the Staff has also proposed an
24 amortization of the OPEB contribution over a five year period.

1 **Q. OPC IS FURTHER RECOMMENDING THAT THE COMMISSION PLACE**
2 **CERTAIN CONDITIONS ON THE RECOVERY OF THE OPEB ASSET. WHAT**
3 **IS MAWC'S POSITION AS TO THOSE CONDITIONS?**

4 A. Mr. Robertson is recommending that effective with the date of a rate change for
5 the last Company rate case and prior to the balance becoming fully amortized,
6 the remaining balance of the amortization be recalculated so that the remaining
7 balance will become fully amortized effective with the date of a rate change in the
8 next subsequent rate case and the cost of service upon which that rate change is
9 determined not include any remaining balance in rate base or amortization
10 amount in expense. While the Company does not agree theoretically with the
11 conditions, the Company will not oppose them in this case.

12
13 **(5) INTER-DISTRICT SUBSIDIES**
14

15 **Q. WHAT IS THE COMPANY'S POSITION ON INTER-DISTRICT SUBSIDIES OR**
16 **REVENUE CONTRIBUTIONS?**

17 A. The Company, in its original filing, has proposed a revenue contribution by
18 the St. Louis Metro District to mitigate the rate increases for the Brunswick,
19 Parkville Water, Cedar Hill Sewer and Warren County Sewer Districts. If this
20 revenue contribution is not approved, then the increases for those four
21 districts would be 217.7%, 46.24%, 156.8% and 526.7%, respectively, based
22 on Company's filing. By proposing the revenue contribution, the percent
23 increases for these four districts would be "capped" at 29.7% for all four
24 districts. The Staff has proposed a revenue contribution for the Brunswick
25 and Warren County Districts. The Missouri Industrial Energy Consumers

1 ("MIEC") is opposed to any revenue contribution.

2 **Q. WHY DOES THE COMPANY BELIEVE THAT AN INTER-DISTRICT**
3 **SUBSIDY IS APPROPRIATE?**

4 A. An inter-district subsidy in the setting of rates is appropriate because it
5 addresses a number of goals including: 1) avoiding rate shock, 2) promoting
6 gradualism towards cost based rates, 3) promoting fairness, and 4) avoiding
7 the impact of a drastic change in the existing rate structure. In the current
8 case, the Company's proposal attempts to avoid rate shock and to gradually
9 move towards cost based rates for these four districts.

10
11 **(6) RATE DESIGN**
12

13 **Q. WHAT ISSUE WILL YOU BE ADDRESSING REGARDING RATE DESIGN?**

14 A. I will respond to the rebuttal testimony of Mr. Russo of the Commission Staff
15 regarding the merging of the rates for the St. Louis, St. Charles and Warren
16 County Water Districts. In the Company's filing, it proposed to combine the rates
17 for these three districts because they are either physically interconnected or are
18 integrated from an operational and management perspective. Staff has taken the
19 position that it opposes merging the rates because it would be moving away from
20 district specific rates. In the case of St. Louis and St. Charles, Staff's concern is
21 misplaced because these two systems are already physically inter-connected
22 and are basically treated as one system from an operational and management
23 perspective. To continue treating them as two separate districts or systems is
24 neither logical nor appropriate. As for Warren County Water, while the system is
25 not physically connected to either the St. Louis or St. Charles systems, it is

1 managed by the St. Charles management team. The merging of the rates of the
2 Warren County Water District into the St. Louis and St. Charles districts should
3 not hinge on the fact that it is not physically connected to those systems. Its
4 relative small size should also be a consideration in the decision process.
5 Warren County Water has but one-tenth of one percent of the total customer
6 base of St. Louis and St. Charles and merging it with the St. Louis and St.
7 Charles Districts will have a negligible effect on the rates in those districts.

8
9 **(7) MSD REVENUES**
10

11 **Q. WHAT IS THE ISSUE REGARDING MSD REVENUES?**

12 A. The Company provides to the Metropolitan Sewer District ("MSD") meter
13 reading usage data each month for MSD's customers so that it can bill its
14 customers for sewer service. In the last rate case (Case No. WR-2007-
15 0216), the Company and MSD reached a Stipulation and Agreement
16 regarding the fee to be paid by MSD to the Company for providing the meter
17 reading usage data. That Stipulation was presented to, and approved by, the
18 Commission. The Commission later approved a tariff identifying the
19 approved MSD rate, as well as a contract governing the relationship (See
20 Case No. WO-2008-0240)

21 **Q. DID THE MSD STIPULATION FROM CASE NO. WR-2007-0216 REQUIRE**
22 **ANY ACTION IN THIS CASE?**

23 A. Yes. The Stipulation required MAWC to prepare an incremental cost study
24 concerning the providing of billing data to MSD. The results of the study and
25 its discussion are contained in my direct testimony.

1 **Q. WHAT IS MAWC PROPOSING IN THIS CASE RELATED TO THE MSD**
2 **WATER USAGE DATA?**

3 A. In the current case, the Company is proposing no change in the existing
4 amount of the charge to MSD as approved by the Commission in Tariff Sheet
5 RT 16.0. The Company reached a Stipulation and Agreement with MSD in
6 the current case and filed that Stipulation with the Commission on September
7 17, 2008. No party in the proceeding filed an objection with the Commission
8 within seven days of the Company and MSD filing the stipulation.

9 **Q. DID ANY PARTY FILE TESTIMONY CONCERNING THE MSD**
10 **STIPULATION?**

11 A. Yes. In her rebuttal testimony, OPC witness Meisenheimer indicates a
12 disagreement with the Stipulation and suggests that it would be reasonable
13 to increase the rate charged to MSD by the overall system average increase
14 for the St. Louis District after the true-up.

16 **Q. HAS ANY OTHER PARTY OPPOSED THE COMPANY'S STIPULATION**
17 **WITH MSD IN THE CURRENT RATE CASE?**

18 A. No.

20 **Q. DOES THE COMPANY AGREE WITH THE OPC'S RECOMMENDATION?**

21 A. No, it does not. The Company's cost study indicates that the negotiated
22 annual rate to be charged to MSD in the amount of \$350,000 is reasonable
23 given that the agreed to amount is approximately half way between the
24 incremental operation costs and the fully distributed operation costs to
25 provide the data to MSD. As such it is a just and reasonable rate for the

1 water usage data. The Company believes that the Commission should issue
2 an order that is consistent with the Stipulation between the Company and
3 MSD.

4
5 **Q. IF THE COMMISSION BELIEVES THAT THE RATE CHARGED MSD FOR**
6 **THE WATER USAGE DATA SHOULD BE DIFFERENT, WHAT IMPACT**
7 **SHOULD THAT HAVE ON THE RATES TO BE SET IN THIS CASE?**

8 A. Because the revenue received from MSD pursuant to Sheet RT16.0 is used
9 to reduce the rates paid by MAWC's other customers, the water rates would
10 have to be increased if the Commission reflects lower MSD revenues than
11 that proposed by the Company or they would have to be decreased if the
12 Commission reflects higher MSD revenues in the revenue requirement.
13 Failure to take the appropriate steps would create rates that do not properly
14 reflect the impact of the MSD revenues.

15
16 **(8) REVENUE IMPUTATION FOR ST. JOSEPH DISTRICT**
17

18 **Q. OPC IS RECOMMENDING THAT THE DIFFERENCE BETWEEN**
19 **GENERAL WATER TARIFF RATES FOR INDUSTRIAL CUSTOMERS AND**
20 **THE RATE THAT TRIUMPH FOODS PAYS UNDER THE ECONOMIC**
21 **DEVELOPMENT RIDER ("EDR") BE IMPUTED INTO THE REVENUE**
22 **REQUIREMENT FOR THE ST. JOSEPH DISTRICT. DOES THE**
23 **COMPANY AGREE?**

24 A. No, it does not. It appears that OPC witness Meisenheimer has
25 mischaracterized the issue by claiming that the Commission Order that

1 approved the special contract with Triumph Foods in Case No. WT-2004-
2 0192, supports her proposal to impute revenues. The Company disagrees
3 with that assertion. I will address this subject in my surrebuttal testimony
4 below.

5
6 **Q. WHAT RATE HAS BEEN APPROVED FOR TRIUMPH FOODS, LLC?**

7 A. The Commission approved MAWC's contract with Triumph Foods (then Premium
8 Pork, LLC), to include the referenced rate and an associated tariff (P.S.C. Mo.
9 No. 1, Sheet 61) by its Order Concerning Agreement and Tariffs, Application to
10 Intervene and Motion to Suspend Tariffs issued on November 20, 2003, in
11 Commission Case No. WT-2004-0192.

12
13 **Q. WHAT STANDARD WAS APPLIED BY THE COMMISSION IN CONSIDERING**
14 **THIS RATE?**

15 A. The approval turned upon application of the terms of MAWC's economic
16 development rider (EDR) (P.S.C. Mo. No. 1, Sheets 49-60) that was previously
17 approved by the Commission in Case No. WT-2004-0156. That tariff offers water
18 service at a discounted rate in specified circumstances "to encourage industrial
19 and commercial development in the State of Missouri." P.S.C. Mo. No. 1, Sheets
20 49.

21
22 **Q. WHAT WERE THE CIRCUMSTANCES SURROUNDING THE PRESENTATION**
23 **OF THE CONTRACT?**

24 A. Triumph Foods proposed to construct a pork-processing facility in the Stockyards
25 area of St. Joseph, Missouri, which were described at that time to be derelict.

1 The Stockyards was formerly the site of an extensive animal slaughtering and
2 processing operation that historically formed the economic core of St. Joseph.
3 The new facility was projected to require significant investment in plant, create
4 many new jobs and, as a result, to have a substantial payroll. The city and
5 community of St. Joseph were eager to attract this entity to locate there, based
6 upon affidavits presented to the Commission.

7
8 **Q, DID THE COMMISSION FIND THAT THE CONTRACT SHOULD BE**
9 **APPROVED IN ACCORDANCE WITH MAWC'S EDR TARIFF?**

10 **A.** Yes. The Commission found as follows:

11 The record shows, and the Commission finds, that Premium
12 Pork is eligible for a discounted rate under the EDR Tariff
13 because (1) it is a new industrial customer locating in
14 St. Joseph from outside the state of Missouri; (2) its
15 projected Annual Customer Load Factor equals or exceeds
16 55%; (3) the projected Average Annual Billing Demand is at
17 least 0.5% of total district consumption; and (4) its new
18 facility will create at least 50 new permanent jobs within the
19 district. The record further shows, and the Commission
20 finds, that Premium Pork is eligible for a rate under the
21 Alternative Incentive Provisions because the General
22 Incentive Provisions are not sufficient in that Premium Pork
23 has a viable competitive alternative in another geographical
24 area and the availability of a competitive rate is critical to its
25 decision to locate at St. Joseph. The "viable competitive
26 alternative" is the city of Albert Lee, Minnesota, whose
27 applicable water service rate is a fraction of that available
28 during the first year of the General Incentive Provision of the
29 EDR Tariff. Furthermore, the record does not show that the
30 rate available at Albert Lee, Minnesota, will increase
31 annually and reach a level equivalent to the current tariff
32 industrial rate in St. Joseph after five years. The record
33 shows that Premium Pork will not locate in St. Joseph unless
34 a rate no higher than that available at Albert Lee, Minnesota,
35 is offered. The specific rate in question is Highly
36 Confidential. The record shows, and the Commission finds,
37 that it is less than the Maximum Rate and equal to or above
38 the Minimum Rate defined by the EDR Tariff and are thus
39 permissible under the terms of that tariff.

1
2 The record also shows, and the Commission finds, that net
3 benefits will accrue to the state of Missouri if Premium Pork
4 locates at St. Joseph in the form of an annual payroll subject
5 to income tax of at least \$7 million annually during the
6 construction phase and at least \$21 million annually after the
7 plant becomes operational, in addition to about \$1.2 million
8 annually in local taxes paid; and that another 218 jobs, with
9 an annual taxable payroll of about \$25 million, will be
10 created by 2005. By 2017, Premium Pork projects that it will
11 be paying annual salaries and wages of over \$66 million, all
12 subject to state income tax.

13
14 The record also shows, and the Commission finds, that the
15 proposed Special Service Contract provides for a reasonable
16 contribution toward "all other costs associated with the
17 provision of service" and that this contribution will constitute
18 a benefit to the other customers of the St. Joseph district
19 because it will serve to reduce the revenue requirement of
20 the district as a whole. No other customer's rates will
21 increase because this Special Service Contract is approved.
22 No detriments to either the state of Missouri or to the other
23 water service customers in the St. Joseph district have been
24 identified. (Order, p. 10-12)
25

26 **Q. HOW DO YOU INTERPRET MS. MEISENHEIMERS'S CONCERN FOR THE**
27 **DIFFERENCE BETWEEN THE COMMISSION-APPROVED RATES BEING**
28 **CHARGED TRIUMPH FOODS AND THE RATE FOR INDUSTRIAL GENERAL**
29 **WATER SERVICE?**

30 A. Ms. Meisenhimer seems to suggest that the Commission should impute
31 additional revenues associated with Triumph Foods as a part of setting MAWC'S
32 rates. Imputing revenues during the rate setting process requires the
33 Commission to find that MAWC has received (or should have received) revenues
34 that do not really exist. Imputing revenues that do not exist will artificially lower
35 the revenue requirement, and thus the rates, for all customers in the St. Joseph
36 District at the expense of the Company.

37 **Q. WOULD THIS BE APPROPRIATE IN REGARD TO TRIUMPH FOODS?**

1 A. No.

2

3 **Q. WHY NOT?**

4 A. MAWC is charging Triumph Foods the rate that has been approved by the
5 Commission and, therefore, a rate that is presumed to be just and reasonable. I
6 am not familiar with any situation where the Commission has imputed revenues
7 based upon the substitution of a higher rate for the actual tariff rate, particularly
8 where it cannot be shown that the utility has acted improperly or billed the wrong
9 tariff rate.

10

11 **Q. DOES PROVIDING SERVICE TO TRIUMPH FOODS AT THE APPROVED**
12 **RATE PROVIDE A BENEFIT TO ST. JOSEPH CUSTOMERS?**

13 A. The Commission has certainly found that to be the case. It stated that
14 the approved rate would “constitute a benefit to the other customers of the St.
15 Joseph district because it will serve to reduce the revenue requirement of the
16 district as a whole” (Order, p. 11-12) and that “no other customer’s rates will
17 increase because this Special Service Contract is approved.” (Order, p. 12)
18 Additionally, the Commission found that “no detriments to either the state of
19 Missouri or to the other water service customers in the St. Joseph district have
20 been identified.” (Order, p. 12) An assumption in the EDR process is that without
21 the special rate, Triumph Foods would likely have located elsewhere. I have
22 calculated the benefits to the customers of St. Joseph and based on the current
23 costs of production, the benefits to the customers of the St. Joseph District
24 amount to ** _____ **. In other words, had Triumph foods not relocated to St.

1 Joseph, the general water service rates for the St. Joseph District would be
2 higher by ** _____ **.

3
4 **Q. WHY DO YOU BELIEVE THAT OPC HAS MISCHARACTERIZED THE**
5 **COMMISSION'S ORDER THAT APPROVED THE TRIUMPH CONTRACT?**

6 **A.** On page 3 of Ms. Meisenheimer's rebuttal testimony, she cites a paragraph from
7 the Commission's Order in Case No. WT-2004-0192. I have also cited the same
8 paragraph starting at line 10 of page 20 of this surrebuttal testimony. The
9 Commission in its Order stated that the Special Contract provides for a
10 reasonable contribution toward all other costs associated with the provision of
11 service and that this contribution will constitute a benefit to the other customers
12 of the St. Joseph District.

13 The contribution that the Commission was referring to was the difference
14 between the revenues generated by the special contract and the production
15 costs associated with the sale of water to Triumph Foods. This difference
16 benefits the other customers by lowering the cost for all other costs associated
17 with the provision of service. In its application in Case No. WT-2004-0192 on
18 page 6, in paragraph D, the Company indicated that Appendix F set forth the
19 "level of contribution towards all other costs associated with the provision of
20 service" Premium Pork (now known as Triumph Foods) will be required to pay
21 under this Agreement. The Commission used the same language to describe the
22 benefits that the revenues generated by Triumph Foods would provide to the
23 other customers of the St. Joseph District. Thus, Ms. Meisenheimer's assertion
24 that the Commission's Order in that case is consistent with her recommendation

1 for the imputation of revenues in the current rate case is erroneous and should
2 be rejected.

3
4 **Q. IS THERE A REMEDY IF THE TRIUMPH FOODS' RATE IS FOUND TO NO**
5 **LONGER BE A BENEFIT TO THE PUBLIC?**

6 A. Yes. The EDR tariff (P.S.C. Mo. No. 1, Sheet no. 54-55), and therefore, the
7 contract, requires the following acknowledgement:

8 . . . that: (1) the Commission's Staff and the Office of the Public
9 Counsel have the right to request a Commission review of the
10 continued appropriateness of the alternative rate set forth in the
11 contract after the initial five years of the contract, with the purpose
12 of such a review being to determine whether the alternative rate
13 continues to be in the best interest of all customers in the
14 Company's service territory; (2) the Commission, acting on its own
15 volition, may also open an inquiry in this regard; (3) if, upon such
16 review(s), the Commission finds that the contract, as implemented,
17 no longer serves the public interest, it may allow the Company to
18 continue providing service under the contract after adjusting rate
19 conditions to restore the interests of the Company's other
20 customers in the service territory, or it may direct the Company to
21 terminate the contract; and (4) the results of any review(s)
22 conducted under these provisions shall be implemented in a
23 general rate proceeding.

24
25 Thus, if the Commission were to find that the special tariff rate no longer

1 serves the public interest, the remedy is to adjust the rate to be paid by
2 Triumph Foods. The remedy is not to impute revenue based upon a rate
3 that is not not being paid (nor will it be paid) by Triumph Foods.

4
5 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

6 **A. Yes.**