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Issues: Rate Design
Witness: M. Dianne Drainer
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Sponsoring Party: St. Joseph Water Rate Coalition
Case No.: WR-2003-0500
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Missouri Public
Service Commission

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2003-0500

REBUTTAL TESTIMONY

OF

M. DIANNE DRAINER

ON BEHALF OF THE

ST. JOSEPH WATER RATE COALITION

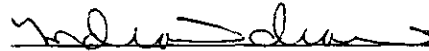
**JEFFERSON CITY, MISSOURI
BEFORE THE PUBLIC SERVICE COMMISSION**

OF THE STATE OF MISSOURI

IN THE MATTER OF MISSOURI-AMERICAN)	
WATER COMPANY FOR AUTHORITY TO)	
FILE TARIFFS REFLECTING INCREASED)	CASE NO. WR-2003-0500
RATES FOR WATER AND SEWER)	
SERVICE)	


AFFIDAVIT OF M. DIANNE DRAINER

M. Dianne Drainer, being first duly sworn, deposes and states that she is the witness who sponsors the accompanying testimony entitled "Rebuttal Testimony of M. Dianne Drainer," that said testimony and schedules were prepared by her and/or under her direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, she would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of her knowledge.


 M. Dianne Drainer

STATE OF MISSOURI)
) ss
 COUNTY OF BOONE)

SUBSCRIBED and sworn to before me this 30th day of October, 2003.


 Notary Public MARTHA R. CRANE

My commission expires: 01-28-05

MARTHA R. CRANE Notary Public - Notary Seal STATE OF MISSOURI Boone County My Commission Expires: January 28, 2005
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M. DIANNE DRAINER

On Behalf of the St. Joseph Water Rate Coalition

Case No. WR-2003-0500

1 Q Please state your name and business address.

2 A My name is M. Dianne Drainer and my business address is *mdd Consulting*, 5351
3 Hayes Road, Columbia, MO 65201.

4 Q What is your occupation?

5 A I am a consultant in the field of public utility regulation and the principal at *mdd*
6 *Consulting*,

7 Q Please summarize your educational background and experience.

8 A I hold a Bachelor of Arts degree in Economics and a Master's Degree in
9 Agricultural Economics from the University of Missouri-Columbia (UMC). I
10 have completed 18 postgraduate hours for a Ph.D. in Economics from UMC. My
11 field of study was Microeconomic Theory. I have taught Economics at UMC,
12 Columbia College and Bradford University, England.

13 I was employed as a public utility economist and chief telecommunications
14 economist for the Missouri Office of the Public Counsel ("OPC") from 1986-
15 1991. I served as a Commissioner and Vice Chair of the Missouri Public Service
16 Commission (MoPSC) from 1995 to 2001.

17 Q Have you appeared in hearings before the MoPSC?

18 A Yes, I have testified on issues before the MoPSC on behalf of the OPC and
19 appeared in cases while serving as a Commissioner.

20 Q On whose behalf are you appearing in this proceeding?

1 A I am appearing on behalf on the St. Joseph Water Rate Coalition (Coalition). The
2 Coalition is a group of 18 St. Joseph-area businesses, governments and
3 educational institutions.

4 The Industrial Class users are Ag Processing, Inc.¹; Artesian Ice & Cold
5 Storage Co.; Boehringer Ingelheim Vetmedica, Inc.; Johnson Controls; Lifeline
6 Foods, LLC; Nestlé Purina PetCare; Prime Tanning Corp.; Sara Lee Foods;
7 Silgan Containers Manufacturing Corp.; and Wire Rope Corporation of America.

8 The Commercial Class users are Heartland Health (the major medical
9 center between Kansas City and Omaha); Phoenix Scientific, Inc.; and the St.
10 Joseph Area Chamber of Commerce.

11 The Hillyard Companies have facilities that take service as both Industrial
12 and Commercial users.

13 Buchanan County, the City of St. Joseph, the St. Joseph School District
14 and Missouri Western State College take service under the Other Public Authority
15 (“OPA”) Class.

16 The Coalition members represent both small, medium and large volume
17 water customers of Missouri American Water Company (“MAWC” or
18 “Company”) in the St. Joseph District.

19 **Rate Design Issues**

20 Q What is the purpose of your rebuttal testimony in this proceeding?

¹ Ag Processing, Inc. is also represented independently by Mr. Stuart W. Conrad, Finnegan Conrad & Peterson, L.C.

1 A The purpose of my rebuttal testimony is to present my professional opinion with
2 respect to the Coalition's concerns regarding the rate design proposals of both
3 MAWC and the MoPSC Staff as they apply to the St. Joseph District.

4 Q Please explain these concerns with respect to MAWC's rate design proposal for
5 the St. Joseph District.

6 A MAWC Witness Paul Herbert presented in Schedule A-SJO the Company's
7 proposed increases and decreases to each customer class using MAWC's
8 proposed revenue requirement. As can be seen in the attached Schedule mdd/1,
9 this resulted in a 5.9% increase in revenue generated from the Commercial Class;
10 a 2.8% decrease in revenue generated from the Industrial Class; and a 14%
11 increase in revenue generated from the OPA Class.

12 However, attached Schedule mdd/2 shows that although the MAWC rate
13 design proposal decreases the Commercial Class's 1st Rate Block by 11.24%, the
14 Company supports substantial increases in the remaining three blocks. The
15 Commercial Class's 2nd Block would increase by 34.16%, the 3rd Block by
16 50.11%, and the 4th Block by 113.88%.

17 Similarly, although MAWC proposes a 23.89% decrease in the 1st Rate
18 Block of the OPA Class, the Company supports significant increases in the other
19 three blocks. The OPA 2nd Block would increase by 32.53%, the 3rd Block by
20 55.57%, and the 4th Block by 60.20%.

21 Under the MAWC rate design proposal, the 1st Block of the Industrial
22 Class receives a 13.84% decrease. However, the decreases are only 0.81%,
23 1.31% and 1.01% in the remaining three blocks, respectively.

1 Q What impact do the Company's proposed changes in rate blocks have on the
2 customers in each of these classes?

3 A The changes in the blocks will result in customers not receiving the overall
4 decrease of 2.8% for the Industrial Class, the overall increase of 5.9% for the
5 Commercial Class, or the increase of 14% for the OPA Class, as apparently
6 intended by the Company.

7 The MAWC rate design proposal would actually result in rate increases
8 for all customers in the Commercial Class except those who consume small
9 quantities of water and never go beyond the 1st Block's 100,000 gallons per
10 month.

11 Industrial Class customers using quantities of water that place them in the
12 2nd, 3rd and 4th Blocks would experience much smaller decreases, rather than the
13 2.8% decrease that MAWC states the entire Industrial Class would receive.

14 OPA Class customers using quantities of water that place them in 2nd, 3rd
15 and 4th Blocks could experience increases in rates 2 times to 4 times higher than
16 the 14% increase the Company states the OPA Class would receive.

17 Q Please summarize your concern with MAWC rate design proposal.

18 A As illustrated in Schedules mdd/1 and mdd/2, the rates in each rate block do not
19 give customers the change in rates that MAWC proposes for each class. Rather,
20 the monthly commodity charge for some customers will be subject to significantly
21 higher rates while other customers experience lower rates. The Company's rate
22 design offers rate relief to some customers and rate shock to others, even though
23 these customers are members of the same class.

1 Q Do you have similar concerns with the MoPSC Staff rate design proposal?

2 A Yes, I do. As illustrated in Schedules mdd/1 and mdd/2, the rate design testimony
3 and schedules of Staff Witness Wendell R. Hubbs also result in customers
4 receiving substantially different rate treatment in their monthly commodity charge
5 depending on usage, even though they are in the same class.

6 Q Is the Hubbs rate design proposal different from the MAWC rate design proposal?

7 A Yes. The Hubbs proposal eliminates rate blocks and recommends only one rate
8 per customer class.

9 Q What is the impact of the Hubbs rate design proposal set forth by Staff on the
10 customer classes in the St. Joseph District?

11 A As shown in Schedule mdd/1, the Staff's proposed revenue requirement would
12 result in an overall 13.4% decrease for the Commercial Class, an overall 13.4%
13 decrease for the Industrial Class and an overall 12.4% decrease for the OPA
14 Class. However, because of the elimination of the rate blocks, the customers in
15 each class would experience significant changes in their monthly commodity
16 charge depending on their usage. Some customers would actually have
17 significant increases while other customers would have significant decreases, as
18 shown in Schedule mdd/2.

19 Q Can you illustrate the disparate impacts on customers in the Commercial,
20 Industrial and OPA Classes if Staff's recommendation is adopted?

21 A Yes. Schedule mdd/3 depicts five different customers who use monthly gallon
22 volumes of 75,000, 300,000, 1,500,000, 3,500,000, and 15,000,000, respectively.
23 This Schedule illustrates the impact the Staff proposal, as well as the MAWC

1 proposal, would have on such customers' monthly bills. Schedule mdd/3 shows
2 that the small volume users in each of the customer classes receive the greatest
3 reductions. However, as the usage of customers increases, they will pay
4 substantially more in monthly commodity charges.

5 Because the St. Joseph Coalition is made up of both small volume and
6 large volume users, it requests that any rate design adopted by the Commission
7 implement a uniform percentage change. The rate blocks were established in the
8 2000 rate case based on the Staff's Cost of Service Study. To change the rates
9 within each block disproportionately or to eliminate the blocks without regard for
10 the resulting rate impacts would result in additional rate shock to customers in the
11 Commercial and OPA classes. It would cause additional rate shock because of
12 the initial rate shock experienced by these customers as a result of the 2000 rate
13 case, where the Commission moved to district specific rates at the same time that
14 a new plant went into service in the St. Joseph District.

15 Additionally, the Hubbs proposal would deprive Industrial Class
16 customers of the benefits of the substantial reductions sought by Staff (although
17 there's actually an increase at the 15 million gallon level). The Staff proposal
18 would also deprive those customers of the more modest rate reductions proposed
19 by MAWC.

20 Q What rate design changes could be made to correct these disparate impacts for
21 customers within a particular class?

22 A In order to avoid these significant rate impacts, the Commission should increase
23 or decrease each rate block by the same percentage in order to assure that each

1 customer in a class of service receives the same percentage impact on their
2 monthly commodity charge. For example, using the Staff revenue requirement
3 scenario, if each Commercial Class block were decreased by 13.4%, then each
4 Commercial customer would receive a similar percentage decrease to its monthly
5 commodity charge.

6 Q You state that there should be a similar percent decrease, but not the same percent
7 decrease. Why?

8 A Although there should be an equal percentage change to each rate block, the
9 revenue change will also be affected by other charges to the customer.

10 **Monthly Minimum Charge**

11 Q What other charges affect a customer's monthly statement?

12 A The monthly minimum charge, which depends on the main size, is added to each
13 statement. Thus, a decrease or increase in the monthly minimum charge,
14 depending on the final revenue requirement change, will affect the revenues that
15 are collected by the commodity charge.

16 Q Do you have any concerns with the MAWC monthly minimum charge proposal?

17 A Yes. MAWC proposes the same monthly minimum charges for mains in the
18 Brunswick, St. Joseph, Joplin, Mexico, Platte County and Warrensburg Districts.
19 The Company method is, in effect, a single tariff price for the monthly minimum
20 charge in these six districts, whereas the Staff proposes district specific rates for
21 these charges. To be consistent with the district specific rate methodology
22 adopted by the Commission is the last rate case, I recommend that the

1 Commission adopt the Hubbs minimum monthly rate design for the St. Joseph
2 District.

3 **Brunswick District Subsidization**

4 Q Do you have any other concerns with other rate design issues affecting multiple
5 districts?

6 A Yes. Both Staff Witness Hubbs and OPC Witness Barbara A. Meisenheimer
7 recommend the shifting of revenue in favor of the Brunswick District which
8 would otherwise experience higher rates as a result of Staff's Cost of Service
9 Study. Hubbs recommends that parties other than the Brunswick ratepayers be
10 responsible for some of the Brunswick District's cost of service and thus
11 subsidize its costs. Meisenheimer also recommends that other districts "support"
12 the Brunswick District. The St. Joseph Coalition requests that any subsidy for the
13 Brunswick District not be placed on the shoulders of St. Joseph District
14 ratepayers. They experienced their own rate shock in the 2000 MAWC rate case
15 because of the cost of the new plant in St. Joseph and the Commission's adopting
16 district specific pricing.

17 **Lack of Customer Class Definitions**

18 Q Are the customer classes are adequately defined in the tariff?

19 A No. Based upon my inspection of the current and proposed tariffs, as well as the
20 Company's responses to the Coalition's data requests, there are no adequate
21 definitions of customer classes in the tariffs. This omission should be remedied
22 by MAWC, either voluntarily or upon the order of the Commission.

1 **Conclusion**

2 Q Please summarize your recommendations.

3 A Regardless of the overall revenue changes ordered by the Commission, it should
4 insure that each user within a given customer class is treated the same as other
5 users within such class with regard to the changes in the rates they are charged for
6 the water they use. Thus, the percentage change to any customer class should be
7 spread equally over each of the four existing rate blocks, and Staff's
8 recommendation to eliminate the rate blocks should be rejected. Therefore,
9 Staff's and MAWC's rate design recommendations should be rejected because
10 they fail to recognize the sudden and substantial rate changes that result in
11 simultaneous decreases and increases, especially within the Commercial and OPA
12 Classes in the St. Joseph District.

13 Additionally, the monthly minimum charges should be set on a district
14 specific basis.

15 Finally, proper definitions of the customer classes must be established in
16 the tariffs.

17 Q Does this conclude your rebuttal testimony?

18 A Yes.

REVENUE CHANGE BY CUSTOMER CLASSIFICATION -- ST. JOSEPH DISTRICT

Customer	MAWC Proposal	MoPSC Staff Proposal
Class	Percentage Change	Percentage Change
Residential	11.30	-1.50
Commercial	5.90	-13.40
Industrial	-2.80	-13.40
Other Public Auth.	14.00	-12.40
Sales for Resale	-9.10	-19.20
Private Fire	0.00	-13.40
Service		

ST. JOSEPH DISTRICT-MoPSC Staff & MAWC Rate Proposal

RESIDENTIAL						
		Current	Staff	Block	MAWC	Block
		Rate/Property	Proposed	Percentage	Proposed	Percentage
Volumetric Chg (1,000 gallons)	Gallons	Tax Surcharge	Rate	Change	Rate	Change
1st block	First 100,000	\$3.0186	\$2.8887	-4.30%	\$3.1200	3.36%
2nd block	next 1,900,000	\$1.7524	\$2.8887	64.84%	\$3.1200	78.04%
3rd block	next 3,000,000	\$1.3841	\$2.8887	108.71%	\$3.1200	125.42%
4th block	over 5,000,000	\$0.9776	\$2.8887	195.49%	\$3.1200	219.15%
COMMERCIAL						
		Current	Proposed		Proposed	
Volumetric Chg (1,000 gallons)	Gallons	Rate	Rate		Rate	
1st block	First 100,000	\$3.5150	\$2.4299	-30.87%	\$3.1200	-11.24%
2nd block	next 1,900,000	\$2.0304	\$2.4299	19.68%	\$2.7240	34.16%
3rd block	next 3,000,000	\$1.5988	\$2.4299	51.98%	\$2.4000	50.11%
4th block	over 5,000,000	\$1.1221	\$2.4299	116.55%	\$2.4000	113.88%
INDUSTRIAL						
		Current	Proposed		Proposed	
Volumetric Chg (1,000 gallons)	Gallons	Rate	Rate		Rate	
1st block	First 100,000	\$5.5596	\$2.2521	-59.49%	\$4.7900	-13.84%
2nd block	next 1,900,000	\$3.1757	\$2.2521	-29.08%	\$3.1500	-0.81%
3rd block	next 3,000,000	\$2.4826	\$2.2521	-9.28%	\$2.4500	-1.31%
4th block	over 5,000,000	\$1.7173	\$2.2521	31.14%	\$1.7000	-1.01%
OTHER						
PUBLIC AUTH.						
		Current	Proposed		Proposed	
Volumetric Chg (1,000 gallons)	Gallons	Rate	Rate		Rate	
1st block	First 100,000	\$4.0992	\$2.3212	-43.37%	\$3.1200	-23.89%
2nd block	next 1,900,000	\$2.3541	\$2.3212	-1.40%	\$3.1200	32.53%
3rd block	next 3,000,000	\$1.8513	\$2.3212	25.38%	\$2.8800	55.57%
4th block	over 5,000,000	\$1.2921	\$2.3212	79.65%	\$2.0700	60.20%
OTHER WATER						
UTILITIES						
		Current	Proposed		Proposed	
Volumetric Chg (1,000 gallons)	Gallons	Rate	Rate		Rate	
1st block	First 100,000	\$6.7660	\$2.3350	-65.49%	\$3.1200	-53.89%
2nd block	next 1,900,000	\$3.8516	\$2.3350	-39.38%	\$3.1200	-18.99%
3rd block	next 3,000,000	\$3.0042	\$2.3350	-22.28%	\$2.8800	-4.13%
4th block	over 5,000,000	\$2.0685	\$2.3350	12.88%	\$2.0700	0.07%

Monthly Commodity Charge Impact-MoPSC Staff & MAWC Rate Proposal

					Staff	MAWC
COMMERCIAL		Current	Staff	MAWC	Percentage	Percentage
USER		Rate	Rate	Rate	Change	Change
75,000 gal.		\$263.63	\$182.24	\$234.00	-30.87%	-11.24%
300,000 gal.		\$757.58	\$728.97	\$856.80	-3.78%	13.10%
1,500,000 gal.		\$3,194.06	\$3,644.85	\$4,125.60	14.11%	29.16%
3,500,000 gal.		\$6,607.46	\$8,504.65	\$9,087.60	28.71%	37.54%
15,000,000 gal.		\$20,226.66	\$36,448.50	\$36,687.60	80.20%	81.38%
INDUSTRIAL						
USER						
75,000 gal.		\$416.97	\$168.91	\$359.25	-59.49%	-13.84%
300,000 gal.		\$1,191.10	\$675.63	\$1,109.00	-43.28%	-6.89%
1,500,000 gal.		\$5,001.94	\$3,378.15	\$4,889.00	-32.46%	-2.26%
3,500,000 gal.		\$10,313.69	\$7,882.35	\$10,139.00	-23.57%	-1.69%
15,000,000 gal.		\$31,210.59	\$33,781.50	\$30,814.00	8.24%	-1.27%
OTHER PUBLIC						
AUTHORITY						
75,000 gal.		\$307.44	\$174.09	\$234.00	-43.37%	-23.89%
300,000 gal.		\$880.74	\$696.36	\$936.00	-20.93%	6.27%
1,500,000 gal.		\$3,705.66	\$3,481.80	\$4,680.00	-6.04%	26.29%
3,500,000 gal.		\$7,659.66	\$8,124.20	\$10,560.00	6.06%	37.87%
15,000,000 gal.		\$23,357.61	\$34,818.00	\$35,580.00	49.06%	52.33%