

Exhibit No.: _____
Issues: Cost Allocation/Rate Design
Witness: Paul R. Herbert
Exhibit Type: Surrebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2011-0337
Date: February 2, 2012

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2011-0337

SURREBUTTAL TESTIMONY

OF

PAUL R. HERBERT

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

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-2011-0337
RATES FOR WATER AND SEWER)	CASE NO. SR-2011-0338
SERVICE)	

AFFIDAVIT OF PAUL R. HERBERT

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



Paul R. Herbert

Commonwealth of Pennsylvania
County of Cumberland
SUBSCRIBED and sworn to
Before me this 30th day of JANUARY 2012.



Notary Public

My commission expires: February 20, 2015

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Cheryl Ann Rutter, Notary Public
East Pennsboro Twp., Cumberland County
My Commission Expires Feb. 20, 2015
MEMBER, PENNSYLVANIA ASSOCIATION OF NOTARIES

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1 **WITNESS INTRODUCTION**

2
3 **1. Q. Please state your name and address.**

4 A. My name is Paul R. Herbert. My business address is 207 Senate Avenue,
5 Camp Hill, Pennsylvania.

6 **2. Q. By whom are you employed?**

7 A. I am employed by Gannett Fleming, Inc. as President of the Valuation and
8 Rate division.

9 **3. Q. Are you the same Paul Herbert that submitted direct and rebuttal**
10 **testimony in this proceeding?**

11 A. Yes, I am. My direct testimony and exhibits were submitted with the
12 Company's filing on June 30, 2011, and my rebuttal testimony was filed on
13 January 19, 2012.

14 **4. Q. What is the purpose of your surrebuttal testimony in this proceeding?**

15 A. The purpose of my surrebuttal testimony is to address the cost of service
16 allocation and rate design issues presented in the rebuttal testimonies of Staff
17 witnesses James Russo, Office of Public Counsel (OPC) witness Barbara
18 Meisenheimer, Mayor Moser of Brunswick, and AGP witness Donald
19 Johnstone.

20
21 **RESPONSE TO REBUTTAL TESTIMONIES ON**
22 **COST OF SERVICE AND RATE DESIGN ISSUES**

23 **5. Q. Please address the rebuttal testimony of submitted by Mr. Russo of the**
24 **Staff.**

1 A. Mr. Russo's rebuttal testimony includes a revised cost allocation and rate
2 design for Staff's hybrid District 2 which corrects the errors in his original
3 filing.

4 **6. Q. Did Mr. Russo correct the calculation of customer charges and the rate
5 design problems you identified in your rebuttal testimony?**

6 A. No, he did not. The customer charges proposed by Mr. Russo continue to be
7 deficient, due to the customer costs he excludes from the calculation and the
8 error he made calculating the District 1 customer charges, as described in my
9 rebuttal testimony. These errors result in extreme decreases in customer
10 charges especially in District 1. For District 2, customer charges for certain
11 meter sizes increase by as much as 34.8% and some others decrease by
12 34.6% - this makes no sense at all and should be rejected.

13 **7. Q. Did Mr. Russo correct the problem in St. Joseph where the existing
14 industrial first block rate exceeds the first block rate for the other
15 classes by almost \$2.00?**

16 A. No, actually his proposed rate design makes it worse. Mr. Russo's proposed
17 rates for District 2, which includes St. Joseph, has an industrial first block of
18 \$8.1888 per thousand gallons and the commercial first block rate is \$5.1748
19 per thousand gallons resulting in a difference of \$3.014 or 51% greater than
20 the existing difference. There is simply no cost justification for this
21 discrepancy. Under this rate design, an industrial customer would pay
22 \$301.40 more for 100,000 gallons per month than a commercial customer.

23 Similar problems occur in Mr. Russo's rate design for District 3.

1 Customer charges for Joplin decrease by a range of 34% to 69% and the first
2 block rate for Sales for Resale customers is over two dollars more per
3 thousand gallons than commercial customers.

4 **8. Q. What do you conclude with respect to Staff's rate design?**

5 A. Although Staff made an effort to begin consolidating rates by proposing a
6 hybrid approach for the three districts, the proposed rate design falls short of
7 an appropriate solution. As mentioned above, the customer charges are not
8 designed properly and the declining rate blocks for non-residential customers
9 are not equitable and do not reflect sound cost of service principles. Only the
10 Company's consolidated tariff pricing provides the best solution to the rate
11 design issues in this case.

12 **9. Q. Please comment on the testimony submitted by Mayor Moser from
13 Brunswick.**

14 A. Mayor Moser is concerned that water rates in Brunswick are already much
15 higher than the rates for the other districts and that proponents for district
16 specific pricing would again propose large increases for Brunswick
17 customers. Mayor Moser supports the Company's consolidated tariff
18 proposal as a solution to Brunswick's high rates. He states that the
19 population in Brunswick has declined by 9.6% over the last ten years
20 requiring the remaining customers to cover the fixed costs in district specific
21 pricing rate setting.

22 Accordingly, even if the Company made no additional investment in
23 Brunswick and its costs did not increase, the per customer cost of providing

1 service in that district would still increase simply because of the decline in
2 population. Such an increase in the cost of providing service in Brunswick
3 has nothing to do with inefficiencies, imprudence, etc. but simply with the
4 unfortunate circumstances of a declining population. It is inappropriate to
5 penalize Brunswick customers (by raising rates) for circumstances which are
6 clearly beyond its control as well as beyond the control of the Company. The
7 Company's consolidated pricing proposal solves Brunswick's problem.
8 District specific pricing simply "kicks the can down the road" and makes water
9 rates in Brunswick potentially unaffordable.

10 **10. Q. Does the alternative rate design proposed in Mr. Johnstone's rebuttal**
11 **testimony solve the rate issues?**

12 A. No, it does not. Mr. Johnstone's alternate proposal maintains district specific
13 pricing for the seven largest districts and merges the remaining 12 smaller
14 districts into 4 hybrid groups. The 12 smaller districts generally have much
15 higher costs of service on a district specific basis. As shown on Mr.
16 Johnstone's Rebuttal Schedule 1, using Staff's revenue requirements, the
17 result of his 4 hybrid groups shows the cost per thousand gallons range from
18 \$6.82 to \$34.01 or 48% to 637% higher than the average cost of \$4.61 per
19 thousand gallons for the 7 larger district specific districts. Mr. Johnstone's
20 proposal only reduces the number of smaller districts from 12 to 4 – it does
21 nothing to solve the rate design issues in this case. The Company would still
22 have eleven rate districts with an extremely wide range of rates among those
23 remaining districts.

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11. Q. How do customer bills under the Company’s consolidated pricing proposal compare to bills under district specific pricing?

A. Please refer to Schedule No. PRH-1 for a comparison of bills under current rates, under the Company’s proposed single tariff pricing and under district specific pricing based on 7,000 gallons, 5,000 gallons and 3,000 gallons per month usage. The bills under both single tariff and district specific pricing reflect the Company’s proposed revenue requirement which includes the revenue increase requested in this case. The exhibit shows that under the single tariff pricing, bills are lower than district specific pricing for most districts except St. Louis Metro, Warrensburg, Maplewood and Riverside Estates, which have small increases over the district specific billing.

12. Q. Please address the rebuttal testimony of OPC witness Ms. Meisenheimer.

A. Ms Meisenheimer submitted updated cost of service schedules for each district and provided her proposed revenue neutral shifts by class, limited to a maximum of 5% under present rates before any allowed increase is applied.

13. Q. Does Ms. Meisenheimer still support district specific pricing?

A. Yes, however she would support consolidating the smaller districts similar to Mr. Johnstone’s proposal. As I indicated earlier in my surrebuttal, consolidating the smaller districts does not solve the rate design issues in this case.

14. Q. What does OPC propose for customer charges?

1 A. As I stated in my rebuttal testimony, the proposed OPC customer charges do
2 not reflect the proper level of costs that should be recovered in customer
3 charges. OPC's customer charges would result in extreme decreases from
4 the Company's existing customer charges. Ms. Meisenheimer's updated
5 customer charges as shown in Table 4 of her rebuttal testimony still fail to be
6 adequate and should be rejected.

7 **15. Q. Please comment on OPC's recommendation regarding the Triumph**
8 **Contract.**

9 A. My understanding of Ms Meisenheimer's testimony is that she is
10 recommending that any increase allowed in this case for St. Joseph District
11 should be applied to the margin rate under the Triumph Contract and that the
12 commodity rate reflects the unit cost of the allowed level of St. Joseph's
13 variable production expenses, as stipulated in the Addendum No. 2 to the
14 Contract. Any increase in revenue for Triumph as a result of the above
15 should be deducted from the St. Joseph cost of service in order to determine
16 the tariff rates for St. Joseph. If I understand her testimony as indicated
17 above, I would agree that her recommendation is appropriate. If she is
18 recommending that revenues should be imputed above what would be
19 recovered from Triumph, then I would oppose such a recommendation.

20 **16. Q. Does this conclude your surrebuttal testimony?**

21 A. Yes, it does.

Missouri American Water

Average Water Bills

7,000 gallons per month

	Meter and Volumetric Charge			Rate Per Gallon		
	Current Bill	Single Tariff	District Specific	Current Bill	Single Tariff	District Specific
Brunswick	\$102.30	\$42.57	\$207.55	\$0.02046	\$0.00851	\$0.04151
Jefferson City	\$39.05	\$42.57	\$55.46	\$0.00781	\$0.00851	\$0.01109
Joplin	\$43.45	\$42.57	\$46.24	\$0.00869	\$0.00851	\$0.00925
Mexico	\$50.48	\$42.57	\$61.94	\$0.01010	\$0.00851	\$0.01239
Platte County	\$59.27	\$42.57	\$81.73	\$0.01185	\$0.00851	\$0.01635
St. Joseph	\$39.15	\$42.57	\$45.51	\$0.00783	\$0.00851	\$0.00910
St. Louis Metro (monthly)	\$34.34	\$42.57	\$42.53	\$0.00687	\$0.00851	\$0.00851
St. Louis Metro (quarterly)	\$90.89	\$108.22	\$102.48	\$0.01818	\$0.02164	\$0.02050
Warrensburg	\$34.46	\$42.57	\$41.05	\$0.00689	\$0.00851	\$0.00821
Warren County	\$72.66	\$42.57	\$76.10	\$0.01453	\$0.00851	\$0.01522
Maplewood	\$25.74	\$42.57	\$32.33	\$0.00515	\$0.00851	\$0.00647
Riverside Estates	\$40.95	\$42.57	\$36.42	\$0.00819	\$0.00851	\$0.00728
White Branch	\$53.00	\$32.00	\$57.50	\$0.01060	\$0.00640	\$0.01150
Rankin Acres	\$50.08	\$42.57	\$67.05	\$0.01002	\$0.00851	\$0.01341
Ozark Mountain	\$67.83	\$42.57	\$88.70	\$0.01357	\$0.00851	\$0.01774
Spring Valley	\$81.67	\$42.57	\$55.45	\$0.01633	\$0.00851	\$0.01109
Lakewood Manor	\$82.54	\$42.57	\$95.35	\$0.01651	\$0.00851	\$0.01907
Lake Taneycomo	\$58.86	\$42.57	\$47.75	\$0.01177	\$0.00851	\$0.00955
Roark Water (Sch A)	\$29.72	\$42.57	\$54.55	\$0.00594	\$0.00851	\$0.01091
Roark Water (Sch B)	\$22.28	\$42.57	\$54.55	\$0.00446	\$0.00851	\$0.01091

Missouri American Water

Average Water Bills

5,000 gallons per month

	Meter and Volumetric Charge			Rate Per Gallon		
	Current Bill	Single Tariff	District Specific	Current Bill	Single Tariff	
Brunswick	\$79.13	\$35.21	\$162.25	\$0.01583	\$0.00704	\$0.03245
Jefferson City	\$31.26	\$35.21	\$43.90	\$0.00625	\$0.00704	\$0.00878
Joplin	\$35.85	\$35.21	\$37.84	\$0.00717	\$0.00704	\$0.00757
Mexico	\$39.19	\$35.21	\$49.96	\$0.00784	\$0.00704	\$0.00999
Platte County	\$46.09	\$35.21	\$64.38	\$0.00922	\$0.00704	\$0.01288
St. Joseph	\$30.61	\$35.21	\$36.51	\$0.00612	\$0.00704	\$0.00730
St. Louis Metro (monthly)	\$27.96	\$35.21	\$35.81	\$0.00559	\$0.00704	\$0.00716
St. Louis Metro (quarterly)	\$70.86	\$86.13	\$82.32	\$0.01417	\$0.01723	\$0.01646
Warrensburg	\$27.75	\$35.21	\$34.15	\$0.00555	\$0.00704	\$0.00683
Warren County	\$58.27	\$35.21	\$61.50	\$0.01165	\$0.00704	\$0.01230
Maplewood	\$20.04	\$35.21	\$25.95	\$0.00401	\$0.00704	\$0.00519
Riverside Estates	\$32.89	\$35.21	\$30.30	\$0.00658	\$0.00704	\$0.00606
White Branch	\$53.00	\$32.00	\$57.50	\$0.01060	\$0.00640	\$0.01150
Rankin Acres	\$50.08	\$35.21	\$55.03	\$0.01002	\$0.00704	\$0.01101
Ozark Mountain	\$52.63	\$35.21	\$70.50	\$0.01053	\$0.00704	\$0.01410
Spring Valley	\$62.99	\$35.21	\$46.75	\$0.01260	\$0.00704	\$0.00935
Lakewood Manor	\$64.28	\$35.21	\$75.25	\$0.01286	\$0.00704	\$0.01505
Lake Taneycomo	\$46.42	\$35.21	\$41.25	\$0.00928	\$0.00704	\$0.00825
Roark Water (Sch A)	\$23.32	\$35.21	\$43.25	\$0.00466	\$0.00704	\$0.00865
Roark Water (Sch B)	\$17.00	\$35.21	\$43.25	\$0.00340	\$0.00704	\$0.00865

Missouri American Water

Average Water Bills

3,000 gallons per month

	Meter and Volumetric Charge			Rate Per Gallon		
	Current Bill	Single Tariff	District Specific	Current Bill	Single Tariff	District Specific
Brunswick	\$55.96	\$27.85	\$116.95	\$0.01119	\$0.00557	\$0.02339
Jefferson City	\$23.47	\$27.85	\$32.34	\$0.00469	\$0.00557	\$0.00647
Joplin	\$28.25	\$27.85	\$29.44	\$0.00565	\$0.00557	\$0.00589
Mexico	\$27.89	\$27.85	\$37.97	\$0.00558	\$0.00557	\$0.00759
Platte County	\$32.90	\$27.85	\$47.03	\$0.00658	\$0.00557	\$0.00941
St. Joseph	\$22.07	\$27.85	\$27.50	\$0.00441	\$0.00557	\$0.00550
St. Louis Metro (monthly)	\$21.58	\$27.85	\$29.08	\$0.00432	\$0.00557	\$0.00582
St. Louis Metro (quarterly)	\$50.82	\$64.04	\$62.15	\$0.01016	\$0.01281	\$0.01243
Warrensburg	\$21.04	\$27.85	\$27.25	\$0.00421	\$0.00557	\$0.00545
Warren County	\$43.88	\$27.85	\$46.90	\$0.00878	\$0.00557	\$0.00938
Maplewood	\$14.34	\$27.85	\$19.57	\$0.00287	\$0.00557	\$0.00391
Riverside Estates	\$24.83	\$27.85	\$24.18	\$0.00497	\$0.00557	\$0.00484
White Branch	\$53.00	\$32.00	\$57.50	\$0.01060	\$0.00640	\$0.01150
Rankin Acres	\$50.08	\$27.85	\$43.02	\$0.01002	\$0.00557	\$0.00860
Ozark Mountain	\$37.43	\$27.85	\$52.30	\$0.00749	\$0.00557	\$0.01046
Spring Valley	\$44.31	\$27.85	\$38.05	\$0.00886	\$0.00557	\$0.00761
Lakewood Manor	\$46.02	\$27.85	\$55.15	\$0.00920	\$0.00557	\$0.01103
Lake Taneycomo	\$33.98	\$27.85	\$34.75	\$0.00680	\$0.00557	\$0.00695
Roark Water (Sch A)	\$16.92	\$27.85	\$31.95	\$0.00338	\$0.00557	\$0.00639
Roark Water (Sch B)	\$11.72	\$27.85	\$31.95	\$0.00234	\$0.00557	\$0.00639