

Exhibit No.:  
Issues: Earnings & Revenues,  
Affordability  
Witness: Jeanne M. Tinsley  
Exhibit Type: Surrebuttal  
Sponsoring Party: Missouri-American Water  
Company  
Case No.: WR-2015-0301  
SR-2015-0302  
Date: March 4, 2016

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO. WR-2015-0301  
CASE NO. WR-2015-0302**

**SURREBUTTAL TESTIMONY**

**OF**

**JEANNE M. TINSLEY**

**ON BEHALF OF**

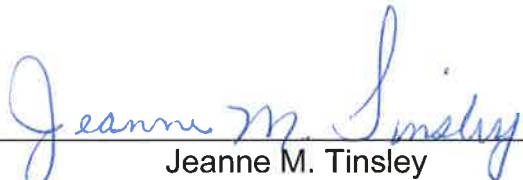
**MISSOURI-AMERICAN WATER COMPANY**

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

|  |  |  |
|--|--|--|
| <b>IN THE MATTER OF MISSOURI-AMERICAN )<br/>WATER COMPANY FOR AUTHORITY TO )<br/>FILE TARIFFS REFLECTING INCREASED )<br/>RATES FOR WATER AND SEWER )<br/>SERVICE )</b> |  | <b>CASE NO. WR-2015-0301<br/>CASE NO. SR-2015-0302</b> |
|--|--|--|

**AFFIDAVIT OF JEANNE M. TINSLEY**

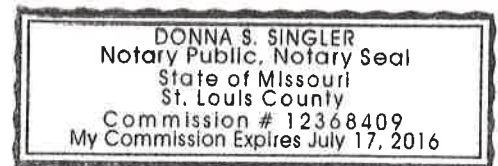
Jeanne M. Tinsley, being first duly sworn, deposes and says that she is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of Jeanne M. Tinsley"; that said testimony and schedules were prepared by her and/or under her direction and supervision; that if inquiries were 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.

  
\_\_\_\_\_  
Jeanne M. Tinsley

**State of Missouri  
County of St. Louis**

**SUBSCRIBED and sworn to  
Before me this 4<sup>th</sup> day of March 2016.**

  
\_\_\_\_\_  
**Notary Public**



**My commission expires: July 17, 2016**

**SURREBUTTAL TESTIMONY  
JEANNE M. TINSLEY  
MISSOURI-AMERICAN WATER COMPANY  
CASE NO. WR-2015-0301  
CASE NO. WR-2015-0302**

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**SURREBUTTAL TESTIMONY**

**JEANNE M. TINSLEY**

**I. INTRODUCTION**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Jeanne M. Tinsley, and my business address is 727 Craig Road, St. Louis, MO, 63141.

**Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?**

A. Yes. I previously filed Direct and Rebuttal Testimony.

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

A. I will address by Mr. Hyneman’s statements and contentions on behalf of the Office of the Public Counsel (“OPC”) with respect to MAWC’s earnings. I will also propose a low income tariff in response to affordability concerns expressed by OPC witnesses Hyneman and Marke.

**II. EARNINGS AND REVENUES**

**Q. MR. HYNEMAN CLAIMS (P. 8) THAT MAWC’S RETURN ON EQUITY IN 2014 WAS 9%, IMPLYING THAT THERE IS NO NEED FOR RATE RELIEF BASED ON TEST YEAR DATA. DO YOU AGREE?**

A. No. First, I find the Company’s return on equity (“ROE”) in 2014 to have been 8.86%. More to the point, what MAWC earned in 2014 is irrelevant to what a fair

1 rate of return would be when rates go into effect. For example, MAWC's 2015  
2 ROE was only 7.78% - below any ROE that Mr. Hyneman claims is proper.  
3 Furthermore, his discussion of American Water Works Company's ("AWW")  
4 earnings is even less relevant. The Commission will set an appropriate revenue  
5 requirement and resulting rates for MAWC, not AWW.  
6

7 **Q. MR. HYNEMAN OPPOSES ADOPTION OF MAWC'S PROPOSED REVENUE**  
8 **STABILIZATION MECHANISM BECAUSE HE CLAIMS (PAGE 20 OF HIS**  
9 **REBUTTAL TESTIMONY) THAT MAWC'S REVENUES ARE "STRONG AND**  
10 **GROWING." IS HIS CLAIM ACCURATE?**

11 A. No, it is not. Mr. Hyneman apparently made no inquiry into the source of that  
12 revenue growth. Based on a chart he presents on page 18, Mr. Hyneman  
13 claims that "MAWC's revenue growth in the period 2011 through 2014 has  
14 averaged greater than 3% per year." If he had investigated the source of the  
15 alleged "revenue growth" he might have reached a different conclusion. This is  
16 because his claim suffers from several fatal deficiencies. First, Mr. Hyneman  
17 fails to take into consideration simple revenue increases resulting from rate  
18 increases. Second, he completely ignored the effect of recent acquisitions that  
19 increase revenue but do not increase earnings. And, third, as Mr. Roach  
20 explained, he gave no effect to the well-recognized effect of weather on water  
21 company revenue, as well as the trend of reduced water usage per customer.

22 OPC witness Hyneman bases this claim on the following chart he  
23 produces on page 18:

MAWC WATER ANNUAL REVENUES PER MPSC REVENUE  
 REPORT ANNUAL REPORT INCREASE

2011 \$241,414,416  
 2012 \$276,704,900 15%  
 2013 \$261,404,269 -6%  
 2014 \$266,542,507 2%  
 3-year Revenue Growth 10%

Mr. Hyneman, however, has made no effort to adjust this chart for: 1) revenue increases due to rate increases; 2) revenue increases due to ISRS charges that Hyneman, himself, explicitly discusses on page 15 of his testimony and which will end with this rate case; and, 3) revenue increases due to acquisitions of troubled systems. If he had done so, he would have seen a very different picture emerge, reflecting a three year revenue decline of 4.6% The chart I have produced below shows the effect of these activities in each year of Mr. Hyneman's table.

| Missouri American Water Company<br>Total Revenue by Source<br>(2011 - 2014) |                    |                    |                    |                    |
|---|--------------------|--------------------|--------------------|--------------------|
| Measure   | 2011               | 2012               | 2013               | 2014               |
| Base Water Revenue  | 235,051,760        | 253,770,945        | 227,883,832        | 224,351,189        |
| Base Revenue Percentage Change  |                    | 7.96%              | -10.20%            | -1.55%             |
| Rate Case Revenue   |                    | 15,516,667         | 23,275,000         | 23,275,000         |
| ISRS Revenue  | 2,748,616          | 2,098,882          | 6,033,887          | 14,284,375         |
| Acquisition - Saddlebrooke Water  |                    | 52,022             | 47,344             | 47,307             |
| Acquisition - Tri-States  |                    |                    | 188,705            | 578,627            |
| Acquisition - Emerald Pointe  |                    |                    |                    | 83,303             |
| Other Water Revenue   | 3,614,040          | 5,266,384          | 3,975,501          | 3,922,706          |
| <b>Total Water Revenue</b>  | <b>241,414,416</b> | <b>276,704,900</b> | <b>261,404,269</b> | <b>266,542,507</b> |
| Base Sewer Revenue  | 1,722,724          | 2,251,692          | 2,352,091          | 2,306,002          |
| Rate Case Revenue   |                    | 483,333            | 725,000            | 725,000            |
| Acquisition - Saddlebrooke WW   |                    | 21,830             | 65,489             | 65,650             |
| Acquisition - Meramec WW  |                    |                    | 226,445            | 278,415            |
| Acquisition - Emerald Pointe WW   |                    |                    |                    | 237,892            |
| Other Sewer Revenue   | 2,665              | 5,929              | 4,737              | 4,073              |
| <b>Total Sewer Revenue</b>  | <b>1,725,389</b>   | <b>2,762,784</b>   | <b>3,373,762</b>   | <b>3,617,032</b>   |
| <b>MAWC Total Revenue - Actual</b>  | <b>243,139,805</b> | <b>279,467,684</b> | <b>264,778,031</b> | <b>270,159,539</b> |

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**Q. IS THERE SOMETHING ELSE MISSING WITH RESPECT TO THE CLAIMED REVENUE INCREASES?**

A. It would be one thing if usage per customer were fueling the revenue increases. In that case, there would be ample revenue to cover expenses and provide for additional earnings. That, however, is not the case. The revenue associated with the acquisition of troubled water systems does not come without cost. Those systems also have expenses and a return on rate base to recover. Revenue growth from acquisitions of smaller systems does not necessarily translate into higher earnings. In fact, earnings can actually be eroded by the acquisition of systems that are not recovering their costs. Similarly, additional revenue from rate cases, only fills in the gap for deficient earnings. Finally, ISRS charges are collected simply to cover the earnings deficiency that would otherwise have been cause by significant non-revenue producing plant additions. Again, it covers associated costs and is completely unlike mere sales increases. In none of these cases mentioned above is the additional revenue somehow “free” to cover new or increasing expenses and, thus to increase earnings.

**III. AFFORDABILITY**

**Q. OPC WITNESSES HYNEMAN COMMENTS ON AFFORDABILITY WHEN DISCUSSING RATEMAKING MECHANISMS AND OPC WITNESS MARKE NOTES THAT NO AFFORDABILITY TARIFF HAS BEEN PROPOSED BY THE DEPARTMENT OF ENERGY ALONG WITH ITS DEMAND-SIDE ENERGY PROPOSALS. WOULD THE COMPANY BE IN FAVOR OF A LOW INCOME RATE FOR ITS CUSTOMERS?**

1 A. Yes. MAWC supports consideration of a low income rate for qualifying  
2 customers.

3

4 **Q. DOES THE COMPANY HAVE A PROPOSAL FOR A LOW INCOME CHARGE?**

5 A. Yes. The Company would propose a low income customer rate that will offer a  
6 discounted fixed charge or minimum bill for residential customers with a 5/8"  
7 meter. Discounting the fixed charges for low income customers keeps essential  
8 water service affordable to qualified customers, while sending appropriate pricing  
9 and demand-side efficiency signals through the volumetric charge. This rate  
10 would provide eligible low income customers with an eighty percent (80%)  
11 discount on the customer charge for a residential 5/8" meter. Attached as  
12 Surrebuttal Schedule JMT-1 is an illustrative tariff sheet that could be used for  
13 this purpose.

14

15 **Q. HOW WOULD THE COMPANY PROPOSE TO IDENTIFY QUALIFIED**  
16 **CUSTOMERS FOR THE LOW INCOME RATE?**

17 A. In order to be eligible for the low income discount, MAWC would propose that  
18 water customers have their income verified through participation in the Missouri  
19 Low Income Home Energy Assistance Program (LIHEAP). LIHEAP provides  
20 energy efficiency measures, at no cost to qualified low-income clients, as well as  
21 some rate assistance to those most in need. Eligibility requirements for LIHEAP  
22 rate assistance are based on income, household size, available resources and  
23 responsibility for payment of home heating costs. The Company proposes that



1           qualifying water utility customers must affirmatively renew their participation in  
2           this program (e.g., every year).

3

4   **Q.   PLEASE SUMMARIZE THE BENEFITS OF THE COMPANY’S PROPOSED**  
5   **LOW INCOME RATE?**

6   A.   MAWC’s proposed low income rate is designed to price water efficiently for  
7       qualifying low income customers in a way to support the efficient use of water  
8       and reduce, to the greatest extent possible our uncollectible accounts and shut  
9       off expenses.

10

11 **Q.   DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

12 A.   Yes, it does.

Missouri-American Water Company  
Name of Issuing Corporation

For

Missouri Service Area  
Community, Town or City

Water Service Schedule

**Experimental Service Charge/Minimum Bill for Low-Income Customers**

Availability

Availability of this tariff is limited to those residential customers with a 5/8" meter that meet the Missouri income eligibility criteria for Low Income Home Energy Assistance Program (LIHEAP), as determined by Missouri's Community Action agencies which administers the Company's current H2O program. After qualifying to be billed under this tariff, customers must remain current on the discounted bills. Customers that default on payments for two (2) consecutive months will be removed from the Program and not allowed back into the Program for twelve (12) months.

Rates for Service

The rate for the service charge or minimum bill under this tariff will be 20% of the service charge or minimum bill of the service territory where the service is received, beginning with the first bill after qualifying with the Community Action Agency. The commodity rate for water usage shall be billed at the current rates applicable to the service territory where the service is received.

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\* Indicates new rate or text

+ Indicates change

DATE OF ISSUE: xx/xx/xxxx

EFFECTIVE DATE: xx/xx/xxxx

ISSUED BY: Cheryl Norton, President  
727 Craig Road, St. Louis, MO 63141