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Witness: Paul R. Herbert
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Sponsoring Party: Missouri-American Water Company
Case No.: WR-2015-0301
SR-2015-0302
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MISSOURI PUBLIC SERVICE COMMISSION

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

SURREBUTTAL TESTIMONY

OF

Paul R. Herbert

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

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MISSOURI-AMERICAN WATER COMPANY
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SURREBUTTAL TESTIMONY

Paul R. Herbert

1

I. INTRODUCTION

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?

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

8

9

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

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A. I will address the cost of service allocation and rate design raised in the rebuttal testimony of OPC witness Goeff Marke and Missouri Department of Economic Development – Division of Energy (DE) witness Martin Hyman.

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II. SURREBUTTAL OF OPC WITNESS GOEFF MARKE

13

Q. PLEASE ADDRESS THE ISSUES IN THE REBUTTAL TESTIMONY OF OPC WITNESS GOEFF MARKE.

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A. On page 9 of Mr. Marke's rebuttal testimony, he argues that the provision of water service with similar operations and facilities should not be a reason to consolidate tariffs. He says customers who cause water to be treated in St. Joseph's are not caused by customers in St. Louis.

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Q. IS THIS A TRUE STATEMENT?

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A. Yes, of course it is, but he's missing the point. The point is that all customers cause water to be treated, all customers cause water to be pumped, and all

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1 customers cause water to be delivered through a distribution system. But the
2 end product that is delivered to customers is the same – water that meets the
3 quality standards delivered at a minimum pressure. The costs may be
4 different – quite frankly, I would expect that to be the case. It would be
5 remarkable if the costs were exactly the same. But that doesn't mean the
6 price shouldn't be the same.

7

8 **Q. ARE COSTS TO PROVIDE WATER SERVICE WITHIN A DISTRICT**
9 **DIFFERENT?**

10 A. Absolutely. But that doesn't seem to concern Mr. Marke for some reason. As
11 I stated in my rebuttal testimony, it is widely acknowledged that a customer
12 who resides near the treatment plant requires little distribution costs
13 compared to a customer who resides many miles away. Also, certain
14 customers can be served directly from high service pumping at the treatment
15 facility while others require additional booster pumping and storage facilities
16 in order to receive service at higher elevations. Yet these cost differences
17 within a district are ignored by Mr. Marke in a district specific rate design.

18

19 **Q. SO NOT ALL RATES ARE SPECIFICALLY COST-BASED FOR EVERY**
20 **CUSTOMER WITHIN A DISTRICT.**

21 A. That is correct. To take Mr. Marke's flawed logic one step further, each
22 customer would have to have rates designed individually to reflect the specific
23 costs for that customer. That would be nearly impossible to determine and an
24 administrative nightmare to implement.

25

26 **Q. MR. MARKE FURTHER ARGUES THAT EQUIVALENT SERVICE SHOULD**
27 **NOT BE CONSIDERED SINCE AMERICAN WATER DOES NOT CHARGE**
28 **AND IS NOT SEEKING CONSOLIDATED RATES ACROSS NUMEROUS**
29 **STATES WHERE THEY OPERATE. IS THIS A VALID POINT?**

30 A. No, not at all. Water rates are regulated on the State level. There would be
31 no possible way to consolidate rates across multiple States under a Federal
32 agency that doesn't exist. However, many State Commissions have

1 embraced consolidated pricing within their jurisdictions. Pennsylvania, New
2 Jersey, Ohio, West Virginia, Illinois, and Iowa have all implemented complete
3 or significant movement toward consolidated pricing for water service. These
4 States have recognized the benefits of consolidated pricing for the many
5 reasons that the Company has provided in testimony in this case.

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7 **III. SURREBUTTAL OF DE WITNESS MARTIN HYMAN**

8 **Q. PLEASE ADDRESS THE ISSUES IN THE REBUTTAL TESTIMONY OF DE**
9 **WITNESS MARTIN HYMAN.**

10 A. DE witness Martin Hyman mischaracterizes my supplemental testimony with
11 regard to customer charges. He states that I support customer charges that
12 recover costs beyond customer costs.

13
14 **Q. WHAT IS YOUR POSITION.**

15 A. In my supplemental testimony, I was simply responding to the Commission's
16 Order to address Staff's report that discussed higher fixed charges. Staff's
17 report presented customer charges that recovered 50% and 75% of the fixed
18 costs. I addressed that in my supplemental testimony and suggested an
19 example of the costs that could be recovered if the Commission wanted
20 higher fixed charges.

21 If Mr. Hyman read my direct and supplemental testimony correctly, he
22 would know that I only supported customer charges that recover customer
23 costs. The facts are that existing customer charges as well as the Staff's
24 proposed customer charges are significantly inadequate. Customer charges
25 should be based on an analysis of customer costs that are properly
26 determined by cost allocation principles. I have provided the customer cost
27 support in my rebuttal Schedules PRH-2 and PRH-3 that justify my proposed
28 customer charges. Mr. Hyman's testimony with regard to my supplemental
29 testimony should be ignored.

30
31 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

32 A. Yes, it does.