

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

In the Matter of Missouri-American Water)	
Company's Request for Authority to Implement)	File No. WR-2017-0285
General Rate Increase for Water and Sewer)	File No. SR-2017-0286
Service Provided in Missouri Service Areas.)	

**CITY OF JEFFERSON'S STATEMENT
OF POSITION ON THE ISSUES**

Comes now the City of Jefferson, Missouri (Jefferson City) by and through its attorneys and submits this statement of position on the issues that are scheduled to be heard after the first two days of hearing. The issues referenced are identified in the *Joint List of Issues, Order of Witnesses, Order of Cross-Examination and Order of Opening Statements* filed in this matter on February 15, 2018. Missouri-American Water Company is referred to as "MAWC" or the "Company".

31. Water Rate Design

- a. Single Tariff Pricing / District Specific Pricing – Should the Commission keep the current water district structure, adopt single tariff pricing for the water customers, or return to eight water districts?

Witness – Michael J. McGarry, Sr. on behalf of the "Coalition Cities" of St. Joseph, Jefferson City and Warrensburg – Direct, Rebuttal and Surrebuttal Testimony.

Position:

The Commission should direct the Company to return to the eight rate districts that existed prior to the Report and Order in Case No. WR-2015-0301 and reject the Company's proposed single-tariff pricing and Staff's proposal to retain the three rate districts established in Case No. WR-2015-0301. The eight-district rate structure best reflects the actual cost of service

(particularly the capital costs) of each of the MAWC rate districts.

The eight-district approach complies with long-established utility ratemaking laws and principles that customers should only pay reasonable rates based on assets in rate base that are “used and useful” and other costs related to (caused by) providing service to them. (**McGarry Direct**, MJM-11, lines 1-8 and footnote 10; MJM-13, line 10 – MJM-14, line 4; **McGarry Rebuttal**, p. 4, lines 16-17 and footnote 5, p. 5, lines 3-7 and footnote 7). MAWC’s proposed Single-Tariff Pricing violates these legal requirements by forcing customers in one geographic area to subsidize the rates of other customers in other totally separate areas. (**McGarry Direct**, MJM-10, line 27 through MJM-11, lines 1-13 and footnote 10). Likewise, although to a lesser extent, Staff’s three-district proposal would require some MAWC customers to subsidize others and pay for plant in service areas not their own and other costs unrelated to providing their water service, as demonstrated in Mr. McGarry’s Direct Testimony. (**McGarry Direct**, p. 12, line 1 through p. 14, line 11). In contrast, district-specific pricing through eight districts would establish reasonable rates on a cost-causation basis and avoid unlawful subsidization. (**McGarry Rebuttal**, p. 5, line 3 – p. 7, line 16)

Ratepayers in the Coalition Cities have already borne the substantial costs of capital investments in their service area. These customers should not now be burdened with also having to pay for infrastructure in other parts of the state as proposed by MAWC and Staff. (**McGarry Direct**, p. 15, lines 14-16).

31. Water Rate Design

a.i. Offset Mechanism – If the Commission orders consolidated tariffs for water service, should it also order the implementation of the Coalition City Offset Mechanism to allow certain service areas to avoid paying certain capital investment costs?

Position:

Yes. If either the Company's or the Staff's rate district proposal is adopted by the Commission, absent an offset mechanism customers in the Coalition Cities will be required to share in the costs of capital investments in other distant service areas, despite having already bearing alone for years the costs of capital investments in their own service areas. To mitigate that inequitable outcome, the Commission should direct the Company to use a "rate-offset" mechanism as proposed by Mr. McGarry. (**McGarry Direct**, p. MJM-14, line 13 – MJM-15, line 22). Such an offset mechanism would at least provide customers in the Coalition Cities with some semblance of fairness for having shouldered alone the costs of major plant investments in their service areas and now being required to bear such investments that only benefit customers in other cities and districts. (**McGarry Surrebuttal**, p. 2, lines 15-19). The offset would be applied as a credit on customer bills in the Coalition Cities for a specific period of time. (**McGarry Direct**, p. MJM-14, line 22 – MJM-15, line 6; **McGarry Rebuttal**, p. 11, line 13 – p. 12, line 4; **McGarry Surrebuttal**, p. 2, lines 8-12, 20-21, p. 5, line 17 – p. 11, line 20).

The Commission should order the Company to engage in a collaborative effort to calculate the offsets. (**McGarry Surrebuttal**, p. 7, lines 5-13, p. 14, lines 6-7).

31. Water Rate Design

b. Impacts of Pricing Districts on cities/service Areas

- i. If the Commission adopts either MAWC's or Staff's rate district proposal, should the Commission establish a working group or collaborative process to determine a rate offset for cities/service areas that have borne the costs of their own system upgrades since 2000?
- ii. If the Commission adopts either MAWC's or Staff's rate district proposal, should the Commission establish a working group or collaborative process to explore capital expenditure tracking mechanisms?

Position:

b.i. – Yes. For the reasons stated as to issue 31.a.i above, a rate offset must be established to ensure the justness and reasonableness of rates for *all* MAWC customers if the Commission adopts either Company’s or Staff’s rate design proposal in this case. Without such an offset, customers in the Coalition Cities will have borne the costs of infrastructure investments in their service areas for years and now be forced to bear the costs of infrastructure investments in disparate service areas that bring no benefit to them. This would unlawfully require customers in the Coalition Cities to subsidize the rates of other customers who have avoided costs already borne by customers in the Coalition Cities. The Commission should order the Company to engage in a collaborative effort to calculate the offsets. (**McGarry Surrebuttal**, p. 7, lines 5-13, p. 14, lines 6-7).

b.ii. – Yes. A capital expenditure tracking mechanism would enable Company, Staff, OPC and all parties to keep closer track of capital project costs. (**McGarry Surrebuttal**, p. 12, line 1 – p. 13, line 9) This would, at the very least, be an enhancement of the current Commission requirement that MAWC file a 5-year capital expenditure plan annually, as ordered in WR-2015-0301.

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h. Private Fire Service Rates – What is the appropriate private fire service rate?

Witness – Matthew D. Schofield, Direct and Surrebuttal Testimony

Position: The Company’s private fire line service rates should be sharply reduced or eliminated.

In October, 2017, Jefferson City implemented the 2015 IBC (International Building Code) and IFC (International Fire Code). Through that process the City now requires fire sprinklers in new construction for buildings with three or more residential units. However, the

City routinely observes construction projects designed around threshold size and fire barrier limits thus avoiding the code requiring a sprinkling or fire suppression system. The City has fewer sprinklered buildings because owners, contractors, and architects want to avoid paying the monthly fees provided for in the tariff. They specifically design buildings to sidestep the code and avoid ongoing cost of fire suppression systems. (**Schofield Direct**, pp. 6-8). The monthly charge has the effect of discouraging architects and builders from adding fire suppression facilities to new construction and it should be reduced or eliminated.

33. Coordination with local Municipalities for Water Main Replacement – Should MAWC’s five year main replacement program approved by the Missouri Department of Natural Resources (its Owner Supervised Program) prioritize the replacement of small dimension mains in Jefferson City and other municipalities that are connected to fire hydrants?

Witnesses – **Matthew D. Schofield**, Direct and Surrebuttal Testimony
Britt E. Smith, Direct and Surrebuttal Testimony

Position:

Yes. The Company has identified approximately 1.9 miles of small dimension mains (4 inches or less) connected to fire hydrants in the Jefferson City system. Replacement of those mains with mains designed for better fire flows should be a priority for the Company and such a replacement can reasonably be included in the Company’s five year main replacement program.

(**Schofield Direct** p. 3; **Schofield Surrebuttal**, p. 1; **Smith Surrebuttal**, p. 2).

33. Coordination with local Municipalities for Water Main Replacement

- a. Should MAWC be directed to provide on a regular basis the following described information to appropriate Jefferson City and other municipalities’ departments:
 - i. MAWC’s annual or multi-year capital expenditure or improvement plan for the Jefferson City and other municipality service areas, and any updates made to those plans;
 - ii. Leak studies of the water system in the Jefferson City and other municipality

- service areas;
- iii. The current pressure and volume model for the water system in the Jefferson City and other municipality service areas and the age of all facilities; and
- iv. The current and subsequent versions of MAWC's Resource Supervised Plan.

Position:

The Company should be directed to provide the information identified above to the Department of Public Works for Jefferson City and other municipal departments having a need to know the information.

Although in general the Company and Jefferson City's public works staff enjoy a good relationship, an area needing serious improvement is the Company's communication with the Department about the Company's own schedule of construction projects within the City. As far as is currently known, the Company has not disclosed to Public Works the age of its infrastructure, the life cycle of its critical components or its forecasts for replacement. For lack of this information, the City has not been able to make a reliable link between its own construction schedule and the Company's. The absence of careful planning in this respect encourages inefficiencies and undue expense. For example, the information will benefit the objective of maintaining new pavement surfaces for the length of their design life. Additionally, proper coordination of construction activity between the Company and the City will reduce the Company's expenses in making road repairs. (**Smith Direct**, pp. 4-8; **Smith Surrebuttal**, p. 4).

- 34. Cedar City / Jefferson City Airport and Fire Protection** – Is the proposed pressure valve replacement at the wholesale point of supply for the water system serving the Jefferson City Airport adequate to resolve water pressure losses or fluctuations in that system?

Position:

On July 7, 2017 while firefighters were filling the 2000 gallon holding tank on a department fire engine at the Jefferson City Airport the water pressure at the terminal dropped

causing low pressure alarms to sound. The Company has proposed the replacement of a pressure reducing valve as a solution to the problem. Replacement is scheduled possibly in Spring, 2018 and is expected to resolve the problem. (**Schofield Direct** p. 4; **Schofield Surrebuttal**, p. 2).

The City of Jefferson takes no position at this time on the remaining issues set forth in the list of issues submitted by the Staff of the Commission on February 15, 2018 reserving however the right to brief and argue any such issues based upon the evidence that unfolds at hearing.

Respectfully submitted,

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Certificate of Service

I hereby certify that a true and correct copy of the above and foregoing document was sent via email on this 21st day of February, 2018, to:

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